

Indonesia

1. Noteworthy practices for project preparation



EXISTING ENABLING ENVIRONMENT

Domestic infrastructure financing institutions created by the Ministry of Finance are introducing good practices in project preparation with a 'learning-by-doing' approach

Indonesia has created specialised financing institutions that are championing the adoption of good project preparation by working closely with national and sub-national agencies to help them address existing roadblocks to infrastructure development in Indonesia. Together, these institutions aim to develop a pipeline of bankable infrastructure projects in a market where the government counterparty capacity is still not fully developed.



PUBLIC SECTOR CAPACITY FOR PROJECT PREPARATION

Sustained capacity building programs in partnership with development institutions

Faced with the challenge of weak institutional capacity at various tiers of the government, these agencies have designed several programs in line with global standards. These initiatives are not limited to formal programs, but also involve more informal support and guidance to help develop projects. The Development Finance Institutions (DFIs) have partnered with international development agencies and academic institutions to customise global knowledge in project preparation and project management that could be practically implemented in Indonesia given its existing constraints.



PROJECT APPROVALS AND QUALITY ASSURANCE

Defined four-step land acquisition process to minimise delays in land acquisition

To address one of the most complex project development activities, Indonesia has reformed its land acquisition law that mandates a four-step process for acquiring land for development. Each stage of the process is detailed with the activities to be performed, which institution is responsible, and the requirements to proceed to the next stage. Within the framework, the maximum duration for land acquisition is capped at 583 days, eliminating the possibility of any further delays in project development due to land acquisition hurdles. The law has progressed in addressing the hurdles in land acquisition to an extent, and needs to be followed by effective implementation to realise more benefits.



PROJECT MARKETING AND STAKEHOLDER ENGAGEMENT

Public consultations are mandated for all PPP projects at the feasibility stage

To address concerns of inadequate stakeholder consultation in project preparation, public consultations and market sounding are now mandatory for all PPP projects, at the pre-feasibility (Outline Business Case) and the feasibility (Full Business Case) stages. This helps to resolve as many stakeholder issues as is practically possible in the project preparatory cycle.

2. Snapshot of project preparation activities

INSTITUTIONAL FRAMEWORK

Indonesia's progression in project preparation has been founded more on learning-by-doing, based on its own challenges.

While Indonesia's PPP regulations date back to 2005 (they have since been replaced by new presidential regulations in 2015), not many PPPs, apart from the electricity independent power producers (IPPs)¹ and a few toll roads, could take off in the first few years of the program. Inadequate project preparation, land acquisition delays, lack of long-term project finance and perceptions of high-risk regarding Indonesia's infrastructure sector were some of the major issues impacting the progress of PPPs in the early years. The heightened risk perception was formed in large part by a lack of policy coordination between the various government ministries and agencies.

Recognising the need to plug the gaps in its enabling policy and institutional environment, Indonesia has systematically implemented a series of initiatives in the last decade. Key amongst these have been the creation of PT Sarana Multi Infrastruktur (SMI), a Ministry of Finance (MoF) backed institution to advise and lend to infrastructure projects, the Indonesia Infrastructure Guarantee Fund (PT Penjaminan Infrastruktur Indonesia (PII), or IIGF), a MoF backed institution to provide guarantees on government counterparty contractual obligations, and Indonesia Infrastructure Finance (PT IIF), which is a donor supported financial institution to provide long-term project finance. These institutions have become operational in the past few years and their key focus has been to support the government in developing a project pipeline that could be supported by their downstream financial products. It has been the concerted effort of these infrastructure finance institutions that has made progress in recent years in undertaking good project preparation and helping projects achieve commercial and financial close. Good practices in project preparation are being infused through project preparation assistance provided by the infrastructure finance institutions, who have been supported by international development partners, such as the World Bank, the International Finance Corporation (IFC) and the Asian Development Bank (ADB).

¹ The Ministry of Energy and Mineral Resources supervises the procurement and contracting of electricity IPPs under its sector regulations and these projects do not go through the national level PPP process.

Each institution has clearly defined roles and responsibilities, stipulated in the presidential regulations enacted to establish these institutions.

In recent times, the MoF has established its own Project Development Facility (PDF) that is seeking to prepare its first set of PPPs as per international standards. The MoF is receiving technical assistance from the World Bank and the Government of Canada. To facilitate coordination and early identification of prospective PPP projects, a Joint Office has been established in the Ministry of Planning (BAPPENAS).

Ministry of Finance (MoF)

The MoF has been championing policy support to PPPs, including their project preparation and financing, in Indonesia. The MoF has adopted a two-pronged approach in promoting PPPs. Firstly, at the ministry level, the MoF has a special directorate – the Directorate of Government Support and Infrastructure Financing Management², which provides policy and approvals on government support mechanisms. The government policy places emphasis on high standards of project preparation to obtain best value for money for the government. The respective policies for viability gap funding (VGF) and guarantees stipulate that PPP projects will only be eligible for government support if they are well-prepared PPP projects, as per MoF project preparation standards, and where the PPP procurement has been competitively undertaken. Recently, the directorate has also established its own project development facility (PDF)³ to assist government contracting agencies in hiring transaction advisors and undertaking feasibility studies and PPP procurement. The PDF is in its early days, and in the process of establishing its standard operating procedures, as it seeks to prepare its first set of PPPs.

Secondly, the MoF has established key infrastructure finance institutions to scale up financing. As mentioned previously, these institutions are adopting international good practices to prepare projects. The IIGF and the SMI are fully government owned, while the IIF has a diversified ownership.

² More information can be obtained at <http://www.djppr.kemenkeu.go.id/ppp>

³ The legal basis for the PDF in Indonesia is based on the Presidential Regulation No. 75 of 2014 on Acceleration of Prioritized Infrastructure Provision, the Minister of Finance Regulation No. 265/PMK.08/2015 on Facilities for the Project Preparation and Transaction Advisory of PPP Projects, and the Minister of Finance Regulation No. 129/PMK.011/2016 on Amendment of Minister of Finance Regulation No. 265/PMK.08/2015.

Together through these two approaches, MoF is seeking to improve the quality of project preparation and streamline government coordination, thereby addressing the two critical roadblocks faced by infrastructure projects in Indonesia.

PT Indonesia Infrastructure Guarantee Fund (IIGF)

In response to the global financial crisis and to crowd-in private investment, a separate guarantee fund, IIGF, was established in 2009 and became operational in 2010. The IIGF extends guarantees⁴ to PPPs in relation to assuring government counterparty contractual obligations under the PPP agreement. To date, IIGF has issued guarantees to eighteen PPP projects. A key requirement for IIGF guarantees, as stipulated in government regulations, is that the project needs to be prepared to international standards and must be competitively procured. With the assistance from the World Bank, IIGF, through its standard operating procedures, has strengthened its project preparation functions, including environmental and social safeguards management to help the guaranteed projects meet international standards. The IIGF also operates its own project preparation assistance facility, wherein it provides technical assistance for and closely supports government agencies with project preparation and open procurement. In addition, the IIGF Institute provides PPP-related capacity building to various government stakeholders to help strengthen their implementation.

PT Sarana Multi Infrastruktur (SMI)

PT SMI is a wholly-owned entity of the MoF with a mission to act as a catalyst for infrastructure investment in Indonesia. PT SMI finances both publicly and privately funded projects and has its own capital base, as well as other lines of credit provided by international development partners to finance infrastructure. As part of its mandate, PT SMI assists

government agencies in their project development activities by supporting the preparation of business cases, providing funding assistance for project preparation, conducting capacity building and creating an ecosystem of cooperation for infrastructure development. PT SMI also provides active assistance to the MoF in managing their PDF and in supporting government agencies on project preparation.

PT Indonesia Infrastructure Finance (IIF)

PT Indonesia Infrastructure Finance was established in 2010 as a private non-bank financial institution, under an initiative of the Government of Indonesia, in cooperation with the World Bank, the Asian Development Bank (ADB) and other international multilateral agencies. It is focused on investing in commercially viable infrastructure projects in Indonesia and it encourages private sector engagement in the country's infrastructure development. By virtue of its reputable shareholders⁵, the IIF functions to high standards of corporate governance and project preparation. For instance, the IIF's Social and Environmental Management Systems comply with performance standards of the World Bank, the IFC and the ADB. Accordingly, it imposes these high standards on its supported projects.

Indonesia Ministry of National Development and Planning

As the apex planning agency in Indonesia, BAPPENAS plays the dual role of a planning and monitoring institution and a think-tank to further good practices on project preparation in the country. BAPPENAS is primarily tasked with preparing and monitoring the national long-term and medium-term development plans for Indonesia. At present, BAPPENAS is focusing on introducing international good practices in project selection and preparation. BAPPENAS prepares and documents the PPP project list for Indonesia through its annual publication of the PPP Book. The PPP Book comprises a project pipeline developed as a result of screening by BAPPENAS from the proposed project pipelines submitted by the Ministers, Heads of Institutions and Heads of Regions. The PPP Book provides a transparent view on the evolving PPP pipeline in Indonesia, listing out projects which are ready to move to the procurement stage, as well as those still under development.

⁴ The risks covered include: approvals and licensing delays, delays in land acquisition, change in law, break of contract, revenue and pricing risks, government counterparty payment risks, expropriation, force majeure, termination payments risk etc., as long as these risks are contractually taken on by the relevant government counterparty. IIGF guarantees can be extended to up to 25% of IIGF's net worth into a PPP project. When providing the guarantee, IIGF will charge both an upfront and annual underwriting fee. In case a guarantee is invoked, IIGF will make payments as per a due process specified in its operations manual and then have a recourse to the future budget allocations available to the concerned government counterparty agency. Under the recourse mechanism, the MoF will reimburse IIGF for the amount of the guarantee called and paid, and MoF in return will recoup the money from the budgetary allocations available with the concerned government counterparty agency.

⁵ The shareholders are PT SMI (30%), ADB (19.99%), IFC (19.99%), Kreditanstalt für Wiederaufbau (KfW) (15.12%) and Sumitomo Mitsui Banking Corporation (14.9%).

Committee for the Acceleration of Priority Infrastructure Delivery (KPPIP)

KPPIP functions as the point of contact to facilitate coordination in debottlenecking efforts for National Strategic Projects and Priority Projects. It plays a central role in monitoring, coordinating, and speeding up the deliveries of strategic and priority PPP projects, sometimes commissioning or amending the pre-feasibility studies to prepare them for the market. Led by the Coordinating Minister for Economic Affairs as the Chairperson, representation from all major institutions in Indonesia enables KPPIP to aid the acceleration of priority project development.

State Asset Management Agency (LMAN)

LMAN was established in 2015 by the Ministry of Finance, to facilitate the financing of land for infrastructure projects and speed up the process of land acquisition in Indonesia. It provides funding for land acquisition for nationally significant PPP projects, in addition to performing the function of a land bank by acquiring land required for the construction of priority projects. The LMAN also runs and maintains a registry of land parcels and manages a revolving fund for land acquisition for PPP projects in toll roads, rail infrastructure, ports and dams. While LMAN funded land acquisition up to approximately US \$1 billion⁶ for toll road projects in 2017 alone, its budget for 2018 was more than double, at approximately US \$2.5 billion.

PPP Joint Office

Set up in 2016, the PPP Joint Office is to function as the 'coordinating or clearing house' for PPP projects, prior to being sent for approval to the MoF. The office comprises members from KPPIP, BAPPENAS, MoF, Ministry of Home Affairs, Indonesia Investment Coordinating Board, National Public Procurement Agency, and the IIGF. The aim of establishing the PPP Joint Office is to encourage cross-sector and cross-agency coordination for project implementation. It comprises middle management-level representatives from all major governmental institutions, with each member of the office tasked with a specific role and authority, depending on the scope of its functions.

PROJECT PREPARATION LANDSCAPE

Project preparation activities in Indonesia are decentralised, with government contracting authorities (GCAs) entrusted with the responsibility of project development. GCAs perform this function under the umbrella of the national PPP policies and regulations.

The overall infrastructure project preparation process in Indonesia spans three broad phases:

- **Planning phase**, which includes project identification and selection, and establishment of a priority project list. GCAs identify and conduct preliminary studies on projects that help to meet Indonesia's long-term development goals. During the preliminary study stage, a project is to be evaluated based on its strategic rationale, compliance with existing regulations and a broad value for money assessment accompanied by revenue arrangements (in the case of PPPs). Projects that are deemed viable proceed to the preparation stage.
- **Preparation phase**, which involves the preparation of a preliminary pre-feasibility study (Outline Business Case (OBC)), and the preparation of a project readiness assessment (Final Business Case (FBC)). At OBC stage, the project undergoes a series of quantitative studies to evaluate its viability in terms of financial and economic value, and risk analysis and mitigation. At the FBC stage, the project must fulfil all requirements of the pre-feasibility study including follow-up issues, approval of the PPP by stakeholders through public consultations and market sounding, and certainty on whether government support is required.
- **Transaction phase**, which follows the completion of preparatory activities marked by a final business case report and drafting the business entity procurement plan.

How does the institutional set-up in Indonesia aid in accelerating project development activities?

It is well acknowledged that Indonesia's GCAs do not have strong institutional capacity in PPPs and this has impacted the pace of PPPs in reaching financial close. Efforts of the past few years are being invested in developing standardised processes and guidance to address their capacity issues.

- **Defining overarching goals to assist project conceptualisation.** Indonesia's long-term and medium-term development plans, RPJPN⁷ and RPJMN⁸, prepared by BAPPENAS, serve as guiding posts for GCAs to draft their strategic plans and conceptualise projects. While the RPJPN has a long-term outlook of 20 years, the RPJMN takes a medium-term view of every five years within the

⁶ Exchange rate, IDR 1 = US \$ 0.00007 (as of December 2018).

⁷ Rencana Pembangunan Jangka Panjang Nasional (Long-term Plan).

⁸ Rencana Pembangunan Jangka Menengah Nasional (Medium-term Plan).

20-year period and allows separate governments to set their own priorities in the process of national economic development. Each RPJMN defines the target for the provision of basic infrastructure in transparent, quantitative terms; for instance, the latest RPJMN 2015–2019 targets that Indonesia should have 100% access to clean water from the 70% baseline in 2014. These clearly defined targets help the GCAs to work towards a common goal.

- **Using multi-criteria analysis to screen and prioritise projects objectively.** To include projects from GCA strategic plans in the PPP Book, BAPPENAS follows a multi-criteria process. Each project is evaluated on factors such as technical and economic rationale, demand sustainability, support from stakeholders, compliance with laws and regulations, conformity with the national development plan, spatial planning, value for money, potential revenues, and project financing scheme. While this process is not institutionalised for GCAs, BAPPENAS also provides ad-hoc assistance to GCAs in screening projects based on their level of readiness and benefits to society in accordance with the development plans.
- **Enhancing capacities of GCAs to undertake project preparation in line with global standards.** The MoF supported Development Finance Institutions (DFIs) in Indonesia aid in capacity building for GCAs through formal programs and informal assistance. The IIGF has created a learning academy called the IIGF Institute, which provides training on PPPs through its General Active Learning Program (GALP), an online learning tool. It has also collaborated with the University Network for Indonesia Infrastructure Development (UNIID) and the Indonesian College of Infrastructure Network (JPII) to organise the Indonesia Infrastructure Roundtable (IIR), which is a series of discussions on the preparation of business cases for infrastructure projects. Similarly, PT SMI conducts capacity building and socialisation activities, as well as Focus Group Discussions (FGD), which involve the local governments, investors, and other relevant ministries. Further, by providing technical project preparation assistance and advisory support for projects, these DFIs help to build GCA capacity by playing an active role in encouraging the acceleration of prioritised, strategic, national and regional infrastructure development. Through continued support and liaising with international development institutions, these DFIs are transmitting international good practices to infrastructure in Indonesia via a learning-by-doing approach.

PT SMI's project preparation assistance in practice

1. Assistance to the Ministry of Communications and Informatics to prepare bid documents, and transaction advisory on the Palapa Ring Project.
2. Providing inputs for the optimisation of technical schemes and the government funding structure for the West Semarang Water Supply Project.
3. Preparing the pre-feasibility study for the Medan Transportation Project and advisory to increase the feasibility and bankability of the project.
4. Cooperation with development institutions such as the Japan International Cooperation Agency (JICA) and the ADB for feasibility studies for the Dr. Pirngadi Regional Hospital Medan PPP Project and the Suramadu Bridge Toll Road PPP Project.

- **Providing standardised guidance documents to streamline project preparation.** Drawing from its expertise in appraising project risks to issue guarantees, the IIGF has published a best practice standard on risk allocation. This guidance document provides 1) a risk category and 2) a risk allocation matrix to be used as a reference by GCAs in preparing the risk allocation of the PPP project, to enhance the implementation of the risk management framework for both economic and social infrastructure PPP projects. As the apex agency for project planning in Indonesia, BAPPENAS has also issued guidelines on preparing outline business cases, which provides detailed steps to be followed by GCAs in each procurement stage, namely (i) planning (identification, budgeting, categorisation), (ii) preparation (pre-feasibility study, government support, guarantees), and (iii) transaction (market sounding, public tender, agreement, financial close).

- **Ensuring availability of adequate funding to undertake project preparation activities.** To assist financing of project preparation activities, PT SMI manages two funds:
 - PPP Project Development Facility (PPP-PDF): The PPP-PDF provides funding to assist GCAs to prepare the feasibility studies and to assist with transaction advisory until the project reaches financial close. Priority PPP projects, as well as non-priority projects that have completed market sounding and can demonstrate investor interest, are eligible for assistance under this scheme.
 - Regional Infrastructure Development Fund-Project Development Facility (RIDF-PDF): This is a grant targeted at local governments in Indonesia to undertake project identification and preparation activities. Budgeted at US \$3 million for a period of five years⁹, the fund was established in cooperation with the Government of Switzerland and the World Bank.
- **Addressing proximate factors that lead to bottlenecks in project implementation at the preparation stage.** Indonesia's legal and regulatory framework provides for mechanisms to address challenges that affect project implementation. To mitigate risks arising from land acquisition, Law No. 2 of 2012 clearly defines the responsibilities of sectoral ministries and regional governments to aid with land acquisition. Delays in the land acquisition process are addressed by capping the time period for the complete process at 583 days. The law also permits the private sector to procure the land first and then claim reimbursement from the government through the LMAN, instead of waiting for approvals from the annual budgetary process. Through these interventions, the land acquisition law has been a step forward in addressing the major land acquisition hurdles faced by infrastructure projects in Indonesia. The law is currently faced with implementation issues, so ongoing government support will be critical to realise the full benefits of this law. Further, Presidential and BAPPENAS regulations mandate that all PPP projects must include public consultations, to be carried out at the planning stage by the respective GCAs. The aim of undertaking these consultations is three-fold: (i) explore compliance with social norms and environmental norms in accordance with the provisions of the environmental legislation; (ii) receive input on community needs related to the PPP; and (iii) ensure PPP readiness.

⁹ PT SMI received a grant of US \$3 million over five years, however the overall size of the loan to the RIDF-PDF was US \$100 million.

3. Guidance for project preparation

Guidance	RISK ALLOCATION GUIDELINES
Owner	Indonesia Infrastructure Guarantee Fund (IIGF)
Project development stage	Feasibility study and project structuring
Details	<p>IIGF's risk allocation guidelines provide a risk category checklist which can be used to identify risk events for PPP projects.</p> <p>This checklist is further elaborated upon through comprehensive sector-specific risk allocation matrices for all PPPs within the following sectors: water supply, waste management, roads, electricity, energy conservation, oil and gas, rail transportation, bus rapid transit, seaport, airports, telecommunication, urban infrastructure, health, public housing, education, sport facilities, tourism and correctional facilities.</p> <p>The risk matrices identify the risk events within each risk category and provide a guide to risk allocation based on the PPP structure, along with suggested mitigation strategies.</p> <p>The guidelines function as a key reference for the GCAs in developing PPP contracts, and for investors and financiers in assessing their investment and PPP financing opportunities in Indonesia.</p> <p>Links for further details 2017 version in English: https://www.iigf.co.id/media/kcfinder/docs/risk-allocation-guideline-2017-tanpa-sambutan.pdf (2017 version in English) 2018 version in Bahasa Indonesia: http://www.iigf.co.id/media/kcfinder/docs/final-20180305-acuan-alokasi-risiko-bahasa-2018-clean-newlogo.pdf (2018 version in Bahasa Indonesia)</p>

Guidance	PROCEDURAL GUIDELINES FOR PPPs
Owner	BAPPENAS
Project development stage	Planning, feasibility study, procurement
Details	<p>BAPPENAS Regulation No. 4 of 2015 specifies procedural guidelines for PPP arrangements and the responsibilities of PPP nodes, PPP teams and procurement committees established under regional governments and sector ministries.</p> <p>These guidelines define the role of GCAs and PPP nodes, the stages of PPP implementation and institutional responsibilities at each stage, activities to be performed at the pre-feasibility and feasibility stages, structure of the outline and final business cases, forms of government support, and procedures for unsolicited proposals.</p> <p>Link for further details: http://kpsrb.bappenas.go.id/data/fileregulasi/PPP%20REGULATION%20(ENGLISH%20version).pdf</p>

4. Project case example: Umbulan Water Supply Project

PROJECT BRIEF

The Umbulan Water Supply System project was initiated in the 1980s to meet the growing needs of clean water distribution in the East Java province of Indonesia.

Structured as a Build-Operate-Transfer (BOT) scheme, with a concession period of 25 years, the project involves the construction of the production system, the transmission pipeline and offtake for five regencies and cities.

Once operational, the water supply system is expected to deliver 4000 litres per second of clean water through a 93-kilometre water supply pipeline.

While the project was originally planned and conceptualised by the Government of East Java Province up to 40 years ago, with multiple studies and tendering processes carried out between 1988 and 1999, it was tendered successfully only in 2010.

The Umbulan Water Supply System project is a flagship PPP project of Indonesia, being the first to receive viability gap funding from MoF, and the first water sector PPP project in Indonesia guaranteed by the IIGF. The history of this project demonstrates the evolution of experience in Indonesia's PPP market. Through cohesive efforts by the Government of Indonesia and its institutions, the existing challenges in the project were mitigated, and the project was made bankable.

QUICK FACTS



VALUE
(IN US \$ MILLION)

157*



STATUS

Under construction



PROJECT OWNERSHIP

Government of
East Java Province



SOURCE OF PROJECT
PREPARATORY FINANCING

PDF through the MoF



SUPPORT AGENCIES

PT IIGF, PT SMI, KPPIP

* Estimated Exchange Rate: IDR 1 = US \$0.00007
(as of December 2018)

PROJECT TIMELINE

○	Feb-11	Market sounding
○	July-11	Pre-qualification tender followed by consultations with prospective bidders
○	Aug-11	Announcement of pre-qualification result
○	Nov-11	Assignment to PT SMI for project development support
○	Feb 12 – Sep 15	Issuance of bidding document and amendment(s) Designing of project structure Project feasibility studies by PT SMI
○	Feb-13	Submission of application for guarantee to IIGF
○	Feb-16	Bid award
○	Jul-16	Signing of contractual documents (including the guarantee agreement)
○	Dec-16	Financial close
○	July-17	Construction commences
○	Mid 2019	Estimated commercial operations date

LEARNINGS FOR PROJECT PREPARATION

1. Commitment from a strong project champion can help to mitigate challenges and streamline the decision-making process.

The most critical challenge being faced by the Umbulan Water Supply System project was coordination amongst its many stakeholders, especially considering that the project's geographical coverage includes five different regencies and cities in the province. Compounding the coordination issues were the externalities to which the project was subject – accommodating lower tariffs to make clean water affordable to the users, managing poor financial conditions, a lack of capacity in regional entities to plan and manage such a project, lack of an adequate regulatory framework, and no prior experience of PPP projects in the water sector, to name a few.

Addressing these roadblocks required the presence of a strong project champion, which was provided through KPPIP, once the project was designated as a national strategic priority project. Functioning as a debottlenecking facilitator, KPPIP led coordinated efforts involving the Ministry of Finance, the Ministry of Public Works and People's Housing, PT SMI, the Province of East Java, and the five municipalities. For instance, the issue of increased project costs for the water supply system, which was at a stalemate, was resolved through the enactment of a contract, wherein the central, provincial and district governments agreed to share the increased costs of installing the system.

2. Supporting mechanisms through government institutions help to make the project feasible, bankable and fiscally acceptable.

The Umbulan Water Supply System project serves as a flagship project to demonstrate how support from Indonesia's institutional framework led to the successful commencement of project construction.

Recognising the limited capacity of the GCA to undertake project preparation activities that could meet the standards of the investor community, PT SMI was tasked with supporting the preparation of the OBC and FBC stages. The results of the feasibility study were then 'road tested' by PT SMI, with international financial institutions to identify and address residual issues. PT SMI later also partnered with the IFC to function as a transaction advisor.

The MoF provided funding for project preparation through the PDF, along with supporting the project feasibility process through the provision of viability gap funding.

The IIGF, mandated to evaluate the project for the provision of a government guarantee, also provided assistance with finalising the PPP scheme and technical design, undertaking public consultations, and assistance to execute contractual agreements between the various stakeholders. IIGF also worked closely with the GCA to formulate a joint risk mitigation plan, factoring in environmental implications, which was implemented in 2017.

The Ministry of Public Works and Housing (PUPR) was also involved in the planning and preparation of the feasibility study and the contractual arrangements between the water supplier and the municipal water companies (PDAMs).

3. Augmenting and streamlining GCA capacity to prepare projects through the use of international consultants and advisors.

To address the lack of capacity within the GCAs to prepare project feasibility studies at par with global standards, the project proponents and PT SMI involved a panel of international and national advisors to strengthen the business case. With the IFC as its transaction advisor, the project was also supported by Mott MacDonald as the international technical advisor, Norton Rose as the international legal advisor and ABNR Law Firm as the national legal advisor, in addition to other notable local firms and individual experts as reviewers.

Further, the Provincial Government of the East Java Province also established a steering committee and technical team within itself, to work closely with PT SMI and the pool of advisors to prepare the feasibility study. Assistance from the Indonesia Infrastructure Initiative (IndII), a joint cooperation with the Australian Department of Foreign Affairs and Trade (DFAT), was also sought for the feasibility studies conducted in 2009, prior to procurement.¹⁰

4. Responding to market feedback to enhance the attractiveness and marketability of the project.

Under the initial project structure, the bidding process was carried out between 1988 and 1999, wherein three bidders were shortlisted. However, the project did not achieve financial closure due to inadequate financial feasibility. Responding to feedback from the shortlisted bidders and the investor community, the Government of Indonesia approved government fiscal support, through a VGF scheme and the IIGF guarantee, to make the project financially viable. Consequently, prior to its procurement in 2011, the project proponents also conducted one-on-one consultations with prospective bidders.

¹⁰ In 2018, the Indonesia-Australia Infrastructure Partnership/ Kemitraan Indonesia Australia Untuk Infrastruktur (KIAT) replaced IndII in providing technical assistance to the Indonesian Government to support infrastructure development (<https://www.kiat.or.id/home>).