

System Initiative on Shaping the Future of Long-Term
Investing, Infrastructure and Development

Moving from Policy to Implementation: A breakthrough in infrastructure development

Indonesia Business Working Group

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Business Working Group (BWG) Progress to Date

The BWG serves as a platform to foster an enabling environment for private-sector participation in the financing of major infrastructure projects in Indonesia. With focus primarily on identifying solutions rather than describing challenges, BWG members aim to enhance understanding and achieve consensus on a set of issues that need attention in the short to medium term and also explicit public and private commitment for their resolution.

During its first two meetings, the BWG benchmarked Indonesia's public-private partnership (PPP) programme and highlighted the main manifestation of political and regulatory risk in the country. Based on BWG findings, the group formulated several country-specific recommendations to be implemented through ongoing dialogue with the Government of Indonesia and by means of a concrete action plan, with completion scheduled for the end of the initial BWG mandate (March 2017).

Recognizing the private sector as an inevitable additional source of funding and for its valuable technical expertise, the Government of Indonesia continues to facilitate the development of infrastructure projects using the PPP scheme and has recently enacted various **reforms** to encourage private-sector investment in PPPs:

1. certainty of a return on investment by means of payment by the user in the form of tariffs (user charge) or availability payment
2. provision of government support with viability gap funding
3. provision of a government guarantee
4. facilitated land acquisition

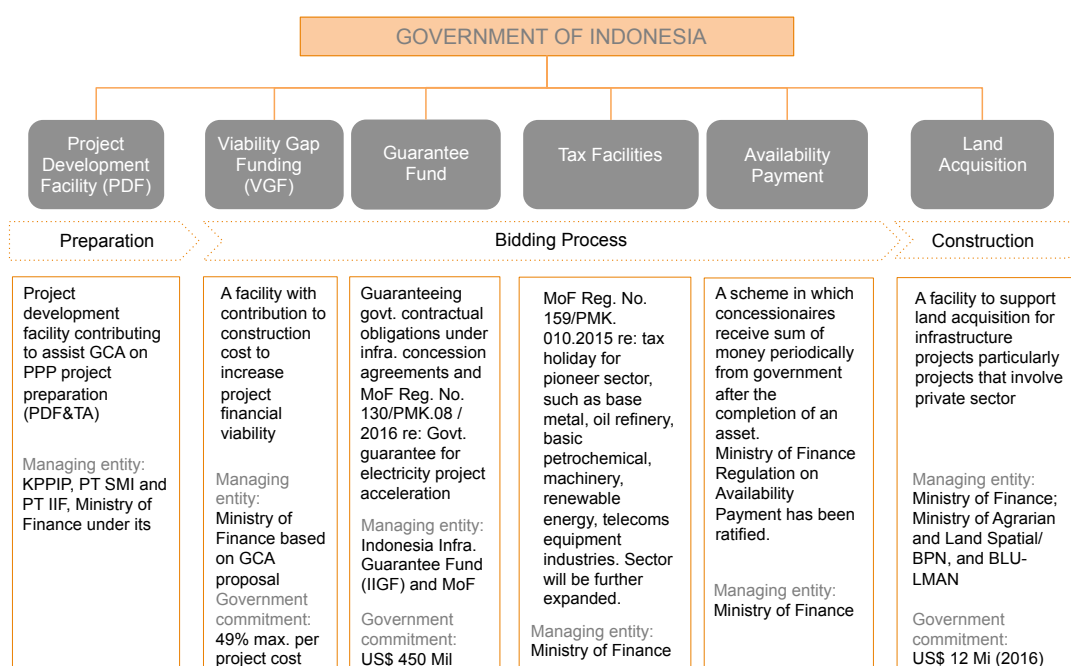
Business Working Group Guidance of Action Plan Implementation

The third BWG gathering focused on guiding the implementation of each of the action items below to accelerate the project delivery process in Indonesia. Concrete deliverables were identified, as well as implementation leads from among BWG members, with the objective to showcase impact and validate the BWG model at the next BWG gathering in the first quarter of 2017.

The action plan includes:

1. Promoting dialogue between the private sector and key regulators to facilitate **access to local currency, long-term finance and guarantees**
2. Providing **sector-specific training** to enhance capacity-building
3. Supporting the development of a **transparent project information platform** to improve transparency and accountability
4. Promoting a **new funding mechanism** to deliver infrastructure
5. Promoting increased **predictability of regulatory/policy changes** to reduce risks and participation costs in PPPs

Innovative reforms along the project lifecycle aim to encourage and accelerate infrastructure projects using the Public Private Partnership (PPP) scheme



1. Promoting dialogue between the private sector and key regulators to facilitate access to local currency, long-term finance and guarantees

Highlighting barriers that prevent long-term investors, pension funds and insurance companies operating in Indonesia from developing their full infrastructure funding potential, the BWG emphasized that:

- Adequate portfolios are insufficient to match investor's long-term liabilities, even though the Financial Services Authority of Indonesia (OJK) has already issued regulations whereby non-banking financial institutions must invest 20% of their assets under management (AUM) in Government bonds¹ by the end of the year, and 30% by year-end 2017. The BWG welcomes this trend despite general concern about the practical application of this regulation. Indeed, the BWG foresees a shortage of Government bonds available. One solution would be to extend the regulation to private-sector bonds with high-quality ratings (AAA, Aaa, etc.).

- Providing incentives for pension fund and insurance companies to invest in the instruments that support infrastructure financing will require alignment among regulators (OJK, Bank of Indonesia and Ministry of Finance, Coordinating Ministry for Economic Affairs) at the highest level. That said, the BWG is fully aware that regulators are subject to international standards and regulations (i.e. Basel Committee), and are consequently restricted in their ability to change rules. The BWG recommends a **consultative approach** by facilitating strategic dialogue between the private sector and Indonesian regulators².

2. Providing sector-specific training to enhance capacity-building

BWG members agreed on the importance of increasing capacity-building and harmonization at national and subnational levels. Some of the key PPP agencies are already focusing significant efforts in this area, as illustrated by the creation of the [Indonesia Infrastructure Guarantee Fund \(IIGF\) Institute](#). Establishing dedicated PPP departments – or focal points for private-sector engagement – in sector ministries and across all provinces in Indonesia would also help to increase capacity-building.

However, **conducting training directly within specific PPP projects** is considered a key success factor for improving skills-sharing and developing expertise, thereby positively impacting project delivery in Indonesia. The BWG recommends beginning knowledge sharing within national agencies before extending this to local government.



¹ Mainly greenfield projects prepared by SOEs (state-owned enterprises)

² Following the example of the ASEAN Insurance Regulators and the ASEAN Insurance Council annual meetings

“
Learning how to do PPPs is by doing PPPs
 ”

BWG member

Another effort to accelerate project delivery is by **increasing the level of capital budget absorption**. Despite the decision to increase the infrastructure budget for 2017, the Government of Indonesia has a disbursement track record of less than 100% (72% in 2015). This gap is mainly due to a lack of capacity to implement projects. Moreover, inappropriate performance assessment of the government contracting agencies (GCAs), which is against absorption of state budget and not in terms of delivery of PPPs, decreases incentive to invest in PPPs. Building capacity of public-sector official for infrastructure development and adopting appropriate incentive schemes to implement PPPs would help project delivery and increase private-sector participation in their development.

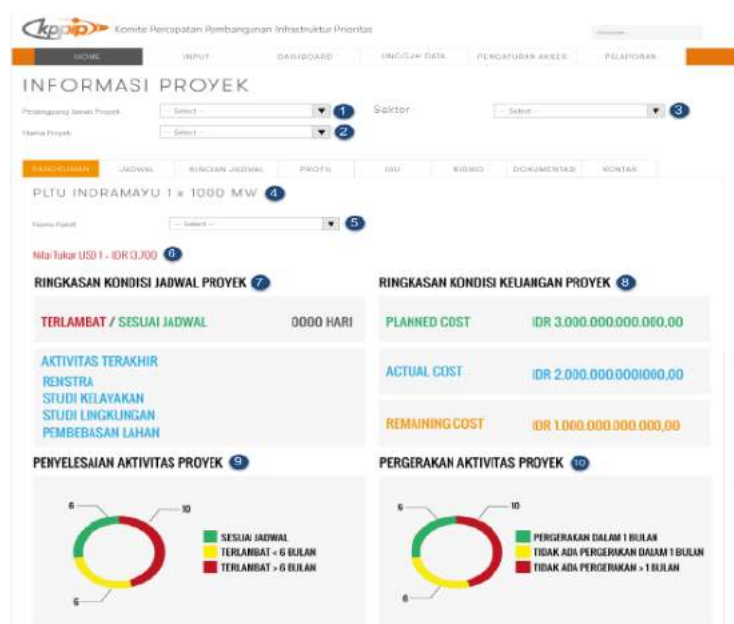
3. Supporting the development of a transparent project information platform to increase transparency and accountability

The new project information platform recently developed by the Committee for Acceleration of Priority Infrastructure Delivery (KPIP) has recently been soft-launched and is being tested for general use (see chart below). Only available in Bahasa Indonesia for now, the tool is likely to be translated into English in a second phase of development. The platform is expected to increase project visibility, provide necessary information to investors and allow for projects to be tracked over time.

4. Promoting a new funding mechanism to deliver infrastructure

The BWG welcomes the acceleration of infrastructure delivery by **investing in brownfield projects** and using a new funding mechanism similar to temporary privatization. In such PPP schemes, usually called “Buy/ Lease – Develop - Operate” or “Limited Concession Schemes”, the private party leases or buys a facility from the public sector for the purpose of modernizing or expanding it. The private party then manages the facility under contract with a public agency for a period of time that is sufficient to repay the investment and obtain a sufficient rate of return. For its part, the public sector uses the capital generated by this transaction to finance a new project or develop another less-performing asset.

Overview of Project Monitoring System –



PROJECT INFORMATION
 Project status, activities, financial condition, list of issues and risks, financial summary and actual project spending.



Source: Committee for Acceleration of Priority Infrastructure Delivery (KPIP)

This asset-recycling model appears to avoid most of the issues related to greenfield project financing and as such presents tremendous potential for accelerating project delivery in Indonesia. The BWG noted two critical ingredients needed to confirm the validity of this model:

- Asset ownership structure may be perceived as an issue, hence respect for various political sensitivities and buy-in from local communities will be essential
- Early involvement of SOEs in the process will be critical. This collaboration should be seen as a commercial partnership with a clear understanding of SOE objectives (upfront payment/ concession payments/ ongoing dividends, and so on).

5. Promoting increased predictability of regulatory/policy changes to reduce risks and participation costs in PPPs

The BWG continues to advocate for greater predictability of regulatory/policy changes in Indonesia. The sprawl of regulatory agencies, number of required permits and unpredictability of regulatory/policy changes is perceived to be one of the largest impediments to investment. The required mitigation measures seek to navigate the bureaucracy and provide an “early warning” to possible policy U-turns. This includes engaging industry players while implementing regulatory changes, and doing so in a phased manner so that companies have ample reaction time and can adapt to new operating environments.

Next Steps and Delivery per Agreement

In the context of growing public commitment to more efficient and standardized PPP project delivery in Indonesia, the BWG is, more than ever before, keen to collaborate with some of the key Indonesian public agencies to accelerate the implementation process.

The BWG is willing to take action at two levels:

1. **Initiate strategic dialogue** between select representatives of the private sector (CEO level) and heads of Indonesian regulatory agencies (Bank of Indonesia, OJK, Minister of Finance, Coordinating Minister for Economic Affairs) to facilitate access to local currency, long-term finance and guarantees at country level. The World Economic Forum will help facilitate this discussion by leveraging its multistakeholder platform, including at the Annual Meeting 2017 in Davos-Klosters, Switzerland.
2. To implement BWG recommendations, demonstrate their validity and design a model for replication, the BWG will **select a pilot project for acceleration**. This in-depth project assessment will aim to illustrate the specific issues that are slowing down project delivery and accelerate the implementation process by leveraging skills and expertise represented by the BWG business community. It will also serve as an excellent capacity-building exercise by providing much needed project-specific experience to all parties involved.

Active participation and endorsement by the public sector is key to the success of this pilot. Mandated to act as the central coordinating agency and project lead, the KPIP appears to be an ideal BWG partner for this process. Participation of some SOEs in this exercise would also be beneficial for a more integrated approach to PPP delivery.

The BWG will select a pilot project and identify the tasks for the private and public parties involved for implementation. In the coming weeks, the Forum will propose specific selection criteria to the BWG and collect nominations for the pilot project.



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