RISK MANAGEMENT FOR SUSTAINABLE INFRASTRUCTURE DEVELOPMENT IN INDONESIA

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Outline

- Infrastructure Financing Needs 2015-2019
- State Budget on Infrastructure
- Financial Facilities for Infrastructure Project
- Government Guarantee
- Fiscal Incentives for Renewable Energy Project
- Feed in Tariff
Infrastructure development is a priority for Indonesia to maintain economic growth of the country.

Based on Medium Term Development Plan 2015-2019, the infrastructure financing needs is estimated around $345.1 billion.

The development focuses on basic infrastructure sectors, such as connectivity, power & electricity, communication, and water & housing.

SOEs and Private involvement through PPP scheme are expected to fill the gap of infrastructure needs.

Total Financing Needs: ~ US$345.1 bn

- Govt & Local Budget (41.3%) ~ US$142.4bn
- SOE & Private (22.2%) ~ US$76.7bn
- PPP (36.5%) ~ US$126.0bn

Alternative Financing Scheme
• The Government of Indonesia has committed to continue strengthening productive spending.
• Ensuring budget allocation for education, preserving the infrastructure acceleration, social welfare spending.
• Budget allocation for infrastructure in the State Budget continues to increase since 2015.
• Central government budget on infrastructure is allocated for three types of infrastructure: economic infrastructure, social infrastructure and infrastructure support.

Source: Fiscal Policy Office, Ministry of Finance
Financial Facilities for Infrastructure Project

In order to attract private participation and to increase the capacity of SOEs in the infrastructure provision, Ministry of Finance provides various financial facilities or support.

<table>
<thead>
<tr>
<th>PPP Project</th>
<th>Non PPP Project</th>
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<tbody>
<tr>
<td>• Project Development Facility (PDF).</td>
<td>• Credit guarantees to SOEs’ loans for the development of Sumatra Toll Roads, PT PLN power projects (FTP1), Regional Water Companies (PDAMs).</td>
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<tr>
<td>• Viability Gap Fund (VGF).</td>
<td>• Business Viability Guarantee Letter (BVGL) for Fast Track Phase II (FTP 2).</td>
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<tr>
<td>• Government Guarantee (provided through Indonesia Infrastructure Guarantee Fund (IIGF).</td>
<td>• Government guarantee to SOE’s loan from IFIs for development infrastructure projects.</td>
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<td>• Availability Payment (AP).</td>
<td>• Capital injection to SOEs through State Budget.</td>
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Financial Facilities for PPP Project

**Project Development Facility**

a facility provided by the Ministry of Finance to help GCA to prepare pre-feasibility study, bidding documents, and assist the GCA in the PPP project transaction until the project reaches the financial close.

**Viability Gap Fund**

a government support in the form of contribution of some of the construction cost, given in cash to a PPP project that already economically viable but has not had a financial feasibility.

**Government Guarantee**

a guarantee given on GCA's financial obligation to pay compensation to the project company in the occurrence of infrastructure risks which has become GCA's responsibility based on risk allocations agreed in the PPP agreement.

**Availability Payment**

a periodic payment by the Minister / Chairman of the Institution / Head of the Region to enterprise for providing infrastructure services that conforms the quality and/ or criteria as specified in the PPP agreement.
### Government Guarantees Program for PPP and Non PPP Project (2008 – present)

<table>
<thead>
<tr>
<th>Type</th>
<th>Sector</th>
<th>Details</th>
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<tbody>
<tr>
<td>Credit Guarantee</td>
<td>Power (Electricity)</td>
<td>Coal Power Plant 10,000MW Fast Track Program (FTP 1) Full credit guarantee – Guarantee for PLN's default on its payment obligation</td>
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<td>Water</td>
<td>Clean Water Supply Program 70% of Guarantee – Guarantee for PDAM's default on its payment obligation</td>
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<td></td>
<td>Infrastructure</td>
<td>Direct Lending from International Financial Institution to SOEs Full credit guarantee – Guarantee for SOE's default on its payment obligation</td>
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<td></td>
<td>Toll road</td>
<td>Sumatera Toll Road Development Full credit guarantee – Guarantee for Hutama Karya's default on its payment obligation for loan and bonds</td>
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<tr>
<td>Business Viability Guarantee</td>
<td>Power (Electricity)</td>
<td>Renewable energy, Coal and Gas Power Plant 10,000MW Fast Track Program (FTP 2) Guarantee on the viability of PLN to fulfill its obligation in Purchase Contract of Electricity with Private Developer and guarantee against political risk</td>
</tr>
<tr>
<td>PPP Guarantee</td>
<td>Infrastructure</td>
<td>Public-Private Partnerships Project (PPP) Guarantee on the obligation of Ministry/Agency, Local Government, SOEs/Local SOEs to an entity in accordance to the Agreement</td>
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<th>National Strategic Project</th>
<th>1. Credit Guarantee 2. Business Viability Guarantee</th>
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<td>35.000 MW Fast Track Program</td>
<td>2008 – present</td>
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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.
- Taking into account current combined portfolio of government debt and guarantees, *Maximum Guarantee Limit* for the period of 2014 – 2017 is set at 2.57% of GDP.
- The guarantee limit can be reviewed and adjusted from time to time.

**Reporting**
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**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).
Facility and Fiscal Incentive for Renewable Energy Projects (Geothermal Project)

**Government Guarantee Facility**

Guarantee that issued by the government (Ministry of Finance) in order to ensure PT. PLN (Persero) capacity to fulfill its financial obligation.

**Geothermal Fund Facility**

Availability of fund for financing the geothermal infrastructure development including exploration, exploitation, and geothermal power plant.

**Tax Incentives**

Fiscal incentive in form of tariff reduction and/or tax and import duty exemption for geothermal projects.
1. Business Viability Guarantee for Geothermal Power Plant

- The government through Ministry of Finance may provide guarantee on the PT PLN’s cooperation with its subsidiary and IPPs to ensure the ability of PT PLN to fulfill its financial obligations under Power Purchase Agreement (PPA).

- Scope of financial obligations: (1) obligation on the payment of electricity output, (2) obligation on the payment of non electricity output (due to political risk or PLN non remedial event).

- Guarantee for Geothermal Power Plant is applied from the date of guarantee issuance until the end of the loan period specified in PLN’s estimated price.

- As per February 2017, Ministry of Finance has provided guarantee for 5 geothermal power plant projects (Rajabasa, Sarulla, Rantau Dedap, Ijen, and Muaralaboh).
2. Geothermal Fund Facility

- The objective of geothermal fund is to increase the contribution of renewable energy resources, especially geothermal energy in the energy mix.

- The Geothermal Fund Facility provides support to mitigate risks and provides information regarding the relatively high upfront costs for geothermal development.

- The Ministry of Finance has allocated Rp.3,1 trillion (~$ 233 million) Geothermal Fund to finance geothermal exploration since 2011.

- The fund currently managed by PT Sarana Multi Infrastruktur (PT SMI)

- Recipient of geothermal exploration financing facility:
  - Ministry of energy and Mineral Resources; and
  - State-Owned Enterprises/Subsidiary of State-Owned enterprises

- Geothermal exploration financing facility provided in the form of:
  - Loan;
  - Equity Participation; and
  - Exploration execution
3. Tax Incentives

- There are a number of tax incentives which may be applied for renewable energy projects.

| Income Tax Incentives | a reduction is net taxable income of up to 30%  
a maximum dividend Withholding Tax of up to 10% |
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<tr>
<td>Value added Tax (VAT)</td>
<td>an import VAT exemption for imports of strategic capital goods (plan, machine and equipment) (MOF Regulation No.31/2008)</td>
</tr>
<tr>
<td>Exemption from import duty</td>
<td>MOF Regulation No.142/2015 provides an import VAT “borne by the Government” facility for geothermal projects in the exploration phase</td>
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<td></td>
<td>MOF Regulation No.176/2009 (amended by No.76/2016) provides an exemption from Import Duty on the import of “machine, goods and materials for establishment or development</td>
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<td>MOF Regulation No.66/2015 provides an exemption from Import Duty on the import of capital goods</td>
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Feed in Tariff

- Government policy mechanism to encourage private sector investment in renewable energy projects includes geothermal, hydro, wind, solar, and bioenergy with known, guaranteed and consistent revenue for renewable energy projects.

- A feed in tariff is a price paid to renewable energy generator for a guaranteed period (often 10 to 20 years), which helps to offset the higher capital costs and associated risks concerned with renewable energy projects.

  - The regulation sets the maximum price paid by PT PLN for electricity from solar, wind, hydro, biomass, biogas, municipal waste and geothermal power plant.
  - The price for electricity from solar, wind, hydro, biomass and biogas power plant is set maximum of 85% of the basic cost of production (BPP) for electricity in the local electrical system.
  - The price of electricity from geothermal and municipal waste power plant is set using the reference price.
End of Presentation