

## **Expanding Private Participation Entrance Gate to Provide Social Infrastructure**

Jakarta, December 3, 2015

In March 2015, Government has issued Presidential Regulation Number 38 of 2015 (“Perpres 38/2015”) replacing the former regulation (Presidential Regulation Number 67 of 2005 and its amendments) concerning Government Cooperation with the Corporate Body for the Provision of Infrastructure. One of the significant changes to the regulation is any addition to the types of infrastructures that can be conducted with the scheme of Government Cooperation with the Corporate Body (“KPBU”) shall include chiefly types of social infrastructure such as penitentiary infrastructure, medical, people’s housing, sport facility and infrastructure and arts where generally the type of infrastructure does not produce the revenues/tariff from the user or only produce the relatively small revenues from the user so that it is less profitable to the private.

Through Perpres 38/2015, the Government wishes to attract the interest of private participation to the supply for the types of social infrastructure by providing the option of mechanism of Service Availability Payment or

called as Availability Payment, namely periodical payment by the Minister/Head of Agency/Naniek Hariti to Corporate Body for the Executive for the availability of infrastructure service as specified in the KPBU Agreement. The mechanism of this payment is intended to give the security of returning the investment for the Corporate Body to supply Infrastructure due to the payment made by the Government to the Corporate Body of the Executive periodically with the relatively firm amount, dependent on the quality and/or criteria as specified in the KPBU agreement, irrespective of total actual revenues/tariff received by the user. The revenues received from the service users shall become the right of the Government. Fixed private shall bear risk on the increase of cost and delay of the construction, and risk on the increase of operating cost and maintenance of the facility as long as the concession period of time.

By the opening of option for KBBU for the social infrastructure with the mechanism of Availability Payment does not increase private investment in the social infrastructure through the scheme of KPBU in the supply of social infrastructure besides feasibility analysis that be through the respective projects. Therefore, to complete the existing policy/regulation about KPBU, can be proposed as the complementary policy requiring KPBU with the Availability Payment as the standard mechanism for the

social infrastructure projects meeting the certain criteria, meanwhile the main criteria that can be specified to be made to supply for any social infrastructure with the scheme of KPBU such as the project meets economy feasibility, has significant scale to be offered to the private, meets feasibility parameter Value for Money and meets limits in the fiscal policy corridor relating to the use of APBN/APBD to make the Availability Payment.

The use expected from policy on the utilization of KPBU scheme for the social infrastructure if compared with the traditional procurement method shall include as follows:

- Superiority of the approach to cost analysis including all life of project (whole life cycle costing). In the method of traditional procurement, the Government focuses on the selection of Corporate Body giving combination for the construction cost and maintenance cost and the lowest capital cost as long as the life of project. Therefore, the Government has produced the efficiency besides transferring some of risks, such as construction, operation, funding and asset ownership risks.

- To more encourage the certainty of completing the more rapid project and timely as the new private will receive the payment from the Government if the assets so required has been operated. Risk on the increase of construction cost or project risk of mangkrak is no longer borne by the Government.
- To give more incentive for the private to monitor and maintain the maximum infrastructure service performance due to the maximum performance given will be increasingly maximum to the amount of Availability Payment.
- To be more flexible and encourage as it prioritizes the necessary service specification. The Private has space to innovate in the specification of asset as long as it can meet the result of the same service quality or better.

Besides the use, the Local Government which has not yet issued the debenture for the finance of infrastructure indirectly can obtain external financing through the private in the scheme of KPBU for the financing of the infrastructure development.

With due observance to the uses, it is necessary to consider by the Government to apply for the policy of KPBU as the standard mechanism in the social infrastructure procurement. The policy will attend the gate of new paradigm which is more revolutionary to provide the social

infrastructure by the Government in Indonesia from the previous items rely the capability of APBN to be more synergic to the private in which the Government leverages the optimum private sources, either viewed from the financial capacity or skill, flexibility, technology and transfer for some risks to the private.