MY DEAR TRAIN, MY POOR TRAIN

RAILWAY EFFICIENCY PROJECT

(PROYEK EFISIENSI PERKERETAAPIAN)

PEP Research Team:
Siti Khoirun Nikmah
Valentina Sri Wijiyati

Working Paper No.1, 2008

International NGO Forum on Indonesian Development

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Contents

TERMS AND ACRONYMS USED

BAPPENAS	: National Development Planning Agency
BUMN	: State Own Enterprises
BUMNIS	: State owned enterprises in Strategic Industry
DDT	: Double Double Track
FGD	: Focus Group Discussion
IMF	: International Monetary Fund
IMO	: Infrastructure Maintenance and Operation
INKA	: The Railway Strategic Industry (State Own)
JBIC	: Japan Bank for International Cooperation
KRL	: Electric Train
KUHD	: Trade Law Code
LBH	: Legal Aid Foundation
MRT	: Mass Rapid Transit
MTI	: Indonesian Transportation Community
PDAM	: Provincial Water Company
PEP	: Railway Efficiency Project
PERUMKA	: Railway State Enterprise
PFB	: *Personeel Fabrieks Bond*
PJKA	: Railway Departmental Agency
PP	: Government Regulation
PSO	: Public Service Obligation
PT (Persero)	: State-Owned Limited Liability Company
SPKA	: The Railways Trade Union
SS-Bond	: *Staats Spoor Bond*
TAC	: Track Access Charge
UU	: Act
UUD	: Constitution
VSTP	: *Vereniging van Spoor – en Tramweg Personeel*
YLKI	: Indonesian Consumers Foundation

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Jakarta, June 2008

Siti Khoirun Nikmah

Valentina Sri Wijiyati

FOREWORD

The research on the World Bank-loans funded *Railway Efficiency Project* (REP) is one of the three researches by INFID on the projects supported by the World Bank loans and grants from various donors through the management of the World Bank. These researches are conducted to look at whether the projects are of benefit for the people and to see its effects on the development in Indonesia. The researches also look at the effects of the projects and programs both directly on the sectors and indirectly on the government's policies as a whole.

From its title – Railway Efficiency Project – people might be flattered with high expectations from the results achieved by the project that was funded by US$ 85 million from the World Bank loans. The title of the project brings an image of the promotion of the performance and quality of services of Indonesian railways. The people with those expectations might be really disappointed.

The research shows that the Railways Efficiency Project that was preceded by two other World Bank funded projects in fact was targeted to only the privatization of the railways management and system. Besides the project also promoted the railways facility products from other countries to be purchased by Indonesia using loans in the scheme of tied aid. In other world the World Bank REP prepared a framework for new loans schemes that is bigger in order to implement its recommendations.

REP also recommended the rationalization of workforces in the PT KA that according to the World Bank are not efficient. Efficiency is of course important for the promotion of the quality of railways service, but the lay-off of thousands of railways workforce might not be the best way to improve the efficiency. At the time when the unemployment in Indonesia was high, the lay-off of thousands of workforce of PT KA might not be the best choice and even it was inhuman recommendation. The workforces of PT KA are labour with specialized skills. The shift to other kind of employment without another skill will become burden on its own.

The imposed lay-off of workforces of PT KA might trigger a consolidated resistance movement from the PT KA labour. In fact it did not happen. The lay-off of 5,500 people did not trigger a wave of resistance protest. It is clear that the PT KA labour union did not receive information that it was the project funded by the loans from the World Bank that had pushed them to become unemployed. It is the loans that will be repaid by their next generation, including by those who have been fired from PT KA. This is the irony of the foreign debt. The people who have been made vulnerable by the projects funded by the foreign loans will in the future be responsible to repay the loans.

REP and the projects funded by the World Bank loans before in the railways projects show how the loans-funded project with strong conditionalities and tied aid do not take the needs and interests of the people into account. Technical Assistance that was also funded by the loans from the World Bank should have brought benefits to the improvement of railways, but what happened was that the experts that were paid by all Indonesian people were only able to produce recommendations for the privatization of the railways and the purchase of the wrecks or second hand technology from the creditor countries that are also inappropriate with the Indonesian railways system. The purchase of the second hand electric train from Germany using tied aid scheme cannot entirely be used by PT KA and stored as garbage in the warehouse of PT KA, is clear example of how the foreign debts orchestrated by the World Bank have made the people of Indonesia impoverished.

This REP Project has been reported as failure by the World Bank, and blaming the resistance of the PT KA as the source of failure. Although it has failed or has been useless for the Indonesian railways, all people in Indonesia who will never receive the benefits of the project will take the burden of the repayment in the future.

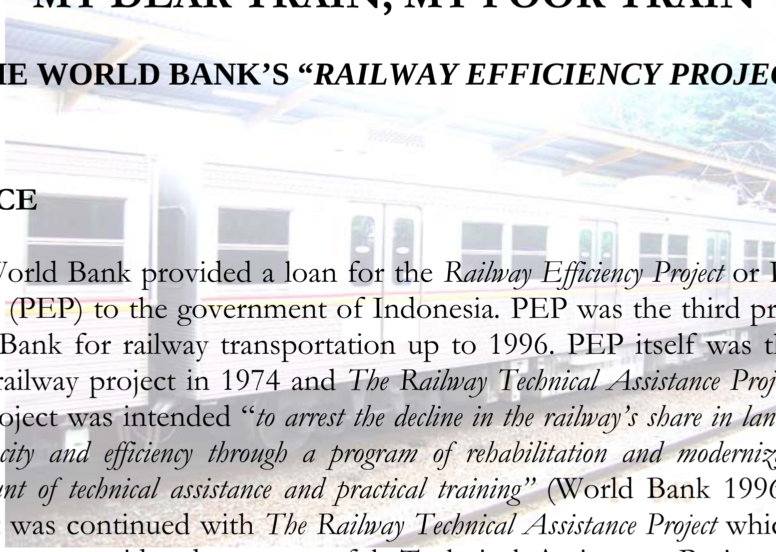
This is the tragedy of foreign debt, and the tragedy of development based on the foreign debt regime. The people who suffer because of the project funded by the foreign loans in the future have to repay the debts, although the debts bring no benefits at all for the nation. In other world the development funded by foreign debts will bring the people into continuous destitution and impoverishment.

Jakarta, June 2008

Don K. Marut
Executive Director
INFID

MY DEAR TRAIN, MY POOR TRAIN

THE WORLD BANK'S "*RAILWAY EFFICIENCY PROJECT*"



I. PREFACE

In 1996, the World Bank provided a loan for the *Railway Efficiency Project* or Proyek Efisiensi Perkeretaapian (PEP) to the government of Indonesia. PEP was the third project supported by the World Bank for railway transportation up to 1996. PEP itself was the third project after the first railway project in 1974 and *The Railway Technical Assistance Project* in 1987. The first railway project was intended "*to arrest the decline in the railway's share in land transport and to increase its capacity and efficiency through a program of rehabilitation and modernization, including a substantial amount of technical assistance and practical training*" (World Bank 1996: 6). The loan-funded project was continued with *The Railway Technical Assistance Project* which in the World Bank's report was considered as successful. Technical Assistance Project for Indonesian railway management had changed the structure of Indonesian railway management from *Perusahaan Jawatan Kereta Api* (PJKA) to *Perusahaan Umum Kereta Api* (PERUMKA) in 1990. The two projects were considered successful by the World Bank and were continued with the third batch of loans for the Indonesian railway management through PEP.

The main objectives of PEP itself as described in the document of World Bank's *Staff Appraisal Report* (World Bank 1996: 27) include: (a) reform in the railway sector through the relationship between the management of railways (operator) and the government, as well as building the foundation for attracting private participation, (b) rationalization of capital investment in the sector of railways, (c) development of railways management and operation, and (d) improving the physical capacity on the main corridor of railways. The involvement of the World Bank in the railway development project in fact has been started years before, and until 1996 there have been 15 projects focusing on railways. These numbers are still less then the World Bank loan-funded projects in other infrastructure sectors, particularly for the infrastructure of highway transportation.

PEP consists of five components covering:
- *(a) Policy reform involving restructuring of Perumka into a persero and reform of government corporate interfaces;*
- *(b) Improvements to the railway between Jakarta and Bandung (170 km) to expand capacity, shorten passenger journey times, and improve safety in this important passenger and freight corridor;*
- *(c) Implementation of a modern track maintenance system on Java;*
- *(d) Implementation of e diesel electric locomotive unit exchange maintenance system on Java;*
- (e) *Strengthening of Perumka's management* (World Bank 1996: 27).

In total the burdget for the *Railways Efficiency Project* was US$ 207.3 million, shared among three parties i.e. the government of Indonesia, PT. Kereta Api, and the World Bank. The World Bank had the commitment of the loan of US$ 105 million, although later in the implementation the real amount was only US$ 85.2 million due to the fact that the project did not work as expected or was not satisfactory (The World Bank 2005: 5). In August 1998 US$ 20 million of the amount committed by the World Bank was cancelled, thus the remaining loan received was only US$ 85 million, consisting of the government loan amounting to as much as US$ 65.2 million and the loan for PT KA US$ was 19.8 million. The government's debt was used for the development of Jakarta-Bandung corridor, renovation and maintenance of tracks. The loan for PT KA was used for policy reform/railways restructuring, locomotive maintenance, and institutional development (BAPPENAS 2003).

The implementation of the project as has been epposed in several reports reviewed by the World Bank (2008) was not in accordance with the expected target or was unsatisfactory. A report of project implementation which was released in 2005 showed that PEP was considered as inappropriate particularly referring to the first objective of the project which was reform in the railways sector. According to the World Bank, up to the present there has not been any significant change in the railways structure which acould attract the involvement of private sector. The main cause of failure was the internal resistence to the change itself, particularly the entry of private sector in the body of Indonesian railways. Additionally it was also caused by the objective condition in 1997 when the economic crisis hit Indonesia, which impacted on the delay of the implementation of several railway system development plans, which had been set out in the PEP.

The fundamental questions are: was the failue caused by the the internal factor of the railways, and was it really caused by the economic crisis in Indonesia? The research found another possible cause of the failure, that is that the recommendation expressed in the project itself that did not meet the expectations of the railway community such as the policy makers (regulator), operator (PT KA), or the expectations of the community of railway users. The more tragical fact is that the recommendations reflect more the interests of the World Bank in the railways system in Indonesia rather than the interests of the public of Indonesia. The project itself did not contribute to any significant improvement of the railway service quality. Even worse, the quality of railways service keeps declining particularly for the economy class trains, and the numbers of train accidents remain high.

According to the World Bank, the loss caused by the railways has burdened the government heavily by granting too much subsidy. Additionally there has been inefficiency in the railways system management due to the inefficiency of workforce system. Hence, restructuring was needed in the railways management in Indonesia. There was also very heavy budgetary burden to maintain and develop the railways infrastructures, since most of the existing railways infrastructure were built during the Dutch colonial period. The World Bank argued that the railways should be made efficient by applying business principles in making profits so that in the future the railway should actually get no government subsidy.

The World Bank recommended the project implementation funding system through *public service obligation* (PSO) system, *infrastructure maintenance and operation* (IMO) system, and *track access charge* (TAC) system which are expected to be transparent and accountable. The recommendation of the Multilateral Financial Institution is that the private sector needs to be given a role in reducing railways monopoly in Indonesia which has been held by the PT Kereta Api (PT KA). The recommendation is accompanied by the recommendation for PT KA's labor rationalization which structure has been considered too big and thick, and the need for the development of several corridors with certain load level, both passengers and goods, that are more promising and profitable such as the Jakarta – Bandung corridor development.

II. THE GROWTH OF INDONESIAN RAILWAYS

"Naik kereta api tut.. tut.. tut..
Siapa hendak turut?
Ke Bandung.. Surabaya..
Bolehlah naik dengan percuma..
Ayo kawanku lekas naik..
Kretaku tak berhenti lama"

"Let's take a train … cho… cho… cho
Who wants to come along?
To Bandung, Surabaya
Come get on board for free
Come hurry on board
My train will not stop for long"

The first verse of the lyric of a children song whose composer is not clearly known expressed the dream and expectation of Indonesian children on public transportation in Indonesia. Part of the verse "come get on board for free"('*bolehlah naik dengan naik percuma*') expressed the hope for transportation service provision that is accessible by the common people, wherever the transportation service can be provided, for free. Certainly this can only be achieved when the State has the paradigm of fulfilling the people's rights, instead of the service provision paradigm, and not if the public service is liberalized. The line "come hurry on board… my train will not stop for long" ('*ayo kawanku lekas naik... keretaku tak berhenti lama*') showed the aspiration of the existence of efficient and on time transportation service so the passengers do not need to spend times for the delays.

The aspiration of Indonesian people decades ago, as contained in the children song above, is no longer appropriate with what is really going on in Indonesia now. The concept of public services in Indonesia now has changed. In general there are two schools of thought on public services: firstly, the one that is based on welfare state principles; secondly, the one that considers public services as an effort to gain profits.

The concept of welfare state places public services as the state's responsibility and is completely used for the welfare of the people. The principle is followed by most European countries particularly the Scandinavian countries, where the welfare state is understood as following:

> "*Political system under which the state (rather than the individual or the private sector) has responsibility for the welfare of its citizens, providing a guaranteed minimum standart of life, and insurance against the interruption or earning through sickness, injury, old age, or unemployment. They take the forms of unemployment and sickness benefits, family allowances, and incomes also include health and education, financed typically through taxation, and the provision of subsidized "social housing". Subsidized public transport, leisure facilities, and public libraries, with special discounts for the elderly, unemployment, and disabled, are other noncore elements of a welfare state*" (Encyclopaedia 2008)

The above explanation shows that public service for countries that apply *welfare state* principles is the responsibility of the state, including the public transportation. The funding for public services is provided by the state both through social insurance which is applied in Germany or through taxes such as implemented by the UK.

The choice of Indonesia's founding fathers during the early history of its independence from colonialism was to place the concept foundation of Indonesia as a welfare state. The decision of the nation's founding fathers can be observed in the mandate of the Constitution (Undang-Undang Dasar/UUD) 1945 in the Article 33 which stipulates that:
1) The economy is managed as collective effort based on collectivity principles;
2) Production branches that are important for the state and that are fundamental for the people's life are controlled by the state;
3) The earth and water and natural resources contained in it are controlled by the state and used for the people's welfare.

In the explanation of Act 33 there is a confirmation that "Only companies that are not interfering basic necessities of many people can be held by individuals."

As part of the agenda of global market liberalization that is encouraged by IMF and the World Bank, the legislators amended the Consitutions/UUD 1945 up to four times. Since the first amendment in 1999, just after the harsh economic crisis, up to the the fourth amendment to the Constitutions/UUD 1945 in 2002, the Constitution has explicitly omitted the obligation of the state in the control of resources that are important and fundamental for the basic necessities of majority of the people and no longer limited which economic actors are allowed to exploit and manage the resources. The Article 34 (3) 3 of the fourth amendment only confirmed that "The State is responsible for the appropriate provision of health and public services facilities".

Based on the mandate of the constitution, the state has the obligation to provide transportation service as part of the public services that is capable to respond to the citizen's mobility need. For the areas with dense population, the railway is the mass transportation facility with higher passenger capacity and higher level of safety compared to other land transportation facilities such as toll roads. Railway is also an environmentally friendly transportation facility. Hence the provision and management of railways transportation facility and infrastructure should be the responsibility of the state. As public facility that is needed by most of Indonesian people and as a vital enterprise for the life of the people, the state has the responsibility in the provision and management of railways.

The railways history in Indonesia was started by its construction during the era of the Dutch Indies Governor General, Mr. L.A.J. Baron Sloet van den Beele in 1864, in the village of Kemijen, Semarang. The birth of railway system also marked the beginning of industrialization in Indonesia which gave birth to the classes of plantation labor and factory labor, and at the same time as the beginning of modern industrial growth in Europe. When suffering from economic failure caused by the Diponegoro war (1825 – 1830), the Dutch applied forced planting system (*cultuurstelsel*) by imposing obligation for the native people to cultivate plants for European market (sugarcane, coffee, indigo, cotton, cloves), along with the construction of sugar factory. It was then the railway was constructed with its main function as sugarcane and other plantation products lorry for the first three years.

Three years after it was operated in Indonesia, train began to be utilized as passengers transportation vehicle. At that time, railway track network was built quickly so that in 1939 the length of the railway line reached 6,811 km. In the same year, railway network was expanded to Sumatera, Sulawesi and Kalimantan (PT KAI 2007: 03), hence railway grew to be the major backbone in land transportation system to carry people and goods.

Ironically, although the number and mobility of the population keeps increasing the length of the track is declining. Until 2000, the length of the railway track decreased as much as 41% within the period of 1939 to 2000. This was caused by the cut of the tracks that were no longer in use or damaged. The number of railway facilities also declined, such as the number of locomotives declined from 1,314 units to 530 units (60% less). Not all of the facilities can be operated due to its old age, since in fact some have been operated since the era of the Dutch Indies. Meanwhile the number of train passengers increases as much as 30% within the period of 45 years. The increase occurred within the last decade, because of highway transportation mode saturation (see table below).

Table 1. The Growth of Indonesian Railways' Assets

	Year			
	1939	1955/1956	2000	
Length of railway track	6,811 km	6,096 km	4,030 km	40% less within 61 years
Number of railway stations and stops		1,516	571	62% less within 45 years
Number of locomotives	1,314 units		530 units	60% less within 61 years
Number of passengers		146,9 million	191,9 million	30% increase within 45 years
Population (Java & Madura)		54,5 million	114,9 million	In 1955, the railways carried 248%, while in 2000 only carried 60%
Number of railway passengers		132,5 million	69,2 million	

Source: Lubis 2002: II-22

The changes in railway condition do not occur only in the facilities and infrastructures but also in the management structure. With the Government Regulation/Peraturan Pemerintah (PP) No. 61/1971, the Indonesian railway management structure was changed into PJKA with the whole objective of public service. The legal body status underwent changes in line with the enactment of PP No. 9/1998 on business establishment/transfer of form from PJKA to PERUMKA. The enactment of this PP was the result of the recommendation of Technical Assitance Project for Railways which was funded by the World Bank's loan. It was during this period that the management of railways was encouraged for profit making by applying the principles of efficiency and effectiveness. The impetus for gaining profit was later made firmer in PP No. 19/1998 on business establishment transfer from PERUM (State Company) to limited company (PT) which was subject to the regulations in Trade Law/Kitab Undang-Undang Hukum Dagang (KUHD).

The history of railways labor movement also went side by side with the growth of railways in Indonesia, both the progress and the decline of it. The Indonesian railway labor movement has a long history along the line of railway history. The railway trade union was the first trade/labor union in Indonesia with the establishment of *Staats Spoor Bond* (SS-Bond) which was formed by the civil servants and employees of the state owned company in 1905, which was followed by the establishment of *Vereniging van Spoor – en Tramweg Personeel* (VSTP) which was formed by the railway labors in Semarang in 1908 (Sadali 2002: 24). VSTP became the most progressive labor movement at its time and became the pioneer of organized movement against Dutch colonialism and gave birth to the people struggle movement such as Sarikat Islam under the leadership of Semaoen.

The railway trade union was a trade union that actively fought for the fate of its members starting from the demand for eight working hours per day, decent wages, allowances/benefits and labor dispute resolutions. Consistently the trade union kept fighting for its members' social economic rights and led the great strike in 1923, such as described by Sandra (1961:185):

> "The history of Indonesian labor struggle has a heroic tradition such as proven by the sugar factory labor strike in 1920 under the leadership of *Personeel Fabrieks Bond* (PFB), labor strike of Pegadaian Bumiputra (PPPB), railway labor strike in 1923 under the leadership of VSTP, and then was proven by the significant role of the labor in the people rebellion against Dutch occupation in 1926, mutiny on board of the battleship "*Zeven Provincien*" in 1933."

Along with the gradual weakening of the railway labor movement due to the policy of Soeharto's regime that co-opted the labor movement by absorbing the labor movement in one single forum, the railway also regressed both in its service quality and scope quantity. Besides because of Suharto's policy on streamlining all potential political actors it was also due to the fact that the the railway trade union did not only fight for the rights of railway labors, but also demanded for government's policy that recognized the existence of Indonesian railways. In the era of Soeharto, there was an attempt to form single forum for Indonesian labors through the establishment of Majelis Permusyawaratan Buruh Indonesia (MPBI)/Consultative Assembly of Indonesian Labor in 1969 (Nikmah 2003: 35). The attempt was carried out to control the labor movement in Indonesia. As a result, the labor movement—particularly the railway labor—began to weaken. There was no longer opposition to the government's policies on transport that were not in favor of the interests of the railways community, particularly the policy of prioritizing the development of automotive-based highway networks.

III. THE RESEARCH METHODOLOGY

INFID's researchers' team applied the qualitative approach in the form of evaluative analysis on the PEP policy. This study was a case study that looked at the conceptualization, implementation and evaluation of PEP policy with the unit of analysis covering the railway operation area in Java. This was decided with the consideration that the busiest lines that carried the most passengers and the divisions that were being prepared to be privatized were the Divisions of Jakarta, Bogor, Depok, Tangerang, and Bekasi (Jabodetabek), and the headquarters of PT KAI is in Bandung, and also that PT INKA as the railway strategic industry is based in Madiun.

Data collection was done using six methods i.e. literature study, graphic method, observation, observation by involvement, in-depth interviews, and *focus group discussion* (FGD). Literature study was carried out by collecting the initial data and these data are compiled as materials for the interview with key informants and as materials used in the observation. The initial finding of literature study was consolidated by using graphic method into research's *web chart*.

In-depth interviews were carried out with key informants who are the main stake-holders in the Indonesian railways. The objective of the in-depth interviews was to gather primary and secondary information. The key informants consisted of:

1. Railways Directorate of the Land-Transportation Directorate General of the Department of Transportation RI as the railways regulator;
2. PT KA Pusat (Central Railways Company) and PT KA Jabodetabek division as the operator of railways that is in the process of restructuring the Jabodetabek division into the Urban Transportation Division since July 2008;
3. The Board of Railways Trade Union/Serikat Pekerja Kereta Api (SPKA) whose office is in Bandung as the active railways trade union;
4. The board and member of Jabodetabek Railways Trade Union/Serikat Pekerja Kereta Api Jabodetabek (SPKAJ) as the railways labors forum in Jabodetabek. Most of the members of SPKAJ are outsourcing labor in PT KA;
5. PT INKA as the provider of Indonesian railways facility service;
6. One of the members of Railways Revitalization Team/Tim Revitalisasi Perkeretaapian, which was established by the Department of Transportation in 2007 with its main task of preparing the road map for railways revitalization in 2010;
7. Transportation observer from the academies and transportation sectors experts joined in the Indonesian Transportation Community/Masyarakat Transportasi Indonesia (MTI) and Indonesian Railway Watch;
8. Railways users joining in the community of KRL Mania and Indonesian Consumers Foundation/Yayasan Lembaga Konsumen Indonesia (YLKI) who carried out direct and periodical monitoring on the quality of railways service;
9. Legal Aid Institute/LBH Jakarta as the legal representative of SPKAJ.

In addition to the literature study and in-depth interviews, the research team also made observations and observations by involvement in the related factors of the studied subject.

Observation by involvement was carried out by being passenger in the lines of KRL Jabodetabek, railways line in Bandung Operational Area, and railways lines in Java Operational Area (Yogyakarta and Madiun).

In the research process, the research team uncovered several assumptions as following:

The World Bank's Assumption

1. Railways management privatization will improve service quality compared to remaining public service, therefore the subsidy should be revoked.
2. The funding scheme by implementing business principles will increase the quality of railways services;
3. The PEP project focuses on the development of Jakarta – Bandung corridor due to the high flows of passengers and goods that has not been well cared for by other transportation modes.
4. The separation of Jabodetabek System (*commuter*) with the Intercity Inter Province System (*Java Inter City System*) will increase the railways efficiency in Java.

The assumption of INFID's Research Team

1. Indonesian Railways has been made as the corruption field and position granting arena for the people surrounding the authority due to the intensive political intervension in Indonesian railways;
2. Indonesian railways system development is not based on sufficient master plan;
3. The implication of foreign debt on the development of railways system encourages the implementation of business principles such as railways labor rationalization;
4. The main objectives of the PEP were in fact: (a) promoting the railways products from World Bank's main creditor countries, such as railway coaches from Japan and Germany, railway signals from the Netherlands, and bridges from Austria; (b) encouraging the use of Japan's debt scheme (JBIC) to build double track for the lines of Cikampek – Cirebon, Kroya – Yogyakarta, *double-double track* (DDT) Manggarai – Cikarang, and train depot/Depo KRL Depok.

Those assumptions were the product of codification in the pedagogical sense of Paulo Freire, which were later decodificated through FGD held in Jakarta, 14 May 2008. Attending the FGD were the directly interested stakeholders of the railways. FGD produced basic formulations which were then followed up by extensive and detailed interviews and also extensive observation during the verification in the field.

IV. RESEARCH'S FINDINGS

Assisted by the assumptions as guidelines for the interview, INFID's research team discovered several findings which were compiled from the most empirical (easiest to be observed) things to those more conceptual.

1. Stakeholders' Resistence

Indonesian railways management structure had been changed. The initial format of the railways management was PJKA that emphasized more on public services, and in 1990 it became PERUMKA that to certain level it was a mixture between profit making company and public service institution. In 1998 it was changed again into limited company (PT) that made the railways services as private sector. The privatization of railways service was based on the recommendation of the World Bank's Technical Assistance Project and PEP, which changed the railways business principles from public services to public utility and subject to the trade acts with the main aim of profit making. The management structure was established in order to be in line with the stipulations in the Railways Act (UU Tentang Perkeretaapian) from No. 13/1996 to Act No. 23/2007 which explicitly provided space for privatization in railways. Such viewpoint could be seen in Railways Act (UU tentang Perkeretaapian No 23/2007) Article 23 which stated:
Paragraph 1) The organization of public railways infrastructure as meant in article 18 is carried out by Business Entity as the executor, both individually and through joint venture.
Paragraph 2) In the event where there is no Business Entity executing public railways infrastructure, the Government and the Regional Government can execute railways infrastructure.

Article 33 clearly provided space for private involvemet in the management of railways infrastructure, and so is the management of railways facility as described in Article 31.

The railways stakeholders in general resisted against the privatization of railways. Ronny Wahyudi, the Executive Director of PT KA, said that railways system in many countries indeed need direct attention from the government even intervention in the form of subsidy. The reason is the economic redistributional effects and equality in services for all the people (*Investor* Mei 2008: 94 - 95). Similarly Puspawarman as the Board Chairman of Railways Trade Union (Serikat Pekerja Kereta Api/SPKA) emphasized that privatization should not happen on the asset which is currently managed by PT KA. Restaria Hutabarat from Legal Aid Institution (Lembaga Bantuan Hukum/LBH) Jakarta stated that the privatization concept in railways management should be criticized further considering that the main function of the railways was actually for public service; therefore it was not realistic if PT. KA should make profits. Hutabarat explained that the two concepts (public service and profit making) were clearly contradicting, considering that public service is the responsibility of the state, not private sector. Similar opinion was also expressed by the railways observer, Taufik Hidayat from *Indonesian Railway Watch*, to INFID's research team that private involvement in railways was not an answer since the real issue was the government's policy that does not give priority to the development of railways transportation.

The government of Indonesia should learn from the experience of privatization in the water sector in which the World Bank had also had its share through the loans for water management in Indonesia in 1996. (Hadi et al 2007: 128). The rationale of the water privatization was that the provincial water company (Perusahaan Daerah Air Minum -

PDAM) in Jakarta that had been managing the drinking water services did not implement profitable business principles, so that the water management had always suffered from losses. After the privatization of PDAM to PT Thames-PAM JAYA the performance is still the same even worse. The water quality is bad (muddy and smelled), while the price is more expensive, and the government finally lost its control over the clean water management. The privatization process of strategic sectors in Indonesia often or even almost always involved people who are close to the ruling power; or in other words the privatization is only a transfer of ownership to the cronies of the ruling elites. PDAM's privatization process in Jakarta involved Sigit Harjojudanto, the son of the late President Soeharto as the broker for Thames Water, so the British company got 25 years contract with PDAM Jaya (Aditjondro 2007: 328).

The stakeholders emphasized that the railways privatization was inappropriate with the existing needs. Users were also worried if Indonesian railways were privatized the train fares would increase as compensation of the expected profit target. This would make the public service function neglected. The example of such phenomenon occurred in Jabodetabek division which had launched Air Conditioned economy class train with flat fare Rp 6,000. The fare was considered very expensive since at the same time the regular economy train fare was only Rp 2,500 (Jakarta Kota – Bogor). According to the plan, in 2010, the entire economy class train will be omitted and be replaced with Air conditioned economy train[1] . The policy will definitely burden the train passengers most of whom are of the middle to lower economy class community.

2. The Declining Service Quality

The implementation of business principles through the funding schemes of *public service obligation* (PSO), *infrastructure maintenance and operation* (IMO), and *track access charge* (TAC) which were recommended by the World Bank in PEP proved to be incapable in promoting the quality of railways service. PSO value that was given annually kept increasing. In 2005 the liquidated PSO was Rp 270 billion, increased to Rp 350 billion in 2006 and in 2007 it became Rp 425 billion, but the quality of railways service—particularly the economy class—became worse. In addition to uncertain headway, there are also problems of security condition, and the continually declining level of safety. The railways accidents' figure kept increasing. In 2007 there were 116 accidents which were 107 accidents more than in 2006. More than 90% of the accidents in 2007 occurred as the result of train derailment or toppling[2].

Up to 90% of railways accidents were caused by derailment or toppling, which clearly showed the fundamental problems in the railway technology. Based on the examination carried out by INFID's research team while doing the observation in Depok KRL Depot, various components of the trains, from track, carriages, locomotives and signals, were discovered. The maintenance officer admitted that the components found in the Depot were imported from more than eight countries; for instance track from Japan, train carriages also from Japan and Germany, lathe machine from France, and locomotive from USA. According to him, the existing variety of train components caused some problems in their maintenance since not all of the specifications of the existing components were suitable for the needs and condition of the railways track network in Indonesia.

[1] Interview with Akhmad Sujadi, Head of Public Relation Dept. Jabodetabek Operational Area.
[2] Railways Directorate/Direktorat Perkeretaapian, 2008.

The incapability of PT KA in determining suitable and uniformed components to make railways technology maintenance easier was caused by fact that the acquisition of infrastructure and facilities are under the authority of the Department of Transportation. Although Act No. 23/2007 stated that the provision and management of the facilities were the responsibility of the operator which is PT KA, yet in reality the provision of the facilities is done mostly by the government. According to the government, such condition was unavoidable since most of the funding for the fulfillment of railways facilities and infrastructures originated from foreign loans and used railways components from the creditor countries because of conditionalities and tied aid. In 2004 the Department of Transportation imported 40 electric train carriages from Germany. The import was carried out as the requirement to be fulfilled by the Government of Indonesia in order to obtain a loan from Germany to fund the development and maintenance of the infrastructure and facilities of railways transportation in Jabodetabek (*Kompas*, 30 October 2003a).

The World Bank also had a share in facilitating the purchase of the various components of railways technology. PEP urged investment plan for not only the double track development of Jakarta – Bandung lines, but also double track development for the lines between Cikampek – Kroya, Kroya – Yogyakarta, and *double double track* for Manggarai – Cikarang which was funded by JBIC (Jepang) using the components from Japan. Additionally, signal facilities for Jakarta – Bandung corridor were imported from the Netherlands, and at the same time the World Bank was involved in the acquisition of rail gauges originated from India. In evidence as many as 10,680 rail gauges were imported by the Department of Transportation in 1999 with US$ 466,400 million value that were wasted and could not be used because they were unsuitable for the existing railway track network. The involvement of the World Bank in the rail gauge acquisition project from India occurred through *Task Force Team Leader* which had been established by the World Bank as part of PEP through tender approval (*Indomedia*, 4 March 2003).

3. Labor Impoverishment and Labor Organization Destabilization

The impacts of PEP through the rationalization of the railways workers had been clear, namely the poverty and loss of source of livelihood of most of the railways workers. The demand to reduce the numbers of the railways workers was clearly requested by the World Bank in the context of railways efficiency. In the interview with INFID's research team, Ahmad Sujadi as the Head of Public Relation department of Jabodetabek division stated that the World Bank requested the reduction of the numbers of the railways workers approximately about 10,000 people. Currently the number of railways workers is 27,000 people, yet according to World Bank ideally it should be 17,000 people. Such policy definitely impoverishes railways workers since they are threatened by loosing their jobs and income.

Although laying-off was not carried out directly, yet PT KA implemented outsourcing work-system mainly for discipline, security, porter service, and ticket selling both in the ticket booth at the station and on the train. Outsourcing practice has been carried out in the Jabodetabek division since 2007 by establishing partnership with three companies, i.e. PT. Laksana Bintang Jakarta, PT. Bawata, and PT. Kencana Lima. Until now, the numbers of workforce that had already been outsourced from the three companies are 550 people, consisting of 150 people from PT. Laksana Bintang Jakarta, 100 people from PT. Bawata, and 300 people from PT. Kencana Lima.

According to the railways workers in the detailed interview with INFID's research team, there was a plan to transfer 223 railways workers and 181 daily freelance workers who had been under the cooperative of Koperasi Wahana Usaha Jabotabek (Kowasjab) to the management of PT Kencana Lima with outsourcing job status. Nevertheless the workers had rejected it since they had been working for tens of years. "We were actually offered higher salary of Rp 1,050,000 from the previously Rp 871,000 and were promised of performance improvement provided with uniforms, yet we turned down the offer for our future fate is not clear with the contract status," said Pupuh Saifulloh, the leader of SPKAJ. As a result of the rejection against outsourcing practice, some of the railways workers have not been re-employed; while they have families to take care of.

The outsourcing practice was also indicated as an attempt to weaken the railways workers' organization considering that their existing working contract with PT KA would be replaced with other companies who are the partners of PT KA. Hence when industrial dispute occurred, the workers could not directly make a demand to PT KA instead they had to do that to the company who had contracted them. The attempt to weaken the railways workers' organization is due to the its history that the organization had been the most progressive labor movement that had inspired the birth of opposing movement during the Dutch colonialism era. The power of railways workers in organizing themselves were also greatly feared by the authority such as the plan to carry out a strike which is carried out by SPKA in demanding retirement compensation.

4. The Weak Support from the State

The unceasing toll way infrastructure development carried out by the Government which was supported by the World Bank made the flow of land transportation more profitable on the highway network that is based on automotive industry. The evidence can be seen from the great support given by the World Bank through the debt trickled for the toll way construction. Up to 1996 when PEP was launched, World Bank's loan for land road development reached 15 projects (World Bank 1996: 5). Automotive industry was incessantly being encouraged in the 1980s including in Indonesia. The government persistently built highway infrastructure which provided space for automotive to continually grow compared to the development of highways for strategic industry based on railway track.

The Cipularang toll way operation in May 2005 which connected Jakarta - Bandung clearly created an impact in the decreasing number of train passengers in the Jakarta-Bandung corridor. Yet PEP was designed for the development of Jakarta-Bandung line with the development of double track which was intended to reduce travel time so that the number of passengers would increase. The choice of Jakarta-Bandung corridor itself was made because flow of Jakarta-Bandung passengers was very high. Yet with the construction of Cipularang toll road, the number of railway transportation passengers drastically declined to more than 70%. This caused the impact of train fare reduction of 30% in average for every class both business and executive (Hidayat: 2008). The policy of Cipularang Toll road construction had made the target of Jakarta-Bandung corridor development failed. The fund that had been spent for the double track construction project in Jakarta – Bandung corridor amounted to USD 98.4 million was wasteful.

The state's policy that prioritized highway network development more than railway development clearly showed the weaknes of the state support toward the railways development. Additionally there also was the railways master plan which was insufficient. Railway industry had existed in Indonesia since 1864, yet the Government had just formulated railways masterplan in 2005. The government had also just established the

Railways Directorate in 2005 which previously had been under the Land Transportation Directorate, sub-directorate of Railway Network Division.

The weakness of the state's support for the development of public transportation facilities could also be seen from the unavailability of integration among transportation modes. The government's choice to build Cipularang toll showed that the government has no comprehensive transportation plan. On one hand the government urged the development of railways, while on the other hand pushed for toll way development. Even worse, among one infrastructure development and others there is no linkage of modes. Take Jakarta as an example, the regional Government is persistently urging the public transportation by the busway operation with the intention of reducing the usage of private cars, in the other hand the regional government is building inner city toll way which by all means encourages the usage of personal cars. So the busway ends up only as a decoration in the middle of the chaotic roads which are crowded with personal vehicles. The weak support of the state on public transportation indeed makes the quality of railways in Indonesia keep declining.

5. The Accumulation of Foreign Debt

The position of Indonesian foreign debt until 2007 reached US$ 62.25 billion, 30,6% (US$ 19.05 billion) of which originated from multilateral debt including those from the World Bank (Directorate General of Debt Management 2008). Even PEP was considered a failure -- even by World Bank itself – as a project which had unsatisfactory performance, nevertheless PEP still adds the burdens of Indonesian foreign debts. Moreover, PEP also made Indonesia trapped in the accumulation of foreign debts.

PEP recommended the managementarial separation (*spin off*) of Jabodetabek operational area from the intercity railways system which connected Jakarta with other cities in Java, and became a special division of passengers transportation. The management of the Jabodetabek division is then separated from PT KA. The consequence of the managerial separation was not only it altered the management of Jabodetabek division but also recommended the development of *double double track* (DDT) Manggarai - Bekasi - Cikarang to optimize the passengers. The recommendation was responded by the government by making new loans to the government of Japan through *Japan Bank for International Corporation* (JBIC) which amounted as much as Rp 281 billion (41 billion Yen). PEP contribution on the accumulation of foreign debt also occurred through the scheme of railways infrastructure development such as the development of double track from Cirebon – Kroya funded by the loan from the government of China which reached USD 194.88 million and the development of double track from Kutoarjo – Yogyakarta funded by loans from the government of Japan amounted as much as Rp 822 billion (Department of Transportation 2007).

The foreign debt accumulation does not stop there. The government also relied upon foreign debt to fund other railways infrastructures, such as the development of subway and mass rapid transportation/MRT in DKI Jakarta. The provincial government had signed the debt agreement since 27 November 2006 with JBIC for *engineering service*. The total of needed fund was US$ 800 million (*Bisnis Indonesia*, 3 March 2008).

Automatically the commitment and liquidation of PEP debt increases the Indonesian foreign debt accumulation which is getting even more acute. It is ironic since the research findings showed many negative impacts caused by the implementation of the project. The debt which covered the requirement to use the railways facilities from the main creditor countries of the World Bank by PT KA was admitted to have negative impacts by the stakeholders of

Indonesian railways. Additionally, the project also hindered the fulfillment of the tights of the people to decent job and decent life as well as democratization of the Indonesan labor world. The debt for railways transportation mode also was not balanced with significant improvement in the operational performance. This was showed among which by the persistent increase of railway accident figures (*Kompas*, 18 October 2003b).

6. Lack of Technology Transfer

PEP required the utilization of railways facilities and infrastructures from World Bank's major creditor countries. The conditionality covered the usage of carriages from Japan and Germany, signal system from the Netherlands, and bridges from Austria. The conditionality automatically closed the opportunity for the development of domestic railways technology, and domestic industries, and did not provide opportunities for technology transfer. It also undermined the capacities of the domestic industries that have been experienced in making the same technology in railways. Indonesia actually has a state owned company (Badan Usaha Milik Negara/BUMN) operating in the scope of strategic industry which actually has already had the capacity to provide railways facilities and infrastructures. PT INKA was established in 1981 and has the competence and capacity to provide railways facility products. The excellence of PT INKA's products has also been internationally acknowledged by the export of its products to Malaysia, Thailand, Australia, and Bangladesh. The PEP scheme abolished the chance for Indonesia, particularly PT INKA and other State owned enterprises in Strategic Industries (Badan Usaha Milik Negara dalam Industri Strategis/BUMNIS) to develop the strength of railways technology.

Most of the railways components were imported. From the locomotive's machine, track, signal equipment, to the train carriages. Indonesia does not only depend on other countries' technology, but also becomes second hand goods dumping ground. In 2006, the Department of Transportation imported 40 sets or 160 carriages of used electric train from Japan. A year earlier, PT KA also imported 16 units of used electric train from the same country (*Kompas*, 14 March & 12 January 2006). These second hand goods are not used and only stored as garbages in the railways warehouses.

Both the Department of Transportation and PT KA stated that importing the used trains from Japan was cheaper compared to the products of PT INKA. According to Akhmad Sujadi, the Head of Public Relations department of Jabodetabek division, the average price of the used electric trains produced in Japan was around Rp 800 million to Rp 1 billion each carriage, while the price of new carriage was Rp 10 billion each. The price offered by PT INKA was approximately Rp 11.523 billion for each carriage. When compared to the new carriage price from Japan, not including the delivery cost, the products of PT INKA are still competitive. The average age of each imported train was 30 years, while in Japan train diminution is at the age of 13 years. At that age, the book value has been almost zero. Although technically train's age can reach 30 years, yet it had to be scrapped to maintain the quality and scrapping cost in Japan is very expensive (*Investor Daily*, 10 March 2008). Instead, Indonesia chooses used goods.

The experience of using used goods is not new for Indonesia. In 1996 when B.J. Habibie was the Minister for Research and Technology, through foreign debt scheme with the government of Germany, the government of Indonesia imported 39 used battleships which consisted of 16 *Parchim* types, 14 *Frosch*, and 9 *Condor* that amounted as much as US$ 442.8 million, more than US$ 100 million of the amount approved by the Minister of Finance, Mar'ie Muhammad. In addition to the ship design that was unsuitable for Indonesian waters, the ships also were not beneficial for Indonesia because only 14 of them could still be used, and also only for patrol ships, not battleships as stipulated in the loan contracts. Yet for the maintainance, the government had to make more debts to the government of Germany (Aditjondro 2007: 5 – 6).

7. The Weakening of the Economic Sovereignty

From economic point of view, each investment in the real sector should have multiplier effect. Through the provision of railways facilities by PT. INKA, the multiplier effect of production activity has great contribution for national economy. The choice of producing railways facilities domestically can open up high employment and realistically contribute to the economic growth. The production of components of railways facilities can mobilize chains of enterprises in industrial sector, starting from the technological components of the railways, to the train interior designs and components that are not all produced by PT INKA. PT INCA could sub-contract the production of the other components to other industries, to cooperatives and small-and-medium enterprises in Indonesia. So it is clear that the choice of not using the domestic railways facility products omits the chance of multiplier effect for national economic growth.

The evidence of the existence of policy that is not pro national interest can be seen in the portion of value of projects handled by PT INKA and national contractors in the infrastructure project and railways facility acquisition through foreign debt. The developments of Jabodetabek Division, rehabilitation of coal transportation in South Sumatera, Citayam – Nambo Lines, and railways facility acquisition amounted to US$ 525 million; the work portion of PT INKA and national contractors was very small. Not to mention when viewing the lack of governmental support for PT. INKA to compete internationally, it was relatively small compared to other countries' treatment to each national industrial actors. Local industries were just the associates to foreign companies in the projects of rehabilitation, modernization, and the development of national railways facilities and infrastructures. Such policy can definitely smother local industries (*Kompas*, 18 October 2003b).

The implications of these unwise policy choices were evidently proven in 2004-2005, when PT. INKA experienced crisis due to the policy that did not support the national industry. At that time PT INKA was almost bankrupt. Only business reposition by developing non-railways products saved PT INKA from bankruptcy. The development of non-railways products which were *medical mobile train, rail bus, mini train, dump truck, micro car, early warning system, container office, articulated bus*, and *modular container office* were capable to bring the investors' trust in PT INKA. The involvement of PT INKA in the national product exhibition in August 2006 was one of the pillars of PT INKA's recovery.

All the Indonesian railways facilities acquisition should be granted to PT INKA. Besides for the development of national technology strength, there is another thing that should be achieved which is the multiplier effect of national economic growth in the sector of railways. Although the achieved benefits and advantages of using domestic products have been proven as improving the performance of national railways, the government still preferred purchasing the facilities from other countries using foreign loans. The rationale that the adoption of technology from other countries was due to the urgency of the railways facility provision as part of mass transportation, and being faced with the governmental fund limitation was in fact implausible.

It can be predicted that it will be a big loss for the national economy if PT INKA has to be liquidated. The long term losses for the national economy and technology can also be estimated when the choices of policies that support the national interest still prefer the import of the second hand facilities from other countries.

The weakening of Indonesian economic sovereignty was also clear when Indonesian government is subject to the conditionalities of utilizing the used carriages from Japan, yet the capacity of PT INKA was sufficient to support the provision of railways facilities. As comparison, the government of India was capable of rescuing *Indian Railway* that was almost bankrupt in 2001 due to the appalling state of service and safety quality. The attempted rescue effort was carried out by (a) separation of institutional role (policy making, regulation and management), (b) resolving the differentiation between social responsibility and imperative performance, and (c) the creation of committed and capable leadership team. And it is worth noting down that the rescue efforts of *Indian Railway* by the government of India was carried out without any intervention from the World Bank (Hidayat, 2007). If India was capable of doing it, why can't Indonesia?

V. CONCLUSION

From the entire process and research findings, the following conclusion can be drawn:

1. PEP did not perform as expected (unsatisfactory) because of the recommendations from PEP were not appropriate with the needs of the stakeholders of the railways sector in Indonesia. Policy reform that changed the management of Indonesian railways from public service to public utility by emphasizing on profit evidently was challenged by the community. The resistence was based on the mandatae of the Constitution of the Indonesia, that clearly stipulates the priority of the achievement of people's welfare, and railways service is one of the tools for promoting the people's welfare that should be under the control of the state authority. The railways management is not supposed to be handed to and managed by private sector.
2. The weak support of the state to the railways transportation has contributed to the decline in the quality of railways services. The government favours more to the recommendations of the World Bank that prioritized the development of transportation sector that is biased more to the automotive-orientation. The impetus of the World Bank on the development of highway network that is automotive based caused PT KA even weaker and losing position due to the expansion of automotive industry. The weakness of support to the railways workers is also clear. PEP did not restore the performance of railways workers; instead it impoverished and weakened the railways workers' organization by rationalization. The implementation of business principles such as PSO, IMO, and TAC actually did not automatically encourage the improvement of railways service.
3. PEP pushed Indonesia to be even more trapped in foreign debt accumulation. The foreign debt accumulation occurred due to PEP itself added to the amount of Indonesian foreign debt accumulation. Moreover, PEP recommended other debts for Indonesian railways management. The important note here, the increasing debt burden in railways sector has made Indonesia continually dependent on technology from other countries.
4. PEP obliterated the opportunities to obtain multiplier effect for Indonesian economy because PEP omitted the chance for domestic industrial actors (PT INKA) as the backbone of Indonesian railways facilities provision. Local industries were merely made as associates to foreign companies in the projects of rehabilitation, modernization and development of national railways facilities and infrastructures without being able to optimally make use of their competence and capacity. The government's policy that does not support the domestic industries also impedes the national industry actor to compete internationally.

VI. RECOMMENDATION

1. In accordance with the mandate of the Constitution (/UUD 1945), the railway is a significant production branch that serves many people's necessities and should be under the control of the state. Based on the provision, the government has to cancel the railways privatization plan and restore the railways as public service.

2. The government has to have the commitment for the railways development in Indonesia through comprehensive and sustainable transportation policy. Highway network development should be based on railway track network. Hence the transportation policy should be accompanied by realization of sufficient facilities and infrastructures for Indonesian railways system development.

3. The government should have strong policy that encourages the synergy of national strategic industry, where transportation technology industry is one of them, to support national technology and to be independent from imported products.

4. The purchase of used components from the World Bank's major creditor countries should be terminated, and the government has to reject the debt payment which has been proved to be failure.

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