The Role of IIGF in Supporting Bankable PPP Projects in Indonesia

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Indonesia Infrastructure PPP Context
Strong economic growth is projected, thus requires more development of basic infrastructure

In the next 15 years, Indonesian economy is estimated to be more than 5 times of 2010

- Government estimates investment needs for infrastructure within 2010-2014 reach
  ~ **USD 214 billion**

- Funding Gap is about **USD 74 billion**
  **expected to come from Private Sector**

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**2010**
- GDP: ~**USD 700 billion**
- Income per capita
  **USD 3,000**

**2014**

**2025**
- GDP: ~**USD 4.0 – 4.5 trill**
- Income per capita
  **predicted to be around ~USD 14,250 – 15,500**
  (classified as a high income country)

**2045**
- GDP: ~**USD 15.0 – 17.5 trill**
- Income per capita would be around ~**USD 44,500 – 49,000**

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**Source:** Master Plan for Indonesia Infrastructure Development Acceleration (MP3EI), 2011
To attract private sector, Government has fiscal initiatives which include establishment of supporting institutions.

- Land Fund
  - Land Acquisition & Clearance
- Guarantee Fund (IIGF)
  - Policy Risks
- Capital market and regulatory reform
  - Infrastructure Fund
    - Project Financing
      - Cost of financing
        - Refinancing
      - Private Investors / Lenders

- Government of Indonesia

- Preparation
- Bidding
- Construction
- Operation
.....and with the current state of readiness, GoI initiative to establish IIGF will help undertake some of PPP Key Challenges

**PPP Key Challenges**

- Regulatory
- Coordination
- Public Sector Capacity
- GoI Fiscal Support

**IIGF Value Proposition**

- Drive *quality* project preparation and *bankable* PPP Agreement
- Encourage *clear, transparent* transaction execution process
- Indicate the need for *sectoral regulatory improvement*
- Increase certainty of PPPs *transaction delivery*
About IIGF
IIGF was established end 2009 as a Single Window in providing guarantees for infrastructure projects

**Mandate:** to provide guarantees for Government Contracting Agencies’ (Ministry, Regional Government, SOE) financial obligations under PPP Agreement for infrastructure projects with Private Company

<table>
<thead>
<tr>
<th>Capacity</th>
<th>System</th>
<th>Independency</th>
</tr>
</thead>
</table>
| • Capital  
  • Authorized capital Rp 9 T (~USD 1 bio)  
  • Paid in capital Rp 4.5 T (~USD 500 mio) | • Consistent, robust, transparent process  
  • Leapfrog set up by utilizing international experience | • Corporate structure & governance  
  • Market/industry watchdog |
| • Management/Resources  
  • Private sector background  
  • Best-in-class appraisal consultant |
GOI establishes IIGF to provide government guarantees to support PPP infrastructure projects development

1. Improve **creditworthiness** – bankability of PPP projects
2. Provide guarantees to **well structured PPPs**
3. Improve **governance, transparency and consistency** of guarantee provision process
4. **Ring-fence GOI Contingent Liabilities** and minimize **Sudden Shock** to RoI State Budget

*as has been amended by Presidential Regulation No. 13/2010 and No. 56/2011
IIGF serves as Government’s **Single Window for Appraising, Structuring of Guarantees & Processing Claims**

A single window is important for:

- A consistent policy on appraising guarantees
- A single process for claims
- Introducing transparency and consistency to the process
Why IIGF?

- To limit direct interaction between private sector and Ministry of Finance
  - Transaction management conducted by IIGF
  - Government’s role is more as the regulator and policy maker

- To enhance bankability of PPP projects to broader investors/financiers base with products acceptable by the market, thus encourage more competition

- To encourage market discipline on guarantee provision process through Single Window policy
  - Clear, transparent and standardized process
  - Clarity on the timing
  - More responsive
IIGF’s Value Proposition

IIGF’s guarantees and their subsequent effects will help:

**Indonesia**
- Support economic development through PPPs that provide quality infrastructure projects
- Reduce cost of infrastructure to end-users, due to lower cost of financing projects
- Limit Government’s exposure to infrastructure-financing liability
- Encourage / stimulate further Government action on PPPs

**Contracting Agencies**
- Attract more private sector participation, due to reduced risk perception of Indonesia PPPs
- Improve achievement of Contracting Agencies’ goals
- Boost competition in tendering process, leading to better proposal quality and more competitive pricing

**Private Sector**
- Mitigate risks that are difficult for private sector to cover through other means
- Improve transparency, clarity, and certainty of guarantee provision and processes
- Reduce cost of capital for project sponsors, lengthen financing maturities
- Provide incentive for CAs to prepare good contracts and fulfill obligations
- Project risk monitoring framework by IIGF under RA brings better risk management
How can IIGF improve guarantee capacity to cover more Indonesia’s infrastructure projects?

Can cover more deal flow, utilizing:

- IIGF capital
- Support from Government
- Partnership with Multilateral Development Agencies or other relevant institutions
IIGF Business Model
IIGF’s Business Model is designed to make the Government Guarantees provision Consistent, Transparent, and Efficient

**Note:**

B will exist only if A exist, i.e., when A become part of the guarantee structure provided to investors.
Solid business model: Recourse Arrangement will provide critical support in improving institutional arrangement for PPPs

- Recourse arrangement between IIGF and Contracting Agencies is essential to ensure IIGF’s financial viability and sustainability
- Recourse arrangement ensures discipline and improve Contracting Agencies’ accountability
- Project monitoring conducted by IIGF under Recourse Agreement enables more parties looking onto projects, hence would provide more comfort to CA and private sector in achieving successful projects
Eight economic infrastructure sectors: water, power, transportation (railway, ports), toll road, waste, irrigation, telecommunication, oil & gas

Awarded through a competitive bidding process

Economically, financially, technically & environmentally viable, socially desirable

Comply with related sector regulations

Prepared by credible experts/consultants

Binding arbitration provision in the Concession/PPP Agreement
Some aspects that IIGF looks into when appraises a project
IIGF may provide coverage of various CA’s Obligations which have been allocated to CA under PPP Agreement

Allocation of Risks in a PPP Agreement – an Illustration

<table>
<thead>
<tr>
<th>PC</th>
<th>Shared</th>
<th>CA</th>
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<tbody>
<tr>
<td>A</td>
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<td>B*</td>
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<td>H*</td>
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*) Risk that leads to certain financial obligation of the bearer

Examples:
- CA Payment Obligations
- Early Termination / Other Payment Obligations due to Government Actions / Inactions, such as:
  - Change in Law
  - Expropriation
  - Currency Inconvertibility / Non Transfer
  - Force Majeure Affecting CA

Possible IIGF Guarantee Coverage

PC : Project Company
CA : Contracting Agency

Sectors: As per Presidential Regulation No. 67/2005

*) as has been amended by Presidential Regulation No. 13/2010 and No. 56/2011
IIGF has published Indonesia PPP Risk Allocation Guideline

- MOF Regulation No. 260/2010 mandates IIGF to develop & issue Risk Allocation Guideline
- Risk Allocation Guideline is intended to be a key reference for:
  - Contracting Agencies in developing the PPP Contracts as well as the Guarantee Application Package (GAP) to be submitted to IIGF for guarantee provision; and
  - Investors and financiers in assessing their potential investment and financing for PPP projects in Indonesia.

- Some risk allocations may have variations, as they are subject to actual project and/or sector specific conditions or agreed commercial position between the parties.

- Regulation requires the Guideline to be reviewed periodically, minimum once for every 12 months, by way of gathering feedbacks from key stakeholders.
Four coherent steps are set up to ensure timely and robust IIGF guarantee provision process

1. Consultation
   - Seek info on IIGF guarantees & process
   - CA Role

   - IIGF Role: Provide info on guarantee product & process

2. Screening
   - Submit “Screening Form”
   - Issue “Confirmation to Proceed” for eligible project

   - Screening Form:
     1. Cover Letter
     2. Project brief description
     3. Outline Business Case

3. Appraisal
   - Submit “Guarantee Application Package” (GAP)
   - Issue “Letter of Intent” for guarantee provision

   - Guarantee Application Package:
     1. Request Letter
     2. Pre-feasibility study
     3. PPP structure
     4. Risk Matrix & Risk Mitigation Plan
     5. Draft PPP Agreement
     6. Description of Govt support
     7. Scope of guarantee required
     8. Financial model
     9. Env. & social assessment report
     10. Project Management Plan
     11. CA related information

4. Structuring
   - Finalize T&C of Guarantee & Recourse Agreement
   - Issue “In-Principle Approval” to be used for bidding

   - Risk Monitoring of Guaranteed Projects

Overall Process Objective is to ensure the Guaranteed Projects are:

- Feasible
- Fair in Risk Allocation
- Well Structured
- Robust in Risk Mitigation Plan
How does guarantee process match with CA’s transaction process?

Sample timeline involving **CA preparation and transaction execution** vs **corresponding IIGF guarantee provision process**

- PPP scheme determined
- Consultation
- Submission of Screening Form
- Pre-FS Finalisation
- Pre FS review and preparation of GAP
- EOI and PQ process
- Submission of GAP
- Draft RFP released
- One-on-one meetings
- Final RFP released
- Bid Submission & Evaluation
- Award & Signing
- Structuring
- Appraisal
- Issue In-Principle Approval

**Signing of:**
- PPP Agreement
- Guarantee Agreement
- Recourse Agreement

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**IIGF Guarantee Provision Process**
Sample of IIGF Business Model Implementation
Central Java Power Plant IPP (CJPP) Case
– the 1st PPP transaction in Indonesia*

**Guarantee Agreement**
for Central Java Power Project
2x1000 MW; ~US$ 4 bio

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**Project**
Ultra super critical coal fired power plant, 2x1000 MW

**Location**
Batang Regency, Central Java Province, Indonesia

**COD**
2017 / 2018

**PPA Tenor**
25 years

**PPP Structure**
Build, Operate, Transfer (BOT)

**Developer**
PT Bhimasena Power Indonesia, an SPV of consortium:
- ADARO: 34%
- J-POWER: 34%
- ITOCHU: 32%

**Guarantee Structure**
- Guarantee Agreement: Project Company with IIGF and GOI
- Coverage: political risk, force majeure affecting PLN and PLN EOD
- Guarantee Tenor:
  - Equity: 16 years
  - Debt: 21 years

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*) In accordance with PR no 67/2005
PPP structure with guarantee in CJPP

- **Recourse Agreement 1**
- **PPA**
- **Guarantee Agreement (GA)**
- **Recourse Agreement 2**
- **MOF**

**PLN**

Project Company

- First loss basis up to certain amount
- Remaining balance after IIGF portion
Guarantee cover for CJPP

**Covered:**
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 PFM, NFM**
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

PLN Financial Obligation as per PPA
IIGF role in finalizing CJPP Project Documents

PPP Agreement
- IPP / Seller obligation
- PLN obligation
- Sale and purchase of electricity
- Force Majeure
- Termination
- Representation and Guarantee, Entity and PLN
- Arbitration : ICC Rules
- Governing Law : Indonesia

Power Purchase Agreement
Parties: PLN and IPP

Guarantee Agreement
- One Agreement
  - Guarantee scope, based on clauses in PPA
  - Tenor of Guarantee
  - Requirements and Procedures of claim submission
  - Claim payment mechanism
  - Guarantee cost
  - Termination
  - Arbitration : ICC Rules (based on PPA)
  - Governing Law : Indonesia

Guarantee Agreement
Parties: IPP with IIGF and GOI

Recourse Agreement
- Two Agreements
  - Indemnity of PLN to Guarantor
  - Interest on claim payment
  - Default interest of recourse payment
  - Recourse payment mechanism
  - Arbitration : BANI
  - Governing Law : Indonesia

Parties: PLN with IIGF and PLN with GOI

IIGF’s Role

Synchronization

IIGF’s Role

Synchronization

Parties: PLN and IPP

Guarantee Agreement
Parties: IPP with IIGF and GOI

Recourse Agreement
Parties: PLN with IIGF and PLN with GOI

PT Penjaminan Infrastruktur Indonesia (Persero)
Indonesia Infrastructure Guarantee Fund
Guarantee framework under IIGF Scheme brings more certainty and clarity

<table>
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<tr>
<th>Support Letter</th>
<th>Confirmation Note</th>
<th>Guarantee Agreement</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Period / Project</td>
<td>Early 1990s / 27 IPPs (1st Gen)</td>
<td>Mid 2000 / Cirebon (2nd Gen)</td>
</tr>
</tbody>
</table>
| 2 Addressee | Project Company | • Lender (JBIC)*  
• Insurer (NEXI)* | Project Company |
| 3 Issuer | Ministry of Finance | Ministry of Finance | IIGF [with MOF and others] |
| 4 Coverage | Blanket | Blanket | Detailed as per covered financial obligations of CA as stated in the PPP Agreement |
| 5 Terms of Payment and Claims | Not stated | Not stated | • Definite number of days to each payment type, eg. regular availability and termination payment;  
• Detail claim and payment mechanism |

*) Under Umbrella Note of Mutual Understanding between the Ministry of Finance of the Government of Republic of Indonesia and Japan Bank for International Cooperation (JBIC), and with Nippon Export and Investment Insurance (NEXI);
Sectors Under Process
What are the key sectors under process?

IIGF current focus is to develop models for various key sectors, in terms of:
- Preparation and procurement process
- Guarantee process
- Project and guarantee structure
- Project Document: PPP Agreement, Guarantee Agreement, Recourse Agreement

Development approach:
- Strong and formal commitment from Government Contracting Agency
- Involving professional consultants
- Early coordination and collaboration with multi-stakeholders
- Transparent, competitive process
Thank You

email: info@iigf.co.id