

Private Sector Involvement in Railway Systems, Lessons Learned From Great Britain and The Netherlands for Indonesia

Thesis

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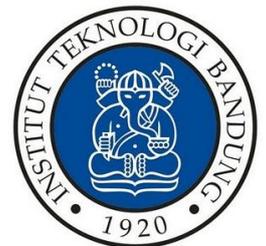
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ABSTRACT

Railways transport is one of the mass transportation that can be used as an alternative to mobilize passengers or goods. Many railways transport run by the state monopoly. Then, in the development, railways reform more involve private sector in the form a privatization. Privatization is part of the way to govern that indicates the term of 'governance through competition'. Great Britain and the Netherlands have implemented the privatization of railways system a few years ago. Indonesia is still use a monopoly system for the railways. Legally, Indonesian Railways Act has opened the opportunity for private sector to join in the railways system.

This research explores the experiences of British and Dutch privatization in their railways system. Looking at the cases in Great Britain and The Netherlands, it could be drawn the condition for introduction of private sector involvement in railway systems. Therefore, it could be lessons for improving railways system in Indonesia. Looking for information as well as drawing lessons, it was carried out by document analysis. Relevant documents such as literatures, books, research reports, government reports, relevant publications were used to gain knowledge for analysis. Explorative and comparative analysis also complements the discussions of this research.

The results of this research shows that radical privatization like carried out in Great Britain apparently would be difficult to be implemented Indonesia. It because related to the fear of the national asset loss if it is sold. The Dutch way in introduction for privatization could be adopted. For temporarily, PT KAI as a operator could be given a concession for operating profitable railways. Hereinafter, it is expected that private parties have a willingness to compete with PT KAI in obtaining profitable network. However, prior it is needed an acceleration of separation between train operation and infrastructure management. For infrastructure, it is better still domain of government. Private parties still might to be involved in a form Public Private Partnership (PPP). For example, doing a joint venture in track construction as still been planned in the construction of some of lines of Indonesian Railways. Besides that, it should more involve private parties in stations development as supporting business activities.

Keywords: Railways system, privatization, governance system

ACKNOWLEDGEMENT

An issue in Indonesian railways is the occurrence of state monopolies in the railway system. Operational and infrastructure management is organised by PT. KAI as a state company. The latest Indonesian Railways Law, Act No. 23/2007, opens wider opportunity for private as well as local government to involve in delivering services of railways system. This master thesis entitled “Private Sector Involvement in Railway System, Lessons Learned From Great Britain and The Netherlands for Indonesia”. It is a fulfillment part of the requirements for the Double Master Degree of Transportation Program (School of Architecture, Planning and Policy Development, Institut Teknologi Bandung) and Environmental and Infrastructure Planning (Faculty of Spatial Science, University of Groningen).

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INTRODUCTION



CHAPTER I

PUBLIC TRANSPORT AND THE ISSUES

I. 1. Background

Congestion is a common problem occurring in many countries particularly in their big cities. It is affected by a lot of activities and mobilities. Improved contemporary lifestyles and business practices have an impact on the increasing mobility. High mobility by car could potentially lead to congestion due to heavy traffic levels.

Public transportation could be used to move many people more effectively and efficiently. When compared by auto, public transport provides less emission to move people in the same number. Therefore, it is important to improve public transport and encourage people to use it.

The main issues of public transportation is lack of providing services. Improvement of public transportation could be done through a private sector involvement to achieve a better quality of service. Private sector has a good track record in its management. Regulatory change in European public transport have been started since 1986 by British deregulation (Van de Velde, 2001). After that, the role and involvement of each actor changed. Authority and organisational form changed as well as private parties were involved more.

Indonesia

Public transportation in Indonesia consists of land, sea, and air transport. Land public transport is more complex than others. It consists of many modes with capacities ranging from small, medium to large. An example of small scale public transport is called 'angkot' with a capacity around merely 10-12 persons. It is organized by individuals or an association. Moreover, there are taxis, 'bajaj' and 'becak'. The all of it is similar in service, flexible route based on passenger destination. The difference are mode used, and quality as well cost. Hence, there is an informal public transport called 'ojek'. It uses a motorcycle to carry a passenger. Similar with 'bajaj' and 'becak', the payment is based on bargaining between passenger and driver. The coverage service of all these modes of transport is urban and the surrounding area. The second, medium scale public transport, consists of buses with a capacity of 20-35 persons for urban coverage and 35-50 persons for regional coverage. It is usually organized by an association. The large scale, or mass public transport, are BRT (Bus

Rapid Transit) and are railways operated by government authorities. The scope of BRT service is urban, whereas the railways serve both urban and regional.

The railway is one of public transport which have some advantages. Compared with other types of land transports, railways could carried passangers in mass amount. It is also free of congestion and relatively quick because of its own tracks, free from obstacles.

Indonesian railway services are divided into three classes, namely economic, business, and executive class. This is the case for regional railways, while for urban rail there are merely economic and non-economic class. It operated by PT KAI (Kereta Api Indonesia), a state owned enterprise. In terms of financing, PT KAI gain subsidies from the government through PSO (Public Service Obligation). The subsidies are given through The Ministry of Transportation. The amount of it is calculated from the difference between the costs incurred for the transport operation with railways passenger costs at a rate determined by the government (Samosir, 2011). But it was only given to the economic class, while the financing of business and executives ones comes from the benefit of the service provided.

An important issue in Indonesian railways is the occurence of state monopolies in the railway system. Operational and infrastructure management is organised by PT. KAI. The absence of competitors result in less innovation in providing services and eventually in poor quality and dissatisfaction by the traveller.

Europe

At first, European railways were small private bussiness. For instance, during 1860s and 1870s, The Netherlands developed a railway competition dominated by private sector (Fremdling, 2002). Subsequently, in some of continental countries, railway was taken over by state and move toward monopolies. From 1991 some countries in Europa began to reform their railway system by letting market parties in and to separate operation and infrastucture management (Asmild et al, 2009). This led to deregulation and privatisation that result in a bigger involvement of private sector. It was expected that competition, innovation, and flexibility of private management could become a strength to improve the railway system.

The system that reformed with private involvement led to competition in the rail industry. Lalive and Schmutzler (2008) in their research found that there are positive effects of market competition on the level of passenger rail service. The country that has reformed their

railways successfully since 1990's was Great Britain. British Rail (BR) has made improvements to increase the efficiency and the quality of their services through privatization. Another European country, The Netherlands, also has chosen to implement the privatisation in the railway system.

In this research, I propose to analyze private sector involvement in European railways system with considering these successes and failures, with a focus on the The Netherlands and British cases. By comparing the both, it is expected to obtain lessons for improvement in Indonesia.

I. 2. Research Objectives

The main objective of this research is to analyze the possibilities to improve the railway system in Indonesia through private sector involvement. This research is restricted only in the railway operational as a public transportation. The railway as a freight transportation is not included in this research. The specific objectives are described as follows:

1. To understand private sector involvement in the railway system
2. To analyze the condition for improvement through private sector involvement in British and The Dutch railways ('Nederlandse Spoorwegen'), what are lessons, considering the successes and failures
3. To describe the current condition in Indonesian railway system and possibilities to improve Indonesian railway system through private sector involvement

I. 3. Research Questions

To achieve research objectives, this research will answer and explore the questions as follow:

1. What is private sector involvement in railways system?
2. What are the result of private sector involvement in Great Britain and The Netherlands.
3. Looking at the cases in Great Britain and The Netherlands, what are the condition for successful introduction of private sector involvement in railway systems? And what caused possible failures?
4. What lessons could be implemented in Indonesian railways systems?

I. 4. Research Framework

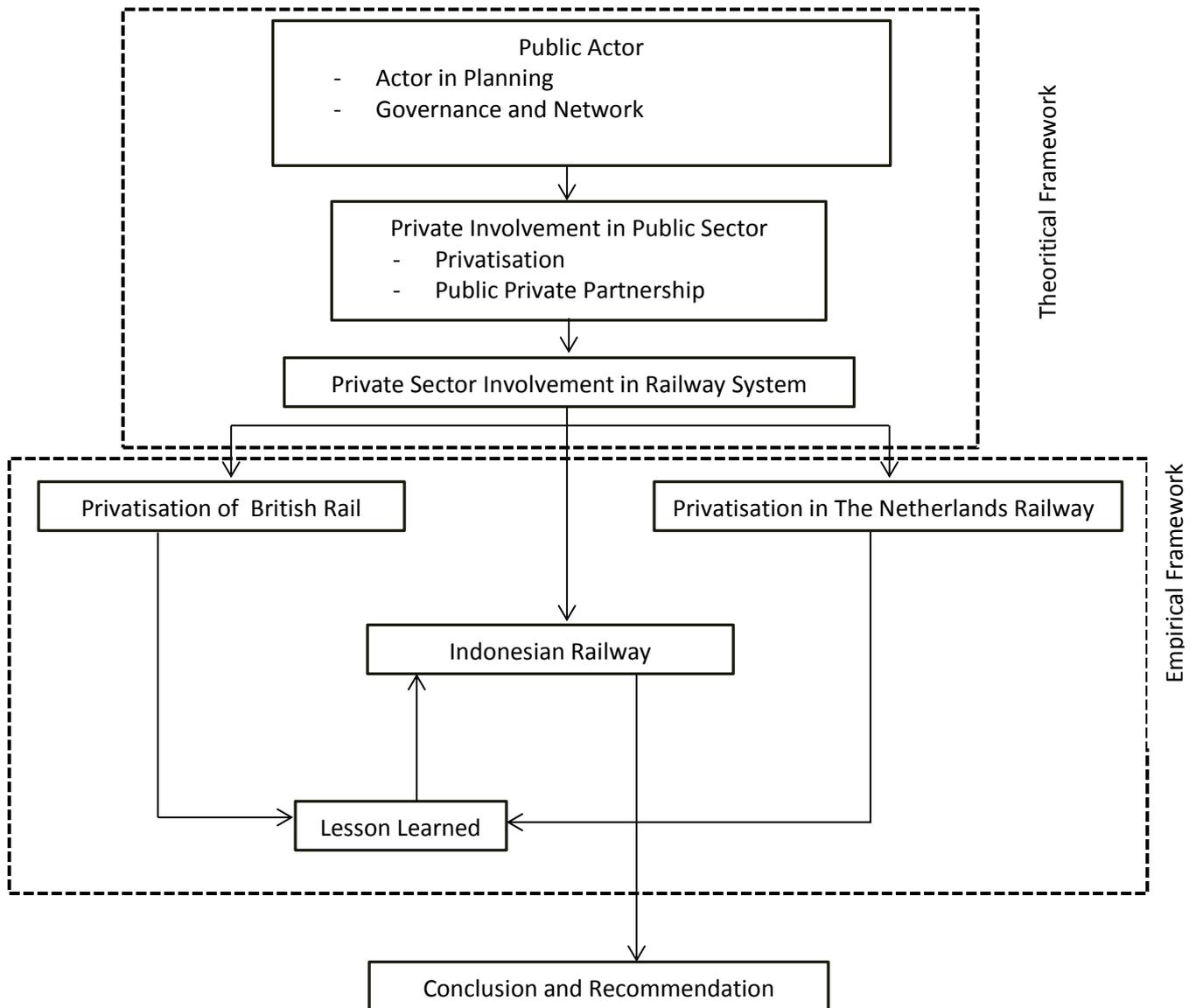


Figure 1.1 Research Framework

I. 5. Research Structure

This research consists of six chapters. The content of this research can be described as follows:

Chapter I: Public Transport and The Issues

This chapter consists of background, research objectives, research questions, research methodology, research framework, and research structure.

Chapter II: Theoretical Review

This chapter provides theoretical review of actors in public sector regarding with governance and network, private involvement in public sector including privatisation as well partnership between public and private sector, and then how it work in railway system.

Chapter III: Research Methodology

This chapter comprises elucidation about data requirements and data collection as well as analysis method.

Chapter IV: Railways System in Great Britain and The Netherlands

This chapter presents how the existing condition of railways system in Great Britain and The Netherlands. Further, this chapter explains what are the result of private sector involvement in both of them and how the condition for successful and/or failure introduction of private sector involvement in railway systems.

Chapter V: Developing Private Sector Involvement in Indonesian Railways System

This chapter presents the overview of Indonesian railways system including the planning for future. This chapter also explores lessons could be implemented in Indonesian railways systems based on Great Britain and The Netherlands cases.

Chapter VI: Conclusion and Recommendation

The final chapter consists of conclusion of the research, recommendations, and reflection.



THEORITICAL REVIEW



CHAPTER II

THEORITICAL REVIEW

II. 1. Introduction

This chapter provides relevant theoretical background for the research. It starts from the actors in the planning with regard to shifting government to governance. Sharing power from state to the society and market became basis in this alteration. In the market point of view, private sector has a key role. Theory about governance, liberalization which is often associated with privatization will be used for this research. It refers to transferring ownership and management from public sector to private sector. Furthermore, this chapter reveals private sector involvement in transport sector. Hence, it continues with concepts of railway system and private sector involvement in railway.

II. 2. The Actors in Planning

Planning, as an activity, regarding to the actors involved. Prior the actors in planning are planner and government as the policy maker. Government has an objective and vision, afterward the planner designing plan based on that. Governments, with their bodies or agencies, are key player which have a big power to command and control. In other words, determining policy is very reliance on government especially the central one.

The shifting of government role seem to be started while “the interrelatedness of many policy issues, the influence of powerful stakeholders on them and the manifestation of issues in unique local circumstances all undermine a reliance on central government control.” (Busscher et. al , 2013). Further, Busscher (2013) as cited by Zuidema (2011) explained two keys shift in policy planning and practices. They are communicative turn and neo-liberal ideas. Communicative turn concerning to more society involvement in planning process. The active participation from societal groups and stakeholders involved taken account into policy making. It refers to the term of “governance through argumentation”. Second, from neo-liberal ideas, sharing power to the market becomes baseline in planning process and practice. The emergence of private or quasi-private bodies generates competition which is expected to better outcomes in various sectors. It indicates to the term of “governance through competition”. Figure 2.1 depict the shifting from governance through coordination to both argumentation and competition in the governance triangle scheme.

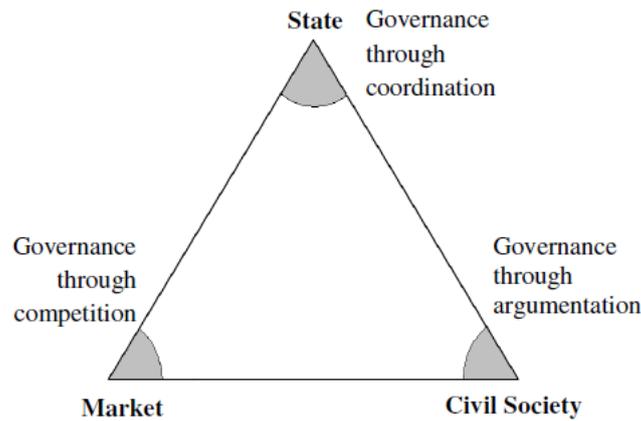


Figure 2. 1. The Governance Triangle (Source: Busscher (2013) based on Lemos & Agrawal (2006))

In a daily general term, government and governance regarded almost the same. Actually, governance has a broader scope and actors than government. It also covers non-state actors. Stoker (1998) defined governance as “the development of governing styles in which boundaries between and within public and private sectors have become blurred”. The public as well as private can contribute in entire process. The interrelation of the many kinds of actor result a network which is connect and work together to achieve a goal. It links the interest of each other but in other hand it there is also a risks for conflict of interest.

Boelens (2010) mentioned about public management network which is associated to involvement of governmental and non-governmental agencies in a public policy-making. The aim is arrange public goods and services in many kinds of activities (it can be planning, designing, producing, and/or delivering).

II. 3. Private Involvement in Public Sector

Public services are usually provided by government because of social motives. It because the aim of public service management is social goal (Harrow & Willcocks, 1990). Government, as a public sector, has an obligation to ensure the availability of public services as it pertains to the rights of citizens. In providing as well organizing public services, the government provides a particular fund. The limitations of budget sometime have impact on lack of satisfaction, whilst the contemporary people require optimal services. It is also the reason that encouraged the emergence of private involvement in public sector. In addition, private management was considered more innovative. Harrow & Willcocks (1990) differentiate public and private sector in the following table.

Table 2.1. Differences in Public and Private Sector Context and Pressure

<i>Public</i>	<i>Private</i>
1. Statutory and parliamentary regulation; codes of conduct	Board of directors; company planning frameworks
2. Needs of national economic management	Marketplace signals, <i>e.g.</i> , business lending rate
3. Relative openness of government and decision-making; stress on representatives	Relative secrecy; stress on business confidentiality
4. Attentive publics; wide stakeholder base; impact of subsidiary regulatory bodies	Primary focus on shareholders and management
5. Multiple values and goals Service Public interest Equity Professionalism Consumer participation Complex trade-offs	Relatively restricted
6. Primary resource base from public taxes	Primary resource base from operational returns and borrowing
7. Extensive accountability	Accountability restricted
8. Responsiveness to political masters and short political time-horizons	No real national/local politician overlay; less artificial time constraints
9. Primary social goals, <i>e.g.</i> safe streets, health, no user charge	Primary profit goals
10. Complex and debated performance indicators	Mainly quantitative financial measures
11. More ill-defined policy directives; complexity of policy implementation	Relatively less ambiguous policy

There are various kinds of private sector involvement form. One of the involvements is through partnership. It could be seen from their organizational forms which have different degree relationship. Barringer and Horrison (2000) defined some inter-organizational form based on the relationship that showed in Table 2.2. These forms are from tightly coupled until loosely coupled, between two or more companies.

Table 2.2 Forms of Interorganizational Relationship (*Source*: Barringer and Horison, 2000)

<i>Interorganizational Form</i>	<i>Tightness of Coupling</i>	<i>Description</i>
Joint Venture	Tightly Coupled	An entity that is created when two or more firms pool a portion of their resources to create a separate jointly owned organization.
Network	Tightly Coupled	A hub and wheel configuration with a local firm at the hub organizing the interdependencies of a complex array of firms.
Consortia	Tightly Coupled	Specialized joint ventures encompassing many different arrangements. Consortia are often grouping of firms oriented towards problem solving and technology development, such as R&D consortia like SEMATECH.
Alliance	Loosely Coupled	An arrangement between two or more firms that establishes an exchange relationship but has no joint ownership involved.
Trade Association	Loosely Coupled	Organizations (typically nonprofit) that are formed by firms in the same industry to collect and disseminate trade information, offer legal and technical advice, furnish industry-related training, and provide a platform for collective lobbying.
Interlocking Directorate	Loosely Coupled	An interlocking directorate occurs when a director or executive of one firm sits on the board of a second firm or when two firms have directors who also serve on the board of a second firm. Interlocking directorates serve as a mechanism for interfirm information sharing and cooperation.

Meanwhile, Blank (2000) described four broad alternative models about ownership and management:

- a. Government ownership and government management

In this case the government makes all operating decisions and government employees typically provide the service.

- b. Government ownership, with contracts to the private sector for the management and operation of the service.

This type of shared public/private responsibility is typically what 'privatisation' in the social service area refers to. A key issue in this approach is whether or not the government can write complete contracts with the private sector, to assure that the desired quality of service is provided and/or that full access is provided to all groups. Note that the government can implicitly redistribute income in this situation by funding the private contractor to assure that the service is available to all groups.

- c. Private ownership and management with government regulation

This is the model utilised in many sectors of the economy in which there are problems of market failure that can be readily corrected by government regulation.

- d. Private ownership with (perhaps) government regulation and government funding to subsidise low-income clients

This is the standard 'voucher' model, in which the government provides some redistribution of income among potential recipients, but the recipients themselves contract for services in the private market.

Partnership between public and private sector known as Public Private Partnership (PPP). The term of privatization and PPP are very close. Harris (2004) discussed about the difference between PPP and privatization. He mentioned that the core of privatization is about taking an existing state owned business into private sector. With giving an involvement to private sector, it is expected that a competition and innovation will rise and its impact for delivering better services will increase. In addition, it would save public money because it reduces subsidies. However, the fundamental result of privatization is transfer of ownership. The public sector would transfer the asset to the private sector except for regulatory control for example customer tariffs. Many governments, particularly in the developing world, do not wish for loss of national assets. PPP is deemed as a different approach for delivering services to or on behalf of the public sector. In privatization, all of assets and arrangements shift from public sector to private sector. Whereas, PPP is based on contract or agreement for a finite time period and at the end of the contract, the assets and ownership return to public sector. Therefore, there is no national assets loss. PPP can also be regarded to prevent state employees from job losses because automatic privatization followed by private sector employees. Nevertheless, the essence of PPP and privatization is alike namely private involvement in public sector. In consequence, PPP was 'assumed as soft privatization'.

There are many theories about privatization but they are almost the same. Generally, it is defined as "a transfer of ownership and control from the public to the private sector, with particular reference to asset sales" (Van de Walle, 1989). Privatization sounded as a good idea to increase efficiency of public services because of the innovation of private sector. The involvement of private sector will trigger the emergence of competition. Competition would force the incumbent operator to make improvements for achieving the best services (Arriva, 2013). It also offered users an opportunity to choose options based on their preference.

Actually, there are many reason behind a privatization. Miller (1994) listed some reasons for and goals of the privatization programme. They are:

1. *give consumers more choices, better service, and lower prices*
2. *encourage more equal distribution of wealth by promoting greater ownership of corporate stock among employees and the general population*
3. *decrease government control of business and lessen political interference in the management decision making process*
4. *lower the national government's debt*
5. *generate new tax revenues from privatized firms*
6. *free government funds to be used in sectors of the economy other than state owned businesses ;*
7. *reduce the size of government*
8. *benefit the economy through higher returns on capital in the privatized industries*
9. *stimulate managers to be more responsive to customer demands and to be more innovative in developing new products and services*
10. *give employee shareholders a greater stake in their organizations, resulting in increased motivation and productivity*
11. *enable managers to set organizational goals which are independent of the government's goals*
12. *allow competition to spur the efforts of managers and employees.*

II. 4. Railway System

Transportation is one of the public needs for supporting activities. Public transport is an option for people in choosing their transportation for mobilization. Government has an obligation to provide public transport facilities, therefore they are usually owned and managed by state. State-owned company has authorities and responsibilities to organize it. However, currently the trend is towards market oriented planning in which private sector involvement is broader.

Railway as a part of public transport, providing services either local or regional. Generally, railways system is divided into infrastucture and operation. Based on Oxford Dictionory (accessed on internet, 22 April 2014), the definition of infrastucture is “the basic physical and organizational structures and facilities (e.g. buildings, roads, power supplies) needed for the operation of a society or enterprise”. Then, operation defined as “the action of functioning or

the fact of being active or in effect”. From the definition, infrastructure in railway could be consists of tracks, stations, signaling, and other supported elements. Meanwhile, operation is more about train as a vehicle and providing other operational aspects such as time tables, safety regulation, ticketing, services, etc. Organizing infrastructure and operation could be together or separated.

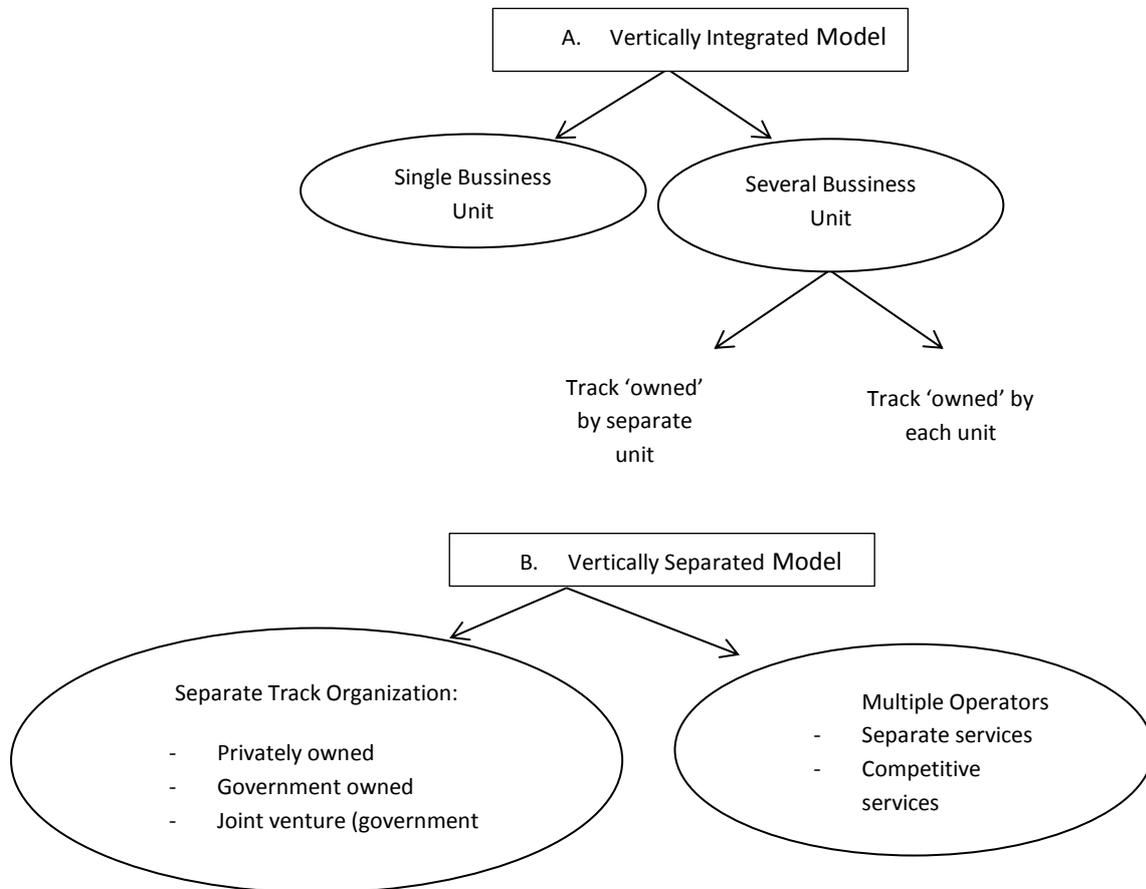


Figure 2. 2. Railway Function Models (Source: Ferreira, 1997)

Figure 2.2 portrayed the models of railway function that distinguishes two models, the vertically integrated model and the vertically separated model. In vertically integrated model, operators and track owners provide services for customers in a single business unit. It also might consist of several business units such as passenger services and various types of freight services. In some cases, each business group “owns” its own track segments, which are divided amongst operators on the basis of major user. The second model, vertically separated model, operators and track owner is separated. The track organization could be privately

owned, government owned, or joint venture (government and operators). In other side, the operators provide services related to the train as a vehicle and other operational aspects.

II. 5. Privatisation in Railway System

Liberalization and deregulation in public transport have an impact in railway reform. Alexandersson (2009) stated that European countries much influenced by European Union (EU) policies in this reform. EU transportation policies have increasingly affected the development of railway organization and operations in the EU Member States. The starting point for railway reform was European Directive 91/440 about separation of infrastructure and operation in railway. Then, competitive tendering in public procurement has been legitimized as a way to increase competition, save taxpayers' money and safeguard equal treatment for competing firms.

Liberalization of markets together with competitive tendering has demonstrably led to (Arriva, 2013):

- a. The development of services, in terms of both quality (passenger comfort, on board services, punctuality, reliability) and volume;
- b. High levels of safety and security;
- c. A stimulus to innovation and thereby organic growth of services;
- d. Customer-orientated strategy leading to rail market share increase (e.g. improved information, service frequency, intra-modal and inter-modal integration);
- e. Transparency of contractual relations between rail undertakings and authorities.

Liberalization inevitably related with the involvement of private sector. Benefit of private sector involvement (HSMO, 1992):

- a. More concern for the customer needs
Profitability of private sector depends on how many customers attracted. Therefore, private sector more concerned about what customer want in order to retain them.
- b. Competition and ending the monopoly
Many companies will generate competition each other's. It will give user some choices. They tend to choose company with best offer. Therefore, the companies keep innovating because of competition. It would not be found in monopoly situation.
- c. Management freedom

Greater participation of private sector in railway operation will result in less scope and justification for Government involvement in managerial issues. The company focus on main task of running services to the satisfaction of passengers and customers.

d. Clear and unforceable quality standart

There are clear agreements and requirements which must be met contained in the contract. If it failed to meet the performance standards required, there would be penalties or the worst possible is a loss of contract.

e. Motivation

High quality services implanted by company as an identity and it will help to boost motivation of employee in providing services.

f. Efficiency

Private management will try to cut out waste and reduce cost without compromising quality. Efficiency also related to less government subsidies, it is in contrast with state owned company that close to government budget.

As mentioned before, most of railway system was carried out by state in the 1980's. However, the lack of government in improving performance and dependency of subsidies often heralded as public enterprise's shortfall. Subsequently, the idea about privatization began proposed. Galenson & Thompson (1993) suggested that "privatization has come to be seen as a spectrum of possibilities rather than as a single either/or decision". It should not solely narrow on sale asset to private sector but it wider to increase the role of the private sector and promote competition. Furthermore, in the following table, Galenson & Thompson (1993) described some institutional form regarding private sector involvement in railway system

Table 2.3 Institutional Forms with Private Sector Involvement in Railways System

Form	Description
1. Reformed Public Enterprise	In this form, the management is conducted as a private corporation. It still public owned but made into shareholding company. Its investment and price policies are still determined by the state as majority owner.
2. Service Contract with Private Sector	While retaining full ownership of the railway, government or public enterprises can contract for almost any activity to be performed by a private sector entity. This is commonly done for janitorial services, food catering, and medical services. Also open to contracting, though less common, a remaintenance of right-of-way (which may lead to issues of safety and coordination) and of wagons and

	locomotives. Service contracts, when properly designed, can be subject to competition and can incorporate incentives for good performance.
3. Management Contract with the Private Sector	In this form, many activities can be managed under contract by private entities. This is more comprehensive than a service contract, with the contractor assuming responsibility for operations and maintenance of a particular activity, or even an entire railway.
4. Leasing to the Private Sector	Leasing can be similar to contracting, but in this case the contractor pays a fee for the use of the fixed assets.
5. Leasing from the Private Sector	In this form, private sector maintain and lease rolling stock to the railways.
6. Concession	Concessions are a broader form of lease in which the contractor also agrees to make certain fixed investments and retains the use of the assets for a longer contract period.
7. Joint Ventures	Private (or mixed) partners contribute development capital and planning and management expertise to develop land or other real estate owned by a railway.
8. Private Ownership	In this form, rolling stock as well as infrastructure fully owned by private sector.

Source: Galenson & Thompson (1993)

II. 6. Conceptual Framework

According to theoretical review, there are two factors that would be used in this research for analysis of private sector involvement in railways system. First, it is about institutional forms regarding actors that play a role in railways system. Their roles are reflected in the ownership and organization of railways. The relevant theory is about governance related to the way in governing which not solely focused on state in organizing railways. It started from the previous condition in which state dominate or even monopolize the railways industry. That situation was likely to cause market failure. Monopolistic tendencies and bureaucratic restriction is less respond to market needs. In other hand, private sector is reputable in responding market needs. Therefore, private involvement was expected could be used for improving railways industry. The change process to more involve private parties inevitably have impact on role change of each 'actors' as well. They respectively have 'areas' in their role. Some parts are private domain and the rest might still public domain.

In the theories explanation before, railways system consists of operation and infrastructure management generally. This division could be basis to describe which parts are suitable for privatized and which one not. The privatization is not narrowly about transfer of ownership

but broadly about the involvement of private sector. The private involvements in railways system have many forms such as by contract, joint venture, etc.

The second factor is about how the privatization worked. It focused on step by step privatization was carried out. It is undeniable that a change is not a simple task, so does the privatization. Due to its complexity, privatization need long process occasionally. Moreover, railways systems are complex with many parts and involve many interests. It is not easy to incorporate all of them into a system which is called privatization. The process of privatization in railways system might be different in some countries.

Relates with both factors, conceptual framework of this research can be depicted in the following picture.

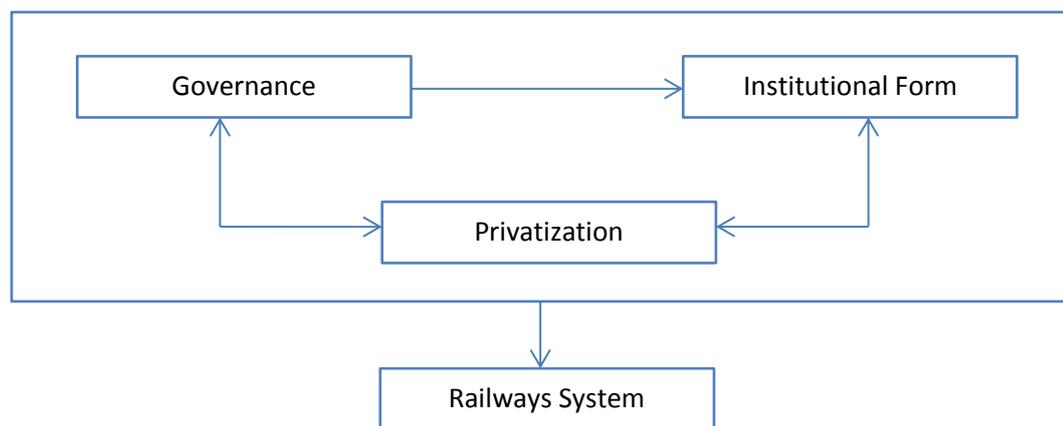


Figure 2.3. Conceptual Framework

Institutional form can be used as an indicator to analyze private sector involvement in railways system because it shows the responsibilities and authorities of related parties. Based on that, the roles of each actor could be understood. It determines which part is domain of public and which part is domain of private. In addition, the process of privatization become important to be noted as lessons learned. This research uses two countries for cases study in which there are possible differences in the implementation of railways privatization. Lessons can be drawn from them for Indonesian railways system.



METHODOLOGY



CHAPTER III

RESEARCH METHODOLOGY

III. 1. Introduction

This chapter aims to explain the method used and data collection of this research. It reveals the way how the research questions are answered and its steps. This research aimed to explore British and Dutch privatization in railway system in order to withdraw lessons that might be learned for Indonesian railway improvement. Since the monopoly system of Indonesian railways, it was considered less innovative because of no competition. Privatization with competition that has been used in some countries including Great Britain and the Netherlands could be lessons for railway reform in Indonesia.

This research focuses on institutional arrangement and step by step of privatization in railways system. It is restricted merely on railways as public transport regardless railways as freight transport. This research explores and compares the current implementation of railways privatization in selected countries namely Great Britain and The Netherlands. Afterwards, it tries to draw the possibility and adaptability of the implementation in Indonesia.

The reason to choose Great Britain because it is an oldest and persist privatization (Miller, 1994). As a pioneer, it is considered as the most experienced and a lot of lesson could be learned. The Netherlands as another country chosen, beside it have historical relation with Indonesia, it still struggle with railways privatization. The different level of railways privatization between Great Britain and The Netherlands became reasoning for choosing both of them to be learned. In other hand, both countries have similarity because they are equally applied vertically separated model in their railways system.

III. 2. Methodology and Data Collection

In the research, there are two common distinction that often be used in the research method. They are quantitative and qualitative research. Quantitative researches emphasize quantification in the collection and analysis of data. Meanwhile, qualitative researches emphasize word rather than quantification (Bryman, 2008). Basically, quantitative research started from the hypothesis. Then it tested the theory with the reality based on the scientific data in the form of numbers. Statistic calculation becomes important in quantitative research. By contrast, qualitative research use data in the form of information that is relevant instead of

quantification. Statistics are merely used as a complement for the information. It is not main data to be processed.

The main idea of this research is to distract lessons learned from other countries to improve the railways system in Indonesia. To achieve it, the method would be used is document analysis. It is carried out by using relevant document to gain knowledge for analysis. The sources could be used comprises literatures, books, research reports, government reports, relevant publications, etc. Literature, especially from scientific articles or books, were utilized to develop theoretical framework about the concept of governance regarding actors in planning, private involvement in public sector, railway system, and how private sector involvement in railways system. It also could become sources to track the histories associated with either railway or privatization at three of discussed countries. Many kinds of reports and other publications provided informations about current conditions. However, it also possible that it contained informations in the past. Further, this research will try to explore and compare the current implementation of private sector involvement in railways system in selected countries and cases before analysing the possibilities to be adapted in Indonesia.

This research is interpreted as a qualitative research because it aimed to obtain as much information to be basis on lesson learned. It is not necessary to use statistical calculation because it is not to prove a hypothesis based on theory. Theories from literature review is needed to construct theoretical framework as a conceptual thinking. Then, it can be drawn lessons which relevant to analysis cases and used as a basis of analysis. Explorative and comparative analysis will complement the discussions in this research. It is used to seek information as well as draw lesson learned from countries chosen.

Data collection for empirical cases is also carried out through secondary data sources. This section is important to gather information about the current condition of British and Dutch railways as well as Indonesian railways. The data used in this research is related to histories of railways system of three countries selected. It surely will be long historical stories, thus it require a sorting. Specifically, this research needs information about the condition before and after the privatization of the railway. In addition, it also require information about the process introduction of privatization in their railways system.

Data analysis is conducted by enriching the information, searching relationships, comparing, and finding the pattern on the basis of the original data. By this way, the richness of information is doesn't matter. Data could be collected from many kinds of sources. However,

it also become the weakness of this research because it is need much time for deeper understanding. In additions, there is a possibility about difficulty of finding analytic path through that richness (Bryman, 2008). The results of data analysis in the form of the description of the situation under study are presented in the form of a narrative description. The summary steps this of research showed in the following table.

Table 3.1 Steps of the research

Steps	Process	Source	Output
Literature review	Development of theoretical background such as the concept of governance, railways system, privatization	Scientific journal articles, policy documents and reports, internet publication	<ul style="list-style-type: none"> - The concepts of relevant theories - Conceptual framework as a basis for analysis
Data collection	Gathering information about railway system in the Great Britain and The Netherlands and their privatization	Scientific journal articles, policy documents and reports, internet publication	<ul style="list-style-type: none"> - Overviews of British as well as Dutch railways - How privatization works in both countries
Comparing the case studies	Compare either similarities or differences of railways privatization in Great Britain and the Netherlands	Information from ‘data collection’ steps	<ul style="list-style-type: none"> - Comparison of railways privatization in both countries - General lessons from British and Dutch privatization in railways system
Analysis	<ul style="list-style-type: none"> - Exploring Indonesian railways system - Seeking possible implementation in Indonesian railways system based on 	<ul style="list-style-type: none"> - Policy documents and reports, internet publication - Information from ‘comparing the cases studies’ steps 	<ul style="list-style-type: none"> - Overview of Indonesian railways system - Lessons could be learned from British and Dutch privatization in railways system

	comparison in the previous step		for improving Indonesian railways
Drawing conclusion	Concluding the result of the analysis	The result of the analysis	Conclusion and recommendation



RAILWAYS SYSTEM IN GREAT BRITAIN AND THE NETHERLANDS



CHAPTER IV

RAILWAYS SYSTEM IN GREAT BRITAIN AND THE NETHERLANDS

IV. 1. Introduction

This chapter presented the history and current condition of railways in Great Britain and The Netherlands. It would also encompass the results of private sector involvement in both of them. The experiences of Great Britain and The Netherlands as countries implementing railways privatization are expected could give lesson learned for improving Indonesian railway system.

IV. 2. Great Britain

Railway in Great Britain is the oldest in the world. It already exists since the 1800's. Harrison (1986) stated that the first public railway in Great Britain was the line from Stockton to Darlington in 1825. Then, the Liverpool and Manchester Railway also was opened in 1830. Actually, prior that time, there were railway line and locomotives running but it were not a public railway. It usually used for the industry or mining.

The development of British railway was gradually flourished. Many private companies constructed and operated the railway. However, each line developed independently without compromise the other line. By 1900's the British railway network was a patchwork, dominated by small railway companies.

After the First World War, because of the deteriorating economic, many small railway companies into decline. Dealing with that, in 1923, almost all the railways in the country were grouped into four new companies (the "Big Four"):

- The Great Western Railway (GWR)
- The London, Midland & Scottish Railway (LMS)
- The London & North Eastern Railway (LNER)
- The Southern Railway

In 1947, after the Second World War, "Big Four" were nationalized became British Railways (BR). The consequence of it was subsidies should be provided by government to support railway transportation. As time passed, the performance of BR was deemed unsatisfactory

(Department of Transport, 1992). Inefficiency as well as ineffectiveness became issue arising in BR management. BR had financial difficulty and considered start from 1982 as a turning point its problems occurred (Gibb et. al., 1996). Dealing with that, a committee which is named Serpell committee was established. The responsibility was to investigate BR's problem. Low productivity, inefficient management, and ever increasing subsidies led to the committee report to close BR for reducing need of subsidies (Alexandersson, 2009). After a quite long both process and debates, British government decided to privatize their railway system in 1992. The main objectives of railways privatized called as business efficiency, it sounded like common privatization aim in others sector. Specifically, "the stated aims behind the railway privatization reform were to make better use of the railways, ensure greater responsiveness to the customer, achieve a higher quality of service and better value for money for the public who travel by rail" (OPRAF, 1995, p. 29 cited by Alexandersson, 2009)

The British The Railway Act 1993 was published to legitimize privatization in railway system. It was an execution and a follow up of European Directive 91/440. Essentially, this direction mandated the EU Member State to separate infrastructure management and railway operation. This separation would create wider opportunity for private sector to participate in railway industry through competition. Track and operation would be accessible for any competitor.

The preliminary condition after privatization was the presence of Railtrack as an infrastructure manager and the existence of some train operators. At first, Railtrack was formed to be public company. However, in November 1994, the government announced its decision also to privatize Railtrack. The sale was completed in 1996 when the shares were floated on the stock market. The reason to privatize Railtrack was a fear that it would become difficult to attract private-sector interest in the franchises if the infrastructure was still state-owned. The rolling stock was divided between three separate Rolling Stock Companies, which were subsequently sold to the private sector in 1995–1996. BR's freight business was privatized and open access for freight operators was introduced. BR's passenger rail operations were reorganized into twenty five separate units, then transformed into Train Operating Companies (TOC). These companies were subsequently franchised by means of a tendering procedure, with interested parties placing bids on the grounds of required subsidies. The tenders were organized by the newly created Office of Passenger Rail Franchising (OPRAF) and the process was completed in March 1997. Later, OPRAF was transformed into the new Strategic Rail Authority (SRA), established in 2001. The new authority set out

to re-franchise the operations of the TOCs and introduce longer agreements (twenty years instead of seven years) in return for TOC involvement in infrastructure investment.

Due to the reform, it was needed a number of new regulation to promote competition. Inevitably, actors playing in the railway industry increased. Many stakeholders involved in this system. Figure 4.1. shows stakeholders involved in couple of years after privatization.

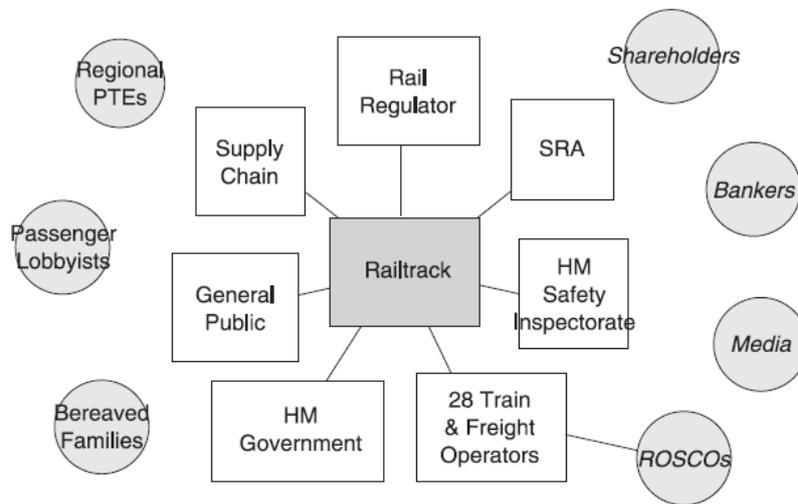


Figure 4.1. Rail Industry Stakeholder in 2001 (Tyrall, 2004)

Many organizational changes had occurred in the transition period of privatization. The improvements continuous developed in efforts to achieve the best form in railway management system. Further, (Tyrall 2014) summarized some steps and alteration carried out in the British rail privatization process. It showed at the following table.

Table 4.1. The Chronology of Privatization Process in Great Britain

1947	UK railways taken into state ownership.
1962	Railways consolidated as British Rail.
April 1993	Railtrack set up as a division of British Rail.
November 1993	Railways Act passed to permit privatisation.
April 1997	British Railways Board runs its final train services. TOCs and FOCs take over. Steady rise in passenger- and freight-kilometres over the following years.
September 1997	Accident at Southall with seven fatalities due to a SPAD.
October 1999	Accident at Ladbroke Grove with 31 fatalities due to SPAD.
2000	Office for Passenger Rail Franchising renamed Strategic Rail Authority (SRA).
October 2000	Accident at Hatfield with four fatalities due to gauge corner cracking.
Winter 2000/01	National recovery plan to replace defective rails. Extensive line speed restrictions.
February 2001	Train collision at Selby caused by road vehicle.
7/8 October 2001	Railtrack handed over to administrators, Ernst & Young. Railtrack shares suspended at £2.80.
2002	SRA announce consolidation of franchises.
October 2002	Network Rail, a not-for-profit company backed by government guarantee, takes over infrastructure from Railtrack.
October 2003	Network Rail begins to move infrastructure maintenance in-house.
December 2003	Winsor, ORR, awards increased maintenance funds to Network Rail.
January 2004	Government announces new review of railway structure.

Source: Tyrall (2004)

The moments which quite significant from table above are some accidents happened in the range 1999 until 2000. It was considered as the lack of Railtrack in met safety standard (Smith, 2003). Those became the reason for taking over Railtrack into a non-profit company (Network Rail) with funding from government.

Pollitt & Smith (2002) founded that there are some benefits after British railways privatization. Major efficiencies have been achieved and consumers have benefit through lower prices because of competition. In addition, the government subsidy for railway was decline because subsidy only granted for unprofitable network. Inevitably the needs for subsidies still necessary for boost accessibility in unprofitable network. Moreover, railway investment indeed was very costly. However, at least the needs for subsidies are not much like condition before privatization.

IV. 3. The Netherlands

The emergence of railways in the Netherlands was slightly influenced by British railway. Based on Veenendaal (2001), the first idea of Dutch railway initiated by William Archibald Bake, a Dutch artillery officer, who witnessed the opening of England's Liverpool-

Manchester Railway in 1830. Further, he developed a plan for a railway line in the Netherlands. The first public railway in the Netherlands was opened on 20th September, 1839, between Amsterdam and Haarlem. The actors 'playing' in railway industry were private as well as state company. The State railway company began operations in 1863. In 1938, it was formed a new State-owned company: Nederlandse Spoorwegen (NS).

The process of Dutch railway reform was initiated in 1991. A committee appointed by the Ministry of Transport recommended that the national railway company Nederlandse Spoorwegen (NS) should independent of subsidies. The first actual reforms were implemented in 1995 with the reorganization of NS into several subsidiaries and subdivisions. The subsidiary NS Groep included those divisions that were supposed to work under market principles (including passenger services, stations, and real estate) and was supposed to become privatized in the future.

The original committee had not proposed the introduction of competition in passenger services. Nevertheless, the reforms of 1995 made competition a possible option. An experiment with on-the-track competition came into effect after private company Lovers Rail asked for permission to add services on some lines already operated by NS. The initiative lasted from 1996 to 1999 (when the new entrant went bankrupt).

In 2002 a full separation of infrastructure management from operations was implemented and a new state-owned rail infrastructure organization, ProRail, was created in 2003. After separation of operation and infrastucture management as a starting point of privatization, officially Dutch railways allowed competition in train operation. However, the current situation still largely publicly dominated. NS as a state-owned company have a greater services area. The rest run by private company but in smaller area (Marshall, 2009).

The Dutch railway system was divided into the main tracks (called the Hoofdrailnet), contract sector tracks, and the decentralised tracks. The main tracks consists of profitable track based on NS research. In 2005 Dutch government gave a consession to NS for operating main tracks until 2015. After that period, a new consession is planned to be held by public tendering.

The other tracks which are not part of the Hoofdrailnet and considered unprofitable are operated on a contract. It was carried out by Ministry of Transport or local authorities. The tracks that is operated on behalf the Ministry of Transport are called contract sector tracks. The other tracks which are operated in the name of local authorities is known as decentralized

tracks. The system also called in term 'regionalisation'. Actually, all of unprofitable tracks were supposed to be a local responsibility. Because regionalisation had not been finished yet and still need preparation, the Ministry still handle some of tracks on contract with private parties. In the end, they would be transferred to local authorities and national government no longer a role as contractor in regional rail transport. Regional authorities that have responsibility for giving out the concession for operating public transport, including rail transport, in a particular region were called OV-authorities (public transport authorities).

IV. 4. Comparing British and Dutch Privatization in Railway System

Institutional Form

Great Britain, as a pioneer of privatization, have many public sectors had been privatized including railways. After British rail privatization, private sectors were strongly supported to participate in the railway system. The role of private sector widely performed in operation rather than infrastructure management. Private companies play roles as operators, tenant or lessor of rolling stocks. TOCs (Train Operating Companies) are a set of private companies which engaged in passenger train operation field. In doing so, they use their own rolling stock otherwise lease from other companies. Normally they lease trains from rolling stock companies (ROSCOs). In contrast to British railways which have a lot involvement of private, Dutch railways still dominated by public in operating management. NS, a state owned company, take greater part and private merely have a bit in the rest. The existence of private sector could be found in operating regional network. By tendering, private parties were competing made bids to local authority as representative of the national government. Thus, in Dutch railways scheme, private as well as local empowerment performed simultaneously. The same scheme for unprofitable network also exists in Great Britain actually. The difference of them can be seen on main network. The main British railway network dominated by private sector while Dutch railway network still dominated by NS with still publicly owned in main network.

For infrastructure management (tracks, stations, as well as signalling), it is responsibility of Network Rail in the Great Britain. Network Rail owns and manages infrastructure for British railway network. Although in the beginning it was owned and organized by private but later it back to publicly company. In the Netherlands, infrastructure management was set for publicly owned from the first time. Pro Rail as a state enterprise owned and managed the

Dutch railway network. It showed that infrastructure ownership in both countries are equally owned by state. However, in the Netherlands, NS station as a subsidiary of NS responsible for the management and commercial operation of stations as well as development in and around these stations. Whilst in Great Britain, stations include to non railtrack infrastructure which involve private parties in management.

From previous explanation and comparison, generally the position of public and private role in railway system for both countries is depicted in the following tables.

British Railways

	Infrastructure	Operation
Public		
Private		

Dutch Railways

	Infrastructure	Operation
Public		
Private		

Process of Privatization

The emerging of privatization in British railways and Dutch railways officially was supported by EU Directive 91/440 about separation of operation and infrastructure management in railways system. This directive gave mandate to member states to allow open access on railway operations as well as take the measures necessary to ensure an equitable and non-discriminatory access for infrastructure. The presence of that directive facilitates and opens opportunity for a privatization in railways industry either partially or thoroughly.

Privatization of British railways was considered as radical privatization because from the first time British Rail was separated into some parts. Subsequently, it was sold and the pieces of BR became privately owned. In contrast to British Railways, privatization of Dutch railways was relatively incrementally. It was carried out smoothly without assets sales. Legally, a law had been prepared to support privatization in railways system. Private sector was invited to join in railways industry. However, at the first implementation in which a private party tries to join as railways operator, a “failure” was occurred. The collapse of a private operator within introduction of privatization coupled with less attractiveness of private sector made Dutch government must rethinking a strategy for implementation of privatization. For doing so, an effort that carried out was treat the state enterprise like a private company. NS and ProRail are companies organized according to private law but owned for 100 percent by the Dutch government. In other side, government gave a concession to NS for operation of main

network and Pro Rail for management of track. Consequently, it became blur and be debated about the status of both of them.

IV. 5. Lesson Learned from Great Britain and The Netherlands

Some lessons could be learned from privatization of British and Dutch railways are as follows:

- Railways reform in both England and The Netherland began with separation between operation and infrastructure management. Although the separation was the result of EU Directive mandate, it was necessary to open access for private sector in railways industry. It was expected that private parties could participate in train operation or infrastructure management. Although in implementation, presence of private sector was more dominant in train operation than infrastructure management. It obviously be seen at British railways case.
- Railways industry in Great Britain is very complex organizationally. There are many bodies and parties involved in the system. However, all documents and procedures about how to invest or involve in railway was explained clearly and detail. It could be found easily in the official website.
- At early implementation of private involvement in Dutch railways system, it faced a failure. The failure was indicated when a private company went bankrupt. It occurred due to the lack of integrating ticket with NS. From that occurrence, a lesson could be drawn that it was not easy for new comer to compete with the existing company which had been powerful. Therefore, for preliminary privatization, an effort to attract the interest of private parties was by divert opportunities to business area outside NS. Through cooperation with local authorities, government gave chances for private parties to 'play' in railways industry.



DEVELOPING PRIVATE SECTOR INVOLVEMENT IN INDONESIAN RAILWAYS SYSTEM



CHAPTER V

DEVELOPING PRIVATE SECTOR INVOLVEMENT IN INDONESIAN RAILWAYS SYSTEM

V.1. Introduction

This chapter presents the overview of Indonesian railways system including institutional form, policy, and planning for development. This chapter also explores lessons could be implemented in Indonesian railways systems based on Great Britain and The Netherlands cases. In addition, it would be analyzed the dilemma and challenge of Indonesian railway privatization which was faced in implementation.

V.2. Indonesian Railways

The story of Indonesian railway began since colonial period. According to PT. KAI (2012), the first construction was line between Kemijen to Tanggung, Semarang 7 Juni 1864. At that time, the railroad company was Naamlooze Venootschap Nederlandsch Indische Maatschappij Spoorweg (NV. NISM). It was opened for public on 10 Agustus 1867. Subsequently, the development of railways was quite rapidly. Many companies, such as Staat Spoorwegen (SS), Verenigde Spoorwegenbedrijf (VS), Deli Spoorwegen Maatschappij (DSM), took part in railway industry. The construction continued carried out, not only in Java Island but also in Sumatra Island. Beside it is used for passengers, the railways is also widely used for military and agrarian.

After the independence, 17 August 1945, the railway company was taken over by state. State-owned company was formed to manage the railway. There were some changes in the company form. Table 5.1 shows the transformation until now.

Table 5.1 History and transformation of company form in Indonesian railway

Period	Status	Legal Basis
1864	First railway line between Kemijen-Tanggung	
1864 – 1945	Staat Spoorwegen (SS) Verenigde Spoorwegenbedrijf (VS) Deli Spoorwegen Maatschappij (DSM)	Indonesisch Bedrijven Wet (IBW)
1945 – 1950	Djawatan Kereta Api (DKA)	IBW

1950 – 1963	Djawatan Kereta Api Republik Indonesia (DKA RI)	IBW
1963 s.d 1971	PNKA (Perusahaan Negara Kereta Api)	Presidential decree/ Peraturan Presiden (PP 62/1963)
1971 s.d.1991	PJKA (Perusahaan Jawatan Kereta Api)	Presidential decree/ Peraturan Presiden (PP 61/1971)
1991 s.d 1998	Perumka	Presidential decree/ Peraturan Presiden (PP 57/1990)
1998 s.d. 2010	PT. KERETA API (Persero)	Presidential decree/ Peraturan Presiden (PP 19/ 1998), Keppres 39/1999, Imas Fatimah Notarial deed
May 2010 until now	PT. KERETA API INDONESIA (PERSERO)	Directors Instruction No. 16/OT.203/KA 2010

Source: Sejarah Perkeretaapian (<https://kereta-api.co.id/> accessed at 25 April 2014)

The differences of those forms above related to the propensity of company for profit-oriented aim. After independence (1945) until 1998, the forms of company which handle railway system aimed for are non-profit oriented. It solely focus on providing services for public regardless seek a profit because the funding purely from government. In the next development, for national economic strengthening, some state owned companies were built including state owned company which responsible for railway system. Since then, railway system in Indonesia was managed and organized by a state-owned company (PT. KAI). It has to make a profit as well as providing railway services for public. Because of the highly cost in railway system, the both aims (make a profit as well as providing railway services for public) are often contradict each other. Therefore some subsidies were gained to boost the performance of railway. The aim of gaining subsidies is to make rail transport affordable especially for low income people.

PT. KAI, as a single operator, organizes rail services in a monopoly. Both track management and train operation carried out by that company. Merely Java and part of Sumatra Island are services area of Indonesian railways. However, in the national railways master plan which is called RIPNAS (Rencana Induk Perkeretaapian Nasional), it is programmed to develop railway network in other big islands such as Kalimantan, Sulawesi, Papua (Indonesian Ministry of Transport, 2011). The master plan prepared of at least 20 yearly and could be reviewed every five years. The existing and planned railway network until 2030 can be seen at Appendix 1.

Act No. 23/2007, the latest Indonesian Railways Act, opened wider opportunity for private as well as local government to involve in delivering services of railways system. The services could include providing either rolling stock or infrastructure.

V.3. Railway Development in Indonesia

The development of Indonesian railways has not been up. Compared with road transport, development railways is further behind. National transport policy is more inclined for the road infrastructure rather than rail. Length of track operating also have decreased. Rail track along 6.324 km in 1939 decline into 4.684 km in 2009 (Indonesian Ministry of Transportation, 2011). It is result of less occupancy or unable to compete with other transportation modes in some lines. Hence, they have to be eliminated. Some inactive lines have even been converted to roads, housing, or other land use.

Some other problems in Indonesian railways are regarding with rolling stocks. Many of them are old and not worth taking but still remain in use. Budget limitation often become a reason for that. Admittedly, government still have large contribution especially in train with economy class. Fare for services rely on government subsidies.

Institutional Form

It has been mentioned before that Indonesia embrace monopoly system in railways industry. As a single operator in railways PT KAI have responsibilities for all services regarding with railways. It is not only about operational but also track management. Although track and all infrastructures are officially owned by state, the implementation and management are delegated to PT KAI as well. It has an obligation to pay a TAC (Track Access Charge) for using the tracks. In other hand, government is required to pay an IMO (Infrastructure Maintenance Operation) for maintaining the tracks. At first, both TAC and IMO are calculated in detail. However, after 2004 the calculation was deemed breakeven (PT KAI cited by Samosir, 2011). PT KAI was not necessary to pay TAC and vice versa. For that reason, maintenance cost become the responsibility of PT KAI. Government merely provides subsidies for operation in form a PSO (Public Service Obligation). PT KAI often claimed about subsidies that were judged not sufficient. Besides that, they also asked government to pay attention about the highs cost of infrastructure maintenance (Putri, 2012). Policies regarding funding and budgetary constraints hamper the development of railways in Indonesia. Meanwhile, demands for railways continue increasing. Indonesian Ministry of

Transportation (2011) estimated a number of railways passenger is approximately 929.500.000 passenger in 2030. In case railways development is not planned properly, it is feared not able to meet the passenger demand. Moreover, the current condition has indicated lack of capacity especially in peak season (Figure 5.1). Less development of tracks and lack of capacity in passenger transport showed the importance of railways reform with involving private sectors.



Figure 5.1 Lack of Providing Services in Passenger Railways

Process of (Early) Privatization

Since the new Railways Act No. 23/2007 was published, the idea for involving private parties in railways system getting stronger. The following picture shows a scheme of master plan for railway reform involving private sector

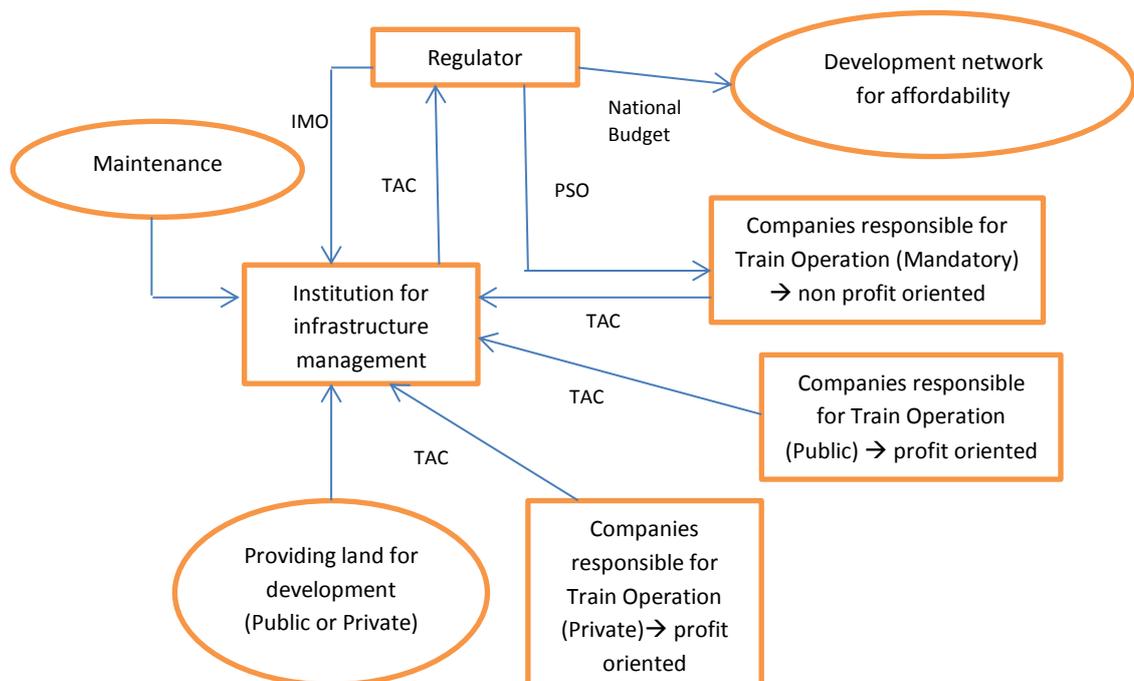


Figure 5.2 The Scheme Of Master Plan For Railway reform involving private sector

(Source: Indonesian Ministry of Transportation)

The scheme able to be executed if separation between operation and infrastructure management has been conducted. Later, it is proposed establishment of an institution responsible for infrastructure management. For operator, it is proposed PT KAI can compete with private parties in providing services. Unfortunately, the plan for future railways still less progress until now. It is hampered by unclear asset inventory (Samosir, 2011). Some of trains and other infrastructures came from the state budget grants while others are the result of the company's profit. It is still under review for classifying the assets.

V.4. Possible Implementation for Indonesian Railways System

Based on lesson learned from Great Britain and The Netherlands, there are some possible implementation for Indonesian railways system:

- Based on British and Dutch experience, the 'position' of Indonesian railways is not yet applied a vertically separated model. It needs to accelerate separation between train operation and infrastructure management that had been planned a couples years ago. The separation will boost allocation of responsibility and authority becomes easier and clearer.
- Radical privatization like carried out in Great Britain apparently would be difficult to be implemented Indonesia. It because related to the fear of the national asset loss if it is sold. The Dutch way in introduction for privatization could be adopted. For temporarily, PT KAI could be given a consession for operating profitable railways. Hereinafter, it is expected that private parties have a willingness to compete with PT KAI in obtaining profitable network. Naturally, the presence of independent body or company for selecting and allocating part of profitable network is needed. It aims to give a guarantee for private parties in obtaining fair treatment.
- It is necessary to make organizational framework with clearly allocation of responsibilities and authorities. It is important for giving a guarantee in order to prospective private parties gain fair treatment and legal protection.

Actually, Indonesia had have good plan scheme for implementing private involvement in railways system. By combine with Dutch way in railways privatization, some experiences of British railways, as well as planning of Indonesian Ministry of Transportation, it is expected could make improvement for indonesian railways system. Some steps could be conducted as follow:

1. The first important is to separate operational and infrastructure management. Actually, the plan to separate them had been raised since a couple years ago. It based on Railways Act No. 23/2007. However, the implementation is hampered by some factors either internal or external. Internal factor related to financial problem regarding employee. It is about PSL (Past Service Liabilities). Many of the costs required to finance both active employees and retirees. In addition, according to the Labor Law, splitting of institution must provide severance. It also adds to the costs required if the separation is carried out. PT KAI claimed that problem as a constraint faced. For external problem, PT KAI has double responsibilities. In one hand, it has to carry out tasks from Ministry of Transportation for transportation public services but in other hand it also has tasks from Ministry of State Enterprises for state revenue. All this time, there is a conflict of interest within PT KAI and Ministry of Transportation. The integration among public institutions not been achieved yet. Egos from each institution still dominantly. Ministry of Transportation as a regulator forced PT KAI for development of railways system continuously. The goal is to ensure mobility and accessibility of the community. PT KAI seems faced a dilemma in carrying out its double responsibilities.
2. After the separation, it is expected the effort to involve private parties in railways system become easier. Based on British experience, privatized in the operation of railways was easier than infrastructure management. At the first time, British railways privatized both operation and infrastructure management in railways system. But later, the infrastructure was taken over and back to government responsibility. It proved that infrastructure is better owned by government than privatized. In Dutch railways, from the first time until now, infrastructure is domain of government. The form for infrastucture management in Indonesia railways should be a Public Service Agency supporting by government. Private parties still might to be involved in a form Public Private Partnership (PPP). For example, doing a joint venture in track construction as still been planned in the construction of some of lines of Indonesian Railways. Besides that, it should more involve private parties in stations development as supporting business activities. Rearrangement of railways station and surrounding area could be profitable business in collaboration with private parties.
For introduction of privatization in railways operation, PT KAI has to be treated like a private company in which it always innovating. It is prepared for welcoming competition with private parties. Some experience has shown that the presence of

private operators can lead to bankruptcy of state enterprises. Television industry, radio, and land transportation are already experiencing it. Being unable to compete with private companies in their fields, they face the risk of bankruptcy.

3. The last step, for supporting first and second steps, it is needed a reform of organizational structure. Based on Great Britain, British railways have a detail organizational framework to boost the implementation of privatization. Without clear and definite rules as well as authorities, it will be feared private parties doubt to join. Therefore, the presence of organizational framework with clearly allocation of responsibilities and authorities become important. The part of PT KAI those responsible for tracks and other infrastructure could be reformed become an independent bodies. It also use human resources from experts or bureaucrats. However, it some challenges. It is not easy to make organizational reform because it is bounded by some relevant regulations. Besides that, there is an unstable political condition in which policy often changes when there is shifting of leader. Sometimes it generates an insecure feeling for private parties to make an investment.



CONCLUSIONS AND RECOMMENDATIONS



CHAPTER VI

CONCLUSION AND RECOMMENDATION

VI.1. Introduction

This chapter concludes the results of the research and tries to give recommendations for improving Indonesian railways based on British and Dutch experiences. It also provides reflections of this research.

VI.2. Conclusion

Privatization is not solely narrow on sale of assets to the private sector but it is wider to increase the role of the private sector and promote competition. Private sector involvement in the railway system can be seen from two perspectives in general. Like general classification for the railway system, it could be carried out in either operational or infrastructure management. The involvement of the private sector in the railway system is a form of shifting from government to governance. Previously, it was controlled solely by government. With involving the private sector, it generates competition that is more responsive to market needs.

Privatization in British and Dutch are equally started from separation between operation and infrastructure management. It was mandated by EU Directive. After the separation, it was a bit different between British and Dutch railway privatization. The result of privatization in British railways was the presence of some companies and bodies as 'pieces' from the prior state company. Whilst the result of privatization in the Netherlands is not directly in the form of companies or bodies as 'products' of privatization. They were merely divided into 2 parts for operational and for infrastructure. Their status was still state-owned companies but profit-oriented.

Institutionally, privatization will need the presence of bodies to support the implementation. British railways after privatization have a complex organization with various roles. It is indeed necessary to boost the performance as well as to give a guarantee for private parties involved. Meanwhile, Dutch railways after privatization, the fundamental change that occurred was the establishment of a track company separate from operation. The implementation of railway privatization in the Netherlands also recognizes the term regionalization. It is an application of governance through communication because it empowers local authority in managing railways.

In the process of privatization, British and Dutch railways have differences as well. Privatization of British railways was considered as radical privatization while Dutch railways was

relatively incrementally. As explained before, from the first time, British Rail was separated into some parts and subsequently it was sold. The pieces of BR directly became privately owned. In contrast to British Railways, privatization of Dutch railways was carried out smoothly without assets sales. It was conducted by treat the state enterprise like a private company. Naturally, it began with separation of operation and infrastructure company. NS and ProRail are companies organized according to private law but owned for 100 percent by the Dutch government. Government gave a concession to NS for operation of main network and Pro Rail for management of track.

VI.3. Recommendation

For Indonesia, privatization often seen as negative strategy because related to sale of national assets. It because as a developing country, economic growth is prioritized and national asset is considered as sources of income. If it is sold, then it will reduce source of prospective revenue. It need to be confirmed that is not solely assets sales but more involve private parties in railways industry.

The improvement of Indonesian railway could be adopted by Dutch way in introduction for privatization. As explained before, it is necessary to conduct the separation between operation and infrastructure management in railways system. It indeed not simple task because it related to some institution that have different visions and missions. PT KAI, Ministry of Transportation, Ministry of State Enterprises, Bappenas (National Development Agency), and other related parties should discuss about the implementation of that plan. Why the plan was delayed and not yet implemented. Certainly, the discussions about those issues have been carried out during this time. However, it must be more intensive and need to be expressly decided. Government has to prepare to bear the risk of separation. It is include the possibilities of needs for funding of labor affected.

Recommendation for railway operation is PT KAI could be given a concession for operating profitable railways temporarily. Hereinafter, it is expected that private parties have a willingness to compete with PT KAI in obtaining profitable network. Naturally, the presence of independent body or company for selecting and allocating part of profitable network is needed. It aims to give a guarantee for private parties in obtaining fair treatment.

In addition, local government should be empowered to acts as local authority that operated unprofitable or new tracks on contract. Like regionalization term in the Netherlands, local government could be given a power for giving out the concession for operating railways in their region. Certainly, it also requires a good communication and clear division of tasks

between central and local government. However, the constraint to implement is not all local governments have capabilities for operating the railways. It might be caused by lack of human resources or knowledge about railways.

For infrastructure management, the suitable form for Indonesian railways should be a Public Service Agency supporting by government. Private parties still might to be involved in a form Public Private Partnership (PPP). For example, doing a joint venture in track construction as still been planned in the construction of some of lines of Indonesian Railways. Besides that, it should more involve private parties in stations development as supporting business activities. Rearrangement of railways station and surrounding area could be profitable business in collaboration with private parties. Actually, it has been exist some commercial activities in railways stations but it not maximized yet. It needs to be more developed to attract the passenger when they are waiting for a train. If it become a profitable business, private parties will have interest to make an investment.

VI.4. Reflection

Based on this research, privatization refers to the process for more involving private parties in railways system. It is not solely narrow on sale asset to private sector. Instead of negative policy, privatization could become the way for improvements. It is expected that the advantages could be perceived by state companies which were privatized, for society, as well as for the government. For the state companies, privatization policy is expected to improve efficiency and productivity of companies. For society, privatization could improve acceleration of public services provision. This is because the government projects undertaken by the private sector, tend to be completed in a time much faster than if the project is implemented by the government itself. for the government, privatization could increase government revenue through concession payments, corporate taxes, and savings from the reduction of public expenditure.

This research applies a comparative analysis approach which requires a lot of information to be compared between case selected studies. Due to the limitation of data acquisition and lack of time, the information about British and Dutch railways is considered inadequate. In addition, the scope of research which cover railways as a whole, require deeper exploration. For further research is expected to have a more detailed, for example the privatization of infrastructure or operational only.

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Appendix 1 Maps of Indonesian Railways Network Developments (Indonesian Ministry of Transportation, 2011)

