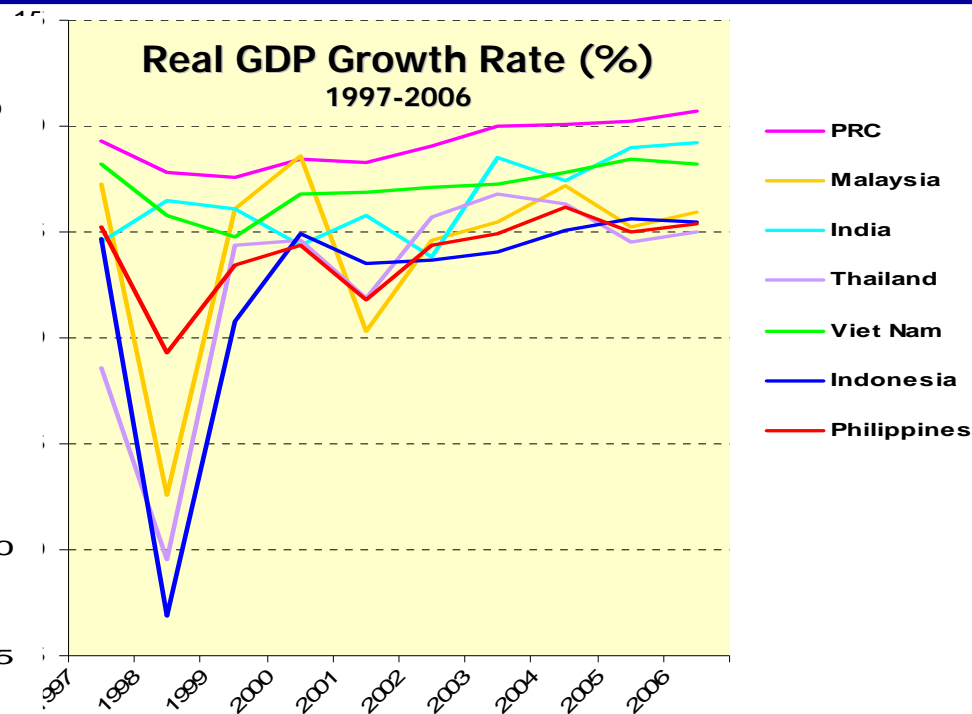
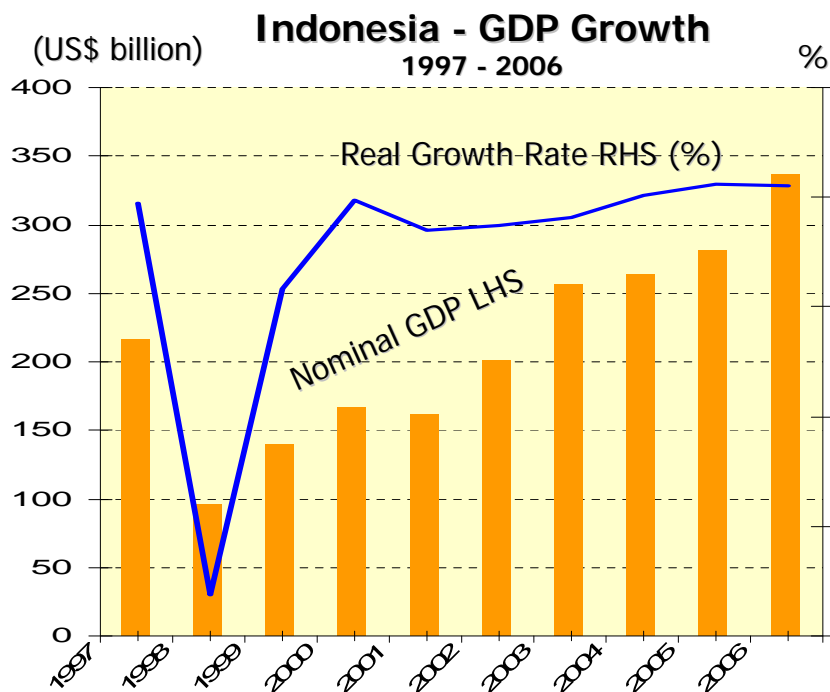


**Strengthening PSP in Infrastructure Provision
ADB Institute, Tokyo, 19-22 November 2007**

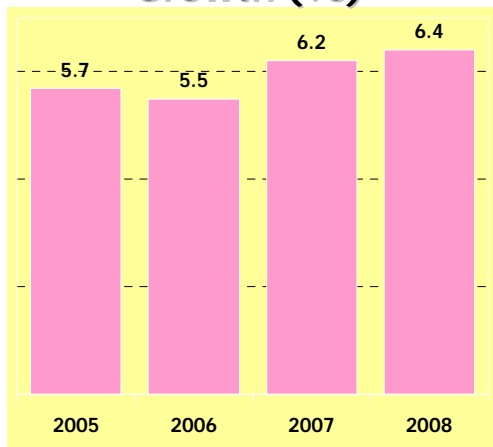
FDI and PPP: Experience in Indonesia

**Alfredo E. Pascual
Advisor (Public-Private Partnership)
Asian Development Bank**

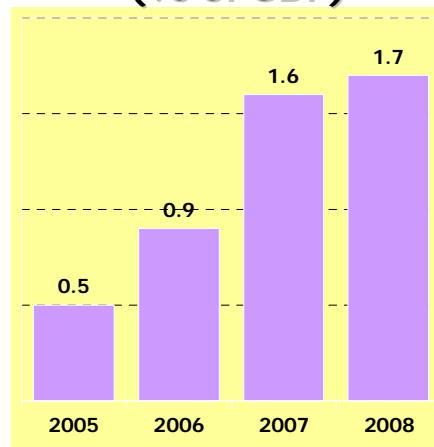
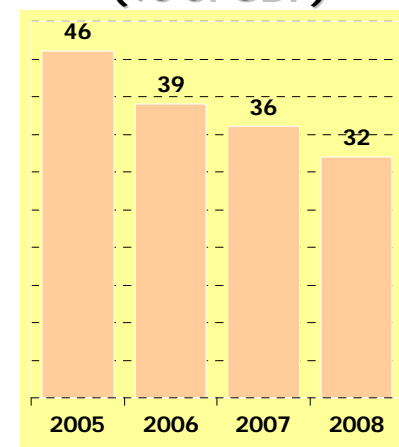
The views expressed in this paper are the views of the author and do not necessarily reflect the views or policies of the Asian Development Bank Institute (ADBI), the Asian Development Bank (ADB), its Board of Directors, or the governments they represent. ADBI does not guarantee the accuracy of the data included in this paper and accepts no responsibility for any consequences of their use. Terminology used may not necessarily be consistent with ADB official terms.



- Pre-crisis, infrastructure investment of over 6% of GDP contributed substantially to Indonesia's economic growth. From 1967 to 1997, Indonesian economy grew by 7% p.a. on average and per capita income rose 4 times to US\$1,000.
- Indonesian economy worse hit by the regional crisis of 1997.
- Post-crisis, Government not able to meet infrastructure investment need due to budgetary constraints. Need to reduce budget deficit and public debt.
- Economy has shown resilience, growing steadily from 3%-4% p.a. in 2000-2003 to 5.1% in 2004, 5.7% in 2005, and 5.5% in 2006.

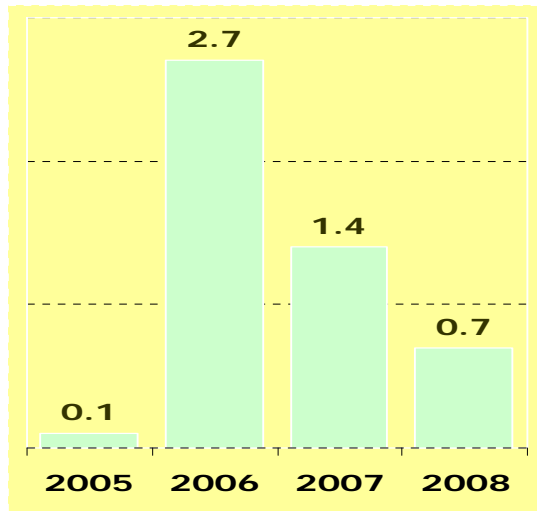
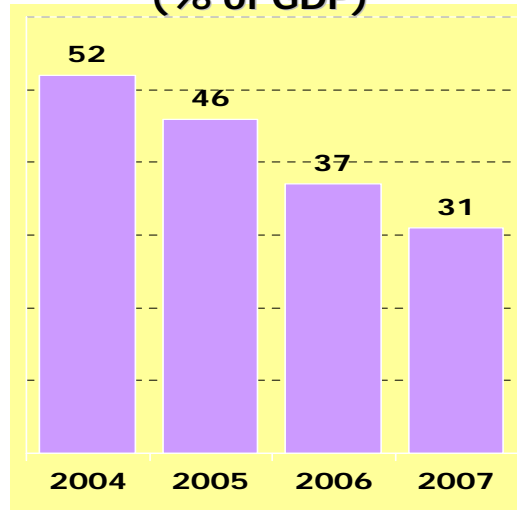
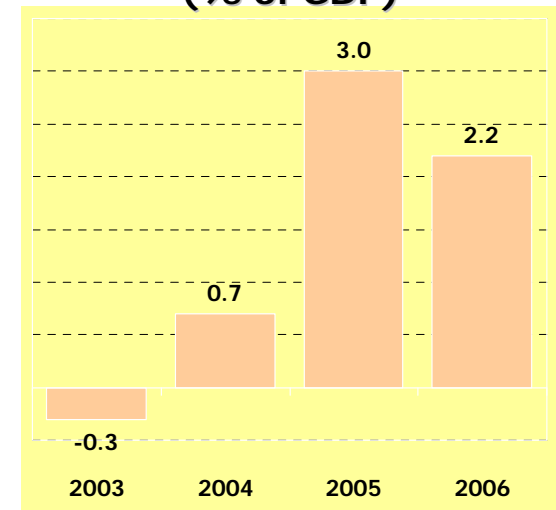
Real GDP
Growth (%)

Inflation Rate (%)

Budget Deficit
(% of GDP)Government Debt
(% of GDP)

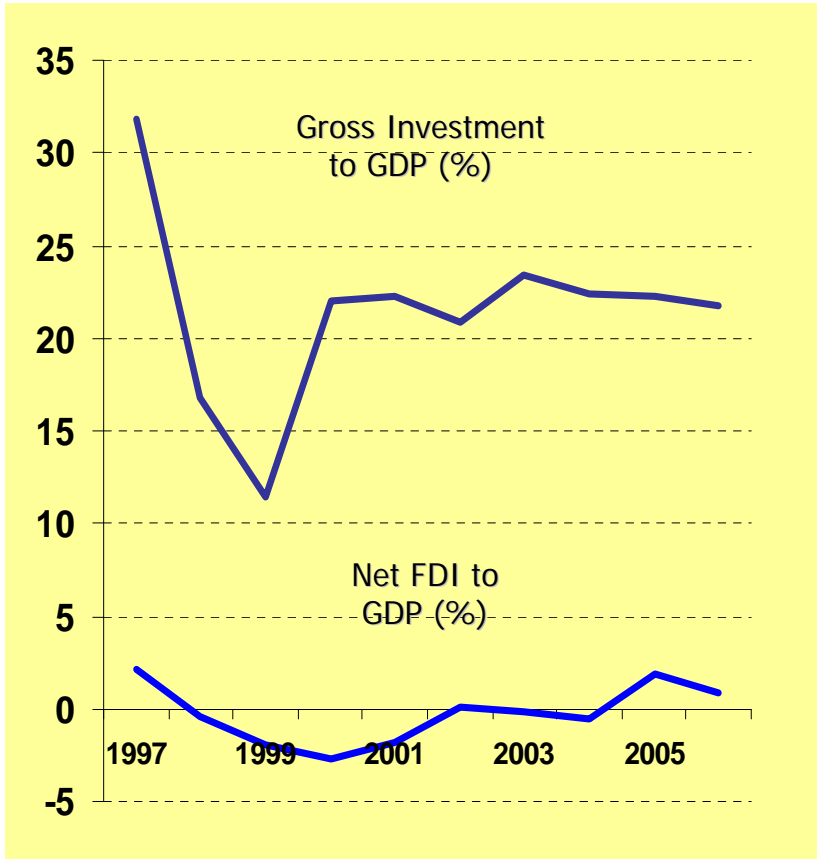
- Reduction of fuel subsidy in Oct 2005 pushed up inflation and slowed down growth well into 2006, but economy has been recovering steadily and inflation easing.
- Government budget deficit has widened and expected to widen a little more in 2008 due to increased spending for infrastructure and social goals.
- Notwithstanding, the ratio of government debt to GDP is projected to decline, as the deficit remains relatively low and economic growth picks up.
- However, Government's gross financing needs expected to remain large (over US\$18 billion in 2008) over medium term due to anticipated deficit.

External Performance

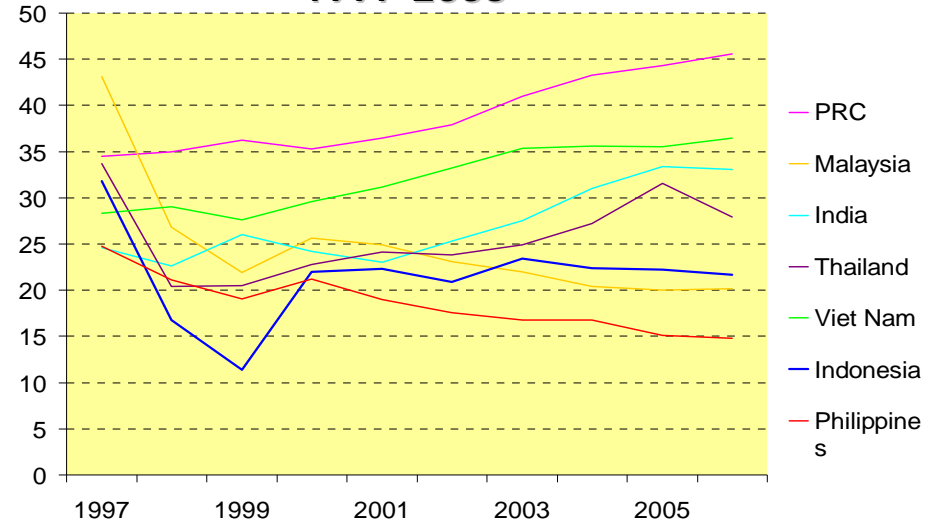
Current Account
Deficit (% of GDP)External Debt
(% of GDP)FDI
(% of GDP)

- Strong balance of payments in 2006 with record exports, higher commodity prices and moderate imports increase. Contributed to large official international reserves (over \$50 billion in mid-2007). Imports now accelerating due to stronger domestic investment and consumption.
- Total external debt to GDP falling reflecting sound debt management.
- FDI increasing since 2004. Nearly doubled to \$7.3 billion during the first 7 months of 2007 relative to the year-earlier period.

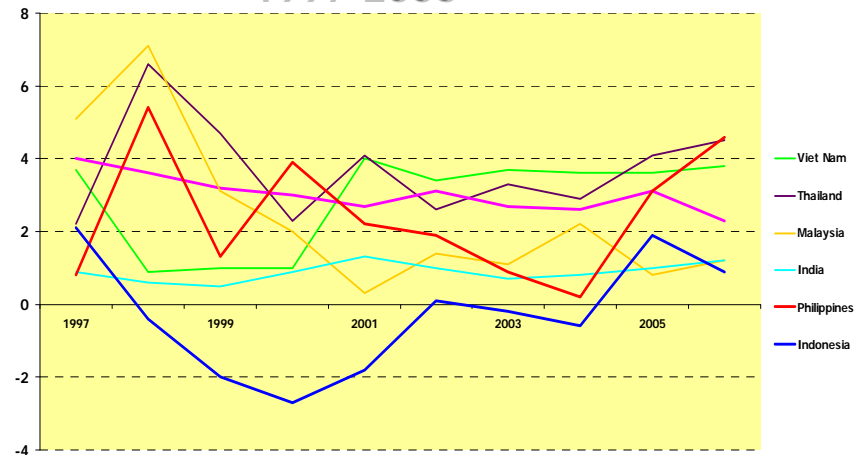
Investment in Indonesia 1997-2006



Gross Investment / GDP (%) 1997-2006



Net FDI / GDP (%) 1997-2006



Ratio of net FDI to GDP relatively low but picking up.

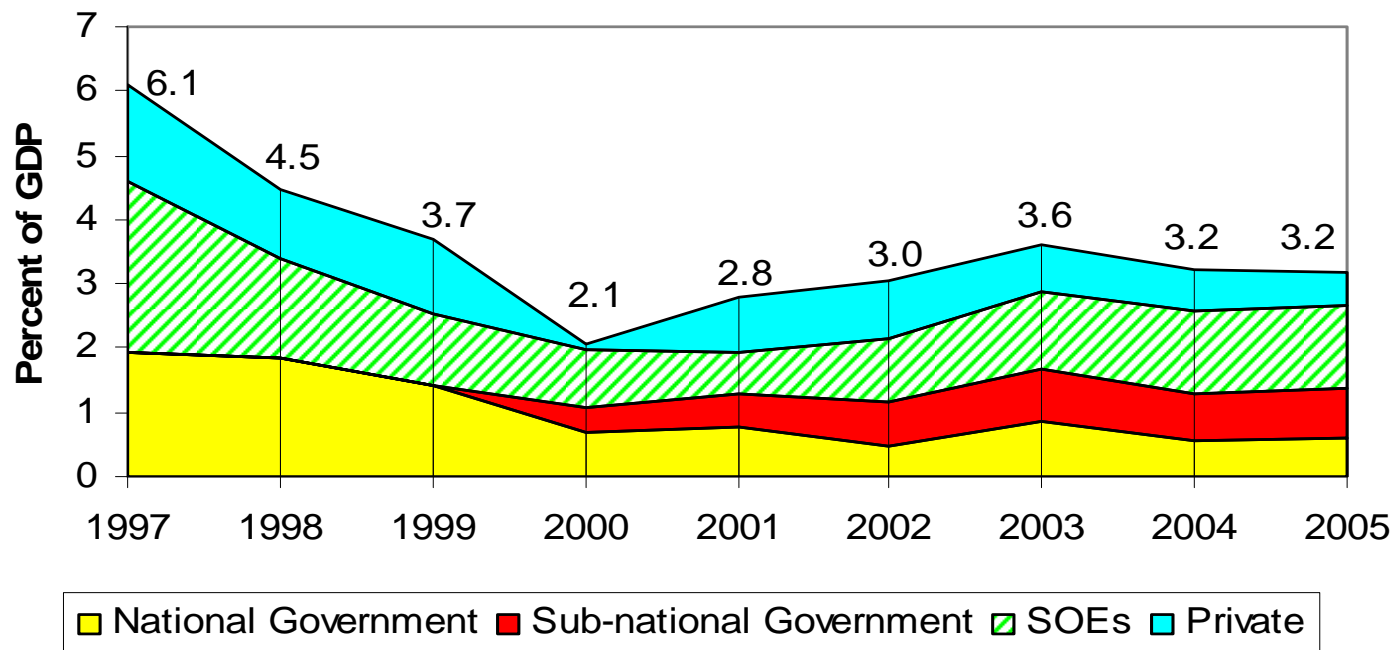
World Competitiveness Rankings (IMD)			
Country	2001	2004	2007
PRC	33	24	15
India	41	34	27
Thailand	38	29	33
Philippines	40	52	45
Indonesia	49	58	54
No. of countries	49	59	55

Indonesia's competitiveness rankings continue to be low due to factors such as:

- government efficiency
- business environment
- adequacy of infrastructure.

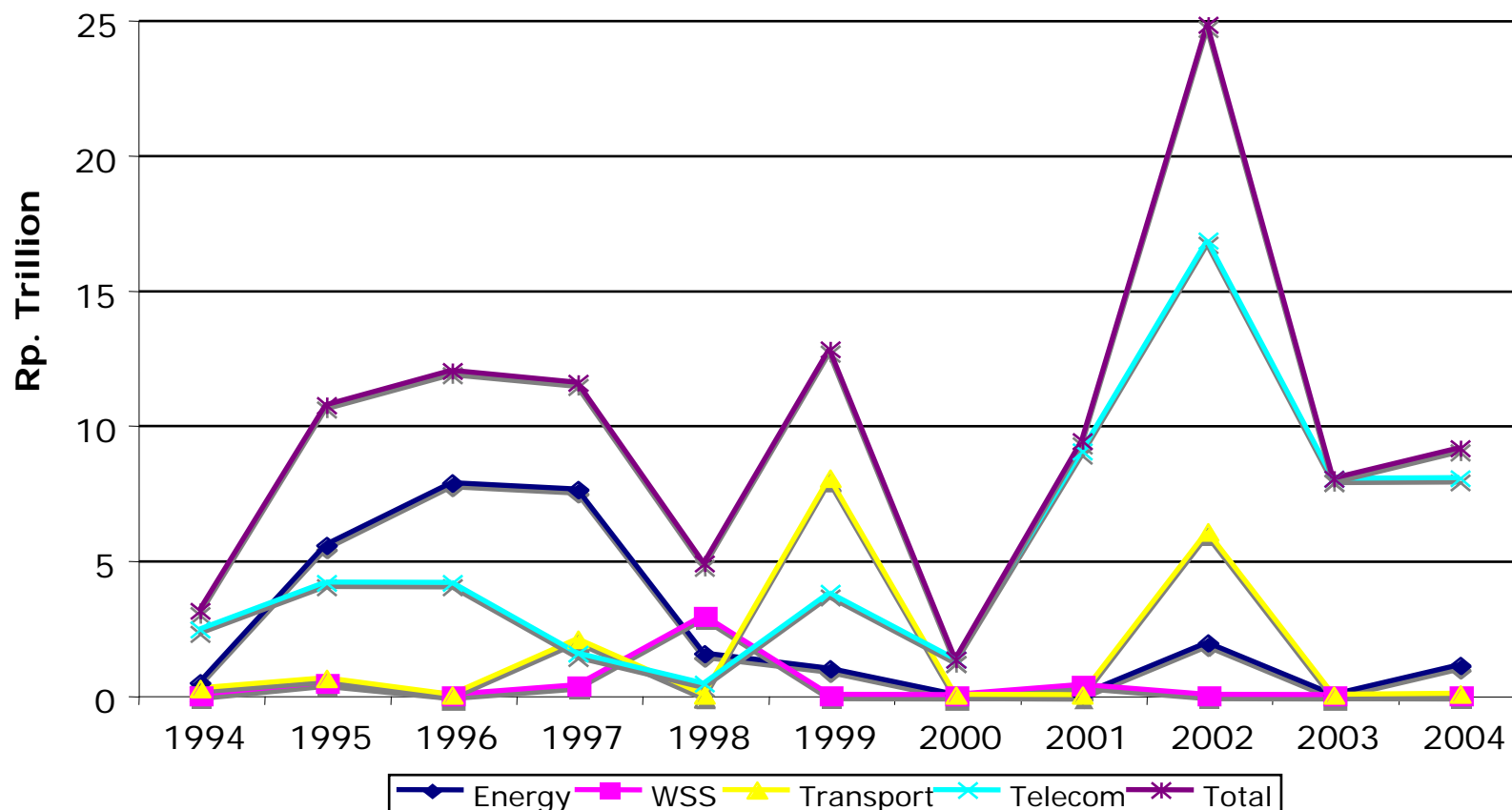
Infrastructure Investment (% GDP)		
0-4%	4-7%	Over 7%
Cambodia	Lao PDR	PRC
Indonesia	Mongolia	Thailand
Philippines	India	Viet Nam

Source: ADB, JBIC, World Bank. 2005. Connecting East Asia: A New Framework for Infrastructure



Source: PER-IFA (2007), updated. Note: SOE data prior to 2000 are incomplete.

- Post-crisis, Government gave priority to restoring macro-economic stability. Infrastructure investment declined, falling to a low of 2% of GDP in 2000. Increasing to slightly over 3% but still low compared to pre-crisis levels of 6% and to other countries (e.g., Vietnam exceeded 9% in 2006).
- The Government elected in Sep 2004 set infrastructure as a high priority.
- PPP reforms are major elements of Government's infrastructure agenda.

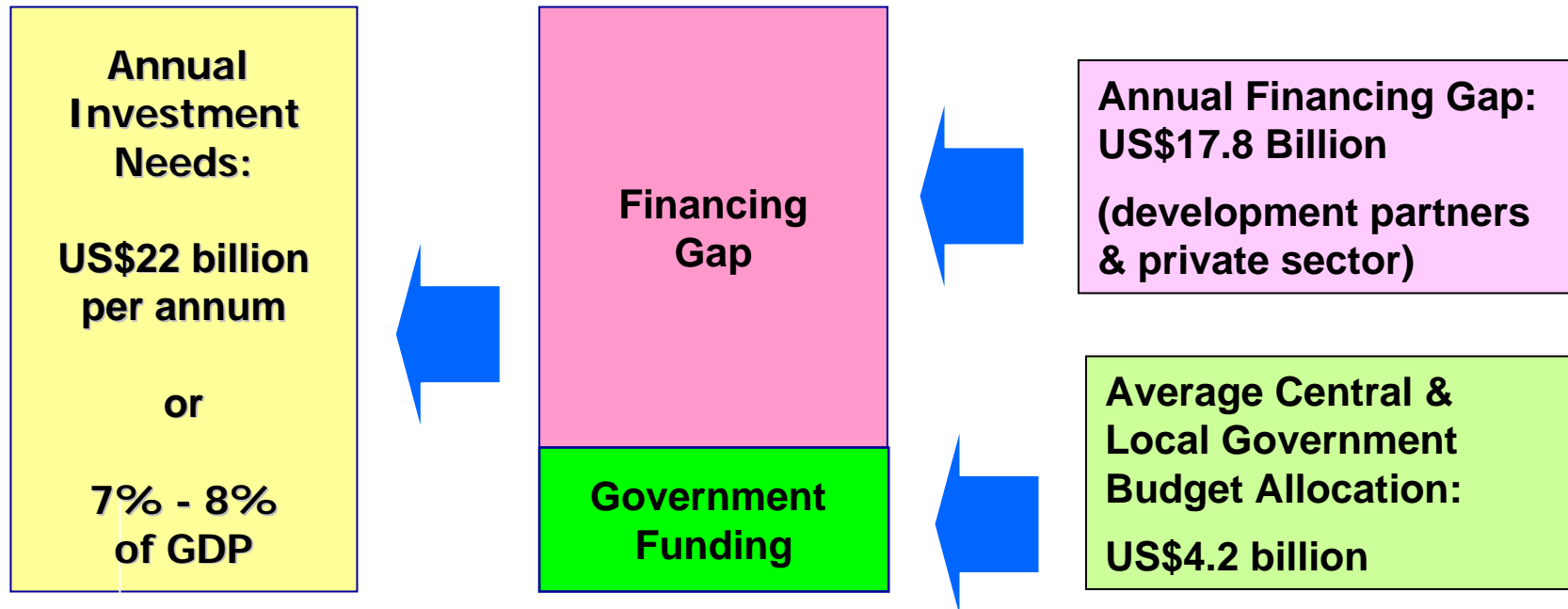


Source: PPIAF database..

The telecom sector accounts for the bulk private investment in infrastructure, particularly post crisis.

Infrastructure Investment Needs

Annual Infrastructure Investment and Financing Needs (2005-2010)



- Funding leverage needed: $17.8 / 4.2 = \text{US\$}4.24$ of development partners & private sector per US\$ of state budget allocation.
- Government elected in Sep 2004 set acceleration of infrastructure provision as a high priority.
- PPP reforms are major elements of Government's infrastructure agenda.

Presidential Regulation (Perpres) No. 67/2005 (issued 9 Nov 2005)

Modes
of Cooperation

- Public-Private Partnership
- Business License

Procurement

- Competitive basis
- Unsolicited project

Proper
Due Diligence

- Consistency with medium term national plan
- Consistency with spatial plan
- Consistency with regional infrastructure development plan

Project
Preparation

- Project prioritization
- Feasibility study & bidding documents

Tariff & Subsidy

- Setting & adjustment tariff
- Compensation level for social project

Government
Support

- Risk allocation framework
- Availability of fiscal support

Operation
Guideline
&
Manual
(OGM)**Perpres 67/2005,**

Defines the cross-sector regulatory framework for the private provision of infrastructure.

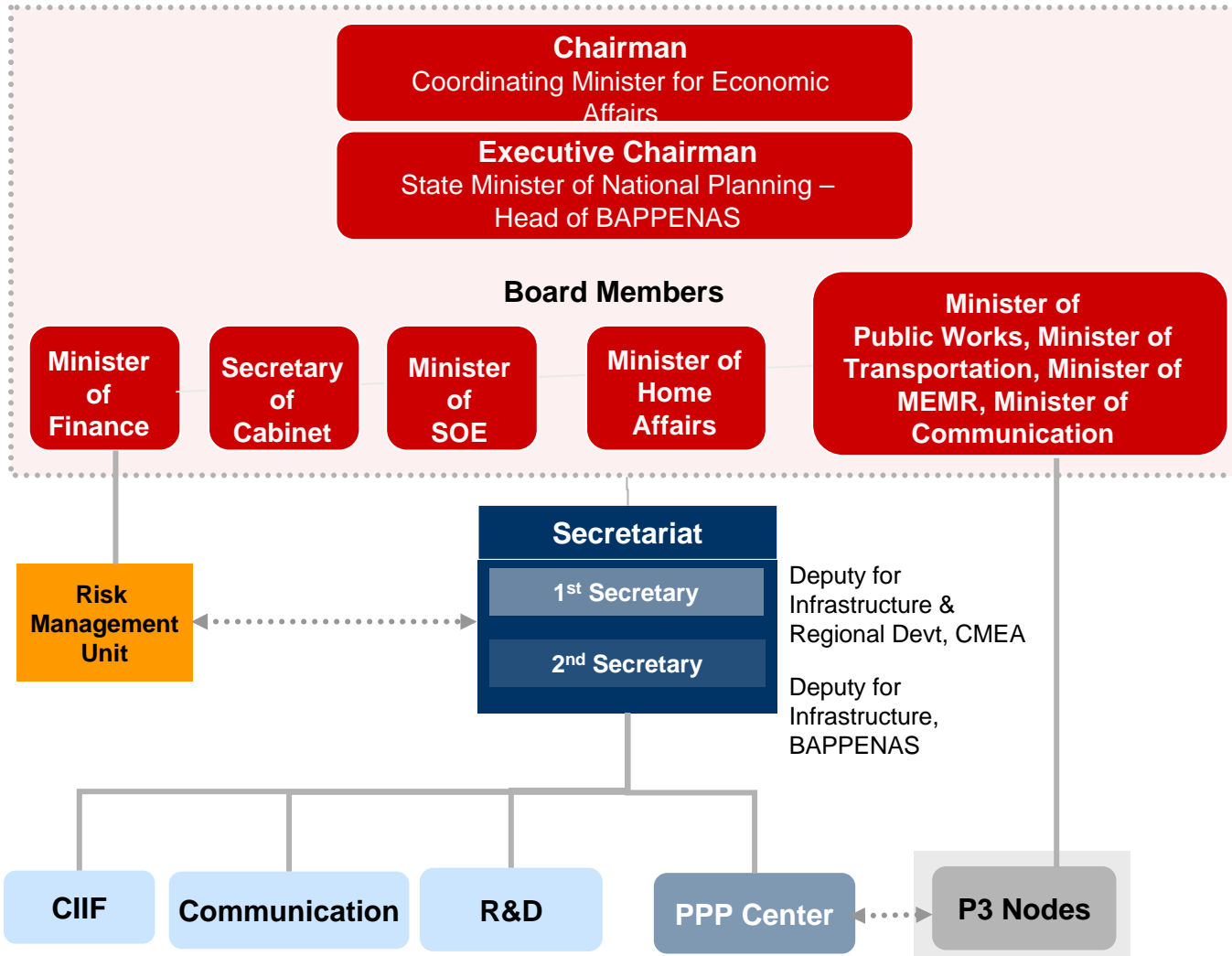
Provides a framework for the preparation and contracting of PPP projects.

Replaced Presidential Decree No. 7 / 1998.

Basic principles of competition, transparency, accountability and fairness.

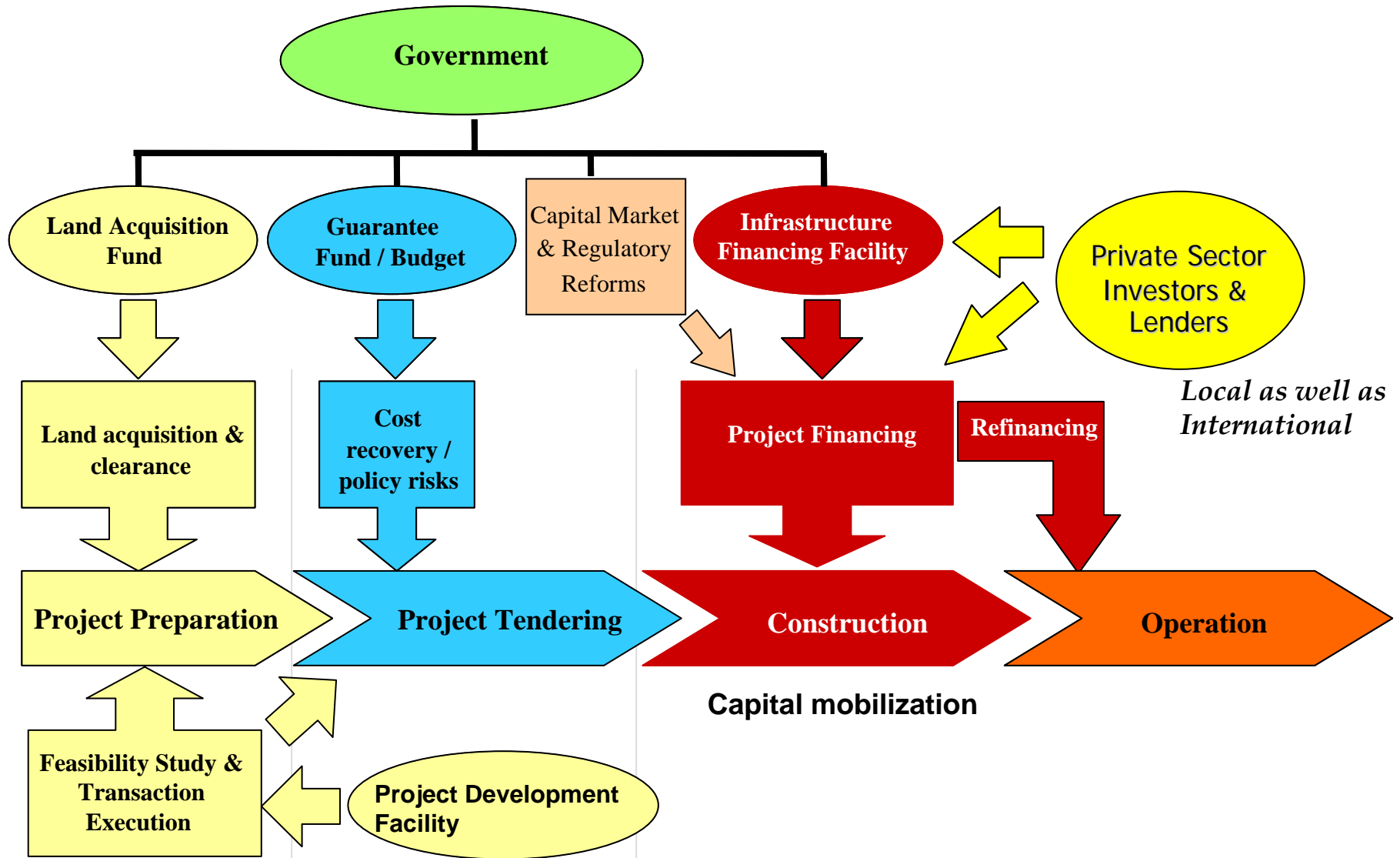
Coordination Framework for the PPP Program

KKPPI - National Committee on Accelerating Infrastructure Provision (Presidential Regulation No. 42/2005)



- ### Tasks of KKPPI
1. To formulate strategies on the coordination for acceleration of infrastructure provision
 2. To coordinate and monitor the implementation of infrastructure policies in the various ministries and local government
 3. To formulate policies on the implementation of Public Service Obligation
 4. To determine efforts required to solve various issues relating to infrastructure development

- **Banks** control about US\$160 billion in assets (>50% of GDP). Funded mostly by short-term deposits (<1 month). Cannot lend to match long life of infrastructure without risk of maturity mismatch.
- **Banks** have limited experience in infrastructure financing.
- **Pension funds and insurance companies** control about \$19 billion in assets (>7% of GDP). Half their assets in short-term bank deposits. Need to go for long-term assets, but no track record of investing directly in infrastructure projects.
- **Pension funds** can invest in either listed bonds, or non-listed bonds with 1-10 years in maturity issued by qualified domestic issuers with 3 years of profit history. Infrastructure projects usually no profit history to show.
- **Insurance companies** can invest in bonds rated "A" or above, but infrastructure projects are rarely rated that high.
- Government is setting up an **Infrastructure Financing Facility** to provide a channel for institutional investors to course their long-term funds (with possible assistance from ADB and other development partners).



Key Elements to attract private sector participation

Sector	Project	Specs	Investment Cost (USD Million)	Status
Transport	Margagiri - Ketapang Ferry Terminal	1.2 mil Pax/year	95	Recruiting consultant for preparing tender documents.
	Lamong Bay Container Port (Ext of Tanjung Perak)	350 m berth	179	Feasibility and legal studies are still ongoing.
Toll Roads	Solo – Kertosono	177.12 km	870	Negotiating the lone bidder.
	Medan - Kualanamu	16 km	167	Preparing for market sounding.
Water Supply	Tangerang Water Supply	900 l/s	34	Evaluating bids from the tender of concession.
	Bandung Water Supply	450 l/s	301	Preparing tender documents & concession agreement.
	Dumai Water Supply	500 l/s	44	Preparomg tender documents & concession agreement.
Power	Pasuruan	500 MW	275	Evaluating the report on gas supply study.
	Central Java Coal Fired	600 MW	1200	Finalizing agreement with IFC for advisory services to prepare project for tender.
Telecom	Palapa Ring	30,000 km fibre optic	1,500	Finalizing business model.

Attracting Private Sector Interest in PPPs

- Project preparation: adequate feasibility studies, risk analysis, project structuring, bankable draft concession agreement
- Clear provision on Government support in the bidding documents
- Land acquisition: timely and predictable cost (particularly for toll roads)
- Assurance of enforceability of contractually agreed tariff adjustment (e.g., in local water supply projects)
- Availability of Central Government support to sub-national PPP projects
- Implementation of Government initiatives to facilitate risk mitigation and funds mobilization (e.g., guarantee fund, land acquisition fund, infrastructure financing facility)
- Model projects: success in competitive bidding, award, and financial closure of one or two of Prepres 67/2005 compliant PPP projects

Thank You!



For more information:

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