INDONESIA PROSPECTIVE INFRASTRUCTURE PROJECTS
Case Study: Umbulan Water Project, SHIA Rail Link Project & City of Batam Solid Waste Management Project

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PT Sarana Multi Infrastruktur (Persero)

a leading catalyst in the acceleration of the national infrastructure development program.
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PT Sarana Multi Infrastruktur (Persero) (“SMI”) was established on February 26, 2009 with a purpose to become a catalyst for accelerating infrastructure development in Indonesia.

**Scope of Services**

- **Commercial Financing**
  - Flexible financing
  - Complementary to banks
  - Syndication Loan or club deal arrangement

- **Advisory**
  - Financial Advisory Services
  - Investment Advisory Services
  - Transaction Advisory Services
  - Training & Capacity Building

- **Project Preparation (PDF)**
  - Project Development Financing
  - Advisory to contracting/ tendering agencies
  - Limited capacity building

**SMI Shareholding Structure**

- **Government Of Indonesia through Ministry of Finance**
  - Ownership: 100%

- **Third Parties**
  - Government/ SOE
  - Private/ Bank
  - Bilateral/ Multilateral Institutions

- **Founders:**
  - PT SMI
  - ADB, IFC, DEG

**Eligible Sectors**

- **Electricity**
- **Irrigation & Waterway**
- **Water Supply**
- **Toll Road & Bridges**
- **Transportation**
- **Oil & Gas**
- **Telecommunication**
- **Waste Water & Waste Management**

**Financing Product**

- **Senior Loan**
- **Subordinated Loan/Mezz**
- **Convertible Loan**
- **Equity Financing**

“Products of SMI are complimentary to the Banking Sector”
SMI’s experiences in scaling up infra finance from official and private sources

Project Finance: Mini-hydro Power Plant
Operational Finance: LPG Terminal
Project Finance: Mini-hydro Power Plant

Recent Project: Cikampek Palimanan Toll Road
- Project Size: USD 1.4 bio
- Syndication member: 20 local banks/NBFI
- Tenor: 15 years
- Interest: ATD + margin
- Project Finance Limited Recourse

SMI evolution on debt payment priority
- High:
  - SMI as Senior Lender
  - PE of Japan as co-financier in Mezzanine Loan
- Low:
  - SMI and International Agency (Co-financier) as Senior Lender
  - In the higher level: PE of Japan and SMI as Mezzanine Lender
  - SMI and Foreign Bank (Co-financier) as Senior Lender
  - In the higher level: SMI also as Junior Lender
SMI financing commitment – trend overtime

- In 2011, the financing commitment growth is about 190% and its outstanding growth is about 200% from 2010.
- In 2012, the financing commitment growth is about 92% and its outstanding growth is about 128% from 2011.

Sector Portfolio YTD December 2012

“As a catalyst of infrastructure development in Indonesia, Multiplier effect of SMI’s financing is about 8.7x of its capital in accelerating infrastructure development in Indonesia”
PPP Project Preparation: Umbulan Water Supply

The Umbulan Water Supply project is a water supply project that utilizes Umbulan Spring. The objective is to distribute 4,000 liters/second of bulk water from Umbulan spring to Pasuruan, Sidoarjo, Surabaya and Gresik (East Java) through the development of pumping system and a 102.3 km transmission system.

Status: tender process
Estimated project cost: ± USD 255 mio

What does project need?
• Local context and environmental factors give strong drivers for Project
  — Insufficient availability of raw water resources, degraded surface water resources & deterioration in ground water resources
  — Significant need for additional secure supply of potable water in the service areas managed by all five (5) PDAMs, 4 PDAMs have no significant / unpolluted alternative surface raw water sources

• Increased service coverage gives strong economic driver for Project
  — All PDAMs have sufficient numbers of potential new consumers to supplement demand for the Project.

SMI Involvement Scheme in Umbulan Water Supply Project

Ministry of Finance

SMI Assignment

Project Prep Facilitation Agreement

Cooperation Agreement

East Java Provincial Government (EJPG)

SMI

IFC as Transaction Advisor

IFC External Consultants

Mott MacDonald as Technical Advisor
Norton Rose as Int’l Legal Advisor
ABNR as National Legal Advisor
PPP Project Preparation: Umbulan Water Supply Project Structure & Its Key Challenges

**Major Challenges**

- Multi-stakeholders project structure (MoF & Ministry of Public Works involvement, EJPG, 5 Local Governments, 5 PDAMs)
- Dynamic PPP related policy
- Land acquisition process
- Lack of PPP knowledge
- Big gap between International PPP standard and Local common practices
- Political Interference

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**PPP Arrangement**

- **Ministry of Finance**
- **IIGF** (Viability Gap Fund Provision)
- **EJPG**
- **PPP Company**
- **PDAMs**
- **END USERS**

**Project Preparation Structure**

- **Assignment to Support EJPG in Project Preparation**
- **Project Prep. Facilitation Agreement**
- **Assignment/Authorization**
- **PPP BOT Agreement**
- **Tariff Payment**
- **Bulk Water Sale & Purchase Agreement**
- **Regional Water Supply Services Arrangement**
- **Drinking Water Services**

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PPP Project Preparation: SHIA Rail Link

The SHIA Railway PPP project aims to provide a railway transportation facility connecting Manggarai and Soekarno Hatta Airport. It is dedicated to be an express rail with premium service, targeted at air passengers.

Status: preparing Pre-FS
Estimated project cost: + USD 2 bn

SMI Involvement Scheme in SHIA Rail Link Project

Airport Rail is “an extension of the airport into the city”
- Dedicated, express rail targeted at air passengers
- Premium service with higher standards of comfort and convenience, higher fares
- 3-5 in-town stations with good vehicular and public transport access
- Integrated with future SHIA master plan
- Airline style comfort and convenience

Implementation Process
- Elected as one of the five “show case” PPP projects for Indonesia
- PT SMI (state-owned infrastructure financing company) is managing the project preparation and implementation
- AECOM consortium is appointed to undertake Pre-Feasibility staged studies
- Pre-FS commenced March 2012, to be completed by May 2013
- Target commencement of construction by 2014
• Project construction cost may well be in the region of USD 2 bn
• Supply and demand evidences in support of both SHIA rail projects (Express and Commuter)

Financing and PPP

- Project includes detailed design, construction, financing, operations and maintenance
- Long term concession
- Substantial private finance required: opportunity to apply for Government financial support
- Patronage risk mitigation: Still in discussion
PPP Batam MSWM Project aims to give solution in handling the issue of solid waste in City of Batam, as an implication of population growth and industrial centralization in Batam Island.

**Status:** due diligence  
**Estimated project cost:** +Rp 500-800 Bio

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**Figure 1. Expected Growth of Waste in Batam**

- The city of Batam currently has a population over 1.1 million people with a total area of and estimated to reach 2.8 million people by 2037.
- Batam Kota Sub-district was observed to have the highest waste generation rate (0.84 kg/capita/day), currently it only has one Final Disposal Site (FDS) in Telaga Punggur.
- FDS in Telaga Punggur consists of 47 ha of land made available by BP Batam. It has been in operation since 1997 and approximately 20 ha have been used, leaving potentially 27 ha for future use. Based on this and an assumed average waste disposal depth of 15 m, the remaining landfill life is about 8 years.

*Source: Consultant Analysis*
PPP Project Preparation: Batam Municipal Solid Waste Management (MSWM) Stakeholders

Issues and Challenges

- Land Ownership Status
- Spatial Zone
- Institutional Set Up
- Environmental Licensing
Conclusion: In Indonesia cases, what were holding back Infrastructure investment?

The long payback period for infrastructure investment means that long-term financing is required.

**Solution:** Establishment SMI & IIF

### Funding issues

Inadequate project preparation and feasibility studies have also been key impediments to attracting private investors into the infrastructure space

**Solution:** Capacity Building

### Land acquisition & land financing issues

Land acquisition issues affect infrastructure sectors such as roads where huge tracts of land are required.

**Solution:** New Land Acquisition Law

### Project preparation

• Project risks such as from escalation of land acquisition costs & delay in approval to start operations, demand risks from actual revenue falling below minimum guaranteed revenue
• Political risks such as from change in regulation, reduce the bankability of infrastructure projects in the absence of government guarantees.

**Solution:** VGF Policy & Government Guarantee

“There are also sector specific –infrastructure challenges”
### Key success factor of Infrastructure development with PPP scheme and PDF Initiatives

<table>
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<tr>
<th>Investor’s Track Record &amp; Capability</th>
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<tbody>
<tr>
<td>• Transparent tender process</td>
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<td>• Strong pre-qualification criteria</td>
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<td>• High level of competition</td>
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<thead>
<tr>
<th>Feasibility Project &amp; Appropriate Risk Allocation</th>
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<tbody>
<tr>
<td>• Appropriate project screening and selection</td>
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<tr>
<td>• Adequate project preparation</td>
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<tr>
<td>• Market sounding</td>
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<tr>
<td>• Reputable consultant (combination of international and local consultants)</td>
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<tr>
<td>• Government Support Provision, including land acquisition and Viability Gap Fund (VGF)</td>
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<td>• Good PPP knowledge of Government Contracting Agency</td>
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<td>• Strong Multi-Stakeholders Coordination</td>
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<th>Certainty of the Project Implementation</th>
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<tr>
<td>• Infrastructure Guarantee from IIGF</td>
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<td>• Certainty of PPP Related Policy</td>
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<td>• Strong commitment from Government Contracting Agency</td>
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<td>• Minimum Political Interference</td>
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<th>PDF Initiatives</th>
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<tr>
<td>To provide best quality project preparation, GOI have to tackle issues of:</td>
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<tr>
<td>• Timely consultant procurement process, indefinite delivery contract are recommended</td>
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<td>• Revolving fund mechanism, separation from state budget mechanism are recommended</td>
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Disclaimer

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Any complaint in the process of financing irregularities can be submitted to:
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Tel: +62 21 5785 1499  Fax: +62 21 5785 4298  Email: corporatesecretary@ptsmi.co.id

Public complaints on PT SMI service will be kept strictly confidential and handled by a special committee to ensure that complaints are addressed appropriately.

THANK YOU