

**17 September 2018****Indonesia's Strategic Efforts in Attracting Investment for Infrastructure Development***Sumit Dutta, President Director, PT Bank HSBC Indonesia*

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*The advancement level of a country's infrastructure reflecting the efficiency of its economic activity. When the country's state of infrastructure is weak, it will generally results in very high logistics costs on business activities (including trade) and the industry will lose its competitiveness - both nationally and globally. Infrastructure development and macroeconomic development have a reciprocal relationship, as infrastructure development leads to economic expansion through multiplier effects. Meanwhile, economic expansion raises the need to expand existing infrastructure, to absorb an increase in the flow of goods and human resources that circulate throughout the economy.*

**Indonesia's Achievements and Commitment to Achieving Ideal Infrastructure Levels**

The Government of Indonesia is aware of the importance in prioritizing infrastructure and investment improvements. Therefore, infrastructure development becomes one of the focus of President Joko Widodo administration's real proof of work. The 'ambitious' infrastructure projects take place in some areas, especially in the outer regions of Java, such as Kalimantan, Sumatra, Nusa Tenggara, West Papua and Papua. Some of these projects are Supadio Pontianak Airport, to provide access for air transportation to West Kalimantan and Silangit International Airport to open tourism access in North Sumatra. Then, trans-Papua development to reduce the need for basic materials and handle the imbalance of regional development in Indonesia.

As for regional level, HSBC through its report "The ASEAN Perspective: Can ASEAN fill its infrastructure potholes" estimates that it takes infrastructure investment of USD2.1 trillion for development across ASEAN, and the current budget will only cover USD910 million<sup>1</sup>. Learning the situation where the need of regional infrastructure investment is increasing and traditional bank lending is getting tighter, the Indonesian government is being strategic to pave the way for potential investment from private sector.

The ease of doing business in Indonesia has made a significant progress. It is recognized by the World Bank through the annual report "Doing Business 2018: Reform to Create Jobs" which was released in the end of last year. The report investigates a country's regulations that play a role on a business's obstacles and advantages. The World Bank portrays the ease of doing business's climate from 190 countries, including Indonesia, known as Ease of Doing Business (EoDB). Jokowi is targeting Indonesia to penetrate the top 40 in the world's ease investment grade rankings in 2019. Indonesia is currently on the 72th position, after during the past two years experienced an increase

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<sup>1</sup> HSBC Global Research: "ASEAN Perspectives: Can ASEAN fill its infrastructure potholes", Joseph Incalcaterra, July 2016

of 42 rankings for three years period<sup>2</sup>. One of the efforts to achieving the target, President Jokowi through his opening at the Government's Work Meeting at JIExpo Kemayoran, Jakarta, last March encouraged the Ministry / Institution to cut 50 percent of the 42 thousand regulations that are still considered complicating the process of investment that enters the country<sup>3</sup>.

## **Implications Towards Investment Needs**

Strategic investment planning is crucial for Indonesia in attracting potential investors to participate in Indonesia infrastructure development, together with positive trends in Ease of Doing Business and improving bureaucracy. To further support these developments, investment products are expected to be innovative, more diverse and in accordance with the development of investment interest at the global level.

Paiton Energy is an example of how the debt capital market plays a significant potential role to play in financing Indonesia's infrastructure. In August 2017, Indonesia's second-largest private power producer launched a two-stage bond project worth USD 2 billion. The bonds consist of an agreement of USD 1.2 billion for 13 years and USD 800 million over 20 years. The deal is the first agreement whereby private companies receive the first publicly-listed investment and bond project ratings issued in Asia since 2002. The agreement then shows that Asian investors are ready to make significant investments in Indonesia's infrastructure projects, for the right transactions.

Another potential investment source for Indonesia is through China's Belt and Road Initiative (BRI). According to our data, BRI's commitment to ASEAN - especially in Malaysia, Indonesia and the Philippines - will amount to more than USD 77 trillion<sup>4</sup>. Under the auspices of BRI, the Chinese government has focused on commercial approaches that seek partnerships which both are sustainable and mutually beneficial, such as partnerships with the Indonesian government. The interest of investing in Indonesia from Chinese companies and taking advantages of BRI's interest in well-structured projects are becoming more clear and potential in the projects given.

Practically, this partnership includes forging stronger relationships at all levels of government. Where both parties become more proactive in finding and determining partnerships with local companies, as well as detailed consultations with government agencies on the sustainability aspects and staying in line with applicable environmental regulatory standards.

Looking from a private partnership perspective, whether through capital markets, international investment or BRI - all elements are allowing the Indonesian government to raise new capital and recycle existing capital into a 'new field' and have the ability to open the access towards technological knowledge and operational efficiency.

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<sup>2</sup> Laporan BKPM "Perbaikan Pelaksanaan Kemudahan Berusaha Ease of Doing Business di Indonesia", 10 November 2017, <https://www2.bkpm.go.id/id/publikasi/siaran-pers/readmore/1021501/30101>

<sup>3</sup> Media Keuangan VOLUME XIII / NO. 128 / MEI 2018, <https://www.kemenkeu.go.id/media/9830/media-keuangan-mei-2018.pdf>

<sup>4</sup> HSBC Global Research: "ASEAN Perspectives: "Sizing up the OBOR impact", 26 May 2017



To obtain optimal results in the commitment of infrastructure acceleration, Indonesia must prioritize its need to import capital and expertise<sup>5</sup>. Strategic infrastructure investment is an important point of productivity and the prospects for economic growth in Indonesia. Therefore, the private sector is still a potential investor to help accelerate the development of infrastructure in Indonesia. Based on our point of view, the main foundation of this, is focusing in opening up existing infrastructure assets to the private sector, through products such as debt securitization and project bond markets.

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<sup>5</sup> <https://ecommerceig.asia/jokowi-to-develop-indonesias-infrastructure/>