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Exploring Alternative Solutions to Infrastructure Financing

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At a glance

The Government has injected equity funding into state-owned enterprises in order to fund infrastructure projects, but it has acknowledged that this is a short-term measure, which cannot be financed only by the state budget. Accordingly, efforts have been made to secure funding from international development agencies including local authorities' introduction of several regulatory reforms in the hope of creating a more conducive environment for private sector participation in the infrastructure financing.

Several investment financing schemes have emerged, both direct and market-based, each of which has its own set of characteristics and implications for lending or investment portfolios. This paper highlights key considerations that may be taken into account in the design and structure of the financing schemes and how it affects the financial reporting as well as its tax consequences.

Traffic jams, road blocks, detour routes, erecting of tall buildings, and construction sites are all common sources of exasperation. But behind these nuisances that people from Jakarta-- as well as the other major parts of Indonesia--face every day are the visible signs of the country's development. Today is an era of accelerated growth in infrastructure development, which has been driven by the Government's commitment to achieving infrastructure growth across the nation.

Infrastructure has been the top priority of the President Joko Widodo administration. During the period 2015 - 2019, it is estimated that approximately USD 400 billion is required for infrastructure development. There is, however, a limitation in terms of the Government's capability to fund the spending. It is expected that 30% of the required funding will come from private financing.

To attract private investment, and, accordingly, create a conducive investment environment for private infrastructure financing, the Government has issued a number of initiatives. They are:

- **Public-Private-Partnership ("PPP") directives:** Presidential Regulation No. 67/2005 has been superseded by Presidential Regulation No. 38/2015 to stimulate investment in PPP projects by expanding eligible sectors and offering a more favourable legal framework.
- **Land Acquisition Law:** Law No. 2/2012 and Presidential Regulation No. 71/2012 regarding Land Acquisition for Public Interest, effective as of 2015, now limit the land acquisition procedure to 583 days and allow for revocation of land rights in the public interest. This is crucial as many projects (such as the Central Java Power Plant) were previously held up by extended land acquisition disputes.
- **BKPM One-Stop Service**: BKPM, the Investment Coordinating Board, now provides a centralized licensing point for certain sectors, which should increase the efficiency of the investment approval process.
- **Availability payment-based PPPs:** The Government has issued the Ministry of Finance ("MoF") decree No. 190/PMK.08/2015 regarding availability payment contracts (also known as Performance Based Annuity Schemes or PBAS), which should serve as the basis for the government to provide fiscal support to enhance infrastructure projects' attractiveness. The first availability-based contracts were signed in March 2016, for the Palapa Ring Broadband projects for Western and Central Indonesia. The Eastern region contract was subsequently signed in September 2016. The Government also plans to use this mechanism for toll road deals.
- **Strategic Projects and Priority Projects:** The Government has identified projects which have strategic value to Indonesia's economy. There are 248 projects and one programme classified as Strategic Projects (under Presidential Regulation No. 58/2017). Thirty of these projects are identified as Priority Projects. For both Strategic and Priority Projects, the Committee for Acceleration of Priority

Infrastructure Delivery ("KPPIP") has a central role in monitoring, coordinating and speeding up the deliveries of those projects, sometimes commissioning or amending the feasibility studies to prepare them for the market.

- **Establishment of PPP unit in the MoF:** The MoF has established a PPP unit which will be responsible for conducting project development for PPP projects. The PPP unit can procure advisors directly or can assign other government agencies e.g., PT Sarana Multi Infrastruktur.
- **Establishment of Lembaga Manajemen Aset Negara ("LMAN"):** The government has established an agency to manage the state's assets, including land acquisition. It is expected that LMAN will expedite the financing process for land in particular, which ultimately will speed up the overall land acquisition process. LMAN has a flexible budgeting system which allows it to use the budget any time, without any obligation to return the unused budget to the MoF. However, as it has just been established, it has not been provided with a sufficient budget to procure land. Hence, in some of the recent tenders (e.g. in toll roads), the government asked the private sector to provide bridging finance for the land acquisition.

In 2015 and 2016, with the aim of accelerating the development of infrastructure projects, the Government has assigned a number of State-Owned Enterprises (SOEs) to carry out various infrastructure projects. In strengthening SOEs' financial capability, the Government has injected equity to different SOEs, of approximately IDR 95 trillion, mainly to be used as funding for infrastructure projects. The funds were allocated across a range of infrastructure sectors including oil and gas, power, water supply and waste treatment, irrigation, housing, road and urban transport, railways, seaports and airports.

Various infrastructure projects have been assigned to SOEs, for example:

- Sumatra Toll Road projects (which consist of several sections) have been assigned to PT Hutama Karya (Persero), PT Waskita Karya (Persero), Tbk and PT Jasa Marga (Persero), Tbk.
- Soekarno-Hatta Airport railway has been assigned to PT Kereta Api Indonesia (Persero)
- Light Rail Transit (LRT) connecting Jakarta-Bogor-Bekasi has been assigned to PT Kereta Api Indonesia (Persero) and PT Adhi Karya (Persero), Tbk
- Strategic maritime infrastructure projects in 45 different locations have been assigned to PT Pelabuhan Indonesia (Pelindo) I, II, III, & IV (Persero)
- Kuala Tanjung to Sei Mangkei rail road was assigned to PT Kereta Api Indonesia (Persero).
- A number of Independent Power Producer ("IPP") projects have been assigned to PT Pembangkitan Jawa Bali and PT Indonesia Power. Both of them are the subsidiaries of PT Perusahaan Listrik Negara (Persero)

However, the Government has acknowledged that this is not a sustainable long-term approach to infrastructure funding. KPPIP has also highlighted gaps in SOEs and other planned funding sources in the overall targets. A number of SOEs have been highly leveraged which may limit their capability in funding infrastructure projects, in particular funding from bank loans.

Alternative financings have been explored to further support infrastructure funding, both direct and market-based, each of which has its own set of characteristics and implications for lending or investment portfolios.

The Government is encouraging large untapped funding sources, e.g. pension and insurance funds, to actively participate in infrastructure projects. Funding from the capital market is also sought, in both the equity market (initial public offering, right issues, etc.) as well as the bond market (e.g. infrastructure bonds and project bonds).

The Government, through Bappenas, has also been active in encouraging players to use alternative financing. Bappenas has established a task force to spearhead the implementation of non–Government budget funding for infrastructure projects, which is called PINA (*Pembiayaan Infrastruktur Non – Anggaran Pemerintah*). PINA's financing sources may come from capital markets, managed funds, insurance, banking and other legitimate financing. Ten PINA projects with a total value or US$ 15 billion, or equivalent to Rp 200 trillion, are targeted to be realized in 2017. The target will be followed by an additional 20 PINA projects with a total value of US$ 30 billion, or equivalent to Rp 400 trillion, to be realized in 2018.

While it seems that a number of financing options are available, getting the investors to contribute to the financing of future or existing infrastructure projects is sometimes quite challenging. The financing structures for funding the infrastructure projects are apparently constrained by a number of challenges, as follows:

- Issuers are bound to fulfil their existing loan covenants, commonly the debt/equity ratio (which is used to measure an entity's financial leverage). Additional debts may result in a breach of those loan covenants and, consequentially, may have the result of putting them in a default position where they are required to pay in full the respective existing loans.

- Specific investors, like banks and pension funds, who may have the capital to invest, may be restricted by law to investing only in certain types of securities.
- Tax implication of certain type of securities may not be favorable to either the issuer or investors or both.
- Significant expertise and resources on the part of the investor may not be available for it to assess the risk/return profile of the investment throughout its economic life.

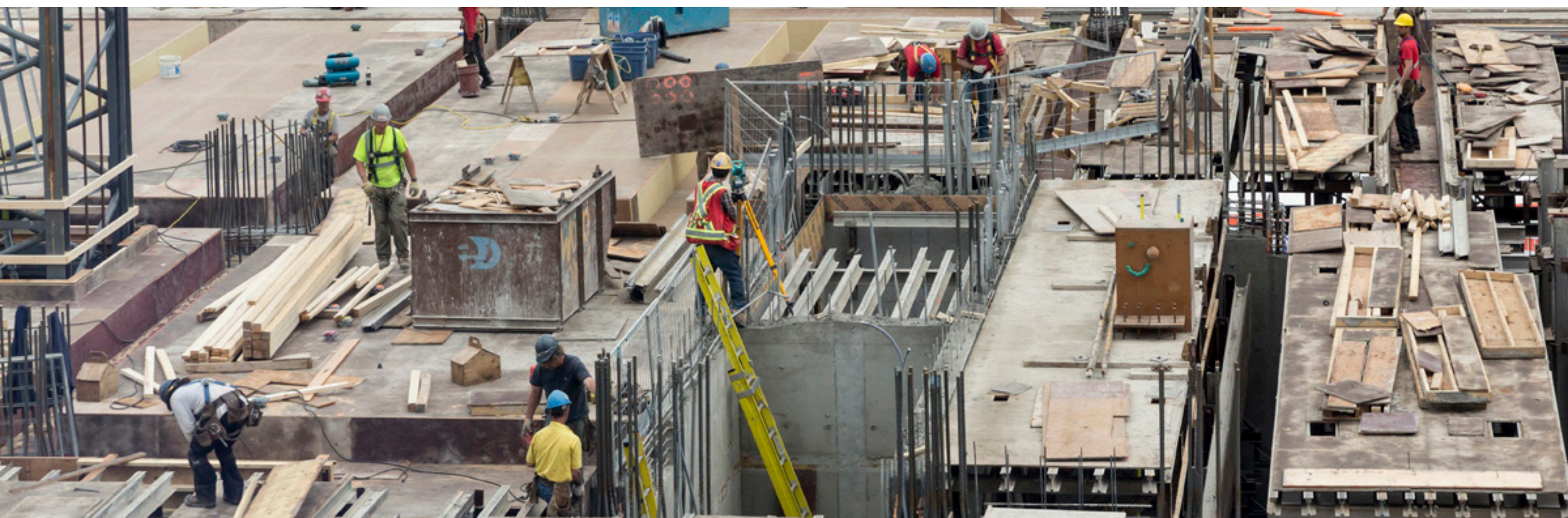
Accordingly, issuers need to develop structures and models for funding these infrastructure projects that are appropriate to both the investment objectives of the potential investors and the issues that bear upon its financing of the project. The succeeding sections set out several considerations that may be taken into account in designing and structuring financing alternatives to fund infrastructure projects, based on Indonesia's current accounting and taxation requirements.

Accounting Considerations

The common instruments that are seen in the marketplace are:

1. **Perpetual Bonds**
   These are ordinary bonds that are issued with no fixed redemption date. Interests may be fixed, variable (e.g., JIBOR), or based on the performance of the underlying infrastructure projects (e.g., future revenue).
2. **Preference Shares**
   These are shares in the issuer whose terms and conditions convey some preferential treatment compared to those of the ordinary shares. For example, a right to receive a dividend before dividends are paid on the ordinary shares, or a right to have a capital amount repaid before any distribution to ordinary shareholders.
3. **Securitization through Collective Investment Contracts (KIK-EBA)**
   Similar to ordinary mutual funds, the principal and interest resulting from these instruments are paid to investors based on the performance of the underlying infrastructure projects (e.g., future revenue) or on the collection of existing financial assets (e.g., receivables).
4. **Bonds**
   These are certificates of debt, generally long-term, where an issuer contracts to pay the investor a fixed principal amount on a specified future date and, often, a series of interest (fixed or variable) payments during the instrument's life.
5. **Sukuk Ijarah**
   These are a class of investments that are structured to comply with Sharia law. They are not true interest-bearing instruments, but they are structured in such a way as to channel rents, changes in capital gains/losses, or income to investors through periodic payments. Generally, the principle underlying such instruments is the sharing of risk and return between the parties in a transaction–cash flows are determined by incomes generated by a specific asset, and the return to investors is linked to the performance of such an asset.

Critical to the accounting analysis is the understanding of the terms and conditions of the alternative financing instruments. From the issuer's perspective, it will be relevant whether a debt, an equity, or a non-financial liability is recognized upon receipt of the initial investment/upfront payment. From the investor's perspective, it will be relevant whether a financial asset or a non-financial asset is recognized at the inception date of the instrument. If the investor determines that it holds a financial asset, classification is important as it dictates the subsequent measurement of those assets. The appropriate accounting treatment should ultimately reflect the economic substance of the arrangement – whether the investors acquired a financial asset (financing arrangement) or non-financial asset (acquisition of interest).



Below are some of the common features that we have seen incorporated into the design and the structure of several alternative financing instruments.

	Accounting Considerations*	
Features	**Issuer's Perspective**	**Investor's Perspective**
Investment structure		
Establishment of a trust or special purpose vehicle (SPV) for the purpose of securitization or issuance of the instrument to public investors	A question arises whether the trust or the SPV is controlled by the issuer and thus whether it has to be consolidated in its financial statements. The analysis of control of the trust or SPV depends on the extent that the issuer can exercise power over the relevant activities of the trust or the SPV. The purpose and the design of the trust or the SPV are critical in assessing whether or not control exists.	Whether the trust or the SPV is controlled or not by the issuer will not affect the accounting treatment of the investors. Similar to other financial assets, the investors need to classify the instrument under the existing accounting standards. A point of concern will arise when the instrument is quoted in an active market index as this will prohibit the loans and receivable classification.
A private entity provides long-term operations and maintenance services to the infrastructure project	If the private entity is the issuer of the instrument held by the trust or the SPV, and if such a trust or SPV has issued project-backed securities, then it may raise a doubt as to whether the trust or SPV is controlled by the issuer. Some may see that there is a great dependency on the issuer's performance of the operations and maintenance services which affect the trust, or the SPV's ability to service the securities which it has issued to its investors. This may indicate that the issuer has power over the trust or the SPV. Further assessment is necessary to determine whether the issuer is exposed, or has rights, to variable returns from its involvement with the trust or the SPV.	
Risk Exposures		
Investors are mainly exposed to the issuer's credit risk, interest rate risks and/or foreign exchange risks	This is common to underlying infrastructure projects that have commenced commercial production or have identified commercial viability. This generally indicates a financing arrangement and thus issuers are likely to recognize a financial liability.	Reflecting the economic substance of the arrangement (i.e. financing), this indicates that an acquisition of financial assets and classification is imperative for subsequent measurement.
Investors are mainly exposed to development, production, and/or commodity price risks	This is common to underlying infrastructure projects that have not yet commenced commercial production or have not yet completed their commercial viability assessments. This generally indicates the selling of an interest in the underlying infrastructures. If the issuer has a future performance obligation to service the underlying infrastructure, then a portion of the upfront payment shall be deferred and recognized as revenue as the services are rendered.	Reflecting the economic substance of the arrangement, the upfront payment may represent the investor's right to a share of the revenue generated by the underlying infrastructure, which is an intangible asset.
Term		
Instrument has limited life	This feature is not indicative of a residual interest and thus not a characteristic of an equity instrument.	Assessment of the classification depends on the intention of the investors.
Instrument is perpetual/no definite life	Consideration of other features may result in a financial liability or equity instrument.	Classification as held-to-maturity is prohibited as there is no maturity date.
Extended life of instrument until the total minimum revenue guarantee is met	The uncertainty as to the timing of when the minimum revenue guarantee is met does not result in the issuer avoiding its contractual obligation to pay. Thus, a financial liability may be recognized. However, further assessment may be necessary, as the future extensions may indicate substantial modification of the original terms of the contract or a mere change in future estimated cash flows.	This characterizes fixed or determinable payments, but the timing is uncertain; loans and receivable classification may be the more appropriate classification.

	Accounting Considerations*	
Features	**Issuer's Perspective**	**Investor's Perspective**
Basis of Settlement		
Principal and interest is paid based on the future performance/revenue of the infrastructure project	This feature will not prohibit the presentation as financial liability, because although the payment depends on the project's future performance/revenue, these are beyond the control of both the issuer and the investor, that the issuer cannot avoid making the payments.	Relevant to the classification of the financial assets, this may not fulfill the definition of loans and receivable and held-to-maturity investment, since the contractual right to receive cash does not have fixed or determinable payments. There is a possibility that the investor may not recover substantially all of its initial investment.
Maximum level of revenue is on the account of the investors and any excess are retained by the issuer	The contingency on the amount of revenue to be generated by the underlying infrastructure project is unlikely to prevent the issuers from recognizing a financial liability as the obligation to pay cash cannot be avoided.	
Investors are incentivized (in addition to interests), based on a revenue sharing formula for performance above a threshold		
Interest-bearing instruments that include a share in the value growth of the project	This alone may not be construed as having an embedded derivative, because the underlying variable is specific to the issuer.	
Minimum revenue guarantee under which the investors are compensated when the revenue falls below a threshold	The guarantee creates a financial obligation of the issuer for the shortfall, which is a characteristic of a debt.	This may meet the fixed or determinable payments of the loans and receivable and held-to-maturity financial assets, but further consideration should be given to account for the excess, as they may affect the measurement of the financial assets.
Timing of Settlement		
Settlement is linked to a base instrument (e.g. interest is paid only after the interest is paid on other instrument)	The contractual obligation (a financial liability) to pay on the base instrument results in an indirect contractual obligation to pay interest on the linked instrument. If the base instrument is callable by the issuer at any time, then the issuer can avoid paying the interest on the linked instrument. Therefore, until the base instrument is called, a contractual obligation to pay interest on the linked instrument exists.	The linking to the base instrument does not by itself prohibit the 'fixed or determinable payments' definition for amortized cost-measured financial assets; it is only the timing of the settlement that is conditional.
Instrument with dividend pusher (e.g. dividends is paid only after the dividend is paid on ordinary shares)	The dividends payments are discretionary and not contractual, because no dividends can be paid if no dividends are paid on the ordinary shares, which are an equity instrument. Because the instrument contains no contractual obligation ever to pay dividends, and there is no obligation to repay the principal, they should be classified as equity in their entirety.	The subordinated feature of the instrument is more indicative of an equity instrument and thus loans and receivable and held-to-maturity investments may not be appropriate.
Payment mechanism is linked to performance and cash flows of the project	The uncertainty of the timing of the settlement does not create an unconditional right to avoid payment, as the issuer does not control the performance and the cash flows of the project. Such an instrument shall, therefore, be classified as a financial liability.	As long as the payments are fixed and determinable, only the timing of the settlement is conditional. A held-to-maturity investment may be inappropriate.
Repayment Options		
Issuer can repay the instrument early	The early repayment option is an embedded derivative if it is not closely related to the host contract.	The early repayment option is an embedded derivative if it is not closely related to the host contract.
Instrument may be redeemed at any time by the investors based on the market value of the instrument	This is a puttable instrument which does not make the issuer avoid paying its contractual obligation and is, thus, a financial liability. However, further assessment is necessary to see if certain criteria are met for it to be presented as equity.	Relevant to the classification of the financial assets, this may not fulfill the definition of loans and receivable and held-to-maturity investments since the contractual right to receive cash does not have fixed or determinable payments. There is a possibility that the investor may not recover substantially all of its initial investment.
Instrument may be redeemed at any time by the investors based on the nominal amount	This is a puttable instrument and does not make the issuer avoid paying its contractual obligation and thus, a financial liability. However, further assessment is necessary if certain criteria are met for it to be presented as equity.	Investors have contractual rights to receive fixed or determinable payments. Since redemption is within the control of the investor, it has the ability to hold the instrument until maturity. Thus, the instrument may be classified as a loans and receivable or held-to-maturity investment.

	Accounting Considerations*	
Features	**Issuer's Perspective**	**Investor's Perspective**
Conversion Options		
Issuer has the option to convert the instruments using its own shares	The issuer's option to settle the instruments by delivering its own shares generally gives the issuer its right to avoid the outflow of cash by exercising its right to convert. In practice, together with other contractual terms and conditions, this may result in the recognition of a compound instrument or entirely an equity instrument.	The conversion option is not closely related to the host contract and shall be accounted for as an embedded derivative. Classification of the host contract depends on the instrument's other features. If the instrument is classified at fair value through profit or loss, the embedded derivatives need not be bifurcated.
Investors' conversion options to issuer's shares	The conversion option may be accounted for as an equity instrument or as an embedded derivative depending on its terms and conditions. The host contract is normally a financial liability if a contractual obligation to pay cash exists.	
Others		
Instrument is subordinated to other instruments issued (i.e. repayments are subject to a cash flow "waterfall" designed to safeguard senior lenders' debt servicing)	This feature may characterize an equity instrument only if certain strict criteria are met. Otherwise, if the issuer still has no unconditional right to avoid payment in cash, the instrument is a financial liability.	This feature is not relevant to the classification of financial assets.
Instrument is guaranteed by the parent entity	In terms of financial statements, no regard is given at the issuer level to additional terms between other members of the group and the investor. Thus, the classification will be based on the contract terms and conditions of the instrument. However, for the parent entity's consolidated financial statements, all the terms and conditions agreed between other members of the group and the investor are considered in determining the appropriate classification of the instrument.	The classification of the financial asset depends on the contractual terms and conditions of the instrument, including the guarantee.

** Based on the current conventional Indonesia Financial Accounting Standards ("IFAS") effective as at the date of this report.*

The above assessments are each based on individual features and the combination of two or more features may change the accounting implications of the instrument as a whole. Further evaluation of other facts and circumstances may result in different conclusions.

Sharia Accounting - IFAS

The accounting for Sukuk Ijarah instruments is different from the conventional IFAS. Ijarah contracts convey a transfer of right to use an asset within a certain period in exchange for a consideration, without transferring the ownership of such an asset.

Issuers shall present these instruments as a liability. These are initially measured at the net proceeds (after the deduction of any issuance costs) and any difference between the nominal amount and the initial carrying value is amortized on a straight-line basis over the term of the instrument. The amortization is charged to profit or loss.

Investors may classify the instruments as those measured at amortized cost, at fair value through other comprehensive income ("FVOCI"), or at fair value through profit or loss ("FVPL"). Instruments are measured at amortized cost if the business model objective of holding the instruments is to collect the contractual cash flows, and the future payments are for principal and/or returns. Instruments are measured at fair value through other comprehensive income if the business model objective of holding the instruments is to collect the contractual cash flows and to sell and the future payments are for principal and/or returns.

New Accounting Standards

Effective 1 January 2020, the new PSAK 71 Financial Instruments (PSAK 71) will be adopted by all IFAS reporters. The current standards will be superseded. There will be no significant accounting treatment difference from the issuer's perspective. However, the results of the classification assessment may be different from the investor's perspective based on the new requirements. Under PSAK 71, the classification depends on whether the instrument is a debt or equity. The classification for debt instruments, similar to the current Shariah accounting, is determined by the investor's business model for managing the instruments and whether the contractual cash flows represent solely payments of principal and interest. The classification categories may be amortized cost, FVOCI, or FVPL. Equity instruments may be classified as at FVOCI or FVPL.

Tax Considerations

A. Withholding Tax on the Return of Investment

Bonds

Interest on bonds, other than that which is payable to banks operating in Indonesia and Government-approved pension funds, is subject to 15% final income tax for domestic taxpayers. If the recipient is a mutual fund registered with the Indonesian Financial Authority (*Otoritas Jasa Keuangan*/OJK), the final income tax rate is 5% until 2020 and 10% thereafter. If the recipient is a non-resident taxpayer, the income tax rate is 20% or lower for treaty countries.

Preference Shares

In regard to preference shares, tax is liable to be withheld from dividends upon declaration. Resident corporate taxpayers are exempt from income tax if the following conditions are met:

- the dividends are paid out of retained earnings; and
- for PTs and state-owned companies, the company earning the dividends holds at least 25% of the paid-in capital in the company distributing the dividends.

If these conditions are not met fully, dividends are subject to 15% non-final withholding tax for companies. The amount withheld constitutes a prepayment of the Corporate Income Tax (CIT) liability for the company earning the dividends. Dividends received by resident individual taxpayers are subject to final income tax of 10%. If the recipient is a non-resident taxpayer, the tax rate is 20% or lower for treaty countries.

Capital gains on the sales of non-listed Indonesian company shares combined with other taxable income are subject to CIT of 25% for resident taxpayers. If the seller is a non-resident taxpayer, the tax will be due at 5% and may be exempted, subject to the provision of a tax treaty. In regard to sales of shares of Indonesian listed companies on the Indonesia Stock Exchange, the gross proceeds are taxable at 0.1% final income tax. Founder shareholders must pay final tax at 0.5% of the market price of their shares upon listing, otherwise gains on subsequent sales are taxed under normal rules.

Securitization through Collective Investment Contracts (KIK-EBA)

Tax treatment of KIK-EBA depends on the type of products as follows:

1. Non-fixed Cash Flow Product
   Income received by the Unit Holder in the form of profit-sharing including capital gains on the sales of investment units, is non-taxable as it is considered as distribution of profits to the investors whose capital does not consist of shares.
2. Fixed Cash Flow Product
   Income received by the Unit Holder in the form of interest is treated similarly to the interest income that is obtained by the bond holder, i.e. subject to 15% final income tax for domestic taxpayers or 20% (or lower for treaty countries) for foreign taxpayers.

Sukuk Ijarah

As for Sukuk Ijarah, the applicable tax on the compensation for the use of the third party's fund is similar to the tax on the interest of conventional bonds, i.e. 15% final income tax. If the recipient is a mutual fund registered with the OJK, the final income tax rate is 5% until 2020 and 10% thereafter.

B. Value Added Tax (VAT)

Bonds, Preference Shares, and KIK-EBA

All of these financing schemes can be categorized as securities products, thus in general the sales of these products should not be VAT-able.

However, particularly for KIK-EBA, VAT implications may arise on the underlying asset transaction between the issuer and KIK-EBA, depending on the investment structure and the characteristics of the underlying asset. As an example, the DGT has recently released a confirmation for a toll road company that the delivery of certificate of toll road revenues as the underlying assets from the toll road company to KIK-EBA is considered as a sale of securities, hence it is not a VAT-able transaction.

Sukuk Ijarah

The sale of Sukuk Ijarah is treated similar to the sale of securities, hence it should not be VAT-able.

At the originator level, depending on the actual structure of the Sukuk Ijarah, the VAT implication on the Ijarah transaction between the originator and the Special Purpose Vehicle (SPV) needs to be carefully analyzed, as the VAT Law provides only minimum provisions on Syariah-based transactions. Although it covers Syariah financing services as non-VAT-able services, the lessor (in the Sukuk Ijarah case, this is likely to be the SPV) must be a Ministry of Finance (MoF) approved leasing company. In this case, the SPV created specifically for Sukuk structure purposes may not fulfil the criteria, and thus these tax incentives may not apply on this transaction.

C. Deductibility on the Return of Investment – Issuer Consideration

Bonds, KIK-EBA, and Sukuk Ijarah

Interest paid to investors in bonds, Sukuk Ijarah, and to the Unit Holders of fixed cash flow KIK-EBA should be deductible, as long as they are incurred in relation to the taxpayer activities in generating taxable income.

Preference Shares

Dividends paid to shareholders are generally non-deductible. Subject to legal and accounting considerations, preference shares that satisfy certain conditions may be recorded under liability. However, tax treatment may still follow the legal form, considering that the return of this preference shares are in the form of dividends that are declared at the Annual General Meeting of Shareholders, and the holder of these preference shares is listed as the legal shareholder of the issuer.

D. Others

Debt to Equity Ratio – Issuer Consideration

Indonesia has a single debt to equity ratio of 4:1, which means the amount of debt allowable in order to obtain full deductibility of the financing costs is limited to four times the equity amount. This ratio is applicable to general corporate taxpayers that are established or domiciled in Indonesia, whose capital consists of shares. Taxpayers in the infrastructure industry may be exempted from the application of this ratio.

While most of the instruments outlined in this paper may be generally applied, the selection of the right feature or combination of features must be undertaken on a case-by-case basis. The financial implications to the entity may be of the upmost importance in selecting the right financing model. Moreover, it is expected that the challenges of framing the right finance scheme will require the development of sound commercial principles that are palatable to the investors and regulators.

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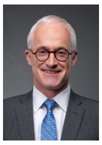

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