INDONESIA INFRASTRUCTURE GUARANTEE FUND (IIGF)

FACILITATING ACCESS TO FINANCE FOR INFRASTRUCTURE PROJECTS: ESTABLISHING DEDICATED INSTITUTIONS

United Nations Economic And Social Commission For Asia And The Pacific

Bangkok, 21-22 January 2015

Sinthya Roesly – CEO of IIGF
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Indonesia Investment Requirement Estimates until 2025

**USD Bn, real 2013**

Investment required to meet the 70% “rule of thumb” for infrastructure stock

**Huge Investment Gap**

- 2013: ~560-570
- 2011-2014 MP3EI plan: 225
- New investment needed: ~370-380
- 2025: ~1,160-1,170

**GDP value**
(USD billion, real 2013)
- 2013: 869
- 2025: 1623

**Annual infra investment, % GDP**
- 2013: ~1.5%
- 2025: ~2.5%

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1 Estimate based on Global Insights GDP growth forecast in 2014-2025, ranging from 5.1% to 6%. All data are in real base 2013
2 An additional ~US$ 277 bn (1.5-2% GDP) would be needed to include capex depreciation

Source: Indonesia Coordinating Ministry For Economic Affairs, Global Insights, McKinsey analysis
How Big is the Investment Gap?

USD Bn, real 2013

<table>
<thead>
<tr>
<th>Year</th>
<th>GDP value (USD billion, real 2013)</th>
<th>PPP potential</th>
<th>Estimates</th>
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<tr>
<td>2013</td>
<td>~560-570</td>
<td>~55-70</td>
<td>~90-110</td>
</tr>
<tr>
<td>2011-2014</td>
<td>225</td>
<td>~370-380</td>
<td>~1,160-1,170</td>
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<tr>
<td>New investment needed</td>
<td></td>
<td></td>
<td>145-180</td>
</tr>
<tr>
<td>2025</td>
<td></td>
<td></td>
<td>1,623</td>
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1 Estimate based on Global Insights GDP growth forecast in 2014-2025, ranging from 5.1% to 6%. All data are in real base 2013.
2 An additional ~US$ 277 bn (1.5-2% GDP) would be needed to include capex depreciation.

Source: Indonesia Coordinating Ministry For Economic Affairs, Global Insights, McKinsey analysis.
Current Infrastructure Delivery Challenges

Review of 30 steps in Indonesia PPP value chain and interviews with over 30 stakeholders reveal six pain points in the PPP ecosystem

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<th>Issue</th>
<th>Description</th>
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| 1. No end-to-end ownership | - Misaligned incentives among GCAs and PPP agencies  
- No single unit accountable from origination to completion  
- Lack of mandate from highest authority |
| 2. Limited CA capability in pre-FS and project prep | - Varying awareness and capabilities on what it takes to do a PPP  
- Stringent procurement process limits access to world-class advisory firms for project preparation |
| 3. Opaque project selection criteria | - No clear criteria for selection and prioritization of PPPs  
- Limited consideration of financial viability during project selection results in projects tendered without viable fiscal support |
| 4. Conflicting regulatory framework | - Over 45 laws and regulations govern PPPs  
- Contradicting stipulations across sectors; and between national and local governments |
| 5. Cumbersome permitting processes | - Over 40 permits involving over 15 agencies  
- Approvals can conflict at different levels of government |
| 6. Holdouts in land acquisition | - Private sector is responsible for acquiring land  
- Prolonged land acquisition could raise costs by 2-3X |
Indonesia PPP Value Chain

Infra sectors:
1. Transportation
2. Toll road
3. Power
4. Water
5. Waste
6. Irrigation
7. Telco (selected)
8. Oil & Gas (selected)

Government Contracting Agency
(Line Ministries, Regional Govts, SOE)

GOI direct investment through SMI / IIF or PIP

MOF PPP Unit

VGF to enhance “feasibility”

Guarantee to enhance “bankability”
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**Business Model**

**IIGF**

**MOF**

**Government Contracting Agency (Public Sector)**

**Project Company (Private Sector)**

**Multilateral Development Agency/MDA**

**Lender/Financier**

**Brief Explanation**

- **PPP Project guaranteed by IIGF** will have **3 agreements**: (1) PPP Agreement, (2) Guarantee Agreement, (3) Recourse Agreement.

- **Counter Guarantee** can be provided by MOF only if there is a **co-guarantee arrangement with MDA**, i.e. as part of guarantee structure provided to the Project Company.

- MOF as the national Treasurer may become the **last resort for co-guarantee** if the project is deemed worth to be guaranteed.

- IIGF involvement is expected to **enhance Project bankability** by ensuring to support only well structured PPPs with fair, reasonable risk allocation and robust risk mitigation, acquired through competitive process.
To enhance bankability of PPP projects, guarantee provision with IIGF model is expected to encourage broader investors/financiers base to participate in well structured PPPs acquired via a transparent, competitive process.
IIGF Guarantee Assessment Criteria

- PPP Agreement
- Project Feasibility
- Regulatory Compliance
- Pre-FS & Project Documentation
- Arbitration Clause

Various aspects to be assessed:

- Appraisal to ensure bankability and fairness of risk allocation
- Risk allocation
- Competitiveness
- CA commitment
- Project viability

IIGF will appraise project feasibility on technical, financial, economic, social & environmental.
- Proper and reasonable risk allocation
- Competitive tender process

Developed with assistance of credible advisors/experts.

Binding arbitration clause in PPP Agreement.

Developed with assistance of credible advisors/experts.

IIGF PROFILE AND BUSINESS MODEL (3/3)
**Example of IIGF Guaranteed Project: Central Java IPP Project - the 1st PPP in power sector *)**

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<th><strong>Project</strong></th>
<th>Ultra super critical coal fired power plant, 2x1000 MW</th>
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<td><strong>Location</strong></td>
<td>Batang Regency, Central Java Province, Indonesia</td>
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<tr>
<td><strong>COD</strong></td>
<td>2018/9</td>
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<td><strong>PPA Tenor</strong></td>
<td>25 years</td>
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<td><strong>PPP Structure</strong></td>
<td>Build, Operate, Transfer (BOT)</td>
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</table>
| **Developer** | PT Bhimasena Power Indonesia, an SPV of consortium:  
  • ADARO: 34% (Indonesia)  
  • J-POWER: 34% (Japan)  
  • ITOCHU: 32% (Japan) |
| **Guarantee Structure** |  
  • Guarantee Agreement: Project Company with IIGF and GOI  
  • Coverage: political risk, force majeure affecting PLN and PLN Event of Default  
  • Guarantee Tenor:  
    • Equity: 16 years  
    • Debt: 21 years |

*) In accordance with PR no 67/2005
PPP Structure with Guarantee in CJPP

Scope of IIGF & MOF guarantee

**Covered:**
PLN’s Payment Obligations, as in PPA

1. Obligation to purchase electricity
   - Monthly payment (Capacity and Energy payment)
2. Deemed Dispatch
   - Due to PLN not being able to receive Sellers output
3. Buyout obligation due to PPA Termination triggered by Political Force Majeure and Natural Force Majeure
4. Obligation to pay due to PLN Event of Default (EOD):
   - Non payment
   - Material Breach
   - Merger, Consolidation
   - GOI EOD under GA

**Not covered:**

1. Sellers EOD
2. Tax for Special Facilities
3. Indemnity
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Four Years After Legally Operates ..... 

- IIGF Authorized Capital: IDR 9 trillion, Current Capital: IDR 5.5 trillion
- Acquired BBB- credit rating from Fitch Ratings (equal to sovereign)
- Credit Facility from World Bank: USD 30 million
- IIGF has & been processing guarantees for projects in power, water and transportation sectors.
- The policy initiatives undertaken by the government, such as land acquisition law, viability gap fund (VGF), are currently being implemented for the first time

The land acquisition law will be effective for all projects including past projects with incomplete land acquisitions, after December 31, 2014.

- VGF is currently under assessment for three potential water projects, i.e. Lampung, Umbulan and West Semarang, all of which have entered into guarantee processing at various stages, two of which have reached Structuring stage, while West Semarang has been in Appraisal stage.

- In addition to CJPP, IIGF has issued principal approval for guarantee (with the MoF co-guarantee) for a major 3x 600 MW coal-fired minemouth project in South Sumatra to utilize the planned 3000 MW HVDC power connection between Java & Sumatera islands.

- IIGF Institute holds capacity building program for targeted Government Contracting Agency thru Active Learning Program (ALP) and runs Indonesia Infrastructure Roundtable.
Key Points on Indonesia Infrastructure Context

1. There is an urgent need for infrastructure development to sustain stable economic growth, serve strong domestic demand and for Indonesia to remain competitive.

2. A number of positive development in infrastructure sector have been driven by the Government of Indonesia, i.e. creation of land fund, infrastructure fund, guarantee fund and viability gap fund, as well as promulation of new Land Law.

3. Improvement in regulatory framework for PPP implementation in accordance with international best practices has been undergoing. Its workability can be seen in the first deal done under the new PPP regulation with international competitive bidding and IIGF+MOF guarantee (signed in October 2011).

4. In addition to power sector, water sector, toll roads, sea ports and air ports are currently being prepared by the GoI to be procured under PPP regime.

5. IIGF establishment can be seen as an interesting concept on imposing discipline in the PPP process and accountability of the Government Contracting Agencies, as well as bringing more clarity and certainty to the private sector.

6. IIGF over the nearly past five years have been involved in major ongoing PPP initiatives and contributed to strengthening of subnational fiscal governance, infrastructure risk mitigation, regulatory framework improvement and has closely coordinated with MoF for a more robust guarantee framework.

7. The new government inherits policy and institutional breakthroughs that have underwent improvement in overcoming implementation challenges, and with a number of model projects nearly reaching final stage, they can serve as a precedent for scaling up investments through subsequent projects in the pipeline – focus shall be on continuing current model projects until they reached final stage, and to then roll out these models to other projects.
How Can IIGF Be Relevant to Asia Pacific Infrastructure Market Players?

1. Standardized concession agreement key terms for each sector, acceptable to IIGF and Asia Pacific market players, need to be developed to enable a streamlined process of infrastructure project transactions.

2. As IIGF has skin in the game for any PPP transaction being guaranteed, the perspective towards a project sustainability is aligned with market interests.

3. Since IIGF can be seen as public sector institution whose mandate is to protect government interest while ensuring bankability of the infrastructure project, information sharing/exchange between IIGF and Asia Pacific market (thru UN-ESCAP?) could be beneficial for bridging the understanding and open communication between public sector and the market.

4. Better understanding of the PPP context and process including its guarantee provisioning process in Indonesia would help the Asia Pacific market players in having better assessment in risk perception towards Indonesia infrastructure projects.
Thank you

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