

# Challenges and Issues in Managing Investment of Mandatory and Voluntary Pension Scheme

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**Wismana Adi Suryabrata**  
Deputy for Infrastructure  
Ministry of National Planning and Development/  
**BAPPENAS**

1

**INDONESIA INVESTMENT OUTLOOK**

2

**INFRASTRUCTURE FRAMEWORK & FINANCING SCHEME**

3

**PPP & PINA**

4

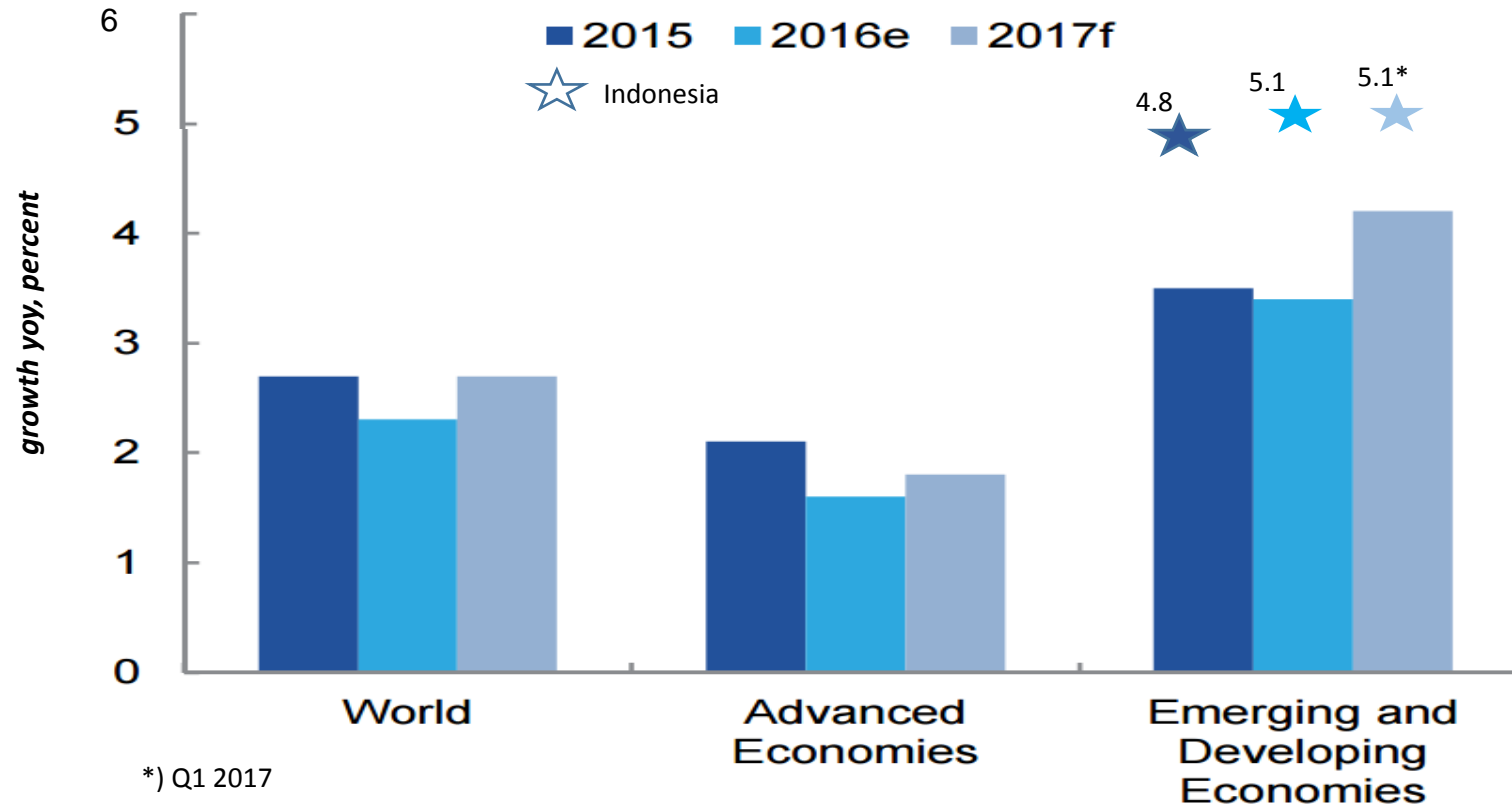
**CHALLENGES AND ISSUES INVESTMENT FOR PENSION FUND**

# Improve in Ease of Doing Business (EoDB) Rank

Category	Ease of Doing Business 2017 Rank	Ease of Doing Business 2016 Rank	Change in Rank
Overall	91	106	 15
Starting a business	151	167	 16
Getting Electricity	49	61	 12
Registering Property	118	123	 5
Getting Credit	62	70	 8
Paying Taxes	104	115	 11
Trading Across Borders	108	113	 5
Enforcing Contracts	166	171	 5

Deregulation and bureaucracy reform accelerate business growth

# The Fundamental of Indonesian Economy Continues To Robust



Source: World Bank 2017a

Note: 2016e is for estimate and 2017f is forecast

Global GDP growth is projected pick up in 2017, despite overwhelming global policy uncertainty



# INFRASTRUCTURE DEVELOPMENT FRAMEWORK 2015-2019

## Fulfillment of Basic Needs



100% Drinking Water access



100% sanitation access



100% electrification ratio



Livable housing access



Border & Underdeveloped regions Accessibility



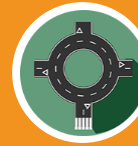
Transportation Safety & Security

## Infrastructure to Support Leading Sectors

### Connectivity



Maritime Highway +

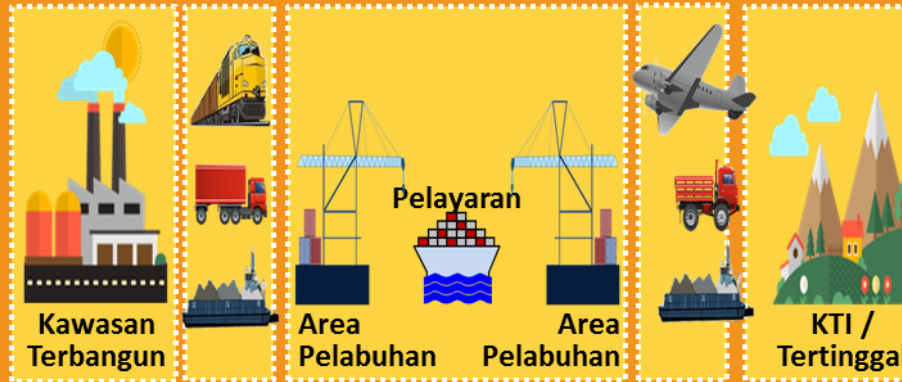


intermodal

Regional Development/  
Growth Center

Marine Highway

Regional Development/  
Growth Center



### Broadband Development:

- e-Government, e-Health, e-Education, e-Logistic, e-commerce,

### Energy Development: 35 GW

- Sasaran 1.200 kWh/Kap. di 2019 (saat ini Vietnam 1.300 kWh/Kap, Malaysia 4.400 kWh/Kap.)

## Leading Sector



Agricultural



Manufacturing

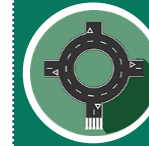


Service and Tourism

## Urban Transport



Development of Road, Rail Based Mass Transport System & Intermodal



Improve the capacity and quality of the urban road network

### Urban Transport Development Concept



*Avoid*

*Shift*

*Improve*

Network to Support Efficiency Journey

Increased share of Public Transport

Increased utilization Technology



Develop sustainable urban transport

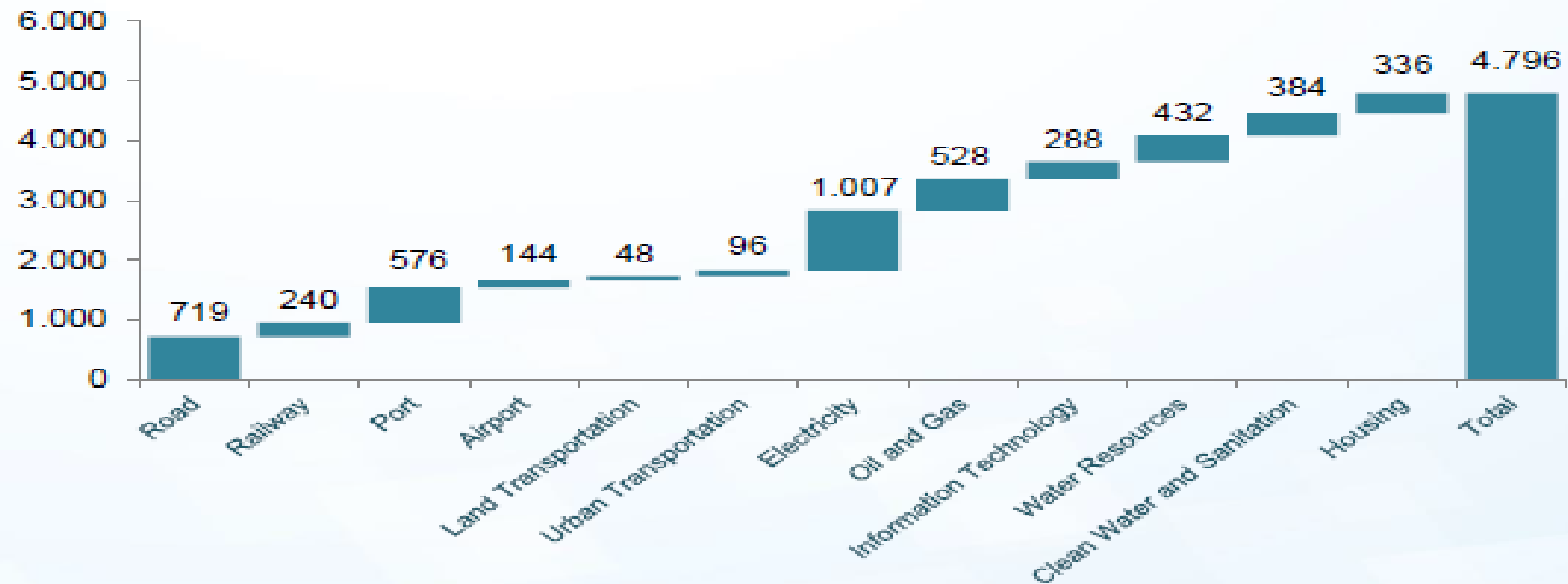


Institutional integration of transport

# Opportunity for Infrastructure Financing in Indonesia

## Indicative Infrastructure Investment Needs 2015-2019

(Rp trillion)



Source: The National Medium Term Development Plan 2015-2019, National Development Planning Agency

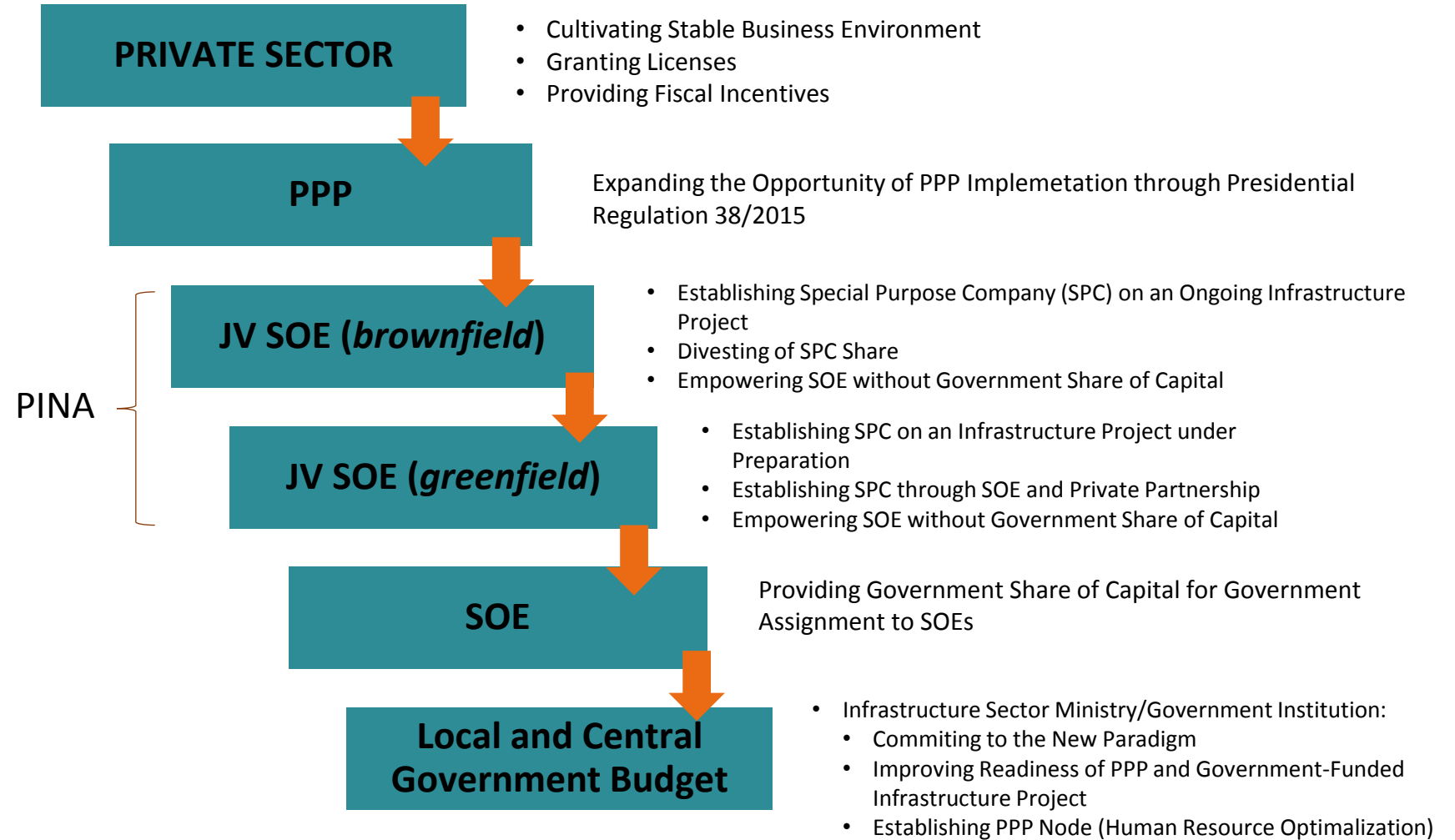
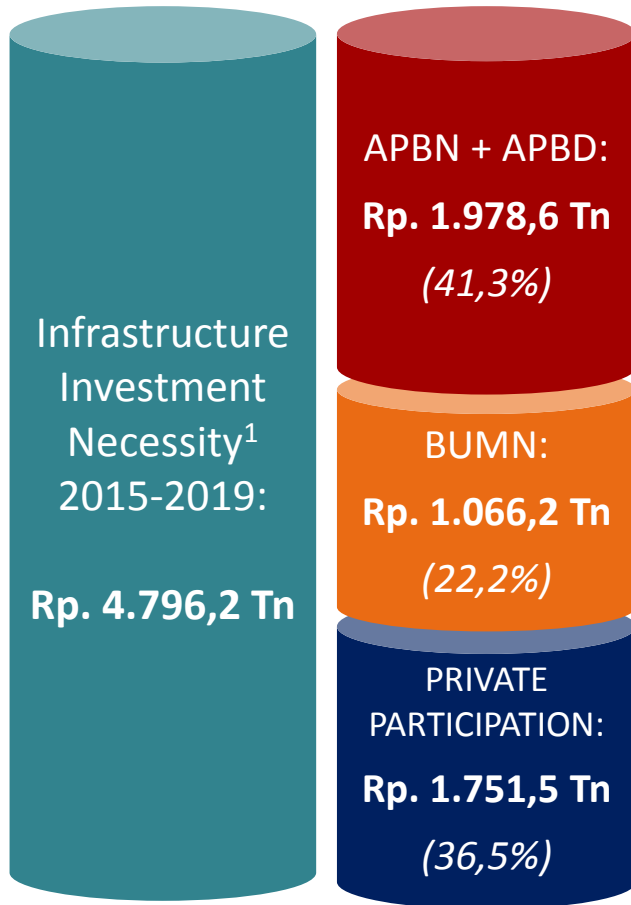
***Electricity, Road, and Port become the most prioritized sectors to be built, the total requirement of funds until 2019 reaches Rp4,796 trillion ~ USD363 Billion***

\*1 USD ~ Rp13,200



# INFRASTRUCTURE FUNDING SCHEME

## Funding Necessity



<sup>1</sup> : Calculated based on infrastructure work level needed for the achievement of middle income country in 2025.

Source: Bappenas- JICA, 2014: Background Study for RPJMN 2015-2019, BAPPENAS internal analysis

## On Going PPP Scheme

### 1. PPP with Government Guarantee

- Central Java Power Plant 2x1000 MW: Rp 54.0 T

### 2. PPP with Return from Tariffs and Viability Gap Fund (VGF)

- Water Management System Umbulan : Rp 2.1 T

### 3. PPP with Return from Availability Payment (AP)

- Palapa Ring Network : Rp 7.8 T

### 4. PPP with Government Support on Partial Construction (Rp 45.3 T)

- Solo – Kertosono Tol Road : Rp 7.7 T
- Cisumdawu Tol Road : Rp 14.0 T
- Balikpapan – Samarinda Tol Road : Rp 14.9 T
- Manado – Bitung Tol Road : Rp 8.7 T

## Proposed PPP Scheme

### 5. PPP with Assignment of SOE by PJPK



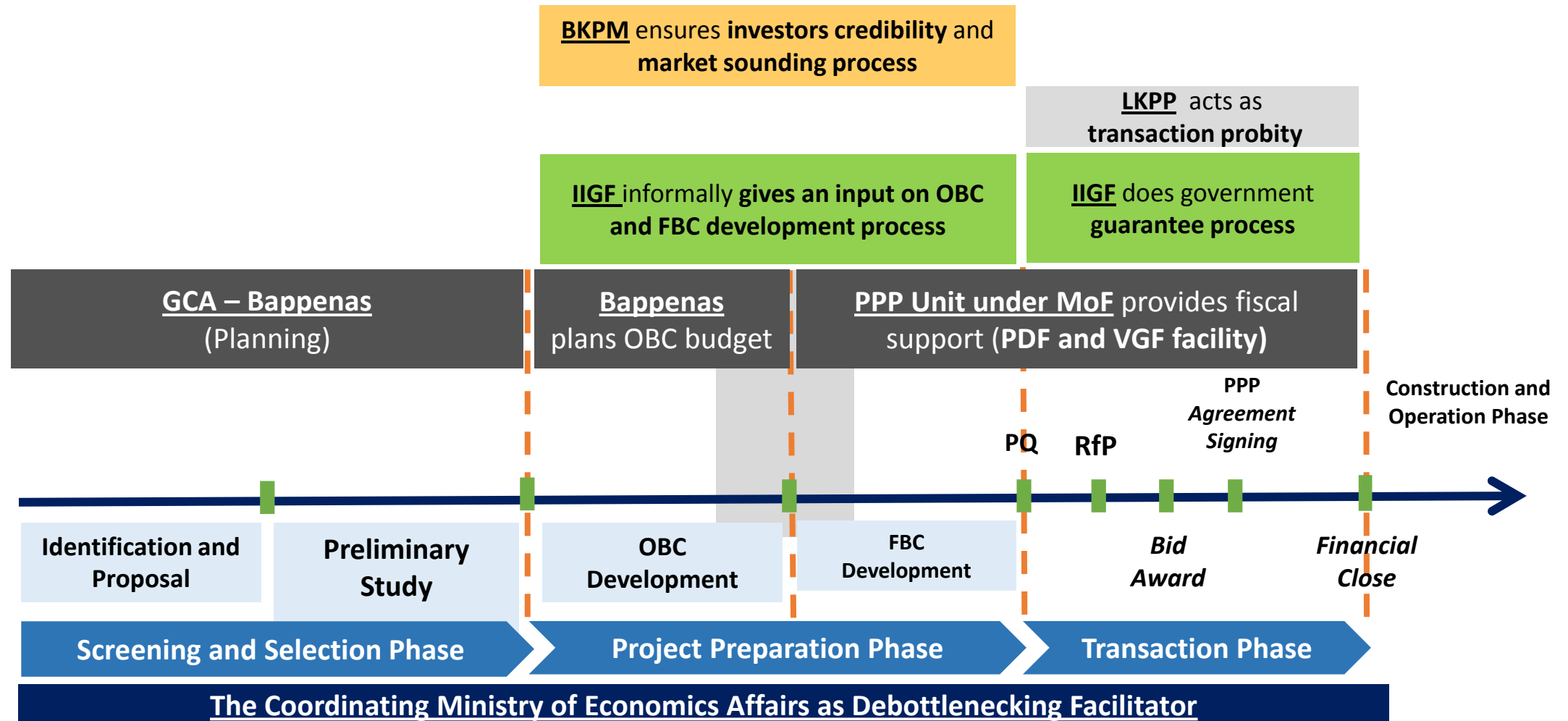
# Recapitulation of PPP Projects

No	Sectors	INVESTMENT VALUE (Rp TRILLION)	PROJECT READINESS
1	Toll Road	122.7	Construction (4), Agreement Signing PPJT (3), Procurement Process (4), Preparation(5)
2	Energy and Power Plant	54.0	Construction (1)
3	Telecommunication and Information	12.1	Construction (2), Financial Close (1), Preparation (1)
4	Waste Management and Sanitation	5.4	Procurement Process (1), Financial Close (1), Ready to Offer(1), Preparation (4)
5	Transportation	80.9	Preparation (7)
6	Social	3.7	Preparation (4)
	<b>TOTAL</b>	<b>278.8</b>	

# PPP OFFICE REPUBLIC OF INDONESIA

## ....to accelerate PPP Impelementation

### Government Contracting Agency (GCA) as Project Implementing Unit



**BKPM** : Investment Coordinating Board  
**IIGF** : Indonesia Infrastructure Guarantee Fund

**Bappenas** : Ministry of National Development Planning  
**MoF** : Ministry of Finance  
**LKPP** : National Procurement Agency

# NON-GOVERNMENT BUDGET FOR INVESTMENT FINANCING (PINA)

## Increase Development Funding Capacity by:

- **Mobilizing long-term funds** potential
- **Promoting** investment **recycle** for **brown field** projects
- **Leveraging** development modality capacity with relay financing instruments in each phase of development
- **PINA Implementation** applies *international best practice OECD good governance guideline* which based on transparency, accountability, responsible, integrity and fair

## PINA Project Criteria



Support on achieving development priority target



Economical and social benefit to community












Commercially viable



Fulfill readiness criteria

# Benchmark and General Knowledge on Non-State Budget Investment Financing Implementation in China, Canada, and Malaysia

	GOVERNMENT ENCOURAGEMENT <sup>1</sup>	EXAMPLE OF FUND MANAGING INSTITUTIONS INVOLVED	TOTAL MANAGED FUND	INFRASTRUCTURE INV. PORTION	FUNDED PROJECTS (EXAMPLE)
 China	<ul style="list-style-type: none"> <li>National Development &amp; Reform Commission (NDRC) supports investment financing policy sourced from 'non-state capital'</li> <li>Joint action-plan antara between NDRC and related ministries on infrastructure incoordination to financing 303 infrastructure projects</li> </ul>	 <i>National Council for Social Security Fund (SSF)</i>	Rp ~38,158 T	Rp ~12,638 T (33%)	<ul style="list-style-type: none"> <li>Shanty Town Rebuilding in Xi'an</li> <li>Speedway in Chongqing &amp; Subway in Shenyang,</li> <li>Yangpu Economic Zone in Hainan</li> </ul>
 Canada	<ul style="list-style-type: none"> <li>Joint-cooperation between Ministry of Infrastructure and Economic Advisory Council of Canada with <i>funds Institutions</i></li> <li>Involving pension fund institution in direct investment for financing federal government infrastructure projects</li> </ul>	 <i>Canada Pension Plan Investment Boards</i>   <i>Ontario Municipal Empl. Retirement System (OMERS)</i>   <i>Ontario Teacher's Pension Plan (OTPP)</i>	Rp ~2,848 T  Rp ~753 T  Rp ~2,249 T	Rp ~586 Tn (20.6%)  Rp. ~263 Tn (35%)  Rp. 197.2 Tr(8.9%)	<ul style="list-style-type: none"> <li>Toll-Highway 407 in Greater Toronto</li> <li>District Heating Operator in Toronto</li> <li>Scotia Gas Networks</li> <li>Intergen (electricity generation facilities)</li> <li>High Speed 1 (HS1)</li> </ul>
 Malaysia	<ul style="list-style-type: none"> <li>Economics Planning Unit (EPU), Ministry of Finance (MoF) and National Implementation Directorate (NID) has set out regulation on Private Finance Initiatives (PFI)</li> <li>Fund coordination sourced from Employee Provident Fund (EPF) of Malaysia.</li> </ul>	 <i>Employee Provident Fund (EPF)</i>   <i>Khazanah Nasional Berhad</i>	Rp 2,210 T  Rp ~492 T	Rp ~70.7 T (>3.2%) <sup>3</sup>  Rp. ~118 T (24%)	<ul style="list-style-type: none"> <li>KLIA in Sepang</li> <li>Highways and Light Rail Transit System (STAR and PUTRA)</li> <li>Shuaibah Water &amp; Electricity Company</li> </ul>

1: Reuters (2016), Financial Times (2016) | 2: Total Managed Fund and Infrastructure Investment Portfolio based on Annual Report (2015) | 3: partially from identified infrastructure investment

# PINA's Approach In Malaysia And Funding Institution Comparison in Malaysia





Malaysia

**FORM OF  
GOVERNMENT  
SUPPORT**

- *Economics Planning Unit (EPU), Ministry of Finance (MoF) and National Implementation Directorate (NID) issue Private Finance Initiatives (PFI)*
- *Fund coordination from Employee Provident Fund (EPF) Malaysia.*

## Comparison of Funding Institutions in Indonesia and Malaysia

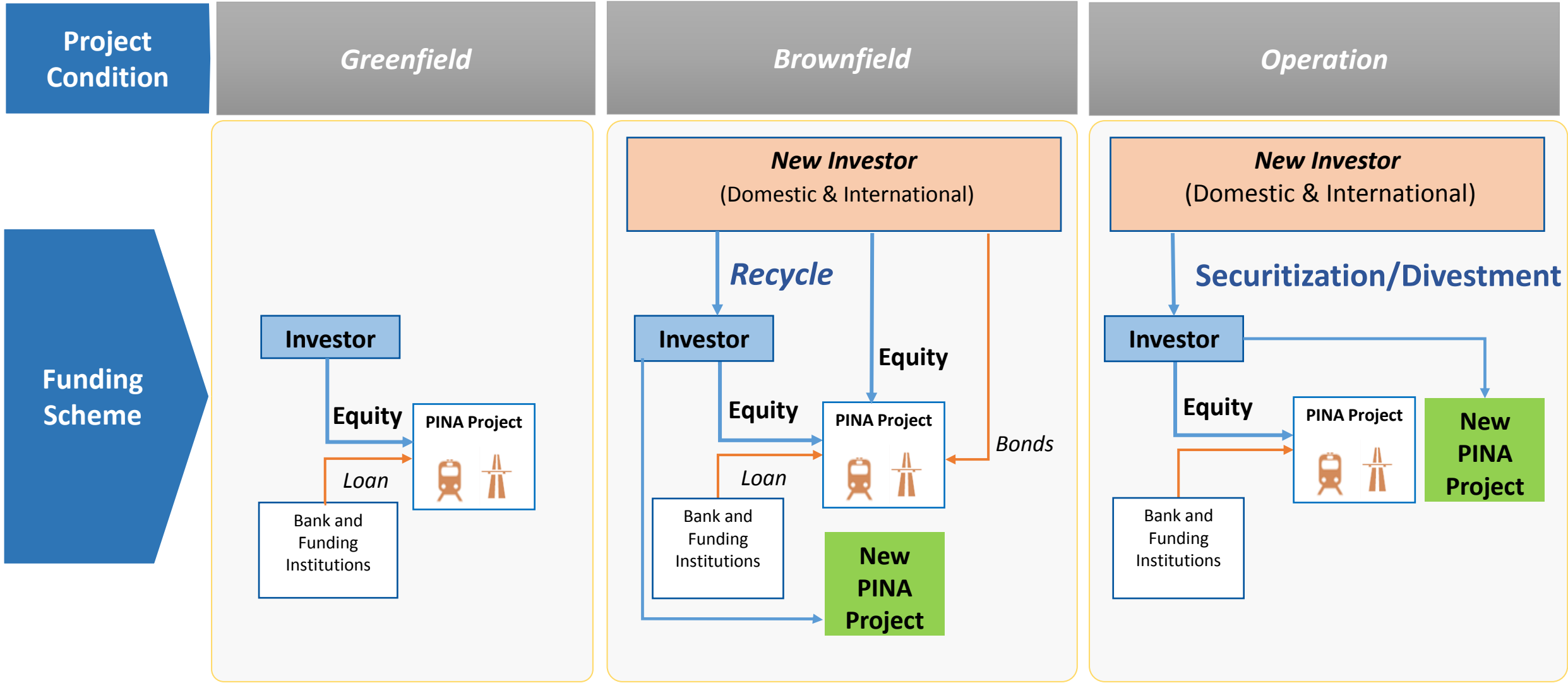
	Managed Fund	Percentage (Existing condition)	Infrastructure Investment Portion		Managed Fund	Percentage (By Regulation)	Direct Investment Potential
EPF (Employee Provident Fund)	Rp 2,210 T	<ul style="list-style-type: none"> <li>• 3.2% <sup>1</sup></li> <li>• <b>43%</b> <sup>2</sup></li> </ul>	<ul style="list-style-type: none"> <li>• Rp ~70.7 T</li> <li>• <b>Rp ~950 T</b></li> </ul>	BPJS KETENAGAKERJAAN	Rp. ~199.6 T	<b>5%</b>	Rp. ~9.98 T
KWAP (Malaysia Retirement Fund Corporation)	Rp 352 T	<ul style="list-style-type: none"> <li>• 4.4% <sup>3</sup></li> </ul>	<ul style="list-style-type: none"> <li>• Rp. ~15.6 T</li> </ul>	PT. TASPEN	JP - Rp ~83.81 T	<b>10%</b>	Rp. ~8.38 T
					THT - Rp. ~58.31 T	<b>5%</b>	Rp. ~2.9 T

1: Identified infrastructure portfolio (2015) | 2: Partly allocated equity to infrastructure projects (2015) | 3: Portfolio Alternative Investment & Property (2014)

# FUNDING STRATEGY

## NON-GOVERNMENT BUDGET FOR INVESTMENT FINANCING (PINA)

Potential *capital gain* when *investment recycle* in Brownfield project



Source: BAPPENAS internal analysis



# Leveraging Process With 'Estafet' (Relay) Financing of Financial Instrument in Every Phase

	Pre-preparation	Preparation (1-2 years)	Construction	Stabilization	Mature
Instrument	<ul style="list-style-type: none"> <li>Leveraging capital to equity injection or shareholder loan</li> <li>Perpetuity bond</li> </ul>	<ul style="list-style-type: none"> <li>Direct equity</li> <li>RDPT</li> <li>Perpetuity bond</li> </ul>	<ul style="list-style-type: none"> <li>Construction Credit</li> <li>Turnkey with SKBDN (<i>Surat Kredit Berdokumen Dalam Negeri</i>)</li> <li>Perpetuity bond</li> </ul>	<ul style="list-style-type: none"> <li>Medium Term Notes (<i>Surat Utang Berjangka Pendek</i>) (apx ~ 1 year)</li> <li>Project Bond</li> </ul>	<ul style="list-style-type: none"> <li>Corporate Bond</li> <li>Commercial loan</li> </ul>
Yield	~100%	~50%	~30%	~10%	~10%
Potential Investor	<ul style="list-style-type: none"> <li>Bank</li> <li>Non Bank Financial Institution</li> </ul>	<ul style="list-style-type: none"> <li>Institution focus on infrastructure financing</li> </ul>	<ul style="list-style-type: none"> <li>Bank</li> <li>Contractor who wants to use turnkey scheme</li> </ul>	<ul style="list-style-type: none"> <li>Non Bank Financial Institution</li> </ul>	<ul style="list-style-type: none"> <li>Society</li> <li>Bank</li> <li>Non Bank Financial Institution</li> </ul>

*Illustration of relay financing on infrastructure. PINA team and Investment Desk develops the best scheme to be implemented.*

# Recapitulation of PINA Projects

No	Project	Investment Value (Rp Trillion)
<b>Connectivity Sectors–Toll Road</b>		
1	Kanci – Pejagan	2.5 T
2	Pejagan – Pemalang	6.8 T
3	Pemalang – Batang	4.5 T
4	Batang – Semarang	8.3 T
5	Solo – Ngawi	4.9 T
6	Ngawi – Kertosono	4.4 T
7	Pasuruan – Probolinggo	3.8 T
8	Cinere – Serpong	2.4 T
9	Bekasi – Cawang – Kampung Melayu	5.1 T
10	Ciawi – Sukabumi	9.7 T
11	Cimanggis – Cibitung	7.9 T
12	Depok – Antasari	3.2 T
13	Tol Kuala Tanjung-Tebing Tinggi-Parapat	8.0 T
14	Kayu Agung - Palembang – Betung	17.0 T
15	Krian-Legundi-Bunder	12.0 T
<b>TOTAL</b>		<b>99.5 T</b>

No	Project	Investment Value (Rp Trillion)
<b>Connectivity Sectors– Airports</b>		
1	Kanci – Pejagan	2.8 T
Total		2.8 T
<b>Energy Sectors – Power Plants</b>		
1	PLTU Kalbar 1 (2x100 MW)	5.5 T
2	PLTU Suralaya 9 & 10 (2000 MW)	*
3	PLTGU Tambak Lorok 3 (700 MW)	*
4	PLTU Jambi (1200 MW)	*
5	PLTU Meulaboh (2x200 MW)	6.9 T
Total		12.1 T

\*) subject to further data from Indonesia Power

# PINA CENTER for ACCELERATING PINA PROJECTS IMPLEMENTATION



**Coordination**



**Facilitation**



**Debottlenecking**



**Investment Desk**



**Accelerating  
Implementation of PINA  
Projects in Indonesia**

# PINA CENTER

Contact us :  
Phone : (021) 31934175  
email : [pina@bappenas.go.id](mailto:pina@bappenas.go.id)  
website: [//www.pina.bappenas.go.id](http://www.pina.bappenas.go.id)

# Challenges and Issues

- Currently, most pension funds in Indonesia invest on **low risk** and **short term** investment (savings or bonds) as market for long term investment is small → **Expose on risk on low return** as pension fund is a long term investment fund.
- **Opportunity** on investing in infrastructure (matching long term nature of pension fund investment):
  - **PPP with Availability Payment Scheme** (Long Term Investment with **guarantee of stability return-IRR**)
  - **PINA Financing Instruments** (Direct Investment, Perpetuity Bonds, RDPT, etc)
- Indonesia's pension funds has **comparative advantage** than international pension fund on **currency/hedging risk**. While, international pension fund may invest on instrument that has natural hedging or instrument in dollar currency.
- **Harmonization on regulations** for promoting long-term investment (e.g. perpetuity bonds)

**THANK YOU**

**Ministry of National Development Planning/  
BAPPENAS**