

RECENT DEVELOPMENTS

Inalum to become state-owned company: minister

Jakarta (ANTARA News) - State-Owned Enterprise Minister Dahlan Iskan said that PT Inalum will become the 143th state-owned company after its contract with Japan expires.

"After its contract expires, Inalum will automatically become a state-owned company because 100 percent of its shares will be owned by the state," stated Minister Dahlan. He said that with the government controlling its stake, Inalum was not taken over but its status would automatically be changed (into a state-owned company)," the minister said. However, Dahlan, who is also the former president director of state-owned utility company PLN, stated that he had no idea as to the purchase value of Inalum because it was still under negotiation.

"I just want to follow the price set by a team set up for that purpose. The team is still calculating it," the minister explained. He said that on the one hand, Inalum would increase the number of state-owned companies while on the other hand, the ministry of enterprises was doing its best to adjust the number of state companies from 142 at present to only about 86 in 2014 and 25 in 2025. In the meantime, the Minister of Industry, MS Hidayat, said that the governments of Indonesia and Japan still had differences over the value of Inalum which reached US\$140 million. "Japan referred to the book value of Inalum based on the results of its revaluation in 1998 while the Indonesian government referred to its value before the revaluation," Hidayat said.

The Indonesian government will continue to negotiate with Japan over the different value aspects in an effort to speed up the process of the change in the status of the company. Hidayat, who is also the team chairman for the purchase of Inalum, said that the fund transfer for the purchase of Inalum reached Rp7 trillion, of which Rp2 trillion was from the state budget of 2012, and Rp5 trillion was from the state budget of 2013. The project began on January 6, 1976 based on a master agreement signed on July 7, 1975 and would expire in 2013. Currently, Inalum has a production capacity of 230,000 - 240,000 tons per annum. PT Inalum booked a profit of US\$12 million in 2010 while its debt burden amounted to US\$70 million.

Last year, the then Finance Minister Agus Martowardojo stated that the ownership of Inalum should return to the government after the expiry of the contract in October of the following year (2013).

"Japan's Nippon Asahan Aluminium should no longer extend the cooperation contract. Moreover, Indonesia has suffered losses for about 22 years during the cooperation," he said.



Viability Gap Funding (“VGF”)

by Ferdinand Jullaga Tambunan

Insufficient and inefficient infrastructure is regularly cited as a bottleneck impeding Indonesia’s economic growth. The Indonesian Government has encouraged infrastructure development through the issuance of several new regulations to attract the participation of business entities in an infrastructure provision. The Indonesian Government provides a financial obligation guarantee through PT Penjaminan Infrastruktur Indonesia (also known as the Indonesian Infrastructure Guarantee Fund) and financing support through PT Sarana Multi Infrastruktur to enhance infrastructure development under the Public Private Partnership (“**PPP**”) scheme that is worth approximately Rp 400 billion under the Master Plan for the Acceleration and Expansion of Indonesian Economic Development (locally known as MP3EI).

To further support infrastructure development, the Minister of Finance (“**MoF**”) recently issued the long awaited Regulation No. 223/PMK.011/2012 on Granting of Funding Support for Partial Construction Costs in the Framework of Public Private Partnership Project in Infrastructure Provision (“**MoF Regulation 223/2012**”). The funding support provided by the government under this scheme is granted in the form of cash and is intended to enhance the financial viability of a project, which would eventually appeal to a private sector business entity in order to maintain an affordable tariff for the utilization of infrastructure assets for the public at the same time.

Viability gap funding (“**VGF**”) is not intended to be given to all PPP projects but only in the event that there is no other alternative to make a project financially viable. It should not dominate the financing of the construction cost of the project. The construction cost referred to under MoF Regulation 223/2012 covers the cost of construction, tools, installation, loan interest, and other costs related to the construction operation of the PPP asset, excluding land acquisition and tax incentives.

To be eligible for VGF, a project must fulfill the following criteria:

- Be economically viable, but not yet financially viable;
- Be based on a user pays principle;
- Have an investment amount for the project at least Rp 100 billion;
- Offer open and competitive bidding in accordance with the prevailing regulations related to public private partnership for the selection of the business entity;
- Have the scheme of assets ownership and/or operation transfer from the business entity to the Government Contracting Agency (“**GCA**”) at the end of a concession period;
- Conduct a feasibility study of the project which (i) assesses the optimum risk allocation between the business entity and GCA; (ii) shows that the project is feasible

economically, which includes technical, legal, environment and social aspects; and (iii) indicates that the project will be financially viable if it obtains the VGF.

VGF may be disbursed in two phases, namely:

1. Construction Phase

In this scheme, the initial drawdown of the VGF is conducted in the event (i) at least 20% of the equity has been utilized; and (ii) the initial drawdown of the financing facility by the project company's lender has occurred. Any subsequent drawdown of the VGF is conducted proportionally with the drawdown from the project company's lender.

2. Following the Commercial Operation Date

In this scheme, the initial drawdown is conducted at the date of commercial operation ("COD"). As MoF Regulation 223/2012 does not provide a definition of COD, it will be defined under the cooperation agreement between the business entity and GCA. Any subsequent drawdown shall be conducted in accordance with the terms under the Approval of VGF Documents that are issued by the GCA following the approval of MoF.

The granting of viability gap funding shall be initiated by the GCA followed by several evaluations by the MoF until the MoF approves the granting of such funding.

The MoF has publicly announced Rp. 314 billion allocated in the 2013 state budget for the provision of VGF. The provision of VGF by the Government shows the positive intention of the government to boost infrastructure development within the country.

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