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STRATEGIC ROLE OF CREATIVE FINANCING TO RELIEVE STATE BUDGET

ISSN 2088-9194

The Strategic Role of Creative **Financing in Accelerating Infrastructure Development**

Financing is highly strategic aspect toward infrastructure procurement. . Various ways and innovations have been made to create more efficient and effective financing scheme which starts from finding the source, utilize the fund, and withdrawing. The Public Private Partnership (PPP) financing scheme is one of the innovations made as financing solution for infrastructure development in Indonesia. The scheme exists as a solution from the arising issues and problems as well as alternating finance instrument to encourage active participation of private entity toward the development of Indonesia's infrastructure.

PPP is a financing scheme created to relieve the financial burden which must be borne by state budget, either in central or regional level. It's also worth noting that it will be highly difficult if all the financing of infrastructure development is all allocated from the state budget. Thus, the role of PPP scheme is becoming strategic not only to relieve, but also to accelerate the development of infrastructure in Indonesia.

In this edition, we will discuss various topics related to alternative and creative financing that can relieve the burden of the State Budget for infrastructure development. In addition, this edition also discusses various other supporting factors related to the development of PPP scheme in Indonesia, such as the implementation of Shariah practice in PPP and the achievement of PPP project in 2019 which are expected to open wider insights regarding the influence of PPP scheme towards Indonesia's Infrastructure Development. Hopefully, all informations written in this edition open up better understanding which can be a trigger aspect to get better potential cooperation in various strategic sectors in Indonesia. Thus, various parties can actively contribute toward the development of infrastructure in Indonesia.

Editor

LRT mockup shown during Transportation and Infrastructure Expo at Smesco Building Jakarta

Photo:
ANTARA FOTO/Sigid Kurniawan.

Source:
"Bangun Infrastruktur, Indonesia Butuh Puluhan Ribu Insinyur", *https://tirto.id/b4SM*

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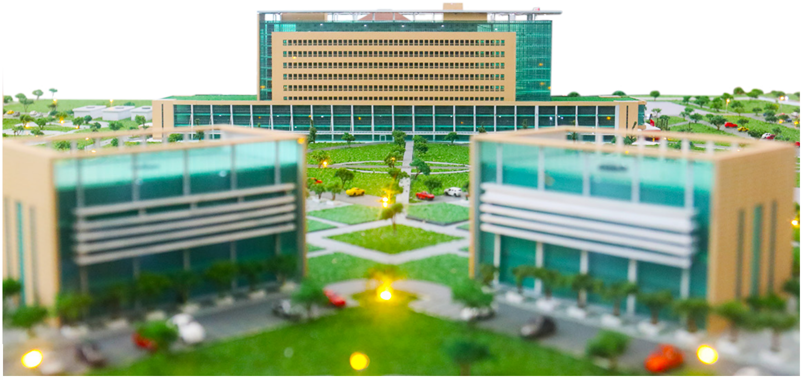
Creative Solution to **Financing Infrastructure Development in Indonesia**

Indonesia's territory is widely scattered from Sabang to Merauke; from Miangas to Rote island.. Hence, it requires an interconnected network of infrastructure. The interconnection infrastructure will help to keep turning the economic wheel as well as drive the economics growth both in regional and national level. This connectivity can also increase economic growth both at the regional and national levels. Furthermore, a region equipped with good infrastructure will open investment opportunities whose impacts can be felt by the community and also contribute to the country's revenue.

Infrastructure development, especially for countries as large as Indonesia, with two-thirds of the total area comprising sea, requires an extensive amount of budget. The infrastructures are also diverse such as economy and social infrastructures. Both types of infrastructure have an important role for the community. Economy infrastructure related to connectivity such as roads, ports, airports, bridges and so on are useful for connecting one area to another. In addition, these infrastructures also have an important role to support and drive the economy in the region such has industrial and tourism area.

Social infrastructures also have an important role to the community. Hospitals, for example, are strategic infrastructures that can support public health in a region. Other social infrastructures such as schools have an important role as a place for young generation to gain knowledge. The market also cannot be neglected; without a market, the economy of a region will be difficult to run because there is no place to carry out trading activities. These various social infrastructures have an important role in improving the welfare of a community.

Photo:
aktual.com
Source:
https://aktual.com/kawal-pembangunan-infrastruktur-jakarta/kawal-pembangunan-infrastruktur-jakarta-toga/



Mockup of Class A Central Kalimantan Regional Hospital Project
Source: Private Documentation/Healthcare Agency of Central Kalimantan Province

Both types of infrastructure have a very strategic role. The important thing is the relation of mechanism that being used for financing the entire infrastructure development. The State Budget as well as Regional Budget owned by the government at the central and regional levels have a shortage in financing the infrastructure development. An alternative financing scheme is needed to ensure that infrastructure development in Indonesia can be fully implemented and also does not burden the government budget both at the central and regional levels.

PPP scheme as Alternative Financing for Infrastructure Development

Public-Private Partnership (PPP) is an alternative financing scheme that can be used in infrastructure development in Indonesia. PPP is a collaboration between the government and a Business Entity in the provision of infrastructures for public interest by referring to specifications that have been previously determined by the Minister/Head of Institution/Regional Head/BUMN (State-owned Enterprise)/BUMD (Regional Government-owned Enterprise), using, either partially or wholly. the resources of the Business Entity by taking into account the risk sharing between the parties.

PPP scheme is not just a financing mechanism in infrastructure development. Furthermore, this financing scheme has an important role in providing the quality, effective, efficient, on-target and timely infrastructures. Through PPP Scheme, the opportunity for business entities to be actively involved in provisioning infrastructure is opened. In addition, this scheme also provides certainty of return on investment of business entities through periodic payments by the government.

PPP scheme is a meeting point between the public sector and the private sector. The public sector needs efficient infrastructure development and also continuously increasing public services. This can be obtained if infrastructure development is collaborated with private entities that have technological and innovation advantages. It is also important to know that the private sector can also get benefits from the ideas of technology and innovation it sells in infrastructure development projects.

Minister of Finance Sri Mulyani emphasized that PPP is an alternative and yet creative financing scheme which aims to accelerate the infrastructure development in Indonesia. Thus, the infrastructure project will not always rely on state budget.

"The aim of this innovative and creative financing in to reach the target in infrastructure development, but also at the same time keeping the state budget in good condition and accountable." Sri Mulyani explained.

Moreover, the PPP scheme also offers various benefits such as increasing the transparency as well as the quality of the project, since the project itself is conducted by the highly capable private entity which pose the ability to manage part of the risks better than the government.

Asset Recycling:
An Alternative Synergy with PPP For Future Sustainability

There is no doubt that infrastructures support the economic and social development. Not only the increasing of productivity which leads to economic growth, but, adequate infrastructures can also overcome social disparities between regions. Infrastructure development is a series of continual projects in order to respond public needs.

Continuous increase in demand for infrastructure development certainly requires a lot of money. The government is looking for ways as the source of project financing. Th e global financial crisis happened during 2008 resulted in countries struggling to overcome the enormous level of public debts, significantly reducing the portion of the government budget allocated to build, maintain, and operate new infrastructures, and yet it restricts the government to borrow further. Indeed, for countries already burdened with high level of debt, loans will decrease government credit rating . On the other hand, increasing taxes for infrastructure financing can also become the last option, particularly in developing countries. This leaves the government with limited options available to find alternative sources of funding.

Photo:
ANTARAFOTO
Yulius Satria Wijaya

Source:
"Pemerintah Cari Solusi Pembiayaan LRT Jabodetabek", https://tirto.id/cixk

Construction of the Light Rail Transit (LRT) Project next to the Jagorawi Toll Road in the Cililitan area, East Jakarta.

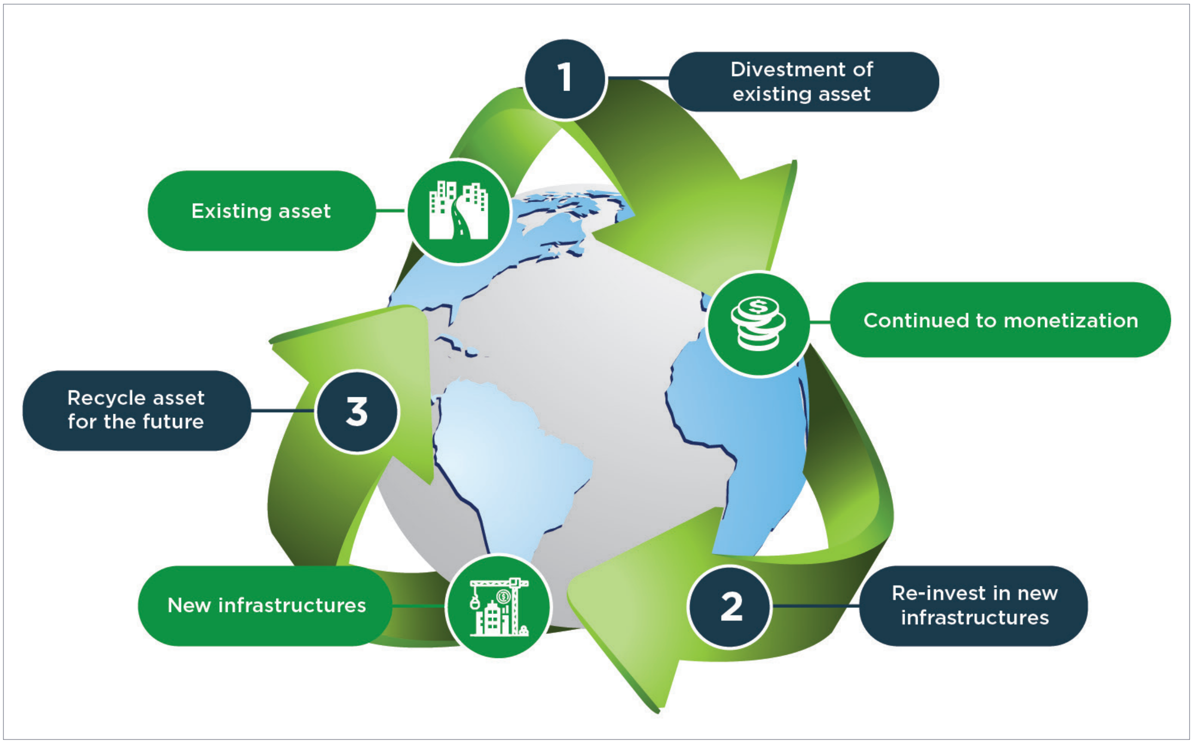


Figure 1. Asset Recycling at a glance.
Source: "Recycling our Infrastructure for Future Generations", World Economic Forum 2017

Privatization has always been a choice, but it is one of the ways usually disliked by public. History shown that the full involvement of the private sector in buildings or operating assets does not always deliver promised innovation and expected service levels, rather than often increases the price of services previously subsidized by the government. Public-Private Partnership (PPP) scheme is another option, but it presents its own set of challenges, because it still requires government funding for a small portion of the project. Meanwhile, the government is also looking for approaches which do not only involve the purchase or sale of assets, sustainable sources of funding, and solutions to balance government relations with the private sector.

The option that can overcome all of the above issues is asset recycling, a relatively simple mechanism consisting mostly of two components. First, the government opens capital through monetization of existing infrastructure assets by selling or leasing them to the private sector. Second, the capital earnings from the monetization will be reinvested in new infrastructures to meet the people's needs. This asset can also be recycled again in the future to help speed up the infrastructure project pipeline.

This option can provide new infrastructures without increasing public debts, and also offers the potential to increase the provision of existing infrastructure services. In addition, it also discusses the general mismatch between the government and the private sector. The government generally wants new social infrastructures, while private investors are known to have a preference for existing and proven economic infrastructures, especially long-term investors such as pension funds a preference for existing and proven economic infrastructures, especially long-term investors such as pension funds.

This process also recycles previous taxpayer funds that have been locked into older assets, thereby avoiding the need to continue to increase tax collection. Any tax paid will be channeled for maintenance purposes, or the addition or improvement of services provided by older assets, and some not entirely new asset. In addition, the community still maintains access to public services and benefits provided by older assets, but now benefits from additional and improved services and benefits.

While asset recycling can easily be mistaken for privatization at first glance, the two are very different in the sense that both have different visions, and that there are actually different degrees of divestment in the mechanism. The government has a privilege to choose the level of ownership that best fits their jurisdiction or assets..

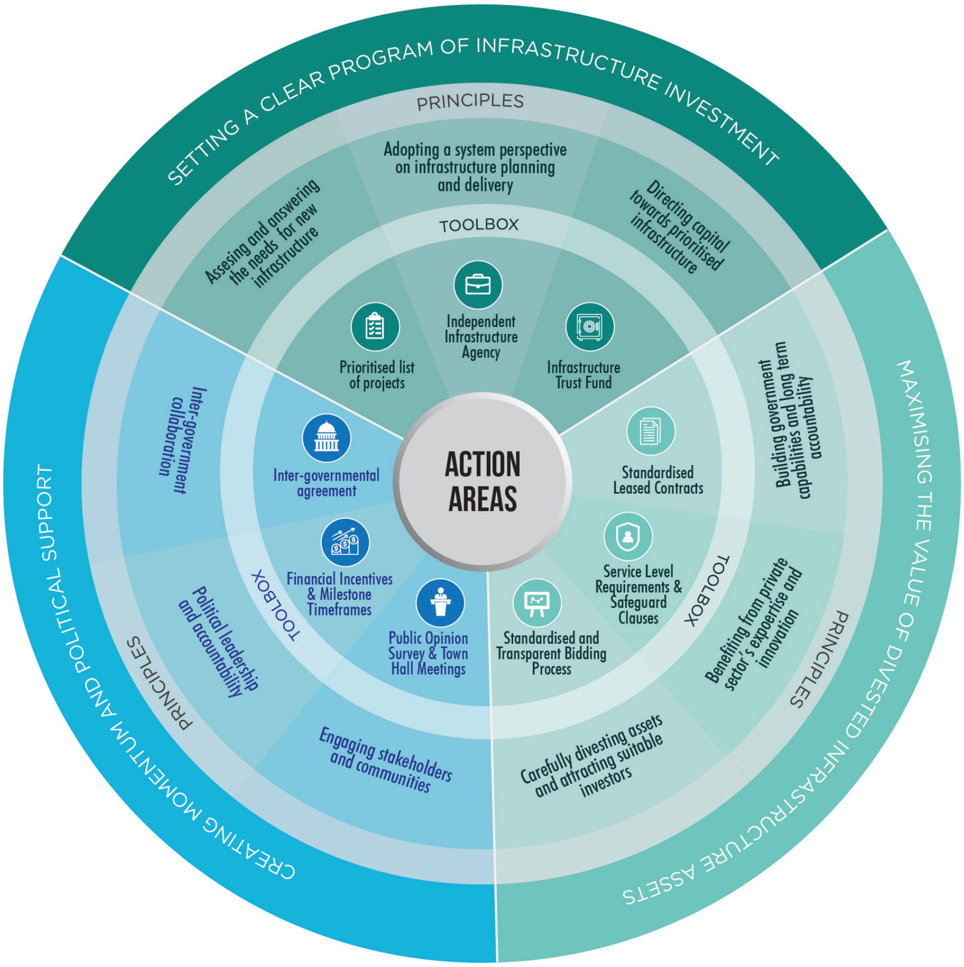


Figure 2. Framework for Implementing Asset Recycling
Source: WEF Recycling our Infrastructure for Future Generations report 2017

Ownership can be temporary, partial, or partial-temporary. The first two are the most popular option and are carried out through leasing and concession agreements. This allows the government or the public sector to negotiate to retain their direct shares in assets as major equity shareholders and get their assets back in the future. It also provides space for the government to draw up agreements that govern protection clauses to protect service levels, anticipating potential price increases. Meanwhile, the private sector will be fully responsible for the operation of the assets, assume the stipulated commercial risks, and guarantee the level of service for the user fees they collect.

To ensure that asset recycling is optimally carried out, the World Economic Forum and its members have recently developed a framework that contains insights from experts around the world as well as past experiences. There are several prerequisites for implementing a successful asset recycling program. First, the government needs to ensure that there are enough public assets to make money and gather public sentiment regarding private sector investment or infrastructure management. If sentiment tends towards the negative, the government can first perform public-private involvement on a regular basis, whether through a PPP scheme or vice versa, to establish dialogue and gain public support to the community through competitive bidding.

After the prerequisites are fulfilled, there are further steps that must be taken. Success depends on three main aspects, transparency of investment projects, project optimization, particularly through the maximum use of private sector expertise and innovation for the greatest added value to the public, and adequate political support to encourage local governments to lease their assets to the private sector. One of the factors is to ensure that assets that generate income are not sold to finance investments that can make the government increase its net debt.

Look Closer to Australia

Australia is considered to be a role model in terms of asset recycling. In 2014, the Australian Federal Government formally introduced the Asset Recycling Initiative (ARI). ARI provides incentive payments to states and territories to encourage them to lease their assets to the private sector for 99 years and reinvest long-term proceeds to fund various infrastructure projects throughout the country. Overall, ARI opened more than AU$15 billion in new infrastructure expenditures.

The incentive was indeed successful in encouraging the state territory to lease out these assets, invest in other projects, and replace aging infrastructures with newer and innovative ones. This is because if all proceeds from the lease are allocated for new investment, the state will receive 15 percent of the proceeds from the sale of assets. This opportunity certainly attracts private investors. Their enthusiastic participation was reflected in local pension funds, increase in foreign direct investment, and their unanimous acceptance of the demand risk associated with the use of infrastructures.

The Australian Government is contributing attractive assets on the balance sheet, linking the proceeds of asset sales and infrastructure investment, and payment of incentives between various levels of government and the success of the scheme. Incentives are also handed over only if the state or territory government is able to demonstrate clear net positive benefits, long-term productive capacity, and the potential for private sector involvement in infrastructure projects, which further reflects their commitment to implement this scheme successfully.

There are several lessons to be learned from ARI. Although the Australian asset recycling scheme is widely considered to have been successful, this scheme actually did not reach the government's initial investment target. Some state governments are reluctant to lease or sell assets because of national security issues. Most importantly, the transfer of assets to the private sector resulted in a quite severe layoff, which could be disputed by trade unions, opposition, and general public.

Despite this setback, overall enthusiasm from the private sector remains high, and asset recycling as an alternative scheme maintains its attractiveness among investors. The government can act on this enthusiasm to further develop infrastructure projects that are new, innovative, affordable and reliable for its citizens.

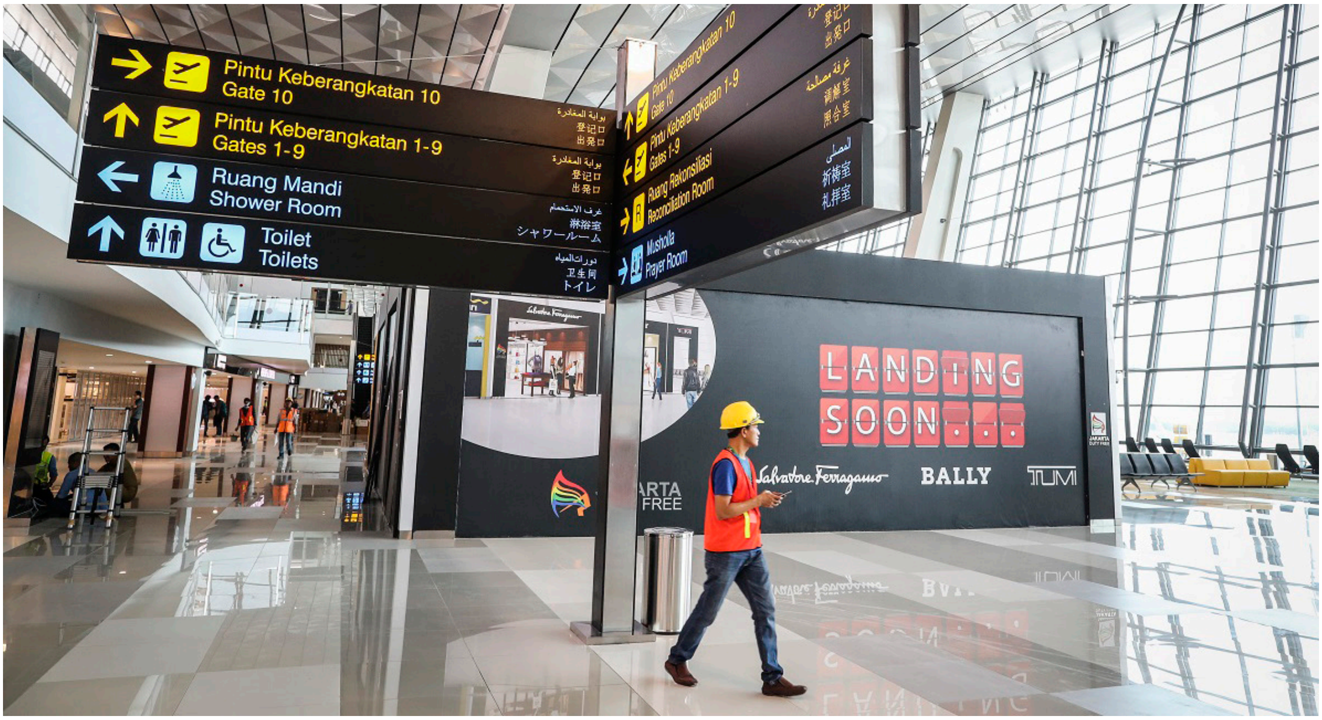
Indonesia's Sustainable Funding Efforts

The seemingly positive results from the adoption of the ARI model have encouraged other countries to explore this option, such as the United States and Indonesia. The Indonesian government has shown a strong commitment to involving the private sector in infrastructure development. Since then the legal introduction of the Public-Private Partnership scheme or known as PPP in 2005, the government has made great efforts to encourage private investment in sectors including telecommunications, oil and gas, railways, ports, electricity, and water and sanitation.

Fiscal support is available throughout the PPP process and government-support incentives are also introduced to make investment more desirable. This scheme mainly eases the burden of State-Owned Companies (SOEs) and State Budget related to infrastructure development. Although successful, the PPP scheme is still underutilized, and faces a number of challenges before it can reach its full potential. Therefore, it is very important that the government still considers alternative strategies to fund infrastructure projects and utilize the financial, management and technology capabilities of the private sector, both to ensure that government priorities and strategic projects are established on time.

This was where PINA known as Non- Budget Infrastructure Financing plays a role. PINA was a facilitation scheme under the Ministry of National Development Planning (National Development Planning Agency) aimed at accelerating the stage of financial close of national priority projects, which are fully supported by government policy. PINA acted as an enabler in facilitating investment through direct equity financing, near equity instruments, or private and mutual funds and building the infrastructure development ecosystems.

Indonesia's PPP scheme depends on the composition of funding of 43.1% of the State Budget, 22.2% and 36.5% of private investors, PINA took the initiative to maximize private sector funding. PINA is aware that asset recycling is an innovative scheme that maximizes the expertise of private sector, and that there is potential for investment recycling at the brownfield, greenfield and operational stages of various infrastructure projects. However, the reality is that the majority of infrastructure projects in the country are greenfield projects, while the private sector



Workers are walking near directions in Terminal 3 of Soekarno-Hatta International Airport, Tangerang
Source: *https://beritagar.id/artikel/berita/pemerintah-tak-jualan-aset-hanya-ajak-swasta-investasi*
Photo: Mast Irham / EPA

is known to have a preference for brownfield projects that have proven their value.

This setback can be easily corrected. Recycling of assets can actually help improve greenfield PPPs by using capital proceeds to provide guarantees to investors in the form of standby credit lines, also known as "Liquidity Pool". Guarantees will only be provided if agreed risks are realized at the greenfield stage in the initial years of operation. This is very useful when countries are considered to have high political risks, such as Indonesia. Basically, asset recycling is a complement to the PPP scheme championed by the government, and is still the main scheme that must be considered.

Fortunately, the government has taken notes. Recently, Indonesia has proactively explored innovative funding schemes that make money from government assets, similar to the popular asset recycling initiative in Australia. In Indonesia, this scheme is called the Limited Concession Scheme (LCS) and aims to monetize key operating assets such as airports. Under this scheme, the private sector will be invited to operate, maintain and expand existing assets in exchange for upfront concession fees or revenue sharing schemes with the government.

This additional income enables the government to complete its massive infrastructure program, especially in Indonesia's less developed regions. LCS is currently on track to become a presidential decree, which is a positive sign, because it reflects the government's commitment to capitalizing on the involvement of the private sector in infrastructure provision as well as to exploring alternative and innovative funding schemes in an effort to achieve sustainable funding.

Dr. Bastary Pandji Indra, MSP, an Assistant Deputy for Housing, Land and Infrastructure Financing Coordinating Ministry of Economics, ensured that several sound principles and technical requirements have been considered in SKB development. He also stressed that LCS is not privatized, because it does not eliminate the ownership of assets from eligible owners, namely, the Government or BUMN. The government does not only remain the owner of the assets, LCS also ensures that "super profits" are limited to concessionaires, and that the government will receive upfront payments. If properly done, LCS can then produce three wins.

An asset recycling scheme can also include securitization. The basic idea of securitizing infrastructure assets is to form securities from future cash flows from infrastructures that have generated stable revenue streams. Securities issued like debt instruments, but different from other debt instruments because it is far from the company's bankruptcy risk. Bastary argues that the government has set parameters to choose then which of the two methods, the LCS method or the recycling of securitization assets, would be more beneficial for certain infrastructure assets.

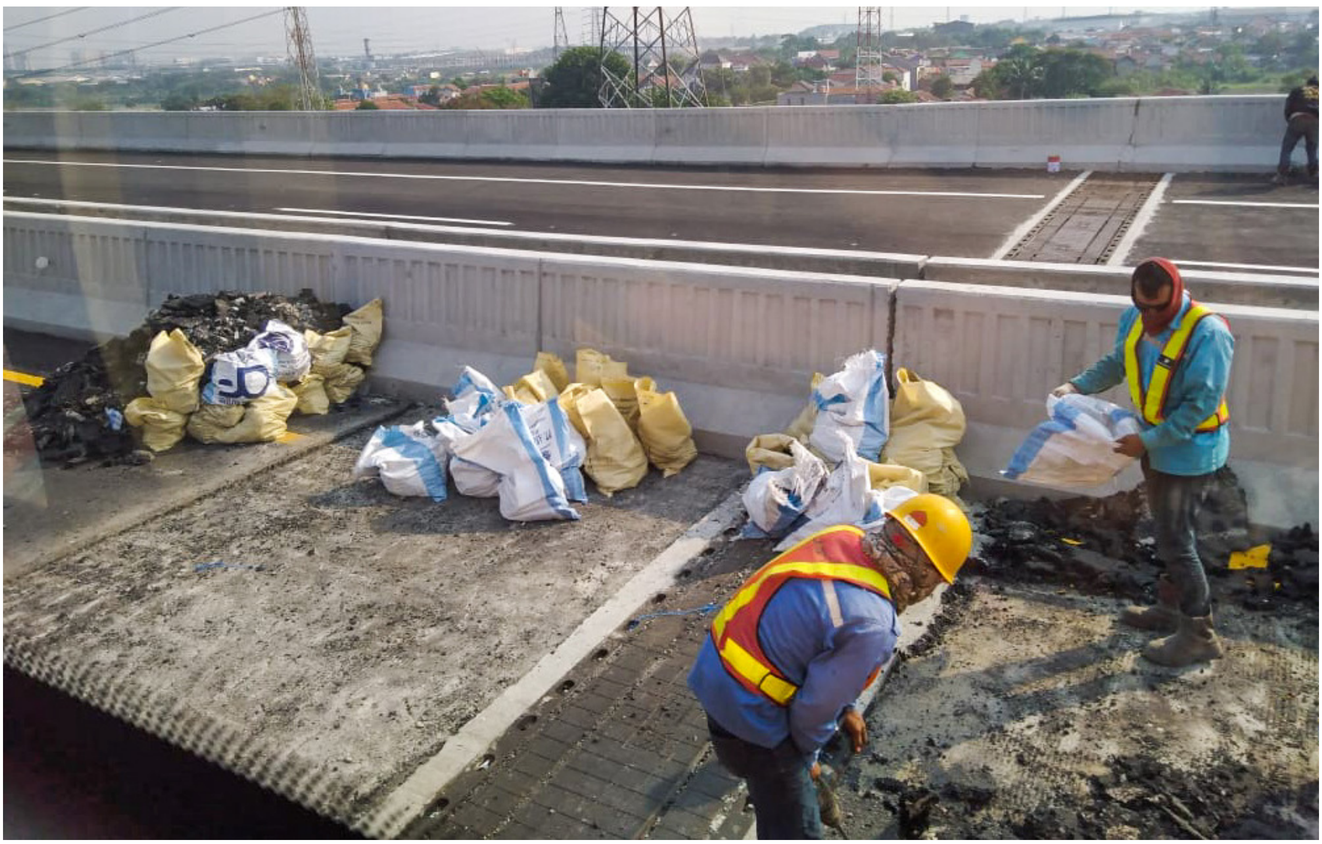
If an asset cannot be operated by a private entity, securitization is a better choice. Meanwhile, if an asset cannot function as collateral for securities holders, then LCS will be a better choice. Another important consideration for determining whether an asset can achieve its future development targets through a limited concession scheme is whether an asset requires a very large CAPEX for the development of new assets, whether it requires sectoral experts, and the overall economic impact of the scheme.

However, he stressed that there are still various schemes outside of asset recycling that are being considered by the government. He himself likes the PPP scheme very much, which has been involved in various national-level teams developing PPP regulatory and policy frameworks, enhancing institutional capacity, and campaigning for PPP implementation and streamlining the PPP process in Indonesia.

Future

Though asset recycling is relatively simple, the implementation can be complex. If both government and SOEs are interested to pursue this scheme, good implementation strategy is important. It will cover the asset management strategy such as accurate assessment. Government can also learn from other countries such as Australia to avoid making repeated mistakes which can harm the infrastructure development in the future.

With PPP Scheme which currently is gaining momentum in Indonesia, together with asset recycling and LCS (in which its legal framework is being formulated), the future of Indonesia infrastructure development is on the right track. With the right approach and consistent effort, nothing can stop Indonesia to grow exponentially in the upcoming years.



Jakarta-Cikampek Elevated II Project

Source: "Jalan Tol Jakarta-Cikampek II Beroperasi Bulan Ini, Berapa Tarifnya?", *https://economy.okezone.com/read/2019/12/04/320/2138011*
Photo: Okezone.com/Ola

PPP Milestones in 2019

In 2019, the PPP scheme was successful in helping projects in Indonesia. Whether it's included in the national strategic project (PSN) or various other projects in the regions. With various successful projects using the PPP scheme, it is expected that more domestic projects will use PPP as a solution for their infrastructure development.

Surely this success does not necessarily happen in a short time. On average, the project planning started in 2015 until construction work and operations in 2019. The PPP scheme itself was only launched around that year, where President Joko Widodo intensified infrastructure development and equitable development. So, PPP becomes one of infrastructure financing solution to be able to continue development without being obstructed by various political, regulatory and economic obstacles.

Kali Kuto Bridge in Centra Java

Photo: Herry Tjiang
Source: *https://www.herrytjiang.com/keindahan-tol-trans-jawa-jakarta-surabaya/*

PPP Project in Indonesia 2019

No.	Project Name	Project Value (est)	Financial Feasibility		Concesion Period (est)	PPP ROI Scheme
			NPV	FIRR		
1	Batang - Semarang Toll Road	850	230	13,70%	45	User Fee
2	Pandaan - Malang Toll Road	461	99	13,81%	35	User Fee
3	Palapa Ring West Package	87,6	8,6	15,08%	15	AP (Availabilty Payment)
4	Palapa Ring Central Package	71,5	11,5	12,63%	15	AP (Availabilty Payment)
5	Palapa Ring East Package	386,5	22,8	14,30%	15	AP (Availabilty Payment)
6	Balikpapan - Samarinda Toll Road	767	260	13,87%	40	User Fee
7	Manado - Bitung Toll Road	396	13,7	12,23%	40	User Fee
8	Jakarta - Cikampek II Elevated Toll Road	461	104	12,66%	45	User Fee
9	Krian-Legundi-Bunder-Manyar (KLBM) Toll Road	1249	287	14,59%	45	User Fee
10	Serpong - Balaraja Toll Road	940	231	15,89%	40	User Fee
11	Serang - Penimbang Toll Road	464	45,9	11,17%	35	User Fee
12	Serang - Panimbang Toll Road	1718,8	39,1	13,96%	40	User Fee
13	Cileunyi - Sumendang - Dawuan Toll Road	391,6	17,9	13,11%	40	User Fee
14	Central Java Power Plant	4200	938,7	11,12%	25	AP (Availabilty Payment)
15	Umbulan Water Supply	140,7	34,2	12,09%	25	User Fee
16	Bandar Lampung Water Supply	82,6	20,7	15,30%	25	User Fee
17	West Semarang Water Supply	34	1,8	16,00%	27	User Fee
18	Nambo Waste Management	44,4	4,8	13,60%	25	Others (Tipping Fee)
Total	**18 Projects**	**12745,7**		**13,62%**		**13 User Fee, 4 AP, 1 Tipping Fee**

Source: Ministry of National and Development Planning, Public-Private Partnership Infrastructure Project Plan 2019

Role of KPPIP in Supporting Infrastructure Development in Indonesia

The Committee for Acceleration Priority Infrastructure Delivery (KPPIP) is assigned as coordinating agency, head of project, and the leader for ebottlenecking process.

Strengthening project facility through following steps:
- KPPIP formulates the OBC guideline and the determination of funding scheme
- Public-Private Partnership unit in Ministry of Finance is responsible for Project Development Funding (PDF)
- Ministry of National and Development Planning (Bappenas) becomes the center of project preparation facility

Government has issued Law No. 2/2012 regarding Land Acquisition and other related regulation to provide certainty for the investors of related process

Expanding fiscal supports and increasing the role of Ministry of Finance:
- Public-Private Partnership Unit is established under Ministry of Finance
- The issuance of regulation for Viability Gap Funding (VGF) (PMK No. 223/2012)
- The issuance of PMK No. 190/2015 regarding Availability Payment to minimize the income risk from private entities

President Regulation No. 8/2015 allows for the government's loan guarantee toward the SOEs obtaining direct loan from financial institution or obtaining infrastructure development projects under presidential regulation

Sumber: The Committee for Acceleration Priority Infrastructure Delivery (KPPIP)

Starting from the revision of the regulation such as Ministry Of National Development Planning (Chairperson Of National Development Planning Agency) Rule No. 3/2009 used during March 2009 up to May 2012. Then it was revised with Ministerial Regulation No. 3/2012 which was valid during June 2012 up to May 2015. Currently, PPP scheme is regulated under Ministerial Rule No. 4/2015 which was implemented starting from 2015 up to now.

In addition, improvements are also made, starting from the formation of institutions and the synergy of fiscal policy making. These pillars were developed to unravel various problems that occur in the process of government cooperation with business entities in project procurement, coupled with demands for accelerated development.

Five Case Model in **PPP Project Preparation**

The Public Private Partnership (PPP) project requires a thorough preparation phase. Doing so means that various PPP projects can be carried out successfully and result in multiple benefits for the community. Furthermore, thorough preparation can also minimize the potential obstacles that occur in a project, thus ensuring that all stages of the PPP project run smoothly and efficiently.

Comprehensive understanding of the preparatory stage is essential for all parties involved in the PPP project as it is closely related to the various stages that must be carried out by the by the Government Contracting Agency (GCA).

With regards to this preparation stage, there is underlying lesson that can be learned from UK, one of the countries considered successful in implementing the PPP scheme, through their *Infrastructure and Project Authority* (IPA UK). IPA UK as an institution is the center of expertise for major projects in the infrastructure sector. Various infrastructure projects that are supported by IPA UK include transportation, education, health, housing, communication and information technology sectors

IPA UK also has a strategic role in the preparation phase of PPP projects in the UK. Learning from IPA UK's success, two crucial factors must be considered in the preparation phase. First, the bankability level and structure of a PPP project must be adequately prepared so as to minimize the constraints of capital flows from business entities in a project. Second, the preparatory stage, followed by PPP project proposals, must be really well prepared so that it can attract funding from various business entities. This is important to note especially in developing countries which often struggle to receive funding.

Overview of the Five Case Model

There are several principles in the preparation stage of a project that must be understood specifically by the GCA and other parties involved. These principles refer to the results of the 2018 G20 meeting in Buenos Aires, Argentina. It is also important to know that these principles rely on efforts to produce a sustainable infrastructure model.

First in the preparation phase, the country that will carry out PPP projects must have a national infrastructure development plan that generally discusses how projects will be carried out. Second, a country must also have a road map for project initiation. This document discusses the ability of a country to carry out collaborative projects with business entities, among others. A country that wants to run a PPP project must also understand the Five Case Model principle so that it is able to demonstrate the transparency of investment and the quality of a project to be carried out. This is important especially in the presence of investors, so they can assess the feasibility of a project. Finally, a country must also map information models related to the implementation of a project. Thus, risks in the project implementation stage can be identified and mitigated so that the final outcome is in accordance with the plan.

In the UK, IPA UK has a project preparation stage which is not much different from the stages described in the 2018 G20 meeting. The project preparation stage implemented by the IPA UK consists of: a national infrastructure development plan, a project initiation road map, a business case methodology, digital construction, value for money test, and the actual implementation of PPP projects.

One important element in their preparation stage is also an understanding of the Five Case Model. The Five Case Model provides a step-by-step approach that helps ensure that each of the main aspects of an investment proposal is handled as part of the business case development process.

The Five Case Model provides a framework and tool for effective decision-making during scoping and proposal planning. The application of the model must be proportional to the level of its application and the costs and risks associated with investment. The following factors must be considered:

- Strategic case - a strategic match and clear investment objectives
- Economic case - optimizing value for money
- Commercial case - appeal to the market and procurement arrangements
- Financial case - affordability
- Case management - shipping and delivery plans

By implementing the *Five Case Model* in the PPP project preparation phase, various benefits can be achieved by the project organizer. These benefits include

- The Five Case Model provides structure for project preparation so that the project is well prepared and has the possibility of success .
- The Five Case Model provide a framework for project evaluation and approval .
- The Five Case Model gives you a test to make sure budget is optimally utilized , and
- The Five Case Model provides investors with Transpa-rency, Certainty and Consistency

Hang Nadim International Airport Batam, Riau Islands.

Photo:
Dokumentasi
Source:
https://securityelectronicsandnetworks.com/articles/2016/08/21/hang-nadim-international-airport-rides-thermals/

The Five Case Model: Multidimension Tool

Strategic PPP Projects

2019

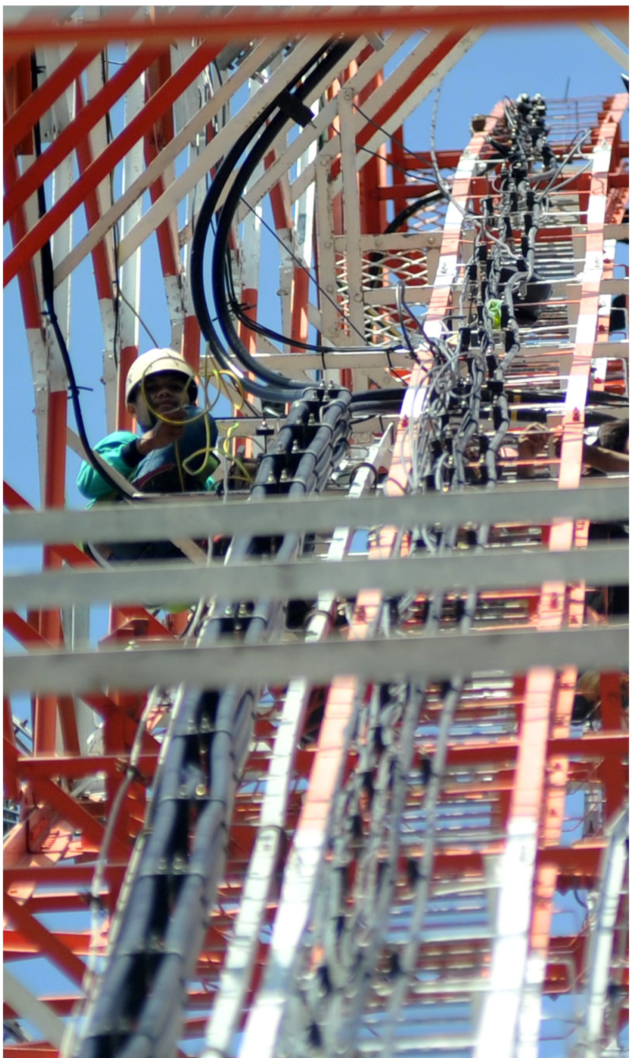
01 | Two Trans Sumatra Toll Road Section Officially Operated This Year. Source: https://headtopics.com/id/

02 | Cileunyi-Sumedang-Dawuan Toll Road (Cisumdawu) is expected increase the inter-region connectivity in West Java. Source: http://katadata.co.id/

03 | Jatigede Water Supply Project is currently preparing the documents for Final Business Case (FBC) stage. Source: http://kpbu.jabarprov.go.id/

04 | Residents crossed a simple flat (Rusunawa) Sadang Serang, Bandung. Rusunawa was built to facilitate low-income people. Source: http://jabarekspres.com/

05 | The construction of Tanjung Adikarta Port will be conducted using PPP Scheme. Source: https://wartakonstruksi.com/



06 | Technicians repair devices at the Base Transceiver Station (BTS) of one cellular provider, in Bungus Teluk Kabung, Padang, West Sumatra. Source: https://indonesia.go.id/

07 | Integrated area transportation (Transit Oriented Development / TOD) area planning at Poris Plawad Terminal, Tangerang City.

08 | Dharmais National Cancer Center plans to utilize PPP Scheme to revitalize its healthcare service. Source: https://steemit.com/

The Strategic Role of PPP **in Creating Fiscal Resilience**

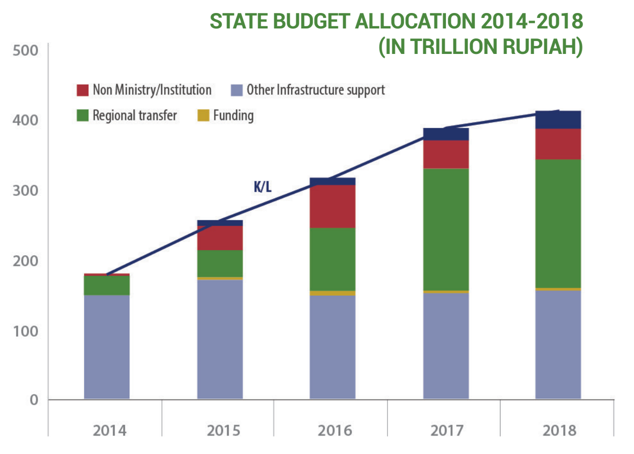
In the 2018 Indonesian Economic Report, Bank Indonesia explained in the topic of the expansion of infrastructure development that the fiscal policy adopted by the government clinging to the provision of stimulus space for the economy supported by the strategy of optimizing the construction of infrastructure projects. It also goes hand in hand with the theme of the 2018 government work plan to spur investment and infrastructure for growth and equity.

In this case, the government, as we know, selects a list of projects considered strategic and have a high urgency, then these projects are included in the National Strategic Projects (PSN) group.

With limited funds owned by the central and regional governments in the context of development or acceleration of these strategic projects, the government is also doing various ways to be able to attract investment or participation of business entities or the private sector to be able to participate in assisting in infrastructure development.

The government has optimized infrastructure development by increasing the infrastructure budget in 2018 to 410.4 trillion rupiah, up by around 30 trillion Rupiah from the previous infrastructure budget. There is one alternative financing undertaken to be able to continue to meet the strategy of optimizing infrastructure project development. The financial support was obtained through the provision of government investment in assisting capital participation in BUMN in the field of infrastructure and increasing the role of the private sector/business entity through cooperation between the Government and private business entities/PPP. Starting with such momentum, the government continues to encourage the involvement of BUMN and private participation in infrastructure development.

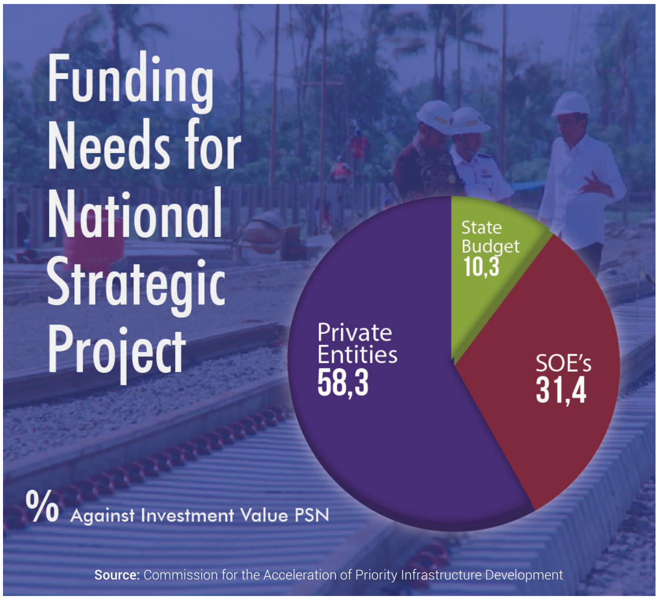
State Budget Allocation for Various Sector



Source: Ministry of Finance

The Participation of Private Entities

There was a significant increase in the involvement of business entities or BUMN in the project, amounting to 28% of the total number of projects included in the PSN category. BUMNs' contribution is also quite significant with a market share of 31.4% of the total value of PSN investment amounting to US$ 307.4 billion.



Source: Commission for the Acceleration of Priority Infrastructure Development

Workers are seen completing the construction of Bogor-Ciawi-Sukabumi Highway (Bocimi) around Cigombong area, Bogor Regency, West Java

Photo: Yulius Satria Wijaya | **Source:** *https://www.jabar.antaranews.com/foto/71249/proyek-tol-bocimi-dilanjutkan/2*

The increase in the level of participation of business entities is not far related to the improved development of PPP scheme. Recognizing the importance of solving problems to carry out infrastructure development strategies, PPP is present to resolve the various nodes needed to succeed in various infrastructure projects while still paying attention to the country's fiscal security.

Reducing fiscal pressure

By using PPP scheme, the Government provides several fiscal incentives in an effort to encourage feasibility of projects and business certainty. One example of fiscal incentives that can be provided is the viability gap fund (VGF), provide to encourage investment return rates or IRRs to be raised to commercial or reasonable levels. The PPP scheme provides good accountability and transparency but raises the trade off in the form of process of completing the cooperation contract which takes longer than it was built by the State Budget.

The government can also consider projects that are not feasible by assigning BUMNs under certain conditions. BUMN can build infrastructure projects needed by the Government to provide services to the community. The government will pay for the use of infrastructure to BUMN periodically, for example monthly, including providing a reasonable margin. Although in this type of project the Government will pay or provide greater fiscal incentives compared to projects that are less feasible, but from the perspective of cash flow, this method can reduce the burden of the State Budget expenditure or can make State Budget expenditure smoother or soft, and reduce the Government's tendency in utilizing debts.

Inside PPP Scheme: **Maintaining the Sustainability of Infrastructure Development Funding**

In the midst of limited government funds, financing infrastructure development under the Public Private Partnership (PPP) scheme is one of innovative and creative solution. In addition to reducing the burden on the government, this scheme also opens opportunities for business entities that want to play an active role in financing infrastructure development in Indonesia. As a result, the quality of infrastructure is boosted as it is built by business entities that are experts in their respective fields.

Nevertheless, the financing of the PPP scheme must be well-planned. This is necessary as business entities must receive appropriate compensation so that their investments in infrastructure development result in a favourable financial return. Furthermore, this factor becomes a point of consideration for them when investing in other infrastructure developments in Indonesia.

There are various structures and arrangements that can facilitate the PPP scheme, but all of them involve some degree of risk transfer from the government to enterprises. These risks are related to investment, design, construction or operational assets. Given the various risks above, it is important for business entities to be able to maintain the sustainability of the funding they use in infrastructure development.

In order to understand the sustainability of financing in the PPP scheme, it is important to know the size of the infrastructure project that is to be funded. Regardless of whether it comes from the private sector (via PPP scheme) or the public sector (through traditional procurement), the investors have their own views associated with infrastructure financing.

Various infrastructures such as roads and power plants have investments with a large initial capital intensity during the construction period, but have low operational and maintenance costs. To overcome this, the role of economies of scale is essential to maximize utilization of infrastructure outputs so that operational and maintenance costs per unit become cheaper.

Some infrastructure investments in the energy, utilities, transportation, and social facilities sectors are generally monopolistic in nature so they have a certainty of long-term stable use. This is an important factor which can further generate trust for investors and lenders.

Sustainability of Financing in the PPP Scheme

Business entities can fund infrastructure development by making commercial loans or by withdrawing equity from bonds. Thus, to ensure sustainable financing, the PPP project must be able to pay interest and principal for the loan to the lender and generate dividends. In this regard, there are several concepts and strategies needed to ensure sustainability of financing by business entities in infrastructure development.

Business entities or consortiums generally form a Special Purpose Vehicle (SPV) that signs the PPP contract with the Government Contracting Agency (GCA) to develop, own, and operate an infrastructure project. SPV is a mechanism that allows the delegation of certain entities to conduct negotiations and operations.

Generally, SPV does not cover all project requirements; but they allocate part of the funding as capital and make loans to banks or place debt securities in the capital market. It is important for SPVs to ensure that long-term debt maturities are in accordance with their cash flows. The SPV must also show the lender how income from 15-30 years can pay the initial investment costs and also fund the maintenance and operational costs of the new project. The return of investment obtained by business entity is usually in the form of available payment (AP) paid annually or in other interval which was agreed together with GCA. For some of the projects, the return of investment can also be obtained through user fee which is directly paid to the operator.

Risk is a key element in the contract and PPP financing structure. In theory, there is a positive correlation between risk and return, therefore the greater risk that must be taken by the lender, the higher the rate of return on investment. Funds lent to the government tend to have the lowest risk so that the interest rate is also low.

Lenders for PPP projects such as infrastructure development refer to credit risk. In this case, delays in the completion of the project, currency depreciation, or others can delay payments and thus be considered credit risk. Risks must be minimized and also identified in detail and in writing and appropriately allocated in the initial stages of contract negotiations. In general, several risks inside the PPP scheme which become the point of attention include commercial and income risk, construction and operational fee, as well as political risk that covers the change of regulation.

In general, projects built using PPP scheme give the limited guarantee toward the investors. This is different from other commercial loans that guarantee property or assets in the event of default. Therefore, the project lender will try to secure the right to use the asset to continue operating the infrastructure that has been built until its debt obligations have been paid off. Such obstacles are often absent or limited to various forms of corporate lending and in the perspective of PPP, this is a consideration for the sustainability of PPP project financing.

PPP joint office meeting is routinely organized to discuss progress and obstacles of ongoing PPP project in Indonesia

Photo: Gusti Andry | Source: https://www.infopublik.id/kategori/am-imf-wbg-2018/302585/keuangan-syariah-berpotensi-besar-dalam-pembiayaan-infrastruktur

Minister of Finance Sri Mulyani Indrawati during the opening of Annual Meetings International Monetary Fund-World Bank Group

Green Sukuk as Alternative Instrument **for Infrastructure Financing**

The need for infrastructure development is one of the national strategy priorities that needs to be supported and pursued. For developing countries, the issue of infrastructure procurement continues to be the focus of attention because the government does not have sufficient sources of financing, lack of expertise in technology, efficient resource management and project development.

PPP is the solution used in developed and developing countries with a variety of different schemes. The main scheme is that part or all of infrastructure project procurement is contracted out to the private sector to design, build, finance, and/or operate and maintain the assets or facilities to be built. The Government is responsible for maintaining service accountability.

Under this PPP scheme, there are also alternative sources of financing. Traditionally, financing originates from commercial bank loans. But the 2008 global financial crisis made commercial banks rethink to enter long-term infrastructure projects. The development of capital markets adds to alternative infrastructure financing, including the issuance of project bonds also intended to create liquid markets. PPP scheme financing through bond issuance has increased as seen in European region with the portion of issuance of only 3 percent in 2008 to 27 percent in 2013. The issuance of project bonds enables project companies to obtain sources of financing directly from individual and institutional investors at low interest rate and long tenor. But it is not always the project companies that issue project bonds. The government may also issue project bonds, the proceeds of which will be utilized by private sector to develop infrastructure projects that the Government needs.

When the conventional financial system causes instability then a financial crisis occurs again. The world begins to look at syariah financial system. When the immunity of syariah financial institutions from the crisis becomes an inspiration along with their financial instruments such as sukuk that are attractive to western countries and non-muslim investors.

The issuance of syariah-based financial market instruments such as State Sukuk for financing infrastructure projects in Indonesia began to be developed since the passing of the Law on State Sharia Securities in 2008. First implemented in 2013, State Sukuk was issued for partially financing the Cirebon - Kroya railroad double track construction.

Since 2013 the Government has adopted an initiative to issue State Sukuk for project financing. Under the scheme of *"project financing sukuk"*, the results of the issuance of the State Sukuk are earmarked for financing the construction of projects that have been allocated in the State Budget. Some sectors that have received funding from the State Sukuk include transportation sector for the construction of railroads, roads and bridges; education sector for the construction and procurement of higher education facilities; and the religious sector for the construction of religious affairs offices and hajj dormitories.

To maintain the sustainability of the State Budget as an instrument of development through PPP framework, therefore matching fund payments can be realized in the issuance of State Sukuk. Business entities are tasked with designing, building and operating projects, while the Government is seeking financing as well as carrying out its role in taking the initiative to develop Syariah financial markets in the issuance of sukuk for financing infrastructures.

Development of Sharia-based PPP Scheme in Indonesia

Minister of Finance Sri Mulyani Indrawati encouraged the development of sharia financing schemes in infrastructure projects. One of the innovations she pushed is the application of Sharia-based Cooperation between Government and Business Entity (PPP). The application of scheme needs to be carried out as an effort to diversify instruments to meet diverse investor appetite. "The expansion of the use of sharia-based financing to the PPP scheme is very promising to Indonesia," she said when attending the Sharia Infrastructure Financing Symposium during the International Monetary (IMF) Fund Annual Meeting - World Bank in Nusa Dua Bali. By developing schemes, the ability to prepare sharia-based projects will be increasing and sharia financing instruments can also be more varied.

The potential for involvement of Syariah finance in development, particularly in relation to infrastructure financing, Sri Mulyani continued, is very large, especially when looking at various development in the world today. In the past decade, Sharia finance has become one of the fastest growing segments in the global financial industry.

Sri Mulyani also views the opportunity of applying the Sharia financing scheme in the PPP projects to attract muslim investors who were previously reluctant to participate in conventional based financing. Based on the latest report, global infrastructures require funding of around US$ 3-4 trillion per year until 2030. While the funding available from the government and the Multilateral Development Bank per year is only around US$ 300 billion.

In line with the development of the existing potential, Indonesia Infrastructure Guarantee Fund (IIGF) signed a Memorandum of Understanding (MoU) with The Sharia Corporation for the Insurance of Investment and Export Credit (ICIEC), an institution being a part of the Sharia Development Bank (IsDB) group. This cooperation opens new opportunities for financing and underwriting under Sharia principles in cooperation projects in the field of infrastructure. According to Luky Alfirman, the agreement between PII and ICIEC can encourage innovation in sharia-based financing in infrastructure projects through government cooperation with business entities or PPP. It is expected that it can also facilitate and attract investors from Islamic countries to invest in infrastructure projects under sharia schemes.

Dr. Zainoel Abidin Banda Aceh Hospital

Dr. Zainoel Abidin Hospital is one of the backbones of general and advanced healthcare service in the Province of Aceh. The hospital is located in the city of Banda

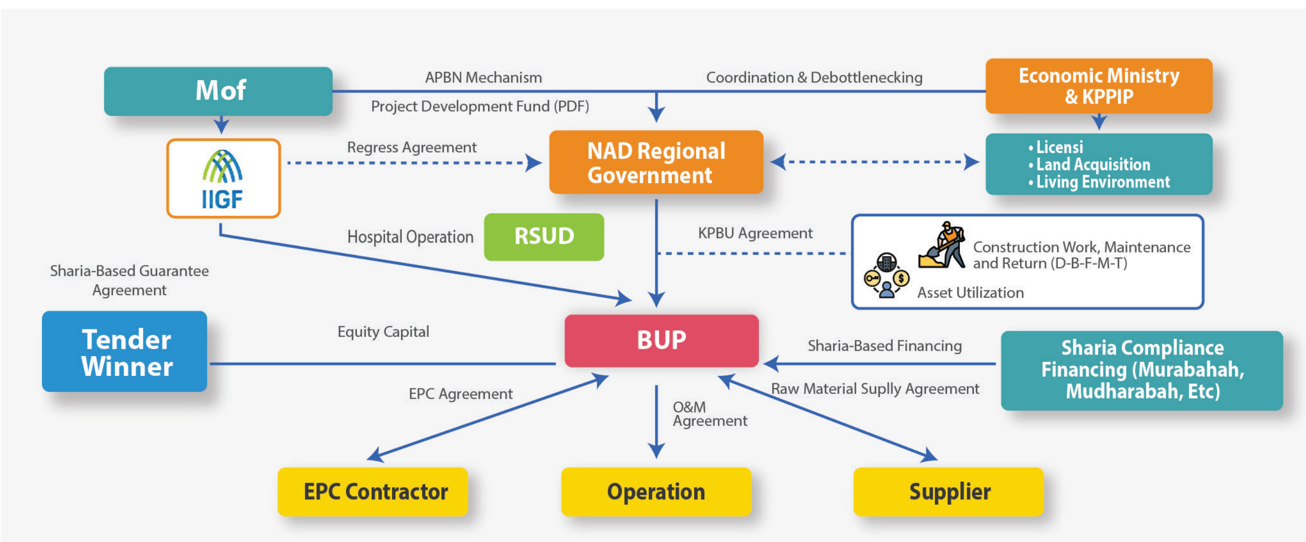
The Caretaker of Governor of Aceh Nova Iriansyah giving the remarks during the market sounding event of the development of Zainoel Abidin Regional Hospital

Photo: Bari Baihaqi

Source: *https://www.http://www.neraca.co.id/article/119894/pii-beri-jaminan-proyek-rsud-dr-zainoel-abidin-aceh-penjajakan-minat-pasar-proyek-kpbutur*

Aceh with a vision to become an international standard hospital by enhancing human resource competencies through education and research, providing maximum services, and supporting the efforts of the Aceh government to achieve Sustainable Development Goals (SDGs) applied through the achievement of Human development index and also application of Syariah principles in the development of health services.

The partnership development project of Dr. Zainoel Abidin Hospital will be the first collaborative project based on sharia principles. The Ministry of Finance provides assistance in the form of project preparation fund (PDF). This project is estimated to cost around 2.6 trillion rupiah. The construction is planned to be carried out in 2021.



Source: Ministry of National Development Planning (Chairperson of National Development Planning Agency), Public-Private Partnership Infrastructure Project Plan 2019

Delving Deeper on **The Potential of Green Finance in Indonesia**

The Intergovernmental Panel on Climate Change (IPCC) report of Global Warming in 2018 emphasizes the risks of climate change that impacts health, human life, food security, water supply, human safety and economic growth are projected to increase. Climate change is an important issue and a priority for Indonesia. The region has a tropical climate and consists of thousands of islands making it a country rich in natural resources and biodiversity.

The climate change model predicts that Indonesia could experience a prolonged dry season, flooding, and potential extreme weather situations that could greatly affect people's lives in various sectors. This will also have an impact on the sustainability of Indonesia's wealth in the field of natural resources and biodiversity thus potentially threatening socio-economic growth.

Indonesia has taken a strategic role in the formulation of policies related to climate change and including voluntarily committing to reduce greenhouse gas emissions in Copenhagen, Denmark in 2009. Since then, Indonesia has kept this commitment both at national and international levels.

Indonesia adopted a National Plan for Reducing Greenhouse Gas Emissions in 2011 and a National Action Plan for Adapting to Climate Change in 2011. Both of these national action plans provide a framework to mitigate and adapt to climate change. In addition, in 2015 Indonesia also launched an Action Plan and Biodiversity Strategy 2015-2020.

Moreover, since 2015 the Ministry of Finance supported by the United Nations Development Program (UNDP) has implemented budget tagging to track climate- related spending in the State Budget. This marking process allows the government to obtain accurate information related to the financing gaps that must be achieved to reach the climate change target.

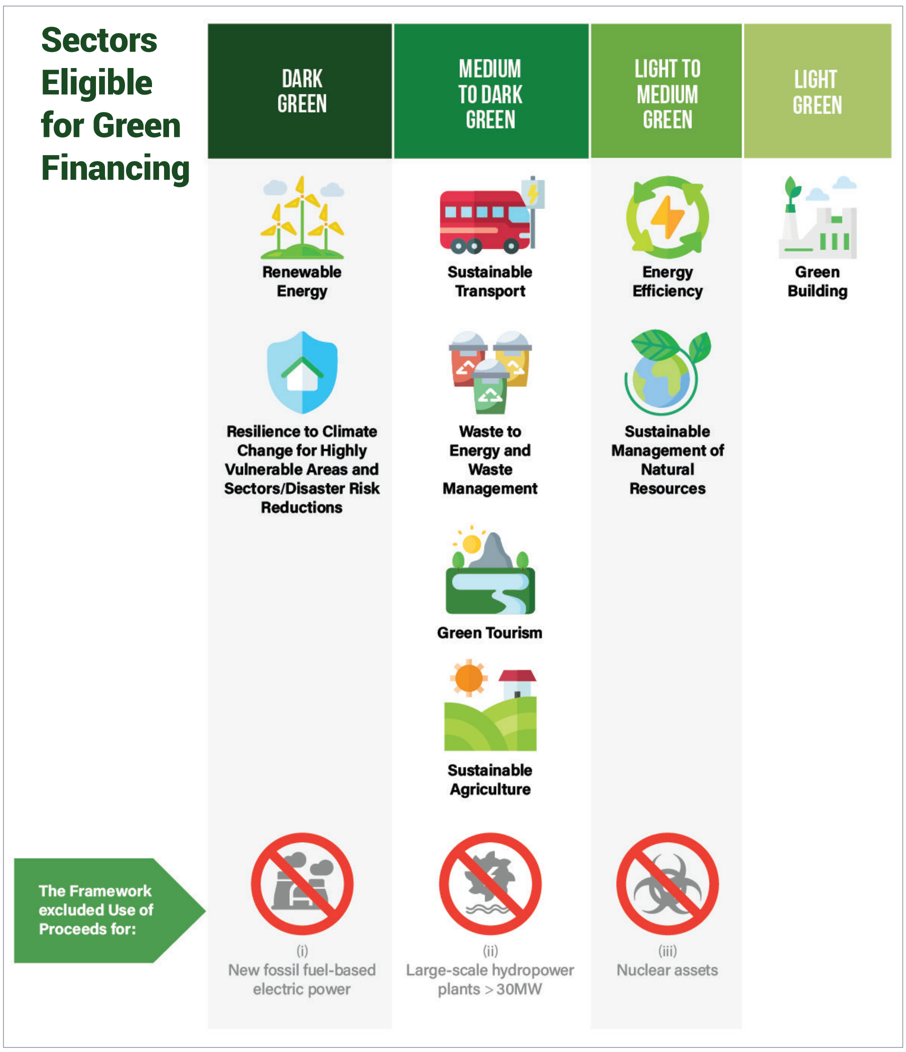
It must be noted that the budgeting marking system is used to select appropriate green projects in various sectors to promote the transition to a low-emission economy, including climate mitigation, adaptation and biodiversity in accordance with the criteria set out in the framework policy. Relevant ministries such as Ministry of National Development Planning (Chairperson of National Development Planning Agency) and the Ministry of Environment and Forestry decided to incorporate these various projects into green projects.

In March 2018, Indonesia solidified its leadership by formally issuing Green Sukuk, an innovative instrument in accordance with Islamic Sharia and green bond principles. The launch of green sukuk attracted plenty new investors. This launch also marks Indonesia's commitment to climate change prevention and the desire to become an active party in the capital market and sustainable green finance sector that currently continues to grow.

Potensial of Green Finance in Indonesia

Indonesia as a country rich in natural resource potential and also biodiversity has great potential in a green finance-based economy. Since the Ministry of Finance launched green sukuk in March 2018, this investment instrument has been used to re-finance existing projects as well as various projects that have begun since 2018.

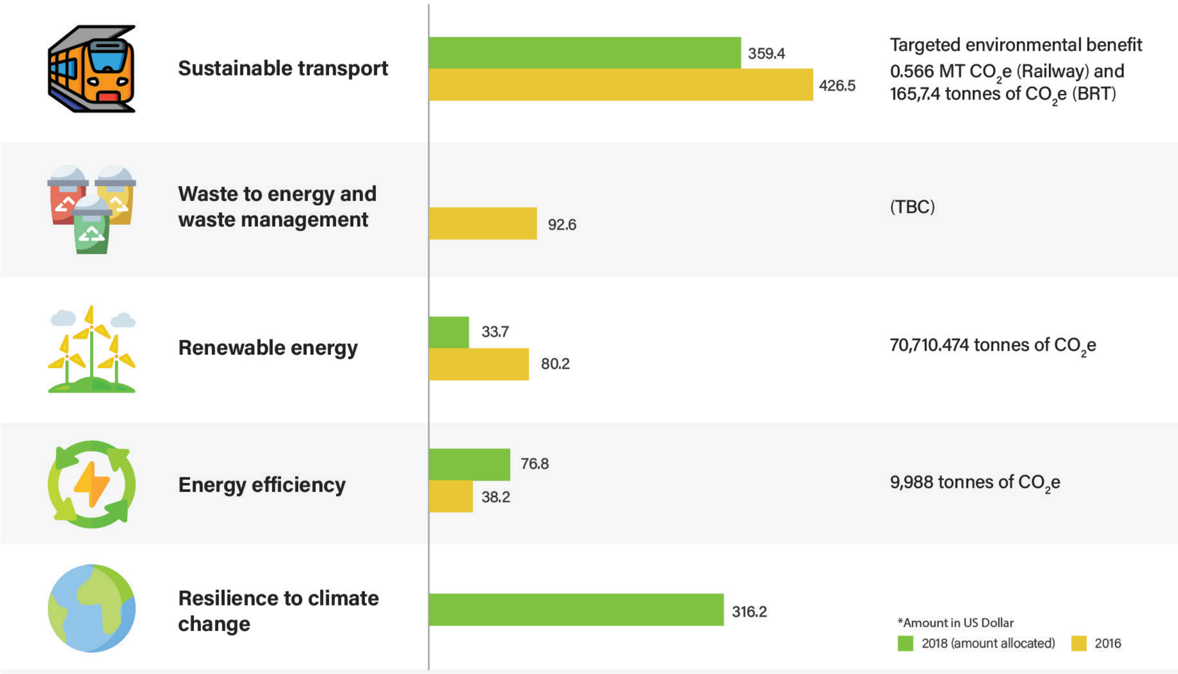
Before launching green sukuk, the Government of Indonesia launched a Framework for Green Bond and Green Sukuk. This framework contains various projects that can be funded by investments in the form of green bonds and green sukuk. The projects fall into four categories: dark green, medium to dark green, light to medium green, and light green. Some of the projects that fall into this category include: the development of renewable energy, the development of sustainable transportation, sustainable management of natural resources, and the construction of green buildings.



Source: Implementation of Green Sukuk in Indonesia

IMPLEMENTATION OF GREEN SUKUK IN INDONESIA

Proceeds from the first issuance of the Sovereign Green Sukuk by the Ministry of Finance in 2018 are used to refinance projects from the 2016 budget and finance new projects from the 2018 budget.



Examples of projects to be funded by the sukuk include: Infrastructure development of bio-energy power plant in Kalimantan and Sumatera, installation of smart street lighting integrated with solar power plant, double track railways development in Java's north coast lines, construction-scale reservoirs in Bali, Central Java, and North Sumatera.

Source: Green Sukuk Issuance Allocation and Impact Report February 2019, Ministry of Finance

Indonesia has been developing various green projects since 2016. Based on data from the "Green Sukuk Issuance: Allocation and Impact Report in February 2019", there are four green projects to be funded with a total investment of USD 786.1 million. These projects include the development of sustainable transportation amounting to USD 359.4 million; renewable energy development of USD 33.7 million; the energy efficiency sector by USD 76.7 million; and the climate resilience and disaster risk reduction sector by USD 316.2 million.

In addition, there are also other green projects in Indonesia which will be funded by the green sukuk instrument. Some of these projects include the construction of bioenergy power infrastructure in Kalimantan and Sumatra, the installation of smart street lighting integrated with solar power plants, the development of double track railways on the North Coast of Java, the construction of community scale reservoirs in Bali, Central Java and North Sumatra.

Indonesia continues to commit to developing a green economy and also green financing. Furthermore, the Government of Indonesia has made green financing one of the important instruments for promoting environmentally friendly economic growth. This was reflected with the launch of the Low Carbon Development Initiative in March 2019 by Ministry of National Development Planning (Chairperson of National Development Planning Agency). This report highlights the various potentials that Indonesia that Indonesia has to carry out low-carbon development.

In addition, this report also highlights key target commitments that need to be achieved. These commitments are part of Indonesia's effort to achieve lower emissions by 29 percent by 2030. To achieve this target, an average investment of USD 14.8 billion per year is needed over the period 2020-2024. In addition, additional investment is also needed in the amount of USD 40.9 billion per year during the period of 2025-2045. Investing can be done through green financing instruments in the form of green bonds and green sukuk.


PERATURAN PEKERJAAN PANAS
(MENGELAS, MENGGERINDA, MEMOTONG DENGAN BLANDER, SOLDER)