

# Product and Scheme of Islamic Infrastructure Financing

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**Profile of PT SMI**

2

**The Rising Opportunities in Sharia Financing**

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**Case Study of Sharia Financing Structure**



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PT Sarana Multi Infrastruktur (Persero) (“PT SMI”) was established in 2009 as a **State-Owned Enterprise** under the Minister of Finance Regulation No. 100/PMK.010/2009 on Infrastructure Financing Companies.

PT SMI carries the duty of supporting the Government’s infrastructure development agenda for Indonesia through partnerships with private and/or multilateral financial institutions in Public-Private Partnership (PPP) projects. As such, PT SMI can serve as a catalyst in accelerating infrastructure development in Indonesia.

## Ownership :

100% owned by the Government of Indonesia

## Vision:

“To serve as catalyst in accelerating national infrastructure development”

## Mission:

1. To become a strategic partner that delivers value added contributions to Indonesia’s infrastructure development
2. To develop flexible financing products
3. To offer service excellence backed with good corporate governance



# 3 Pillars of Business and Focus Sector of PT SMI

## Funding Sources

State Additional Equity Injection

Loans and Grants from Domestic and Foreign

Capital Market (Obligasi, Securities)

Securitization

### FINANCING

- **Infrastructure Financing**
  - Senior Loan
  - Banking Complementary
    - Take Out Financing
    - Promoter Financing
    - Subordinated Loan
  - Mezzanine Equity Investment
  - Arranger & Underwriter
  - PPP Standby Lender\*
  - Geothermal Financing\*
- **Municipal Financing / Regional Infrastructure Development Fund (RIDF)\***

### ADVISORY SERVICES

- **Public Sector Advisory**
  - Public sector advisory
  - Training & Capacity Building
- **Private Sector Advisory**
  - Investment Advisory
  - Financial Advisory
  - Training & Capacity Building (Commercial)

### PROJECT DEVELOPMENT

- **Project Development Facilities (PDF)**
  - PPP Showcase Projects
  - PPP Priority Projects
- **PDF & Donor Fund Management**
- **Technical Assistance for Municipal Projects**

## Our Sector Focus

Electricity & Energy Efficiency



Telecommunication



Transportation



Waste Water & Waste Management



Road & Bridges



Oil & Gas



Water Supply



Irrigation & Waterway



Train Rolling Stock



Renewable Energy



Hospital



Regional Infrastructure



Prison



Market



School



Tourism Infrastructure

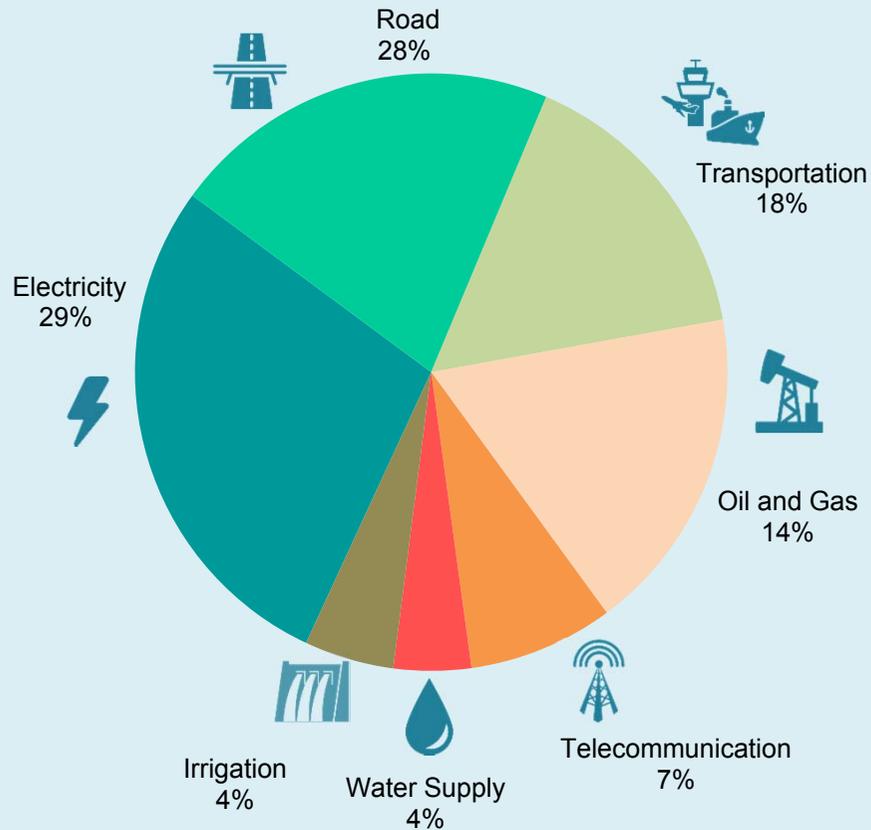


Social Infrastructure

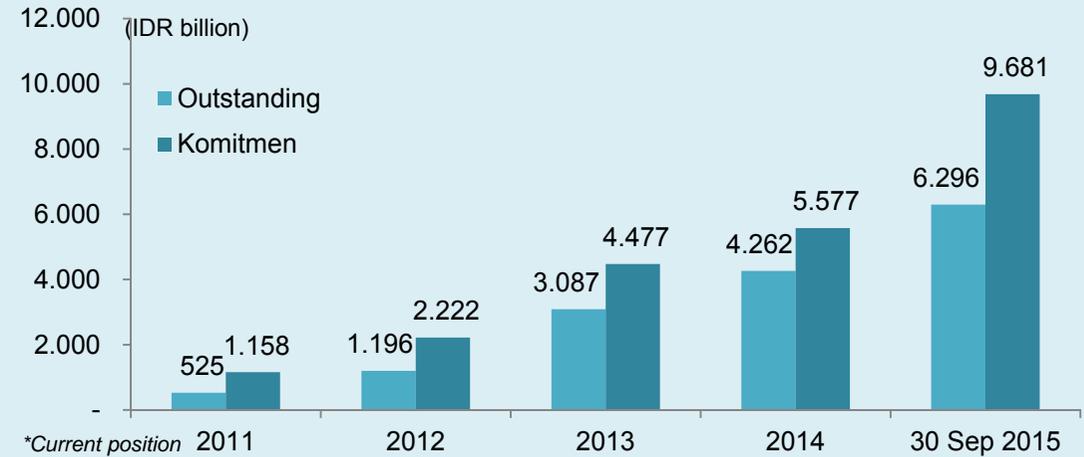
# 1<sup>st</sup> Business Pillar: Financing and Investment

Portfolio as of 30<sup>th</sup> September 2015

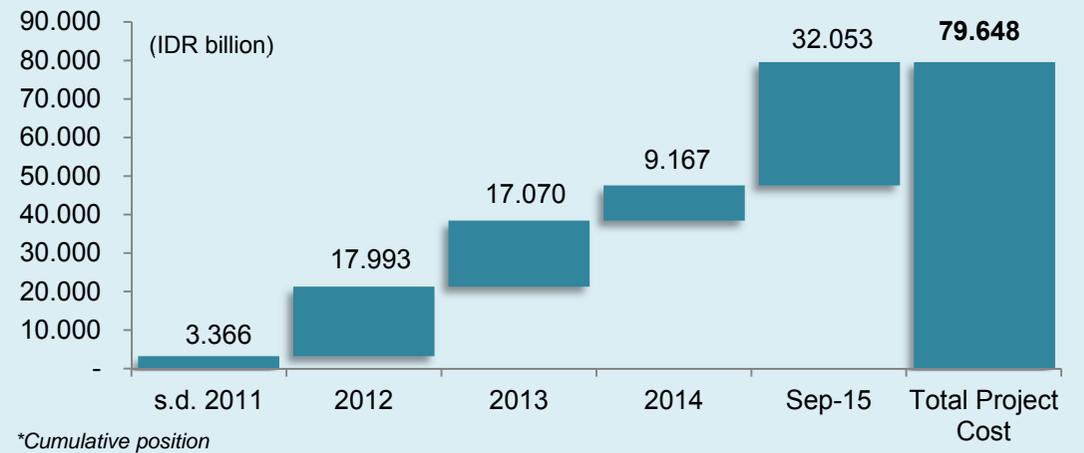
## Sector Diversification



## Financing Performance, 2011 – 30 September 2015



## Total Project Cost IDR79 Trillion



**IDR9.7 trillion**  
Financing Commitment

**Multiplier Effect 8.2 times**

**± IDR79.6 trillion**  
Total Project Cost



## TOLL ROAD



**Project**            **Pejagan–Pemalang Toll Road**

**Location**        **Central Java Province**

**Project Cost**    **Rp 2,25 Trillion**

**SMI Portion**     **Rp 700 Billion**

### Project Description

- The toll road is a part of the Trans Java toll road network that is strategic route to reduce congestion and shorten travel time.
- Loans in the form of working capital for the construction of Section 1 and Section 2 of toll road Pejagan-Pemalang (20.2 km)

## AIRPORT



**Project**            **Terminal 3 Soekarno-Hatta Airport**

**Location**        **Cengkareng, Banten Province**

**Project Cost**    **Rp 18,7 Trillion**

**SMI Portion**     **Rp 500 Billion**

### Project Description

- Increase the capacity of Terminal 3 of Soekarno Hatta Airport to 47 million passengers per year.
- Increase the total capacity of Soekarno Hatta Airport via passengers using the new airport to 67 million passengers per year.

## TOLL ROAD



<b>Project</b>	<b>Medan – Binjai Toll Road</b>
<b>Location</b>	Medan – Binjai, North Sumatera
<b>Project Cost</b>	Rp 1,604 Billion
<b>SMI Portion</b>	Rp 481 Billion

### Project Description

This highway is the first part of Trans Sumatra toll road network that has the strategic value to the transportation of people, goods and services, not only by reducing congestion along these lines, but also shortening the travel time.

## TOLL ROAD



<b>Project</b>	<b>Jalan Tol Cikopo-Palimanan</b>
<b>Location</b>	Cikopo-Palimanan, West Java
<b>Project Cost</b>	Rp 12,56 Triliun
<b>SMI Portion</b>	Rp 500 Billion

### Deskripsi Proyek

The toll road is a part of the Trans Java toll road network to reduce congestion and to shorten travel time.

## OIL AND GAS



<b>Project</b>	<b>Underwater Gas Pipeline Pemping Island – Tanjung Uncang</b>
<b>Location</b>	Batam, Riau Island Province
<b>Project Cost</b>	US\$ 64,500,000
<b>SMI Portion</b>	US\$ 23,500,000

### Project Description

Construction of subsea gas pipeline (including connection line) between the Onshore Receiving Facility (ORF) Pemping Island – Tanjung Uncang, Batam Island (13.5 km)

## ELECTRICITY



<b>Project</b>	<b>PLTU Molotabu</b>
<b>Location</b>	Kampung Bintahale, Gorontalo Province
<b>Project Cost</b>	USD 39,820,885
<b>SMI Portion</b>	USD 28,000,000

### Project Description

Molotabu power plant is intended to increase the capacity of the electric power supply in Gorontalo and North Sulawesi. This project is one of 31 PLN crash program power plant projects for the year 2013-2020.

# PT SMI Project Profile to Support Maritime Industry (4)



<b>Project</b>	<b>Container Terminal Palaran</b>
Location	Samarinda, East Kalimantan
Project Cost	Rp 550 Billion
SMI Portion	Rp 370 Billion
<b>Project Description</b>	
Container port infrastructure development and supporting infrastructure	

<b>Project</b>	<b>Container Terminal New Priok</b>
Location	Tanjung Priok, DKI Jakarta
Project Cost	US\$ 906,000,000
SMI Portion	US\$ 5,000,000 (allocation from syndication)
<b>Project Description</b>	
Increasing the capacity of unloading Port of Tanjung Priok	



<b>Project</b>	<b>Port of Gresik</b>
Location	Gresik, East Java
Project Cost	Rp 205 Billion
SMI Portion	Rp 163 Billion
<b>Project Description</b>	
Bulk port development, logging and multipurpose.	

<b>Project</b>	<b>Port of Cigading</b>
Location	Cigading, Banten
Project Cost	-
SMI Portion	Rp 125 Billion
<b>Project Description</b>	
Working capital for Cigading Port	

## FINANCING

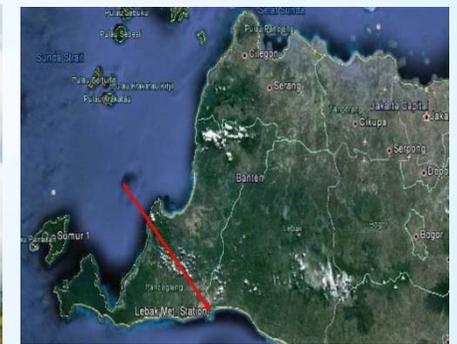


<b>Project</b>	<b>Mini Hydro Power Plant</b>
<b>Location</b>	Lebong Utara, Bengkulu Province
<b>Project Cost</b>	Rp 670 Billion
<b>SMI Portion</b>	Rp 140 Billion

### Project Description

Power plant is intended to increase the capacity of the electric power supply in Sumatera.

## ADVISORY



<b>Project</b>	<b>Wind Power Plant</b>
<b>Location</b>	Lebak, Banten Province
<b>Project Cost</b>	IDR 1,600 Billion

### Project Description

PT SMI was pointed by UNDP to conduct fund management for wind power development. The fund is allocated to finance the project preparation starting from developing FS until reaching financial close. The project scope of work: (1) developing Bankable FS, (2) promoting project to the market, (3) arranging to reach financial close

## Org. Structure

## UUS Framework 2016

Status	1 Establish Unit Usaha Syariah (UUS)	2 Preparation - UUS	3 Financing Target	4 DPS and Human Resource	5 Business Activities
P r o g r e s s	BOC Approval	Workshop on UUS Establishment and Islamic Financing	Being evaluated	<ul style="list-style-type: none"> <li>✓ Minimum 2 DPS member</li> <li>✓ Recruit Head of UUS and Subordinates</li> </ul>	DSN approval on new financing product
	Appoint UUS Head	Legal documentation dan license UUS			Policy and Procedure on UUS
	Org. Structure SMI plus UUS	Selection on DPS			IT System and accounting on UUS
Pending Issues		<ul style="list-style-type: none"> <li>• Business Plan</li> <li>• Getting license from regulators and DPS</li> </ul>	Require more pipeline to absorb the Islamic Funding		IT Modification Process: <ul style="list-style-type: none"> <li>- Analyse business process and product</li> </ul>

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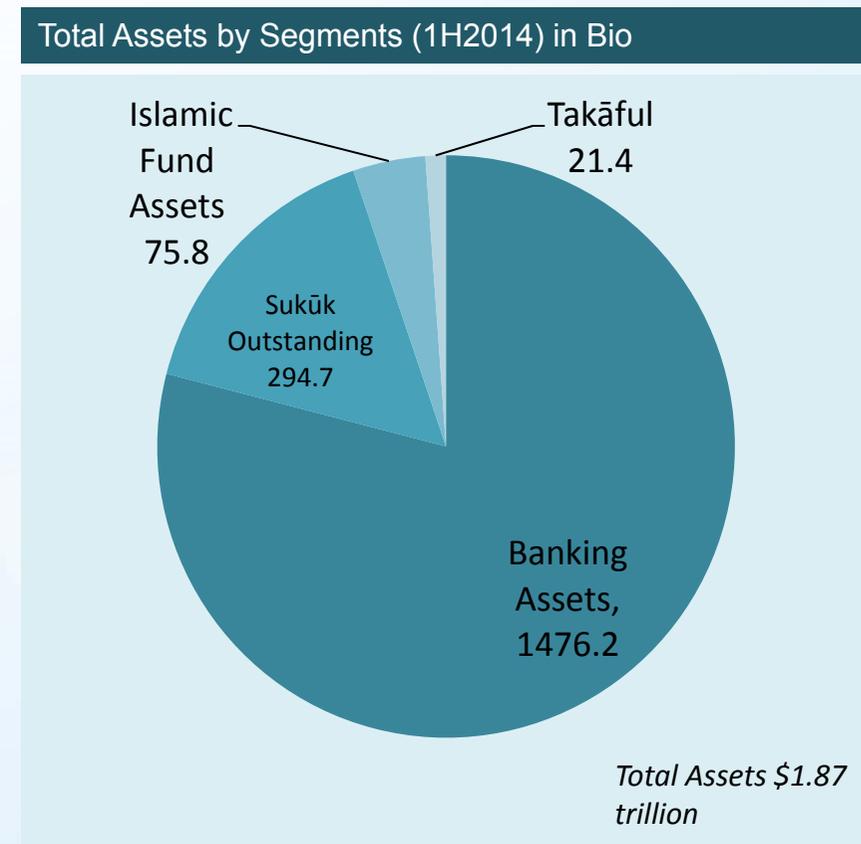
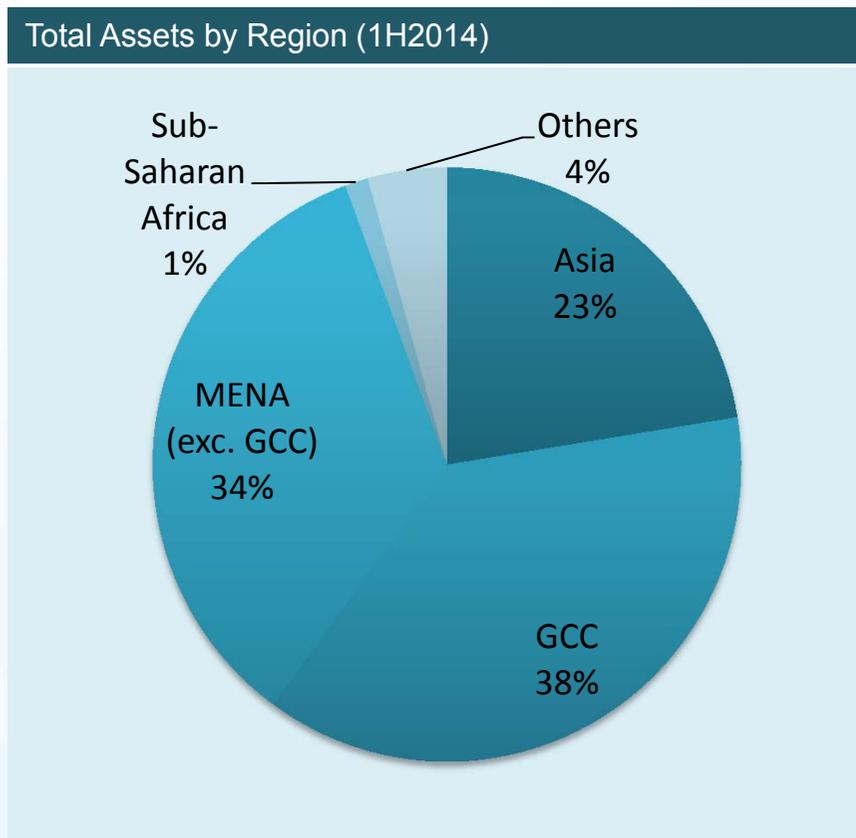


### Potentials

- 1 Islamic finance has grown rapidly in recent years
- 2 The opportunity of acquiring funding from Islamic Financial Institution
- 3 Sukuk Issuance

## Benefit – Rapid Growth on Islamic Finance

Islamic finance assets grew at double-digit rates during the past decade, the industry's assets are estimated to be worth USD1.87 trillion as at 1H2014(IFSB 2015).



\* Source : IFSB 2015

# Benefit - Accessing Islamic Funding



Abu Dhabi Fund  
for Development



مصرف الإمارات للتنمية  
Emirates Development Bank



The Saudi Fund for Development

Funding



**Asset Growth  
Diversifying Source of Fund**

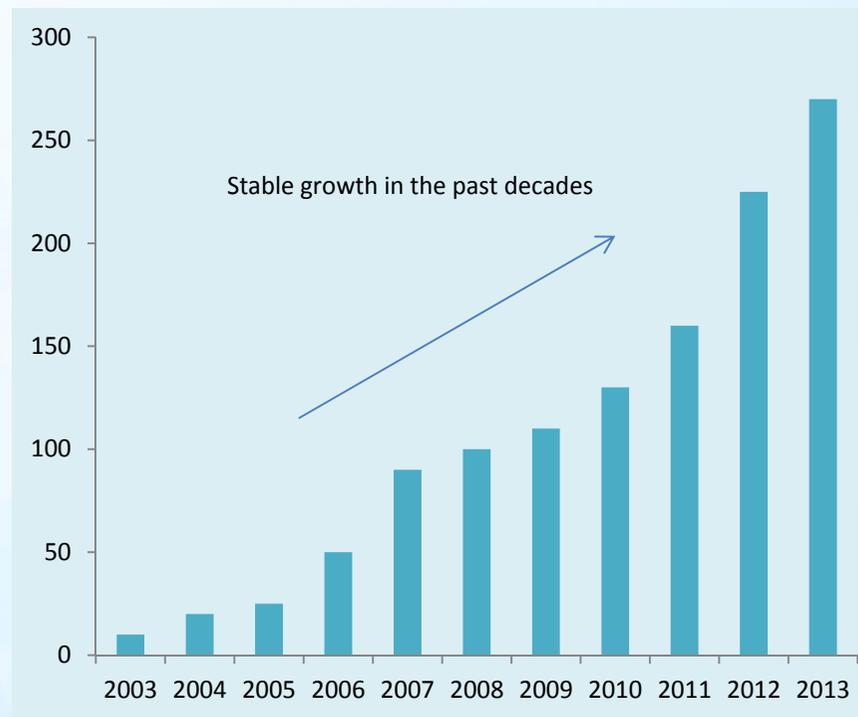
## Issuing Sukuk :

- With rapid worldwide growth, SMI envision Sukuk as a new alternative on funding
- Limited supply of Sukuk Issuers in the market, while high in demand. Recent oversubscription of Lelang SBSN (Surat Berharga Syariah Negara) 9.6x and Sukuk BNI Syariah 2.59x.

Limited Sukuk Issuers		
No	Issuers	Description
1	Adira Dinamika Multi Finance Tbk, PT	SUK. MDRBH BKL I ADIRA FINANCE THP II TH 2014 SR A SUK. MDRBH BKL I ADIRA FINANCE THP II TH 2014 SR B SUK MDRBH BKLJT II ADIRA FINANCE THP I TH15 SERI B
2	Bank Syariah Muamalat Indonesia Tbk, PT	SUKUK SUB MDRBH BKLJT I THP I BANK MUAMALAT TH2012 SUKUK SUB MDRBH BKLJ I THP II BANK MUAMALAT TH2013
3	Bank BNI Syariah, PT	SUKUK MUDHARABAH BANK BNI SYARIAH I TAHUN 2015
4	Bank Maybank Indonesia Tbk, PT	SUKUK MUDHARABAH BKLJT I BANK BII THP I TAHUN 2014
5	BPD Sumatera Barat	SUKUK MUDHARABAH I BANK NAGARI TAHUN 2010
6	BPD Sulawesi Selatan, PT	SUKUK MUDHARABAH BANK SULSELBAR I TAHUN 2011

\* Source : KSEI

Sukuk Global Outstanding Amount 2003-2013 (in \$ Bio)



\* Source : IFSB 2015

## Project Lifecycle and Risks



- Infrastructure project lifecycle involved **design, construction, operations** and **maintenance**
- Infrastructure project is large and complex. Thus, requires **well planned** and **coherent**
- Potential **project risk** :
  - i. Technical risk due to design and engineering failure;
  - ii. Delays in construction;
  - iii. Increase in raw material prices;
  - iv. Defective building procedures;
  - v. Mismanagement that leads to higher operating cost; and
  - vi. Political risks (i.e. Change in governments or law)

## Characteristic of Infrastructure Project



- **Investment** :
  - i. Capital intensive (i.e. Investment amount are usually lumpy, large and incurred during the initial stage of the project);
  - ii. Enjoy economies of scale
- **Maturity** :
  - i. Long operational lives and requires long tenure financing;
  - ii. Maturity can vary from 5 to 40 years.
- **Costs and Returns** :
  - i. Payback period commensurate with the long lives of projects and usually yields stable rates of return;
  - ii. Cost of credit usually high due to high risk involved;
  - iii. Uncertainty in the longer-run and higher cost of funds can make some viable projects unprofitable

## Stakeholders in Infrastructure Development



- Traditionally, infrastructure development was carried out and financed by **government** or **specialised** government bodies or **agencies**;
- Government encourage **private sector** involvement in infrastructure project financing in order to reduce budget deficit, debt and to free up funds for utilisation in other more important social sectors;
- Private sector may participate in infrastructure projects in either of the **following ways** :
  - i. Management and Lease Contract;
  - ii. Concessions;
  - iii. Greenfield Projects;
  - iv. Divesture; and
  - v. Merchant.

## Sources of Infrastructure Financing

Source of financing can be either from public or private institutions or combination of both

### 1 Public Source

- a. Budget Allocation from Government;
- b. Specialised Public Bodies and Development Banks; and
- c. Sovereign Wealth Funds.

### 2 Private Source

- a. Syndicated Financing by Banks / Financial Institutions;
- b. Infrastructure Funds;
- c. Private Equity Funds; and
- d. Issuance of capital market instruments (i.e. Bonds).

## Islamic Finance for Infrastructure Projects

Mode of financing can be either by obtaining direct financing from financier or by issuing Islamic securities

### 1 Islamic Modes of Financing Infrastructure Projects

- a. Murabahah (Cost-Plus or Mark Up Sale);
- b. Istisna' (Commissioned Construction);
- c. Ijarah (Leasing);
- d. Tawaruq (Cash Financing);
- e. Mudharabah (Profit Sharing); and
- f. Musharakah (Joint Venture).

### 2 Sukuk Structures for Infrastructure Finance

CATEGORIES	SUKUK TYPES
Asset-based	Ijarah (existing owned, existing leased and future assets), manfah (existing and future assets)
Debt-based	Istisna, Murabahah
Equity-based	Mudarabah, Musharakah
Agency-based	Wakala

- 1 Linking savings and investment;
- 2 It assists in financial inclusion;
- 3 Based on the profit and loss sharing, Islamic financing is able to minimize the severity and frequency of financial crises ;
- 4 Reducing the impact of harmful products and practices;
- 5 Encouraging shared risk;
- 6 Prohibiting high interest/ usury;
- 7 Many instruments or investment methods that have contributed to the financial crisis are not permitted by Sharia, such as short selling or non-asset backed derivatives.

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# Infrastructure Development in Indonesia Has Many Complex Issues beyond Financing

	Project Identification	Project Preparation	Project Tendering	Development & Construction	Operations
Coordination	Lack of consistency between plans	Lack of clarity and consistency across regulations		Risk of contract termination by new government	
	Lack of alignment between stakeholders (e.g. regional & state govt)				
	Lack of ownership of project preparation and driving the process				
Regulation	Slow progress of separation between operator and regulator	Lack of needed regulation and permits and approvals (e.g. spatial plan, PPP arbitration)		Difficulty in acquiring land	
Direct financing		Lack of financing for project preparation and feasibility studies	Lack of clarity and consistency of risk-sharing & guarantee arrangements	Underdeveloped supply of domestic capital, including capital market	
Indirect financing				Risk of credit worthiness for buyers (e.g. PLN, PDAM)	
Capability	Lack of PPP experience & capability				
		Low quality of project preparation		Cost/deadline overruns and compromises on quality due to inadequate supervision	
		Low quality of feasibility studies			

**Specialized capability and close coordination required to accelerate infrastructure development**

# Challenges in Financing Infrastructure Projects in Indonesia

## Source of Fund

- ▶ Limited sources of long-term funding
- ▶ Difficulties in transferring the risk to PJKP (contingency fund) and the budget process that tends to be complex
- ▶ The high costs for fund raising

## Project Readiness

- ▶ Project Selection: The selected projects are sometimes not in accordance with the financing modalities specified
- ▶ Project preparation and feasibility studies were inadequate
- ▶ The absence of a standard project documentation

## Stakeholders Management

- ▶ Lack of coordination between agencies
- ▶ The need for licensing of various agencies with different processes
- ▶ Control of the preparation and provision of infrastructure is not centralized

# Comparison between Conventional Project Financing vs Islamic Project Financing

1

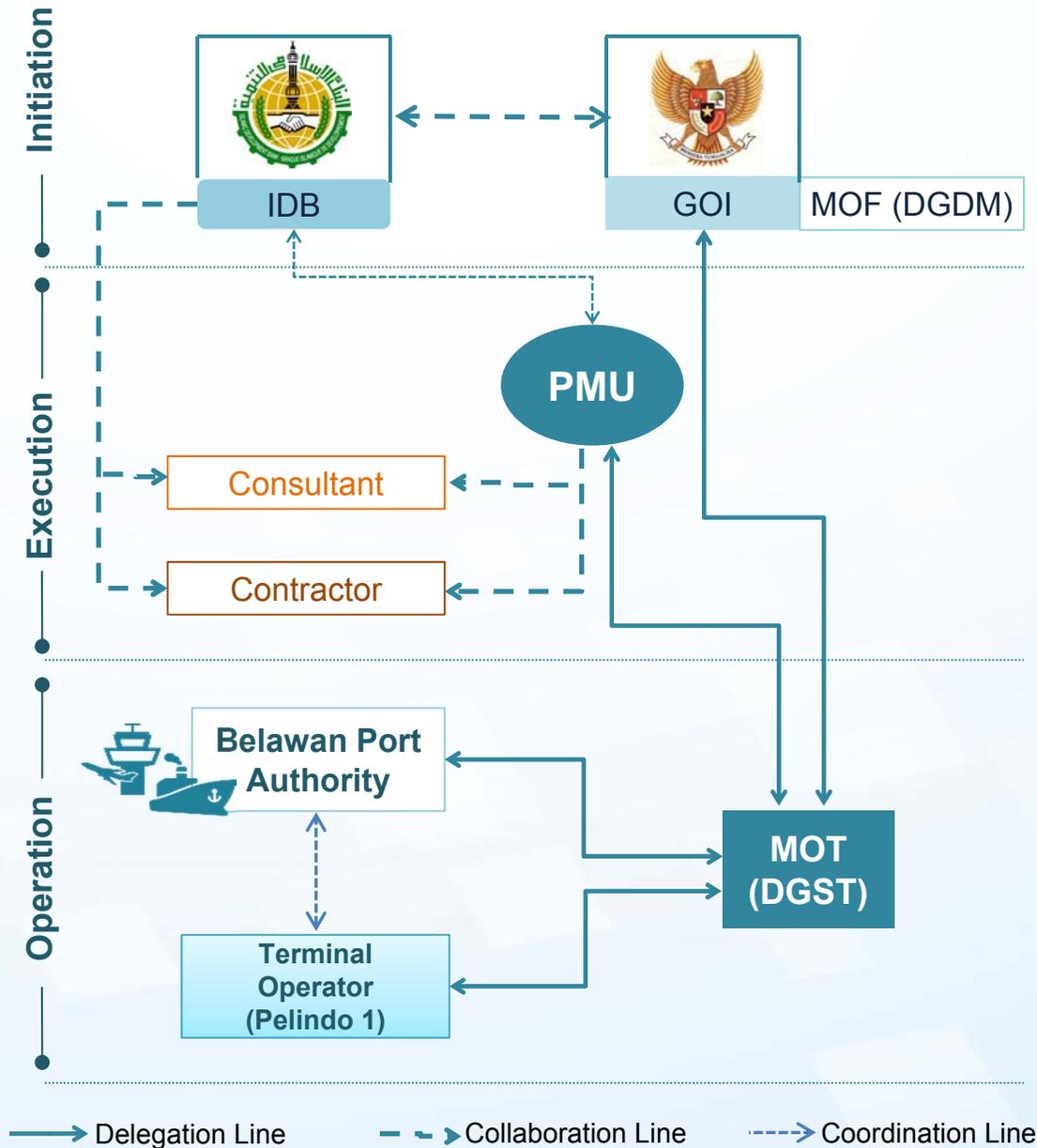
## Conventional Project Financing

2

## Islamic Project Financing

Financing principle	Interest-based financing	Profit loss sharing-based financing
Transaction	Financing can be established in one transaction without considering the purpose of the transaction	One <i>aqd</i> is only used for one transaction within a certain period of time
Instrument category	<ul style="list-style-type: none"> <li>• Equity provision</li> <li>• Debt can be in the form of a loan or bond with interest-based financing</li> <li>• Guarantee</li> </ul>	<ul style="list-style-type: none"> <li>• The instrument chosen depends on the share and management portion:               <ol style="list-style-type: none"> <li>i. Mudaraba</li> <li>ii. Musharaka;</li> </ol> </li> <li>• It depends on the purpose of the transaction:               <ol style="list-style-type: none"> <li>i. Salam or Istisna</li> <li>ii. Ijara</li> <li>iii. Sukuk</li> <li>iv. Murabaha;</li> </ol> </li> <li>• Kafalah</li> </ul>
Asset ownership	The asset belongs to the SPV although a party who provides debt has the priority privilege to get payment	The asset belongs to the party who provides the finance, based on the share proportion; asset ownership can only be transferred when all transactions have been established
Shariah board involvement	There is no sharia board involvement.	Sharia board involvement is a compulsory.

# Case Study in Indonesia – Belawan Port Project (1)

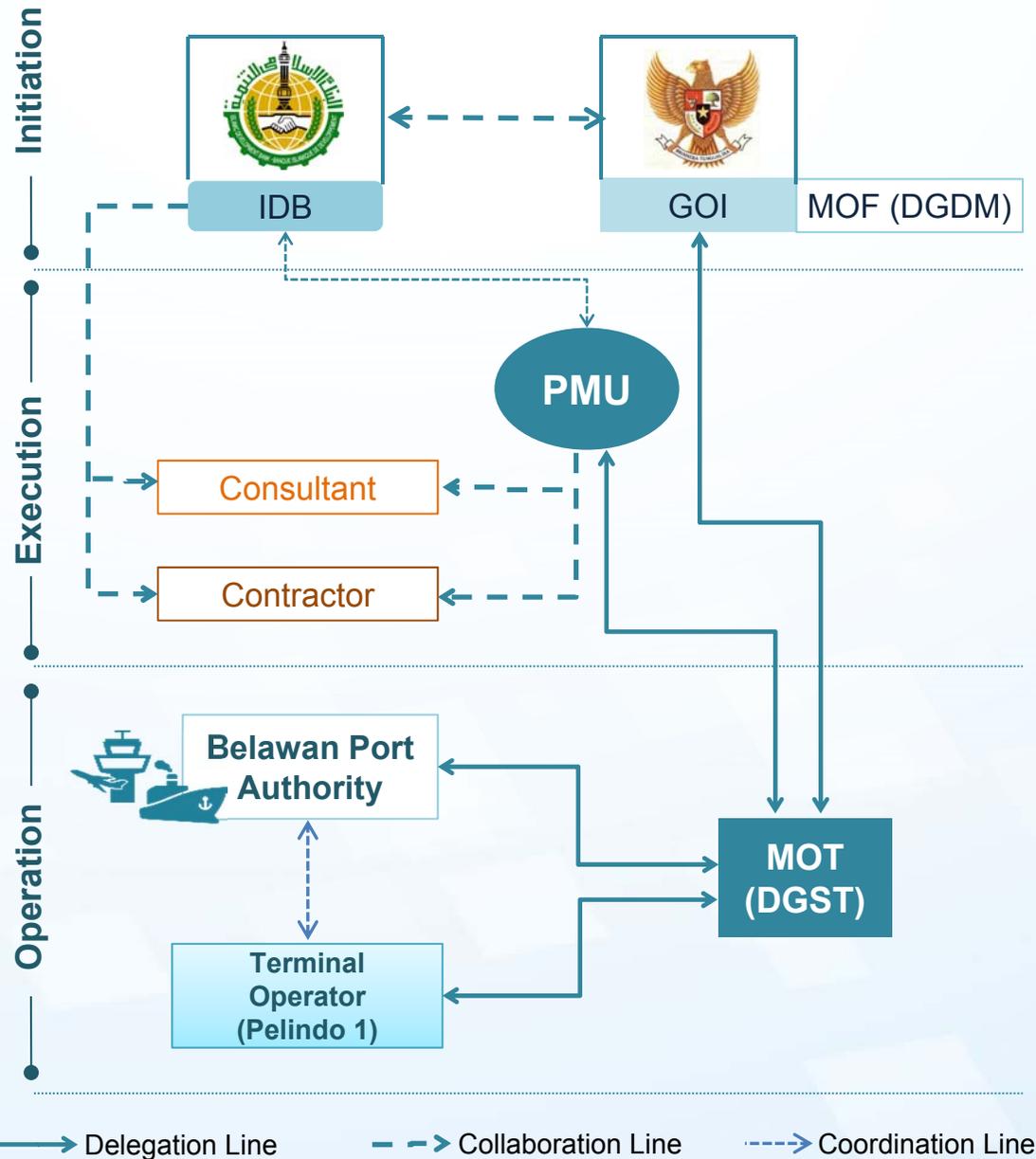


## Port of Belawan is under the management of PT Pelabuhan Indonesia 1 (Pelindo 1)

Project: New port container with 350 m in length and 30 m in width  
The project aims to increase the container terminal capacity of Belawan International Container Terminal

- Total project cost: USD139,31 mio (the GOI provides USD51,76 mio & IDB provides USD87,55 mio)
- Financing agreement was arranged in the **istisna** scheme
- Project scope covers: civil works, procurement of equipment, information system and conceptual framework of the concession scheme, consultancy services, PMU support & financial audit
- The *istisna* agreement cover: contractor selection; consultant appointment; disbursement approval; the taking over of the works; representations and warranties; indemnity; the effective date; and disputes
- All disbursement from IDB must follow the IDB procurement and disbursement procedures
- Within *istisna* scheme, all the works and assets that are financed by IDB belong to IDB. Therefore, at the end of contract, the GOI must directly take over all the works and assets. The process of the works and asset transfer will be arranged later on
- One possible scheme is a selling and buying scheme in a single payment or in installment. Therefore, succeeding the *istisna* agreement, there must be an additional agreement to take over all the works and assets, as well as to legalize the asset ownership
- After the GOI owns the asset, a concession agreement is established between Port Authority and Pelindo 1 to execute the port operations and return the investment costs.

# Case Study in Indonesia – Belawan Port Project (2)



- Based on the concession agreement, Pelindo 1 will share a percentage of the revenue generated by the port activities
- The percentage of the revenue sharing and the duration of the operational concession are to be arranged later on
- The revenue that Belawan Port Authority receives will then be deposited in the GOI state treasury through the MOF. It is considered as non-taxable revenue
- In addition, Pelindo 1 as SOE must pay dividend to the GOI

## Project Management

- The Directorate General of Sea Transportation (DGST) under the Ministry of Transportation (MOT) is responsible for executing the project development
- The Directorate General of Debt Management (DGDM) in the Ministry of Finance (MOF) represented GOI to sign an *Istisna* agreement with the Islamic Development Bank (IDB) in 2009
- DGST, on behalf of GOI, acts as the executing project agency and established a Project Management Unit (PMU) to be the daily project coordinator
- The PMU responsible for selecting and contracting a consultant and a contractor
- All the procurement process must follow the IDB procurement process
- The chosen consultant and contractor will be disbursed directly by IDB based on the Istisna agreement
- Based on Istisna agreement, the PMU reports the project progress not only to the DGST, but also to the IDB
- For the operations and maintenance phase, DGST assign the Belawan Port Authority to regulate the Port of Belawan and to establish an operational concession agreement with Pelindo 1



**THANK YOU FOR YOUR  
KIND ATTENTION**

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