Unclassified **GOV/PGC/SBO(2012)8**

Organisation de Coopération et de Développement Économiques
Organisation for Economic Co-operation and Development **16-Oct-2012**

English text only

PUBLIC GOVERNANCE AND TERRITORIAL DEVELOPMENT DIRECTORATE
PUBLIC GOVERNANCE COMMITTEE

GOV/PGC/SBO(2012)8
Unclassified

Working Party of Senior Budget Officials

PUBLIC-PRIVATE PARTNERSHIP GOVERNANCE IN INDONESIA: POLICY, PROCESS AND STRUCTURE

9th ANNUAL MEETING OF OECD-ASIA SENIOR BUDGET OFFICIALS

Bangkok, Thailand
13-14 December 2012

This note is a summary of the background report "PPP Governance in Indonesia: Policy Process and Structure" [GOV/PGC/SBO(2012)1] which was discussed at the Annual Network Meeting of Senior PPP Officials, held in Paris on26-27 March 2012.
It has also been reproduced in the OECD Review of Regulatory Reform - Indonesia (OECD, 2012), available at: www.oecd.org/regreform/backgroundreports

For further information, please contact Ian HAWKESWORTH at OECD Headquarters
Tel: +33 1 45 24 16 32 -- Email: ian.hawkesworth@oecd.org

JT03328872

English text only

TABLE OF CONTENTS

Tables

Figures

Boxes

EXECUTIVE SUMMARY

Good governance of public-private partnerships is essential to secure private investment in infrastructure

Infrastructure investment as a percentage of government expenditure in Indonesia decreased sharply following the Asian crisis from just below 10% to about 4%. Indonesia has a serious infrastructure deficit and the government acknowledges that a considerable investment in infrastructure facilities will be required to address the backlog and secure the country's future economic development. The Master Plan focuses on increasing connectivity in Indonesia through more use of private investment through PPPs in toll roads, rail and power generation. Accordingly, getting the conditions right to facilitate the procurement of PPPs is a necessary threshold issue for addressing infrastructure investment.

Before the reform process started in the early 2000s, most infrastructure projects not undertaken by the central, provincial or local government were awarded through direct appointment to either SOEs or private firms. The government of Indonesia has now addressed a number of complex issues with the procurement of PPPs, including defining the policy and legal framework, identifying a pipeline of projects, and establishing dedicated units with specialist expertise and frameworks to guide the selection of projects. The process and principles of procurement through competitive bidding were established in Presidential Regulations 67/2005, and improved by Presidential Regulations 13/2010 and 56/2011. Potential projects were notified through a series of infrastructure summits, and in 2011 the National Development Planning Agency (Bappenas) "PPP Book" covered an extensive list of potential and priority projects, including thirteen that were deemed ready for offer.

However, the system continues to be hampered by administrative delays, and problems with the co-ordination of responsibility for the identification and procurement of PPP projects. Development of the necessary expertise remains a key issue for the government. By 2011 the contract for the Central Java power plant was the only project to have met the Presidential regulations and passed through the PPP procurement cycle. Access to land is also an obstacle, though a new law was passed in 2011 to facilitate the expropriation of land for public works. Indonesia's experiences are not unique. Countries using PPPs have found it necessary to progressively refine their systems based on lessons learned. This report suggests a number of policy findings, based on the principles in the *2012 OECD Recommendation for Public Governance of PPPs*, which Indonesia should pursue to support its ambitions to deliver infrastructure through a reliance on PPPs.

This involves political leadership, administrative co-ordination and a focus on securing value for money

To overcome bureaucratic inertia and prioritise projects the government should establish a Presidential Committee for Infrastructure Projects. This would ensure that Bappenas, the Ministry of Finance, the Co-ordinating Ministry for Economic Affairs and relevant line ministries, align their infrastructure decisions with the government's overall strategy and objectives. The Presidential Committee could develop a shortlist of relatively straight-forward PPP projects in order to get the PPP programme moving.

The Ministry of Finance should play a key role at all gateway stages of PPP projects. It should act as a gate-keeper providing scrutiny and approval of all significant infrastructure investment decisions be these PPP or non-PPP projects. The Ministry of Finance should also take a key role in strengthening capacity within the procuring agencies to better plan the preparation of feasibility studies and tenders.

PPPs should only be chosen if they represent more value for money than other forms of infrastructure delivery. The government should establish clear “value for money” criteria as the basis on which to select projects, involving a whole-of-life approach that considers the present value of future costs and benefits. It should use a public sector comparator or equivalent benchmark/reference model against which it compares bids received. The role of state-owned enterprises with regards to PPPs (whether the SOE the public or private party) should be carefully assessed in order to avoid a conflict of interest and a level playing field. Unsolicited bids should be avoided or at least subjected to a higher level of scrutiny and donor funded projects should also comply with the gateway and budgetary process.

INTRODUCTION

Following the Asian crisis Indonesia in the early and mid-2000s embarked on a reform process aimed at revitalising the Indonesian economy. Part of this process involved the implementation of a legal and institutional framework that could serve as basis for a larger degree of private participation in the form of public-private partnerships (PPPs). The legal and institutional framework establishes a basis for the involvement of private participation in infrastructure construction, finance and management. Although the development of the framework has come a long way, the government of Indonesia sees the framework as a work in progress and adjusts it to reflect lessons learned through its experience with PPPs.

Infrastructure investment as a percentage of government expenditure in Indonesia decreased sharply following the Asian crisis from just below 10% to about 4%. The use of PPPs has not yet enabled the government of Indonesia to increase its infrastructure investment. However, the government of Indonesia plans to change this through its Master Plan for Acceleration and Expansion of Indonesia's Economic Development, 2011-2025 (MP3EI) (Republic of Indonesia, 2010). The MP3EI focuses primary on increasing the connectivity in Indonesia through among other things the development of six corridors and various ports. In addition, the MP3EI seeks IDR 4 012 trillion (USD 440 billion) of investment, with IDR 1 786 trillion assigned to items such as highways, harbours and power plants. Through the significantly increased use of PPPs in toll roads, rail and power generation the government of Indonesia wants to significantly ratchet up infrastructure development, creating the necessary foundation to maintain the high economic growth rates it needs as a frontline emerging market economy intent on joining the BRICS.

This chapter first presents an overview of the main issues regarding PPPs and subsequently the changing scene for PPPs in Indonesia is discussed. This is followed by a discussion on the PPP contract award cycle and the role of the different institutions in the PPP contract award cycle. Based on this overview the challenges that PPPs in Indonesia face as well as possible solutions to these are discussed. This discussion is organised around the three categories of recommendations identified by the OECD that need to inform the procedural and institutional framework as well as the integrity of PPPs. The chapter ends with a number of conclusions and proposals. The OECD Recommendations are included in Box 2.

1. Defining PPPs and the challenges around it

PPPs deliver public services both with regards to infrastructure assets (bridges and roads) and social assets (schools, hospitals, prisons and utilities). The interest in PPPs has been growing in recent years across the world and the need for fiscal restraint in some countries is expected to further increase their use. While PPPs can be an effective way to achieve value for money for the public purse they also present policy makers with particular challenges that need to be met with prudent institutional answers. The OECD works towards assisting countries to meet that challenge. Drawing upon lessons learnt by member countries, the OECD has developed recommendations for the institutional and procedural treatment of PPPs, focusing on particular challenges posed to the public authorities in charge of developing, regulating and supervising PPPs and responsible for budgetary discipline and integrity. These recommendations will be discussed further below.

There is no widely recognised definition of PPPs. PPPs can be viewed in a broad way as covering most interactions between the private and the public sectors and in a more narrow way as focusing on particular sets of risk-sharing and financial relationships aimed at service delivery. Even when viewed narrowly the stock of PPPs in a number of countries is already substantial and in most countries the number of new PPPs is rising. If used correctly and entrusted with competent authorities, PPPs can deliver value for money, yet under different conditions they can be dangerous for fiscal sustainability due to their complex nature in terms of risk sharing, costing, contract negotiation, affordability, as well as budget and accounting treatment. For instance, OECD research has shown that procurement rules in a number of countries create incentives to prefer PPPs over traditional procurement or vice versa, hindering the capacity of countries to assess adequately the costs and benefits of alternative options and ultimately from attaining the optimum value for money (Burger and Hawkesworth, 2011). The same research shows that for some countries the off-budget nature of PPPs, rather than value for money, makes them more attractive than traditional procurement of assets regardless of value for money considerations.

PPPs can be defined as ways of delivering and funding public services using a capital asset, where project risks are shared over the long term between the public and private sector (Box 1). A PPP is a contractual agreement between the government and a private partner where the service delivery objectives of the government are intended to be aligned with the profit objectives of the private partner. The effectiveness of the alignment depends on a sufficient and appropriate transfer of risk to the private partners. In a PPP contract, the government specifies the quality and quantity of the service it requires from the private partner. The private partner may be tasked with the design, construction, financing, operation and management of a capital asset required for service delivery as well as the delivery of a service to the government, or to the public, using that asset. A key element is the bundling of the construction and operation and maintenance of the underlying asset over the life of the contract. The private partner will receive either a stream of payments from the government for services provided or at least made available, user charges levied directly on the end users, or a combination of both.

Through harnessing the private sector's expertise in combining the design and operation of an asset a PPP can provide the service in a more efficient manner compared to traditional forms of procurement. There are a number of conditions that need to be in place for a PPP to be successful. The most important generic issues are set out in section three below.

The complexity of PPPs requires a number of capacities in government both in terms of skills, institutional structures and legal framework. There needs to be a robust system of assessing value for money, using a prudent public sector comparator (or its equivalent) and transparent and consistent guidelines regarding non-quantifiable elements in the value-for-money judgment. It also involves being able to classify, measure and contractually allocate risk to the party best able to manage it and the ability to monitor the PPP contract through its life. It requires sound accounting and budgeting practices.

Box 1. Different country definitions of public-private partnerships

There is no widely recognised definition of PPPs and related accounting framework. Eurostat, International Accounting Standards Board, International Monetary Fund, International Financial Reporting Standards and others work with different definitions. As illustrated below there is variation between countries.

- **Korea** defines a PPP project as a project to build and operate infrastructure such as roads, ports, railways, schools and environmental facilities – which have traditionally been constructed and run by government funding – with private capital, thus tapping the creativity and efficiency of private sector.
- **South Africa** defines a PPP as a commercial transaction between a government institution and a private partner in which the private party either performs an institutional function on behalf of the institution for a specified or indefinite period, or acquires the use of state property for its own commercial purposes for a specified or indefinite period. The private party receives a benefit for performing the function or by utilising state property, either by way of compensation from a revenue fund, charges or fees collected by the private party from users or customers of a service provided to them, or a combination of such compensation and such charges or fees.
- The **United Kingdom** defines a PPP as "…arrangements typified by joint working between the public and private sectors. In their broadest sense they can cover all types of collaboration across the private-public sector interface involving collaborative working together and risk sharing to deliver policies, services and infrastructure." (HM Treasury, Infrastructure Procurement: Delivering Long-Term Value, March 2008). The most common type of PPP in the United Kingdom is the Private Finance Initiative. A Private Finance Initiative is an arrangement whereby the public sector contracts to purchase services, usually derived from an investment in assets, from the private sector on a long-term basis, often between 15 to 30 years.

Source: OECD (2008), *Public-Private Partnerships: In Pursuit of Risk Sharing and Value for Money*, OECD Publishing, Paris.

Value for money and the public sector comparator

Governments should assess whether or not a project represents value for money. Indeed, the drive to use PPPs is increasingly premised on the pursuit of value for money (OECD, 2008). Value for money is a relative measure or concept. The starting point for such a calculation is the public sector comparator. A public sector comparator compares the net present cost of bids for the PPP project against the most efficient form of delivery according to a traditionally procured public-sector reference project. The comparator takes into account both the risks that are transferable to a probable private party and those risks that will be retained by government. Thus, the public sector comparator serves as a hypothetical risk-adjusted cost of public delivery of the project. However, ensuring the robustness of a public sector comparator can be difficult and it may be open to manipulation with the purpose of either strengthening or weakening the case for PPPs (e.g. much depends on the discount rate chosen, the value attributed to a risk transferred or whether a cost is front or back loaded).

In addition to the quantitative aspects typically included in a hard public sector comparator, value for money includes qualitative aspects and typically involves an element of judgment on the part of government. Value for money can be defined as what government judges to be an optimal combination of quantity, quality, features and price (i.e. cost), expected (sometimes, but not always, calculated) over the whole of the project's lifetime. What makes value for money hard to assess at the beginning of a project is that it ultimately depends on a combination of factors working together such as risk transfer, output-based specifications, performance measurement and incentives, competition in and for the market, private sector management expertise and the benefits for end users and society as a whole.

Appropriate risk transfer

To ensure that the private partner operates efficiently and delivers value for money, a sufficient, but also appropriate, amount of risk needs to be transferred. In principle risk should be carried by the party best able to manage it. This may mean the party best able to prevent a risk from realising (*ex ante* risk management) or the party best able to deal with the results of realised risk (*ex post* risk management). Some risks can be managed, and are hence called endogenous risks. However, not all risks can be managed and cases may exist where one or more parties to a contract are unable to manage a risk. To those parties such unmanageable risks are exogenous risks (an example is uninsurable force majeure risk that affects all parties, while political and taxation risk is exogenous to the private party and endogenous to government). It should be noted, however, that statutory and political obligations can mean that ultimately the activities of a PPP that fails must be taken over by government. A takeover by the government means that the allocation of risk according to the PPP contract differs from the effective allocation of risk, with the government in effect carrying more risk than allocated to it in the PPP contract.

Contract negotiating skills

The ability to write and negotiate PPP contracts are an important public sector capacity requirement, especially given the long-term nature and the large transaction costs associated with PPPs.

Affordability

A project is affordable if government expenditure associated with a project, be it a PPP or other mode of delivery, can be accommodated within the intertemporal budget constraint of the government. A PPP can make a project more affordable if it improves the value for money compared to that realised through traditional public procurement, and then only if the increased value for money causes a project that did not fit into an intertemporal budget constraint of the government under public procurement to do so with a PPP. Some countries are tempted to ignore the affordability issue due to the fact that PPPs may be off-budget (as discussed below). Political considerations may also alter the decisions: due to the political cycle, the policy maker who makes the decision to enter the PPP often does not bear the long-term expenditures involved in the project.

Future budget flexibility

A possible difficulty could be that PPPs reduce spending flexibility, and thus potentially allocative efficiency, as spending is locked in for a number of years. Given that capital expenditures in national budgets are often accounted for as an expense when the investment outlay actually occurs, taking the PPP route allows a government to initiate the same amount of investments in one year while recording less expenditure for that same year. On the other hand, the obligation to pay an annual fee will increase expenditures in the future, reducing the scope for new investment in coming years. However, if the PPP represents more value for money compared to traditional procurement, and this saving is not spent up front, the government will have increased its fiscal space in coming years and thus increased flexibility. Government spending might also be affected if the government provides explicit or implicit guarantees to the PPP project and thus incurs contingent liabilities. In some cases concessions and PPPs may also provide a revenue stream to government as part of payment for using existing assets.

Fiscal impact of PPPs

The system of government budgeting and accounting should provide a clear, transparent and true record of all PPP activities in a manner that will ensure that the accounting treatment itself does not create an incentive to take the PPP route. In some cases systems make it possible to avoid normal spending controls and use PPPs to circumvent spending ceilings and fiscal rules.

PPPs should only be undertaken if they represent value for money and are affordable. However, there are those who argue that PPPs should be used to invest in times of fiscal restraint. The fiscal constraint argument for PPPs is driven by pressures on governments to reduce public spending to meet political, legislated and/or treaty-mandated fiscal targets. In parallel with this, many governments face an infrastructure deficit stemming from a variety of factors including a perceived bias against budgeting for capital expenditures in cash-based budgetary systems. However, when responding to fiscal constraints, governments should not bypass value for money and affordability. PPPs may also create future fiscal consequences if they violate the budgetary principle of unity, *i.e.* that all revenues and expenditures should be included in the budget at the same time. Potential projects should be compared against other competing projects and not be considered in isolation to avoid giving priority to the consideration and approval of lower value projects.

The OECD surveyed member countries in 2010 about the percentage of public sector infrastructure investment that takes place through PPPs (Burger & Hawkesworth, 2011). Table 1 indicates the percentage of public sector investment that takes place through PPPs and the number of countries to which each range applies. For instance, in 9 of the 20 countries PPPs constitute between 0% and 5% of public sector investment in infrastructure. Furthermore, in 9 countries PPPs constitute between 5% and 15% of total public sector infrastructure expenditure. The stock of PPPs in countries varies significantly. It ranges from one at the federal level in Canada, three each in Norway, Denmark and Austria, to 670 in the United Kingdom.[1] In between is France with 330,[2] Korea with 252, Mexico with 200, Germany with 144, Chile with 60, New South Wales (Australia) with 35, the Netherlands and Hungary each with 9 and Ireland with 8.

Table 1. What percentage of public sector infrastructure investment takes place through PPPs (2010)?

Range	No.	Country
0% - 5%	9	Austria, Germany, Canada, Denmark, France, Netherlands, Hungary, Norway, Spain
>5% - 10%	7	United Kingdom, Czech Republic, Slovak Republic, Greece, Italy, South Africa, Ireland
>10% - 15%	2	Korea, New South Wales (Australia)
>20%	2	Mexico, Chile
Total	20	

Note: No response for the >15% - 20% range. This section shows that while PPPs are viewed in many countries as an efficient way of delivering public services they also present the public sector with particular challenges. The following section discusses the changing approach to PPPs in Indonesia.

Source: OECD (2011), "How to Attain Value for Money: Comparing PPP and Traditional Infrastructure Public Procurement ", *OECD Journal on Budgeting,* Volume 2011/1, OECD Publishing, Paris, p. 7.

2. The changing scene for PPPs in Indonesia

Prior to 2001, decision making in Indonesia was largely centralised. However since 2003 the country experienced a significant degree of decentralisation following the passing of the 2003 Law on State Finance (Law 17/2003). This decentralisation largely entailed the decentralisation of democratic authority and decision-making powers. Government finance still remains largely centralised though. Provinces and districts/cities authorities receive an equitable share of national revenue based on a formula for the division of revenue, but sub-national authorities do not really possess a tax base of their own. Since 2010 sub-national authorities can raise property taxes. On sub-national government level there has so far not been much investment expenditure happening, but there are proposals currently that at least 20% of their expenditure should be investment. As discussed further below it is important to note that sub-national government is not obliged to follow central government rules for PPPs. This is only the case if guarantees or fiscal support is sought.

There are more than 490 sub-national governments in Indonesia, many with their own water state-owned enterprise (PDAMs) and regional bank state-owned enterprise. Most of the PDAMs are still indebted to the central government, following the serious financial troubles into which these SOEs ran following the Asian financial crisis of 1997. These SOEs are not allowed to borrow money unless they repay their debts to central government, which consequently limits such activity.

As part of the decentralisation that occurred since 2001, and in particular in terms of Law 17/2003, some decision-making power shifted from the National Development Planning Agency (Bappenas) to the Ministry of Finance (MoF). In addition, decision-making power also shifted to sub-national authorities, which means that the various sub-national development planning agencies (Bappedas) operating on lower tiers of government do not any longer primarily report to Bappenas, but to their respective sub-national authorities. On sub-national level Bappenas' role is largely limited to undertaking the promotion of PPP. This is done on its road trips to the various sub-national authorities, followed by an invitation to sub-national authorities and national government ministries to place possible future projects on Bappenas' PPP Book containing potential PPP projects.

Before the reform process started in the early 2000s most projects undertaken by the central, provincial or district/city government themselves were awarded through direct appointment to either SOEs or private firms. As part of the reform process the government of Indonesia wanted to improve the process and principles through which projects are awarded. This includes the introduction and use of competitive bidding. As a result the government introduced Presidential Regulation 67/2005. This regulation was improved and augmented further by the introduction of Presidential Regulations 13/2010 and 56/2011. These regulations regulate what types of projects are considered as infrastructure, what the eligible contracting agencies are and the role of potential private participants. In addition, regulations set out the responsibilities of the MoF with respect to the granting of fiscal support and guarantees to specific projects in the procurement process.

Since the introduction of the reform and above mentioned presidential regulations three Infrastructure Summits were held, the product of which has been a list of possible PPP projects. Many countries seek to kick start a PPP programme by nominating a few (a handful) PPP projects based on both national priorities and their chances of success. The first Infrastructure Summit was held in 2005 and resulted in a list of 91 projects. The list increased to 101 potential projects and 10 model projects as part of the second Infrastructure Summit in 2006. By the time of the third Infrastructure Summit in 2010 there were 72 potential PPP projects, 27 priority projects and one ready for offer. However, this rather long list was subsequently shortened substantially so that by the fourth Infrastructure Summit held in April 2011 there were 5 showcase projects and 11 other projects. Nevertheless, by June 2011 the Bappenas PPP Book 2011 stood at 79 projects of which 45 were potential projects, 21 priority projects and 13 were ready for offer. In addition, contract award went to one project, the Central Java Power Plant (originally part of the 10 model projects identified in the 2006 Infrastructure Summit and signed on 6 October 2011), meaning that this projects is the only project to date to have passed through the project creation cycle specified in terms of the Presidential Regulations 67/2005, 13/2010 and 56/2011. The Central Java Power Plant cost about IDR 30 trillion (20-30% equity of which 60% will be provided by Japanese investors, 70-80% debt, including foreign investment) (Bappenas, 2011).

Most, if not all, PPPs in Indonesia are in the form of concession. Four groups of concession can be distinguished:

- Projects created before the reform process occurred. With regard to roads there are 28 of these projects, 17 of which are concessions awarded to the SOE for toll roads, PT. Jasa Marga, and further 11 concessions awarded to private concessionaires. Some of the later projects awarded to the private sector were awarded following a competitive bid process.
- Projects signed after the reform process commenced, but still in the pipeline due to process issues, in particular problems with the acquisition of the relevant land. With regard to roads there are 24 of these projects. Some of these concession agreements were signed as far back as 2006. However, because of problems regarding the acquisition of land, none of these projects can proceed. The private partners are responsible for paying for the land, but given that the land acquisition was not finalised when the concession agreements were signed, there is still a large degree of uncertainty about the viability of these projects. Uncertainty exists about whether all the land required for the project will be acquired and at what price it will be acquired. While the new law for expropriation of land for public projects should make this easier, it is still too soon to say with certainty.
- New projects that are under consideration, not yet signed and therefore are still in the pipeline. These projects will be developed in terms of Presidential Regulations 67/2005, 13/2010 and 56/2011 and therefore will, unlike those mentioned under (2) above, be assessed by the MoF. This assessment may include scrutiny by the Indonesian Infrastructure Guarantee Fund (IIGF) if the project requires a guarantee, or by the Risk Management Unit in the MoF, if the project requires viability gap funding. Currently there are five water projects, two as potential PPPs and three as ready-to-offer PPPs, under this category.
- New projects that are signed and project award occurred. Only one such project exists, namely the Central Java Power Plant. This project went through the process set out in Presidential Regulations 67/2005, 13/2010 and 56/2011 and received an IIGF guarantee.

Table 2. Do the following make PPPs more attractive in comparison to traditional infrastructure procurement?

	Y	N	S
The project generates debt that is not on the balance sheet of government	X		
The project requires high level of constant maintenance			X
The project requires a high level of service delivery performance	X		
The project requires skills that are more readily available in the private sector, compared to the public sector	X		
Strong Public Unions in the public sector in the relevant sector			X

Legend: Y: Yes, N: No, S: Sometimes.

Source: MoF Indonesia response to OECD questionnaire, 2011.

Table 3. Do the following make traditional infrastructure procurement more attractive in comparison to PPPs?

	Y	N	S
The project is politically/strategically important (e.g. defence)	X		
The project is complex in management and design		X	
The project risk is difficult to quantify and measure (e.g. large IT investments)			X
The project requires a high level of maintenance			X
The project requires a high level of service delivery performance			X
The project requires skills that are more readily available in the public sector, compared to the private sector	X		
Strong Public Unions in the public sector in the relevant sector			X

Legend: Y: Yes, N: No, S: Sometimes.

Source: MoF Indonesia response to OECD questionnaire, 2011.

To establish the possible reasons why the government of Indonesia selects PPPs over traditionally procured infrastructure, a questionnaire was circulated to the MoF. The MoF was presented with a list of features that might either render a PPP more attractive than a traditionally procured infrastructure or vice versa. Factors that cause the government to prefer PPPs to traditional infrastructure procurement include that the projects generates debt that is not on the balance sheet of government, as well as factors relating to skills. Factors that cause the government to prefer traditional infrastructure procurement to PPPs include projects that are politically or strategically important and projects that require skills that are more available in the public sector than in the private sector. The reasons listed making PPPs or traditional infrastructure procurement attractive are similar to those found in OECD countries (Burger and Hawkesworth, 2011). Apart from the balance sheet incentive they are sound and reflect accepted knowledge regarding the strength and weaknesses regarding PPPs.

3. The PPP contract award cycle and the role of the different institutions in Indonesia

This section sets out the roles of the different institutions involved in setting up a PPP in Indonesia. In Indonesia the government contracting agencies (GCAs) can be ministries, provincial authorities, as well as sub-national authorities. In addition, National Electricity Company (PLN)s also acts as a GCA.

As mentioned above, Presidential Regulations 67/2005, 13/2010 and 56/2011 regulate the creation of PPPs. In principle GCAs are free not to comply with these three presidential regulations and they do have the authority to conclude their own contract. However, should the GCA require a government guarantee or fiscal support for its project, it needs to submit the project to the MoF and comply with the three regulations. Since international banks increasingly expect a government guarantee, it is becoming increasingly difficult to engage in PPP contracts without either fiscal support or a government guarantee. Therefore, GCAs submit most new projects to the three presidential regulations and hence the scrutiny of the Risk Management Unit (RMU) of the MoF. Answering to the RMU the IIGF performs a key role in screening projects – indeed, its role comes closest to the gatekeeping role played by ministries of finance in New South Wales (Australia) South Africa and the United Kingdom, as well as Korea's Private Infrastructure Investment Management Center. The RMU also intends to follow a single-window policy whereby the IIGF performs the full project evaluation and assessment for the MoF. The IIGF operates within the terms set out in Government Regulation 35/2009.

Should a guarantee be required the GCA should obtain it from the IIGF prior to the bid taking place. The IIGF evaluates the project in terms of its economic/financial, technical and environmental viability.

Only if it is satisfied by the evaluation will the IIGF extend a guarantee – thereby effectively green-lighting the project and thus effectively serving a key gatekeeping role. The IIGF will subsequently conclude a guarantee agreement with the winning bidder and a recourse agreement with the GCA. Though the IIGF own capital is limited, co-guarantors and a World Bank standby facility of approximately USD 480 million backstop it. In the final instance government, through the MoF can also increase its capital or give a guarantee to specific projects. Currently the IIGF is reviewing three projects (a water project, a rail road project and a toll road project) and has extended a guarantee to only one project, the Central Java Power Plant mentioned above.

The IIGF, answering to the RMU, also considers the risk-sharing arrangement of the contracts. It is willing to guarantee political risk, performance risk (i.e. the risk that the completed project does not perform as intended) and demand risk, which if mitigated, leaves availability risk as the one risk that should spur the private partner to being efficient. By having the IIGF undertake all the guarantees the MoF attempts to ring fence the amount of risk to which the government is exposed. Nevertheless the RMU notes that should the IIGF land into financial trouble, the government will support it. Thus, though the risk to which the government is exposed is ring-fenced in principle, it might not turn out so in practice.

In addition to the evaluation and screening roles of the RMU and the IIGF, there is also Investment Co-ordinating Board (BKPM), which is mainly responsible for the marketing of PPPs to possible foreign and domestic investors. The BPKM operates on the basis of a memorandum of understanding between the MoF, Bappenas and the BKPM.

Two institutions focus on the financing and in particular the viability gap funding of projects whilst answering to the RMU. These are PT Indonesian Infrastructure Financing Facility (PT IIFF) and PT Sarana Multi Infrastruktur (PT SMI). The PT SMI operates in terms of Government Regulation 75/2008 and is a conduit to channel funds into the PT IIFF, which is a private entity in which the World Bank, the International Finance Corporation, Asian Development Bank, KfW and DEG hold shares. The intention is also to bring in more private banks as shareholders of the PT SMI. The PT SMI provides sub-national financing complimentary to that of the international banks. In essence it implements viability gap funding where projects are considered borderline viable and thus not entirely bankable. However, the emphasis is on borderline viability. It is not the function of the PT SMI to save an unviable project.

The MoF also relies on the PT SMI for project development funding, rather than on the Project Development Fund (PDF), which means that the PDF has become largely inoperative. The PDF resides within Bappenas and is largely funded by the Asian Development Bank. Bappenas houses the PPP Central Unit (P3CU). P3CU role is largely to co-ordinate the identification of potential PPPs and putting them on the official PPP Book while the MoF assists in the preparation, finance and the provision of guarantees needed to create the PPP.

In response to the significant problems with regards to land acquisition, particularly prominent in road projects (see discussion below), there is a Land Acquisition Revolving Fund (LARF) that must assist the Roads Authority to acquire land that the private partner needs for the PPP. Since ultimately the private partner is responsible for the acquisition of land, the payments of the private partners must replenish LARF and ensure that the fund revolves. It needs to be emphasised that this is the intention with LARF, as no such funding has occurred at the time of writing. In light of the new land acquisition law passed by the DPR on 16 December 2012 this fund's mandate and function may have to be revisited.

In addition to the above institutions there is also the National Committee for the Acceleration of Infrastructure Provision (KKPPI), an inter-ministerial committee chaired by the Co-ordinating Minister of Economic Affairs. The Minister of National Development Planning is the executive chair of the committee as stipulated in Presidential Regulation Number 12 (2011). Other members of the KKPPI include the MoF and Bappenas. This committee is in principle responsible for co-ordination and the identification early on of priority projects. However, in deciding the priority of projects where such priority increasingly means the viability of the project, the RMU and IIGF increasingly fulfil the function of project approval. KKPPI has in recent years not been particularly active with regards to the PPP pipeline.

In the past GCA and other ministries could refer PPPs to the KKPPI when these PPPs encountered problematic regulations that were not suitable for the PPP. The KKPPI would then work towards solving these regulatory issues for the specific PPP. It thus dealt with problems in an *ex post*, and *ad hoc* manner. It may be preferable to set up *ex ante* a set of principles and institutions to guide the PPP process.

According to Presidential Regulations 67/2005, 13/2010 and 56/2011 the MoF plays a crucial role in the approval of PPPs. However, it might be argued that it comes into play quite late in the contract award cycle as the MoF seems to play little or no role in the identification of possible PPP projects.

Building on the above review of the contract award cycle and institutional roles regarding PPPs the following sections discuss the main challenges and possible solutions with respect to PPP governance. The sections are broadly based on the three categories contained in the *2012 OECD Recommendations for Public Governance of PPPs* (Box 2). Note that some of the subsections may also cross reference across categories.

**Box 2. 2012 OECD Recommendation on
Principles for Public Governance of Public-Private Parnerships**

A. Establish a clear, predictable and legitimate institutional framework supported by competent and well-resourced authorities

1. The political leadership should ensure public awareness of the relative costs, benefits and risks of PPP and conventional procurement. Popular understanding of Public-Private Partnerships requires active consultation and engagement with stakeholders as well as involving end-users in defining the project and subsequently in monitoring service quality.
2. Key institutional roles and responsibilities should be maintained. This requires that procuring authorities, PPP units, the central budget authority, the supreme audit institution and sector regulators are entrusted with clear mandates and sufficient resources to ensure a prudent procurement process and clear lines of accountability.
3. Ensure that all significant regulation affecting the operation of PPPs is clear, transparent and enforced. Red tape should be minimised and new and existing regulations should be carefully evaluated.

B. Ground the selection of PPPs in Value for Money

4. All investment projects should be prioritised at senior political level. As there are many competing investment priorities, it is the responsibility of government to define and pursue strategic goals. The decision to invest should be based on a whole-of-government perspective and be separate from how to procure and finance the project. There should be no institutional, procedural or accounting bias either in favour of or against PPPs.
5. Carefully investigate which investment method is likely to yield most value for money. Key risk factors and characteristics of specific projects should be evaluated by conducting a procurement option pre-test. A procurement option pre-test should enable the government to decide on whether it is prudent to investigate a PPP option further.
6. Transfer the risks to those that manage them best. Risk should be defined, identified and measured and carried by the party for whom it costs the least to prevent the risk from realising or for whom realised risk costs the least.
7. The procuring authorities should be prepared for the operational phase of thePPPs. Securing value for money requires vigilance and effort of the same intensity as that necessary during the pre-operational phase. Particular care should be taken when switching to the operational phase of the PPP, as the actors on the public side are liable to change.
8. Value for money should be maintained when renegotiating. Only if conditions change due to discretionary public policy actions should the government consider compensating the private sector. Any re-negotiation should be made transparently and subject to the ordinary procedures of PPP approval. Clear, predictable and transparent rules for dispute resolution should be in place.
9. Government should ensure there is sufficient competition in the market by a competitive tender process and by possibly structuring the PPP programme so that there is an ongoing functional market. Where market operators are few, governments should ensure a level playing field in the tendering process so that non-incumbent operators can enter the market.

C. Use the budgetary process transparently to minimise fiscal risks and ensure the integrity of the procurement process

10. In line with the government's fiscal policy, the Central Budget Authority should ensure that the project is affordable and the overall investment envelope is sustainable.
11. The project should be treated transparently in the budget process. The budget documentation should disclose all costs and contingent liabilities. Special care should be taken to ensure that budget transparency of PPP covers the whole public sector.
12. Government should guard against waste and corruption by ensuring the integrity of the procurement process. The necessary procurement skills and powers should be made available to the relevant authorities.

4. Establish a clear, predictable and effective institutional framework supported by competent and well-resourced authorities

Challenges in Indonesia regarding institutional framework and capacities

While there are a number of challenges facing Indonesia with regards to the PPP programme emphasis should made of the fact that great strides have been made in the last years. Complex issues such as defining the PPP policy and legal framework, identifying a project pipeline, setting up PPP expertise units and developing concepts to guide projects have been undertaken. The following focuses on the potential next steps.

With regards to the population's perception of PPPs there does not at this time appear to be much controversy. This may, however, be a result of the fact that few new PPPs have been put into operation in later years. In particular there have not been recent examples of PPPs where the full or partial cost recovery has fallen directly on users. When and if the burden of new PPP investments falls on the users, experiences in Indonesia indicated that protest should not come as a surprise.

There is a great reluctance in GCAs with regards to the use of PPPs. For top decision makers in government it appears that GCAs do not wish to be responsible for PPP projects and have to be pressured by the political level into doing this. There also appears to be a lack of interest and capacity to follow up on projects which have been designated as potential PPPs. The process thus becomes weak in terms of quality and slow in terms of time.

The following two subsections focus on the lack of co-ordination between and capacity within the GCAs, Bappenas and the MoF and regulatory framework challenges.

Co-ordination between and capacity within the GCAs, Bappenas and the MoF

PPP activity in Indonesia mainly takes place in three centres in government: the GCAs (e.g. the ministries and sub-national authorities), Bappenas and the MoF. Unfortunately there seems to be a lack of co-ordination between these three centres. This lack of co-ordination manifests itself in the following:

- The GCAs develop project proposals in isolation. This means that very often project proposals and feasibility studies fall short of the requirements of the MoF and subsequently may not qualify for government (fiscal) support and a government guarantee. The projects are then either abandoned or delayed as more work is done on the proposals (an example of such a delayed project proposal is the Jakarta Airport link project). While the MoF through its various organisations such as the Risk Management Unit (RMU) and the Indonesian Infrastructure Guarantee Fund (IIGF) evaluates the financial and technical feasibility of projects, it does not assist the GCAs in putting together the feasibility studies.
- The P3CU in Bappenas is tasked with assisting GCAs with developing their PPP project proposals. However, the P3CU has limited resources to do this which makes its job difficult. Evidence also indicates that the procurement rules P3CU is subject to effectively bars it from hiring good advisors which impacts on project preparation. In this effort the P3CU is supposed to be assisted financially by the PDF. However, the PDF falls short of its initial intended role, with some of its functions relating to the funding of the development stage of projects by the GCAs being fulfilled by PT SMI. There also seems to be a lack of co-ordination between P3CU and the MoF, leaving the P3CU and Bappenas to update the PPP Book, while the MoF operates independent of what P3CU does.
- Questions have arisen concerning whether or not the P3CU has sufficient capacity to support GCAs in the identification and preparation of project proposals and feasibility studies.

With regard to PPPs the vastly different institutional cultures of Bappenas and the MoF somewhat weaken the co-ordination between the two institutions. Bappenas focuses on broad economic planning while the MoF has a stricter fiscal and financial focus. In most countries the evaluation of individual PPP project proposals rarely involves a consideration of the broader social costs and benefits. This is reflected typically in bids and public sector comparators (PSC) that focus exclusively on the direct (and not the broader social) outputs and costs of the project. This exclusive focus has its genesis in the nature of the project and financial management tools typically applied to PPPs. These tools very much reflect the strict criteria that the private sector applies to project finance, typically because their profitability depends on it. Because these stricter criteria do not include an explicit consideration of broader social benefits and costs, their application very often does not allow for an easy fit with the broader social and planning objectives typically found in ministries of planning. Indonesia seems to be no exception to this rule.

The lack of co-ordination between the P3CU and the MoF also means that there is a need to align the content and the level of detail and sophistication required by the MoF assessment process and the nature of the support provided by the P3CU. Currently there seems to be a mismatch between the required level of detail and sophistication and the level of detail and sophistication of actual proposals that were put together with the support of the P3CU. Therefore, as in many other countries before, a need exists in Indonesia for better alignment. This alignment requires the proper location of the PPP unit to enhance co-operation with the MoF. As the experience of some of the countries that implemented successful PPP programmes show, there mainly are two options with regards to locating the PPP unit to enhance the co-operation with the MoF. These options are:

- Placement of the PPP unit inside the MoF. This is the model used by among other South Africa, and the Australian states of New South Wales and Victoria.
- Placement of the PPP unit as an independent agency that is closely aligned with the MoF. This is the model used in the United Kingdom.

PPP units are usually located within the MoF if they have their genesis in the MoF. However, if they have their genesis elsewhere, they often become an independent agency. Since P3CU in Indonesia has grown out of Bappenas one option is to develop it into an independent agency. Both options, i.e. locating it in the MoF or placing it as an independent agency, should ensure that the institutional culture of the PPP unit and that of the MoF are aligned and enables both the PPP unit and the MoF to have a stricter fiscal and financial focus. A stricter fiscal and financial focus will allow the PPP unit to assist GCAs with tailoring their proposals and feasibility studies to the MoF requirements. Given that PT SMI currently fulfils many of the functions originally intended for the PDF. The PDF could either move with the P3CU, or it could be incorporated with the PT SMI.

Since particularly large-scale projects would ideally also be open and attractive to international bidders, project proposals and feasibility studies should adhere to international standards. International investors and project managers may include both financial institutions interested in maintaining a transnational portfolio of projects, or construction firms that also maintain a diverse portfolio of projects. In its attempt to attract international investors Indonesia will be competing with a number of other developed and emerging market countries. The Indonesian authorities are clearly aware of this issue and are working towards resolving it. One approach would be to consider appointing international transaction advisors for large PPP projects to ensure that these projects adhere to the standards international investors usually require from PPP project proposals. Such advisory services will probably require central funding as the GCAs will not be able to afford it.

Regulatory challenges and land issues

The regulatory framework for PPPs needs to support the overarching principles of good regulation, i.e. that it is clear, effective, proportional, flexible, transparent, consistent, predictable and accountable. Presidential Decree 67/2005 improved the regulatory framework substantially. However, there remain some challenges. Historically there have been problems with the legal framework being applied in a transparent, consistent and predictable way. In the past this has led to cases subjected to international arbitration. Questions regarding the enforcement of the international arbitration decisions that went against the public side have been raised in the past. There are no recent experiences with regards to these issues.

The MP3EI sets out ambitious plans to create six corridors in Indonesia to improve connectivity in the country. Until the passing of new legislation in December 2011 this was hampered by the legislative framework which makes it extremely difficult for the authorities to expropriate privately owned land. Road projects, be these PPPs, or projects undertaken by the Ministry of Transport and the Toll Road Agency, thus suffered from significant problems relating to the acquisition of the relevant land. This had two effects. First, owners delayed selling their land to the government/consortium for as long as is possible in the hope that their bargaining position – and hence the price – would be strengthened as the project progressed. Secondly, because of the drawn-out negotiation process to acquire land, the extended time between identifying land for consideration and the GCA acquiring it allowed speculators to drive up the price of the relevant land. This lead to a significant escalation in the actual cost of the land and total project cost.

In response there a requirement was put in place that land ownership by the GCA should be established by the time the contract is concluded, so as to reduce cost uncertainty. The government also imposed a cap on the price of the land it is willing to pay (at a 110% of the initial valuation). A Land Acquisition Revolving Fund (LARF) was also set up to ease the acquisition of land.

The expropriation framework has changed with the new legislation passed on December 2011. The new law regarding expropriation of land for public works and PPPs is a considered a clear improvement. From the perspective of the investor it makes the timing of when the land will be available through expropriation more certain. The law sets rather tight deadlines for appeals of expropriation decisions and the level of compensation. While this is beneficial to speed up the process it may be a challenge for non-professional groups to handle. The law sets out the principle that compensation should be based on the market price of the land. It is, however, difficult to see how a clear valuation of the land is possible. Tax records are not directly useable as they appear to consistently understate the real value of land. The same can be said for the records of land sale prices. It should also be noted that the new law has not yet been promulgated in the form of a presidential regulation. In reality whether or not the new legislation solves the problems discussed above will to a great extent depend on the implementation regulation.

In addition, there are nevertheless still some unresolved issues with regards to land. There are cases where there are competing claims of ownership, but no documentation, e.g. in cases where there are claims that land is held in common by specific groups. The issue of overlapping jurisdictions can also impede PPPs. Where the resource/asset belongs to a lower-level authority, but the service crosses a jurisdictional border of those authorities, the higher-level authority becomes responsible for the PPP. The Umbalan (Bali) Water Supply project is an example of such a project. The provincial government is responsible for the development of this project, but the project is being held up due to differences among the five sub-national authorities that own the relevant water rights.

5. Ground the selection of PPPs in value for money

This section first discusses the lack of an overall government structure that ensures that PPP activity in Indonesia aligns and coheres with the government's overall policy framework. This is followed by two subsections, the first considering the rationale for undertaking PPPs in theory, before the second discusses the rationale for undertaking PPPs in Indonesia.

A new Presidential Committee prioritising and championing projects

As mentioned above the fiscal and financial criteria applied to specific PPPs are usually direct and strict. There is, however, also a need to consider the broader societal costs and benefits of projects as well as the political priority of individual projects. Thus, there is a need to ensure that policy choices cohere and are aligned with the governments overall strategy, priorities and objectives. In the United Kingdom GCAs engaging in major projects, be these PPP or traditional infrastructure projects, need to indicate how each of these projects fits within the overall policy strategy and objectives of government. In Indonesia the various ministries involved in the creation of PPPs and non-PPP projects (including the line ministries, the MoF and Bappenas) seem to rarely discuss, for instance, the alignment of their plans to the overall policy strategy and objectives of government as set out in the MP3EI.

The active management of ensuring coherence of the entire portfolio of PPP and non-PPP projects and their compliance with the overall policy strategy and objectives of government needs to occur on the highest level of government. Two possible options to manage it on the highest level of government include:

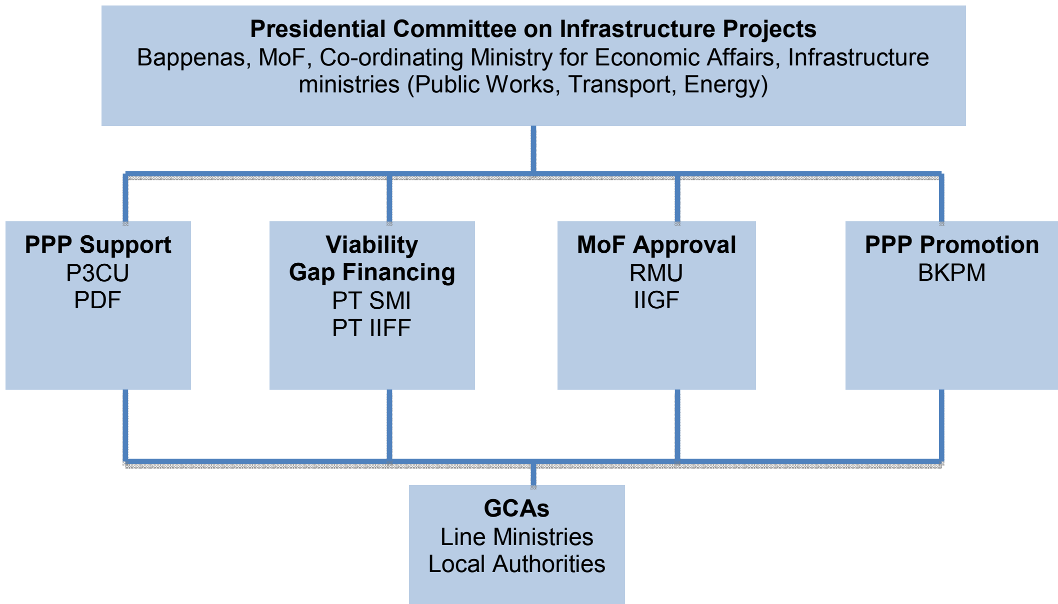
- Cabinet approval is required for all major projects against the background of the government's policy strategy and objectives;
- The responsibility to ensure coherence is allocated to the president's office, with the president (or vice president) chairing a high-level inter-ministerial committee responsible for the prioritisation and governance of projects to ensure that the portfolio of projects comply with the overall policy strategy and objectives of government.

Given the existing government structures in Indonesia, the second option above seems to be the most appropriate. A presidential committee for infrastructure projects chaired by the president, in which Bappenas, the MoF, the Co-ordinating Ministry for Economic Affairs as well as some of the line ministries responsible for infrastructure development are represented, could be an efficient structure. In this committee especially Bappenas, the MoF and the Co-ordinating Ministry for Economic Affairs could be expected to play key roles. Compared to the more focused role of the line ministries, Bappenas' role follows from its more holistic tradition of economic planning, while the MoF role follows from the need to maintain sound budgetary practices and ensure that the planning conforms to the budgetary envelope. The Co-ordinating Ministry for Economic Affairs' role stems naturally from its function as co-ordinator of policy. The presidential committee would seem the ideal place to combine these three different views. Collectively this body would also work as a champion for PPPs creating a demand for line ministries and agencies developing such projects.

Bappenas' role in this committee can be further expanded to resemble that of the Australian Infrastructure Commission. This Commission ranks all infrastructure projects, be these PPP or non-PPP projects, according to cost-benefit analysis, the results of which are published and subsequently prioritised by government and parliament. The United Kingdom too has a committee that considers all major infrastructure projects, be these PPP or non-PPP projects. Therefore, Bappenas could undertake the broader social cost-benefit analysis, the results of which are then published and prioritised by the presidential committee on infrastructure projects.

The above proposal is summarised in Figure 1 that sets out a proposed institutional setup for PPPs in Indonesia. In Figure 1 the Presidential Committee on Infrastructure Projects ensures that all key players align their strategies and objectives to that of government. As mentioned above, Bappenas, the MoF and the Co-ordinating Ministry for Economic Affairs play key roles in this committee. The four boxes below this committee indicate the types of role players that GCAs need to engage in the PPP contract award cycle. These are PPP support (the P3CU and PDF), viability gap financing for projects that are borderline viable (PT SMI and PT IIFF), MoF approval (RMU and the IIGF) and PPP promotion (BKPM).

Figure 1. An institutional setup for PPPs in Indonesia



Note: See Acronyms and Abbreviations p. 11.

Once the presidential committee on infrastructure projects has approved a project, the GCA needs to initially assess whether delivering the project through a PPP or through traditional procurement represents the best value for money. If the PPP mode of delivery is selected the project enters the PPP project pipeline. In this pipeline the P3CU assists GCAs in preparing PPP documentation to ensure that the project proposal and documentation comply with the criteria set by, among other, the MoF and international and domestic investors. The PDF might provide financial support to GCAs to prepare the project proposal and documentation. Projects that are borderline viable might then also need to obtain viability gap financing to ensure that the project is fully viable before the MoF can provide final approval. While input from PT SMI and PT IIFF informs the decision-making process, viability gap financing is processed within the Ministry of Finance. MoF approval entails for the project to pass through the gateway process of approval discussed below. Note that obtaining viability gap funding and MoF approval are two processes that will probably run concurrently, though for final MoF approval the viability gap financing must be in place. Finally, BKPM undertakes the promotion of PPPs. Throughout all faces the GCA would be the key promoter of the PPP, but would be supported and scrutinised by the above-mentioned institutions at the various key stages. Furthermore, throughout the contract cycle the different actors should report to the presidential committee on progress made.

Pursuing PPPs for reasons of value for money and/or augmenting the public purse

Historically there are several reasons why countries implemented PPPs. These included *inter alia*:

1. A pursuit of value for money, and the associated selection of PPPs because of public sector and bureaucratic inefficiency and perceived private sector efficiency;
2. Augmenting public sector financial resources and getting projects off the books of government to ensure that individual government entities and government as a whole do not exceed a pre-specified budget envelope and concomitant balance sheet liabilities.

However, through experience and a better theoretical understanding developed over time, value for money came to be accepted as the principal and foremost reason to consider using PPPs instead of traditional infrastructure procurement. In addition, the literature also shows that PPPs do not necessarily deliver the desired value for money. Indeed, the literature identifies a list of preconditions that need to exist for PPPs to outperform traditional infrastructure procurement and represent value for money. These include requirements regarding competition, risk transfer and the measurability of risk and demand. These requirements are identified in Burger and Hawkesworth (2011, pp. 129-133) and reflected in the OECD Recommendation Number 6. A main lesson is that deriving value for money from a PPP is not a given and depends on institutional, market and project-level conditions.

The second reason for undertaking PPPs, augmenting public sector financial resources, is much more contentious and often based on a fallacy. In the case of a pure PPP, i.e. where the private partner will receive payment directly from government and not from end-users, the choice between traditional infrastructure procurement and a PPP means a choice between the following two options:

- In the case of traditional infrastructure procurement government incurs the initial debt to finance the asset and thereafter pays the operational expenditure and interest on the debt.
- In the case of a PPP the government incurs no additional debt to finance the asset, as the private partner is financing the asset through raising capital in the form of loans and equity. However, since the private partner needs to service this debt and pay operational expenditure in future, it will need to raise enough income in future from government in the form of its annual payment of fees or user charges. Of course the payment of these fees is contingent on the private partner delivering in accordance with its contract. However, unlike contingent liabilities that are not expected to realise, the payments due under a PPP contract, though not certain, are nevertheless expected to realise. Therefore, PPPs create a less than certain, but nevertheless expected liability on the books of government in the form of the present value of all the service fees and user charges that government is expected to make to the private operator of the PPP.

Comparing points (1) and (2) shows that in both the case of traditional infrastructure procurement and a PPP government faces a liability. In both cases it will need to allocate revenue in future to service debt (either public debt in the case of traditional infrastructure projects or private debt in the case of a PPP) and pay operational expenditure. The only difference is that in the case of traditional infrastructure procurement government directly services the debt and pays the operational expenditure, while in the case of a PPP government pays these indirectly by paying the private partner a fee or user charge, with the private partner then servicing the debt and paying the operational expenditure.

In the case of a concession (without a subsidy of government) the concessionaire carries demand risk. Thus, it incurs the initial debt to build the asset and thereafter needs to raise a user fee on final users that is high enough to ensure that it can service its debt, pay operating costs (and of course yield a dividend to its shareholders). Thus, in this case, unless government subsidises the concession or provides guarantees, there seems to be no potential liability on the books of government. This option is very often contrasted with the project being delivered through traditional infrastructure procurement where government is seen as the one paying for the servicing of the debt and the operational cost of the project by raising tax revenue. If the amount of revenue that government can be expected to raise in future is limited, it may render the project unaffordable (i.e. the project cannot be fitted within the budget envelope of the government contracting agency or government in total), which, in turn, cause some governments to view a PPP in the form of a concession as the alternative to fill the funding gap.

However, this comparison is fallacious, as it confuses the mode of financing with the mode of raising the revenue needed to service debt and pay operating expenditure. The proper comparison is not between paying for the project through raising government tax revenue and paying for it using user fees levied by a concessionaire on final users. Making this comparison is wrong as it presumes that government cannot levy user fees. The correct comparison is between a traditionally procured infrastructure project where the debt servicing and operational costs are paid for by user fees levied on final users, and a PPP concession where the debt servicing and operational costs are also paid for by user fees levied on final users.

The rationale for PPPs in Indonesia – the role of value for money and the funding gap

The limited role of value-for-money assessments in Indonesia

Value-for-money assessment appears to play a somewhat limited role in the decision as to whether or not a project should be undertaken. It also plays a limited role when government identifies which projects are suitable for potential PPP status. This does not in itself mean that the elements of what would normally constitute part of a value-for-money assessment do not appear in the project identification process, just that the focus on value for money is not explicit. The focus of the PPP identification process is largely on economic, financial and technical viability and the possibility to transfer risk. For water projects there is also an analysis of the institutional capacity of the sub-national authority to manage the PPP contract cycle (including their ability to evaluate tenders).

In road projects the Road Authority makes an assessment of the user benefit of the toll road in terms of the time that road users will save when using the road versus the possible tariff that can be levied on the road users (the so-called vehicle operating cost to establish whether or not the project will yield a net benefit. Whether the project is then identified as a PPP then depends on whether the project will deliver a return that is sufficient to draw a private partner. A need for high levels of maintenance and quality output also serves as motivation for selecting a project as a possible PPP candidate. In addition, the minimum levels of maintenance and output are defined as the minimum service levels of the project and in existing concessions are monitored on a six-month basis. Tariffs are usually renegotiated every two years and adjusted with inflation. However, should the concessionaire fall short of the minimum service levels the tariff adjustment can be postponed until such time that the concessionaire complies with the minimum service levels.

Following from the above, it is recommended that the government of Indonesia develops a sectoral value-for-money assessment tool. This tool should focus on both the absolute and relative elements of value for money. With absolute value for money the question is whether the project represents value for money, while establishing relative value for money concerns the levels of value for money that different procurement options can deliver. Thus, relative value for money entails a comparison of the value for money that traditional infrastructure procurement, procurement through a PPP or – as may be particularly relevant for Indonesia – procurement through an SOE can deliver.

Value-for-money assessment encompasses the financial and technical viability analyses that the government of Indonesia currently undertakes. However, value for money also entails other elements such as economy, efficiency and effectiveness (see Appendix in Burger and Hawkesworth, 2011). In general value for money can be defined as the optimal combination of quality, quantity, features and price of the project, calculated over the whole of the projects life. Thus, a value-for-money assessment requires an intertemporal assessment across the whole of the project’s life and not only for the current budget year.

Only when a whole-of-life approach is followed, can government really assess whether the project delivers optimal value for money, i.e. whether the quality and quantity and features of the project justifies the price paid over its whole life.

The value-for-money assessment should also take fully account of risk, so that all comparisons across procurement options are done on a fully risk-adjusted basis. In addition, care should be taken to price risk correctly and not under- or overestimate it.

The funding gap as the main motivation for undertaking PPPs in Indonesia

Prior to the Asian crisis public investment in Indonesia was at just below 10% of government expenditure. Many of these projects were undertaken by Indonesian SOEs and through other arrangements with the private sector where private operators were directly appointed to build and operate assets. However, in the aftermath of the Asian crisis in 1997 many of these projects turned out to be not financially viable. In addition, in the almost a decade and a half since the crisis government investment decreased sharply to about 4% of government expenditure. As a result there has been a large underinvestment in public infrastructure during this period. This includes almost all types of public infrastructure, ranging from power generation, roads, rail, ports, airports and water purification and distribution. The lack of investment has been ascribed mainly to the so-called funding gap, i.e. the government's budget envelope is insufficient to undertake enough investment. Thus, there is limited scope for government to raise more taxes in future. In addition, many of the sub-national government SOEs in water still have large outstanding debts stemming from the period prior to the Asian crisis and they are not allowed to borrow again unless they have repaid these debts.

To address the by now large backlog in infrastructure investment, the government of Indonesia launched the MP3EI. The MP3EI sets out the intention of the government to increase investment in all the types of infrastructure that in particular relates to connectivity in Indonesia. Thus, a large emphasis is placed on the development of six corridors, as well as inter-island linkages.

Largely because of the abovementioned budgetary limitations the government plans to rely mostly on the private sector to undertake the infrastructure investment set out in the MP3EI. Part of the private sector's contribution is in the form of PPPs, with the MP3EI indicating that PPPs should contribute 21% to the infrastructure investment (compared to traditional infrastructure investment by central and provincial governments being at about 10%). Many, if not most, of these PPPs will be in the form of concessions. One example is the various toll road projects envisaged. Other examples include independent power generators supplying power to PLN (the SOE responsible for the generation of electricity and envisaged to act as the public partner in many projects), with PLN then selling the electricity to sub-national authorities, which, in turn, sell it to final users.

Unfortunately, it seems that due to significant limits on the budgetary envelope of government the preference for PPPs stems from a confusion of the mode of finance with the mode of raising the revenue needed to service debt and pay operating expenditure. Thus, because of the limits to which tax revenue in future can be raised (and thereby limits the amount of debt government is now willing and able to incur to pay for infrastructure) and because of the limited ability by among other the sub-national authority water sector SOEs to borrow, the government plans to use PPPs mostly as concessions. It has been argued that these concessions will be able to raise debt that the government could not raise since the concessions will mostly be dependent on user fees levied on final users (though large state guarantees will also be required for the project to go ahead in most cases).

While there may very well be practical issues that inhibit tax increasing in particular circumstances, the above argument is problematic. In principle the government or an SOE can also levy user fees on final users, changing the mode of raising revenue for the project does not automatically imply the use of a PPP. Changing the mode of raising revenue (i.e. tax revenue versus user fees) will not render these projects more viable since the tax revenue base of government largely overlaps with the consumer base upon which either government or a private producer will levy direct user fees (if anything, the consumer base might be narrower). Thus, shifting payment from taxpayers to consumers will not render the project viable.

Furthermore, if the saving pool accessible to Indonesia is insufficient to finance public sector debt (i.e. bonds issued by general government and SOEs), then it will presumably also be too small to finance those very same projects via the private sector (either as pure private sector projects or as PPPs). Conversely, if the pool that the private sector can access is large enough to finance the projects, then, in principle, the public sector should also be able to do so. Given the government of Indonesia's consistently improving credit rating and long-term strong growth prospects it is also unclear why the market should be very hesitant to buy government bonds at a reasonable yield.

It would consequently appear to be of value to the government of Indonesia to clarify the reason PPPs are expected to deliver such a large part of the infrastructure gap. This is not to say that this mode of delivery is flawed or that the potential is not there, but PPPs are only one of several alternative delivery mechanisms and do not in themselves change the basic dynamics of the Indonesian economy. In addition, to ensure value for money it may be more productive to decide which projects should be PPPs on a case-by-case basis rather than by virtue of a target for the stock of PPPs.

The absence of a strong gate-way process to secure value for money

As discussed above, once the presidential committee approved a project and the GCA identifies the project as a PPP project, the GCA needs to conduct a feasibility study. P3CU will provide technical assistance to GCA to compile the feasibility study. The feasibility study needs to contain an assessment of the economic, financial and technical feasibility of the project. In addition, the GCA also needs to consider social and environmental aspects. Once this is done, should the GCA wish to obtain government guarantees and fiscal support, it needs to submit the project proposal and feasibility study to the MoF, which should act as the gate-keeper for value-for-money considerations. In the case of guarantees, which most of these projects require, the IIGF assesses the different feasibility studies. Should, on the basis of the criteria set for economic, financial and technical feasibility, the IIGF be satisfied with the different feasibility studies, it will issue a guarantee to the winning bidder. Since investors will probably not be interested in the PPP without the guarantee, the IIGF role is the closest that the Indonesian authorities come to a gateway process to green-light PPP projects. A gateway process typically involves several stages, in each of which the GCA needs approval (green-lighting), from the MoF – as in South Africa and Victoria (Australia) – before it can proceed with the next stage.

From the gateway processes followed in South Africa and Victoria (Australia) it is clear that approval is required from the MoF. However, what is also clear is that the approval activities of the MoF occur in lockstep with the support activities of the PPP unit. This seems to be an element that is somewhat missing in Indonesia, which impedes securing value for money. In terms of governance it is in principle better if the advisory and approval functions are separated into two institutions. The different phases of a PPP project typically involve the following stages:

1. Planning;
2. Feasibility study;
3. Tender preparation;
4. Bidding and contract signing;
5. Construction; and
6. Operation.

Typically gateways can be implemented at the end of phases (1) to (4). Thus, the PPP unit will advise the GCA in the planning of the project, after which the MoF will consider whether the plan adheres to certain key characteristics required from a PPP. This check would look both at whether or not the project overall is worth doing and whether or not it looks prudent to pursue a PPP-procurement option for this capital asset (ideally a procurement option pre-test – see Burger and Hawkesworth, 2011). Once the GCA receives the green light from the MoF the PPP unit assists the GCA in conducting its feasibility study. This feasibility study includes a whole-of-life approach to assessing value for money. Again the feasibility study is submitted to the MoF. Once the MoF provides a green light, the GCA can proceed with the preparation of the tender documentation. Along with the tender documentation the GCA should also prepare a public sector comparator (PSC) or equivalent value-for-money assessment tool that creates a benchmark/reference model against which the PPP bids can be compared to assess value for money. Again, the PPP unit assists the GCA. The GCA submits the tender documentation together with the PSC or equivalent benchmark/reference model to the MoF. Only if the MoF approves the documentation can the project be put out on tender. Once the GCA receives the bids it needs to select a preferred bidder. In doing so it needs to weigh up every bid against the PSC or equivalent benchmark/reference model. It also needs to conduct a due diligence on the preferred bidder. Should only one bid be received, the projects should be retendered. The GCA should submit all bids as well as its rationale for selecting the preferred bidder to the MoF, which then considers the documentation for approval. Simultaneously the CGA should, with the assistance of the PPP unit, prepare and negotiate the PPP contract and also submit that to the MoF for approval. Once the MoF is satisfied with the selection of the preferred bidder as well as the PPP contract, can the contract be signed. Once the contract is signed construction starts, followed by the operation of the PPP. The GCA needs to monitor (and therefore have the capacity to monitor) the construction and operation of the PPP project until termination. Should either the private partner or the GCA renegotiate a substantial part of the agreement, that contract alteration should go through the same gateway processes that new contracts go through.

While the above gateway process that ensures value for money does not at this point seem to be institutionalised in Indonesia, there presently are elements of the process that can be built upon. The P3CU assists the GCA in the beginning of the process, the RMU, MoF and the IIGF scrutinise the project's viability. It is still early days for PPPs in Indonesia and it takes time to build up a robust process that ensures value for money. However, an explicit focus on a coherent gateway process and the development of an explicit value for money tool will be worth prioritising in the near term.

6. Use the budgetary process transparently and ensure the integrity of the procurement process

PPP-procurement, the ordinary budget process and measures taken to ensure the integrity of the PPP procurement cycle

It should be born in mind that to date only one project has been brought to financial close based on the new framework for PPPs. Processes, methods and procedures will consequently be developed in the coming months and years. Indeed, the MoF is presently working on developing guidelines for determining viability gap financing (fiscal support) of PPP projects. At this point there has not been any direct fiscal support to PPPs, apart from the guarantees and subsidised loans issued by IIGF.

Large traditional infrastructure projects need to be submitted to Bappenas, the Cabinet and the MoF for approval if above a certain threshold. As mentioned above only those PPPs that require a government guarantee and/or fiscal support are submitted to the MoF (estimated to be the great majority of potential projects).

The question of affordability (i.e. whether the project life cycle costs fit within the medium-long term budget envelope of the GCA or government in total) is not addressed explicitly. In addition, there are substantial liabilities associated with PPPs in certain sectors, such as energy and water, due to the large subsidies needed to maintain maximum prices for users. This is illustrated by the fact that up to 40% of discretionary budgetary spending goes towards funding energy subsidies in Indonesia. A lack of a method for assessing affordability might consequently pose a fiscal problem for Indonesia in the years ahead as the PPP programme is enlarged.

The MoF RMU assesses the fiscal risks that PPP projects represent in terms of contingent liabilities. The RMU prepares the "fiscal risk statement". This has been a part of the budget documentation since 2009. It is about 20 pages in length and discusses risks to the budget such as external global risks, contingent liabilities related to guarantees and other infrastructure projects and risks stemming from SOEs.

With regard to capital budgeting for traditional infrastructure construction Indonesia has the problem that the budget is compiled solely on a one year basis. Consequently the plan is to set up an off-budget fund that can secure financing of capital projects. It is not entirely clear why an off-budget fund is necessary. The most common method of appropriating for capital investment in OECD countries (16 countries) is to provide funding incrementally each year until the project is completed. No OECD countries set up off-budget funds as a general way to finance capital investment (OECD, n.d.).

As discussed further below an SOE can act as the public side in a PPP deal. In terms of the annual budget SOEs receive a subsidy according to their "public sector obligations" – i.e. where they perform public service tasks, typically in the form of politically set maximum utility charges born by consumers. This is appropriated via the annual budget and adjusted according to the budgeted and later realised loss the SOE incurs as a consequence of the public sector obligation activities.

International donors may undermine the MoF efforts to build and maintain a coherent pipeline process for infrastructure projects. This happens when donors cherry pick a project in co-operation with the line ministries and then present it to the MoF as a done deal. It is important that any donor funds are integrated into the budget process in order to make sure projects adhere to the overall government priorities.

PPP procurement is not subject to particular integrity or anti-corruption initiatives. However, anecdotal evidence suggests that since PPPs are subject to extensive scrutiny by many parties they may be less subject to the risk of corrupt practices. In addition a more transparent treatment in the budget documentation of PPPs would probably also add to this benefit.

The challenges of SOEs

Special care should be taken to ensure budgetary transparency of PPP covers the whole public sector (central, provincial and district/city authorities as well as SOEs). Similarly the roles of the different players should be transparent and not represent a conflict of interest. Currently SOEs still play a substantial role in infrastructure delivery in Indonesia. However, this role is problematic for two reasons:

- In some sectors the regulator-operator roles have not yet been separated and in those cases where it has been separated the relationship between the regulator and the operator is still very close, thereby possibly upsetting potential private investors.

- Some SOEs act as "private" bidders in PPP bids. This creates a conflict of interest for government, which as the owner of the SOEs, have to decide between bids received from both the SOEs and private bidders.

The main sectors affected by these problems are some of the main infrastructure sectors, mainly roads, ports and airports as well as water, discussed below. In the energy sector PLN usually acts as the public partner and not a private partner.

There are 17 toll roads operated by the SOE and another 11 by private partners. Most of these projects had their genesis in the 1980s. Approximately 760 km of road are operated as toll roads, of which more than 50% are operated by the SOE. In addition, there are also 24 projects where award to a concessionaire occurred, but where the project stalled because of land acquisition problems. With the reform that occurred following the introduction of Law 38/2004 the role of the toll road authority and the toll road SOE changed significantly. Prior to the introduction of the law contracts were awarded to the SOE. However, after the introduction of the law a competitive bid process is followed, with private bidders bidding together with the SOE for contracts. Agreements are then concluded between the Roads Authority and the successful bidder, which therefore might be either a private bidder or the SOE. Therefore, the SOE might assume the role of the private partner in the PPP agreement. The possible role of the SOEs as potential "private" partners, competing with truly private bidders creates a clash of interest for the government, as the government has an ownership interest in the SOE and thus, in one of the parties competing for contracts. Such a clash of interest may undermine the integrity of the tender process and scare potential investors away.

PT Pelindo I, PT Pelindo II, PT Pelindo III, and PT Pelindo IV are SOEs that operate most ports in Indonesia. Legislation passed to separate the operator and regulator functions, leaving the Ministry of Transport as regulator and the Pelindos as the operators. However, the government has not yet finished writing the implementing regulations needed to fully operationalise the new legislation. It is planned for the Pelindos to operate as fully corporatised entities. There are two airports operating as corporatised SOEs, but as with ports, there is legislation to separate the operator and regulatory functions, with implementing regulations still being written.

Water is mainly a function of the sub-national authorities, of which there are roughly 400. Each sub-national authority also operates its own water SOE. As mentioned above, there are five PPPs in the pipeline, two of which are classified as potential PPPs and the other three as ready for offer. As with roads, SOEs are allowed to enter bids together with private bidders. Therefore, again, there is a clash of interest for the government.

Though SOEs are corporatised and therefore, in principle, operate at an arm's length from the government, concern may still exist about the closeness of the relationship between the regulating/contracting authorities and the various SOEs. This concern is further strengthened given that in some sectors such as ports government has not yet finalised the implementing regulations to give effect to the separation of the operator and regulator functions in those sectors.

There is also a possible conflict of interest, with the government having to decide between awarding a contract to a private firm, or a firm in which it, as the government, is the main (or in many cases the only) shareholder. To rectify this situation the government will have to distinguish clearly between PPP procurement (which excludes SOEs from the bidding process) and public-*public* partnerships procurement (which are agreements between the government and SOEs, but excludes private bidding). The government could then still draw up a comparator to establish whether a PPP with a private firm or a public-*public* partnership with an SOE will deliver the most value for money. Nevertheless, making a clear distinction between the two forms of procurement and not allowing SOEs to bid against private firms will prevent a conflict of interest that would undermine the legitimacy of the bidding process. This is not an issue that has come to the fore as of yet. Indeed the only PPP gone through under the new regulation has been where the SOE represented the public side. However, as the PPP programme expands these issues should be addressed. If these issues are not addressed, they may undermine the integrity of the procurement process and scare investors away.

7. Policy options for consideration

Important elements of a good PPP framework for Indonesia are in place. This includes regulation and institutional roles. As with many countries there are some measures that should improve performance. This is to be expected as the new PPP framework is in its infancy. It should also be emphasised that a key element in developing a good framework for PPPs is by constantly refining the system based on lessons learnt in its application.

- ***The government should consider the creation of a presidential committee for infrastructure projects, chaired by the President, in which Bappenas, the MoF, the Co-ordinating Ministry for Economic Affairs, as well as some of the line ministries responsible for infrastructure development are represented.***

The committee should ensure that all actors in the government align their infrastructure decisions with the overall strategy and objectives of the government. It should prioritise projects and act as the champion of PPP policy in order to overcome bureaucratic inertia. By anchoring the process at the highest political level legitimacy, momentum and whole of the government prioritisation will be ensured.

- ***The government should take steps to strengthen capacity within the GCAs with regards to all the key phases of PPP procurement. A special emphasis on planning, feasibility studies and the preparation of tenders should be beneficial.***

- ***Such capacity enhancement requires a stronger PPP Unit that can support the GCAs throughout the procurement process.***

The most appropriate model for this PPP Unit might be as an independent agency that closely aligns with the MoF. This is the model used in the United Kingdom. In addition, the PDF and PT SMI should eliminate any duplication.

- ***The MoF should play a key role at all gateway stages of the project and act as a gate-keeper.***

All infrastructure investment decisions, be these PPP or non-PPP projects, should be subject to scrutiny and approval by the MoF. This will place PPP and non-PPP projects on the same footing. The link between the PPP project process, RMU and MoF budget process should be strengthened. Special care should be taken to identifying and assessing contingent liabilities. Affordability analysis should be strengthened.

- ***Value for money should be the basis on which to select projects.***

Filling the funding gap should not in itself be the main motivation for selecting PPPs as a mode of procurement. Value-for-money assessment should be done both for absolute and relative value for money. Absolute value for money concerns whether or not a project represents value for money for society. Relative value for money concerns the relative value for money delivered by the various modes of procurement (traditional vs. PPP). In assessing value for money, the government should take a whole-of-life approach that considers the present value of future costs and benefits. Only on this basis can a proper assessment of value for money be made. In addition, the government should use a public sector comparator or equivalent benchmark/reference model against which it compares bids received.

- ***Effort should be put into developing a shortlist of a handful of relatively straight-forward PPP projects.***

A well known sector where the public side already has experience, such as roads, might be the relevant. There is human capacity to assess road projects in the Toll Road Authority and it is a fairly standard product. It should be set in motion at the central government level and rolled out to sub-national governments when a good standard model has been established based on experiences.

- ***A clear distinction should be made between PPPs procurement (which excludes SOEs from the bidding process) and public-public partnerships procurement (which are agreements between the government and SOEs, but excludes private bidding).***

The government could then still draw up a comparator to establish whether a PPP with a private firm, or a public-public partnership with an SOE will deliver the most value for money compared to traditional infrastructure procurement. Making a clear distinction between the two forms of procurement will prevent a conflict of interest undermining the legitimacy of the bidding process.

- ***The government should consider using international transaction advisors for high priority projects.***

This will ensure that project proposals and feasibility studies are done with the quality and sophistication required by international investors.

- ***Donors should not be able to cherry pick infrastructure projects and by-pass the ordinary gateway and budgetary process.***

- ***Preferably the government of Indonesia should follow the example of South Africa and not engage in unsolicited bids.***

However, should it decide to engage in unsolicited bids, it should, following the example of Korea, subject these bids to much higher standards than it applies to normal transactions to ensure the legitimacy and integrity of the procurement process.

NOTES

1. The UK count includes only PFIs, and not PPPs falling under a wider definition. For Italy the number excludes approximately 2 000 concessions.

2. Excludes concessions, and includes only those PPPs falling under the authority of the PPP unit.

BIBLIOGRAPHY

Bappenas (National Development Planning Agency) (2011), “PPP Book 2011”.

Bappenas (2011), “Public-Private Partnerships. Infrastructure Projects Plan in Indonesia 2011”, Presentation, October.

Burger, Philippe and Ian Hawkesworth (2011), “How To Attain Value for Money: Comparing PPP and Traditional Infrastructure Public Procurement”, *OECD Journal on Budgeting*, Vol. 2011(1).

HM Treasury (2008), Infrastructure Procurement: Delivering Long-Term Value, March.

Indonesian Toll Road Authority (2010), “Toll Road Investment Opportunities in Indonesia”.

Ministry of Finance (2011), “Regulatory Reforms in Indonesian PPP”, Presentation, October.

OECD (2008), *Public-Private Partnerships: In Pursuit of Risk Sharing and Value for Money*, OECD Publishing, Paris.

OECD (2010), *OECD Investment Policy Review of Indonesia*, OECD Publishing, Paris.

OECD (2010), *Dedicated Public-Private Partnership Units: A Survey of Institutional and Governance Structures*, OECD Publishing, Paris.

OECD (n.d.), International Budget Practices and Procedures Database (v2), *www.oecd.org/gov/budget/database*.Republic of Indonesia (2010), *Master Plan Percepatan dan Perluasan Pembangunan Ekonomi Indonesia (Master Plan* for the Acceleration and Expansion of *Indonesian* Economic Growth)*,* Co-ordinating Ministry for Economic Affairs*, Jakarta.*

OECD (2011), “How to Attain Value for Money: Comparing PPP and Traditional Infrastructure Public Procurement “, *OECD Journal on Budgeting,* Volume 2011/1, OECD Publishing, Paris, p. 7.

Wibrisono, A. *et al*. (2011), “Unlocking the Public-Private Partnerships Deadlock in Indonesia”; The World Bank Office Jakarta, May.

World Bank (2011), “Indonesia Economic Quarterly”, October.

ACRONYMS AND ABBREVIATIONS

ADB	Asian Development Bank
AEC	ASEAN Economic Community
AFTA	ASEAN Free Trade Area
APEC	Asia-Pacific Economic Co-operation
API	Automatic import licences
ASEAN	Association of Southeast Asian Nations
Bappedas	Sub-national Development Planning Agencies (*Badan Perencanaan Pembangunan Daerah*)
Bappenas	National Development Planning Agency (*Badan Perencanaan Pembangunan Nasional*)
BCC	Business cost calculator
BKPM	Investment Co-ordinating Board (*Badan Kerjasama dan Penanaman Modal*)
BPKP	Finance and Development Supervisory Board (*Badan Pengawasan Keuangan dan Pembangunan*)
BPOM	National Agency for Food and Drug Control (*Badan Pengawa Obat dan Makanan*)
BRICS	Brazil, Russia Federation, India and People's Republic of China
CEPT	Common Effective Preferential Tariff
DGST	Director General of Sea Transport
DPR	Finance and Development Supervisory Board (*Badan Pengawasan Keuangan dan Pembangunan*)
FDI	Foreign Direct Investment
GCA	Government contracting agency
GDP	Gross domestic product
IBRD	International Bank for Reconstruction and Development
IDR	Indonesian Rupiah
IIGF	Indonesian Investment Guarantee Fund
IMF	International Monetary Fund
IMO	Infrastructure maintenance and operation
INSW	Indonesian National Single Window
INTR	Indonesian National Trade Repository
IP	Producer Importer Licence
IPC	Indonesian Port Corporations
IT	Registered Importer Licence
KADI	Indonesian Anti-dumping Committee (*Komite Anti Dumping Indonesia*)
KADIN	Indonesian Chamber of Commerce (*Kamar Dagang dan Industri*)

KAN	National Accreditation Committee (*Komite Akreditasi Nasional)*
KKPPI	National Committee for the Acceleration of Infrastructure Provision (*Komite Kebijakan Percepatan Penyediaan Infrastruktur*)
KNT	Team for Non-Tariff Measures (*Komite Non Tarif*)
KPK	Indonesian Corruption Eradication Commission (*Komisi Pemberantasan Korupsi*)
KPPOD	Committee for the Monitoring of Regional Autonomy Implementation / "Regional Autonomy Watch" (*Komite Pemantauan Pelaksanaan Otonomi Daerah*)
KPPU	Commission for the Supervision of Business Competition (*Komisi Pengawas Persaingan Usaha*)
LARF	Land Acquisition Revolving Fund
LPR	Limited public railway
MoF	Ministry of Finance (*Kementerian Keuangan*)
MoHA	Ministry of Home Affairs (*Kementerian Dalam Negeri*)
MP3EI	Master Plan for Acceleration and Expansion of Indonesia's Economic Development, 2011-2025 (Master Plan *Percepatan dan Perluasan Pembangunan Ekonomi* Indonesia)
NGO	Non-governmental organisation
NPIK	Specific Importer Identification Code Number (*Nomor Pengenal Importir Khusus*)
NPMP	National Port Master Plan
NTM	Non-tariff measures
P3CU	Public-Private Partnership Central Unit, housed in Bappenas
PDAM	Sub-national government Water SOE (*Perusahaan Daerah Air Minum*)
PDF	Project Development Fund
Pelindo	Port corporation (*Pelubahan Indonesia*)
Pelni	Indonesian National Shipping Line (*Pelayaran Nasional Indonesia*)
PJKA	Perusahaan Jawatan Kereta Api
PMU	Project management unit
Prolegda	Sub-national governments programmes (*Program Legislati Daerah*)
Prolegnas	National Legislative Programme (*Program Legislati Nasional*)
PSC	Public sector comparator
PSO	Public service obligation
PT	Limited liability company (*Perusahan Terbatas*)
PT IIFF	Infrastructure Financing Facility
PT SMI	Sarana Multi Infrastruktur, a conduit to channel funds into the PT IIFF
Renstra	(Medium-term) Strategic plan (*Recana strategis*)

RIA	Regulatory impact assessment
RIS	Regulatory Impact Statement
RMU	Risk Management Unit, housed in the Ministry of Finance
RPJMN	National Medium-term Development Plan (*Rencana Pembangunan Jangka Menengah Nasional*)
RRC	Reducing Regulation Committee
PLN	National Electricity Company (*Perusahan Listrik Negara*)
SOE for toll roads	PT. Jasa Marga
SPB	Goods Registration Letter (*Surat Pendaftaran Barang*)
SPI	Import Approval Document (*Surat Persetujuan Import*)
SPPT-SNI	Certified Commodities – Indonesia National Standard (*Sertfikat Produk Penggunaan Tanda – Standar Nasional Indonesia*)
SPS	Sanitary and phytosanitary measures
STE	State trading enterprise
TAC	Track access charges
TBT	Technical barriers to trade
Timnas PEPI	National Team for the Enhancement of Exports and Investment (*Tim Nasional Peningkatan Ekspor dan Peningkatan Investasi*)
UKP4	President's Delivery Unit on Development Monitoring and Oversight (*Unit Kerja Presiden bidang Pengawasan dan Pengendalian Pembangunan*)
UNCTAD	United Nations Conference on Trade and Development
USAID	United States Agency for International Development
USD	United States dollars