

# Indonesia and Infrastructure Development - PPP and Australian-Japanese Potential Collaboration

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Professor John Black,  
UNSW, Australia and UGM, Indonesia



# Personal Introduction

- Involved with transport and infrastructure in Indonesia as consultant and educator since 1974
- Jakarta 1979 - Minister for Transportation
- UNDP; Steel Bridge Replacement Program; Advisor to Minister of Public Works on PPP; Bina Marga reform with decentralisation
- Australian - Indonesian Governance Reform Program on PPP and transport sector (2007 - 2009); UGM Board
- International Expert Ministry of Finance (2011-12)



# INVESTING IN THE INDONESIAN TRANSPORT SECTOR: The way forward for private sector participation

Professor Danang Parikesit (Universitas Gadjah Mada)  
Professor John A. Black (University of Sydney)  
Associate Professor John Lea (University of Sydney)  
Dr. Purwo Santoso (Universitas Gadjah Mada)

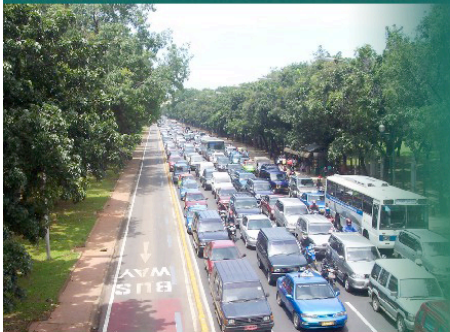
## Background

The Government of Indonesia has recognized that poor transport infrastructure will constrain economic and social development and, more generally, hindered the achievement of several Millennium Development Goals. With current transport infrastructure expenditure accounting for approximately 10-15 per cent of national spending, the sector is a key target for governance reform. Transport enjoys the highest percentage of government expenditure if the government transport subsidy managed by the Ministry of Finance is included. The significant increase in roads and transport sector budgets requires better safeguards in order to achieve a sustainable policy for delivery of infrastructure. In order to achieve that, there is an urgent need for the responsible agencies to lead the change. The timing is right for reform in the transport sector. Bureaucratic reform is occurring, with the Ministry of Finance leading the way with its Public Finance Management Plan. Policy revision reviews are taking place in other sectors too, including infrastructure, in conjunction with ADB/ JBIC and the World Bank. The GREAT research project has formulated three proposed reforms which focus on the issues that have not been covered by other policy studies.

## Proposed reform 01:

Mapping government financial support for transport infrastructure and services and consolidating it whenever appropriate

- Consolidation of both subsidy and PSO scheme should be the initial reform strategy to effectively channel support to private transport operators or SOE.
- The transport industry contribution should raise funds for expanding the network and thus increase demand for transport services.
- The consolidated budget should preferably be directly managed by line ministries with stringent monitoring by the Ministry of Finance.

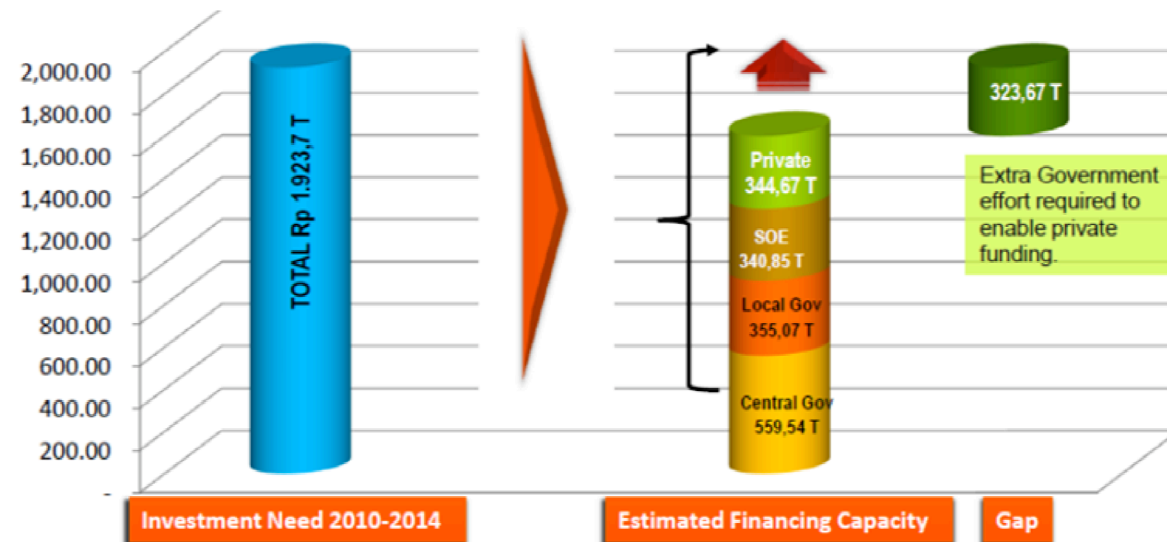


# CONTENTS

- Opportunities in Indonesia for infrastructure development
- Relative strengths of Australian Japanese infrastructure sector
- Collaboration and detailed case study of Indonesian rail project and key messages
- The next steps?
- India? Post-tsunami Tohoku reconstruction?



# Indonesia – An emerging opportunity



7% growth target requires:  
Rp 1.923,7 Trillion (about US\$ 213,3 billion)  
of investments during 2010-2014.

- Central Government budget can only cover 29.1 % of total investment need.
- Big opportunity for private investment through PPP (Rp 668,34 Trillion or 34.7%).

# KEY MESSAGES

- Huge infrastructure needs over next 10 years
- Start business partnerships now
- Identify Indonesian business partners

# Indonesia – An emerging opportunity

## Up to 1990

Sectors: Toll Road and IPP (proposed)

Regulations enabling PPP:

- Law 15/1985 on Electricity
- Law 13/1987 on Road
- PP 8/1990 on Toll Road
- PP 10/1989 on Electricity

## 1990-1997

Sectors: Toll Road, Water, Electricity & Ports

Regulations enabling PPP:

- Keppres 37/1992 on Private Electricity
- Keppres 55/1993 on land acquisition

## 1998-2004

### Asian Financial Crisis

Presidential Decree (Keppres 7/1998) Cross Sector

Major Changes:

- Global economy
- Political system
- Decentralization
- Government Institutions
- Several New Laws on infrastructure passed
- renegotiation on IPP's
- KPPPI formed

## 2005 - 2011

- Infrastructure Summit 2005
- Perpres 36/2005 on land acquisition
- Perpres 42/2005 on KKPPPI
- CIIF
- Perpres 67/2005
- IICE 2006
- PMK 38/2006
- Reform of Sector Laws
- Establishment of RMU & Guarantee Fund
- Land Revolving Fund
- PT SMI, IIFF, IIGF
- IIGF Risk Allocation Book
- Draft Land Acquisition Act (July/August 2011)

# KEY MESSAGES

- Keep abreast of government regulations
- Websites
- JETRO/JICA services
- Austrade role in Australia

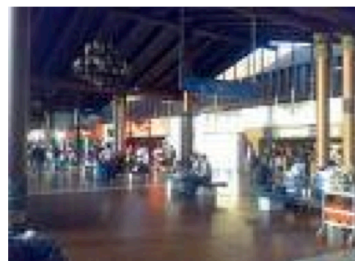


# Indonesia – An emerging opportunity

Roads/Metro



Airports



Ports



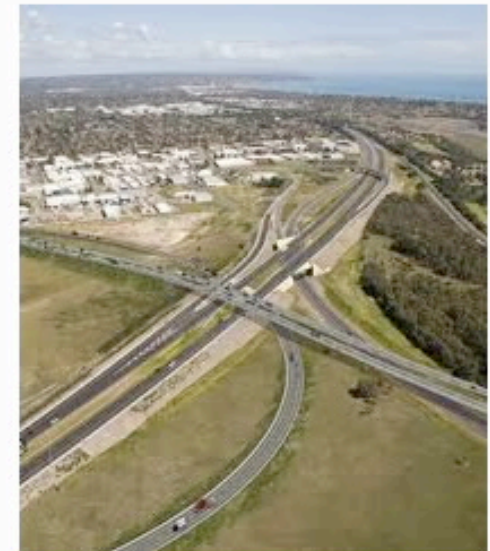
# Potential Australian and Japanese Strengths in Infrastructure

- Japanese engineering technology
- Japanese presence in Indonesia
- Australian project management (in English)
- Australian financial institutions and PPP modality

# Australia's strengths in PPP that are/should be in demand globally

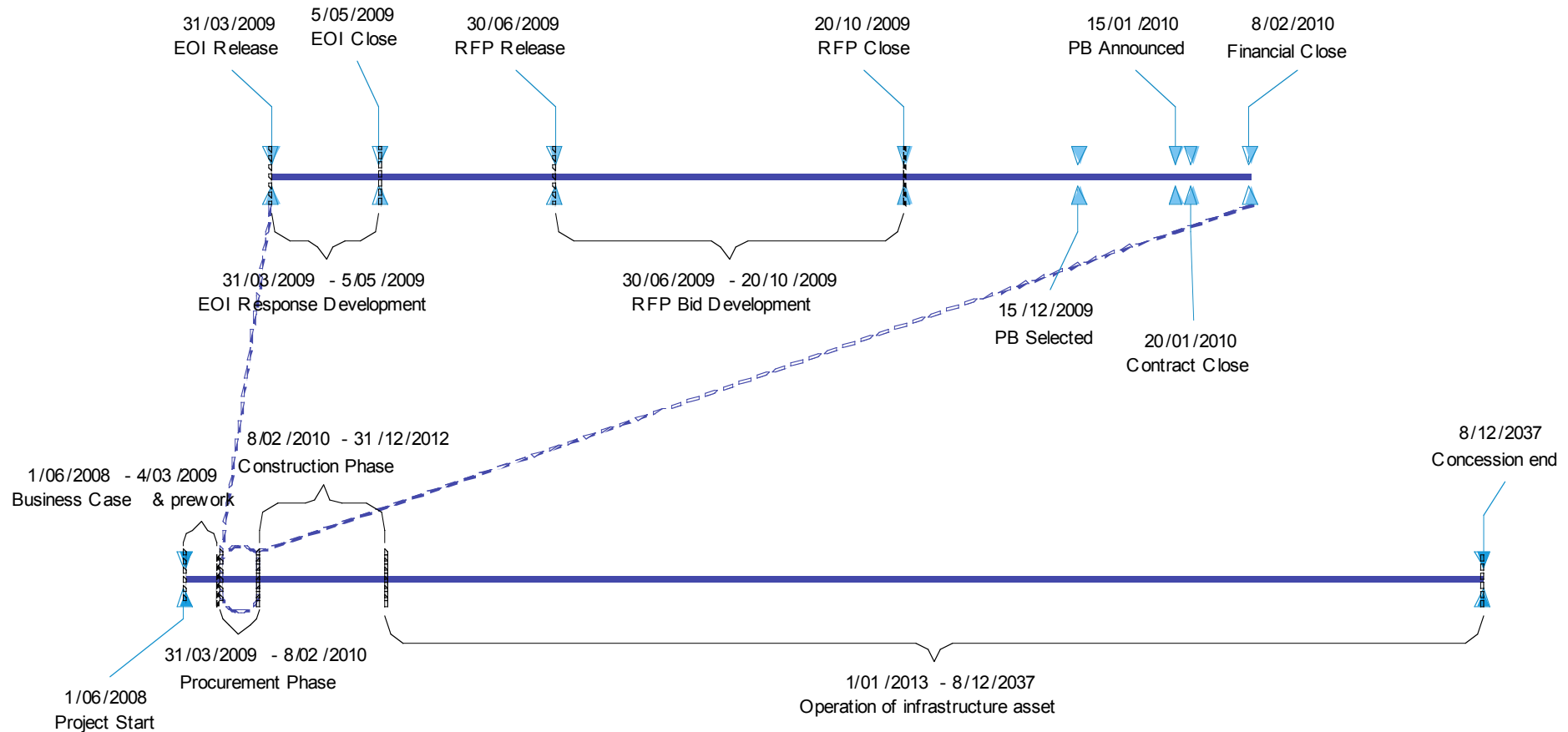
## The perspective from the Australian sector would include:

- Design & development of the frameworks and policies necessary for PPP's – ranging from policy advice through to the provision of transactional experience and expertise
- Development of favourable contractual arrangements where risk is allocated to the party best able to manage it + innovation
- Procurement methodology that is flexible to the project needs whilst having standardised elements of best practice
- Firms well experienced in the contractual, risk and relationship complexities of PPP's
- Reputation to deliver and manage the risk around large complex projects. The reputation and involvement in consortiums increase financial certainty and commitment.



**Peninsula Link**

# Project timeline - Peninsula Link

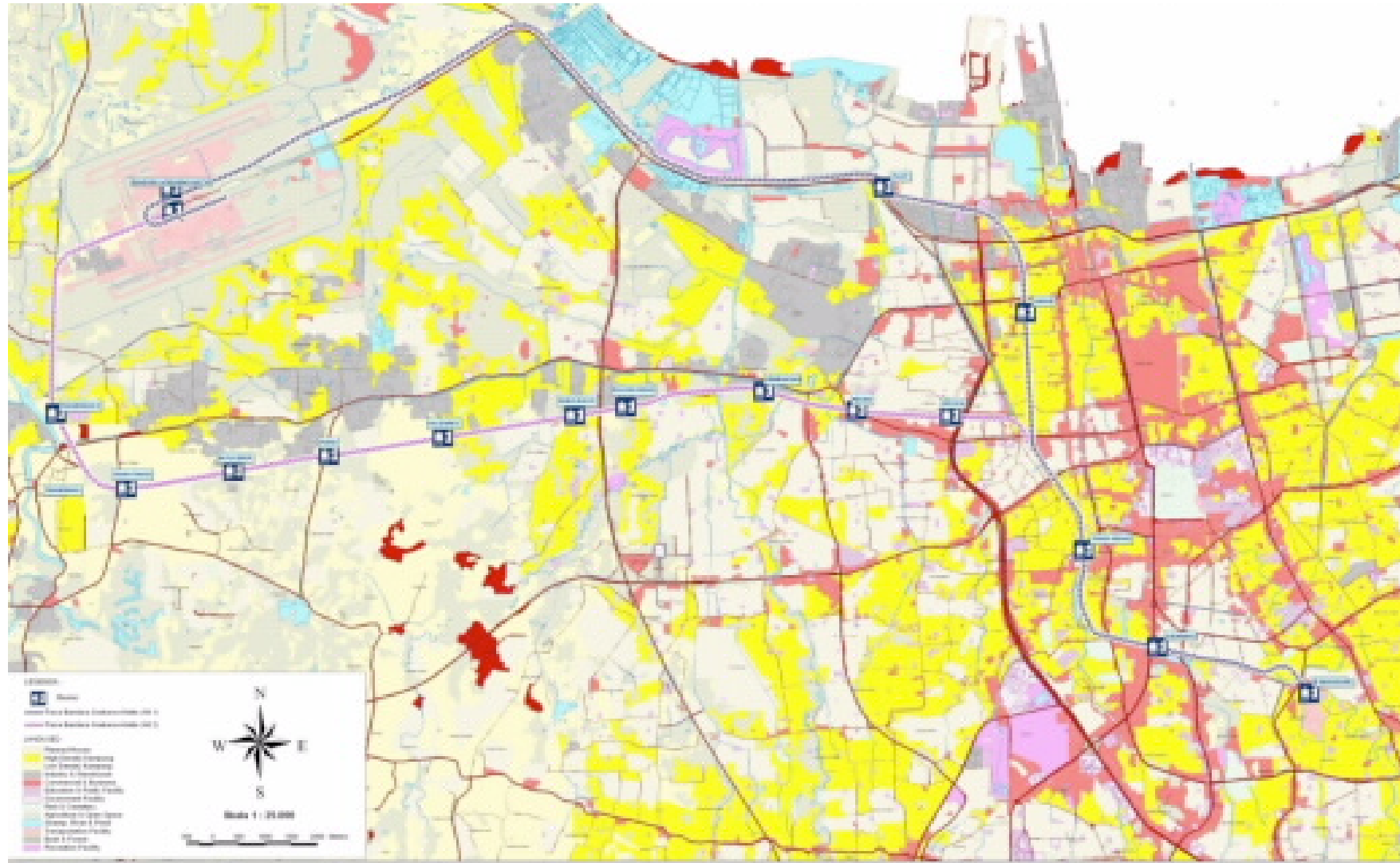




# URBAN RAIL PRE-FEASIBILITY STUDY AND COMMENTS

- Project Study Area - Description
- Broad Overview of consultant's outputs
- Project history - background information
- Key features of this pre-feasibility study
- PT SMI evaluation process and criteria

# Jakarta Rail Study Area



# Broad Overview -

## Consultant Outputs - 1/3

- Inception report (to be delivered immediately after commencement of assignment stating detailed workplan and timetable)
- Due Diligence report
- Alignment Study: Evaluation of Alternatives and Recommendation report
- Alignment Study: Passenger Travel Demand Survey (Real Demand Survey) report
- Pre-Feasibility Study Working Paper: Output Specification, Basic Design and Cost Estimation

## Outputs - 2/3

- Working Paper: Detailed Demand and Revenue Forecasts
- Working Paper: Economic Social Cost Benefit Analysis
- Working Paper: Financial Analysis
- Working Paper: PPP Modality Analysis
- Working Paper: Analysis of Government Support and/or Guarantee



## Outputs - 3/3

- Draft Term-sheet of PPP Agreement
- Pre-Feasibility Study: Draft Final Report
- Pre-Feasibility Study: Final Report
- Financial Model (in editable spreadsheet format and wired/not hard coded) and Report
- MDAL/EIA Documents
- Monthly progress reports.

# KEY MESSAGES

- Selection based on technical proposal: outputs standard practice - but..
- English-speaking Technical Director
- Indonesian counterpart Co-Director
- Australian experience in PPP
- Limited expertise in Indonesia on environmental assessment (capacity building)

# Background History -1

- 2008, a Vice President instruction to conduct PPP procurement for a railway with PPP Procurement Committee formed by a Minister of Transportation Decree
- Committee processed the procurement from public announcement of expression of interest until the pre-qualification stage
- July 2009, Committee qualified three groups of potential investors
- The Directorate General of Railway arranged an inter-ministries coordination meeting relating to the procurement process on 3 August 2009 attended by Infrastructure Deputy of Bappenas, representation from Coordinating Ministry of Economy, MoF, and Procurement Committee
- Procurement Committee reported the result of the procurement process including indications from qualified bidders on need for Government support which contradicted the Government initial understanding that project would be feasible **without** Government support.
- The procurement process stopped in 2009 - Government decided to go back to the planning stage before stating its policy position

# Background History - 2

- Soekarno-Hatta Airport Railway project - one of five show-case projects in terms of PPP procurement.
- Decision of Vice President on 31 August 2010 and request on 21 December 2010 to Ministry of Finance to confirm financial support through PT SMI, and to develop further the plan so that it aligned with related regulations
- 6 May 2011, Ministry of Finance launched Decree No. 126/KMK.01/2011 regarding the assignment of Perseroan PT SMI to facilitate preparation of the PPP Soekarno-Hatta Airport Railway project.
- Ministry of Transportation at an inter-ministry meeting on 26 April 2011 attended by Ministry of Public Works, Bappenas, BUMN Ministry (State Owned Enterprises), BPN (the National Land Body), the Governors of DKI and Banten concluded that the development of the Soekarno-Hatta Airport Railway will be investigated as 2 lines



# Background History - 3

- Two lines - Railway Express Line through Pluit under a PPP scheme, and the Commuter Line through Tangerang under an assignment to the BUMN Consortium lead by PT. KAI (Indonesian Railway Company)
- The PJPK of the Ministry of Transportation, under facilitation supported by PT SMI, requested to proceed a pre-feasibility study of the Railway Express Line through Pluit under a PPP scheme in order to ripen the project before making a formal re-tender as a feasibility study
- The pre-feasibility study will cover an optional route review that delivers feasible options to develop. The route could also be located on an alignment outside of the two alternative routes identified above

# KEY FEATURES OF THIS PRE-FEASIBILITY STUDY

Due Diligence; Alignment studies;

Pre-feasibility Components;

Guarantee Application Package

# Due Diligence

- Develop Pre-Feasibility Study in accordance with Presidential Regulation No. 67/2005 as revised by Presidential Regulations No. 13/2010 and No. 56/2011 (PPP Regulations); Minister of Development Planning Decree No. 4/2010 and the Minister of Transportation Decree No. 83/2010 (PPP Guidelines)
- Review of all relevant documents and policy papers as part of due diligence
- Fact finding and consultations
- detailed output specifications from the MOT
- Clarity over project status and permits already issued by relevant authorities
- Clarity and next step towards previous study and procurement of the project and its short-listed bidders
- Conformance with national and local spatial plans
- Greater Jakarta transport master plan (including airports, railway, toll and non-toll roads, other public transport, etc.)
- Background and status of commuter rail via Tangerang - an initiative through Presidential Regulation 83/2011 and other relevant initiatives
- Once these investigations have been reported Ministry of Transportation gives input to pre-feasibility study in respect to due diligence recommendations

# Guarantee Application Package

In accordance to IIGF operation manual, assist MOT in preparing supporting documents that will include (not least) :

1. Request Letter from GCA (MOT) to IIGF
2. Project pre-feasibility study
3. PPP structure
4. Risk Allocation Matrix and Risk Mitigation Plan
5. Draft PPP Agreement
6. Description of government support required (if applicable)
7. Requested guarantee coverage
8. Project Cash Flow (in spreadsheet format)
9. Environment and social viability assessment
10. Project Management Plan, which includes the Procurement Plan
11. Government Contracting Agency Related Information

# MESSAGES

- Complex political and institutional environment therefore build early relationships with potential Indonesian partners
- Due diligence needs Indonesian input

# KEY INFORMATION?

- KADIN (Chamber of Commerce) 02 May 2012 until 05 May 2012 - Indonesia International Infrastructure 2012 in conjunction with Asia-Pacific Ministerial Conference on Infrastructure Development [www.indonesiainfrastructure.com](http://www.indonesiainfrastructure.com)
- The Indonesian Economic Development Plan 2011 – 2025  
(<http://www.ekon.go.id/activity/2011/02/07/download-file;>  
[http://www.ekon.go.id/media/filemanager/2011/07/06/m/p/mp3ei-english\\_final.pdf](http://www.ekon.go.id/media/filemanager/2011/07/06/m/p/mp3ei-english_final.pdf) )
- Master Plan for the Acceleration and Expansion of Indonesia's Economic Development (MP3EI)  
visionary goals with aspirations to become the 12th largest economy in the world.



# NEXT STEPS?

- **A Concept for a Centre for Evidence-Based Policy Analysis of Infrastructure and PPP - consultation in 2011-2**
- **Feasibility study in 2012**
- **Priority studies identified - potential for international collaboration**
- **Transparency in infrastructure delivery**

THANK YOU

Questions?