



Infrastructure Development in Indonesia: Perspectives, Lesson Learned and Opportunities on Public-Private Partnership

Rachmat Mardiana

Deputy Director for Public-Private Partnership Development
Ministry of National Development Planning/National Development Planning Agency

**The First Istanbul Public-Private Partnership Week
Istanbul, 2-4 November 2015**

Introduction to Public-Private Partnership

- Decision making in Indonesia was largely centralized prior to 2002
- Indonesia experienced a significant degree of decentralization following the passing of the State Finance Law of 2002
- Most projects before the reform process started in the early 2000s that were not undertaken by the central, provincial or local government themselves were awarded through direct appointment to either SOEs or private firms
- The Indonesian government wanted to improve the process and principles as part of the reform process through which projects are awarded by introducing and using of competitive bidding
- The Government of Indonesia introduced Presidential Regulation 67 of 2005 for regulating private participation in infrastructure development
- Presidential Regulation 67 of 2005 was improved and augmented further by the introduction of Presidential Regulations 13 of 2010 and 56 of 2011 and 66 of 2012
- Presidential Regulation 67 of 2005 and its amendments regulate what types of projects are considered as infrastructure, what the eligible contracting agencies are and the role of potential private participants

Perspectives on PPP (1)

- Public-private partnerships are not the solution to all infrastructure needs, but when properly assessed, structured and managed they can be a powerful tool for development.
- PPP could be used to transfer tasks and responsibility for the provision of infrastructure to the private sector, in order to gain efficiency, cost reliability and financial security
- PPPs represent an innovative way for the governments to work with the private sector in providing high-quality service delivery and in closing the gaps in fund requirements of the infrastructure sector
- Private sector involvement can improve efficiency through greater accountability, cost effectiveness and financial discipline of delivering public service
- PPP project involves participation of a large number of stakeholder: government, banks, financial institutions, investors, contractors and public users
- A conducive environment to private sector participation in the provision of infrastructure facilities and services would need:
 - Public-private partnership policy frameworks
 - Legislative, regulatory and institutional environments for public-private partnerships at the general and sectoral levels
 - Processes and procedures for implementing public-private partnerships
 - Capacity of the public sector to implement public-private partnerships
 - Availability of innovative capital resources to meet the funding needs of public-private partnership projects
 - Availability of domestic risk management mechanisms and instruments to reduce or mitigate project risks and lowering overall project costs

Perspectives on PPP (2)

- Effective PPP models involve optimum sharing responsibilities, costs, and risks between public and private sector
- Lesson learnt from various PPP Projects development in Indonesia shows that each PPP Project is unique and needs to be developed distinctively
- Promoting public-private partnership should be based on good governance characteristics: participatory, consensus-oriented, accountable, transparent, responsive, effective and efficient, equitable and inclusive and follows the rule of law
- The Government of Indonesia still needs to create an enabling environment for a simpler PPP process and project structure in order to accelerate the project preparation process, transaction process, enhance the bankability, and reduce the transaction cost

Required Function for Successful Infrastructure PPP Implementation

	Function Description	Indonesia Situation
PPP Core Function	1 Championship at TOP • Periodic cross-ministerial top down directions are made to empower implementation	• No clear champion at top to provide timely and periodic direction
	2 GCA drive • PPP project owner (GCA) is sufficiently incentivized to drive and lead PPP projects	• No clear mechanism to incentivize GCA. Many GCAs view PPP as unwanted homework
	3 Gate Keeper • Quality control gates are in place at critical stages of PPP project	• Initial project screening needs improvement. PPP book not yet functioning as quality control gate
	4 Financing and Guarantee • Government support mechanism for fiscal contribution and guarantee is clear. • Long-term capital for infrastructure financing exists	• Land fund/SMI/IIF/IIGF developed. VGF in the making. Linkage to rupiah budget and blue book needs improvement
	5 Expert Advisory • Sufficient expertise for PDF and transaction advisory can be provided on a sustained basis	• PDF provided by donor grant/loan. Lack of sustained institutional and funding mechanism for both PDF and transaction advisory
	6 Project DB Mgmt • Accurate and timely information provided on PPP project implementation status . Database is managed and updated on an on-going basis	• PPP book published annually. On-line DB to manage and provide information requires improvement
	7 Knowledge Mgmt and Capacity Building • PPP failure and success lessons are institutionally accumulated over time. Structured and targeted capacity building program implemented	• Capacity building provided by donor grant/loan. Lack of institutional mechanism to manage both knowledge and capacity
	8 PPP Promotion and Market Education • Cultivate GCA for improved project origination. Attract investors on PPP opportunities.	• Various seminars/workshops held. PPP book made available widely. BKPM taking on promotional role. GCA cultivation and local private investor education needs improvement
	9 Conflict Resolution • Provide objective intervention to solve cross ministerial/agency conflicts and investor/GCA conflicts	• Adhoc interventions. Lack of structured process • Responsibility needs to be clarified for conflict resolution
	10 PPP Legislative /Policy Support • PPP policy and regulations are established and improved on an on-going basis	• Series of improvements made to presidential decree on PPP and related ministerial regulations.

Institutions to Support Infrastructure PPP Development



- **Committee on Policy for the Acceleration of Infrastructure Development (KKPPI):** a committee to accelerate infrastructure provision
- **Bappenas:** houses the PPP Central Unit (P3CU) which role is largely to coordinate the identification of potential PPPs and putting them on the official PPP Book
- **Project Development Facility (PDF):** to assist under the government contracting agencies (GCAs) for PPP project preparation and transaction
- **Ministry of Finance:** responsible with respect to the granting of fiscal support (VGF) and guarantees to specific projects in the procurement process
- **Geothermal Fund:** reducing the investor risks during exploration activities
- **Land Capping:** government support to reduce the risk due to the unpredicted and unavoidable increasing land price
- **Coordinating Investment Board (BKPM):** responsible for the marketing of PPPs to possible foreign and domestic investors.



PT Indonesia Infrastructure Guarantee Fund (PT IIGF): IIGF was established in 2009 to provide government guarantees for infrastructure projects with well structured PPP scheme, improve creditworthiness of PPP projects, improve governance and transparency of guarantee provision process, and ring-fence government's contingent liabilities.



PT Sarana Multi Infrastruktur (PT SMI): PT SMI was established in 2009 to become a catalyst in accelerating infrastructure development. It also aims to increase private participation in infrastructure projects by providing loan, mezzanine finance, as well as equity finance. It also has an advisory services and project preparation services such as pre FS preparation, market sounding, and tender preparation.



PT Indonesia Infrastructure Finance (PT IIF): PT IIF was established in 2010 with PT SMI, ADB, IFC, DEG, and SMBC Japan as shareholder. PT IIF is also engaged in the business of providing various financing scheme and advisory for infrastructure projects that are commercially viable. PT IIF also provides non-fund based products such as stand by finance for infrastructure projects.

Infrastructure PPP Project Implementation (2005-2015)

No	Project Status	Number of Project	Investment Cost (US\$ Billion)	Project Name
1	Operation	21	3.3	(1) Tangerang Regency Water Supply; (2) Nusa Dua-Ngurah Rai-Benoa Toll Road (unsolicited); (3) Cinere-Jagorawi Toll Road – Section 1; (4) Bogor Ring Road Toll Road – Section 1; (5) Surabaya-Mojokerto Toll Road – Section 1A; (6) Semarang-Solo Toll Road – Section 1; (7) Makasar Toll Road – Section 4; (8) Kanci-Penjagan Toll Road; (9) W1 JORR Toll Road; (10) Surabaya-Madura Toll Bridge; (11) S2 Waru-Bandara Juanda Toll Road; (12) W2S JORR Toll Road; (13) North S1 JORR Toll Road – Section 3; (14) E3 JORR Toll Road; (15) North E1 JORR Toll Road – Section 4; (16) Cikampek-Purwakarta-Padalarang Toll Road Phase II; (17) Bogor Ring Road Toll Road – Section IIA; (18) Semarang-Solo Toll Road – Section II; (19) North W2 JORR Toll Road; and (20) Kertosono-Mojokerto Toll Road Section I
2	Construction	9	3.0	(1) Kertosono-Mojokerto Toll Road; (2) Bogor Ring Road Toll Road; (3) Solo-Ngawi Toll Road; (4) Semarang-Solo Toll Road; (5) Mojokerto-Surabaya Toll Road; (6) W2 JORR Toll Road; (7) Cinere-Jagorawi Toll Road; (8) Gempol-Pandaan Toll Road; and (9) Gempol-Pasuruan Toll Road
3	Financial Close	2	7.4	(1) Central Java Coal Fired Power Plant Project (2x1000 MW); and (2) Puruk Cahu-Banguang/Mangkatip-Batanjung Railway
4	Transaction	21	16.2	(1) Umbulan Water Supply; (2) Bandar Lampung Water Supply; (3) Tanah Ampo Cruise Terminal; (4) Bandung Municipal Solid Waste Management Improvement; (5) Kemayoran-Kampung Melayu Toll Road; (6) Sunter-Rawa Buaya-Batuceper Toll Road; (7) Ulujami-Tanah Abang Toll Road; (8) Pasar Minggu-Cassablanca Toll Road; (9) Sunter-Pulo Gebang-Tabelang Toll Road; (10) Duri Pulo-Kampung Melayu Toll Road; (11) Serpong-Balaraja Toll Road; (12) Medan-Kualanamu-Tebing Tinggi Toll Road; (13) Sunter Intermediate Treatment Facility; (14) South Sumatera 9 Mine Mouth Coal Fired Power Plant; (15) South Sumatera 10 Mine Mouth Coal Fired Power Plant; (16) Lamongan Regency Water Supply; (17) Batam Municipal Solid Waste; (18) Banda Aceh Consolidated Urban Development; (19) Pasirkoja-Soreang Toll Road; (20) Kayu Agung-Palembang-Betung Toll Road; (21) Nambo Regional Waste Management; (22) Balikpapan-Samarinda Toll Road; and (23) Manado-Bitung Toll Road
5	Project Preparation	38	22.7	Projects listed in PPP Book 2015

Constrained Infrastructure PPP Projects Implementation (1)

No	Project	Investment (US\$ Million)	Status	Issues
1	Central Java Coal Fired Power Plant	3,000	<ul style="list-style-type: none"> A coordination team has been established for the project development acceleration by Coordinating Minister for Economic Affairs (CMEA Decree 8/2013) Land is being acquired by PT PLN 	<ul style="list-style-type: none"> Financial close can not be reached due to land acquisition problem
2	Umbulan Water Supply, East Java	204.20	<ul style="list-style-type: none"> Finalization of RFP In the process of obtaining in-principle approval of government guarantee from IIGF and MoF 	<ul style="list-style-type: none"> Approval of VGF from MoF is being waited for further tendering process Provincial government decree as contracting agency (CA) is being waited regarding government guarantee provision (regress negotiation)
3	Bandar Lampung Water Supply, Lampung	80-100	<ul style="list-style-type: none"> Prequalification has been held on 12 May 2012 and 4 eligible bidders pass the minimum requirement In the process of obtaining VGF and government guarantee 	<ul style="list-style-type: none"> Tender process is still awaiting for approval of VGF from MoF

Constrained Infrastructure PPP Projects Implementation (2)

No	Project	Investment (US\$ Million)	Status	Issues
4	South Sumatera 9 Coal Power Plant (Mine Mouth)	1,560	<ul style="list-style-type: none"> Prequalification has been held on 12 November 2012 and 8 eligible bidders pass the minimum requirement 	<ul style="list-style-type: none"> Previous bidding process was postponed due to the regulatory issues on the requirement of calorific value of coal Tender process is still awaiting for government guarantee provision from IIGF
5	South Sumatera 10 Coal Power Plant (Mine Mouth)	780	<ul style="list-style-type: none"> In the process of obtaining in-principle approval of government guarantee from IIGF and MoF In the process of finalization of RFP 	
6	West Semarang Municipal Water Supply	78	<ul style="list-style-type: none"> In the process of obtaining VGF and government guarantee from MoF and IIGF In the process of pre-qualification preparation 	<ul style="list-style-type: none"> Tender process is still awaiting for approval of VGF and government support
7	Tebo Coal Power Plant (Mine Mouth)	832	<ul style="list-style-type: none"> Preparation of determination process as unsolicited project 	<ul style="list-style-type: none"> PT PLN has not supported the project due to the project has not been listed in RUPTL Provincial Government of Jambi has not been appointed as contracting agency by central government
8	Karama Hydro Power Plant	1,335	<ul style="list-style-type: none"> Unsolicited project Proposal document from the initiator is being reviewed 	<ul style="list-style-type: none"> Determination of project initiator has not been appointed due to rejection from society The project design need to be revised

Lesson Learned on Infrastructure PPP Development

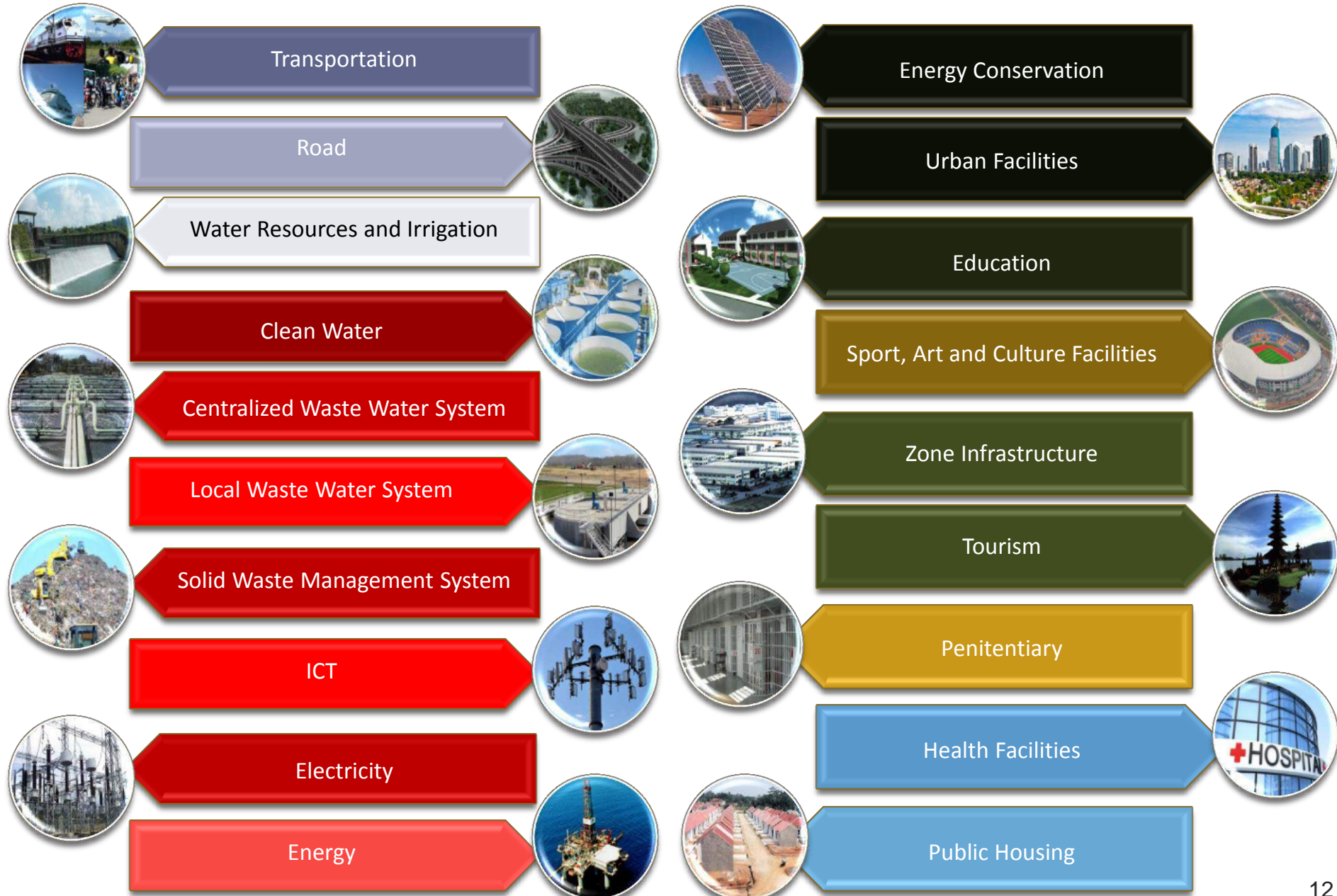
- **Land acquisition problems**
- **Small scale project due to decentralization system**
 - Some of infrastructure development authority has been delegated to about 440 local governments which leads to very small scale projects
 - For example: about 50% of water supply and solid waste project cost is below US\$ 25 millions which is too small to attract private investment
- **Lack of incentive and commitment as well as lack of capacity of government contracting agencies are the major obstacles for successful PPP projects**
 - Based on past experiences, private sectors are increasingly convinced that PPP is complicated and takes time too long
 - Agencies prefer using budgets on traditional projects rather than using them on PPP
- **Most of projects require guarantee from central government**
- **Government support are required for most of PPP projects**
 - Most of PPP Projects are not commercially viable due to the very low user's affordability. On the other side, most of infrastructure projects are required to push regional development. Thus government support is required.
- **Structuring a multistakeholders PPP Project**
- **Lack of preparation of the projects and their management**
- **Inefficiency in regulatory framework**
- **Inefficiency in institutional framework**
- **Lack of coordination among the GCAs (e.g. the ministries and sub-national authorities), Bappenas and the MoF**

New Infrastructure PPP Regulation

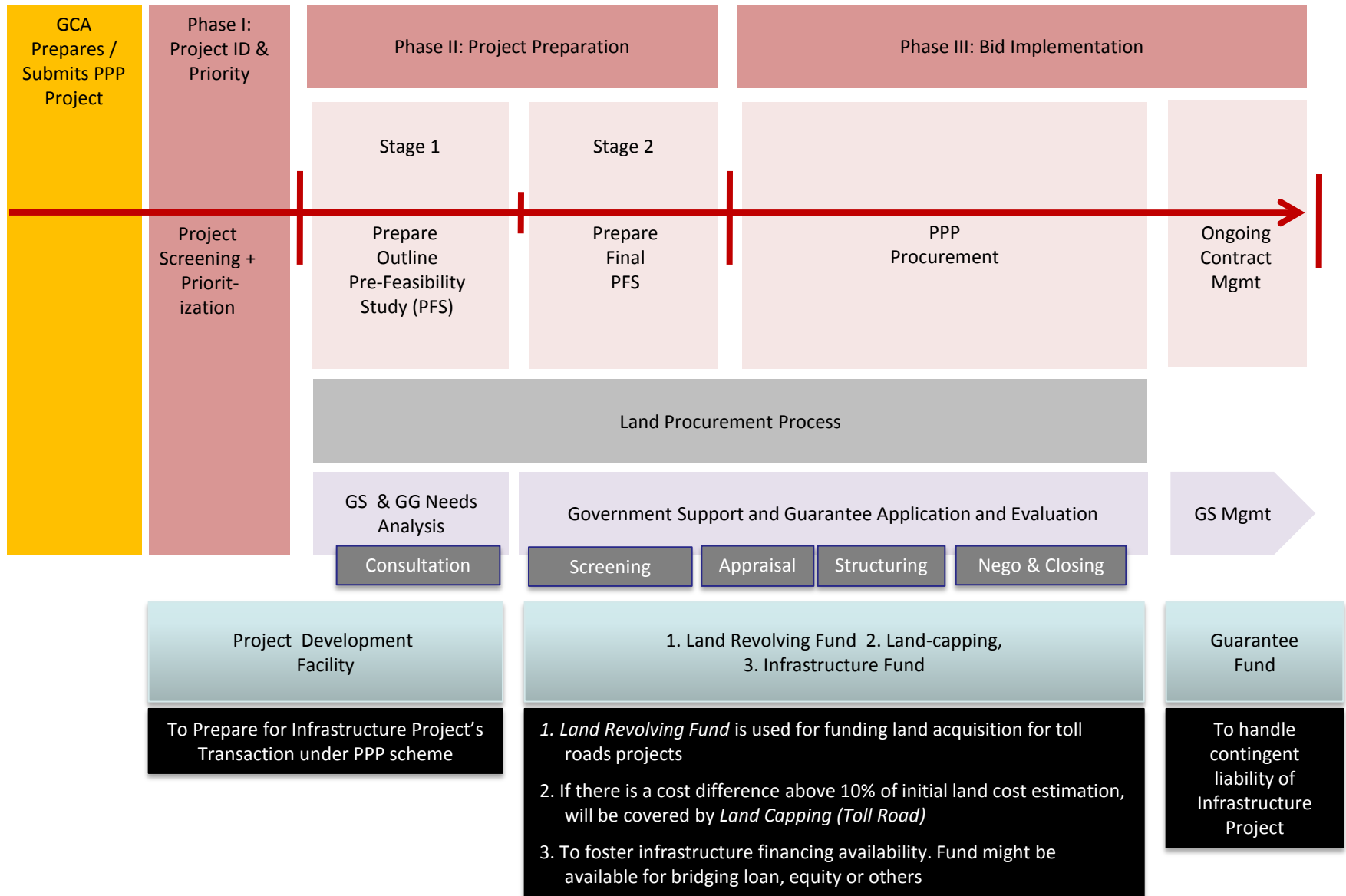
The GoI has replaced the original regulation on PPP (Presidential Regulation 67/2005) by Presidential Regulation 38/2015 to accommodate more concerns regarding PPP development in Indonesia. The replacement of PPP regulation is also planned to promote PPP implementation in Indonesia, such as the types of infrastructure included for PPP scheme, government contracting agencies for each sector and procurement process of business entity

- Speed up the process of infrastructure provision and investment:
 - Acceleration of business entity procurement through tender mechanism or direct appointment
 - Change of unsolicited project criteria (more flexible)
- Clarify the Government's commitment to the provision of infrastructure:
 - Land acquisition
 - Government guarantee
 - The budget for project planning, preparation and transaction stages
 - Government support
- Expand the scope of infrastructure including social infrastructure
- Opportunities for alternatif financing :
 - Hybrid financing with one procurement process
 - Availability payment
- Establishment of PPP node in each province and sector ministries
- PPP project preparation through success fee mechanism
- A PPP can combine 2 (two) or more types of infrastructure
- The GCA will form a PPP node

The Scope of PPP Infrastructure



Indonesia Infrastructure PPP Implementation Process



Unsolicited Infrastructure PPP

- Business entities may initiate PPPs
- The initiative shall be submitted to the Minister/Head of Institution/Head of Region accompanied by a feasibility study
- A PPP on the initiative of business entities shall meet the following requirements:
 - Being technically integrated with the master plan of the related sector
 - Being economically and financially feasible
 - The business entities that submits the initiative shall have the financial capability to finance the implementation of infrastructure provision
- GCA evaluates and profoundly assesses the Feasibility Study Document, with the following criteria:
 - Economically and financially worthy
 - Does not require government support of fiscal contributions in the form of financial support.
- The compensation form stipulated by GCA of an unsolicited project:
 - A provision of 10 % (ten percents) additional value
 - Right to match
 - An unsolicited purchase including the accompanying intellectual property rights by GCA or bidding winner

Infrastructure Projects in PPP Book 2015

Ready To Offer Project

Railway

1. Soekarno-Hatta International Airport-Halim Railway
2. Bandung Light Rail Transit (LRT), West Java
3. Tanjung Enim -Tanjung Api-Api Railway, South Sumatera

Water Supply and Sanitation

1. West Semarang Municipal Water Supply, Central Java
2. Pondok Gede Water Supply, Bekasi
3. Pekanbaru Water Supply, Riau

Prospective Project

Railway

1. Integrated Terminal of Gedebage (Railway), Bandung, West Java
2. Development of South Sumatera Monorail

Toll Road

1. Manado -Bitung Toll Road, North Sulawesi
2. Tanjung Priok Access Toll Road, DKI Jakarta
3. Balikpapan -Samarinda Toll Road, East Kalimantan
4. Cileunyi –Sumedang-Dawuan Toll Road, West Java
5. Pandaan- Malang Toll Road, East Java

Power

1. Karama Hydro Power Plant, West Sulawesi

Potential Project

Sea Transportation

1. Development of Maloy International Port, East Kalimantan
2. Expansion of Kabil Port (Tanjung Sauh Terminal), Riau Island
3. Development of Kuala Tanjung International Hub Port, North Sumatera
4. Development of Bitung International Hub Port, North Sulawesi
5. Development of Makassar New Port, South Sulawesi
6. Development of Baubau Port, Southeast Sulawesi
7. Development of Garongkong Port, South Sulawesi

Air Transportation

1. Development of New Bali Airport, Bali
2. Kulonprogo International Airport, DI Yogyakarta
3. Expansion of Mutiara Airport, Central Sulawesi
4. Expansion of Komodo Airport, East Nusa Tenggara
5. Expansion of Radin Inten II Airport, Lampung
6. Expansion of Juwata Airport, North Kalimantan
7. Expansion of Sentani Airport, Papua
8. Expansion of Tjilik Riwut Airport, Central Kalimantan
9. Expansion of Fatmawati Soekarno Airport, Bengkulu
10. Expansion of H.AS.Hananjoeddin Airport, Belitung Island
11. Expansion of Matahora Airport, Southeast Sulawesi
12. Expansion of Sultan Babullah Airport, Maluku

Railway

1. Muara Enim -Pulau Baai Railway
2. Development of Batam Railway

Toll Road

1. Batu Ampar -Muka Kuning -Hang Nadim Toll Road

Water Supply & Sanitation

1. DKI Jakarta Sewage Treatment Plant

Power

1. Tebo Mine Mouth Coal Fired Steam Power Plant (2 x 200 MW) , Jambi

Other Regulations to Accelerate Infrastructure Development

The Land Acquisition Law 2 of 2012:

- Given the fact that land acquisition remains one of the major obstacle in infrastructure development in Indonesia, the government issued Law 2/2012 that regulates land acquisition for public interest.
- It is hoped that the new law can ease land acquisition bottlenecks and disputes for infrastructure projects such as road, railway, station, port, airport, power plant, and other sectors.
- The law regulates procedures of land acquisition, funding for land appraisal, amount and types of compensations, and objections and dispute settlements.

Presidential Regulation 39 of 2014 regarding the New Negative Investment List of Investment:

- Government has revised the previous Negative List of Investment to encourage more foreign businesses to take part in infrastructure development.
- For example, in transport sector, foreign ownership of seaport facility increased from 49% to 95% during PPP concession period.
- The government also allows 100% foreign ownership of power plant more than 10 MW during PPP concession period (previously 95%).

Institutional Framework Improvement

Committee on Policy for the Acceleration of Priority Infrastructure Development (KPPIP)

Bappenas

Roles:

- Priority project screening
- Providing Bappenas Facility
- Reviewing potential PPP projects to be prioritized under KPPIP

Capacity Building:

- Special unit with full time staffs to manage Bappenas Facility
- Bappenas capacity in social infrastructure development planning
- Integrated real time database of infrastructure projects in Indonesia

National Land Agency (BPN)

Roles:

- Land Acquisition Accelerator (from planning to land handover)

Capacity Building:

- Capacity development for Deputy of Land Acquisition for Public Interest
- Integrated real time IT system of land ownership database
- Land measurement technology, such as GPS
- Synchronization support to comply with one map policy
- Socialization support for the new land law
- Land acquisition manpower allocation guideline

Ministry of Finance

Roles:

- PPP Unit: PDF/TA provider, VGF application review and IIGF application facilitation
- VGF Committee: VGF application approval

Capacity Building:

- PPP Unit: set up of PPP unit, equipped with full time expert staffs, PDF/TA fund, and Pool of Consultants, and financial model for VGF assessment

Coordinating Ministry of Economic Affairs (CMEA)

Roles:

- Championship within KPPIP

Capacity Building:

- Strengthen legal basis with decision making authority
- Enhanced capacity as debottlenecking champion with more civil servants and capacity building for them

Unlocking PPP Opportunity in Indonesia

- Establishment of an authoritative and credible PPP center
- Bring PPPs into the mainstream when assessing infrastructure priorities
- Establish a project development fund with access to the world class advisory support
- Launch a capacity building program which targetes at three different skill level
- Debottleneck regulation between local and national governments and across line agencies
- Establish a single window in permitting and land acquisition support

Final Notes

- Government of Indonesia is committed to maintain the momentum of investment friendly environment and is exploring all options in encouraging private participation in infrastructure
- PPPs represent an innovative way for the governments to work with the private sector in providing high-quality service delivery and in closing the gaps in fund requirements of the infrastructure sector
- Opportunities are widely open for international business entity and Indonesian partner in infrastructure development in Indonesia, i.e. consultancy, EPC (Engineering, Procurement and Construction), supplier, investment, insurance, etc.
- The involvement of international business entities and Indonesian partners could be in the area of:
 - Projects financed by ODA Loans and Grants
 - Projects financed by multilateral donor such as World Bank (WB), Asian Development Bank (ADB), European Union (EU), Islamic Development Bank, etc.
 - Projects financed by investors

THANK YOU

Rachmat Mardiana

Email: rmardiana66@gmail.com

Mobile: +62811141870

Mobile: +6285715048590

**Directorate for Public-Private Partnership Development
Ministry of National Development Planning/National Development
Planning Agency**

Website: pkps.bappenas.go.id

Email: pkps@bappenas.go.id

Phone: (62-21) 31934175