



Indonesia's Infrastructure Financing Deficit—ABS to the Rescue?

Indonesia's considerable infrastructure financing deficit is a hot topic in the project finance market. A likely outcome of this infrastructure gap is the growth of alternative financing instruments, such as asset-backed securities ("ABS"). An ABS is the transformation of illiquid financial assets (e.g., income receivables and infrastructure charges) to liquid financial assets by way of the purchase of such financial assets from the originator and the issuance of an ABS. An infrastructure ABS would allow project owners such as state-owned enterprises to finance their construction costs by monetizing stable cash flows from their existing revenue-generating infrastructure assets.

It has been reported that state-owned electricity distribution company Perusahaan Listrik Negara ("PLN"), and state-owned transportation company Jasa Marga, intend to raise Rp 10 trillion (approximately US\$750 million) and Rp 2 trillion (approximately US\$150 million), respectively, from the issuance of ABS this year. PLN's underlying ABS assets are the future cash flow of Indonesia Power (a PLN subsidiary). These upcoming ABS issuances will test the appetite of the market for this financing instrument and almost certainly necessitate changes to the regulatory environment (including incentives for investment in ABS).

Jones Day will be closely monitoring the development of infrastructure ABS instruments in Indonesia and any changes to the regulatory environment to foster its growth. Given that the current market size of ABS in Indonesia is well below those of the equity and bond markets, there is the potential for significant growth. Stay tuned.

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