

THE ADVISORY GROUP ON APEC FINANCIAL SYSTEM CAPACITY-BUILDING

A Public-Private Sector Initiative

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Hong Kong Special Administrative Region, People's Republic of China

Meeting Paper 4-A **Report of the 24 November APIP Dialogue with** **Indonesia**

Australian APEC Study Centre at RMIT University

<i>PURPOSE</i>	For review.
<i>ISSUE</i>	N.A.
<i>BACKGROUND</i>	N.A.
<i>PROPOSAL</i>	N.A.
<i>DECISION POINT</i>	Endorse the Dialogue report

**Asia Pacific Infrastructure Partnership (APIP) Dialogue
with the Government of Indonesia**
24 November 2014, 14:00 - 17:30
Le Meridien Hotel, Jakarta, Indonesia

APIP DIALOGUE SUMMARY REPORT

INTRODUCTION

Since the establishment of APIP in 2010 a number of dialogues have been held with various governments; In 2011 with Mexico and Peru in August and with the Philippines in October; in 2012 with Thailand in February, with Vietnam in July and Indonesia in October; in 2013 a second dialogue with the Philippines in January and with Indonesia in December and a dialogue with Malaysia also, in December 2013.

The Government of Indonesia invited APIP to hold a third dialogue on the 24 November 2014 at the Le Meridien Hotel in Jakarta. The dialogue was preceded by a brief preparatory meeting of APIP panel members and the third APEC PPP Experts Advisory Panel meeting, which were sponsored by the Indonesian Ministry of Finance and ABAC Indonesia. The agenda for the APIP Dialogue is attached in Annex A.

By way of background, Indonesian ministries had advised APIP that they wished to discuss three issues with panel members: seaports and related public transport; metropolitan transport systems and rail and related linkages to other transport, and energy. APIP proposed that meeting infrastructure financial needs could usefully be discussed.

Representatives of APIP participated in the APEC PPP Experts Advisory Panel and provided significant inputs into panel discussions.

Around 80 representatives from the Indonesian Government, multilateral development institutions, ABAC members and APIP private sector panel members attended the APIP Dialogue, which was Co-chaired by Mr Andin Hadiyanto, Chairman of the Fiscal Policy Agency, Indonesia and initially by Mr. Wishnu Wardhana, ABAC Indonesia and, after his departure from the dialogue, by APIP Coordinator Mr Ken Waller.

Mr Robert Pakpahan, Director General, Directorate General of Debt Management represented and read the welcome remarks and introductory overview by the Finance Minister, Mr Bambang P.S. Brodjonegoro, who was unable to attend.

The Finance Minister's address noted the importance for the APIP Dialogue to; discuss and refine policy recommendations; identify key remaining impediments to private sector investment that the Indonesian Government should seek to address and to update the panel of the key infrastructure related priorities of the new Indonesian Government led by President Joko Widodo.

The introductory overview also highlighted the positive impact that recommendations from previous APIP dialogues have had on infrastructure policy development in Indonesia, which include:

- *The importance to have a clear institutional framework for PPP arrangements*
- *To develop short/ medium and long term infrastructure strategies and plans*
- *Improve the way that various infrastructure agencies cooperate and coordinate with each other*
- *Deeper engagement in regional and multilateral infrastructure meetings*

SUMMARY OF THE MAIN APIP SUGGESTIONS IN THE DIALOGUE:

Transport Infrastructure should be constructed in the context of a plan that links connecting infrastructure, whether road, rail or ports; the components should be part of an integrated national strategy that links the country and the country to the region and globally. Given the high levels of capital expenditure associated with transport and long procurement processes, private sector investment will require as prerequisites for investment, political stability, transparency and robust legal systems and clearly articulated long-term policy objectives.

Transport regulations should be consistent with the overall PPP framework. The scope of government guarantees, viability gap funding should be clearly articulated. The PPP Centre should develop a pipeline of projects and there should be government champions.

The adoption of collaborative approaches to structure PPPs and to consider different operating models can usefully be undertaken by the government in attracting private sector participation in transport projects.

Similarly, the use of contemporary management tools such as outcome based performance management, partnership models and delivery frameworks would be conducive to attracting private sector investment. The establishment of PPP mechanisms should also require that the benefits of such investment to Indonesia are sustainable through the implementation and operations phases, rather than simply focusing on achieving closing a number of PPP transactions.

Decision making in government should be clear, and demarcation and the roles of decision making authorities clearly understood by all relevant stakeholders.

Ports

- Are fundamentally a good commercial proposition and would be attractive to foreign investors if they were properly integrated in an efficient transport network; commerciality will be weakened by inefficiencies in related transport sectors
- Business cases should be developed for port projects demonstrating economic and financial benefits and connectivity to the economy more generally
- There should be clear identification of the authority/institution responsible for managing the PPP procurement process and the long-term operations of port projects
- Soft infrastructure – customs, administration, ship management should be regulated from an efficiency perspective and with generally “light touch” regulatory approaches
- There is a generally favourable outlook, based on trade prospects and the monopoly positions that accrue to ports because of location and high capital expenditures that should benefit investment in ports

Metropolitan transport and related linkages to other transport

- Public transport as a coherent multi-modal service should be promoted as a viable alternative to expanding road infrastructure and simply increasing the size of bus fleets
- Effective coordination between agencies involved in transport development and investment is critical to ensure integrated strategies and alignment of operating objectives
- Consideration should be given to options to improve existing road infrastructure and employing contemporary traffic and demand management mechanisms to mitigate congestion and to reduce the variability in travel times
- Light rail systems generally do not generate revenues to pay for installation, operation and maintenance and private sector investors are reluctant to take on demand risk in either developed or developing markets
- Risks can be mitigated through guarantees of minimum patronage by the public sector, revenue guarantees or protection against competing forms of transport that do not contribute to an integrated transport model
- The private sector should be encouraged to provide innovative and far-sighted perspectives on transport development, the appropriate allocation of demand amongst transport modes and ensuring sustainability

Rail and related linkages to other transport, and energy

- Based on experiences elsewhere, various governmental financial support measures are likely to be necessary to support the SHIA type city, rail/airport link; if availability payments are used, a minimum patronage guarantee may not be necessary; incentives should be considered alongside the bankability of any particular project
- Railway projects usually require to be subsidized for the life of a concession agreement, depending on the scale of capital expenditure involved
- The nature of government accounting using IFRS is relevant in determining costs and revenues
- Revenue risks involve consideration of demand and the identification of various possible markets, ways to maximize use by non-airport traffic and revenue from associated real estate development; operating risks include smooth access to terminals, technology and integrated systems and regulatory and safety issues
- KPIs and incentives relating to reliability and quality of service may present important opportunities, as does the prospect of institutions financing various segments of railways
- Concessions over the life of a rail project may provide for an acceptable level of risk transfer to the private sector

Energy/guarantees

- Further discussions are needed in Indonesia on the subject of how to manage the question of the provision of guarantees for new energy projects; a more systematic and structured approach should be adopted and this could usefully involve ways to assess the quantification of prospective guarantees for the sector, against judgment on the probability of default occurring in energy but also across other sectors which benefit from government guarantees
- Measures that may impact on the Guarantee Fund should also be usefully considered
- Long-term investments by foreign pension and insurance funds require, as a matter of course,

guarantees by governments to secure any investment of funds and projects should be investment grade

Project Finance

- While Indonesia has undertaken important financial system reforms to develop the long-term debt and equity markets, institutions in the country lack sufficient capital and expertise to enable the capital market to develop to a more mature stage and one necessary to meet the challenges of long-term infrastructure financing
- Institutional participants are urged to cooperate in ensuring capital and expertise can become available to form a platform which would allow the capital market to play a major intermediation role in the country's financial system
- Indonesia is competing for private investment with other countries in the region and globally. With this in mind, it is important that market participants be exposed to competitive pressures in the domestic market in order to drive market efficiencies and to create depth and liquidity necessary to facilitate the comprehensive functioning of the market to meet the needs of infrastructure financing (and to improve choice and services to other market segments)
- Because of fiscal constraints, other measures should be considered to incentivize investors and to improve the bankability of projects, like facilitation support and in-kind support, for example, speeding up procurement processes

Concluding comments

Mr Robert Pakpahan and Mr Andin Hadiyanto on behalf of all the Ministries represented at the dialogue thanks ABAC and APIP members for their thoughtful and constructive inputs to the major issues raised. They noted the contribution that earlier dialogues had made to policy development in Indonesia and to the priority now being given to transportation infrastructure investment and the government's strong interest in a policy, regulatory and financial environment that would be conducive to private investment in transport infrastructure. They expressed appreciation for the work of APIP: the support provided in establishing the PPP Center in the Ministry of Finance and welcomed continued association between the Indonesian Government and APIP.

Mr. Waller on behalf of APIP panel members thanked Indonesian officials from the Ministry of Finance and from other Ministries and agencies for organising the dialogue and for the hospitality provided to APIP members. He noted with pleasure that earlier dialogues had been helpful to Indonesia in developing its policy framework for infrastructure and for the establishment of the PPP Centre. He thought that that was a most gratifying aspect of the relationship established between Indonesia and APIP. This dialogue had been a long one and had covered many important matters in response to issues raised by officials and he hoped that the advice that panel members had provided would similarly be helpful in constructing Indonesia's policies in investment in transport infrastructure.

Report prepared by Ken Waller, APIP Coordinator, Director the Australian APEC Study Centre at RMIT University

ANNEX A – AGENDA

The 3rd Asia-Pacific Infrastructure Partnership (APIP) Dialogue with the Government of Indonesia

24 November 2014

14:00 - 17:30

SasonoMulyo 1 Ballroom, Le Meridien Hotel
Jakarta, Indonesia

PROGRAM

- 14:00 – 14:15 **Welcome Remarks and introductory overview of the infrastructure priorities under the new administration.**
- Update on the Indonesian PPP Center**
 Mr. Robert Pakpahan
 Director General, Directorate General of Debt Management, Ministry of Finance, Indonesia
- 14:15 – 14:30 **Welcome Remarks and Perspectives from APIP**
 Mr. WishnuWardhana
 ABAC member and President Director and Group CEO, Indika Energy
- 14:30 – 17:15 **Discussions on Agenda Items**
 Jointly moderated by Mr. Andin Hadiyanto, Chairman, Fiscal Policy Agency, MOF Indonesia and Mr. Ken Waller, Coordinator APIP, Director Australian APEC PPP Study Centre, RMIT University
 Indonesian key transportation infrastructure issues:
- Seaports and related public transportation
 - Metropolitan transport systems
 - Rail and related linkages to other transport, and energy
- Presentations by:**
 Mr Ray Tay
 VP - Senior Analyst, Project and Infrastructure Finance, Moodys Investor Service
 Mr Andrew Chan
 Director, Business Development and Corporate Finance, Gamuda
- 17:15 – 17:25 **Conclusions and Next Steps**
 Mr Ken Waller, Coordinator APIP, Director, the Australian APEC Study Centre, RMIT University
- 17:25 – 17:30 **Closing Remarks**
 Mr. Andin Hadiyanto, Chairman, Fiscal Policy Agency, MOF Indonesia