



**Asia-Pacific  
Economic Cooperation**

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## **Background Paper: TransSumatera Toll Road**

Submitted by: Indonesia



**3<sup>rd</sup> Public Private Partnership Experts Advisory  
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# 1 Project Description

## Background

Trans Sumatera Toll Road is part of MP3EI priority project with high strategic and economic importance. The estimated economic benefits generated by Trans Sumatera are very large, but since the traffic demand and FIRR are low, thus private sector involvement is considered to be not a feasible solution. Projected traffic growth up to 2026 for most of Trans Sumatera toll road sections is still below 50,000 vehicle per day which is the lowest traffic number in Java.

Thus, **as mandated by Government Regulations No.43/2013**, in the event that the toll road is economically feasible but not financially feasible, the government funding for toll road concession is limited, and to accelerate regional development, Gol may appoint SOE (wholly state-owned) to deliver the toll road project. Moreover, **SOE assignment brings additional values such as time and cost efficiency, potential return on investment, allowing equity leveraging for Gol's investment, as well as design synergy and consistency.**

Hutama Karya, compare to the other wholly-owned SOE, is considered to be **the most capable of delivering the Trans Sumatera project**, given by its size and its experience in toll road sector. To deliver the project, HK sees that timing is crucial, thus the commencement of Phase I construction and land acquisition must be kick start in 2014.

Based on Perpres 100/2014, HK will focus on the first 4 sections which is :

1. Medan – Binjai
2. Bakauheni – Terbanggi Besar
3. Pekanbaru – Dumai
4. Palembang - Indralaya

## Project Scope

From the construction and operational strategies, **HK will focus on:**

- (1) Construction innovation;**
- (2) Construction management and structuring;**
- (3) Operation and commercial innovation;**
- (4) operation management.**

To enable those strategies, **HK will transform itself into BUJT (*Badan Usaha Jalan Tol*)**. HK will then transfer all its existing assets to its subsidiary HK Konstruksi. HK's transformation process does not have implications for existing bond holders, because the existing bonds of HK will be transferred completely to HK Construction.

## **Financing strategy**

HK will leverage the equity injection by Gol through PMN, utilising cheap funding sources backed up by Gol guarantee, and bringing in equity partners to share the risks.

## **Land acquisition**

According to Law no. 2/2012, in case the SOE is the institution that needs land, acquired land will be entitled to SOE. In this case, acquired land will be entitled to Hutama Karya (Persero).

Fund for land acquisition will be provided by Government to Hutama Karya (Persero) in the form of equity. Hence, Government will have bigger equity portion in the capital structure of Hutama Karya (Persero).

Budget provided by Government will be used in land acquisition stages:

1. Planning;
2. Preparation;
3. Implementation;
4. Handover;
5. Administration and management;
6. Socialization.

As mandated by Perpres, HK will coordinate the land acquisition process to ensure the targeted timeline is achievable, with this strategies :

### **A. Planning**

1. Development of Right of Way (RoW) plan for whole alignment in 2 years;
2. Land freezing for the whole section right after RoW determination.
3. The whole land acquisition process will be done in 5 years

### **B. Implementation**

1. Establishment of task force team for each section to support and supervise land acquisition process.
2. Outsource land acquisition consultants and cooperate with local NGO
3. Establish an integrated team consisting of :
  - BPN;
  - Regional governments;
  - Deputy of Attorney General for Civil and State Administration;

- law firm; and
  - local law enforcement agencies (Regional Police and Military).
4. Securing land after acquisition process to prevent illegal residents .

The implementation schedule of land acquisition for phase I of Trans Sumatra Toll Road is as below:

No.	Section	Length (Km)	2014				2015				2016				2017				2018			
			Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<b>Medan - Binjai</b>																						
1	Tanjung Mulia - Helvetia	4,51	-----																			
2	Helvetia - Semayang	4,95	-----																			
3	Semayang - Binjai	7,64	-----																			
<b>Palembang Inderalaya</b>																						
1	Sp. Inderalaya - KTM	10	-----																			
2	KTM - Pemulutan	5	-----																			
3	Pemulutan Palembang	7	-----																			
<b>Bakauheni - Terbanggi Besar</b>																						
1	Access to Sunda Strait Bridge	11					-----															
2	Bakauheni - Babatan	27					-----															
	Bakauheni - Kalianda	12					-----															
	Kalianda - Babatan	15					-----															
3	Babatan Tegineneng	59	-----																			
	Babatan - Lematang	35	-----																			
	Lematang - Tegineneng	24	-----																			
4	Tegineneng - Terbanggi Besar	42					-----															
	Tegineneng - Bandajaya	30					-----															
	Bandarjaya Terbanggi Besar	12					-----															
<b>Pekanbaru - Dumai</b>																						
1	Pekanbaru - Kandis	45					-----															
	Pekanbaru - Minas	10					-----															
	Minas Petapahan	25	-----																			
	Petapahan - Kandis	10	-----																			
2	Kandis - Duri 1	51					-----															
	Kandis - Duri 1	34					-----															
	Duri 1 - Duri 2	17					-----															
3	Duri - Dumai	30	-----																			
<b>Phase II and III</b>			-----																			
<b>Grand Total</b>			<b>2,608</b>																			

### Risk Identification and Mitigation

The table below consists of Project's risks with risk exposure and mitigation plan :

No.	Risk	Risk Exposure	Mitigation Plan
1	Corporate Risk (Capital)	<p>Government capital injection (PMN) schedule and amount are different from initial agreement</p> <p>Difficulty to find potential investor due to long tenor (15 years tenure, 7 years grace period)</p>	<ul style="list-style-type: none"> <li>• Bridging Finance Equity</li> <li>• Increase the portion of equity partner and/or private equity</li> <li>• Finding long term funding (bond, SLA, direct lending)</li> <li>• Obtaining government guarantee to increase market confidence</li> </ul>

		<i>Cash flow mismatch</i>	<ul style="list-style-type: none"> <li>• Working Capital Credit in the beginning of operation</li> <li>• <i>Shareholder loan</i> is incorporated in PUP</li> </ul>
2	Default Risk	<p>PT. Hutama Karya is unable to service its debt nor continue the project</p> <p>The inability to service existing liability (existing bondholders, outstanding loan, etc) due to the company's transformation</p>	<ul style="list-style-type: none"> <li>• Stating exit clause in the Presidential Regulation for BPJT to be able to take over the project</li> <li>• To explore bond restructuring with trustee</li> <li>• Securing a portion of revenue or existing business revenue to service the existing liability</li> </ul>
3	Economic Risk	Increase of Interest rate and cost of construction	<ul style="list-style-type: none"> <li>• Obtaining government guarantee to get a lower interest rate</li> </ul>
4	Demand Forecast Risk	Traffic demand projection is not achieved	<ul style="list-style-type: none"> <li>• Development of non toll business (Industrial and commercial park, property, transmission network, etc)</li> <li>• Proposing adjustment of RUTR to local government</li> <li>• Organizing sections in one integrated road network</li> <li>• To connect tranches in a integrated network</li> </ul>
5	<i>Operational Risk (Cost Overrun)</i>	<p>Increase of construction cost</p> <p>Additional cost during project execution</p>	<ul style="list-style-type: none"> <li>• Hedging of foreign currency denominated loan</li> <li>• To incorporate possible escalation in every cost calculation</li> </ul>
6	Operational Risk (Land Acquisition)	Unpredictable land price, delay of land acquisition, conflict with land owner	<ul style="list-style-type: none"> <li>• Coordinating with local government to issue Local Government Regulation to ban transaction of land after the issuance of SP2LP</li> <li>• Land freezing</li> <li>• Fund allocation for land acquisition by government</li> </ul>
7	Operational Risk (Toll road planning)	Mistakes in route and DED determination	Qualifying planning and quality control consultant through independent checker

8	Operational Risk (Construction execution)	Construction failure and inability of contractor to execute	<ul style="list-style-type: none"> <li>• Qualifying all construction service providers and requiring corporate guarantee of construction all risk</li> <li>• Monitoring closely the execution</li> </ul>
9	Financial Risk (Joint Venture Company)	Failure to incorporate shareholder's equity	<ul style="list-style-type: none"> <li>• Stating obligation to put equity and giving penalties in case they failed to fulfill the obligation in the Joint Venture Agreement</li> </ul>
10	Legal Risk	<p>Toll road development does not go accordingly due to financial closure not going as planned</p> <p>Lawsuit against the appointment of PT Hutama Karya in Trans Sumatra Toll Road project</p>	<ul style="list-style-type: none"> <li>• Incorporating a clause in PPJT to be able to renegotiate so that the company does not go default</li> <li>• Incorporating risk in the contract with contractor and consultant</li> </ul>