Indonesia Infrastructure Landscape

Indonesia’s GDP grew at 4.5% and 5.9% in 2009 and 2010 respectively. It is well recognised that critical investments need to be made in Infrastructure in order to keep its GDP growing at this rate and higher.

Though infrastructure Public Private Partnerships (“PPPs”) scheme were initially introduced in the 1990s, in the last few years legal, regulatory and policy reform gradually put in place an environment more conducive to PPPs. Total investment in infrastructure is expected to be US$447 billion for the period 2015–2019, out of which the Government hopes that PPPs will account for approximately US$95.4 billion.¹

Indonesia has already partially opened up its infrastructure sectors to private sector participation, mainly in power, toll roads, railways and sea ports. In addition, the Government has passed Presidential Regulation 13/2010 (amended by Presidential Regulation 56/2011), which provides for a framework for Public-Private Partnerships in Indonesia.

New Impetus for the Infrastructure Sector

The Indonesian Government has set up a series of support facilities to give a fillip to the infrastructure sector. These include: Public Private Partnership Central Unit under BAPPENAS², Risk Management Unit under the Ministry of Finance, PT Sarana Multi Infrastruktur (PT SMI), PT Indonesia Infrastructure Finance (IIF), Indonesia Infrastructure Guarantee Fund (IIGF), Project Development Facility under BAPPENAS, and a Land Revolving Fund under the Ministry of Public Works.

SMI was set up in February 2009 as a company by the Indonesian Ministry of Finance in order to act as a catalyst and provide funding for infrastructure projects. Both the World Bank and the Asian Development Bank (ADB) have provided initial funding for PT SMI. The Government provided equity of IDR1 trillion, while the World Bank and ADB provided loans of US$ 100 million each through PT SMI for infrastructure financing. PT SMI also owns IIF.

IIF was established in January 2010 with the objective of providing lending to viable infrastructure projects in domestic currency by raising loans in the domestic market using its good credit rating and by providing financial products for PPP and private projects. IIFF also acts as a strategic advisor to the Government, as well as a transaction manager and lead arranger for infrastructure projects. IIFF is expected to operate as a commercial enterprise with rates and fees in accordance with market practices. Initial shareholders of the Fund include the Indonesian Ministry of Finance through PT SMI, the Asian Development Bank

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¹ Skema Pembiayaan Infrastruktur di Indonesia, quoted from Dr.Ir.Bastary Pandji Indra,MSP. (5 November, 2014) 'Pembiayaan Pembangunan Bandara Di Indonesia dalam Kemitraan dengan Sektor Swasta'

² BAPPENAS is the National Development Planning Agency of Indonesia
IIGF was set up in 2010 with the aim of being a guarantee provider for PPP projects. It will have a detailed appraisal and claim system for guarantees and therefore facilitate deal flow for contracting agencies. IIGF’s aim is to improve the credit worthiness of PPP projects in Indonesia. The company is 100% owned by the Government and will be run as a commercial entity. It will work as a ‘single window’ for appraisal and structuring of guarantees for the Government.

Once land is shortlisted for a project, the cost of acquiring land tends to increase gradually as land owners begin to expect a price higher than the prevalent market rate for the land. In order to manage the potential risk of increasing land acquisition costs, the Land Fund was created. The Fund has been established to provide bridging loans for toll road investors for buying land as well as to cover the risk of increasing cost of land acquisition above a certain level. US$154 million was allocated for providing loans under the Land Fund in 2009³.

In addition, the Government is preparing the draft of a law that will allow land acquisition for public purposes. The law proposes to ensure successful land acquisition by protecting land rights and minimising land speculation and conflict.⁴

Projects in the Pipeline

Planned PPPs in the transport sector include Medan – Kualanamu toll road, rail link to Jakarta international airport, Umbulan water supply and also expansions of power capacity through a series of IPPs. Recently, PT Perusahaan Listrik Negara ("PLN"), a state-owned electricity company, is venturing through PPP model by successfully tendered 2 x 1,000 MW Central Java Power Plant Project ("CJPP") under a Build-Own-Operate-Transfer (BOOT) structure. Under this model project (for other PPP projects), there is guarantee provided by the IIGF and the Government.

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³ Fiscal Policy Office (February 2010) ‘Infrastructure Finance in Indonesia’ Presentation at 7th APEC Senior Finance Officials Meeting, Tokyo, Japan, 18-19 February 2010
**Adequacy of Funds**

While the Indonesian Government's initiative in setting up IIGF and IIF is admirable, the size of the funds is not likely to be adequate to meet the infrastructure ambitions of Indonesia. There is recognition in the private sector that the small quantum of funds available will only be able to provide support to a couple of relatively small projects at this stage.

We understand that IIF has been modelled along similar lines to the Infrastructure Development Finance Corporation (IDFC) of India. IDFC was set up by the Government of India with multilateral support in 1997. Today it is a publicly listed company with assets under management worth USD 8.1 billion\(^5\). Similar to the IDFC model, it is hoped that IIFF will grow the Indonesian infrastructure market through its own growth.

Further, even though IIGF has a small fund base for risk coverage, we understand that it aims to work in the market towards developing strong standards to determine which infrastructure projects in Indonesia are viable. IIFF aims to be an indicator for the private sector of those projects that should be both bankable and economically viable.

**Capacity Building**

A key issue facing the infrastructure sector in Indonesia is inadequate framework, policy and resource capacity for the delivery of large scale infrastructure projects, especially at the regional level. The purpose of capacity building is two fold: to provide training, as well as to build an environment conducive to the success of new infrastructure projects. Multilateral institutions like the World Bank and the ADB are supportive of capacity building initiatives; however the level of technical assistance currently available for training and capacity building is insufficient to allow for correct advice and expertise to be offered to the Indonesian Government.

**Optimum Risk Allocation**

Both the Government and the private sector need to work towards equitable risk allocation. The current imbalance in risk allocation leads to unbankable projects with wasted resources negatively impacting the perception of potential investors to Indonesian infrastructure opportunities. In this regard, continuous and open communication between key Government departments and the private sector is needed to create an environment conducive to successful collaboration.

**Consistency in Policy**

Consistency in policy and transparent procurement processes would help attract both funding and expertise to Indonesia. The coordination amongst the key stakeholders in developing and managing the PPP initiatives will be a key to attain the investors’ confidence. Building-up the momentum and leveraging international best practice will also help the country in gaining trusts from the investors. Clearly, the country has tremendous unfulfilled promise and the next few years provide it an important opportunity to fulfill this potential.

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PwC Experience

Our Capability

It’s our job to understand, advise on and solve the complexities involved in transactions, financing and policy at the interface between the public and private sectors. Whether it’s raising funds for infrastructure projects or procuring private sector partners for our public sector clients, we deliver solutions that fund new roads, provide clean water and electricity, and other infrastructure sectors.

With an extensive track record providing innovative advice on a wide range of PPP and infrastructure transactions worldwide, our global experience and local knowledge enable us to deliver the integrated strategies and services our clients require.