

THE IMPACT OF JOKOWI'S RE-ELECTION ON FOREIGN INVESTMENT OPPORTUNITY IN THE INFRASTRUCTURE SECTOR IN INDONESIA

Infrastructure development is one of the most strategic ways to accelerate Indonesia's economic growth and distribution. The Government's attention in the infrastructure sector in recent years has contributed to improving the quality of infrastructure in Indonesia. However, Indonesia's infrastructure competitiveness still needs to be improved and Joko Widodo in his re-election speech highlighted the priority areas which include infrastructure construction, human resource development and bureaucracy reform. In this article, Fadjar Widjaksana Kandar of the Projects & Infrastructure Practice of Roosdiono&partners (a member of ZICO Law) shares his insights on the impact of Jokowi's re-election on foreign investment opportunities in the infrastructure sector in Indonesia.

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BACKGROUND

Infrastructure development is one of the most strategic ways to accelerate Indonesia's economic growth and distribution. The Government's attention in the infrastructure sector in recent years has contributed to improving the quality of infrastructure in Indonesia. However, Indonesia's infrastructure competitiveness still needs to be improved.

The re-elected president of the Republic of Indonesia, Joko Widodo (commonly known as Jokowi), gave his first political speech since his re-election in front of his supporters at the Sentul International Convention Center in Bogor, West Java. The speech outlined his priorities for the second term of his presidency commencing in October 2019, among others, infrastructure construction, human resource development, and bureaucracy reform.

During his first term, Jokowi was successful in running the economy, where Indonesia obtained the Investment Grade status and had its credit rating upgraded to BBB/Stable Outlook. In the first three years of his first term, the investment realisation increased from IDR463 trillion in 2014 to IDR721.3 trillion in 2018. Such increase is supported by the policies Jokowi enforced in relation to the investment sector. He enforced regulations and established services which increased foreign investment in Indonesia, including creating a one-stop integrated service centre to assist foreign investors, which successfully reduced the number of procedures required to establish a business, resulting in the ease of investing and doing business in Indonesia. Indonesia's ranking jumped from 120 in 2014 to 73 in 2019 in the World Bank's Ease of Doing Business ranking.

In the infrastructure sector, Jokowi consistently made infrastructure development his number one priority during his first term, and

on to his second term. He deregulated private ownership for some infrastructure sectors (e.g. toll roads), and mandated both private corporations and State-Owned Enterprises ("SOE") to take part in infrastructure development.

Massive physical infrastructure development has improved connectivity between dispersed islands and between rural and urban areas within the major islands, thereby improving domestic market integration and reducing logistics costs. This in turn strengthens economic competitiveness, making the country much more attractive to investors.

To a large extent, Jokowi's re-election is a validation of his policies. Indonesians have been impressed with his focus on infrastructure development and heavy spending on social programs like health and education cards, which grant access for Indonesia's lower middle class society to these basic services. Education will be another key factor, where the Government will likely focus their more effective and targeted spending on.

Jokowi has been extending his warm welcome and support to businesses, both local and foreign, throughout his first term. Jokowi is particularly supportive of companies whose investment supports and helps Indonesia develop its infrastructure and more skilled jobs. Additionally, with manufacturing now in focus, businesses with the aim to contribute to this sector will also be welcomed with open arms by the Government. Therefore, generally the investments from companies that are capable to link with the Government's policies will be looked upon favorably and will have more leverage when facing business challenges.

POLICY/TARGET ON INFRASTRUCTURE

RPJMN 2020 – 2024

In implementing development in Indonesia, the Government established a National Medium-Term Development Plan (*Rencana Pembangunan Jangka Menengah Nasional*/"RPJMN") periodically, in which the Government will present its Gross Domestic Product ("GDP") growth target. In order to achieve such target in the RPJMN 2020-2024, the Government estimated infrastructure expenditure to reach 6.08% of the GDP. However, the actual capability is only amounts to 3.46% of the GDP, resulting in quite a significant gap in infrastructure funding. For this reason, the participation of public and business entities in form of investment is needed, among others through Public-Private Partnership ("PPP") and Non-Government Budget Investment Financing ("PINA") schemes.

One of the Government's targets in the RPJMN 2020-2024 is strengthening infrastructure in order to support the development of economy and basic services in building the environment. In order to achieve such target, the Government will ensure the building of infrastructure will be based on the regional needs and excellence through:

- making regional excellence as a reference to determine the region's infrastructure needs;
- improving regulation, guidance and supervision in the development of infrastructure;
- conducting ICT-based urban infrastructure development;
- rehabilitating inefficient facilities and infrastructure; and
- simplifying infrastructure development licensing.

Further, the Government enacted Presidential Regulation No. 56 of 2018 ("**Presidential Regulation 56/2018**") regarding the Implementation of National Strategic Project, in which top priority projects of Jokowi's regime was listed.

OBSTACLES

FUNDING

Reflecting on the current focus of Jokowi's Government on infrastructure development, we need to emphasise that infrastructure development cannot be built by counting on traditional funding patterns (State Budget and Regional Budget). The Government is currently innovating investment patterns such as foreign loans, cooperating with both domestic and foreign investors and other options. To meet the needs of infrastructure development financing,

the Government optimises at least seven alternative infrastructure financing posts and continues to intensively socialise these financing innovations to regional Governments, among others the capital market through Collective Investment Contracts, Real Estate Investment Funds, Asset-Backed Securities, Infrastructure Investment Funds, and Regional Bonds.

INTENSIVE REGULATORY UPDATES

Indonesia's regional and national regulations are often updated or amended, making it difficult for companies to keep up and manoeuvre through a quagmire of bureaucracy. In his first term, Jokowi enacted Government Regulation No. 24 of 2018 regarding online integrated business licensing services or commonly known as the Online Single Submission ("OSS") system which established an online integrated services for investment licensing that is far from perfect. This is because the OSS system is still being handled by the central Government under the command of Indonesia's Investment Coordinating Board (*Badan Koordinasi Penanaman Modal*/"BKPM") with the aim to simplify the issuance of investment licenses.

of obtaining investment licenses that is expected to be completed in just two hours through OSS is unable to be promptly followed by the entailing licenses in the One-Stop Integrated Services issued by the relevant Ministries.

Furthermore, the OSS system currently is in the development phase, where it often undergoes changes and maintenance service, resulting in business actors facing difficulties in administering licenses via the OSS system.

However, in practice, the integration with the regional permits in 34 provinces and 514 districts/cities in Indonesia is still difficult. The ease

Foreign investors must therefore be aware and keep themselves updated of the amendments and updates of such regulations.

OPPORTUNITIES FOR FOREIGN INVESTMENT IN INFRASTRUCTURE SECTOR IN INDONESIA

INFRASTRUCTURE DEVELOPMENT IS STILL THE MAIN PRIORITY AND FOCUS OF JOKOWI'S SECOND TERM

Jokowi has outlined his priorities, emphasising that he will continue the infrastructure drive, improving human resources, removing obstacles that hinder investment, reforming the bureaucracy and ensuring the efficient utilisation of the State Budget.

opportunities to the market. Jokowi is a business-friendly reformist who has turned infrastructure development into one of the key focuses for his administration.

Jokowi continues to build infrastructure that connects one economic area with other economic zones such as Special Economic Zones ("SEZ"), Industrial Estates, and Tourism Areas. According to him, the infrastructure of human movement and goods can be accelerated. He gave an example of the construction of toll roads, ports, railway lines and airports so that they can connect between one economic region and another.

There is also a breakdown in infrastructure spending beyond the obvious – as well as big infrastructure projects such as new roads, airports, and railways, smaller infrastructure projects such as sanitation, clean water, irrigation, and waste management are also in focus.

To keep his popularity high, spending on infrastructure across the nation as well as Government-funded social programs are set to continue. The re-election of Jokowi should bring more infrastructure

Pursuant to the Presidential Regulation 56/2018, there are 227 National Strategic Projects. As of May 2019, 77 projects have been completed. Out of the 277 projects, there are 65 toll road projects, 14 of which have not secured any investors to support its construction, and is still in preparation stage. The investment value of these 14 toll road projects amounts to IDR244 trillion for a total of 1576.9 km construction work in the Sumatra and Java islands.

The following are the 14 toll road projects:



Yogyakarta-Solo	40.49 km
Semarang-Demak	25 km
Yogyakarta-Bawen	104 km
Palembang-Tanjung Api-Api	70 km
Batu Ampar-Muka Kuning-Bandara Hang Nadim	25 km
Binjai-Langsa	110 km
Rantau Prapat-Kisanan	100 km
Langsa-Lhokseumawe	135 km
Lhokseumawe-Sigli	135 km
Parapat-Sibolga	101.5 km
Betung (Sekayu Intersection)-Tempino-Jambi	191 km
Jambi-Rengat	190 km
Rengat-Pekanbaru	175 km
Dumai-Sigambal Intersection-Rantau Prapat	175 km

Other than toll road projects, Presidential Regulation 56/2018 also includes SEZs as a National Strategic Project. To date, there are 10 operating SEZs and two SEZs under construction with a total area of 16,065 Ha all over Indonesia.

The 10 operating SEZs are as follows:

Sei Mangkei SEZ	2,002.7 Ha
Tanjung Lesung SEZ	1,500 Ha
Malay Batuta Trans Kalimantan (MBTK) SEZ	557.34 Ha
Palu SEZ	1,500 Ha
Bitung SEZ	534 Ha
Mandalika SEZ	1,035.67 Ha
Morotai SEZ	1,101.76 Ha
Arun Lhoksemawe SEZ	2,622.48 Ha
Galang Batang SEZ	2,333.6 Ha
Tanjung Kelayang SEZ	324.4 Ha

Aside from the operating SEZs and SEZs under construction, there are a number of proposed SEZs with a total area of 4,444 Ha, which are:

Likupang SEZ	396 Ha
Sukabumi SEZ	888 Ha
BSD Serpong SEZ	10 Ha
Pulau Baai	1,193.8 Ha
Kendal	1,000 Ha
Singhasari	298.5 Ha
Sungailiat	273 Ha
Tanjung Gunung	385 Ha

Among the above proposed SEZs, Jokowi intends to start his second term of presidency with the determination and validation of two of the proposed areas above as SEZs in the near future, namely the Sungailiat and Tanjung Gunung SEZs. The investment value of the Tanjung Gunung SEZ development is projected to reach IDR1.5 trillion, with investment of business actors amounting to IDR4.6 trillion. Whilst, the investment value of Sungailiat SEZ development and its tenant investment are worth IDR601.9 billion and IDR5 trillion respectively. Therefore, the plans of establishing these two SEZs is a great opportunity for foreign investors to enter into.

MORE INFRASTRUCTURE DEVELOPMENT PLANS, MORE FOREIGN INVESTORS NEEDED

The Government now wants private companies to play a bigger role in infrastructure development as Indonesian SOEs have become considerably indebted.

The sectors might benefit from these reforms and the push to attract private capital should be opportunities coming in the water and sanitation space, and in major transport projects across major cities, including the expansion of MRT in Jakarta. The analyst also listed plans to develop 12 municipal waste-to-energy projects, including five to be tendered as PPPs and the monetisation of operational assets from construction companies.

This vision of Jokowi becomes a positive catalyst to the the shares value of state-owned enterprises (“BUMN”) in the construction and infrastructure market or often called BUMN Karya. For instance, the shares value of PT Wijaya Karya (Persero) Tbk. (WIKA) gained 42.60% throughout the current period of 2019. Other than that, PT PP (Persero) Tbk. also gained 20 points to IDR2,180 per share, and is traded in the range of 19.56 price earnings ratio (PER).

As for the shares of state-owned toll road company, PT Jasa Marga (Persero) Tbk., successfully resulted in a positive return of 35.51%.

PPP PROJECT: PENJAMINAN PEMERINTAH

The Government, through the Ministry of Finance have prepared several instruments in order to provide the convenience of investing in a PPP scheme, in the form of a guarantee. The Government guarantee can increase creditworthiness.

In relation to the Government guarantee, the Government formed PT PII (PT Penjaminan Infrastruktur Indonesia (Persero)). The task of PT PII, referring to Presidential Regulation No. 78/2010 concerning Infrastructure Guarantee in the Public-Private Partnership Projects conducted through Infrastructure Guarantee Business Entity, is to carry out Government guarantees for infrastructure projects under the PPP scheme.

The benefits of the establishment of PT PII for private sector are:

- risk mitigation for private sector that cannot be covered by the market
- increased transparency, clarity and consistency in the evaluation process and the provision of guarantees for the project
- extend the term of the loan, which impacts on more competitive bid prices
- providing incentives for Person in Charge of the Cooperation Project (*Penanggung Jawab Proyek Kerjasama* (“PJK”)) to make contracts that meet the market standards, which apply either generally or internationally.

The guarantee is given on the financial obligations of the PJK which arise due to the risks allocated to the PJK under the PPP agreement. The financial obligations must be able to be quantified, pursuant to the formula or the amount of compensation determined in the cooperation agreement.

The types of financial obligations which could be guaranteed by PT PII include payment obligation to business entities which is caused by failure to comply with the required approvals and licences, changing of regulations, non-existence of rates and failure of integrated networks which is the responsibility of the government.

The infrastructure sector where cooperation could be established based on Government Regulation No. 38/2015 includes economic and social infrastructure but not limited to, transportation and road, water and irrigation resources, oil and gas, and renewable energy.

With the presence of PT PII, investors are now beginning to believe that Indonesia is one of the investment destination country, more specifically in the field of infrastructure. This is supported by the role of the government through PT PII, whereby PT PII will deliver investment related information in Indonesia accurately detailed in the PPP Scheme.

EASE OF DOING BUSINESS

Jokowi’s soft approach will focus on further streamlining regulations and improving bureaucracy. Jokowi’s infrastructure development through various reforms for institutional capacity building, notably to develop a clean, efficient and competent system of governance and business licensing as well as a better-targeted vocational training system, has further improved the overall business climate. Indonesia’s

ranking in the World Bank’s index of the Ease of Doing Business has greatly improved, though more improvement is necessary to put the country on par with its peers in the ASEAN region. Jokowi is now focusing on realising Indonesia’s target to climb up the World Bank Ease of Doing Business Ranking from 70th place to 30th in his second term.

CONCLUSION

Currently, Jokowi emphasises the continuing priority and focus on infrastructure development in the administration of his second term in order to facilitate inter-regional connectivity to support the growth and development of the Indonesian economy.

Jokowi ensures that Indonesia’s investment climate is easy to enter by streamlining regulations and simplifying bureaucracy.

Therefore, there are two methods for a foreign investor to enter into

the Indonesian infrastructure market: the first is by way of buying shares of BUMN Karya, and the second is by entering into a PPP scheme.

In the PPP scheme, foreign investors will have to partner up with local investors to understand the risks that arise from infrastructure policy in Indonesia. Whilst for BUMN Karya, the opportunity for foreign private sector to enter Indonesia is through corporate actions, meaning that foreign investors will enter by way in investing in listed BUMN Karya such as PT Jasa Marga (Persero) Tbk or PT Waskita Karya (Persero) Tbk.

If you have any questions or require any additional information, please contact Fadjar Kandar, Raya Radiyanti, Hana Permata or Amanda Kansil of Roosdiono & Partners (a member of ZICO Law).



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