



# **GOI STRATEGY FOR MOBILIZING FINANCING FOR INFRASTRUCTURE DEVELOPMENT**

**FISCAL PERSPECTIVE TO ACCELERATE INDONESIA'S INFRASTRUCTURE  
DEVELOPMENT SEMINAR**

**Jakarta, May 16<sup>th</sup> 2016**



# General Outline



**Infrastructure Projects and Financing**

**Debt Financing Policy For 2016**



## Infrastructure Projects and Financing

Debt Financing Policy For 2016

# Indonesia Infrastructure Projects and Financing Schemes

PPP, SOEs and private sector as alternatives to direct budgetary spending



Sea ports		
New sea ports	24	
Sea port developments	59	
Roads		
New roads	2,650 km	
Highways	1,000 km	
Road maintenance	46,770 km	
Bus corridors	2	
Railways		
Railway lines	2,159 km	
Intra city rail lines	1,099 km	
Airports		
New airports	15	
Airplanes for new routes	20	

## Budget

- Central & regional budget (special allocation fund & rural transfers)
- Mainly to support basic infrastructure projects:
  - Food security: Irrigation, dams etc
  - Maritime: Seaports, shipyards etc
  - Connectivity: Village roads, public transportation etc

## Public Private Partnership

- Certain infrastructure projects to be funded and operated through a partnership between the Indonesian government and private sector companies
- Projects ready for auction under ppp scheme
  - Toll roads projects such as Balikpapan-Samarinda and Manado-Bitung
  - Railway projects such as an Express Line into Soekarno-Hatta International Airport
  - Water supply such as West Semarang water supply project
- Government to support the PPP via policy initiatives
  - Land fund: Modification and simplification of land acquisition process
  - Project development facility (PDF) through PT Sarana Multi Infrastruktur
  - Indonesia infrastructure guarantee fund (IIGF): A mutual government guarantee scheme for infrastructure risks
  - Viability gap fund (VGF) for PPP projects with near-term financial constraints
  - Infrastructure fund: To offer long term financing for infrastructure projects
  - Availability payment (AP): To allow availability of infrastructure services provided by PPP companies

## State Owned Enterprise and Private Sector

- Government to inject capital into SOEs – to achieve a multiplier effect, more infrastructure projects can be developed
- Key focus areas
  - Infrastructure and maritime development
  - Transportation and connectivity
  - Food security
- Medium term infrastructure developments in focus
  - Water Supply
  - Airports
  - Seaports
  - Electricity and power plants
  - Housing
  - Mining

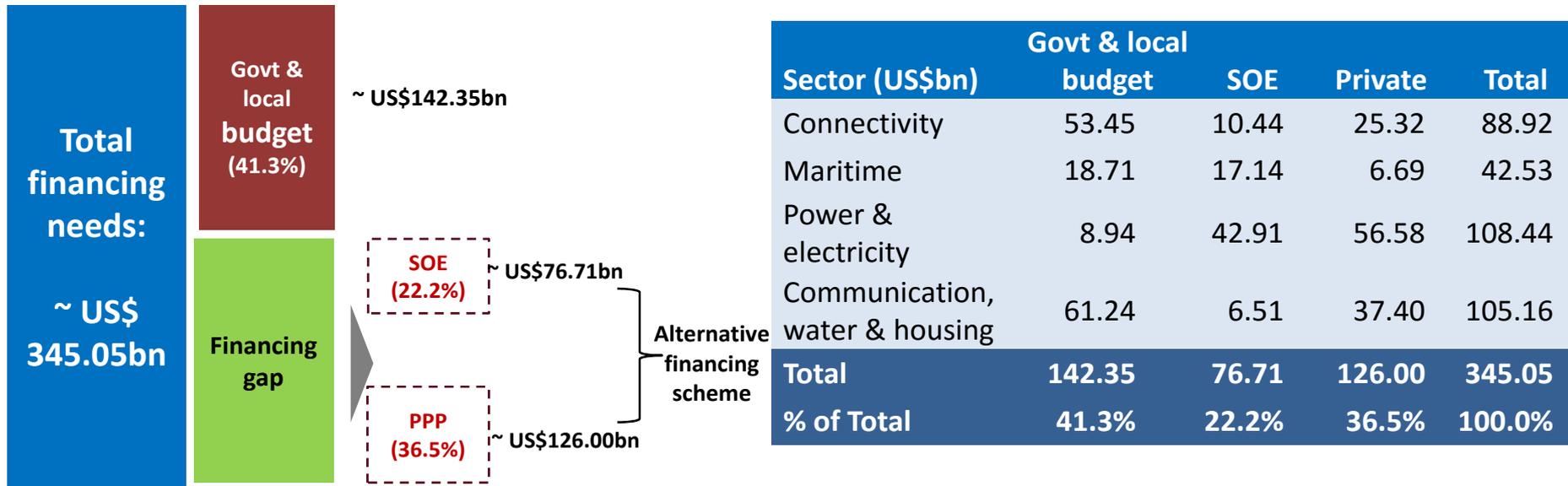


# Coordinated Infrastructure Financing Schemes

Strong collaboration efforts between the Central Government, SOEs and the private sector



## Financing Breakdown (2015 – 2019)



- Government and local budget for Infrastructure Spending source are mainly from *Project External Loan (Central Government and On-Lending)* and *Sukuk Based Project*.
- PPP Financing, SOE and the private sector will supplement the Central Government and local government budgets.



# National Strategic Projects (Perpres 3/2016)

Based on Article 25, the Government may provide political risk guarantee for infrastructure projects developed through PPP mechanism.

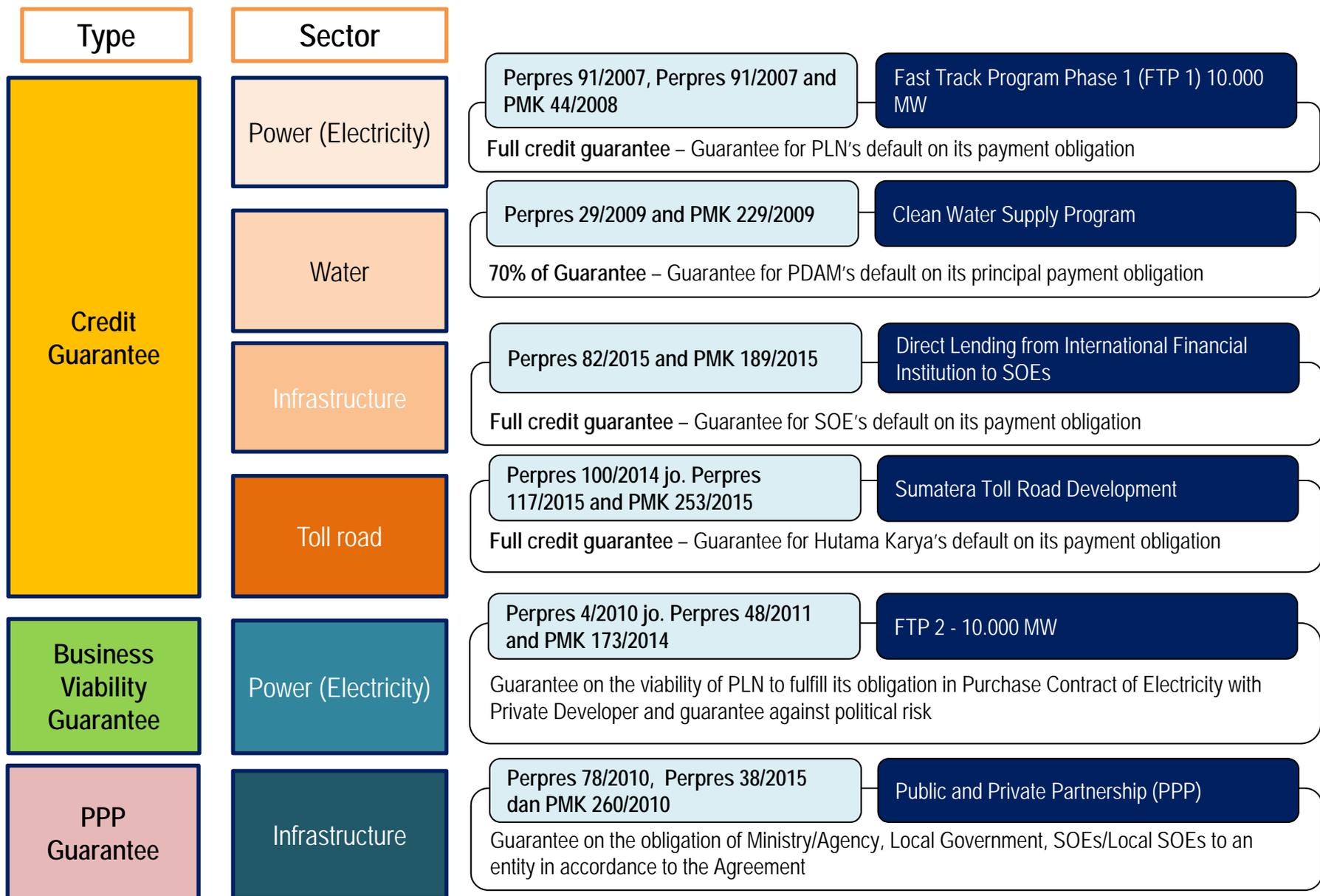
And Article 26, Contracting Agency (Line Ministry or Govt Agency) may assign SOEs to implement the projects.

- 1 • Toll Road Infrastructure Development (47 projects)
- 2 • National Road Infrastructure Development / Non-Toll (5 projects)
- 3 • Railway Infrastructure Development (19 projects)
- 4 • Airport Revitalization & New Airport Development (17 projects)
- 5 • Port Development (13 projects)
- 6 • One Million Houses Programme (3 projects)
- 7 • Oil Refinery Construction (3 projects)
- 8 • Gas Pipeline/ LPG Terminal (3 projects)
- 9 • Water Supply Infrastructure (8 projects)
- 10 • Dam Project (60 projects)
- 11 • Priority Industrial Area/Special Economic Zone Development (24 projects)
- 12 • Electricity Infrastructure Development (35,000 MW)
- 13 • Others (23 projects)

Referring to the list of project in Presidential Reg. (Perpres) concerning The Acceleration of Electricity Infrastructure Development



# Government Guarantees Program (2008 – present)

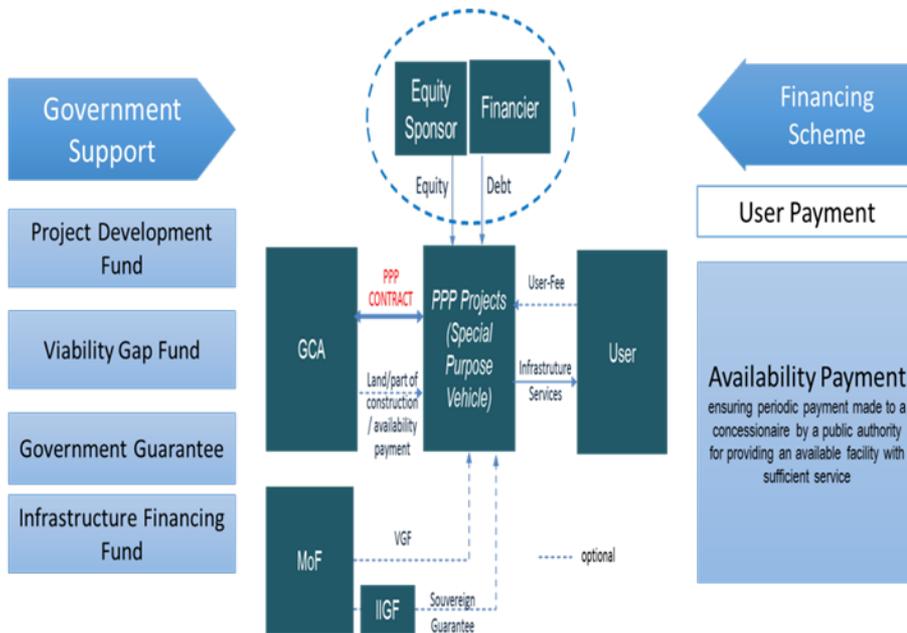




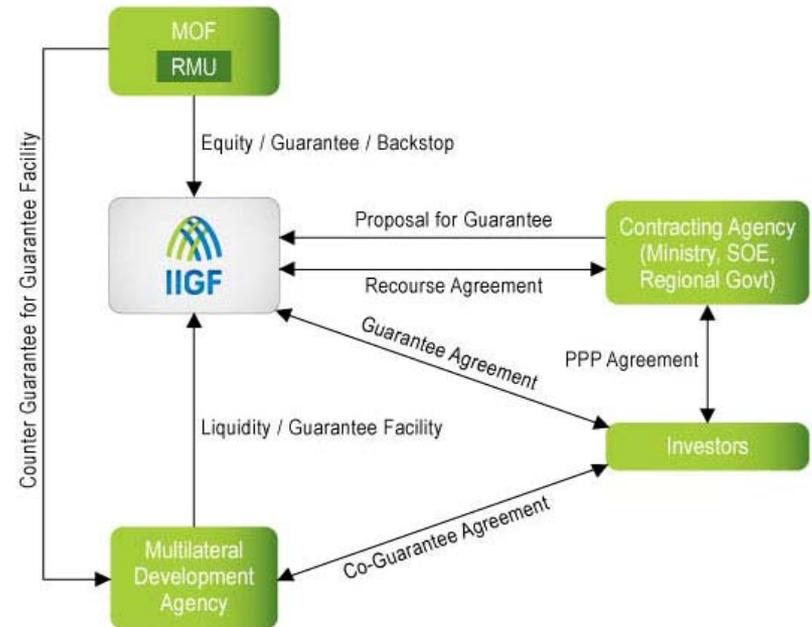
# Public Private Partnership (PPP) Initiative



## Structure of Government Support for PPP



## Guarantee Structure for PPP Projects



GCA = Government Contracting Agency



# Government Guarantee for SOE's Direct Lending



- Perpres 82/2015
- PMK 189/PMK.08/2015

- Government Guarantees Infrastructure Financing through the Direct Lending from International Financial Institutions to SOEs.
- Credit enhancement to SOEs by providing access to low cost and long-tenor financing in infrastructure project development.

- Fully (100%) owned by government; or jointly shared with SOE that 100% owned by government. Exclusion for assigned SOE from government by Perpres
- Sound financial capacities including enable to repay the loan, resulted from credit assessment.

- Listed (stated) in infrastructure project list that issued/endorsed by (i) KPPIP; (ii) Line Ministries; or (iii) letter from Bappenas declaring the project is aligned with RPJMN.
- Economically and financially viable, resulted from assessment process. Exception for assignment from gov't.

- Full credit guarantee Guarantee for SOE's default on its payment obligation

Regulation

Definition & Goal

SOEs Criteria

Project Criteria

Form of Guarantee

## Guarantee Portfolio as of April 2016

Electricity Grid Strengthening Sumatera Program – Result Based Lending (USD600 million)

Lender	Loan amount
ADB	USD575,000,000
AIF	USD25,000,000 (administered by ADB)

## Pipeline of Government Guarantees Request on Direct Lending to PT PLN (Persero)

No	Project	Lender	Loan amount	Target
1.	Strengthening of Distribution in Sumatera	World Bank	USD500 Mio	2016
2.	West-Central Java Transmission Line	JICA	USD500 Mio	2016
3.	The Enhancement of The Electricity Grid	IDB	USD300 Mio	2016
4.	Gas Fired Power Plant	ADB	USD500 Mio	2017
5.	Strengthening of Transmission in East Indonesia (RBL Scheme)	ADB	USD600 Mio	2016/2017
6.	1.000 Islands Renewable Energy for Electrification Programme	KfW	USD300 Mio	2016
7.	Strengthening of Transmission and Distribution in Sumatera 2 (Skema RBL)	ADB	USD500 Mio	2016/2017
Total			USD3,2 Mrd	



# Sumatera Toll Roads Projects (Assignment to SOE)

As part of the implementation of Perpres 3/2016



## Regulation

- Perpres 100/2014 jo. Perpres 117/2015
- PMK 253/PMK.08/2015

## Assignment to PT Hutama Karya

- To accelerate Trans Sumatera Toll Road development (24 toll roads).
- Scope of assignment: Financing, Technical Planning, Construction, Operation, and Maintenance

## Source of Financing

State Capital Investment (PMN), Subsidiary Loan Agreement, Bond issuance, loans from financial institutions, loans/other funding from government investment agency, or other appropriate Financing in accordance to regulations.

## Form of Guarantee

Full credit guarantee : Guarantee for PT. Hutama Karya's default on its payment obligation

## Project Pipeline 2015-2019 (1<sup>st</sup> Stage)

No.	Project	Status (April 2016)
1.	Medan – Binjai Toll road	Guarantee : IDR481 billion Lender : PT SMI
2.	Palembang – Simpang Indralaya Toll road	Guarantee : IDR1.240,3 billion Lender : PT SMI
3.	Pekanbaru – Dumai toll road	Land acquisition
4.	Bakauheni - Terbanggi Besar toll road	Land acquisition & construction
5.	Terbanggi Besar - Pematang Panggang toll road	Business plan & design engineering detail
6.	Pematang Panggang - Kayu Agung toll road	
7.	Palembang-Tanjung Api-api toll road	
8.	Kisaran - Tebing Tinggi toll road	

Outstanding exposure = 0 (as of April 2016)



# Government Guarantee for Electricity Infrastructure Development (Perpres 4/2016)



## Article 3 & 4

Assignment to PT. PLN in the implementation of the 35.000 MW program, through self-management and cooperation of electricity supply

### Type of Guarantee

Full credit  
guarantee

Business  
Viability  
Guarantee

## Contingent liabilities of Government Guarantee on financing for 35.000 MW

### EPC by PT. PLN (5.000 MW):

- Credit guarantee for EPC contract of PT PLN (5.000 MW generation).
- Total investment : 5.000 MW x USD 2 million/MW = USD 10 billion
- Financed by equity 15% and loan 85% (guarantee needs USD 8,5 billion)

	2016	2017	2018	2019
Maximum exposure (USD billion)	2.13	4.25	6.37	8.5

### IPP and PPP scheme (30.000 MW):

- Total cost of projects approximately USD 60 billion.
- Some of the projects may get Business Viability Guarantee or PPP Guarantee (depend on the scheme)
- Currently no guarantees have been issued.



## Regulation & Policies



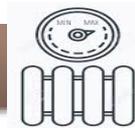
- MoF Regulation No. 30 of 2012 : Procedures for the Management of Guarantee Reserve Fund in Budget Implementation of Government Guarantee Liabilities.
- MoF Decree No. 113 of 2014 : Debt Management Strategy 2014-2017.
- MoF Decree No. 222 of 2016 : Government Guarantee Management.

## Reporting



- Contingent Liabilities is stated as one of fiscal risk sources in Financial Notes of National Budget (APBN) FY 2016.
- DG of Budget Financing and Risk Management regularly issues publication of Central Government Debt Profile, in which information regarding government guarantee also included in Part 7 of the publication.

## Maximum Guarantee Limit



- *Maximum Guarantee Limit* defines the maximum amount of new guarantees allowed to be issued during a certain period.
- To maintain fiscal sustainability, the current policy on government guarantees limits the maximum outstanding debt plus government guarantees not to exceed 60% of GDP.
- Taking into account current combined portfolio of government debt and guarantees of around 27.7% of GDP, *Maximum Guarantee Limit* for the period of 2015 – 2019 is set at 4,3% of GDP.
- This limit is sufficient to cover the need for government guarantees to be issued in relation to infrastructure development programs.

## Role of IIGF as Ring Fencing



- IIGF serves as Government's single window for appraisal and processing/structuring of guarantees.
- IIGF is established to satisfy the following objectives:
  - a. To provide a political risk guarantee for PPP Infrastructure Projects.
  - b. To improve creditworthiness and quality of PPP infrastructure projects by providing a credible guarantee on political risk.
  - c. To improve the governance and transparency of guarantee provisions.
  - d. To protect Government contingent liability vis-à-vis guarantees (**ring-fencing the contingent liability exposure of the State Budget**).



# Government Guarantee Portfolio (as of March 2016)



(USD billion)

Type of Guarantee/Programs	Committed Guarantee Amount	Outstanding <sup>**</sup> ) Exposure
<b>Credit Guarantees</b>		
Fast Track Phase 1 (Electricity)	6.65	4.12
Clean Water Availability (PDAMs)	0.02	0.01
SOE's Direct Lending from International Financial Inst.	0.60	0.00
Trans-Sumatra Highway	0.13	0.00
	<hr/> 7.40	<hr/> 4.13
<b>Investment Guarantees <sup>*</sup>)</b>		
Fast Track Phase 2 (Electricity)	4.95	0.00
PPP Program (Central Java Power Plant)	3.20	0.00
	<hr/> 8.15	<hr/> 0.00
<b>Total</b>	<b>15.55</b>	<b>4.13</b>

<sup>\*</sup>)

- Projects under Investment Guarantees are still in process to financial close at which point the guarantee starts to effective
- Fast Track Phase 2 using Business Viability Guarantee Letter provided to IPP.

<sup>\*\*</sup>)

- Data as of Dec 2015



## Infrastructure Projects and Financing

### Debt Financing Policy For 2016



# Debt Financing 2016



[In IDR trillion]

Description	2016 Budget
<b>A. Total Revenue</b>	<b>1,822.5</b>
I. Domestic Revenue	1,820.5
1. Taxation	1,546.7
2. Non-Taxation	273.8
II. Grant	2.0
<b>B. Government Spending</b>	<b>2,095.7</b>
I. Central Government Spending	1,325.6
1. Ministerial Spending	784.1
2. Non-Ministerial Spending	541.4
II. Transfer to Region and Village Fund	770.2
<b>C. Primary Balance</b>	<b>(88.2)</b>
<b>D. Budget Deficit over GDP (%)</b>	<b>(273.2)</b>
Deficit to GDP	(2.15%)
<b>E. Financing</b>	<b>273.2</b>
I. Domestic	272.8
a. Banks	5.5
b. Non-Banks	267.3
• Government Securities	327.2
• Domestic Loan	3.3
II. Foreign (Net)	0.4

## Macroeconomics Assumptions

- Economic Growth: 5,3%
- Inflation: 4,7%
- Exchange Rate: Rp13.900/USD
- 3-Month Govt. Treasury Bills: 5,5%
- ICP: USD50/barrel
- Oil Lifting: 830 thousand barrels/day
- Gas Lifting: 1.155 thousand barrels of oil equivalent per day

<b>Debt (Net)</b>	<b>330.88</b>
<b>Govt. Sec. (Net)</b>	<b>327.22</b>
- Government Securities (Gross)	555.72
- Redemption	(196.99)
- Cash Management	(28.50)
- Buyback	(3.00)
<b>Domestic Loan (Net)</b>	<b>3.26</b>
- Withdrawal	3.71
- Redemption	(0.45)
<b>Foreign Loan (Net)</b>	<b>0.40</b>
- Withdrawal	69.18
- Redemption	(68.78)



# Comprehensive Government Securities Financing Plan For 2016



Instruments	Indicative Target (IDR tn)
	Preliminary Budget
<b>Government Securities (Net)</b>	<b>327,224</b>
<b>Redemption</b>	196,999
<b>Cash Management</b>	28,500
<b>Buyback</b>	3,000
<b>Government Securities (Gross)</b>	<b>555,724</b>

Composition	
Domestic	76%
Auction	66%
Non-Auction	10%
International Bond	24%

Benchmark Series 2016		
Series	Coupon	Maturity
FR0053	8,250%	July 15, 2021
FR0056	8,375%	September 15, 2026
FR0073	8,750%	May 15, 2031
FR0072	8,250%	May 15, 2036

## Domestic Issuance

- **Weekly Auction:**
  - Conventional Securities: 23 x
  - Islamic Securities: 23x
- **Non-Auction:**
  - Retail bonds: SR (Q1), Savings Bond Retail (Q2), Savings Sukuk (Q3), and ORI (Q4)
  - Private Placements: Based on request

## International Bonds Issuance (USD, EUR, JPY-denominated)

- Issuance of International Bonds as complement to diversify investor base in domestic market and provide benchmark for corporate issuance, consists of USD, YEN or EURO global bonds;
- Maximum issuance international bond 30% from target gross.

## Issuance targets for GDS, Sukuk and ATM target

- Government Debt Securities (SUN): 76 %;
- Sukuk : 24%
- ATM for Government Securities (SBN): 9-11 years.

Source: Ministry of Finance, USD/IDR: 13,052

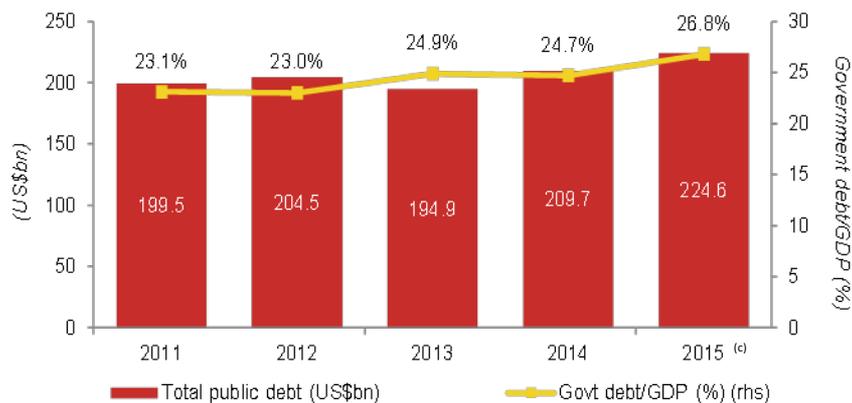
1. SBR: "Saving Bond Ritel" or Retail Savings Bond
2. Sukuk Tabungan means Sukuk Savings Bond
3. ORI: "Obligasi Ritel Indonesia" or Indonesian Retail Bond



# Disciplined and Sophisticated Debt Portfolio Management

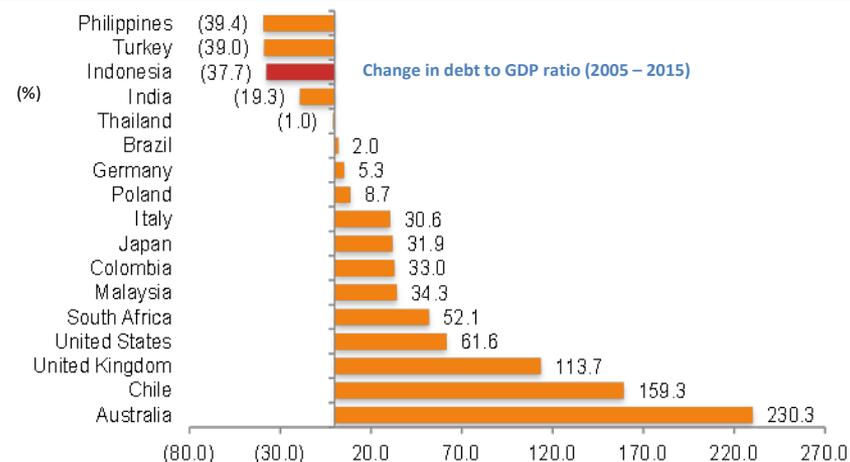


## Stable Debt to GDP Ratio over the Years<sup>(a)</sup>



Source: Ministry of Finance, Bank Indonesia

## Remarkable Debt Reduction Initiative Over the Past 10 Years<sup>(b)</sup>



Source: IMF World Economic Outlook (October 2015)

## Weighted Average Debt Maturity of ~9.28 years (2015)<sup>(a)</sup>

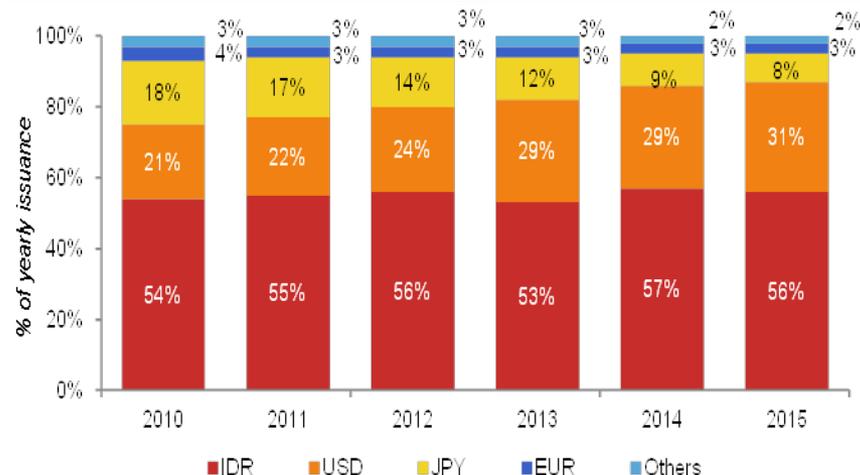


(a) Source: Ministry of Finance

(b) Source: IMF World Economic Outlook Database, October 2015

(c) Preliminary figures in 2015

## Well Diversified Across Different Currencies<sup>(a)</sup>





# Loans for Infrastructure Purpose



## Legal Basis

- UU No. 17 Tahun 2003
- UU No. 1 Tahun 2004
- PP No. 10 Tahun 2011
- Permen PPN/Ka. Bappenas No.4 Tahun 2011

## Foreign Loans Utilization

- Financing budget deficit;
- **Funding priority program of ministries/government institutions;**
- Managing debt portfolio;
- **On-lending to local government and SOEs**

## Principles

- Transparency;
- Accountability;
- Efficient and effective;
- Prudence;
- Non Political Interest; and
- Has no charge on disrupting national security

## Types and Sources of Foreign Loan

Type	Source
<ul style="list-style-type: none"><li>• <b>Project Loan</b></li><li>• Cash Basis Loan</li></ul>	<ul style="list-style-type: none"><li>• Multilateral</li><li>• Bilateral</li><li>• Export Credit Agency</li><li>• Foreign external banks</li></ul>



■ Based on Blue Book 2015-2019, an amount of USD39.9 million of foreign loans needed to finance:

✚ 29 programs, 116 activities

- Infrastructure: 100 projects with USD35,3 million (detail provided after)
- Non-infrastructure: 16 projects with USD4,6 million



# Program Based On Blue Book (..1)



NO	Program	Number of activities	Loan (USD mill)
<b>INFRASTRUCTURE</b>		<b>100</b>	
1	Road Toll	5	2.025,0
2	Bridges Construction	5	1.500,0
3	Road Improvement	8	2.000,0
4	Water Supply Construction	12	1.197,7
5	Wastewater Treatment System Construction	6	3.583,0
6	Waste Management Construction	2	250,0
7	Slum Management	4	3.614,7
8	Housing Provision for Low Income Society	2	500,0
9	Managing and Developing Irrigation System	11	3.257,5
10	Raw Water Supply Program	3	623,9
11	Reservoir Development Program	11	2.133,8
12	Water Damage Mitigation Program	8	1.152,6
13	Infrastructure development on Water Resources	3	650,0
14	Railways Development Program	6	6.815,3
15	Infrastructure Development on Information and Communication Technology and Broadcasting	4	1.076,0
16	Infrastructure Development on Electricity	10	4.906,6
<b>TOTAL</b>			<b>35.286,1</b>

Source: State Ministry of National Development Planning / BAPPENAS



# Program Based On Blue Book (.2)



NO	PROGRAM	ACTIVITIES	LOAN (USD MILL)
<b>NON-INFRASTRUCTURE</b>		<b>16</b>	<b>4.590,7</b>
17	Improvement of Access, Quality, Relevance, and Competitiveness of Higher Education	1	290,3
18	Improvement of Access, Quality, Relevance, and Competitiveness of Islamic Higher Education	1	238,2
19	Developing Government Apparatus	1	300,0
20	Health Service Referral Program	2	1.362,4
21	Primary Health Care Program	1	150,0
22	Program on Improving Human Resources	1	240,0
23	Strengthening Disease Control and Health Research	1	100,4
24	Provision in Infrastructure and Agriculture Development	2	1.346,8
25	Improvement Program on Education and training for Agriculture	2	98,9
26	Improvement on Labor Competitiveness	1	92,3
27	Fisheries Facilities Improvement Program	1	107,0
28	Developing Guidance on Meteorology, Climatology, and Geophysics	1	150,0
29	Construction on Science Park and Techno Park	1	114,4
<b>TOTAL</b>		<b>116</b>	<b>39.876,9</b>

Source: State Ministry of National Development Planning / BAPPENAS



# Foreign Loan Potential Sources (2015-2019)



(in USD million)

No.	RECAPITULATION	Multilateral			Bilateral						TOTAL
		World Bank	ADB	IDB	Jepang**	Korea*	RR Tiongkok	Jerman	Perancis (AFD)	Lainnya***	
1	<b>CASH BASED LOAN</b>	3,500	5,000	-	-	-	-	-	-	-	8,500
	a. Policy Matrix /Program	2,500	3,100	-	-	-	-	-	-	-	5,600
	b. RBL /Refinancing	1,000	1,900	-	-	-	-	-	-	-	2,900
2	<b>PROJECT LOAN</b>	2,600	3,214	1,766	14,086	356	2,123	369	107	375	24,996
	a. Ministries Program	1,600	2,814	1,766	9,314	356	2,123	263	107	375	18,717
	b. On Lending	1,000	400		4,772	-	-	107	-	-	6,278
3	<b>DIRECT LENDING</b>	1,900	4,100	1.194	-	-	-	705	-	-	7,898
<b>TOTAL</b>		<b>8,000</b>	<b>12,314</b>	<b>2.960</b>	<b>14,086</b>	<b>356</b>	<b>2,123</b>	<b>1,074</b>	<b>107</b>	<b>375</b>	<b>41,394</b>
<b>Private</b>		3.000	2.100	2.000	-	-	-	-	-	-	7,100

## Notes:

\* In the initial discussion about pipeline project 2015-2019, Korea has once offered loan allocation up to USD 1 million.

\*\*1 USD equivalent to 120 JPY

\*\*\* others covering Hungarian, Spain, and US Exim

Source: State Ministry of National Development Planning / BAPPENAS



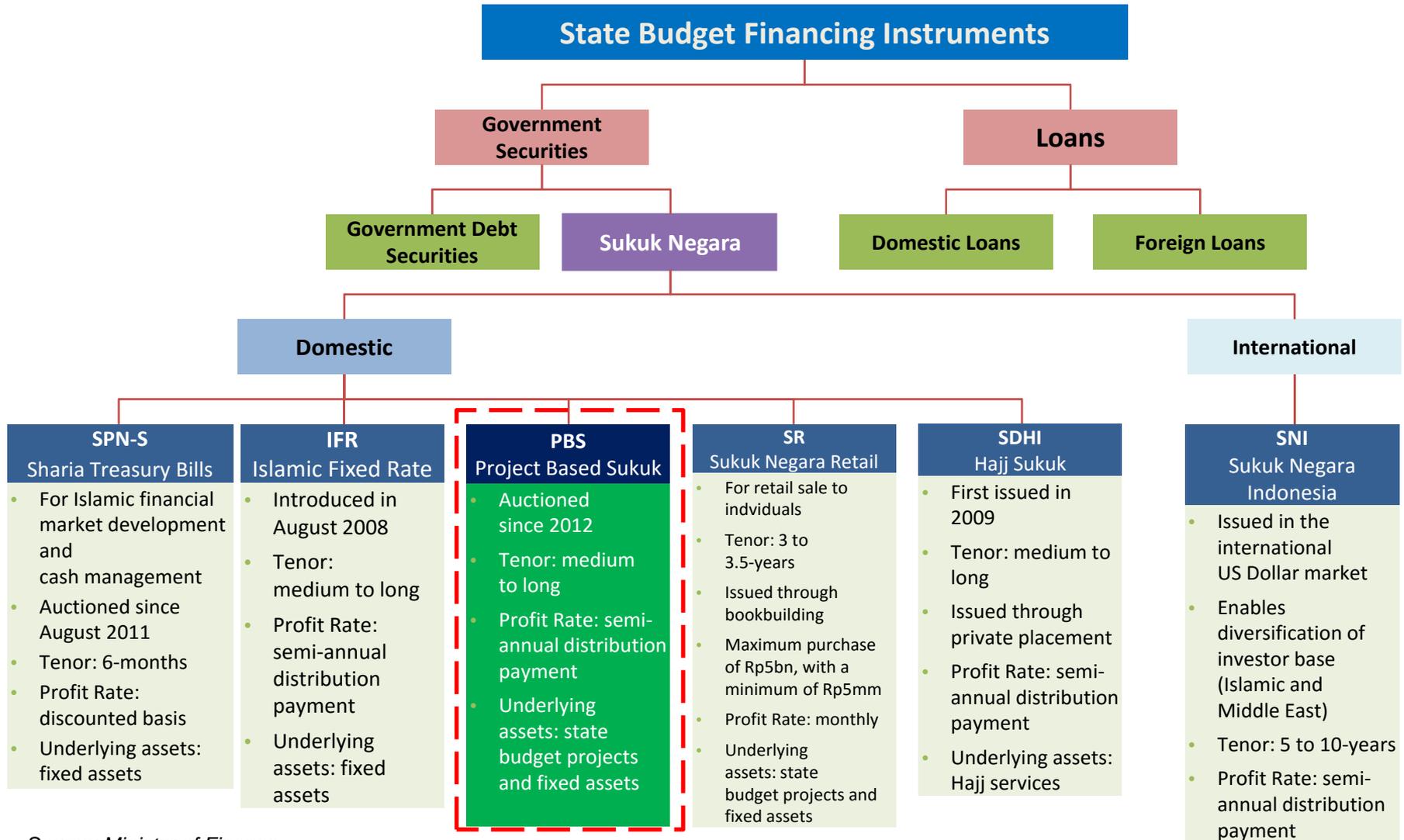
# Constraints on Foreign Loan Financing for Infrastructure Development



- ▣ Slow process on land acquisition and resettlement
- ▣ Complex process on good and services procurement
- ▣ Administration stuffs at the initial step of a project usually takes longer time than expected
- ▣ Lengthy process in issuing No Objection Letter (NOL) from certain lenders
- ▣ The adjustment on design or scope of the project
- ▣ Extreme weather condition that obstruct the infrastructure construction process



# Project Based Sukuk's Role In Financing Infrastructure Development (..1)





# Project Based Sukuk's Role In Financing Infrastructure Development (..2)



- Projects financed by Sukuk since 2013 are increasing in terms of number, project value, as well as project locations

(IDR Million)

Year	BMP	Executing Agency	Project Amount	Realization	%
2013	1,000,000	Ministry of Transportation	800,000	777,801	97.2
		<b>Total</b>	<b>800,000</b>	<b>777,801</b>	<b>97.2</b>
2014	1,571,000	Ministry of Religious Affairs	200,000	195,943	98.0
		Ministry of Transportation	1,371,000	960,497	70.1
		<b>Total</b>	<b>1,571,000</b>	<b>1,156,440</b>	<b>73.6</b>
2015	7,459,800	Ministry of Religious Affairs	683,370	512,138	75.8
		KEMENTERIAN PEKERJAAN UMUM	3,535,800	3,327,430	94.1
		Ministry of Transportation	2,924,500	1,010,809	34.6
		<b>Total</b>	<b>7,143,670</b>	<b>4,850,377</b>	<b>67.9</b>
2016	13,677,200	Ministry of Religious Affairs	1,467,900	-	-
		Ministry of Public Work	7,226,305	-	-
		Ministry of Transportation	4,983,000	-	-
		<b>Total</b>	<b>13,677,205</b>	-	-

Note:

- Realization for 2016 has not been finalized;
- BMP = Issuance Ceiling



# Project Based Sukuk's Role In Financing Infrastructure Development (..3)



- Sukuk Issuance in medium term 2016-2019 is projected around **IDR489.7 trillion**

2016	2017	2018	2019
Rp109.7 trillion	Rp115.9 trillion	Rp126.4 trillion	Rp137.7 trillion

The nominal of *Project Based Sukuk* used for infrastructure financing may be adjusted to account for urgency and preconditions each year

- Challenges ahead
  - ✦ The need to synchronize time frame between Preparation on Project Proposal and Budgetary Cycle
  - ✦ Quality improvement in Project financed by Sukuk



**THANK YOU**