The Republic of Indonesia
Directorate General of Sea Transportation
Ministry of Transportation

The Study on
The New Public Private Partnership
Strategy for
The Port Development and Management in
The Republic of Indonesia

FINAL REPORT

December 2009

JAPAN INTERNATIONAL COOPERATION AGENCY (JICA)

The Overseas Coastal Area Development Institute of Japan (OCDI)

Ides Inc.

Exchange Rate

1 USDoller=11,000Rupiah=100Yen

（As of April 2009）

PREFACE

In response to a request from the Government of the Republic of Indonesia (hereinafter referred to as "GOI"), the Government of Japan decided to conduct a Study on the new Public Private Partnership Strategy for the Port Development and Management in the Republic of Indonesia and entrusted the study to the Japan International Cooperation Agency (JICA).

JICA selected and dispatched a study team to Indonesia three times between January 2009 and November 2009, which was headed by Mr. Hidekiho KURODA of the Overseas Coastal Area Development Institute of Japan (OCDI) and was comprised of OCDI and Ides Inc.

The team held discussions with the officials concerned of GOI and conducted field surveys at the case study area. Upon returning to Japan, the team conducted further studies and prepared this final report.

I hope this report will contribute to the promotion of the Public Private Partnership in port sector and to the enhancement of friendly relations between our two countries.

Finally, I wish to express my sincere appreciation to the officials concerned of GOI for the close cooperation extended to the team.

December 2009

Toshiyuki Kuroyanagi
Director General
Economic Infrastructure Department
Japan International Cooperation Agency

LETTER OF TRANSMITTAL

December 2009

Mr. Toshiyuki Kuroyanagi
Director General
Economic Infrastructure Department
Japan International Cooperation Agency

Dear Mr. Kuroyanagi:

It is my great pleasure to submit herewith the Final Report of "The Study on the New Public Private Partnership Strategy for the Port Development and Management in the Republic of Indonesia".

The study team comprised of the Overseas Coastal Area Development Institute of Japan (OCDI) and Ides Inc. conducted surveys in the Republic of Indonesia over the period between January 2009 and November 2009 according to the contract with the Japan International Cooperation Agency (JICA).

The study team compiled this report, which formulates a Public Private Partnership (hereinafter referred to as "PPP") strategy to realize effective and efficient port development, management and operation through the case studies on model ports, and drafts guidelines for the articles in the new shipping law No.17/2008 related to PPP, through close consultations with officials of the Directorate General of Sea Transportation (DGST), the Ministry of Transportation of the Indonesian Government and other authorities concerned.

On behalf of the study team, I would like to express my heartfelt appreciation to DGST and other authorities concerned for the cooperation, assistance and heartfelt hospitality extended to the study team.

I am also grateful to the Japan International Cooperation Agency, the Ministry of Foreign Affairs, the Ministry of Land, Infrastructure, Transport and Tourism and the Embassy of Japan in Indonesia for valuable suggestions and assistance during the course of the study.

Yours faithfully,

H. Kuroda

Hidehiko KURODA
Team Leader
The Study on the new Public Private Partnership Strategy
for the Port Development and management
in the Republic of Indonesia

List of Abbriviations

A	ADPEL	Port Adminstration Office (Commercial Ports)
	AMDAL	Environmental Impact Assessment
	APMT	APM Terminals
B	BAPPENAS	National Development Planning Agency
	BCA	Board of Conceding Administration
	BKPM	Investment Coordinating Board
	BOT	Build-Operate-Transfer
	BPS	Central Bureau of Statistics
	BTO	Build-Transfer-Operate
	BUMN	State Owned Enterprise
C	CCT	Concesion Clarification Team
	CET	Concession Evaluation Team
	CFS	Container Freight Station
	CMEA	Coordinating Ministry of Economic Affairs
	CPRC	Central Planning & Regulatory Committee
	CY	Container Yard
D	DGH	Director General of Highways
	DGST	Directorate Genetral of Sea Transportation
	DKI	Special Capital City District
	DLKp	Port Interest Area
	DLKr	Port Working Area
	DPR	House of Representatives
	DPW	Dubai Port World
	DWT	Dead Weight Ton
E	EBITDA	Earnings before Interest, Tax, Depreciation & Amortization
G	GBHN	Guidelines for State Policy
	GDP	Gross Domestic Product
	GOI	Government of Indonesia
	GR	Government Regulation
	GRDP	Gross Regional Domestic Product
	GRT	Gross registered Ton

H	HM	Harbormaster
	HPH	Hutchison Port Holdings
I	IDR	Indonesian Rupiah
	IFRS	International Financial Reporting Standard
	IMF	International monetary Fund
	IMO	International Maritime Organization
	IPC	Indonesian Port Corporation
	ISO	International Standard Organization
J	JICA	Japan International Cooperation Agency
	JICT	Jakarta International Container Terminal
K	KAI	Indonesian Railway Corporation
	KANPEL	Port Adminstration Office (Non-commercial Ports)
	KKPPI	National Committee on Infrastructure Provision
	KM	Ministrial Decree
	KPA	Klang Port Authority
L	LDC	Convention on the Prevention of Maritime Pollution by Dumping of Wastes and other materials
	LIBOR	London Inter-Bank Offered Rate
	LOA	Length Over All
	LPRC	Local Planning & Regulatory Committee
	LSD	Limit State Design
M	MARPOL	International Convention for the Prevention of Pollution from Ships
	MEPC	Maritime Environment Protection Committee
	MLIT	Ministry of Land, Infrastructure, Transport and Tourism
	MOC	Minstry of Communications
	MOF	Ministry of Finance
	MOSOE(C)	Ministry of State Owned Enterprises (Companies)
	MOT	Ministry of Transportation
	MPA	Maritime and Port Authority of Singapore
	MPW	Ministry of Public Works
	MTI	PT. Multi Terminal Indonesia

O	OPRC	International Convention on Oil Pollution Preparedness, Response and Co-operation
P	PA	Port Authority
	PAT	Port Authority of Thailand
	PBD	Performance Based Design
	PELINDO	Indonesian Port Corporation
	PER	Environmental Report
	PFA	Preliminary Finacial Analysis
	PMB	Port Management Body
	PMU	Port Management Unit
	PP	Government Regulation
	PPP	Public Private Partnership
	PSA	PSA International Pte. Ltd.
	PSO	Public Service Obligation
	PT	Limitred Compnay
	PTP	Port of Tanjung Pelepas
Q	QGC	Quay Gantry Crane
R	RFP	Request for Proposal
	RFPQA	Request for Prequalification Application
	RKP	National Working Plan
	RMCIP	Risk Management Committee on Infrastructure Provision
	RMU	Risk Management Unit
	Rp	Indonesian Rupiah
	RPA	Regional Port Authority
	RPJM	National Medium-term Development Plan
	RPJP	National Long-term Development Plan
	RTG	Rubber Tired Gantry Crane
S	SEZ	Special Economic Zone
	SME	Small and Meduim sized Enterprise
	SOE	State Owned Enterprise
	SPC	Special Purpose Compnay
T	TBT	Technical Barrier to Trade
	TEU	Twenty-footer Equivalent Unit

	TOC	Terminal Operating Company
	TOU	Terminal Operator Union
	TPK	Container Terminal
U	UU	Law
W	WDI	World Bank Statistics
	WTO	World Trade Organization

Executive Summary

1. Background of the Study

1. Major ports of Indonesia are either service ports which have been invested in, maintained and operated by IPC or tool ports where IPC has leased the facilities to private stevedoring companies or IPC has formed joint venture companies with private operators including foreign companies.

2. Ports have been, however, operated inefficiently due to poorly written concession contracts and risk management, lack of managerial skill of the central government on the operational aspects as well as the insufficient infrastructure regarding access to the ports.

3. In order to improve this situation, GOI promulgated a new shipping law in April 2008 which calls for port management to be conducted either by the Port Authority or Port Management Unit based on the concept of landlord port separating the management from operation.

4. With this law, a framework for effective and efficient port development, management and operation through Public and Private Partnership can be established. There is, however, no concrete tool for the realization of the major objectives of the law.

2. Objective of the Study

5. The objectives of the study are;

- To formulate Public Private Partnership (hereinafter referred to as "PPP") strategy to realize effective and efficient port development, management and operation through the case studies on model ports
- To draft guidelines for the articles in the new Shipping Law No.17/2008 related to PPP
- To transfer relevant skills and technologies to the counterpart personnel concerned with the Study

3. Results of the Case Studies

3.1. Case Study on Tg. Priok Redevelopment Project

6. The Study designates the northern half of Pier III as a case study area for PPP scheme analysis taking into account the working plan of IPC2 and actual implementation schedule of demolishing works of warehouses and so on. The area is 600m in length from the top of Pier III and 300m in width from east to west.

7. During the implementation of the Project by IPC2, GOI promulgated the new Shipping Law which stipulates that IPC2's role will be changed from port management to operator. IPC2 is insisting that ongoing projects remain under the ownership of IPC2 while DGST is insisting that new projects will be under the authority of Port Authority to be established.

8. Considering the situation above, two types of PPP schemes are considered;

Case-1:

- Port Authority will purchase the Project from IPC2 at the cost incurred by IPC2 by the fund from government and then terminal operator (TOC) will be selected following the regulations stipulated by the GOI.

Case-2:

- IPC2 will continue to develop the project on a BOT basis while the Port Authority will hold the authority of concession as a conceding authority

9. Evaluation of PPP Scheme is as follows;

The terminal can expect full demand for its capacity from the initial stage of operation, and hence it shows very favorable financial conditions both for the terminal operator and the port authority under any possible scheme of PPP.

Accordingly, it can be said that in the case of a sound market condition and continuation of the existing operation by expanding terminal capacity corresponding to the ever increasing demand, no risk is involved in the project. Therefore, concession scheme should include the possible case of either extension of concession period for the current concessionaire or succession of terminal operation by the port authority itself.

3.2. Case Study on Development of Bojonegara Port

10. Estimated demand of Bojonegara container terminal will be around 0.8 to 0.9 million TEU at around 2015. In order to cope with this situation, container terminal berths with 600m x 600m, and the alongside water depth of -14m with a sufficient breakwater, channel and basins for these terminals as well as access road to the port need to be constructed by around 2015.

11. Possible PPP schemes for the project are set as follows;

Case-1: (partial concession/ joint development)

- Port authority provides the fundamental infrastructure (breakwater, channels and basins, quay wall, conducts reclamation work of the terminal and provides gantry cranes and access road)
- Terminal operator (concessionaire) provides the superstructure of the terminal and other equipment for the operation of the container terminal including RTGs

Case-2: (partial concession /BOT)

- Port authority provides only fundamental infrastructure (breakwater, channel and basin, access road etc.)
- Concessionaire provides all the terminal facilities and equipment for the operation of the container terminal.

Case-3: (master concession)

- Port authority gives the authorization to develop, manage and operate the container port including breakwater, channel and basins and access road to the concessionaire
- Concessionaire invests in whole project under the scheme of master concession

12. Evaluation of each PPP scheme is as follows;

In case-1, estimated financial statements for both the port authority and the concessionaire are reasonably sound throughout the concession term and thus this represents a reasonable partnership between public and private entities.

In case-2, financial conditions for both the port authority and the concessionaire seem to be sound. Cash flow statement, however, shows a rather severe condition for the concessionaire as there is projected to be a more than $10 million/year deficit during the initial six years.

In case-3, it is assumed that debt/equity ratio of the concessionaire is 70/30 and hence for the case of master concession, concessionaire will require paid up share capital of more than $100 million which makes potential concessionaires hesitate to participate.

Considering the results of case studies, it can be said that for the green field port which requires a huge initial investment for fundamental infrastructure such as a breakwater and channel, master concession is not suitable for PPP scheme; either BOT for only the terminal or joint development scheme is desirable.

3.3. Case Study on Coal Terminal in Pelaihari

13. DGST has already started the construction works for a public coal shipping terminal under its own finance and supervision in the Pelaihari area, and plans to complete the terminal by the end of 2012.

14. The new coal terminal being constructed by DGST should be attractive for the coal companies and competitive among the neighboring coal terminals. The original plan of Pelaihari Terminal is reviewed and modified in terms of the capability of coal handling; specifically stock volume and loading capacity is examined by the study team referring to those of neighboring coal terminals.

15. Assuming that a consortium of local industries is formed and becomes the concessionaire for the operation and management of the terminal, investment scheme for the public coal terminal is basically conceived as follow; development and construction of the infrastructure of the coal terminal shall be borne by the public sector side, while the super-structure of the terminal and terminal operation shall be borne by the private sector side. Possible PPP schemes for the project are as follows;

Case-1

- Port authority/DGST provides the infrastructure (land reclamation and causeway) by a general account budget and terminal operator (union of coal mining industries) provides superstructure and equipment. Forty percent of the required funds are provided by a non-interest loan from the government and 60% is provided by the union (debt/equity ratio is assumes as 70/30)
- PPP scheme applied is the concession to lease the infrastructure to the terminal operator with the concession fee.

Case-2

- Scheme is the same as case-1 with the only difference being the percentage of the non-interest loan (20% instead of 40% in case-1).

Case-3

- Scheme is the same as case-1 with the only difference being the non-interest loan (0% instead of 40% in case-1).

Case-4

- All the facilities are provided by the terminal operator. Forty percent of the required funds provided by a non-interest loan from the government and 60% is provided by the terminal operator with debt/equity ratio of 70/30.

- PPP scheme for the concession; concession fees consist of a variable fee of 5% revenue share and land and water rent

16. Evaluation of each PPP scheme is as follows;

Financial statements of both case-1 and case -2 during the concession period shows possible stable financial management both for the port authority and the terminal operator, since the initial investment amount is rather small (less than 10% of the total investment cost).

Case-3 shows that even in the case without government financial assistance, the port can be financially sustainable. When there is no government support in the terminal operator's investment, project viability highly depends on whether such small or medium scale industry has the financial capability to prepare the necessary paid up capital.

In case-4, 42% (11.5 million dollars) of the total investment costs (around 27.3 million dollars) has to be financed by a market bank which would be a severe burden to the operator for these small scale businesses.

When government assistance is considered to be necessary for the promotion of such industry for political reasons, provision of infrastructure by the public sector for leasing such infrastructure to the specific industry is a proper scheme, and the superstructure should be provided by the industry itself, since it is designed to fit the specific handling method of the product of the industry.

4. New PPP Strategy for Development, Management and Operation of Ports

17. The objectives in introducing the new public-private partnership scheme to port development, management and operation can be said to be as follows:

① Increase operational efficiency
② Create a system to recover state investment and to raise state revenue
③ Create conditions for more efficient and accountable entities in port management and operation
④ Create a more transparent and competitive port concession scheme consistently applied throughout the country for financially sound and efficient port development , management and operation

18. In order to create a better and workable system for introducing the new public-private partnership to the port development, management and operation, it is necessary firstly to redefine the roles and functions of related organizations currently involved in the PPP implementation of the port sector, reform/amend the regulatory framework and to make institutional reforms of related organizations for the promotion of PPP.

19. Principal issues to be incorporated in the PPP strategy on port sector are explained in the Study such as (1) clear definition of roles, function, powers and responsibilities of concerned parties related with the port concession, (2) regulatory framework related with the port concession, (3) institutional framework on supervision and management of the port concession, (4) framework for consultation with the maritime community, (5) basic policy and rules on bidding and contract management of the port concession, (6) basic rule on port infrastructure pricing (concession pricing) and (7) strategy and scheme on human resource development for port management and operation.

5. Guideline for the Government Regulation on the Shipping Law No.17/2008

20. The Government Regulation regarding ports (hereinafter referred to as "G.R.") was finalized in October 20, 2009 after year-long deliberation among the concerned authorities.

21. The new Law dictates two major policies in the port sector, one is the introduction of a port management body, and the other is promotion of private sector participation in port development, management and operation.

22. This Study is intended to provide a practical guideline for G.R. In order to achieve the successful implementation of the new scheme under the new G.R. based on the new Shipping Law, the provision of G.R. may not be sufficient for the daily conduct of port operation.

23. Guidelines for G.R. proposed in the study are as follows;

① Guideline for G.R. on Article 78 of the Shipping Law regarding Principal Plan, Port Working Area and Port Interest Area
② Guideline for G.R. on Article 89 of the Shipping Law regarding Port Management Body
③ Guideline for G.R. on Article 94 of the Shipping Law regarding Operational Performance Standard
④ Guideline for G.R. on Article 95 of the Shipping Law regarding Port Business Entity
⑤ Guideline for G.R. on Article 99 of the Shipping Law regarding Port Construction and Operation.

24. As a comprehensive guideline for the above matters, DGST Policies and Procedure for port concession are compiled and attached in Appendix VI.

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Figure

I. Review and Analysis of Current Condition

II. Case Study on Tg. Priok Redevelopment Project

V. New PPP Strategy for D.M.O of Ports

VI. Guideline for the Government Regulation on the Shipping Law No.17/2008

Appendix

Introduction

1. Introduction

1. In response to a request from the Government of the Republic of Indonesia (hereinafter referred to as "GOI"), the Government of Japan (hereinafter referred to as "GOJ") has decided to conduct the Study for the New Public Private Partnership Strategy for the Port Development and Management in the Republic of Indonesia (hereinafter referred to as "the Study").

2. Accordingly, the Japan International Cooperation Agency (hereinafter referred to as "JICA") the official agency responsible for the implementation of the technical and financial cooperation programs of GOJ, dispatched a preparatory study team to Indonesia in July 2008, and reached an agreement with GOI on the scope of the Study.

3. JICA dispatched a full-scale team (hereinafter referred to as "the Study Team") in February 2009 to carry out the Study. The reports submitted to the Indonesian side through the Directorate General of Sea Transportation, the Ministry of Transportation by the Study Team are as follows:

- Inception Report — Submitted in February 2009
- Interim Report — Submitted in July 2009
- Draft Final Report — Submitted in November 2009
- Final Report — Submitted in December 2009

2. Background of the Study

4. Major ports of Indonesia are either service ports which have been invested in, maintained and operated by IPC or tool ports where IPC has leased the facilities to private stevedoring companies or IPC has formed joint venture companies with private operators including foreign companies.

5. Ports have been, however, operated inefficiently due to poorly written concession contracts and risk management, lack of managerial skill of the central government on the operational aspects as well as the insufficient infrastructure regarding access to the ports.

6. In order to improve this situation, GOI promulgated a new shipping law in April 2008 which calls for port management to be conducted either by the Port Authority or Port Management Unit based on the concept of landlord port in which management is separated from operation.

7. With this law, a framework for effective and efficient port development, management and operation through Public and Private Partnership can be established. There is, however, no concrete tool for the realization of the major objectives of the law.

3. Study Area

8. The Study covers the whole country and the case study sites are Bojonogara, Tg. Priok and Kintap area.

4. Objective of the Study

9. The objectives of the study are:

- To formulate a Public Private Partnership (hereinafter referred to as "PPP") strategy to realize effective and efficient port development, management and operation through the case studies on model ports

- To draft guidelines for the articles in the new Shipping Law No. 17 year 2008 related to PPP
- To Transfer relevant skills and technologies to the counterpart personnel concerned with the Study

5. Framework of the Study

10. In order to achieve the objectives mentioned above, the Study shall cover the following items:

5.1. Review and Analysis of the Existing Conditions of Port Development, Management and Operation in Indonesia

- Socio-economic framework
- Policy and legal framework for port sector (including the New Shipping Law No.17 year 2008)
- Role of port in National Development Plan
- Existing port development plan
- Demand of port-related traffic
- Current status, conditions and policy of port development, management, and operation in Indonesia
- Current and future roles among the relevant bodies, including central government, local government, IPC and private sector, in port development, management and operation
- Financial situation of IPC and their individual ports
- Overall Policy and legal framework of PPP in Indonesia
- Policy of GOI for private participation in port development, management and operation
- Current status and conditions of PPP projects in the port and other sectors

5.2. Formulation of PPP Strategy for Port Development, Management and Operation

- To examine basic roles of the central/local government and private sector (including semi-governmental bodies like IPC) in the following activities:
  - ✓ Port administration
  - ✓ Port planning
  - ✓ Port development and/or construction including cost sharing scheme
  - ✓ Port management and/or operation including cost sharing scheme
- To examine an appropriate process and conditions for concession agreements among the public and private sectors, in developing, managing and operating ports
- To recommend institutional settings in the central government and local government (principally provinces in which case study ports are located)

5.3. Case Study in Model Ports

- Case study in a container handling port
  - ✓ To examine the current plan
  - ✓ To examine conditions for the private sector to participate in the development, management and operation of a container handling port
  - ✓ To examine appropriate roles among the relevant bodies including the central government, local government, IPC and private sector
  - ✓ To propose the framework of PPP in the case of a container handling port
- Case study in a bulk cargo handling port

- ✓ To examine the current situation
- ✓ To examine appropriate roles among the relevant bodies including the central government, local government, IPC and private sector
- ✓ To propose the framework of PPP in the case of a bulk cargo handling port

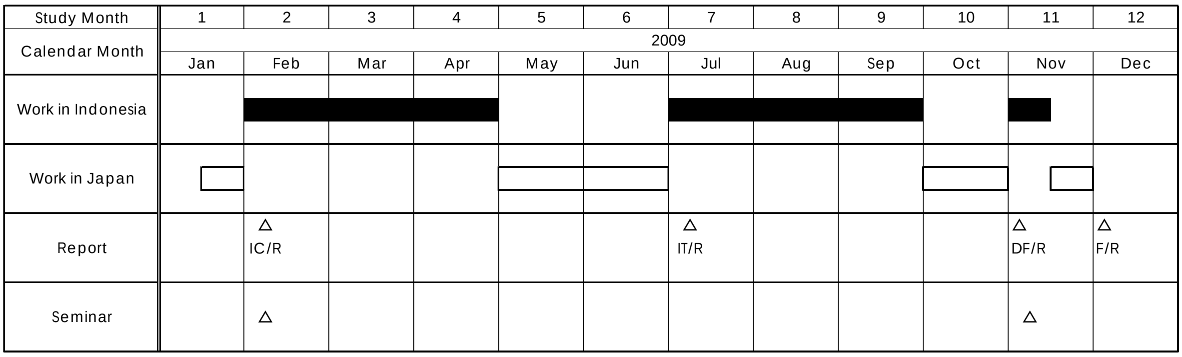
- Feed back the results of examination in the model ports to the PPP strategy

5.4. Drafting Detailed Guideline for the Related Articles to PPP in the New Shipping Law No. 17 Year 2008

6. Work Schedule and Flowchart of the Study

11. The work schedule is shown in Figure 1.

Table1 : Work Schedule



IC/R: Inception Report IT/R: Interim Report
DF/R: Draft Final Report F/R: Final Report

7. Implementation Organization

<u>JICA Study TEAM</u>

12. The Study Team is made up of the experts listed below:

Expert	Assignment
Mr. Hidehiko KURODA	Team Leader/Port Administration/Public Private Partnership-1
Mr. Naota IKEDA	Sub-Team Leader/Port Planning
Mr. Akira KOYAMA	Sub-Team Leader/Port Planning
Mr. Hiroshi KATO	Demand Forecast/Economic Analysis
Mr. Masayuki FUJIKI	Port Management and Operation
Mr. Teruki ETO	Public Private Partnership-2/Concession Agreement
Mr. Nobuhide MIYAWAKI	Concession Financial Analysis
Mr. Michiharu NOSE	Terminal Management/Operation Finance
Mr. Atsushi SATO	Design and Cost Estimation (Civil Works)
Mr. Keiichiro TORII	Design and Cost Estimation (Handling Equipment)
Mr. Kazutoshi KASHIMA	Construction Planning/Investment Planning
Mr. Tadahiko KAWADA	Coordination
Mr. Satoshi HARADA	Coordination

Counterpart and Task Force

13. Directorate General of Sea Transportation, Ministry of Transportation (hereinafter referred to as "DGST" and "MOT"), served as a counterpart agency of the Study Team. DGST established a steering committee composed of officials from the following agencies.

- MOT
- BAPPENAS
- Indonesia Port Corporation II and III (Hereinafter referred to as "IPC2" and "IPC3")
- MOSOE
- Related Provincial Governments

14. The committee was chaired by the Director of DGST. DGST also established a task force to correspond to a series of workshops headed by the Director of DGST (or the head of Sub Directorate of Port Development).

8. Composition of the Reports

15. Final report of this Study consists of a Main Report (including Appendixes) and Summary Report.

9. Activities in Indonesia

16. The Study Team held a series of workshops and two seminars during the Study in Indonesia with the cooperation of the task force in order to transfer the necessary technology effectively and efficiently. The record of activities in Indonesia is as follows:

Table 2: Workshops and Seminars held in Indonesia

Date	Activity
14-Feb-09	Seminar on the Port Concession
27-Mar-09	New PPP Strategy
13-Jul-09	Case Studies and New PPP Strategy
14-Jul-09	New PPP Strategy
16-Jul-09	Discussion on Draft Government regulation
28-Jul-09	Financial Analysis and Point of Concession Agreements
30-Jul-09	Port Planning Standard
4-Aug-09	Port Planning Standard and Document necessary for Port Plan Port Facilities Ledger
11-Aug-09	Model Rules on Port Land Premise and Port Water Area Qualification for the Terminal Operator
18-Aug-09	Model Rules on Port Land Premise and Port Water Area Performance Standard
25-Aug-09	Technical Standard for Construction of Port Facilities Guideline for PPP Promotion
1-Sept-09	Guideline for PPP and Risk Analysis on the Port Concession
8-Sept-09	Discussion on Government Regulation
15-Sept-09	Government Regulation Implementation Guideline
4-Nov-09	Seminar on New PPP Strategy

I. Review and Analysis of Current Condition

1. Socio-economic Framework

1.1. Economic Performance in the Past

A. Population

1. According to World Bank Statistics, total population of Indonesia in 2007 is 226 million, which is the third largest in Asia. Population growth rate nationwide registered 1.66 % during the 1990s, and decreased during 2000-2007 with 1.37 % per annum. The decline in the population growth rate is the fruit of family planning encouraged by the government. DKI Jakarta registered a population growth rate of 1.13 % per annum during the period of 2000-2008.

B. GDP (Gross Domestic Product)

2. The Indonesian economy suffered from the Asian economic crisis, and its GDP growth rate sharply dropped to -13.1 % in 1998 and only 0.79 % in 1999. Indonesian economy, however, got back on track in 2000 with a healthy growth rate of 4.9 %. Since then, the national economy has showed steady growth with annual growth rates of about 5 %; in 2007 it registered 6.32 %.

3. Most of economists agree that Indonesia needs a sustained period of strong economic growth and low inflation in order to consolidate its recovery from the 1997-98 financial crisis. Indonesia's recent GDP growth rates are still less than the 7.2 percent, which is the average GDP growth rate the country experienced during the period of 1990-1996. Historical trend of GDP growth rates is shown in Figure 1.1-1

4. Per capita GDP growth rate has been steadily increased in Indonesia. At 2000 constant US$, it was $396.6 in 1980, $612.4 in 1990, $800.0 in 2000, and registered $1,033.6 in 2007.

Source: World Development Indicator 2008, World Bank

Figure 1.1-1 Historical Trend of GDP Growth Rates of Indonesia

5. Regarding industrial origin, Manufacturing Industry sector has been playing the leading role for economic growth, and its contribution to GDP accounted for 26.0 % in 2000 and 27.4% in 2007. The next significant industry is Trade, Hotel, and Restaurant sector with contribution to GDP of 17.3% in 2007, followed by Agriculture, Livestock, Forestry, and Fisher sector with a 13.8% contribution. On

the other hand, Transportation and Communication sector registered the highest growth rate at 9.38% in 2000 and 14.38% in 2007, followed by Electricity, Gas and Water Supply sector at 10.40 % in 2007.

6. Among the 33 provinces in Indonesia, DKI Jakarta has the highest GRDP value in terms of GRDP without oil & gas at constant 2000 market price. DKI Jakarta accounts for 18.23% of the national total GDP, followed by West Java Province, producing 14.59% of the national total. Combined share of the two provinces accounts for one third of Indonesian total GDP. GRDP by province is shown in Table 1.1-1.

Table 1.1-1 GRDP by Province

Province	2004	2005	2006	2007
[1]	[2]	[3]	[4]	[5]
Nanggoe Aceh Darussalam	22,260,704	22,531,792	24,267,798	26,077,224
North Sumatera	82,675,239	87,240,283	92,698,982	99,085,667
West Sumatera	27,578,137	29,159,481	30,949,945	32,912,929
Riau	30,879,768	33,516,542	36,417,633	39,420,760
Jambi	10,411,851	11,062,278	11,985,807	12,775,067
South Sumatera	33,969,083	36,317,674	38,971,024	42,106,150
Bengkulu	5,896,255	6,239,364	6,610,626	7,008,965
Lampung	27,567,277	28,837,138	30,367,226	32,231,943
Bangka Belitung Islands	8,014,748	8,383,033	8,785,985	9,257,539
Riau Islands	26,671,125	28,559,848	30,625,256	32,937,720
Sumatera	**275,924,187**	**291,847,433**	**311,680,282**	**333,813,964**
DKI Jakarta	**277,537,331**	**294,354,567**	**311,893,651**	**332,033,920**
West Java	**220,295,697**	**234,010,928**	**248,774,393**	**265,834,045**
Banten	127,212,003	133,578,036	140,681,441	149,083,139
DI Yogyakarta	16,146,424	16,910,877	17,535,749	18,291,512
East Java	241,628,131	255,744,993	270,564,918	286,912,119
Banten	54,880,407	58,106,948	61,341,659	65,046,776
Java	**937,699,993**	**992,706,349**	**1,050,791,811**	**1,117,201,511**
Bali	19,963,244	21,072,445	22,184,679	23,497,047
West Nusa Tenggara	14,928,175	15,183,789	15,602,137	16,365,476
East Nusa Tenggara	9,537,095	9,867,305	10,368,505	10,902,404
Bali and Nusa Tenggara	**44,428,514**	**46,123,539**	**48,155,321**	**50,764,927**
West Kalimantan	22,483,015	23,538,350	24,768,375	26,260,648
Central Kalimantan	13,253,081	14,034,632	14,853,726	15,754,509
South Kalimantan	21,692,484	22,841,024	23,995,326	25,453,963
East Kalimantan	39,307,435	42,478,012	47,840,685	52,412,869
Kalimantan	**96,736,015**	**102,892,018**	**111,458,112**	**119,881,989**
North Sulawesi	12,127,463	12,725,590	13,508,804	14,382,446
Central Sulawesi	10,925,465	11,710,851	12,556,451	13,467,249
South Sulawesi	37,188,098	36,337,250	38,781,501	41,242,733
South East Sulawesi	7,480,180	8,026,856	8,643,330	9,331,720
Gorontalo	1,891,763	2,027,723	2,175,815	2,339,218
West Sulawesi	0	3,106,723	3,321,147	3,567,816
Sulawesi	**69,612,969**	**73,934,993**	**78,987,048**	**84,331,182**
Maluku	3,087,487	3,244,433	3,424,966	3,621,682
North Maluku	2,128,208	2,236,804	2,359,483	2,501,175
West Papua	3,665,643	3,915,926	4,204,030	4,566,066
Papua	16,282,968	22,209,193	18,388,879	19,176,080
Maluku and Papua	**25,164,306**	**31,606,356**	**28,377,358**	**29,865,003**
West Part	**1,233,587,424**	**1,305,626,227**	**1,384,656,772**	**1,474,512,522**
East Part	**215,978,560**	**233,484,461**	**244,793,160**	**261,346,054**
Total of 33 Provinces	**1,449,565,984**	**1,539,110,688**	**1,629,449,932**	**1,735,858,576**
Indonesia	**1,506,296,600**	**1,605,261,800**	**1,703,588,600**	**1,821,439,400**

Source: Statistical Yearbook of Indonesia 2008

C. Employment

7. Size of the labor force in Indonesia was about 91 million in 2002, and 100 million in 2007. Over 40% of the labor force has been working in the Agriculture, Forestry, Hunting and Fisheries sector. The second largest sector is Wholesale, Retail Trade, Hotel and Restaurant with 20.6% of the total work force, and the third is Manufacturing Industry at 12.4% in 2007.

8. Of the 100 million strong labor force in Indonesia, 60 million workers reside in Java Island. East Java Province has the largest working population with 18.8 million, and Central Java Province is the second with 16.3 million, and the third is West Java Province with 15.9 million.

9. Indonesia has been suffering from a shortage of job opportunities. According to the World Bank Statistics (WDI), unemployment rate of Indonesia was 10.3% in 2006. This means that one out of ten persons is still seeking an employment opportunity in Indonesia.

10. According to the employment statistics, Manufacturing Industry sector is heavily concentrated in Java Island.

Table 1.1-2 Percentage of Population 15 Years of Age and Over Who Worked by Main Industry

	2002	2007
Agriculture, Forestry, Hunting and Fishery	43.8%	41.2%
Manufacturing Industry	13.3%	12.4%
Construction	4.2%	5.3%
Wholesale, Retaile Trade, Hotel and Restaurant	19.2%	20.6%
Transportation Storage and Communication	4.9%	6.0%
Financing, Insurance, Real Estate & Business Services	1.2%	1.4%
Community, Social and Personal Services	12.1%	12.0%
Others (Mining & Quarrying, electricity, Gas & Water)	1.2%	1.2%
Total	100.0%	100.0%

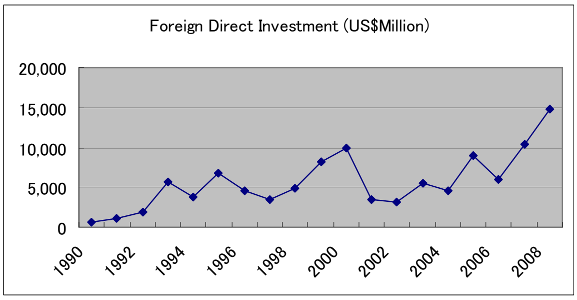
Souce: 2003 JICA Study Report and Statistical Yearbook of Indonesia

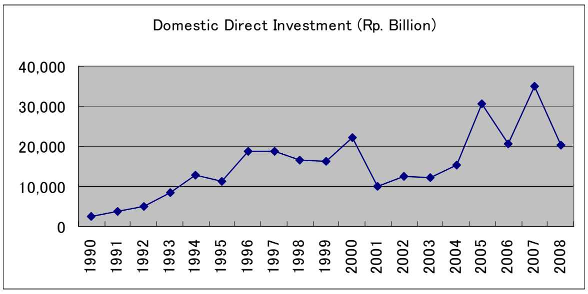
D. Investment

11. Figure 1.1-2 shows new domestic and foreign direct investments which have been realized since 1990. Value of realized projects was Rp. 2,399 Billion for domestic and US$ 706 Million for foreign investment in 1990, and since then it has continued to increase, reaching Rp. 22,038 Billion for domestic and US$ 9,877 Million for foreign projects in 2000.

12. The Asian economic crisis, which occurred in 1997, severely affected investment activities both for domestic and foreign investors. Value of realized direct investment projects dropped sharply to only 30 to 40 % of those before the economic crisis; Rp.9, 891 Billion for domestic in 2001 and US$3,083 Million for foreign investments in 2002.

13. A remarkable difference exists between the domestic direct investment and foreign direct investment. For the former, secondary sector has been the dominant sector. In 2008, value of direct investment in the secondary sector registered Rp.15, 815 Billion, which accounts for 78 % of the total direct domestic investment. On the other hand, for the foreign direct investment, US$4,515Million was invested into new projects in the secondary sector, which accounts for 30 % of the total foreign direct investment projects. Tertiary sector, especially Transport, Storage & Communication sub-sector, was the dominant sector for foreign investment in 2008, accounting for 59% of the total.





Source: Statistics of Direct Investment, BKPL, December 2008

Figure 1.1-2 Realized Domestic and Foreign Direct Investment

14. Looking at locations of the new domestic investment projects, West Java has been the center of the investment world although its share varies year by year. It is also interesting to note that, as shown in Table 3, Banten Province is ranked third in the nation, in a higher position than DKI Jakarta, which is placed the fifth. Regarding the realized foreign direct investment, DKI Jakarta is the by far center of the investment, and accounts for more than two thirds of the total. Foreign investors have a tendency to invest in projects in Transport, Storage & Communication sub-sector in the Indonesian national capital.

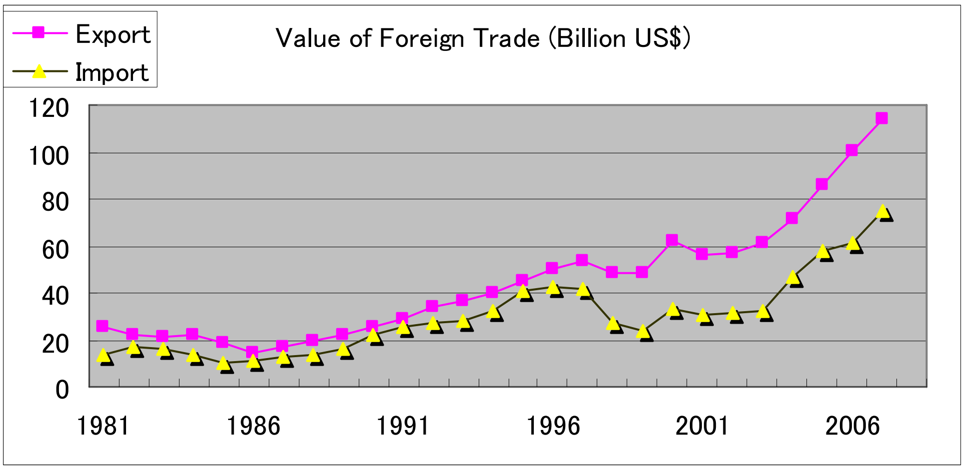
Table 1.1-3 Ranking of Realized Direct Investment by Location, 2008

	Domestic Direct Investment				Foreign Direct Investment			
	Location	Project	Value (Rp.Billion)	%	Location	Project	Value ($.Million)	%
1	West Java	64	4,289.5	21.1	DKI Jakarta	434	9,927.8	66.8
2	East Java	40	2,778.3	13.6	West Java	293	2,552.1	17.2
3	Banten	31	1,989.1	9.8	Banten	99	477.8	3.2
4	Riau	8	1,966.8	9.7	Riau	8	460.9	3.1
5	DKI Jakarta	34	1,837.3	9.0	East Java	73	457.3	3.1
National Total		239	20,363.4	100.0		1138	14,871.4	100.0

Source: Statistic of Direct Investment, BKPM, December 2008

E. Trade

15. Figure 1.1-3 shows historical development of Indonesian Foreign Trade without oil and gas trade, both export and import, in monetary terms. This figure clearly shows how Indonesian economy has been affected by the Asian economic crisis which occurred in late 2007. Import activities were more severely influenced by the economic crisis than export activities judging by the statistics. Import value recovered to the pre crisis level only in 2004.



Source: Indonesian Statistic 2008

Figure 1.1-3 Value of Foreign Trade

16. Another feature worth mentioning is the fact that the export value has been exceeding the import value, and the difference has been widening since the economic crisis. Currently, surplus value is in the neighborhood of US$ 40 billion, and accounts for one third of the export value.

17. Table 1.1-4 shows main trading partners in 2007 both for export and import. Looking at the total trade value, Japan is the most significant trade partner in terms of total trade value. Total trade volume between Indonesia and Japan reached over 68 million tons and with a value of over US$30 billion. The second is China, totaling about 63 million tons and US$18 billion. Trade with Singapore, Malaysia, and the United States of America also exceeded US$ 10 billion in 2007, while the trade volume with Thailand and Australia exceeded 10 million tons.

Table 1.1-4 Main Trading Partners

Volume: Thousand M. Ton
Value: US$ Mil

Trade Partners	Export		Import		Total	
	Volume	Value	Volume	Value	Volume	Value
APEC	264,128.20	83,955.40	0	0	264,128.20	83,955.40
ASEAN	51,562.70	22,292.30	32,486.90	23,792.20	84,049.60	46,084.50
Thailand	14,197.20	3,054.30	4,949.60	4,287.10	19,146.80	7,341.40
Singapore	12,593.90	10,501.60	12,072.50	9,839.80	24,666.40	20,341.40
Philippines	7,318.40	1,853.70	363.1	359.9	7,681.50	2,213.60
Malaysia	14,629.40	5,096.10	9,916.00	6,411.90	24,545.40	11,508.00
Myanmar	364.5	262.4	88.5	30.4	453.00	292.80
Cambodia	108.7	121.9	2	1.3	110.70	123.20
Brunei Darussalam	204	43.4	3,036.40	1,864.70	3,240.40	1,908.10
Lao People's D. Rep	1.1	3.7	2.2	2.9	3.30	6.60
Vietnam	2,145.50	1,355.20	2,056.60	994.2	4,202.10	2,349.40
NAFTA	8,891.80	12,525.80	7,767.40	5,842.80	16,659.20	18,368.60
United States	8,550.50	11,614.20	5,164.30	4,787.20	13,714.80	16,401.40
Canada	226.9	550.6	2,603.10	1,055.60	2,830.00	1,606.20
Mexico	114.4	361	0	0	114.40	361.00
Others APEC	203,673.70	49,146.30	17,924.00	18,088.60	221,597.70	67,234.90
Japan	66,094.00	23,632.80	2,372.90	6,526.70	68,466.90	30,159.50
Hongkong	11,742.90	1,687.50	0	0	11,742.90	1,687.50
Korea, Republic of	37,894.50	7,582.70	0	0	37,894.50	7,582.70
Taiwan	27,153.60	2,596.70	0	0	27,153.60	2,596.70
China	53,392.00	9,675.50	9,215.00	8,557.90	62,607.00	18,233.40
Australia	4,496.40	3,394.60	6,336.10	3,004.00	10,832.50	6,398.60
Others	2,900.30	576.5	0	0	2,900.30	576.50
European Union	24,038.10	13,300.00	2,884.50	7,679.90	26,922.60	20,979.90
United Kingdom	2,014.50	1,454.20	564.2	654	2,578.70	2,108.20
Netherlands	4,394.20	2,749.50	392.2	504	4,786.40	3,253.50
France	353	802.9	251.4	1,443.70	604.40	2,246.60
Germany	1,294.70	2,316.00	698.9	1,982.00	1,993.60	4,298.00
Belgium	820.6	1,332.20	345.5	338.4	1,166.10	1,670.60
Denmark	59	140.8	11.3	101.3	70.30	242.10
Sweden	31.6	109.8	107.3	773.2	138.90	883.00
Finland	24.9	121.3	54.8	326.9	79.70	448.20
Italy	6,961.80	1,380.00	150.2	667.5	7,112.00	2,047.50
Spain	5,220.60	1,906.20	124.6	286.4	5,345.20	2,192.60
Greece	702.7	233.5	16.3	29.3	719.00	262.80
Poland	85.9	190.9	0	0	85.90	190.90
Austria	0	0	41.3	127.7	41.30	127.70
Ireland	0	0	41.9	170.9	41.90	170.90
Portugal	0	0	10.8	10.2	10.80	10.20
Others European Union	2,074.60	562.7	73.8	264.4	2,148.40	827.10
Rest of Europe	54,607.20	16,845.50	2,421.20	1,579.20	57,028.40	18,424.70
Total	**606,901.70**	**198,065.30**	**63,484.00**	**56,982.70**	**670,385.70**	**255,048.00**

Source: Indonesian Statistic 2008
Note: Since January 2007 the European Union is comprised of 27 countries

1.2. Administration System and Financial Condition

A. Administration System

18. The Indonesian government has started a wide-ranging process of decentralization, transferring major administrative and fiscal responsibilities to local governments based on the Law

No.22, 1999. Under these circumstances, administrative system of Indonesia has been dramatically changing.

19. As of April 2009, there are 33 provinces (Propinsi), 2 special regions (Aceh and Yogyakarta) and 1 special capital city district i.e. Jakarta (Daerah Khusus Ibukota). It is noted that the province of West Java and Irian Jaya have been divided into two new provinces, i.e. Papua and West Papua, Banten and West Java respectively, under the recent decentralization movement. Each province has its own capital city and there are regencies/cities (Kabupaten/Kota) under the province, which are thought to become the key administrative units in the decentralization.

20. Administration of the Case Study area is as follows: DKI Jakarta consists of 5 districts. The capital of Banten province is Serang city and consists of 4 regencies and 2 municipalities including capital city. The capital of South Kalimantan province is Banjarmasin city and consists of 11 regencies and 2 municipalities.

Figure 1.2-1 Province, Regency and City (Banten, Jakarta DKI)

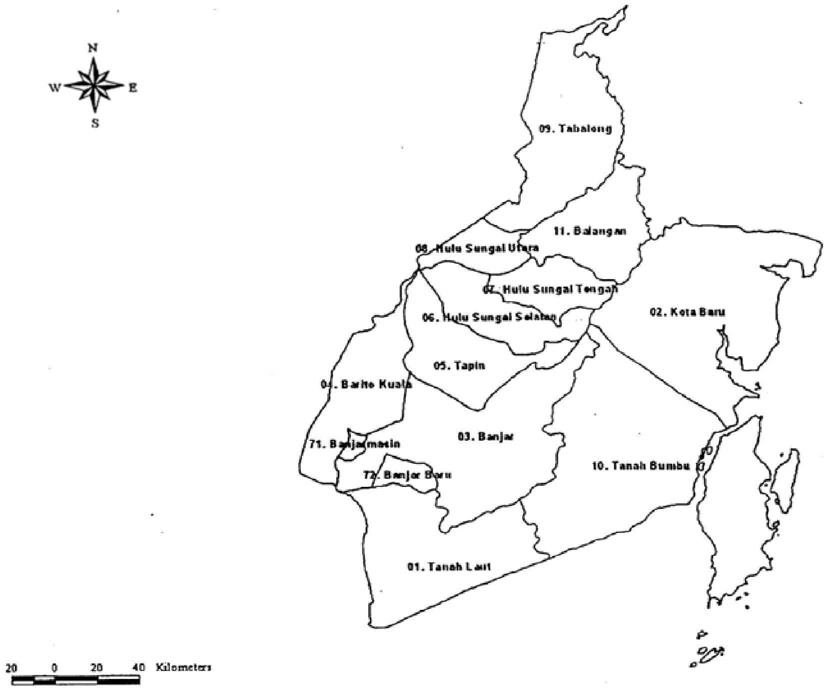


Figure 1.2-2 South Kalimantan Province

21. The head of the Government is the President, who is responsible for appointing cabinet members. There are three (3) coordinating ministers, nine (9) state ministers and seventeen (17) ministers. As for the transport sector, Minister for Transportation takes charge of the Department of Transport (Perhubungan), while State-Owned Enterprises (SOEs) such as PT. Pelindo, PT. Pelni are partly under the control of State Minister for State-Owned Enterprises.

22. In addition to various policy implementations regarding decentralization of the administrative system, the Indonesian Government tackled another national strategy on Public Private Partnership. Presidential Regulation No.67/2005 was put in force to set out the platform for the national PPP scheme. The Presidential Regulation, coupled with the Ministry of Finance Regulation No.38/2006, provide government support for the undertakings of infrastructure development by the private sector.

23. Three government organizations were newly established to promote the national PPP scheme. These are the "National Committee on Acceleration of Infrastructure Provision" (KKPPI), "Risk Management Committee on Infrastructure Provision" (RMCIP) and "Risk Management Unit" (RMU).

24. KKPPI was established by the Presidential Regulation No.42/2005 and possess the core function for the promotion of infrastructure development under the PPP scheme. Coordinating Ministry of Economic Affairs (CMEA) acts as a Chairman of the committee and the Director General of the National Development Planning Agency (BAPPENAS) sits as an Executive Chairman. The members of the committee are the Minister of Finance, Minister of Internal Affairs, Minister of Public Works, Minister of Energy and Mining, Minster of Transportation, Minister of Communication, Minster of State Own Companies and Minister of Cabinet.

25. Three main tasks of the KKPPI are 1) To set up the framework of Public Service Obligation (PSO), 2) To act as liaison between PSO and PPP and 3) To establish compliances of PSO and PPP. Supreme priority is given to fairness and transparency when setting up the rules of compliance for procurement of public service. KKPPI is also preparing PPP Operational Guideline Manual in association with the World Bank and in coordination with the Asian Development Bank.

26. RMCIP and RMU are the organizations established in the Ministry of Finance to deal with the risk management of PPP projects. Main task of the RMCIP is feasibility evaluation of proposed PPP projects and overseeing the execution of approved PPP projects. Actual assessment of financial risk of proposed PPP projects is undertaken by the RMU. Every PPP project that seeks government support and assistance should be examined by the RMU prior to application to the government.

B. Financial Performance of the Government & Case Study Provinces

(i) Financial Situation of Central Government

27. Prior to the economic crisis, Indonesia had a relatively comfortable debt situation. The GOI borrowed abroad each year, primarily from the World Bank, Asian Development Bank, and a group of bilateral donors grouped in the Consultative Group on Indonesia (CGI). The proceeds were used to fund the development budget. By long-established convention, the GOI avoided domestic borrowing, and Indonesia's debt/GDP was sustainable. Indonesia's debt management policies were an important part of what was widely viewed as a prudent macroeconomic management strategy.

28. This situation changed in 1998-99, when Indonesia for the first time developed a large domestic debt stemming from the costs of the country's banking sector bailout. As Figure 1.2-3 and 1.2-4 indicates, the broadest measure of the impact of debt is the ratio of total government debt to total economic output or GDP. The ratio of public debt to GDP has fallen from 100 percent (1999) to 40.8 percent in 2006 and is expected to decline to 30-35 percent by 2009 (Figure 1.2-3). This is comparable with neighboring countries.

29. The burden of Indonesia’s debt on its budget is back to pre-crisis levels. Another measure of the impact of debt is the share of government resources that have to be paid to service debt, including principle and interest. Debt service as a share of total expenditures improved from as high as 38 percent in the pre-crisis level (1994-96) to 26 percent in recent years (2004-06). Debt service to expenditures is projected to be around 23 percent.

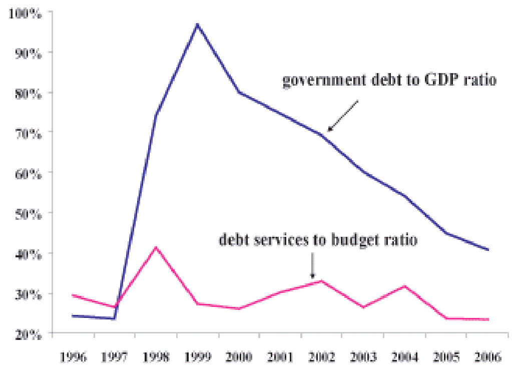


Figure 1.2-3 Easing Debt Burden (Gov’t debt to GDP ratio, percent)

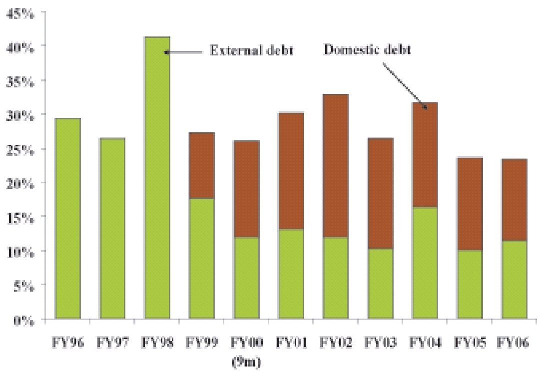


Figure 1.2-4 Government Debt Services share to Total Expenditure (in percent)

(ii) Financial Situation of Local Government

30. Financial situations of local governments in the Study area, DKI Jakarta, Banten and South Kalimantan provinces, are shown in Table 1.2-1.

Table 1.2-1 Financial Situation of Local Governments in Banten area and South Kalimantan

Unit: 000' Rupiah

ACCOUNT	INDONESIA		DKI JAKARTA		BANTEN		SOUTH KALIMANTAN	
	2005	2006	2005	2006	2005	2006	2005	2006
TOTAL RECEIPTS (A + B)	**66,210,449,952**	**71,884,001,651**	**15,407,185,548**	**18,000,985,953**	**1,904,013,213**	**2,090,850,554**	**1,932,088,991**	**2,243,950,676**
A. LOCAL GOVERNMENT RECEIPT	**56,907,842,181**	**60,443,704,294**	**13,476,933,941**	**15,093,985,950**	**1,598,106,614**	**1,784,943,955**	**1,842,129,716**	**2,153,171,416**
1. Local Government Original Receipt	27,885,722,629	29,210,473,201	7,597,867,917	8,600,927,950	1,070,237,769	1,240,953,343	530,110,534	582,100,834
1.1. Local Taxes Receipt	2,420,878,698	25,697,794,721	6,513,811,209	7,400,000,000	1,037,938,696	1,210,841,000	454,434,811	514,510,000
1.2. Retributions Receipt	1.344.475.078	1,419,085,872	419,674,270	443,760,370	2,498,721	2,657,500	34,085,148	39,235,884
1.3. Output of Regional Gov. Corporate and Management of Separated Reg. Gov. Wealth	775,550,046	781,330,213	103,219,808	129,784,220	9,355,693	13,359,321	9,408,311	10,157,000
1.4. Other Local Gov. Original Receipt	1,556,910,525	1,312,262,395	561,162,630	627,383,351	20,444,659	14,095,522	32,182,264	18,197,950
2. Balanced Budget	24,777,712,234	28,310,398,276	5,770,008,024	6,384,000,000	522,487,103	542,990,612	388,055,704	494,484,874
2.1. Tax Share	8,869,816,934	8,890,648,111	4,858,538,161	5,512,000,000	324,296,992	297,000,000	89,080,855	76,800,000
2.2. Non Tax Share/Natural Resources	6,658,425,251	4,994,322,925	138,445,963	100,000,000	172,111	696,612	60,607,879	39,104,874
2.3. General Alocation Funds	9,223,416,989	14,413,954,590	773,023,900	772,000,000	198,018,000	245,294,000	238,366,970	378,580,000
2.4. Special Alocation Funds	26,053,060	11,472,650	0	0	0	0	0	0
3. Other Receipt	4,244,407,318	2,922,832,817	109,058,000	109,058,000	5,381,742	1,000,000	5,797,240	0
B. LOCAL GOVERNMENT FINANCING	**9,302,607,771**	**11,440,297,357**	**1,930,251,607**	**2,907,000,000**	**305,906,599**	**305,906,599**	**89,959,275**	**90,779,260**
TOTAL EXPENDITURES (A + B + C)	**66,210,449,952**	**71,884,001,651**	**15,407,185,548**	**18,000,985,953**	**1,904,013,213**	**2,090,850,554**	**1,013,922,762**	**1,167,364,968**
A. CIVIL SERVANTS EXPENDITURE	**15,867,136,603**	**20,833,613,924**	**4,362,083,098**	**5,707,137,140**	**338,222,825**	**417,089,746**	**286,284,778**	**404,808,466**
1. Personnel Expenditure	8,702,467,329	11,390,884,064	2,427,684,926	3,093,599,606	116,042,516	123,254,335	180,370,895	258,734,574
2. Goods and Services Expenditure	3,561,994,503	4,830,093,131	1,016,320,750	1,488,646,258	152,156,103	209,094,268	55,867,089	75,570,879
3. Official Travel Expenditure	960,789,659	1,354,866,867	27,837,567	32,062,757	21,552,802	38,665,370	21,539,453	32,408,461
4. Maintenance Expenditure	842,500,395	988,695,044	241,667,803	229,629,450	14,062,748	17,442,436	14,519,798	21,855,062
5. Other Expenditure	9,051,090	0	0	0	0	0	0	0
6. Capital Expenditure	1,790,333,627	2,269,074,818	648,572,052	863,199,069	34,408,656	28,633,337	13,987,543	16,239,490
B. PUBLIC SERVICES EXPENDITURE	**33,332,670,134**	**46,264,547,042**	**8,085,481,435**	**12,074,306,314**	**1,150,121,273**	**1,535,279,859**	**510,448,675**	**718,817,908**
1. Personnel Expenditure	4,292,719,010	5,595,016,346	2,438,293,975	3,453,899,855	13,371,846	13,061,644	23,692,811	40,871,217
2. Goods and Services Expenditure	4,973,200,074	7,631,408,017	1,913,960,565	2,790,186,908	184,114,418	264,446,068	56,176,274	58,421,554
3. Official Travel Expenditure	502,408,435	791,622,669	15,431,763	16,183,780	35,800	8,663,435	5,634,438	10,725,968
4. Maintenance Expenditure	1,427,282,628	2,490,080,070	543,377,274	925,628,480	25,081,923	56,922,319	7,555,320	13,803,098
5. Other Expenditure	0	0	0	0	0	0	0	0
6. Capital Expenditure	7,992,726,618	13,869,666,360	2,757,513,496	2,777,070,291	208,511,058	283,344,938	123,924,929	253,763,926
7. Sharing Fund and Financial Aids	13,796,690,280	15,066,603,134	407,803,912	135,624,000	718,801,558	888,841,455	293,164,903	339,232,145
8. Unpredicted Expenditure	347,643,089	820,150,446	9,100,450	75,713,000	204,670	20,000,000	300,000	2,000,000
C. LOCAL GOVERNMENT FINANCING	**17,010,643,215**	**4,785,840,685**	**2,959,621,015**	**219,542,499**	**415,669,115**	**138,480,949**	**217,189,309**	**43,738,594**

Source: BPS

2. Analysis of the Role of the Port Sector in the National Development Plan

31. Transportation has the role to encourage, stimulate and support all the aspects of development in politics, economy, culture, security and defense. The development of the transportation sector in the National Development Plan would be directly reflected to economic growth. Therefore, transportation has important and strategic roles in macro economy and micro economy as well.

32. Among the transportation functions, the port sector possess a vital role as a gateway for both international and domestic trade. Successful development of the National Port System is the decisive element for the entire Development Plan of the country.

2.1. National Development Plan

33. Present national development plan is National RPJP or National Long-term Development Plan.

34. The National RPJP covers a 20-year period from 2005 to 2025. BAPPENAS (National Development Planning Board) is responsible for formulation of the plan within the central government.

35. Based on the long-term plan, National RPJM or National Medium-term development Plan is set out for the period of 2005-2009. The development plans are supported by the government's Working Plan or RKP. Those three-tier structures constitute the national development planning system.

36. The objectives and strategies of the plan are summarized as follows:

- Actualize the country's competitiveness
- Establish democratic society based on law
- Actualize a safe, peaceful and united Indonesia
- Reduce economic disparity throughout the country
- Improve and maintain Indonesia's environmental quality and create sustainable development
- Develop decent, ethical and civilized human resources
- Establish good and active international relationships in order to signify Indonesia's international role

37. The key features of the plan and indicators of the development performance to be achieved by year 2025 are as follows:

- Higher income per capita
- Welfare disparity is reduced
- The role of manufacturing industry is increased in terms of income contribution and employment rate
- The linkage among sectors in the production process is developed
- Natural resources are utilized in a sustainable manner
- The quality of human resources is increased reflecting through the lowest level of

educational background, the educational participation rate and the number of expertise produced

- The prosperity should also be reflected through higher health rate, lower population growth rate, higher life expectancy rate, improved social service quality and higher productivity
- Well-established law and politics institution and system
- Significant role in international affairs

38. Following is an overview of the history of the National Development Plan in Indonesia.

39. In the past, Indonesian development policy and strategy was known as the Guidelines for State Policy (GBHN). The first Long-term Development Plan (PJP I) was implemented during the 25 year period from 1969 to 1993. The second Long-term Development Plan (PJP II) was planned during the next 25 year period from 1994 to 2018. However, due to the economic crisis, the second Long-term plan could not be accomplished.

40. The Long-term Development Plan was served by a series of Medium-term Plans (Repelita) starting from 1969. The main features of each Repelita are as follows:

Table 2.1-1 Main Feature of Repelita

Medium-term Plan	Implemented period	Main feature
Repelita I	1969-1973	Stressed increased production of staple foods and infrastructure development
Repelita II	1974-1978	Focused on agriculture, employment and regionally equitable development
Repelita III	1979-1983	Emphasized development of agriculture-related and other industries
Repelita IV	1984-1988	Concentrated on basic industries
Repelita V	1989-1993	Targeted transport and communications
Repelita VI	1994-1998	Develop human resources and establish a solid foundation for subsequent steps of development

41. With the goal of recovering from the economic crisis, the succeeding Medium-term plan was implemented under the name of Propenas as follows:

Table 2.1-2 Main Feature of Propenas

Medium-term Plan	Implemented period	Main feature
Propenas	2000-2004	(a) Recover from the crisis by reforming democracy, law enforcement and establishment of good governance (b) Accelerate the economic recovery through community empowerment (c) Develop local regions by implementing local autonomy and local development

42. Following Propenas, the latest Medium-term plan, under the new National Long-term Development Plan (National RPJP), is National Medium-term Development Plan (National RPJM)

Table 2.1-3 Main Feature of Mid-term Development Plan

Medium-term Plan	Implement period	Main feature
National RPJM	2005-2009	(a) Improve the judicial system (b) Create a safe and peaceful society (c) Build a economically and socially prosperous country

43. Chronological development of National Medium-term Development Plan is shown in Table 2.1-4.

Table 2.1-4 Development of National Medium-term Development Plan

Period	Name of National Development Plan (Medium-term Plan)	Long-term Plan
1948～1950	Three-year Production Program (Kasimo Plan)	
1950～1951	Special Outreach Program	
1951～1952	Emergency Industry and Minor-industry Development Plan (Sumitro Plan)	
1956～1960	Five-year Development Plan	
1961～1969	Eight-year National Comprehensive Development Plan	
1969～1973	The First Five-year Development Plan (REPELITA I)	The First Long-term Development Plan (1969～1993)
1974～1978	The Second Five-year Development Plan (REPELTA Ⅱ)	
1979～1983	The Third Five-year Development Plan (REPELITA Ⅲ)	
1984～1988	The Fourth Five-year Development Plan (REPELITA Ⅳ)	
1989～1993	The Fifth Five-year Development Plan (REPELITAV)	
1994～1998	The Sixth Five-year Development Plan (REPELITA Ⅵ)	The Second Long-term Development Plan (1994～2018) (cessation)
2000～2004	National Long-term Development Plan (PROPENAS)	
2005～2009	Medium National Development Plan (RPJM)	National Long-term Development Plan (2005～2025) (processing)

2.2. Regional Development Plan

44. The concept of regional autonomy or decentralization was introduced in Indonesia in the late 90s, and since then, decentralization has been the key-word for regional development policy.

45. It constitutes one of the main pillars of PROPENAS to serve for the “development of local regions through strengthening the implementation of local autonomy and inter-regional development”. The concept was implemented for the purpose of creating a rational balance in the distribution of responsibilities and authorities between the Central Government and Regional Government. The autonomy policy was a must for the sound development of the region.

46. The prevailing regulation regarding local governance is Law 32 of year 2004. This is the revised version of Law 22 of 1999 which first introduced decentralization in Indonesia. In this law, the expected role of the central government is emphasized as follows:

- Improvement of the development balance among regions
- Improvement of environmental conditions to prevent larger natural disaster
- Realization of development integrity and cooperation among the provinces
- Fulfilling the basic needs of the community

47. The central government is therefore obliged to provide macro national development and control planning, facilitate cooperation among local/provincial governments, provide necessary standardization and facilitation. The government affairs that fall under the sole responsibility of the Central Government now consist of foreign policy, defense, security, national transport, judiciary, monetary, national fiscal and religious affairs. The remaining authorities have been delegated to the regions, unless otherwise regulated in the Law.

48. In response to the framework of the Law, the port sector reshuffled the port control scheme and established the handover procedure to the regional government under Ministerial Decree Number 56 of year 2002.

49. The gap in development among regions is still large, particularly between Java Island and outside Java Island, or between the western part of Indonesia and eastern part of Indonesia.

50. The problems that the less developed areas are facing can be summarized as follows:

- Limited transportation access which physically connects these areas to the developed areas
- Low population density and widely spread-out population
- Limited natural and human resources to boost the development
- Ignorance by local government view no direct contribution to local revenue
- Inadequate support from related industrial sectors

51. Some of the major policies taken by the government to overcome the situation are as follows:

- Intensify governments' efforts to develop the backward and isolated regions in order to catch up with other regions, such as strengthening economic linkage with strategic and fast-growing regions within one regional economic development system.
- Accelerate the development of medium and small sized cities, particularly those outside Java Island so that the cities can play their role as the engine of development for their surrounding regions.
- Formulate an efficient and effective land management system, and ensure the land rights law enforcement by implementing the principles of justice, transparency and democracy.

2.3. Industrial Development Policy/Plans

52. One of the fundamental measures to strengthen the basis of sustainable development of the country is the attempt to increase the global competitiveness of the Indonesian economy. The government set out the following 5 (five) strategies for that effect:

- Promote export of Indonesian products
- Promote industries with competitive advantage
- Strengthen market-oriented business mechanism
- Promote tourism taking advantage of country's natural environment
- Increase science and technological capability

53. In addition to those main strategies, the government emphasizes the importance of promoting Indonesian small and medium sized enterprises (SMEs). For the improvement of global competitiveness of Indonesian products, development of a logistics system which links the production system and distribution system is required together with the development of manufacturing industries.

54. For the consolidated development of primary, secondary and tertiary sectors, the industrial cluster approach is proposed. By deploying this methodology, the linkage among several industrial sectors would be tightened and networks connecting the entire production and distribution chain would be created. The industrial cluster system would be promoted by establishing a national industrialization strategy. It is necessary that the central government, local government and private sector be involved in this scheme.

55. Attraction of foreign direct investment is another important area for industrial development. The current law on investment is rather outdated. The government is intending to unify the existing Domestic Capital Investment Law (No.6 of year 1968) and Foreign Investment Law (No.1 of year 1967) to regulate investment in all sectors. The new law will incorporate market-oriented principles of investment policy and establish basic guarantees for foreign investors, such as equal treatment of Indonesian and foreign investors whenever possible, and protection against expropriation of investment. Regulations and Decrees issued under the earlier investment laws will be streamlined and reformed to minimize negative list and other restrictions on local and foreign investment.

56. At the level of national strategy, in line with the dynamics of globalization and the need to stimulate the growth of investment and increase the performance of the industry sector, The Special Economic Zone (KEK) project was established. As a pilot project, the government has designated the Batam/Bintang/Karimum zone to be enhanced through co-operation with the Singapore government. As the next step, should this pilot project succeed, KEK in other provinces that fulfils the prerequisites can be further developed. The implementation of the Batam/Bintang/Karimum policy is a form of close cooperation between the central government and regional government in conjunction with the participation of the private sector.

2.4. Analysis on the Existing Development Plan of 25 Strategic Ports

57. The last Governmental Regulation (PP) regarding Port was issued in 2001 (PP Number 69/2001) as a revision of previous Regulation (PP Number 70/1996). The Governmental Regulation (PP 69/2001) provides, among other things, the National Port System which consists of new activity, role, function, classification of ports in Indonesia.

58. For the purpose of reinforcement of the provision in the Governmental Regulation (PP69/2001), several Ministerial Decrees (KMs) were issued in 2002. Ministerial Decree (KM Number 53/2002) is dealing with the “National Port System”. The general concept of port classification on the system is shown in Table 2.4-1.

Table 2.4-1 Classification of Port based on “National Port System”

Classification		Port Management Body	Number of ports
Public Port	International Hub Port	IPC	2(*)
	International Port	IPC	18
	National Port	IPC/Local Government	245
	Regional Port	Local Government	139
	Local Port	Local Government	321
	Total		725
Special Port		Private Sector	1,414
G. Total			2,139

(*): Tg. Priok and Tg. Perak

59. National Port System also provided different port categories:

- Ports open for international trade
- Ports not open for international trade

60. However, it does not mention the clear definition and relation of another category of the ports:

- Commercial Ports
- Non-Commercial Ports

61. It does not clearly state the responsibility of State-owned Corporation (IPC) as a port management body. It merely stipulates that the implementation of port affairs can be transferred from the government to State-owned Corporation (IPC).

62. Ministry of Transport further designated “25(twenty-five) Strategic Ports “ from among Indonesian commercial ports. Out of these 25 ports, 4 (four) ports are named as “Main Ports”. Those are Belawan, Tg. Priok, Tg. Perak and Makassar. Details of the Strategic Ports are shown in Table 2.4-2.

Table 2.4-2 25 Strategic Ports in Indonesia

	Port	Province	IPC	Main Port
1	Lhokseumawe	Aceh	1	
2	Belawan	North Sumatra		◎
3	Dumai	Riau		
4	Pekanbaru	Riau		
5	Batam	Riau		
6	Tanjung Pinang	Riau		
7	Teluk Bayur	West Java	2	
8	Palembang	South Sumatra		
9	Panjang	Lampung		
10	Banten/Bojonegara	Banten		
11	Tanjung Priok	Jakarta		◎
12	Tanjung Emas	Central Java	3	
13	Tanjung Perak	East Java		◎
14	Banjarmasin	South Kalimantan		
15	Pontianak	West Kalimantan	2	
16	Balikpapan	East Kalimantan	4	
17	Samarinda	East Kalimantan		
18	Benoa	Bali	3	
19	Tenau/Kupang	East Nusa Tengara		
20	Bitung	North Sulawesi	4	
21	Makassar	South Sulawesi		◎
22	Ambon	Maluku		
23	Sorong	Irian Jaya		
24	Biak	Irian Jaya		
25	Jayapura	Irian Jaya		

3. Analysis on the Policy and Regulatory Framework of the Port Sector

3.1. Basic Policy for Maritime Transport in Indonesia

63. Maritime transport plays a vital role in an archipelago country such as Indonesia. Accordingly, it should continue to be improved to support sustainable development of the Indonesian economy. In maritime transport, shipping and port are essential sectors and the basic policy framework of both sectors is stipulated in the Shipping Law (UU Number 17/2008).

64. Each policy for shipping and port is further defined in Government Regulation (PP) and subsequently in Ministerial Decree (KM). Since the Shipping Law has been renewed quite recently (2008), supporting regulations such PP and KMs are still in the drafting process as of this writing (April 2009). But the Government Regulation about ports No.61/oct.20/2009 was already signed by the President and necessary Ministerial Decrees are to be provided in due course.

65. Fairly high priority is given to port development as well as to the development of national shipping in the national policy, and that forms the basis for all kinds of regulations and plans/strategies.

A. Port

66. The basic policy for port development is to expand port facilities and install the necessary equipment to meet the future demand and hinterland potentials, maintaining available capacity ahead of demand.

67. To attain these targets, private sector participation is also introduced in the policy aiming at the following objectives:

- Increase national port capacity
- Relieve government from high investment burdens
- Import higher standard of operation efficiency through fair competition

68. As for classification of ports, the Shipping Law categorizes the ports into 3-tiered hierarchies, Main Port, National Port and Feeder Port. The integration and harmonization of existing categories of ports, such as public port /special port, commercial port/non-commercial port, are to be clarified in the course of formulation of subsequent Regulations and Decrees.

B. Shipping

69. The basic policies for shipping development are as follows:

- Promote national shipping for both international and domestic sea transport services and reduce dependence on foreign shipping
- Secure the availability of proper inter-island transport services to cover all regions of the country, especially the eastern part of Indonesia.

70. As to the first point, it is hard to compete with foreign shipping lines for national shipping companies, whose fleets are aged, small and slow compared to foreign ships. The government is now making efforts to redress this imbalance by supporting national shipping through tax exemptions on transfer of ownership and other financial aid. In addition to those existing policies, the government introduced Cabotage rules in the new Shipping Law (UU Number 17/2008). Under the new provision, domestic sea transport is exclusively reserved for national shipping companies using ships flying Indonesian flag and manned by Indonesian crew members. For the smooth transition of this radical change in shipping, the Law further provides a 3 (three) year grace period for the actual implementation of the Cabotage rule.

71. As to the second point, the government subsidizes shipping operations of low profit and/or pioneer routes, which are generally concentrated in eastern Indonesia. The Government Regulation on Shipping stipulates that regular services, which should be maintained irrespective of economic feasibility, are determined by the government and detailed ruling is followed by the Ministerial Decree for Domestic Shipping Network.

3.2. Key Laws and Regulations Related to Maritime Transport

72. Key laws/regulations regarding maritime transport are chronicled in Figure 3.2-1 which include national policy/plan and overall transport sector strategy for reference. These laws/regulations shall be revised according to the new Shipping Law during the course of the Study and shall be carefully considered in the course of the Study. Until their revision, existing regulations shall be continuously applicable in so far as there are no contradictions with the new Shipping Law. The most important government regulations are the regulation of Shipping Operation (PP No.82/1999), and the regulation of Port Affairs (PP No.69/2001). General principle of these regulations is summarized below.

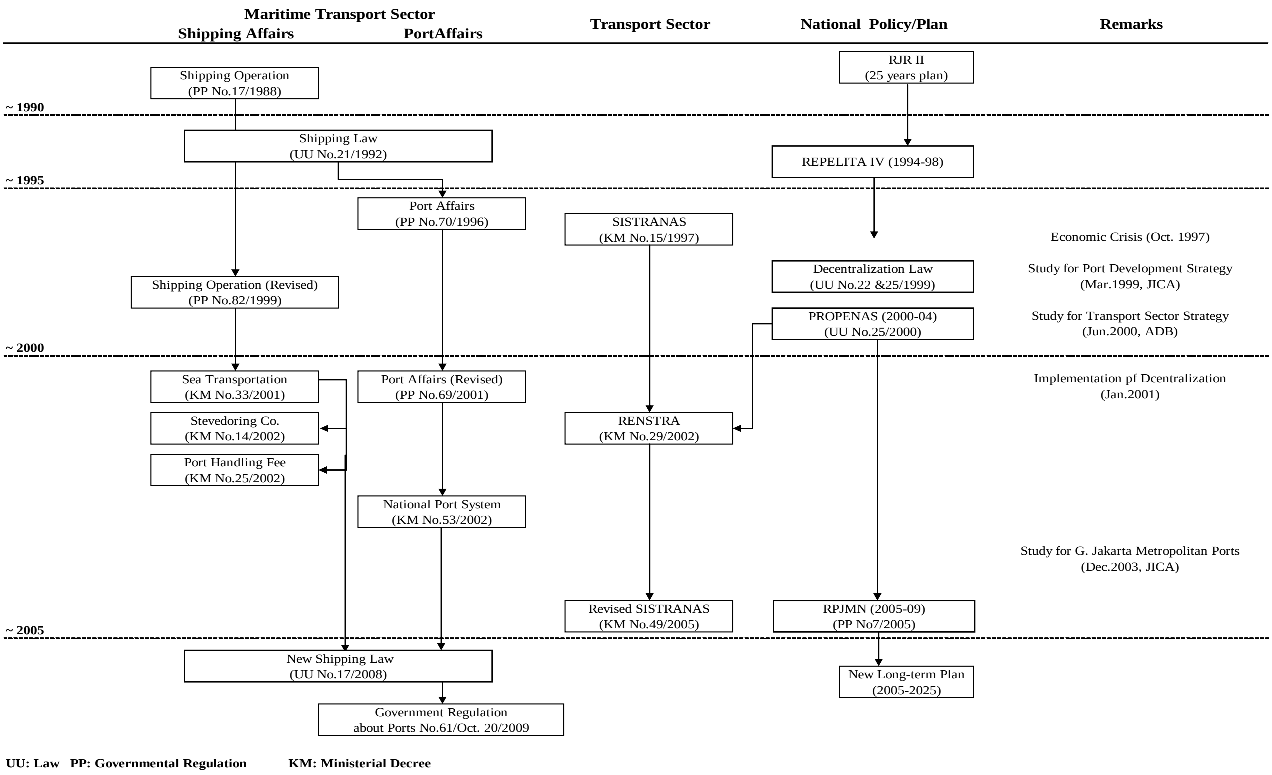


Figure 3.2-1 Key Laws, Regulations and Decree regarding Maritime Transport Policy
(compiled by the JICA Study Team)

A. Government Regulation on Shipping Operation (PP No.82/1999)

73. Government Regulation for Shipping Operation (PP No.82/1999) is the revised regulation (PP No.17/1988) which aims at strengthening the position of Indonesian shipping companies with regard to competition among international shipping companies. The regulation adopts rather restricted cabotage principles than the previous regulation for international shipping. The regulation also stipulates general principles in terms of the following issues: Sea transportation concept by type of activities, shipping network concept, activities of shipping agency, requirement for shipping companies and so forth.

74. Several Ministerial Decrees have been issued based on the regulation. They are decree for Sea Transport Operation (KM No.33/2001), decree for Stevedoring (KM No.14/2002), decree for Cargo Handling Charge (KM No.25/2002).

B. Government Regulation on Port Affairs (PP No.70/1996 and PP No.69/2001)

75. Previous Government Regulation for Port Affairs (PP No.70/1996) identified basic roles of the nation's ports and classified them into several categories, stressing the need of establishing the national port structure and development of the ports in line with the structure. It also introduced the concept of "port working area" and "port interest area" regarding port water area.

76. In line with the Law of Autonomy (UU No.19/25/1999), the government issues the revised Government Regulation for Port Affairs (PP No.69/2001, hereinafter referred to as "Port Regulation"). Main stipulations in the Port Regulation are as follows:

- National Port System consisting of new activity, role, function and classification of ports is decided by Communication Minister.
- Decision system of port location, Port Master Plan, and Port Working Area & Port Interest Area with responsibility of central/local government and port organizer.
- Principals of development and operation of the public/special ports.
- Activities and services to be provided in the public/special ports.
- Principals of tariff system such as kind, structure and classification.

77. In August 2002, Ministerial Decree (KM No.53/2002) on "National Port System" was issued according to the Regulation PP No.69/2001 on Port Affairs. The general concept of port classification is described as follows, though it remains unclear what effect or benefit will be brought through this classification:

Table 3.2-1 Classification of Ports

	Public Port	Special Port
Sea Port	• International Hub Port (Primary trunk port) • International Port (Secondary trunk port) • National Port (Tertiary trunk port) • Regional Port (Primary feeder port) • Local Port (Secondary feeder port)	• Nation/International Special Port • Regional Special Port • Local Special Port
Lake & River Port	(Non classification)	
Ferry Port	• Port for inter Province and Country • Port for inter Regency/City • Port for inside Regency/City	

78. National Port System also stipulated that all ports are divided into two groups, ports open for international trade and ports not open for international trade. However, it does not mention commercial ports and non-commercial ports, nor does it clearly state the responsibility of State-Owned Corporation (IPC) as a port management body. It merely stipulates that the implementation of port affairs can be transferred from the government to a State-Owned Corporation.

C. New Shipping Law (No.17/2008)

79. In the new Shipping Law, types of Port are stipulated as a. seaport and b. river and lake port (Article 70 (1)) and further seaport is hierarchically classified into a. Main Port, b. National Port and c. Feeder Port.

80. Main Port is an international trunk port which functions either as a international port (port for international trade) or an international hub port (port for international trade and international transshipment) and a National Port is a domestic trunk port (trunk port for domestic trade) (Article 70 (2)).

81. New Shipping Law also stipulates National Port System as follows:

82. National Port System shall be realized in the framework of organizing reliable and high capacity ports, guaranteeing efficiency and having global competing power to support national and regional development with Archipelagic Principle (Article 67 (1)) and,

83. National Port System shall constitute a port system in national scope that describes port planning based on economic zone, geographical area, and regional comparative advantage, and natural condition (Article 67 (2)) and,

84. National Port System shall contain a. the roles, functions, types and hierarchy of port, b. National Port Principal Plan and c. port location (Article 67 (3)).

85. Hence, National Port System is similar to the combination of Japanese Decree on the Designation of Major Port and Local Port, and Basic Direction of Management, Development and Preservation of Ports and Channels.

86. Typical difference of the regulatory framework of new Shipping Law and old one lies in the stipulation of Port Management Body which aims to separate the role of regulator and operator in the development and management of the port.

87. Institutional framework stipulated in the new Shipping Law is summarized in Figure 3.2-2.

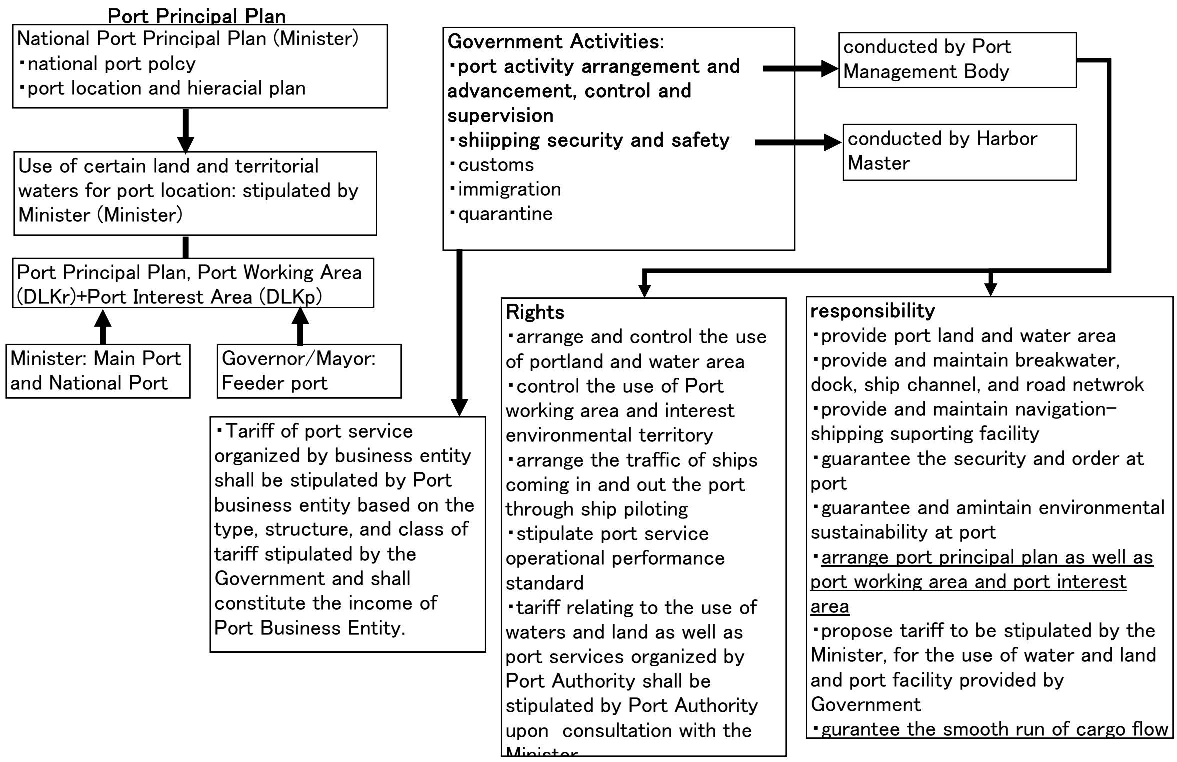


Figure 3.2-2 Institutional Framework of new Shipping Law

(i) Planning Procedure

88. The most basic port plan is the National Port Principal Plan which constitutes a guideline for determining the location, construction, operation, port development and preparation of Port Principal Plan (Article71 (1)).

89. National Port Principal Plan is stipulated by the Minister for a twenty (20)-year period and may be reviewed once in every five years (Article 71 (4)).

90. Based on the National Port Principal Plan, Port Principal Plan is to be stipulated for every port considering National Port Principal Plan, Provincial Territorial Layout Plan, Regency/Municipal Territorial Layout Plan, harmony and balance with other related activities at port, technical, economic and environmental feasibility, ship traffic security and safety and incorporating Port Working Area (DLKr) and Port Interest Area (DLKp) (Article 72 (2), 73 (1), (2)).

91. Port Principal Plan of Main Port and National Port is arranged by Port Management Body and stipulated by the Minister upon obtaining recommendation from the governor and regent/mayor concerning the conformity with provincial and regency/municipal territorial layout, and Port Principal Plan of Feeder Port as well as River and Lake Port is to be stipulated by the governor or regent/mayor (Article 76).

92. Further provision on guideline and procedure for stipulating Port Principal Plan and Port Working Area and Port Interest Area is to be provided with Government Regulation (Article 78) and its implementation guideline will be drafted in the course of the Study.

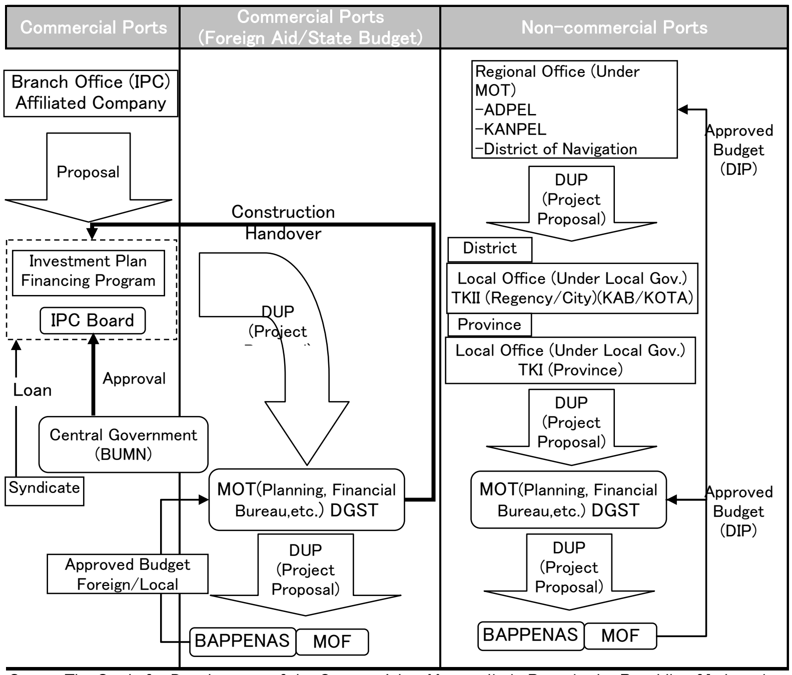
93. Well coordinated Port Principal Plan is a must as the guidance for Public-Private-Partnership to share the sound development plan with private sector which intends to invest in port. Especially, it is expected to provide the plan of infrastructure development to balance the demand and supply condition of port all over the nation

(ii) Investment Procedure with Budget Planning Procedure

94. Most of the investment in commercial ports is currently undertaken by IPC through its own retained earnings or loan from financial syndicate and investment project and plan is authorized mainly by MOSOC after approval of IPC’s board.

95. In case the project needs a loan from official development aid or subsidy from the government, project and budget is screened by MOT (DGST) and approved by the competent authority (BAPPENAS, MOF).

96. The project and budget of a non-commercial port is screened by MOT (DGST) based on the request made by its regional office and approved by the competent authority; these procedures are shown in Figure 3.2-3 and Figure 3.2-4.



Source:The Study for Development of the Greater Jalrta Metropolitain Ports in the Republic of Indonesia

Figure 3.2-3 Budgeting Procedure for Port Investment

97. Currently, financial resources for investment in the port sector are consist of IPC's investment (IPC's own fund, JV's finance, loan from financial syndicate), DGST's budget (subsidy to IPC, finance on ADPEL and KANPEL) and foreign aid which are shown in the table below.

Table 3.2-2 Financial Resource of Investment on Port Sector

Unit: million Rupiah

	Investment on Commercial Port		
	2006	2007	2008
IPC 2			
Own fund	11,134	68,137	36,353
JV concessionair	-	-	-
Affiliate of IPC	-	-	-
DGST			
ADPEL (commercial port)	256,678	236,718	228,404
Foreign Loan	758,144	765,197	865,197
Gant aid	-	-	-
	Investment on Non-commercial Port		
	2006	2007	2008
KANPEL (non commercial port)	219,901	259,657	602,127

Source: GDST and IPC 2

Unit: million Rupiah

	2006	2007	2008
ADPEL			
Expenditure for Operation	228,874	291,825	301,312
Expenditure for Investment	1,014,821	1,001,916	1,093,601
KANPEL			
Revenue from vessel	58,854	73,625	47,966
Revenue from government	-	-	-
Expenditure for Operation	116,375	142,484	157,259
Expenditure for Investment	219,901	259,657	602,127

Source: GDST

98. As to the revenue side, revenue structure of each port related entity is shown in Figure 3.2-4 and its amount is shown in Table 3.2-3.

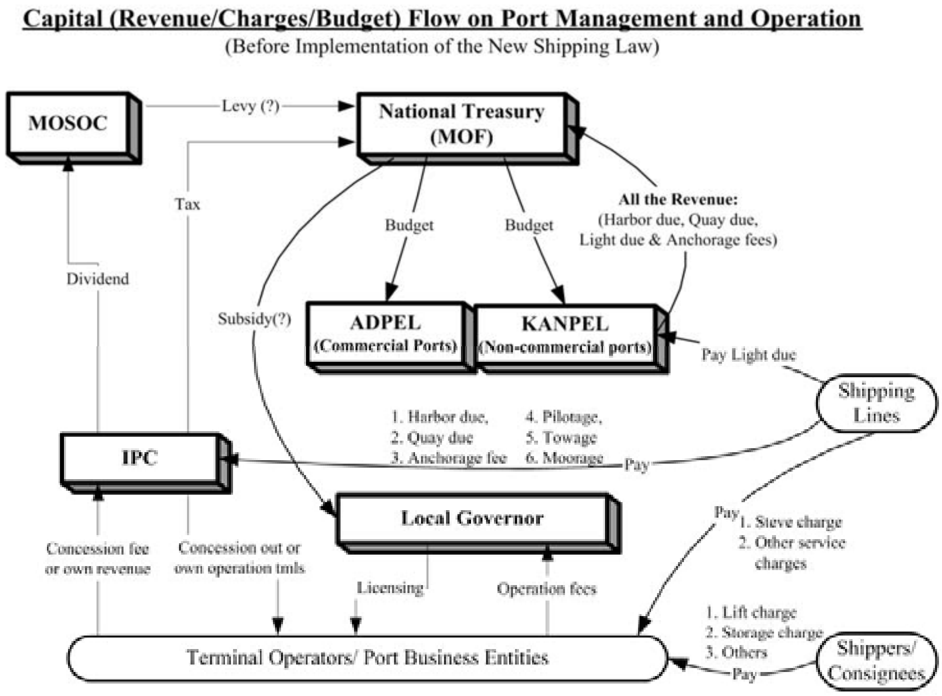


Figure 3.2-4 Revenue Structure

Table 3.2-3 Financial Performance of IPC

Unit: million Rupiah

Item	IPC 1*1	IPC 2*2	IPC 3*2	IPC 4*1
Operational Revenue-Net	590,255	1,968,070	2,061,081	422,514
Operational Cost	431,836	1,361,991	866,553	300,652
Cargo Volime(000 ton)	79,360	108,882	95,165	85,629
Profit before tax	186,163	1,069,912	863,819	102,919
State income tax	62,125	217,823	408,503	28,913
Net income	124,038	852,089	455,316	74,006
Total assets	1,231,378	5,441,796	3,889,676	971,316
Net Income/Total Asstes(%)	10.1	15.7	11.7	7.6
Net Income/Cargo Volume(Rp./ton)	1,563	7,826	4,784	864

Note; *1 figures from 2006, *2 figures from 2007
Source: Annual Reports and Financial Reports of IPC 2, GDST and MOSOC

Table 3.2-4 Financial Condition of IPC

IPC 1 — Unit: million Rupiah

	2002	2003	2004	2005	2006
Net Income	467,465	443,969	455,299	521,794	590,255
Operating Expenses	241,592	282,448	326,292	358,955	431,836
Sub total	225,873	161,522	129,007	162,839	158,419
Exchange Rate Difference Profit (Loss) - Net	-1,245	-2,020	13,562	15,751	2,785
Interest Income (Deposit Interest & Demand Deposit)	29,588	16,196	9,191	12,861	27,123
Financial Burden	-	-	-3,566	-	-
Correction of Corporate Income Tax	-6,920	-4,536	-	-	-
Income from Land Sale	-1,245	-2,020	6,818	0,00	0
Others - Net	-431	613	-9,468	-13,338	-1,132
Other Incomes - Net	15,638	9,372	17,697	13,835	27,744
Profit Before Tax & Extraordinary Items	-	-	139,162	176,674	186,163
Extraordinary Items	-	-	-3,090	-	-
Profit before Tax	241,511	170,894	136,072	176,674	186,163
Current Year Tax	66,419	-48,607	-49,743	-58,324	-53,158
Deferred Tax	17	-385	19,813	589,619	-8,967
Total Tax Expenses	-66,402	-48,992	-29,931	-	-
Profit after Tax	175,110	121,902	106,142	118,939	124,038

Source: MOSOC

IPC 2 — Unit: million Rupiah

Business Income	2003	2004	2005	2006	2007
Port Income	1,206,489	1,414,395	1,642,410	1,744,120	1,968,070
Subtotal	1,206,489	1,414,395	1,642,410	1,744,120	1,968,070
Business cost					
Labor cost	168,260	183,324	267,862	332,116	419,089
maintenance cost	169,339	182,562	227,007	237,652	210,971
Administration & General cost	161,979	127,416	202,854	248,640	316,568
Operation Cost(insurance, rental, material)	118,940	132,152	230,316	287,008	327,776
Miscillaneous Cost	216,679	256,956	59,921	86,483	87,587
other costs					
Subtotal	835,197	892,910	987,960	1,191,899	1,361,991
Operating Profit & Loss	371,292	521,485	654,450	552,221	606,079
Nonoperating Profit & Loss	(16798)	(144026)	(229802)	(182294)	(463833)
Profit before tax	344,496	377,459	884,252	734,515	1,069,912
Profit after tax	496,521	520,423	696,984	566,986	852,089

Source: IPC II

IPC 3 Unit: million Rupiah

	2003	2004	2005	2006	2007
Revenue	1,386,463	1,513,267	1,696,319	1,785,047	2,061,081
Revenue Reduction	2,576	10,398	3,191	-2,428	-3,762
Sub total	1,383,887	1,502,869	1,693,128	1,782,619	2,057,319
Operating Expenses	824,087	865,284	994,544	-1,130,165	-1,270,895
Operating Profit & Loss	559,800	637,585	698,584	652,454	786,424
Non Operating Income	25,088	30,930	47,886	47,948	91,688
Non Operating Expenses	92,428	22,686	30,090	-92,097	-11,559
Non-operating Profit & Loss	-67,340	8,244	17,796	-44,149	80,129
Sub total	492,460	645,829	716,380	608,305	866,553
Interest Expenses	3,852	2,644	3,263	-875	-2,652
Profit Before Assignments	488,608	643,186	713,117	607,430	863,901
Assignment Expenses	7,879	140	92	-9,178	-83
Extra Ordinary Loss	282	216	0	-419	-
Profit before Tax	480,447	642,830	713,025	597,833	863,819
Income Taxes	153,043	200,012	235,056	-207,045	-255,900
Income before Minority Interest	327,404	442,818	477,969	390,788	607,919
Minority Interest	101,565	130,168	136,205	-121,639	-152,603
Profit after Tax	225,839	312,650	341,764	269,149	455,316

Source: GDST

IPC 4 Unit: million Rupiah

	2002	2003	2004	2005	2006
Operating Revenue		258,222	316,816	390,964	480,388
Gross Operating Revenue					
Revenue Reduction		-18,307	-30,646	-44,780	-57,874
Sub total		239,915	286,170	346,184	422,514
Business cost		-190,573	-213,733	-	-
Non-Operating Revenue (Expenses)		-6,958	-15,498	-	-
Labor Cost		-	-	69,388	80,167
Material Expenses		-	-	35,730	49,753
Maintenance Cost		-	-	34,823	38,254
Depreciation Expenses and Amortization		-	-	32,054	35,124
Insurance Expenses		-	-	1,848	2,264
Rental Expenses		-	-	20,338	22,206
Office Administration Expenses		-	-	4,554	5,156
Administration & General Cost		-	-	64,034	67,728
Sub total		-	-	262,769	300,652
Operating Profit & Loss		-	-	83,415	121,863
Non-Operating Revenue		-	-	22,215	13,157
Non-Operating Expenses		-	-	-24,823	-32,100
Nonoperating Profit & Loss		-	-	-2,608	-18,943
Profit before Tax		42,384	56,939	80,807	102,919
Income Tax		-14,571	-17,348	-20,860	-34,084
Deferred Tax		-	-	-1,153	5,171
Total Deferred Tax		-	-	-22,013	28,913
Profit after Tax		27,813	39,591	58,794	74,006

Source: MOSOC

99. From these figures, it is obvious that the financial resources for investment in port development are unevenly distributed between the state own companies and state sector and among the IPCs.

100. With the implementation of new shipping law, the Port Authority is responsible for managing the commercial port as a landlord and providing the basic facilities such as breakwater and channel as well as navigation aids.

101. Hence it is necessary to establish a new mechanism to procure funds for the Port Authority to manage and invest in the necessary infrastructure and to redistribute the revenue to these public/semi-public entities.

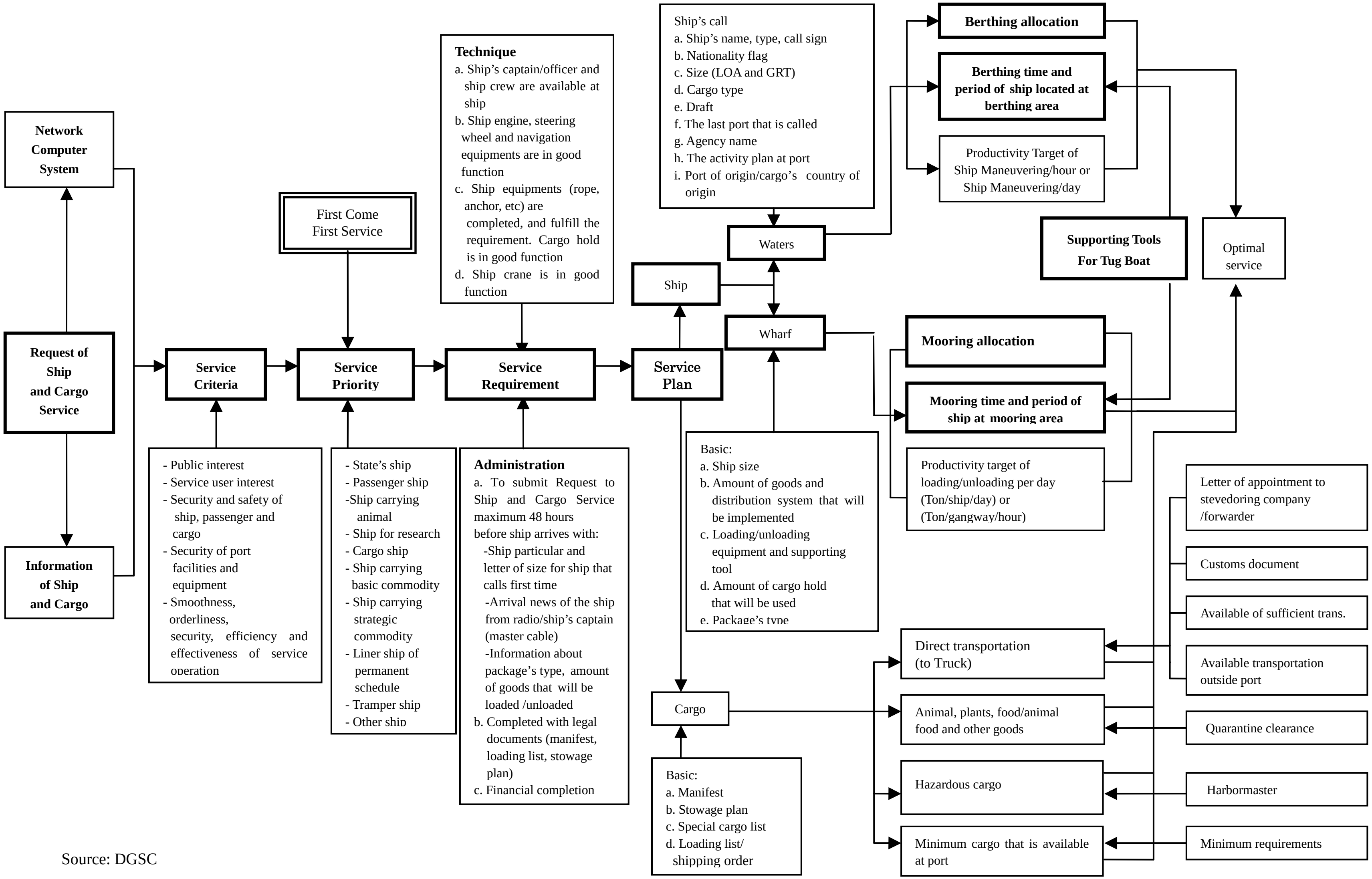
(iii) Management of Port

102. Commercial ports are currently managed by IPC (terminal operation, pilotage, towage), ADPEL (port entry/departure, navigation safety), Harbor Master (supervision of security and safety), custom office (custom clearance) and quarantine office (quarantine) as is shown in Table 3.2-5.

Table 3.2-5 Port Administration

Government Agency	Explanation
Port Administrator	Port Administrator (ADPEL) is responsible for coordinating all institutions at port.. ADPEL is also responsible for the safety of shipping, supplying of navigation aids and security.
Harbormaster	Harbormaster is responsible for ensuring the safety of port activities.
Coast Guard	Coast Guard is responsible for sea and coast security. Coast Guard is under the coordination of DGSC (Directorate General of Sea Communication).
Customs	Customs is responsible for foreign exchange / import duty on import commodities.
Port Police	Port Police coordinates the security at port for government and private interest.
Immigration	Immigration is responsible for verifying citizenship, passport inspection etc.
Quarantine	Quarantine carries out cargo / animal inspection in order to prevent the spread of diseases.
Port Health Center	Port Health Center provides medical check for ships' crews.

103. Vessel and cargo service is implemented in Tg.Priok port following the planning process with necessary documents and agencies concerned shown in Figure 3.2-5 and Table 3.2-6.



Source: DGSC

Figure 3.2-5 Vessel & Cargo Service Planning Procedure

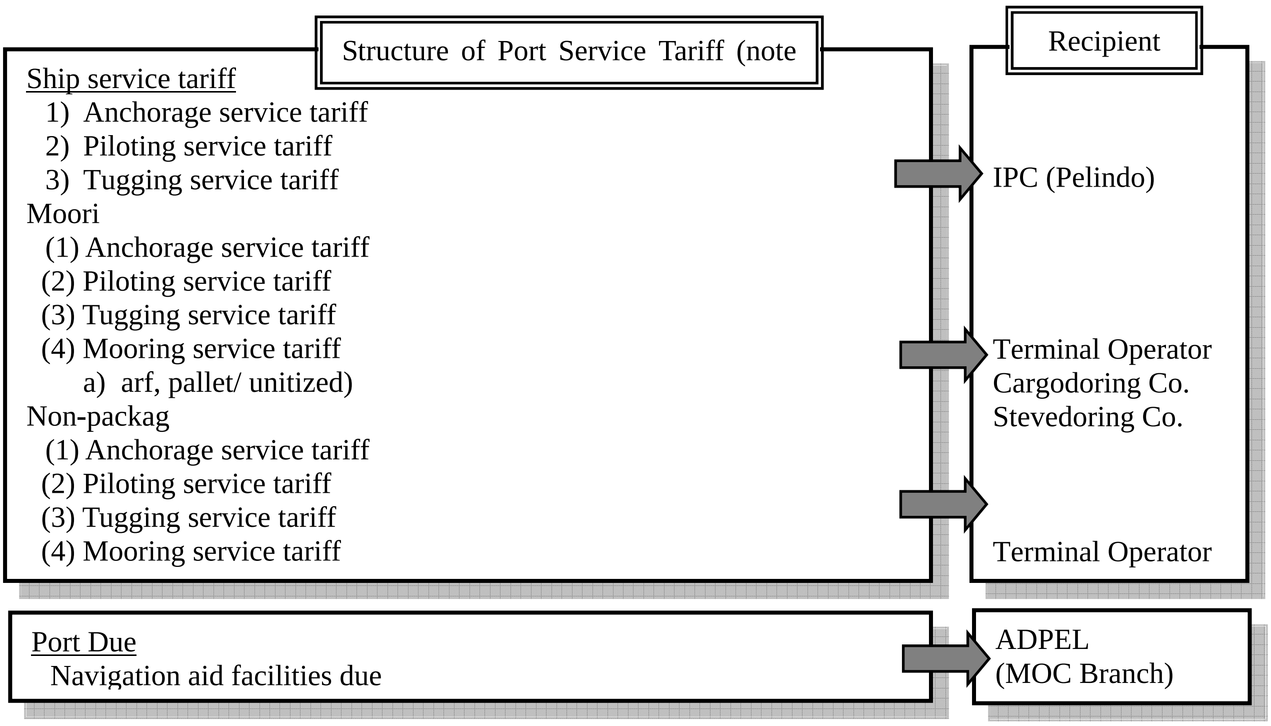
Table 3.2-6 Documents for Vessel and Cargo Services

No	Kinds of Document	Sources of Document	Document User											
			IPC2	Ship. Agent	Custom	T. O	ADPEL	Quarantine			Immig -ration	Bank	JICT	TPKK
								Health	Plants	Animal				
1	Information of ship's call	Shipping Agent	PA/PD	-	PA	PD	PD	PD	ID	PD	ID	-	PD	PD
2	Unloading manifest	Shipping Agent	PA/PD	-	PA	PD	PD	PD	PD	PD	-	-	-	-
3	Passenger list (Debarkation)	Shipping Agent	PD	-	PD	PD	PD	PD	-	-	PA	-	-	-
4	Unloading Bay Plan/Stowage Plan	Shipping Agent	PD	-	ID	PA	ID	-	-	-	-	-	PA	PA
5	Clearance for Quarantine	Quarantine		PA	-	-	PD	-	-	-	-	-	-	-
6	Mooring Plan/ Operation Plan (OP)	TO (PBM)/ ICT/TPKK	PA	PD	-	-	ID	ID	ID	ID	ID	-	-	-
7	Request of Ship and Cargo Service	Shipping Agent	PA	-	-	-	-	-	-	-	-	-	-	-
8	Decision of PPKB	IPC2	-	PA	ID	PD	ID	ID	ID	ID	ID	-	IA	IA
9	Letter of Mooring (2A4)	IPC2	-	PA	ID	-	ID	ID	ID	ID	ID	-	-	-
10	Loading/Unloading Plan	TO (PBM)/JICT/TPKK	PA	PD	PD	-	ID	ID	ID	ID	ID	-	-	-
11	Letter of Unmooring	Shipping Agent	-	PA	ID	-	ID	ID	ID	ID	ID	-	-	-
12	Loading Manifest	Shipping Agent	PA/PD	-	PA	-	ID	ID	ID	ID	-	-	-	-
13	Passenger list (Embarkation)	Shipping Agent	PD	-	PD		PD	ID	-	-	PA	-	-	-
14	Load Bay Plan/Loading List	IPC2	PD	-	-	PA	PD	-	-	-	-	-	PA	PA
15	Billing Note for Ship Service (4A)	IPC2	-	PA	-	-	-	-	-	-	-	PA	-	-
16	Credit Note (4A)	Bank	PA	-	-	-	-	-	-	-	-	-	-	-
17	Note of Navigation Aid Fee, etc	ADPEL	-	PA	-	-	-	-	-	-	-	PA	-	-
18	Credit Note of Navigation Aid Fee,	Bank	-	-	-	-	PA	-	-	-	-	-	-	-
Number of necessary documents														
	a. Process and destination of document: **PA**		7	6	3	2	1	0	0	0	2	2	2	2
	b. Process and copy/distribution of document: **PD**		4	2	3	4	6	3	1	2	0	0	1	1
	c. Information and destination of document: **IA**		0	0	0	0	0	0	0	0	0	0	1	1
	d. Information and distribution of document: **ID**		0	0	4	0	7	7	7	6	6	0	0	0
	Total documents		11	8	10	6	14	10	8	8	8	2	4	4

Note; TO: Terminal Operator (PBM: Stevedoring Company), PPKB: Request of Ship and Cargo Service, JICT: Jakarta International Container Terminal, TPKK: Koja Container Terminal, ADPEL: Port Administrator

Source: Branch of Tg. Priok Por

104. As to the tariff setting, tariff structure (categories) and collecting bodies for commercial ports are illustrated in Figure 3.2-6. In case of non-commercial ports, KAMPEL (MOC's branch) functions as port operation/management body, as well as collecting body instead of IPC.



Source; Study Team

note A: According to KM No.28 (MOC decree) in 1997, the following tariff are stipulated as other service tariff; Passenger terminal service, Port ticket, Land/waters area use, Building/space use, Electricity service, Information service and water supply tariff

Figure 3.2-6 Structure of Port Service Tariff

105. There are many decrees or regulations stipulating Indonesian seaport tariff. Tariff decisions and monitoring procedure are stipulated by two decrees; Ministerial Decree KM. No.28 in 1997, and Ministerial Decree KM. No.14 in 2002. The former one stipulates the whole tariff system such as categories, classification and decision system while the later decree regulates the stevedoring business such as its license and tariff system.

106. Figure 3.2-7 shows typical procedures for deciding port tariffs, which are broadly categorized into three (3) types, according to relevant decrees/regulations.

107. As to the decision of ship service tariff, IPC is able to decide tariffs after consulting with MOC. Moreover, KM No.28 in 1997 stipulates that IPC shall review its tariff at least every twelve (12) months.

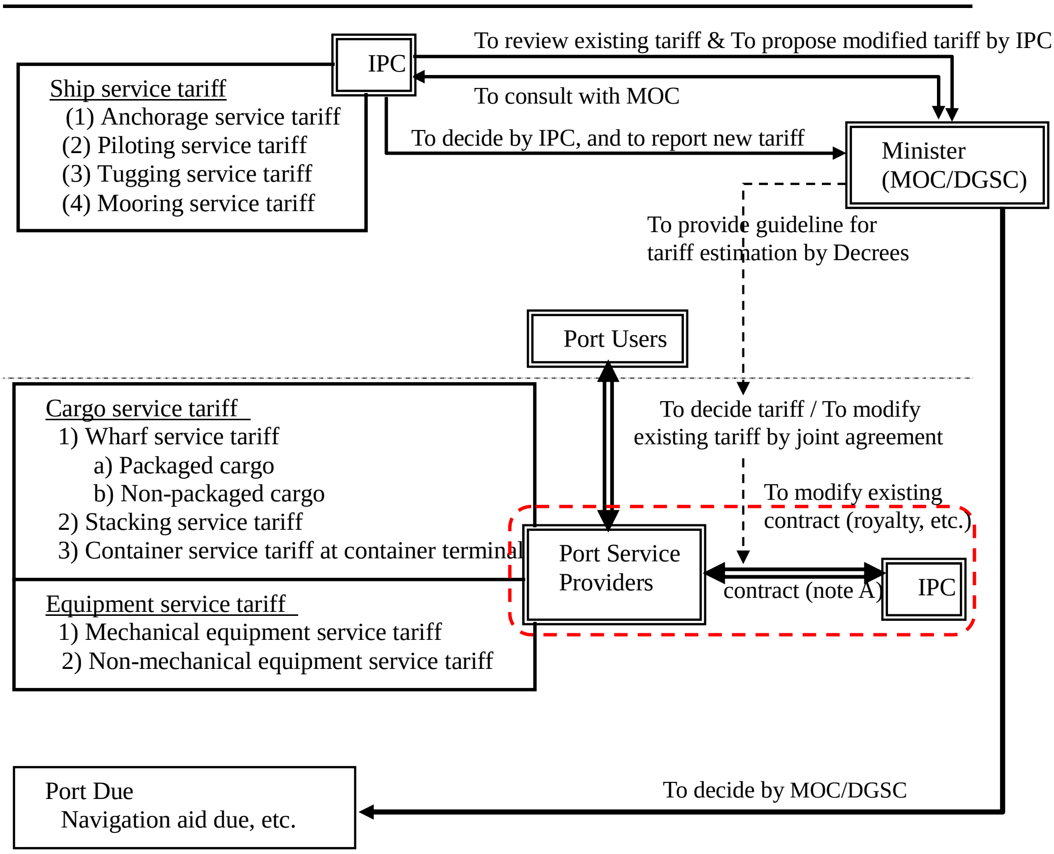
108. KM 28 in 1997 stipulates that IPC is able to decide "port service tariff" including "ship service tariff", "cargo service tariff" and "equipment service tariff". However, there are some cases where this KM 28 decree does not apply. As shown in the middle part of Figure 3.2-7Figure 3.2-6, cargo and equipment service tariff correspond to the said cases.

109. The cargo and equipment services' tariff is decided based on a more complicated system. For instance, the tariff in the conventional terminal at Tg. Priok port seems to be determined on the basis of a joint agreement between the Indonesian Associations concerned such as Stevedoring Company Association, Importer/Exporter associations, National Ship Owner Association and DPW GAFEKSI/INFA, however the roles of IPC/MOC seem to be unclear in this process of such tariff decision.

110. On the other hand, IPC and MOC are able to participate in deciding the handling charge of JICT and KOJA. In this process, terminal operators are able to propose a new tariff to IPC, then IPC evaluates its proposal after consulting with terminal users as well as MOC.

111. The validity of all afore-mentioned tariffs should be evaluated. However, existing procedures make it difficult to assess the whole tariff structure due to the shortcomings of performance/statistics data.

112. It is considered that afore-mentioned procedures are formulated on the basis of the following concepts/principles: “Cost Basis Evaluation”, “Deregulation by the public sector” and “Assessing Service Level”.



Source; Study Team
Note A; Above figure illustrates the case of “conventional terminal contact” in Tanjung Priok Port.

Figure 3.2-7 Procedure for Setting Tariff

113. The administrative procedures which mainly aim at supervising/monitoring private sector are as follows;

114. As shown in Figure 3.2-8Figure 3.2-7, port service providers (terminal operators, etc.) shall report their performance and other activities to ensure that they are satisfying the performance requirements stipulated in their contracts. IPC evaluates operators' performance and decides whether or not to review contracts.

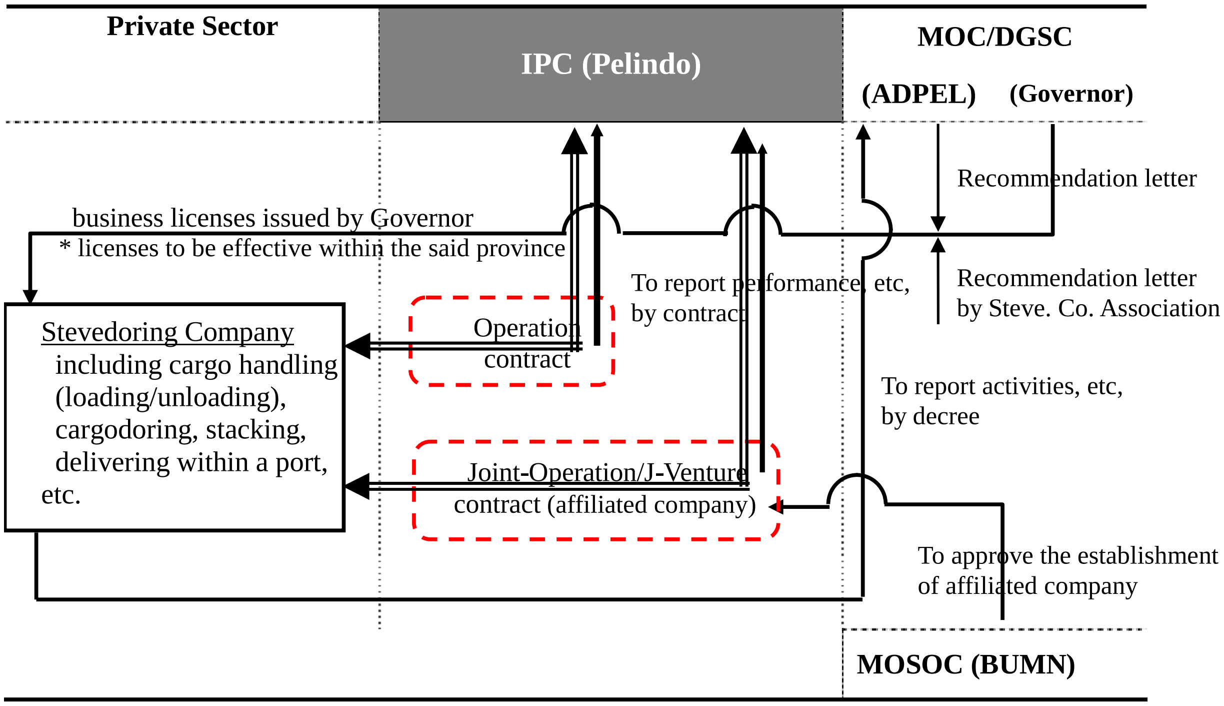


Figure 3.2-8 Reporting System of Activities on Port Service

115. Supervision/monitoring by the central government consists of the following;

- Stevedoring companies shall be licensed by the governor. The license shall be issued by recommendations from ADPEL (MOC branch).
- Licensed companies shall report their business activities and performances to ADPEL.

3.3. Analysis on Policies and Regulatory Framework of Public-Private Partnership (PPP)

A. Current Conditions

(i) Principal Regulations

116. Basic guideline on public-private partnership (PPP) projects in Indonesia in infrastructure provision is stipulated in Presidential Regulation No. 67, Year 2005. Substance of the regulation is as follows;

- PPP should be established in accordance with fairness, publicity, transparency and competitive circumstance beneficial to both public and private parties.
- Value and/or feasibility of PPP projects should be evaluated by the government in an appropriate manner prior to recruiting the projects.
- Any risks should be borne by a party who can manage the risks more skillfully with less cost than other. Risk sharing scheme should be determined after a mutual agreement has

been reached.

- Government support should be limited to projects socially desirable but fiscally non-feasible.
- PPP partners should be selected through competitive bidding.
- PPP projects can be proposed by private entities; however, the project tendering should be conducted under a competitive circumstance when the project is approved by the government.
- Price on PPP projects should be set based on repayment amount of capital cost for the project as well as legitimate profit of the investment.
- PPP projects should be executed by concession contract or by granting business right.

117. Basic regulatory framework on PPP in Indonesia is set forth in the Presidential Regulations and Ministerial Regulations shown in the table below.

Table 3.3-1 PPP Framework

	Regulations	Contents
1	Presidential Regulation No.42, year 2005	Regulation concerning establishment of KKPPI for accelerating infrastructure provision.
2	Presidential Regulation of the Republic of Indonesia No.67, year 2005	Regulation concerning PPP utilization in infrastructure provision, a principle regulation for driving PPP projects in the country.
3	Presidential Regulation No.36, year 2005	Regulation concerning procedures on acquisition of site for implementation of PPP projects.
4	Presidential Regulation No.65, year 2006	Revised edition of the regulation No.36/'05 concerning the acquisition of site.
5	Ministry of Finance Regulation No.38/PMK.01/2006	Regulation concerning government support and compensation on PPP implementation stipulated by Ministry of Finance.
6	Coordinating Ministry of Economic Affairs (CMEA) Decree as Head of the National Committee for the acceleration of infrastructure provision No. KEP-01/M. Econ/05/2006	Regulation concerning organization and procedures of KKPPI, a core organization for the acceleration of infrastructure provision in Indonesia, stipulated by CMEA.
7	Coordinating Ministry of Economic Affairs (CMEA) Regulation as Head of the National Committee for The Acceleration of Infrastructure Provision No. PER-03/M. Econ/06/2006	Regulation concerning listing and ranking priorities of PPP projects in Indonesia, stipulated by CMEA.
8	Coordinating Ministry of Economic Affairs (CMEA) Regulation as Head of the National Committee for The Acceleration of Infrastructure Provision No. PER-04/M. Econ/06/2006	Regulation concerning evaluation procedures of PPP application for providing government support applied based on Ministry of Finance Regulation No.38/PMK.01/2006.

118. Among these regulations and decrees, Ministry of Finance Regulation No.38/PMK.01/2006 is the core regulation, together with Presidential Regulation No.67/2005, for accelerating infrastructure development needs using government support to drive the PPP and increase investment in infrastructure provision in Indonesia. This Ministry of Finance regulation stipulates implementation instructions and procedures for the control and management of infrastructure provision risks on PPP projects in Indonesia by the Ministry for granting government support.

(ii) Risks and their Compensation

119. Risks in the context of implementing a PPP project for infrastructure provision in Indonesia are categorized as follows in the regulation.

Political Risk:

120. The risk that is attributable to policies/actions/decisions by Government or State entities which directly and significantly impose financial losses on a Business Enterprise, including risk of expropriation, risk of legal or regulatory change, risk of currency convertibility restriction and prohibition of fund repatriation.

Project Performance Risk:

121. The risk that is associated with project implementation, which among others includes location risk and operational risk.

Demand risk:

122. The risk that arises as a result of demand for the goods or services produced by a PPP project being lower than agreed.

123. Scope of infrastructure provision risk management and control including functions and responsibilities of some key organizations are stipulated in the regulation as follows;

- Project planning and technical and financial feasibility evaluation are undertaken by the Technical Department or Institute,
- Evaluation of project feasibility and prioritization with regard to national development priorities are undertaken by KKPPI,
- Evaluation of financial and fiscal risks is undertaken by the Ministry of Finance through its Risk Management Unit.

124. Type of risks and forms of government support in the infrastructure provision PPP projects are also stipulated in the regulation, as follows;

- Political Risk may be agreed to provide compensation to an asset owner/Business enterprise based on a risk sharing scheme between the Government and Business Enterprise.
- Project Performance Risk caused by delay of land acquisition, increase in land price or delay in approval of commencement of commercial operation, delay in tariff adjustment and changes in the specification of outputs of those already agreed by the Minister/Head of Institute which cause financial loss for the Business Enterprise may also be compensated by extension of the concession period and/or by other means approved by the Minister of Finance or by recalculation of the cost of production.
- When Demand Risk cases lower revenue than the minimum total revenues guaranteed by the Government as a result of decrease in total demand on which the agreement was based, financial and/or other forms of compensation may be also approved by the Minister of Finance.

(iii) Procedures

125. The procedure for giving Government Support for infrastructure provision PPP projects is stipulated in the regulation as follows.

126. Related Minister/Head of Institution submits a proposal requesting Government Support to KKPPI.

127. The Minister/Head of Institution is obliged to undertake an evaluation and calculation of the project feasibility with or without Government Support in risk management and to provide copies of the following documents.

- Pre-feasibility study report
- Plan of the cooperation form
- Plan for project financing and source of funds
- Plan for the tendering of PPP project, including schedule, process and evaluation method
- Documentation of the results of the public consultation

128. The proposal is evaluated by KKPPI based on the project quality criteria, technical and financial feasibility aspects.

129. The proposal is delivered by KKPPI to the Minister of Finance after KKPPI's evaluation for the attention of Risk Management Unit (hereinafter referred to as RMU) for their evaluation whether the costs and risks arising from the provision of Government Support may not exceed the capacity limit of the Government (APBN) budget to bear them and/or the proposal documents prepared fulfilling the transparency principle or not.

130. Once RMU recommends the infrastructure provision PPP project, the Minister of Finance gives in-principle approval for provision of Government Support, an allocation of funds for Government Support will be proposed in the draft Government budget to obtain the approval of the House of Representative (DPR).

131. Technical Department/Institution carries out bidding or tender process in accordance with applicable regulations once the DPR approves the PPP project in the Budget Law.

132. Technical Department/Institution delivers the notice of tender result to the Minister of Finance for the attention of RMU once the tender is carried out.

133. RMU makes certain that the tender process has been conducted fairly before the agreement is signed.

134. The Minister of Finance gives final agreement for or refuses the giving of Government Support after receiving the recommendation (2nd) of the RMU.

135. The Minister/Head of Institution or authorized representative signs the corporation agreement after the Minister of Finance gives final agreement for the provision of Government Support.

136. Figure 3.3-1 shows basic flow of implementation of port PPP projects.

B. Status of Revision

137. KKPPI and Risk Management Unit (RMU) has handled many proposals on infrastructure provision PPP project in relation to road and energy sectors since the organizations were established in late 2006. Some of the road projects through BOT under the scheme of these Regulations have got final agreement. On the other hand, final agreement has not been reached for some of the projects according to an officer of RMU because the statutes stipulated in these Regulations are too general to apply for the projects proposed by various sectors.

138. Therefore, the Government decided to revise these regulations, Presidential Regulation No.67, 2005 and Ministry of Finance Regulation No.38/PMK.01, 2006, reflecting characteristic features of the sectors related, and simplifying and defining its processes and accountabilities within 2 to 3 months from now on.

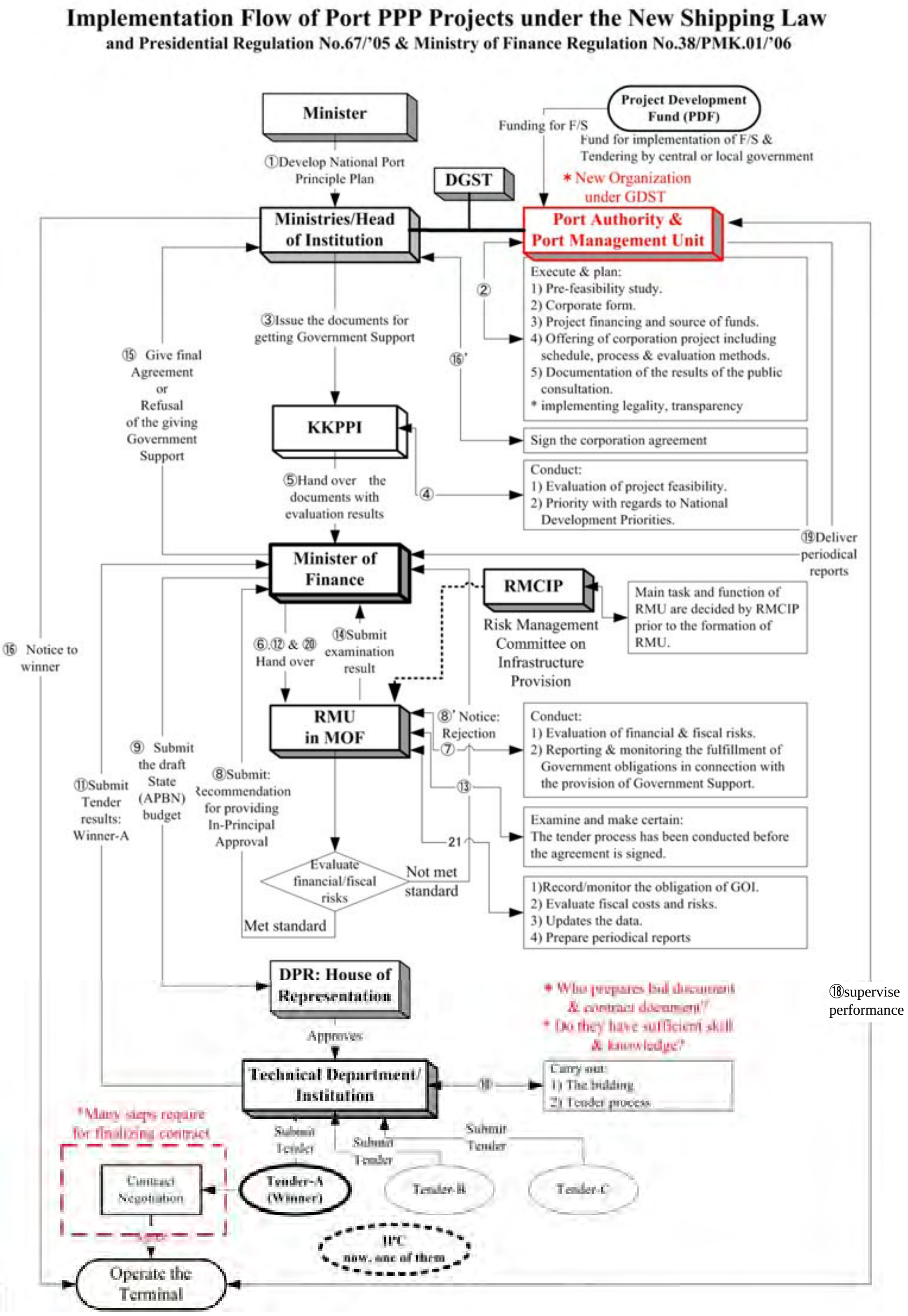


Figure 3.3-1 Implementation Flow of Port PPP Projects under the New Shipping Law

3.4. Review of Policies and Current Conditions on PPP in Port D.M.O

A. Review of PPP projects in port sector

139. In the port sector, IPC has been responsible for port management and operation as well as the landlord of the port facilities, and a variety of PPP style has been implemented.

140. One way is to lease the facilities to the private stevedoring companies for a short period of time (5 years) for the operation of conventional terminals; a second type is to concede the international container terminal to the joint venture company between IPC and foreign terminal operator (partial concession); a third type is to operate the international container terminal by joint operation contract with foreign terminal operator, while another type which resulted in failure of tender is total (Master) concession in Bojonegara port.

141. Another type of operation is conducted by Affiliate Company whose share is 100% owned by IPC for inter-island container terminal in Tg. Priok port.

142. Concession of development, management and operation of international container terminal have been implemented in JICT terminal and Tg. Perak terminal between IPC and Joint Venture Company of IPC and foreign operators.

143. Joint operation by IPC and foreign operator is conducted in KOJA terminal in Tg. Priok port.

(i) Partial Concession to Joint Venture companies (JICT & Tg. Perak)

144. Jakarta International Container Terminal (JICT), formerly known as Terminal Peti Kemas I (TPK I) and Terminal Peti Kemas II (TPK II), used to be operated by IPC2, a public corporation. However, the terminal is now operated by PT JICT, a joint venture company between IPC2 (shares 49% in its equity by in-kind facilities) and Hutchison Port Holdings (HPH; shares 51% in its equity) by a concession scheme following the economic crisis in April 1999. In order to receive funds from the IMF, the Government of Indonesia had to comply with the IMF's requirement to privatize its operation.

145. The concession agreement was made between the parties without implementing neither an open tender nor receiving any business plans but a contractual proposal from HPH and hence some unilateral agreement terms and conditions can be found in the agreement.

146. Expected performance of the terminal is usually included in the business plan proposed at the time of tendering by the potential concessionaire and agreed performance target is stipulated in the concession agreement. As the performance target, crane productivity – crane move per hour – is often quoted in the agreement, but total productivity of the terminal depends on other factor as well.

147. Terminal productivity is influenced by yard productivity, berth productivity (berth occupancy rate) and crane productivity. When yard space and layout and equipment are properly installed according to the type of container and number of boxes to be loaded/unloaded per vessel, crane productivity is usually a decisive factor of terminal productivity, but in many cases low crane productivity is caused by defective yard planning and characteristics of containers handled. Terminal productivity become lower as the berth occupancy rate is low even if crane productivity is high.

148. Hence, it is better to define the performance target by number of TEUs rather than by crane productivity.

149. Another issue concerns the concession fee. According to the agreement of JICT, 10% of gross revenue is paid to IPC2 as the royalty and 14.8% of the net profit of the company (JICT) after tax is paid to HPH as the head office management cost as well as technical know-how fee.

150. It is difficult to analyze the proper level of concession fee without detailed data on the financial performance of JICT, but with the current volume handled and fairly high tariff applied at JICT, it is not necessary to pay HPH an additional payment.

151. Another issue concerns the monopolistic behavior of JICT and KOJA both of which are operated by IPC2 and HPH handled 2.7 million TEUs of international containers in 2008, equivalent to 86 % of all international containers handled at the port.

152. Due to the absence of competition in the port, tariff rate for container handling at JICT/KOJA terminals is higher than neighboring ports except Singapore; and ships operational productivities are lower than international standards at these ports.

Table 3.4-1 Weighted Mean Throughput Rate (Ship dis/load-CY rest-Gate rec/del) as of Feb '09

No	Port	Per Box (US$)	Per TEU (US$)	Variance
1	Singapore	155.7	100.5	+ 34.0%
2	JICT/Koja	116.2	78.1	Base
3	Tanjung Pelepas (Malaysia)	111.0	69.4	- 4.5%
4	Laem Chabang (Thailand)	89.8	60.7	- 22.7%

Source: Terminal operators in these ports and a shipping line whose vessels call JICT.

Table 3.4-2 Gantry Crane's Operational Productivities in 2008

No	Port	Net (Lifts/GC/hour)	Gross (Lifts/GC/hour)	Variance (Gross)
1	JICT/Koja	Unknown	21.9	Base
2	Singapore	31.2	22.9	+ 4.6%
3	Tanjung Pelepas (Malaysia)	32.0	25.0	+ 14.2%
4	Laem Chabang (Thailand)	35.0	28.0	+ 27.9%

Source: Terminal operators in these ports and a shipping line whose vessels call JICT.

153. These monopolistic behaviors stem from another issue on concession system. IPC is playing the roles both of conceding authority and a partner of concessionaire JV Company and it is natural that IPC tends to pursue profit maximization rather than protect public interests.

(ii) Joint Operation –KOJA-

154. Koja Container Terminal (CT) was inaugurated in 1998 between IPC2 (it held a 52.12% share in its equity) and PT Ocean Terminal Petikemas (original name was HUMPAS T.P. and it held a 47.88% share in its equity) as a joint operation company; however, Hutchison Port Holdings (HPH) acquired PT Ocean Terminal Petikemas in 2000, therefore, Koja CT is a joint operation company between IPC2 and HPH today.

155. Joint operation agreement on KOJA container terminal seems to be some what irregular which might be caused by the lack of financial resources of IPC to develop new container terminal.

156. Royalty/concession fee was paid in advance by the presumed price factors and volumes to be handled at the terminal, including 10% increase of tariff every four years and expected land value.

157. Most of the countable values are presumed without any evidence of appropriateness and it is very difficult to evaluate the appropriateness of the operational performance even after the operation because of lack of clear definition of auditing method including accounting method of financial performance of both parties.

(iii) Master Concession –Bojonegara Port-

158. Major conditions of tender for the concession of Bojonagara port are shown in Table 3.4-3 and construction plan is shown in Table 3.4-4.

159. There are several issues regarding the offers of IPC2 from the viewpoints of social economy and benefit of Indonesia and risk sharing among related parties.

160. Firstly, the JVC is to develop and operate the facilities throughout all development stages (1st stage through 3rd stage) and it implies no competition in terms of providing operational services to port/terminal users within the port since the JVC would operate all the facilities by themselves as is HPH's practice at Tg. Priok port.

161. In addition, the JVC is obliged to construct all infrastructures and superstructures as well as purchase container handling equipment required for the operation of the terminals including non profitable facilities which results in an excessive burden and risks to the concessionaire.

162. According to the Master Plan of the Harbor in Tg. Priok authorized by the Ministry of Transportation (MOT), the Government plans to develop 1,625 meters of additional quay for container and bulk cargoes by 2017, and 5,310 meters of same facilities by 2027. Therefore, once Tg. Priok port is developed according to the plan, majority of container and bulk facilities in Bojonegara port may suffer from demand risks considering the potential demand in the Greater Jakarta Metropolitan Area.

163. Moreover, the offer says that IPC2 and Government do not give any guarantee whatsoever on the investment and or the performance of JVC for the development and operation of Bojonegara port. However, Government should give certain guarantee to investors based on their risks using a risk sharing scheme currently being developed by the Government, at least after the Government had submitted the new master plan as a firm policy on development of Tg. Priok port and Bojonegara port for supporting and encouraging interested investors.

164. Furthermore, the investor's share in the equity of JVC in Bojonegara project is limited to 49% at most. This means IPC2 has to prepare 51% of equity at least by capital or in-kind corporation offering terminal facilities as they did when forming JICT and Koja terminal in Tg. Priok port with HPH. However, IPC2 has neither enough capital nor in-kind facilities in Bojonegara yet according to management personnel of IPC2.

165. Therefore IPC2 may need to work on designating the harbor area in Bojonegara port as a special economic zone to abolish the 49% limitation for foreign operators/investors to drive their investments as well as to accelerate port development.

Table 3.4-3 Major Conditions of Tender

Item of tender conditions	Summary of contents
Bid guarantee	Face value of 7.5 million US Dollars
Join Venture Agreement	The bid winner is required to sign an agreement for forming a join venture company (JVC) with IPC 2 for construction and operation of the port owning 49% or less of its equity.
Duration of the contract	30 years with 20 years extension allowance
Cooperation scheme:	All the infrastructure and superstructure will be transferred to IPC 2 without compensation after expiration of the contract term.
Scope of Development and Operation	JVC should develop and operate all stages of development (1st stage through 3rd stage)
Capital investment to JVC	
IPC 2	1) Operational right; 14.0 million US Dollars
	2)Cash money; 17.3 million US Dollars
Bid Winner (Investor)	Initial capital; 53.0 million US Dollars
Obligation of JVC	1) Construct the entire basic infrastructure, terminal facility infrastructure and equipment / superstructure along with the operation.
	2) Present a new market
	3) The Investor on behalf of JVC is obligated to look for a loan to make the investment.
Obligation of IPC 2	1) Provide the land that has been purchased for the project.
	2) Provide the study and also the examination performed by IPC 2.
	3) Give authorization for the construction and operation
	4) Prepare the system and procedure for operation and finanee
	5) Perform the vessel service works
Others	IPC 2 and the Government do not give any guarantee whatsoever on the investment as well as the performance of JVC on the development and operation of the Bojonegara port.

Table 3.4-4 Construction Plan of Bojonegara Port and Its Phases

No.	Description	Phase-I	Phase-II	Phase-III	Total
1	**Basic Infrastructure**				
	1) Dredging	2,511,581 m3	3,516,214 m3	4,018,530 m3	10,046,325 m3
	2) Breakwater	(1,040) m	520 m	1,640 m	3,200 m
	3) Navigation Aids	2 Unit	- Unit	2 Unit	4 Unit
	4) SID/DED	1 Unit	- Unit	- Unit	1 Unit
2	**Infrastructure**				
	1) Container Berth	600 m	940 m	1,460 m	3,000 m
	2) Container Yard	270,000 m2	450,000 m2	630,000 m2	1,350,000 m2
	3) Multipurpose Berth	405 m	- m	405 m	810 m
	4) Multipurpose Yard	66,000 m2	- m2	66,000 m2	132,000 m2
	5) Ro-Ro Berth	- m	220 m	- m	220 m
	6) Ro-Ro Yard	- m2	44,000 m2	- m2	44,000 m2
	7) Jetty Dry Bulk	- m	200 m	- m	200 m
	8) Government Berth	50 m	- m	- m	50 m
	9) Government Yard	10,000 m2	- m2	- m2	10,000 m2
	10) Diversion Canal	93,060 m3	- m3	- m3	93,060 m3
3	**Equipment**				
	1) Gantry Crane	5 Unit	9 Unit	16 Unit	30 Unit
	2) RTG	15 Unit	27 Unit	48 Unit	90 Unit
	3) Head Truck	25 Unit	45 Unit	80 Unit	150 Unit
	4) Chassis	30 Unit	55 Unit	90 Unit	175 Unit
	5) Mobile Crane	2 Unit	- Unit	- Unit	2 Unit
	6) Reach Stacker	1 Unit	1 Unit	3 Unit	5 Unit
	7) Forklift	7 Unit	15 Unit	45 Unit	67 Unit
	8) Conveyor + Grab + Hopper	2 Unit	- Unit	- Unit	2 Unit
4	**Supporting Facility**				
	1) Port Related Area	40,000 m2	50,000 m2	90,000 m2	180,000 m2
	2) Inner Road	1,500 m	2,000 m	4,000 m	7,500 m
	3) Buildings	10,000 m2	30,000 m2	42,600 m2	82,600 m2
	4) Gate	10 Unit	10 Unit	20 Unit	40 Unit
	5) Utilities	500,000 m2	1,500,000 m2	2,438,000 m2	4,438,000 m2
	6) Reception	1 Unit	2 Unit	2 Unit	5 Unit

166. As a result, a total of 8 bidders including AP Moller Terminal, Stevedoring Service of America (SSA), PSA International and ICTSI expressed interest in the project; however, only PSA made a proposal in the end. PSA has requested IPC2 in the negotiation to construct basic infrastructures such as breakwater, ships navigation channel, turning basin and the access road to/from the port with the Government budget.

167. Therefore, IPC2 offered to extend the contract term from 30 years to 50-60 years as an incentive since neither Government nor IPC2 had sufficient funds to construct the infrastructures by themselves; however, the negotiation failed.

B. Review of PPP projects in road & railway sectors

168. Unfortunately, none of the concession contracts on road or railway PPP projects were obtained, however, basic schemes of infrastructure provision and framework on Road and Railway sectors are as follows.

(i) Road Sector

169. According to Law 38/2004 on Road, road provision is the responsibility of both the local and central government in Indonesia. Government of Indonesia (GOI) is responsible for inter-urban arterial and collector roads, while the provincial government is responsible for inter-regency collector and local roads, and regency government is responsible for intra-regency local roads.

170. Director General of Highways (DGH) under the Ministry of Public Works (MPW) is responsible for managing all national roads, including toll roads and limited access high grade highways. National roads are mostly in sound condition, but overall network is in poor condition as shown in Table 3.4-5 below.

Table 3.4-5 Condition of Road Network in Indonesia

Road Status	Length (km)	Road Condition			
		Good (%)	Average (%)	Light damage (%)	Heavy damage (%)
National	34,629	37.4	44.0	7.7	10.0
Province	46,999	27.5	35.4	14.4	22.7
Regency	240,946	17.0	26.4	21.9	34.7
City	25,518	8.0	87.0	4.0	0.0
Toll	649	100.0	0.0	0.0	0.0
Total	**348,241**	**20.0**	**33.7**	**18.2**	**28.1**

Source: PJM (Mid-term Plan) 2005 and KMPU 2006

171. Road congestion has increased, especially in Java and urban centers, thus it is estimated that about 2,000 km of toll roads need to be constructed by 2010 or so to ease congestion; however, progress is slow due to lack of GOI budget for construction and rehabilitation of toll roads.

172. There were 606.9 km of toll roads in operation in Jan 2005, and 458.6 km out of 606.9 km was operated solely by SOE Jasa Marga and the rest by private enterprises though some of them are jointly owned with Jasa Marga.

173. Availability of land for the right of way (ROW) is an obstacle for the road sector. GOI is responsible for land acquisition, then private sectors pay its cost under the current system, however, in case of some projects GOI was not able to acquire the land in time. Toll road projects which are economically feasible but financially marginal need government support. The toll road projects offered in the future are likely to be financially marginal, so they need a government subsidy to enhance their commercial viability.

174. The toll road master plan is developed by the MPW as guidance for toll road development in the country. The Director General of Highway (DGH) is responsible for the road until a Ministerial decree is issued designating them as toll roads and potentially Private Sector Participation (PSP) projects.

175. MPW recognizes that the full cost recovery on investment is a must for attracting private investors applying efficient and an affordable tariff. The tariff is stipulated in a government regulation PP 15/2005 as that is to be determined by a combination of ①ability to pay, ②savings in vehicle operation costs and ③travel time saving from using the toll road, and ④investment viability.

176. According to Law 38/2004, BPJT, a governmental organization under MPW, is the regulator and contracting authority on road PSP projects, and their tasks are stipulated as follows.

- To recommend the initial tariff and its subsequent adjustment to the Minister;
- To take over toll roads upon expiry or revocation of the concession;
- To prepare the feasibility study and tender investment;
- To assist in the land acquisition process; and
- To monitor the concessionaire for compliance with the terms and conditions of the concession.

177. In December 2004, 6 toll road projects were tendered out in the first batch, and 35 consortia (20 foreign companies and 15 local companies) expressed interest in the pre-qualification (PQ). 18 consortia attended the pre-bid conference and conducted site visit. Under 1st batch, 4 toll road projects elicited private investors, but there were no bids for the other two.

178. In the second batch, 13 projects were tendered including the two that did not elicit any bids under batch-1 in late 2005. The PQ result was announced in early 2006, but only 4 projects in Jakarta Toll Road Network have a sufficient number of qualified bidders. Again there were no bids for Medan-Binjai (Sumatra) and Cileunyi-Sumedang (West Java) toll roads

179. There was little interest from overseas investors for road provision PSP projects in Indonesia since the land for ROW (right of way) has not been acquired for any of the 13 toll roads tendered (projects in the 2nd batch). GOI considers this is a cross sector issue; thus policy, regulatory and institutional framework for land acquisition is being set up to improve marketability of the projects.

180. Another problem encountered was the biased nature of the concession agreement used, which investors regarded as not “bankable”, therefore a more bankable and investor friendly template concession agreement conforming to international standards is awaited to be developed.

(ii) Railway Sector

181. Railways are found only in Java and Sumatra in Indonesia. The total rail network in the country consists of 5,824 km, but only 4,337 km are in operation, mainly in Java Island. Major rail corridors in Java are Jakarta-Bandung, Jakarta-Semarang-Surabaya-Banyuwangi (known as the North Route), Bandung-Kroya-Yogyakarta-Surabaya (know as the South Route) with the connector route Cirebon-Purwokerto-Kroya.

Table 3.4-6 Railway Condition and Length in Indonesia

Region	Condition and Length of Track		
	Operating Track (km)	Non-Operation Track (km)	Total (km)
Java	3,053	1,131	4,184
Sumatra	1,284	356	1,640
Total	**4,337**	**1,487**	**5,824**

Source: Ministry of Communications (Transportation), 2004

182. Most of the railway system in Indonesia is single-track, thus GOI intends to improve the capacity and quality of Jabotabek (Jakarta-Bogor-Tangerang-Bekosi connections; these are satellite cities of Jakarta) rail network, which comprises nearly 266 km of double-track. Suburban and intercity trains use the Jabotabek network.

183. Rail transportation in Indonesia has declined during the last five years as only 29 % of the track is less than 10 years old while more than 25 % is older than 70 years. GOI realized that railway is the most energy efficient land transportation system available today requiring less land space.

184. There is no specific regulatory body existing in the railway sector. The regulatory role is shared between MOT and KAI (Indonesian Railway Corporation, one of SOEs), just the same as Sea-port sector at where DGST and IPC's share regulatory obligations; thus a functionally independent railway regulator needs to be established.

185. The institutional arrangement in railway sector is far from ideal as KAI performs a triple role as operator, regulator and contracting agency. The draft law allows the private sector to provide and operate both railway infrastructure and services. This will be a significant improvement to the regulatory framework.

186. In IICE 2006, Manggarai-Soetta Railway Link, Development plan for coal transport in Sumatra and Kalimantan, Development plan Jakarta Mass Rapid Transit, Development plan for Double Track Project are proposed as the PPP model projects, but none of them are implemented yet.