



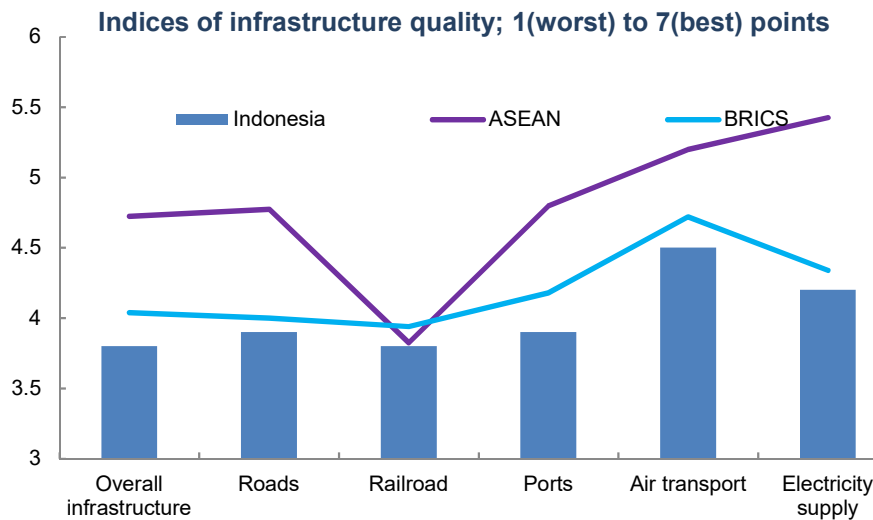
# INDONESIA

## Maritime Infrastructure Finance

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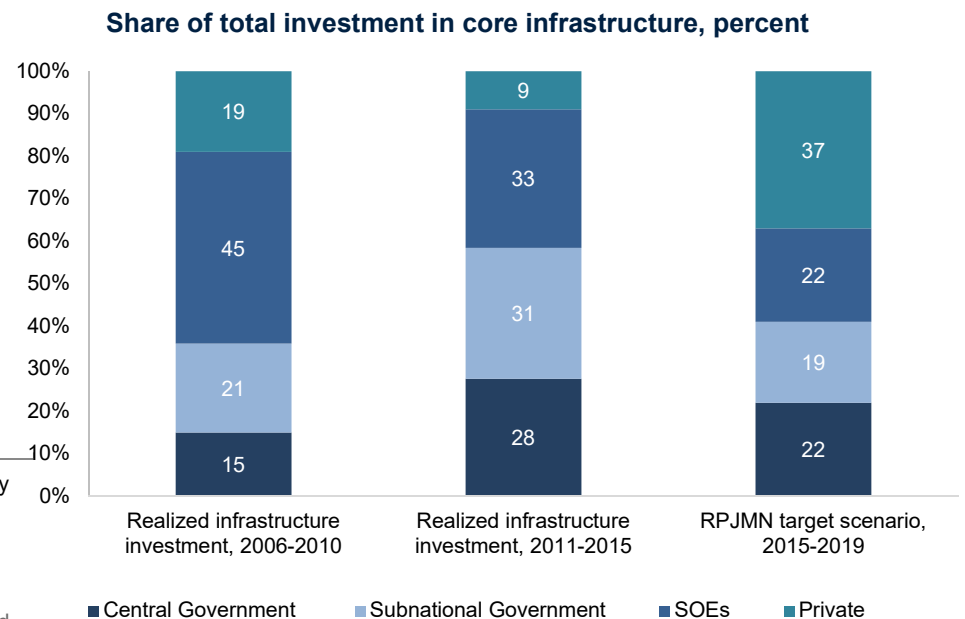
Jeff Delmon  
World Bank  
December 2018

## Large infrastructure deficit in Indonesia



Source: World Economic Forum Global Competitiveness Report (2016-2017) data; World Bank staff calculations.  
 Note: ASEAN is the unweighted average of Malaysia, Singapore, Thailand and Philippines.

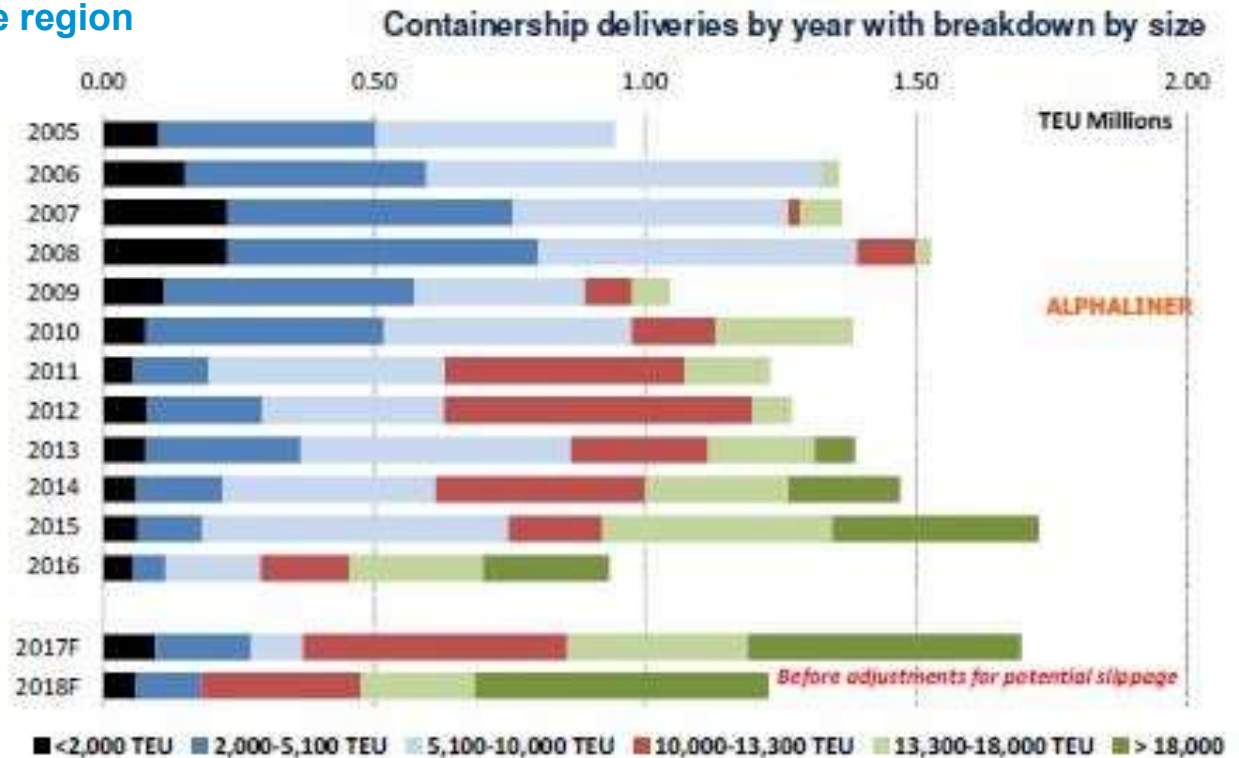
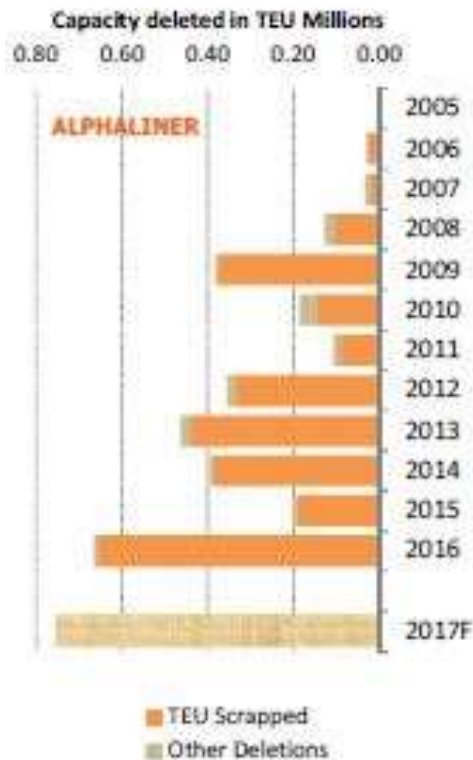
**The quality of infrastructure in Indonesia also lags behind ASEAN middle-income countries and BRICS**



Source: Audited accounts of Central and Subnational Governments, SOE balance sheets, World Bank PPI database.

**Yet, private investment has fallen in recent years, from 19% of total investment 2006-10, to 9% 2011-15**

## Staying competitive within the region

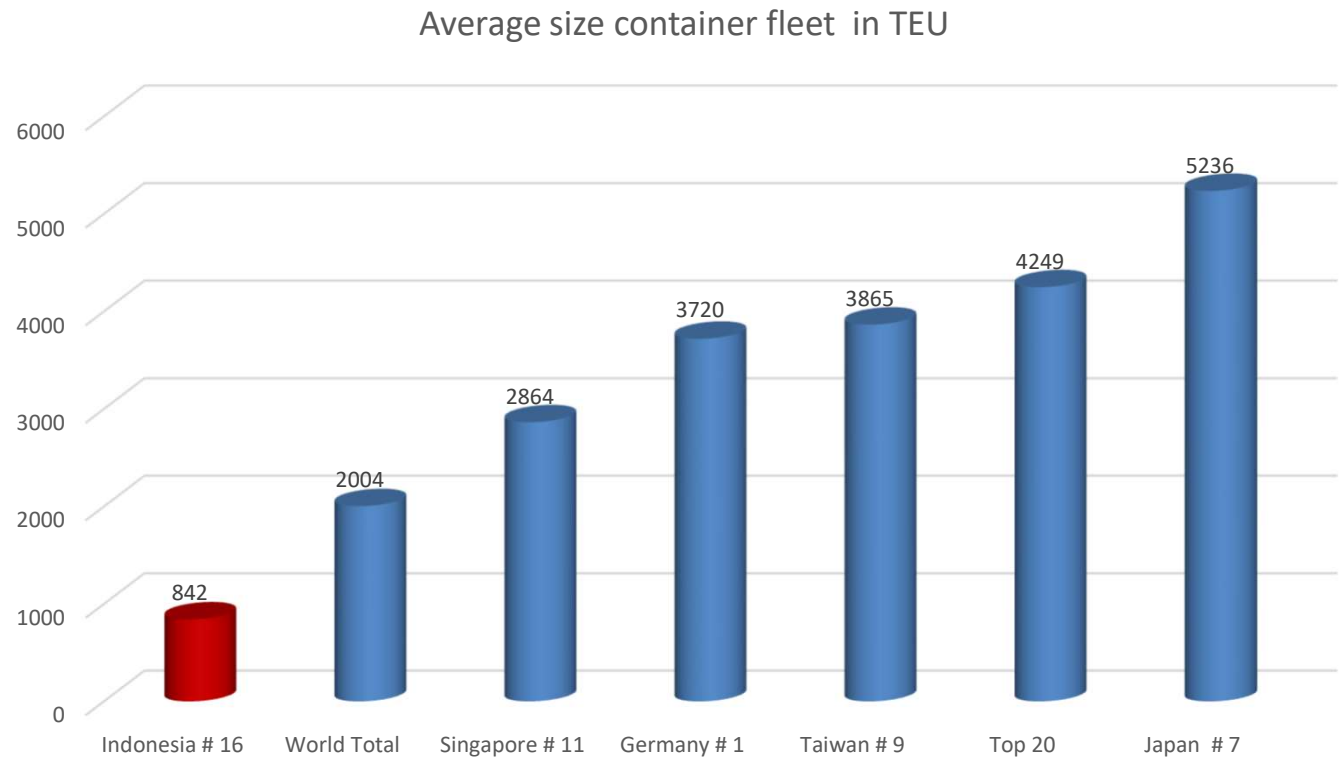


Source: Alphaliner

The global container fleet is increasingly scaling up in size, older generation 8.000+ TEU vessels today common in the Intra-Asia trade. Ports such as Tanjung Perak, Tanjung Emas and Belawan will **lose revenue due to size restrictions not absence of cargo volumes.**

## Domestic connectivity

In spite of Indonesia being the 16<sup>th</sup> largest container ship owner, the average container ship size is only 842 TEU, far below global average and regional peers.

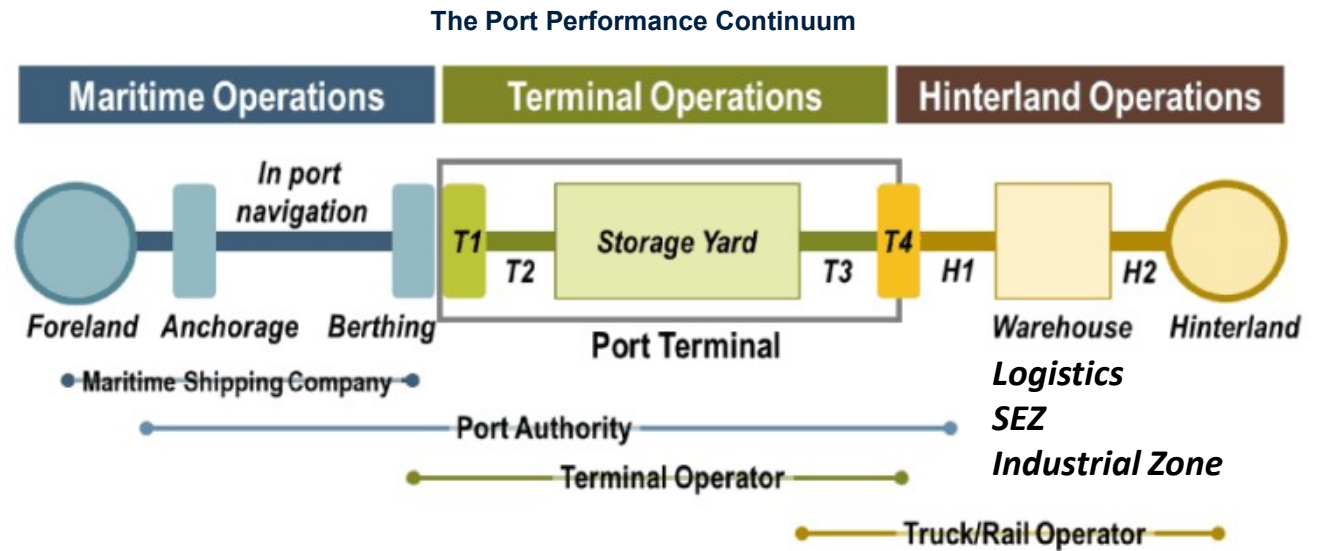


Source: UNCTAD Maritime Review 2018

Many ports have significant draft limitations. Currently **none** of the domestic terminals in Tanjung Priok and Tanjung Perak, the main ports of origin in the domestic trade, **have the draft to support larger vessels cascading into the domestic trade.**

## Connectivity to the hinterland

The efficiency of a port extends beyond maritime operations. Maximizing revenue and attracting business, requires efficient maritime, terminal, and hinterland performance.



Source: The Geography of Transport Systems

### Maritime Operations

- Reduction in port time
- Accommodation for ship class

### Terminal Operations

- Terminal capacity
- Efficient document processing

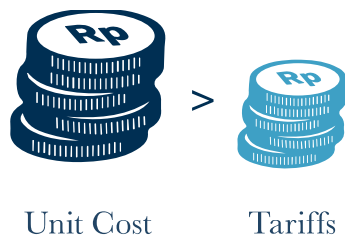
### Hinterland Operations

- Accessibility of local road/rail network
- Reliable travel times

## Quantity of Port Investment – a very rough number

In 2012 the Academic Paper to Support the National Port Master Plan estimated that a total investment of over USD 47 billion would be required up to 2030 for port development, with about USD 17.3 billion required for container facilities alone.

The RPJMN assumes 37% of all infrastructure investment privately financed. Initial estimates suggest that about 68 percent of the total port investments could be provided by the private sector, under commercial port terminal concession agreements. The remaining 32 percent of the funding from the public sector would largely be for land provision, common port infrastructure such as channels, and noncommercial port terminals.





## Infrastructure Sector Assessment (InfraSAP)

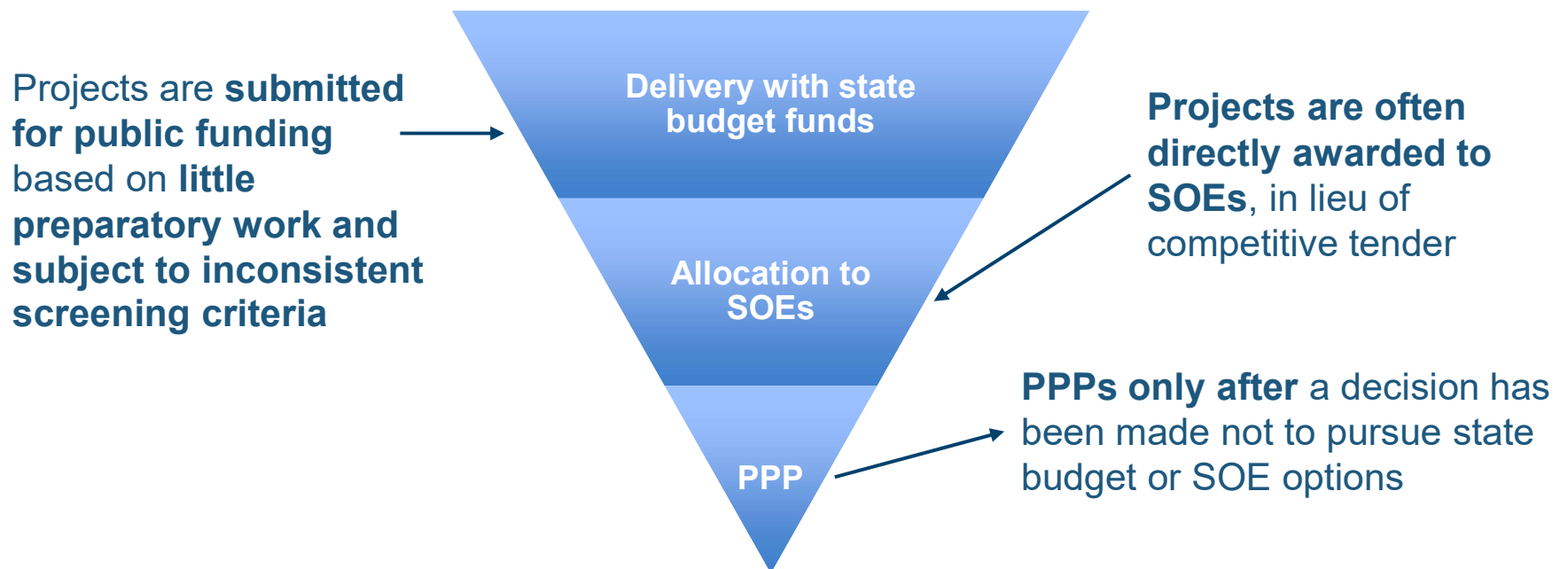
2018 InfraSAP assessing how to leverage commercial and private finance for infrastructure including ports.

### 5 Key Recommendations:

- I. Project Selection
- II. Project Preparation
- III. SOEs
- IV. Tariffs
- V. Finance

## Recommendation 01 : The public investment framework is not designed to systematically leverage private financing

Project identification asks first which projects should be publicly funded, then which should be allocated to SOEs and lastly whether to use PPP – the inverse of best practice



.... **Apply a clear decision-making framework to prioritize private financing and better leverage scarce public resources**



## **Recommendation 02 : SOEs have played an increasingly dominant role in infrastructure delivery, crowding out the private sector**

### **Direct and indirect subsidies bolster market dominance by SOEs**

100% of **commercial airports** are operated by state-owned Angkasa Pura I & II

100% of **public commercial ports** are operated by state-owned Pelindos I to IV, wholly or through the few existing joint ventures

**Yet ...**

Indonesia was **ranked below the East Asia and Pacific average** in the World Economic Forum 2016 for **quality of port infrastructure**

50% of the participants in the World Bank's 2016 **Logistics Performance Index** indicated that Indonesia has **low quality port infrastructure and low quality of maritime services**.

**Reform key performance indicators and incentives to enable and encourage SOEs to leverage private sector capital and efficiencies**

## Recommendation 03 : Constraints in the project cycle limit the quality and number of PPPs/B2Bs brought to market

### PPP framework, institutions and instruments

#### Perpres 38/2015

- Outline Business Case (OBC)
- Full Business Case (FBC)
- Competitive tender
- Transaction

#### Instruments:

- Viability Gap Funding (VGF)
- Project Development Facility
- Availability Payments (AP)
- Guarantees

- **13 PPP projects** reached financial close
- With a total investment value of **USD 8.94 billion** (IDR 118.9 trillion)

Most private sector capital investments occur through SOEs partnering with the private sector  
No framework or coordination, resulting in **non-competitive tendering and inconsistent project preparation and structuring of B2Bs** across projects and sectors



- **Improve quality and consistency of preparatory work**, to meet global good practices



- **Coordinate Government support instruments**, eg use VGF and AP to achieve value for money,

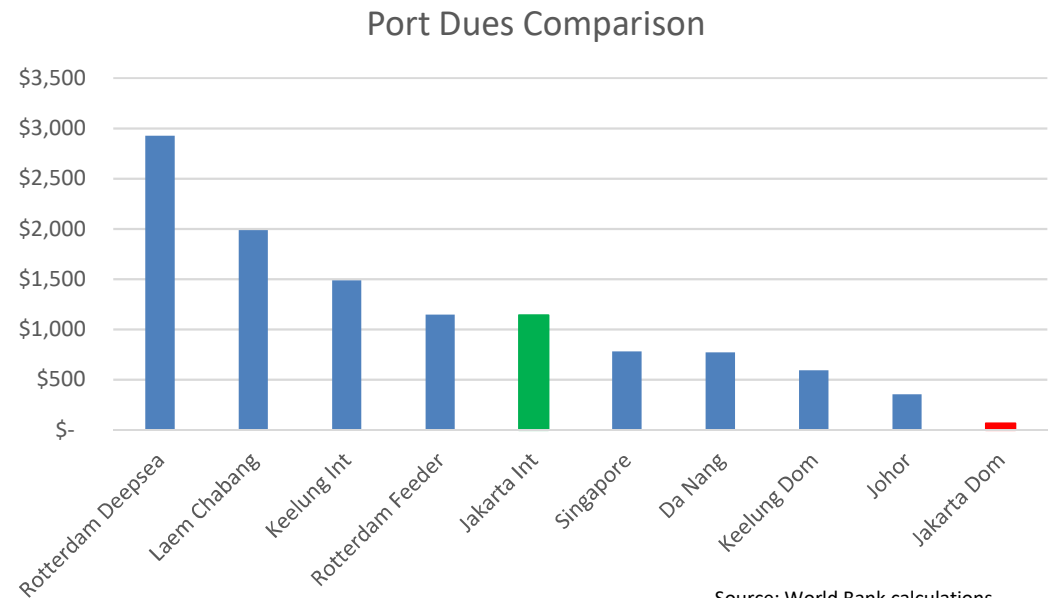


- **Consistent framework** for PPP/B2B across port sector
- Establish **program** of port investments - green and brown

## Recommendation 04 : Tariffs are set too low to provide a sustainable foundation for private investment

Port dues are a Non Tax Revenue (PNBP) with several disadvantages.

1. Cannot be retained for **reinvestment** but need to be transferred to MoF.
2. **Inflexible**, set through Presidential Decree, cannot be revised rapidly.
3. Are **set by port class**, Belawan, Priok, Perak and Makassar apply the same port dues, while fundamentally different.
4. **Charged based on Gross Tonnage**, no distinction based on vessel type. Strategic objectives may induce a regulator to charge different rates for different types of vessels.
5. Large discrepancy between **domestic and international** dues. Domestic traffic dominant ports collect limited revenue in relation to the investment needs.



## Recommendation 05 : There is not enough capacity in the financial system to meet infrastructure financing needs

Local financing sources are insufficient...

**Local banks** have at most **USD 20 bn (IDR 266 trillion)** for infrastructure loan portfolio growth per annum

+

**Institutional investors** could allocate, optimistically, **USD 10 bn (IDR 133 trillion)** to infrastructure investments in the medium term

- 1 Local banks favor corporate style, short-term lending to relationship clients, primarily SOEs
  - 2 Local institutional investors focused on short-term returns, lack of incentives for long-term savings
- ➔ Leverage forex revenues from international traffic at ports.
  - ➔ Facilitate the use of capital market products for long-term infrastructure (e.g. tax, spv and fund structures)
  - ➔ Amend institutional investor policies on long-term investment

**Foreign investment is essential to meet this gap**

**Project preparation and risk allocation consistent with regional practices**

**Foreign exchange and other risk assessed and mitigated on a portfolio basis**



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