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A study on the implementation of  
Public-Private Partnership (PPP) in the  
socio-economic, political, cultural and  
Islamic context of Indonesia

**Farid Arif Wibowo**

*A Doctoral Thesis*

Submitted in partial fulfilment of the requirements for the award of the Degree of  
Doctor of Philosophy in Economics, Finance and Business  
Durham University

2014

## Abstract

Public-Private Partnership (PPP), as an arrangement to involve the private sector in the provision of public services, has been extensively adopted in both developed and developing countries. However, the adoption of PPP in developing countries is believed to be more challenging as it encounters unique local contexts. Accordingly, this research aims to explore the implementation of Public-Private Partnership (PPP) in Indonesia by seeing PPP as a practice situated by local settings that relate to socio-economic, political, cultural and religious contexts of Indonesia. Specific attention is paid to the process of PPP diffusion, the development of PPP rationales and the evolution of PPP.

To investigate such issues, this study employs an open interpretive methodology, in which a grounded approach is used to extract findings and potential theories from the data. Qualitative methods are employed to collect and analyse the data. Accordingly, the research conducts in-depth interviews with 25 officials of the Indonesian government, international financial institutions and PPP consultants. In addition, to enrich the analysis and complement the main approach, the research also uses quantitative methods to take and analyse a survey involving more than 100 stakeholders of PPP in Indonesia.

Key findings on PPP diffusion suggest the central role of the international financial institutions, notably the World Bank, in introducing PPP to Indonesia, facilitated by other channels such as the international community and local actors with Western educational backgrounds. In such a way, the diffusion may occur voluntarily, but it may also be coercive in that Indonesia is driven by conditions obligated by international agencies. On PPP rationales, the findings show that although the lack of government capacity to finance infrastructure provision is developed as the main government rhetoric in adopting PPP, other motives are revealed for implementing PPP. These motives include non-economic motivations such as maintaining access to donor agencies and exploiting benefits directed to personal and political interests. Moreover, findings on PPP evolution suggest that the Indonesian local setting has transformed PPP in Indonesia from a “sector issue” to a “reform issue”, a “planning issue” and, more recently, a “financing issue”.

The research contributes to the PPP literature by offering a new framework to study the implementation of PPP, through which a thick description can be provided to show how PPP is both shaped by and shapes its socio-economic, political, cultural and religious settings, suggesting a number of unique characteristics of PPP implementation in Indonesia.

## Declaration

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# Chapter 1 Introduction

## 1.1 Background

The sources of public infrastructure financing may come from both public and private funding. A government can raise taxes or borrow from local or non-local sources to finance public infrastructure. Alternatively, a government can also invite private partners to finance infrastructure facilities. In the latter case, the government can set up arrangements in which the risks as well as the returns of the infrastructure investment will be shared with the private counterparts. This kind of arrangement has become widely known as a ‘public-private partnership (PPP)’ in infrastructure provision.<sup>1</sup>

While most public infrastructure investments are still funded by the public sector, PPP has become more popular as an alternative for governments to provide public infrastructure services. It has been increasingly acknowledged and implemented as a scheme to provide public infrastructure around the world and across sectors. The implementation of PPP (or PFI) in the UK in the early 1990s is usually referred to as the start of the widespread phenomenon of PPP adoption. Since then, such arrangements have been widely practised in other developed countries including France, Finland, Germany, Greece, Italy, Spain, Netherlands, Portugal and Australia. Development of PPP policies is also proceeding in a number of developing countries, such as Chile, Colombia and Brazil in Latin America, Bulgaria and Slovenia in Eastern Europe, and South Korea and Malaysia in Asia<sup>2</sup> (Akintoye *et al.*, 2003; Hodge and Greve, 2005). Likewise, PPP has also been applied to a variety of different types of infrastructure, both ‘physical infrastructure’ such as roads, bridges, railways, telecommunications and ports and ‘social infrastructure’ such as hospitals, schools and prisons (Yescombe, 2007).

In parallel with its growing popularity, the debates on PPP implementation are also increasing. Many PPP advocates believe that this arrangement provides more benefits compared to the conventional public procurement. By involving private funding, a

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<sup>1</sup> PPP is often understood more technically as a specific financial transaction that involves public authorities and private counterparts under certain structures. However, it is also sometimes understood as a general term to reflect any partnership between public and private sectors. Moreover, it is often called under different names. More details are discussed in the literature review chapter.

<sup>2</sup> The terms “developed” and “developing” countries are used with reference to the classification made by the World Bank as described at <https://datahelpdesk.worldbank.org/knowledgebase/articles/378834-how-does-the-world-bank-classify-countries> (accessed in 29 September 2013), in which the word “developing” represents low-income and middle-income countries. Classification of countries based on the level of development is discussed by Nielsen (2011).

government can gain a budgetary benefit as the development of infrastructure will not be dependent on public debt or funding (Hemming, 2006) as well as avoid the upfront capital costs of infrastructure projects, which can be spread out over their project lives (World Bank Institute and Public-Private Infrastructure Advisory Facility, 2012). For many of its advocates, PPP improves the “value for money” achieved by the more efficient allocation of risks, based on the view that the risks can be better managed by the private sector than by the public sector (Organisation for Economic Co-operation and Development, 2007). PPP also offers another benefit in shortening the delivery time and reducing the project costs, because the same investors will be in charge from the construction phase until the final delivery (Allen Consulting Group and the University of Melbourne, 2007). On the other hand, PPP has been challenged for creating more problems than benefits. One main criticism is that PPP actually does not create additional fiscal benefit; rather, it only provides ‘back door’ financing as the liabilities (or contingent liabilities) of the governments are kept off the balance sheet under the PPP arrangement (Walker and Walker, 2000). Another concern comes from the accountability of the projects and transactions, given that the public’s access to the information may be limited because the PPP documents may be now treated as confidential in the private domain (Mayston, 1999). There are also considerable doubts about the superiority of risk allocation in PPP as the downside risks are mostly borne by the public sector, which means that PPP will only be a case of ‘nationalising the costs and privatising the benefits’ (Acerete et al., 2010 p. S59).

Despite the constantly growing challenges and criticisms, the multilateral development agencies such as the World Bank and the Asian Development Bank (ADB) continue to progressively promote the adoption of PPP as part of their recommendations for developing countries to boost the development of their public infrastructure. The advice provided by these agencies mainly starts from the argument that developing countries are usually trapped in the dilemma of desperate needs of infrastructure to support their economic growth. At the same time, they lack public funding capacity to fund the infrastructure expenditure. Constrained by the fiscal limits, inviting private sector financing in infrastructure development is believed to be the better solution (IBRD, 1993). This argument is typically accompanied by other claims about poor performance of public infrastructure provision in the developing countries such as that of ineffective infrastructure subsidies and prevailing inefficiencies in the public sector, which lead to poor performance of infrastructure services (World Bank, 1994). Examples of successful experiences in other countries are also



incorporated to emphasise the superiority of the proposed new arrangement. Moreover, the recommendations from these multilateral agencies to the developing countries on implementing PPP are usually included as conditionality packaged with other assistance such as loans and grants, with the expectation that the implementation of PPP programmes will be more enforceable in those countries (see, for example World Bank, 2007).

Despite the extensive adoption of PPP across many regions in the developing countries, the achievements of such implementation differ from one country to another. While some countries have made rapid progress in delivering infrastructure services through PPP schemes, some are struggling to make the arrangements work for them. Related to these, a number of studies have attempted to explain the determinants of successful PPP implementation across countries and industries, including Hammami *et al.* (2006), Banerjee *et al.* (2006), Reside and Mendoza (2010), and Sharma (2012). From these studies, it can be revealed that fiscal issues, demographic characteristics, macroeconomic stability, institutional quality and capacity are among the major drivers of PPP implementation. These studies also add to the appreciation that PPP scheme is actually a complex phenomenon that involves a range of different issues including economic, accounting, financial, political and socio-cultural issues. The complexities also suggest that PPP might not only be seen as merely an arrangement motivated by economic reasoning. Instead, it could actually be seen as a scheme inspired and influenced by other factors such as politics, social and cultural issues.

In fact, it appears that most studies in PPP focus on the economic and financial aspects of PPP and distance it from other contextual issues. In the accounting field, as suggested by Andon (2012), the research on PPP has been mostly dominated by an extensive focus on the ‘technicalities’ of PPP schemes, in which most attention is paid to the accounting calculation of technical elements of PPP such as risk allocation and value for money. While acknowledging the contributions of the extant studies to the understanding of PPP, he further argues that the heavy focus on PPP technicalities has limited analysis to evaluating abstracted properties of the accounting methods. Therefore, knowledge about how accounting calculations are actually applied and how they are linked with the situated circumstances is underdeveloped. Likewise, the research also considers that most studies on PPP in accounting and finance are abstracted and de-contextualised in that social, cultural and political dimensions are relatively unexplained.

Acknowledging such issues, this research is interested in exploring the issues/aspects related to PPP by extending the observation of PPP practice beyond its ‘technicalities’ through a different lens that allows the research to obtain more insights into how PPP is diffused, introduced and implemented in its economic, social, cultural, political and religious contexts. In pursuing such an interest, it may be possible to see PPP not only as a scheme shaped by rational economics but also as an arrangement inspired by political interests and influenced by contextual dimensions. Using such an approach, the research is interested in examining how PPP issues are perceived and discussed by the actors involved in the process of implementation.

## **1.2 Case-study of PPP implementation in Indonesia: A brief overview**

In order to explore PPP and its complexities following the approach promoted in the previous section, this research chooses PPP implementation in Indonesia as the case-study. The case of Indonesia is selected for a number of reasons. Firstly, the case of PPP implementation in Indonesia more or less represents a typical case of developing countries. From the economic perspective, Indonesia is an emerging economy with increasing demand for new infrastructure facilities while also facing a relatively limited financing capacity (World Bank, 2012b). In terms of the political perspective, Indonesia is in the process of transformation from a more authoritarian regime to a more democratic system, in parallel with other developing countries. As PPP in this research is seen as both an economically motivated and a politically inspired scheme, the case of Indonesia is expected to provide interesting economic and political features. Secondly, the reason for selecting the Indonesian case is the advantage possessed by the researcher in gaining access to the research field, as the researcher previously worked in the government and dealt with the implementation of PPP. In 2007, the researcher joined a unit in the Ministry of Finance that is assigned to formulating financing policies related to PPP and worked with other units inside and outside the government in performing such tasks. With this advantage, the researcher might benefit from his knowledge of the issues faced by the government in implementing PPP in Indonesia. Indeed, the researcher’s interest in conducting this research is particularly motivated by the many interesting issues of PPP implementation in Indonesia he encountered in his daily work. Additionally, the researcher is personally acquainted with a number of government officials and other parties involved in the implementation of PPP policy in Indonesia. Accordingly, the researcher has a particular interest in how PPP issues are perceived differently by different actors involved in the implementation.

To understand PPP implementation in Indonesia, it is important to know the introduction of PPP in the country. The implementation of PPP policy in Indonesia was actually initiated from the beginning of the 1990s, in which some discussions about PPP with international agencies, such as the World Bank, and formulations of regulations that supported PPP had already begun. At the same time, a number of infrastructure projects were also offered to the private sector, particularly in the areas of toll roads, clean water and the electricity sector. The initiative to offer the Cawang-Tanjung Priok Toll Road Project, the Jakarta Drinking Water Project and the Paiton Power Project to the private sector in the early 1990s can be seen as the government's efforts to introduce private financing. These projects were mostly procured through non-transparent and non-competitive bidding processes, not only due to the political pressure at that time but also because there was no 'developed' policy framework to govern PPP procurement. It was no coincidence that the Cawang-Tanjung Priok Toll Road Project was granted to a company largely owned by the eldest daughter of Suharto, the Indonesian president at that time (Colmey and Liebhold, 1999); the Jakarta Drinking Water Project was given to two companies associated with Suharto's eldest son and a crony (Harsono, 2004); while the Paiton Power Project was granted to a consortium involving another of Suharto's daughters (Wells and Ahmed, 2007).

As PPP regulations were developed and the 1998 financial crisis led to most of the infrastructure projects being halted, eventually the first cross-sector policy framework on PPP was introduced in 1998 when the government issued the Presidential Regulation number 7/1998. Subsequently, the period 1998-2005 witnessed a vacuum in projects' initiation since the government was mainly preoccupied with the recovery from financial and political crises. Moreover, this period saw some negotiations between the Indonesian government and the investors in the troubled PPP projects, which consumed huge government resources because of their lengthy and costly process. Shortly after economic and political stability had been restored in 2005, the newly elected government reintroduced PPP policy by initiating new policy frameworks<sup>3</sup>, most notably by the issuance of the Presidential Decree number 67/2005 on PPP framework. The institutional arrangement for PPP was also restructured by reforming the Committee for Policies on Accelerating Infrastructure Development -known as KKPPI (*Komite Kebijakan Percepatan Pembangunan Infrastruktur*) and establishing PPP units in the sector ministries. A number of project lists have been put together by the government under

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<sup>3</sup> Most importantly, the government issued a new PPP policy framework under Presidential Regulation number 67/2005, which was later amended by the more recent Presidential Regulation number 13/2010 and Presidential Regulation number 56/2011.

the policy such as the list containing 92 projects proposed at the Infrastructure Summit 2005, 10 model projects proposed after the Infrastructure Summit 2006 and projects included in the PPP Books issued by the National Development Planning Agency (Bappenas).

More recently, the Indonesian government introduced a number of further initiatives, including setting up PPP institutions such as Guarantee Fund, Infrastructure Fund and Viability Gap Fund, and contemplated new models such as linking PPP with Islamic Financing. Despite all the efforts of the government, only a few actual achievements can be identified. One of them is the recently signed Central Java Power Project, valued at around USD 3 billion investment, whose construction has not yet started as of August 2014 (Cahyafitri, 2014).

### **1.3 Research problems**

The case of PPP implementation in Indonesia as described in the previous section shows a number of interesting issues. Firstly, while PPP is mainly seen as an instrument for dealing with a country's economic issues, the Indonesian case shows links between PPP and non-economic factors such as politics, culture and religion. For instance, the identification of the private companies involved in PPP arrangements in the early 1990s may indicate that PPP might be associated with corruption, as the owners of the PPP companies could always be linked with the ruling regimes. The government's continuous attempts to announce large-scale PPP plans, only a few of which are realised, may also show that PPP can be seen as political rhetoric to convince the public and the international community that the government has specific intentions and actions to improve public facilities. Moreover, the government initiative to formulate 'Islamic PPP' may reflect how the religious issue is involved in the process of implementation. These contextual issues may make essential contributions to shaping the development and evolution of PPP in Indonesia and therefore raise questions about how such issues might influence PPP policy. Nevertheless, as the current PPP literature is mainly dominated by the view that sees PPP as an arrangement driven by economic and financial aspects, it seems to overlook other contextual factors (Andon, 2012). Furthermore, while the PPP literature that observes cases in developing countries has started to consider political and institutional issues in PPP discussions (Hammami *et al.*, 2006; Banerjee *et al.*, 2006; Sharma, 2012), the literature do not see such issues as situating the PPP practice and thus tend to ignore the interaction of those issues with the practical aspects of PPP implementation.

The second issue is related to the process of PPP diffusion into Indonesia. As shown in the previous section, PPP policy in Indonesia was initiated by the government at the beginning of the 1990s, at the time when the initiation of PPP (or PFI) policy in the UK began (Winch, 2012) and the recommendation of the World Bank about involving private finance in the development of public infrastructure was issued (World Bank, 1994). In this case, certain questions can be raised, such as how PPP is quickly transmitted to Indonesia, how such an idea is accepted, rejected or negotiated by the locals, and how the roles of agents (such as The World Bank) influence the diffusion and implementation of PPP in the country. Unfortunately, although a number of studies also demonstrate how the use of PPP has spread out to countries across the world (Hodge and Greve, 2007), studies on the process of PPP diffusion are scarce. This is particularly felt for the case of Indonesia.

Thirdly, a brief glance at the case of PPP implementation in Indonesia might indicate that the government is motivated to adopt PPP mainly because the capacity of the government to finance the provision of public facilities is limited. Therefore, they expect additional funding from the private sector through PPP. Moreover, considering the interest in including non-economic factors in discussing PPP, the research is keen to explore other motivations that may also encourage the government and officials to adopt PPP, including non-economic motivations. However, the identification of non-economic rationales that may motivate governments to implement PPP is mainly ignored. Studies on PPP rationales, such as those by Spackman (2002), McQuaid and Scherrer (2009), and Winch *et al.* (2012b), and those looking specifically at cases in developing countries, such as Hahm (2003) and Takim *et al.* (2009), largely focus on the economic rationales such as inviting private investment, bringing more innovation in public service and improving efficiency and value for money in public expenditure. This research is therefore interested in extending the views on PPP rationales and motivations to add more perspectives on PPP implementation.

#### **1.4 Research objectives and research questions**

Based on the identification of the research problems, this research formulates research objectives and a series of research questions. This research primarily aims to explore the diffusion, rationales and evolution of PPP implementation in Indonesia by examining PPP as a practice situated and conditioned by local settings associated with socio-economic, political, cultural and religious contexts of Indonesia. This objective is achieved by addressing a number of research questions.

The first question pertains to the process of introduction of PPP into Indonesia, particularly on how PPP, which is commonly considered a developed countries' invention, is introduced into Indonesia. Looking at the initiation of the policy around the beginning of the 1990s, this research is interested in exploring how such an arrangement is transported to Indonesia from abroad and implemented as a policy by the government. The process of introducing PPP to Indonesia is seen as a crucial stage that may be influential in shaping the rest of the process of development. In fact, the process of PPP diffusion around the world has not been well explored and studied, although the international experience of PPP has started to receive more attention. This fact is intriguing particularly because the exploration of the process of PPP diffusion potentially provides rich insights into the emergence of many PPP variants and their applicability across the world. In this regard, the first question is formulated as follows: ***“How is the PPP idea transported from abroad and introduced into Indonesia?”***

The second question relates to the rationales of the Indonesian government and its officials in adopting PPP. Winch *et al.* (2012a) suggest that rationales or motives for implementing PPP play significant roles in shaping the form of PPP policy. While a number of studies of PPP have identified various rationales (see, for example, Spackman, 2002, and McQuaid and Scherrer, 2009), most studies consider PPP as an arrangement based on rational economic grounds. However, this research is interested in considering PPP not only as a scheme motivated by economic factors but also as an arrangement inspired by politics, culture, religion and other contextual issues. Therefore, other potential rationales beyond economic issues will also be explored in the case of Indonesia. In addition, the research is interested in exploring how different rationales might work together in shaping the development of the policy. In brief, the second question raised by this research is as follows: ***“What are the government’s rationales in implementing PPP in Indonesia?”***

The third question is related to the development of PPP after its introduction to Indonesia. Since its initiation in the 1990s, PPP has been implemented in the context of a number of regime changes, political turmoil, financial crises and structural changes. As a result, there have also been some adjustments, modifications and transformations in the discourses and issues surrounding PPP in response to those dynamics. During this period, the shapes and forms of PPP have also changed. Some elements of the policy, such as the approaches to accountability issues, may change due to the development of the policy itself. In fact, some studies on PPP have also made some observations on how PPP evolves across different times, such as those by Maguire and Malinovitch (2004) in the context of Victoria, Australia, Winch

(2012) in the context of the UK, and Mu *et al.* (2011) in the case of China. However, these studies mainly focus on the economic and financial issues of PPP while the political and cultural issues do not receive sufficient attention. Accordingly, the third question is as follows: ***“How does PPP evolve in the economic, political, cultural and religious contexts of Indonesia?”***

These three questions are essentially related to one another as they all will be used to describe the complex process of PPP implementation from its initiation to the current phase and the issues that follow such development. It is expected that, by answering those questions, the research will add a number of new perspectives to the knowledge for understanding the complex nature of PPP and contribute to the current literature of PPP.

### **1.5 Organisation of the remaining chapters**

Guided by the research questions, the exploration and discussion of PPP issues in the remaining chapters is organised according to the following structure:

*Chapter 2* provides a literature review of relevant PPP studies. The review places special emphasis on the comparison between cases of PPP implementation in developed and developing countries. The comparison is particularly designed to help in the identification of themes and topics that have not been sufficiently studied and developed by the existing literature. The review also helps the researcher to explore several research gaps and opportunities for PPP research on the Indonesian case.

*Chapter 3* explores a range of theories that are potentially relevant and useful for studying PPP in Indonesia in relation to the research questions addressed. In this chapter, a number of research approaches and paradigms are also discussed to provide a better understanding about the nature of knowledge and the philosophical position of the researcher, which are useful in deciding the research approach to achieve the objectives. The interpretive paradigm is specifically given more attention, as it is employed as the main approach for the research. Moreover, as the research finds some limitations to the current frameworks commonly used by previous studies, it builds a specific framework that allows more spaces to include non-economic factors in discussing PPP.

*Chapter 4* describes the research methods utilized in this study. It explains in detail the data sources used for the research, the process of data collection and the ways in which the analyses are conducted. The data are collected using a documentary approach, interviews and

a survey method. The documentary approach is employed to collect relevant historical data on PPP implementation in Indonesia from official documents, speeches, regulations, magazines and newspapers. Using a purposive sampling method, semi-structured interviews are also conducted to obtain views regarding various aspects of the PPP implementation from 25 government officials and other PPP stakeholders. Moreover, to complement the main approach and to enrich the analysis, a survey is developed to collect the perception of more than 100 respondents using a purposive sampling. The data obtained are subsequently analysed using qualitative and quantitative approach. The qualitative data are mainly analysed using a grounded approach that allows the research to extract theories from the data through a series of coding and categorising process. Moreover, a number of quantitative methods such as descriptive statistics and factor analysis are also employed to analyse the results of the survey. Lastly, ethical issues as well as reliability and validity issues are also addressed to ensure that the research produce high quality data which are able to achieve the research objectives.

*Chapter 5* presents a historical review of Indonesia's experience with private financing and PPP to provide contexts for the current implementation of PPP in Indonesia. Primarily based on the documentary approach, an account of the involvement of private companies in providing public infrastructure since the colonial era to the post-independence period is offered, followed by an examination of the introduction of a form of PPP in the Suharto era in the 1990s. As it is commonly believed that the rise of PPP began in the UK, the observation is focused on how such an invention was brought and introduced into Indonesia; it also seeks to identify the actors involved in the process and the major developments in the process of introduction.

*Chapter 6* elaborates the development of PPP in the current time. The analysis also includes observations on the nature and forms of PPP in Indonesia, which tend to change from time to time. It focuses on the roles of the international agencies as the main actors in introducing PPP to Indonesia and the development of PPP rationales identified in the previous chapter. Moreover, the evolution of PPP is investigated by observing the dynamics of PPP regulations, business models, institutional arrangements and project initiation. Finally, the chapter identifies further issues that need to be investigated using the perspectives of the actors.



*Chapter 7* explores the issues of PPP implementation from the perspectives of the actors obtained through the in-depth interviews. In this chapter, attention is paid to the discourse and negotiation, particularly on how those different views are expressed and exchanged among the actors. The discussion on the views of the actors is emphasised as the main approach of the research since the researcher considers that such an approach is the most useful for addressing the research questions. The intricate process of diffusion, the multifaceted PPP rationales and the complex development of PPP can be better explored by using the actors' perspectives as they can reveal much more information on the issues being investigated.

*Chapter 8* extends the investigation of the issues surrounding the PPP implementation using the survey's results. This chapter specifically describes and examines the perceptions of the respondents on the issues identified in the earlier chapters, particularly the issues of agents of PPP diffusion, PPP rationales and problems, the contextual factors of PPP implementation and the prospect of PPP in the future. The chapter also outlines how the different views on the aforementioned aspects are explained by the variety of the respondents' backgrounds. In addition, to provide more insights into the analysis, positive and negative factors that shape the implementation of PPP are also investigated.

*Chapter 9* presents a comprehensive discussion and contextualization of the main findings drawn from the previous empirical chapters. Specifically, this chapter brings together all the main themes emerging from the findings and contextualises them within the research objectives and research questions. Thus, it essentially attempts to analyse the main findings which provide answers to the research questions on PPP diffusion, the development of PPP rationales and PPP evolution. Based on the findings and analysis, it also suggests how those findings contribute to the current knowledge and theories of PPP.

*Chapter 10* provides conclusions of the study by summarising the key findings and theoretical contributions of the research. Additionally, this chapter identifies some policy implications of the findings and formulates a number of recommendations for PPP developments, particularly to the Indonesian government and the international agencies as the main PPP stakeholders in Indonesia. Finally, the chapter also outlines some limitations of the study and suggest recommendations for future research.

## Chapter 2 Research into Public-Private Partnership in developed and developing countries: A literature review

### 2.1 Introduction

Since the introduction of the term Private Finance Initiatives (PFIs) by the Conservative government of the United Kingdom in 1992, the issue of private participation in the development of public infrastructure facilities has become a global agenda in the discussion of public management and practices. Despite some criticisms, the adoption of PFIs in the UK, Australia and other developed economies has also been seen or portrayed as a considerable success as well as a prospective innovation for proposed schemes of public infrastructure financing<sup>4</sup>. At the same time, the World Bank and other multilateral development agencies were looking for new perspectives for recommendations to developing countries to substitute privatisation programmes, which received many criticisms and showed some failures<sup>5</sup>. These factors, the image of success and prospects for Public-Private Partnership (PPP) and the recommendations from the multilateral agencies, have made PPP something of a new favourite policy in developing countries' visions for infrastructure-financing schemes. Some countries in Latin America such as Chile, Colombia, Mexico and Brazil have been identified as successful adopters of PPP (Marks, 2010), while in Asia PPP has also been extensively adopted in Korea (Do, 2012), China (Wang *et al.*, 2012), India (Ray, 2012), Malaysia (Rashid, 2012), and Indonesia (Wibowo, 2006a). In Africa, South Africa, Mozambique, Uganda, Gabon and Tanzania are amongst the countries that have implemented PPP (Farlam, 2005). These widespread adoptions of PPP have not only produced different variants of PPP forms but also exhibited some interesting ways in which PPP might serve the objectives set by the implementing countries.

However, the extensive adoption of PPP across the world, particularly in the developing countries in Asia, Africa and Latin America, has not significantly attracted the attention of researchers, especially vis-à-vis accounting. A review of the PPP accounting literature by Andon (2012) suggests that most academic research still focuses on cases in developed countries such as the UK, Australia, United States and Canada. In this sense, the call from Broadbent and Laughlin (2004) for research into international experiences of PPP implementation is particularly relevant. As they noted, such international comparisons will

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<sup>4</sup> Harris (2004) makes it plain that although private financing in the provision of public infrastructure has been practised for a long time, the successful experience of the UK government in using PFI has been the main trigger for the global PPP proliferation.

<sup>5</sup> According to Bayliss (2009), the shift to private sector participation in public infrastructure financing in developing countries is partly a result of the disappointing outcome of the privatisation programme of the 1990s.

‘contribute to the debate about the general applicability of PPPs and how they can contribute to the welfare of nations, individually and collectively’ (Broadbent and Laughlin, 2004). The call has been partly responded to by several international studies on PPP (for example, Hodge and Greve, (2005; 2007), but in those studies what are labelled as the international experiences of PPP are limited only to advanced economies with mature institutional settings and capacities. Andon (2012) makes it plain that the current accounting literature has largely ignored the international perspectives on PPP implementation and has ‘overlooked PPP developments elsewhere in the world, particularly in non-Anglo jurisdictions’. In this regard, the study by Akintoye and Beck (2009) and the research publication by ACCA in 2011 (Winch *et al.*, 2012b) can be appreciated for taking into account some developments of PPP implementation in the developing countries such as India, China and Indonesia.

With the perspectives above, this chapter attempts to investigate a number of conceptual and practical issues around PPP implementation from the extant literature, by using a specific perspective that compares cases in developed countries to those in developing countries. A number of studies have actually started to review PPP accounting literature using different angles and perspectives. Among others, a study classifying accounting research on PPP has been conducted by Lambert and Lapsley (2006). They explore the accounting research on PPP and make a classification according to approaches and paradigms. In doing so, Lambert and Lapsley (2006) examine the nature, motivation and implications of the PPP studies to redefine the boundaries of public sector accounting research. Moreover, Weihe (2008) also reviews different issues in the PPP literature to investigate the contradictory concepts of PPP in the extant literature. More recently, Andon (2012) has offered a substantive review of PPP accounting literature and suggests some directions for the future research agenda. Comparatively, considering the interests and objectives set out in the introduction chapter, in reviewing the literature this research pays special attention to the comparison between cases in developed countries and those in developing countries. The objective of such an attempt is mainly to explore the different themes and issues of PPP in both settings to gain richer insights into how PPP is implemented in diverse contexts. The discussion is expected to help in identifying further research agenda to guide this research in answering the research questions set at the beginning.

The rest of the chapter is organised as follows. After this introduction, section 2 explores the fundamental concepts of PPP to give a basic understanding of how PPP is seen from different views. Section 3 examines the extant PPP literature by looking at the issues of

implementation in both developed and developing countries. Section 4 identifies the themes that emerge from the previous exploration on the literature in developed and developing countries. Research gaps are identified in section 5, while section 6 concludes the chapter.

## 2.2 The basic concepts of PPP

Identifying the nature of PPP is an initial important step to understanding PPP, particularly understanding how the concept has evolved and developed in different times and spaces. This section looks at how PPP is defined, understood and discussed.

### 2.2.1 Terminologies

Even though the United Kingdom is usually seen as the inventor of PPP and the place where the best practices are developed, many studies believe that the term itself actually originated in the United States (see for example Beck *et al.*, 2010, and Kettl, 1993, in Hodge and Greve, 2007). The term PPP was initially used in the United States to refer to a joint funding between public and private sectors for an education programme, which was expanded, much later, to utilities (Yescombe, 2007). However, after the successful application of the Private Finance Initiative (PFI) in the UK in 1992, the term PPP has been used extensively as an umbrella term to describe a general form of partnership between government and private sectors in developing public infrastructure facilities. Moreover, particularly because of the increasing adoption of PPP across the world, such partnerships can now also be found with other different names as described in Table 2.1.

Table 2.1: Alternative terms for PPP

Alternative terms	Applicability and references
Private Participation in Infrastructure (PPI)	This term was originally introduced by the World Bank (Yescombe, 2007) and can be found in many World Bank-related publications (for example Harris, 2003). The term PPI is also commonly used to represent such arrangements in South Korea (Hahm, 2003) and Colombia (Benavides and Fainboim, 1999).
Private Finance Initiatives (PFI)	Other than in the UK, the term is also used in Japan (Campagnac, 2012) and Malaysia (Takim <i>et al.</i> , 2009).
Privately Financed Project (PFP)	This term is commonly used in Australia (English and Guthrie, 2003).
Private Sector Participation (PSP)	Private Sector Participation (PSP) is used by the OECD countries (2007).
P3 or P-P Partnership	PPP might also be called by a different abbreviation such as <i>P3</i> (Boardman <i>et al.</i> , 2005) or <i>P-P Partnership</i> (Linder, 1999).

Source: author's own work

Moreover, the term PPP is sometimes used in a more general sense at the macro level as ‘programme-based’ or ‘policy-based’ PPP; otherwise, it is understood at the micro level in its more specific meaning as ‘project-based’ or ‘contract-based’ PPP (Yescombe, 2007). The numerous variants of PPP expression and terminology reflect not only differences in the terminologies but also different versions of arrangements shaped by different local needs and contexts, as discussed later in this chapter.

In this research, the term PPP is used as a general attribution to represent those broad-spectrum arrangements between public authorities and private parties in the development of public infrastructure, which lies between privatisation on the one hand and public works contract on the other. More comprehensive and detailed views on the definition of this arrangement are discussed in the next section.

### **2.2.2 Definition and nature of PPP**

Discussing various definitions of PPP not only helps to identify the similarities among the different perspectives on PPP but also supports the identification of the diverse variations in understanding the arrangement. In fact, academic literature of PPP has been filled with debates on PPP definition. Such debates start with disagreement on the viability and necessity of finding a definition of PPP. Some views pessimistically argue that defining PPP is not viable; for example, Weihe (2008) suggests that an authoritative definition of PPP is ‘not logically possible’ because it will not be able to encompass the different variations of the current PPP in practice. Winch *et al.* (2012b) also suggest that formulating a definition of PPP is difficult since there are different needs that shape the arrangement in different projects and different jurisdictions, while the objectives and interests of public and private parties in the arrangement are also diverse.

PPP has also been widely adopted across different types of infrastructure as well as driven by diverse motives of implementation. Accordingly, this vast variation in PPP adoption has made it particularly difficult to define in a simple way. In fact, many writings on PPP are reluctant to set or quote a firm definition of PPP considering this difficulty, while others try to describe PPP by explaining its elements.

Table 2.2 lists a number of PPP definitions compiled from selected academic sources and official policy documents of institutions that promote or implement PPP.

Table 2.2: List of PPP definitions

Source/Group	Definition
<i>Academic</i>	
<b>Delmon (2011)</b>	“Any contractual or legal relationship between public and private entities aimed at improving and/or expanding infrastructure services, but excluding public works contracts.”
<b>Van Ham and Koppenjan (2001)</b>	“Cooperation of some sort of durability between public and private actors in which they jointly develop products and services, and share risks, costs, and resources which are connected with these products”
<b>Klijn and Teisman (2005)</b>	“Sustainable cooperation between public and private actors in which joints and/or services are developed and in which risks, costs and profits are shared”
<i>Development/Multilateral Institution</i>	
<b>The United Nations – Public Private Partnership for the Urban Environment (PPPUE) (Akintoye et al., 2003)</b>	“PPP include informal dialogues between government officials and local community-based organisations, to long term concession arrangements with private businesses, but not privatisation.”
<b>European Commission (Kwak et al., 2009)</b>	“A partnership (PPP) is an arrangement between two or more parties who have agreed to work cooperatively toward shared and/or compatible objectives and in which there is shared authority and responsibility; joint investment of resources; shared liability or risk-taking; and ideally mutual benefits.”
<b>The World Bank (Kwak et al., 2009)</b>	“The term “public-private partnerships” has taken on a very broad meaning. The key elements, however, are the existence of a “partnership” style approach to the provision of infrastructure as opposed to an arm’s-length “supplier” relationship ... A PPP involves a sharing of risk, responsibility, and reward, and it is undertaken in those circumstances when there is a value-for-money benefit to the taxpayers”
<i>Country based institution</i>	
<b>HM Treasury (Kwak et al., 2009)</b>	“An arrangement between two or more entities that enables them to work cooperatively towards shared or compatible objectives and in which there is some degree of shared authority and responsibility, joint investment of resources, shared risk taking, and mutual benefit.”
<b>The National Council for PPP of USA (Akintoye et al., 2003)</b>	“A contractual agreement between a public sector agency and a for-profit private sector concern, whereby resources and risks are shared for the purpose of delivery of a public service or development of public infrastructure.”
<b>The Canadian Council for PPP (Akintoye et al., 2003)</b>	“A co-operative venture between the public and private sectors, built on the expertise of each partner that best meets clearly defined public needs through the appropriate allocation of resources, risks and rewards.”
<b>Singapore Government (Gunawansa, 2012)</b>	“PPP refers to long-term partnering relationships between the public and private sector to deliver services. It is a new approach that Government is adopting to increase private sector involvement in the delivery of public services.”
<b>Indian Government (Ray, 2012)</b>	“The Public-Private Partnership (PPP) Project means a project based on contract or concession agreement between a Government or statutory entity on the one side and a private sector company on the other side, for delivering an infrastructure service on payment of user charges.”
<b>Ireland (Republic of Ireland Government, 2003)</b>	“PPP’s are essentially partnerships between public sector organisations and private sector investors and businesses for the purpose of designing, planning, financing, constructing and/or operating infrastructure projects normally provided through traditional procurement mechanisms by the State.”

Source: author’s own work

An inspection of the above list suggests that some definitions appear as loose expressions covering a wide range of contractual relationships, such as in the case of Delmon's (2011) formulation. On the other hand, definitions such as that of the Republic of Ireland government look very rigid and technical. However, some common features can be drawn from the definitions. Firstly, PPP is a sort of 'partnering' which implies a more equal position and bargaining power between public and private parties (Winch *et al.*, 2012b). It is underlined by the UK Treasury's definition, i.e. that both parties should share authority and responsibility under compatible objectives (HM Treasury, 2003). Secondly, another common feature appearing in the definitions is the matter to be shared between public and private parties in the arrangement. Obviously, most definitions explicitly mention the project's risks and returns/rewards as the points to share, while other definitions such as the one proposed by the Canadian Government also emphasise expertise. Moreover, risk-sharing among the parties in the PPP arrangement is the most central issue in PPP discussions (Malhotra, 1997; Akintoye *et al.*, 2003) and the risk transfer from public to private parties is the key determinant of success in the PPP arrangement (Hemming, 2006). Risk sharing is critical since PPP infrastructure projects usually involve considerable risks, and the risk perceptions of parties in the arrangement may vary (Van Ham and Koppenjan, 2001). Thirdly, some definitions reflect concerns with the outputs or outcomes of PPP arrangements. For example, the definition provided by the Singaporean government that explicitly mentions the delivery of public services as the output of PPP is illustrative as opposed to conventional public procurement that traditionally tends to emphasise the delivery of the physical aspect of public infrastructure. In fact, the emphasis on service provision by the private sector is actually considered one of the important characteristics of PPP (Hemming, 2006).

Overall, the list of definitions suggests that there are considerable uniformities among the understanding of the academic and practical concepts of PPP as well as differences between those in developed and developing countries. The similarity partly shows that, firstly, in terms of concepts, PPP definitions do not exhibit substantial variations since they contain almost the same elements of understanding, which do not reflect any significant dispute. Yet, such uniformity does not necessarily happen practically in the implementation, particularly because the implementation reflects how concepts are applied in different circumstances and contexts, an issue to be explored and discussed below. Secondly, when the definitions suggest such resemblance, the channel through which the idea of PPP is diffused from academia to practice as well as from developed to developing countries may be worth exploring.

Given the wide variations in PPP definitions examined above, it is not surprising that there are also many different views and perspectives on PPP. Some academic papers have tried to identify how PPP might be perceived differently under certain respective frameworks, including Linder (1999), Maguire and Malinovitch (2004), Hodge and Greve (2007), and Weihe (2008). These four studies are summarised in Table 2.3.

Table 2.3: Perspectives on PPP

Linder (1999)	Maguire and Malinovitch (2004)	Hodge and Greve (2007)	Weihe (2008)
<ul style="list-style-type: none"> <li>- PPP as management reform</li> <li>- PPP as problem conversion</li> <li>- PPP as moral regeneration</li> <li>- PPP as risk shifting</li> <li>- PPP as restructuring public service</li> <li>- PPP as power sharing</li> </ul>	<ul style="list-style-type: none"> <li>- PPP as a method for achieving off-balance-sheet financing to provide relief from government borrowing limits (1980 to 1992).</li> <li>- PPP as a method to achieve efficiency through competitive tendering, private involvement and maximum risk transfers (1993-1999).</li> <li>- PPP through the notion of value for money (2000 to the present)</li> </ul>	<ul style="list-style-type: none"> <li>- Institutional cooperation for joint production and risk sharing</li> <li>- Long-term infrastructure contracts that emphasise tight specification of outputs.</li> <li>- Public policy networks</li> <li>- Civil society and community development</li> <li>- Urban renewal and downtown economic development</li> </ul>	<ul style="list-style-type: none"> <li>- PPP as urban regeneration approach;</li> <li>- PPP as a policy approach;</li> <li>- PPP as an infrastructure approach; and</li> <li>- PPP as a development approach</li> </ul>

Source: author's own work

Linder (1999) identifies six different meanings of PPP in the contemporary discussion, namely PPP as a management reform, problem conversion, moral regeneration, risk shifting, a restructuring of public service and power sharing. These meanings are not mutually exclusive: they sometimes overlap. Each meaning has its underlying ideology and attachment to one of the two major ideologies, i.e. neoliberalism and neoconservatism. On that ground, Linder (1999) states that the notion of partnership is actually 'a rubric to cover most ongoing forms of privatisation' and the term is introduced to make the commercial participation in the public domain more acceptable (Andon, 2012).

The notion becomes a starting point for Hodge and Greve (2007) who divide the perspectives of PPP into two main views, i.e. PPP as a tool of governance and PPP as a 'language game'. As a governance scheme, PPP is seen as a partnership to explore benefits from both private and public sectors, based on the reason that both sectors have specific qualities and a combination of them will thus produce a better result for all (Vaillancourt-Rosenau, 1999). Alternatively, PPP can also be viewed as a 'language game' (Teisman and Klijn, 2002),



which means that it is proposed as a design to ‘cloud’ other strategies and purposes of policy-makers. PPP as rhetoric in public sector management is also discussed by Wettenhall (2003), who suggests that PPP is often used to represent other public-private mixes that are not nearly as new. Moreover, Siddiquee (2011) adds that the use of PPP as rhetoric often exaggerates its benefits.

A more evolutionary approach to ways of seeing PPP has been proposed by Maguire and Malinovitch (2004) based on the evolution of PPP in the state of Victoria, Australia. Initially, from 1980 to 1992, PPP is seen as a financial scheme to achieve off-balance sheet financing due to the limited borrowing capability of the government. Subsequently, from 1993 to 1999, views on PPP are reshaped as a method of achieving efficiency through risk transfer, competitive tendering and private involvement. In the third phase, from 2000 to the present, the objectives of PPP are extended through to the idea of value for money.

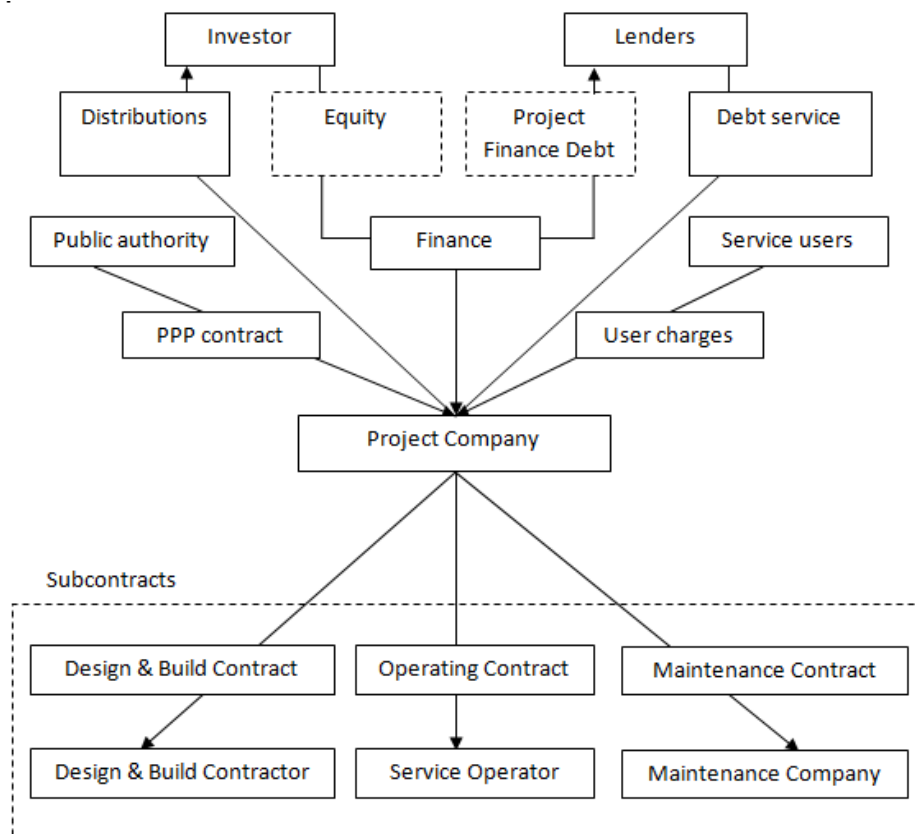
Such different perspectives on PPP discussed above may be helpful for addressing the research questions of this study, particularly on the issues of how PPP is diffused and how rationales are developed. Many views on PPP suggest that there are variations in understandings of PPP, at both the conceptual and practical level, which may be explained by different patterns of diffusion. Different views on PPP may also indicate that PPP can be potentially seen and used differently by policy makers and other authorities as rhetoric to represent their interests and strategies. Therefore, it will be interesting to examine the various PPP rationales that have been developed and the strategies that may be concealed by the governments behind the PPP rhetoric.

### **2.2.3 Structures and Modalities**

The relationship between government or public authorities and private parties in PPP can be structured in many different ways, depending on the authorities and responsibilities shared between parties as well as the ownership or control of the infrastructure asset. The different contractual and financial schemes of PPP between the two parties are shaped by many factors including the project-specific needs and local restrictions or regulations. A generic structure of PPP arrangement is described in Figure 2.1. The typical scheme for PPP is a design-build-finance-operate (DBFO) arrangement (Hemming, 2006; Allen, 2003). With this modality, the public authority specifies the service while the private party makes the design according to the specification, builds the asset, finances the construction and operates the service. The purchaser of the services produced by the private parties can be users of the services or

government agencies. This implies that these agencies pay for the services, or the users of the services pay directly to the private companies as operators. The latter case is often referred to as concessions.

Figure 2.1: Generic structure of PPP arrangement



Source: Modified from Yescombe (2007 p. 7-10)

The ownership of the assets also determines the structure of PPP. The private partners may own the PPP asset when they operate the service, and then transfer it back to the public authority at the end of the contract. Such a variant is usually called build-operate-transfer (BOT) or build-own-operate-transfer (BOOT). Nevertheless, when the private party retains the ownership of the infrastructure assets, the scheme might be referred to as build-own-operate (BOO).

In addition, there are many other schemes and modalities of PPP where scholars have different views on what can be included as PPP and what cannot. Grimsey and Lewis (2004) identify that joint ventures, leasing, contracting out or management contract and cooperative arrangements might be considered parts of PPP. Arrangements such as BLT (Build, Lease,

Transfer), BLTM (Build, Lease, Transfer, Maintain), BTO (Build, Transfer, Operate), BOOR (Build, Own, Operate, Remove), BOOT (Build, Own, Operate, Transfer), LROT (Lease, Renovate, Operate, Transfer), DCMF (Design, Construct, Manage, Finance) and DBFOM (Design, Build, Finance, Operate, Manage) are also listed as variants of PPP. Hemming (2006), on the other hand, excludes design-build-finance-transfer (DBFT) because the scheme resembles the conventional public procurement and does not involve private partners in the provision of infrastructure services. He also adds some schemes that can be developed through PPP, including build-develop-operate (BDO), buy-build-operate (BBO), lease-develop-operate (LDO), wrap around addition (WAA), and build-lease-operate-transfer (BLOT).

#### **2.2.4 Accounting issues**

The long-term contractual nature of PPP and the ample number of parties involved in the arrangement raise some complexities in financial and accounting issues of PPP, particularly those related to the disclosure rules, cash flow budgeting, taxation, risks identification and accountability. Accordingly, a new approach is required to consider all the complexities since conventional models seem insufficient to accommodate issues in PPP (Grimsey and Lewis, 2002a).

The fundamental accounting issue in PPP is concerned with the problem of considering certain aspects related to fixed assets in PPP arrangement, particularly whether the assets and liabilities should be on the balance sheet of the public sector or on that of the private counterparts (Hodges and Mellett, 2002). The problem mainly lies in the public sector account as the principles require that acquisitions of fixed assets have to be matched by recognising their sources of finance, while with PPP governments actually intend to use private money to fund infrastructure assets without necessarily recognising the assets and the financial obligation in the account of the public sector (Hodges and Mellett, 1999). In fact, there are various accounting approaches that can be used to determine how assets in PPP arrangement should be treated. The assets in PPP can be recognised as referring to the rights and obligations shared among the parties; alternatively, they might refer to the risks and benefits associated with the assets. Furthermore, according to Broadbent and Laughlin (1999), these differences can have some significant implications. When the assets and the financing arrangements are recorded on the balance sheets of the public sector units, this can raise the issue of whether PPP is actually a financing scheme to acquire assets or an arrangement to provide services. Moreover, if the assets and the financing arrangements are

recorded in the public balance sheets, PPP may have some financial implications at the macro level (Broadbent and Laughlin, 1999). In addition, if the PPP assets appear in the public balance sheets, from the perspective of risks management, the risks may not be substantially transferred to the private sector and therefore may undermine the benefits and arguments for PPP (Broadbent and Laughlin, 1999 p. 102).

The accounting approaches to dealing with risks in PPP arrangements also raise some issues, particularly because PPP entails more complex risk allocation and risk-sharing mechanisms (Grimsey and Lewis, 2002b). In fact, PPP is developed under a basic assumption that some risks in infrastructure projects can be shared with the private sector. However, rather than trying to shift all the risks to the private sector, PPP arrangements seek to allocate the risks to the party that is best able to manage it efficiently. Governments may be tempted to transfer as much of the risk as possible to the private sector, but they also need to consider the optimal risk allocation between public and private parties to achieve the best value for money in the projects. In this regard, the accounting approaches used to identify, measure and assess the risk transfer between two parties may become an issue.

Another topic that is also commonly associated with accounting issues in PPP relates to the issue of accountability. The arrangement of PPP that involves a larger number of parties from both public and private sectors makes the issue of accountability more complex. Accountability is often understood as an abstract and complex concept (Sinclair, 1995). However, in relation to PPP, it can be better considered using a functional approach by Dubnik and Romzek (1991) as a primary means of managing expectation, particularly as PPP might involves multiple, diverse and conflicting expectations (Demirag and Khadaroo, 2011). Moreover, accountability issues in PPP are usually associated with the debates on whether PPP is used as “back-door financing”, by which governments try to expand their activities beyond restrictions on their balance sheets, as transactions under PPP can be treated as off-balance sheet undertakings (Walker and Walker, 2000). As discussed in the previous section, governments may be attracted to PPP because it can be treated as an off-balance-sheet arrangement which allow them to escape from restrictions that limit their financial capacity. In this regard, PPP is often accused of raising an accountability issue, particularly because it actually constitutes public borrowing by other names instead of improving value for money (Walker and Walker, 2000).

The examination of the conceptual issues of PPP in this section has provided rich insights on how PPP is understood by different studies. The next section reviews how such concepts are adopted in different contexts of implementation.

### **2.3 Implementation of PPP**

The emergence of Public-Private Partnerships (PPP) as an arrangement to involve the private sector in the development of public infrastructure has been increasing significantly since the 1990s. Initially invented in developed countries, PPP is currently also being adopted by many countries in the developing world, which supposedly have different characteristics, values and rationales in implementing PPP. Variation in the contexts of PPP implementation in different countries has inevitably created potential differences in the nature, forms and implications of PPP arrangements, including the governance of PPP. As suggested in the introduction of this chapter, the literature review of this research is interested in comparing the cases of PPP implementation in the developed countries and those in developing countries. Such a comparison is mainly developed to explore the different themes and issues of PPP in both settings to gain richer insights into how PPP is implemented in diverse economic, political, ideological and cultural contexts.

#### **2.3.1 PPP in developed countries**

The growing level of PPP adoption across the world is often understood as being inspired by the introduction of PFI by the UK government in the 1990s. However, several studies contest this claim by suggesting that PPP in the UK was actually influenced by prior arrangements in other countries, particularly the United States (see for example Beck *et al.*, 2010, and Kettl, 1993 in Hodge and Greve, 2007). Nevertheless, despite the debate on the origin of PPP, the implementations of PFI and, later, PPP in the UK are commonly hailed as exemplary and often used as models for alternative public financing in other countries.

In fact, the implementation of PFI in the UK raises debates on a number of issues. The first aspect of the debates is related to the rationale for bringing the private sector into the arrangements for public service provision. On the one hand, the introduction of private management and expertise in PPP is advocated as an attempt to improve the efficiency of the public sector (Broadbent and Laughlin, 1999). In this sense, this idea is particularly inspired by the emergence of the idea of New Public Management (NPM) (Hood, 1991; Hood, 1995), which partly emphasises a more private style of management practice and encourages more competition in the public sector. In addition, there is a belief that the involvement of the private sector may introduce more innovation in the delivery of public services (Yescombe,

2007). On the other hand, Shaoul *et al.* (2007) point out that the involvement of the private sector in PPP is essentially designed to give more space to the private sector to control the public service and exploit new sources of profit from it. These authors show that the increasing influence of the private sector indicated by its growing penetration into the process of procuring PPP projects (setting policies, project preparation, tendering), international lobbying and sponsoring PPP research may create biases and conflicts of interest in the policy development (Shaoul *et al.*, 2007). Similarly, Asenova and Beck (2010) argue that PPP is created to provide new profit opportunities for the global financial system, which is currently searching for safer investments. Moreover, they show that the terms of PPP contracts are prioritising the risk-return expectations of private finance over public needs (Asenova and Beck, 2010).

The second aspect of the debates is concerned with the notion of value for money, which some believe can be delivered by PPP through better risk allocation and whole-life costing (Yescombe, 2007). The concept of risk transfer in PPP is based on the notion that risk should be managed by the party best able to do so. In this case, it is believed that some risks in an infrastructure project can be managed better by the private sector than by the public sector, such that the cost of managing the risks is expected to be lower. From this point of view, it is believed that the value for money of a PPP project can be improved by an appropriate risk transfer from the public to the private sector (Yescombe, 2007). Furthermore, under the PPP scheme, private sectors are stimulated to develop a design to produce the best whole-life cost since they are responsible for the construction of the asset as well as its operation and service delivery. This view implies that the private sectors will see the project costs in terms of the whole life of the project rather than from a stage-by-stage perspective (Yescombe, 2007).

The third set of debates on the implementation of PPP/PFI in the UK relates to the accounting issues regarding how assets and liabilities in the PPP arrangement should be treated. The accounting approach to transactions in PPP is assumed to be one of the key issues in maintaining accountability and transparency in PPP (Mayston, 1999). The debates on the accounting issues are mainly centred on the issue of how PPP transactions should be recorded in the public accounts, which raises the issue of ‘off-balance-sheet’ accounting treatment. Many accounting papers take a critical position on this issue. Hodges and Mellett (2004) criticise the approach by presenting empirical evidence that the ‘off-balance-sheet’ treatment of PFI in the UK’s National Health Services (NHS) raises some difficulties for users in

interpreting and making comparative assessments. They conclude that such accounting treatment reduces the usefulness of financial statements. Moreover, based on their study of toll road schemes in the UK, Shaoul *et al.* (2010) extend the criticism to other problems of PPP financial reporting, claiming that the public financial reporting of PPP is inconsistent, inadequate and very limited. Such characteristics of the financial reporting make it difficult to assess some of the financial information about it. However, on the other side, some studies argue that the 'off-balance-sheet' issue should not be the main concern in PPP discussion. As pointed out by Grimsey and Lewis (2004), 'the real issue is not so much one of whether or not the PPP undertaking is off-balance sheet, and thus whether the arrangement constitutes borrowing in another name, but whether it represents good value for money' (p. 154). According Hodges and Mellett (2012), such a technical accounting issue obtains political overtones and become pressures to influence the process of developing UK's PFI accounting regulation.

Fourthly, the debates on PPP/PFI in the UK relate to the discussion on the merit and worth of the policy implementation. A number of studies make claims that PPP/PFI in the UK has delivered some benefits to the public. For example, a study by Mott MacDonald (2002) shows that projects procured under PPP/PFI were completed within time and resulted in better cost overruns compared to the projects under conventional procurement, particularly due to better risk allocation and due diligence in PPP. A more recent report on PPP/PFI operational in the UK by the Partnership UK (2003) shows that the PPP stakeholders are generally satisfied with the outcomes of the scheme. In particular, 96% of the surveyed projects perform at least satisfactorily and 89% of the projects' service levels are being achieved. A high percentage (almost 80%) of users also affirm that the services are 'always' or 'almost always' meeting the expected standard (Partnership UK, 2003). Those three studies provide empirical evidence and claim the superiority of PPP/PFI schemes in the UK in terms of performance and user satisfaction. On the other hand, some studies provide empirical evidence to challenge the merit and worth of PPP, including Gaffney *et al.* (1999), Ball *et al.* (2000) and Shaoul (2008). One of the key criticisms is that, instead of increasing efficiency, PPP incurs higher financial costs for the public. One of the findings suggested by Gaffney *et al.* (1999) refers to the case of hospital schemes in the UK's NHS, where the total costs of hospital building (construction costs plus financing costs) under the PPP scheme are 18 to 60 % higher than construction costs alone. Similarly, in the UK road sector, Acerete *et*

*al.* (2010) find that the public sector via the Highways Agency pays a very high cost in using PFI for risk transfer.

Another topic that attracts considerable attention in PPP discussions in the UK is the accountability issues. The debates are triggered by the claim that the PPP arrangement potentially improves accountability since it discloses the whole-life cost of projects more transparently and obliges the public authorities to choose the services they need carefully (Yescombe, 2007). Unlike the traditional public procurement which depends on allegedly lengthy, bureaucratic, and unclear processes, PPP is claimed to be superior in terms of accountability. The superiority is derived from more transparent and open processes involving more stakeholders, thus enabling public concerns to be more exposed and more easily resolved (Grimsey and Lewis, 2004). Nevertheless, some critics blame PPP for diluting public accountability partly because, in such an arrangement, some important information about the projects becomes unavailable to the public on the grounds of commercial confidentiality (Shaoul *et al.*, 2006). However, as coined by Sinclair (1995), accountability is an 'elusive', multiple and fragmented concept. It is also 'subjectively constructed and changes with context' (Sinclair, 1995 p. 219). In this regard, Demirag and Khadaroo (2011) explore the issue of accountability in PFI, particularly in relation to the implicit assumption that accountability and value for money (VfM) are related concepts in PPP. Using Dubnick's framework of accountability (1998; 2003), a research framework for investigating linkages between accountability and VfM in PPP schemes is established by suggesting alternative accountability cultures (identified as answerability, liability, blameworthiness and attributability), formal accountability processes and mechanisms for PPP (Demirag and Khadaroo, 2011).

The issue of institutional arrangements in PPP/PFI is also central to the discussion on the implementation of PPP in the UK. Broadbent and Laughlin (1999) provide an example of PPP arrangements in the United Kingdom, in which HM Treasury, specifically the Private Finance Treasury Taskforce (PFTT), is the main actor in developing PPP policies, while the Accounting Standards Board (ASB) takes part in reviewing the accounting treatments of PPP. Another important agency involved in the arrangement is the National Audit Office (NAO) which examines the PPP projects in terms of project identification, risk sharing and assuring value for money. The interaction and interplay among these agencies provide a balance in the development of PPP and the assurance that PPP is meeting the expected outcomes for the public in general.



Beyond the UK, Australia is another place in which PPP implementation and practices are seen as exemplary and therefore receive great attention. A review of the extant accounting literature on PPP by Andon (2012) suggests that the number of PPP studies on cases in Australia is second only to the number of cases in the UK. It is also noted that the implementation of PPP in Australia actually began before 1991, even before the UK government introduced PFI (Walker, 2003). The Australian PPP policy has also evolved in terms of practice as well as discourse such as that described by Maguire and Malinovitch (2004). They suggest that the evolution of Australian PPP can be categorised into three different stages. Initially, from 1980 to 1992, PPP is seen as a financial scheme to achieve 'off-balance-sheet' financing due to the limited borrowing capability of the government. Subsequently, from 1993 to 1999, the views on PPP are reshaped as a method of achieving efficiency through risk transfer, competitive tendering and private involvement. In the third phase, from 2000 to the present, the objectives of PPP are extended through the idea of value for money. During these periods, PPP has raised some debates on a number of topics. For example, the issue of 'off-balance-sheet' treatment in PPP has received great attention from accounting scholars. Among those who consistently criticise PPP on this issue is Walker (2003), who suggests that the 'off-balance-sheet' treatment of PPP is an example of how accounting focuses on form rather than substance, and thereby some important financial information may be concealed from the public. Previously, another study emphasises that such 'off-budget' financing implies that the government is actually 'privatising' its activities and transferring some potential public benefits to the private sector. In addition, they suggest that, in effect, PPP schemes may deliver infrastructure services at highly expensive prices, prolong the project completion, and undermine public accountability (Walker and Walker, 2000). Nevertheless, a more recent evidence suggests otherwise. The study which compares cost, performance and timeliness outcomes of projects procured under PPP schemes with those under traditional procurement concludes that PPP exhibits superiority in terms of cost efficiency and timeliness over the traditional procurement, and those advantages increase as the size and complexity of PPP projects increase (Allen Consulting Group and the University of Melbourne, 2007). In addition, based on the availability of public data, the study emphasise the finding that PPP projects are significantly more transparent than traditionally procured projects.

As in the UK, the controversy of value-for-money calculation and risk arrangement in PPP is another interesting topic of discussion in the Australian case. English and Walker (2004), for

instance, provide evidence that the ex-ante assessment of risk management in a PPP contract for Deer Park Prison is inadequate due to complicated measurements, issues in enforcement of agreed risk transfers, and changes in the nature of risks. Moreover, Andrew and Cahill (2009) study the case of PPP prisons in New South Wales and show that the approach to assessing value for money is poorly based on limited and partial cost accounting information.

Another developed country, France, which actually has many years' experience of involving the private sector in the development of public infrastructure, recently embarked on a new form of private financing that resembles PFI in the UK (Campagnac, 2012). In the new arrangement, the proposal to use value for money as one of the criteria in assessing PPP is discussed particularly to provide a benchmark or comparison with normal public procurement (Campagnac, 2012). Moreover, PPP implementation in the Netherlands had also inspired a number of studies including from an accounting and finance perspective. For example, Klijn and Teisman (2003) study the problem of cooperation in PPP arrangements that involve a greater number of participants. Using several case-studies of projects in the Netherlands, they show that partners in PPPs experience difficulty in joint decision-making and therefore tend to return to the traditional forms (Klijn and Teisman, 2003). The case of PPP in Spain is different to that in the UK or Australia in that it is more motivated by the lack of government budget (Acerete *et al.*, 2009). In one case in the PPP toll road sector, Acerete *et al.* (2009) look at the financial ratios of financial reports of PPP companies and show that PPP actually creates additional costs to the public while failing to add to public investment.

In general, the literature review of cases in developed countries provides broad views on the issues surrounding the implementation of PPP. It suggests that the attention of the literature is mainly given to the economic and financial aspects of the arrangement. Such a focus can be compared to the literature of cases of developing countries as examined in the next section

### **2.3.2 PPP in developing countries**

Although the adoption of PPP has also reached the developing world, as suggested at the beginning of this chapter, PPP accounting literature of cases in developing countries is still scarce. The review on the existing PPP accounting literature conducted by Andon (2012) identifies that the discussion of PPP related to accounting issues is dominated by cases in the developed countries, specifically the Anglophone countries. This figure particularly reflects the high profile of PPP use and debate in these areas but is also due to the location of prominent scholars interested in this topic (Andon, 2012). Considering this issue, the

literature review in this section is extended to include papers and materials on PPP from other fields such as economics and politics that cover the development of PPP in developing countries.

Moreover, in discussing PPP implementation in developing countries, attention might be paid to particular countries in different continents that are regarded as early or advanced PPP adopters. For example, in Latin America, Chile has been widely acknowledged as among the most successful developing countries in adopting PPP, particularly in terms of sustainability and the amount of investment delivered through the arrangement (Fischer, 2011)<sup>6</sup>. However, implementation of PPP in Chile is still facing certain problems, including those related to corruption and organisation issues. Fischer (2011) observes that the increasing activity of PPP programmes and organisational problems in PPP units may lead to a rise in corruption including that occurring in the negotiations after the contracts have been granted. In the other parts of Latin America, however, the adoption of PPP is not as successful as that in Chile. As suggested by Marks (2010), countries in Latin America mainly have no laws to enable transfers of certain required authorities to the private sector, which prevents private companies from securing their activities in PPP. In fact, it has been reported that the PPP implementation in other countries in Latin America has been less successful, at least compared to that in Chile. For example, in Argentina PPP has to deal with high uncertainties since the government frequently change their regulations and laws related to investment, while in Colombia the law specifically designed for PPP led to a number of problems in its implementation (Fischer, 2011).

Meanwhile, in Asia PPP has also attracted wide attention from many countries and has accordingly become an interesting topic of discussion among scholars and practitioners. In the case of Malaysia, the introduction of PFI through the Ninth Malaysia Plan (2006-2010) is seen by Takim *et al.* (2009) as mainly motivated by the intention of the government to reduce its expenditure in delivering public infrastructure services. In the eastern part of Asia, the implementation of PPP in South Korea has been regarded as successful, particularly in terms of delivering projects and attracting private capital. In fact, Korean PPP also experienced a difficult phase, in which the policy was characterised by insufficiency in a number of issues including in terms of incentive measures, transparency, clarity of procedures, conformity with

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<sup>6</sup> Fischer (2011) recorded that PPP in Chile had attracted US\$ 11 billion in investments by 2007 and many more contracts are still to be awarded. These investments are said to be contributing to the improvement of the country's infrastructure and reduction of transport costs.

global standards and adequate risk-sharing mechanisms (Hahm, 2003). Korean PPP is also characterised by the issue of high minimum risk guarantee (MRG), a scheme introduced by the government to provide more financial security to the private sector due to the impact of the financial crisis in 1997; this raised controversy among the public who felt that too much burden was being imposed on the public finances (Do, 2012). Moreover, the development of PPP policies in developing countries is often closely linked with the stage of the economic development of the respective countries. For example, in the case of China, as described by Wang *et al.* (2012), the Chinese PPP policies are still decided mainly on the basis of the government's judgements, with less consideration of other stakeholders, partly because China is still in the transformation stage from a planned economy to a market economy. In terms of regulations to support PPP, the implementation of PPP is constrained by the incompatibility of the existing tendering and bidding law with the procurement of PPP in terms of scope of works. Some cases indicate that conflicting regulations are also apparent, as different units in the government body create different standards, exposing the investors to the uncertainty of choosing which standard to follow. Lack of expertise in formulating a vigorous regulatory framework for PPP is another important issue for Chinese PPPs, particularly because it leaves investors with even greater regulatory uncertainties (Wang *et al.*, 2012).

Some cases in developing countries also show how PPP becomes entangled with the political situation and structural background in the respective implementing countries. For example, in the case of Malaysia, Beh (2010) shows that the PPP is mostly motivated by the need to fulfil 'the demand of political collaboration' rather than improving the procurement management of public infrastructure; therefore, governance and transparency are often neglected, which results in higher costs and lower quality of service. Nevertheless, one of the most common problems found in the developing countries in relation to PPP implementation is the issue of corruption. Farlam (2005) presents a case of PPP in Tanzania which was set up as a scheme for corruption and collusion among government officials, investors and contractors. Corruption through PPP projects is also found in other countries, such as in Indonesia where an Independent Power Producer (IPP) project was procured in the early 1990s without a competitive bidding process (Sudja, 2003). The project also relied on high-level political backing as well as the donor country's political support, which resulted in 'an overpriced, uncompetitive project with devastating environmental and social consequences' (Sudja, 2003 p. 2). The author states that in the project scheme the private partners, who are well connected with the president's cronies, ordered the state electricity company to buy its coal at

a price 30-40 % higher than the market rate and the producer priced the electricity at a tariff 32 % higher than comparable tariffs in the country (Sudja, 2003). As a consequence, the public was forced to buy essential electricity at a higher price.

Moreover, PPP in developing countries is often linked with the institutional issues of the implementing countries. Hammami *et al.* (2006) examined the determinants of PPP implementation in developing countries and find that institutional quality, which is characterised by less corruption and effective rule of law, is one of the important determinants of PPP projects. Banerjee *et al.* (2006) also investigated institutional issues as determinants of PPP in developing countries and found that property rights and bureaucratic quality play significant roles in promoting PPP. However, they also reveal an interesting finding that higher levels of corruption attract more PPP investors. Using more recent quantitative data, Sharma (2012) suggested that quality of regulation and governance play significant roles in determining PPP in developing countries, although he failed to provide evidence of such a relationship with political factors.

Religion is another issue that has been associated with PPP implementation in developing countries. Khan (2002) suggests that a PPP-type arrangement is substantially consistent with the principles of Islamic finance as it ensures more justice and equity. As Islamic financing discourages the use of interest-bearing instruments, Iqbal and Khan (2004) also advocate the use of PPP arrangement in financing public infrastructure as it may help countries to avoid debts in financing the development of public facilities.

Overall, the review of the PPP literature on cases in the developing countries shows a wide range of issues covering economic, financial, political, institutional and religious factors. Such issues may reflect the complexities of PPP implementation in developing countries as PPP interacts with various local contextual factors.

### **2.3.3 The comparison of PPP cases in developed and developing countries**

There are at least three main issues can be identified from the comparison of cases in developed and developing countries, namely the lack of attention to the issue of PPP diffusion, the similar interests in studying PPP rationales, and the different attention to certain contextual factors of PPP implementation.

The primary point that can be drawn from the observation of cases in developed and developing countries is how PPP as an idea is transmitted from one country to another. As

identified in the discussion, the initial development of PPP as an arrangement to involve the private sector in the provision of public facilities originated in the developed countries, notably the USA, the UK and Australia (Hodge and Greve, 2007). PPP then rapidly reached other countries including developing countries in Eastern Europe, Asia, Latin America and Africa (Akintoye *et al.*, 2003; Grimsey and Lewis, 2004). However, the process of transmission of PPP from its origins to these other countries has yet to be explored. A number of studies highlight the role of international financial institutions in disseminating the idea of PPP, such as Mitchell-Weaver and Manning (1991) and Newberry (2004). However, little is known about the detailed process of how PPP is so rapidly transmitted across countries. In fact, an exploration of the process of PPP diffusion may provide information on what channels are involved in the process, how PPP might be accepted or rejected by the local actors, and how PPP is modified during the process.

Another aspect that can be identified from such a comparison is the similar interest in exploring the rationales and motivations of adopting PPP. Observation of the two groups suggests that although the topic of rationales receives considerable attention in the literature on both developed and developing countries, there are obviously some variations in the types of rationales being emphasised. In the case of developed countries, improvement of efficiency, higher value for money and more innovation in the delivery of public services are regarded as the main rationales (Yescombe, 2007), while in developing countries filling the gap of infrastructure financing is seen as a more relevant rationale (Hahm, 2003; Takim *et al.*, 2009). However, according to Winch *et al.* (2012), the additionality issue i.e. the search for additional private capital to add to the existing public funding available for financing public infrastructure, is actually not only a motivation for developing countries but is also implicitly used by developed countries. The case in the developing countries is quite straightforward, since the governments usually have fairly limited capital to meet the high demand for infrastructure, while the source of funds from taxation is limited by relatively lower national wealth. In the case of the developed countries, the additionality issue takes a longer route as it comes from the 'public sector net debt' (PSND) constraint which imposes limits on public borrowing and public debt. Adopting PPP is one way of relieving this PSND constraint by putting investment in infrastructure outside the PSND equation as an off-balance-sheet item (Onishi and Winch, 2012). In fact, despite the rhetoric developed by some governments, a number of studies in the developing countries also reveal some 'implicit' rationales that are actually more influential in driving the implementation of PPP. For instance, in the case of

Malaysia, as indicated by Beh (2010), fulfilling ‘the demand of political collaboration’ may be the true motivation for implementing PPP rather than improving the procurement management of public infrastructure. Similarly, Farlam (2005) presents the case of Tanzania, in which PPP is set up as a scheme for corruption and collusion among government officials, investors and contractors.

The issue of PPP institutional settings and regulations is another topic that widely emerges in both groups of PPP cases. It is suggested that studies on PPP institutional settings and regulations in the developed countries mainly pay attention to two issues: the roles and relationships of the agencies in the development of PPP policy in ensuring the achievement of PPP objectives (see, for example, Broadbent and Laughlin, 1999, discussed above) and the examination of accounting policy and regulations related to PPP (see, for example, Walker, 2003). On the other hand, studies on the PPP institutional settings in developing countries are mainly dominated by issues related to the capability of governments and their units to execute PPP policy. For example, in the case of China, Wang *et al.* (2012) show the lack of expertise in formulating a vigorous regulatory framework for PPP and the domination of the government’s judgements, with less consideration of other stakeholders in deciding PPP arrangements. Meanwhile, the discussions on the regulatory issue of PPP in developing countries are dominated by the issue of insufficient regulatory frameworks enabling the implementation of PPP. Examples include the cases of Chile (Marks, 2010) and Colombia (Fischer, 2011).

Moreover, the comparison of PPP cases in developed and developing countries also suggests that a number of issues are only apparent in one group and are relatively absent in the other. For instance, while the issue of accounting treatment of PPP dominates the discussion of PPP cases in developed countries, it is relatively absent in the cases of developing countries. As discussed previously, the discussion of accounting issues in the cases of developed countries focuses on how assets and liabilities in the PPP arrangement should be treated, since it is suggested that the accounting treatment of assets and liabilities is one of the key issues in maintaining accountability and transparency in PPP. The debates are mainly centred on the issue of how PPP transactions should be recorded in the public accounts, which raises the issue of ‘off-balance-sheet’ accounting treatment. In the developing countries’ cases, however, the debate on accounting treatment of PPP is not part of major discussions. In these countries, accounting treatment does not attract significant attention in PPP discussions, particularly as they are not constrained by public debt limitation and therefore the

attractiveness of PPP is not defined by whether the assets are on- or off-balance-sheet (Onishi and Winch, 2012).

Similarly, the discussion on the issue of value for money in PPP also reflects such difference. The topic receives considerable attention in the PPP literature on developing countries since the value for money criterion is among the most common standards employed by developed countries in assessing PPP. However, for developing countries, in which PPP is mostly driven by the additionality motive, the value for money criterion is not emphasised. This is partly because the governments tend to be more concerned with filling the infrastructure-financing gap than improving the efficiency of the infrastructure projects (Winch *et al.*, 2012b).

In contrast, there are a number of issues that are overlooked by PPP literature on developed countries but attract considerable interest in studies on developing countries. For example, the issue of corruption in relation to the implementation of PPP is emergent in a large number of studies on the cases of developing countries. Some studies also show how corruption prevents the implementation of PPP from achieving its objective in a number of ways. For instance, in the case of Tanzania, corruption has resulted in feasibility studies and consultation with stakeholders being ignored (Farlam, 2005). Such practice may inflate the price of the infrastructure service, as occurred in the aforementioned case of power project in Indonesia (Sudja, 2003) and in Tanzania, where a power project involving Malaysian and Finnish private company allegedly made payments to the government officials and inflated the price of the power generators (Cooksey, 2003). On the other hand, the issue of corruption in PPP, as far as the research is concerned, is rarely found in the literature on cases in developed countries.

Likewise, while the association of PPP with religious issues is not a common topic in the PPP literature on developed countries, such a theme receives some attention in the literature of PPP in developing countries. In this case, Islamic finance, as a financial arrangement inspired by religious motivation, is often linked with PPP scheme. From an Islamic point of view, Khan (2002) and Iqbal and Khan (2004) advocate the use of a PPP-type arrangement as it is substantially and practically consistent with the principles of Islamic finance. Despite that, it is also evident that the implementation of PPP based on the Islamic schemes are rather limited in the actual practice.



## **2.4 Identification of research gaps**

The comparison between themes emerging from the literature on the cases of developed and developing countries suggests that there are some similarities as well as differences in the topics and issues being discussed. Such commonalities and variations in the themes on PPP implementation in both groups of countries might be used to identify some gaps for further examination in the PPP research. Drawing on the previous literature review, at least three issues can be identified as research gaps that have not been discussed by previous researchers satisfactorily. These gaps may be relevant for building platforms for this research, as briefly discussed in the following subsections.

### **2.4.1 Contextual factors situating PPP implementation in developing countries have not been well explored**

The literature review suggests that some studies of PPP in developing countries have identified the contextual issues of PPP implementation which may relate to political, cultural, institutional and religious factors. As identified in the previous section, the roles of institutional quality and the credibility of regimes in determining the outcome of PPP have been outlined by a number of studies (Hammami *et al.*, 2006; Banerjee *et al.*, 2006; Sharma, 2012). The association of PPP with corruption that hinders the achievement of PPP objectives in several countries has also been widely documented (Sudja, 2003; Farlam, 2005; Fischer, 2011). Moreover, the involvement of religious issues in PPP implementation is also suggested by Khan (2002) and Iqbal and Khan (2004). All these studies contribute significantly in providing a better understanding of the unique features of PPP implementation in developing countries, which are considerably different from those in developed countries.

Despite that, it also appears that most attention to such contextual factors is given through certain concrete properties such as its association with numbers and mechanics. While this approach has been successful in identifying the various features of PPP implementation in a number of countries, as discussed earlier, it may restrict the studies' ability to analyse more fundamental issues beyond the technical issue of PPP and cause them to overlook the practical issues of PPP implementation (Andon, 2012). Moreover, PPP can be approached through abstracted lenses such as the way it has been practised and how those practices are linked to the situated contexts and backgrounds. By adopting the latter approach, the research may allow some new encounters such as a closer look at cultural elements from which PPP

motivation and implementation grow, or a deeper examination of the dynamics of organisational change caused by the introduction of PPP.

Such approaches have actually been encouraged by many studies including a study by Chua (2007), which promotes the researching of accounting as a 'situated social practice' in which accounting as a practical activity is conditioned by local settings. Ahrens and Chapman (2007) also develop the idea of 'situated functionality' in which an accounting practice and systems can influence and be influenced by 'shared norms and understandings'. Particularly in trying to understand the PPP development in developing countries, an approach that incorporates situated local settings is certainly relevant, since it can be expected to generate richer insights into how the differences in local contexts shape the PPP implementation.

In this regard, using an interpretive and constructivist approach in studying PPP may help the researcher to explore the implementation of PPP from the views and perspectives of relevant actors. An interpretive approach also allows the researcher to obtain knowledge from personal investigation and experience of actors involved in PPP implementation since the knowledge in this perspective is assumed to be subjective and intuitive. There are a number of studies on PPP using an interpretive approach, as classified by Lambert and Lapsley (2006), but they are relatively scarce compared to PPP research using a functionalist approach. One of these interpretive studies was conducted by Rutherford (2003), who employs a social constructionist model to explore the development of accounting in UK PFI policy. He investigates the events, texts and behaviour related to the development of accounting methods for PFI schemes to interpret the social processes in accounting standard-setting. While this type of study offers rich information about the processual aspects of PPP implementation, no such study has yet been conducted for PPP in developing countries, as far as the current researcher is aware.

#### **2.4.2 Studies about the process of PPP diffusion are underdeveloped**

When PPP is seen as an international phenomenon, among the inquiries that arise are the following: How is it transported from one place to another, what channels are used to transmit the idea, and how is the idea negotiated during the transfer? The above review of the PPP literature has partially identified some issues of the international experience of PPP, particularly those in response to the research agenda proposed by Broadbent and Laughlin (2004). The variations in PPP concepts and practices around the world have also been compiled by many studies including Hodge and Greve (2005), Grimsey and Lewis (2004),

Yescombe (2007), Akintoye *et al.* (2003), Akintoye and Beck (2009) and, most recently Winch *et al.* (2012b). Although the studies are mostly dominated by the cases of developed countries, some PPP experiences of developing countries are also covered in those compilations under different lenses, especially in Winch *et al.* (2012), who try to portray diverse drivers and implementations of PPP given different macro-economic constraints. Moreover, a number of individual articles have also tried to address PPP practices in various parts of the world, such as Nigeria (Akinyemi *et al.*, 2009), Lebanon (Massoud and El-Fadel, 2002), Korea (Choe, 2002), Malaysia (Takim *et al.*, 2009), and Indonesia (Wibowo, 2006a). However, these studies tell us little about how PPP, which originally emerged in developed countries, particularly in Anglophone countries such as UK and Australia, was transported globally to other countries, including to the developing countries.

In fact, the investigation of the issue of PPP diffusion from one place to another may provide a better understanding of how the idea of PPP is negotiated, modified and translated into local contexts of the implementing countries. The issue of diffusion may also inspire discussions on the channels through which PPP is transported to developing countries. The roles of international agencies such as the World Bank in disseminating PPP has been widely acknowledged (Broadbent *et al.*, 2003b; Mitchell-Weaver and Manning, 1991), but a detailed exploration of their activities in channelling PPP to the developing countries has not yet been undertaken satisfactorily.

#### **2.4.3 Lack of attention to various PPP rationales and motivations, particularly to those inspired by non-economic issues**

A number of studies have specifically addressed different PPP rationales in PPP adoption, in cases of both developed and developing countries. PPP rationales in developed countries are explored by Spackman (2002), McQuaid and Scherrer (2009) and Winch *et al.* (2012b). These studies suggest that PPP is mainly promoted under the motivation to improve the efficiency of the public sector by involving the private sector in the arrangements. It is further advocated that the participation of private parties in the PPP scheme will introduce more appropriate risk allocation and better value for money (Private Finance Panel, 1995). In addition, the private sector can be expected to bring more innovation to the delivery of public services (Yescombe, 2007). On the other hand, the rationales of PPP in developing countries are mainly viewed in relation to the issue of attracting more additional funding to fill the gap between the limited financial capacity of the public sector and the increasing demand for public infrastructure (see, for example, Hahm, 2003, and Takim *et al.*, 2009). Such an

exploration of PPP rationales and motivations has provided knowledge on how PPP has attracted a large amount of interest from governments with different motivations.

Nevertheless, it is notable that most rationales identified by those studies are mainly based on economic rationality, assuming that PPP is an arrangement driven merely by economic and financial motivation. In fact, as shown by the literature review, PPP implementations in developing countries are also closely linked with local contextual issues such as politics, culture and religion. Limiting the discussion of PPP rationales to economic issues may restrict the analysis from finding more fundamental rationales that actually make a greater contribution in driving PPP implementation in developing countries. Therefore, to reveal such fundamental motives, it is necessary to consider the political, cultural and even religious motives in the discussion of PPP rationales.

In addition, by considering those local settings in the discussion of rationales, it might be expected that richer insights into the complexity of PPP rationales in the developing countries will be revealed. This includes the insights into how “official” PPP rationales are developed as rhetoric to cloud other “implicit” PPP motivations. As suggested by Teisman and Klijn (2002), PPP can be seen as a “language game”, which means that it is proposed as a design to ‘cloud’ other strategies and purposes of policy-makers. Similarly, Linder (1999) and Hodge and Greve (2007) suggest that “the other strategies” of governments concealed behind the term PPP mainly refer to “privatization”. Considering this notion of seeing PPP as a language game and rhetorical strategy, it will be interesting to explore those “implicit” rationales clouded behind the use of the term PPP in cases of developing countries.

## **2.5 Conclusion**

This chapter attempts to explore the issues surrounding PPP implementation by giving more space and emphasis to discussions comparing cases in the developed and developing countries. It is found that the extant literature has provided considerable contributions to improving the understanding of PPP both conceptually and practically around the world. While PPP as a scheme to invite private participation in public infrastructure financing is believed to have originated mostly in Anglo-Saxon countries such as the United Kingdom and Australia, its development has become more global and reached developing countries. The literature also shows that the experience of PPP implementation is uneven; in particular, the issues and problems faced by developing countries in PPP implementation are generally different from those faced by developed countries.

From the exploration of issues in both developed and developing countries, this chapter identifies several gaps in the literature and reveals some potential research opportunities. Firstly, the research observes that while unique features of PPP implementation in developing countries, particularly those related to political, cultural, institutional and religious issues, are identified by the PPP literature, they are not yet adequately seen as local settings that situate PPP as a practice. Therefore, studies observing how these local factors might influence and be influenced by the implementation of PPP have not yet been widely undertaken. Accordingly, this research is interested in discovering how PPP as a practice interacts with its local settings, particularly those related to the dynamics of economic, political, cultural and religious factors in Indonesia. The research attempts to use such an approach to investigate how PPP is introduced in Indonesia and how it develops and evolves in such circumstances. It is expected that a study seeing PPP as a “situated social practice”, in which PPP as a practical activity is conditioned by local settings, will reveal practical issues such as problems and challenges of PPP implementation.

Secondly, while the research agrees that the process of PPP diffusion from one country to another is an important issue in understanding PPP implementation in developing countries, it also believes that the current PPP literature has largely overlooked this topic. As a result, knowledge of the process that may create variations of PPP developments in different countries has been considerably ignored. In fact, an examination of the process of PPP diffusion would be useful for enhancing an understanding of what channels are involved in the process of diffusion, how PPP might be practised differently in different regions, and how PPP adapts to new socio-economic, political and cultural contexts.

Thirdly, the research also has an interest in considering the contextual factors such as politics, culture and religion in the discussion of PPP implementation in developing countries. Using such a perspective, the research identifies that discussions on PPP rationales and motivations are mainly focused on issues related to economic and financial aspects. As a result, PPP rationales and motivations that may be inspired by political aspirations are largely ignored. This research is interested in adding to the understanding of PPP rationales and motivation by expanding attention beyond the economic and financial issues. It is expected that such additional perspectives will reveal more fundamental issues that make PPP attractive for developing countries.

## Chapter 3 Theoretical framework

### 3.1 Introduction

As has been suggested in the introduction chapter, this research aims to investigate the complex issues in the development of PPP policy in Indonesia. More specifically, the research raises questions on how PPP is brought to Indonesia, what rationales motivate the government to adopt PPP and how PPP evolves over time in Indonesia's economic, social, political, cultural and Islamic contexts.

In addressing these questions, the research seeks to employ a theoretical framework to provide guidance and lenses for the examination of the case-study to achieve the research objective. While there are many definitions of theoretical framework, this term is generally understood as a structure containing a set of concepts and theories that are used to support a piece of research.<sup>7</sup> In this sense, theoretical frameworks are usually discussed in a research study to offer a foundation for developing research questions as well as to support the study by linking the research with the existing knowledge and locating it within the perspective of other research in a particular field. However, in qualitative research, the theoretical foundation might be assumed to be different because theories generally emerge from findings (Anfara and Metz, 2006). In research strategies commonly used in inductive and qualitative approach, theories are generated out of data in the study; hence, they emerge at later stages after the findings have been analysed (Creswell, 1994). Therefore, existing theories are explored in a research study mainly to provide particular perspectives or lenses through which topics in a study can be examined. Consequently, rather than providing a solid base for the study, existing theories are linked with methods and analysis in more interactive ways. This research tends to take the latter position as it primarily attempts to employ qualitative methods and an inductive approach, particularly due to the nature of the research objectives and questions.

Nevertheless, it is necessary to note that the use of the extant theories in exploring the development of PPP is not specifically aimed at contributing to this research as such. Rather, the use of the theories is emphasised mainly because they are expected to provide more satisfactory explanations of why actors in the implementation respond in certain ways when they come together to discuss PPP issues. In fact, it is expected that the main contribution of this research will be to provide new perspectives in explaining the complexities of PPP by

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<sup>7</sup> Some definitions of theoretical frameworks are provided by scholars including Sekaran (2003).

exploring the interactions among actors, organisations and their Indonesian environments in the development of PPP.

The theoretical framework in this chapter is developed by re-examining the research questions formulated at the beginning of the research, preceded by an identification of the need for frameworks that are able to help achieve the research objective. In developing the framework, the research reviews the approaches used in the extant accounting literature that discusses PPP issues and examines whether there are any compatible theories and approaches that can be used to guide the investigation of the case-study in this research. If no such frameworks can be found, the research needs to find and explore relevant theories and approaches in other disciplines to obtain better lenses through which to explore the case-study. Moreover, the research may also develop new frameworks for guiding its investigation if there is no approach deemed suitable.

The remaining sections of this chapter are organised as follows. Section 2 explores a range of approaches that have been employed in studying PPP; this is followed by section 3 which identifies the issues in the current accounting approaches to PPP in relation to this research. Section 4 presents the development of a theoretical research framework for this research. Section 5 summarises and concludes the chapter.

### **3.2 Existing approaches to study PPP**

PPP is a complex phenomenon. Its adoption involves many aspects of human life and its context. Accordingly, PPP has inspired discussions from various perspectives and discipline using different views and theoretical frameworks. As a social and political product, PPP has been viewed from different angles including politics (for example, Flinders, 2007, Bexell and Morth ed., 2010, and Schaferhoff et al., 2009), and law (for example Aziz, 2012). As a financial arrangement, PPP has also been viewed from the perspectives of economics, public finance, and accounting. Moreover, a large number of studies have used combinations of different disciplines in discussing PPP to reflect the complexity of PPP arrangements.

In accounting and finance alone, PPP has been approached from various perspectives and frameworks using different theories. Andon (2012) reviews the extant literature on PPP accounting research and finds that a wide range of theories has been employed by accounting scholars in researching PPP, including economic and finance theories, transaction cost economics, accountability theories, neo-liberalism theories and middle range theories.. The use of accountability theory, for example, is exemplified by the work of Demirag and

Khadaroo (2011), who propose a theoretical framework for exploring potential relationships between accountability and value for money in PFI projects. Moreover, the perspective of transaction cost economics is used, among others, by Reeves (2008) in exploring the practice of contracting in Irish PPP, in which he finds that PPP does not shift the conduct of contracting practice to relational contracting as expected. Andrew and Cahill (2009) use the neo-liberalism perspective to examine the case of a New South Wales prison and show that the policy decisions in setting up the PPP arrangement are based on inadequate funding provided by the cost data. However, Andon (2012) also noted that majority of the reviewed studies do not specify the theories employed in their PPP studies.

Unsurprisingly, among other perspectives, economics and finance theories have apparently become the most commonly-used angle from which to view PPP. For example, this perspective is employed by Shaoul (2005) who examines a system of appraisal used in new hospitals built under PPP/PFI schemes in the UK in terms of the process, financial methodology, assumptions and data. She finds that the decisions on PFI actually rest on ambiguous concepts of risk transfer and value for money. In general, as identified in the previous literature review chapter, the approaches of studies outlined above mostly focus on the 'technicalities' of PPP schemes, in which most attention is paid to the accounting calculation of some technical elements of PPP such as risk allocation and value for money.

More recently, the PPP literature observing cases in developing countries begins to provide approaches that are more relevant to studying PPP in countries such as Indonesia in that they identify political and institutional issues as the important characteristics of PPP in developing countries. For instance, Hammami *et al.* (2006), Banerjee *et al.* (2006), Reside and Mendoza (2010) and Sharma (2012) incorporate the political and institutional factors in their analysis of PPP determinant in developing countries. Using the same source of data, i.e. the World Bank Private Participation in Infrastructure (PPI) database, they investigate the cross-country determinants of PPP implementation in developing countries. Furthermore, Mu *et al.* (2011) include political, cultural and institutional contexts in examining the development of PPP in China. Such specific attention to non-economic issues in PPP development provides rich insights into the complexity of PPP adoption in developing countries. Nevertheless, despite considering political and institutional issues, those deductive studies (Hammami *et al.*, 2006, Banerjee *et al.*, 2006, Reside and Mendoza, 2010 and Sharma, 2012) mainly see the factors from a distance rather than close-up as situated local settings.



### **3.3 Problematic issues in the current accounting approaches to PPP in relation to the research theoretical framework**

As part of the efforts to find the appropriate theoretical framework to address the research questions, this research reviews and explores the accounting literature on PPP as discussed in the previous chapter. The review of the extant literature not only provides insights into and information on various issues currently discussed in relation to PPP but, more importantly, also shows how PPP issues are approached by the previous studies. The exploration of the current literature suggests that the approach of most studies in PPP is to focus on the ‘technicalities’ of the scheme, referring to the keen examination of accounting techniques and approaches to identifying value for money and risk transfer as well as the treatment of reporting to ensure accountability. In fact, such an approach has made considerable contributions to identifying the important issues related to PPP including its potential and limitations. However, such an extensive focus on the mechanics and details of the arrangements may also restrict the studies’ ability to analyse some more fundamental issues beyond these technicalities, because such excessive attention may imply that the practical issues of PPP can be ignored (Andon, 2012).

Another characteristic found in the current accounting literature is the domination of studies on PPP cases in the developed countries, particularly in Anglo phone jurisdictions such as the UK and Australia. While Broadbent and Laughlin (2004) emphasise that comparative studies of international PPP experiences can potentially enrich the discussion of the applicability of PPP and its contribution to the public, the extant research on international PPP is mostly restricted to developed countries (for example, Hodge and Greve, 2005; 2007). The concentration of PPP studies on that particular area suggests that the cases in other areas, such as those in developing countries, are not well developed. Considering that PPP has become an international and worldwide phenomenon, the lack of studies on cases in developing countries is surprising.

With regard to the identification of the research frameworks, the approaches above suggest that there may be some limitations to their employment for examining the casestudy of PPP in Indonesia and addressing the questions in this research for at least two main reasons. Firstly, the approaches that emphasise the “mechanisms and details” of PPP (Lambert and Lapsley, 2006) may ignore the abstracted properties including the processual aspects of the PPP development, which have become the central subject of this research. Indeed, this research is more interested in exploring how PPP is practically used and confronted with its

situated circumstances. With such an intention, the research assumes that the complexity of PPP might be better understood by conducting the research closer to the practice rather than looking at it from a distance. Therefore, responding to the suggestion by Andon (2012), the research is more suited to the employment of a “practice-oriented lens” as its framework for viewing PPP implementation.

Table 3.1: Comparison of PPP settings in UK and Indonesia

Issues	UK	Indonesia
<b>Regulating agencies</b>	PPP/PFI in UK is mainly regulated by HM Treasury and Accounting Standard Board (ASB) while its value for money is examined by the National Audit Office (NAO) (Broadbent and Laughlin, 1999).	The Audit Board of the Republic of Indonesia (or <i>Badan Pemeriksa Keuangan</i> , BPK) is not included in the PPP arrangement and so far has not been involved in any process of monitoring or supervising.
<b>Rules on value for money</b>	Started by Ryrie rules in 1981 that required PPP projects to demonstrate value for money and have developed ever since.	No such rules enforcing value for money assessment.
<b>Accounting treatment of PPP</b>	HM Treasury issued guidance on accounting treatment on PPP arrangements, for example FRAB (2007).	No specific accounting guidance for PPP so far.
<b>Public accountability</b>	Public accountability is built upon the traditional 'Westminster' model, in which public service providers are accountable to the people through the parliament (Grimsey and Lewis, 2002a).	Public service providers are accountable to the president; however, substantially the accountability to the people is not well linked.
<b>NPM</b>	PPP/PFI is considered another element of the development of NPM (Broadbent and Laughlin, 1999)	NPM issues are discussed in relation to government accounting policy (Harun <i>et al.</i> , 2013) but not directly to PPP.

Source: author's own work

Secondly, the approaches that are mostly based on cases of developed countries, particularly the Anglophone countries, may have limitations in providing sufficient guidance to explore cases in developing countries such as Indonesia. As shown in the literature review, the two groups of countries have some differences in their economic, political and cultural settings. The implementation of PPP/PFI and its development in the UK or Australia are certainly influenced by their respective political, institutional and socio-cultural settings. When PPP is

implemented in other countries, it faces new circumstances that may differ from those it faces in its original setting. In the case of Indonesia, certain issues can be identified as differences in the settings compared to what has been commonly assumed in the studies of UK PPP/PFI. Table 3.1 above provides a list of issues that suggest such differences.

In the absence of attributes characterising the setting of the UK's PPP in the Indonesian context, the applications of a number of frameworks identified in the current accounting literature for PPP studies in Indonesia are limited and therefore insufficient to help examine the Indonesia's PPP.

In that regard, the research may need to find other frameworks –perhaps from other disciplines- to help address the research questions since the current frameworks identified from the accounting literature are inadequate for exploring the case of PPP implementation in Indonesia, as specified in the research objective. Accordingly, the research will look at relevant theories in other disciplines, such as organisation theories, institutional theories and other potential theories, that are relevant to develop and achieve research objectives of the study. The research may also develop new frameworks by combining the relevant theories to address the formulated research questions.

### **3.4 Institutional theory and the situated functionality**

As suggested in the previous chapter, this research mainly intends to understand the processual aspects of the implementation of PPP in Indonesia, particularly on how it is diffused, introduced and developed in the context of Indonesia. This research argues that such issues of PPP implementation can be better investigated using institutional theory based on a number of reasons. Firstly, such a theory allows the research to explore not only economic and financial issues of PPP arrangement but also non-economic factors such as culture, politics and religion. Institutional theory is mainly characterised with disagreement for putting heavy emphasis on assumptions pertaining to economic rationality, optimisation and market mechanism. Instead, institutional theory offers a more holistic and interdisciplinary approach that draws inspiration from politics, law, and sociology (Wilber and Harrison, 1978).

Secondly, institutional theory can also be expected to explain how the Indonesian context influence the implementation of PPP, which constitute the main focus of this research. Institutional theory has been known as more interested in discussing how institutional environment, and not technical dimensions of the arrangement, shapes the objectives of

organisations. In this regard, institutional theory particularly emphasises that influences that shape organisations are of an institutional nature and include rules, habits, routines, norms and taken for granted assumptions (Hodgson, 1988). Additionally, institutional theory also underlines the importance of power and politics, learning and innovation for influencing the cumulative processes over time (Moll et al., 2006).

Thirdly, as institutional theorists also believe that organisations' structures and procedures are mainly influenced by external factors rather than cost-minimizing objectives, the theory can also be used to discuss how the external forces affect the adoption of PPP in Indonesia. It is argued that institutions which operate in similar environmental settings are assumed to always compare each other to conform what is generally considered as being appropriate behaviour (DiMaggio and Powell, 1983). Therefore, organisational structures and procedures reflect the norms, myths and rules that are perceived to be right by society (Meyer et al., 1983). In this regard, the adoption of PPP can be potentially seen as an effort to conform what is globally regarded as being "right" country.

In fact, institutional theories have been widely employed by accounting scholars in different fields of accounting. In this regard, it can be noted that public sector accounting research put more attention to institutional theories than other fields do, particularly because in the private sector it is believed that institutional theories might be less useful in explaining organisation choices as market influence would prevail (Major and Hopper, 2004). Moreover, institutional theory has also been widely used recently to study accounting practices in less-developed economies, particularly to describe issues of 'modernisation' contrasting the western rules and procedures with the local circumstances. These two facts may add justification to the use of institutional theory in this research.

Moreover, a specific approach is developed in exploring PPP implementation in Indonesia, by considering PPP as a form of organisational practice. In this regard, a practice approach is needed to understand the complexities within PPP arrangement in Indonesia and to identify the linkages between activities of the actors and the existing context surrounding the implementation of the policy.

One of the practice theory approach widely discussed in the accounting literature is the notion of situated functionality as proposed by Ahrens and Chapman (2007). Situated functionality refers to a set of accounting activities that are used by skilful actors when pursuing strategic objectives of organisations in local contexts. The notion of situated functionality is formulated on Schatzki's (2002) ontology that is believed to be helpful in appreciating

complexities within individual practices. Such a practice approach in studying accounting implementation in fact has also been suggested by many scholars including by Chua (2007), who promotes the researching of accounting as a 'situated social practice' in which accounting as a practical activity is conditioned by local settings. Another practice oriented approach that is also broadly used in accounting studies is Actor Network Theory (Latour, 1987). ANT has been extensively adopted in accounting studies (for example Chua, 1995; Briers and Chua, 2001; Llewellynn and Northcott, 2005; Quattrone and Hopper, 2005). Nevertheless, as argued by Ahrens and Chapman (2007), their interpretation of situated functionality is different to Actor Network Theory in that it is more accepting of structures of intentionality. Referring to Schatzki's ontology, they suggest that although both approaches are interested in the significance of action, situated functionality considers that actions are driven by understandings of how to do things, rules that prescribe how things should be done and an array of ends that are acceptable for participants in the practice (Schatzki, 2005, p. 472).

In relation to the objectives of this research to study how PPP is implemented in Indonesia, the notion of situated functionality can be useful in understanding how PPP actors involved in the process of implementation by using their skills to continuously adapt and refine general principles of PPP to the Indonesian context.

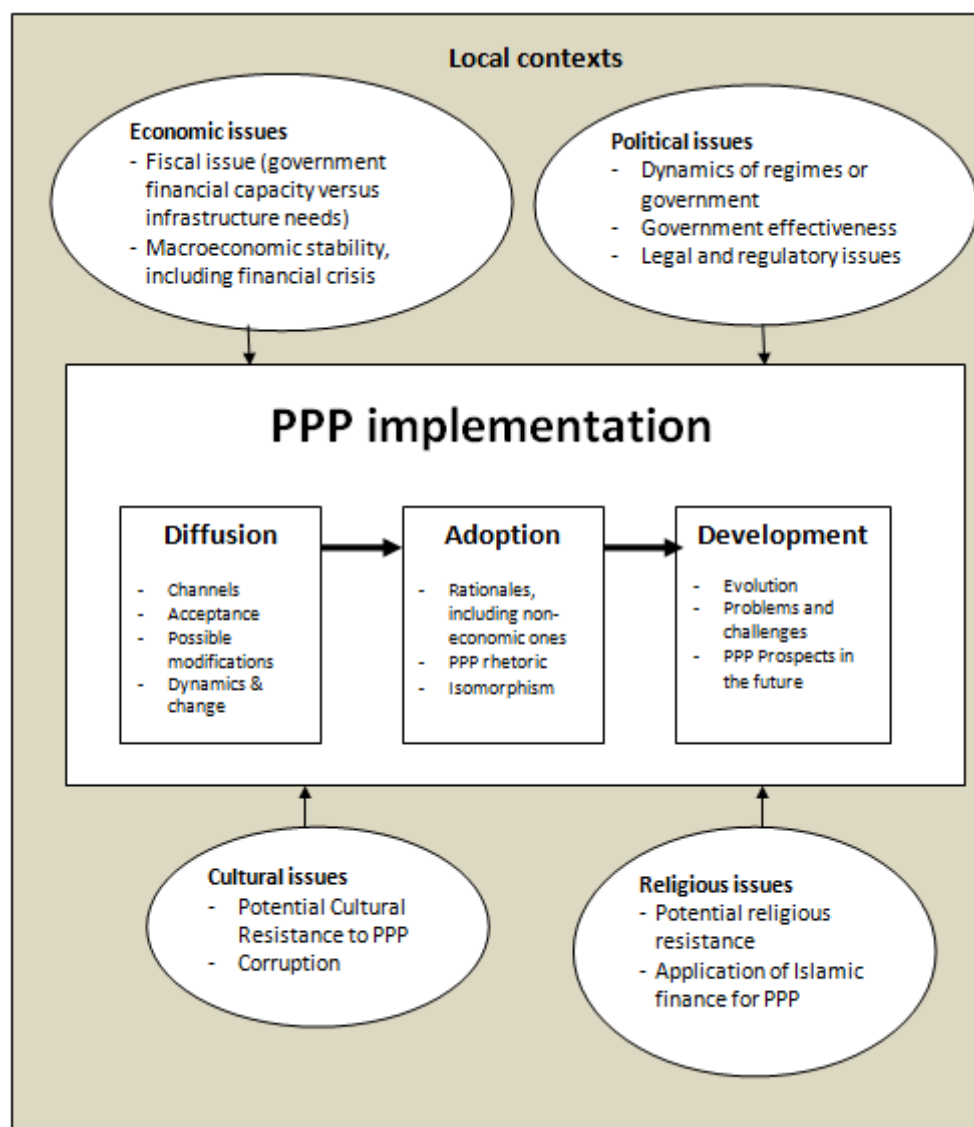
### **3.5 Theoretical framework and development of research questions**

Considering the differences in the contexts of PPP implementation in Indonesia and in other countries commonly used as PPP case studies, the research develops a framework that is potentially able to accommodate the objectives of the research in viewing the complexities of PPP implementation in Indonesia. The framework differs from other previous perspectives as it now adds non-economic and financial issues as situating factors into the analysis and places more emphasis on the processual aspects of PPP development from the initiation to its development. Such a framework is illustrated in Figure 3.1 and is discussed below.

The first element that characterises the framework for this research is the fact that PPP is viewed as driven by both economic rationales and political motivations. This element distinguishes the framework from most of other previous perspectives that mainly see PPP as merely a financial arrangement inspired by economic motivation. In this case, it can be noted that while accounting has been increasingly regarded as a social and institutional practice (Miller, 1994; Potter, 2005), the attention to social and institutional aspects of PPP has been

relatively underdeveloped. The review of the current literature in the previous chapter also suggests that studies on PPP have been mostly dominated by a strong focus on the ‘technicalities’ of PPP schemes seeing PPP as a financial arrangement and therefore paying most attention to the accounting calculation of some technical elements of PPP such as risk allocation and value for money. Therefore, this research extends the perspective by allowing more consideration of the non-economic issues when exploring the case of PPP implementation in Indonesia and considers them as situating local settings that may influence the development of PPP in the country.

Figure 3.1: The framework of PPP implementation



Source: author’s own work

The economic issues of PPP implementation in this framework are identified from a number of variables. Government financial constraint is one of the most common fiscal issues

associated with the motivations to adopt PPP (Hammami *et al.*, 2006; Sharma, 2012), which means that the government cannot find sufficient financial resources to meet the needs of infrastructure provision. Therefore, in this research both the financing capacity and the infrastructure demand will be observed. Macroeconomic stability is another aspect that attracts the attention of the research as it has been commonly identified as an important determinant of private participation in infrastructure provision (Hammami *et al.*, 2006; Banerjee *et al.*, 2006).

Meanwhile, the political aspects of PPP implementation in this research are mainly seen from the dynamics of political institutions, particularly the government. The stability of political institutions has been identified as a determinant of private sector participation, particularly as unstable and unreliable political institutions may discourage private participation in infrastructure provision (Howell, 1998; Bergara *et al.*, 1998). Government effectiveness is another aspect of political issues that receives particular attention in this framework. In fact, the effectiveness of governments is often associated with quality of governance and is identified as another determinant of private investment (Henisz, 2000; Henisz, 2002; Banerjee *et al.*, 2006). Furthermore, the political aspects of PPP implementation can be viewed through legal and regulatory issues (Banerjee *et al.*, 2006). Previous research shows that a predictable regulatory system is essential for attracting private investment as it reduces uncertainty (Brunetti and Weder, 1998).

Corruption is also seen as another aspect of political issues in this framework, as it may create distortions and raise uncertainty in attracting private involvement (Habib and Zurawicki, 2002). It is regarded as a political issue as it is defined as the abuse of public power for private benefit (Tanzi, 1998). However, corruption may also be considered as part of the socio-cultural aspects of a country due to their role as a shared norm and value in society (Hauk and Saez-Marti, 2002; Barr and Serra, 2010).

Besides corruption, resistance is another issue identified as element of the socio-cultural aspects in this framework. As the development of PPP in this research is seen as the introduction of a new idea from abroad with changes to the roles and responsibilities of officials, the issue of resistance may become an important topic in discussing PPP implementation. In fact, resistance to change has been seen as a social and cultural issue by a number of studies such as Kirkman and Shapiro (1997) and Campbell and Deacon (2006).

Lastly, the religious factor related to PPP implementation in this framework is seen through two issues. Firstly, the factor is observed through the potential view that PPP as a Western product may be seen as contradictory to Islamic values. Many views argue that the Western world and Islam have conflicting values that cannot be easily reconciled (Huntington, 1996; Murphey, 1998). In this case, such a view might raise resistance to PPP adoption as Islamic values held by the majority of Indonesians run contrary to PPP. Secondly, the religious factor in this framework is examined by observing any efforts to link PPP with Islamic Finance, which is a financial scheme inspired by Islamic principles such as the prohibition of elements of *riba* (something similar but not equivalent to usury and interest) and *gharar* (unnecessary risks and uncertainty) in financing instruments (El-Gamal, 2006). As previously discussed in the literature review, a number of studies recommend the application of Islamic Finance in developing PPP as such an arrangement is deemed consistent with Islamic principles (Khan, 2002; Iqbal and Khan, 2004).

The second feature of the framework is that the development of PPP is seen as a series of transformations of the PPP idea and policy process. As an idea, PPP was invented in certain places and then diffused to others through various channels. When it is adopted in a particular place, PPP develops and evolves through certain stages of policy processes. This transformation not only reflects a movement from one position to another, but also suggests a dynamic following the changing circumstances over time. In fact, the processual aspects of PPP have been an underdeveloped area of study, as suggested by Fischbacher and Beaumont (2003).

In this research, there are three stages of policy processes that might be seen as critical and worthy of investigation. The first stage is concerned with the process of PPP diffusion from one institution to another. In the early 1900s, the process of diffusion is often associated with the concept of 'imitation', which implies that an idea or an innovation is diffused as individuals or organisations imitate, or copy, the adoption of the innovation from others. (Tarde, 1903). Furthermore, the term diffusion itself is often defined as:

“...the (1) acceptance, (2) over time, (3) of some specific item - an idea or practice, (4) by individuals, groups or other adopting units, linked to (5) specific channels of communication, (6) to a social structure, and (7) to a given system of values, or culture” (Katz *et al.*, 1963 p. 240).

Rogers (1962) provides a very similar definition with an additional emphasis on the 'innovation' issue. Nevertheless, more recently, with the inclusion of understanding of



institutional processes and symbolic interactionism, the discussion on the transmission of ideas and practices has moved from the model of “diffusion” to that of “translation” (Zilber, 2006). Czarniawska and Joerges (1996) differentiate diffusion from translation in that the “diffusion” metaphor is derived from physics and is closely associated with the transmission of a certain thing from one place to another, while “translation” is borrowed from linguistics and is related to interactions in which the transmitted entity is negotiated and reshaped along the way. According to Zilber (2006), the process of translation involves three dimensions of change: changes from wider environment into more specific context; changes through different times; and changes across different spheres. These dimensions could be used to understand how PPP is diffused to Indonesia.

Overall, referring to the various perspectives on diffusion discussed above particularly those of Katz *et al.* (1963) and Zilber (2006), the diffusion issues in this research framework are mainly seen through four aspects. Firstly, the diffusion is observed through the identification of specific channels through which PPP is transmitted. Secondly, specific attention is paid to the process of acceptance, including the rejection and negotiation of PPP. Thirdly, the framework focuses on the possible modification of PPP from the wider environment into the specific context of Indonesia. Fourthly, it looks at how the diffusion may change over time.

The second stage of PPP implementation in Indonesia that attracts the interest of this research is concerned with the phase in which the government officially adopts PPP as its policy. In this stage, specific attention is devoted to an exploration of the rationales or motivations that drive the government and its officials in adopting PPP. A number of accounting studies has outlined the approaches used in studying the PPP rationales. One of such study is the research of Broadbent and Laughlin (1999), which explores the rationales of PPP by looking at the “macro” (policy-related issues) as well as “micro” (organisation-level control and practice) dimensions of PPP and develops the links between the two. After reviewing and comparing a number of cases of PPP implementation in several countries, Winch *et al.* (2012a) suggest that rationales or motives for implementing PPP play significant roles in shaping the form of PPP policy. Winch *et al.* (2012b) also investigate the rationales of PPP across countries by showing how macroeconomic constraints of Public Sector National Debt (PSND) shape the different motivations to implement PPP. Other studies on PPP have also identified a number of rationales commonly developed in adopting PPP (for example Spackman, 2002; McQuaid and Scherrer, 2009). However, these studies mainly consider PPP as an arrangement based on

rational economic grounds and therefore focus on economic and financial aspects of PPP motivations.

Moreover, the adoption of an idea or practice can also be seen from the institutional perspective. For example, the introduction of PPP can be seen as an adoption of “global fashion” in that the idea can be accepted quickly but it then loses its appeal and fades away (Røvik, 1996; Abrahamson, 1996). The perspective of such institutional isomorphism (DiMaggio and Powell, 1983) provides an insight into why organisations mimic one another and consequently become increasingly similar. Furthermore, according to this view, organisations (or countries) become similar not because of technical demands such as improved efficiency. Rather, they become similar because of socially constructed ideas about what organisations should be or do (Boxenbaum and Jonsson, 2008). Such a perspective may help explain that the government of Indonesia is interested in PPP because other countries have also adopted PPP.

Additionally, as PPP can also be seen as a “language game” (Linder, 1999; Hodge and Greve, 2007), its rationales may be viewed as government rhetoric to ‘cloud’ other strategies and purposes (Teisman and Klijn, 2002). In this respect, a number of studies have examined the use of PPP as rhetoric in public management and observed how it may reflect different meanings and impressions (Wettenhall, 2003; Siddiquee, 2011). Therefore, this framework accommodates such an approach by examining the rhetorical issues in PPP rationales, seeing them as a type of instrumental discourse utilised to persuade audiences, reach reliable decisions and control social action (Bizzell and Herzberg, 1990; Herrick, 2001; Green, 2004).

The third stage of PPP implementation is related to the development of PPP after it is brought in from outside and introduced by a government as a policy. In the case of Indonesia, since its initiation in the early 1990s PPP has been proceeding amidst numerous regime changes, political turmoil, financial crises and other structural breaks. As a result, there have also been some adjustments, modifications and transformations in the discourses and issues surrounding PPP in response to those dynamics. During this period, the shapes and forms of PPP also evolved since there are some elements of the policy that may change due to the development of the policy itself.

In this respect, many previous studies have focused on the development of PPP in particular countries. One of such study is the research of Maguire and Malinovitch (2004) which observe the development of PPP in the Australian state of Victoria using an evolutionary

approach. They find that, initially, from 1980 to 1992, PPP is seen as a financial scheme to achieve off-balance-sheet financing due to the limited borrowing capability of the government. Subsequently, from 1993 to 1999, views on PPP are reshaped and it is seen as a method of achieving efficiency through risk transfer, competitive tendering and private involvement. In the third phase, from 2000 to the present, the objectives of PPP are extended through the idea of value for money (Maguire and Malinovitch, 2004). Similarly, Winch (2012) examines the development of private finance in the United Kingdom and finds four stages of development starting with the UK government's tentative steps with concessions (1984-1991), followed by a focus on gaining additionality through experimentation with PFI (1992-1999); there was then a quest for value for money in public procurement (2000-2007) and, lastly, a retrenchment and reflection period since 2008. In the case of developing countries, Mu *et al.* (2011) explore the development of PPP in China from 1993 to 2010, looking at how PPP is influenced by both internal and external factors. They find that the adoption of PPP in China constitutes a path-dependent process, in which the period 1993-2007 saw a rise in PPP followed by a decline in 2007-2010.

Using this framework, the development of PPP in Indonesia is examined using a historical and evolutionary approach, as suggested by those previous studies. The dynamics and occasional changes in the shape and characteristics of PPP are identified, particularly through the delivery of policy products such as issuance of regulations, initiation of projects and establishment of institutions. Additionally, in viewing the changes and dynamics of PPP, the research also identifies the roles of influential actors, referring to the notions of institutional entrepreneurs discussed in institutional theories (Beckert, 1999; Maguire *et al.*, 2004). The concept is seen as important since it reflects and represents the activities of actors who control and influence resources to create new institutions or transform the existing ones (DiMaggio, 1988). Furthermore, seeing PPP as a practical activity, this research is also interested in investigating the problems and challenges faced by PPP implementation in Indonesia as well as its prospects in the future.

Overall, these different variables and perspectives will be employed jointly as a framework to address the research questions. Nevertheless, as this research uses an open interpretive theoretical orientation that attempts to extract "theories" grounded in the data, such a framework is used mainly as an initial guide, in which more dynamics and changes in using such perspectives will be anticipated.

### **3.6 Summary and conclusion**

This chapter specifically discusses the theoretical frameworks that help the research view the topics and issues found in the data. The theoretical frameworks are developed initially by linking the research with the existing knowledge and locating it within the perspectives of other research in the accounting field. The review of the current accounting literature on PPP in the previous chapter provides a range of frameworks that can be used as lenses through which to view the case-study of PPP implementation in Indonesia. However, the review of the current accounting literature on PPP also suggests that there are some issues in employing the frameworks to view the PPP implementation in Indonesia as formulated in the research objective and research questions. The problems mainly reside in the two characteristics of the current accounting literature on PPP, namely emphasize on the mechanism/details of the PPP arrangement and focus on cases in the developed economies. As the research is interested in examining the complexities of PPP by exploring the abstracted elements of PPP implementation in Indonesia, such characteristics are problematic since they may limit the exploration of the processual aspects and non-economic issues related to PPP implementation using the Indonesian perspectives.

With regard to these issues, the research attempts to employ a framework that is characterised by two ideas. Firstly, it sees PPP as an arrangement motivated by both economic reasons and political aspirations. Secondly, it puts more emphasis on the processual aspects of PPP development from its initiation to its development. Based on the ideas, a number of variables are identified to guide the examination of the issues found in the data. The identification suggests that the economic issues could be observed through the government resource constraints and the dynamics of macroeconomic stability variables. The political issues are mainly seen from the dynamics of the political institutions, especially the government and its departments, the regulatory issues and the effectiveness of the government. Corruption and cultural resistance are proposed as two aspects of cultural issues for examination, while religious resistance and links to Islamic financing are identified as religious issue variables. Moreover, in viewing the diffusion process, the research focuses on the identification of the main channels and actors, the acceptance of PPP, and potential modifications during the process. The adoption process entails issues of the development of rationales, including non-economic rationales, and rhetorical strategies of rationales. The attention to the process of PPP development leads the research to identify the evolution of PPP, the identification of problems and challenges and the future prospects of PPP in Indonesia.

Considering the theoretical framework identified in this chapter, the next chapter discusses the detailed operational issues of using the instruments in investigating Indonesia's PPP. It explains how the research collects and analyses the data as part of its attempts to achieve the research objectives and to address the research questions as detailed in this chapter.

## Chapter 4 Research methods

### 4.1 Introduction

This chapter mainly aims to set an operational framework to execute and manage the process of inquiries to address the research questions. The interest of the research in observing the development of PPP policy and different understandings of issues surrounding PPP implementation in Indonesia necessitates the identification of appropriate approaches and methods that will facilitate and satisfy such objectives. Accordingly, the search for suitable approaches discussed in this chapter starts by considering potential paradigms in relation to the literature. The chapter subsequently explains data sources, data collection and data analytical methods to reach the objectives. The last section briefly discussed other issues related to the research methods.

### 4.2 Paradigms to study PPP

The paradigm of knowledge is understood as a set of practices that define a scientific discipline in any particular period (Kuhn, 1962). Influenced by Kuhn's idea of the paradigm, Burrell and Morgan (1979) provide a landscape for more liberating paradigms in social science research, which seems to be dominated by positivistic and objectivistic approaches. In their book *Sociological Paradigms and Organisational Analysis* (1979), Burrell and Morgan provide a basic sociological framework that consists of two dimensional assumptions in relation to the nature of social science and the nature of society. In one dimension, there are four elements of assumption regarding the social sciences; ontology, epistemology, human nature and methodology. The central question of ontology is concerned with the nature of 'reality'. It stretches between objectivism at one end, which claims that reality is external and independent of the individual's influence, to subjectivism (or constructionism) at the other end, which asserts that reality is a product of individual consciousness and is continuously constructed and negotiated by individuals. The issues of epistemology are concerned with the questions of what should be regarded as knowledge and how it might be acquired. On the one hand, positivism assumes that only phenomena confirmed by the senses can be regarded as knowledge. Accordingly, knowledge can be acquired through observation of regularities and causal relationships among components. On the other hand, subjectivism asserts that knowledge is ascribed with more subjective and personal characteristics and, hence, can be obtained through personal investigation and experience. Human nature assumptions relate to the issue of the relationship between human beings and the environment. Objectivism views human beings as determined by the external environment

while subjectivism perceives humans as autonomous, free-willed and creatively capable of creating the world. Finally, the previous three assumptions discussed above define the final assumption, i.e. methodological issues. On the one hand, if the social world is viewed as objective and similar to natural sciences, then quantitative approaches such as statistical techniques will be employed to explain regularities and causal relationships. On the other hand, if the social world is seen as subjective, qualitative approaches such as interviews are preferred to obtain the perspectives and views of individuals. In the other dimension, there are two different views about the nature of society: at one end a tendency to social order, stability and regulation; and at the opposite end a tendency towards 'radical change' that reflects conflicts and unequal distributions of power in society.

These two dimensions jointly construct Burrell and Morgan's exposition of four possible paradigmatic positions which can be represented as functionalist, interpretive, radical humanist and radical structuralist. The functionalist paradigm is based upon the belief that social science can be objective and value-free, in which scientific methods can be used to maintain a distance between the scientists and the social world being researched. On the other hand, the interpretive paradigm puts more emphasis on gaining an understanding of the process where 'reality' is invented, sustained and shared. The radical humanist paradigm focuses on the alienating aspects of existing thoughts, for example capitalism, that exemplify life in society. Its main interest is in finding how humans might link ideas and actions as a means of transcending alienation. The radical structuralist paradigm sees reality as characterised by natural tensions and contradictions between opposing elements, in which those who hold power will exercise it to establish domination. The emphasis of this paradigm is then placed on the important use of action to transcend the domination (Morgan, 1980).

Using Burrell and Morgan's (1979) framework, Lambert and Lapsley (2006) provide an analysis of the recent accounting articles that discuss PPP to identify the paradigms used in the PPP research. Interestingly, they find that many studies on the public sector, particularly in PPP and budgeting, predominantly use the functionalist paradigm as their approach. As depicted by Lambert and Lapsley (2006) in Figure 4.1, most studies of PPP are classified as followers of the functionalist paradigm in which authors such as Gaffney and Pollock (1999) and Hodges and Mellett (1999) examine the accounting elements of PPP such as value for money, risk transfers and how the accounting methods are exercised to reflect those elements. Moreover, there are a number of studies that can be categorised as interpretive, including the work of Rutherford (2003) which employs the social constructionist model to explore the

debates on accounting treatments of PFI schemes in the UK. The radical humanist perspective is represented by Broadbent and Laughlin (1999) who employ a Habermasian framework to offer critiques of PFI programmes in the UK. Meanwhile, the radical structuralist paradigm is exemplified by the work of Shaoul (2005) which raises questions about the rationality as well as distributive impacts of using PPP. They also reveal that there is only a relatively limited number of critical accounting studies on PPP, which is quite surprising considering the potential public policy implications of PPP development (Lambert and Lapsley, 2006).

Figure 4.1: Paradigms of PPP accounting research

<b>Radical Change</b>			
<b>Subjective</b>	<b>Radical Humanist</b> Broadbent and Laughlin (1999) Broadbent and Laughlin (2003) Broadbent, Gill and Laughlin (2003a)	<b>Radical Structuralist</b> Shaoul (2005)	<b>Objective</b>
	<b>Interpretive</b> Froud (2003) Rutherford (2003)	<b>Functionalist</b> Froud and Shaoul (2001) Gaffney and Pollock (1999) Heald (2003) Heald and Gaughan (1997) Hodges and Mellett (1999) Hodges and Mellett (2002) Hodges and Mellett (2004) Kirk and Wall (2001) Mayston (1999) McKendrick and McCabe (1997) Shaoul (2002) Shaoul (2003)	
<b>Regulation</b>			

Source: Lambert and Lapsley (2006 p. 88)

Nevertheless, this research argues that the classification outlined by Lambert and Lapsley (2006) mainly identifies the tendency of the PPP studies in locating them in different paradigms. Therefore, other views may place those PPP studies in a different classification. For example, although the study of accounting standard-setting of PFI in the UK by Hodges and Mellett (2002) is classified by Lambert and Lapsley (2006) as functionalist, it might be classified differently as it contains a critical tone, particularly in its use of Walker and Robinson's (1993) model.

Among the aforementioned paradigms, this research is interested in using the interpretive approach as its main framework to explore the development of PPP in Indonesia. This approach is thought to be the most suitable paradigm particularly because it allows the



research to capture what actors commonly think about particular subjects and issues in interpreting the PPP phenomenon using the actor's point of view. The subjective ontology commonly associated with the interpretive paradigm helps the research to see PPP as a product of the actors' consciousness that is continuously constructed and negotiated by the actors involved in the implementation of PPP. Likewise, the subjective epistemology of this paradigm also allows the research to obtain knowledge from personal investigation and the experience of PPP actors since the knowledge in this perspective is assumed to be subjective and intuitive. Moreover, the assumption about the nature of society in this paradigm is also parallel with the research's view that society is relatively stable and based on consensus rather than disintegrating in constant conflict. On the other hand, the research considers that other approaches seem to be less suitable and less powerful in helping the research to achieve its objectives. For example, the ontology of objectivism in the functionalist perspective would contradict the research objectives since it assumes that reality is external and independent of the individual's influence; therefore, it does not accommodate the research's interest in exploring the views of the PPP actors. Similarly, the sociology of radical change would not fit with the research's view of the nature of society as it assumes that society is constantly changing and disintegrating.

Moreover, the choice of such a paradigm suggests that the research should use an open interpretive methodology, in which a grounded approach is employed to extract findings and potential theories from the data. The use of such an approach is considered suitable for studying the PPP case in Indonesia for a number of reasons. Firstly, the grounded approach helps the research obtain better coverage of issues of PPP implementation in Indonesia, particularly as there is currently an inadequate amount of research that sufficiently covers various PPP issues in Indonesia. Therefore, an open theoretical orientation with a grounded approach allows the research to collect as many issues as possible that are relevant to the research objectives. Secondly, a grounded approach is employed because the research intends to avoid presumptions of institutional approaches that assume certain values found in research undertaken mainly in Western institutions. Therefore, more predictive approaches are considered unsuitable for this research as they may constrain the research from exploring the values of the Indonesian context.

Furthermore, because it uses an approach that is interested in achieving an in-depth understanding of the social world, the research is mainly carried out with a qualitative strategy, in which emphasis is given to the collection and analysis of words rather than

quantification (Bryman, 2008). Despite that, a quantitative approach is also used in few parts of the study to complement and enrich the analysis made from the main qualitative data obtained. The details of the research strategy cover the examination of data collection and data analysis, as presented in the following section.

### **4.3 Data sources**

When discussing the research methods, one of the important issues is the determination of the data sources required by the research. Considering the research objectives discussed in the previous chapters, there are three main sources upon which the research relies to collect the data. They are documentary materials, interviews and survey. These sources are elaborated below.

#### **4.3.1 Documentary and archival materials**

To construct a comprehensive historical narrative and to establish a descriptive background for PPP implementation in Indonesia, the research relies considerably on the exploration of official documents and archival materials of the Indonesian government and other agencies involved in the PPP implementation in the country. Documentary materials have been widely regarded as one type of data source commonly used in research, particularly studies that use a qualitative approach. The documentary materials can take many different forms, such as letters, diaries, official publications, newspapers and magazines. Bryman (2008) suggests four criteria for assessing the quality of documents that might be used in research, as formulated by Scott (1990): authenticity, credibility, representativeness and meaning.<sup>8</sup>

Since PPP is a product of government policy, the official documents issued by the government might be regarded as the most legitimate source from which to observe the implementation of the policy. These documents provide information about timelines, backgrounds and other details of PPP policy issued by the government. Moreover, there are several types of official documents that might provide relevant information about the development of the policy. The main type is regulations and laws issued by the government to support the implementation of PPP policy. These regulations typically specify the fundamental policy issues that provide the basis for PPP implementation at both central and

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<sup>8</sup> According to Scott (1990), the issue of authenticity relates to whether the documents are genuine and original. Credibility requires that the documents be free from error and distortion. The issue of representativeness is concerned with the typicality of the documents, while the issue of meaning relates to whether the documents are clear and comprehensible (Bryman, 2008).

regional levels of government. Following the Indonesian regulatory structure<sup>9</sup>, regulations can be published by the government (commonly called Government Regulation<sup>10</sup>), the president (in the form of Presidential Decree, Presidential Regulation, or Presidential Instruction<sup>11</sup>) or the ministers (Minister's Regulation<sup>12</sup>). Regulations on PPP are often issued as cross-sector regulations that encompass all the infrastructure sectors including transport, energy and public works; otherwise, they are issued as sector regulations that only cover the respective sectors. In this regard, this research not only examines the regulations on PPP but also looks at other regulations related to PPP such as regulations on state finance, public debt and regional governments.

Another type of document is policy papers. The Indonesian government usually, but not always, issues policy papers to accompany the release of a policy. These documents often provide useful information about the background, details and other issues related to the respective policies. Other products that might also be referred to as documentary sources are official speeches, slides of presentations and minutes of meetings. Some of the speeches of government officials are well documented and published through the official websites<sup>13</sup> while others are published as selected speeches in books or proceedings. Official slides of presentations can also be a reliable official source since many government policies that are still in the process of discussion are often delivered through presentations during seminars, conferences or meetings. Some of these presentations are also publicly and freely accessible although others can only be accessed via formal requests.

This documentary approach also includes some information collected from newspapers and magazines for a number of reasons. Firstly, the archival system of the Indonesian government is not yet well developed. Therefore, it is often difficult to trace the histories of some policies. In this sense, news and publication in the media can be regarded as complementary sources. Secondly, media articles often provide different perspectives on the views of the government on certain issues and therefore occasionally offer more insights into government policies.

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<sup>9</sup> The types of regulations issued by Indonesian governments and their hierarchy are explained in the Government Regulation number 10/2004.

<sup>10</sup> Government regulation is usually called "Peraturan Pemerintah" in the Indonesian Language.

<sup>11</sup> Presidential Decree is a translation of "Keputusan Presiden" while Presidential Regulation is from "Peraturan Presiden". Another type of regulatory product issued by the president is Presidential Instruction or "Instruksi Presiden". Further details can be obtained from the Government Regulation number 10/2004.

<sup>12</sup> Minister Regulation is an English version of "Peraturan Menteri".

<sup>13</sup> For example the speeches of President Susilo Bambang Yudhoyono are chronologically well documented from the first day of his administration and can be freely accessed at <http://www.presidentri.go.id/index.php/pidato/>

To conclude, the types of documentary materials collected for this research are described in Table 4.1. As explained earlier, the materials are considered suitable for this research not only because of their contents but also because they have fulfilled the authenticity, credibility, representativeness and meaning criteria which ensure high-quality data for a qualitative study (Bryman, 2008).

Table 4.1: Types of documentary and archival materials

No.	Material	Description	Location	Contribution to the research
1.	Laws and regulations	Regulations can be in a number of forms, such as Laws, Government Regulations, Presidential Regulations, Ministerial Regulations and Presidential or Ministerial Decrees.	<ul style="list-style-type: none"> <li>- Ministry of Finance</li> <li>- Ministry of Planning (Bappenas)</li> <li>- Sector Ministries</li> <li>- Online</li> </ul>	The final product of the government policy is usually delivered in the form of regulations. Therefore regulations can be regarded as the most official and valid source to observe the government policy.
2.	Agreement	Agreement is usually arranged for loans or grants, set up between the government and the international agencies.	<ul style="list-style-type: none"> <li>- Ministry of Finance</li> <li>- Offices of international agencies in Jakarta</li> <li>- Ministry of Planning (Bappenas)</li> <li>- Online</li> </ul>	Such document usually covers detailed description about programs funded by financial assistance of international agencies, even often more comprehensive than the government have.
3.	Policy papers/reports	Policy papers are often distributed for specific policy issues, usually before a policy (law or regulation) is delivered. Reports are usually made for policy or project evaluation.	<ul style="list-style-type: none"> <li>- Ministry of Finance</li> <li>- Ministry of Planning (Bappenas)</li> <li>- Online</li> </ul>	Although policy papers are rarely issued by the government, they often provide rich information on backgrounds or rationales of the government policies.
4.	Presentations	Presentations are materials used by officials to deliver information on specific policies in forum such as meeting, seminars, workshops and conferences.	<ul style="list-style-type: none"> <li>- Coordinating Ministry of Economic Affairs</li> <li>- Ministry of Finance</li> <li>- Ministry of Planning (Bappenas)</li> <li>- Online</li> </ul>	As most officials are more familiar with producing presentations for meeting rather than delivering papers, official presentation can provide illustration on what the government do in relation to PPP development.
5.	Official speeches	Speeches of high-level officials are often documented. Some of them are published as books, while a few are published online.	<ul style="list-style-type: none"> <li>- State or Cabinet Secretariat</li> <li>- Secretariat of Ministries</li> <li>- Online</li> </ul>	Official speeches are good sources to explore the government's rhetoric since they provide account on how the government officials try to convince audiences on their policies.
6.	Magazines and newspapers	Among good local magazines are Tempo and Jakarta Globe, while credible local newspapers are Kompas, Koran Tempo and Jakarta Post.	<ul style="list-style-type: none"> <li>- National Library</li> <li>- Online</li> </ul>	Some magazines and newspapers have long history of publication and therefore provide rich information about projects and policies in the past.

Source: author's own work

In addition to the main documents above, the official documents published by the international agencies also provide useful information about PPP implementation in Indonesia. The external agencies such as the World Bank, ADB, IMF and Ausaid produce a considerably quantity of high-quality documentations and publications on Indonesia's PPP as they regularly produce reports related to the technical and financial assistance they provide to the Indonesian government. Useful information can also be obtained from documents of loans, grants or other assistance provided by these international agencies for PPP development. Most of these documents are publicly available on the agencies' websites and can be accessed freely, although some other documents are only circulated internally within the agencies and the Indonesian government.

#### **4.3.2 Interviews**

One of the research's main interests is to capture different understandings about various aspects/issues related to PPP implementation in Indonesia, including how the views are discussed and negotiated among actors involved in the policy development. Accordingly, it is necessary to obtain the actors' views through direct communications or interviews with them.

To obtain more insights from the actors' views, the interviews are conducted using unstructured or semi-structured approaches. Bryman (2008) suggests that these two types of interview are different from the structured interviews commonly used in quantitative research, in that they have greater concerns for the respondents' point of view rather than for the researcher's own interests. Interviews in qualitative research are also more flexible and less standardised, such that the questions and directions of the interview can be adjusted or modified during the course of the interview if the emerging issues require as much (Bryman, 2008). Moreover, the interviews in this research are used to help construct historical accounts of the study topic (Eisenhardt, 1988) since documentary materials alone are thought to be insufficient to construct comprehensive historical information.

#### **4.3.3 Survey**

In addition to qualitative data collected through documents and interviews, the research also collects another type of data using the survey method. A survey is understood as a design through which quantitative or quantifiable data are collected through a self-completion questionnaire distributed to a number of respondents at a single point of time about certain issues (Bryman, 2008). As previously identified, the interview method is considered the main source of data in this research for constructing an understanding of the views of actors in PPP implementation in Indonesia as they are regarded as a useful and relevant tool for answering

the research questions. However, in the actual fieldwork it was revealed that the research cannot rely solely on the interview method for a number of reasons.

Firstly, during the fieldwork it was found that some potential respondents declined requests for interviews. Reasons for this included the difficulty in finding time for the interview, concerns about bureaucratic or administrative issues, and discomfort with some of the research questions proposed in the interview requests. Some respondents who declined the request suggested that they would respond to any questions delivered through a questionnaire or a survey.

The second reason for conducting a survey is also concerned with the reluctance of some interviewees to answer certain questions that might be considered sensitive such as questions about culture, religion or political views. Some respondents also indirectly showed their disinclination to respond about certain issues for fear that they may appear to be criticising the government or the officials in the upper hierarchy. Although the political climate in Indonesia has started to become significantly more democratic and open since the fall of Suharto, the culture of harmony and the rigid bureaucratic structure of the government may still render the officials reluctant to raise criticisms of and disagreement with their own organisation. In that regard, an alternative instrument needs to be developed to overcome the issue, with a survey considered the best option.

The third reason pertains to the interest of the research in further exploring the findings obtained from the interviews and documentary approach. For example, given the different views on the rationales and motives for PPP, the problems and challenges of PPP, the prospects of PPP and other issues identified in the previous chapters, the research is interested in exploring how the different views among the actors can be explained by the different backgrounds and characteristics of the actors.

These three issues discovered during the fieldwork motivated the researcher to establish an additional approach that is able to provide more assurance of confidentiality and demand less time and effort; such aims can be fulfilled by a survey. As a follow-up to the previous method, the survey questions are mostly formulated and extracted from the findings obtained from the interviews. Issues extracted from the transcripts that require further exploration or confirmation are identified and articulated as survey questions.

## **4.4 Data collection**

After determining the data sources, the next issue in formulating the research methods is to discuss the data collection. As the research relies on three sources of data, the collection process is also carried out in three different ways which are explained below.

### **4.4.1 Collecting official documents and archival materials**

The collection of documentary materials was quite straightforward. Some documents in hard copies were obtained from their sources during the fieldwork. Previously, formal or informal requests were sent to the respective offices, declaring that the documents were being collected only for the research purposes. Some formal requests were sent together with brief description of the research and a fieldwork letter from the supervisor explaining the research background and objectives.

In general, this approach to data collection provided satisfactory results. Some data were received in hard copies while others were received in soft copies format sent through emails, which is preferable. Nevertheless, not all the requests resulted in satisfactory responses; some of them received no response at all, while others elicited incomplete or unmatched documents. Moreover, documents available on the Internet were classified according to the time of the retrievals. Data in soft copies were stored and organised digitally. Some of the data were kept in the NVivo application to integrate them with other types of data and to facilitate the process of further analysis.

### **4.4.2 Conducting interviews**

In this research, interviews were designed as the main instrument to collect information about PPP issues from the actors' points of view and as the focus of the analysis with regard to the constructivist and interpretive approach of the research. Therefore, a great deal of attention was given to the formulation and the execution of this instrument. The development of the interview began with the formulation of the interview guideline, followed by the determination of the sampling and concluded by accomplishing the interviews and administering the interview transcripts.

#### **4.4.2.1 Developing an interview guideline**

A list of questions was developed as an interview guideline. The list was compiled from a wide range of literature, combined with the researcher's initial knowledge of the issues being researched and guided by the research questions formulated at the beginning of this study. In the later stages of the research, the list of questions was refined, augmented and modified as

more information emerged from the interviews. The initial interview guideline is shown in Table 4.2 below.

Table 4.2: The initial list of interview questions

No	Questions	References
1	<ul style="list-style-type: none"> <li>- Do you think that Indonesia needs to implement PPP?</li> <li>- Why do you think Indonesia needs (or does not need) PPP?</li> </ul>	Broadbent and Laughlin (1999, 2004) have called for an understanding of the nature of PPP. Rationales for PPP have been identified, among others, by Spackman (2002) and McQuaid and Scherrer (2010). This research attempts to explore the issue directly through the views of the actors in the implementation.
2	<ul style="list-style-type: none"> <li>- How are you acquainted with PPP?</li> <li>- What or who are the most influential people or party contributing to your understanding about PPP?</li> </ul>	This notion of PPP diffusion and translation has not been well explored in PPP literature. In this research some frameworks such as those by Czarniawska (1994) and Latour (1987) are used to see how such processes progress and how actors and their networks are involved in the processes.
3	<ul style="list-style-type: none"> <li>- Do you think the role of external agencies is influential in shaping PPP policy in Indonesia?</li> <li>- To what extent do you agree or disagree with the recommendation provided by the external agencies?</li> <li>- Do you think that the external agencies have concerns on issues such as value for money, competition, accountability and fairness in introducing PPP?</li> </ul>	The role of multinational agencies such as the World Bank in diffusing the PPP idea across the world has been discussed by many scholars including Newberry (2004) but the cases in developing countries have not been explored. The discussion raised by Cooke (2003; 2004) can be used to add to the understanding.
4	<ul style="list-style-type: none"> <li>- What do you see so far about the outcome of PPP implementation?</li> <li>- Do you think it serves the purposes?</li> <li>- Do you think PPP in Indonesia has produced better efficiency?</li> <li>- Do you think PPP in Indonesia has improved the services?</li> </ul>	The need to evaluate the merits and worth of PPP has been raised by Broadbent and Laughlin (1999, 2004). Some studies show positive outcomes from PPP implementation such as a study from Allen Consulting Group and the University of Melbourne (2007) but many others contest the merit and worth of PPP (Gaffney <i>et al.</i> , 1999) (Shaoul <i>et al.</i> , 2006; Shaoul <i>et al.</i> , 2008).
5	<ul style="list-style-type: none"> <li>- Do you think that PPP needs to be 'modified' with regard to the Indonesian context? Why (or why not)?</li> <li>- Do you think social, cultural or religious issues influence the shapes of PPP in Indonesia?</li> <li>- Is there anything in your religious beliefs or your cultural background that influences your views about PPP?</li> </ul>	Winch <i>et al.</i> (2012b) identify drivers of PPP as contextual factors of PPP development in different countries. This research explores the possibility of other contextual factors that may also be involved in the implementation, which have not been well studied.
6	<ul style="list-style-type: none"> <li>- How far do you think that issues of value for money, accountability, fairness and competition still need to be emphasised in the implementation of PPP in Indonesia?</li> <li>- Do you think that the issues of improving projects' VfM, promoting competition etc have been included in the regulation, or other PPP products?</li> </ul>	These questions try to confirm whether the PPP issues that commonly appear in the developed economies (as raised and suggested by the literature) also emerge in Indonesia, and therefore the research is also interested in seeing how they are developed (if at all).
7	<ul style="list-style-type: none"> <li>- Do you think that PPP can be workable in Indonesia?</li> <li>- What are the important issues that make the implementation of PPP in Indonesia difficult?</li> <li>- What are the potential enablers for PPP in Indonesia?</li> </ul>	The research is particularly concerned with exploring how PPP is still believed to be a potential solution considering the problems and challenges in the implementation in Indonesia.

Source: author's own work



Nevertheless, in the actual interviews, different respondents may be asked with different emphases on issues depending on their position and background. For example, some respondents were interviewed on their superior knowledge of the Indonesian PPP history rather than on their views on PPP. Respondents at the higher level were asked more strategic questions while those at the lower level were more likely to be interviewed on the technical issues. Since the time provided by the respondents for the interviews was not always sufficient to cover all the questions (one hour was proposed for the interviews in the letter of request), sometimes only selected issues were raised during the interviews.

#### **4.4.2.2 Sampling**

Sampling in qualitative research is determined by the selected methodology and the chosen topics, rather than by the intention to make the findings generalisable. Although it can be designed from the start in the original conceptualisation, sampling in qualitative research is not static in nature since it is dynamically shaped by the findings emerging during the research. Thus, an iterative process is required to constantly refine the sampling strategies as the research progresses.

Morse (2000) identifies at least five factors that need to be considered in determining the sample size in qualitative research: the scope of the research, the nature of the subject being researched, the quality of the data, the research design, and the use of the shadowed data<sup>14</sup>. In determining the sample size, researchers need to consider the scope of the research because there is a trade-off between the size of the research scope and the time required to reach saturation. A broader research scope will require more data and more interviews; it will take longer to reach saturation and, consequently, the research will be more expensive. Sampling size also depends on the nature of the research topic. If researchers regard the subject as relatively obvious then a smaller sample will be needed. The quality of the information obtained from the interview also determines the size of the sample. If some interviews are able to reveal rich and deep information, it will be unnecessary to extend the research to obtain a larger sample. Some research involves more sampling because the designs require more information, such as longitudinal studies, which necessitate the collection of data on particular subjects at different points of time.

Due to its nature, approach and objectives, this research employs a combination of non-probability sampling, in that the sample is not selected using a random selection method

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<sup>14</sup> Shadowed data refers to information collected in interactive interviews in which participants give the types, characteristics and dimension of concepts, perceptions, behaviours and opinion of others (Morse, 2001).

(Saunders *et al.*, 2009). Several types of non-probability sampling are selected because the sampling is conducted through different levels of process. Initially, a purposive sampling is developed, in which the sampling is set with reference to the research questions as well as the objectives of the research. The sampling classifies the potential interviewees into several groups based on the roles they are (or were) playing in the PPP implementation. Government actors are classified into three groups, namely contracting agencies, funding agencies and coordinating and planning agencies.<sup>15</sup> The contracting agencies are the units or agencies that own the PPP projects, prepare the projects, make offers to the markets, and contract with private sectors when the PPP deals are completed. In the context of Indonesia, these agencies are represented by the sector ministries, namely the Ministry of Transports, Ministry of Public Works, and Ministry of Telecommunication. For the electricity or power sector, the contracting agency is represented by the state electricity company, PT. PLN (*Perusahaan Listrik Negara*). Local governments may also be contracting agencies if PPP projects are conducted at regional levels. The group of financing agencies are mainly represented by the units in the Ministry of Finance, which are assigned to granting government financial support to PPP projects in the forms of government guarantees and other budget allocations in support of PPP policy. In some cases, these financial supports are provided through state-owned companies controlled by the Ministry of Finance, such as the Indonesia Infrastructure Fund (*PT. Sarana Multi Infrastruktur* or *SMI*) and the Indonesia Infrastructure Guarantee Fund (*PT. Penjaminan Infrastruktur Indonesia* or *PII*). Therefore, these two companies are also categorised as financing agencies. The planning and coordinating group consists of two main government bodies, namely the National Development Planning Agency or Bappenas and the Coordinating Ministry of Economic Affairs (CMEA). In addition to those agencies, two other groups represent the group of consultants and the external agencies. External agencies include multinational development institutions such as the World Bank, Asian Development Bank (ADB), the International Monetary Fund (IMF), or other agencies sponsored by foreign countries that provide support for the development of PPP in Indonesia, such as Ausaid, USAID and JICA.<sup>16</sup>

This classification is developed in the sampling process because the research is interested in exploring how PPP implementation is seen differently by different people in the different

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<sup>15</sup> This classification actually refers to the existing institutional arrangement of PPP in Indonesia. Further discussion on the institutional arrangement of PPP among units in the Indonesian government is detailed in chapters 5 and 6 of this study.

<sup>16</sup> The external agencies' roles in the implementation of PPP in Indonesia are further discussed in chapters 5 and 6.

units and roles. The variations in roles may raise different issues, interpretations and perspectives about PPP. Although all of these agencies have the common objective of implementing PPP policy in Indonesia, they have different functions, roles and responsibilities in the policy-making process; thus, some variations are expected to arise.

Table 4.3: Purposive sampling framework

No.	Group	Institution	Number of interviews				
			High level	Middle level	Lower level	Non structural/Not applicable	Total
1.	Contracting unit	Ministry of Transport, Ministry of Public Works, PT. PLN	2	2	-	-	4
2.	Coordinating and planning unit	Bappenas and Coordinating Ministry of Foreign Affairs	1	-	-	-	1
3.	Financing unit	Ministry of Finance, Infrastructure Guarantee Fund	2	9	2		13
4.	External agencies	World Bank, ADB and Ausaid	-	-	-	4	4
5.	Consultant	Policy consultant and technical consultant	-	-	-	3	3
	Total						25

Source: author's own work

In order to obtain a wider variety of perspectives, interviews are also conducted for different levels of positions (commonly known in Indonesia as 'echelons'). The selected people range from high-level officials ('echelons' 1 or 2) to the technical staff level ('non-echelon'). Between those two, there are middle-level officials (echelons 3 and 4). The purposive sampling framework is summarised in Table 4.3.

As the research progressed and more interviews were collected, some other sampling methods were also employed such as snowballing sampling and theoretical sampling. Snowballing sampling is used to find new contacts by asking the initial respondents in the purposive sampling for references. Theoretical sampling is also employed as some findings in the analysis suggest new issues to be developed and, therefore, new respondents are needed. This theoretical sampling is suggested by research using qualitative and grounded

approaches, in which the collection of the data is guided by the findings emerging from the analysis of the previously collected data (Bryman, 2008).

#### **4.4.2.3 Doing the pilot interviews**

Before going to the fieldwork, the researcher developed a set of pilot interviews to make sure that the interview plans and designs could satisfy the research objectives. Using this approach, the list of interview questions as described above was sent to three pilot interviewees or participants. Two of the participants in the pilot interviews were also in the list of targeted participants in the planned interviews. The participants were informed that they were involved in a pilot interviews and asked to provide feedbacks and comments about the way they were interviewed and the questions raised in the pilot interviews.

From this pilot interviews, the researcher received a number of valuable feedbacks and comments including about questions that might be perceived as unclear, too sensitive, or too long as well as about the approaches on raising certain questions. Those comments were all considered for the improvement of interview questions and preparation.

#### **4.4.2.4 Entering the fieldwork**

Once the preparation for carrying out the instrument was completed, the research was ready to begin the fieldwork. Since most targeted respondents reside in Jakarta, Indonesia, the researcher decided to conduct the fieldwork in Indonesia to obtain good access to the targets. The fieldwork was conducted on two different occasions. The first fieldwork was conducted from July to September 2011 while the second fieldwork was carried out from September to October 2012. The fieldwork was conducted more than once because the research necessitates a sort of iterative process of data collection and analysis. On the other hand, the research is also limited by cost and time constraints, meaning that the iterative process cannot be conducted as often as needed and suggested by the emerging findings in the research. On this ground, two phases of fieldwork are considered sufficient to collect relatively comprehensive data. Some other means of interactions and follow-ups with respondents were incorporated to support the collection of the data, including phone and email communications.

In the first fieldwork phase, it was intended to carry out several initial interviews with the targeted respondents. Prior to the interviews, formal requests were sent, mostly through emails, to the targeted respondents explaining the research background, the researcher's intention and the objective of the interviews. A list of questions and interview guidelines

were also attached to the letters. Some requests received good responses from the targeted respondents while others elicited no reply at all. The responses were followed up with proposals for times and venue arrangements, which did not always produce satisfactory results because of the time limitation. The ‘no-responses’ were followed up with reminders and the requests were re-sent. It can be noted that the most positive and favourable responses generally came from external agencies, while the less positive responses mainly came from contracting agencies and planning agencies.

The first fieldwork phase resulted in a number of interviews. Documentary materials were also obtained during that period (as described in Table 4.1). The quantity of interviews obtained from the first fieldwork phase was relatively lower than the expected number in the initial plan. Several issues affecting the results of the first fieldwork phase can be identified. Firstly, during the course of the fieldwork it was found that some targeted respondents no longer held the positions predicted in the fieldwork plan and it was not possible to contact them. Some targets had moved to different posts (one key respondent was posted abroad) while another key target was hospitalised due to serious illness. The absence of those targets significantly affected the outcome of interviews in the first fieldwork phase. The second issue concerns the researcher’s initial plan to conduct interviews and mini-ethnography at the same time. Indeed, the researcher had originally planned to sit in one unit of the government performing the daily research tasks, temporarily leaving the office to conduct pre-arranged interviews. That arrangement proved difficult to implement since it divided the researcher’s focus between the two activities. Thirdly, the timing of the fieldwork did not suit the schedules of most respondents. The fieldwork was conducted during the period of Ramadan and Eid according to the Islamic calendar<sup>17</sup>, when many government officials reduced their office hours or even took vacations. For that reason, arranging time for interviews was sometimes difficult. Indeed, all these problems affected the course of the fieldwork and hindered some targeted outcomes. Moreover, the second fieldwork phase was conducted from 5 September to 19 October 2012. The second fieldwork phase targeted respondents who had been interviewed in the first fieldwork phase and whose information needed to be confirmed or followed up from the initial interviews; it also targeted new respondents who needed to be interviewed as a result of the obtained findings. Some of the lessons learnt

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<sup>17</sup> Ramadan and Eid are a series of religious and cultural festivities that last around a month when people focus on personal and family concerns. They can be compared to the Christmas period in the Western tradition.

during the first fieldwork phase were incorporated to refine the design of the second fieldwork phase.

Overall, both fieldwork phases provided the researcher with useful experience to collect data for the study. The fieldwork successfully served the need of the research to access data in the forms of documentary materials, interviews, observations and other types of data. However, there are issues that are worth mentioning in order to understand the whole process of data collection. Firstly, the attributes of the researcher, who has previously worked in the Ministry of Finance dealing with PPP policy, entail both advantages and disadvantages. One advantage is that the researcher is familiar with the field and is well known to the respondents. However, at the same time, such a position also means that the researcher may be associated with his previous work, which may raise certain issues when trying to gather information, particularly from the other different units. Secondly, the targeted respondents were mostly management officials from high to middle levels in the government and other institutions, and they are mostly occupied with meetings and appointments. Therefore, securing appointments with them was not always easy. In the researcher's experience, on several occasions pre-arranged appointments were peremptorily cancelled due to sudden and unexpected changes in respondents' schedules. In that sense, it can be noted that interviewing Indonesian government officials has become a great challenge in this research. Thirdly, finding and meeting government officials in different departments and offices in Indonesia, particularly in Jakarta, can be technically challenging. As the offices of the government agencies are scattered in different buildings in different parts of the city, it often takes time and effort to reach a single targeted respondent due to traffic jams and unreliable public transport. Although this issue certainly cannot be used to justify the problems in data collection, it perhaps describes the course of the fieldwork in government offices in Jakarta, Indonesia.

#### **4.4.2.5 Interview protocol**

The interviews were conducted with a protocol previously informed to the respondents. In the beginning of the interviews, the researcher introduced himself, described the summary of research and explained the objective of the interviews. After that, as mentioned in the letter of interview request, the researcher reminded that the interviews would be recorded and transcribed. Nevertheless, the respondents were informed that they can ask the interviewer to stop the recording for conversation that they do not feel comfortable to be recorded, for example that the information contained in the conversations was perceived as secret.

The respondents could also ask for a pause in the interviews if they have other important matters that need to be done immediately during the interviews. More importantly, the respondents were also told that they can withdraw from the interviews anytime if they feel uncomfortable with the questions or the whole interviews. In the end of the interviews, the researcher formally closed the conversations, thanked the respondents and turned off the recorder.

In fact, there were a number of incidents when respondents asked the interviewer to turn off the recording. In most cases, such request were asked for issues that involved specific names, of persons or certain institutions. In that case, the conversations were not recorded or transcribed.

#### **4.4.2.6 Administering the results of the interviews and the process of transcription and translation**

To administer and organise most of the qualitative data, including the interviews collected from the fieldwork, this research employs NVivo, a qualitative data management and analysis software package produced by QSR International. NVivo was actually developed to assist researchers in undertaking analyses of qualitative data (Bazeley, 2007). However, NVivo is also very useful for managing data, particularly in organising and keeping track of qualitative data, which are usually characterised as massive, messy and unstructured.

All the conversations resulting from the interviews were recorded and stored digitally in a folder accessible only by the researcher. Most interviews were conducted in *Bahasa* (Indonesian language) while other interviews, particularly those involving the external agencies' officials, were carried out in English. All those conversations were transcribed by the researcher himself with the help of an assistant to check the accuracy of the transcription.

The interview transcripts written in Bahasa were translated into English, while considering the cultural differences that may affect the content of the translation. The importance of understanding language differences in qualitative research has been discussed by a number of scholars including Bradby (2002) and Temple and Young (2004). Among the suggestions raised by those studies are concerns with practical issues such as who does the translation, how translators get involved in the analysis and how the language changes from that of the respondents to English.

In this research, the process of translation was conducted through a number of steps. Firstly, the transcripts written in Bahasa were translated into English by the researcher himself,

particularly because the researcher wanted to apprehend the sense of the issues discussed by the interviews in the first place. Secondly, the translated transcripts were checked by an assistant who compared the translations with the original transcripts. Some comments may be provided in response to differences in interpretation. Thirdly, the comments were discussed by both the researcher and the assistant to produce the final version of the translated transcripts. One example of the translation process is provided by the original transcript in *Bahasa* as follows:

*“Menurut saya yang dijadikan resistensi itu kalau swastanya dari luar. Iya kan? Saya merasa seperti itu. Di satu sisi kita memang istilahnya harus punya batasan seberapa besar ada ketergantungan dengan orang luar. Dan seberapa besar harus diukur. Memang harus ada ukurannya misalnya perekonomian kita itu sangat tergantung dengan luar. Tapi kan kalau saya lihat Indonesia itu masih sangat jauh.”* (Sofyan Majid, middle-level official, financing unit).

The initial translation of this transcript produced the English version as follows:

“For me, the one that may create a resistance is if the private parties are coming from abroad. Don’t you think so? That is what I feel. On one side, we actually need to have constraints on how much we are dependent with outsiders, and how much we can measure. Actually, there should be some measurement, for example that our economy is dependent to outside. But we can see that Indonesia is very far from that.” (Sofyan Majid, middle-level official, financing unit).

Furthermore, after receiving comments from the research assistant appointed to assist the process of translation and discussing the differences of interpretation, the final version was produced as follows:

“I think there will be some resistance if the private parties are coming from outside, right? That is what I feel. On one side, we need to have a limit on how much we can depend on outsiders, and how we measure it. I think there must be some measurement to say that our economy is too dependent on foreign countries. But I think Indonesia is still very much far away from that limit” (Sofyan Majid, middle-level official, financing unit).

The final versions of the translated transcripts were then used for the process of data analysis, which is explained in another section of this chapter.

#### **4.4.3 Taking the survey**

Technically, the survey in this research was distributed and collected as a self-completed questionnaire (or self-administered questionnaire) and conducted as a web-based survey, in which the respondents were asked to go to a particular address of a page on the Internet and answer the questions on the page. The collection of responses and other management of the survey were all handled by the web-based survey management.



#### 4.4.3.1 Developing survey questions

As briefly discussed earlier, the survey in this research was conducted particularly to expand the exploration of several issues that needed to be developed from the coding exercise, to extend the reach to new potential respondents, and to triangulate the findings obtained from the interview process. Therefore, the questions prepared for the survey were mainly formulated based on these three main considerations. Firstly, some questions were raised because some findings in the qualitative approach needed to be further developed. Secondly, other questions were formulated because certain issues were not found in the analysis of qualitative data, but they emerged quite considerably in the literature. Thirdly, some questions already raised in the qualitative data collection (interviews) were repeated in the survey to confirm the issues to a wider audience.

After the questions were formulated, they were translated into the Indonesian language since most of the respondents use the Indonesian language as their first language. The translation was rechecked by another translator to ensure consistency with the original questions and the respondents' ease of understanding. Ultimately, the survey has two versions; the English version sent to non-Indonesian respondents and the Bahasa version sent to the Indonesian respondents. Before the survey was launched, several pilot tests were carried out to ensure that the survey would be well understood by the targeted respondents. Several inputs and comments were received from the pilot tests and incorporated in the survey distributed to the respondents. The survey questions are presented in Appendix 3 while its contents are summarised in Table 4.4.

Table 4.4: Content of the survey

Section/Page	Main Objective	Content
Section 1	<ul style="list-style-type: none"> <li>- Introducing the survey, the research and the researcher.</li> <li>- Providing background of the survey and research.</li> <li>- Addressing ethical concerns.</li> <li>- Explaining some technical issues.</li> </ul>	<ul style="list-style-type: none"> <li>- Welcome statement to the prospective participants.</li> <li>- Introduction to the survey.</li> <li>- Introduction to the researcher and the address where he can be contacted.</li> <li>- Research background</li> <li>- Information on anonymity and confidentiality of the survey.</li> <li>- Information on the time required to complete the survey and other technical guidance.</li> <li>- Expression of gratitude for voluntary participation.</li> <li>- Agreement to proceed as participants</li> </ul>
Section 2	<ul style="list-style-type: none"> <li>- Describing and exploring the characteristics of respondents.</li> <li>- Exploring the relationship of respondent to PPP issues and knowledge.</li> </ul>	<ul style="list-style-type: none"> <li>- Demographic characteristics of respondents such as age and gender.</li> <li>- Grouping of respondents in terms of their jobs and positions related to PPP tasks.</li> <li>- Relation of the respondents to PPP issues.</li> <li>- Educational, cultural, and religious background of respondents.</li> </ul>

Section 3	<ul style="list-style-type: none"> <li>- Exploring the views of the respondents on the rationales of and motivation for PPP</li> </ul>	<ul style="list-style-type: none"> <li>- Grid questions to explore how some rationales are supported or rejected by respondents.</li> <li>- Questions to respondents about three most important and relevant rationales for Indonesian PPP</li> <li>- Open questions on respondents' general views on the rationales of PPP.</li> </ul>
Section 4	<ul style="list-style-type: none"> <li>- Investigating the views of the respondents on the problems and difficulties that may disrupt PPP implementation in Indonesia.</li> </ul>	<ul style="list-style-type: none"> <li>- Grid questions to investigate how some problems and challenges in PPP implementation are perceived by respondents.</li> <li>- Questions to respondents about three most relevant problems in the implementation of Indonesian PPP</li> <li>- Open questions on respondents' general views on the problems on implementation.</li> </ul>
Section 5	<ul style="list-style-type: none"> <li>- Describing the degree of respondents' involvement and attachment to the activities of external agencies.</li> <li>- Exploring the views of the respondents on the roles of external agencies in the implementation of PPP in Indonesia.</li> </ul>	<ul style="list-style-type: none"> <li>- Investigation into the involvement of respondents in the activities of external agencies such as seminars, workshops, and training.</li> <li>- Questions about respondents' supports and agreements with recommendations provided by external agencies.</li> <li>- Grid questions to observe respondents' views on issues of external agencies' role in PPP implementation.</li> <li>- Open questions on respondents' general views on the roles of external agencies in PPP implementation.</li> </ul>
Section 6	<ul style="list-style-type: none"> <li>- Examining respondents' views on the suitability and fitness of PPP to Indonesian political, social, cultural and religious contexts.</li> </ul>	<ul style="list-style-type: none"> <li>- Grid questions to investigate respondents' views on the Indonesian contexts of PPP implementation as to whether PPP is suitable for social, cultural and religious values, and whether PPP needs to be arranged or modified to conform to those values.</li> <li>- Open questions on respondents' general views on the Indonesian contexts of PPP implementation.</li> </ul>
Section 7	<ul style="list-style-type: none"> <li>- Exploring respondents' views on the merit and worth of PPP in Indonesia.</li> <li>- Examining the respondents' views on the importance and relevance of certain PPP issues.</li> </ul>	<ul style="list-style-type: none"> <li>- Grid questions to investigate respondents' views on merit and worth of PPP in Indonesia.</li> <li>- Questions to select three most important issues and to rank them in order according to respondents' views on their relevance and importance.</li> </ul>
Section 8	<ul style="list-style-type: none"> <li>- Investigating other issues of PPP implementation that may be still uncovered or absent from the previous sections or questions.</li> </ul>	<ul style="list-style-type: none"> <li>- Open questions on respondents' general views on PPP implementation in Indonesia.</li> </ul>
Section 9	<ul style="list-style-type: none"> <li>- Informing participants of the end of the survey.</li> <li>- Expressing gratitude to participants</li> </ul>	<ul style="list-style-type: none"> <li>- Closing</li> <li>- Statement of appreciation</li> </ul>

Source: author's own work

#### 4.4.3.2 Sampling

Data in this survey were collected using purposive sampling. Primarily, the survey was specifically distributed to those who declined requests for interviews due to certain practical issues. The survey was also sent to new groups of respondents such as academics and private

sector actors, in addition to the government officials, external agencies' officials and consultants identified in the interview phase. Additionally, the survey was distributed to the respondents who had previously been included in the interviews, particularly because the survey intends to cover new issues that have not been addressed in the interviews. Moreover, besides using purposive sampling, the survey also relies on snowballing sampling as the cover letter specifically asks the targeted respondents to forward the survey to their colleagues who work in PPP areas.

#### **4.4.3.3 Doing the pilot survey**

Similar to the approach taken in conducting the interviews, a pilot survey was developed before the actual survey was released to the targeted respondents. The pilot survey was circulated to a number of targeted respondents asking to answer the questions as well as to comment on the format and content of the survey.

A number of useful comments and inputs for the refinement of the survey were received from the respondents of the pilot survey. The comments were related to a number of issues including about questions that were considered too sensitive, unclear, overlapping or confusing. Following the results of the pilot survey, some refinements were made including dropping questions that thought to be irrelevant and modifying questions.

#### **4.4.3.4 Administering the data collection**

Meanwhile, the data collected from the survey were administered using the web-based survey tool (Bristol Online Survey) and stored virtually there. The data can be downloaded only by the researcher and can be exported to some particular formats that can facilitate further analysis using quantitative analysis tools such as Excel or SPSS.

### **4.5 Data analysis**

In the analysis, the different nature of qualitative and quantitative data requires them to be treated separately. Analysis of quantitative data deals with structured numerical data or data that can be quantified using some commonly used techniques such as graphs, charts and statistics under certain procedures to describe and examine relationships in the quantitative data (Saunders *et al.*, 2009). In contrast, qualitative data are less straightforward to analyse, particularly because they are usually extracted from large amounts of unstructured textual material such as transcripts of interviews, minutes of group discussions or fieldwork notes (Bryman, 2008). Moreover, there has been less than sufficient agreement among scholars on

how qualitative data should be analysed. Both types of data analysis are discussed in two separate sections below.

#### **4.5.1 Qualitative data analysis**

Among the most common strategies used to analyse qualitative data are analytic induction and grounded theory (Bryman, 2008). Although these approaches start from different perspectives and assumptions about qualitative data, the distinction between them is not quite clear-cut as they share some common characteristics and approaches. Analytic induction is a rigorous approach that tries to find universal explanations of phenomena by collecting data to a point where there are no more deviant cases against a hypothetical explanation (Bryman, 2008). Another strategy, grounded theory, is often defined as ‘theory that was derived from data, systematically gathered and analysed through research process. In this method, data collection, analysis and eventual theory stand in close relationship to one another’ (Strauss and Corbin, 1998 p. 12). Moreover, influenced by such strategies and approaches in analysing qualitative data, this research adopts an open interactive orientation of data analysis. Such an approach is understood here as a method of generating theory from the qualitative data, using systematic processes ranging from data collection and analysis to theory formulation. The notion that theory should be extracted from empirical data can be contrasted with the deductive approaches, which suggest that theory is developed *a priori* and then tested later by the research.

With such understanding, the analysis of qualitative data in this research is conducted following the major steps of analysing qualitative data suggested by Strauss and Corbin (1998) which are summarised by Bryman and Bell (2003). The process of analysis is started after the data collection by the development of coding. *Coding* is a process ‘whereby data are broken down into component parts, which are given names’ (Bryman and Bell, 2003). In this stage, transcripts from the interviews and the secondary (documentary) data are labelled as component parts that potentially indicate the concept being researched. The processes of splitting, categorising, and naming the data are performed iteratively; hence, the coding itself is tentative because it will be constantly revised and revisited as the stages continue. Three different types of coding will be carried out in this stage, namely *open coding*, *axial coding* and *selective coding*. *Open coding* breaks down, examines, compares, conceptualises and categorises the qualitative data. This type of coding produces *concepts*, which are names or labels given to discrete phenomena. *Axial coding* connects the categories produced in the open coding by establishing links to contexts. Lastly, *selective coding* will be used for

selecting the core category, systematically relating it to other categories, validating the relationships, and filling in categories that need further refinement and development (Strauss and Corbin, 1990). According to Bryman and Bell (2003), *concepts* produced by open coding will be further constantly compared to the phenomena being coded to produce *categories*, which have higher levels of abstraction and can be regarded as more representative of the real-world phenomena. *Categories* can be distilled to obtain a *core category* (or several fewer core categories). This process will be iteratively reviewed until it reaches *categories (theoretical) saturation* where there is no further point in reviewing the data to obtain better fits with the concepts and categories.

In the next step, the relationships between categories are explored to obtain *hypotheses* about how categories are linked with one another. If the development of hypotheses leads one to consider that more data are needed, then the previous steps can be repeated to collect data and refine the hypotheses. The principle of theoretical saturation will guide the researcher on whether there are still some points to be found and whether to repeat the process to see how well they fit the hypotheses (Bryman, 2008).

Referring to the transcript drawn from the previous section as an example, the data are initially analysed using an open coding to break down them down into concepts.

“I think there will be some resistance if the private parties are coming from outside, right? That is what I feel. On one side, we need to have a limit on how much we can depend on outsiders, and how we measure it. I think there must be some measurement to say that our economy is too dependent on foreign countries. But I think Indonesia is still very much far away from that limit” (Sofyan Majid, middle-level official, financing unit).

With open coding, such data can be split into a number of potential concepts such as “resistance to PPP”, “existence of foreign private companies” and “dependency on foreign countries”. Some more implicit concepts can also be identified such as “worry of foreign influence” or “confidence of the strength of Indonesian economy”. Subsequently, axial coding can be developed to put those concepts into a wider context by connecting them with other concepts in the other data. For example, the concept “resistance to PPP” can be linked forward and backward with other data to find concepts such as “what makes the resistance to PPP” or “what is the impact of such resistance to PPP”. Moreover, selective coding helps connect categories produced by those concepts and validates the relationships to find core categories such as “problems in PPP implementation”. This coding process can be conducted iteratively, constantly revised and continuously revisited as the research progresses.

Therefore, coding, concepts and categories can be expanded but they can also be collapsed. This iterative process continues until it reaches saturation.

Additionally, it must be noted that during the process of analysis there might be several issues of bias, particularly those related to the position of the researcher who had prior knowledge of PPP implementation in Indonesian context. As mentioned in the previous section, the researcher previously worked as a staff in the Ministry of Finance dealing with PPP implementation issues both in project as well as policy level. Although such a position can be an advantage in that he has been familiar with the data and information, it may also create biases when the researcher analysed the qualitative data by giving his own opinion into the analysis. While the researcher understands that such biases are inevitable, he made several efforts to make the analysis more rigorous and reduce the element of bias. The efforts include having the data analysis validated by a number of respondents and discussing the analysis with research assistant and peers.

#### **4.5.2 Quantitative data analysis**

Quantitative data analysis assumes a deductive relationship between theory and research; thus, the process starts from the ‘theory’ and follows with the research. Moreover, quantitative data analysis relies heavily on already-established methods of calculation and statistics. In that sense, the analysis of quantitative data tends to follow a structured, linear and neat process in exploring, presenting, describing and examining relationships and trends within the data (Bryman, 2008).

Data collected from the survey are analysed using two levels of analyses. In the first level, data are analysed using descriptive statistics to provide figures and a summary of the data. This is followed by the second level of inferential analysis in which relations and differences between variables are investigated.

##### **4.5.2.1 Descriptive analysis**

Descriptive statistics are generally used to describe characteristics of a particular set of data to provide summaries and main features of the data. A number of statistical measures can be used to conduct the analysis including frequency distributions, measures of central tendency (such as mean, median and mode) and measures of standard deviations (for example variance, standard deviation and range). Graphical presentations, such as pie charts, bar charts, histograms and other graphical forms are usually incorporated in this analysis to provide better illustrations of the data (Pallant, 2007 ; Field, 2009; Lind *et al.*, 2004).

In this research, descriptive analysis is employed particularly to describe the basic information gathered from the survey, such as the characteristics of respondents, as well as to summarise the preferences of the respondents for options raised in the survey. Descriptive statistical analysis is also used to compare the preferences of certain groups of respondents to others. Although descriptive statistics appear very simple and straightforward, they can provide useful and rich information to help the researcher understand the basic characteristics of the data.

#### **4.5.2.2 Inferential analysis**

Inferential statistics can be generally understood as the process of applying statistical methods to draw general conclusions, usually related to characteristics of a population, from sets of specific (sample) data (Sekaran, 2003). Generally, inferential statistics are used to test specific hypotheses and to make informed decisions about courses of actions to be taken. Prior to analysing the data, some assumptions are usually set at the beginning to describe the generation of the data, which consequently determine whether the inferences are associated with parametric or non-parametric methods. If it is assumed that the data are generated from the probability sampling method under a normal distribution with homogenous variance, then the parametric tests can be used. Conversely, if the data are generated from non-probability sampling and are not drawn from the normally distributed population, the non-parametric tests will be used (Sekaran, 2003 p. 394).

Bearing those issues in mind, the inferential analysis in this research adopts the non-parametric methods primarily due to the non-probability sampling employed to collect the quantitative data from the survey. In this respect, important statistical methods used for the data analysis include Mann-Whitney and Kruskal-Wallis tests. These methods are used to analyse significant differences of perception amongst different groups of respondents. The former is used when two groups of respondents are investigated, while the latter is employed when three or more groups of respondents are studied (Field, 2009).<sup>18</sup> In the context of this study, the methods are used to determine differences between the actors' perspectives on the main issues investigated such as rationales and motivations to adopt PPP schemes, problems and challenges in implementing PPP, merit and worth of PPP, and socio-cultural and political contexts of PPP implementation.

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<sup>18</sup> For more discussions on the technicalities of the methods, please refer to Chapter 15 in Field (2009) on 'Non-parametric tests'.

Another statistical method employed is Exploratory Factor Analysis, commonly known as Factor Analysis. Factor Analysis is a technique for identifying groups or clusters of variables. It has three main functions, namely to understand the structure of a set of variables, to construct a questionnaire to measure an underlying variable, and to reduce a large data set to a more manageable size while retaining as much of the original information as possible (Field, 2009).<sup>19</sup> Of these functions, the third use is the one relevant to this study and has been used by a number of studies related to PPP implementation in other developing countries (see, for example, Li *et al.*, 2005a, 2005b and Ng *et al.*, 2011). Specifically, the statistical method is utilised to determine the main groups/dimensions or latent structures of certain issues (rationales and motivations, problems and challenges, merit and worth, etc.) in PPP implementation in Indonesia. This is done by reducing the large number of variables related to the issues to several (and more general) dimensions of the aspects examined.

It is also worth noting that the presentation of the survey results also includes the responses to open questions, which are expected to add insights to the qualitative approach conducted by the research in the previous investigation. However, in terms of data analysis, these open responses are analysed using the qualitative approach discussed in the previous section instead of the statistical methods explained above.

## **4.6 Other issues related to research methods**

### **4.6.1 Mixed methods**

Considering that this research uses both qualitative and quantitative approaches, a number of issues on the use of mixed methods in research need to be discussed. The term mixed methods represent a strategy used in social research to combine and integrate both quantitative and qualitative approaches in achieving research objectives. Mixed methods strategy is often also known as multi-methods (Brannen, 1992), multi-strategy (Bryman, 2008), mixed methods (Creswell *et al.*, 2003; Tashakkori and Teddlie, 2003), or mixed methodology (Tashakkori and Teddlie, 1998 ) research.

Nevertheless, although the use of mixed methods has been increasingly common in recent years, it still raises some concerns and debates among the researchers. On one hand, the advocates of mixed methods argue that such approach can be seen as a solution to integrate qualitative and quantitative method. A number of reasons can be suggested to support such a

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<sup>19</sup> For more discussions on the technicalities of the methods, please refer to Chapter 17 in Field (2009) on 'Exploratory Factor Analysis'.



view. Firstly, it has been widely admitted that both qualitative and quantitative have limitations, therefore constraining to use only one approach will expose to its particular limitations (Denzin and Lincoln, 1994). Secondly, there are questions whether the distinction between qualitative and quantitative approaches are as sharp as they are often described (Bryman, 2008). Thirdly, many researchers believe that paradigms do not preclude the use of any particular method (Lund, 2005).

On the other hand, the use of mixed methods is seen as problematic, mainly because qualitative and quantitative methods are seen as separate paradigms and therefore integrating both methods is impossible because the paradigms are incommensurable (Greene, 2007). Following this assumption, research must be conducted using methods established by the respective paradigms such as constructivism or positivism. Such a view is based on the idea that every research method has epistemological and ontological roots, therefore the decision to use a certain method is always related to commitments to accept certain position and reject the others (Morgan, 1998).

Despite the debates, using the perspective compiled by Bryman (2006), the relation between qualitative and quantitative approaches in this research can be explained in a number of ways. Firstly, in terms of the sequence of data collection, qualitative data in this research were collected prior to the collection of quantitative data. As detailed in the previous section, qualitative data were mostly collected during the first and second fieldworks while quantitative data were collected after both fieldworks. Secondly, in this research, qualitative approach receives more emphasis than quantitative approach. As explained in the previous chapters, the research has a great deal of interest in using interpretive approach. Accordingly, qualitative methods are believed to be more appropriate to serve such objective. Therefore, in this research, qualitative approach has more priority than quantitative approach. Thirdly, quantitative approach is used in addition to the qualitative approach mainly because the research needs to expand the breadth and range of enquiry by employing different approach for different inquiry elements. Moreover, quantitative method is also used because the research tries to seek elaboration, clarification and triangulation from the findings discovered by qualitative approach. Fourthly, quantitative approach as the complementary approach is integrated with qualitative approach when the research reaches the analysis stage. As previously explained, the data in this research are collected separately in that qualitative data are collected before quantitative data. Similarly, the findings of both types of data are also presented in different chapters. However, during the analysis stage both approaches were

integrated to achieve research objectives. As both approaches are integrated in the very late stage, it perhaps can be said that the degree of integration between the two approaches is relatively low.

#### **4.6.2 Ethical consideration**

The methods employed in this research may create unpleasant situations or harmful, particularly to the respondents in the field. In that sense, this research must consider and evaluate the ethical issues in relation to the use of certain research instruments in order that the negative impacts of the course of the research on the respondents might be minimised.

Saunders *et al.* (2009) suggest that research ethics are concerned with conducting the process of research in a moral and responsible way. This implies that a study must be designed in a way that is methodologically sound and morally justifiable to the parties involved in it. Bryman (2008) suggests a list of ethical principles in social research detailed by Diener and Crandall (1978), which advises that social research should not pose any harm to participants, nor proceed without sufficient informed consent, nor invade participants' privacy, nor involve any deception. The reliance of this research on the use of instruments such as interviews and surveys, however, may carry potential risks resulting in the respondents feeling disturbed by any one of those issues.

In that sense, this research takes several precautionary measures to prevent such issues from arising. Firstly, formally, as requested by the Durham University Business School, a set of ethics forms have been submitted to the Doctoral Office for review by Durham University Business School Subcommittee for Ethics<sup>20</sup>. The forms describe the research details including the researcher, the research methods employed in the research and the potential risks that may occur in the research. The researcher also has to answer some research checklists that investigate certain issues such as potential harm to participants, sensitivity issues and informed consent.

Secondly, on the issue of receiving informed consent from the participants, before entering the fieldwork formal requests were sent to all targeted respondents. The formal letters explained the research, the researcher and the interviews that are being proposed including

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<sup>20</sup> Durham University Business School obliges every researcher to follow the guidance and governance framework provided by the Durham University Business School Subcommittee of Ethics available at <http://dbs-internal.dur.ac.uk/ethics>

clarification that the interviews will be recorded and transcribed. The interviewees were also informed that they may withdraw from the interviews at any time.

Thirdly, in terms of maintaining the respondents' confidentiality, the research follows a number of actions. For the interviews, the names of the respondents are not explicitly shown anywhere in the research; rather, they are replaced by pseudonyms, and only the researcher knows the relationship between the real names and the pseudonyms. These pseudonyms set to be all male Indonesian names to protect the anonymity of gender and nationality of the respondents, which comprised both male and female, Indonesians and non-Indonesians. Moreover, for the survey, the data collected from the respondents are treated anonymously in the sense that they will not be identified with or referred to respondents' identities. The data are only described and analysed in aggregate terms; thus, the identities of respondents cannot be revealed. Lastly, in terms of the data storage, all the data are stored in a computer to which only the researcher has access to open and restore the data.

The same measures for handling the ethical issues are also applied to the survey method. Submitting the process to review by the Ethics Committee, receiving informed consent from the participants and maintaining the confidentiality of respondents are also carried out for the process of data collection and administration of the survey method.

#### **4.6.3 Reliability and validity in qualitative and quantitative research**

When conducting field research, researchers need to find a balance between pursuing the richness of the field study using flexible approaches and open-mindedness and maintaining the responsibility to keep the research rigorous and unbiased (Lillis, 2006). These two issues are critical in research and are concerned with the issues of reliability and validity. However, reliability and validity are rooted in the tradition of quantitative research (Mason, 1996). Therefore, they need to be carefully redefined when adopted in a qualitative approach. The identification of the two issues is apparently more straightforward in a quantitative approach while it is likely to be less clear-cut in a qualitative approach.

Bryman (2008) discusses different views on how reliability and validity issues are adapted from quantitative research to qualitative research. The first view suggests that the two issues might be incorporated in qualitative research by slightly changing their meaning in quantitative research to the contexts of the qualitative tradition. Mason (1996) suggests that the term 'validity' actually means whether 'you are observing, identifying or "measuring" what you say you are'. In this sense, the concepts in quantitative research such as external

reliability, internal reliability, internal validity and external validity might be equivalently employed in qualitative research. Another view, however, suggests that qualitative research should be assessed and evaluated by different criteria from those used in quantitative tradition. Among the advocates of this view are Guba and Lincoln (1994), who suggest that alternative ways of evaluating qualitative research need to be established rather than merely referring to issues of reliability and validity. They assert that qualitative research can be alternatively assessed based on two main criteria, namely trustworthiness and authenticity. The issue of trustworthiness is concerned with credibility, transferability, dependability and confirmability of a study, while authenticity relates to fairness, ontological authenticity, educative authenticity and catalytic authenticity. More recently, Yardley (2000) proposed a set of criteria to assess qualitative research, including the following: sensitivity to context; commitment and rigour; transparency and coherence; and impact and importance.

Among these different views on the criteria for assessing and evaluating qualitative research, this study particularly believes that qualitative research is developed under different sets of assumptions and ideas about reality; therefore, any attempt to evaluate it should be based on different criteria. As suggested by Guba and Lincoln (1994) and Yardley (2000), this research makes several attempts to fulfil those criteria. Firstly, to achieve the credibility of findings as well as to maintain commitment and rigour, the research follows the principles of good practices of qualitative research as explained in the previous sections in this chapter. In addition, in the process the research is also supervised by a supervisory team and reviewed by a board of reviewers, who are experienced in this type of research.

Secondly, in relation to the issue of transferability, this research is categorised as a case-study involving a small group, which is concerned with the depth rather than the breadth of fieldwork being carried out. In this sense, the research tries to produce a ‘thick description’ (Geertz, 1973) of the details of the field study to provide a ‘database’ that will enable other researchers to make judgements about this research and conduct further research in different settings.

Thirdly, the idea of dependability suggests that ‘complete records are kept of all phases of the research process – problem formulation, selection of research participants, fieldwork notes, interview transcripts, data analysis decisions, and so on — in an accessible manner’ (Bryman, 2008). In this research, all the records of activities in the research process are kept, as explained in the previous sections. NVivo is used to organise most of the digital material in

which interview transcripts, documentary materials, field notes, memos and other materials can be easily linked and analysed. These efforts are also conducted to fulfil the principle of transparency and coherence as suggested by Yardley (2000).

Fourthly, to ensure the principles of confirmability, the researcher makes every effort to show good faith in doing the research by trying to avoid personal tendencies or theoretical inclinations being excessively manifested in the research. Although it is understood that it is impossible to achieve absolute objectivity in research since the researcher's personal values cannot be completely kept away from the study, the researcher always attempts to maintain the degree of confirmability at a level that ensures the quality of the research.

Finally, the principles of authenticity, impact and sensitivity to context are considered by establishing a strong and relevant link between the research and the social setting surrounding it. Part of the central concern of the research is its focus on the social, economic, political and cultural contexts of Indonesia and their impacts on the implementation of PPP. In that sense, authenticity criteria as principles concerning the social and political impact of research are highly regarded in this study.

## **Chapter 5 Introduction of PPP into Indonesia and its precursors**

### **5.1 Introduction**

The interest of the research in exploring the process of PPP diffusion, PPP rationales and PPP development in Indonesia requires a description of the historical context of the current implementation of PPP. Such a description is needed to provide a coherent narrative on how PPP in Indonesia has been developed. However, an inductive history for understanding the development of PPP in Indonesia has been underprovided and therefore becomes a limitation to attempts to obtain the basic knowledge of PPP application in a developing country such as Indonesia.

A better understanding about PPP implementation in Indonesia can be acquired by exploring the development of projects, policies and other events through historical lens using a number of different viewpoints. Perspectives such as how PPP was seen and how projects were developed are among issues that can be proposed as main viewpoints to see how PPP in Indonesia was actually implemented. Political environment, nuance of the implementation, main rationales, risk sharing issues, policy instrument and regulations can also be added as other viewpoints to study how the policy was implemented. It can be expected that such viewpoints are useful to help exploring the development of PPP in Indonesia since its initiation in the early 1990s to the current dates.

In fact, an observation to the development of PPP in Indonesia using such perspectives suggests a number of relations as shown in Table 5.1. The table shows how the perspectives help in identifying the development of PPP in Indonesia in four different periods. The first period starts from early 1990s when President Suharto promoted the first PPP policy to 1998 when the policy eventually declined as he stepped down due to economic and political crisis. The period of 1998 to 2005 marked an era when PPP was marginalised as the country focused on the political and economic recovery from the crisis. The third era ranged from 2005 to 2009 when the government reinvented PPP as the economic and political stability was regained.

Moreover, Table 5.1 also represents a framework that will be used throughout chapter 5 and 6 to guide the historical discussion on how PPP in Indonesia is developed. Chapter 5 focuses on the development of the era from 1990 to 2005 while chapter 6 will discuss the era of 2005 to the current. In this chapter, more detailed attention and broader elaboration are given to the era of 1990 to 1998 based on two main reasons. Firstly, it is the period when PPP policy was

initiated in Indonesia and secondly, the data related to the implementation of PPP in this period are abundantly available. Nevertheless, before looking directly at the development of PPP in Indonesia, the research starts with an investigation to the practice of private involvement in the development of public infrastructure in the era before the implementation of PPP in the modern Indonesia. It means that the historical observation will be extended to the era of colonialism, in which the Dutch (and also Japanese) colonial government involved the private sector in their efforts to provide public infrastructure in Indonesia.

Table 5.1: Development of PPP in Indonesia

Periods	1990s to 1998	1998 to 2005	2005 to 2009	2009 to the current
<b>How PPP is seen</b>	Sector issue	Reform issue	Planning issue	Financing issue
<b>Projects development</b>	Initiation	Cancellation	Re-initiation and initiation	Re-selection
<b>Political environment</b>	Suharto's cronyism and political domination	Political and economic turmoil and reform	Political and economic recovery	Maintenance of political and economic stability
<b>Nuance</b>	Sporadic	Apprehensive	Ambitious	Realistic
<b>Main rationales</b>	Financing gap	Recovery	Acceleration	Sustainability
<b>Risk sharing issues</b>	No risk sharing issues	Vulnerability issues are understood	Risk sharing issues are introduced	Risk sharing issues are developed
<b>Main instrument</b>	Suharto's instructions and influence	Planning instruments	Planning instruments	Financial incentives
<b>Regulation</b>	Fragmented	Rearranged	Coordinated	Decentralised

Source: author's own work

## 5.2 The colonial era (1870s to 1945)

The practice of involving the private sector in public infrastructure development had actually begun long before Indonesian independence in 1945.<sup>21</sup> An account of Indonesian railway history shows that the first railway development in Indonesia was actually initiated in 1873 by both the state railways agency, *Staatsspoorwegen*, and some private companies, the largest of which was a company named "*Nederlandsch Indische Spoorweg Maatschappij*" (NISM) (Cribb and Cahin, 2004). The provision of railway services was marked by disputes on whether it should be retained by the government agency, as it was thought too important to be left entirely to the private sector, or shared with private companies (Booth, 1998).

<sup>21</sup> Indonesia declared its independence on 17 August 1945. Since the 18<sup>th</sup> century, a number of European countries occupied some parts of Indonesia including the Portuguese (only in the Eastern parts of Indonesia such as Maluku and Timor), the Dutch (most parts of Indonesia including Java, Bali and Sumatra from 1800 to 1942) and the Japanese (from 1942 to 1945). Some of the literature discusses the history of Indonesia including Ricklefs (2001) and Vickers (2005).

The story of seaport businesses reveals a very similar picture showing that private companies had actually been actively involved in the infrastructure development in the colonial era. In the biggest port in the country, Tanjung Priok in Jakarta, the Dutch Indies colonial government gave a 75-year concession to *Koninklijke Paketvaart Maatschappij* (KPM), a private company specialising in shipping activity, to construct and operate the new port (Communication Information and Public Relations Agency of Jakarta Province, 2010).

The first electricity generation in Indonesia was also initiated by the involvement of private companies in the colonial era. In the mid-18<sup>th</sup> century, as the agricultural industries such as sugar and tea companies grew rapidly, electricity was generated individually by these companies to supply electricity for the industries and the surrounding colonial livelihoods. This practice was encouraged by regulation (*Staatsblaad*) number 190/1890 issued by the colonial government, which allowed private companies to produce electricity and sell it to the public (Setiawan, 2011). The first private company to respond to this opportunity was *Nederlandsche Indische Electriciteit Maatschappij* (NIEM), which in 1897 started to supply electricity to the public in the city of Batavia (now Jakarta).

During this era, the involvement of private companies was mainly seen as an alternative to the government monopoly in providing infrastructure. It is reported that in the early 19<sup>th</sup> century the colonial government contemplated two strategy options for developing the economy of the colony: government monopoly or free trade run by private entrepreneurs. Eventually the Dutch government opted for the latter, which proved successful as indicated by the boom in the output of the economy (Dick *et al.*, 2002).

Such an arrangement of involving private companies in the provision of public infrastructure could work relatively well because during this period the colonial government was particularly strong, in terms of both political and financial aspects (Lindblad, 2002). It can be said that the main rationale of colonial government in introducing private participation is to increase private participation in the development of economy in the colony. Interestingly, the risk sharing issues related to the arrangement of private and public procurement has become a major issue since this time. As shown by Booth (1998) in the case of the development of rail system in Java, the government controversially guaranteed a return of 4.5 per cent on the capital invested for 33 years. It was seen as controversial because the network was actually considered profitable. Moreover, such controversial financial support was even extended with another financial assistance in the form of interest-free loans from the government (p. 149).



Meanwhile, the heyday of private participation in the development of public infrastructure ended when the Japanese colonial took over large parts of the archipelago from the Dutch colonials in 1942. The control of most utilities and public infrastructures was taken over by the Japanese while the arrangements and ownerships of the utilities were also restructured, mostly to serve Japan's military needs during the war (Booth, 1998). During the Japanese occupation, all the private electricity companies were taken over by the Japanese authority and restructured into regional divisions. The same applied to the railway sector, with most railway lines being taken over by the military rulers (Cribb and Cahin, 2004). The Tanjung Priok port was also taken over by *Djawa Unko Kaisya*, a company controlled by *Kaigun*, the Japanese Navy (Communication Information and Public Relations Agency of Jakarta Province, 2010).

### **5.3 The independence era (1945 to 1950s)**

The Japanese occupation lasted only three years, since in August 1945 Japan surrendered to the Allied Forces of World War II (Dick, 2002). The control of public assets and facilities was immediately taken over by the Indonesians, who declared the country's independence on 17 August 1945, three days after the Hiroshima and Nagasaki bombings (Dick, 2002). All the public utilities including railways, ports and electricity stations were seized from Japanese control by the Indonesians before the Dutch colonials returned. The takeovers were mostly carried out sporadically by the Indonesian freedom fighters, most notably by the labour union of the service companies, until the new official agencies were established.

In an effort to settle the takeovers, the new Indonesian government set up agencies to manage the public facilities, such as the establishment of *Djawatan Kereta Api Repoeblik Indonesia* for railway services (PT Kereta Api Indonesia, 2012). However, soon after the defeat of Japan and the independence of Indonesia in 1945, the Dutch returned to Indonesia trying to reclaim their authority, including re-establishing several authorities in public utilities. For example, in the railway sector the Dutch re-established *Staatsspoorwegen/Verenigd Spoorwegbedrijf (SS/VS)* to restore the administration of the services.

The Indonesians struggled to resist the return of the colonials and the issue of public assets control became the main aspect of the battle and negotiations between the newly established Indonesian government and the returning Dutch colonial government. In the Round Table Conference between Indonesia and the Dutch government in The Hague in 1949, it was agreed that the government of Indonesia would restore all the Dutch private companies'

rights in Indonesia including the concessions that were given in the past (Dick *et al.*, 2002). This agreement required the government to transfer the management of some public utilities back to the Dutch owners, including the transfer of Tanjung Priok port to *Koninklijke Paketvaart Maatschappij* (KPM) because the concession did not expire until 1952 (Communication Information and Public Relations Agency of Jakarta Province, 2010). The Indonesian government also had to return all the private electricity companies to their owners, except those permitted to remain in Indonesian government hands such as *Land Waterkracht Bedrijven* (LWB) (Setiawan, 2011).

Nevertheless, in 1953 almost all public infrastructure facilities were nationalised. The private electricity companies were nationalised based on the Presidential Decree number 163/1953 and later reinforced by the Law number 86/1958. Under these regulations, the Dutch private companies such as NV OGEM, NV ANIEM, and NV EMA were taken over by the management of the State Company for Power Generation (PLN/Penupetel) and put under the coordination of the Ministry of Public Works and Power/Technology (Setiawan, 2011). The control of the national ports was also unified under *Djawatan Perhubungan Laut* (Sea Transport Agency) under the Ministry of Transport in 1952 (Communication Information and Public Relations Agency of Jakarta Province, 2010).

The nationalisation of public infrastructure assets in the early independence period and their transfers to public management ended the first era of private financing in the development of public infrastructure in Indonesia. There are various reasons why the government nationalised the public utilities. Firstly, the capitalist free trade economy run by the private companies had been discredited along with colonialism, while the national spirit built up for the newly established country was more closely associated with socialism, as stipulated in the 1945 Constitution (Dick *et al.*, 2002).<sup>22</sup> Secondly, the local and native private businesses were still considered too incompetent to do business and insufficiently prepared to handle the industry. Thirdly, under President Sukarno's government, economic issues were mostly considered secondary to political matters, particularly due to Sukarno's obsession with 'completing the national revolution' and 'opposing the Western capitalist countries' (Thee, 2013).

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<sup>22</sup> The view of socialism is usually referred to in the *Preamble of the 1945 Constitution*, which says: "The independence of Indonesia shall be formulated into a constitution of the Republic of Indonesia which shall be built into a sovereign state based on social justice for all the people of Indonesia". Moreover, Article 33 of the Constitution also says: "the economy shall be organized as a common endeavor based upon the principles of the family system".

Moreover, in the hands of the government, some provisions of public infrastructure are fully managed by public authorities as they are directly operated by government agencies under the sector ministries, while the others are handled by ‘semi-private financing’ or “quasi-private financing”. The latter scheme usually refers to the services managed and operated by state-owned companies or, more formally, State-Owned Enterprises (SOEs).<sup>23</sup>

#### **5.4 The arrival of PPP (1990 to 1998)**

After long time being a sole key player in financing and providing public infrastructure services, the government of Indonesia started considering to involve private sector in the arrangement. There were a number of circumstances that can be used to explain why the government was interested to engage in involving private sectors through PPP. These mainly relate to the economic and political condition as described in the following sections.

##### **5.4.1 Economic and political environments: Stable and steady economic growth that lifted political confidence**

Similar to the previous patterns, the rise of private involvement in the provision of public infrastructure in 1990s were driven by the improvement in economic and political conditions of Indonesia. The economic and political landscapes of Indonesia changed dramatically in 1966 after Suharto took over the presidency from Indonesia’s founding president, Sukarno, during a chaotic military and political conflict (Lev, 1966). The shifts created new dynamics in the Indonesian economic and political settings that favourable for PPP to be implemented in Indonesia, as described in the following sections.

###### **5.4.1.1 Economic condition**

The idea of introducing PPP to Indonesia emerged during the early 1990s at a time when the country was at one of its highest peaks in terms of economic growth. The economy was in very good condition after maintaining its steady growth since Suharto and his New Order government came to power at the end of the 1960s. As can be seen from the World Bank data depicted in Figure 5.1, there was some volatility during the 1970s and 1980s but in general the economy was in a stable and steady condition with an average annual growth rate of around 6 % during that period.

The achievement in maintaining steady economic development created significant increases in infrastructure demands in almost all types of services. As shown in Figure 5.2, the data from Statistics Indonesia (BPS) suggest that the number of potential users of public

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<sup>23</sup> The details and definitions of SOEs in Indonesia can be found in the Law number 19/2003 concerning the State-Owned Enterprises.

infrastructure services grew very sharply around the 1980s and 1990s. For example, from 1987 to 1996 the number of motor vehicles increased on average by around 7.6% annually, while at the same time the size of the road network grew by only 5.23% annually. The number of railway passengers grew at the rate of 13.9% but there was hardly any additional investment in the rail network. These conditions have pressured the government to respond to the increasing demand by developing new public infrastructure facilities, which also mean that the government has to mobilise more funding.

Figure 5.1: Indonesia's economic growth since 1960



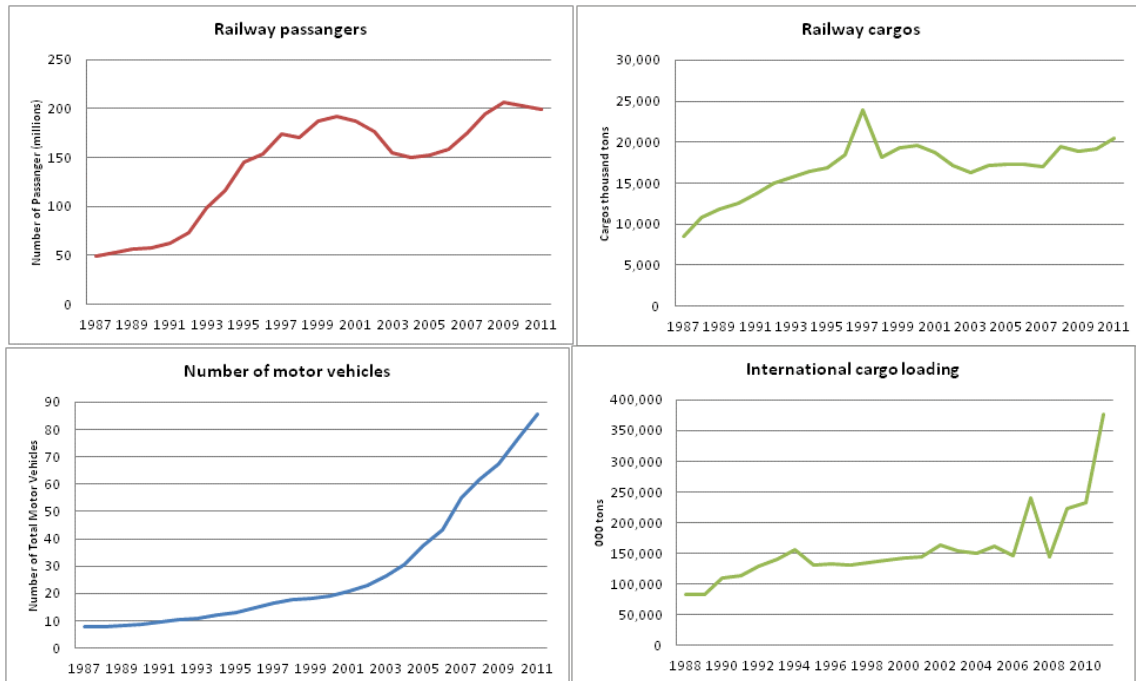
Source: World Bank data set available at <http://data.worldbank.org/country/indonesia> accessed on 25 August 2012

The achievement in maintaining steady economic development created significant increases in infrastructure demands in almost all types of services. As shown in Figure 5.2, the data from Statistics Indonesia (BPS) suggest that the number of potential users of public infrastructure services grew very sharply around the 1980s and 1990s. For example, from 1987 to 1996 the number of motor vehicles increased on average by around 7.6% annually, while at the same time the size of the road network grew by only 5.23% annually. The number of railway passengers grew at the rate of 13.9% but there was hardly any additional investment in the rail network. These conditions have pressured the government to respond to the increasing demand by developing new public infrastructure facilities, which also mean that the government has to mobilise more funding.

However, at the same time the government faced the problem of decreasing state revenues, particularly due to the sudden fall in oil prices in the early 1980s. Along with the increasing external indebtedness and sharp fall in economic growth, it practically signified the end of

‘the decade of oil-financed growth and abundance’ (Hill, 1996). This situation prompted the government to start exploring other potential sources to finance the development, particularly in providing public infrastructure services.

Figure 5.2: Infrastructure demands prior to the arrival of PPP



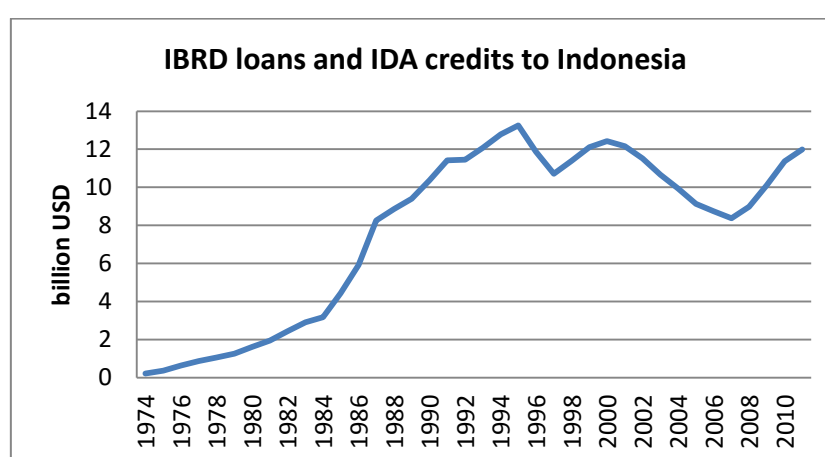
Source: Statistics Indonesia (1987-2011) compiled from various tables available at <http://www.bps.go.id/eng/> in Economic and Trade data, accessed at 20 September 2011

However, at the same time the government faced the problem of decreasing state revenues, particularly due to the sudden fall in oil prices in the early 1980s. Along with the increasing external indebtedness and sharp fall in economic growth, it practically signified the end of ‘the decade of oil-financed growth and abundance’ (Hill, 1996). This situation prompted the government to start exploring other potential sources to finance the development, particularly in providing public infrastructure services.

Traditionally, the government relies on two main sources of funding to finance the state budget: the collection of taxes (including those generated from oil sales); and external grants and loans from other countries or donors. While the tax base and collection rates are still low and incapable of expansion in the short term, at the same time the external sources from grants and loans have shrunk as the donor agencies, particularly the World Bank, introduced new policies to reduce the grants and loans for infrastructure. Instead, the World Bank encourages developing countries to involve the private sector to finance infrastructure development (World Bank, 1993).

In fact, since rejoining the World Bank in 1967, immediately after the New Order regime took over the government, Indonesia's reliance on the financial assistance from the World Bank in terms of loans and credits has always been significant (Hill, 1996). Figure 5.3 shows the increasing financial assistance received by Indonesia from the World Bank, particularly in the form of IBRD loans and IDA credit.<sup>24</sup> Indonesia's recovery from the economic crisis during the previous regime and the subsequent development programmes have been significantly supported by the expertise and technical assistance provided by the international agencies such as the World Bank, the International Monetary Fund (IMF) and the Asian Development Bank (ADB). In addition, such support also came from the development agencies attached to some developed countries such as USAID (USA), CIDA (Canada) and Ausaid (Australia). Moreover, the support from the international agencies appeared not only as financial assistance such as loans and grants but also as technical assistance such as policy formulation, project preparation or provision of consultants and technical teams.

Figure 5.3: The World Bank financial assistance in Indonesia



Source: The World Bank database accessed at <http://data.worldbank.org/country/indonesia>, 25 August 2012

PPP has been part of the recommendations suggested by the World Bank and the other international agencies, particularly after the World Bank published a report entitled "Infrastructure for Development" which placed some emphasis on PPP as a new policy direction (World Bank, 1994). Similar to other recommendations provided by the international agencies, the recommendation on PPP is commonly combined with financial assistance such as loans, grants and guarantees. In this case, the Indonesian government

<sup>24</sup> IBRD loans and IDA credits are financial products issued by the World Bank group. IBRD stands for International Bank for Reconstruction and Development, which provides loans and other financial products to middle-income countries, while IDA stands for International Development Assistance, which is another part of the World Bank group that provides low- and zero-cost finance or grants to poor countries.

expects that, by subscribing to PPP recommendations from the World Bank and other MDAs, it will be able to maintain access to loans, grants or other financial assistance, in addition to acquiring PPP knowledge.

In fact, the development of PPP in Indonesia, particularly in the early stages of the adoption, cannot be separated from the roles and activities of the World Bank and other international development agencies. These institutions provided significant financial and technical assistance for the development of private sector participation in the development of public infrastructure and in particular the implementation of PPP policy. For instance, the World Bank introduced the idea of private participation in Indonesia in 1991 when it provided an assistance programme called Technical Assistance for Public–Private Partnership in the Provision of Infrastructure (TAP4I) (World Bank, 1991). The main objective of TAP4I was to promote private sector participation in infrastructure development through technical assistance, particularly in setting the government strategies and policies for attracting private sector interests. TAP4I was designed as a two-stage technical assistance funded by two World Bank loans totalling USD 50 million (World Bank, 1991). TAP4I covered a wide range of issues focused on both sector level and cross-sector level. The strong influence of TAP4I-1 was signified by the issuance of Presidential Decree number 7/1998 as the first PPP framework in Indonesia (World Bank, 1991). Its successor, TAP4I-2, later recommended the government to revise the Decree number 7/1998, establish a PPP unit and implement other policy actions (World Bank, 2002).

Moreover, at almost the same time USAID also developed a programme for providing assistance to the Indonesian government called Private Participation in Urban Services (PURSE), a programme of technical assistance covering a 7-year period from 1993 until 1999 with a total budget of USD 11.3 million (PURSE, 1999). PURSE was particularly developed to increase private participation in the development of public infrastructure, especially in selected urban services such as water, wastewater and solid waste, in a sustainable way (PURSE, 1999 p. 11). PURSE claimed that it has accomplished several achievements in promoting PPP including assisting a number of cities in arranging contracts with private sectors, publishing sets of modules, manuals and guidance on delivering PPP projects, and improving awareness of PPP among government officials, which led to the issuance of Presidential Decree number 7/1998 as the main PPP policy framework (PURSE, 1999).

In fact, many other international agencies conducted programmes to promote PPP in Indonesia during the 1990s. For instance, CIDA (Canadian International Development Agency) developed a programme called Infrastructure Services Project (ISP) amounting to CAD 1.5 million, which was aimed at supporting a cross-sector policy framework for encouraging private sector participation in infrastructure development (Sudjito, 2007). ADB also formulated a package called Capacity Building in Urban Infrastructure Management (CBUIM) Project funded by a loan of USD 42 million to the Indonesian government, approved in 1997, which mainly provided training to local governments including improving the understanding of private participation. Later on, the Australia Development Agency (Ausaid) also introduced a programme called Technical Assistance Management Facility (TAMF). The main objective of TAMF was actually to support the public reform, particularly the debt and cash management. However, it also provided assistance on PPP issues by supporting the improvement of fiscal risk management related to PPP policy (Sudjito, 2007).

Nevertheless, some smaller-scale programmes were also initiated by other external agencies in promoting private participation, although their main objectives were not mainly concerned with PPP or private financing. Some programmes were intended to improve a specific area of a certain sector such as power or transport or roads, while others were specifically designed for particular regions. Some selected programmes related to PPP are identified in Table 5.2 below.

Technically, the types of activity covered by these assistances are mostly in the form of policy formulation support, project preparation and capacity building. The supports provided for the policy formulation are usually given through the production of policy papers (including their dissemination such as consultations, discussions, workshops) prepared by teams or individuals appointed by the donors. The same format is usually applied for project preparation assistance, in which experts are mostly appointed by the donors or executing agencies approved by donors. Training and workshops are the most common forms of capacity-building activities, and they can take place in Indonesia or abroad.

Moreover, the assistances provided by the external agencies mainly come with the idea of introducing private participation in the provision of public infrastructure services in a situation in which the government mainly relies on the conventional scheme using the government budget. The assistance mostly focuses on explaining how to set up the policy through the arrangement of institutions, formulation of regulations and other details on



structuring PPP policies and transactions (see for example PURSE, 1999; World Bank, 2002). However, the external agencies also express significant concerns about the more essential issues such as transparency, openness and competition, particularly in relation to the bidding for and procurement of PPP projects (PURSE, 1999; World Bank, 2002).

Table 5.2: Selected assistance to Indonesia's PPP from the IFIs in Suharto era

Name of Provider/Donor	Name of Grant/Loan	Amount	Points/Accomplishment
USAID	Public-private Partnership in Urban Services (PURSE)	\$11.3 million 1993 – 1998	<ul style="list-style-type: none"> <li>- Assistance with the preparation of regional PPP projects, mostly on water provision.</li> <li>- Assistance to government in understanding PPP leads to formulation of Presidential Decree number 7 1998</li> </ul>
CIDA (Canada)	Infrastructure Services Project phase I and phase II (ISP)	CAD\$1.5million 8 months	<ul style="list-style-type: none"> <li>- Supporting development of a cross-sector policy framework</li> </ul>
ADB	Strategic Planning Study for Power Sector	Unknown	<ul style="list-style-type: none"> <li>- Providing recommendations to the government on institutional strengthening, tariff rationalisation, and sector restructuring</li> <li>- Capacity-building for regional staff</li> </ul>
World Bank	Technical Assistance for Public-Private Partnership in the Provision of Infrastructure (TAP4I)	\$50 million 1991 – 2001	<ul style="list-style-type: none"> <li>- Assistance on the formulation of Presidential Decree 7/1998 and its implementing guidelines but later recommended for its renewal</li> <li>- Assistance on sector</li> </ul>
World Bank	East Java Bali Urban Infrastructure Development Project	\$180.3 million 1991-1997	<ul style="list-style-type: none"> <li>- Exploration of Private Sector Participation (PSP) opportunities in water supply and solid waste management in the area.</li> </ul>

Source: World Bank (1991), PURSE (1999), World Bank (2002) and Sudjito (2007)

Nevertheless, despite all the benefits gained by the government from the assistances provided by the external agencies, there are also some costs that must be considered. While some of the assistances were funded by grants (such as PURSE by USAID or TAMF by the Australian government) that were freely given to the government of Indonesia (although some grants required the government to provide accompanying budgets), others were financed by loans that the government has to repay later. For example, in formulating the PPP framework the government was assisted by the World Bank's loan-funded assistance called TAP4I (Technical Assistance for Public-Private Partnership in the Provision of Infrastructure) amounting to USD 58 million (for two stages of assistance; TAP4I-1 and TAP4I-2). The government of Indonesia had to repay the principal (until 2011) plus the

interest and the commitment charge on the loan not withdrawn (World Bank, 1991). Although these costs to Indonesia's public budget are obvious, few discussions seem to have included them in evaluating the outcomes of PPP.

#### **5.4.1.2 Political condition**

In maintaining stability in his 'New Order' administration, President Suharto exercised a strong, centralised and coercive authority not only by using the military forces as influences, but also by allocating certain economic privileges to a number of persons or groups he preferred, in order that they might give financial and political support to him and his regime in return (Robertson-Snape, 1999). Initially, Chinese business people and the military were among the main groups with whom Suharto preferred to create ties. For example, just after ascending to the presidency, Suharto gave a partial monopoly on importing, milling and distributing wheat and flour to a company owned by Liem Sioe Liong, a Chinese businessman closely allied with Suharto since the time when Suharto was still at the lower level of the army hierarchy (Robison and Hadiz, 2004). Suharto also allowed the military and its officers to become involved in many types of business, legally and illegally, including plantations, logging, hotels and property development.<sup>25</sup>

However, as Suharto and his regime got older, he lost some political support from his old colleagues and tried to find support from other sources. Furthermore, his sons and daughters had now grown and matured and felt ready to enter politics and business. Looking for new sources of political support, Suharto chose to allocate privileges to his family. As explained by Aspinall (2005), in this period Suharto started a process of 'sultanisation', in which the domination of the president and his family became more articulated, apparent and persistent, particularly as the issue of the presidential succession became prominent.

Since the early 1980s, as reported by Colmey and Liebhold (1999), Suharto had started to give privileges to his daughters and sons by granting special licenses, monopolies or other rent-seeking instruments. Such privileges were given not only to the children but also to other extended-family members such as brothers, nieces, in-laws and even grandsons.

The story provides the background of how Suharto and his children always tried to find new fields in which they could extort some business profit from public matters. The area of public infrastructure provision is not an exception. The account of some of the first PPP projects in

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<sup>25</sup> For a discussion on the relation between Suharto and military business, see, for example Crouch (1979) and Rieffel and Pramodhawardani (2007).

Indonesia has shown how Suharto and his family played their parts in the actual implementation, as can be seen later in this chapter.

Furthermore, the growing power of Suharto also led to another political situation that paved the way for PPP implementation in Indonesia. As Suharto's influence became more powerful domestically, Suharto wished to extend his influence at the international level (Akashi, 1997 p. 19). Suharto had been informally acknowledged as a respected leader among the ASEAN members' leaders. However, armed with greater confidence due to the achievement of Indonesia's economy, he sought wider acknowledgement from a broader audience. The Asia-Pacific Economic Community (APEC) forum offered a stage for that ambition. APEC is an Asia-Pacific economic forum established in 1989 that seeks to promote 'free and open trade and investment, promoting and accelerating regional economic integration, encouraging economic and technical cooperation, enhancing human security, and facilitating a favourable and sustainable business environment.'<sup>26</sup> Indonesia's position in the early establishment of APEC was pivotal, leading to its leadership of the forum in 1994. Although the focus was mainly on trade and regional integration matters, the issue of infrastructure development and the involvement of private financing has been one of the priorities of APEC's programme and cooperation since the Bogor declaration in 1994. In 1997, at an APEC meeting in Vancouver, Canada, PPP was explicitly selected and promoted as a scheme to finance infrastructure. As the issue of PPP became more important in the APEC agenda, the attention paid by the Indonesian government to PPP also increased as part of Indonesia's effort to keep in touch with the APEC forum. Indonesia's responses to PPP as part of the APEC agenda at least opened a policy discourse within the government.

Additionally, the initiation of PPP in Indonesia was also supported by the increasing number of government officials returning from their education abroad. It can be suggested that since Indonesia shifted its development orientation to the West following the New Order government's rise to power at the end of the 1960s, many scholarships have been offered to Indonesian academics and government officials to receive their higher education in Western countries. These scholarships include Master's programmes and doctoral degrees in several Western countries such as the USA, the United Kingdom, the Netherlands and Australia. Generally, the scholarships' recipients are required to return to their previous offices upon completion of their education. Moreover, during the 1980s academics and government

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<sup>26</sup> For further information on APEC see <http://www.apec.org/About-Us/About-APEC.aspx>

officials started to return from their education abroad; they were then posted in strategic positions particularly due to their perceived superiority in terms of their formal educational background. The roles of these officials then apparently become instrumental in supporting Western ideas to be implemented in Indonesia, not only because of their familiarity with neoliberal ideas but also because of their ability to communicate with international agencies' officials. Chalmers and Hadiz (1997) cite the example of technocrats in the government who had previously studied in the United States under a Ford Foundation programme, particularly those in the National Development Planning Agency or BAPPENAS, and now dominate the economic view of the government (p. 15). With regard to the introduction of PPP into the Indonesian setting, the role of these Western-educated officials was also influential, particularly since they were able to bridge the gap in understanding between the foreign officials of the international agencies and donor countries and the local staff. In addition, they mostly hold strategic positions in the decision-making of infrastructure management in the government and possess sufficient legitimacy to persuade other officials of the superiority of PPP.

Overall, the exploration of Indonesia's situation before the arrival of PPP aids an understanding of several issues in the implementation of PPP in Indonesia, particularly the rationales and motivations that drove PPP adoption in Indonesia, the start of PPP development and the process of its diffusion. It is suggested that the steady economic growth, which created huge demand for infrastructure, confronted with the fall in the financial capacity of the government motivated the government to adopt PPP to fill the financing gap. However, other events such as Indonesia's increasing involvement in the international forum, growing dependence on foreign aid and the growing involvement of Suharto's family in corrupt activities indicate that other motivations were also involved in attracting the government and its officials to adopt PPP.

#### **5.4.2 Initiation of PPP projects**

The efforts to involve private financing in the development of public infrastructure in this period began at the end of the 1980s, indicated by, among others, the decision to offer the Umbulan water project in East Java to the private sector. However, the project did not materialise despite a lengthy bidding and negotiation process involving some private companies including PT Bimantara Siti Wisesa, a company linked with Suharto's son, Bambang Trihatmodjo (Sumadi, 1993). Nevertheless, the government of Indonesia persevered in attempts to implement such schemes in other cities. One such effort was the

initiation of water projects in the city of Jakarta, the capital of the country. It is recorded that Jakarta's population in 1991 was almost seven million, only 45 % of whom were connected to piped water (Harsono, 2004). The quality of the connection was disappointing; often the water was only available in the taps at night and it was often dirty and undrinkable. Considering the necessity, in June 1995 Suharto called for a privatisation programme for water provision in Jakarta and requested the inclusion of his eldest son Sigit Harjojudanto in the arrangement.<sup>27</sup> Without any bidding, the government started negotiations with two private companies; the first one was Thames Water, a partner of Sigit's company PT Kekarpola Airindo, while the second was Suez's Lyonnaise des Eaux which had teamed up with Salim's group, the largest conglomerate in Indonesia famously connected with Suharto's family. The negotiations resulted in Jakarta being divided into two water zones; the western part was to be served by Salim's company and the eastern part was to be served by Sigit's. The 25-year concession contract was finally signed on 6 June 1997.

In this respect, The World Bank was reported to be supportive of the deal, consistent with its stand on promoting privatisation in developing countries. The contract said that during the first five years it would invest IDR 732 billion (or USD 318 million, at the exchange rate of IDR 2,300 to USD 1 at that time) (Harsono, 2004). Moreover, the project delivered some positive outcomes. For instance, it reduced the number of employees from 3000 to 2200 between 1998 and 2003, which brought the ratio of workers per 1000 water connections down from 7.72 to 4.71 (Harsono, 2004). This result might imply that PPP made the service more efficient, although it might also have been viewed by the public negatively since such a large number of lay-offs were still seen as a sensitive issue, particularly in a developing country with high unemployment such as Indonesia. Nevertheless, the projects resulted in an average price per litre of water in 2007 of IDR 7510 (USD 0.75), making it more expensive than in other cities in the neighbouring countries including Singapore (USD 0.55), Manila (USD 0.35), Bangkok (USD 0.29) and Kuala Lumpur (USD 0.22) (Indraswara, 2009).

Moreover, the involvement of the private sector in the development of toll roads in Indonesia started at almost the same time as that in the water sector. The toll road service itself was initiated in 1978 when the government built the Jagorawi line, connecting the capital, Jakarta, with its outskirts. The service was then 'privatised' when it was transferred to a newly established State-Owned Enterprise (SOE) called PT Jasa Marga. The involvement of a real

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<sup>27</sup> The information on Jakarta Water Project in this section is mostly obtained from Harsono (2004) unless stated otherwise.

private investor began in 1987 when a concession on the Cawang – Tanjung Priok section in Jakarta was given to PT Citra Marga Nusaphala Persada (CMNP), a company largely owned by Suharto's eldest daughter, Siti Hardiyanti, commonly known as Tutut. Prior to being granted the concession, CMNP had been a consortium comprising three SOEs and four private companies. The concession contract was signed between PT Jasa Marga on behalf of the government and CMNP. The concession was given based on the Presidential Decree number 25/1987. The Decree mainly stated that some of the tasks of toll road provision were to be transferred to the private sector to improve the management of toll roads, and it emphasised that private sector participation in the toll road might cover the construction, operation and maintenance. However, the Decree did not provide details of risk-sharing arrangements and other aspects of PPP. Accordingly, although this section of toll road was said to have the highest amount of traffic in Indonesia, it created controversy since the risk-sharing was not well allocated due to the opaque process of risk allocation and unclear mechanism (Parikesit *et al.*, 2008). In addition, following the deal on this first PPP toll road project, the Indonesian government started to offer other sections of toll roads to the private sector, which by 1995 amounted to about 19 links totalling around 700 kms (Van der Ven, 1996). This package of offers was criticised for its feasibility since the links were not parts of the existing integrated road master plan, the economic and financial viabilities were not confirmed and the risks associated with public as well as private investment were not well allocated (Van der Ven, 1996).

Furthermore, the initiation to involve the private sector in the power sector came later, signified by the approval of President Suharto in April 1990 of a plan to build a power plant complex in the area of Paiton, East Java. It was planned that the complex would be the location of two generating units of 600 megawatts each, eventually being developed to a total capacity of 4000 megawatts (Wells and Ahmed, 2007).<sup>28</sup> Soon after the announcement of the approval, the government received many expressions of interest from companies. Rather than allowing open and transparent bidding, the government chose to negotiate with selected proposals. The first proposal to be negotiated came from a consortium consisting of a US company, International Electric, Inc. and a local partner owned by Bambang Trihatmodjo, Suharto's second son. The negotiations were unsuccessful. Then came another proposal from another consortium involving two major US companies, namely Edison Mission Energy and

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<sup>28</sup> The information on Paiton Power Project in this section is mainly collected from Wells and Ahmed (2007) chapters 7 and 8 unless stated otherwise.

General Electric, Mitsui, a Japanese company, and Batu Hitam Perkasa, a local company tied to Titiek Prabowo, Suharto's second daughter. The brother of the Minister of Minerals and Energy, Agus Kartasasmita, also has shares in this local company. The opaque process of the efforts to involve private financing encouraged high levels of corruption since many companies had fought hard to find a way of entering the arrangement. It was also reported that the pressure from the US government in the deal with both consortia was highly instrumental and significantly influential, involving high-level officials, particularly those in the US Embassy in Jakarta. The World Bank, which has encouraged Indonesia and other developing countries to switch to private financing for electricity generation, surprisingly restrained itself from giving any support to the deal. Rather, it showed strong opposition to the deal, particularly due to the proposed high tariffs and risks borne by the government.

The government, however, seemed to ignore the opposition. The contract was eventually signed on 12 February 1994. The electricity price was agreed by the government and the private companies at \$ 8.56 cent per kWh, a price that was widely considered far too high compared to similar contracts in the neighbouring countries and also to previous electricity projects in Indonesia (Sudja, 2003). By comparison, the electricity produced by the state-owned PLN sold at USD 3.5 cents/kWh and that of Tanjung Jati B Power sold at USD 2.3 cents/kWh. Generally, PLN (the state electricity company, which was obliged to buy and dispatch the electricity) had to pay an electricity tariff 32 % higher than comparable tariffs in Indonesia (Sudja, 2003).

Overall, the observations on the initiations of a number of PPP projects in this period show one common feature: the cronyism and nepotism of Suharto's regime played an important part and was one of the main motivations to adopt PPP. Moreover, in the Suharto era, when accountability was one of the least frequently discussed issues, the public was given no opportunity to challenge or criticise the practice of involving personal interest in project procurement; therefore, the costs and benefits of these PPP projects have never been evaluated.

#### **5.4.3 Main rationales in adopting PPP: The government rhetoric**

With such a dominant motive and belief that PPP can bring new additional funding from the private sector to finance the public infrastructure development, the expectations of obtaining private money by adopting PPP have always been high. A statement by President Suharto in a conference about PPP in Jakarta in 1996 made it plain as follows:

“The development of basic infrastructure has so far been the responsibility of the government. With the increased demand for infrastructure, *the funds by the government are no longer sufficient*. Furthermore, the government also has to give a greater attention to development of the social sector, and make efforts for equitable distribution and poverty alleviation. *For this reason, the provision of various basic infrastructures by the private world is extremely important*. Investment for infrastructure to serve various development sectors and rural development, which has an adequately high level of growth, has enabled the attainment of high economic reliability. Thus, its management can be handed over to the private sector. As a general illustration, the need for infrastructure development in the next ten years will be estimated at around US\$ 200 billion, and *its sources will mostly be expected from private investment*.” (President Suharto’s keynote speech at The Ministerial Level International Conference on Infrastructure Development, Jakarta 2 September 1996; italics are the author’s)

The emphasis on the idea of filling the infrastructure-financing gap eventually became a pervasive idea among officials as it was consistently developed inside the government. The idea was echoed by other officials including the one reiterated by the Minister of Public Works:

“As we all know, the investment needs for infrastructure development in Indonesia for the next decade are estimated to be reaching US\$200 billion. To collect such huge funding, it is impossible to rely on the government role so that the private role is very much needed.” (Radinal Mochtar, the then minister of public works in an opening remark to the book written by Rahardi Ramelan (1997))

Nevertheless, there were other perspectives on the benefits of adopting PPP apart from filling the infrastructure-financing gap. For instance, one minister stated:

“I want to indicate once more the commitment of the Indonesian government to push ahead in privatizing infrastructure service provision. This is not a theoretical undertaking on our part. It reflects our understanding that the private sector, with proper rules and regulations, can provide these services *better, cheaper and faster*, and even more importantly we can use the public resources freed up to address areas of need elsewhere.” (An introductory remark by Ginandjar Kartasmita, Minister of National Development Planning at The Ministerial Level International Conference on Infrastructure Development, Jakarta 2 September 1996; italics are the author’s)

The view that PPP is motivated not only by budget constraints but also by other rationales is also raised by other officials in the government, as stated by one official:

“Although the involvement of private sector in the development of infrastructure is triggered by the budget constraint, the positive impacts of this scheme are not limited only to that issue. Partnership with private sector, if well managed, can open opportunities for society to enjoy private expertise in providing better services with cheaper prices. Private sector can be expected to improve the efficiency of resource utilisation, the welfare of the employees working in the infrastructure sector and so on.” (Rahardi Ramelan, Vice Minister of National Development Planning Agency, in the introduction to his book; Ramelan (1997).

An examination of the government’s rhetoric in introducing PPP shows that the lack of government budget for financing the development of public infrastructure is still a dominant



motivation of the government and among the officials in adopting PPP. However, it also suggests that there were other motivations such as finding better services and more efficient prices for the public. The interaction of these different rationales is discussed later in another chapter.

#### **5.4.4 Development of regulations and frameworks of PPP**

Before the PPP projects were initiated, the Indonesian government had actually issued a number of regulations allowing the participation of the private sector in infrastructure development. These included the regulation of the Ministry of Home Affairs number 4/1990 that allowed local government-owned companies to arrange partnerships with the private sector, and the regulation of the Ministry of Energy and Minerals number 2/1993 and number 3/1993, which permitted the use of BOT and BOO schemes in power generation. It can be said that most regulations that allowed PPP or private financing were only intended for specific sectors.

Moreover, the government made an important step in developing the PPP policy by issuing Presidential Decree number 7/1998, which is regarded as the first cross-sector policy framework provided to implement PPP in Indonesia. The Decree was entitled “The partnerships between the government and private companies in the development and/or management of infrastructure”. The issuance of this regulation is often seen as a product of the IMF’s request to Indonesia following the financial assistance given to Indonesia to help it recover from the financial crises. However, this notion was challenged by another view that sees the issuance of Presidential Decree number 7/1998 as a product of a long internal process in the government to formulate such a framework. According to this view, the Decree number 7/1998 was a culmination of that lengthy process and an achievement of the previous extensive efforts. Nevertheless, both views may be equally correct as the Decree can be regarded as a product of the previous attempts by government, but somehow the external pressures from the international agencies, particularly the IMF, provided the momentum for the Decree to be issued.

The Decree addressed the types of infrastructure that can be procured through PPP, the principles of PPP procurement, and the processes for delivering PPP projects. However, the Decree did not sufficiently define and provide details on parties involved in the arrangement, the responsibilities and risks in the projects, and criteria for selecting PPP projects.

Nevertheless, the Decree received some positive acknowledgements from many parties, including from the USAID team who praised it as

“... a potentially far-reaching Presidential decree (Keppres) which, if implemented effectively, should radically alter the traditional process of procuring infrastructure services from the private sector. Keppres 7 of 1998 requires transparent, fair and open competition to secure PPPs, and laid out step-by-step procedures, including time frames for most activities, for accomplishing this.” (PURSE, 1999 p. 10)

Moreover, there are some interesting points that can be learnt from Decree number 7/1998. Firstly, in its opening clause, the Decree number 7/1998 stressed the consideration that the government needed to implement PPP because of “limited capacity of government budget”, showing that the main rationale for implementing PPP was to obtain the additional funding from the private sector. Secondly, the Decree also specified the “principles” of implementing PPP which include terms such as “efficiency and quality improvement”, “providing greater benefits to society” and, most importantly, that “the selection of private parties is conducted through open and transparent bidding process”. The latter statement is seen as an important clause in the Decree, particularly considering that almost all previous PPP projects were procured without such transparent and competitive bidding processes. The Decree number 7/1998 also appeared to be “planning-oriented” since many important tasks were assigned to the National Development Planning Agency (Bappenas) including arranging the plans and setting priorities for PPP projects (Article 4). Bappenas was also in charge of monitoring and evaluating the PPP policy (Article 13) as well as setting the implementing guidelines for operating the PPP policy (Article 14). Yet, not many PPP projects could be produced under the Decree number 7/1998 since the governments after the Suharto era were mostly occupied by the recovery from the financial crises, including renegotiations of some Independent Power Producers (IPPs).

Overall, the Decree provided a significant foundation for the implementation of PPP in Indonesia. It was the first official cross-sector PPP framework for granting opportunities to the private sector to become involved in public infrastructure development.

## **5.5 The crisis and post-crisis era (1998 to 2004)**

In July 1997, a sudden financial and economic crisis hit Indonesia and some other countries in East Asia. Indonesia is commonly identified as suffering severely from the crisis compared to other countries such as South Korea, Malaysia or Thailand. As a result of the crisis, economic growth plummeted from 7.6 % in 1996 to 4.7 in 1997 and then fell sharply to minus 13 % in 1998, a decline considered the worst since the Great Depression in the 1930s

(Bresnan, 1999). The rupiah, the Indonesian currency, had depreciated by over 80 % by late January 1998, while the index of the Indonesian stock exchange plunged by roughly 50 % (Dick, 2002).

The crisis had significant impacts on the infrastructure projects, particularly those that had just been initiated. It is suggested that the crisis placed the projects in difficulty through several channels. Firstly, due to the crisis the infrastructure demand fell sharply as the real purchasing power of the service users decreased. Secondly, some projects were financed using foreign currency while almost all revenues were received in rupiahs; hence, the depreciation of the rupiah hit the projects' finance significantly. Thirdly, while most projects were procured through opaque processes, the financial structure of the projects was not well structured and risks were not appropriately shared, leaving the projects prone to financial difficulties. Moreover, to respond to the crisis, the government declared Presidential Decree number 39/1997 stating that some infrastructure projects would be reviewed or postponed while others would be continued. Among 241 projects, some are identified as toll roads and electricity generations including PPP projects involving Suharto's family.

Nevertheless, since the economy did not stop deteriorating under the impact of the crisis, the government searched for other possible sources of support including asking for financial assistance from the IMF. Indonesia eventually received a package of \$43 billion in standby loans from the IMF together with the World Bank and ADB plus contingency loans from other countries. In return, the government promised to implement a package of reform programmes, particularly in relation to reforms in the financial sector and macroeconomic policies. The commitments were stated in the "Memorandum of Economic and Financial Policies" (MEFP) attached in the Letter of Intent to the IMF dated 31 October 1997, in which several policy pledges were detailed. While acknowledging that postponing and rescheduling infrastructure projects was good for improving the government budget, the memorandum also stressed the commitment of the government to 'promote competition by accelerating privatization and expanding the role of the private sector in the provision of infrastructure' (point 42 of the MEFP).

According to a respondent interviewed by the researcher, who was involved in providing recommendations to the government during the crisis, the IMF was actually concerned about Suharto's policies of squandering PPP contracts on his family and cronies, which eventually

posed risks to the government's fiscal sustainability.<sup>29</sup> Therefore, the IMF requested that such attempts be halted by issuance of a regulation that would prevent Suharto from granting more projects without an open and competitive process. In this regard, the government issued Presidential Decree number 7/1998 concerning the PPP framework, which, in the words of the above respondent, was actually "making it impossible to do PPP".

After all, the economic crisis continued and pushed the President Suharto to step down in May 1998. Baharuddin Habibie, the vice-president, took over the presidency and continued to lead the government until 1999. The following government was led by President Abdurrahman Wahid from 1999 to 2001 and continued by President Megawati Sukarnoputri until 2004. Marked as the period of recovery and the damping down of the crisis of 1997, this era witnessed the decline of PPP implementation in terms of numbers of new projects signed and amount of capital invested. However, some notable progress in PPP implementation can still be acknowledged. In 2001 the government issued Presidential Decree number 81/2001 on the establishment of the Committee for Policies on Accelerating Infrastructure Development, generally known as KKPPI (*Komite Kebijakan Percepatan Pembangunan Infrastruktur*). The Decree not only announced the establishment of a committee but also substantially annulled the Presidential Decree numbers 7/1998 and 73/1998 as the PPP framework and assigned the Committee to formulate a new one. The Presidential Decree also set up an institutional arrangement for PPP implementation led by the coordinating Ministry of Economic Affairs.

Moreover, in 2002 a law on electricity was passed, which substantially encouraged the level of involvement by the private sector in electricity provision. The Law number 20/2002 also encouraged the 'unbundling' of the electricity service to allow higher participation by private companies in the electricity business. However, not long after the implementation, the Law was subsequently challenged by several interest groups and brought to the Constitutional Court on the ground that the issues of privatising and unbundling the service were against the Constitution (Butt and Lindsey, 2008). Article 33 of the Constitution states that "branches of production which are important for the State and which affect the life of most people shall be controlled by the State". It was understood by the challengers that the privatisation of the electricity services suggested the removal of State control (Butt and Lindsey, 2008). In fact, the effort to challenge the new electricity law probably marked the first official public

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<sup>29</sup> Interview with Petrus Bujono (a pseudonym, see Appendix 1). The pseudonyms are all Indonesian male names to preserve the anonymity of gender and nationality.

debates on the involvement of the private sector in infrastructure. This development, again, shows that the introduction of greater private sector involvement in the provision of public services in Indonesia is often challenged by the ideological rhetoric that puts nationalist sentiments above economic rationalism, as seen before in the early period of independence.

Overall, although it is found that this era of transition did not witness significant progress in PPP implementation, some institutional and regulatory framework developments can be identified. Very similar to the chaotic situation in the post-independence period, this period of transition was mostly marked by political struggle and regional conflicts. Most government efforts were dedicated to restoring public trust, particularly by bringing Suharto's corruption before the courts. The economic policy was also mostly dedicated to achieving a recovery from the crisis.

## **5.6 Summary and identification of issues for further studies**

This chapter has provided an exploration of the history of private financing in public infrastructure development since the colonial era, followed by a description of the early implementation of PPP in the Suharto period. These two events are seen as the main precursors to the current development of PPP. The investigation shows that involving the private sector in financing public infrastructure has been practised since the colonial era. The practice also engendered debates and disputes on whether private financing was the best solution for providing services to the public. The observation of the decline of private financing in the post-independence period shows how non-economic factors such as politics and ideologies were also involved in ending private financing. The next chapters will further investigate how the experience in the previous era contributes to shape the development of PPP and whether such political and ideological challenges still persist.

Meanwhile, the exploration of the events and situations around the arrival of PPP also identifies a number of issues that might be seen as rationales and motivations for the government to adopt PPP. The intentions of using PPP to fill the infrastructure-financing gaps, to maintain access to donor funding, to become involved in the international community, and to obtain personal benefits from the arrangement are among the issues that may motivate the government and its officials to adopt PPP. Further studies may find it interesting to explore how these rationales are developing in the current era and how they may change over time.

Furthermore, the examination of the channel through which the PPP idea was brought to Indonesia finds that the external agencies, particularly the World Bank and the ADB, play a substantially significant role in the introduction of the idea. The number of agencies, programmes and projects focused on PPP suggests the important contribution of the support of these external agencies in bringing PPP to Indonesia. The next chapters will explore how this role continues and the dynamics involved in the process of transmission.

In addition, the following chapters will also look at the potential development of issues that have been identified in this chapter, such as the issues of regulations, project initiation and institutional setting.

## **Chapter 6 Development of PPP policy in Indonesia**

### **6.1 Introduction**

Following on from the previous chapter, the development of PPP in the current era is described and explored in this chapter. The objective of elaborating the development of PPP policy in Indonesia is to provide the description of the historical context of the implementation. Similar to the previous chapter, Table 5.1 describing Indonesia's PPP development that elaborates a number of viewpoints in seeing Indonesia's PPP implementation from a number of different era is also used in this chapter as a framework to explore the issues related to the development of the policy.

Moreover, in this chapter the attention is focused on the era after 2005 which is marked by the ascendance of a new government under President Yudhoyono and a later development after 2009 in which the President Yudhoyono's government entered the second term.

### **6.2 The reawakening of PPP (2004 to 2009)**

As described in the previous chapter, the fall of Suharto's regime practically ended the rise of PPP policy that began in the early 1990s. The financial crisis, the decline of Suharto's influence, and the political turmoil jointly interrupted the development of the projects as well as prevented the rebuilding of the policy. Only when the economy and political conditions recovered and stabilised in the Yudhoyono era did PPP begin to emerge again.

#### **6.2.1 Government rationales to revive PPP**

President Yudhoyono formed a government after winning the election in 2004.<sup>30</sup> He had made clear his concerns on infrastructure development in the visions he delivered during his presidential campaign, indicating that public infrastructure development was one of his main priorities (Yudhoyono, 2004). Soon after his inauguration in October 2004, he organised an international high-level event called the Indonesia Infrastructure Summit held in January 2005. The event was attended by more than 500 participants and delegates from different backgrounds ranging from global private investors and financiers to key industries (Bappenas and World Bank, 2010). Several ministers charged with infrastructure development delivered their visions and programmes, while multilateral agencies such as the World Bank and ADB as well as financial institutions also presented their views about Indonesia. The president opened the summit with a keynote speech as follows:

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<sup>30</sup> President Yudhoyono was elected under the first direct general election in 2004 and built his cabinet subsequently called the United Indonesia Cabinet. For a discussion of the election, see Wanandi (2004)

“My economic ministers have calculated that the government’s targets for economic growth, unemployment and poverty can be achieved if the investments ratio to the Gross Domestic Product (GDP) is increased from 20.5% in 2004 to 28.4% in 2009. We have also calculated that for Indonesia to reach a 6-8% medium-term target, we will need additional infrastructure investments of US\$ 145 billion between 2005 and 2009. That is almost the sum of our annual GDP. For our part, the Indonesian Government has committed to spending 17% of these additional needs from our own budget, and 21% from domestic bank. What about the rest of the 62%? Well, we hope that this gap can be filled by international and domestic private sectors. Here is where you come in.” (President Yudhoyono’s keynote speech in the Indonesia Infrastructure Summit 2005, Jakarta, 17 January 2005).

The strong intention of the government was merged with the high expectation from the private sectors and international agencies in a declaration titled “Declaration of Action on Developing infrastructure and Public Private Partnerships”, also known as the ‘Jakarta Declaration’, signed at the end of the summit.<sup>31</sup> As a further way of conveying the good signals to the market, the government offered a batch of 91 PPP projects categorised as commercially viable, with a total value of over USD 22,500 million, to the private sector. The very ambitious tone was raised by the Coordinating Minister of Economic Affairs as the lead organiser of the summit, stating that the projects would be tendered soon in the following March and the next larger batch of projects would be offered in November 2005.<sup>32</sup>

However, it was immediately found that such targets could not be easily achieved. The government’s offerings did not receive a good response from the private sector. For example, Wibowo (2006b) recorded that, by December 2005, among the planned toll road projects offered to the private sector, only one project had reached the construction stage. Moreover, Aswicahyono and Friawan (2008) noted that, among such a huge number of projects, only six winning bidders had been announced by the end of 2006. In view of such difficulties in delivering PPP projects, in February 2006 the government issued an infrastructure policy package announced by the Coordinating Ministry of Economic Affairs. This package was intended to provide a comprehensive policy agenda for the acceleration of infrastructure provision involving several units of the government as well as the regional governments.

It is shown that the revitalisation of PPP in this era, as suggested by the president, is mostly motivated by the need to fill the infrastructure-financing gap. Accordingly, the expectation is set very high based on the identification of required new infrastructure services compared to

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<sup>31</sup> Suara Merdeka Online, “Meneg BUMN Tawarkan Proyek Rp 306 triliun (*Ministry of SOE Offers Projects Worth Rp 306 Trillion*), 19 January 2005 available at <http://www.suaramerdeka.com/harian/0501/19/eko1.htm>

<sup>32</sup> Suara Pembaruan Online, “Indonesia Infrastructure Summit Bisa Jadi Bumerang” (*Indonesia Infrastructure Summit Can be a Boomerang*), 22 January 2005, available at <http://www.suarapembaruan.com/News/2005/01/22/Ekonomi/eko07.htm>



the financial capacity of the government. Nevertheless, such high expectation does not seem to be accompanied by sufficient understanding of and attention to other PPP elements such as better project preparation and bidding process to make PPP policy more credible in the eyes of the private sector. As a result, most PPP programmes do not receive a good response from the private sector.

### **6.2.2 Development of PPP regulations**

The commitment of the new government to promoting PPP is also shown by the introduction of several new policies that are detailed in the new regulations. In the first few months after the relaunching of PPP commitment, the government issued some new sector regulations including the government regulation number 3/2005 on electricity, the government regulation number 16/2005 on water provision and the regulation number 15/2005 on toll roads. These regulations were introduced to allow higher levels of private involvement in the provision of public infrastructure in the respective sectors.

Moreover, the government renewed the institutional arrangement supporting PPP implementation by restructuring the Inter-ministerial Coordination Committee on Policy for the Acceleration of Infrastructure Provision (KKPPI) using the issuance of government regulation number 42/2005. To tackle the problem of land acquisition, which was identified as one of the main obstacles disrupting PPP implementation, the government responded by issuing Presidential Regulation number 36/2005.

The government also started to realise that government financial guarantees are substantial in attracting the private sector to PPP projects since there are significant risks that must be borne by the government such as political and legal risks. Considering that issue, the greater involvement of the Ministry of Finance was thought to be necessary. On this ground, the Minister of Finance set up a committee specifically assigned to identify the risks in PPP projects and to prepare a formulation of government financial guarantees and other financial supports. The committee was established by the issuance of the Minister of Finance's Decree number 518/2005 on the establishment of the Committee on Risk Management for Infrastructure Provision (or KPRPI, which stands for *Komite Pengelolaan Risiko atas Penyediaan Infrastruktur*).

Nevertheless, the pinnacle of the government's efforts to develop new PPP regulations was the issuance of a new PPP framework replacing the previous Presidential Decree number 7/1998. The Presidential Regulation number 67/2005 was issued as a follow-up to the

commitment of the government to reinvent PPP policy as announced in the infrastructure summit in January 2005. Most activities in formulating this regulation were also funded and supported under the assistance of the World Bank and other international agencies which also contributed to the formulation of the previous PPP framework (World Bank, 2002; World Bank, 2009).

Moreover, it could be suggested that there are a number of themes that differentiate regulation number 67/2005 from its predecessor. Firstly, the rhetoric used as a main rationale to implement PPP in the new regulation was no longer about “the limited budget of the government”, but rather about “accelerating the infrastructure provision”.<sup>33</sup> Although both motives are rooted in the same idea of seeking additional funds from the private sector, the idea of acceleration put more emphasis on the expectation that PPP can provide a quick fix to solve infrastructure problems. Secondly, the regulation number 67/2005 marked a switch of institutional drive from Bappenas (National Development Agency) to sector ministries. In the new framework, the emphasis was placed on the sector ministries (such as the Ministry of Transport, the Ministry of Public Works and the Ministry of Energy) as they would be the parties who arrange the contracts with private partners (article 2). Thirdly, the new framework also started to introduce the issue of risk sharing (articles 16 and 17), which was disregarded in the previous framework. Risk management in PPP projects in Indonesia is an important matter particularly since there are risks in the projects that cannot be easily handled by private companies, such as political and sovereign risks. In this case, guarantees from the government are seen as important for attracting the private sectors’ interest in order that their expected returns might be secured. The Presidential Regulation number 67/2005 introduced this notion and assigned the Minister of Finance to manage the risks and provide government financial guarantees. Fourthly, the new framework added some other new issues including tariff setting (chapter 5), unsolicited projects (chapter 4), and business licensing (chapter 9). The business licensing issue, however, has become controversial since it was considered as one form of PPP but does not really involve significant risk sharing between private and public parties.

Although a number of issues had been incorporated into the framework number 67/2005, many PPP stakeholders, particularly the sector ministries and the private sector, still

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<sup>33</sup> As stated in the consideration clause point b, which says; “in order to accelerate infrastructure development, it is deemed necessary to take comprehensive measures to create an investment climate that promotes participation of business entities in the infrastructure provision on the basis of fair business principles”.

considered the framework incapable of tackling a number of issues interfering with PPP implementation. For instance, the electricity sector was unable to use the framework since the authority for contracting electricity provision was no longer assigned to the Minister of Energy but was given to PT. PLN (the state electricity company), whereas the PPP framework authorised the ministers (not the companies) to sign PPP contracts.

The introduction of such cross-sector PPP regulations is actually aimed at providing “a more robust legal and regulatory framework for Public-Private-Partnership”<sup>34</sup> that provides more clarity and certainty to the private sector regardless of the sector in which they are interested. However, what appeared in the implementation of these regulations were various conflicting issues among a number of sector regulations. Such a contradiction appeared, for example, in the case of the Jakarta Outer Ring Road (JORR) II toll road project.<sup>35</sup> JORR II is a package consisting of four toll road sections<sup>36</sup> with a total length of 61.94 kilometres and an investment of more than IDR 9 trillion. The Ministry of Public Works opened the bidding process, offering the project to the private sector as a PPP project; however, less than three bidders were identified, fewer than the number requested by Regulation number 67/2005. When the Ministry of Public Works submitted a request for a government financial guarantee for the project, the Ministry of Finance rejected the request as the project was considered non-compliant with Regulation number 67/2005, on which the government guarantee provision was based. Nevertheless, the Ministry of Public Works insisted that such procurement (with fewer than three bidders) be allowed according to their sector regulation (particularly the Government Regulation number 15/2005 on toll roads).

### **6.2.3 Institutional arrangement of PPP**

One of the PPP issues addressed by the new government in its new commitment to PPP was on improving the institutional arrangement of PPP. Soon after announcing its commitment to revitalise PPP in 2005, the government issued Presidential Regulation number 42/2005 on the Committee on Policy for the Acceleration of Infrastructure Provision (or KKPPI, which stands for *Komite Kebijakan Percepatan Pembangunan Infrastruktur*). One of KKPPI’s main tasks is to deal with the coordination of PPP implementation among the government units.

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<sup>34</sup> This refers to the statement made by President Yudhoyono described in the previous section.

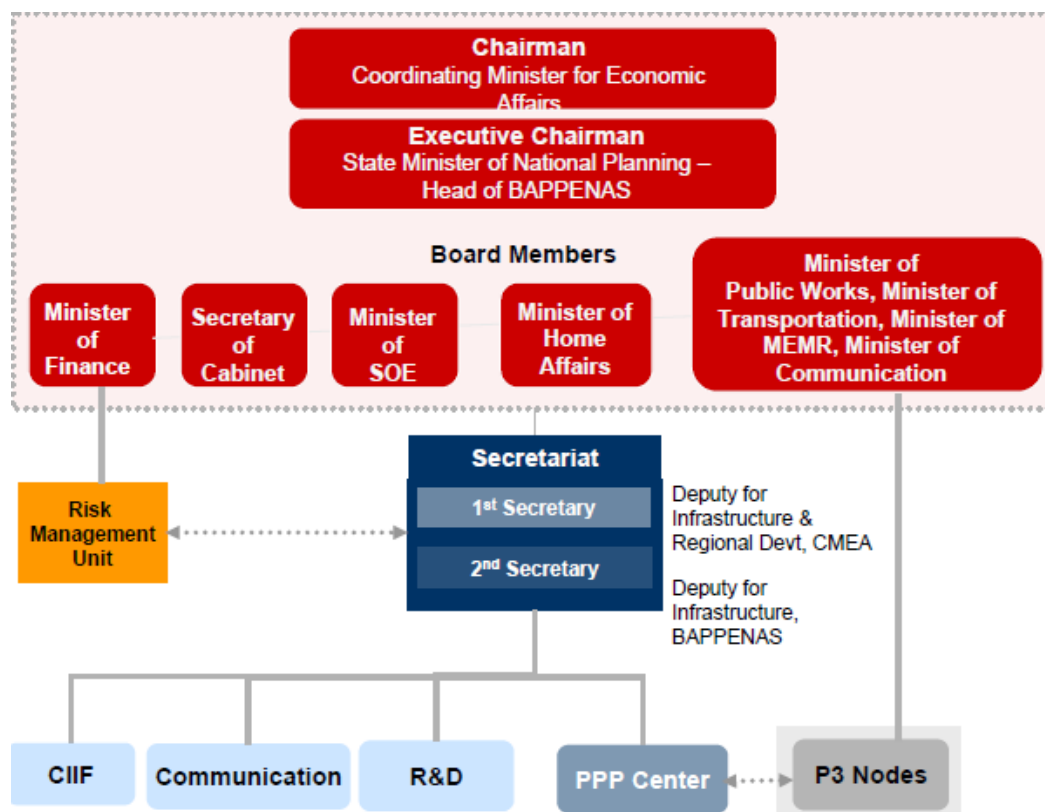
<sup>35</sup> The information about this case was collected mainly from three interviewees, Eko Irmawan (of the Ministry of Public Works) and Joko Pratomo and Agus Wahyudi (of the Ministry of Finance). The names are pseudonyms, as listed in the Appendix 1. The pseudonyms are all Indonesian male names to preserve the anonymity of gender and nationality.

<sup>36</sup> The sections are Jagorawi – Cikampek, Serpong – Cinere, Tangerang – Serpong, and Cengkareng – Tangerang.

KKPPI is led by the Coordinating Minister of Economic Affairs and comprises ministers from other departments.

However, as the policy develops, it is found that KKPPI has not played its role significantly as expected (Bappenas, 2013). The lack of coordination among the ministers and units in the KKPPI is considered one of the problems. Moreover, the other agencies continue to work with their functions and responsibilities in supporting PPP. For example, the Ministry of National Development Planning (Bappenas) claims to be in charge of coordinating Indonesia’s PPP programme, with which different sector ministries liaise to decide which projects should be procured as PPP (Bappenas, 2013). Meanwhile, according to Presidential Regulation number 67/2005, the Minister of Finance is responsible for managing the financial risks in PPP projects, including providing government financial supports such as guarantees or subsidies to projects, while the sector ministries and local governments act as project initiators and owners. The organisational structure of KKPPI is depicted in Figure 6.1.

Figure 6.1: Organisational structure of KKPPI



Source: Pascual (2007) FDI and PPP: Experience in Indonesia, presented in a seminar “Strengthening PSP in Infrastructure Provision ADB Institute, Tokyo, 19-22 November 2007.

In ensuring the attainment of efficiency and quality improvement of public services as recommended by the PPP framework stated in the Presidential Regulation number 67/2005, these sorts of arrangements raise a number of issues. Firstly, observing the PPP institutional arrangement as described above, it is interesting that the government has not included the supervisory or auditing agencies such as the Finance and Development Supervisory Agency (Badan Pengawasan Keuangan dan Pembangunan, BPKP)<sup>37</sup> and National Audit Board (Badan Pemeriksa Keuangan, BPK)<sup>38</sup> in the PPP arrangement. While there is a need for balancing and more independent views from such agencies, particularly in assuring the improvement of value for money of PPP projects, the roles of the supervisory agencies are mainly undermined in the arrangement.

Secondly, the involvement of a number of institutions in each stage of the PPP process often creates confusion, overlapping and disagreement among those government units. For example, in preparing PPP projects the contracting agencies (the sector ministries) make their assessment of the feasibility of the projects before they are submitted to Bappenas, while Bappenas themselves also examine the projects before they are placed on the PPP lists. In addition, the Ministry of Finance make its own assessment of any proposals and requests for government financial supports for PPP projects. These different assessments often use different methods and benchmarks, which potentially create disputes and disagreements among the government units.

Thirdly, the arrangement apparently puts the Ministry of Finance at the end of the process, as it is only required to assess the proposals for government guarantees. As detailed in the regulation of the Minister of National Planning (Head of Bappenas) number 3/2012 on PPP guidelines, the involvement of the Ministry of Finance starts in the transaction stage when it assesses the requests for government financial supports from potential PPP projects. Accordingly, the Ministry of Finance, which is generally responsible for managing state budgets, makes only a very limited contribution to the planning and preparation stage. Such an issue may be critical in ensuring the economic and financial viability of potential PPP projects.

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<sup>37</sup> Information about BPKP can be obtained at <http://www.bpkp.go.id/>

<sup>38</sup> Information about BPK can be obtained at <http://www.bpk.go.id/>

#### **6.2.4 PPP projects and project lists**

Arranging planned PPP projects into lists has become a tradition of PPP policy in Indonesia under the Yudhoyono era. It is understood that the lists are intended to provide information for potential private sector investors about the opportunities offered by PPP projects available for them to participate in; in the words of the Minister of Planning, they are “the presentation of PPP opportunities in Indonesia to the world” (Bappenas, 2013 p. iii).

The first list provided by the government in relation to PPP was announced in the Indonesia Infrastructure Summit 2005, in which 91 projects were offered with a total value of USD 22,470 million (Bappenas and World Bank, 2010). As described previously, the offer received little interest from the private sector and not many projects could be delivered. The second project list was issued by the government during the Indonesia Infrastructure Conference and Exhibition 2006 (World Bank, 2009). However, having probably learnt from the unsuccessful experience of the first summit, the government was now more cautious in making such lists of potential projects. It now split the list into two types of offering. Firstly, there was a list of 10 PPP projects, which is called ‘PPP model projects’ worth more than USD 4,000 million (see Table 6.1 for details). Secondly, in addition to those model projects, the government announced another list of potential projects consisting of 101 projects worth more than USD 15,000 million. In total, there were 111 projects valued at USD 19,800 million (Tan, 2011).

However, even though the number of projects had been simplified to only ten, the outcomes were still unsatisfactory. Among the ten projects, only Tangerang Water Project reached financial closure, and it was not even compliant with the existing PPP regulation (World Bank, 2009). This project was considered a “non-compliant project” since the procurement of this project did not follow the PPP guidelines as stated in the regulation number 67/2005; instead, it followed its own sector regulation. Accordingly, the project could not be granted a government financial guarantee since the procurement did not involve at least three potential bidders and proceeded with only a single bidder followed by a negotiation. The contract of the Tangerang Water Project was eventually signed between the local government of Tangerang and PT. Aetra, an SPV company majority-owned by Acuatico, a Singapore-based water company, and Capitalinc. The project was expected to bring an IDR 520 billion investment to deliver around 72,000 water connections in Tangerang region serving almost

350,000 people<sup>39</sup>. Problems discovered in the remaining projects include the marginal financial viability of some proposed projects (such as Medan-Kualanamu Toll Road project), lack of clarity on inputs supply (in the case of Pasuruan project) and the dire need for direct government financial contribution (in the case of Solo – Kertosono toll road) (Sudjito, 2007).

Table 6.1: 10 model PPP projects

No	Project name	Estimated Investment Costs (USD million)	Contracting Agency	Financial arrangement
1	Central Java Coal Fired Power Plant 2x600 MW	1200	PLN	A contract for design, build and finance under 30-year Power Purchase Agreement (PPA). The plant is to be transferred to PLN upon completion. Financial guarantees are provided by the Ministry of Finance through the IIGF. <sup>50</sup>
2	Pasuruan Combined Cycle Power Plant 1x500 MW	275	PLN	Information not available
3	Medan-Kuala Namu Toll Road 60 kms	142	Ministry of Public Works	Design, Construction, Operation and Maintenance. Government supports are provided in the form of land acquisition and part of construction. <sup>51</sup>
4	Solo – Kertosono Toll Road 165 kms	928	Ministry of Public Works	BOT with the government contributing to some parts of construction.
5	Margagiri – Ketapang Ferry Terminal 0.9 million Vehicles	97	Ministry of Transports	Information not available
6	Teluk Lamong Seaport (Tanjung Perak Port Expansion). 1.9 million TEUs/year	275	Ministry of Transports	Many potential arrangements are formulated but eventually the project is acquired by an SOE, PT Pelindo III. <sup>52</sup>
7	Bandung Water Supply Project 450 litres/second	26	Local Government of Bandung	BOT with the government providing land. <sup>53</sup>
8	Dumai Water Supply Project 500 litres/second	44	Local Government of Dumai	Information not available
9	Tangerang Water Supply Project 550 litres/second	37	Local Government of Tangerang	Build Operate Transfer (BOT) for 25 years. <sup>54</sup>
10	Palapa Ring Telecommunications Project 7 rings of fibre optic network backbone totalling 30,000 km	1500	Ministry of Telecommunication and Information	A number of schemes are contemplated, ranging from joint-investment, capacity lease to user rights of networks. <sup>55</sup>

Source: World Bank (World Bank, 2012a)

<sup>39</sup> Information about this project was obtained from the company's website at <http://www.aat.co.id/2-content-Latar+Belakang+.html>

Several problems could be suggested to be the main challenges in PPP implementation during this period. Among others, the problem of land acquisition for infrastructure projects is widely seen as one of the most challenging issues. In fact, the problem of land acquisition has put a number of planned PPP projects on hold, particularly those in the toll road sector where few contracts have been actually signed. These projects cannot be completed mostly because the land in all or parts of the sections cannot be acquired and cleared by the government (Indonesian Toll Road Authority, 2011). The toll road projects listed in Table 6.2 are among those projects that have been delayed partly due to land acquisition problems.

Table 6.2: Selected uncompleted toll road PPP projects

No.	Toll Road	Length (km)	Investment Cost (Rp billion)	Investor	Contract signing
1.	Surabaya – Mojokerto	36.27	3,379	PT Marga Nujuyasumo Agung	06 April 2006
2.	Bogor Ring Road Section II & III	7.15	983	PT Marga Sarana Jabar	29 May 2006
3.	Cinere – Jagorawi (Cimanggis)	14.64	2,621	PT Translingkar Kita Jaya	30 June 2006
4.	Kertosono – Mojokerto	40.50	3,480	PT Marga Harijaya Infrastruktur	29 May 2006
5.	Semarang – Solo	72.64	8,144	PT Trans Marga Jateng	15 December 2006
6.	Gempol – Pasuruan	34.15	2,769	PT Trans Marga Jatim Pasuruan	29 May 2006
7.	Gempol Pandaan	13.61	1,167	PT Margabumi Adhikarya	19 Dec 2006
8.	Depok – Antasari	21.54	3,000	PT Citra Waspphutowa	29 May 2006
9.	Bekasi – Cawang – Kampung Melayu	21.04	7,581	PT Kresna Kusuma Dyandra Marga	22 Feb 2007
10.	Cikampek – Palimanan	116.75	12,563	PT Lintas Marga Sedaya	21 Jul 2006

Source: Compiled from BPJT (Indonesian Toll Road Authority) (2011)

Another problem assumed to be constantly associated with PPP in Indonesia but nonetheless unlikely to be revealed by official documents is the practice of corruption in the process of PPP implementation. As identified in the previous chapter, several of the first PPP projects initiated in Suharto's era indicate that PPP projects were mainly procured with the intention of granting the concessions to Suharto's family and cronies. With the fall of Suharto in 1998, one might expect such practices to have ceased as Suharto's power had been dismantled. However, the observation of some PPP projects developed after the fall of Suharto shows that the practice of corruption associated with PPP procurement is still in evidence. For example, in the toll road sector, Davidson (2010) provides detailed accounts of how the legacy of



corruption, collusion and nepotism in the Suharto era has been brought into the current PPP procurement. Observation of two cases of PPP toll roads in West Java suggests that the contracts and concessions of PPP apparently remain highly associated with high-profile officials in the government. Davidson (2010) identifies that the contract for the Cikampek – Palimanan toll road was acquired by a consortium involving PT Bukaka Teknik Utama, a company largely owned by the then vice-president Jusuf Kalla. The contracts for the sections in this toll road were initially granted to Suharto’s cronies in 1996, but after Suharto’s collapse, the Asian financial crisis and a long process, it was eventually acquired by PT Lintas Marga Sedaya, a company in which Kalla’s Bukaka takes part. Moreover, Davidson (2010) also shows how Kalla uses his authority to influence the government’s decision on the project in a way that benefits his company.

Moreover, the name of the former vice-president, Jusuf Kalla, is also linked with Jakarta Monorail Project, a railway line connecting some business centre districts in Jakarta (Mietzner, 2007). The project was initiated under a PPP scheme in 2004 when the city government of Jakarta granted the project to PT Jakarta Monorail. Since then, PT Jakarta Monorail has had difficulties in finding business partners and financing, resulting in several changes of ownership. A company largely owned by the then vice-president Jusuf Kalla was also involved in the ownership of PT Jakarta Monorail. It is also reported that the vice-president used his authority to push the projects forward (Haryanto, 2010). In 2006 the government issued Presidential Regulation number 103/2006 which specifically provided government financial guarantees for the Jakarta Monorail project. The project needed a special regulation to secure government support particularly because it was not procured through the PPP principles and governance as stated in the Presidential Regulation number 67/2005.

#### **6.2.5 The unchanging role of external agencies as the agent of diffusion**

The role of the international agencies in the development of PPP in the Yudhoyono era in the 2000s is at least as important as it was in the introduction of PPP in the 1990s. From the start, the involvement of the international agencies in the awakening of PPP in 2005 can be identified from their roles in preparing the infrastructure summits and the issuance of new regulations. A number of assistance from these agencies are listed in Table 6.3.

Among the most influential assistance for PPP development in this era was a programme by the World Bank called PPITA (Private Provision of Infrastructure Technical Assistance).

PPITA was a loan-funded assistance initiated by both the World Bank and the government of Indonesia in 2003 and concluding in 2008, amounting to USD 17 million (World Bank, 2009). During this period, PPITA assisted the government in preparing the summits in 2005 and 2006, particularly in supporting the identification of projects offered in both forums (World Bank, 2009). PPITA also provided supports in the formulation of many regulations regarding PPP, most importantly the main framework of Presidential Regulation number 67/2005. To support the implementation of the PPP framework, PPITA also provided supports in developing the Operation Guideline Manuals (OGM) for PPP procurement. In relation to the establishment of institutional arrangements, PPITA helped in strengthening the KKPPI (Committee on Policy for the Acceleration of Infrastructure Provision) and setting up the PPP networks among the government agencies. PPITA also assisted the sector (the ministries) and local governments in formulating their sector-specific policies and legal and regulatory reforms regarding PPP. In disseminating PPP among the officials, PPITA provided assistance in developing curricula and training modules including workshops, conferences and short training courses in PPP.

Table 6.3: Selected assistance to Indonesia's PPP from the external agencies

Name of Provider/Donor	Name of Grant/Loan	Points/Accomplishment
World Bank	Private Provision of Infrastructure Technical Assistance (PPITA)	<ul style="list-style-type: none"> <li>- Assistance to formulation of Presidential regulation number 67/2005 and some key ministerial regulations, particularly in CMEA.</li> <li>- Assistance to formulation of Infrastructure Policy Package 2006.</li> <li>- Assistance to the establishment of PPP centre unit</li> <li>- Assistance to formulation of the criteria for prioritising and evaluating PPP projects</li> </ul>
ADB	Support for Infrastructure Development (SID)	<ul style="list-style-type: none"> <li>- Capacity building to KKPPI Secretariat in Bappenas,</li> <li>- Assistance to formulation of sector regulation</li> <li>- Project screening and preparation</li> <li>- Preparation of the Indonesia Infrastructure Conference and Exhibition (IICE 2006).</li> </ul>
Australian Aid (Ausaid) sponsored TA	Technical Assistance Management Facility for Economic Governance (TAMF)	<ul style="list-style-type: none"> <li>- Assistance to the Ministry of Finance in assessing fiscal cost and fiscal risk of PPP projects</li> </ul>

Source: author's compilation from different sources

It is reported that in the early years PPITA showed quite satisfactory progress, particularly in terms of delivering the targeted outputs. However, starting from 2008 the implementation of PPITA programmes slowed down due to certain developments on the government side

including the on-going PPP agenda debates within the government and the movement of the officials to other units (World Bank, 2009). In evaluating the performance of PPP in Indonesia, PPITA saw that its support for the development of PPP in Indonesia faced a number of challenges. The completion report suggests some “unidentified risks” found during the implementation of the programme, including “the complex nature of PPP reform” (World Bank, 2009 p. 13). It is observed that the government agencies involved in PPP implementation had limited skills in understanding PPP although they were required to take important decisions on those complex issues. Meanwhile, it is also admitted that the PPP framework designed for Indonesia was actually a mixture of other models from around the world and “had not been tried elsewhere”. In addition, the report identifies an inherent difficulty in establishing institutions in Indonesia (World Bank, 2009 p. 13).

Furthermore, in 2007 the World Bank offered an infrastructure-linked policy loan called Infrastructure Development Policy Loan (IDPL), which was linked to the government’s fulfilment of its pledges of an infrastructure reform agenda (World Bank, 2007). The pledges were focused on four main issues: central government infrastructure expenditures; sub-national government infrastructure spending; public-private partnerships; and cross-sector infrastructure support such as land acquisition, environment and procurement reform. The government’s efforts to formulate its own pledges and fulfil them in order to obtain the loan from IDPL were deemed influential and instrumental in the PPP implementation after 2007, particularly in setting up the new arrangement of PPP.

Overall, the issues arising from the assistance provided by the external agencies mostly remain the same as in the previous era. The focus of their attention is still on the formulation of policies and arrangement of institutions to make PPP work in Indonesia. Moreover, the external agencies might now learn from the previous experience of introducing PPP in Indonesia and try to fix the problems found in the implementation. For example, as part of the recommendations, the IDPL policy suggested that the government set an allocation of government budget to establish a guarantee fund, infrastructure fund and land acquisition fund. The World Bank saw that the unsuccessful project offering was partially caused by a shortage of long-term financing in the domestic financial market for infrastructure financing and the risk profiles of the Indonesian PPP projects related to political risks and land acquisition risk. To overcome the problems, the World Bank recommended the establishment

of an infrastructure guarantee fund, infrastructure fund and land fund (World Bank, 2007 p. 27).

Moreover, while the accounting issue in PPP is rarely covered in the recommendations by the external agencies to Indonesia, the IMF has specific concerns on that topic, particularly in relation to the issue of fiscal sustainability and transparency. In the case of Indonesia, in February 2007 the IMF provided a recommendation as requested by the government of Indonesia on formulating the statement of fiscal risks, including those related to PPP (IMF, 2007). Among the recommendations, the IMF partly suggested that the government of Indonesia needs to provide a statement on PPP as part of the statement of fiscal risks, particularly to disclose the exposures from PPP policy such as guarantees and other instruments. Accordingly, the government needs to provide sufficient information on its PPP programme, particularly on the description on the government's obligation and quantification of risks associated with PPP (IMF, 2007). Moreover, in managing the fiscal risks and sustainability in relation to the PPP programme, the government of Indonesia has actually been taking into account a number of recommendations provided by the IMF's publications, such as those authored by Hemming (2006) and Cebotari *et al.* (2009).

### **6.3 The consolidation of PPP policy (2009 to the current)**

President Yudhoyono comfortably continued his administration by winning the election for the second term in 2009. His administration was seen as successful in restoring the political and economic stability, although in some specific policies such as PPP implementation the outcome did not indicate significant progresses. As suggested in the previous section, the government continued to improve certain aspects of PPP implementation such as in terms of regulation, business case and institutional arrangements.

#### **6.3.1 Improvement of PPP regulations**

After learning some difficulties in implementing PPP policy, the government amended the Regulation number 67/2005 with the new Presidential Regulation number 13/2010, issued in January 2010. Essentially, the new framework revised a number of clauses in the previous regulation that were considered unworkable, such as the clause on the institutional issue to allow PT. PLN to become a contracting agency in the provision of electricity. The regulation number 13/2010 also provides more details on the issue of risk allocation and government financial supports to PPP projects, which partly allows the government to transfer the management of guarantee provision to a company.

Table 6.4: Development of issues in PPP regulations

	Regulations			
	7/1998	67/2005	13/2010	56/2011
<b>Main rationales</b>	Limited capacity of government budget to finance the development of public infrastructure	Acceleration of public infrastructure provision	Acceleration of public infrastructure provision	Acceleration of public infrastructure provision
<b>Risk allocation</b>	Not mentioned	Government can provide guarantees for PPP projects	Government financial support is divided into two: Fixed support and guarantee support	Government can provide financial support to improve the feasibility of projects
<b>Addition</b>	-	Risk allocation, unsolicited projects, business licensing	SOE can be a contracting agency.	Inclusion of foreign private companies as potential private partners
<b>Accountability and competition issues</b>	Accountability principles are mentioned but not well exercised particularly since the final decision on PPP projects is given to a team.	More accountable process with more transparent criteria. Competition is set high on the bidding process.	Improvement on the accountability of guarantee provisions. Level of competition in the bidding process is reduced (loosened).	No changes significantly affect the issues.

Source: author's own work

Yet, not long after the regulation number 13/2010 was released, the government launched the second amendment of regulation number 67/2010 by issuing the Presidential Regulation number 56/2011 in September 2011. The amended clauses allowed them to provide a “viability gap funding” or VGF, a scheme to improve the financial feasibility of a PPP project by the provision of a government financial contribution to the private companies’ investment. The development of issues in PPP regulatory frameworks is summarised in Table 6.4.

Furthermore, the exploration on the development of PPP regulation in Indonesia only finds limited links to the issue of specific accounting treatments for PPP. Nevertheless, Indonesia started its accounting reform in 2003 with the introduction of Law number 17/2003 on State Finance<sup>40</sup> that requires the government units at the national level to prepare their financial reports according to the accrual-based accounting system. Meanwhile, the Government Accounting Standard (*Standar Akuntansi Pemerintahan* or SAP) was subsequently issued in 2005<sup>41</sup>, providing detailed rules on the types of reports and accounts of the Indonesian

<sup>40</sup> Law number 17/2003 concerning the State Finance issued in 5 April 2003.

<sup>41</sup> The standard was issued under the Government Regulation number 24 year 2005 concerning the Government Accounting Standard dated 13 June 2005

government (Harun and Kamase, 2012). The standard was refined in 2010<sup>42</sup>, particularly to accommodate the accrual approach in the government accounting system.

With such progressive reforms, one might expect the discourse on the government accounting systems and its relation with the government policies to have emerged to a greater extent. While this is true in some cases, it is not the case for PPP as the discussions on supporting or challenging the policy have very few links to accounting issues. Nevertheless, some efforts can be mentioned in this regard, including the inclusion of PPP issues in the Government Financial Statement 2011, in which the government contingent liabilities in relation to PPP projects are stated in Notes to the Financial Statement. Moreover, the lack of attention to developing the government accounting framework for PPP may be related to the findings of Harun *et al.* (2013), who identifies a number of problems in introducing accrual accounting in Indonesia including problems related to human resources, consistency of policies and coordination.

### **6.3.2 Development of PPP projects**

Starting from 2009, the National Development Planning Agency (Bappenas) began to publish a set of PPP project lists commonly called the “PPP Book”, containing a number of PPP projects in the planning pipelines. In the PPP Book published since 2009 (Bappenas, 2009; Bappenas, 2010; Bappenas, 2011; Bappenas, 2012; Bappenas, 2013), the projects were classified into three groups: “projects ready for offer”, “priority projects” and “potential projects”. “Potential projects” are those that have completed preliminary studies, and “priority projects” are those that have identified risk allocations, transaction structure and government financial supports, while the “ready for offer projects” are those that have been granted government financial supports (Bappenas, 2013).

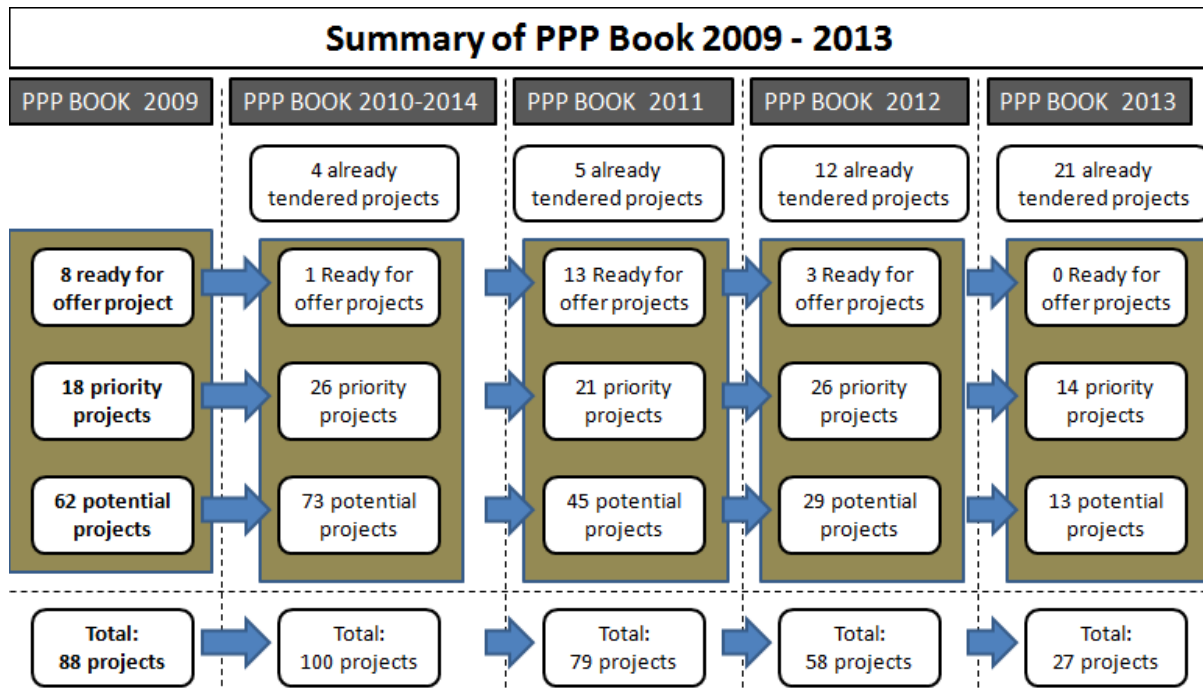
At this time, the criteria for projects to undergo the PPP process have been made much more transparent and comprehensible, as detailed in the Bappenas regulation number 3/2012 and 6/2012. The criteria cover the economic issues as well as technical issues that projects are required to fulfil in order to be eligible as potential, priority, prospective or ready-for-offer PPP projects. However, there are still some criticisms about the enforceability of such criteria, such as the inclusion of some projects that are suspected of being accepted without sufficient due diligence but, rather, are backed by intervention by political interests. According to some respondents interviewed for this research, the inclusion of a project called

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<sup>42</sup> The standard was issued under the Government Regulation number 71 year 2010 concerning the Government Accounting Standard dated 22 October 2010

“Strategic Infrastructure and Regional Development of Sunda Strait” in the PPP Book is mostly driven by such strong political backup rather than by fulfilment of the criteria.<sup>43</sup> In terms of the lists of PPP projects in the PPP Book from year to year, the dynamics of those groups are depicted in Figure 6.2.

Figure 6.2: List of PPP projects in the PPP Book 2009 - 2013



Source: Bappenas, 2013, Public Private Partnerships: Infrastructure projects plan in Indonesia 2013, Bappenas, Jakarta.

The observation of the number of projects and the amount of investment offered by the government in the PPP project list provides some interesting features. From Table 6.5, it can be suggested that, in terms of the number of projects, the highest number of PPP offers from the government is achieved in 2007 before it drops and rises again in 2010. After that, the offers keep declining until reaching around a third of the total number of projects initially offered in 2005. Additionally, when the observation is focused on the amount of PPP investment offered to the market as shown in Table 6.6, it is indicated that the government continues to increase the offers until 2011 before reducing them in 2012 and 2013. The figures on both the numbers and amount of PPP projects suggest the declining ambition of the government in attracting new investment in PPP.

<sup>43</sup> The information about this case was collected mainly from Aziz Fajar and Joko Pratomo, middle-level officials in the financing unit. The names are pseudonyms, as listed in the Appendix 1. The pseudonyms are all Indonesian male names to preserve the anonymity of gender and nationality.

Table 6.5: Number of Indonesia's planned PPP projects 2005-2013

Types of infrastructure	2005	2007	2009	2010	2011	2012	2013
Transport	10	29	25	30	19	14	13
Toll Roads	38	20	32	35	22	14	8
Electricity	12	36	8	5	6	6	1
Water	24	13	20	30	32	24	5
Others	7	13	2	0	0	0	0
<b>Total</b>	<b>91</b>	<b>111</b>	<b>87</b>	<b>100</b>	<b>79</b>	<b>58</b>	<b>27</b>

Source : KKPPPI documents and PPP Books (Bappenas, 2009, 2010, 2011, 2012, 2013).

Table 6.6: Investment of Indonesia's planned PPP projects 2005-2013 (USD million)

Types of infrastructure	2005	2007	2009	2010	2011	2012	2013
Transport	2,271	5,121	14,418	14,274.39	10,904.43	9,148.12	15,872.66
Toll Roads	9,428	5,340	15,248	26,852.90	35,702.10	33,147.53	29,647.48
Electricity	5,897	4,527	3,695	4,045.00	4,826.00	6,478.50	1,335.50
Water	386	509	659	2,126.64	1,975.57	2,431.82	482.34
Others	4,488	4,372	120	0	0	0	0
<b>Total</b>	<b>22,470</b>	<b>19,869</b>	<b>34,140</b>	<b>47,298.93</b>	<b>53,408.10</b>	<b>51,205.97</b>	<b>47,337.98</b>

Source : KKPPPI documents and PPP Books (Bappenas, 2009, 2010, 2011, 2012, 2013).

Meanwhile, the amount of investment required by the projects from time to time suggests a very similar pattern. During the period of 2005 to 2011 the government confidently expanded the offers to more than USD 53 billion in 2011 but this figure has declined ever since. Nevertheless, the reversing trend in the project lists into a decline to the current date probably also suggests that the Indonesian government is tending to be more realistic about relying on PPP for the development of public infrastructure.

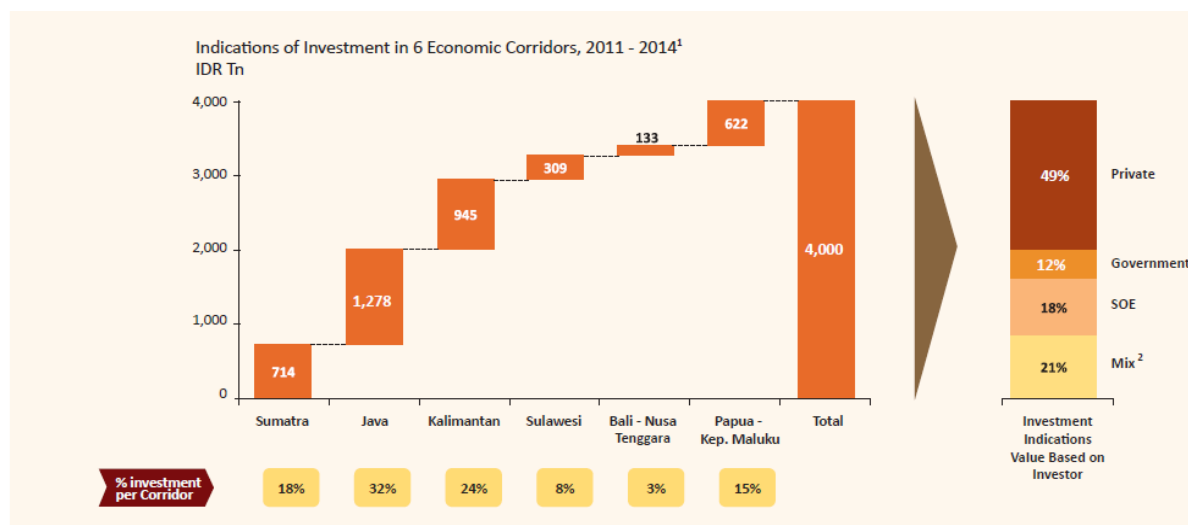
Moreover, in May 2011 the government launched another ambitious policy package on infrastructure called the Master Plan for the Acceleration and Expansion of Indonesia Economic Development 2011-2025, better known as MP3EI (*Masterplan Percepatan dan Perluasan Pembangunan Ekonomi Indonesia*) (CMEA and Bappenas, 2011).<sup>44</sup> MP3EI, which was declared by the issuance of the Presidential Regulation number 32/2011, was set up as a development platform to achieve the economic target, i.e. that “Indonesia will be able to place itself in the top ten advanced economies in the world by 2025 and world’s top six by

<sup>44</sup> Information on the MP3EI in this section was mostly obtained from the government publication on MP3EI (CMEA and Bappenas, 2011)



the year 2050”<sup>45</sup>. To achieve that ambition, the master plan identifies a number of potential infrastructure projects across Indonesia in different “corridors” (or islands). The effort includes an identification of “stakeholders” and financing of the respective projects, and how they are developed and financed by State-Owned Enterprises (SOEs), private sectors, the government or combinations of them (which means PPP or between SOEs and private sectors) as described in Figure 6.3 below. Despite all the efforts, so far there is no PPP projects can be delivered through the implementation of MP3EI.

Figure 6.3: Infrastructure investment in MP3EI



<sup>1</sup> Indicated investment for Phase 1, investment for Phase 2 and Phase 3 will be indicated later on

<sup>2</sup> Mix is indicated investment done by Government - Private (PPP) or done by SOE - Private

Source: (CMEA and Bappenas, 2011)

Moreover, although Indonesia politically is becoming more democratic and transparent, this period still witnessed the involvement of vested political interests in PPP procurement. The initiation of Sunda Strait Bridge project can be suggested as an example how the development of PPP projects in Indonesia is influenced by the interests of political figures. The Sunda Strait Bridge project was planned to connect two main islands, Java and Sumatra (Tampubolon, 2012). If built, the bridge will span the Sunda Strait over a distance of about 29 kilometres and will cost around USD 25 billion (Bappenas, 2013), an amount that is considered too high and of dubious economic and financial feasibility (Wijayanto, 2012). The idea of building a bridge connecting Java and Sumatra was first suggested in the ‘old order’ era in the 1960s as one of the Sukarno’s ambitious projects. However, in 2007 the plan was raised again by Tomy Winata, a tycoon owning several companies under the Artha Graha group (Ten Kate and Moestafa, 2013). Apart from being known for his wealth (he is listed

<sup>45</sup> Preface from the President of the Republic of Indonesia, page 9.

among the top 50 richest people in Indonesia), Tomy Winata is also believed to have close links with President Yudhoyono (Allard, 2011). Despite that allegation, the President issued a Presidential Regulation number 86/2011 to provide specific and designated support for the development of the strategic area and infrastructure of Sunda Strait, including the development of the bridge. The government asserts that the PPP framework as stipulated in the Presidential Regulation number 67/2005, which has been amended by the regulation number 13/2010, is “no longer sufficient for mega projects such as the Sunda Strait Bridge (JSS)” (CMEA and Bappenas, 2011 p. 70).

Nevertheless, despite all the problems faced by PPP implementation in Indonesia, a number of projects can be realised since PPP was initiated. In the toll road sector, a number of projects attracted significant amounts of investment, starting with the Cawang – Tanjung Priok line, the first toll road PPP project in Indonesia, which brought in more than IDR 1.2 trillion.<sup>46</sup> Until recently, as reported by the toll roads agency of the Ministry of Public Works, there have been a total of 14 toll roads operated by private companies covering 233.33 kilometres of lines.<sup>47</sup> Some further selected PPP toll road projects and their investments are listed in Table 6.7 below.

Table 6.7: Selected PPP toll roads in operation

No.	Toll Road and Length	Private companies	Starting Year	Investment (Rp billion)
1.	Tangerang – Merak (73 kms)	PT Marga Mandala Sakti	1987	240,000
2.	Wiyoto Wiyono and Harbour Road (27 kms)	PT Citra Marga Nusaphala Persada Tbk.	1990	1,439,000
3.	Surabaya – Gresik (20.7 kms)	PT Margabumi Matraraya	1993	183,238
4.	Ujung Pandang (6.05 kms)	PT. Bosowa Marga Nusantara	1998	76,356
5.	Serpong – Pondok Aren (7.25 kms)	PT Bintaro Serpong Damai	1999	249,105
6.	Kanci – Pejagan (35 kms)	PT Semesta Marga Raya	2010	443,797
7.	JORR W1 (9.85 kms)	PT Jakarta Lingkar Baratsatu	2010	601,489

Source: BPJT-Indonesia Toll Road Authority (2011), its official website (<http://bpjt.pu.go.id/>) and fieldwork data of Wibowo (2005).

<sup>46</sup> As reported in “Corruption suspected in toll road construction”, The Jakarta Post, 25 March 2000, <http://www.thejakartapost.com/news/2000/03/25/corruption-suspected-toll-road-construction.html>

<sup>47</sup> As listed in the Indonesian Toll Road Authority Ministry of Public Works, available at <http://bpjt.pu.go.id/konten/progress/beroperasi>

Moreover, PPP policy in the power sector also delivered some significant realisation of PPP projects. Among the first power generation projects involving private ownership was the Paiton project in East Java signed in 1994 that brought in approximately USD 2.5 billion of investment (Wells and Ahmed, 2007 p. 138). Since that initial project, the government of Indonesia through the State Electricity Company (PT PLN) has delivered a number of power generation projects operated and financed by private companies; some selected companies are listed in Table 6.8.

Table 6.8: Selected private power producers (IPPs)

No.	Company	Project	Fuel	Capacity (Megawatt)
1.	Chevron Geothermal Salak LTd and Dayabumi Salak Pratama Ltd	Salak, West Java	Geothermal	165
2.	PT Paiton Energy	Paiton I, East Java	Coal	1230
3.	PT Jawa Power	Paiton II, East Java	Coal	1220
4.	Pertamina, Chevron Drajat Ltd. Texaco Drajat Ltd and PT. Drajat Geothermal Ind.	Drajat, West Java	Geothermal	180
5.	Pertamina and Magma Nusantara Limited	Wayang Windu, West Java	Geothermal	220
6.	PT Sumber Segara Primadaya	Cilacap, Central Java	Coal	562
7.	PT Dizamatra Powerindo	Sebayak, North Sumatra	Geothermal	10
8.	PT Bajradaya Sentranusa	Asahan, North Sumatera	Hydro	180
	PT GH EMM Indonesia	Muara Enim, South Sumatera	Coal	227

Source: PT PLN Annual Report 2012 (PT PLN, 2012)

### 6.3.3 The institutional arrangement and the development of Indonesia's PPP business case

Furthermore, with the introduction of Presidential Regulation number 13/2010 as an amendment to some clauses in the Presidential Regulation number 67/2005, the provision of government financial guarantees can now be provided by institutions specifically assigned by the Minister of Finance to carry out that function (article 17 C). In addition, the new Presidential Regulation also allows the Minister of Finance to provide other financial supports for PPP projects in other forms such as tax incentives, land or construction. For these reasons, the government set up new institutions to support the implementation of the new policies, including the establishment of PT. Sarana Multi Infrastruktur (SMI) and PT. Indonesia Infrastructure Finance (IIF) as infrastructure funds and PT. Penjaminan Infrastruktur Indonesia (PII) as guarantee fund. SMI and IIF were set up to provide bridging funds for PPP infrastructure projects while PII was established to manage the provision of government financial guarantees for PPP projects. More recently, SMI was also assigned to

manage a government fund commonly known as Project Development Facility (PDF) to prepare PPP projects.<sup>48</sup> Moreover, as these institutions were established as separate companies (or as State-Owned Companies, or SOEs), the government was requested to put some funds from the state budget at the disposal of the companies as initial capital and later to add some others for additional capital. The government investments in PPP financial institutions are listed in Table 6.9 below.

Table 6.9: The government investment in PPP institutions

Year	Government Investment	PPP Institution	Amount (Rp billion)	Reference
2008	Initial capital	PT. SMI	4,000	Govt Regulation No. 75/2008, dated 16 December 2008
2009	Initial capital	PT. PII	1,000	Govt Regulation No. 35/2009, dated 5 May 2009
2010	Additional capital	PT. SMI	1,000	Govt Regulation No. 85/ 2010, dated 22 December 2010
2010	Additional capital	PT. PII	1,000	Govt Regulation No. 88/2010 dated 27 December 2010
2011	Additional capital	PT. PII	1,500	Govt Regulation No. 55/2011 dated 22 December 2011
2012	Additional capital	PT. PII	1,000	Govt Regulation No. 68/2012 dated 10 August 2012
2012	Additional capital	PT. SMI	2,000	Govt Regulation No. 104 of 2012, dated 14 December 2012
	Total (until mid 2013)		11,500	

It can also be stated that the establishment of these two institutions is mainly supported conceptually and financially by the assistance of the World Bank, ADB and other international financial institutions.<sup>49</sup> Additionally, the government set up some allocation of funds to finance the land acquisition for PPP projects. The land funds are provided through a number of different schemes such as land capping, a land revolving fund and a land acquisition fund (Jusron and Ircham, 2012).

Meanwhile, in 2011 the government considered another alternative for the development of the PPP business case by contemplating an arrangement that combines PPP structure and an

<sup>48</sup> The government assignment to SMI to manage the PDF is given by the Ministry of Finance as stipulated in the Regulation of the Minister of Finance number 126/2011. The Regulation actually specified that the PDF is granted to two potential PPP projects, namely the Sukarno Hatta Airport Railway and the Umbulan Water Project.

<sup>49</sup> The involvement of the World Bank in the establishment of IIGF can be seen in World Bank (2012a) and the information on the IIGF website at [www.iigf.co.id](http://www.iigf.co.id). Meanwhile, the establishment of IIF was contributed to financially by ADB, IFC (International Finance Corporation, a member of World Bank group) and DEG (Deutsche Investitions- und Entwicklungsgesellschaft mbH). The information on PT IIF is also available in its parent company website PT SMI available at <http://www.ptsmi.co.id/content/pt-indonesia-infrastructure-finance/>

Islamic Financing scheme for infrastructure projects in Indonesia. This idea was initiated by the Fiscal Policy Office in the Ministry of Finance through the establishment of a task force to study, formulate and provide recommendations to the government on the workability of such a scheme.<sup>50</sup> It is mentioned that the idea is motivated by the fact that the financing of conventional PPP still relies on the financial market driven by the volatility of interest rates. Therefore, it is expected that Islamic Financing principles will minimise the risks created by such volatility.<sup>51</sup> Among Islamic Finance principles is the prohibition of elements of *riba* (something similar but not equivalent to usury and interest) and *gharar* (unnecessary risks and uncertainty) in financing instruments (El-Gamal, 2006). Therefore, the Indonesian government is trying to find an alternative financing scheme that avoids the use of interest-bearing instruments such as debts. Nevertheless, the scheme recommended by the task force has not yet come to fruition.<sup>52</sup>

Overall, there have been a number of additions and revisions to the business case of PPP in Indonesia, reflecting some efforts to make PPP workable in Indonesia. The incorporation of instruments such as guarantee fund, viability gap fund, and land fund has made the business case significantly different from the initial case introduced in 1998 or 2005. Figure 6.4 depicts the current generic model of the PPP business case in Indonesia. It is a generic business case in that some PPP transactions in different infrastructure sectors may be structured differently according to the need and sector characteristics.

#### **6.4 Identification of issues in PPP diffusion, rationales and evolution for further investigation**

Chapters 5 and 6 provide a description of the implementation of PPP in Indonesia through a historical account of PPP from its initiation in the early 1990s to the current era. This description can be used to build a background for understanding the issues related to PPP implementation and to identify a number of important issues in the development of PPP in Indonesia.

Referring to the research questions formulated at the beginning, both chapters have aided enquiries into how PPP is brought to Indonesia, what motivations drive the adoption of PPP

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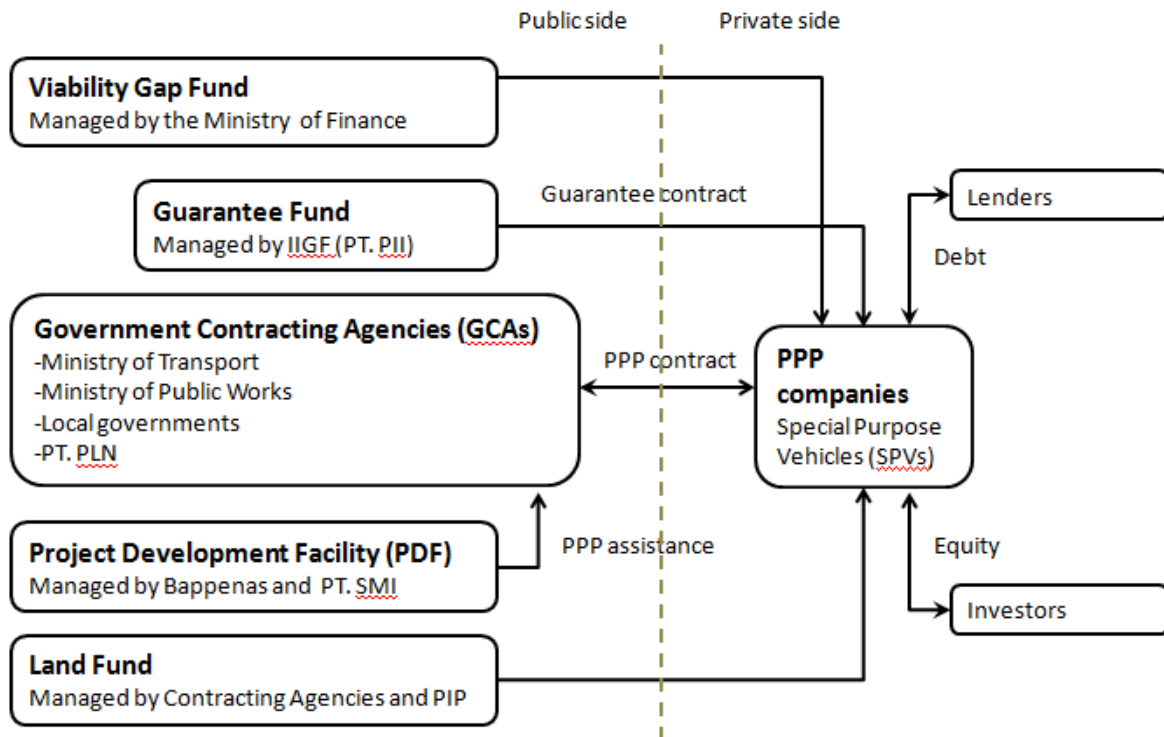
<sup>50</sup> The establishment of the taskforce is based on the decree of the Head of Fiscal Policy Office number 26/2011. The “team” or taskforce works for the period of one year but this can be extended if necessary.

<sup>51</sup> As stated in the consideration clause of the Head of FPO decree number 26/2011 points a and b.

<sup>52</sup> This information was obtained from an interview with the head of the task force in 17 September 2012.

and how PPP evolves in the context of Indonesia. However, there may be some gaps that a historical study cannot fill in addressing the research questions.

Figure 6.4: Generic Indonesian PPP business case



Source: author's own work

With regard to the process of PPP introduction in Indonesia, the two chapters have identified the channels through which PPP is transported from abroad and implemented in Indonesia. It is shown that the external agencies, particularly the IFIs such as the World Bank and ADB, are among the most important channels for bringing PPP to Indonesia, as shown by their activities, the amount of financial assistance and the products of PPP policies they have supported. The involvement of Indonesia in the international community may also indicate another channel that aids the introduction of PPP to Indonesia. The exploration of the role of relevant actors also suggests that a formal Western education may contribute to the adoption of the policy.

Nevertheless, such historical perspectives are insufficient to reveal the complexity of the process of PPP adoption. This approach has its limitations in observing how the processes are perceived by the local actors, how PPP ideas and the carrying agents receive support or opposition from the Indonesian officials, and how they are discussed and exchanged among the officials. These complexities can only be explored using direct interviews with the actors involved in the implementation, as presented in the next chapter.

Furthermore, this chapter finds that the roles of external agencies remain at least as important as in the earlier period. The formulation of PPP regulations and frameworks, the initiation of new institutions, and some financial assistance provided by the World Bank, ADB and other external agencies show such significance. However, it is also revealed that certain problems and difficulties started to occur, affecting the outcomes of PPP implementation. Such disturbances may arise from resistance from the Indonesian officials but may also stem from the complexities of the government's institutional settings. An investigation of such issues may require a different approach that allows an exploration of the subjective views of the key officials in the Indonesian government as well as in the international agencies. The following chapter will examine such perspectives using direct interviews with the officials.

The historical investigation of the development of PPP in Indonesia in chapters 5 and 6 also identifies a number of motives and rationales for implementing PPP. Motives such as filling the infrastructure-financing gaps, accelerating the provision of public infrastructure, improving the efficiency of public money and enhancing the quality of public services are among the rationales developed by the government as written in PPP frameworks. Moreover, the study also finds that the introduction of PPP in the 1990s coincided with Indonesia's continuing dependency on foreign aid, growing participation in the international community and the increasing involvement of Suharto's family in public projects. These findings may suggest that PPP adoption in Indonesia is actually also motivated by other intentions in addition to those economic rationales identified in the frameworks. Nevertheless, such a historical exploration raises a number of issues concerning the development of PPP that cannot be sufficiently explained from the existing theories. Therefore, the research is interested in exploring in greater depth the organisational dynamics behind the government's construction of PPP by interviewing a number of key officials about how they perceive and experience PPP.

Another issue that can be identified by the historical approach in chapters 5 and 6 is the evolution of PPP in the Indonesian contexts that may be affected by socio-economic, political, cultural and Islamic factors. The observation of the implementation of PPP from time to time suggests that there are certain patterns that can be identified from the development of regulations, institutional arrangements, lists of projects and roles of actors. The regulatory and institutional development shows that PPP evolved from its initial status as a sector issue before 1998 and was transformed to become a planning issue until 2010, when it became a financial issue. Such evolution is also supported by the examination of the

changing roles of actors, as discussed in section 2.6 of this chapter. The exploration of the list of PPP projects also illustrates an interesting pattern, in which the government started to set ambitious expectations of PPP in 2005 and continued to increase the number of offers until 2011 when it became more realistic, as shown by the declining numbers and values of PPP projects.

Moreover, the observation of the projects' initiation suggests that after 2005 the government had been raising its expectations of PPP. With a strong focus on using PPP as a tool to attract private investment to fund the development of infrastructure and to accelerate its provision, the government ambitiously expected PPP to fulfil most of the financing needs of infrastructure development. However, after encountering difficulties and challenges in implementing PPP, the government has eventually become more realistic about the number of projects and amount of investment it expects from PPP. The investigation of the views of the key actors in the next chapter is expected to shed light on how such dynamics in the perception of the merits, worth and prospects of PPP are perceived and discussed; thus, more actual issues of PPP implementation can be revealed.



## **Chapter 7 Actors' perspectives on PPP implementation in Indonesia**

### **7.1 Introduction**

This chapter specifically explores the views of the actors on the issues related to the implementation of PPP in Indonesia. Examining actors' perspectives is considered important because it may provide rich insights into how PPP is actually discussed and practised in Indonesia. Using the interpretive paradigm as described at the beginning of the research, direct interviews with the actors involved in the implementation of PPP are expected to provide information on how PPP issues in Indonesia are interpreted, constructed and negotiated, as this research is developed under a subjective ontology that sees PPP as a constructed concept developed by the actors. Therefore, in this research, investigation of the actors' views is considered the core of the study to answer the research questions.

As explained in chapter 4 on research methods, the actors' views in this chapter are collected through direct interviews with those involved in the implementation of PPP, both at the project level and at the policy level. The researcher was able to conduct 25 interviews with actors from different institutions including those who work in the government, external agencies and consultant agencies (the list of the respondents is presented in the appendix). The transcripts of the interviews are then analysed using a qualitative method, and theories are extracted from the data. Using this approach, the researcher initially coded the data openly in order to explore as many themes of PPP issues in Indonesia as possible. At this stage, themes or concepts such as "Indonesian government is incapable of providing enough financing" or "it is difficult to acquire land for PPP projects" are identified. These concepts are tentative since the process of coding is performed iteratively through multiple rounds. This is demonstrated in the subsequent stage when these themes are compared with one another before being grouped into categories. Consequently, some themes are developed or strengthened while others are collapsed. Finally, after several rounds the investigation identifies a number of categories including the rationales and motives for PPP, the channels of PPP diffusion, the contextual factors, the problems and challenges in implementing PPP, and the prospects for Indonesia's PPP in the future. These categories are determined after the analysis reaches saturation, which means that every coding emerging from the data can be attached to the existing categories and no new ones are added.

With regard to this process of analysis, the remaining sections of the chapter are organised according to the categories identified in the qualitative study. Section 2 explores the views on

rationales of the actors in terms of their attraction to PPP. The actors' views on the channels through which PPP is brought to Indonesia are presented in section 3. Section 4 investigates the actors' opinions on contextual issues with regard to the implementation of PPP. Section 5 looks into the views of the actors on the problems disrupting the policy implementation. Section 6 examines the issue of accounting treatment for PPP and section 7 explores the perspectives on PPP's future prospects. Section 8 concludes the chapter.

## **7.2 Rationales and motivations to implement PPP**

The first issue that attracts the attention of this research is concerned with the rationales or motivations of the Indonesian government to adopt PPP. As identified by the historical account of Indonesian PPP in the previous chapters, a number of potential rationales and motivations can be identified in the official documents to explain why the government is attracted to adopting PPP. These rationales include the need to fill the gaps between the demand for infrastructure financing and the limited financial capacity of the government, the intent to accelerate the provision of infrastructure, and the aim of improving the quality of infrastructure services as well as enhancing the efficiency of public services. Moreover, using direct interviews with the PPP actors, the identification of motivations can be developed to understand what they actually think about the motivations.

### **7.2.1 Filling the financing gap**

It is revealed in the historical exploration of PPP development in the previous chapters that, among other rationales, filling the infrastructure-financing gap is considered by the government to be the main rationale, as shown by the heavy emphasis on this idea in government documents and official speeches. In fact, such a belief is also embraced by many officials in the government, probably because of persistent and continuous emphasis by the government. Moreover, the strong belief in the idea of filling the financing gap is often associated with the view that PPP is something "unavoidable" since the government has no other option. One interviewee, a high-level official in the Coordinating Ministry of Economic Affairs, says:

"PPP is good for Indonesia. ... It needs around 1,700 trillion rupiahs and it's only until 2014. If we see the government's capability, it is really very small. We know the budget allocated for ministry of public works, ministry of transports and ministry of energy is only around 100 trillion rupiahs a year. So if we accumulate it in four years to get 1,700 trillion rupiahs only with the government budget, *I think that will be impossible. We like it or not, we need to involve the private sector.* So, I still think that PPP is still important for Indonesia." (Interview with Tulus Indarto, high-level official, coordinating/planning unit)

Another view, however, sees the existence of private financing as an opportunity for the government, as it craves additional funding, while on the other hand private companies can offer to meet that demand. An official in the Ministry of Transport responded:

“This is actually the responsibility of the government. The government has to provide the services. However, we also need to realise that the government has limitation on its budget. On the other hand, we see that the private sector has the capability to provide the services with mechanisms that can benefit both parties.” (Andy Hernawan, high-level official, contracting unit)

Nevertheless, the rationale for filling the financing gap is often raised as a justification for allowing the available government budget to be allocated to other expenditures that cannot be shared with the private sector, particularly for social expenditure such as public education and public health. A high-level official in the Ministry of Public Works stated:

“PPP can produce benefits at least in two ways; opening up new fiscal space for the government by reallocating projects with high economic returns to projects targeted to improve the social development, and opening new partnership with private sector so they can finance public infrastructure projects.” (Panca Haryanto, high-level official, contracting unit)

On the other hand, some officials disagree with the strong focus on the investment issue of PPP. Such a perspective holds that the general understanding of PPP in Indonesia is too deeply rooted in the investment issue because it is narrowly developed merely around the funding element of PPP. An official in the Ministry of Finance said:

“The emphasis is still only on the funding element. So it is more on how to build infrastructures without using public funding, without thinking about the results in the longer term”. (Joko Pratomo, middle-level official, financing unit)

This critical view of the PPP investment issue is mainly held by officials working in the financing unit. For this group of critics, the strong focus on the funding element needs to be reduced because too much focus on the investment element of PPP is seen as indicating a myopic perspective on PPP implementation. The excessive concerns about the infrastructure-funding gap may cause the government to overlook the issue of the improvement of the efficiency and quality of services, which means that the government might be able to attract funding quickly but would have to sacrifice the long-term impacts, resulting in the public having to pay more in the future.

Moreover, the motivation to fill the financing gap is also seen as obsolete and invalid and, therefore, the departure from the idea is considered a more advanced development of PPP understanding. Another official in the Ministry of Finance expressed his view:

“Previously, in the early times when we joined this office, the main reason for PPP is because we lack funds. The emphasis is more on that issue. But later after we learnt a lot, we found that it is not the reason.... In the beginning, I viewed PPP only in connection with the problem of governments’ lack of funds. So it is created to solve that problem. Then my understanding develops, and I found that there are many other good reasons to do PPP”. (Sofyan Majid, middle-level official, financing unit)

However, why does the government develop the framework of PPP only around the investment element? Why are the other elements overlooked by the government? The official continues:

“The emphasis should not be on that issue any more. However, I understand that, politically the idea of filling the financing gap is the easiest idea to be understood”. (Sofyan Majid, middle-level official, financing unit)

It is said that using the investment element of PPP is ‘politically’ easy since it reveals the urgency of financing needs and probably demands less explanation. The simple nature of the rationale accompanied by constant reminders from the government’s rhetoric has enabled the investment idea of PPP to become dominant and influential in the government. It is seen that such an idea does not allow the other elements of PPP to develop. Again, the official underlines the issue:

“Their understanding [that of the government officials about PPP] is very much occupied by the idea that it is something to fill the financing gap.” (Sofyan Majid, middle-level official, financing unit)

According to this view, the domination of the investment rationale may undermine other PPP rationales and potentially create some contradictory and competing concerns with other elements of PPP.

Overall, it can be suggested that although the motive of filling the financing gap is heavily emphasised by the government, there are various views on this rationale. Table 7.1 below maps the variations.

Table 7.1: Views on the motive of filling the infrastructure-financing gap

Supporting views on the investment issue	Critical views on the investment issue
<ul style="list-style-type: none"> <li>- No option</li> <li>- An opportunity for the government</li> <li>- Government’s money can be used for other purposes</li> <li>- Avoiding more debts</li> </ul>	<ul style="list-style-type: none"> <li>- Short-sighted</li> <li>- Narrow-minded</li> <li>- Just because politically easy</li> <li>- Outdated and no longer valid</li> <li>- Undermine other elements of PPP</li> </ul>

Source: Author’s own work

### **7.2.2 Accelerating public infrastructure provision**

As presented in the previous chapters, the government also placed a heavy emphasis on the idea of using PPP to accelerate the provision of infrastructure, particularly in the revival of PPP after the economic crisis in the 2000s. The rationale of acceleration is raised as the main rationale for implementing PPP in the newer PPP framework of the Presidential Regulation number 67/2005. Moreover, the rationale of using PPP to accelerate infrastructure provision can actually be seen as an extension of the idea of using PPP to fill the infrastructure-financing gap. With the involvement of private financing in PPP schemes, it is understood that the government is able to accelerate the procurement of infrastructure facilities that could not have been provided by conventional procurement using the government budget. A high-level official in the Ministry of Transport articulated this view:

“Previously, when we talked about master plan, usually it can only be reached after tens of years. But now [with PPP] it can be speeded up” (Andy Hernawan, high-level official, contracting unit).

However, this idea is not supported by other key decision-makers. A number of views reject the idea of using PPP to accelerate the infrastructure provision. As mentioned by an official in the Ministry of Finance:

“Now it looks difficult because, I think, it [the infrastructure provision] cannot be accelerated. PPP cannot be regarded as a reliable mechanism in a situation when we need quick results. ... There are processes in which there might be a political will to implement PPP but they do not realise what the implication is afterwards, so here we are the machines behind them who are now searching for their own problem solving.” (Bambang Sungkono, middle-level official, financing unit)

In this sense, the idea of acceleration is heavily criticised as it means neglecting the processes of PPP procurement including projects’ preparation and due diligence assessment. The above statement also indicates concerns that the motive for acceleration is only used at the political level, which consequently ignores the process at the technical level. Another official also raised the same issue:

“And it is irrelevant if we use words such as ‘accelerating the infrastructure development through PPP’. Because for me, in the mid-term of three until five years we will just be able to have one or two projects that can be realised. ... We need to build a good fundamental for good PPP.” (Joko Pratomo, middle-level official, financing unit)

According to this type of view, the motivation to use PPP to accelerate the delivery of public infrastructure only means sacrificing and ignoring the need for an adequate process to formulate good policy and prepare better projects.

### 7.2.3 Improving the efficiency and quality of public services

The idea of using PPP to improve efficiency and quality of infrastructure services is clearly stated in the government's written documents in the main PPP framework in Regulation numbers 7/1998 and 67/2005, showing that the idea is regarded as an essential element of PPP policy. However, the government paid little attention to developing the idea, particularly compared to that paid to other rationales such as filling the financing gap and accelerating the infrastructure provision.

Despite this lack of attention, the idea of efficiency and quality improvement is still seen as an important element of PPP, although it is probably not regarded as a primary rationale. A senior official in the Coordinating Ministry was asked about his understanding of Indonesia's rationale for PPP and he stated swiftly that it is filling the infrastructure-financing gap (as quoted in the first point of this section). When asked whether there are other rationales involved, he replied:

“Yes there are. Actually, PPP is not only about financing gap, but we also expect that the quality of the services can be improved because private sectors are there. Therefore, the efforts to provide the best thing with a cheapest price in the competition process are also becoming our consideration. So, I think that's true. One of the goals is to get a cheaper price.” (Tulus Indarto, high-level official, coordinating/planning unit)

The above statement represents the views of some government officials in seeing the rationale of efficiency as a secondary issue, although it is still regarded as an important element of PPP. For example, an official in the Ministry of Finance had almost exactly the same idea:

“They are [other rationales] certainly there [in the PPP framework], even though they are not that clear. If I may put them in order, I will put limited budget as the first reason. The second is about efficiency. We believe that if it [infrastructure provision] is managed by a profit-oriented investor, it should be more efficient. In the end, we want cheaper prices, and investors have better efficiency.” (Agus Wahyudi, middle-level official, financing unit)

Besides mentioning that the efficiency issue is not the number one rationale and that it is attainable by the presence of the private sector, the above statement also indicates the view that the statement of efficiency and quality improvement in the PPP framework is ‘not clear’. This may prompt a discussion on why such an idea is seen as ‘not clear’. One explanation was given by an official in the Ministry of Finance:

“It is because the government still use the old mindset; therefore, it is difficult for them to understand the problem. The government still use the project mindset. Of course it [the effort to ensure efficiency is attained] will slow down the project completion because fair and

transparent process can only be attained if we have a good project preparation.” (Sofyan Majid, middle-level official, financing unit)

The ‘old mindset’, or the ‘project mindset’, mentioned in the statement refers to the mindset commonly associated with the conventional public procurement, in which efficiency and quality criteria are rarely used as guidance or benchmarks.

Briefly, it can be suggested from these views that the rationale of efficiency and quality improvement is often seen as a “secondary” rationale after the investment rationales such as filling the financing gap and accelerating the projects. However, there are also views suggesting that this rationale should receive more attention, and there is criticism of the government for not sufficiently developing it.

#### **7.2.4 Reforming public services**

Examination of the official PPP documents of the government reveals little evidence that PPP policy is intended to introduce reform to the public sector. In fact, the objectives of PPP listed in the regulation number 67/2005 only indicate that, by utilising PPP, the government is aiming to ‘improve the quality of management and maintenance in infrastructure provision’ without providing sufficient elaboration on that issue.

Nevertheless, some government actors see PPP as a potential instrument to reform the public sector, particularly through reform of public service procurement. Conventional public procurement, which relies mostly on the government budget and external loans and grants, has been blamed for the inefficiency due to delays and inflated costs and low quality of public facilities. Additionally, in the absence of accountable and transparent processes, it has been associated with corruption and fraud (World Bank, 2001). An official in the Ministry of Finance argued:

“If we rely on the traditional procurement to deliver infrastructure services, it will not be able to respond to the demand. So there must be other ways to procure those infrastructure services. It [the conventional procurement] is unable to become the backbone of the economic growth.... It’s about the delivery time, and also about the quality... I mean if infrastructure is provided through traditional government procurement, there certainly would be some delays, there certainly would be some low qualities. So the capability to support the competitiveness of Indonesian business cannot be achieved.” (Bambang Sungkono, middle-level official, financing unit)

The introduction of PPP is expected to bring new alternatives for public infrastructure procurement, partly because the conventional procurement has shown defective results while

PPP is seen as an arrangement that may bring new hope, according to the experience of other countries. The official continued:

“We need to try a new way because the previous way, the traditional procurement, can no longer promise something better. That’s why we need to find another way. Another way that can be worth trying, and have some success stories is PPP. If somebody asks me whether PPP is the best way, I am not that sure. Because I don’t know what it would be.” (Bambang Sungkono, middle-level official, financing unit)

PPP is expected not only to provide financing additionality but also to reform the mindset of the people in the bureaucracy about delivering public services. Again, the official raised his argument about PPP:

“Because [through PPP] the mindset of the people will change from the process-oriented to the output-oriented mindset. What I mean is the change in the bureaucracy can trigger the change in the mindset of the people as well. Automatically people will think that the previous schemes are no longer reliable. Every procurement run by the government results in delays, cost overrun and uncertainty in outputs. In essence, it must be accepted that bureaucracy, in the context of market mechanisms, is only an administrator.” (Bambang Sungkono, middle-level official, financing unit)

Here, more clarity about the rationale of using PPP to introduce reform in public services can be seen in which reform is associated with two things: a fundamental change in viewing the delivery of public services; and a functional change in the government’s role from operator to administrator.

### **7.2.5 Imitating success of other countries**

It is also suggested from the historical review of Indonesian PPP that there are some issues related to international circumstances that drive the PPP implementation in Indonesia. The widespread PPP adoption across the world also attracts the government and officials to search for the possibility of adopting PPP. However, since it is seen as a trend, the negative side of PPP is often overlooked. As explained by an official in the Ministry of Finance:

“What I see in our PPP is that we actually only follow the trend. I think it’s kind of bandwagon effect, if I may say. There is an international trend. If you want new infrastructure you need to try to adopt PPP. We only take the positive arguments about PPP while there are actually also some unsuccessful stories about PPP in the developing countries. Even in developed countries there are also some unsuccessful experiences with PPP. (Cecep Usman, middle-level official, financing unit)

Moreover, considering that Indonesia has been trying to become actively involved in the international community, such adoption to gain conformity is seen as important. A high-level official underlined the issue:



“It is part of the government efforts to show the strong commitment. That’s why I guess Kanci Pejagan Toll Road<sup>53</sup> becomes an important issue for the vice-president’s office. Not only because it is a long toll road, not only because there are some prominent Indonesian businessmen in the project but also because IFC is there so we want to show ourselves to the world that we are internationally very cooperative and very welcoming of this PPP project.” (Panca Haryanto, high-level official, contracting unit)

Therefore, from the perspective of this motive, the adoption of PPP in Indonesia actually has little association with the arrangement itself or the actual investment needs of Indonesia; rather, it is politically intended to conform to the international practices.

### **7.2.6 Gaining benefits for personal or political interests**

Another issue that may relate to the motive for PPP adoption in Indonesia is the intention to use PPP to gain access to benefits directed to personal or political interests. In the early period of PPP implementation, PPP was always associated with the involvement of Suharto’s family in the projects. It is reported that the Cawang-Tanjung Priok Toll Road Project was granted to a company largely owned by the eldest daughter of Suharto (Colmey and Liebhold, 1999); the Jakarta Drinking Water Project was given to two companies associated with Suharto’s eldest son and a crony (Harsono, 2004); and the Paiton Power Project was granted to a consortium involving another of Suharto’s daughters (Wells and Ahmed, 2007). In this regard, an official in the Ministry of Finance described:

“At that time I had been discussing it with my friend about motives to implement PPP and it has been already wrong from the beginning. It was introduced because Suharto’s sons and daughters wanted to enter that field. That was the driver in the beginning of 1990s. There was a rent-seeking motive, not something more genuine. As it progresses, that kind of motive still exists” (Interview with Budi Setyawan, middle-level official, financing unit).

In fact, such a statement not only indicates an acknowledgement of the ‘rent seeking’ motive in driving the adoption of PPP in Indonesia but also shows that the impacts of such a motive remain influential in the current era. This phenomenon was also noted by a consultant who has long experience of dealing with infrastructure projects in Indonesia:

“Under Suharto, the feeling was PPP was just letting the Suharto family come in. So PLN was against it. And now a lot in PLN say look, what’s happening? It’s not the Suharto family

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<sup>53</sup> Kanci Pejagan Toll Road is a section of Trans Java Toll Road that connects West and Central Java. The PPP contract for this section was initially granted to Bakrie Investindo, a company linked to Aburizal Bakrie, the former Minister of Economic Affairs in the first Yudhoyono cabinet.

perhaps anymore but maybe Bakrie<sup>54</sup> and Kalla. Conglomerates are coming in and they will control the bidding so we won't really have (a good PPP)." (Petrus Bujono, external agency)

In brief, it is shown that even though the motivation of corruption would never be admitted explicitly by the government, its presence is acknowledged by the actors involved in the development of PPP. The observation of the development of PPP described in the previous chapters also provides the same indication that such motivation is present and influential in driving the introduction and implementation of PPP in Indonesia.

### **7.3 Channels**

In the process of introduction of PPP, there are channels through which the idea of PPP is transmitted from its origins to Indonesia. These channels may be very important in determining the outcome of the process, particularly because each channel has its own nature, characteristics and dynamics that may potentially affect the transmitted idea.

#### **7.3.1 Formal education**

One of the channels through which PPP is diffused to Indonesia is the formal education received by the government officials in their universities or academies. The understanding of PPP is often covered in courses such as public policy management, public finance, project management, or even in dedicated courses on PPP. An official in the Ministry of Finance who is actively involved in the PPP tasks and has a master's in engineering described his first acquaintance with PPP:

"The first time I knew about PPP was when I took my master's degree in ITB<sup>55</sup>. There was actually a particular course on PPP, which mostly used the materials from the IP3<sup>56</sup> Washington. Since then, I started to understand that there is an alternative for providing infrastructure through partnerships with private sector. When I joined this office in 2007, I was assigned to handle water, telecommunication and waste infrastructure, particularly when those projects are procured under PPP. That is how I get acquainted deeper with PPP infrastructure projects." (Joko Pratomo, middle-level official, financing unit)

The introduction to PPP through formal education comes not only from direct PPP courses but also through the teaching of other subjects that relate to public policy and public finance. In some courses on public management, issues of public-private relations are often touched

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<sup>54</sup> Bakrie refers to Aburizal Bakrie, the former Minister of Economic Affairs who also one of the Indonesian conglomerates. Kalla refers to Jusuf Kalla, the former vice-president who own a number of big companies operating in infrastructure business.

<sup>55</sup> ITB is the abbreviation of Institute Teknologi Bandung or Bandung Institute of Technology, one of the most prominent universities in Indonesia specialising in engineering and technology.

<sup>56</sup> IP3 refers to Institute of Public-Private Partnership, a training and consulting firm focusing on promoting PPP. It is based in Arlington, USA. Their details can be found at [www.ip3.org](http://www.ip3.org)

upon, as described by one of the officials in the Ministry of Finance who graduated from a finance master's programme in Australia.

“Previously I learnt a lot about public finance, public policy and the theories of them, but I think most of them are the basic concepts. In my previous job I also wrote about public finance, but it seemed I was not that familiar with PPP concept. Probably because I mostly learnt about the basic theories so I didn't find anything about PPP. [What I know is] there are goods provided by the state, and there are also goods that are commercial. I am not sure; does it mean I understood PPP? At least at that time I didn't use the term PPP. When I then heard about PPP, I had already in my mind some basic understanding about public finance. For example, I believe that PPP is only for public goods and it rests within the responsibility of the government. It can be transferred to private sector, but there must be some reasons for it.”  
Sofyan Majid, middle-level official, financing unit)

With such backgrounds, it is easier for the officials to understand the idea of PPP and all its associated elements including the idea of achieving efficiency by promoting competition and risk sharing, introducing user-pay mechanisms, and reducing direct subsidies.

In conclusion, either directly or indirectly formal education has provided an avenue for PPP's introduction in Indonesia. Government officials and other parties involved in the implementation who receive such education have an improved understanding of PPP.

### **7.3.2 External agencies**

The examination of Indonesia's condition concurrent with the arrival of PPP suggests that the role of external agencies such as the World Bank and the Asian Development Bank is significantly important and influential. Moreover, from the actors' point of view, the influence of external agencies is also seen as critical, particularly as the agencies are regarded as the main carriers of the idea. The view of one high-ranking official explains this:

“Actually, their role is quite significant. Because we learn a lot from them, they give us perspectives, and it's quite effective.” (Tulus Indarto, high-level official, coordinating/planning unit)

In fact, the role of the external agencies is highly appreciated mostly because of the superior knowledge shown by the agencies, including about PPP. The knowledge transferred by the external agencies ranges from substantial to technical issues, as described by an official:

“Yes I think it has some influences on my understanding about PPP. Previously, when I thought of infrastructure projects, I always refer to government procurement. And looking at the idea, I see it as a positive thing. It confirms the problem of infrastructure funding gap that we have been discussing. If the idea looks workable, why don't we try it?” (Agus Wahyudi, middle-level official, financing unit)

In addition, external agencies are also appreciated for transferring the technical knowledge about PPP, as described by an official:

“One thing I can learn from them is that I can understand PPP in a more technical level.”  
(Budi Setyawan, middle-level official, financing unit)

Nevertheless, although the external agencies are appreciated for their efforts in providing the knowledge about PPP, the genuineness of their intention to introduce PPP in Indonesia is still doubted, as expressed by an official in the Ministry of Finance:

“Those multilateral agencies are not really sincere enough. They know the concept well but their sincerity is not yet tested. I still believe that they actually come to us bringing their own interest.” (Sofyan Majid, middle-level official, financing unit)

The main suspicion levelled at the external agencies is that they introduce PPP to Indonesia merely as part of their efforts to offer their financial products such as loans and guarantees. An official in the Ministry of Finance furthermore emphasised:

“I think the main objective of those multilateral agencies is to channel money, selling funds. From my perspective, the development issue, so far, is only an entry point. They do not have the right concern of development. Their parameter is only that the programme they offer fits with their label. Therefore, that they can offer loans with the interest softer than commercial loans, right? Building capacity and assuring their milestones in development giving sustainable impacts are pretty much far from their concerns. There are no such concerns.”  
(Bambang Sungkono, middle-level official, financing unit).

This type of view is pervasive among the officials, as also indicated by a majority of the respondents' use of strong words to express the intentions of the external agencies, such as “secure the lending programmes”<sup>57</sup>, “channel their funds”<sup>58</sup>, “seeing Indonesia as a market for their lending products”<sup>59</sup> and “getting money from us”.<sup>60</sup>

Moreover, according to this view, as the external agencies are mainly suspected of “selling financial products”, the emphasis of their programmes is no longer about development issues; rather, they are more concerned with linking the development issues to their products. Again, an official in the Ministry of Finance said:

“In terms of PPP, what they do is more on introducing or offering PPP to Indonesia, by trying to provide technical assistance. But their expertise is not on positioning themselves, institutionalising, implementing a programme if it fits with, or is welcomed by us. They do

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<sup>57</sup> As stated by Budi Setyawan.

<sup>58</sup> As stated by Joko Pratomo.

<sup>59</sup> As stated by Joko Pratomo.

<sup>60</sup> As stated by Budi Setyawan.

not have such expertise. There are no such skills on them. They only assume that there is an existing structure that is formally willing to accept and become a channel to execute their programme, and then that's what they do. .... Their objective is to make sure that those milestones are completed, in order to sell their fund they have to make sure that those milestones have some influences on the policy. So, for me, their objective is only to get margins from development issues. No more than that." (Bambang Sungkono, middle-level official, financing unit)

However, other view holds that the external agencies are not the ones who should be blamed for any problem in Indonesia since the decision-making authority is still in the Indonesians' hands. An official in the Ministry of Finance suggested:

"I think multilateral agencies such as the World Bank and ADB are very influential in that respect. But I think the decision to go with PPP is still very much on Indonesian government. The government should think about that decision thoroughly when they want to say 'yes we will go with this'. As marketing agencies, those multilateral institutions cannot be blamed anyway." (Eddy Karim, staff/analyst, financing unit)

Another government official specifies in more detail why the external agencies cannot be blamed:

"I also feel that sometimes they are a bit driving us with what they want. Unfortunately, we often act like we just want to give up because we want easy things. We always follow what they say. That is our weakness. And that weakness is then utilised by our colleagues in the multilateral agencies. I think it is actually derived from our own condition that we are not aware and not ready.... Because we don't have the vision what it is going to be. Our weakness is there, I will say, we lack vision." (Tulus Indarto, high-level official, coordinating/planning unit)

This view was also raised by another official, who suggests that the issue mainly rests with the Indonesian side:

"So there is always misperception about bilateral and multilateral donors. But I think the problem is not about them, it is all about us. We are not well empowered and equipped to deal with them. When they come to us with the pre-prepared menus, we say we are not ready, but when they come here with an open menu like IndII Australia<sup>61</sup> we are not ready either." (Panca Haryanto, high-level official, contracting unit)

On the other hand, the external agencies also provide a counter-argument that they cannot be held responsible for the issues in PPP implementation in Indonesia. An official of the World Bank explains:

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<sup>61</sup> IndII stands for Indonesia Infrastructure Initiative, an assistance programme provided by Australian Aid (Ausaid) to facilitate public infrastructure development in Indonesia. More detailed information can be obtained from [www.indii.co.id](http://www.indii.co.id)

“Is the World Bank in the position to tell the Indonesian government? No, that's the wrong way to think. We won't do that unless you give a little paper which breaks all the differences.” (Charis Ridwan, external agency)

Moreover, officials of other external agencies also disagree that their agencies impose PPP adoption on Indonesia, since there are also dynamics in their own agencies concerning PPP.

An official of the Asian Development Bank (ADB) told the story:

“These all take time. There is lots of resistance in ADB to the whole concept of PPP as well. There are lots of interests too. You know, it's exactly the same issues as for the government. ‘We have well established procedures that have been working for 40 years; why do we need to change them?’ This is requiring the alignment of lots of different parties.” (Tariq Muhammad, external agency)

Some Indonesian officials actually also understand these dynamics and positions, as suggested by a respondent:

”I don't think they come to sell their products, because the partial risk guarantee from the World Bank is not really commercial due to their development mission. I don't see that kind of intention. It is only some millions USD compared to their portfolios. In the World Bank itself, the lending programmes are outweighing the guarantee programmes. I think it happens as well in ADB. .... I think in the World Bank or in other agencies, not so many people are advocating PPP. Let alone supporting the provision of guarantees. For them, it is not something easy. Particularly, in developing the idea of PPP itself.” (Ibrahim Lutfi, high-level official, financing unit)

Overall, the exploration of the views on the roles of external agencies in bringing PPP to Indonesia provides a bigger picture of how such roles are carried out, perceived and challenged. It is shown that the transfer of the idea does not happen in a linear fashion and straightaway but, rather, passes through more dynamic patterns. Table 7.2 below summarises the views of the actors about the roles of external agencies in introducing PPP.

Table 7.2: Views on the role of external agencies

Positive views about external agencies	Negative views about external agencies	Arguments against the negative views
<ul style="list-style-type: none"> <li>- Providing better knowledge and wider perspective</li> <li>- Offering technical assistance</li> <li>- Providing non-commercial financial assistance due to the development missions</li> </ul>	<ul style="list-style-type: none"> <li>- They are not sincere enough, bringing other motives in introducing PPP</li> <li>- Drive the policy</li> <li>- Selling financial products</li> <li>- Seeing Indonesia as a market for financial products</li> </ul>	<ul style="list-style-type: none"> <li>- The decision is in the hands of the government</li> <li>- External agencies have their own dynamics about PPP</li> <li>- The Indonesian officials are not ready, not well equipped, not well prepared.</li> </ul>

Source: author's own work

## 7.4 Contextual factors

Another issue that attracts the interest of this research on PPP implementation is the Indonesian contextual factors that may be involved in the development of PPP policy. Since PPP is originally developed in certain environments, the changing circumstances in the new environment may affect the accomplishment of the PPP implementation in Indonesia in that they can support, disrupt, transform or alter the emergence of the new appearance of PPP. The potential differences that might be identified as contextual factors may include cultural, political, economic, social or religious issues.

### 7.4.1 Cultural issues

One of the topics that may become an issue in Indonesia is the involvement of the private sector in the provision of public infrastructure since there has been a commonly established and accepted idea that it is the government that should be responsible for providing public facilities. In this sense, the presence of the private sector in the provision may give rise to the suspicion that the private sector will exploit profits for its own benefit at the expense of neglected public interests. The exploration of the history of public facility procurement in the previous chapter reveals that private financing in infrastructure has actually been practised since the Dutch colonial era in the 19<sup>th</sup> century. Since then, private financing has been switched on and off several times, and it often declines when confronted with the rhetoric of nationalism and socialism. Investigation of the views of the actors shows that there are different opinions in responses to this issue. For example, when asked whether there is any cultural resistance to the presence of the private sector, an official in the Ministry of Finance replied:

“No I don’t think so. The buses we see every day on the road they are private, but people still like to ride those buses. The DAMRI<sup>62</sup> buses are bad and people don’t like to ride them. While the Mayasari Bhakti<sup>63</sup> buses are better and people prefer to use them. I think our people don’t think like that. They are rational enough. I mean, in the consumer side there is no such idea that services have to come from the government.” (Bambang Sungkono, middle-level official, financing unit)

In this case, such cultural resistance is not present. However, another government official provided a different argument. An official in the Ministry of Finance argued:

“I think there will be some resistance if the private parties are coming from outside, right? That is what I feel. On one side, we need to have a limit on how much we can depend on outsiders, and how we measure it. I think there must be some measurement to say that our

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<sup>62</sup> DAMRI is a name for public buses operated by a local transport agency.

<sup>63</sup> Mayasari Bhakti is a name for Jakarta’s private buses operated by a private company.

economy is too dependent on foreign countries. But I think Indonesia is still very much far away from that limit.” (Sofyan Majid, middle-level official, financing unit)

Another cultural issue that may be viewed differently in the PPP adoption is the element of competition in the PPP procurement. Although competition is also applied in the other mode of procurement, the process in PPP is viewed as more competitive than that in the conventional procurement because the bidding process in PPP is made more stringent and transparent. In the conventional procurement as regulated by a number of regulations including Presidential Regulation number 54/2010, it is considered easier to take alternative routes to picking winning bidders. There are clauses and provisions in the Regulation that can be used to avoid competition, such as in the interpretation of ‘emergency’ and ‘urgent situation’. Meanwhile in PPP framework, such escape clauses are less likely to be found and used. Furthermore, the strong emphasis on competition in PPP can also be seen as a challenge to harmony, friendship and conformity, which are often associated with oriental values. This issue is confirmed by one official of the Ministry of Finance:

“Basically, Indonesians always prioritise harmony, while PPP is built upon a concept of comparison, which one is better than others. So from the basic principles, we can see it does not fit with the philosophy that is mostly embraced by our people. It has a big implication in that it is difficult to ensure value for money in the PPP process.” (Bambang Sungkono, middle-level official, financing unit)

However, it can be seen from the views of the actors that cultural resistance cannot be blamed for any difficulties with PPP, as suggested by a high-level official in the Ministry of Finance.

“I have to be careful to say that it is something cultural. Why? Because I am afraid it leads to the idea or presumption that Indonesians are not ready to grow and develop with good mentality and attitude. If you ask me whether there is any kind of cultural blocking, I might be able to say possibly there is or there is not. But I think it is close to historical factors that in the past people enjoy things because of their positions or whatever. And we should not be fooled by that. So, because of some bad conducts of a few people we say that it can be concluded that our culture or mentality is not ready yet to accept the ideas.” (Tommy Kurnia, high-level official, financing unit)

It can be suggested from the discussion that cultural issues may influence PPP development, although some views may disagree. In fact, the difference in views about cultural issues themselves may also contribute to the development of PPP in Indonesia, as they are reflected in the process of formulation of PPP policy and regulation.



### 7.4.2 Religious issues

Although Indonesia is formally a secular state, the involvement of religious issues can often be material in the development of policy issues in several cases. In the case of Indonesia, as Islam is embraced by the majority of the people its values are the most likely to be involved in policy decisions. In relation to the elements of the PPP idea, the Islamic perspective may focus on certain issues in a number of ways.

Firstly, Islam is often confronted with Western values and culture, although both can actually be considered as foreign to the natives of Indonesia. The arrival of PPP, which is widely regarded as a Western product, may be seen as non-Islamic and unsuitable for Indonesia. However, as suggested by some respondents, Islamic values are understood as more universal than particular; therefore, they are not necessarily contradictory to the PPP idea. An official in the Ministry of Finance who is also a Muslim suggested:

“I think your question is really surprising because I never use religious perspective to see this issue so far. Yes, in my opinion there are universal values in Islam. When everybody gets benefits and extracts anything positive, that will be good. But I never stand on my religious position to assess these issues. As long as something is beneficial, then it is Islamic. Not only Islamic but it is also universal value.” (Budi Setyawan, middle-level official, financing unit)

Secondly, in relation to PPP, Islamic values are often translated into issues such as good governance and public benefit, as suggested by another official:

“Based on my belief, I am convinced that if the forms of good governance are applied, it will make a better service and a better price affordable to the community. And according to my religion, making something beneficial for community is very much in line and supported.” (Joko Pratomo, middle-level official, financing unit)

Thirdly, religious issues are sometimes utilised to push the implementation of PPP policy. For example, in 2011 the Ministry of Finance started to explore the possibility of formulating ‘an Islamic PPP’, a structure of PPP transaction that employs Islamic financial instruments such as financial instruments based on *mudharaba* (profit-loss-sharing) and *musharaka* (partnership) contracts. A designated team was established to conduct the formulation of such policy by consulting experts in Islamic law as well as practitioners of Islamic finance. When asked about the main objective of the policy, one of the team leaders explained:

“I do not intend to seek a cheaper price from the transaction. What I look forward to is that people will be possibly less resistant towards the idea, less difficult to implement. That is my feeling. I think one challenge when we promote local PPP to the regional government will be to bring this idea to surprise the local people.... when we bring the idea to the regions, the responses from the local people will be against the idea. Say, by bringing privatisation, favouring private at the expense of public interest et cetera. But if we package the idea in a

kind of Islamic model, then people will be reluctant to ask. I am sure about that. They might have some questions but they will keep them only in their mind.” (Bambang Sungkono, middle-level official, financing unit)

It can be suggested from the discussion that, in relation to PPP, Islam can be seen in a number of perspectives. Firstly, it can be seen as a universal value, in that it is not seen as contradictory to the PPP idea; rather, both are seen as supporting the same ideas. Secondly, it can also be understood as more technical and practical in that Islam is seen as suggesting certain financial principles in conducting PPP transactions. Thirdly, Islam can be also used as rhetoric to make people “less resistant” to the idea of PPP. These three ways of association show how Islam might be involved in the development of PPP in Indonesia.

### **7.4.3 Political issues**

Political issues can also potentially contribute significantly in shaping the PPP implementation particularly because PPP is applied to provide public infrastructure services, which are often seen as a vital and critical issue as they are concerned with the basic needs of people and their provisions usually involve very large sums of public money. In the case of Indonesia’s PPP, the political system adds some uncertainties to the development of PPP policy, as suggested by a respondent:

“Now in our current political system, there is always an X factor. You know, there are various, weird interests out there.”(Wawan Santoso, consultant)

Moreover, the political issues are also seen as “disturbance” since they disrupt the PPP programmes:

“I think PPP has just been developed in Indonesia in 2005. At that time, I think nobody expected that it would take 5 to 10 years to just yield a single project; that is the CJPP.<sup>64</sup> This cycle has not been proven yet. If the trend is rising, so it might be politically suitable for us. ... If there is a cycle, it means that it can happen here. It is okay to have ups and downs but we need that cycle. Let alone we have a political situation which is persistently disturbing our programmes.” (Sofyan Majid, middle-level official, financing unit)

Another official provides examples of how political issues affect the programmes of PPP development, suggesting that political events and political succession disrupt the sustainability of PPP in achieving the objectives. An official in the Ministry of Finance suggested:

“[PPP can potentially deliver good outcomes] as long as there is no intervention from, say, their political interests. If so, I think that is possible. But I think that currently does not work,

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<sup>64</sup> CJPP stands for Central Java Power Project, a PPP project included as one of the ten PPP model project. It was once regarded as the most promising PPP project although later it faced problems on land acquisition.

besides, there will be an event approaching. That is political succession, the general election. That will be really disturbing our programmes.” (Joko Pratomo, middle-level official, financing unit)

Therefore, it can be suggested that the existing political system of Indonesia affects PPP as a disturbance rather than as an encouragement. How political issues become problems for the development of Indonesia’s PPP is discussed in the next section.

## **7.5 Problems**

As suggested by Hodge and Greve (2005), the implementation of PPP policy may face challenges and difficulties that prevent the attainment of its objectives. The description of PPP development in the previous chapters also suggests that PPP in Indonesia does not deliver the expected outcomes due to problems such as regulatory issues and institutional matters. An investigation of the views of the actors involved in the implementation identifies the problems from different perspectives.

### **7.5.1 Lack of clarity on policy framework**

While the government has attempted to introduce a number of regulations to establish policy frameworks for PPP, many actors still believe that the government has not adequately addressed the need for an integrated arrangement that enables PPP to operate in Indonesia. The existing frameworks are seen as unclear and not integrated, as stated by a high-level official:

“What we actually need is that the mechanism or the policy strategy has to be clear, that if we want to cover it then we have to make an allocation for financing. I think our budget does not adopt that model. Even funding for PPP project preparation is not allocated in the state budget. So I think there is no such integrated strategy. Everything goes in its own way. I think the mistake of the government is that PPP is not adopted as one integrated strategy. ... PPP is then just run separately on a case-by-case basis. How can we run model projects when there is no such model?” (Ibrahim Lutfi, high-level official, financing unit)

Moreover, the fragmented policy is also underlined by another official as some authorities on PPP policies are scattered across many agencies, thus making it difficult to take decisions:

“It [the policy] is so fragmented, so that on this thing you have to go to the Ministry of Finance, on this thing you have to go to Bappenas and on this thing you have to go to Ministry of Public Works.” (Eko Irmawan, middle-level official, contracting unit)

Briefly, it is shown that the lack of clarity on the policy guidelines raises uncertainties in the process of PPP development and robs the policy of its credibility in the view of both the public agencies and the private sectors.

### **7.5.2 Lack of coordination and mutual trust among government units**

The problem of coordination among the government units is mainly a result of the distrust among units in the government, as confirmed by the following comment by an interviewee who works in the Ministry of Finance:

“I think in our practice, the distrust among bureaucrats is quite high. To be honest, if I am in the position to trust people in the Ministry of Public Works, I cannot do that. That is one example. Seeing their existing track records, I think it is difficult for me to do that. With Bappenas, it will be fine to trust them in doing the rituals and ceremonies, but if we are asked to trust their analysis, while I know how they hire their consultants? It is better not to trust them.” (Bambang Sungkono, middle-level official, financing unit)

On the other hand, an interviewee working in the Ministry of Transport also had the same distrust in the Ministry of Finance, as follows:

“Previously I was always against the Ministry of Finance. When we talked about PPP, Ministry of Finance never wanted to join. That’s cowardly, I would say. You speak aloud outside but when we talk on the table to make the operational guidance, you never want to come. Just now after you changed your ministers twice, you want to support PPP. .... I tell you. When the Presidential Regulation number 67 was discussed, nobody from the Ministry of Finance attended. What did the Ministry of Finance do for PPP? Nothing!” (Andy Hernawan, high-level official, contracting unit)

Such disintegration and lack of trust among government units are often brought into the process of PPP policy formulation and project selection, which results in decision-making disorders. In addition, this fragmentation cannot be resolved by sufficient coordination with strong leadership, as is discussed in the following section.

### **7.5.3 Lack of leadership and commitment from the government**

The slow progress of PPP in Indonesia is also often associated with the indecisiveness of the government and its lack of seriousness in developing the policy. On the leadership issue, an official in the Ministry of Finance expresses his opinion:

“The [PPP] policy should be driven by someone from the top. I know it is going to be difficult. If we have a strong leader that commits to the policy, he is not easily fooled, and really wants to look at the current practice; I think we can implement PPP.” (Eddy Karim, staff/analyst, financing unit)

In the context of the current situation, people often expect that the implementation of a policy can be led, as in the Suharto era, by directive leaders who are able to drive the organisation in executing the policies. However, other respondents believe that the issue is more about the seriousness of the government in implementing PPP policy, as suggested by an official of an external agency:

“The big issue here, right at the start, is that the government keeps saying that PPP is important. Until recently with SMI and PII, what was the PPP office you went to? You went to PPP unit’s office and you sat on that little sofa, this size. This is what the government was prepared to invest in PPP. LKPP<sup>65</sup>, a procurement policy office, [has] a nice big office, 5 echelons one level. PPP? We got 2 echelons with a small scrappy sofa outside the door. You know, is the government serious? ... It’s all talk. I remember when I was still at the [mentioning another agency]. We agreed to fund a private participation in Indonesia’s infrastructure. It’s a technical assistance project and purely to hold support preparation of projects. The partner at that time was a deputy minister. He said ‘look, we need money to rent the office’. I said to him, ‘look if government cannot provide office, are you serious you want to do this? If you say the government hasn’t enough money to rent floor but you are trying to attract tens of billions of dollars in private investment, but you won’t—. It’s something wrong. You are not serious.” (Petrus Bujono, external agency)

The anecdote is told to reflect the lack of seriousness of the government in developing and implementing PPP policy as compared to other policies. It also suggests that the high rhetoric of the Indonesian government in announcing its commitment to PPP is not followed by real actions to execute the programmes.

#### **7.5.4 Regulatory issues**

Furthermore, regulatory and legal issues have been commonly suggested as one of the main problems disrupting the implementation of PPP in Indonesia. Even though the government has issued a number of regulations to support PPP policy, the issues related to the regulatory frameworks are identified as among the obstacles to PPP implementation in Indonesia. An official who frequently deals with legal issues elaborated:

“I see in here the legal system does not work as it should. It should be able to filter alien concepts automatically. It should be able to detect the arrival of one concept into local context. I don’t see that works in here. When it came, the response was to issue a presidential regulation. That was a very pragmatic approach I think.” (Budi Setyawan, middle-level official, financing unit)

Moreover, with “the pragmatic approach” to regulatory policy in PPP, the government is criticised for continuously making new regulations without considering whether the regulations are workable or not. An official in the Ministry of Public Work suggested:

“If you only see whether our regulation is complete or not, whether they are compliant or not, everything is compliant. However, if we ask whether they are workable or not, that is a different thing. Because, to be honest, we prefer to do administrative issues, we never do substantial issues. .... The problem why our PPP is not progressing is actually about substance rather than administrative.” (Eko Irmawan, middle-level official, contracting unit)

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<sup>65</sup> LKPP stands for Lembaga Kebijakan Pengadaan Barang/Jasa Pemerintah or National Public Procurement Agency. It is a newly established government institution with a mission to create credible public procurement system. More information can be obtained at <http://www.lkpp.go.id/v3/#/profil>

The above statement underlines another problem in the regulatory setting, in that the government is more concerned about the administrative issues than the substantial ones. Therefore, the essential elements that make PPP operational are mostly neglected.

#### **7.5.5 Land issues**

As PPP in Indonesia is mostly applied to network infrastructure such as toll roads and railways, the availability of land on which projects are built is seen as crucial. The issue of land acquisition has become a problem since the government cannot acquire land without the consent of its owners. The importance of land issues and the government's attention to it are explained by an official in the Ministry of Finance:

“I would see that the main problem is actually the land acquisition. The other issues such as the bidding, I am sure they can manage that. So the core issue is land problem and then followed by the project preparation. ... In fact we, the government, have allocated some funds as government support for 4 sections of toll roads through the Presidential Instruction number 1/2010.” (Donald Sitepu, staff/analyst, financing unit).

However, another official believes the problem will not be easily solved by such government supports:

“Firstly, land basically is not easy to be cleared. Secondly, most investors actually do not have money to clear the land because the land-revolving fund and land-clearing fund are given after the activity. It is a kind of reimbursement. So if the investors do not have their own money, they cannot purchase the land and clear it.” (Agus Wahyudi, middle-level official, financing unit).

As the land is not easily acquired, it becomes a source of uncertainty and causes people to speculate in PPP projects. This issue is underlined by an official in the Ministry of Public Works:

“Since we know that the problem is in land acquisition and it is part of the government problem, eventually the people who want to invest in PPP are only the opportunists. Investors who enter into the arrangement are not real investors, but investors who only try to look for proceeds from this problem. When the land has been solved they will find another justification for not immediately building the project, but they start to sell the ownership. That's how it works. When we ask them to be committed to start the project they said they don't have money.” (Eko Irmawan, middle-level official, contracting unit).

In brief, it can be suggested from these perspectives that the issues of land acquisition disrupt PPP implementation in that they create more uncertainties and encourage rent-seekers to take part in the dynamics of project preparation. Such uncertainty raises the risk profiles of PPP projects and makes them more expensive and unattractive.

### **7.5.6 Capacity of the officials for understanding and implementing PPP**

There are also some views suggesting that the problem of PPP implementation in Indonesia is caused fundamentally by a lack of understanding of PPP and capacity to execute transactions. This perspective considers that Indonesians lack an understanding of PPP at both the conceptual and practical level. On the substantial level, an official in the Ministry of Finance suggested:

“Many people haven’t understood it (PPP) well, even the basic concept that PPP is for public goods. I think we need to focus our concern on public goods. For non-public goods, let them become commercial goods. So this is all about public good that needs to be partnered with private sectors. Unfortunately, even in understanding public goods there are not so many policy-makers who know the concept well. It leads to understanding what the responsibilities of governments are. And providing public good should be part of the responsibility of the government. There must be something clear, black and white, that government has to be responsible for the provision of the goods. How can people understand PPP for other reasons if this very basic concept is not well understood?” (Sofyan Majid, middle-level official, financing unit)

However, rather than resting on the concept of PPP, more importantly the problem actually rests on the insufficient understanding by officials of the role of the government. Again, the same official elaborated:

“From my view, most government officers do not really understand the objective of their works. They just work because they have to work. No clear visions. People with no clear vision will never have clear objective and they will end up like what we see now.” (Sofyan Majid, middle-level official, financing unit).

In contrast, there are also those who believe that Indonesia has no issues with capacity. An official in the Ministry of Public Works argued:

“Talking about capacity, our suppliers in here such as Waskita Karya, WIKA, PP<sup>66</sup>, they are sophisticated enough even in international level. I don’t think we have issues on the capacity. Our human resources are sophisticated enough.” (Eko Irmawan, middle-level official, contracting unit)

Nevertheless, these two contrasting views reflect the different ideas about the adequacy of the Indonesians’ capacity to understand the concept of PPP and execute its transactions. However, it might be suggested that the latter positive views comment on the technical capacities rather than on substantial understanding.

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<sup>66</sup> Waskita Karya, Wika and PP are Indonesian construction companies that have operated in foreign countries, particularly Middle East and North African countries.

### **7.5.7 Political interventions**

As shown by the previous chapter, PPP in Indonesia is often associated with the involvement of personal or party interests in influencing decisions taken in the PPP process. These interferences usually involve political interests that try to take benefits from the procurement of PPP away from the public interest and direct them towards certain groups or persons. Problems with such political interventions were admitted by an official:

“I think it [the problem] is all about political interests. It happens in the lower level or technical level. If it is only about mindset then it might be easier to influence them to change the mindset to something better. However, in the higher level, if it is related with political interests I think that will be a little bit difficult. Not only a little bit, but it will be very, very difficult.” (Sofyan Majid, middle-level official, financing unit)

The above statement actually also suggests that the political interventions are more problematic than the issue of lack of understanding because they affect higher levels of government and are therefore more difficult to manage.

Moreover, the political interventions appear not only as corruption but also in the use of PPP programmes as political rhetoric to demonstrate success to the public. An official in the Ministry of Finance explained:

“I know there are political actions behind. I mean whatever the project, whether it is big or small, they only want to claim that this is the most successful government in developing infrastructure. I think that’s fair enough, it is absolutely not something bad. It can be something bad if particular persons ‘receive something’, in quotes, from the investor, which can be affected by other factors. That is different, it is really bad.” (Eddy Karim, staff/analyst, financing unit)

Nevertheless, although political interventions can appear in different forms and manifestations, they always create problems in the implementation, particularly through disruption in the decision processes to achieve the best PPP outcomes.

### **7.6 Accounting treatment for PPP**

The previous chapters suggest that the accounting framework for PPP has not been well developed or discussed by the government. Although accounting reform began in 2003, its impacts on PPP implementation did not appear to be significant. When asked about the cases and why accounting issues of PPP have not been well explored, an official in the Ministry of Finance explained:

“It may be all about readiness, our readiness. From the beginning, we have been aware about that. Look at our law on the state revenue and expenditure. All of them are accrual things.



That is why at that time we did a rather tricky thing. When the system was developed, there were terms introduced by standard committee such as term ‘cash toward accrual basis’. I think that is only a kind of a trick, but the point is we have made the reform and we have made that commitment. .... I am not sure why the progress is so slow but I think, for the sake of financial statistics of the government, it has been improved.” (Sigit Rudianto, middle-level official, financing unit).

Moreover, a number of constraints on the implementation of such a new accounting framework are also identified by another official in the Ministry of Finance who works in the accounting department:

“I think it is still a long way to achieve that goal, even though I am quite certain we are in the right direction. We have started to discuss such an issue [accounting for PPP] but we also need to think about our resources. How many government accountants do we need, considering the huge numbers of government units we have? It is massive. It needs a big preparation too. Let alone the need for coordination among the units to ensure the application of the new accounting system. It is a challenging task.” (Rizal Sholihin, middle-level official, financing unit).

In general, the interviews suggest that the accounting framework for PPP is rarely discussed by the government mainly because of resource and institutional constraints rather than other issues. Although the attention paid by government officials to the accounting issue is apparent, the limited number of skilled officials and lack of coordination among units disturbs such commitment.

## **7.7 Prospects**

Considering all the PPP motivations identified at the beginning of the chapter as well as the problems disturbing the PPP implementation described in the previous section, the research is interested in exploring how the future of PPP in Indonesia is perceived. As only a few projects have been delivered since PPP began in the 1990s, various perceptions of the future prospects of PPP may be expected.

### **7.7.1 Optimistic view: PPP is seen as calling for more time**

Despite all the problems that PPP may face in its implementation, it is still seen as a prospective policy for the future by most Indonesian actors. One view holds that it is only a matter of time before PPP becomes a success, particularly because it is a new concept for Indonesia. An official in the Ministry of Finance made this plain:

“It is new for us. For many years, we rely on the government budget to develop the infrastructures, so the patterns have not yet been established. PPP just came to Indonesia in 1990s while the infrastructure development has been started since 1970s when the cabinet of

development took on power, so consequentially the shift of the patterns is not as fast as we expect.” (Joko Pratomo, middle-level official, financing unit)

With such belief, the optimism for the success of PPP in the future can always be maintained, as reflected by another official:

“I would say, everything is always difficult in the beginning but when it is ready for running, it will be going better. When two or three projects are running then people will see the impacts. So it’s kind of bandwagon effect. .... I think we can do it piece by piece even though the costs will be high, but surely we can. Nobody says we cannot. We can. So let’s try with second project. If the second project still raises higher cost, if the third project raises it even higher, then it may be unsuitable for us.” (Eddy Karim, staff/analyst, financing unit)

Those who see PPP as a new concept for Indonesia believe that it will eventually be implemented successfully when the time comes. In this case, it is also believed that the implementation of PPP may take longer and cost more, but with all the advantages promised by PPP, it will eventually benefit Indonesia in the future.

#### **7.7.2 Optimistic view: PPP is seen as already showing some progress**

Apart from the view about the novelty of PPP, optimism is also growing among government officials because they see that some progress can be acknowledged in the development of the policy in recent years, particularly in terms of the officials’ capacities and skills. An official stated that:

“Knowledge and understanding about PPP among the officers have been improving compared to five or eight years ago. So, now if you meet and discuss PPP with officers in the third or second level, they can understand PPP well. They know that PPP can produce benefits.” (Panca Haryanto, high-level official, contracting unit)

The optimism is also boosted by the delivery of some large PPP projects such as the Central Java Power Project, which is considered successful. It is expected that such delivery will be followed and replicated by other projects in other sectors, as suggested by a high-level official in the Coordinating Ministry of Economic Affairs:

“I am sure, I am still optimistic enough. .... At least we can open the perspective that this [PPP] is workable. If we can do the big one, so we must be able to do the smaller ones. That is what we think. However this process needs to be supported by strong human resources.” (Tulus Indarto, high-level official, coordinating/planning unit)

In this case, the optimistic view prefers to acknowledge the achievements of PPP implementation, although they may be comparatively small, rather than look critically at the problems and difficulties of the policy.

### **7.7.3 Sceptical view: PPP is seen as disappointing and it would be better to try other avenues**

The optimism about PPP's future progress, however, is challenged by another view that urges the government to look for other mechanisms and schemes for involving the private sector, rather than focusing only on PPP. One of the interviewees working in the external agencies said:

“We put too much focus on PPP. Let's also look at the other avenues. ... We have spent too long just focusing on PPP. And the results are disappointing. And they are still disappointing. People are very risk-averse and the court system does not work. The institutional capacity in agencies like the Ministry of Transport is weak. So let's focus on a different approach.”  
(Petrus Bujono, external agency).

The critical view that perceives the weakness of PPP and suggests that the government try other schemes raises some interesting points. Firstly, although many problems in the implementation can be identified, it appears that such pessimism is not widely present among the other respondents (as it is rarely mentioned by other interviewees). Secondly, it is also interesting to note that such pessimism comes from an official working in one of the external agencies rather than from officials working inside the government. This finding may prompt further research to link the views of the actors with their different backgrounds, as discussed in the next section.

## **7.8 Conclusions and identification of issues for further investigation**

This chapter investigates the views of actors involved in the implementation of PPP in Indonesia on some specific issues identified in the previous chapters. The exploration of the perspectives of the actors on issues such as rationales, local contexts, problems and prospects of PPP in Indonesia provides deeper insights into the processual aspects of PPP development in Indonesia, in which the ideas and views related to PPP are exchanged and discussed to form the shape of the policy.

Such findings are useful for addressing the research questions formulated at the beginning. The questions of how PPP is brought to Indonesia, what motivates the government to adopt PPP and how PPP evolves in the Indonesian contexts can be addressed through insights revealed by the actors' perspectives presented in this chapter. Using the theoretical framework developed by this research, which sees PPP as driven by economic rationales as well as by political motivations, some issues can be identified through the actors' perspectives.

Firstly, the examination of the views of the actors on the channels that introduce them to PPP helps in identifying the channel and form of transmission of PPP, which suggests the significant roles of the external agencies. Moreover, it also presents the exchange of ideas of how the roles of agents and the ideas are perceived differently by actors with different backgrounds. For instance, the efforts of the external agencies such as the World Bank and ADB in promoting PPP attract both positive and negative views. Such diverse responses show the dynamics of the process of PPP development that cannot be captured merely by relying on the historical description as discussed in the previous chapters.

Secondly, the exploration of the views related to Indonesia's rationales to implement PPP shows that PPP in Indonesia is not driven by a single distinct motivation; rather, it is driven by many different rationales and motivations that simultaneously shape the development of the policy. The rationales, including filling the financing gap, accelerating the service provision, improving the efficiency and quality of public services, reforming the public sector, imitating the success of other countries and taking personal benefits from the arrangement, are among those identified in this chapter. Moreover, the investigation also reveals that each rationale creates unique discourses and debates that reflect how ideas about PPP may differ from one actor to another depending on their backgrounds and values. Each rationale has its advocates but there are always other views that provide criticisms and contrasting views of the same rationale.

Thirdly, the investigation of the actors' perspectives also reveals how the local values and contexts are involved in the development of PPP policy. The abstract issues such as culture and religious beliefs can be explored using the views of the actors in this chapter. It is suggested that some people reject PPP on the basis of cultural and religious issues, although they are in a minority. In fact, it is shown that issues such as religion are used to promote and encourage PPP.

In addition, although some problems of PPP implementation have been shown in the previous discussions, this chapter provides an alternative approach to identifying the problems by investigating the views of the actors on challenges that they see and face in the implementation. Issues such as lack of coordination, lack of leadership, regulation issues, land issues and political interventions are discovered as the actors reveal their views about the difficulties they find in the efforts to implement PPP.

Finally, the chapter investigates the views of the actors regarding their expectations of PPP implementation in Indonesia in the future. The interview approach allows the researcher to explore how the actors build their expectations of PPP considering all the motivations and problems found in the implementation. It is suggested that there are various views about PPP's prospects ranging from the optimistic and realistic to the pessimistic.

Moreover, considering all the findings described above, a number of issues need to be further elaborated. The first issue that remains to be addressed relates to the questions on how different views among the actors can be explained by the backgrounds and characteristics of the actors. These include the issue of how the different views on rationales, channels, local contexts, problems and prospects of PPP can be explained by the characteristics of the actors, such as the unit in which they work, how they are exposed to the outside world and what educational level they have attained.

The second issue that inspires the research to investigate further is concerned with the question of "how the identification of rationales, channels, local factors and problems of PPP can be grouped or classified according to the responses from the actors". For instance, the description of the development of PPP in Indonesia in chapters 5 and 6 as well as the investigation of the actors' views suggest a number of rationales that can be identified. Furthermore, having identified all the rationales, the research is interested in finding major themes of the rationales of PPP and problems in the implementation.

Thirdly, besides revealing some new insights into the issues of PPP implementation in Indonesia through the perspectives of the actors, the investigation in this chapter also discovers that some issues cannot be easily discussed by the interviewees, probably due to the sensitivity of issues such as those related to culture, religion or politics. Some respondents often directly or indirectly show their reluctance to discuss those matters and suggest that they might provide different responses in a more anonymous questionnaire. Therefore, it is suggested that the same questions be raised using different types of research instruments that assure more anonymity.

Fourthly, the research is also interested in examining how the findings discovered in this chapter are confirmed by a larger audience. As described in the methodology chapter, due to resource and time limitations in the fieldwork, the interviews can only cover 25 respondents with different backgrounds and characteristics. While this issue is considered one of the

research limitations, this research is still keen to determine how the issues discovered during the interviews are confirmed by a larger number of respondents using a different method.

Overall, following this discussion, the next chapter attempts to address the remaining questions using a different approach; it will employ a survey to extend the questions to a larger audience and to find other associations with the answers obtained from the interviews. It is expected that the investigation, using a quantitative approach, will add complementary insights into the development of PPP in Indonesia.

## Chapter 8 Perceptions about PPP implementation in Indonesia: Survey results

### 8.1 Introduction

Understanding perceptions of PPP actors and stakeholders about PPP implementation has been considered important, particularly as policy-makers and researchers try to investigate factors that determine the outcomes of PPP implementation. This research is also interested in exploring the perceptions of key policy-makers and other PPP stakeholders about PPP implementation in Indonesia. A number of aspects of interest to this study that might be elucidated by responses from PPP actors have been identified in the previous chapter, including PPP rationales and motivations, PPP problems and challenges, the prospects for PPP in the future and the contextual factors of PPP implementation. Additionally, the role of international institutions in the development of PPP is also identified as a factor of interest, since it is identified as influential in the process of PPP diffusion to Indonesia. Those aspects also reflect the research questions addressed in this study.

In fact, exploring perceptions of PPP actors about PPP implementation has been the focus of several previous studies. Li *et al.* (2005a) developed a questionnaire survey to examine the relative importance of several critical success factors (CSF) for PPP/PFI construction projects in the UK. They found that strong private consortia, appropriate risk allocation and available financial market are the three most important factors. From a slightly different perspective, another survey-based study by the same authors suggested that the positive factors contributing to the attractiveness of PPP schemes were better project technology and economy, greater public benefit, public sector avoidance of regulatory and financial constraints, and public sector saving in transaction costs. In other words, these are the merits and worth of PPP as perceived by UK stakeholders. In contrast, negative aspects considered problems and challenges to PPP implementations were related to the inexperience of the participants, the over-commercialisation of projects, and high participation cost and time (Li *et al.*, 2005b). Moreover, Ng *et al.* (2012) developed a survey to extend the previous study and included 36 variables considered relevant to the success of PPP implementation in Hong Kong, particularly at the early stage of the implementation. Critical success factors were categorised under five main groups covering technical factors, financial and economic factors, social factors, political and legal factors, and others issues, including staff issues and possible management actions. The study concluded that the most critical factors for evaluating PPP projects according to the public and private sectors are cost-effectiveness,

financial attractiveness, existence of long-term demand for the proposed services, alignment with the government's strategic objectives, and reliable service delivery. Using a relatively similar method, Abdul-Azis and Kassim (2011) investigate the motives for implementing PPP in the housing sector of Malaysia. They find that the public agencies, including religious councils, desired to achieve an array of objectives when adopting PPP, including value for money, transfer of financial risk and organisational reputation. It is also suggested that the most important rationale is to enhance organisational reputation, a factor that may be less relevant in PPP implementation in developed countries. These studies that employ survey instruments provide descriptions that inspire this research to construct a survey instrument. Nevertheless, as the previous studies rarely include non-economic factors as components in the survey, this research enhances the instrument by adding issues such as social, cultural and religious factors as the context of PPP implementation.

In this regard, the survey focuses on issues identified in the previous chapters. They include PPP rationales and motivations, PPP problems and challenges, the roles of external agencies in bringing PPP to Indonesia, the impact of socio-cultural, political and religious values in the development of PPP, and the future prospects for PPP in Indonesia (the survey questions are provided in Appendix 1).

To analyse the results, descriptive statistics are employed first. Relevant tests explained in the research methods chapter including Kruskal-Wallis, Mann-Whitney and Chi-Square tests are subsequently performed to analyse significant differences in perceptions amongst different groups of respondents. Factor analysis is also utilised to investigate the main dimensions (latent structures) related to certain issues of PPP implementation in Indonesia. In addition, the presentation of the survey results also includes the responses to open questions, which can be expected to add more insights into the qualitative approach conducted by the research in the previous investigation. The findings and analysis of the survey results are discussed in the following sections.

## **8.2 Profile of respondents**

Using the methods described in chapter 4, the survey was eventually able to collect 105 online responses from PPP actors and stakeholders from different backgrounds. As the survey was sent to those who declined the request for interview, it was expected that their views would now be covered, although the responses are anonymous. In terms of expanding the investigation to cover a greater variety of backgrounds of respondents, the survey now



includes a number of respondents from academia and the private sector, in addition to the views of government officials, external agencies' officials and consultants obtained in the interview phase. Moreover, referring to the intention of the research to broaden the investigation of the views of the actors involved in PPP implementation, this number is considered satisfactory since it is significantly larger than the 25 responses obtained from the interviews.

To describe the profile of respondents, the survey observes the characteristics of respondents in relation to their working units and their relation to PPP. Results of the descriptive statistics suggest that most of the respondents work in the financing units (44.76%) and have no structural positions (75.24%). In relation to the experience with PPP, respondents are roughly evenly distributed as around a third of them have been working with PPP issues for less than two years, a third for two to five years and a third for more than five years. Furthermore, around 50% revealed that some or most of their work is related to PPP. Meanwhile, with respect to education qualifications, relatively balanced percentages are found to have economic and non-economic education backgrounds. A more detailed description of the respondents can be seen in Table 1 of Appendix 4.

### **8.3 PPP rationales and motivations**

The previous chapters on the historical account of PPP in Indonesia and investigation of the views of the actors suggest some identification of rationales and motives of the government and officials in implementing PPP. They include the intentions to use PPP to fill the infrastructure-financing gap due to the government's limited funds, accelerate the infrastructure provision, improve the efficiency and quality of public services, support public reform, and imitate the success of other countries.

These motivations are raised in the survey and it turns out that the majority of the respondents agree with those identified motivations, particularly on the statement that PPP is needed to improve transparency and public reform. Interestingly, around 11.4% and 15.2% of them disagree that PPP is motivated by the intention to accelerate the provision of infrastructure and reduce the price of the services. Such figures may indicate some scepticism that PPP in Indonesia can achieve acceleration and reduce the price of infrastructure services, considering that the realisation of PPP projects is slow and inefficient, as described in chapters 5 and 6. Additionally, nearly a third of respondents were unsure about the statement that PPP implementation in Indonesia is intended to imitate the success of PPP implementation in

other countries. The perceptions of respondents on various PPP rationales and motives are described in Table 2 of Appendix 4.

Moreover, given the various motivations to implement PPP, it is interesting to discover how rationales are ranked according to their relevance and importance. The survey results reveal that the main motivations to implement PPP projects in Indonesia are concerned with the limitations of government funding (47.62%), inability of conventional procurement to provide good-quality infrastructure services (19.05%), greater transparency related to PPP (11.43%), private sector having better management and skills (8.57%) and PPP being able to accelerate infrastructure provision (4.76%). It is not surprising that the limited capability of government is seen as the most relevant rationale given the heavy emphasis of the government on developing such a rationale, as described in previous chapters. The results of this ranking of the rationales are described in Table 3 of Appendix 4.

Additionally, the research is interested in uncovering any significant differences in perceptions of PPP rationales across different groups of respondents. The results of the Kruskal-Wallis test suggest that there is a significance difference in perceptions between financing, non-financing and external units regarding the rationale of improving transparency ( $p=.04$ ) and better capacity of the private sector to manage infrastructure services ( $p=.025$ ). The mean ranking values indicate that the officials in the financing and external units tend to agree with the aforementioned PPP motivations more than those in the non-financing units (Tables 4 to 6 of Appendix 4). This finding may suggest that respondents in the financing units and external units offer greater support for the issues of transparency improvement and the involvement of the private sector. In fact, this is in line with the description in the historical observation of the development of PPP; i.e. as more officials from the financing units are involved in the PPP policy, the concern with the issues of efficiency and accountability also improves.

Comparing the perceptions of respondents with different working experience and working intensity related to PPP in a similar way, as shown in Table 5, it is found that the null hypothesis is rejected for 'accelerating infrastructure provision' variable ( $p=0.06$ ). This result implies that there is a significant difference in perception among those working on PPP issues in the short term, medium term and relatively longer term regarding the importance of accelerating the provision of infrastructure ( $p=.006$ ) as the main motivation to implement PPP. Additionally, from the mean rankings, there is an indication that those with relatively

moderate working experience (two-five years) tend to disagree with the PPP motivation. Meanwhile, in relation to the work intensity, the Kruskal-Wallis tests suggest that there is no significant difference in perception between the three groups regarding the PPP rationales in Indonesia.

The result also shows that educational background does not seem to influence the perception of respondents regarding the PPP rationales. This is reflected in the results of the Mann-Whitney test (see Table 6 of Appendix 4), which suggest that there is no significant difference in perceptions of the respondents. However, if the 10% significance level is considered, there is some indication that those with economic educational backgrounds tend to agree that the incapability of conventional schemes is the main motivation to implement PPP in Indonesia ( $p=0.078$ ).

Furthermore, given a number of PPP motives and rationales, the research is also interested in discovering how these motives might be grouped and classified according to the survey responses. This classification can be expected to add to the understanding of what has been discussed about rationales in the previous chapters. Using Factor Analysis, Table 7 suggests three sets of factors (dimensions) that may be able to explain the motivations to implement PPP in Indonesia.<sup>67</sup> Details of the three-factor grouping based on varimax rotation are shown in Table 8 of Appendix 4. The results generally suggest that the motivations to implement PPP can be classified into three groups: those associated with “reform”, “alternative”, and “investment” issues.

1. Factor grouping 1 with four components of rationales (“participating in economy”, “public reform”, “improving innovation”, and “improving transparency”) is called the “reform” factor because the rationales in this group represent the intentions of the government in using PPP to introduce reform in public organisations (“public reform”), in the service delivery (“improving innovation”) and in the procurement system (“improving transparency”). In fact, as discussed in the previous chapters, the issue of public reform in PPP is also advocated by the government in the official documents and by the actors in the interviews, although they receive little attention.

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<sup>67</sup> This is indicated by the component with Eigenvalues greater than 1. The estimation results also indicate that the factors explained around 56.425% of the variation. Thus, the factor analysis produced a three-factor solution that explained 56.43% of the variance.

2. Factor grouping 2 with four components (“conventional scheme is incapable”, “private sector is better”, “reducing price” and “imitating success”) represents the “alternative” factor. This name is given to this classification since the rationales in this group mainly reflect the view that PPP is an alternative to the current conventional public procurement. The statement that the private sector is better also represents the view that the current public services need to find new alternatives for managing infrastructure services through the involvement of the private sector. Similarly, the view that supports “imitating success” as the rationale holds that the implementation of PPP in other countries might be seen as an alternative for Indonesia.
3. Factor grouping 3 with two components (“limited government fund” and “accelerating infrastructure provision”) represents the “investment” factor, since these two rationales reflect the view that PPP is adopted in Indonesia because the government needs additional investment from the private sector to fill the infrastructure-financing gap. The rationale of using PPP to accelerate infrastructure provision is actually also based on the same logic that the additional investment from the private sector can be used to speed up the provision that otherwise cannot be afforded by the government. In fact, as described in the previous chapters, these two rationales are among the most dominant views developed by the government in the official documents and policy but are also considered by the majority of actors to be the most relevant rationales.

In general, the factor analysis of the survey results on PPP rationales adds new understanding to the research, in that a number of issues identified in the previous chapters can actually be grouped into three main issues according to the responses from the survey respondents; these pertain to investment issues, reform issues and alternative issues.

In addition, the survey asks the respondents an open question about their general views regarding the rationales and motivations of Indonesia in adopting PPP. Although the question was optional, it surprisingly received quite a large number of replies from the respondents (in this section, 84 open replies were received). Most responses reflect the views that have been identified as rationales such as filling the infrastructure-financing gap, improving transparency, and harnessing the private sector’s expertise. It is also suggested from the open responses that “filling the infrastructure-financing gap”, “constrained fiscal space”, “limited government financing capacity” and any other sentences with the same tone are dominating the responses.

It is also interesting to note that quite a number of responses raise the same criticism that the government's focus on additionality rationales should not overlook the other rationales such as improving transparency and quality of public infrastructure services. As stated by one response:

"The PPP rationale that the government do not have enough funds from their budget is not relevant because in fact many government expenditures are spent on less productive items, while improper subsidies are everywhere. So, for me, the development of PPP should be focused on improving public service management." (respondent 18)

Another interesting issue raised by the open responses is related to Indonesia's motive to follow the international trend in adopting PPP, as revealed by one respondent:

"Procuring infrastructure through PPP has been becoming a trend in recent years, so when PPP idea was introduced and supported by international agencies, the government was swiftly attracted to the idea without fully realising what it takes to implement this concept." (respondent 25)

The above statement supports the findings indicated in previous investigations that the motive to mimic the success of other countries is one of the drivers of PPP adoption.

#### **8.4 PPP problems and challenges**

The investigation of the actors' perspectives presented in chapter 7 has identified a number of issues perceived as problems causing difficulties for PPP implementation in Indonesia. The issues concerning the government's ability to establish strong coordination, leadership, commitment, regulatory framework and land acquisition are among the subjects identified as PPP problems. The background provided from the observation of the development of PPP also shows how PPP implementation is challenged by problems related to regulatory issues, lack of coordination and land acquisition.

The survey, in addition, is interested in investigating such issues related to the problems and challenges in the implementation of PPP policy, considering a number of reasons as described in the introduction of this chapter. Therefore, a list of problems and challenges of PPP implementation in Indonesia is listed in order to elicit responses through the survey. As shown in Table 9 of Appendix 4, the results suggest that most respondents seem to agree that issues such as insufficient legal framework (69.52%), lack of leadership (86.66%) and coordination (96.19%), and lack of commitment and seriousness (74.28%) are amongst the critical problems in implementing PPP in Indonesia. The widespread belief that these issues are among the main problems in Indonesia's PPP supports the views of the actors expressed

in the interviews. In contrast, the view that PPP is too complex to understand and PPP is a foreign concept is not shared by the majority of the respondents. Only 24.76% and 33.33% of respondents agree with those views, which surprisingly contradict the findings in the previous chapter.

When the respondents are asked to rank their perceptions of the problems and challenges of PPP implementation, they identify political intervention (18.10%) and the lack of leadership (18.10%) as the most relevant problems in Indonesia, followed by the lack of legal frameworks (17.14%), lack of coordination (12.38%), and technical issues such as land acquisition (8.57%). The political issues that are considered the main PPP challenges in Indonesia add to the uniqueness of PPP implementation in Indonesia as compared to other PPP practice studied in the literature.

Do different groups of respondents have different perceptions regarding the main problems and challenges of implementing PPP in Indonesia? Table 11 of Appendix 4 shows the results of the Kruskal-Wallis test for the respondents from different working units and echelons. Significant differences in perception among the respondents working in the financing, non-financing and external units regarding the problems are found with respect to the lack of legal framework ( $p=0.049$ ), lack of coordination ( $p=0.048$ ) and technical problems ( $p=0.011$ ) as the main challenges to implementing PPP. From the mean ranking values, there is an indication that the financing units tend to agree more with the aforementioned PPP problems than the other units. This is interesting since the investigation from the actors' perspective indicates that technical issues such as land problems are mostly among the concerns of the contracting units. Nevertheless, with respect to the echelons, the results suggest that there is no significant difference in perceptions between high, middle and non-echelons regarding the same issue. In a similar way, it is found that there is no significance difference in perceptions between the three groups of respondents in both working experience and work intensity categories regarding the five main problems of implementing PPP in Indonesia (see Table 12 of Appendix 4). Thus, differences in the variables do not seem to affect the respondents' perceptions.

Numerous problems and challenges in implementing PPP in Indonesia mentioned above can be reduced to several main issues by employing Factor Analysis. In this respect, initial results of the Factor Analysis suggest there are five sets of factors that explain such problems. The estimations also suggest that the factors explained around 63.34% of the total variation in the

data (see Table 14 of Appendix 4). The groupings based on varimax rotation as shown in Table 15 of Appendix 4 suggest that the problems and challenges of PPP implementation can be classified into five groups as follows:

1. Factor grouping 1 with four components (“lack of leadership”, “lack of incentives”, “lack of coordination” and “lack of skill”) represents the “organisational” factor, since these issues pertain to problems in the government organisation. In fact, the organisational issues of the government have been identified as critical problems in implementing PPP in Indonesia.
2. Factor grouping 2 with four components (“no clear policy”, “political intervention”, “lack of regulatory framework” and “lack of seriousness”) can be referred to as the “policy” factor. This name is given to this classification as this group of issues is related to the efforts of the government to develop the policy framework on PPP.
3. Factor grouping 3 with three components (“PPP is complex”, “PPP is a new thing” and “PPP is a foreign concept”) represents the “conceptual” factor, because these issues are all concerned with the perception of the PPP concept itself.
4. Factor grouping 4 with one component (“technical problems”) represents the “technical” factor, which covers technical issues such as difficulties in land acquisition for PPP projects.

This classification provides a new perspective on how problems of PPP implementation in Indonesia might be understood. It suggests that, in general, the concerns pertain to policy issues, organisational issues, conceptual issues and technical issues.

Responses to open questions in this section also provide many new insights into the issues related to the problems and challenges of PPP implementation in Indonesia. A number of interesting comments can be identified. Generally, the responses agree with some issues that have been identified before with regulatory, coordination and commitment issues the most frequently mentioned. The issue of corruption is also frequently quoted as one of the problems in PPP implementation. It is represented by different terms such as “in executing the projects the government is still disturbed by many interests” (respondent 45), or “PPP opens the opportunity for politicisation” (respondent 54), or “the clash of interests, be they personal, group or political interests” (respondent 88) or “the policies suffer from too much intervention from political interests” (respondent 103). One respondent specifically suggested:

“There might be some political games involved, in which partnerships on big projects with foreign companies tend to be inhibited and directed towards local companies that have special connection with the authorities. This rumor has been circulating but it is difficult to prove.” (Respondent 89)

However, there are other new issues identified as PPP problems such as “resistant to change” (respondent 16) and “improper risk sharing” (respondent 79). Moreover, a number of responses question the government commitment by suggesting that PPP in Indonesia is only “rhetoric” (respondent 89) and is only done “to gain public sympathy” (respondent 24). A more elaborate comment is made by a respondent:

“Too much talk, no action. So many rules and regulations on helping land acquisition and other matters yet nothing has moved. It all comes down to a strong honest leader who is willing to put political ambitions on the side and actually wanting to make a difference.” (respondent 104)

Overall, the open responses of the survey confirm the issues that have been identified before and identify new problems. They actually assert that PPP problems are complex and involve cultural issues (such as “resistance to change”), political issues (such as “to gain public sympathy”) and technical issues (such as “improper risk sharing”).

## **8.5 Roles of external agencies**

Since the findings in the previous chapters have indicated that the external agencies are among the most influential channels in bringing PPP to Indonesia, the survey focuses on exploring the responses in relation to the role of external agencies in introducing PPP to Indonesia.

Initially the survey explores the involvement of the respondents with the activities and products delivered by the external agencies in relation to PPP, such as their participation in training, workshops and seminars as well as their association with the agencies’ policy recommendations. It turns out that the majority of respondents have been involved in such activities “a few times” (53.3%) although 10.5% of respondents have “never” joined the programmes (See Table 16.A of Appendix 4). Moreover, the majority of respondents believe that the PPP training and workshops delivered by the external agencies are “useful” (61.9%) and “very useful” (22.9%), while a few of them claim that the activities are “not really useful” (5.7%) (see Table 16.B of Appendix 4). Furthermore, only 3.8% of the respondents “never” read PPP recommendations provided by the external agencies, while 51.4% “occasionally” read them and 37.1% “rarely” read them. When asked whether those recommendations are influential in their ideas about PPP, 54.3% of respondents say that they



are “influential” while 6.7% state that they are “very influential”. In contrast, 33.3% of respondents believe that the recommendations are “not really influential” while 4.8% claim that they are “not influential”. Overall, these figures may partly indicate the significant influence of external agencies in the development of PPP in Indonesia, as has been suggested in the previous chapters (see Tables 16 C and D, Appendix 4).

Meanwhile, to investigate the perceptions of the actors on the roles of external agencies, the survey poses a number of statements for the respondents’ consideration. The list includes statements about the importance of external agencies’ role in the development of Indonesia’s PPP, the commitment of external agencies to assisting PPP development in Indonesia, the understanding of external agencies of the Indonesian contexts, and the support of external agencies for Indonesia’s PPP. Moreover, the survey also poses some negative statements about the external agencies such as the “hidden” interests of external agencies in bringing PPP to Indonesia, the doubts about the “neoliberalism” agenda brought by the external agencies, and other criticisms of the performance of external agencies’ assistance. The results of the investigation are presented in the descriptive statistics as revealed in Table 17 Appendix 4.

In general, the majority of respondents agree with the statements that the external agencies’ role is important (60.96%), the external agencies fully support PPP implementation in Indonesia (65.71%), and the external agencies incorporate PPP core issues such as accountability, transparency and competition in their recommendations (78.09%). However, the majority of respondents tends to be neutral (37.14%) on or opposed (37.14%) to the statement that the external agencies understand Indonesian contexts. In fact, these figures show mixed views on the role of external agencies as identified through the interviews, in that their influence in and contribution to the introduction of PPP in Indonesia is widely acknowledged but at the same time they are suspected of harbouring intentions other than assisting Indonesia to improve its public infrastructure through PPP.

Given the description of the perceptions of the respondents on the roles of the external agencies, the survey is furthermore interested in examining the significant differences in the respondents’ views based on their characteristics. Tables 19-20 Appendix 4 report the results of the Kruskal-Wallis test regarding significant differences in respondents’ views on the main roles of external agencies in PPP adoption in Indonesia. With respect to the working unit, as shown in Table 19, the test results generally suggest that there is a significant difference in

perception between the respondents working in the financing, non-financing and external units regarding the importance of the external agencies' role ( $p=.044$ ). The mean ranking scores suggest that respondents working in external units tend to agree more than the others that the external agencies play an important role in PPP implementation in Indonesia, which is very much as expected. Nevertheless, with regard to the respondents' echelons, the findings suggest that there is no significant difference in perception between high, middle and non-echelons on the issue.

Different views amongst respondents with different working experience and work intensity are reported in Table 20 of Appendix 4. In relation to working experience, significant difference is found with respect to the unsatisfactory achievement of the external agencies' targets ( $p=.031$ ) in supporting PPP implementation in Indonesia. From the mean ranking scores, there is an indication that those who have been in office longer (i.e. greater work experience) tend to agree with the opinion that the external agencies do not meet their targets. Meanwhile, with respect to work intensity, the results generally indicate there is no significance difference in perception amongst those whose work is mostly, to some extent or only slightly related to PPP regarding the roles of external agencies in supporting and enhancing PPP adoption in the country.

Moreover, Table 21 of Appendix 4 shows the results of the Mann-Whitney test for respondents with different educational backgrounds and amounts of foreign exposure. No significant different in perception regarding the main roles of external agencies is found amongst those with different educational backgrounds. However, the test suggests that there is a significant difference in the perception of respondents with different levels of foreign exposure with respect to the external agencies' support for PPP issues ( $p=.044$ ). Based on the mean ranking score, there is an indication that those have been living abroad tend to agree on the importance of the role of the external agencies in incorporating issues such as accountability, transparency and competition in PPP implementation.

Overall, this part of the analysis suggests that the differences among the views of the actors on the statement about the roles of external agencies in PPP development in Indonesia are not generally explained by the different profiles or backgrounds of the respondents. Some indications of significant differences are found in the investigation. However, they do not provide sufficient additional insights to help answer the research questions. For example, it is found that respondents working in the external agencies tend to agree on the important role of

external agencies. Such a finding can easily be expected and is therefore not surprising. However, there is one particular finding that may be meaningful, i.e. the finding that the tendency to agree with the importance of external agencies' role is explained by the difference in foreign exposure. According to the mean ranking score, there is an indication that those who have been living abroad tend to agree on the importance of the role of the external agencies in incorporating issues such as accountability, transparency and competition in PPP implementation.

In addition, this section collects a number of open replies from the respondents on the issue of external agencies' influences in introducing PPP to Indonesia. As identified in previous investigations, a large number of open responses also raise positive and negative views about the roles of external agencies in introducing and developing PPP in Indonesia. The positive views such as appreciating the superior knowledge of external agencies about PPP best practices around the world, their professionalism, their support, their understanding and their concerns in assisting Indonesia to develop PPP are among the recurrent replies in this section. In contrast, negative views such as "confusing" (respondent 4), "neglecting local contexts" (respondent 8), "egoistic" (respondent 9), "defending foreign companies' interests" (respondent 23), "only caring to sell their products" (respondent 51), and "political" (respondent 54) are among the expressions associated with the external agencies. Moreover, some responses try to find a middle ground by suggesting that Indonesians have to realise the business nature of the external agencies and to understand that selling financial products is common and fair for them. It is the task of the government to extract the maximum advantage from the external agencies and decide which recommendations are best for the country. As suggested by two respondents:

"External agencies are important partners in learning and getting the job done. It is a fair and reasonable thing for sure that they bring their interests. The most important thing is Indonesia's ability to find common ground that benefits both parties. Is not this the principle of cooperation?" (Respondent 18)

"External agencies are a useful support for government, but a terrible lead. Of course, they are trying to sell their products. That is their nature, but they also try to help. There will be tension between what HQ thinks, what local team thinks and what government thinks, this is healthy, but government needs to decide what is most important for Indonesia, this cannot be outsourced to external agencies. PPP is a marriage between government and private investor, a long-term relationship, external agencies can be a good friend or brother to help advise on that marriage, but do not expect the external agencies to live in the marital home." (Respondent 3)

Another issue commented on by the respondents relates to the appropriate role to be played by the external agencies. Some views suggest that the external agencies should be regarded as “partner” (respondent 18), “think tank” (respondent 16), “advisor” (respondent 16), “facilitator” (respondent 17) or “catalyst” (respondent 17). In fact, these expressions commonly recommend that the roles of external agencies be managed and restricted in order that they do not intervene too deeply in policy development in Indonesia. A respondent suggested:

“External agencies are quite supportive, particularly in showing the international best practices. Yet, their interventions cannot be too deep because it is us who know the details of our country.” (Respondent 33)

Some suggestions are also raised with regard to their roles, such as exemplified by one respondent’s view:

“External agencies should provide supports by allowing some spaces for local resources to engage in solving their own problems based on their own understanding about Indonesia. I believe local resources can understand better the problems of their own people. International agencies should only provide reference and comparison, not dictate what they call best practices, including the use of foreign consultants or anything affiliated with foreigners. I believe the chaotic laws and regulations disorder about PPP are caused by their involvement.” (Respondent 35)

Another common issue raised by the respondents is the need to make a distinction between “multilateral agencies”, which represent multinational organisations such as the World Bank, ADB, and IMF, and “bilateral agencies”, which refer to institutions representing particular countries such as JICA and JBIC (Japan), Ausaid (Australia) or USAID (United States). For example, a respondent argues:

“We can positively appreciate multilateral institutions, but the bilateral institutions tend to have one-sided interests.” (Respondent 70)

The analysis of the results of open responses in this section generally suggests that there are mixed views on the role of external agencies in assisting Indonesia to develop PPP policy, with some seeing it as a positive contribution and others seeing it as creating problems. This suggestion supports the finding in the interviews indicating such mixed views among the actors.

## **8.6 Socio-cultural and political context**

As suggested earlier, one of the objectives of this research is to examine the development of PPP given the social, economic, political, cultural and religious contexts of Indonesia. It is

assumed that the introduction and development of PPP in Indonesia is influenced not only by economic and financial issues but also by other motivations inspired by Indonesian social, political, cultural and religious contexts.

The investigation through the historical lens has suggested a number of issues that may be involved in the development of PPP. They include the Indonesian environment that shapes PPP becoming very politically driven, the PPP element of competition often conflicting with the Indonesian culture of harmony, and the efforts to make PPP more compliant with Islamic financial principles. These findings are regarded as important information that needs to be explored. However, as political, cultural and religious issues are often considered sensitive topics, investigating such issues through direct interviews is often difficult as respondents may be reluctant or afraid to express their views explicitly. Therefore, in this chapter, a survey that assures anonymous responses is introduced to explore the views of the respondents on the issue of Indonesian contextual factors that may affect the development of PPP.

In this regard, some statements about the contextual issues of PPP implementation are listed in the survey. These statements mainly pertain to the issue of whether PPP is suitable for Indonesian contexts and how it should adapt to them. Table 24 of Appendix 4 presents the descriptive statistics of respondents' perceptions with regard to the statements. Generally, the majority of the respondents believe that PPP needs to be modified to adapt to the Indonesian contexts (74.3%), while slightly more than half suggest that Indonesia needs radical change for PPP to work in the country (52.4%). In relation to this, competition and transparent bidding are seen as the best way of producing better services by more than 90% of the respondents. Furthermore, around 57.1% of the respondents believe that PPP fits with the religious values in Indonesia. As such, around half of them are neutral when asked about the need to adjust PPP to the religious values. Despite that, approximately 46.7% suggest that more *shari'ah*-compliant PPP is needed while another 35.2% believe that *shari'ah*-compliant PPP is more acceptable in the context of Indonesia.

Do different groups of respondents with different social backgrounds have different perspectives on the socio-cultural, political and religious contexts of PPP implementation in Indonesia? In other words, is there a relationship between the social backgrounds of respondents (educational level, religious and foreign exposure) and the socio-cultural, political and religious contexts of PPP adoption in Indonesia? This issue is investigated using

a series of Chi-Square tests whose results are reported in Tables 25 to 27 of Appendix 4. Table 25 shows the results of the Chi-Square test for the significant relationship for respondents with different educational levels. The null hypothesis of no significant relationship is only rejected with respect to the importance of the Indonesian context's modification of PPP ( $p=0.03$ ). This result implies that there is a significant relationship between the importance of the Indonesian context's modification of PPP implementation and the educational level of respondents. However, the Chi-Square results could not identify which group differs.

Significant relationships are also found in terms of the religious backgrounds and religious aspects of the statement. The perceptions regarding the need to adjust PPP to religious principles (such as avoiding interest) ( $p<0.01$ ), the need to increase “*shari'ah-compliant*” PPP projects ( $p<0.01$ ), and the idea that “*shari'ah-compliant*” PPP projects are potentially more acceptable to the Indonesian public ( $p<0.01$ ) significantly relate to the religious background of the respondents. While these findings are interesting, as they reveal such religious inspiration in developing PPP, they are not particularly surprising since the perception supporting “*shari'ah-compliant*” PPP is assumed to have been raised by Muslim respondents. Nevertheless, it is surprising that significant relationships in terms of religious backgrounds of respondents are also found with regard to the perception regarding the need to adjust PPP to the Indonesian context ( $p=0.04$ ) and the idea that Indonesia needs radical change for PPP to work well in the country ( $p<0.01$ ). It is also noticeable that a weak relationship is found with respect to the perception of confronting PPP elements of competition and the Indonesian attribute of harmony and PPP's strong association with capitalism versus Indonesia's principle of social justice ( $p=.06$  and  $p=0.07$  respectively). However, the Chi-Square results could not identify which group differs. In a similar way, Table 27 reports the significant relationships across respondents with different respondents' foreign exposure. In general, no strong, significant relationship is found between the variables. However, weak relationships are found in three aspects, namely the perception of conflict between PPP elements of competition and Indonesia's harmonious nature ( $p=0.07$ ), the perception that PPP is a Western product ( $p=0.08$ ) and the need for PPP to adjust to the Indonesian context ( $p=0.09$ ).

Moreover, the open responses in this section also provide some interesting results. The comments on the contextual factors of PPP implementation are mainly centred on the views on whether social, cultural and religious issues are of significance in PPP implementation.

Some responses suggest that these factors are important and deserve some specific attention; therefore, modification or adaptation to Indonesian contexts is needed. For instance, as suggested by a respondent:

“PPP is actually already in accordance with the spirit of religion and Pancasila<sup>68</sup>. However, because PPP is often introduced as a 'Western product' then most people are somewhat resistant to this idea. If PPP is modified to the Indonesian context, perhaps it would be more acceptable to the public. For example, because the majority of Indonesia's population is Muslim, PPP implementation in accordance with *shari'ah* (e.g. PPP implementation through a profit sharing scheme, using sukuk instruments, etc.) may be more acceptable to the public.” (Respondent 89)

Other views also support the consideration of contextual factors in PPP implementation. Among this type of suggestion is the comment that “if PPP is supported and scrutinised to its political, social and cultural elements then its implementation can be done more smoothly” (as stated by respondent 38). In contrast, other responses regard PPP issues as having little to do with cultural and religious issues. As suggested by one respondent:

“PPP implementation has NO relation with particular religions. Transparency, accountability, honesty, fairness in profit taking are UNIVERSAL norms that need to be considered in the implementation of the PPP.” (Respondent 102, capital letters are the respondent's).

Such an argument rejecting the idea of accommodating particular religious values is also raised by many other respondents. One of the arguments was as follows:

“PPP contradicts against religions? Which principles are we talking about? If it is about the problem of usury/interest, this really needs a clear fatwa. I think if PPP is implemented with good governance, it already is in accordance with religious principles, let alone with political, social and cultural values.” (Respondent 18)

Nevertheless, although religious and socio-cultural issues need to be separated from the PPP discourse, some still think that such issues can be considered if they practically benefit the public or the users. One respondent argued:

“Infrastructure issues need to be separated from the religious and socio-cultural issues. Religion and socio-cultural issues are not valid reasons to impoverish the society by rejecting the infrastructure development. Indonesia is not a theocratic country. There is no need to impose *shari'ah* principles. Especially if they undermine principles of competition that eventually make infrastructure services more expensive and a burden to society. If *shari'ah*-compliant PPP can create more efficient and competitive services compared to the conventional PPP, then that should be fine.” (Respondent 72)

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<sup>68</sup> Pancasila is the Indonesian state philosophy that comprises five principles; belief in divinity of God, just and civilised humanity, the unity of Indonesia, democracy guided by the inner wisdom in the unanimity arising out of deliberations among representatives, and social justice for the whole of the people of Indonesia.

In fact, some respondents also view the religious issues, particularly in relation to the application of Islamic or *shari'ah* financing in PPP, as a practical and political instrument rather than an ideological one. As stated by respondent number 95, “*shari'ah*-compliant PPP scheme can be applied in regional level as a start for penetration [of PPP implementation]”.

Overall, the survey responses provide support for previous investigations that the aspiration of involving socio-cultural and religious values in PPP implementation does exist. However, such aspiration is challenged by another view that sees some of the values as universal and that there is therefore no need to make modifications or adaptations. Another view suggests that religious issues can be used in a more practical way to help the implementation achieve the objectives.

### **8.7 Merit and worth of PPP**

The investigation of the historical development of PPP in the previous chapters has provided some information on how PPP in Indonesia delivers outcomes and benefits to society. Although no adequate policy evaluation on PPP has been provided by the government, the exploration of the project level as well as the policy level indicates that outcomes of PPP implementation in Indonesia have been generally unsatisfactory, particularly due to the slow execution, high prices for the public and low quality of services. Nevertheless, given those figures on the realisation, the examination of the actors' perspectives suggests that there is still optimism on the future prospects of PPP in Indonesia. In the light of these contrasting figures, the survey aims to explore the views of the actors from a wider audience on the merit and worth of PPP in Indonesia.

Again, some statements are raised in the survey to elicit responses from respondents in order to discover the perceptions on the merit and worth of PPP implementation in Indonesia. The statements are mostly related to the issue of merit and worth of Indonesia's PPP and its workability in the future. Table 28 of Appendix 4 reports the perceptions of respondents on such statements. The general picture of the findings about the merit and worth of PPP in Indonesia in this section shows that the respondents are generally unconvinced about the current performance and outcomes of PPP. The result suggests that the respondents are mostly neutral on the statements that “PPP has delivered better services” (46.67%), “PPP has produced more efficient prices” (42.86%), “PPP is better than conventional procurement” (56.19%) and “PPP has supported public reform” (42.86%). Interestingly, a slight majority of responses agree with the statement “PPP has improved public accountability” (57.14%).



Considering their views on the merit and worth of PPP, when asked about the future prospects of PPP quite a lot of respondents state “agree” (46.67%) and some state “strongly agree” (13.33%). In fact, these findings suggest that respondents are generally unsure about the merit and worth of PPP in relation to some PPP objectives, probably because they are confronted with the unsatisfactory realisation of PPP as described in chapters 5 and 6 on the historical development of PPP. Nevertheless, when the respondents are asked about the future prospects of PPP, the majority of them believe that “PPP can be successfully implemented in Indonesia”. Therefore, such optimism is based not on the current merit and worth of PPP since its initial implementation in the 1990s but on something else.

The research is also interested in finding explanations that might link the different responses about the merit and worth of PPP to the different backgrounds of respondents. Table 30 of Appendix 4 summarises the results of Kruskal-Wallis tests regarding significant differences in perceptions of the merits and worth of PPP across respondents from different working units and echelons. With regard to the working unit of the respondents, significant differences in perceptions are only found in relation to the statement that PPP has delivered better services ( $p=0.028$ ) and optimism about future PPP adoption in Indonesia ( $p=0.022$ ). The mean ranking scores are significantly higher amongst the external units. Overall, the results imply that perceptions of distinct working units are significantly different, with an indication that the external units tend to believe that PPP has delivered better services and that it might be implemented successfully in Indonesia. This finding is interesting in that the respondents from the external agencies show more appreciation for and optimism about PPP in Indonesia than those working in the government.

Meanwhile, with respect to echelon, significant differences are found in the public accountability aspect ( $p=0.024$ ). Higher ranked scores are evident for the high echelon. Therefore, it can be suggested that there is a significant difference in perception related to PPP roles in improving public accountability in which the high echelon tend to agree more with this achievement. Further testing for the respondents, as reported in Table 31 of Appendix 4, with different working experience suggests that such perception differences are only found with respect to the belief in PPP’s superiority over conventional procurement schemes ( $p=0.030$ ). There is also an indication that those with shorter lengths of experience tend to support the belief. As for the work intensity variable, significantly different perceptions are revealed regarding the statement that PPP has contributed to accelerating infrastructure provisions. Interestingly, it appears that those with lower work intensity with

PPP are very confident about this positive role. They also appear to be more certain that PPP has supported the public reform although, in terms of statistics, the significant difference in this aspect is relatively weak ( $p=0.083$ ).

Table 32 of Appendix 4 summarises the results of the Mann-Whitney test for the merits and worth of PPP across respondents with different educational backgrounds. It is evident from the results that two aspects, “PPP has delivered better services” and “PPP has accelerated infrastructure provision”, are statistically significant at the 5% level. The sum of rank scores is also higher amongst those with non-economic/business backgrounds. Taken together, the results generally suggest that the respondents with non-economic/business backgrounds have a greater tendency to believe that PPP has delivered services and that it is able to accelerate infrastructure provision in Indonesia.

The last question in the survey is an open question asking the respondents to make general comments about PPP in Indonesia, as there may be some issues left uncovered in the previous survey questions. The open replies from the respondents generally cover issues already covered in the previous questions. Some comments about the problems and challenges of PPP implementation in Indonesia are raised, including those about the regulatory problems, institutional problems, and capacity problems. Moreover, there are comments about cultural and social issues that have been previously discussed. Nevertheless, some open replies identify new issues such as the need to increase the involvement of society in the PPP process, as suggested by one respondent:

“The development of PPP needs to enlarge the involvement of the society from the planning and construction stage so that people feel the benefits of the development and get some sense of belonging to the infrastructure development.” (Respondent 16)

This argument is substantial in the context of Indonesia because the involvement of the public in policy development in Indonesia is not yet widely encouraged particularly due to the rigid and paternalistic structure of bureaucracy inherited from the Suharto era. This phenomenon is supported by another respondent:

“In addition to legal and regulatory problems, the paternalistic pattern of bureaucratic relations strongly contributes as obstacles to Indonesia’s efforts in implementing PPP. Surprisingly, such patterns also happen and influence the relationship between the government and SOEs in relation to PPP.” (Respondent 35)

Moreover, another issue raised by the respondents in their open replies is concerned with the need to evaluate the projects implemented as PPP in Indonesia. As identified by the

investigation of the development of PPP in chapters 5 and 6 of this research, formal and systematic evaluations of PPP programmes and projects have not been well developed by the government despite the fact that PPP has been implemented since the early 1990s. The absence of such evaluation potentially restricts the government in its efforts to improve the implementation of PPP and to explore other possible avenues. As suggested by one respondent:

“It is necessary to evaluate PPP projects that have been implemented based on their achievement and benefits to the government and the society. Based on that evaluation, some problems and deficiencies can be fixed. In addition, the implementation of PPP needs to consider Indonesia’s socio-cultural contexts. So the implementation can be improved in the future.” (Respondent 89)

Finally, the open replies also point out the issue of corruption in PPP, particularly in relation to the involvement of interests of politicians. Although this issue has been identified in the previous investigations, the emergence of this issue in the open replies of the survey suggests that PPP in Indonesia is still closely associated with corruption. These two statements reflect such ideas:

“It doesn't look like PPPs as they are understood will happen anytime soon. Too many vested interests and strong nationalism in certain quarters will prevent PPPs from flourishing in Indonesia. It is sad but true.” (Respondent 1)

“No coordination, lack of strong incentives and very little desire to change the status quo that enriches political technocrats.” (Respondent 6)

Overall, besides confirming the presence of some already-identified issues such as corruption, these open responses add many new perspectives about the general shape of PPP implementation in Indonesia. The lack of society’s involvement and the absence of evaluation are among new issues that need to be taken into account in observing PPP in Indonesia, which is potentially useful for addressing the research questions.

## **8.8 Summary and conclusion**

This chapter highlights some interesting findings in relation to the research questions of the study. With regard to the rationales and motivations of adopting PPP, it is found that the respondents generally agree with the rationales identified in the previous chapters. It is also shown that the majority of the respondents believe that the limited government budget is the most relevant motivation for Indonesia to adopt PPP. When the perceptions on the rationales are linked to the characteristics of the respondents, it is observed that some differences in the arguments are explained by the characteristics of the respondents. For instance, the

respondents in the financing units are more likely to support improved transparency in PPP, which is also indicated in the previous exploration. Moreover, the result of the Factor Analysis suggests that PPP motivations can actually be grouped into three main issues: PPP as an investment, as a reform, and as an alternative.

On the issue of PPP problems and challenges, the results of the survey are more diverse. While the respondents commonly agree on some identified problems such as lack of coordination and lack of regulatory frameworks, they tend to disagree on issues such as the novelty and complexity of PPP concepts. The perceptions of the respondents are also more diverse in viewing the most relevant problems of Indonesia's PPP, with political intervention and lack of government leadership considered the most important factors. Meanwhile, factor analysis of the PPP problems suggests five main issues that may disturb the implementation of the policy including the policy issues, conceptual issues, organisational issues, technical issues and capacity issues.

The results of the survey also indicate that the majority of the respondents acknowledge the significant roles of the external agencies in assisting PPP implementation in Indonesia and their support for the application of PPP elements such as accountability, transparency and competition. However, there are also indications of suspicion about the external agencies' intentions in becoming involved in the development of the PPP policy. Meanwhile, it is suggested that the respondents working in the external agencies admit the importance of the roles of their agencies in the development of the policy, which is very much as expected. Moreover, it is interesting to see that respondents with longer working experience tend to be more dissatisfied with the assistance provided by the external agencies. Additionally, the exposure of respondents to foreign environments is also a factor in that those who have more foreign exposure tend to agree that the external agencies have an important role in supporting PPP principles.

In terms of socio-cultural and religious contexts of PPP implementation, it is observed that the majority of respondents disagree that PPP contradicts the socio-cultural and religious values of Indonesia. However, they also support the idea that PPP needs to adapt to Indonesian contexts. With regard to religious values, most respondents show their neutrality on such issues although many of them support the Islamic form of PPP transactions. The agreement on the importance of modifying PPP to religious values and Islamic modes of

transactions is undoubtedly fortified by a certain group of religious respondents, who are presumably Muslim respondents.

The survey also investigates the perceptions of the respondents on the merit and worth of PPP. It is suggested that generally the respondents are indecisive in assessing the merit and worth of PPP, particularly as they are not sure whether PPP has delivered better services, produced more efficient prices, accelerated provision, and supported public reform. The respondents are also indecisive in determining whether PPP is better than the conventional schemes, but they are convinced that PPP can be successfully implemented in Indonesia. Furthermore, the differences in the perceptions are explained by certain characteristics of the respondents; for instance, it is suggested that the respondents from the external agencies tend to be more appreciative of the merit and worth of PPP and optimistic about PPP's future in Indonesia.

Overall, the survey is essentially able to fulfil the expectations by providing more views and insights that help answer the research questions. These results, together with the findings presented in the previous empirical chapters, will be linked and analysed more comprehensively in the next chapter.

## **Chapter 9 Understanding unique characteristics of PPP implementation in Indonesia: Contextualisation of the overall findings**

### **9.1 Introduction**

Up to this point, the research has provided some findings on how the international agencies have brought PPP to Indonesia, how they are accepted by the officials and how their roles still have impacts on the current PPP form. The development of PPP rationales and the various views of the actors discussing those rationales have also been identified. Moreover, the changing nature of PPP from the early 1990s to 2012 as well as the problems and challenges found in the implementation during this period have been outlined.

This chapter attempts to analyse and contextualise the findings discovered during the investigations within the research framework formulated at the beginning of the study. In that regard, this chapter draws together a more comprehensive discussion on all the findings of the previous chapters and marks out linkages between issues described in the literature review as well as those outlined in the theoretical framework and elaborated in the following empirical chapters. The analysis and discussions in this chapter will also examine how the findings from the empirical chapters have implications for the current knowledge and theories about PPP. Nevertheless, before discussing all these findings, general observations on PPP in Indonesia and its interactions with the Indonesian context are provided to draw a foundation for understanding the nature of PPP in Indonesia.

### **9.2 General observations on PPP implementation in Indonesia**

The explorations of a number of specific issues of PPP implementation in Indonesia in the previous chapters suggest some particular characteristics that define the nature of Indonesia's PPP, which are able to distinguish it from cases in other countries. A better understanding of the nature of Indonesia's PPP will aid further analysis of how PPP is implemented and developed in Indonesia. Indeed, Broadbent and Laughlin (2004) suggest the importance of investigating the underlying nature of PPP in understanding the uniqueness of PPP development and its applicability in different countries. As PPP has been widely adopted in many countries across the world, it may emerge and develop under various drivers and contexts and may therefore be defined in different ways. However, given the plethora of definitions of PPP provided in the literature review chapter, it will probably be helpful to understand what Indonesia's PPP is not as well as what it is. Moreover, by comparing Indonesia's PPP with some theoretical concepts and other established PPPs in other countries, certain issues about the nature of Indonesia's PPP can be raised.

Firstly, Indonesia's PPP is mostly understood as a policy instrument to attract private funds rather than as a tool to achieve greater value for money. Such a feature can clearly be seen from the exploration of the historical review of Indonesia's PPP, particularly from the development of frameworks and the government rhetoric. Likewise, the views of the actors obtained through the survey and interviews support the idea that PPP is mainly seen as a fiscal instrument to fill the financial gap in the provision of public services. Nevertheless, the case of Indonesia shows that, despite the government's efforts to emphasise such a view, there are several alternative views that see PPP differently. It is suggested that PPP is also seen as an instrument to improve value for money and quality of public services. Although such alternative views only appear as a minority, their contribution to shaping the forms of PPP cannot be easily neglected. This study finds that greater attention to accountability issues in PPP frameworks is mainly driven by those who hold such alternative views.

Such a main feature of Indonesia's PPP may confirm the argument outlined by Onishi and Winch (2012) who suggest that PPP in developing countries is mainly seen as a fiscal policy instrument to attract more funding from the private sector to finance public facilities. Moreover, the findings of this research add a new understanding that, although PPP in a developing country is predominantly seen as a policy device to attract investment, there may be alternative views in such countries that see PPP as a tool to improve value for money and enhance the quality of public facilities. Furthermore, the findings of this study reveal that there are dynamics in how the government sees the nature of PPP in Indonesia, where the dominant view of seeing PPP as an investment tool is always challenged and criticised by the other views. This feature of Indonesia's PPP can be used to construct the case to answer the research question particularly on the rationales issue.

Secondly, there has been little correlation between Indonesia's PPP and discussions on the accounting treatment of PPP transactions. The historical exploration in chapter 6 has shown that the links between PPP and issues of accounting treatment are not significantly apparent since they are not well developed by the government. Moreover, the investigation of the actors' views also suggests that, in general, the government has not been ready to develop an accounting framework for PPP, particularly because of the limited number of skilled officials and the lack of coordination among government units. These findings about the links between accounting issues and PPP implementation in Indonesia also add a new perspective to the current knowledge on how PPP in developing countries is linked to the issues of accounting treatment. Onishi and Winch (2012) identify that the issue of accounting treatment is less

relevant in developing countries because the lack of funding to finance public services that drive PPP implementation does not arise from public debt limitations. This study suggests that the underdevelopment of accounting treatment for PPP transactions in developing countries may also be driven by other causes such as lack of technical and institutional capabilities.

Thirdly, unlike in the UK, Australia and other developed economies, Indonesia's PPP has a limited association with the idea of public management reform. This research has identified a lack of evidence that the implementation of PPP is directly associated with the discourse of reforming the public sector. The government of Indonesia has introduced several policy reforms that can be associated with the idea of public management reform, including the implementation of performance-based budgeting, the empowerment of the State Audit Board and the adoption of an accrual accounting system (Harun *et al.*, 2013). However, PPP in Indonesia is mainly developed under the idea of using it to fill the infrastructure-financing gap with additional funding from the private sector and to accelerate the provision of infrastructure services that are considered to be lagging behind. Therefore, the association of PPP with the idea of reforming public service, encouraging more competition and improving efficiency, as suggested by the NPM doctrines (Hood, 1991; Hood, 1995), is relatively underdeveloped. Although there are several PPP objectives and principles stated in the Indonesian PPP frameworks that might be linked with the elements of NPM, as a government policy PPP is relatively isolated from other reform policies, as previously indicated. This finding adds a new perspective to current PPP studies that mainly associate PPP with the idea of NPM. For instance, Broadbent and Laughlin (2005) explore the case in the UK and indicate that PFI (Private Finance Initiative) is actually developed from the notion of NPM, which is trying "to make the public sector more like the private sector" (p.107). Yescombe (2007) also suggests that PPP actually bases its theoretical and political grounds on the notion of NPM.

Overall, all those characteristics of Indonesia's PPP are identified and discussed to provide an initial assessment of how PPP is introduced and developed in the contexts of Indonesia. These characteristics can provide an initial suggestion to show PPP as a product of translation, particularly as a result of the actors' activities in understanding PPP and mobilising it to contribute to shape the policy of the Indonesian government. In this regard, the frameworks such as institutional isomorphism (DiMaggio and Powell, 1983), translation (Zilber, 2006) and situated functionality (Ahrens and Chapman, 2007) can be useful in



providing a comprehensive understanding, which can be obtained by analysing a number of themes extracted from the findings in the previous chapters, as described in the next sections.

### **9.3 How Indonesian context affects and is affected by the development of PPP**

One finding that appears consistently in the discussion of PPP in Indonesia in all the empirical chapters is that the development of the policy is highly influenced by issues specific to Indonesian contexts, notably the political, social, cultural and even religious issues. The exploration of the history of Indonesia's experience in involving private financing from the colonial era in the 19<sup>th</sup> century until the current government, as discussed in chapters 5 and 6, suggests that the practice of involving private financing in infrastructure has gone through many different political and social situations. It can be suggested that private financing and PPP in particular always increase when the political situation is stable and economic conditions are steady. The rise of private financing in the colonial era in the 19<sup>th</sup> century, the initiation of PPP in Suharto's era in the 1990s and the reintroduction of PPP in 2005 provide some evidence in support of that claim. In contrast, private financing and PPP typically decline when politics and the economy are in chaos, as suggested by the events of the crises in the 1940s, 1950s and 1997. Nevertheless, the rise and fall of private financing and PPP are apparently not only about political and economic stability, which are always required for any social or economic activity. Rather, the dynamics also involve some political ideologies as falls in private financing and PPP are often accompanied by the rise of ideologies such as nationalism and socialism (further discussion on this topic is presented in chapters 5 and 6).

Such a perspective may add to the current knowledge about how PPP is linked to its ideological references. While Linder (1999) suggests that the meaning of PPP can be explored by linking it to its ideological commitments, which are identified as neo-conservative and neoliberal ideologies, this research finds that the ideological issue in relation to the PPP implementation in Indonesia is more concerned with the rejection of PPP rather than its rationales. The decline of private financing in the 1950s and the fall of PPP at the end of the 1990s show that the ideological rhetoric of nationalism and socialism is often used to challenge the application of PPP in the country.

Moreover, different regimes and different political systems during the life of Indonesia's PPP also affect how PPP is introduced and implemented. PPP initially arrived in Indonesia at a time when the reign of Suharto was more firmly established than at any time in the three

decades of his presidency. The domination of Suharto in the political decision-making was unchallenged by any force in the political system including the parliament, opposition parties or any other noticeable force in Indonesia (Vatikiotis, 1993). The decision to adopt PPP was taken relatively quickly because it was approved by Suharto, through a number of considerations given by his cabinet members, his family members or his cronies.<sup>69</sup> Most PPP projects were also executed relatively quickly because the decisions on those projects were regarded as commands from Suharto rather than proposals that had to go through the process of selection and procurement. In contrast, the latest wave of PPP was re-initiated by Yudhoyono, the current president who came to power in 2004. Yudhoyono was the first Indonesian president to be directly elected in a democratic general election. Although he won the election convincingly with a majority of the votes, he faced an increasingly powerful parliament and opposition parties. Confronted with such a situation, Yudhoyono decided to share the political powers, partly by giving a number of ministerial positions to other political parties. Consequently, the decision-making process in the cabinet was often slow since many issues had to be politically negotiated with other parties. In relation to PPP implementation, Yudhoyono's regime has apparently produced fewer projects and achieved less particularly because the decision-making process is long and sluggish.

Overall, this account of the involvement of political issues in PPP implementation in Indonesia shows how political interests can be seen as one of the main drivers of the policy development. Suharto's centralised political power contributed significantly to the initiation of the PPP policy and the commencement of PPP projects in the early 1990s. In contrast, the political reform that broke down the totalitarian regime and decentralised the authority starting in 2000 has slowed down the progress of implementation. This finding provides interesting insights into how PPP in developing countries survives and develops in certain political circumstances, in that it flourished under an authoritarian regime and declined under a more democratic government. This unique interaction between PPP and politics adds to the previous association of PPP and politics in developing countries outlined by several studies including Beh (2010) in Malaysia and Mu *et al.* (2011) in China.

Furthermore, at the micro level, PPP is also used as a political instrument in that it is often employed to maintain or extend the power of certain group or units involved in the

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<sup>69</sup> The initiation of PPP in Suharto era and the involvement of his family members and cronies is discussed in chapter 5. Moreover, a very detailed account of the process of granting a PPP contract for Paiton Power Project is presented in Wells and Ahmed (2007).

implementation. For instance, the efforts of the external agencies such as World Bank and USAID in introducing PPP to Indonesia are often seen as attempts to maintain their presence and influence in Indonesia and sustain their relations with the officials. This point of view sheds light on why the external agencies are more concerned with the delivery of their programmes than with the merit and worth of PPP for the Indonesian public, as suggested by some respondents. Similarly, for the government, PPP is also developed to maintain the relations with the external agencies and to obtain their financial assistance and credentials for other uses, rather than for PPP itself. Another instance can be seen in the institutional arrangements of PPP in which the ministries try to defend and extend their domains using PPP as a political instrument. The sector ministries such as Ministry of Transport and Ministry of Public Works insist that PPP is a sector issue and that the selection and preparation of PPP projects should therefore be left in their hands. On the other side, the Ministry of Finance asserts that PPP is a financing issue in that they ask to be included in all the processes of project selection and preparation, particularly because PPP contracts eventually have some impacts on the government budget, a claim mostly seen by sector ministries as an intrusion on their domains. While many studies have focused on the political issues of PPP implementation (Beh, 2010; Mu *et al.*, 2011), the finding of this research provides an interesting perspective in that PPP is not only regarded as being influenced by political issues but is also used as a political instrument to gain or extend the power of the parties involved in the process of implementation.

Moreover, discussion of the PPP implementation in Indonesia always has to include the issue of culture, particularly considering the uniqueness of Indonesia compared to other countries that also adopt PPP. The findings in the previous chapters suggest certain issues that may indicate the involvement of cultural issues in the process of PPP development in Indonesia. The first cultural issue is related to the potential clash between the competition element in PPP and the culture of harmony that is believed to be among those that characterise Indonesia. It has been widely suggested that competition is one element that drives the achievement of value-for-money improvement in PPP (Arthur Andersen and Enterprise LSE, 2000). Moreover, a shift to greater competition in the public sector is identified as an NPM doctrine that may achieve efficiency and improvement of quality (Hood, 1991). On the other hand, some views found in the research suggest that the idea of emphasising greater competition in public procurement may be unsuitable for the Indonesian culture as it can be seen as a challenge to harmony, friendship and concordance, which are often associated with

oriental values including Indonesian values. Nevertheless, when this view is confronted by a larger audience of PPP stakeholders through the survey instrument, the majority of responses convincingly reject such a contradiction.

Corruption is another cultural issue commonly associated with PPP implementation in Indonesia. Although corruption is largely discussed from political and economic points of view, it is also often seen as a cultural phenomenon (Barr and Serra, 2010). In the case of Indonesia, many scholars have studied the cultural aspects of corruption, including Robertson-Snape (1999) who associated corruption in Indonesia with the domination of Javanese culture in the bureaucracy and the political system of Indonesia. The dominant influence of Javanese traditions in Indonesian culture was deliberately established in the colonial era by the Dutch colonial government. This domination continued after the independence period and was particularly inspired by the domination of two influential Javanese presidents, Sukarno and Suharto, who maintained some practices commonly exercised by Javanese aristocrats in the past (Anderson, 1991; Geertz, 1995). Hence, according to Robertson-Snape (1999), the phenomenon of the modern corruption in Indonesia can be linked to and explained by the old Javanese traditions, in which hierarchical, fixed and patrimonial power is commonly exercised by rulers, such that gifts and offerings to the upper hierarchy are seen as common practices. The perspective on Javanese culture can also be used to explain the phenomena of nepotism, cronyism and collusion, which are also emerging in Indonesia. Strong family bonding and commitment in Javanese culture can often elevate family loyalties above public duty and responsibility (Robertson-Snape, 1999 p. 597). In fact, corruption in Indonesia has been seen as an acute and widespread problem. As suggested by Holloway (2001), corruption in Indonesia is likely to be the norm, rather than the exception. According to the Corruption Perception Index 2013 compiled by Transparency International, Indonesia is ranked 114 among 175 countries in terms of corruption.<sup>70</sup> It is much lower than its neighbouring countries such as Thailand (102), the Philippines (94) and Malaysia (53).

In relation to the case of PPP, the exploration of PPP rationales in chapters 5 and 6 suggests that corruption is among the main motivations driving PPP implementation in Indonesia. Amongst projects delivered in the early adoption of PPP in the 1990s, almost all the concessions were given to Suharto's family and cronies without proper process of open and

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<sup>70</sup> Corruption Perception Index measures the perceived level of corruption in 177 countries and ranks them on a scale from 100 (very clean) to 0 (highly corrupt). Higher numbers indicate countries with higher corruption. The information on Corruption Perception Index 2013 can be found at the website of Transparency International at <http://cpi.transparency.org/cpi2013/>

competitive tendering. A closer look at the owners of PPP companies in water, toll roads and the power sector as described in chapters 5 and 6 shows that the private parties in PPP projects are mostly associated with those who have some connection with political power. Consequently, the services of PPP projects are delivered to the public with high inefficiency and low quality. This characteristic is apparent not only in Suharto's era but also in implementations in the current Yudhoyono era. Although the presence of corruption in PPP is now less obvious compared to that in Suharto's era, the experience of projects such as Jakarta Monorail and the Sunda Strait Bridge suggests that corruption and PPP can still be closely linked.

Overall, the link between PPP and corruption in Indonesia provides an interesting insight into how PPP is situated within the cultural and political context of Indonesia. As suggested by the findings, corruption can be seen as one of the main drivers for Suharto when he initiated PPP in the early 1990s. Many PPP projects were initiated and delivered very quickly as they were mainly granted to Suharto's family and cronies without open and transparent bidding. Although the prices of those projects were mainly expensive, PPP was able to demonstrate some concrete progress. More recently, although corruption is still widely practised, more transparent government systems and a more liberated and critical public have made the government officials more cautious in delivering the policies and initiating projects. As a result, PPP deliveries in terms of number of projects and amount of investment are minimal. This finding may help explain Banerjee *et al.*'s (2006) finding that the level of corruption in developing countries is positively correlated with the private participation in infrastructure. The issue of corruption in Indonesia's PPP also reveals that PPP was not only shaped by its local context but in another direction it also affected the context where it is implemented. As shown in the previous chapters, the corruption motive contributed significantly to the initiation of PPP in Indonesia as well as to its development afterwards. Furthermore, it can be said that PPP also shaped the forms of corruption, particularly by creating new modes of redirecting benefits of public procurement for personal or group interests. Such an interactive relation between PPP and its context may reflect the situation described by Ahrens and Chapman (2007) when discussing about the notion of situated functionality, in which they explain how accounting practices intentionally both shape and are shaped by the local context.

Moreover, although Indonesia is formally a secular state, religious issues are often material in several cases of policy development (Assyaukanie, 2009; Salim, 2008). As a matter of fact,

Indonesia is the largest Muslim country in the world in terms of its Muslim population, which constitutes 12.9 % of the world's total Muslim population and 88 % of the total Indonesian population (The PEW Forum on Religion and Public Life, 2009). In this regard, among other religions, Islamic values are the most likely to be involved in policy decisions.

Furthermore, the empirical chapters in this study show that, in relation to the implementation of PPP in Indonesia, Islamic issues may be relevant at some levels. Firstly, at the substantial level, Islamic values may be understood as more universal issues rather than as particular principles. As shown by the interviews, some actors prefer to relate their Islamic worldview with some “universal” values such as fairness, justice, and improvement in the common wellbeing. Therefore, according to this view, PPP has never been in conflict with Islamic values; rather, both are seen as supporting the same ideas. Secondly, in financial transactions, Islamic principles are often manifested in specific schemes, in which some religious principles are applied. One of the Islamic Finance principles is the prohibition of elements of *riba* (something similar but not equivalent to usury and interest) and *gharar* (unnecessary risks and uncertainty) in financing instruments (El-Gamal, 2006). PPP, according to the views of some Islamic scholars (Khan, 2002; Iqbal and Khan, 2004), can actually be structured in compliance with these principles by avoiding the elements of interest-bearing instruments in the transactions. Therefore, based on this belief, a number of officials in the government initiated some efforts to try to formulate an “Islamic PPP” concept to be implemented in Indonesia, as described in chapter 6. The third group of views, however, suggests that Islamic issues can be used to support PPP implementation in that the attributes of Islam in PPP are expected to make the realisation of PPP more successful. In this group's view, as suggested by an interview described in chapter 7, PPP would be more acceptable to the public were the arrangement to be structured as “Islamic PPP”, particularly in the regions with large Muslim populations. In this case, Islamic attributes are used more as rhetoric than as substance or technical arrangement. Overall, these three perspectives on the involvement of Islamic issues in PPP implementation can enrich the discussion on linking religious issues with PPP, in addition to what has been raised by Khan (2002) and Iqbal and Khan (2004). In fact, as revealed by this study, religious issues, particularly those related to Islamic values, can also be discussed from different perspectives including from their use as rhetoric.

#### **9.4 How PPP is diffused and translated to Indonesia**

As described in the introduction chapter, this research has a specific interest in observing the process of PPP diffusion to Indonesia. It starts with the assumption that elements of PPP in

Indonesia are mainly imported from abroad rather than genuinely invented in Indonesia. These elements are brought by agents using specific channels and driven by certain motives to Indonesia. As the theoretical framework assumes that PPP is motivated by both economic and non-economic factors, the analysis and discussion of PPP diffusion to Indonesia focuses not only on the economic and financial factors but also on the social, cultural and political aspects that may be involved during the process of diffusion. Referring to the theoretical framework, the analysis of the process of PPP diffusion is seen from the channels, the acceptance by the Indonesian audience, the dynamics of diffusion and the socio-political contexts of the diffusion.

#### **9.4.1 Identification of PPP channels**

The first issue the research tries to explore concerning the issue of diffusion is the channels involved in bringing PPP to Indonesia. These channels can also be seen as preconditions that make the diffusion of the PPP concept easier. In fact, the idea of PPP comes to Indonesia through many different avenues. However, in terms of their importance and significance, at least three main channels can be identified: the international or external agencies, the international communities, and formal education.

##### **9.4.1.1 External agencies**

The first channel bringing PPP to Indonesia is the external agencies, or the international financial institutions, notably the World Bank and the ADB. The findings of the previous chapters suggest that the role of external agencies in shaping the form of Indonesia's PPP is significantly important. Apart from their importance in the stage of introducing the idea of PPP at the beginning of the adoption, the influence of the external agencies remains significant and central in the development process to the present day. The exploration in chapters 5 and 6 suggests that from the end of the 1980s the international financial agencies progressively attempted to introduce PPP to Indonesia through their development assistance (PPITA and CMEA, 2005). Many of their programmes provided significant contributions to introducing private participation in infrastructure in the early period (PPITA and CMEA, 2005). Meanwhile, a number of programmes also claimed to have made influential contributions to the initiation of a cross-sector PPP framework, such as Presidential Decree number 7/1998 (PURSE, 1999; World Bank, 2002).

The formulation of more recent PPP frameworks such as Presidential Regulation number 67/2005 also received significant support from the Private Provision of Infrastructure Technical Assistance (PPITA) programme under the World Bank (World Bank, 2009), while

the formulation of sector regulations received substantial assistance from programmes such as Support for Infrastructure Development (SID) provided by ADB (ADB, 2008). The most current development was the establishment of Indonesia Infrastructure Guarantee Fund (IIGF) and Indonesia Infrastructure Fund (IIF), both of which received conceptual assistance and financial funding from the World Bank, ADB and other international financial institutions.<sup>71</sup> Given these points, it might be suggested that almost every product of PPP policy delivered by the Indonesian government features some involvement by the external agencies.

From the actors' perspectives, the findings also show that the role of the external agencies in the process of PPP introduction to Indonesia is widely regarded as significant. The role of the external agencies is highly appreciated mostly because of the superior knowledge shown by the agencies on PPP issues at both the policy and the project levels. They are also seen as bringing "development mission" and providing non-commercial funds such as grants and loans at interest below market rate. In addition, the survey results suggest that external agencies are seen as professional, supportive and considerate of substantial issues such as transparency, accountability and fairness. Nevertheless, although their role is seen as substantially significant, the reception for and responses to external agencies are diverse, as discussed in another subsection of this chapter.

Moreover, referring to the notion of "institutional isomorphism" (DiMaggio and Powell, 1983), with the "superiority" of the external agencies in terms of knowledge and financial resources, Indonesia's adoption of PPP through this channel can be seen as both voluntary and coerced. On the one hand, the government of Indonesia may have voluntarily adopted PPP because it was convinced by the potential benefits and workability of PPP in Indonesia, as recommended by the international agencies, and therefore willingly adopted PPP. On the other hand, the process can also be seen as coercive because the adoption of PPP was driven by obligations and conditions requested in return for financial assistance from the international agencies.

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<sup>71</sup> The involvement of the World Bank in the establishment of IIGF can be seen in World Bank (2012) and the information on the IIGF website at [www.iigf.co.id](http://www.iigf.co.id). Meanwhile, the establishment of IIF was contributed to financially by ADB, IFC (International Finance Corporation, a member of World Bank group) and DEG (Deutsche Investations- und Entwicklungsgesellschaft mbH). The information on PT IIF is also available in its parent company website PT SMI available at <http://www.ptsmi.co.id/content/pt-indonesia-infrastructure-finance/>



#### **9.4.1.2 International communities**

The second channel that can be identified as instrumental in bringing PPP to Indonesia is the international community. The involvement of Indonesia in international forums such as ASEAN, APEC and G-20 can be identified as another channel that helps expedite the introduction of PPP into Indonesia. As described in chapter 5, Indonesia has been actively involved in the international forum and communities, notably the ASEAN and APEC. With growing confidence and ambition to extend its influence, Indonesia is interested not only in engaging with such communities but also in trying to become a leader (Akashi, 1997 p. 19). As the issue of PPP became a global trend and an important agenda, the attention of the Indonesian government to PPP also increased as part of the effort to engage with the communities.

The observation of the actors' perspectives also confirms this finding. Among their views is the notion that Indonesia subscribes to PPP because it wants to be seen as a “cooperative” country that always welcomes recommendations from international agencies and adheres to what other countries normally do in providing public infrastructure facilities. This view is also supported by another comment suggesting that PPP in Indonesia is only “a kind of bandwagon effect” in that it follows the international trend of public policy, without really understanding the benefits and costs of adopting the arrangement.

Actually, Indonesia's initial connection with PPP through this channel may represent a type of voluntary adoption in that the government was under no coercive pressure to adopt PPP. Through the international community, Indonesia became acquainted with PPP schemes, attracted to the success stories of other adopting countries, and therefore motivated to implement the policy in Indonesia. Using the framework of institutional isomorphism outlined by DiMaggio and Powell (1983), the Indonesian government might be seen as under a mimetic pressure to imitate other countries that are perceived to be successful. This notion also suggests that the effort of the Indonesian government to adopt PPP is not necessarily driven by technical adaptation to a newly invented scheme but, rather, is pressured by a socially constructed norm suggesting how a ‘proper’ government should act to improve its public infrastructure. Moreover, the introduction of PPP to Indonesia through this channel can also be seen as Indonesia's adoption of a “global fashion” (Røvik, 1996; Abrahamson, 1996) in that Indonesia responded quickly to implement PPP and suddenly lost interest in turning the idea into a reality.

The concern of the government in using PPP to engage with the international community provides an explanation of why the Indonesian government is more interested in showing off the PPP plans and programmes than focusing on smaller PPP programmes and trying to accomplish them.

#### **9.4.1.3 Formal education**

Indonesia's acquaintanceship with PPP can also be seen from the movement of ideas among the individual actors, in addition to the influence of institutions as discussed above. As described in chapter 6, the introduction and development of PPP in Indonesia was partly determined by the roles of prominent actors in the government. These prominent actors were mostly educated in Western countries such as the USA, United Kingdom and Australia, where ideas about economic liberalisation and neoclassical economics flourish. The principles of competition, efficiency, price determination, and private involvement in an economy, which are widely taught in formal courses, including on economics, development studies, public finance and public policy, are among the basic elements required for an understanding of PPP. Therefore, although not all of these officials gained an understanding of PPP and its terms in their formal education, their basic understanding of economic principles is sufficient to encourage their support for PPP.

In fact, the arrival of PPP in Indonesia around the early 1990s coincided with the mass return of Indonesian officials after finishing their education in Western countries, mostly in the USA. For example, as reported by Chalmers and Hadiz (1997), this period saw the return of officials from Ford Foundation scholarships to the government offices, most notably Bappenas (National Development Agency). These officials immediately returned to their posts in the government and dominated the economic views of the government (p.15). As can be seen from the description in chapter 6, the implementation and development of PPP policy in the government are significantly influenced by those actors who received their higher education in Western countries.

Moreover, as suggested by the interviews, some actors acknowledge that their first acquaintance with PPP was established through the formal courses they pursued in their education, such as undergraduate and master's degrees. It is also suggested that the topic of PPP is often included in the syllabus of courses in public policy management or development management. One official claims that he gained his first knowledge of PPP in one of the classes in his master's programme on infrastructure management. Another official explains in

the interview that, although he had never heard of PPP in his formal education, the basic understanding of public finance he attained in his master's programme helped him to understand PPP. This range of views shows how actors actually perceive the channel of formal education in contributing to their understanding of PPP.

In general, the channel of formal education may be less influential, particularly compared to the roles of external agencies, as shown in the previous section. It is also perhaps more difficult to identify the direct impact of this channel on the initiation of PPP policy. However, this channel has helped to make the process of introduction faster and smoother, particularly as it familiarises the officials with the idea of PPP and its elements. Moreover, the analysis that considers formal education as one of the PPP channel partly explains the notion of the skilfulness of actors in understanding, translating and mobilising PPP in contributing to shape their perceived objective of the government. Using the situated functionality approach developed by Ahrens and Chapman (2007), these PPP actors are intentionally involved in the process of shaping the government objective through their understanding and activities.

Overall, the analysis of a number of channels through which PPP is diffused to Indonesia reveals that PPP did not come to Indonesia by means of a single and distinct channel; rather, it travelled via multiple routes and avenues. The channels identified and discussed in this research show how the PPP idea is transported to Indonesia simultaneously through at least three different and most significant means. Some channels are perhaps more influential than others, but they jointly contribute to the introduction of PPP to Indonesia. The next sections discuss how the channels are perceived by the Indonesian officials and how they affect to the current forms of Indonesia's PPP.

#### **9.4.2 How the introduction of PPP and its channels are perceived by the Indonesians**

The diffusion of PPP through the channels mentioned above may look straightforward. However, there are actually various dynamics and interactive views in responses to the agents and the process of diffusion. As described in the previous section, the external agencies are largely regarded as the most important actors in bringing the idea of PPP to Indonesia, particularly due to their enormous support in terms of assistance and funding. They also receive a lot of respect from the government officials for their superior knowledge, their contributions, support and concerns over PPP development in Indonesia as well as their commitment to introducing principles such as accountability and competition in PPP. Some of the officials acknowledge that the products of the external agencies' assistance contribute

significantly to their understanding of PPP. As suggested by a number of respondents, the assistance fundamentally changes views on how public infrastructure should be delivered while others acknowledge that external agencies enhance the understanding of the details of PPP.

Nevertheless, there are also contrasting views that see external agencies as “not sincere” in their activities in providing assistance on PPP in Indonesia in that these agencies are perceived as “profit-seeking financial institutions”. The main suspicion harboured about the external agencies is that they are introducing PPP to Indonesia merely as part of their efforts to offer their financial products such as loans and guarantees and to obtain financial benefits from those products as Indonesia subscribes to PPP. In fact, in assisting Indonesia’s PPP, the external agencies have channelled many packages of loans and other financial products such as guarantees. Influential programmes such as TAP4I (World Bank, 2002) and PPITA (World Bank, 2009) are all funded by loans, while programmes such as IDPL (World Bank, 2007) is itself a programme loan linked to the accomplishment of PPP programmes (as described in chapters 5 and chapter 6). The association of assistance from the external agencies with financial products offered by these agencies potentially creates some resistance based on the view that external agencies only care about the delivery of their products and do not really care whether the outcomes benefit the Indonesian public. However, other local actors claim that external agencies actually do not have such ulterior motives for selling their financial products because the interest rates for the financial products they offer are significantly below the market rate. Therefore, in this regard, the assistance from the external agencies should be seen purely as development assistance to help Indonesia improve its public infrastructure.

Moreover, the resistance to the external agencies is based not only on the view that they “sell financial products” to Indonesia but also on other notions such as the view that external agencies are incapable of understanding the Indonesian contexts, the fear that external agencies bring neoliberal ideas, and the concern that the external agencies “drive the Indonesian policy”. In fact, such a claim is challenged by the officials of external agencies as they say that they are not in a position to drive the government’s policy. In contrast, some local actors regard the suspicion that external agencies are pursuing financial benefits from PPP assistance in Indonesia as irrelevant, because the external agencies charge substantially lower rates than the market rates for their loans.

In general, these sorts of dynamics indicate that the diffusion process of the PPP idea into Indonesia is more complex than it looks; indeed, it is an issue that has not been well explored in previous studies. The complexity of the diffusion process can be explained by a number of factors. Firstly, the process is not linear in that the idea is not directly transferred from abroad and accepted by the Indonesians. Some issues are accepted, rejected and possibly negotiated during the process. The idea of attracting private finance with PPP is perhaps the easiest point for Indonesians to accept. However, the elements of competition, accountability and transparency may need to be modified and adjusted to Indonesian contexts. Secondly, the process of diffusion is not only concerned with economic reasoning but is also related to political and cultural issues. Concerns about the government's independence in formulating policies with intervention by external agencies may reflect a political concern about the process of diffusion while a certain level of fear of foreign ideas may be associated with the cultural issue.

#### **9.4.3 The impact of PPP channels on the current PPP forms**

The enormous support from the external agencies for the development of PPP policy has brought some benefits to Indonesia, particularly in terms of knowledge and financing. On the other hand, such strong influences exerted by the external agencies may also create dependencies in the Indonesian government, particularly in formulating and executing PPP policy. This heavy reliance on the external agencies and the ways in which PPP is diffused to Indonesia may affect the implementation of PPP policy in Indonesia to some extent.

Firstly, as the external agencies play such a big role in the policy development, some products of the policy may fail to include the local contexts sufficiently in that it may be unable to take into consideration the contextual issues such as Indonesian political, structural and cultural factors. Consequently, PPP policy developed in Indonesia may contain elements unsuitable for and incompatible with the Indonesian setting. This lack of consideration of local issues is one potential problem that makes PPP implementation difficult.

Secondly, the heavy dependency on the external agencies may prevent the Indonesian government and its officials from taking a critical view of their own programmes of PPP development, particularly because most problems in the implementation would simply be blamed on the external agencies. As discussed in chapter 8, while the assessment and evaluation of the merit and worth of PPP is important for understanding the impacts of PPP, the Indonesian government makes little effort to provide such evaluation. Bappenas (the

National Development Planning Agency) and the Coordinating Ministry of Economic Affairs, the leading unit in PPP implementation, never make such a comprehensive evaluation, while the PPP books issued each year only provide bulk information on prospective PPP projects without considering any evaluation or assessment of the policy. The Audit Board of The Republic of Indonesia (or BPK, *Badan Pemeriksa Keuangan*), the parliament and other agencies have never provided any evaluation and assessment of PPP policy, as far as this research is aware.

Thirdly, as most resources in the development of PPP policy are funded by the external agencies, the Indonesian government and its officials lack incentives to produce effective and efficient programmes for implementing the PPP policy. Fourthly, as the adoption of PPP may occur voluntarily as well as coercively, the outcomes of such a process may also differ. Voluntary adoption by the Indonesian government is mainly related to the idea of using PPP as a tool to attract private funding. As shown in the empirical chapters, this idea is dominantly and permanently held by the Indonesian government and its officials and is therefore influential in the development of PPP policy. On the other hand, coercive adoption mainly occurs due to the roles of the World Bank and other international agencies, through which the other elements of PPP such as those related to competition, improvement of service quality and public reform are introduced. As identified in this study, those ideas are less influential and less dominant in affecting the development of PPP in Indonesia.

## **9.5 Rationales and motivations to implement PPP**

After discussing the process of PPP diffusion to Indonesia, another main objective of the research is to discuss the rationales and motivations of the government and officials in implementing PPP. As examined in chapter 3 on the theoretical framework, this research assumes that PPP rationales and motivations play important roles in shaping the implementation of PPP. This argument is also proposed by Onishi and Winch (2012) who study PPP implementation in many different countries and find that different PPP rationales are influential in determining the forms of PPP policies in the respective countries. In fact, the importance of the roles of PPP rationales is advised by Broadbent and Laughlin (2004) who assert that a better comprehension of the rationales and nature of PPP may improve the understanding of the contextual elements of PPP adoption in different countries and therefore provide better knowledge of how PPP might be diffused from one country to another.

Moreover, as also suggested by the discussion on the theoretical framework, the exploration of PPP rationales and motivations in this research is extended, looking not only at the economic and financial aspects of the policy but also considering the political, social and cultural issues that may be involved in the implementation. This idea is based on the framework for this research that mainly sees PPP as an arrangement motivated by economic and financial factors and driven by political and cultural aspirations, particularly in considering the complexity of PPP implementation in Indonesia. Accordingly, the analysis and discussion in this subsection is divided into three main parts: the identification of PPP rationales and motivations; the discourse among the actors around different rationales; and the dynamics of rationales during different periods.

### **9.5.1 Identification of PPP rationales and motivations**

The exploration of the historical development of PPP in Indonesia and the investigation of the views of actors have identified a number of rationales and motivations for adopting PPP in Indonesia. These include the rationales formally stated in the government's official documents such as filling the infrastructure-financing gap, accelerating the provision of infrastructure and improving the efficiency and quality of infrastructure services, which are mainly concerned with economic and financial issues. Other motivations can also be identified from the empirical investigation of the events surrounding the arrival of PPP, which are not explicitly and officially stated in the government's documents. These motivations include using PPP to maintain access to donor funding, adopting PPP to gain greater acknowledgement from the international community and, most importantly, using PPP to extort benefits for their personal or group interests. Both groups of motivations are discussed as follows.

#### **9.5.1.1 Economic rationales: filling the infrastructure-financing gap, improving the efficiency and quality of public infrastructure, and public reform**

Observation of the government's official documents and statements suggests that investment rationales are heavily emphasised as the government's main motivations for adopting PPP. The main PPP policy frameworks such as the Presidential Decree number 7/1998 and the Presidential Regulation number 67/2005 and all its amendments clearly underline that PPP is developed to attract private participation to add to the financing of public infrastructure development. The other statements such as those expressed through the policy documents and officials' speeches add the emphasis that PPP is badly needed by Indonesia because the

government budget is limited and incapable of meeting the financing needs of infrastructure development.

In supporting the idea, the government usually points to the infrastructure-financing needs (as a percentage of GDP or in nominal USD or Rupiah terms) compared to the capacity of the government budget to meet those needs, with the assumption that the gap between them can be bridged by private involvement. In fact, the idea seems justifiable when the economic condition of Indonesia during the arrival of PPP is observed. As described in chapter 5, due to the stable and increasing economic growth since Suharto's new order regime took over the government, the demand for infrastructure services rose sharply while, at the same time, the government budget shrank as world oil prices fell. In this regard, filling the gap in infrastructure financing provides a relevant rationale for Indonesia to adopt PPP. Similarly, during the revival of PPP following the rise of Yudhoyono's administration in 2005, the development of public infrastructure is believed to have fallen behind due to the impact of the financial crisis in 1998. Therefore, PPP policy has been reinvented to attract private financing in order to "accelerate" the public infrastructure provision and make up the lost ground caused by the crisis. In fact, these two rationales have become the dominant issues emphasised by the government in developing PPP policy.

Moreover, the heavy emphasis on additionality rationales does not mean that they are considered the only rationales for PPP. In fact, PPP frameworks also mention other PPP objectives such as improving the efficiency and quality of services (as stated in Presidential Decree number 7/1998 and Presidential Regulation number 67/2005). However, particularly due to the excessive focus on the additionality rationales, the issues of efficiency and quality improvement as well as public reform in PPP seem to be underdeveloped. Although they are clearly stated as among PPP objectives, the issues are rarely mentioned in official documents such as speeches and presentations, particularly compared to the portions allocated to additionality rationales.

It is also notable that the interviews with actors who advocate that more attention be paid to more essential elements of PPP, such as improving value for money, efficiency and quality of the services, suggest that the government should pay more attention to these elements of PPP rather than putting too much focus on the additionality issues. The debates on different views of PPP rationales are discussed later in this chapter.



### **9.5.1.2 Other motivations: corruption, maintaining access to the donors and getting involved with the international community**

As formulated earlier, one of the objectives of this research is to include the contextual factors such as political, social, cultural and religious factors in the discussion of PPP, in addition to the economic and financial issues that are commonly discussed in the previous literature. In terms of studying the rationales and motivations to implement PPP, the research therefore also considers other potential motives of the government that are not explicitly and officially stated in the official documents. These motivations are mainly related to the political aspirations of the government or its officials in relation to PPP adoption. It is suggested that a number of ideas can be identified as motivations of the government and officials for adopting PPP. For example, it is suggested from the historical investigation of PPP initiation in Indonesia that the Suharto regime at the same time tried to maintain access to the donors' funding as its dependence on foreign aid continued. Subscribing to recommendations of external agencies, including advice on PPP, is seen as important because it maintains the flow of funding from the external agencies and, more importantly, as suggested by one interviewee, it preserves the status of Indonesia as "a cooperative country". Likewise, PPP is also used by the government to maintain its engagement with and influence in the international community since, by subscribing to PPP, Indonesia will be seen as "a proper" country which always follows common practices as other countries do. Moreover, with Indonesia's ambition to extend its influence internationally, the government was concerned to adopt PPP to engage with and, more importantly, to lead some policy discussions in the international forum, including those on PPP. The involvement of Indonesia in PPP policy discussions in APEC, UNESCAP and ASEAN exemplifies this type of motivation.

Another motivation that can be identified from the empirical findings in the previous chapters is the intention of the officials and their counterparts to use PPP in order to obtain lucrative benefits from public infrastructure projects. As previously described in the observation of the historical development of PPP in Indonesia, PPP in the Suharto era could always be associated with Suharto's family and cronies. The early PPP projects initiated in toll roads, power, and water all suggest that PPP could be driven by such motivation to extract benefits from public procurement in the interests of certain individuals and political groups.

It is argued that this group of PPP motivations has rarely been discussed in the previous PPP studies, particularly as the studies mainly look only at the economic aspects of the

arrangement. The previous studies discussing PPP rationales, such as those conducted by Spackman (2002), McQuaid and Scherrer (2009) and Winch *et al.* (2012b), mainly see various PPP motivations from the economic and financial perspectives and therefore disregard those non-economic factors that may be also involved in the implementation. This research has shown that, by considering political, social and cultural issues, more insights can be gained into the exploration of PPP rationales and motivations. As can be found in the next discussions in this chapter, non-economic rationales and motivations can often be as important as economic rationales in shaping and influencing PPP policy development.

### **9.5.1.3 Classification of rationales and motivations according to the actors' responses**

Given the number of rationales and motivations that can be identified from the observation of the history of PPP in Indonesia as well as from the investigation of the views of the actors, this research is interested in discovering how those rationales and motivations might be classified by other perspectives. Using the method employed by Li *et al.* (2005a) and Ng *et al.* (2012). to examine the critical success factors of PPP implementation, this study conducted a survey to obtain the perceptions of the actors on the rationales and motivations to adopt PPP.

The results show that there are at least three groups of motivations to implement PPP in Indonesia. The first group reflects rationales and motivations about “investment”, mainly attributing PPP’s adoption in Indonesia to the government’s need of additional investments from the private sector to fill the infrastructure-financing gap. The rationale of using PPP to accelerate infrastructure provision is actually also based on the same logic that the additional investment from the private sector might be used to speed up the provision that otherwise cannot be afforded by the government. As previously discussed, this group of rationales is considered the dominant view developed by the government and is believed by the majority of actors to be the most relevant rationales. The second group of rationales contains those that can be associated with “reform” issues, as this group represents the intentions of the government to use PPP to introduce reform in the government’s organisation, the service delivery and the procurement system. In fact, the issue of public reform in PPP is also advocated by the government in the official documents and by the actors in the interviews, although they receive little attention. Meanwhile, the third group of rationales and motivations represents the view that sees PPP as “alternative”. This name is attributed to this classification because the rationales in this group mainly reflect the views that see PPP as an alternative to the current conventional public procurement. The view that PPP is needed

because the private sector is better also represents the idea that the current public services need to find new alternatives for managing infrastructure services through the involvement of the private sector. Similarly, the view that supports the imitation of success of other countries as the rationale mainly sees the implementation of PPP as a new alternative for Indonesia.

Overall, this classification adds a new perspective to the previous studies that attempt to show how PPP can be seen in a number of different ways, such as those outlined by Linder (1999), Hodge and Greve (2007) and Weihe (2008). In addition to those studies, this research shows that such classification can be alternatively explored through the perspectives of the actors involved in PPP implementation.

### **9.5.2 How different rationales and motivations are discussed**

As the research identifies a number of the government's rationales and motivations for adopting PPP, it is also interested in observing how these various views are discussed and exchanged among the actors involved in the implementation. The identification of the rationales suggests that, although additionality and investment issues are commonly understood as the main PPP motivations, there are also other views criticising the government's heavy emphasis on such rationales. They believe that too much attention focused on the additionality rationales actually costs the government in that it reduces the awareness and development of more substantial rationales of PPP, such as improving value for money and enhancing the quality of infrastructure services. In contrast, the advocates of additionality rationales believe that the main purpose of introducing PPP in Indonesia is to attract additional funding from the private sector while other rationales are only "secondary", particularly considering the view that the "actual" need of Indonesia is currently additional investment in public infrastructure.

Nevertheless, another criticism of the heavy emphasis by the government on additionality and investment rationales is the fact that many PPP projects are halted or delayed due to the lack of interests from the private sector. Some actors believe that the excessive attention paid to the additionality rationales renders the government ignorant and negligent of the issues of project preparation and the project bidding process. As the government is mainly focused on attracting investment from the private sector, the competition issue in the bidding process is often undermined and, therefore, the bidding is unable to deliver good private partners capable of accomplishing the projects and producing the most efficient prices. Similarly, the government's focus on attracting private funds is also criticised because it presents more

opportunities for corruption motives in PPP since the bidding processes usually do not sufficiently consider the benchmark for value for money, efficiency and quality issues; rather, they are driven by corruption or political connections.

Moreover, the rationales of additionality and investment are usually contrasted with the rationale of using PPP to reform the current management of public infrastructure services. As suggested by the information obtained from the interviews with PPP actors, the motivation to use PPP to support public reform is often associated with the need to challenge the conventional public service procurement and management, which is mostly financed by the government budget. According to this view, public procurement, which is often associated with inefficiency and low quality of services, needs to be replaced, or at least challenged, by a PPP scheme that can potentially deliver better outcomes.

It can also be observed from the empirical chapters that the alternative views on PPP rationales are mainly held by the officials from the financing units. More specifically, the survey results suggest that the officials in the financing units (as well as the officials of the international agencies) tend to support the idea of using PPP to improve transparency compared to other officials. Such different views on PPP rationales and motivations among the government units often create tensions in the development of PPP policy. An example of such tensions is the case of the Jakarta Outer Ring Road project, as described in chapter 6. This case also shows how different rationales and motivations may have impacts on the development of PPP policy in Indonesia.

The perspective of contrasting and comparing PPP rationales and motivations as they are perceived and discussed by the actors in the implementation has never actually been explored in other studies so far. The previous studies discussing PPP rationales such as those by Spackman (2002), McQuaid and Scherrer (2009) and Winch *et al.* (2012b) mainly see the various PPP rationales independently and therefore disregard the potential interaction among the rationales.

The examination of official government statements as documented in the regulations as well as stated in official speeches may indicate that PPP rationales are often used as rhetoric to cloud other motivations. For instance, the rationales to use PPP to attract additional investment from the private sector and to speed up the provision of public infrastructure are often used to conceal other intentions such as extorting benefits from public procurement for personal or political interests. Likewise, the rationale to use PPP to improve the efficiency

and quality of public services, as stated in many official documents, is developed mainly to give an impression of the government's commitment. The huge gaps between the ambitious PPP plans set up by the government and the small number of fully realised PPP projects may justify such a view. Indeed, such findings can be added to the current discussion on how PPP is used as rhetoric. As previously discussed, Linder (1999) and Teisman and Klijn (2002) suggest that PPP is often designed as rhetoric by the authorities to 'cloud' other strategies and purposes of policy-makers. Looking at PPP cases in developed countries, Hodge and Greve (2007) argue that such purposes may include privatisation and other schemes that encourage the private sector to become involved in public service provision at the expense of public institutions. The finding of this study provides another perspective that, in the case of Indonesia, various purposes are concealed behind PPP, such as corruption or maintaining access to funding from donor agencies.

### **9.5.3 How rationales and motives evolve**

Another interesting issue in discussing PPP rationales and motivations, particularly in the case of PPP implementation in Indonesia, is how they evolve from time to time considering the continuously changing environments and contexts. As described in chapters 5 and 6, the development of PPP in Indonesia has been proceeding under many different economic and political circumstances. The dynamics of the implementation show how PPP flourished in the stable economic and political condition in the early stages of adoption and declined when it met the financial crisis at the end of the 1990s, before rising again in 2005. Such variations in the circumstances raise an interesting question: How do rationales and motivations change to adapt to those dynamics?

The examination of the history of PPP development in Indonesia suggests that, since the initiation at the beginning of the 1990s, the main rationale developed by the government was to use PPP to attract the additional investment needed to fill the infrastructure-financing gaps. This type of rationale has remained the dominant view among the government units and officials until recently. The economic condition that necessitates massive development of new public infrastructure services while the budget capacity remains limited has been a strong justification for such rationale. Nevertheless, when the government under Yudhoyono announced its commitment to reinvent PPP policy in 2005, this main rationale was developed into the idea of using PPP to "accelerate" infrastructure provision. Although both rationales are essentially based on the same logic of using PPP to attract private financing, the latter rationale emphasises another ambition: to expect as much investment as possible to speed up

the development of public infrastructure. This idea of accelerating the provision of services is particularly inspired by the awareness that the Indonesia's infrastructure development was halted due to the impact of the economic and financial crisis, and therefore "acceleration" is needed to recover the lost ground.

Moreover, rationales such as improving efficiency and quality of service were not completely absent in the Suharto era. However, such ideas were mostly found in the government documents and books, and they were not developed into real policy actions. Nevertheless, in the later stages of PPP implementation in the Yudhoyono era, such rationales received increasing attention, particularly with the rising spirit of reform and influence of external agencies. For instance, in the PPP main policy framework as detailed in Presidential Regulation number 67/2005, the notion of improving efficiency and quality of services through PPP is manifested through applying more rigid competition (article 6.d) and introducing a risk-sharing mechanism (articles 16 and 17). Nevertheless, these higher standards of PPP procurement were criticised by the contracting agencies or the sector ministries for making the process of PPP procurement more complex and difficult to execute. Therefore, the issue of competition was weakened again due to the pressure from the contracting agencies. However, the issue of risk management in PPP projects was maintained and improved by the enhancement of a guarantee framework and the establishment of a guarantee fund.

On the other hand, the motivation for using PPP to engage with the international community and to maintain access to the assistance of external agencies continues to influence the development of PPP from its initiation until recently. Initially, in its early implementation, PPP was adopted to maintain the flow of funding assistance from the external agencies, since Indonesian dependence on foreign aid was quite high. Although Indonesia is becoming financially more independent of the external agencies, it still needs PPP to retain access to the external agencies in order to maintain creditworthiness and credibility. Likewise, as the influence of Indonesia in the international community is increasing through its closer involvement in forums such as APEC, UNESCAP and G20, the government's efforts to show its commitment to PPP are becoming more intense.

Interestingly, although Indonesia politically is becoming more democratic and transparent, the motivation to use PPP to redirect benefits from the public to personal or group interests persists. Although Suharto has been out of power for a long time, the traces of corruption,

collusion and nepotism in public institutions can still be easily identified. The prevalence of corruption in PPP procurement in the Yudhoyono era, as examined in chapter 6, suggests that motivation for using PPP for a rent-seeking agenda still exists and contributes to driving the implementation of PPP in Indonesia.

Overall, the observation of the evolution of rationales and motivation for PPP suggests that there are different dynamics among them. Some motivations fade away, some rationales continue to drive the implementation, while others take on a different form. These various dynamics are not only driven by economic factors, but are also influenced by political and institutional issues. In fact, the evolution or development of PPP rationales, including a comprehensive consideration of the contextual aspects, has not been well explored in the previous literature. A number of studies on the evolution of PPP put more focus on the financial aspects of the arrangement, such as the study by Maguire and Malinovitch (2004). In comparison, this research extends the examination to include political and social dynamics in addition to the economic and financial variations during the implementation of PPP in Indonesia. It shows that rationales and motivations to implement PPP can change over time, particularly due to the changing economic and political circumstances. It provides links on how PPP and its rationales actually reflect the needs of society, including its socio-political dynamics.

## **9.6 Development and evolution of PPP**

Since its initiation in the early 1990s, Indonesia's PPP has been through many different periods of political, social and economic dynamics. During these periods, PPP implementation sometimes surged to a peak, attracting a large amount of private investment, but at other times it declined into a trough when almost every project was cancelled. The interest of the research in exploring such issues in the development and evolution of PPP at different times is translated into investigations of the three main topics as formulated in the research framework: the evolution of PPP; the problems and challenges; and the future prospects of PPP in Indonesia. These topics are discussed as follows.

### **9.6.1 Evolution of PPP**

The historical exploration of PPP in Indonesia presented in chapters 5 and 6 shows that, since its initiation in the early 1990s, PPP policy has gone through various changes. Shaped by different contextual circumstances as described above, the form of Indonesia's PPP has been dynamically transforming as a process of adaptation to the changing environments. This study reveals one of the unique characteristics of PPP in Indonesia in that its evolution is not

only driven by economic factors, but is also significantly influenced by the dynamics of political circumstances. As shown in the empirical chapters, the transformation of Indonesia's PPP from "sector issue" to "reform issue", "planning issue" and then "financing issue" is mainly driven by the dynamics of the political situation in Indonesia. The fall of Suharto and the subsequent political reform that substantially changed PPP show how politics have a significant influence on PPP. It is also suggested that, as the political situation has become more democratic, PPP has also been transformed into a "financing issue" that pays more attention to issues such as transparency and accountability. Such an approach differs considerably from other studies that consider the evolution of PPP in other countries, such as that by Maguire and Malinovitch (2004), who observe the development of PPP in the state of Victoria, Australia, and Winch (2012) who examines the development of PFI in the UK. Both studies mainly limit their attention to the changing patterns and characteristics of PPP financial schemes in response to the dynamics in the economic circumstances of the respective countries.

#### **9.6.2 PPP problems and challenges**

As part of the exploration of the development and evolution of PPP in Indonesia, the research is also interested in investigating the problems and challenges faced by the Indonesian government in adopting the policy, particularly as they may contribute to the formation of the current PPP. The historical examination of PPP development in Indonesia has indicated some issues that help identify the problems in the implementation of PPP in Indonesia. They include issues such as regulations, institutional arrangements and land acquisitions. Moreover, the research uncovers many more issues when the investigation is conducted by examining the views of the actors. Issues such as the lack of coordination among government units, lack of leadership in the government and the absence of clear policy frameworks are among the problems suggested by the respondents that are mostly rooted in the organisational issues. In addition, problems related to political issues such as interventions in PPP policy and cultural issues such as resistance to foreign concepts are identified. Furthermore, given the identification of a number of problems, the research formulates another approach to determine how problems and difficulties in PPP implementation in Indonesia might be understood. From a factor analysis of survey results, it can be suggested that in general the problems in PPP implementation can be grouped into policy issues, organisational issues, conceptual issues and technical issues.



The study also found that there are various views on the problems and challenges of PPP implementation. An issue that is considered a PPP problem by certain actors may not be regarded as such by others. For example, the view of PPP as a new, complex and foreign concept is not widely considered by all the actors to be a problem in the implementation. In fact, as shown in chapter 5, Indonesia has experienced the involvement of private financing in the development of public infrastructure since the colonial era in the 19<sup>th</sup> century. Therefore, according to this view, Indonesians should not be surprised by the arrival of PPP. The survey results also suggest that the complexity and foreignness of the PPP concept are not seen as PPP problems by the majority of respondents.

Moreover, the problems identified in this study affect the development of PPP policy in many ways. Firstly, issues such as problems in coordination, lack of clarity in policy framework, and lack of leadership may disturb the realisation of projects and may therefore cause the delay or even abandonment of PPP programmes. Secondly, the problems may not necessarily result in the PPP projects being abandoned but issues such as political interventions in PPP policy and officials' lack of skills in dealing with PPP transactions may distract PPP from achieving its objectives. In fact, as shown in chapters 5 and 6, the political intervention in granting PPP projects to certain groups of people without proper competitive bidding has delivered PPP projects with inefficient prices and low quality of services.

In general, the findings on PPP problems and challenges revealed by this study provide new perspectives on the current understanding of PPP implementation. Problems and challenges in PPP implementation are usually examined through the identification of the critical success factors, which are mainly observed deductively as variables in quantitative approaches (Li *et al.*, 2005a; Ng *et al.*, 2012). The additional insights obtained inductively from a closer look at the views of the actors in this research can be expected to improve the knowledge offered by those studies.

### **9.6.3 The future prospects of PPP**

Considering the various motives and rationales of the government in adopting PPP as well as the problems and difficulties found in the implementation, it is interesting to discover how the future of PPP in Indonesia is perceived by the actors. The observation through the perspectives of the actors suggests that the views on PPP's future are diverse. However, the various views can actually be classified into two main groups: those who see PPP as a

positive prospect for Indonesia; and those who see it negatively, suggesting that the government needs to find more appropriate schemes other than PPP.

The positive views mainly hold that Indonesia needs more time to adapt to PPP because it is a new concept for most Indonesians. While acknowledging that there are problems and difficulties in the implementation, this view appreciates some of the progress and achievements of the Indonesian government in developing PPP. For instance, the improvement of actors' understanding about financial issues in PPP, including the notion of value for money, risk-sharing schemes, and quality enhancement, are among the achievements demonstrating the progress of PPP in Indonesia. Some who keep the faith with PPP, however, base their judgements on the more fatalistic argument that Indonesia has no option other than to adopt PPP, particularly because the government budget is unable to meet the financing demand of infrastructure development. In contrast, some views are critical of the government's insistence on continuing to use PPP despite the lack of convincing evidence that PPP delivers what is expected from it. This view also suggests that the government explore other policies such as privatisation and empowering the state-owned companies to deliver public infrastructure services.

The discussion of the prospects of PPP provides a number of insights that may prove useful for a better understanding of PPP implementation in Indonesia. Firstly, in the absence of formal evaluation of PPP policy, it is difficult for the government and officials to be critical of their own programme. As discussed in chapter 6, a formal and comprehensive evaluation of PPP policy has never been performed by the government or parliament or any other institutions in Indonesia, despite some obstacles discovered during the implementation of PPP in Indonesia. Therefore, PPP has never been officially challenged, assessed or compared against certain objectives and benchmarks. The expectations of the government and officials of PPP remain high, probably because of the lack of such comprehensive evaluation. Secondly, as suggested by the survey results, most respondents are unconvinced by the current performance and outcomes of PPP thus far, but they still believe PPP has a good future in Indonesia. The interviews with the actors also reveal that, despite some expressions of problems and difficulties in the implementation, the optimism about PPP in Indonesia is still dominant. This particularly shows that the expectations of PPP are built on beliefs rather than on evaluation of its merit and worth.

In general, such perspectives on the prospects of PPP may contribute to the current knowledge on PPP studies, particularly on how the merit and worth of PPP is understood. In fact, the need to evaluate PPP in terms of its contribution to society has been emphasised by Broadbent and Laughlin (Broadbent and Laughlin, 1999; Broadbent and Laughlin, 2004). In response to that encouragement, many studies have explored the merit and worth of PPP using a number of different approaches including those authored by Arthur Andersen and Enterprise LSE (2000), Allen Consulting Group and the University of Melbourne (2007) and Grimsey and Lewis (2004), who positively report favourable findings on PPP. Gaffney *et al.* (1999), Shaoul *et al.* (2008) also examine the merit and worth of PPP schemes and find mainly negative impacts of PPP. Although those different views on the merit and worth of PPP have provided significant contributions to understanding the impact of PPP implementation, the focus of those studies on the financial elements of the scheme may constrain the studies from analysing other practical aspects of the policy. In response to that, this study explores both the negative and positive views on the merit and worth of PPP by seeing it as a practice conditioned by the institutional setting of the government using the perspectives of the actors involved in the implementation. The findings obtained from such an approach as described previously can be expected to provide more insights into the practical aspects of PPP implementation.

## **9.7 Summary and conclusions**

This chapter discusses and analyses the findings discovered in the previous chapters. More importantly, the chapter also contextualises the findings of relevant existing studies that have been explored in the literature review. It is suggested from the analysis and discussion that a number of findings may be useful for addressing the research questions formulated at the beginning, particularly on the diffusion of PPP into Indonesia, the rationales and motivations driving the implementation of PPP, and the development of PPP within the dynamic economic, political and cultural contexts of Indonesia.

Firstly, it can be inferred that PPP is diffused to Indonesia mainly through the channel of the international financial institutions (IFIs) such as the World Bank, ADB, USAID and Ausaid. The progressive efforts of these external agencies in introducing PPP to developing countries are met with the desperate need of Indonesia for financial and technical assistance from abroad. The significant amount of funding and considerable amount of assistance for PPP development place the external agencies as among the most influential contributors to the introduction and implementation of PPP in Indonesia. Additionally, PPP is also channelled to

Indonesia through the international community such as APEC, which also actively encourages the use of PPP in developing-country members. The channel of formal education also helps expedite the process of PPP introduction to Indonesia. These various channels explain how PPP is simultaneously diffused through different means and approaches. The process of diffusion often occurs voluntarily in that the government deliberately tries to imitate the success of other countries. Nevertheless, on other occasions the diffusion may be coercive, particularly because Indonesia as a resource-dependent country is driven by terms and conditions obligated by the funding and assistance to adopt PPP. In this regard, PPP is not always diffused smoothly and straightforwardly to Indonesia. Rather, some hesitance, resistance and negotiation are directed towards the idea, and these are often more concerned with political and cultural issues than merely economic ones. Moreover, the way in which PPP is channelled to Indonesia in fact contributes to the current forms of PPP policy in that the implementation of PPP is now highly dependent on the funding and initiatives of international agencies and is filled with rhetoric rather than the accomplishment of real projects. In general, the findings on the diffusion process of PPP to Indonesia provide a new perspective on how the PPP idea travels from one country to another, including on how, through those channels, the PPP idea is potentially accepted, rejected or negotiated, which has not been explored in previous PPP studies. Studies of the role of international agencies in supporting the implementation of PPP have been developed by many accounting scholars such as Mitchell-Weaver and Manning (1991) and Newberry (2004); however, how these channels are perceived by the actors has not been well explored.

Secondly, in relation to the issues of rationales and motivations, the research reveals that adoption of PPP in Indonesia is driven by a number of rationales and motivations. Some rationales are concerned with economic issues such as filling the infrastructure-financing gap, improving efficiency and quality of infrastructure services, and supporting public reforms, while other motivations are more political such as maintaining access to donor agencies and the international community and exploiting benefits directed to personal and political interests. It is widely believed among the actors that rationales associated with additionality and investment issues such as filling the infrastructure-financing gap and accelerating infrastructure provision are among the most relevant rationales for Indonesia to adopt PPP. Nevertheless, there are also growing concerns that the government should actually develop PPP rationales associated with improving efficiency and quality of services rather than focusing on additionality and investment issues, particularly since PPP in Indonesia is failing

to deliver the expected outcomes. Moreover, although some politically inspired motivations are not officially stated by the government, they also significantly contribute to shaping the development of PPP in Indonesia. The current forms of PPP, which are mainly dependent on assistance from external agencies and are filled with rhetoric but lack realisation and often suffer intervention by political interests, reflect the effect of such motivations. In general, considering the existing literature discussing the issue of PPP rationales and motivations, such as the studies by Spackman (2002), McQuaid and Scherrer (2009) and Winch *et al.* (2012b), the findings in this research provide some new perspectives. A number of new insights into PPP rationales and motivations are added, particularly through the identification of a number of politically inspired motivations, consideration of the dynamics of rationales in the longer term, and a closer look at how different rationales are discussed and exchanged among actors.

Thirdly, the development and evolution of PPP in Indonesia is also analysed and discussed in this chapter. It is suggested that PPP in Indonesia has changed from a sector issue to a reform issue, a planning issue and then a financing issue. Such transformations are mostly influenced by the changing economic, political and social circumstances that shape PPP policy. Some problems and challenges in the PPP implementation are also identified, uncovering issues such as the complexity and novelty of the PPP concept, political intervention, lack of government leadership, coordination, and expertise in dealing with PPP tasks, and land acquisition issues; these are all main issues that may stem from economic, political or cultural factors. From the responses of actors, various problems and challenges can be classified into four main types: conceptual, organisational, policy and technical problems. Finally, although challenged by various problems, the research reveals how the future of PPP is still mainly seen as promising and positive, although a minority of views suggest that the government should turn away from PPP. This finding is intriguing as it shows that the expectations of PPP are built on beliefs rather than on evaluation of its merit and worth.

Overall, the analyses and discussions suggest that, by using the framework that acknowledges PPP as both an arrangement motivated by economic reasons and as a scheme driven by political aspirations, the research is able to reveal more insights and perspectives, particularly on how PPP is diffused, introduced and implemented.

So far, PPP studies that focus on the financial aspects of PPP and see PPP as a financial arrangement driven by economic motives have been successful in providing information on

issues surrounding PPP implementation. However, such an approach has limitations in explaining the complexities of PPP, which may involve various issues including political, cultural or even religious factors. In that regard, in addition to the economic factors that have been largely revealed by previous studies, this study has shown that, by including those non-economic factors into the research framework, many new perspectives can be revealed and new insights can be added to improve the understanding of the current knowledge of PPP implementation.

## **Chapter 10 Conclusions**

### **10.1 Introduction**

This research explores the issues surrounding PPP implementation in Indonesia using a framework that sees PPP as a complex idea involving not only rational economic grounds but also contextual factors such as socio-politics, culture and religion. The main objective of the research is to explore the processual aspects of PPP development, particularly how it is introduced and implemented in Indonesia. In more detail, the research raises three main research questions on how PPP is brought to Indonesia, what rationales and motivations are advocated by the government and its officials in introducing PPP to Indonesia, and how PPP evolves within the socio-economic, political, cultural and Islamic contexts of Indonesia. In approaching the subject, the research mainly relies on qualitative methods, particularly by exploring the views and perspectives of different actors in discussing the issues of PPP implementation. In addition, a documentary approach is used to reconstruct the historical context of PPP implementation in Indonesia, and a survey is developed to extend the analysis of the actors' views.

So far, this research has provided some relevant and useful findings and has discussed and analysed various themes to answer the research questions. In this chapter, a number of conclusions are drawn based on the findings described in the empirical chapters and on the analysis in the discussion chapter. Based on these conclusions, some recommendations can also be proposed for both practical and academic purposes.

### **10.2 Key findings and theoretical contributions**

The research has identified a number of issues that can be useful to answer the research questions and seen as contributions to the extant knowledge about PPP. The key findings are presented in an order following the research questions as follows.

#### **10.2.1 PPP diffusion**

With regard to the first question, this research suggests that PPP adoption in Indonesia is mainly a result of the diffusion of the PPP idea from other countries brought by the international financial institutions, notably the World Bank and the ADB. This process of diffusion is aided by pressure from the international community and facilitated by key officials educated in Western higher education institutions. The research also finds that such a process of diffusion may occur in different modes. The diffusion of PPP may take place as a voluntary adoption in that the government learns from the success of PPP implementation in

other countries and deliberately intends to imitate their success. However, on other occasions the diffusion may be coercive in that Indonesia, as a resource-dependent country, is driven by the obligation to adopt PPP specified in the terms and conditions attached to the financial assistance received by Indonesia. The different channels and modes of diffusion may have impacts on the current form of PPP, particularly on how the Indonesian government is encouraged to develop its own PPP programme and how certain elements of the PPP idea can be accepted as an integral framework of Indonesia's PPP.

During the process of diffusion, some elements of PPP can be easily accepted, such as the idea of attracting additional investment from the private sector with PPP. On the other hand, some other aspects often face tougher challenges from the locals, as shown by the introduction of the idea of competition, accountability and transparency in PPP procurement. In this regard, the research shows that economic as well as political, cultural and religious factors of Indonesia contribute in determining how the elements of the PPP idea might be accepted, rejected or negotiated.

### **10.2.2 PPP rationales**

In relation to the second research question, the research shows that although PPP in Indonesia is mainly driven by the rationale to attract private funds to fill the gaps of infrastructure-financing, other motivations also play a part in shaping the development of PPP. These PPP motivations are not only related to economic issues such as improving efficiency and quality of infrastructure services but are also associated with political issues such as maintaining access to international institutions and communities and taking personal benefits from public infrastructure procurement. In this case, PPP rationales are often used as rhetoric to cloud other motivations. For instance, the rationales to use PPP to draw additional investment from the private sector and to speed up the provision of public infrastructure may be used to conceal other intentions such as to extort benefits from public procurement for personal or political interests. Likewise, the rationale to use PPP to improve the efficiency and quality of public service, as stated in many official documents, is developed mainly to create an impression of the government's commitment.

In fact, these various PPP rationales and motivations are not static in that they are continuously compared and contrasted, and the main rationale is always challenged by the alternative rationales, particularly in competing to be the main driver of PPP implementation in Indonesia. The interaction of those rationales and motivations has significantly influenced



the development of PPP, as shown, for example, by a number of disagreements between the Ministry of Finance and other sector ministries in formulating the policy.

Due to the dynamics in economic and political circumstances, PPP rationales and motivations can also change over time. As the findings suggest, PPP rationales may be less influential in a certain period, but as the economic and political situation changes, their roles and influence may increase. Rationales can take on different shapes as the needs of rhetoric and justification may change. For instance, the rationale of using PPP to fill the infrastructure-financing gap has been transformed into the rationale of acceleration to respond to the need for a speedy recovery. In addition, rationales and motivations can also survive for a long time even though they might be challenged by different situations.

### **10.2.3 PPP development and evolution**

Addressing the third question, the research reveals that Indonesia's PPP has evolved through different forms of policy, particularly as responses to the changing economic and political circumstances. The observation of the elements of the PPP policy suggests that PPP in Indonesia has been transformed from a "sector issue" to a "reform issue", a "planning issue" and then a "financing issue". During those different periods, the framework of the policy has become notably more integrated. Learning from the financial crisis at the end of the 1990s, the financial and accounting concerns, such as the issue of risk-sharing, have been significantly improved. Likewise, the more democratic government has driven the PPP policy to become more accommodative of issues such as competition, accountability and transparency.

In addition, the research identifies some problems and challenges of PPP implementation in Indonesia. In this case, issues such as the complexity and novelty of the PPP concept, political intervention, lack of government leadership, coordination and expertise in dealing with PPP tasks, and land acquisition issues are identified as the main issues that may stem from economic, political or cultural factors. Nevertheless, these problems do not seem to discourage the government and its officials from maintaining a belief in PPP as the future of PPP is still mainly seen as promising and positive. Nevertheless, a minority of views suggests that the government should turn away from PPP and try other alternatives as the outcomes of PPP have so far been disappointing. This finding is intriguing as it shows that the expectations of PPP are built upon beliefs rather than on an evaluation of its merit and worth.

Despite all these key specific findings that add a number of new perspectives to the current knowledge of PPP, in general the research contributes to the literature by offering a new framework to study the implementation of PPP based on an open interpretive case-study. The study provides a ‘thick description’ and enhances an understanding of the dynamics of PPP implementation in Indonesia. It shows how PPP as a practice is both shaped by and shapes its socio-economic, political, cultural and religious settings, suggesting a number of unique characteristics of PPP implementation in Indonesia. The study also explains how the combination of internal and external factors takes part in the initial process of PPP adoption in Indonesia and influences the subsequent development of PPP.

### **10.3 Policy implications**

The findings of this research may have some important policy implications for a number of groups concerned with PPP implementation in Indonesia, particularly the government of Indonesia and the international agencies that provide assistance on PPP development in Indonesia. In this regard, several recommendations are discussed in the following sections.

#### **10.3.1 Policy implications for the Indonesian government**

A number of recommendations can be suggested for the Indonesian government to make PPP more workable and useful in attaining its objectives. The suggestions relate to policy development, improvement of the organisation, and understanding of the PPP concept and practices.

##### **10.3.1.1 The Indonesian government needs to be more independent in developing PPP policy**

As this research concludes, the support from the external agencies is very influential and instrumental in the development of Indonesia’s PPP, particularly that provided by the international financial institutions such as the World Bank and ADB. In that regard, there are some senses in which Indonesia has benefited from such support, including gaining access to the knowledge of best practices of PPP implementation across the world. Indonesia has in this way gained significant financial support from external agencies in relation to PPP programmes. Nevertheless, Indonesia should not rely heavily on the advice of the external agencies, in terms of both activities and the substance of the policy. In the context of PPP development, excessive dependencies on external agencies will only lead to Indonesia losing control of its own policy. Therefore, the Indonesian government needs to develop PPP initiatives and finance them from its own budget in order to establish a stronger sense of belonging to PPP programmes among its officials and to regain more control of the policy.

### **10.3.1.2 Indonesia needs to pay more attention to various rationales in implementing PPP**

One of the conclusions of this research is that PPP rationales significantly contribute to shaping the forms and characteristics of PPP policy. It is shown that the current form of PPP in Indonesia, which indicates an obsession with additional investment for public infrastructure, is shaped by its strong focus on investment rationales (filling the infrastructure-financing gap and accelerating the service provision). Likewise, the high dependence of PPP development on the support of external agencies is also particularly contributed to by PPP motivations to maintain access to the international community and donor funding. Therefore, an improved understanding of the PPP rationales and their impacts is needed to better shape Indonesia's PPP policy.

Furthermore, while the rationale of filling the infrastructure-financing gap is undeniably genuine for Indonesia due to its nature as a developing economy, other rationales that are embedded in PPP such as improving efficiency and the quality of public services need to be given more space in the government's rhetoric. In fact, this research identifies that such efficiency and quality rationales evidently exist in the government's documents as well as in the actors' perspectives. However, an excessive focus on developing the investment rationales has substantially displaced other rationales, which are left underdeveloped. Moreover, this effort may mean de-emphasising the investment rationales and allowing other rationales stated in the government's document to grow and develop.

### **10.3.1.3 Indonesia needs to see PPP in the wider context of infrastructure financing**

The exploration of the development of PPP in Indonesia and the investigation of the views of the implementing actors provide evidence on how the Indonesian government has made a great effort to introduce PPP and make it workable in Indonesia. The views of the actors suggest that the government has no other option but to implement PPP. Yet, PPP needs to be seen as an alternative instrument to attract private investment and to deliver more efficient and better-quality public infrastructure services. Indeed, other schemes and arrangements can be used to achieve those objectives, notably through the empowerment of the state-owned enterprises (SOEs/BUMN) and through improvement of the conventional public schemes. In that regard, the government needs to integrate PPP policy with other schemes and try avenues other than PPP to achieve the goal of improving public benefits.

#### **10.3.1.4 Improving the credibility and capacity of the government organisation**

Of the problems identified by this research that may disrupt the PPP implementation, the majority of them rest on the government capacity to manage PPP policy and transactions. PPP requires greater government capacity since the scheme involves more complex arrangements and consists of more parties than those in conventional schemes. Additionally, PPP relies on the credibility of governments to attract the interest and gain the trust of the private sector. The private sector will not be interested in any involvement in PPP offered by a government that lacks coordination, commitment, skill and regulatory enforcement, which are problems associated with the Indonesian government as identified by this research.

#### **10.3.2 Policy implications for external agencies**

Some findings of this research can also be used to formulate some recommendations for the external agencies such as the World Bank, ADB, JICA and Ausaid, which have been and remain supportive of the development of PPP in Indonesia.

##### **10.3.2.1 Better understanding of the local contexts**

This research partly finds that the development of PPP policy in Indonesia is affected by local contextual factors that relate to social, cultural, political and religious aspects. Although the research suggests that there is no absolute rejection of the PPP idea stemming from local influences, there is a significant aspiration on the part of the Indonesian government to ensure that the development of PPP policy fits the local context. The adaptation of PPP into the local contexts is facilitated by appreciating more of the cultural and political system of Indonesia, particularly vis-à-vis the bureaucracy. For instance, the hierarchical and structural nature of the Indonesian government organisation differs from what might commonly be seen in the Western countries and therefore needs to be taken into consideration to make PPP work.

##### **10.3.2.2 Focusing on introducing principles rather than forms**

The support from the World Bank and other agencies for the development of PPP in Indonesia can actually be seen as an effort to introduce a better management of public service provision based on the principles of efficiency and quality improvement. Alternatively, it can also be seen as supporting public sector reform by incorporating private management and expertise in the provision of public services. All those elements of improvement are covered in the idea of the introduction of PPP into the management of public infrastructure. However, once the idea is packaged as PPP, the attention and emphasis are mostly given to implementing PPP in an instrumental way rather than applying the principles, i.e. form over substance. Assistance with the development of principles, such as encouraging more

competition and transparency in the provision of infrastructure, should be the form rather than an instituted concern to bring in the form of PPP.

### **10.3.2.3 More alignment with public interests, not just the government**

The findings partly suggest that the PPP policy is often hijacked by individuals or groups in the government who redirect the potential benefits of PPP procurement to themselves at the expense of the public interest. To a wider extent, PPP policy is sometimes also used by the incumbent government as a political instrument to build some rhetoric for short-term interests. Moreover, in the Indonesian political system, the government cannot always be seen as an immaculate representation of the public interests. In that regard, it is necessary for the external agencies to consider the policy issues beyond what the government pronounces, in the wider interests of the public.

## **10.4 Limitations of the study and recommendations for future research**

Although the researcher has made every effort to ensure the attainment of the research objectives, some issues need to be raised concerning the limitations of the research. The first issue concerns the very nature of the research. When deciding to use a qualitative approach and a case-study design, the researcher understands that any findings discovered in the research cannot be easily generalised to any other case of PPP implementation. The main objective of the research is to study the implementation of PPP by the government of Indonesia to finance its infrastructure development and to explore how Indonesian contexts of socio-economic, political, cultural and religious issues contribute to that process of implementation. This interpretive research is organised in such a way that its approaches, methods, and instruments are established to generate explanations of what is occurring in PPP implementation in Indonesia, rather than to facilitate generalisation to any other case. However, despite this limitation, this research still adds to the literature on accounting research on PPP, particularly in its attempts to focus on different issues of PPP in Indonesia as a developing country, to see PPP using practical lenses, and to use alternative methods. In this sense, this research may benefit other researchers who want to study PPP in other cases in different countries.

The second limitation concerns the period covered by the study. As explained in the previous chapter, this research particularly focuses on the implementation of PPP in Indonesia from 1998 to 2011 while also covering the precedents of the implementation in the colonial era, early independence era and ‘new order’ era. However, the PPP issue in Indonesia is a current, contemporary and work-in-progress phenomenon, which is still dynamically and rapidly

progressing even as it is being researched. In that sense, it seems impossible for the research to include all the latest updates of the Indonesian PPP development in the study. Therefore, even at the time when it is completed and submitted, this research may not be able to provide the most up-to-date analysis of the development of PPP implementation in Indonesia.

The third limitation of the study concerns the practicalities of the methods employed by the research. A qualitative study, particularly one with an open theoretical orientation, normally takes a long time to complete (Lye *et al.*, 2006). The collection of data in qualitative research is usually less structured, non-linear and sometimes iterative. As suggested by Strauss and Corbin (1998), an ideal-typical grounded theoretical orientation to collect data should be halted at the point of theoretical saturation, which is difficult to predict in terms of time as well as cost. On the other hand, this study is carried out as PhD research that the researcher is expected to complete in a certain targeted timeframe. The use of research strategies and instruments in this research is then negotiated with the constraints of time and costs, which may affect the quality of the research to some extent.

Given these limitations, this research might be extended in a number of respects. Firstly, as PPP has also been adopted in many other developing countries, it will be interesting to conduct similar research on PPP implementation in other countries to explore how the issues identified in this research are manifested in different contexts. Secondly, this research might also be extended by enlarging the number of respondents in the interviews and surveys to widen the variety of responses. The type of respondents in the interviews might also be extended to include other stakeholders of PPP such as actors in the private sector, academics and staff from other public institutions to obtain more perspectives. Thirdly, the focus of study, on the other hand, might also be narrowed to gain a deeper understanding of specific issues, for example by specifically focusing on certain sectors (such as transport, energy or the water sector) or particular external agencies (such as the World Bank, ADB or Ausaid).

### **10.5 Personal reflection**

Finally, after completing the research, the researcher can contemplate on certain issues that he found and experienced during the course of the research. On the topic of the research, the researcher learns that exploring PPP issues is a challenging task. Although the researcher previously worked in a unit in the Ministry of Finance in Indonesia that dealt almost every day with PPP issues, discussing the topic in a research is very different experience. By doing the research, the researcher can look at more closely and dig more deeply on how PPP is

implemented in Indonesia. This research gave the researcher more opportunities to contemplate on how such a policy has actually been initiated long before, as well as how it is widely practiced by other countries around the world. Specifically on the latter issue, the researcher benefited to gain deeper understanding about similarities as well as differences between what are currently implemented in Indonesia and those applied in other countries.

Another valuable new understanding gained by the researcher from undertaking this research is the experience of employing qualitative approach in a research. Actually it is a new experience for him to do a qualitative research as previously he mainly used quantitative methods in his master research as well as in his office works. In fact, the researcher realises that although it is quite challenging to familiarise with such a new technique, the benefits gained from using qualitative approach are enormous. The interactions with other PPP stakeholders in Indonesia during the interviews opened up valuable new insights particularly on how officials in other departments of the government, other than the Ministry of Finance where the researcher used to work with PPP, have very different views about PPP issues. Previously, the researcher's opinions on PPP issues were very centred around the Ministry of Finance's point of view as he spent most of the time working with that angle. However, the experience of doing this study helped in widening those narrow views.

Moreover, in doing the analysis, the researcher also found that by using qualitative approach a number of new useful perspectives can be obtained, such as how non-economic motivation contributed significantly to the development of PPP in Indonesia, and how the different interests of actors played important roles in the process of adoption. The researcher believes that such insights could not be obtained using only quantitative methods.

Besides adding new knowledge to the literature as described in the previous section, those perspectives are in fact very useful for the researcher himself to understand the implementation of policies that may have accounting implications, not only PPP, that he would probably face in the next endeavour. The findings he obtained in this research somehow change the way he understands how implementation of new policies might be influenced by both economic and non-economic issues and shaped by the activities of the actors.

### Appendix 1: List of interviews

No	Pseudonym	Working unit	Level/Echelon
1.	Bambang Sungkono	Financing unit	Middle level
2.	Joko Pratomo	Financing unit	Middle level
3.	Agus Wahyudi	Financing unit	Middle level
4.	Cecep Usman	Financing unit	Middle level
5.	Budi Setyawan	Financing unit	Middle level
6.	Eddy Karim	Financing unit	Staff/Analyst
7.	Sofyan Majid	Financing unit	Middle level
8.	Donald Sitepu	Financing unit	Staff/Analyst
9.	Ibrahim Lutfi	Financing unit	High level
10.	Tommy Kurnia	Financing unit	High level
11.	Dwi Raharjo	Consultant	Not applicable
12.	Eko Irmawan	Contracting unit	Middle level
13.	Panca Haryanto	Contracting unit	High level
14.	Sigit Rudianto	Financing unit	Middle level
15.	Andy Hernawan	Contracting unit	High level
16.	Aziz Fajar	Financing unit	Middle level
17.	Wawan Santoso	Consultant	Not applicable
18.	Ahmad Fakhri	Consultant	Not applicable
19.	Teddy Warsito	External agency	Not applicable
20.	Charis Ridwan	External agency	Not applicable
21.	Tariq Muhamad	External agency	Not applicable
22.	Petrus Bujono	External agency	Not applicable
23.	Tulus Indarto	Coordinating/Planning unit	High level
24.	Rizal Sholihin	Financing unit	Middle level
25.	Hakim Simbolon	Contracting unit	Middle level

Note: The pseudonyms are all Indonesian male names to preserve the anonymity of gender and nationality.



## Appendix 2: Coding summary

(The coding summary presented in this table can only illustrate some parts of the coding process, particularly since the process is iterative and tentative).

Initial/open coding	Sub category	Category
<ul style="list-style-type: none"> <li>▪ Huge needs of infrastructure financing</li> <li>▪ Government is unable to provide sufficient funds</li> <li>▪ Government financial capability is small</li> <li>▪ Indonesia is lagging behind in terms of infrastructure provision</li> <li>▪ No options for government/government lack of options</li> <li>▪ Impossible to charge the financing from budget</li> <li>▪ Providing infrastructure is government's responsibility</li> <li>▪ The government has limitation while private can offer funds</li> <li>▪ PPP can benefit both parties</li> <li>▪ Allowing the government to reallocate budget</li> <li>▪ Heavy emphasis on funding element</li> <li>▪ Ignoring the long term impacts</li> <li>▪ Funding motive is no longer a valid reason</li> <li>▪ The emphasis should not be on funding element</li> <li>▪ Funding motive is politically easy to explain</li> <li>▪ Heavy emphasis on funding motive undermines others</li> <li>▪ The government financial capability is very small</li> <li>▪ Huge needs of financing for infrastructure development</li> <li>▪ Private sector has financial capability to fill the gap</li> <li>▪ The government can reallocate budget for other uses</li> <li>▪ Opening new partnership with private sector</li> <li>▪ Too much emphasis in the funding element</li> <li>▪ Investment rationales are myopic neglecting the long term impacts</li> <li>▪ Attracting private investment should not be a main rationale</li> <li>▪ Growing understanding about other rationales of PPP</li> <li>▪ The idea of filling the financing gap is politically easy</li> <li>▪ Too heavy emphasis on funding element marginalise other rationales</li> </ul>	Filling the financing gap	Rationales and motivations
<ul style="list-style-type: none"> <li>▪ Supporting public reform</li> <li>▪ Current scheme is incapable to provide reliable services</li> <li>▪ Public management is driven by process rather than outcome</li> </ul>	Supporting public reform	

<ul style="list-style-type: none"> <li>▪ Government officials only like to show off without being committed to do the job</li> </ul>		
<ul style="list-style-type: none"> <li>▪ Human resource problem</li> </ul>		
<ul style="list-style-type: none"> <li>▪ Weakness in policy formulation</li> </ul>		
<ul style="list-style-type: none"> <li>▪ The process is unclear</li> </ul>		
<ul style="list-style-type: none"> <li>▪ PPP rationales are not only filling infrastructure-financing gap</li> </ul>	Improving efficiency and quality	
<ul style="list-style-type: none"> <li>▪ Involvement of private can improve the efficiency and quality of services</li> </ul>		
<ul style="list-style-type: none"> <li>▪ Infrastructure provision cannot be accelerated</li> </ul>	Acceleration	
<ul style="list-style-type: none"> <li>▪ We need to accelerate development</li> </ul>		
<ul style="list-style-type: none"> <li>▪ PPP cannot be used to accelerate</li> </ul>		
<ul style="list-style-type: none"> <li>▪ People want immediate services</li> </ul>		
<ul style="list-style-type: none"> <li>▪ PPP need a long process</li> </ul>		
<ul style="list-style-type: none"> <li>▪ PPP takes time to implement</li> </ul>		
<ul style="list-style-type: none"> <li>▪ PPP can be used to speed up the provision of infrastructure</li> </ul>		
<ul style="list-style-type: none"> <li>▪ The idea of accelerating infrastructure through PPP is irrelevant</li> </ul>		
<ul style="list-style-type: none"> <li>▪ PPP policy needs stronger fundamentals</li> </ul>		
<ul style="list-style-type: none"> <li>▪ PPP is an international trend</li> </ul>	Imitating success	
<ul style="list-style-type: none"> <li>▪ PPP as bandwagon effect</li> </ul>		
<ul style="list-style-type: none"> <li>▪ The government only see the positive sides of PPP</li> </ul>		
<ul style="list-style-type: none"> <li>▪ Indonesia like to show that they are cooperative and observant</li> </ul>		
<ul style="list-style-type: none"> <li>▪ PPP is introduced because of Suharto's sons and daughters</li> </ul>	Rent seeking	
<ul style="list-style-type: none"> <li>▪ PPP is driven by rent seeking motives</li> </ul>		
<ul style="list-style-type: none"> <li>▪ Suharto's decline does not stop rent seeking motives in PPP</li> </ul>		
<ul style="list-style-type: none"> <li>▪ Conglomerates are coming in and controlling the bidding</li> </ul>		
<ul style="list-style-type: none"> <li>▪ PPP knowledge is obtained during formal education</li> </ul>	Formal education	Channels
<ul style="list-style-type: none"> <li>▪ Materials come from Washington institution</li> </ul>		
<ul style="list-style-type: none"> <li>▪ The experience in the office strengthen the knowledge about PPP</li> </ul>		
<ul style="list-style-type: none"> <li>▪ Basic knowledge about public finance and economics obtained in formal education helps in understanding PPP</li> </ul>		
<ul style="list-style-type: none"> <li>▪ The roles of external agencies in supporting PPP is quite significant</li> </ul>	External agencies	
<ul style="list-style-type: none"> <li>▪ The Indonesian officials learn a lot from external agencies</li> </ul>		
<ul style="list-style-type: none"> <li>▪ External agencies providing new perspectives</li> </ul>		
<ul style="list-style-type: none"> <li>▪ The transfer of knowledge is "effective"</li> </ul>		
<ul style="list-style-type: none"> <li>▪ Officials see some positive things from advices of external agencies</li> </ul>		
<ul style="list-style-type: none"> <li>▪ The idea conveyed by external agencies seem workable</li> </ul>		
<ul style="list-style-type: none"> <li>▪ External agencies assist in improving technical understanding about PPP</li> </ul>		
<ul style="list-style-type: none"> <li>▪ External agencies are not sincere enough in helping Indonesia</li> </ul>		
<ul style="list-style-type: none"> <li>▪ External agencies know PPP concept very well</li> </ul>		
<ul style="list-style-type: none"> <li>▪ The sincerity of external agencies is not yet tested</li> </ul>		
<ul style="list-style-type: none"> <li>▪ External agencies come bringing their own interests</li> </ul>		

<ul style="list-style-type: none"> <li>▪ The main objective of external agencies is to channel money</li> <li>▪ External agencies are very influential in supporting PPP development in Indonesia</li> <li>▪ External agencies cannot be blamed as decisions are in the government's hands</li> <li>▪ External agencies often drive the government policies</li> <li>▪ Indonesian officials are weak in front of the external agencies</li> <li>▪ Indonesian officials lack of vision therefore they are easily driven</li> <li>▪ Indonesian officials are not ready and want instant results</li> <li>▪ Indonesian officials are not well empowered and equipped therefore they are easily driven</li> <li>▪ The problem is not about them, it is all about us</li> <li>▪ The external agencies are not in position to drive the government</li> <li>▪ There are lots of resistance to PPP in external agencies</li> <li>▪ The interest rates charged by external agencies are low and insignificant</li> <li>▪ The portion of PPP among other programmes of external agencies is small</li> </ul>		
<ul style="list-style-type: none"> <li>▪ External agencies only channel their money, selling funds</li> <li>▪ Development issue is only for entry point for external agencies</li> <li>▪ External agencies do not have right concerns for development</li> <li>▪ The parameter is only the programme they delivered</li> <li>▪ External agencies try to get benefit from development issues</li> <li>▪ External agencies have concerns on PPP issues</li> <li>▪ External agencies intervening the formulation of regulation in positive ways</li> <li>▪ Creating a well informed society about PPP</li> </ul>		
<ul style="list-style-type: none"> <li>▪ Many seminars and workshop about PPP already but they are just routine</li> <li>▪ Policy makers do not know the basic principles of public policy</li> <li>▪ Understanding PPP is difficult if basic concepts of public financing is not comprehended</li> <li>▪ Officials do not have vision</li> <li>▪ Indonesians are sophisticated enough to understand PPP</li> <li>▪ We need to strengthen the awareness so the society is well informed about PPP</li> </ul>	Lack of understanding	
<ul style="list-style-type: none"> <li>▪ No such integrated strategy</li> </ul>	Lack of clear framework	
<ul style="list-style-type: none"> <li>▪ Every policy goes on its own way</li> <li>▪ PPP is run on case by case basis</li> <li>▪ PPP policy is so fragmented</li> <li>▪ Distrust among government units</li> <li>▪ Scepticism to commitment of other units in implementing PPP</li> <li>▪ Suspecting that other units do not do the jobs</li> </ul>	Coordination issue	
<ul style="list-style-type: none"> <li>▪ PPP should be driven from the top</li> </ul>	Leadership issue	
<ul style="list-style-type: none"> <li>▪ PPP implementation needs strong leaders</li> <li>▪ The government "do not walk the talk"</li> </ul>	Commitment issue	

<ul style="list-style-type: none"> <li>▪ The government do not seem to prioritise PPP</li> </ul>		
<ul style="list-style-type: none"> <li>▪ The government' s commitment to PPP seems so low</li> </ul>		
<ul style="list-style-type: none"> <li>▪ It is all talk</li> </ul>		
<ul style="list-style-type: none"> <li>▪ The government is not serious</li> </ul>		
<ul style="list-style-type: none"> <li>▪ High turnover, so it's difficult to assign officials for PPP tasks.</li> </ul>		
<ul style="list-style-type: none"> <li>▪ There is a problem about commitment among the executing agencies</li> </ul>		
<ul style="list-style-type: none"> <li>▪ Regulation is issued pragmatically</li> </ul>	Regulatory issues	
<ul style="list-style-type: none"> <li>▪ Regulations may be complete but they are not workable</li> </ul>		
<ul style="list-style-type: none"> <li>▪ Regulations lack the substance as too much focus on administrative issues</li> </ul>		
<ul style="list-style-type: none"> <li>▪ Land is government's problem</li> </ul>	Land issues	
<ul style="list-style-type: none"> <li>▪ Investors cannot buy lands because they are fake investors</li> </ul>		
<ul style="list-style-type: none"> <li>▪ Land is not easy to be acquired</li> </ul>		
<ul style="list-style-type: none"> <li>▪ Investors do not have money to buy land</li> </ul>		
<ul style="list-style-type: none"> <li>▪ Land acquisition is the main problem in PPP implementation</li> </ul>		
<ul style="list-style-type: none"> <li>▪ Government has provided land fund</li> </ul>		
<ul style="list-style-type: none"> <li>▪ Political interventions are so deeply rooted and difficult to eradicate</li> </ul>	Political issue	
<ul style="list-style-type: none"> <li>▪ Indonesians always prioritise harmony while PPP is built on comparison and competition</li> </ul>	Harmony vs competition	Contextual factors
<ul style="list-style-type: none"> <li>▪ Some elements of PPP do not fit with Indonesians' philosophy</li> </ul>		
<ul style="list-style-type: none"> <li>▪ Difficult to ensure the attainment of value for money improvement</li> </ul>		
<ul style="list-style-type: none"> <li>▪ PPP problems are not related to culture</li> </ul>		
<ul style="list-style-type: none"> <li>▪ PPP problems are mainly related with historical issues</li> </ul>		
<ul style="list-style-type: none"> <li>▪ Officials are not sure about cultural issues</li> </ul>		
<ul style="list-style-type: none"> <li>▪ Our position is loosening but we can win on other issues</li> </ul>		
<ul style="list-style-type: none"> <li>▪ Regulation on imposing competition is not practical</li> </ul>		
<ul style="list-style-type: none"> <li>▪ Loosening competition will attract more investors</li> </ul>		
<ul style="list-style-type: none"> <li>▪ Imposing competition means creating uncertainty</li> </ul>		
<ul style="list-style-type: none"> <li>▪ Officials do not understand the competition issue</li> </ul>		
<ul style="list-style-type: none"> <li>▪ Imposing competition makes PPP not flexible</li> </ul>		
<ul style="list-style-type: none"> <li>▪ Imposing competition slows down PPP implementation</li> </ul>		
<ul style="list-style-type: none"> <li>▪ Public are rational enough and not resistant to private providers</li> </ul>	Resistance to private	
<ul style="list-style-type: none"> <li>▪ No such idea that services must come from the government</li> </ul>		
<ul style="list-style-type: none"> <li>▪ Resistance may appear if the privates are foreigners</li> </ul>		
<ul style="list-style-type: none"> <li>▪ No driver for transparency</li> </ul>	Transparency	
<ul style="list-style-type: none"> <li>▪ Transparency can be understood better by those have been living abroad</li> </ul>		
<ul style="list-style-type: none"> <li>▪ Religious issues are rarely used as perspective in making decision</li> </ul>	Religious issues	
<ul style="list-style-type: none"> <li>▪ Islam is seen as having universal values</li> </ul>		
<ul style="list-style-type: none"> <li>▪ Islam is associated with justice, public benefit</li> </ul>		
<ul style="list-style-type: none"> <li>▪ Islam is associated with good governance</li> </ul>		

<ul style="list-style-type: none"> <li>▪ PPP is congruent with Islam as it share the benefits to community</li> </ul>		
<ul style="list-style-type: none"> <li>▪ Islamic PPP will be more acceptable to public</li> </ul>		
<ul style="list-style-type: none"> <li>▪ Islamic PPP is not expected to give cheaper price</li> </ul>		
<ul style="list-style-type: none"> <li>▪ Political system gives X factors</li> </ul>	Political issues	
<ul style="list-style-type: none"> <li>▪ Political situations disturb PPP implementation</li> </ul>		
<ul style="list-style-type: none"> <li>▪ Political intervention makes it impossible to achieve PPP objectives</li> </ul>		
<ul style="list-style-type: none"> <li>▪ Political successions and other events disrupt the sustainability of PPP programmes</li> </ul>		
<ul style="list-style-type: none"> <li>▪ The pattern of PPP development has not been established</li> </ul>	Optimistic views	Prospect
<ul style="list-style-type: none"> <li>▪ PPP is a new thing for Indonesians</li> </ul>		
<ul style="list-style-type: none"> <li>▪ The shift from conventional scheme is not as fast as expected</li> </ul>		
<ul style="list-style-type: none"> <li>▪ Everything is always difficult in the beginning</li> </ul>		
<ul style="list-style-type: none"> <li>▪ The understanding to PPP has been improved</li> </ul>	Positive views	
<ul style="list-style-type: none"> <li>▪ PPP has shown some progress</li> </ul>		
<ul style="list-style-type: none"> <li>▪ Government put too much focus on PPP</li> </ul>	Negative views	
<ul style="list-style-type: none"> <li>▪ PPP results are disappointing</li> </ul>		
<ul style="list-style-type: none"> <li>▪ Government need to look at other avenues</li> </ul>		
<ul style="list-style-type: none"> <li>▪ Government needs to try different approaches</li> </ul>		

## Appendix 3: Survey questions

### Page 1

#### PPP implementation in Indonesia

#### Welcome

Welcome to the survey on **PPP implementation in Indonesia**. This survey aims to investigate the views of different stakeholders in the **implementation of Public-Private Partnerships (PPP) in Indonesia** both at the policy as well as project level. This survey is part of the **PhD Research by Farid Arif Wibowo of Durham University Business School, Durham University, United Kingdom**. The researcher can be contacted at [f.a.wibowo@durham.ac.uk](mailto:f.a.wibowo@durham.ac.uk).

The research is conducted to study the **implementation of PPP in the socio-economic, political, cultural and religious contexts of Indonesia**, using the perspectives of the actors involved in the process of implementation. Since the 1990s, the government of Indonesia has adopted PPP to finance the development of public infrastructure. Implementation of PPP involves a wide-range of different departments in the government, including Bappenas (National Development Agency), Coordinating Ministry of Economic Affairs, Ministry of Public Works, Ministry of Energy, Ministry of Transports, Ministry of Justice, BKPM, State Secretariat as well as some SOEs such as PT. PLN, PT. SMI and PT. PII. The framework of PPP policy is detailed in several regulations issued by central government including Keppres 7/1998, Perpres 67/2005 and Perpres 13/2010. The World Bank, ADB, JICA, Ausaid and other external agencies have also been actively supporting the enactment of the policy through technical as well as financial assistance. Through the policy, several projects have been financed including those of toll roads, power plants, and water treatments plants.

You are invited to participate in this survey because **it is assumed that your past or current works are somewhat related to the implementation of PPP in Indonesia**.

The survey takes around **10 - 15 minutes** to complete. Your responses will be anonymous and you will not be identified or identifiable. The results of this survey will be held securely and only be used for the research purposes. You are expected to answer **ALL** the questions in this survey. The open questions are optional which means you can continue to the next section without answering the questions. However, your responses to the open questions are very much appreciated.

To proceed to the next section you need to click the **CONTINUE** button. Note that once you have clicked on the **CONTINUE** button at the bottom of each page you cannot return to review or amend that page.

By clicking the **CONTINUE** button below, you **agree** to participate in this survey.

Thank you very much for your participation.

CONTINUE

## About You

### Information about you in relation to implementation of PPP in Indonesia

**1. Where are you currently working?**

- Executing unit (Ministry of Transport, Ministry of Public Works, Ministry of Energy, Ministry of Telecommunication, PT. PLN, Local Governments, etc)
- Financing unit (Ministry of Finance, PT. SMI, PT. PII, PT. IIF, etc)
- Coordinating and Planning unit (Coordinating ministry of economic affairs, Bappenas, etc)
- Supporting unit (State secretariat, Ministry of Justice, Ministry of Home Affairs, BKPM, LKPP)
- Consultant to the government
- External agency (World Bank, ADB, Ausaid, JICA, etc)
- Private company
- Other (*please specify*):

**2. If you are working in the government, what echelon are you in?**

- Echelon 1 or 2
- Echelon 3 or 4
- Staff
- Non echelon
- Not applicable

**3. How long have you been working in the issues related to PPP?**

- Less than 2 years
- 3 to 5 years
- 5 to 7 years
- More than 7 years

**4. How do your daily tasks relate to PPP?**

- They are mostly on PPP
- Some of them relate to PPP
- Only a few of them relate to PPP

**5. What is your nationality or citizenship background?**

- Indonesian lived in a foreign country for a year or more
- Indonesian lived in a foreign country less than a year
- Indonesian never live in or visit a foreign country
- Non-Indonesian
- Other (*please specify*):

**6. What is your religion background?**

- Buddhist
- Catholic
- Christian
- Hindhu
- Islam
- Konghucu
- Agnostic/Atheist
- Prefer not mention
- Other (please specify)

**7. What is your gender?**

- Female
- Male

**8. What is your age**

- Younger than 31
- 31 – 40
- 41 – 50
- 51 – 60
- Older than 60

**9. What is your highest level of education**

- Diploma level
- Undergraduate level in Indonesia
- Undergraduate level outside Indonesia
- Master/magister level in Indonesia
- Doctoral level in Indonesia
- Doctoral level outside Indonesia
- Other (please specify):

**10. What is your educational background?**

- Economics including business, management and accounting
- Engineering
- Social and political studies
- Law
- Religious studies
- Mixed
- Other (please specify)

CONTINUE



### Indonesia's motivation to implement PPP

In this section we ask you about your views on the motivation and rationales of Indonesia to do PPP.

11. To what extent do you agree or disagree that *Indonesia needs to implement PPP because of the following reasons and motivations?*

	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
a. The government does not have enough funds to develop infrastructure					
b. The conventional public procurement (APBN) is not capable of providing reliable services					
c. Private sector has better capacity to manage the infrastructure services					
d. PPP has been adopted successfully by other countries					
e. PPP improves procurement transparency					
f. PPP can accelerate infrastructure provision					
g. PPP can reduce the price of the infrastructure services for the public					
h. PPP introduces better innovation and technology improvement in infrastructure services					
i. PPP helps reforms in public sector					
j. PPP provides more opportunities to private sector to participate in the economy					

12. Among the motivations provided in the question no. 11, which one do you think is the **MOST relevant** for Indonesia?

13. Among the motivations provided in question no. 11, which one do you think is the **SECOND MOST relevant**?

14. Among the motivations provided in the question no. 11, which one do you think is the **THIRD MOST relevant** for Indonesia?

15. What is your general view on the rationales/motivation of Indonesia to do PPP? *(the question is optional but your answer will be very much appreciated)*

### Problems and challenges in implementation

In this section you will be asked about your views on problems that may hinder the implementation of PPP in Indonesia

16. To what extend do you agree or disagree that *implementing PPP in Indonesia is difficult because of the following statements/reasons?*

	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
a. PPP is too complex to be understood					
b. PPP is a new thing for Indonesia					
c. PPP is a foreign concept					
d. There is insufficient incentive for the government officers to commit in implementing PPP					
e. There is insufficient legal framework for PPP implementation in Indonesia					
f. The government needs stronger leaderships					
g. The government needs better coordination among its departments/units					
h. The government needs to show stronger intention and seriousness					
i. PPP policy is unclear					
j. PPP policy is mostly driven by politics					
k. PPP is marginalised by other schemes such as conventional public procurement and SOEs					
l. Many technical problems (land acquisition etc) remain unresolved					
m. The public sector is resistant to private involvement					
n. The government officers lack the technical skills and resources necessary to implement the transaction or procurement process					

17. Among the problems and challenges provided in question no. 16, which one do you think is the **MOST RELEVANT** for Indonesia?

18. Among the problems and challenges provided in question no. 16, which one do you think is the **SECOND MOST RELEVANT**?

19. Among the problems and challenges provided in question no. 16, which one do you think is the **THIRD MOST RELEVANT**?

20. What is your general view on **problems and challenges of PPP implementation in Indonesia?** (*this question is optional, however your answer would be very much appreciated*)

## Roles of external agencies in PPP implementation

This section explores the views of the actors about the roles of external agencies such as World Bank, ADB, JICA, Ausaid, e.t.c. in shaping the PPP policy in Indonesia.

- 21.** How often do you involve in trainings/workshops/seminars about PPP provided by the external agencies (World Bank, ADB, JICA, Ausaid etc) to Indonesian audiences?
- Never
  - Few times
  - Often
  - Frequently
- 22.** Do you think those trainings/workshops/seminars are useful to help Indonesian officials in their daily works?
- Not useful at all
  - Not really useful
  - Useful
  - Very useful
  - Not applicable (never involved in such trainings/workshops/seminars)
- 23.** How often do you read the recommendation/policy advices/policy papers provided by the external agencies?
- Never
  - Rarely
  - Occasionally
  - Always
  - Not applicable (I work in external agencies)
- 24.** How influential are those products of recommendation of external agencies to your understanding about PPP?
- Not influential
  - Not really influential
  - Influential
  - Very influential
  - Not applicable (I work in an external agency)
- 25.** Are you worried that the influence of external agencies will reduce the government's independence in making decision on PPP policy?
- Not worried at all
  - Not really worried
  - Worried
  - Very worried
- 26.** To what extend do you agree or disagree with the following statements about the roles of external agencies in Indonesia

	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
a. The external agencies have a very important role in the implementation of PPP in Indonesia					
b. The external agencies provide full supports to the implementation of PPP in Indonesia					
c. The external agencies understand the Indonesian contexts and know how to adapt/conform with those contexts in relation to PPP implementation					
d. The external agencies fully supports the incorporation of accountability, transparency and competition in the Indonesian PPP scheme					
e. The external agencies have other interests other than helping Indonesia to improve the infrastructure development					
f. The external agencies are more concerned with selling their financial products rather than helping Indonesia to improve the infrastructure development					
g. The external agencies bring the interests of foreign companies in introducing PPP to Indonesia					
h. The external agencies bring the neo-liberalism agenda in introducing PPP					
i. Many external agencies' assistances related to PPP are actually overlapping					
j. Many external agencies' assistances do not meet the intended objectives/targets					

**27.** What is your general view on roles of external agencies in the implementation of PPP in Indonesia? *(this question is optional, however your answer will be very much appreciated)*

### Social, cultural and political contexts

In this section we will ask you about your views on the social, cultural, political and religious contexts of Indonesia related to the implementation of PPP.

**28.** To what extent do you agree or disagree with the following statements about **Indonesian contexts in the PPP implementation?**

	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
a. PPP is not suitable for Indonesia because Indonesians like harmony while PPP encourages competition					
b. PPP is not suitable for Indonesia because Indonesia is built upon social justice while PPP is based on capitalism					
c. PPP is not suitable for Indonesia because PPP is a product of Western culture					
d. PPP needs to be modified to suit Indonesian contexts					
e. PPP does not fit with religious values because PPP does not support the needy/the poor					
f. PPP fits with religious values because PPP supports accountability, transparency and fairness					
g. PPP needs to be modified so that the transactions comply with the religious value that forbids usury					
h. Indonesia needs to increase the number of shariah-compliant PPP projects					
i. Shariah-compliant PPP projects will get the public support more easily					
j. Indonesia needs a radical change in its political, social and cultural system to make PPP works					
k. Fair and intense competition among bidders is the best way to get the most reliable and efficient public services					
l. Transparent bidding is the best way to get the most reliable and efficient public services					

**29.** What is your general comment on the Indonesian contexts of PPP implementation? (*this question is optional, however your responses will be very much appreciated*)

**Merits and worth of PPP**

In this section you will be asked about your comments on the merits and worth of Indonesian PPP as well as other issues emerging during the implementation.

**30.** To what extent do you agree or disagree with the following statements about merits and worth of PPP in Indonesia

	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
a. PPP <b>has</b> delivered better infrastructure services in Indonesia					
b. PPP <b>has</b> produced more efficient prices of infrastructure services in Indonesia					
c. PPP <b>has</b> accelerated the provision of infrastructure in Indonesia					
d. PPP <b>has</b> improved the accountability of procurement in Indonesia					
e. PPP <b>has</b> reformed the public sector in Indonesia					
f. PPP is surely workable in Indonesia					
g. PPP is surely superior compared to other schemes of procurement in Indonesia					

## **Page 8**

### **General comments about PPP in Indonesia**

#### **Additional comments or views about PPP implementation in Indonesia**

- 31.** What is your general comment on PPP implementation in Indonesia? *(this question is optional, but your responses are very much appreciated)*

## Appendix 4: Survey results

**Table 1: Profile of Respondents**

Variable	Categories	Frequency	Per cent	Cumulative Per cent
Working Unit	Financing Unit	47	44.76	44.76
	Non-Financing Units	33	31.43	76.19
	External Units	25	23.81	100.00
	Total	105	100.00	
Echelon	High Echelon	6	5.71	5.71
	Middle Echelon	20	19.05	24.76
	Non-Echelon	79	75.24	100.00
	Total	105	100.00	
PPP Experience	<2 years	37	35.24	35.24
	2-5 years	39	37.14	72.38
	>5 years	29	27.62	100.00
	Total	105	100.00	
PPP Intensity	Mostly about PPP	22	20.95	20.95
	Some about PPP	31	29.52	50.48
	A few about PPP	52	49.52	100.00
	Total	105	100.00	
Education Background	Economics/Business	51	48.57	48.57
	Non-Economics/Business	54	51.43	100.00
	Total	105	100.00	
	Female	33	31.43	100.00
	Total	105	100.00	
Education Level	Diploma/graduate levels	38	36.19	36.19
	Postgraduate levels	67	63.81	100.00
	Total	105	100.00	
Religion	Muslim	81	77.14	77.14
	Non-Muslim	24	22.86	100.00
	Total	105	100.00	
Foreign Exposure (Nationality)	Have been living abroad	47	44.76	44.76
	Never been living abroad	58	55.24	100.00
	Total	105	100.00	



**Table 2: Perception of Respondents Regarding Various Motivations to Implement PPP in Indonesia**

Motivations and Rationales to Implement PPP	Perception (%), N=105					Total
	Strongly disagree	Disagree	Neutral	Agree	Strongly agree	
Limited government fund	1.9	5.7	7.6	46.7	38.1	100.0
Conventional scheme incapable	0.0	9.5	10.5	48.6	31.4	100.0
Private sector is better	1.0	5.7	15.2	54.3	23.8	100.0
Imitating success	0.0	4.8	31.4	48.6	15.2	100.0
Improving transparency	0.0	4.8	6.7	60.0	28.6	100.0
Accelerating infrastructure provision	0.0	11.4	19.0	43.8	25.7	100.0
Reducing price	1.0	15.2	27.6	43.8	12.4	100.0
Improving innovation	0.0	1.9	3.8	73.3	21.0	100.0
Public reform	0.0	2.9	10.5	66.7	20.0	100.0
Participating in economy	0.0	0.0	2.9	62.9	34.3	100.0

**Table 3: Ranking the Main Motivation to Implement PPP in Indonesia**

Main Motivation	Frequency	Per cent	Cumulative Per cent	Rank
Government has limited funds	50	47.62	47.62	1
Conventional procurements are incapable	20	19.05	66.67	2
Private has better management and skill	9	8.57	75.24	4
PPP has been successfully implemented in other countries	2	1.90	77.14	8
PPP can improve the transparency of procurement	12	11.43	88.57	3
PPP can accelerate infrastructure provision	5	4.76	93.33	5
PPP can reduce the price for public infrastructure	1	0.95	94.29	9
PPP can improve innovation and technology	3	2.86	97.14	6=7
PPP can support public reforms	3	2.86	100.00	6=7
PPP can increase private participation in the economy	0	0	100.00	10
Total	105	100.00	100.00	

**Table 4: Kruskal-Wallis Test for Motivations to Implement PPP based on Working Unit and Echelon**

Working Unit		N	Mean Rank	0	df	Asymp. Sig.	Echelon		N	Mean Rank	Chi-Square	df	Asymp. Sig.
Limited government fund	Financing Unit	47	56.56	1.716	2	.424	Limited government fund	High Echelon	6	63.25	2.743	2	.254
	Non-Financing Units	33	51.95					Middle Echelon	20	60.05			
	External Units	25	47.68					Non-Echelon	79	50.44			
	Total	105						Total	105				
Conventional scheme incapable	Financing Unit	47	58.68	3.724	2	.155	Conventional scheme incapable	High Echelon	6	68.00	3.610	2	.164
	Non-Financing Units	33	46.79					Middle Echelon	20	59.63			
	External Units	25	50.52					Non-Echelon	79	50.18			
	Total	105						Total	105				
Improving transparency	Financing Unit	47	60.07	6.432	2	.040	Improving transparency	High Echelon	6	59.50	.913	2	.633
	Non-Financing Units	33	45.36					Middle Echelon	20	56.48			
	External Units	25	49.78					Non-Echelon	79	51.63			
	Total	105						Total	105				
Private sector is better	Financing Unit	47	58.45	7.364	2	.025	Private sector is better	High Echelon	6	52.75	.015	2	.993
	Non-Financing Units	33	42.23					Middle Echelon	20	52.35			
	External Units	25	56.98					Non-Echelon	79	53.18			
	Total	105						Total	105				
Accelerating infrastructure provision	Financing Unit	47	48.44	2.161	2	.339	Accelerating infrastructure provision	High Echelon	6	51.17	.093	2	.954
	Non-Financing Units	33	57.11					Middle Echelon	20	54.60			
	External Units	25	56.16					Non-Echelon	79	52.73			
	Total	105						Total	105				

**Table 5: Kruskal-Wallis Test for Motivations to Implement PPP based on Working Experience and Intensity**

Working Experience		N	Mean Rank	Chi-Square	df	Asymp. Sig.	Work Intensity		N	Mean Rank	Chi-Square	df	Asymp. Sig.
Government have no fund	<2 years	37	54.46	1.933	2	.380	Government have no fund	Mostly about PPP	22	52.98	2.720	2	.257
	2-5 years	39	56.10					Some about PPP	31	46.45			
	>5 years	29	46.97					A few about PPP	52	56.91			
	Total	105						Total	105				
Conventional scheme incapable	<2 years	37	58.97	2.667	2	.264	Conventional scheme incapable	Mostly about PPP	22	56.16	.685	2	.710
	2-5 years	39	50.63					Some about PPP	31	49.85			
	>5 years	29	48.57					A few about PPP	52	53.54			
	Total	105						Total	105				
Improving transparency	<2 years	37	52.62	.657	2	.720	Improving transparency	Mostly about PPP	22	57.43	1.083	2	.582
	2-5 years	39	50.97					Some about PPP	31	53.92			
	>5 years	29	56.21					A few about PPP	52	50.58			
	Total	105						Total	105				
Private sector is better	<2 years	37	55.85	.680	2	.712	Private sector is better	Mostly about PPP	22	58.41	1.067	2	.587
	2-5 years	39	52.22					Some about PPP	31	51.55			
	>5 years	29	50.41					A few about PPP	52	51.58			
	Total	105						Total	105				
Accelerating provision of infrastructure	<2 years	37	63.86	10.392	2	.006	Accelerating provision of infrastructure	Mostly about PPP	22	49.82	2.420	2	.298
	2-5 years	39	42.60					Some about PPP	31	47.95			
	>5 years	29	53.12					A few about PPP	52	57.36			
	Total	105						Total	105				

**Table 6: Mann-Whitney U Test for Motivations to Implement PPP based on Education Background**

Education Background		N	Mean Rank	Sum of Ranks	Mann-Whitney U	Asymp. Sig. (2-tailed)
Limited government fund	Economics/Business	51	53.45	2726.00	1354.000	.872
	Non-Economics/Business	54	52.57	2839.00		
	Total	105				
Conventional scheme incapable	Economics/Business	51	57.98	2957.00	1123.000	.078
	Non-Economics/Business	54	48.30	2608.00		
	Total	105				
Improving transparency	Economics/Business	51	55.73	2842.00	1238.000	.307
	Non-Economics/Business	54	50.43	2723.00		
	Total	105				
Private sector is better	Economics/Business	51	56.99	2906.50	1173.500	.150
	Non-Economics/Business	54	49.23	2658.50		
	Total	105				
Accelerating infrastructure provision	Economics/Business	51	54.18	2763.00	1317.000	.684
	Non-Economics/Business	54	51.89	2802.00		
	Total	105				

**Table 7: Total Variance Explained for Motivations to Implement PPP**

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	3.093	30.935	30.935	3.093	30.935	30.935	2.316	23.163	23.163
2	1.393	13.928	44.863	1.393	13.928	44.863	1.850	18.500	41.662
3	1.156	11.562	56.425	1.156	11.562	56.425	1.476	14.762	56.425
4	.984	9.835	66.260						
5	.801	8.011	74.272						
6	.707	7.065	81.337						
7	.568	5.679	87.016						
8	.522	5.222	92.239						
9	.467	4.671	96.909						
10	.309	3.091	100.000						

**Table 8: Rotated Component Matrix (Loading) of Motivations to Implement PPP**

**Rotated Component Matrix<sup>a</sup>**

	Component		
	1	2	3
Participating in economy	.812		
Public reform	.807		
Improving innovation	.634		
Improving transparency	.600		
Conventional scheme incapable		.713	
Private sector is better		.682	
Reducing price		.588	
Imitating success		.467	
Limited government fund			.766
Accelerating infrastructure provision			.719

Extraction Method: Principal Component Analysis.

Rotation Method: Varimax with Kaiser Normalization.

a. Rotation converged in 5 iterations.

**Table 9: Perception of Respondents Regarding Various Problems to Implement PPP in Indonesia**

Problems	Perception	Frequency	Per cent	Cum. Per cent	Problems	Perception	Frequency	Per cent	Cum. Per cent
PPP is difficult	Strongly disagree	10	9.52	9.52	Lack of seriousness	Strongly disagree	0	0	0
	Disagree	50	47.62	57.14		Disagree	9	8.57	8.57
	Neutral	19	18.10	75.24		Neutral	18	17.14	25.71
	Agree	24	22.86	98.10		Agree	47	44.76	70.48
	Strongly agree	2	1.90	100.00		Strongly agree	31	29.52	100.00
	Total	105	100.00	-		Total	105	100.00	-
PPP is new thing	Strongly disagree	8	7.62	7.62	No clear policy	Strongly disagree	0	0	0
	Disagree	29	27.62	35.24		Disagree	9	8.57	8.57
	Neutral	12	11.43	46.67		Neutral	12	11.43	20.00
	Agree	48	45.71	92.38		Agree	59	56.19	76.19
	Strongly agree	8	7.62	100.00		Strongly agree	25	23.81	100.00
	Total	105	100.00	-		Total	105	100.00	-
PPP is foreign concept	Strongly disagree	11	10.48	10.48	Political intervention	Strongly disagree	0	0	0
	Disagree	24	22.86	33.33		Disagree	6	5.71	5.71
	Neutral	35	33.33	66.67		Neutral	11	10.48	16.19
	Agree	31	29.52	96.19		Agree	47	44.76	60.95
	Strongly agree	4	3.81	100.00		Strongly agree	41	39.05	100.00
	Total	105	100.00	-		Total	105	100.00	-
Lack of incentive for government	Strongly disagree	4	3.81	3.81	Lack of coordination	Strongly disagree	0	0	0
	Disagree	19	18.10	21.90		Disagree	2	1.90	1.90
	Neutral	22	20.95	42.86		Neutral	2	1.90	3.81
	Agree	39	37.14	80.00		Agree	42	40.00	43.81
	Strongly agree	21	20.00	100.00		Strongly agree	59	56.19	100.00
	Total	105	100.00	-		Total	105	100.00	-
Lack of legal framework	Strongly disagree	3	2.86	2.86	Technical problems	Strongly disagree	1	0.95	0.95
	Disagree	17	16.19	19.05		Disagree	3	2.86	3.81
	Neutral	12	11.43	30.48		Neutral	8	7.62	11.43
	Agree	51	48.57	79.05		Agree	41	39.05	50.48
	Strongly agree	22	20.95	100.00		Strongly agree	52	49.52	100.00
	Total	105	100.00	-		Total	105	100.00	-
Lack of leadership	Strongly disagree	3	2.86	2.86	Lack of skill	Strongly disagree	0	0	0
	Disagree	8	7.62	7.62		Disagree	16	15.24	15.24

Neutral	6	5.71	13.33
Agree	43	40.95	54.29
Strongly agree	48	45.71	100.00
Total	105	100.00	-

Neutral	19	18.10	33.33
Agree	47	44.76	78.10
Strongly agree	23	21.90	100.00
Total	105	100.00	-

**Table 10: Ranking the Main Problems to Implement PPP in Indonesia**

<b>Main Problem</b>	<b>Frequency</b>	<b>Per cent</b>	<b>Cumulative Per cent</b>	<b>Rank</b>
PPP is too complex to be understood	3	2.86	2.86	10
PPP is a new thing to Indonesia	5	4.76	4.76	7=8
Lack of incentive for the officials to implement PPP	4	3.81	3.81	9
Lack of legal frameworks	18	17.14	17.14	3
Lack of leaderships in the government	19	18.10	18.10	1=2
Lack of coordination among government units	13	12.38	12.38	4
Lack of intention and seriousness	7	6.67	6.67	6
PPP policy is unclear	5	4.76	4.76	7=8
PPP policy is mostly driven by politics	19	18.10	18.10	1=2
Many technical problems remain unresolved	9	8.57	8.57	5
Government officials lack of skills	2	1.90	1.90	11
Total	105	100	100	



**Table 11: Kruskal-Wallis Test for Main Problems to Implement PPP based on Working Unit and Echelon**

Working Unit		N	Mean Rank	Chi-Square	df	Asymp. Sig.	Echelon		N	Mean Rank	Chi-Square	df	Asymp. Sig.
Lack of leadership	Financing Unit	47	57.82	3.949	2	.139	Lack of leadership	High Echelon	6	45.92	.466	2	.792
	Non-Financing Units	33	45.33					Middle Echelon	20	54.73			
	External Units	25	54.06					Non-Echelon	79	53.10			
	Total	105						Total	105				
Political intervention	Financing Unit	47	56.91	4.108	2	.128	Political intervention	High Echelon	6	50.83	.193	2	.908
	Non-Financing Units	33	44.80					Middle Echelon	20	50.93			
	External Units	25	56.46					Non-Echelon	79	53.69			
	Total	105						Total	105				
Lack of legal framework	Financing Unit	47	60.52	6.040	2	.049	Lack of legal framework	High Echelon	6	43.50	.991	2	.609
	Non-Financing Units	33	47.82					Middle Echelon	20	56.58			
	External Units	25	45.70					Non-Echelon	79	52.82			
	Total	105						Total	105				
Lack of coordination	Financing Unit	47	58.81	6.085	2	.048	Lack of coordination	High Echelon	6	47.08	.529	2	.768
	Non-Financing Units	33	44.00					Middle Echelon	20	55.80			
	External Units	25	53.96					Non-Echelon	79	52.74			
	Total	105						Total	105				
Technical problems	Financing Unit	47	59.19	8.981	2	.011	Technical problems	High Echelon	6	71.75	3.070	2	.215
	Non-Financing Units	33	41.17					Middle Echelon	20	53.80			
	External Units	25	56.98					Non-Echelon	79	51.37			
	Total	105						Total	105				

**Table 12: Kruskal-Wallis Test for Main Problems to Implement PPP based on Working Experience and Intensity**

Working Experience		N	Mean Rank	Chi-Square	df	Asymp. Sig.	Work Intensity		N	Mean Rank	Chi-Square	df	Asymp. Sig.
Lack of leadership	<2 years	37	51.80	.891	2	.641	Lack of leadership	Mostly about PPP	22	54.14	1.930	2	.381
	2-5 years	39	51.08					Some about PPP	31	58.13			
	>5 years	29	57.12					A few about PPP	52	49.46			
	Total	105						Total	105				
Political intervention	<2 years	37	59.59	3.678	2	.159	Political intervention	Mostly about PPP	22	54.02	.314	2	.855
	2-5 years	39	51.54					Some about PPP	31	50.63			
	>5 years	29	46.55					A few about PPP	52	53.98			
	Total	105						Total	105				
Lack of legal framework	<2 years	37	57.39	1.833	2	.400	Lack of legal framework	Mostly about PPP	22	53.20	2.985	2	.225
	2-5 years	39	48.58					Some about PPP	31	45.97			
	>5 years	29	53.34					A few about PPP	52	57.11			
	Total	105						Total	105				
Lack of coordination	<2 years	37	55.65	1.472	2	.479	Lack of coordination	Mostly about PPP	22	52.05	2.359	2	.307
	2-5 years	39	48.92					Some about PPP	31	59.00			
	>5 years	29	55.10					A few about PPP	52	49.83			
	Total	105						Total	105				
Technical problems	<2 years	37	53.28	.068	2	.966	Technical problems	Mostly about PPP	22	58.25	1.207	2	.547
	2-5 years	39	53.56					Some about PPP	31	49.87			
	>5 years	29	51.88					A few about PPP	52	52.64			
	Total	105						Total	105				

**Table 13: Mann-Whitney U Test for Main Problems to Implement PPP based on Education Background**

Education Background		N	Mean Rank	Sum of Ranks	Mann-Whitney U	Asymp. Sig. (2-tailed)
Lack of leadership	Economics/Business	51	54.39	2774.00	1306.000	.618
	Non-Economics/Business	54	51.69	2791.00		
	Total	105				
Political intervention	Economics/Business	51	56.36	2874.50	1205.500	.233
	Non-Economics/Business	54	49.82	2690.50		
	Total	105				
Lack of legal framework	Economics/Business	51	56.47	2880.00	1200.000	.224
	Non-Economics/Business	54	49.72	2685.00		
	Total	105				
Lack of coordination	Economics/Business	51	58.74	2995.50	1084.500	.031
	Non-Economics/Business	54	47.58	2569.50		
	Total	105				
Technical problems	Economics/Business	51	59.39	3029.00	1051.000	.021
	Non-Economics/Business	54	46.96	2536.00		
	Total	105				

**Table 14: Total Variance Explained for Problems to Implement PPP**

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	3.188	26.566	26.566	3.188	26.566	26.566	2.136	17.796	17.796
2	1.879	15.658	42.223	1.879	15.658	42.223	2.085	17.378	35.174
3	1.293	10.779	53.002	1.293	10.779	53.002	1.980	16.496	51.670
4	1.046	8.716	61.718	1.046	8.716	61.718	1.206	10.048	61.718
5	.849	7.079	68.797						
6	.792	6.602	75.399						
7	.696	5.797	81.196						
8	.603	5.027	86.223						
9	.517	4.307	90.529						
10	.448	3.734	94.263						
11	.415	3.454	97.718						
12	.274	2.282	100.000						

Extraction Method: Principal Component Analysis.

**Table 15: Rotated Component Matrix (Loading) of Problems to Implement PPP**

**Rotated Component Matrix<sup>a</sup>**

	Component			
	1	2	3	4
Lack of leadership	.771			
Lack incentive for government	.736			
Lack of coordination	.601			.450
Lack of skill	.553			
No clear policy		.855		
Political intervention		.672		
Lack of legal framework		.665		
Lack of seriousness	.456	.475		
PPP is difficult			.788	
PPP is new thing			.785	
PPP is foreign concept			.751	
Technical problems				.874

Extraction Method: Principal Component Analysis.

Rotation Method: Varimax with Kaiser Normalization.

a. Rotation converged in 6 iterations.

**Table 16: Factors related to the Roles of External Agency in PPP Implementation**

**A. Frequency of involvement in PPP trainings of external agencies**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Never	11	10.5	10.5	10.5
	Few times	56	53.3	53.3	63.8
	Often	32	30.5	30.5	94.3
	Frequently	6	5.7	5.7	100.0
	Total	105	100.0	100.0	

**B. Benefit of PPP training by external agencies**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Not really useful	6	5.7	5.7	5.7
	Useful	65	61.9	61.9	67.6
	Very useful	24	22.9	22.9	90.5
	Not applicable	10	9.5	9.5	100.0
	Total	105	100.0	100.0	

**C. Frequency of reading PPP recommendation**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Never	4	3.8	3.8	3.8
	Rarely	39	37.1	37.1	41.0
	Occasionally	54	51.4	51.4	92.4
	Always	7	6.7	6.7	99.0
	Not applicable	1	1.0	1.0	100.0
	Total	105	100.0	100.0	

**D. Influence of external agencies**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Not influential	5	4.8	4.8	4.8
	Not really influential	35	33.3	33.3	38.1
	Influential	57	54.3	54.3	92.4
	Very influential	7	6.7	6.7	99.0
	Not applicable	1	1.0	1.0	100.0
	Total	105	100.0	100.0	

**E. Concerns on government independence**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Not worried at all	15	14.3	14.3	14.3
	Not really worried	62	59.0	59.0	73.3
	Worried	22	21.0	21.0	94.3
	Very worried	6	5.7	5.7	100.0
	Total	105	100.0	100.0	

**Table 17: Perception of Respondents regarding the Roles of External Agencies in PPP Implementation**

Roles of External Agencies	Perception	Freq.	%	Cum. %	Roles of External Agencies	Perception	Freq.	%	Cum. %
EA role is important	Disagree	11	10.48	10.48	EA more concern on selling products	Strongly disagree	3	2.86	2.86
	Neutral	30	28.57	39.05		Disagree	12	11.43	14.29
	Agree	57	54.29	93.33		Neutral	41	39.05	53.33
	Strongly agree	7	6.67	100.00		Agree	43	40.95	94.29
	Total	105	100.00	-		Strongly agree	6	5.71	100.00
EA provide full assistance	Strongly disagree	2	1.90	1.90	Total	105	100.00	-	
	Disagree	10	9.52	11.43	EA bring foreign companies	Strongly disagree	1	0.95	0.95
	Neutral	24	22.86	34.29		Disagree	8	7.62	8.57
	Agree	56	53.33	87.62		Neutral	43	40.95	49.52
	Strongly agree	13	12.38	100.00		Agree	45	42.86	92.38
	Total	105	100.00	-		Strongly agree	8	7.62	100.00
EA understand Indonesian context	Strongly disagree	6	5.71	5.71		Total	105	100.00	-
	Disagree	33	31.43	37.14	EA bring neoliberalism agenda	Strongly disagree	4	3.81	3.81
	Neutral	39	37.14	74.29		Disagree	20	19.05	22.86
	Agree	22	20.95	95.24		Neutral	59	56.19	79.05
	Strongly agree	5	4.76	100.00		Agree	20	19.05	98.10
	Total	105	100.00	-		Strongly agree	2	1.90	100.00
EA support PPP issues	Disagree	2	1.90	1.90		Total	105	100.00	-
	Neutral	21	20.00	21.90	EA assistances are overlapping	Disagree	9	8.57	8.57
	Agree	72	68.57	90.48		Neutral	46	43.81	52.38
	Strongly agree	10	9.52	100.00		Agree	40	38.10	90.48
	Total	105	100.00	-		Strongly agree	10	9.52	100.00
EA have other interests	Strongly disagree	1	0.95	0.95		Total	105	100.00	-
	Disagree	3	2.86	3.81	EA assistances don't meet targets	Disagree	8	7.62	7.62
	Neutral	34	32.38	36.19		Neutral	39	37.14	44.76
	Agree	48	45.71	81.90		Agree	52	49.52	94.29
	Strongly agree	19	18.10	100.00		Strongly agree	6	5.71	100.00
	Total	105	100.00	-		Total	105	100.00	-



**Table 18: Ranking the Perceptions Regarding the Roles of External Agencies in PPP Implementation**

<b>Role of External Agencies</b>	<b>N</b>	<b>Mean</b>	<b>Rank of Mean</b>
External agencies' role is important	105	3.57	4
EA provide full assistance	105	3.65	3
EA understand Indonesian context	105	2.88	10
EA support PPP issues	105	3.86	1
EA have other interests	105	3.77	2
EA more concern on selling products	105	3.35	8
EA bring foreign companies	105	3.49	6=7
EA bring neoliberalism agenda	105	2.96	9
EA assistances are overlapping	105	3.49	6=7
EA assistances don't meet targets	105	3.53	5

**Table 19: Kruskal-Wallis Test for the Roles of External Agency to Implement PPP based on Working Unit and Echelon**

Working Unit		N	Mean Rank	Chi-Square	df	Asymp. Sig.	Echelon		N	Mean Rank	Chi-Square	df	Asymp. Sig.
EA support PPP issues	Financing Unit	47	53.10	5.141	2	.077	EA support PPP issues	High Echelon	6	51.75	.044	2	.978
	Non-Financing Units	33	46.47					Middle Echelon	20	52.25			
	External Units	25	61.44					Non-Echelon	79	53.28			
	Total	105						Total	105				
EA have other interests	Financing Unit	47	51.79	.165	2	.921	EA have other interests	High Echelon	6	47.58	1.197	2	.550
	Non-Financing Units	33	53.68					Middle Echelon	20	47.78			
	External Units	25	54.38					Non-Echelon	79	54.73			
	Total	105						Total	105				
EA provide full assistance	Financing Unit	47	51.41	5.250	2	.072	EA provides full assistance	High Echelon	6	62.67	.921	2	.631
	Non-Financing Units	33	47.20					Middle Echelon	20	50.25			
	External Units	25	63.64					Non-Echelon	79	52.96			
	Total	105						Total	105				
EA role is important	Financing Unit	47	55.05	6.243	2	.044	EA role is important	High Echelon	6	62.75	1.076	2	.584
	Non-Financing Units	33	43.79					Middle Echelon	20	49.53			
	External Units	25	61.30					Non-Echelon	79	53.14			
	Total	105						Total	105				
EA assistances don't meet targets	Financing Unit	47	56.11	1.164	2	.559	EA assistances don't meet targets	High Echelon	6	50.75	2.847	2	.241
	Non-Financing Units	33	49.52					Middle Echelon	20	62.40			
	External Units	25	51.76					Non-Echelon	79	50.79			
	Total	105						Total	105				

**Table 20: Kruskal-Wallis Test for the Roles of External Agency to Implement PPP based on Working Experience and Work Intensity**

Working Experience		N	Mean Rank	Chi-Square	df	Asymp. Sig.	Work Intensity		N	Mean Rank	Chi-Square	df	Asymp. Sig.
EA support PPP issues	<2 years	37	49.00	3.480	2	.175	EA support PPP issues	Mostly about PPP	22	54.52	.383	2	.826
	2-5 years	39	51.49					Some about PPP	31	54.47			
	>5 years	29	60.14					A few about PPP	52	51.48			
	Total	105						Total	105				
EA have other interests	<2 years	37	53.73	.089	2	.957	EA have other interests	Mostly about PPP	22	59.27	2.289	2	.318
	2-5 years	39	51.94					Some about PPP	31	47.47			
	>5 years	29	53.50					A few about PPP	52	53.64			
	Total	105						Total	105				
EA provides full assistance	<2 years	37	51.72	.213	2	.899	EA provides full assistance	Mostly about PPP	22	58.84	1.307	2	.520
	2-5 years	39	54.58					Some about PPP	31	50.34			
	>5 years	29	52.52					A few about PPP	52	52.12			
	Total	105						Total	105				
EA role is important	<2 years	37	53.36	.778	2	.678	EA role is important	Mostly about PPP	22	61.57	2.890	2	.236
	2-5 years	39	50.28					Some about PPP	31	49.03			
	>5 years	29	56.19					A few about PPP	52	51.74			
	Total	105						Total	105				
EA assistances don't meet targets	<2 years	37	45.47	6.941	2	.031	EA assistances don't meet targets	Mostly about PPP	22	57.77	1.502	2	.472
	2-5 years	39	52.32					Some about PPP	31	48.50			
	>5 years	29	63.52					A few about PPP	52	53.66			
	Total	105						Total	105				

**Table 21: Mann-Whitney Test regarding the Roles of External Agency in PPP Implementation based on Education Background and Foreign Exposure**

Education Background		N	Mean Rank	Sum of Ranks	Mann-Whitney U	Asymp. Sig. (2-tailed)	Foreign Exposure		N	Mean Rank	Sum of Ranks	Mann-Whitney U	Asymp. Sig. (2-tailed)
EA support PPP issues	Economic s/Business	51	56.01	2857	1224	.229	EA support PPP issues	Have been living abroad	47	58.44	2747	1108	.044
	Non-Economic s/Business	54	50.16	2709				Never been living abroad	58	48.59	2819		
	Total	105						Total	105				
EA have other interests	Economic s/Business	51	56.94	2904	1176	.166	EA have other interests	Have been living abroad	47	54.88	2580	1275	.540
	Non-Economic s/Business	54	49.28	2661				Never been living abroad	58	51.47	2986		
	Total	105						Total	105				
EA provides full assistance	Economic s/Business	51	52.44	2675	1349	.841	EA provides full assistance	Have been living abroad	47	58.61	2755	1100	.063
	Non-Economic s/Business	54	53.53	2891				Never been living abroad	58	48.46	2811		
	Total	105						Total	105				
EA role is important	Economic s/Business	51	52.99	2703	1377	.997	EA role is important	Have been living abroad	47	55.68	2617	1237	.369
	Non-Economic s/Business	54	53.01	2863				Never been living abroad	58	50.83	2948		
	Total	105						Total	105				
EA assistance don't meet targets	Economic s/Business	51	56.87	2901	1180	.164	EA assistance don't meet targets	Have been living abroad	47	53.87	2532	1322	.771
	Non-Economic s/Business	54	49.34	2665				Never been living abroad	58	52.29	3033		
	Total	105						Total	105				

**Table 22: Perception regarding Socio, Cultural and Political Context of PPP Implementation in Indonesia**

Socio, Cultural and Political Context	Perception (%), N=105					Total
	Strongly disagree	Disagree	Neutral	Agree	Strongly agree	
Indonesian like HARMONY not competition	26.7	62.9	7.6	1.9	1.0	100.0
Indonesia built on SOCIAL JUSTICE not capitalism	24.8	61.9	10.5	1.0	1.9	100.0
PPP is a product of WESTERN culture	33.3	60.0	5.7	0	1.0	100.0
PPP needs to be modified to Indonesian context's	1.9	4.8	19.0	60.0	14.3	100.0
PPP does not pro-poor	24.8	57.1	14.3	2.9	1.0	100.0
PPP fits with religious values	3.8	6.7	32.4	41.9	15.2	100.0
PPP needs to be modified to comply religious principles	4.8	11.4	50.5	29.5	3.8	100.0
More shariah compliant PPP is needed	3.8	5.7	43.8	37.1	9.5	100.0
Shariah compliant PPP is more acceptable	2.9	7.6	54.3	29.5	5.7	100.0
Indonesia needs radical change for PPP to work	3.8	21.9	21.9	38.1	14.3	100.0
Competition is the best way to get better service	0.0	4.8	6.7	59.0	29.5	100.0
Transparent bidding is the best way to get better service	0.0	1.9	1.9	60.0	36.2	100.0

**Table 23: Testing Significant Relationship between Socio, Cultural and Political Context of PPP Implementation and Education Level of Respondents (Undergraduate vs. Postgraduate)**

Socio, cultural and political context	Chi-Square Test				Socio, cultural and political context	Chi-Square Test			
	N	Value	df	Asymp. Sig. (2-sided)		N	Value	df	Asymp. Sig. (2-sided)
Indonesian like HARMONY not competition	105	7,155	4	0.13	PPP needs religious context's modification	105	,414	4	0.98
Indonesia built on SOCIAL JUSTICE not capitalism	105	2,253	4	0.69	More shariah compliant PPP is needed	105	5,734	4	0.22
PPP is a product of WESTERN culture	105	2,275	3	0.52	Shariah compliant PPP is more acceptable	105	2,017	4	0.73
PPP needs Indonesian context's modification	105	10,585	4	0.03	Indonesia needs radical change for PPP to work	105	5,238	4	0.26
PPP does not pro-poor	105	4,181	4	0.38	Competition is the best way to get better service	105	1,024	3	0.79
PPP fits with religious values	105	2,621	4	0.62	Transparent bidding is the best way to get better service	105	,381	3	0.94

**Table 24: Testing Significant Relationship between Socio, Cultural and Political Context of PPP Implementation and Religion (Muslim vs. Non-Muslim)**

Socio, cultural and political context	Chi-Square Test				Socio, cultural and political context	Chi-Square Test			
	N	Value	df	Asymp. Sig. (2-sided)		N	Value	df	Asymp. Sig. (2-sided)
Indonesian like HARMONY not competition	105	9,162	4	0.06	PPP needs religious context's modification	105	33,534	4	0.00
Indonesia built on SOCIAL JUSTICE not capitalism	105	8,647	4	0.07	More shariah compliant PPP is needed	105	23,767	4	0.00
PPP is a product of WESTERN culture	105	6,220	3	0.10	Shariah compliant PPP is more acceptable	105	18,424	4	0.00
PPP needs Indonesian context's modification	105	10,028	4	0.04	Indonesia needs radical change for PPP to work	105	17,806	4	0.00
PPP does not pro-poor	105	5,825	4	0.21	Competition is the best way to get better service	105	4,038	3	0.26
PPP fits with religious values	105	3,085	4	0.54	Transparent bidding is the best way to get better service	105	5,949	3	0.11

**Table 25: Testing Significant Relationship between Socio, Cultural and Political Context of PPP Implementation and Foreign Exposure (Have been living abroad vs. Never been living abroad)**

Socio, cultural and political context	Chi-Square Test				Socio, cultural and political context	Chi-Square Test			
	N	Value	df	Asymp. Sig. (2-sided)		N	Value	df	Asymp. Sig. (2-sided)
Indonesian like HARMONY not competition	105	8,528	4	0.07	PPP needs religious context's modification	105	2,689	4	0.61
Indonesia built on SOCIAL JUSTICE not capitalism	105	7,448	4	0.11	More shariah compliant PPP is needed	105	2,979	4	0.56
PPP is a product of WESTERN culture	105	6,670	3	0.08	Shariah compliant PPP is more acceptable	105	6,921	4	0.14
PPP needs Indonesian context's modification	105	8,018	4	0.09	Indonesia needs radical change for PPP to work	105	1,846	4	0.76
PPP does not po-poor	105	3,911	4	0.42	Competition is the best way to get better service	105	,519	3	0.91
PPP fits with religious values	105	2,736	4	0.60	Transparent bidding is the best way to get better service	105	,777	3	0.86



**Table 26: Perception of Respondents Regarding Merits and Worth of PPP in Indonesia**

Merits and Worth of PPP	Perception	Frequency	Per cent	Cumulative Per cent
PPP has delivered better services	Strongly disagree	2	1.90	1.90
	Disagree	14	13.33	15.24
	Neutral	49	46.67	61.90
	Agree	38	36.19	98.10
	Strongly agree	2	1.90	100.00
	Total	105	100.00	-
PPP has produced more efficient prices	Strongly disagree	2	1.90	1.90
	Disagree	18	17.14	19.05
	Neutral	45	42.86	61.90
	Agree	38	36.19	98.10
	Strongly agree	2	1.90	100.00
	Total	105	100.00	-
PPP has accelerated infrastructure provision	Strongly disagree	2	1.90	1.90
	Disagree	27	25.71	27.62
	Neutral	35	33.33	60.95
	Agree	35	33.33	94.29
	Strongly agree	6	5.71	100.00
	Total	105	100.00	-
PPP has improved public accountability	Disagree	10	9.52	9.52
	Neutral	35	33.33	42.86
	Agree	56	53.33	96.19
	Strongly agree	4	3.81	100.00
	Total	105	100.00	-
PPP has supported the public reform	Disagree	20	19.05	19.05
	Neutral	45	42.86	61.90
	Agree	38	36.19	98.10
	Strongly agree	2	1.90	100.00
	Total	105	100.00	-
PPP can be successfully implemented in Indonesia	Disagree	5	4.76	4.76
	Neutral	37	35.24	40.00
	Agree	49	46.67	86.67
	Strongly agree	14	13.33	100.00
	Total	105	100.00	-
PPP is better than conventional procurement	Disagree	10	9.52	9.52
	Neutral	59	56.19	65.71
	Agree	31	29.52	95.24
	Strongly agree	5	4.76	100.00
	Total	105	100.00	-

**Table 27: Kruskal-Wallis Test for Merit and Worth of PPP based on Working Unit and Echelon**

Working Unit		N	Mean Rank	Chi-Square	df	Asymp. Sig.	Echelon		N	Mean Rank	Chi-Square	df	Asymp. Sig.
PPP has delivered better services	Financing Unit	47	45.90	7.150	2	.028	PPP has delivered better services	High Echelon	6	57.50	.192	2	.908
	Non-Financing Units	33	54.56					Middle Echelon	20	53.68			
	External Units	25	64.28					Non-Echelon	79	52.49			
	Total	105						Total	105				
PPP has produced more efficient prices	Financing Unit	47	57.95	2.599	2	.273	PPP has produced more efficient prices	High Echelon	6	74.00	4.331	2	.115
	Non-Financing Units	33	48.59					Middle Echelon	20	56.95			
	External Units	25	49.52					Non-Echelon	79	50.41			
	Total	105						Total	105				
PPP has accelerated infrastructure provision	Financing Unit	47	48.06	3.460	2	.177	PPP has accelerated infrastructure provision	High Echelon	6	56.92	.359	2	.836
	Non-Financing Units	33	60.32					Middle Echelon	20	55.63			
	External Units	25	52.62					Non-Echelon	79	52.04			
	Total	105						Total	105				
PPP has improved public accountability	Financing Unit	47	56.23	1.185	2	.553	PPP has improved public accountability	High Echelon	6	78.50	7.441	2	.024
	Non-Financing Units	33	50.30					Middle Echelon	20	59.08			
	External Units	25	50.48					Non-Echelon	79	49.53			
	Total	105						Total	105				
PPP has supported the public reform	Financing Unit	47	52.02	2.238	2	.327	PPP has supported the public reform	High Echelon	6	49.33	.612	2	.736
	Non-Financing Units	33	58.53					Middle Echelon	20	57.25			
	External Units	25	47.54					Non-Echelon	79	52.20			
	Total	105						Total	105				
PPP can be successfully implemented in Indonesia	Financing Unit	47	47.32	7.678	2	.022	PPP can be successfully implemented in Indonesia	High Echelon	6	65.08	2.349	2	.309
	Non-Financing Units	33	51.02					Middle Echelon	20	58.35			
	External Units	25	66.30					Non-Echelon	79	50.73			
	Total	105						Total	105				
PPP is better than	Financing Unit	47	53.50	.337	2	.845	PPP is better than	High Echelon	6	58.00	.319	2	.853

conventional procurement	Non-Financing Units	33	54.32				conventional procurement	Middle Echelon	20	50.95			
	External Units	25	50.32					Non-Echelon	79	53.14			
	Total	105						Total	105				

**Table 28: Kruskal-Wallis Test for Merit and Worth of PPP based on Working Experience and Intensity**

Working Experience		N	Mean Rank	Chi-Square	df	Asymp. Sig.	Work Intensity		N	Mean Rank	Chi-Square	df	Asymp. Sig.
PPP has delivered better services	<2 years	37	51.50	1.251	2	.535	PPP has delivered better services	Mostly about PPP	22	47.34	2.196	2	.334
	2-5 years	39	50.76					Some about PPP	31	58.61			
	>5 years	29	57.93					A few about PPP	52	52.05			
	Total	105						Total	105				
PPP has produced more efficient prices	<2 years	37	50.23	.693	2	.707	PPP has produced more efficient prices	Mostly about PPP	22	52.82	1.114	2	.573
	2-5 years	39	55.65					Some about PPP	31	57.31			
	>5 years	29	52.97					A few about PPP	52	50.51			
	Total	105						Total	105				
PPP has accelerated infrastructure provision	<2 years	37	56.04	.669	2	.716	PPP has accelerated infrastructure provision	Mostly about PPP	22	40.95	7.600	2	.022
	2-5 years	39	51.97					Some about PPP	31	49.27			
	>5 years	29	50.50					A few about PPP	52	60.32			
	Total	105						Total	105				
PPP has improved public accountability	<2 years	37	48.51	1.816	2	.403	PPP has improved public accountability	Mostly about PPP	22	47.70	1.815	2	.404
	2-5 years	39	56.97					Some about PPP	31	57.84			
	>5 years	29	53.38					A few about PPP	52	52.36			
	Total	105						Total	105				
PPP has supported the public reform	<2 years	37	53.97	5.902	2	.052	PPP has supported the public reform	Mostly about PPP	22	42.50	4.979	2	.083
	2-5 years	39	45.31					Some about PPP	31	51.44			
	>5 years	29	62.10					A few about PPP	52	58.38			
	Total	105						Total	105				
PPP can be successfully implemented in Indonesia	<2 years	37	48.09	3.254	2	.197	PPP can be successfully implemented in Indonesia	Mostly about PPP	22	57.05	1.375	2	.503
	2-5 years	39	52.05					Some about PPP	31	55.50			
	>5 years	29	60.53					A few about PPP	52	49.80			
	Total	105						Total	105				
PPP is better than conventional procurement	<2 years	37	62.42	6.997	2	.030	PPP is better than conventional procurement	Mostly about PPP	22	49.48	.861	2	.650
	2-5 years	39	46.85					Some about PPP	31	56.35			
	>5 years	29	49.26					A few about PPP	52	52.49			
	Total	105						Total	105				

**Table 29: Mann-Whitney Test for Merit and Worth of PPP based on Education Background**

Education Background		N	Mean Rank	Sum of Ranks	Mann-Whitney U	Asymp. Sig. (2-tailed)
PPP has delivered better services	Economics/Business	51	47.23	2409	1082.5	.040
	Non-Economics/Business	54	58.45	3157		
	Total	105				
PPP has produced more efficient prices	Economics/Business	51	50.85	2594	1267.5	.451
	Non-Economics/Business	54	55.03	2972		
	Total	105				
PPP has accelerated infrastructure provision	Economics/Business	51	46.31	2362	1036.0	.022
	Non-Economics/Business	54	59.31	3203		
	Total	105				
PPP has improved public accountability	Economics/Business	51	48.25	2461	1134.5	.084
	Non-Economics/Business	54	57.49	3105		
	Total	105				
PPP has supported the public reform	Economics/Business	51	47.95	2446	1119.5	.076
	Non-Economics/Business	54	57.77	3120		
	Total	105				
PPP can be successfully implemented in Indonesia	Economics/Business	51	47.77	2437	1110.5	.064
	Non-Economics/Business	54	57.94	3129		
	Total	105				
PPP is better than conventional procurement	Economics/Business	51	53.68	2738	1342.5	.804
	Non-Economics/Business	54	52.36	2828		
	Total	105				

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