

THE IMPLEMENTATION OF PSO, IMO, AND TAC SCHEMES AND THEIR IMPACTS ON NATIONAL RAILWAY REFORM IN INDONESIA

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1. Introduction

Indonesia's railway industry which is a part of the Asia/ASEAN Railway Network, is still striving to improve itself towards the establishment of mass railway transportation service that assures safety, security, comfort, efficiency, comprehensiveness with other transportation modes, and support to national development's goals. The revolutionary change taking place in the national railway industry is symbolized by the enactment of the Government Regulations No. 19 year 1998 concerning the transformation of prime operator of Indonesia's railway from Public Company (*Perusahaan Umum Kereta Api - PERUMKA*) into Limited Company (*Perseroan Terbatas Kereta Api - PT KA*). It marks the new beginning of the national railway industry which is given the autonomy to offer commercial service, better quality of service provision, and competitiveness, in balance with the accountability to the government.

To strengthen these goals, the government supported by World Bank has developed a budget mechanism which is known as PSO, IMO, and TAC schemes since 1999. PSO (Public Service Obligation) is governmental subsidy for economical class passengers through the compensation paid by the government to the operator due to the service provided for economical class passenger, in which the tariff is set by the government. Meanwhile, IMO (Infrastructure Maintenance and Operation) is the government compensation to the operator for the cost of infrastructure maintenance and operation. Whereas TAC (Track Access Charge) is the operator expenses paid to the government for the use of railroad infrastructure¹. Figure 1 shows the role of the government and PT KA in the scheme's implementation.

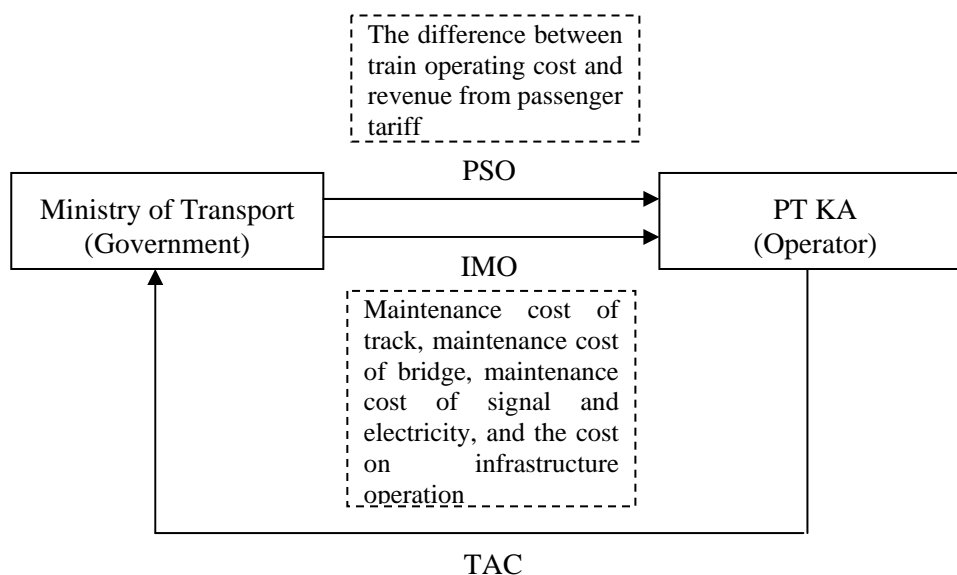


Figure 1 Model of railway budget mechanism

* Keywords: PSO, IMO, TAC scheme, railway, reform

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2. The problem and its effect in the first 5 years implementation

Based on the formal procedure issued in the mutual agreement of three ministers, PT KA proposes the budget of PSO, IMO, and TAC schemes for the next year implementation. Then, the government conducted interdepartmental meeting to discuss the proposed budget and its calculation. Finally, after the meeting members reached an agreement, the Ministry of Transport prepared official contract to PT KA for one year implementation of the scheme².

During five years implementation, there were some problems which caused the lack of optimization on railway performance. The problems were (a) the net form of PSO, IMO, and TAC, (b) significant difference between budget plan in contract and actual cost in its implementation, and (c) unclear system of monitoring and evaluation.

(1) The net form of PSO, IMO, and TAC

The scheme applied as the initiation step was not been properly conducted. It is indicated by the fact that in the implementation the formulation only paper-based theories and there was no real cash flow applied in each scheme. The PSO, IMO, and TAC schemes were supposed to be the unity of independent entities, instead of to be aggregately calculated in net form. The amount of net was calculated by $PSO+IMO-TAC$. In practice, the fund provided by the government for paying PSO and IMO was not enough due to the budget constrain³. The Ministry of Finance allocated PSO fund for not only railway sector but also other infrastructure sectors, such as electricity for low income people, pioneer post mail, and pioneer sea and air transport. Figure 2 shows the total amount of net determination which is less than its proposal. Such a condition influenced overall PT KA financial and technical performances, such as backlog in infrastructure maintenance. Backlog problem caused the decreasing of track performance year to year. Currently, total track length in good condition only reached 2,716 km or 59%, fair condition 494 km or 11% and 1,391 km or 30% for poor condition. Several technical error e.g. derailment cases often happened in the matter of this problem.

(2) The difference between budget plan in contract and actual cost in its implementation

In the PSO, IMO, and TAC schemes, it is obviously seen that PSO had a significant difference in terms of proposal – determination – realization process, compared to among other schemes^{4,5} (Fig. 2). However, it should be born in mind that transport service provided for economical class faces serious problem which affects both user and government financial burden. The main problems to be discussed are as follows.

a). The different of calculation method in budget plan contract and realization report

The contract of the PSO scheme was developed based on the difference between total operational cost of each economic train and total revenue of each economic train services. This revenue was calculated based on standard tariff multiplied by estimate load factor of train capacity. Nevertheless, in the realization report, PT KA used different method instead of the one in contract. In this method, total operational cost of economic train was calculated based on allocation system of total operational cost of all train classes by train-kilometer (km-ka) basis. For example in 2002, allocation for total operational cost of economical train was 39%, meanwhile 42% and 18% were allocated for non economical train and freight train. This allocation is irrational and unfair considering the following item: crew staff cost (economic train did not have steward, whereas the others have); fuel, lubricant, and other energy resources (economic train only uses ventilator and limited lighting system whereas the others use air conditioner and better lighting system), train maintenance cost (the maintenance service level of the economic train is not as well as the others), and overhead cost (economic train passenger could not enjoy the station facilities as much as the others).

b). The changes of basic assumption and additional work which influence the budget plan contract

During the implementation, the assumption in the scheme changed due to the real load factor alteration and the external factor like increasing of fuel cost, price of spare-part, or contingency fee. Until this period end, there was no well-prepared mechanism for additional work or assumption change. It is important to consider additional work or assumption change in calculation because it classified as an inevitable things.

c). The lack of integrated train operating cost accounting system

Currently, specific expenditure for economical class train is not fully supported by integrated train operating cost accounting system. It causes difficulty in the calculation of total cost each economical class train. Furthermore, the different method used in the realization method could effect in PSO audit process. Actually, it is important to initiate the system development, not only for the budget planning but also for overall final reporting.

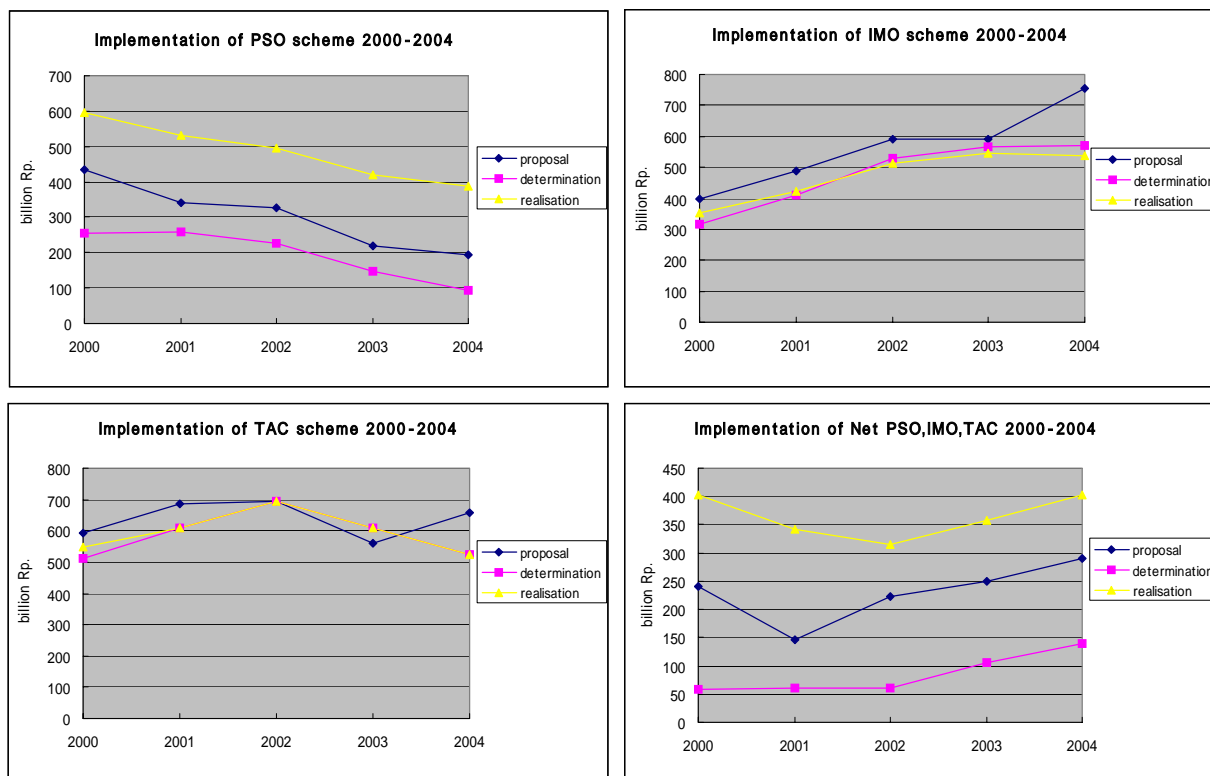


Figure 2 Implementation of PSO, IMO, TAC scheme 2000-2004

(3) Unclear system of monitoring and evaluation

Until the end of the first five years implementation, there was no mechanism which systematically monitors and evaluates of PT KA performance as mandatory in contract. It is difficult to trace the truth of PSO, IMO, TAC implementation report proposed by PT KA. Monitoring and evaluation system should provide information to decision makers in readily understandable form and in a timely fashion. Not only does the magnitude of the impact have to be determined, but those which are positively or negatively affected should also be identified. This information is important for the next budget planning process to minimize the divergence between contract and its implementation.

3. Impact on national railway reform

Apparently, the budget and financial scheme calculated in the net form of PSO, IMO, and TAC has not provided a solution in developing the national railway reform. Therefore, it is necessary to reformulate strategies to avoid further dispute in the future. The simplest thing that the government should do is to refer back to the genuine concept of PSO, IMO, and TAC scheme. The PSO, IMO and TAC scheme is suppose to be the unity of independent entity, not to be aggregately calculated in net form. Consequently, the government has to allocate sufficient budget and set up the institutional framework which emphasize the role of the owner, regulator, and operator. Another fact is that the access charge concept is not accurate according to the pricing theories. If this concept is not formulated properly by the end of the transition period, then the execution of the railway reformation will experience delay. Under the new Law Number 23 / 2007 on Railway, it is expected that this matter will be resolved. The new law also underlines the importance of inviting private sector participation in developing railway industry in the country.

Furthermore, if the scheme properly conducted, different calculation between budget plan in contract and its implementation being more convergent, and monitoring and evaluation system definitely stated, the national railway industry would be more inviting and competitive for private sector and other third parties.

4. Conclusion

The railway reform implementation is in progress now, but at very slow step. It was influenced by the fact that the PSO, IMO, and TAC budget schemes has not been implemented accordingly to the regulation. The scheme is suppose to be the unity of independent entities, instead of to be aggregately calculated in net form. Beside the net form, problems mainly occurred in the matter concerning the difference between budget plan in contract and the actual cost in its implementation, as well as unclear system of monitoring and evaluation. Inexpediency of calculation method between contract and realization report would be with evaluation and auditing process itself. Strategic efforts for supporting national railway reform should be encouraged continuously for the better condition in the future.

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