Government Fiscal & Financial Support on Infrastructure Project

Fiscal Policy Office – Ministry of Finance
Republic of Indonesia

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Outline

• Infrastructure Financing Policy
• MP3EI
• PPP in Indonesia
• Regulation for the Acceleration of Infrastructure Development
• PPP Eligible Sectors
• PPP Project Preparation Scheme in Indonesia
• Government Supports and Guarantee
• Presence of PPP Projects
• Moving Forward
Infrastructure Financing Policy

• Government estimated investment needs for infrastructure within 2010-2014 reached USD 214 billion.

• Government invited private sector to fill in the gap between government’s ability and the need of funding through the PPP scheme.

**Indonesia Infrastructure Investment Requirement 2010-2014**

(in US$ billion)

- **Investment Needs**: $214
- **State Budget / SOE**: $140
- **Funding Gap**: $74
- **Private**: $74

*Expected to be financed under PPP scheme*

Source: Bappenas

The main function of MP3EI is to accelerate economic development across Indonesia by improving connectivity between the country's economic regions.

GOI identified that the total investment for MP3EI was IDR 4,012 T (± USD 446 M). From the amount of investment, GOI allocated 44% for infrastructure that was IDR 1,786 (± USD 198 M).
Investment indicated for infrastructure (IDR Trillion)
PPP in Indonesia

• The Government of Indonesia considers PPP as an option to improve country’s infrastructure sectors.
• Government of Indonesia is offering PPP Projects to market to fulfill part of the financing gap for infrastructure development.
• Government of Indonesia has made various efforts to support PPP Projects.
Compelling & Widely Accepted Logic For PPP in Indonesia

**Public Sector**
- Benefits/ Rationale to pursue PPP
  - Public budget relief for infrastructure
  - Potential better service level
  - Potential lower operational costs
  - Expertise from Private Sector
- Requirements
  - Economically feasible
  - Service level met
  - High value for money

**Private Sector**
- Benefits/ Rationale to pursue PPP
  - Additional business opportunities
  - Potential long-term return
- Requirements
  - Financially feasible
  - Risks properly allocated (eg. Contract, land acquisition, political)

**Government**
- Concession contract eg 30 years
- Revenues (eg. Tolls)
- Equity value

**Private Sector Consortium**
- Financing
- Design
- Construction
- Operation

Source: PT SMI (Persero), 2012
Regulation for the acceleration of Infrastructure Development

- **Presidential Regulation No. 56/2010** as the second amendment of Presidential Regulation No. 67/2005 concerning the Infrastructure Provision through Public-Private Partnership.
  - Government is allowed to provide government support and guarantee

- **Presidential Regulation No. 78/2010** concerning Infrastructure Guarantee in Cooperation Projects between the Government and Business Entity Provided through the Infrastructure Guarantee Fund.

- **Minister of Finance Regulation No. 260/2010** concerning Implementation Guideline on Infrastructure Guarantee in Cooperation Project Between the Government and Business Entity.
PPP Eligible Sectors

- Transportation – airports, harbors, railways;
- Toll road and toll bridge
- Irrigation system;
- Drinking Water Provision – installation of raw water supply, transmission network, distribution and drinking water treatment;
- Waste water treatment
- Telecommunication and information – telecommunication network and e-government infrastructure;
- Electricity/power plants – generator, transmission and distribution; and
- Oil and gas – transmission and/or oil and gas distribution

As per Presidential Regulation No. 13/2010
Based on the MoU, Ministry of Finance will provide the following facilities:

- Provision of Bridging Fund through Government Investment Unit (PIP);
- Project Development Services through PT Sarana Multi Infrastruktur (PT SMI).
- Guarantee for Infrastructure Risks through Indonesia Infrastructure Guarantee Fund (IIGF) / PT Penjaminan Infrastruktur Indonesia (PT PII);
Government Support and Guarantee

- Presidential Regulation No. 56/2010 as the second amendment of Presidential Regulation No. 67/2005 concerning the Infrastructure Provision through Public-Private Partnership
  - Government is allowed to provide government support and guarantee
  - The need of government support and guarantee to implement the infrastructure provision

**Government Support:**

- Government support is granted to increase the viability of the PPP Projects.
- Government may provide support in the form of licensing, land acquisition, part of construction, and/or in other form in accordance with prevailing law and regulation stipulated by Minister/Chairman of Institution/Head of the Region.
- Minister of Finance may approve the provision of Government Support in the form of tax incentives and/or fiscal contribution in the form of financial based on the proposal by Minister/Chairman of the Institution/Head of Region.
- Government Support shall be included in the public tender document.

**Government Guarantee:**

- To provide a political risk guarantee for PPP Infrastructure Projects
- To attract more private sector participation, due to reduced risk perception of Indonesia PPPs

The provision of Government Guarantee in the form of financial compensation is set forth in the Presidential Regulation No. 78/2010
Land Fund(s)

- **Land Capping**
  - Support on the increase of land price (land capping) of 28 toll road projects
  - The government support in the form of land capping was allocated by the amount of Rp4,89 trillion since FY 2008 to FY 2013

- **Land Revolving Fund**
  - First, GOI will finance the cost of land acquisition then the winning bidder will have to payback the land fund to GOI.
  - Funding from State Budget (around Rp2,3 trillion)
  - Additional funding from State Budget 2011 (Rp3,85 trillion) and from State Budget 2012 (Rp900 billion)

- **Land Acquisition Fund**
  - To support the land acquisition for several unviable Public Private Partnership Projects.
Based on the Minister of Finance Decree No.126/KMK.01/2011, the Minister of Finance has appointed PT SMI to facilitate the preparation of two showcase Public Private Partnership projects:

– Soekarno Hatta International Airport Railway Project, and
– Umbulan Water Supply Project.

With the assignment, PT SMI is mandated to conduct the following activities:

– Providing advice to Government Contracting Agency;
– Preparation of pre-feasibility study;
– Market sounding activities;
– Preparing of tender documents;
– Providing assistance during the tender process; and
– Providing support towards realization of financial close
Geothermal Fund Facility

**Definition**
- Is intended to fund geothermal exploration

**Objective**
- Increase the contribution of renewable energy resources, especially geothermal energy in the energy mix
- to make the geothermal project become financially viable and bankable by providing exploration data which is verified a reputable international institutions

**Eligibility**
- Local government to increase the data sufficiency of geothermal working areas before tendering
- Geothermal developers to do exploration

**Size**
- Rp 2 Trillion (cumulative in 2012), planned to be added annually
GOI establishes IIGF to provide government guarantees to support PPP infrastructure projects development

1. Improve creditworthiness – bankability of PPP projects
2. Provide guarantees to well structured PPPs
3. Improve governance, transparency and consistency of guarantee provision process
4. Ring-fence GOI Contingent Liabilities and minimize Sudden Shock to Rol State Budget

*as has been amended by Presidential Regulation No. 13/2010 and No. 56/2011

Source: PT PII (Persero), 2012
IIGF’s guarantees and their subsequent effects will help:

**Indonesia**
- Support economic development through PPPs that provide quality infrastructure projects
- Reduce cost of infrastructure to end-users, due to lower cost of financing projects
- Limit Government’s exposure to infrastructure-financing liability
- Encourage / stimulate further Government action on PPPs

**Contracting Agencies**
- Attract more private sector participation, due to reduced risk perception of Indonesia PPPs
- Improve achievement of Contracting Agencies’ goals
- Boost competition in tendering process, leading to better proposal quality and more competitive pricing

**Private Sector**
- Mitigate risks that are difficult for private sector to cover through other means
- Improve transparency, clarity, and certainty of guarantee provision and processes
- Reduce cost of capital for project sponsors, lengthen financing maturities
- Provide incentive for CAs to prepare good contracts and fulfill obligations
- Project risk monitoring framework by IIGF under RA brings better risk management

Source: PT PII (Persero), 2012
IIGF’s Business Model is designed to make the Government Guarantees provision Consistent, Transparent, and Efficient

Note:
- A will exist only if B exist, i.e. when A become part of the guarantee structure provided to investors.

Source: PT PII (Persero), 2012
Eight economic infrastructure sectors: water, power, transportation (railway, ports), toll road, waste, irrigation, telecommunication, oil & gas

Awarded through a competitive bidding process

Economically, financially, technically & environmentally viable, socially desirable

Comply with related sector regulations

Prepared by credible experts/consultants

Binding arbitration provision in the Concession/PPP Agreement

Source: PT PII (Persero), 2012
Viability Gap Fund
- Government support in the form of cash as part of Construction Cost of the PPP Projects
- Objective: to increase the viability of the PPP Project

Project Development Facility (PDF)
- Objectives:
  - Present attractive and bankable projects;
  - Apply competitive and transparent bidding process

Optimization the capacity of IIGF to provide guarantee through:
- Cooperation between IIGF and multilateral financial institution or other party having similar purposes and objectives.
- To accomplish an adequate capital of IIGF through state budget mechanism
Proposed VGF mechanism

• VGF is a Central Government (Ministry of Finance) program

• VGF will be provided:
  – In cash to the Project in addition to any other form of government support that may be provided (VGF is as the last resort of government support);
  – In the form of construction cost contribution;
  – In various installments and on completion of the specific milestones; and
  – Through the Government of Indonesia’s (GOI’s) existing budgetary system

• VGF will not be treated as a loan or equity capital
VGF Eligibility Criteria

- The projects should be procured in accordance to Perpres 67/2005 (Eligible Sectors) and its subsequent amendments;
- The projects are on the payment of user-charges basis;
- The projects shall be transferred back to the Government at the end of the concession period;
- VGF will be used as the last resort to make projects viable;
- VGF support will be provided to projects if:
  - A comprehensive feasibility study has been conducted;
  - The feasibility study recommends an optimal risk sharing between the Government and the Investor(s);
  - The feasibility study objectively concludes that the projects are technically, economically, environmentally and socially feasible; and
  - The projects are financially viable with the requested level of VGF.
- The Private Investor(s) will be selected through an open and competitive tendering process;
- The Private Investor(s) should place the minimum equity portion [certain amount of the total project investment].
Thank You
Attachment
Government Guarantee for non-PPP Projects ...(1)

- Government Guarantee for 10,000 MW Phase I
  - Form of Guarantee: Full credit guarantee
  - Regulation: Presidential Regulation No. 91/2007 and Minister of Finance Decree No. 44/2008
  - Government has issued 35 Letters of Guarantee.

- Government Guarantee for 10,000 MW Phase II
  - Form of Guarantee: Business Viability Guarantee of the PT PLN (Persero)
  - Regulation: Presidential Regulation No. 4/2010 and Minister of Finance Decree No. 139/2011.
  - Government has issued Business Viability Guarantee Letter for 2 Geothermal Projects, such as Muara Laboh Project (Project Cost ~ USD 635 million) and Rajabasa Project (Project Cost ~ USD 653 million) and one for Hydro Power Plant namely Wampu Project (Project Cost ~ USD 174 million)
Government Guarantee for Perusahaan Daerah Air Minum (PDAM)/Local Water Company

- Form of Guarantee: Guarantee and interest subsidy for PDAM’s credit
- Government has issued Central Government Guarantee Letter for 3 PDAMs, such as PDAM Bogor Regency, PDAM Ciamis Regency, and PDAM East Lombok.
## Presence of PPP Projects

<table>
<thead>
<tr>
<th>No</th>
<th>Projects</th>
<th>Progress</th>
<th>Additional Information</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Central Java IPP Project (2 x 1000 MW)</td>
<td>PPA and Guarantee Agreement had been signed 6th October 2011</td>
<td>Guarantee scheme is co-guarantee between Government of Indonesia and Indonesia Infrastructure Guarantee Fund (IIGF)</td>
</tr>
<tr>
<td>2</td>
<td>Soekarno Hatta International Airport Railway Project</td>
<td>Project Preparation Phase</td>
<td>the Ministry of Transportation acts as the Government Contracting Agency (GCA)</td>
</tr>
<tr>
<td>3</td>
<td>Umbulan Water Supply PPP Project (4000 lps)</td>
<td>RFP preparation phase</td>
<td>East Java Provincial Government acts as the GCA, Prequalification has been conducted</td>
</tr>
<tr>
<td>4</td>
<td>Lampung water treatment and supply project (500 lps)</td>
<td>RFP Preparation Phase by legal technical and financials advisors of international repute</td>
<td>Prequalification has been conducted</td>
</tr>
<tr>
<td>5</td>
<td>Central Kalimantan Coal Railway</td>
<td>RfP Preparation Phase</td>
<td>Guarantee assessment is being conducted</td>
</tr>
</tbody>
</table>
Some aspects that IIGF looks into when appraises a project

- Viability
  - Economic, Financial & Technical Viability
  - Environmental & Social Viability
  - Government Support
  - Risk Management
  - Guarantee Coverage
  - Procurement Process
- Risk
- Competitiveness
- CA Capacity

Guarantee Application Package
- Pre-FS, Project Cash Flow
- Environmental & Social Impact Assessment
- Description of Government Support
- PPP Structure, PPP Agreement, Risk Allocation
- Guarantee Coverage
- Project Management (Procurement) Plan
- CA-related Information

Source: PT PII (Persero), 2012
Four coherent steps are set up to ensure timely and robust IIGF guarantee provision process

1. Consultation
   - CA Role: Seek info on IIGF guarantees & process
   - IIGF Role: Provide info on guarantee product & process

2. Screening
   - Submit “Screening Form”
   - Issue “Confirmation to Proceed” for eligible project

3. Appraisal
   - Submit “Guarantee Application Package” (GAP)
   - Issue “Letter of Intent” for guarantee provision

4. Structuring
   - Finalize T&C of Guarantee & Recourse Agreement
   - Issue “In-Principle Approval” to be used for bidding

Screening Form:
1. Cover Letter
2. Project brief description
3. Outline Business Case

Guarantee Application Package:
1. Request Letter
2. Pre-feasibility study
3. PPP structure
4. Risk Matrix & Risk Mitigation Plan
5. Draft PPP Agreement
6. Description of Govt support
7. Scope of guarantee required
8. Financial model
9. Env. & social assessment report
10. Project Management Plan
11. CA related information

Overall Process Objective is to ensure the Guaranteed Projects are:

- Feasible
- Fair in Risk Allocation
- Well Structured
- Robust in Risk Mitigation Plan

Source: PT PII (Persero), 2012
How does guarantee process match with CA’s transaction process?

Sample timeline involving CA preparation and transaction execution vs corresponding IIGF guarantee provision process

- Pre-FS Finalisation
- EOI and PQ process
- Submission of GAP
- Draft RFP released
- Final RFP released
- One-on-one meetings
- Bid Submission & Evaluation
- Award & Signing

IIGF Guarantee Provision Process

- PPP scheme determined
- Submission of Screening Form
- Pre FS review and preparation of GAP
- Screening
- Consultation
- Appraisal
- Structuring
- Issue In-Principle Approval
- Signing of:
  - PPP Agreement
  - Guarantee Agreement
  - Recourse Agreement

Source: PT PII (Persero), 2012