

Case Study: Banda Aceh - Leveraging Public Assets

Banda Aceh, in the extreme west part of Sumatra in Indonesia, was severely hit by the tsunami in December 2004. Thousands of people lost their lives and many more saw their livelihoods wash away with the waves. Although some of the basic infrastructure was rehabilitated thanks largely to international aid, the city is still badly in need of infrastructure in the old central business district (CBD) to help revitalize their economy and improve livelihoods. The city identified three key projects in the CBD:

- Improving the basic infrastructures in the city center, including paving roads and walkways, improving parking, and reordering traffic flow;
- Undertaking wastewater treatment and sewerage rehabilitation to improve the health situation along the along the Krueng Aceh River; and
- Developing an underutilized parcel of land (the Keudah Terminal) for commercial development, with facilities for social service activities and public events.

The first two projects could generate revenue by themselves. However, while the projects could potentially recover their costs, they would not be able to generate a sufficient return to interest potential investors. On the other hand, the real estate development project, if well formulated, could be significantly profitable, but it was unlikely to work well if the other two projects were not developed simultaneously.

The city came up with a unique solution to attract private sector investment, while ensuring that the less profitable infrastructure would also get built. To attract interest from private sector investors, the city retained control over the operation of the wastewater treatment and drainage (the riskiest parts of the investment), but they pushed investors to execute the three components under one project (partial unbundling). In this way, there would be a guarantee that the three components would be executed to the full satisfaction of the investor that cannot identify to the authority responsible for the lack of demand to the area for unexecuted activities.

The city decided to create a Special Administration Unit (SAU), independent from the City Hall, to execute the project. This SAU will have a concession over the use of the Keudah Terminal, which will be leased to the private investor. The revenue obtained from the lease will be used to repay the necessary loans to execute the parts of the project that cannot be handed by the private sector. Once paid, the remaining revenues will be channeled directly to implement new projects and developments in the area, rather than going to the city's general budget.

If successful, this partnership can help provide much-needed infrastructure to promote business in the city center, which in turn could bring wealth to the city and its citizens. However, it should be noted that the partnership has not yet been implemented and specific arrangements are still being finalized.

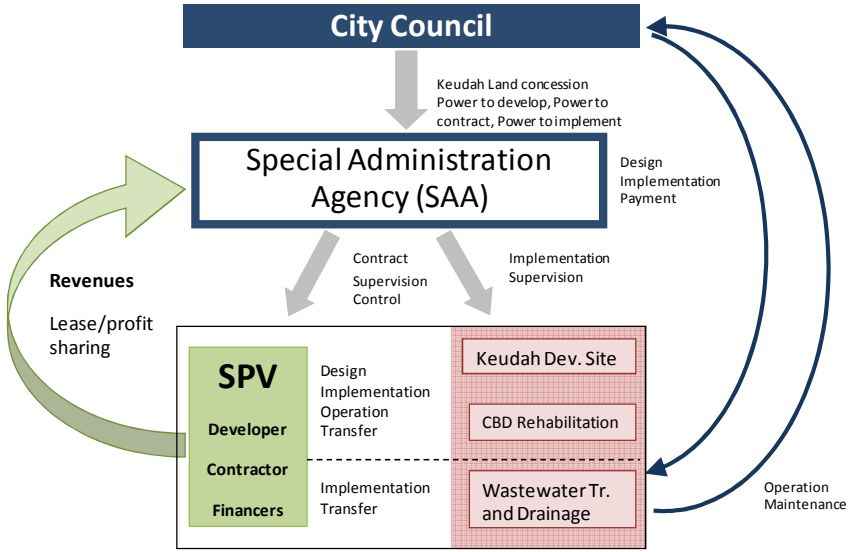


Figure 14 Banda Aceh Project organization