

**ASIA REGIONAL WORKSHOP ON PUBLIC-PRIVATE PARTNERSHIPS
« ENGAGING THE PRIVATE SECTOR »**

**Session 10
Role of the PPP Unit in Engaging the Private Sector**

**Supporting the development of PPP Mechanism:
Case of Indonesia**

June 3rd, 2015

Japan International Cooperation Agency (JICA)

The views expressed in this presentation are the views of the author and do not necessarily reflect the views or policies of the Asian Development Bank Institute (ADBI), the Asian Development Bank (ADB), its Board of Directors, or the governments they represent. ADBI does not guarantee the accuracy of the data included in this paper and accepts no responsibility for any consequences of their use. Terminology used may not necessarily be consistent with ADB official terms.

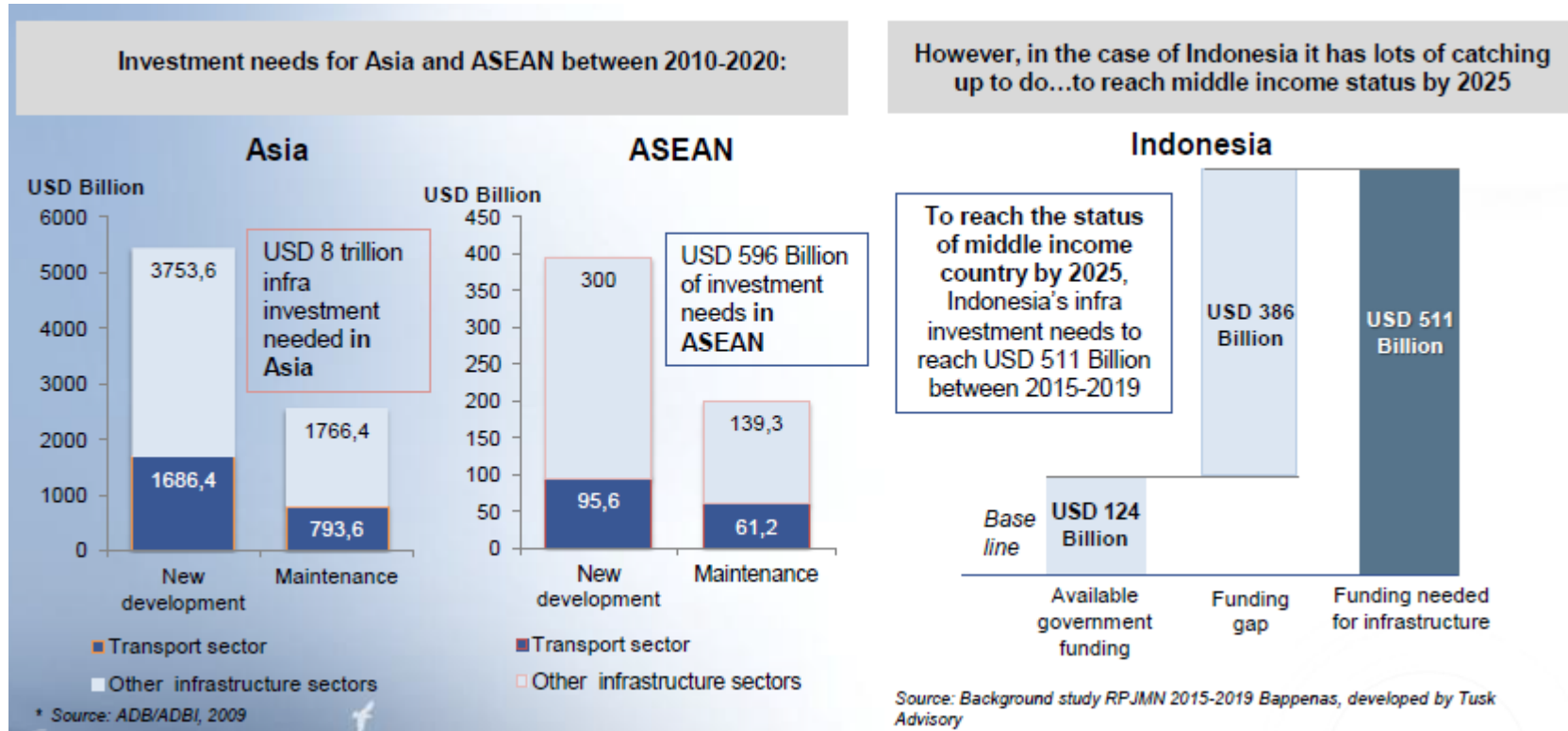
Outline

- I. Indonesia's PPP: Overview
- II. Issues
- III. JICA's Support 1: PPP Network Enhancement Project
- IV. KPPIP and MOF PPP Units
- V. JICA's Support 2: MPA Support Facility

I. Indonesia's PPP: Overview

Infrastructure Demand Snapshot

- Indonesia's new Mid-term Development Plan (2015-19) targets infrastructure investment with ambitious USD 511 Billion
- The Funding Gap, except for government funding, estimated to be USD 386 Billion

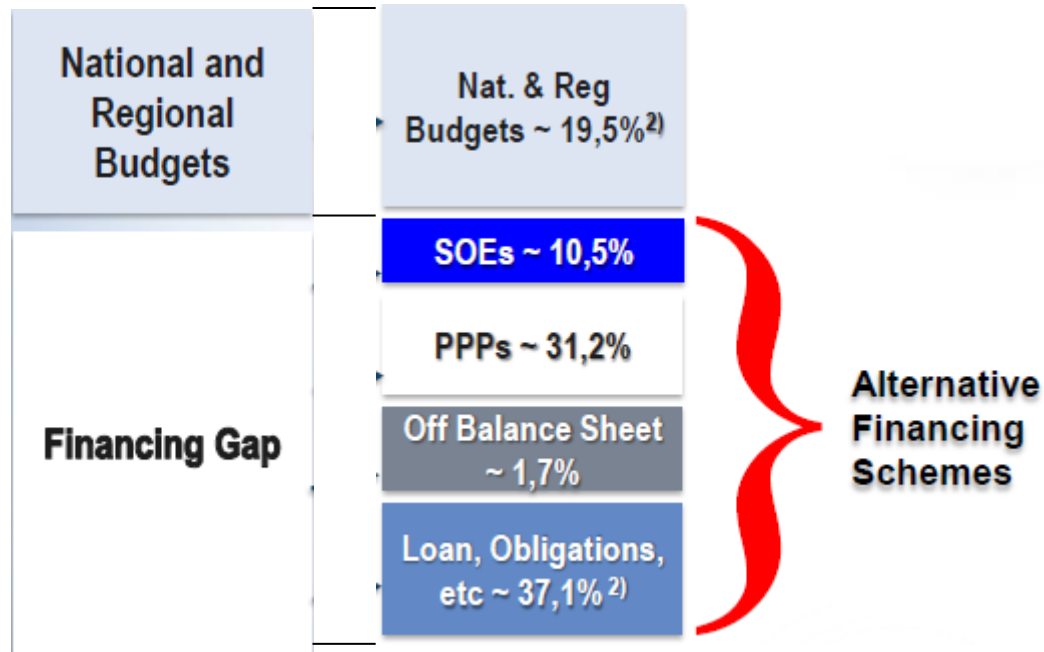


Source: Coordination Ministry of Economic Affairs, Indonesia

I. Indonesia's PPP: Overview

Infrastructure Finance Source

- Out of USD 386 Billion funding Gap, it is estimated 120-140 Billion USD to be financed under PPPs.

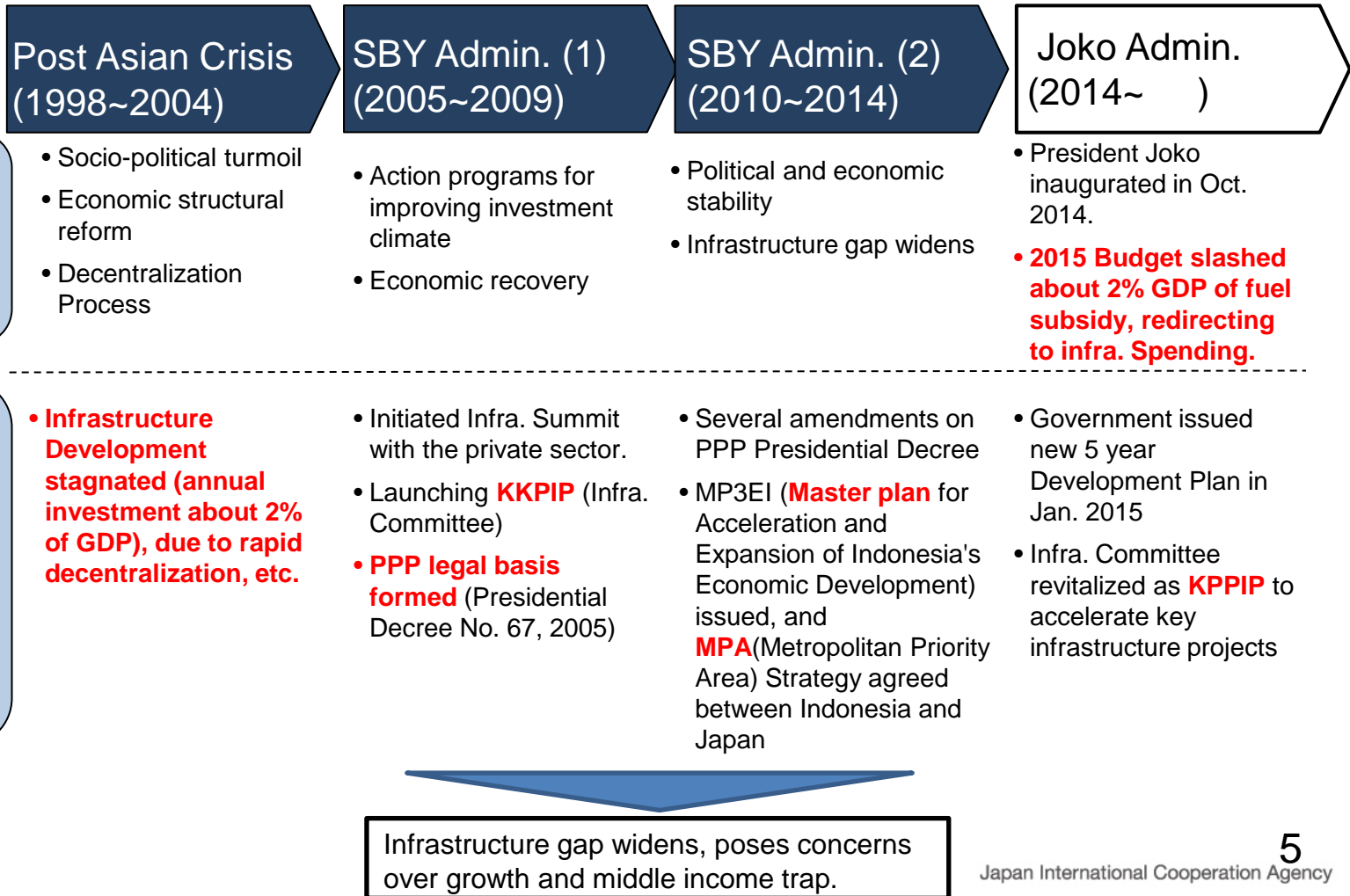


Source: JICA's estimation using BAPPENAS's temporary figures, not for quotation.

I. Indonesia's PPP: Overview

Recent History of Infrastructure Development

- New government prioritize infrastructure as the gap widens.
- Infra. development capacity, including PPP, becomes critical.



II. Issues

PPP Legal/Institutional Developments (1)

- Indonesia has made constant efforts to improve PPP framework.
- Realizing PPP projects, however, are minimal yet because...

Legal Development

- 2005 PPP Presidential Decree (No.67)
- 2010 Amendment No.13 of Presidential Decree No.67
→ *Clarifying the role of the public on land acquisition*
- 2011 Amendment No.56 of Presidential Decree No.67
→ *Clarifying unsolicited projects' selection/appraisal criteria*
- 2012 BAPPENAS PPP Operational Guideline (No.3)
MOF Decree No.223 on Viability Gap Funding (VGF)
New Land Acquisition Law No.2, Presidential Decree No.71
and National Land Agency (BPN) Decree No.5
→ *Clarifying land acquisition process*
- 2015 Amendment No.38 of Presidential Decree No.67
→ *Expanding PPP sectors, Clarifying the role of authorities involved*

Institutional Development

- 2005 KKPIP (inter-ministrial infra. Committee) launched (however, dormant)
- 2006 **PIP** (Indonesia Investment Agency) by MOF
- 2009 **PT. SMI** (Infrastructure Financing Company) by MOF
IIGF (Infrastructure Guarantee Fund) by MOF
- 2010 **IIF** (Indonesia Infrastructure), private non-bank institution
by SMI, IFC, ADB, DEG, SMBC
- 2014 **KPPIP** launched to revitalize inter-ministerial coordination
- 2015 **MOF PPP Unit** to be fully launched

II. Issues

PPP Legal/Institutional Developments (2)

- Legal and institutional framework are still complicated.
- Coordination and capacity for project preparation are vital.

	Cross-cutting Issue			Sector-based	
	MOF	CMEA/ BAPPENAS	Land Acquisition	e.g., Toll Road	e.g., Water Supply
Law	<ul style="list-style-type: none"> •No.17/2003: Prohibiting grant to the private sector 		<ul style="list-style-type: none"> •No.2/2012: New land acquisition law 	<ul style="list-style-type: none"> •No.38/2004: Road Management Law (toll tariff, etc.) 	<ul style="list-style-type: none"> •No.7/2004: Water Supply Law
Gov't Regulation	<ul style="list-style-type: none"> •No.1/2008 Loan/Equity to PPP project owner 			<ul style="list-style-type: none"> •No.15/2006: PPP for toll road •No.34/2006: PPP for road structure 	<ul style="list-style-type: none"> •No.16/2005: Rules for water tariff
Presidential Regulation	<ul style="list-style-type: none"> •No.67/2005: PPP framework •No.13/2010: Amendment of No.67/2005 •No.56/2011: Amendment of No.67/2005 •No.71/2012: Implementing Procedure of No.2/2012 				
Ministerial Regulation	<ul style="list-style-type: none"> •No.260/2010: IIGF Guarantee •No.223/2012: VGF Regulation •No.134/2013: VGF Appraisal Rule 	<ul style="list-style-type: none"> •BAPPENAS No.3/2012: PPP Operation Guideline 	<ul style="list-style-type: none"> No.22/2009: Regional gov. and the private sector •No.5/2012: Land acquisition rule 	<ul style="list-style-type: none"> •No.11/2006: Toll Road Management •No.295/2005: Business regulation of toll road agency •No.27/2005: Bidding process 	

II. Issues

PPP Legal/Institutional Developments (3)

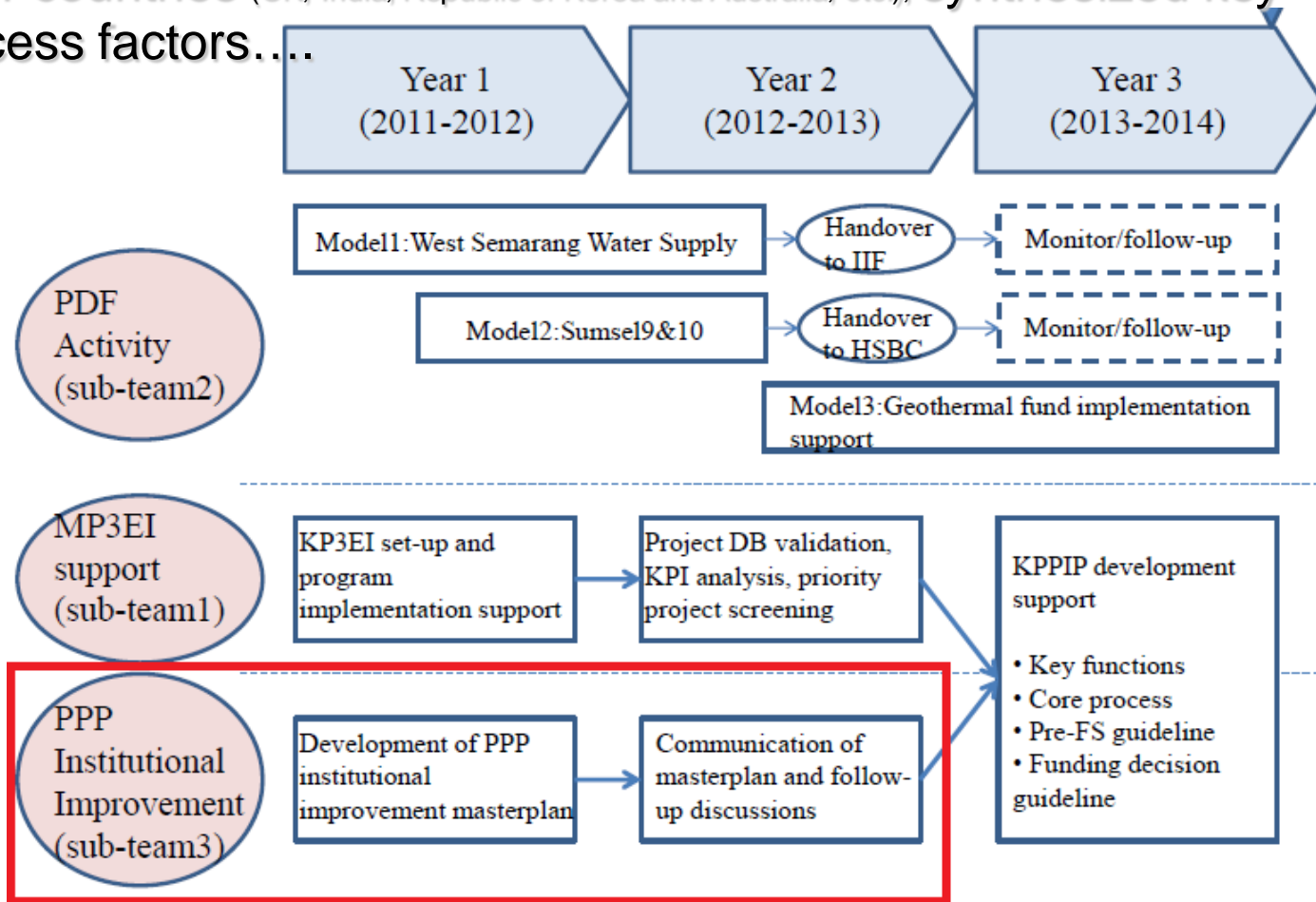
- Coordination is a difficult business...

		Key Roles
1. KPPIP (Committee of Infrastructure Delivery Accelerating-Policy)		•Minister-Level intra-government coordination committee to determine prioritized Infrastructure projects, funding scheme (public, PPP, private), and monitor-debottleneck project implementation. Presidential Decree for its establishment issued in July 2014.
2. BAPPENAS	Directorate for PPP Development	•Planning and coordination for PPP policies, preparing operation manual and annual candidate solicited project list (PPP Book).
3. CEMA (Coordinating Ministry for Economic Affairs)		•Policy planning and inter-ministerial coordination for infrastructure development, monitoring and debottlenecking. Secretariat for KPPIP.
4. CMMA (Coordinating Ministry for Maritime Affairs)		•Newly set-up under Joko Administration, in charge of Ministry of Transport/Energy and Mining.
5. MOF	Risk management Unit ⇒PPP Unit	•Policy planning for PPP government support ,financial appraisal including VGF. Transformed into PPP Unit in 2015.
6. GCA (Government Contracting Agencies)		•Sector Ministries/Agencies/State-owned Enterprises in charge of preparation, tendering and awarding PPP concessions to the private sector. (e.g.: Toll Road:BPJT, Port:DGST, Airport:DGCA, Railway:DGR, Water Supply:Local Governments, Power:PLN, etc.)
7. BKPM(Investment Promotion and Coordination Agency)		•“One-stop shop” for the private sector on PPP project information , regulation and license/permission, market sounding and road shows.
8. Ministry of Agrarian and Spatial Planning		•In charge of space planning, and land acquisition.
9. Ministry of Forestry and Environment		•In charge of license and permission on Environment Impact Assessment (AMDAL).
11. IIGF (Infrastructure Guarantee Fund)		•To provide government guarantee for PPP projects.
12. Infrastructure Financing Institutions	IIF	•To co-financing, investment, and provision of PPP transaction advisory services.
	PT. SMI (100%MOF)	•Prime IIF share holder. To finance and invest in small and medium scale PPP projects.
13. PIP (Investment Promotion Agency, MOF)		•To manage government’s Geothermal Facilitation Fund, Land Acquisition Fund, etc.

III. JICA's Support 1

PPP Network Enhancement Project (1)

- The JICA T/A Project launched in March 2011 for three years.
- On Institutional Improvement Activities (sub-team 3), researched other countries (UK, India, Republic of Korea and Australia, etc.), synthesized key success factors...



III. JICA's Support 1

PPP Network Enhancement Project (2)

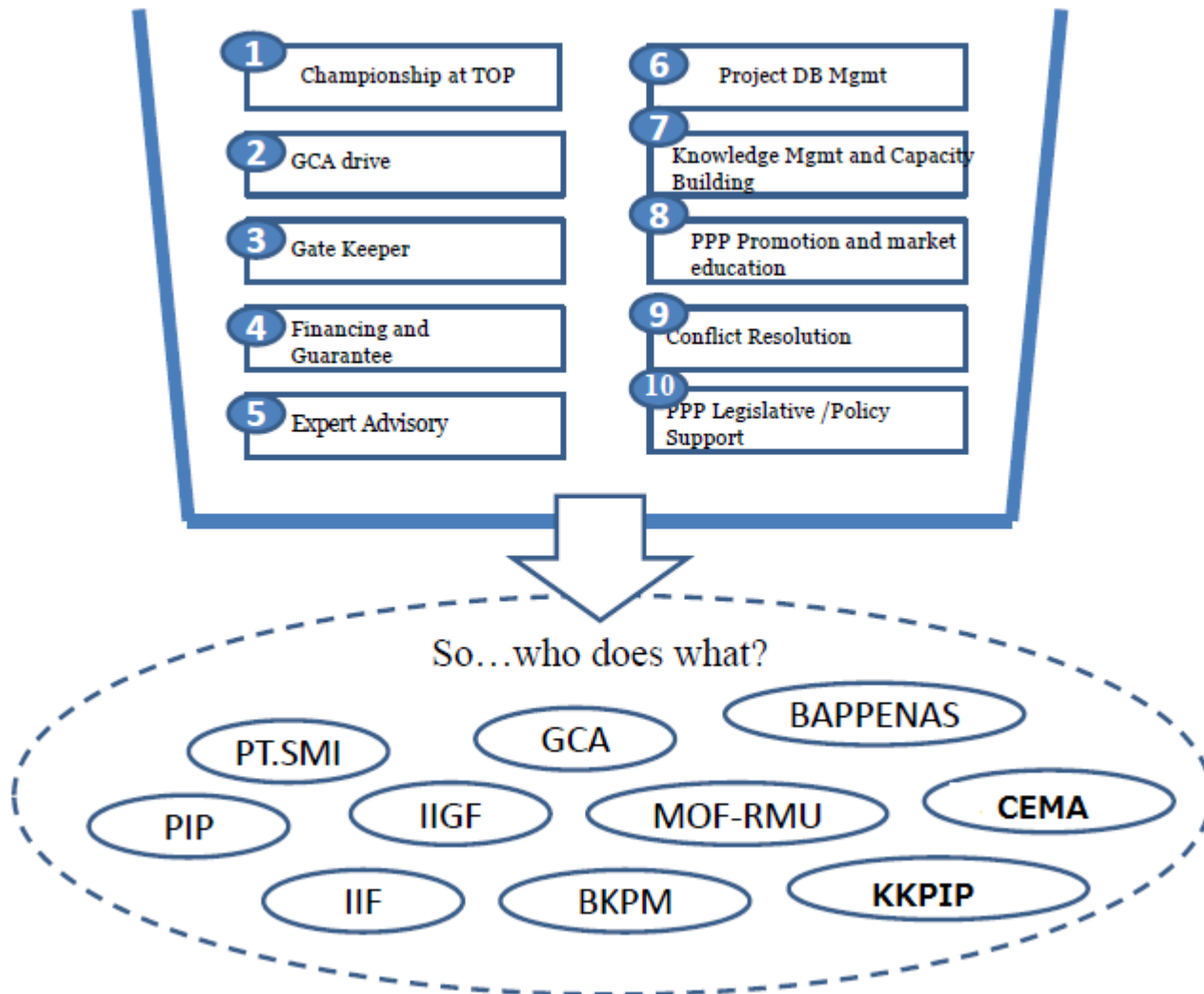
- ... and recommended institutional improvement master plan in Jan. 2012, focusing on 10 required functions for successful PPP.

	Function Description	Indonesia Situation
PPP Core Function	1 Championship at TOP •Periodic cross-ministerial top down directions are made to empower implementation	•KKPPI not functioning. 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. MOF gate lacks transparency.
	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. No on-line DB to manage and provide information on an on-going basis.
	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.

III. JICA's Support 1

PPP Network Enhancement Project (3)

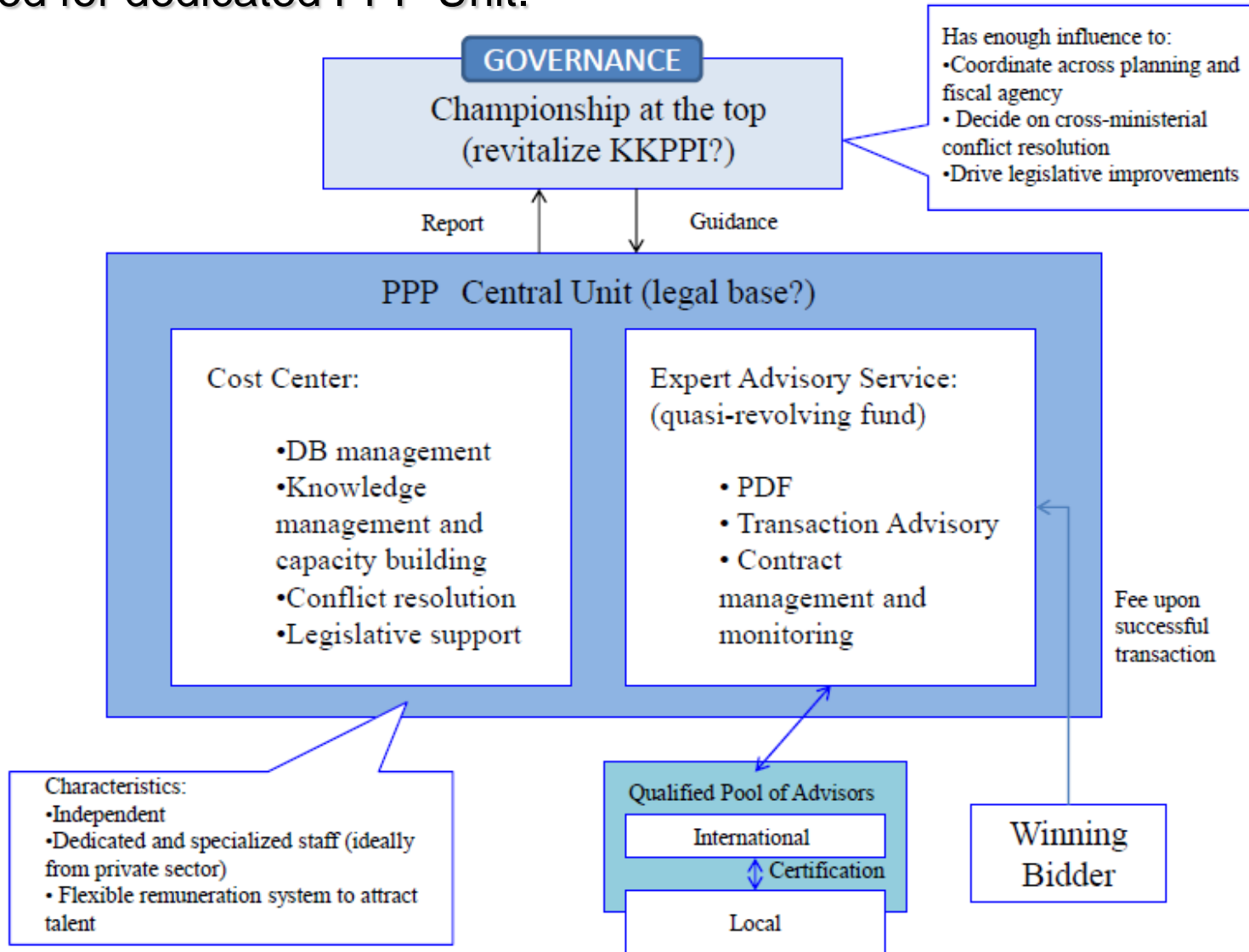
- ... taking it from “function” to “institution” ...



III. JICA's Support 1

PPP Network Enhancement Project (4)

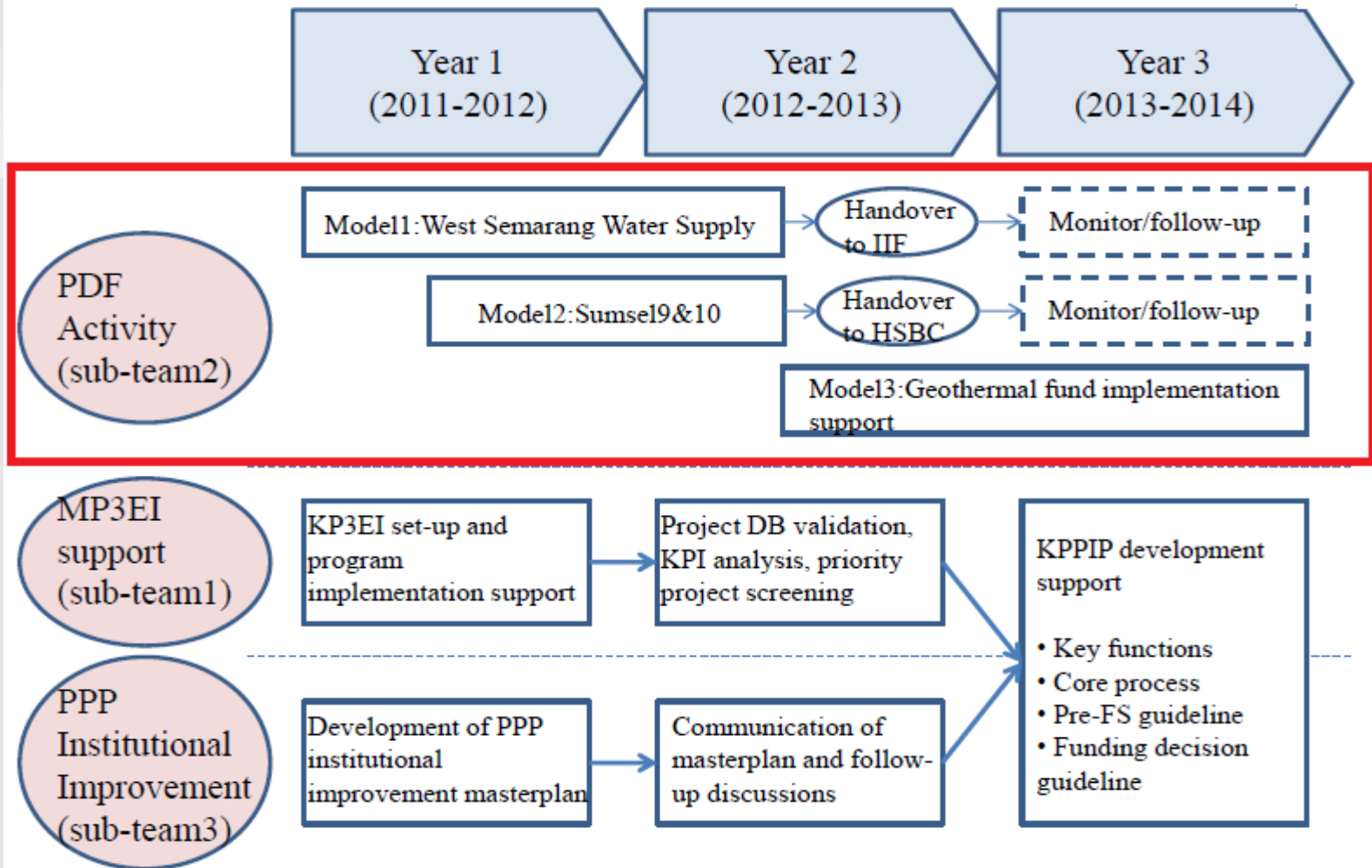
- ... stressing the importance of “Championship at the top” and the need for dedicated PPP Unit.



III. JICA's Support 1

PPP Network Enhancement Project (5)

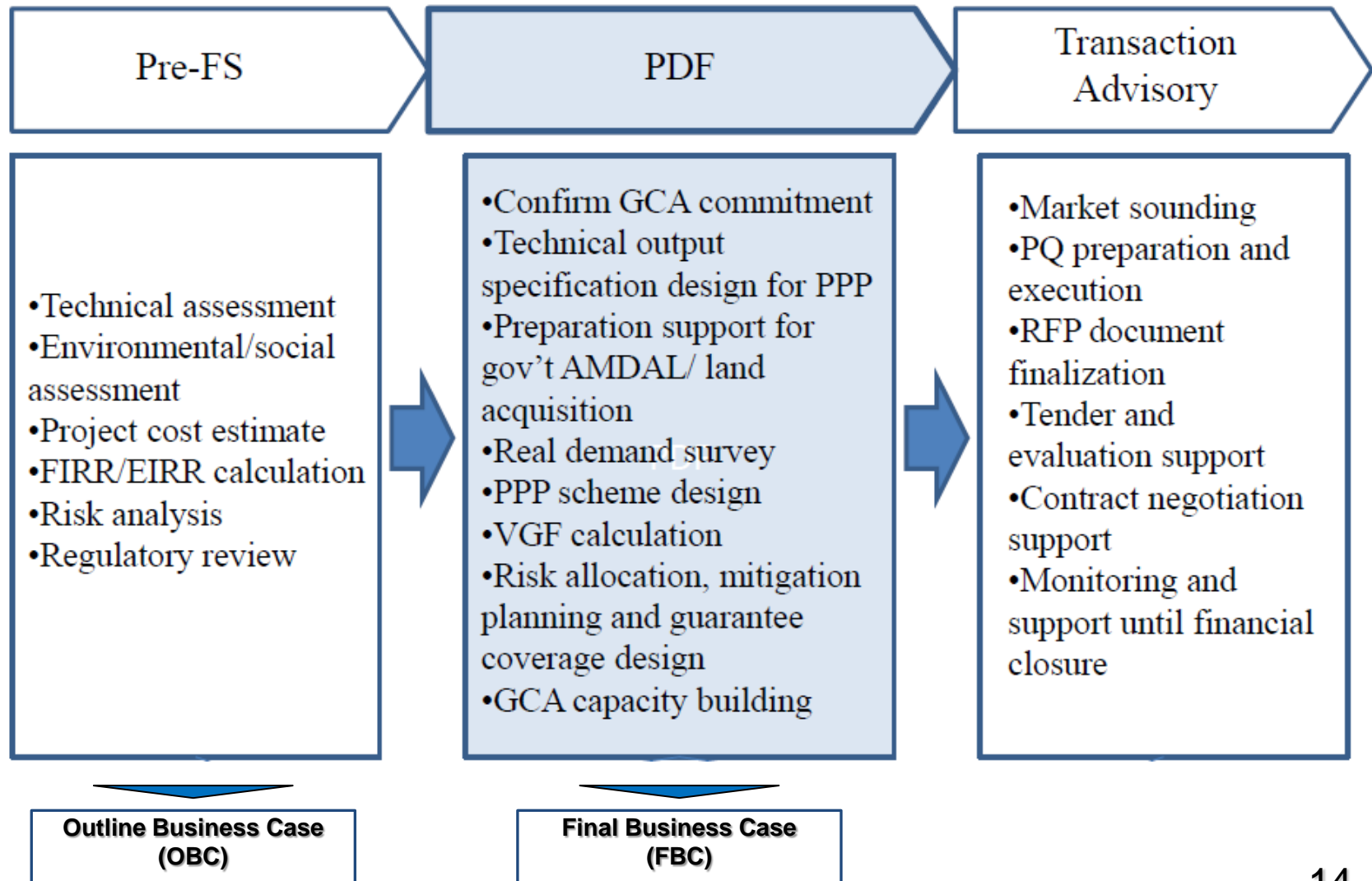
- The T/A also piloted 2 Project Development Facilities (PDF) for capacity-building of GCAs and put them into manuals.



III. JICA's Support 1

PPP Network Enhancement Project (6)

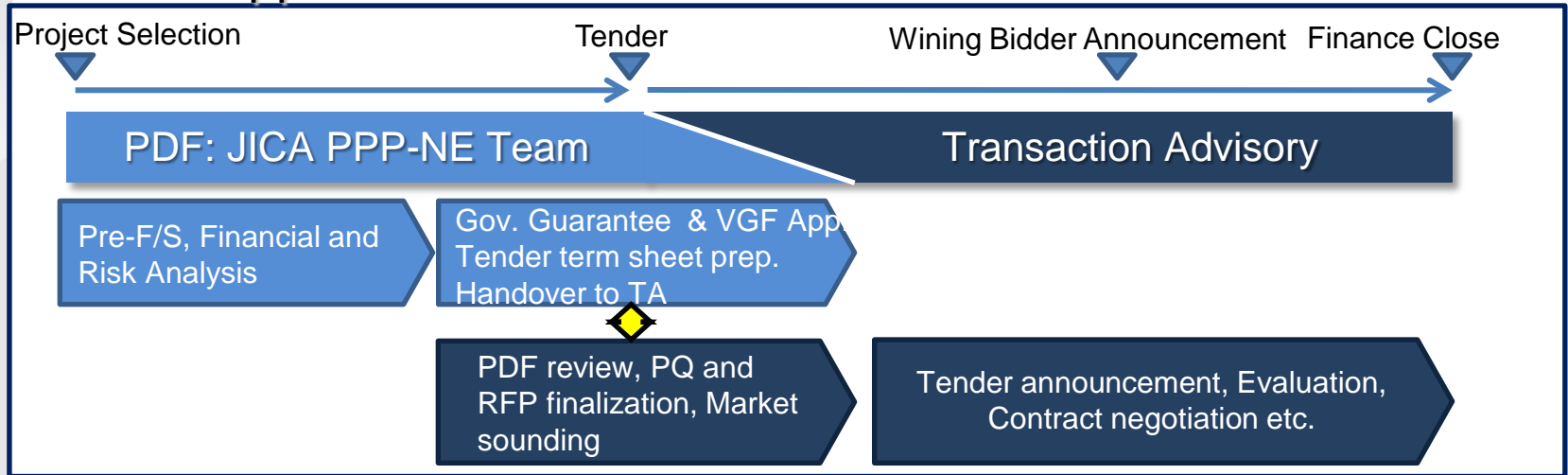
- PDF is a project preparation process to make it “bankable.”



III. JICA's Support 1

PPP Network Enhancement Project (7)

- PDF is followed by Transaction Advisory support for Tender and Contract.
- Donors supports PDFs and T/As.



【Model PPP Project with JICA PDF assistance】

West Semarang Water Supply

Project Objective:

Construction and operation of bulk water supply system in West Semarang

Project Cost (Est.): USD 80 Mil

Transaction Advisor: IIF

South Sumatera Coal Mine Mouth 9,10

Project Objective :

Construction and operation of mine mouth coal fired power plant in South Sumatera

Project Cost (Est.) : USD 2400 Mil

Transaction Advisor: HSBC

III. JICA's Support 1

PPP Network Enhancement Project (9)

- PDF is a capacity building process of GCA to overcome critical paths.
- Critical Paths are unique project-to-project.

Critical Path1: Stakeholder Alignment

- Upfront involvement of all stakeholders
- Local government/PDAM set steering committee
- Appointment of GCA

Critical Path2:Demand/Supply Perspective Upgrade

- RDS (real demand survey)
- PDAM master plan activity

Critical Path3:Gov't support analysis

- Risk assessment and mitigation planning
- VGF simulation

Critical Path4:Land Acquisition

- Ensure sufficient budget at local government
- Ensure dedicated team on the ground to negotiate compensation

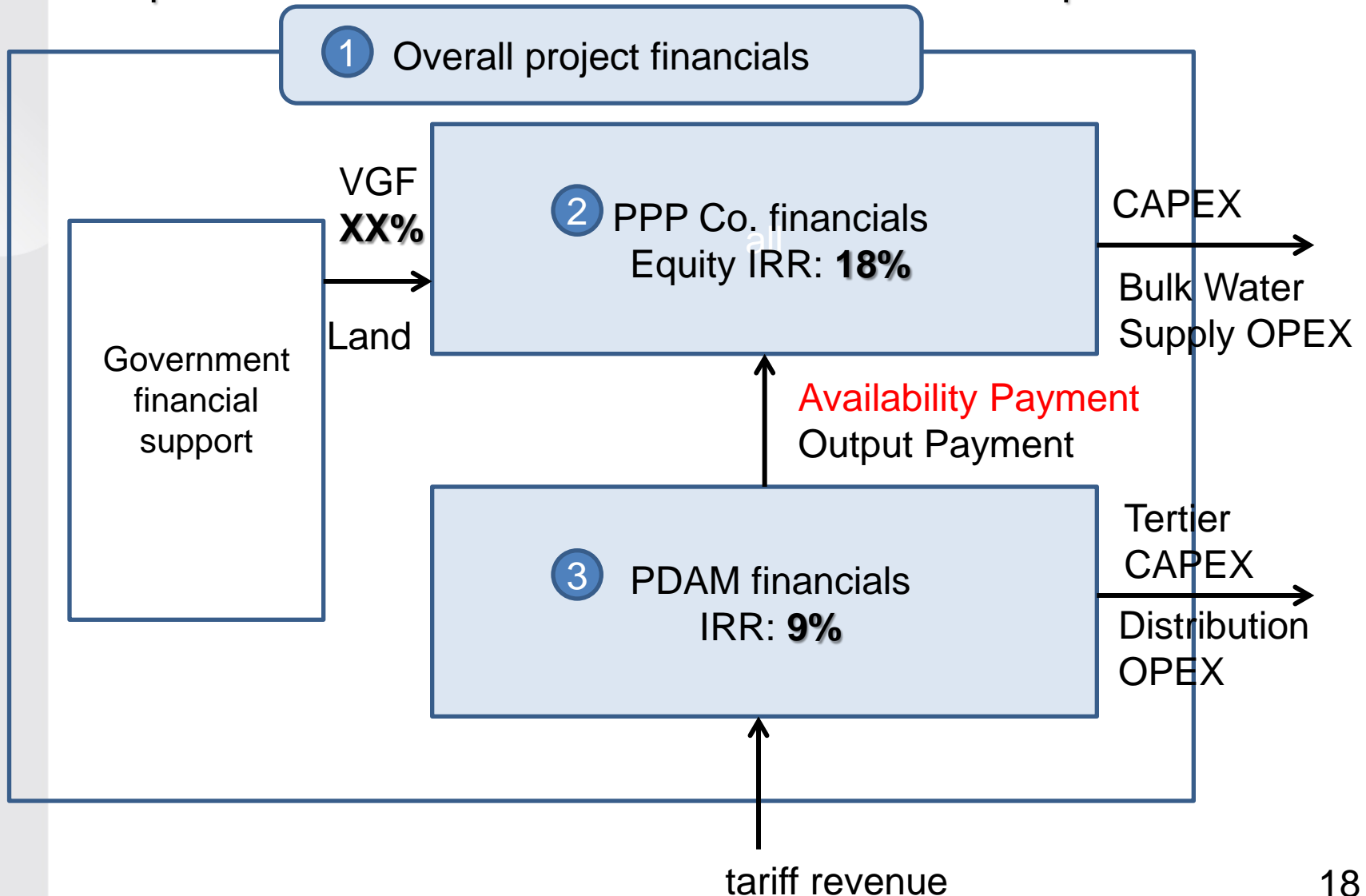
Critical Path5:Government permits

- Ensure EIA approval (AMDAL) requirements and processed in time
- Ensure in-principle commitment of water intake permit from ministry.

III. JICA's Support 1

PPP Network Enhancement Project (10)

- The pilot PDF tested the VGF calculation method sequence.



III. JICA's Support 1

PPP Network Enhancement Project (11)

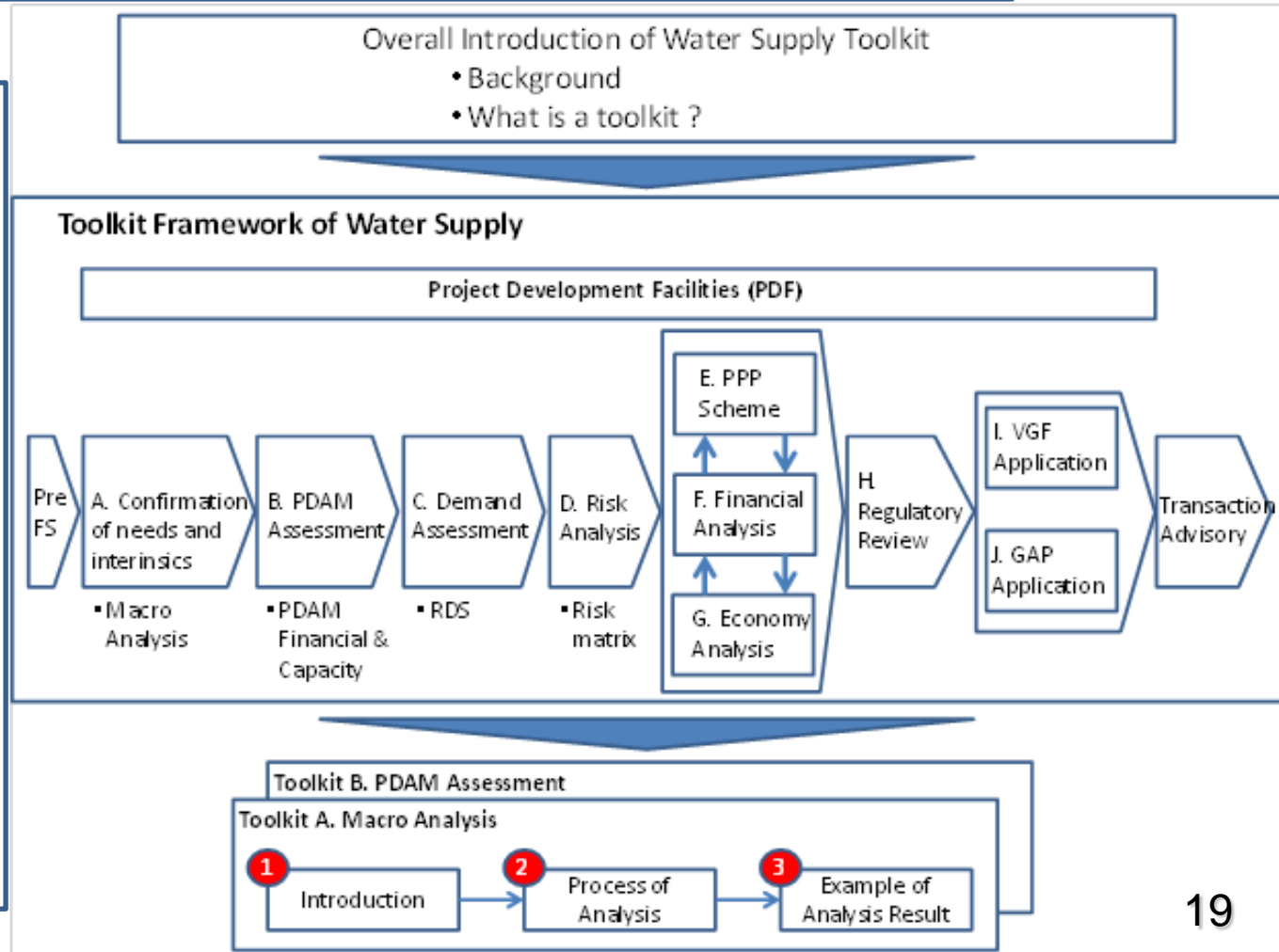
- Prepared PDF toolkits to share methodology of PDF activities.

- Water Supply (Model PJ:West Semarang water supply PPP project)
- Mine mouth (Model PJ:Sumsel 9/10 PPP project)
- Geothermal

➢ Standardized methodology for PPP project in PDF stage.

- Macro analysis
- Risks analysis
- Financial analysis, etc.

➢ The toolkit on BAPPENAS website.



IV. KPPIP and MOF PPP Unit

KPPIP: New Champion (1)

- KPPIP is formed to accelerate priority infrastructure development.

KPPIP

Coordinating
Ministry of
Economic Affairs
(CMEA)

Ministry of
Finance (MOF)

Ministry of
National
Development
Planning
(BAPPENAS)

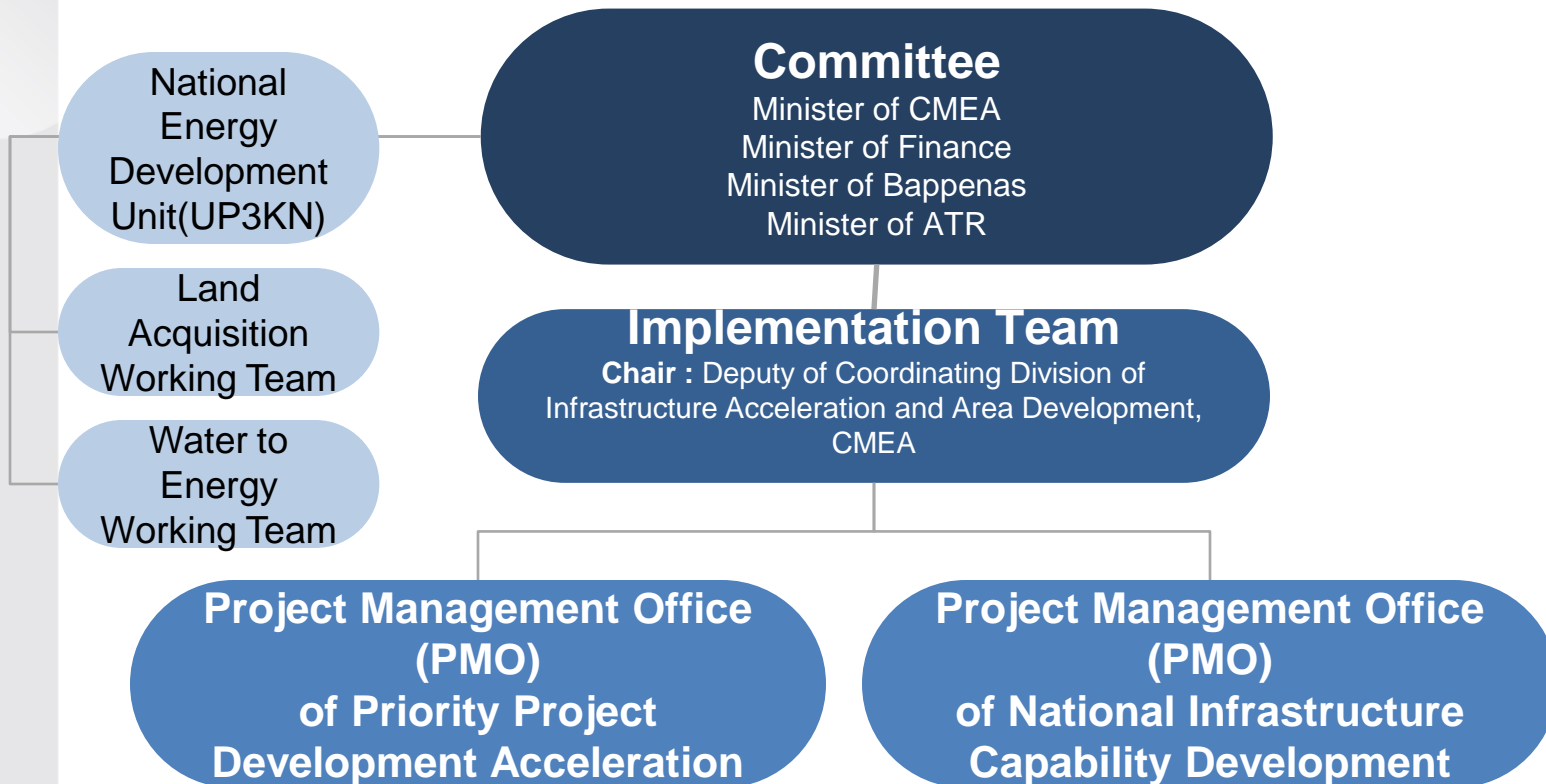
Ministry of
Agrarian &
Spatial Planning
(ATR)/ National
Land Agency
(BPN)

1. To determine Pre-FS / Outline Business Case (OBC) quality standard,
2. To select priority projects
3. To determine funding scheme determination for each priority project,
4. To develop action plan for each priority project together with the stakeholders, and
5. To monitor and debottleneck during implementation

IV. KPPIP and MOF PPP Unit

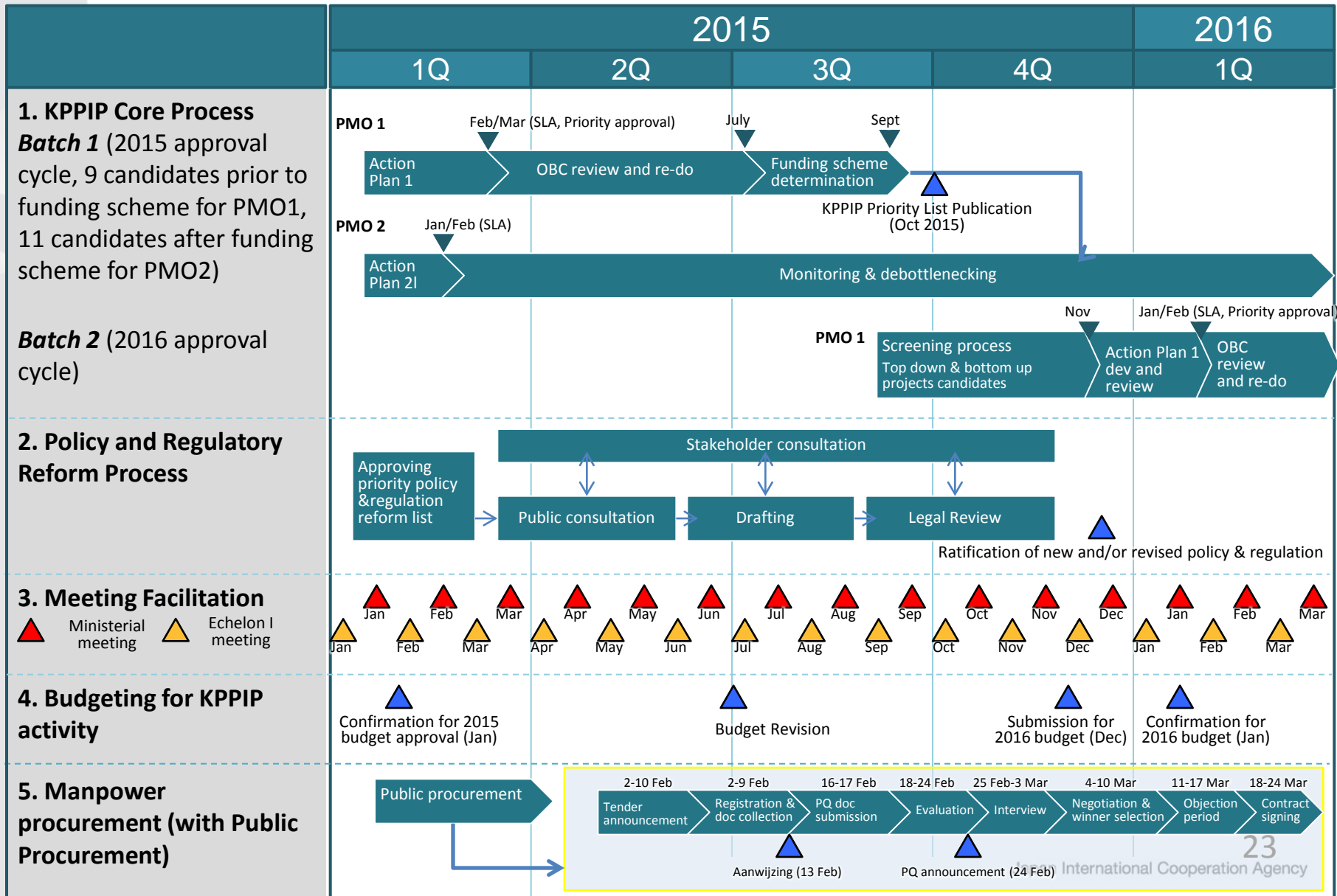
KPPIP: New Champion (2)

- Under the minister-level Committee, “Implementation Team” is set on April 2015.



<REFERENCE 1: Roles and Outputs of KPPIP>

Activities	Output	Role of KPPIP
Project Preparation	Publication of project list for infrastructure priority	<ul style="list-style-type: none"> The selection of priority project based on predetermined criteria Facilitate the preparation and the approval of action plans Establishing funding schemes and funding sources for each priority project
Pre-Feasibility Study	Pre-Feasibility Study with quality standards specified by KPPIP	<ul style="list-style-type: none"> Review pre-feasibility study submitted by GCA Decide whether pre-feasibility study needs to be revised or re-created based on quality standards of KPPIP Provide funds and / or consultants to revise and re-create the pre-feasibility study
Project Implementation	Decisions related to monitoring, evaluation, and problem solving to ensure the implementation of priority projects works on time	<ul style="list-style-type: none"> Implement the activities of monitoring and debottlenecking in a variety of issues, such as land acquisition, financing, permitting, feasibility studies and environmental impact studies, etc. Applying incentives and disincentives that have been agreed upon by stakeholders in the action plan
Policy Revision	<ul style="list-style-type: none"> Recommendations of regulation to accelerate the provision of infrastructure Recommendations of alternative funding scheme 	<ul style="list-style-type: none"> Coordinate the revision of the regulations / new regulations to support the provision of national infrastructure Synchronize the regulations that formulated based on the existing regulations in each sector. Analyze the needs for drafting the infrastructure laws. Coordinate the formulation of alternative funding scheme that does not exist in Indonesia (eg Annuity Scheme)
Capacity Building	Capacity building of staff and institution of GCA in implementing infrastructure priority projects	<ul style="list-style-type: none"> Coordinate the executive program, seminars and training for capacity building of staff in line ministries that become GCA (eg training on various PPP schemes), that use KPPIP internal experts and external professional trainers from credible institution.



IV. KPPIP and MOF PPP Unit

KPPIP: New Champion (3)

- The Government, with donor supports, prepares for operationalization.



- The budget of Rp 56,4 Billion is available
- Soon starts to recruit full-time experts



- Supporting project preparation (PDF facilities), KPPIP PMO operationalization, policy & regulation reform, and monitoring & debottlenecking supports.



- Total funding commitment is USD 2 Million for individual experts and USD 1,6 Million for OBC facility for 2 years.

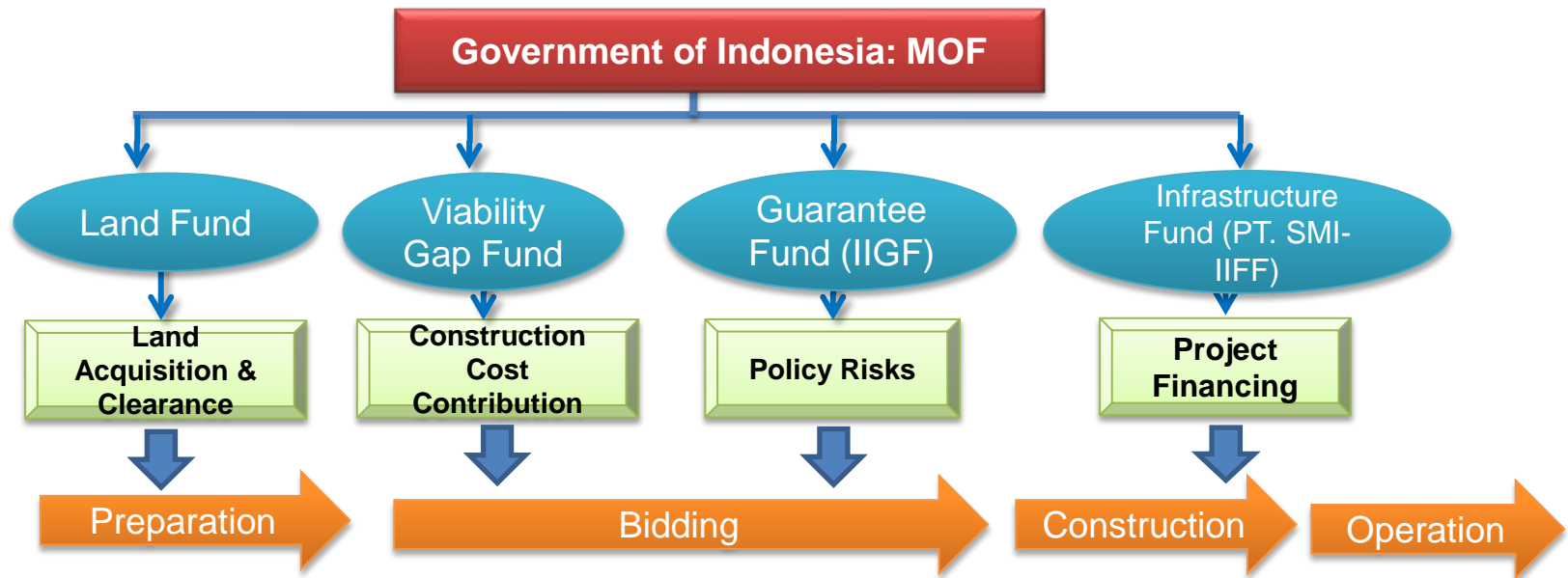


- IFC will conduct *market testing* for *Water to Energy* project, Kuala Tanjung & Bitung International Hub Port. *Endorsement letter* from CMEA Minister is required.
- Airport revitalization project requires the acceleration of MoU between MoT (Ministry of Transportation) and PT IIF/IFC.

IV. KPPIP and MOF PPP Unit

MOF PPP Unit (1)

- The Government has installed fiscal & financial support mechanisms at each project stage, but not effectively synthesized for project preparation.



- ❑ Land Fund: To accelerate land acquisition of PPP projects;
- ❑ Viability Gap Fund (VGF): To increase the financial viability of PPP project ;
- ❑ Indonesia Infrastructure Guarantee Fund (IIGF): To guarantee for infrastructure risks;
- ❑ Infrastructure Fund: To offer long term, mainly local currency, financing for infrastructure projects;
- ❑ GOI has also established Geothermal Fund Facility to mitigate the exploration risk.

GOI establishes IIGF to provide government guarantees to support PPP infrastructure projects development

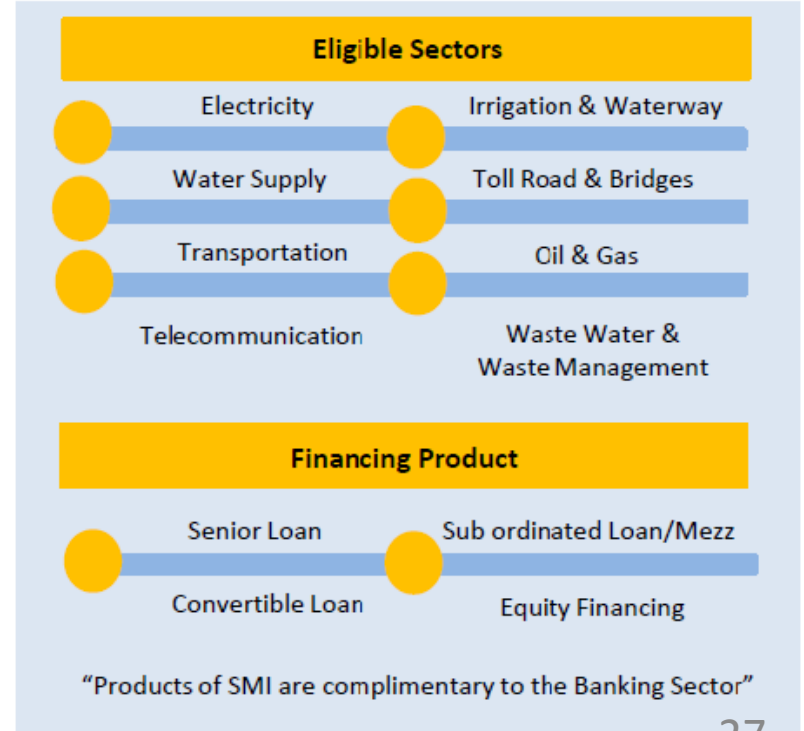
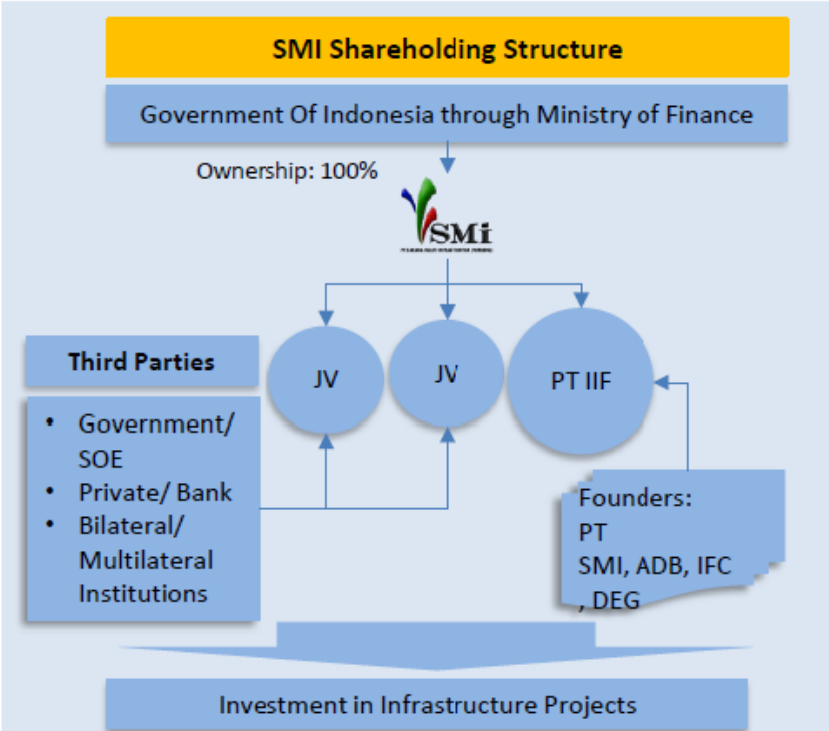


*as has been ammended by Presidential Regulation No. 13/2010 and No. 56/2011



PT Sarana Multi Infrastruktur (Persero) ("SMI") was established on February 26, 2009 with a purpose to become a catalyst for accelerating infrastructure development in Indonesia

Scope of Services		
Commercial Financing <ul style="list-style-type: none"> Flexible financing Complementary to banks Syndication Loan or club deal arrangement 	Advisory <ul style="list-style-type: none"> Financial Advisory Services Investment Advisory Services Transaction Advisory Services Training & Capacity Building 	Project Preparation (PDF) <ul style="list-style-type: none"> Project Development Financing Advisory to contracting/ tendering agencies Limited capacity building



IIF PT Indonesia Infrastructure (IIF) is a private non-bank financial institution formed by and under the Ministry of Finance of the Republic of Indonesia. Licensed under the Minister of Finance Regulation (PMK) No. 100/2009, IIF is professionally managed and focused on supporting and investing in commercially feasible infrastructure projects. The establishment of IIF is a key element of strategic development by Government of Indonesia and development partners among international financial institutions to address the constraints on the flow of private investment in Infrastructure.

Shareholders



Target Sectors

	Transportation infrastructure		Waste / waste-water infrastructure
	Road infrastructure		Telecommunication and information infrastructure
	Irrigation infrastructure		Electricity infrastructure
	Drinking water infrastructure		Oil and gas infrastructure

IIF's Vision & Mission

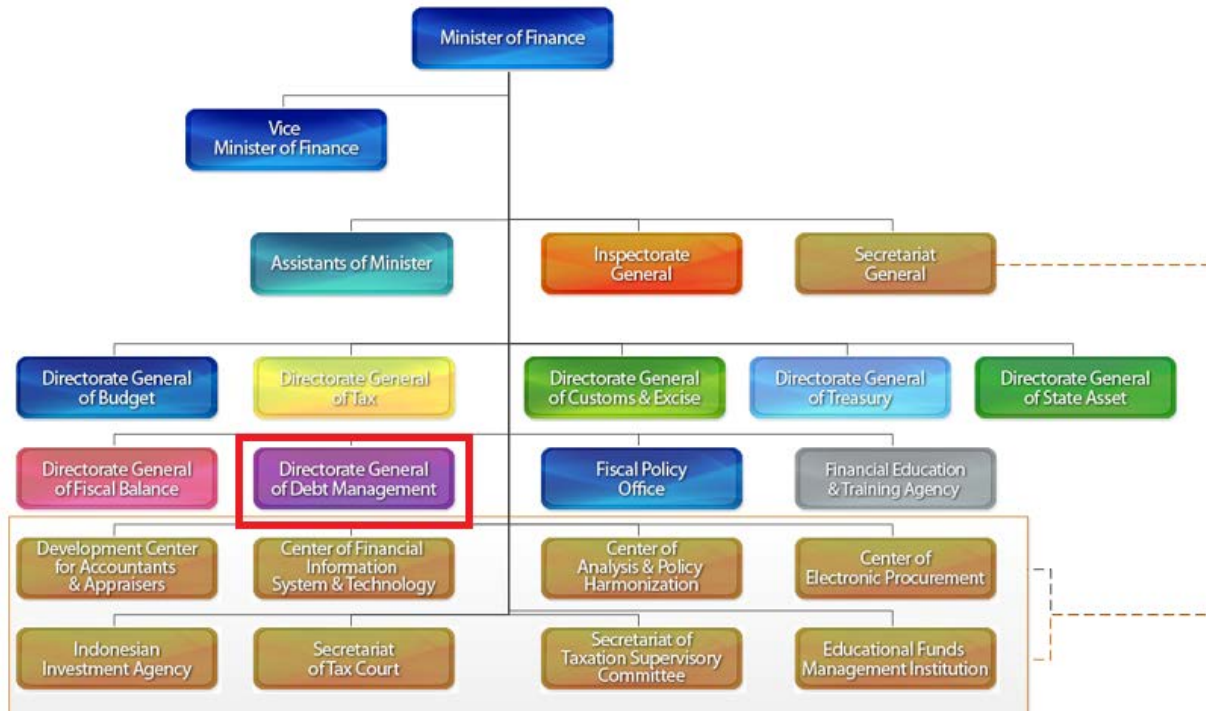
To provide capital for infrastructure in Indonesia and to work closely with Infrastructure sponsors, the financial sector, and the Government of Indonesia to accelerate the construction of well-conceived, commercially viable infrastructure projects.

- To ensure investors' needs are reflected in contractual structures and concessions.
- To lead in offering a mix of long term financing instruments appropriate for infrastructure.
- To work with Indonesia's financial institutions and other institutional investors to channel the nation's saving into the long term development of Indonesia's Infrastructure.

IV. KPPIP and MOF PPP Unit

MOF PPP Unit (2)

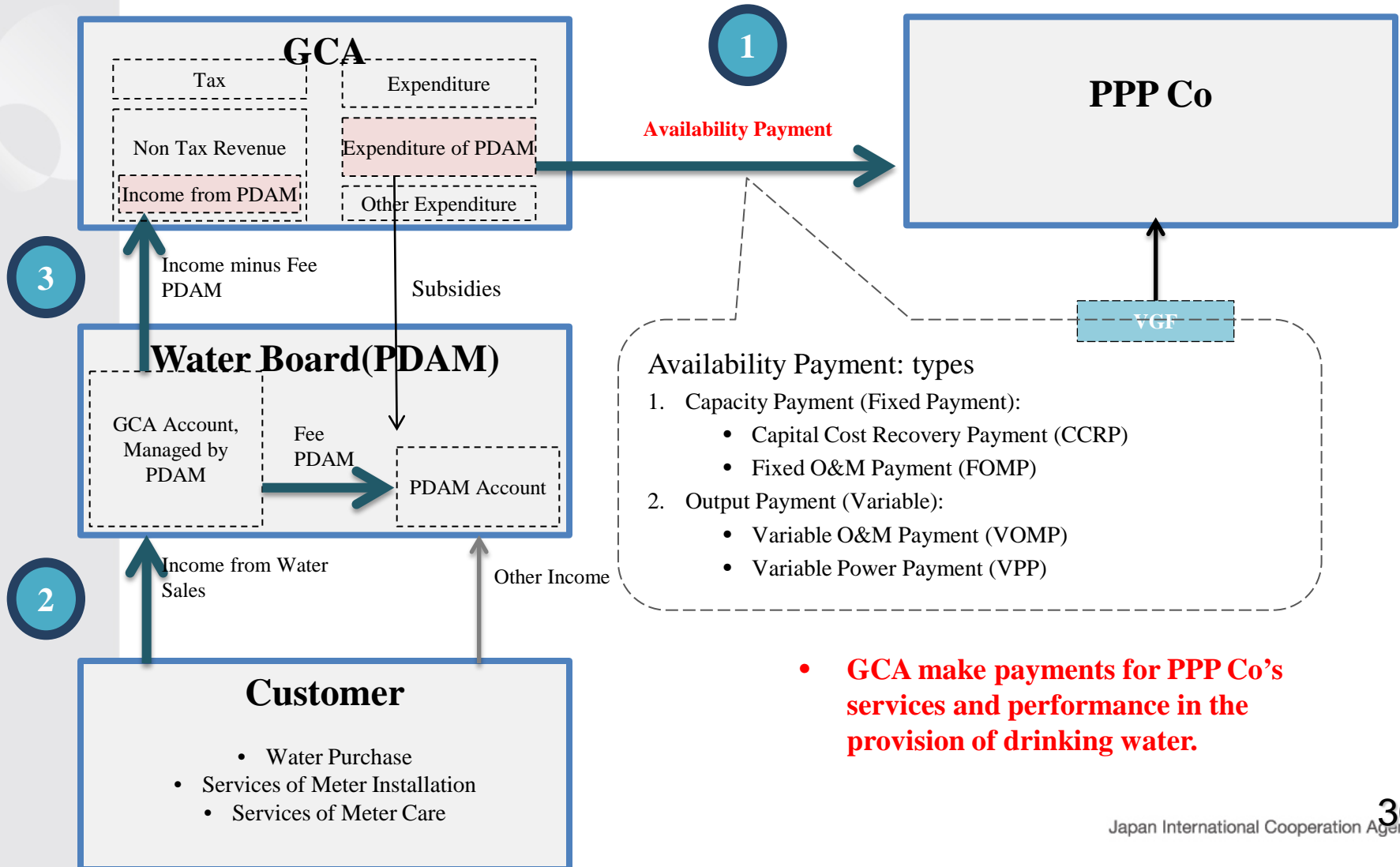
- Decree of Finance Minister for PPP Unit signed on October 2014.
- The Unit is put under Directorate General of Debt and Risk Management, consisting of 3 divisions: project development; gov't support evaluation; and gov't support approval.
- With close coordination with KPPIP, the Unit will support GCA's project preparation, access and determine necessary government supports, including VGF, supports from IIGF, PT.SMI, IIF, etc.



IV. KPPIP and MOF PPP Unit

MOF PPP Unit (3) – JICA’s support on availability payment

- Using the model PDF case of West Semarang Water Supply, JICA is supporting introduction of Availability Payment Scheme.



- GCA make payments for PPP Co’s services and performance in the provision of drinking water.**

V. JICA's Support 2

MPA Support Facility (1)

- To support key infrastructure projects by providing expert advisory service on policy review, project development and implementation.
 - **Infrastructure Policy Advisory**
 - **Pre-FS & PDF**
 - **Debottlenecking support**

<Coverage of MPA Support Facility: highlighted>

PPP Project

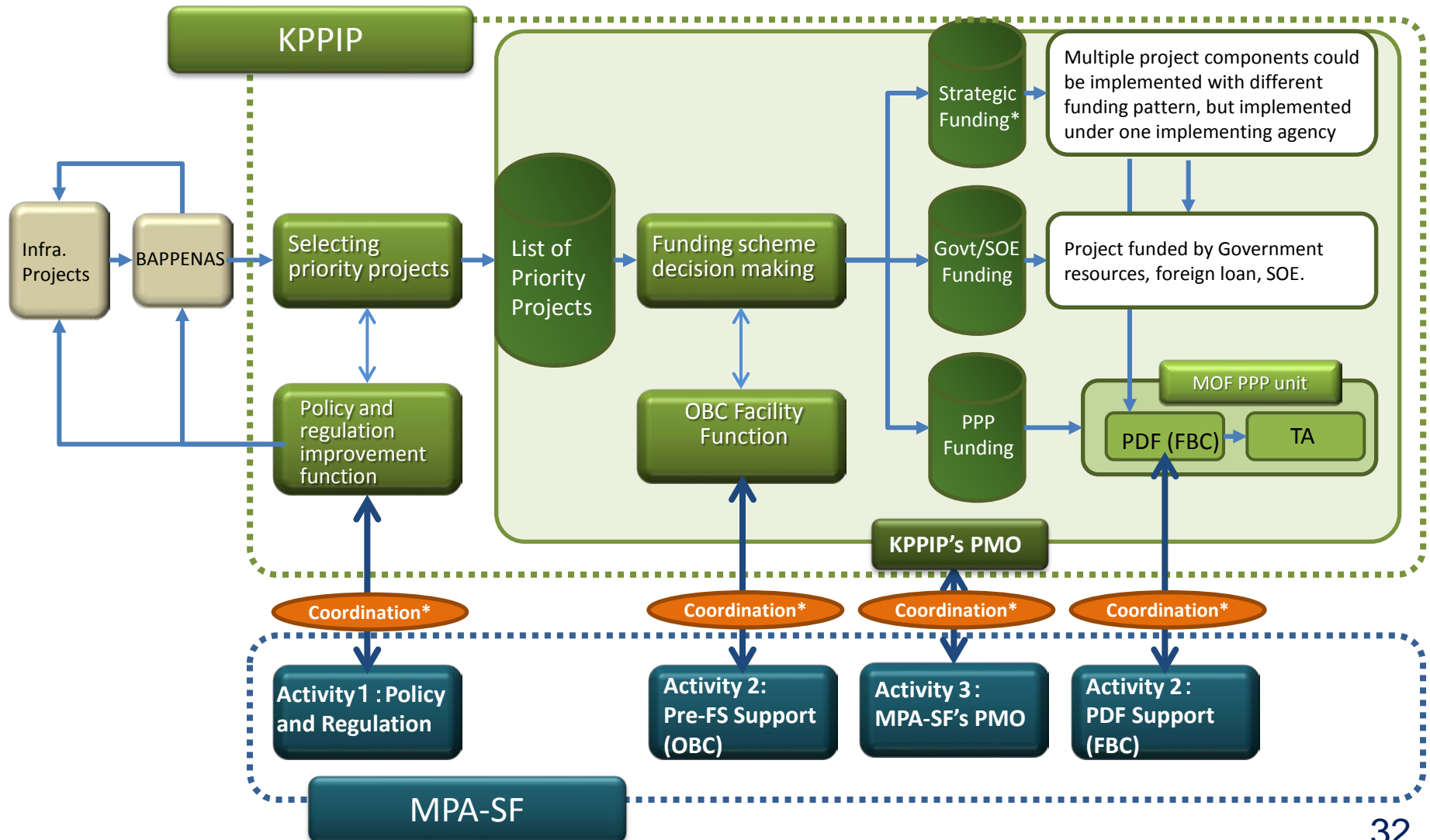
Public Financed Project

(1) Pre-F/S	(1) Pre-F/S and/or F/S
(2) Project Development Facility (PDF)	
(3) Transaction Advisory (up to Financial Close)	(2) Financial Close or Own Budget
(4) F/S and Construction	(3) Consulting Services and Construction

V. JICA's Support 2

MPA Support Facility (2)

- The T/A project closely coordinate with KPIIP and MOF PPP Unit.



*KPIIP start up support, operationalization support, capacity building support

1. KPPIP Operationalization

- 1) Support to finalize Permenko (organization and SOP). Thereafter, support development of SOP details (e.g. SK draft for priority screening criteria, funding scheme decision criteria, OBC guideline, action plan template)
- 2) Ensure effective disbursement of 2015 budget and ensure procurement of quality internal staff and consultant for pre-FS
- 3) Coordinate KPPIP series of kick-off meetings in various levels (Echelon 2, Echelon 1, Vice Ministerial and Ministerial level)
- 4) Transfer of knowledge to KPPIP full-time staffs

2. Project Prioritization

- 1) Assist KPPIP staff in coordinating socialization of KPPIP to GCAs and cultivating project proposals
- 2) Develop tools and/or templates to assist KPPIP staff in prioritization, action plan development, monitoring and debottlenecking, and reporting
- 3) Assist KPPIP staff in coordinating stakeholders' discussions over priority project selection and action plan development
- 4) Assist KPPIP staff in making draft of KPPIP priority project list including action plan for each project, and accelerating ratification of the list (Due 180 days after Perpres)
- 5) Ensure adherence to KPPIP SOP by assisting KPPIP staff in selecting projects, developing action plan, providing pre-FS facility, determining funding scheme, PMO, and debottlenecking

3. Policy/Regulation Reform Support

- 1) Assist KPPIP staff in identifying priority list of regulations to be improved or developed. Those implementing regulations for availability payment, land banking, strategic funding, forest permit acceleration, infrastructure law will be explored.
- 2) Assist KPPIP staff in analyzing the regulations and recommend revisions
- 3) Assist KPPIP staff in coordinating stakeholders' discussions and secure support for the above revisions

4. OBC/FBC Facility Support

- 1) Assist KPPIP staff in OBC quality check activity
- 2) Assist KPPIP staff in the set up of OBC facility (for top down priority project candidate)
- 3) Share information with BAPPENAS OBC facility and MOF PPP unit FBC facility to cross-fertilize the mechanism

5. PMO Support

- 1) Assist KPPIP staff in the set up of project monitoring system in two stages 1) Preparation stage: from priority project candidate to funding scheme decision/action plan revision, 2) Transaction stage: from action plan revision to ground breaking
- 2) Assist KPPIP staff in institutionalizing the debottlenecking function

Thank You

For Contact:

Takao Shimokawa
Southeast Asia and Pacific Department
Japan International Cooperation Agency (JICA)

Shimokawa.Takao@jica.go.jp