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Big on ambition

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Infrastructure programmes don't get much bigger than Indonesia's – tender documents are currently being drawn up for an initial 91 projects across the energy, transport, water and telecoms sectors. A further 42 project tenders are scheduled to be out by year-end.

The Indonesian government plan totals $150 billion of projects in the next four years, including toll roads, power plants, gas pipelines and water supply facilities. Up to $80 billion of that $150 billion will be from the private sector. If the government gets its way, the country will again become the world's largest project finance market.

But many in the project finance market are sceptical that much of the government's plan can be accomplished between now and the 2009 deadline.

The programme is not new, but rather a dusting off of infrastructure plans that were on the agenda as far back as the mid-1990s; and when it was first aired 10 years ago and before the Asian crisis, bankers already doubted the entire infrastructure development programme could be financed.

Post-Asian financial crisis, those doubts are even greater. Foreign banks are not expecting any mandates in the foreseeable future for 2005's supposed pipeline of projects. "None of the projects I have seen are advanced enough or appetizing enough to elicit much interest," says a Hong Kong based banker.

Multi-sourcing?

And an infrastructure programme on the scale of Indonesia's will need multi-sourced support. This could prove problematic given ECAs and multilaterals have mostly pulled back from providing substantial loan support in the wake of the Asian crisis: As Brian Little, global head of infrastructure advisory services at ABN Amro, says: "Nowadays, the multilaterals want to be catalysts for private sector funding, rather than the principal lenders. There is probably less direct multilateral aid available compared with before the Asian crisis."

The local Indonesian funding market is also not a tangible option. Few major infrastructure projects have been completed since 1998 – even fewer with the support of indigenous banks or the capital markets. "At the moment the local bank market does not have the capacity to fund all the earmarked projects," says Little.

But there are some initiatives underway that could help the infrastructure programme specifically, and the Indonesian project market generally. Nippon Export and Investment Insurance (NEXI) is considering offering bilateral loan support or cheap loans to Indonesian banks that would be able to on-lend the funds to specific projects (although unless funds are being extended for overseas development aid purposes, JBIC and NEXI are only going to support projects that involve some form of Japanese interest).

Furthermore, "Japanese lenders don't want to miss out on the good opportunities which exist in Indonesia, for instance, in the coal sector, so they are trying to stretch their exposure limits and one way to do that is through JBIC and NEXI support," says William Stevens, vice-president in SMBC's Singapore structured finance team.

European ECAs are also gradually warming to Indonesia and private political risk insurers have returned to the

Indonesian market. Six to seven year PRI cover is available – but the volume of private cover available continues to be modest.

Foreign bank lending concerns

Nevertheless, for much of the foreign commercial banking community, Indonesian infrastructure risk remains a no go area. In the Japanese bank market, which has been such an important source of capital for Indonesia, consolidation has led to heightened exposure concerns. And few, if any, projects in the transport, telecoms or water sectors are likely to be considered prime project finance opportunities by the Japanese.

The upcoming implementation of BIS regulations could also further hamper foreign bank involvement in the financing of Indonesia's infrastructure program. The provisioning amounts for Indonesian financings will have to go up significantly once the rules are implemented and that means pricing is also going to have to rise sharply. It remains to be seen if foreign bank debt will be competitive with onshore debt.

Foreign exchange concerns are another major reason for the cautious stance of international lenders. Whereas foreign banks capacity to lend in Indonesian Rupiah is modest. "Amongst the Japanese mega banks, Rupiah lending capacity is probably only about $20 million to $30 million per transaction and about the same amount per year," says Stevens. Only a few foreign banks, such as Standard Chartered and Rabobank, are thought to have much greater capacity to lend in local currency.

But while current bank appetite for Indonesian risk is limited, market appetite for Indonesian risk has historically changed rapidly. The first Paiton transaction in 1995 could only be done as a fully covered deal with support from JBIC, OPIC and others. Just a year later, commercial banks were bidding aggressively for power deals with no ECA cover whatsoever. And this year, due to a dearth of other project finance opportunities, international banks are expected to bid aggressively for the Tangguh LNG project.

Consequently, some financiers believe a similar situation may yet arise for the best of the planned infrastructure projects, provided the government structures the projects properly and the project's income is in US dollars.

There are a number of illustrations of how nervous banks remain about Indonesian projects without US Dollar export revenues. In the independent oil and gas sector, easily the most bankable market in Indonesia, the vast majority of deals are still offshore receiveables backed.

And the refinancing of the Tanjung Jati B power station had to be fully covered by the Japanese ECAs: Even then, Japanese banks (including SMBC) were only in the deal because Japanese companies, notably Sumitomo Corp, were heavily involved in the scheme.

This is again problematic, because new power projects form a key part of the overall infrastructure development program.

Power potential – with support

One of the first projects to be tendered out should be the 600MW PLTU Cilegon power station. "There's a real need for new generating capacity and therefore a clear economic rationale for more power projects," notes Little. The Java-Bali grid has no spinning reserve, compared with about 30% in 1995, and other parts of the country are in a similar position.

More importantly, the restructuring put in place to rescue PLN has been broadly successful. "PLN is now meeting its financial obligations and the ECAs are therefore likely to have some appetite for power deals," says Ashley Wilkins, head of project finance at SG, Hong Kong.

It is expected that Paiton III (for which PLN is the offtaker) will get funding from international banks, provided support from the likes of JBIC and other overseas governmental agencies is available. But as PLN is still virtually bankrupt, sponsors and bankers are expected to favour projects with other offtakers. "Extended PRI cover is going to be needed for most PLN transactions," says Wilkins. Another source indicates that the ADB is considering providing cover for PLN

project risk, given that PRI providers are still reluctant to take on a substantial volume of new PLN-related business.

Other sorts of infrastructure scheme, toll roads and water projects, in particular, are unlikely to be funded by foreign commercial institutions. "If there is foreign funding its going to have to be in the form of equity and multilateral agency loans where available," says a banker.

The vice-chairman of the European Business Chamber of Commerce in Indonesia, Michael Olsson, is more optimistic than bankers about the volume of offshore capital which could find its way into the government's infrastructure development programme. Without giving specific company names, Olsson says there are several companies interested in making substantial investments, adding that the power sector is likely to attract the largest amount of funds. "Second would be transport and related infrastructure related (airports and ports)," Olsson says.

He also suggests that Eu50 billion could be invested by European companies alone. "We did a survey of 1,032 European companies of which 824 responded. Based on the
response from these companies and statistics on all European companies, we reached the figure of Eu50 billion." In the survey the questions asked were: "Are you considering to make a direct investment in Indonesia?" and "How much would you be able to invest if the opportunity arose ?"

But in isolation, the total potential investment figure obscures as much as it reveals. In all probability, much of the Eu50 billion ($64.5 billion) identified would be chasing the same opportunities. Moreover, Olsson admits that some European investors will be put off by the difficulty of doing business in Indonesia. He says only 35% of approved European investments have materialized into concrete projects, a much lower proportion than in other Asian countries.

Structural reform

One encouraging feature of post-crisis Indonesia, Little suggests, has been the government's determination in pushing through important structural reforms in key areas of the economy. Moreover, a whole raft of new regulations is gradually emerging to support the infrastructure plans. Little says the government has already announced a new tax regime for privately-invested infrastructure projects and a new policy framework for private public partnerships.

Emir Nurmansyah, a partner at Indonesian law firm, Ali Budiardjo, Nugroho, Reksodiputro, adds that the government has issued regulations governing the tendering out of public infrastructure schemes, designed to facilitate private sector involvement. But he says that other important legislation is still being debated, particularly, draft regulations on the acquisition of land by the government for public interest. This legislation will be particularly important for toll road projects. "The draft regulation have just been presented to parliament but it is not clear how long it will be before politicians get round to debating the issue," Nurmansyah adds.

Another important change for the toll road market is the introduction of a new body called the Toll Road Regulatory Body which will supervise the operation of the toll road. The government owned company which previously has some authority over the operation and supervision of the toll road will be disbanded.

At the beginning of the year, the government also announced it would issue 11 sets of regulations on different forms of infrastructure to facilitate new projects. "So far, only three new regulations have been announced (applicable to electricity, toll road and drinking water supply projects). The new electricity regulation is designed to update the Electricity Law of 1985, which was recently revived by the Constitutional Court as a result of the revocation of the Electricity Law of 2002," says Nurmansyah.

What banks that attended the Infrastructure Summit in January were most keen to learn about was how much direct assistance the government was going to provide to infrastructure projects. "We wanted to hear the word guarantee, not support and that is what we got. But one still has to be sceptical about how much support will be given," says one financier.

Several market sources say the best option for driving forward infrastructure development is for the government to set its sights on major pilot projects and demonstrate explicit and substantial government support. "We have had four

emblematic projects in recent years, Paiton, TPPI, Tanjung Jati B and Chandra Asri. The government needs to look for symbolic projects on a similar scale," advises one banker.

Ominously, for those hoping for strong commitment from the state, the government has already failed to meet one of its initial targets, to have bid documents for the first round of projects out by March.

No.	Project	Sector	Est. investment ($m)
1	Duri – Dumai – Medan Phase I	Gas	393
2	Duri – Dumai – Medan Phase II	Gas	225
3	East Kalimantan – Central Java	Gas	1476
4	East Java – West Java	Gas	538
5	Kepodang – Tambak Lorok	Gas	105
6	Sengkang – Makasar	Gas	110
7	PLTU Tanjung Jati A	Power/Electricity	1311.11
8	PLTU Serang	Power/Electricity	500
9	PLTU Tanjung Jati C	Power/Electricity	1311.11
10	PLTGU Pasuruan	Power/Electricity	555.56
11	PLTU Cilegon	Power/Electricity	444.44
12	PLTU Paiton 3 – 4	Power/Electricity	888.89
13	PLTU Sibolga	Power/Electricity	91.11
14	PLTU Amurang	Power/Electricity	108.89
15	West Java LNG Terminal (PLN)	Gas for Electricity	251.11
16	Sumatra – Jawa Interconnection	Power/Electricity	216.67
17	PLTU Parit Baru	Power/Electricity	108.89
18	Mine mouth PLTU Kalsel	Power/Electricity	110
19	Ciranjang – Padalarang	Roads – Transportation	199
20	Bekasi – Cawang – Kampung Melayu	Roads – Transportation	396
21	Waru – Wonokromo – Tj Perak	Roads – Transportation	340
22	Waru – Tj Perak Stage 1 (Waru – Juanda)	Roads – Transportation	86
23	Gempol – Pandaan	Roads – Transportation	735
24	Jakarta Outer RR W1	Roads – Transportation	89
25	Ciawi-Sukabumi	Roads – Transportation	420
26	Cikampek-Cirebon	Roads – Transportation	812
27	Surabaya-Mojokerto	Roads – Transportation	197
28	Kanci-Pejagan	Roads – Transportation	148
29	Pejagan-Pemalang	Roads – Transportation	275
30	Pemalang-Batang	Roads – Transportation	164
31	Batang-Semarang	Roads – Transportation	355
32	Kertosono-Mojokerto	Roads – Transportation	181
33	Pasuruan-Probolinggo	Roads – Transportation	192
34	Pandaan-Malang	Roads – Transportation	172
35	Gempol-Pasuruan	Roads – Transportation	167
36	Semarang-Solo	Roads – Transportation	427
37	Bogor Ring Road	Roads – Transportation	154
38	Medan-Binjai	Roads – Transportation	107
39	Depok-Antasari	Roads – Transportation	237
40	Cinere-Jagorawi	Roads – Transportation	167
41	Cikarang-Tanjung Priok	Roads – Transportation	372
42	Cileunyi-Sumedang-Dawuan	Roads – Transportation	413
43	Makasar Seksi IV	Roads – Transportation	49
44	Cilegon-Bojanegara	Roads – Transportation	44
45	Pasir Koja-Soreang	Roads – Transportation	56
46	Sukabumi-Ciranjang	Roads – Transportation	165
47	Semarang-Demak	Roads – Transportation	93
48	Jogja-Solo	Roads – Transportation	219
49	Solo-Mantingan	Roads – Transportation	317
50	Mantingan-Ngawi	Roads – Transportation	122
51	Ngawi-Kertosono	Roads – Transportation	403
52	Palembang-Indralaya	Roads – Transportation	55
53	SS Waru-Tj. Perak II	Roads – Transportation	83
54	Probolinggo-Banyuwangi	Roads – Transportation	676
55	Jakarta Outer RR-2	Roads – Transportation	983
56	Jakarta Outer RR W2 North	Roads – Transportation	–
57	Manggarai – Soekarno Hatta Railway	Transportation	82
58	Bojonegoro Seaport	Transportation	212
59	East Ancol Seaport	Transportation	487
60	Kali Lamong Surabaya Seaport	Transportation	1,047
61	Balikpapan Seaport	Transportation	72
62	Kualanamu Medan Airport (new)	Transportation	250
63	Soekarno Hatta Airport Terminal (extension)	Transportation	178
64	Cargo Processing Area and Industrial Bonded Zone	Transportation	48
65	Hasanuddin Makassar Airport (extension)	Transportation	94
66	Lombok Airport (new)	Transportation	139

67	Upgrading WTP Kali Garang Semarang *	Water	5
68	Cirebon Bulk & Water Supply *	Water	5
69	Jatinangor Water Supply (Kabupaten Sumedang)	Water	3.5
70	Cikarang Water Supply (Kabupaten Bekasi)	Water	7.5
71	Pondok Gede Water Supply (Kota Bekasi)	Water	9
72	Sepatan Water Supply (Kabupaten Tangerang)	Water	12
73	Ciparens Tangerang Water Supply	Water	50
74	Kecamatan Benda & Cengkareng Water Supply (Tangerang City)	Water	25
75	Cileduk Water Supply (Tangerang City)	Water	13
76	Tanjung Pinang Water Supply	Water	5
77	Dumai Water Supply	Water	4
78	Duri Water Supply (Kabupaten Bengkalis)	Water	15
79	Manado Bulk Treated Water Supply *	Water	5
80	Samarinda Bulk Treated Water Supply	Water	5
81	Banjarmasin Bulk Treated Water Supply *	Water	5
82	Umbulan Bulk Water Supply	Water	90
83	Karang Pilang IV Bulk Treated Water Supply *	Water	25
84	Menganti Water Supply (Kabupaten Gresik)	Water	4
85	Greater Yogyakarta & Magelang Bulk Water Supply	Water	45
86	Surakarta-Sukoharjo Sukoharjo Bulk Treated Water Supply	Water	5
87	Tegal Water Supply	Water	2.5
88	Bulk Treated WS to Regency & City of Semarang	Water	15
89	East Semarang New Water Supply	Water	15
90	Semarang Raw Water Supply	Water	15
91	B-1 Palapa O2 Ring (Backbone Network Development)	Telecommunications	900

* need local government confirmation