

# THE WORLD FOLIO

A SPECIAL PUBLICATION PRODUCED IN CONJUNCTION WITH  
ASEAN G2B INFRASTRUCTURE INVESTMENT FORUM, JAKARTA, INDONESIA

NOVEMBER 8, 2016



THE PUBLIC AND PRIVATE SECTOR MEET  
TO DRIVE INDONESIA'S  
CRITICAL NATIONAL  
INFRASTRUCTURE  
AGENDA FORWARD

INDONESIA, ASEAN'S LARGEST ECONOMY, HOSTS THE LARGEST GATHERING OF INFRASTRUCTURE STAKEHOLDERS AND DECISION-MAKERS IN INDONESIA, PROVIDING AN END-TO-END SOLUTION FOR THE US\$450 BILLION WORTH OF CRITICAL NATIONAL INFRASTRUCTURE EXPENDITURE OVER THE NEXT FIVE YEARS

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FINANCE | REGIONAL DEVELOPMENT | INVESTMENT | INTERNATIONAL COOPERATION

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Lewat tangan-tangan mereka, lahirlah produk-produk Indonesia  
yang kini dikenal luas hingga ke seluruh dunia.





Dear honored participants,

On behalf of the Indonesia Chamber of Commerce and Industry (KADIN) and the Steering Committee, I'd like to personally welcome each of you to the ASEAN G2B Infrastructure Investment Forum, held in conjunction with the Indonesia Infrastructure Week 2016.

The ASEAN G2B Infrastructure Investment Forum brings to the market the long-awaited masterplan, ASEAN Connectivity 2025, ratified in Laos at the end of September this year by our heads of state. We look forward one month later to bringing to an unprecedented audience of public and private sector leaders at this event in support of reaching aspirations of the MPAC – 2025.

It's an exciting time for all participants. The ASEAN G2B Infrastructure Investment Forum will be followed by Indonesia's largest infrastructure show, Indonesia Infrastructure Week 2016. IIW brings together Indonesia's leading infrastructure-related exhibitions, conferences and seminars under one roof with the aim of supporting sustainable and inclusive development across all facets of Indonesia's national infrastructure development agenda, in land, sea and air.

Hosting over 12,000 industry/government buyers and decision makers, this year once again we will deliver an unparalleled opportunity for infrastructure, construction, air/sea ports and aviation as well as Telecommunication and ICT communities; coming together and strengthening existing relationships, whilst cultivating new partnerships between the public and private sector from Indonesia and indeed from around Asia and the globe.

In conclusion, I'd like to thank each of you for your participation at our conference and exhibition, also bringing your expertise to our series of events and we wish you success over the four days of events.



**Rosan P. Roeslani**  
**Chairman**  
*Indonesia Chamber of Commerce  
and Industry (Kadin Indonesia)*

# THE WORLDFOLIO

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# REAL PROGRESS TOWARDS INDONESIA'S INFRASTRUCTURE AMBITIONS

*In this report, PwC looks at the progress of infrastructure development in Indonesia, highlighting the regulatory reforms implemented to create a more conducive environment for private sector participation in infrastructure, and giving its recommendations to address challenges to support increased infrastructure investment from the private sector. PwC concludes that the outlook is generally positive for Indonesia's infrastructure investment climate*

## Indonesia's infrastructure - stable foundations for growth

Government infrastructure spend in Indonesia increased by 51 percent in 2015, a substantial boost in part made possible by the scrapping of fuel subsidies and a reduction in the power subsidy. Infrastructure continues to be a top priority for the Government of Indonesia. However, the need for public-private sector collaboration is increasing as the Government has acknowledged that the public sector (including State-owned enterprises) will not be able to deliver all the investment needed to support economic growth.

## The new era for Indonesia's infrastructure sector

In 2015, the government announced new funding commitments and displayed an openness to leverage private sector finance. Much of the government's windfall from reducing fuel and power subsidies in 2015 was earmarked to address the country's considerable infrastructure deficit. The central government infrastructure spending plan for 2015-2019 totaled IDR 2.216 trillion (approximately US\$187 billion).

Despite cuts in the infrastructure budget in mid-2016, actual government infrastructure spending still rose in the second quarter of 2016. Prioritization of education infrastructure and health infrastructure in the 2016 budget has seen a combined 8-percent increase from 2015.

A further 9.5 percent increase in public infrastructure spend is being planned for 2017 and we might see overall infrastructure spend rise above the historical average of 5.7 percent of GDP during the period to 2019.

Growth of foreign direct investment (FDI) in infrastructure in 2015 (by 9.6

*After a boost in the allocation of the state budget to state-owned enterprises (SOEs), several SOE-managed projects started construction in 2015-16 (Jakarta airport railway, Trans-Sumatera toll road), and the new Jakarta container terminal (New Priok) and the new Terminal 3 at Jakarta airport have both opened*

percent to US\$11.5 billion) was focused on mining, transport and utilities (see graph, page 8). Infrastructure FDI fell in the first half of 2016 (compared to the same period in 2015), but there is still a positive outlook due to the number of project finance deals closed in the period, such as the US\$4 billion Central Java Power Plant (after a five-year delay due to problems with land acquisition).

GDP growth is forecast by the Economist Intelligence Unit to continue at 5 percent p.a. to 2020 amid a backdrop of increased government spending and household consumption, and a growing middle class and labor supply. Accelerating 2016 growth is being attributed to monetary and fiscal stimuli and government efforts to accelerate development of infrastructure projects. Revenue from the recent successful tax amnesty program may also provide a stimulus.

## Key progress and reform

After a boost in the allocation of the state budget to state-owned enterprises

(SOEs), several SOE-managed projects started construction in 2015-16 (Jakarta airport railway, Trans-Sumatera toll road), and the new Jakarta container terminal (New Priok) and the new Terminal 3 at Jakarta airport have both opened. The landmark 35-gigawatt electricity expansion program is also gaining traction. The government is seeking funding from international development agencies and has introduced many regulatory reforms to create a more conducive environment for private sector participation in infrastructure. Recent government initiatives include:

- Increasing the limit of foreign ownership in certain sectors
- Introducing deregulation packages for key investment sectors
- Developing a one-stop integrated services center and online permit application system in the Investment Coordinating Board (BKPM)
- Introducing availability payment-based PPPs
- Implementing the Tax Amnesty Law in mid-July – the increased tax revenue may support more fiscal room for the government to realize planned infrastructure spending (Phase 1 already raised IDR 89.2trn in revenue, which is over half the program target of IDR 165 trillion by March 2017).

## How can Indonesia's infrastructure program continue to succeed?

The President is aiming for Indonesia to be at the 40th position in the World Bank Ease of Doing Business Index in 2017 (up from 109th this year). Improved infrastructure remains a top priority to support this ambition, but historic challenges to success remain.



Our recommendations to address such challenges in order to support infrastructure investment and continue to increase private sector interest include:

- Increased clarity about project pipelines and procurement processes to make it easier for foreign players to navigate the market
- A clear strategy for implementing PPP projects, with pilot projects in every sector, and responsibilities better co-ordinated between different government agencies (e.g. between the four state-owned port operators and the Ministries of Fisheries and Transport)
- Improved reliability in the legal and reg-

ulatory frameworks and judicial system (we welcome the legal reform initiative launched by the President recently)

- Clearer government policy and strategies to encourage investment, for example: developing a master plan for incentivizing upstream and downstream investment in the oil and gas and mineral sectors; targets for fiber development in telecoms, and continued reform of the water and sewerage authorities to create a more robust funding framework
- Holding the state-owned enterprises more accountable for quality project management and for leveraging the finance and delivery capabilities of

the international and domestic private sector to help deliver their projects

- More focus on identifying, training and retaining talent in the public sector, for example with new higher education faculties and vocational training for infrastructure.

Overall, the outlook is generally positive for Indonesia's infrastructure investment climate, particularly as the country is prioritizing infrastructure spend and gradually addressing implementation challenges. Continued success in the government's infrastructure ambitions will depend on high quality leadership at all levels of Government.

This article was originally published on PwC's website: [http://pwc.blogs.com/growth\\_markets/2016/10/real-progress-towards-indonesias-infrastructure-ambitions.html](http://pwc.blogs.com/growth_markets/2016/10/real-progress-towards-indonesias-infrastructure-ambitions.html)  
See the second edition of PwC's annual Indonesia infrastructure report for more information: <http://www.pwc.com/id/en/pwc-publications/industry-publications/capital-projects-and-infrastructure-publications.html>

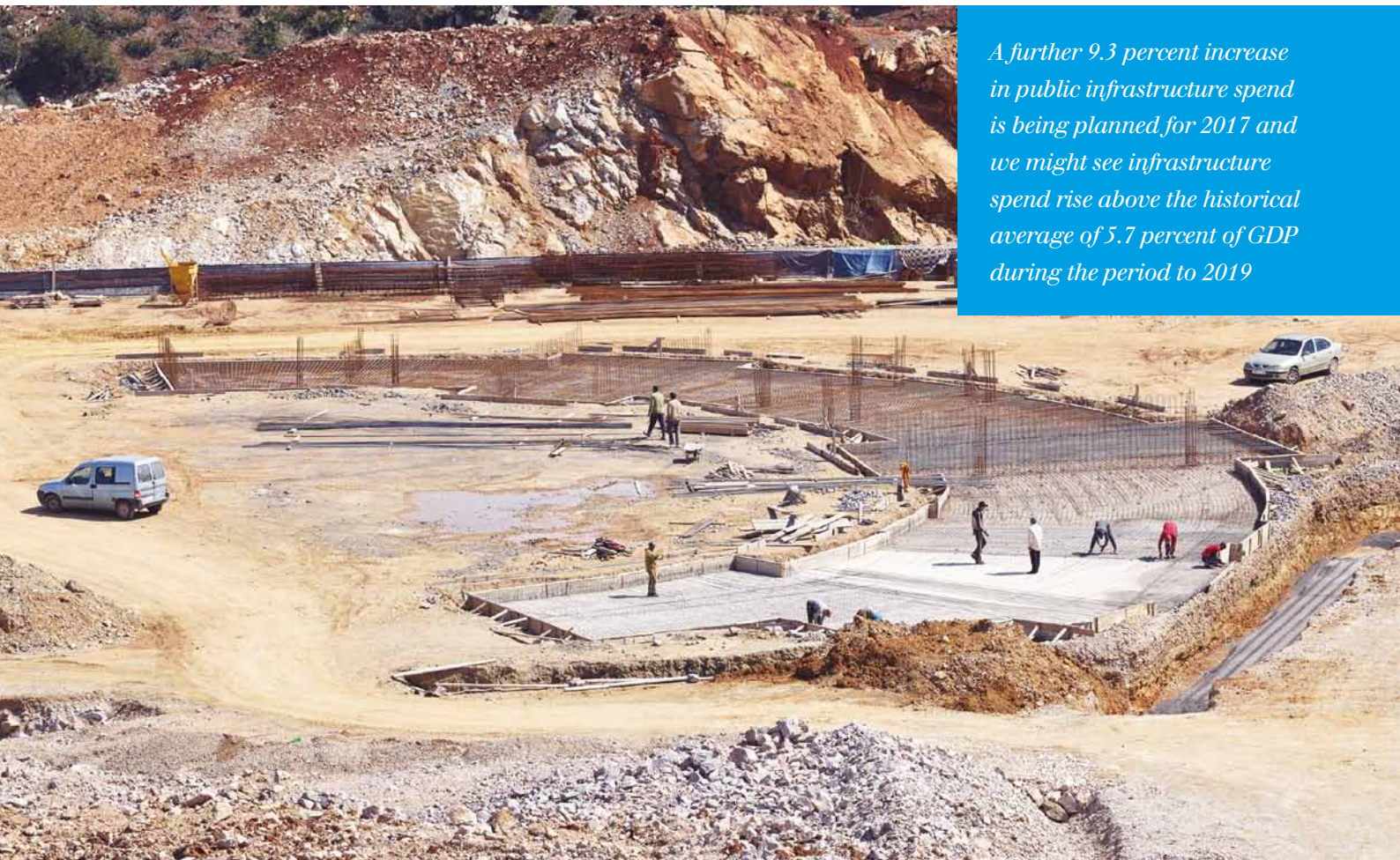
**Sources:** Annual PwC reports on Indonesia infrastructure, PwC Growth Markets Centre, Oxford Economics, Ministry of Finance, Reuters, Economist Intelligence Unit, BKPM, Nota Keuangan RAPBN 2017

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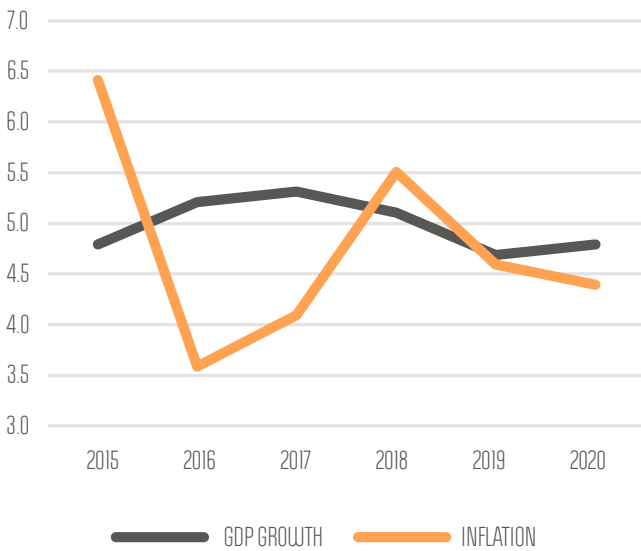
*A further 9.3 percent increase in public infrastructure spend is being planned for 2017 and we might see infrastructure spend rise above the historical average of 5.7 percent of GDP during the period to 2019*



The central government infrastructure spending plan for 2015-2019 totaled IDR 2.216 trillion (approximately US\$187 billion)

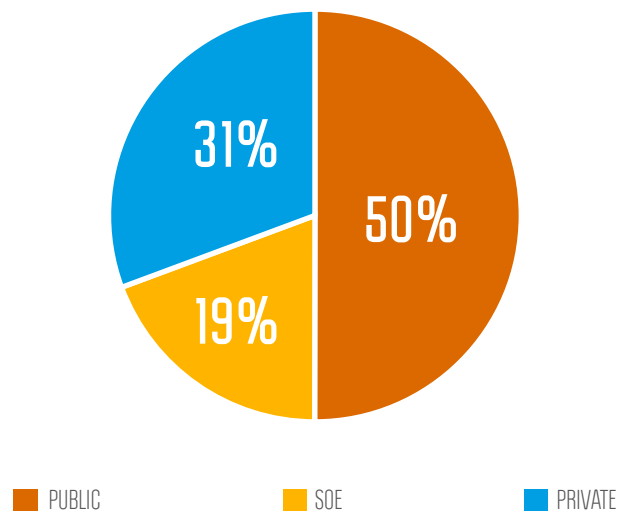
# INDONESIAN INFRASTRUCTURE STABLE FOUNDATIONS FOR GROWTH

FORECAST INDONESIAN GDP GROWTH AND INFLATION (% YEAR-ON-YEAR)



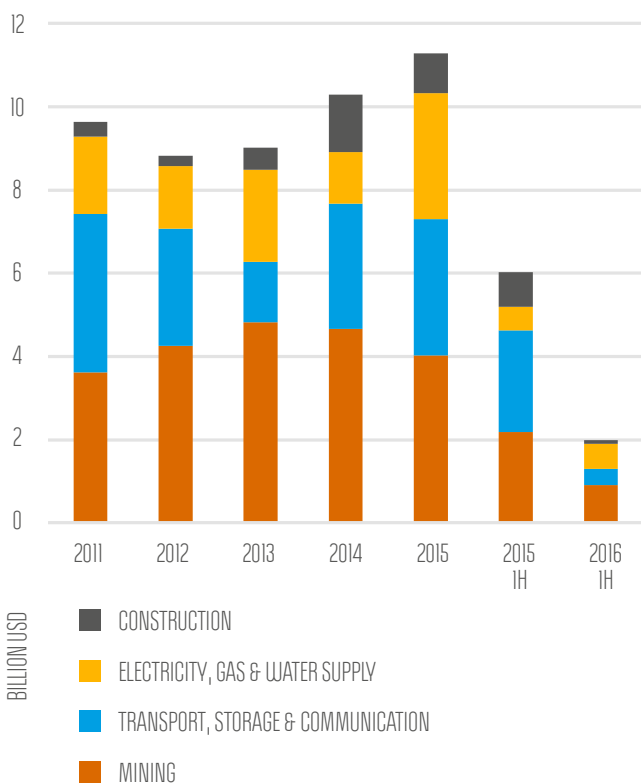
SOURCE: EIU FEBRUARY 2016

SOURCE OF INFRASTRUCTURE FINANCING 2015-2019



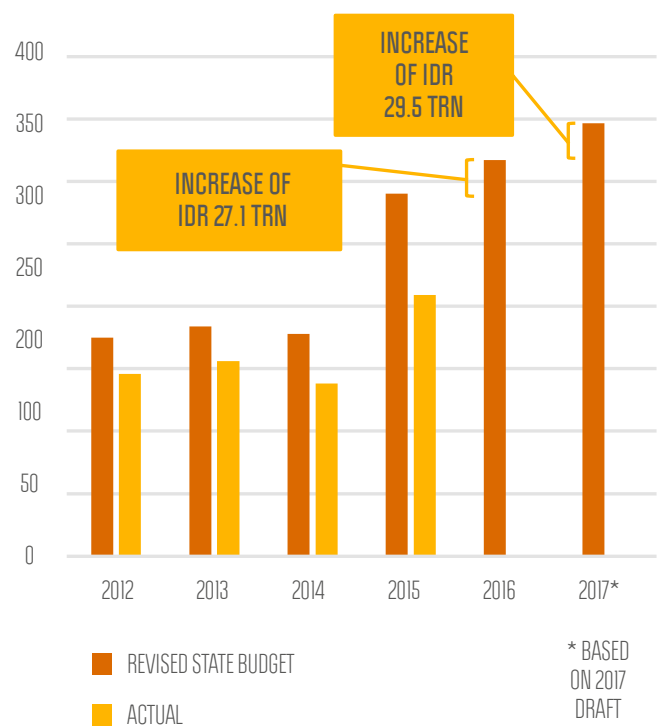
SOURCE: NATIONAL MEDIUM TERM DEVELOPMENT PLAN 2015-2019

FDI IN INFRASTRUCTURE-RELATED SECTORS



SOURCE: BKPM

GOVERNMENT SPENDING ON INFRASTRUCTURE (IDR TRN)



SOURCE: MINISTRY OF FINANCE (MOF)

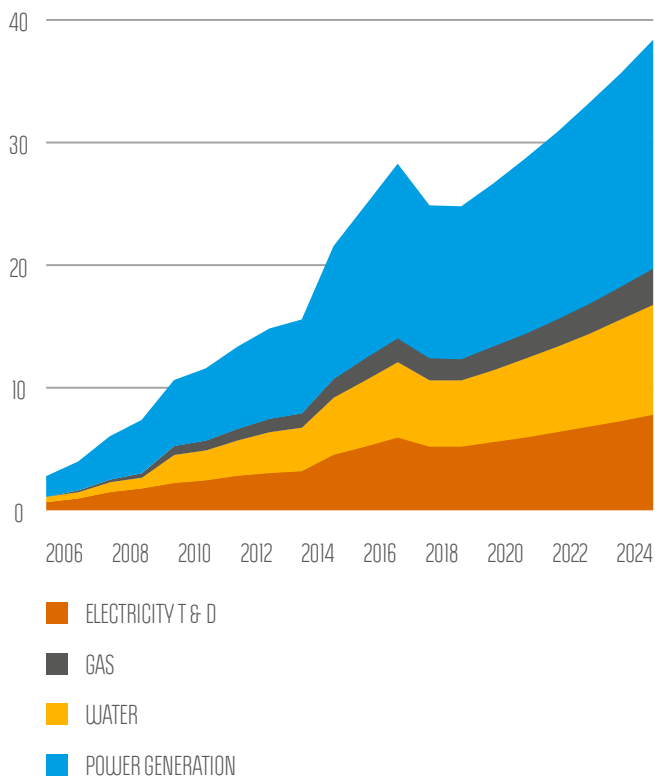
\* BASED ON 2017 DRAFT BUDGET



# INDONESIAN INFRASTRUCTURE STABLE FOUNDATIONS FOR GROWTH

## UTILITIES INFRASTRUCTURE INVESTMENT

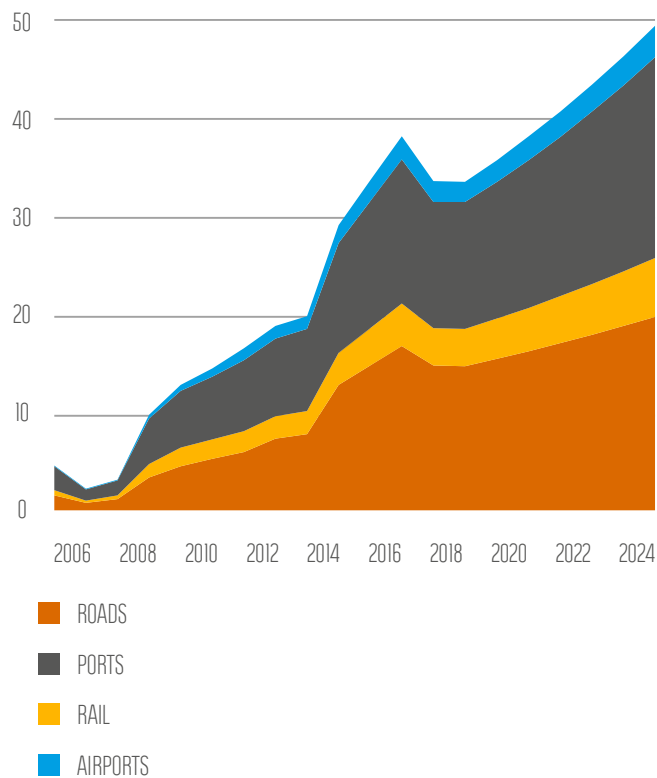
\$BN, CURRENT PRICES, 2014 EXCHANGE RATES



SOURCE: OXFORD ECONOMICS

## TRANSPORTATION INFRASTRUCTURE INVESTMENT

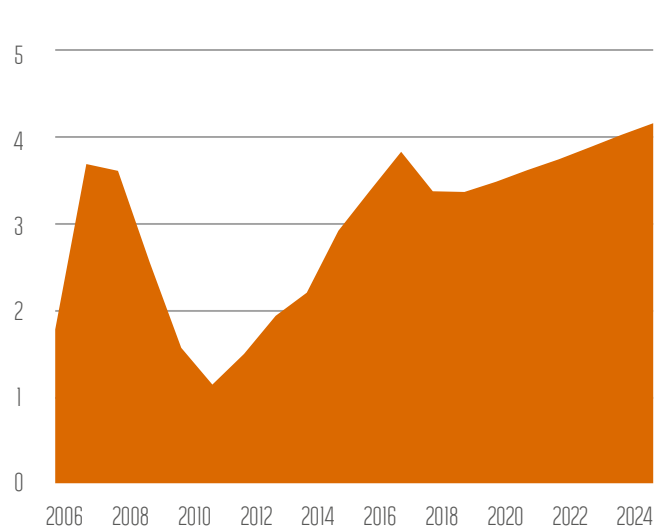
\$BN, CURRENT PRICES, 2014 EXCHANGE RATES



SOURCE: OXFORD ECONOMICS

## INVESTMENT IN TELECOMMUNICATION SECTOR

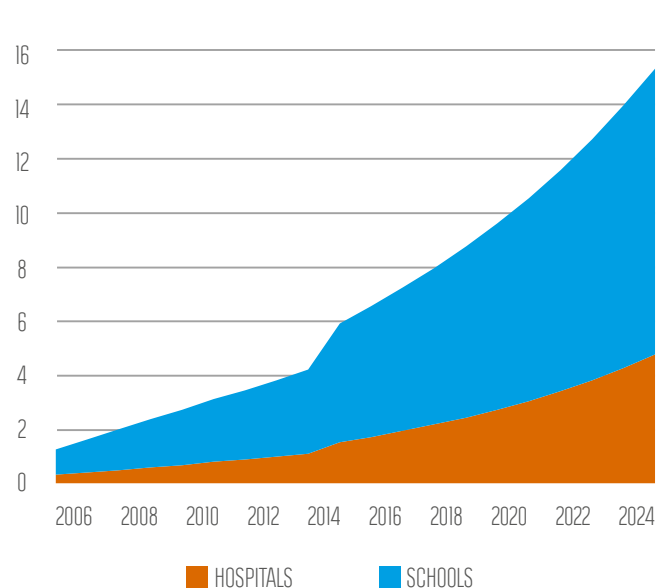
\$BN, CURRENT PRICES, 2014 EXCHANGE RATES



SOURCE: OXFORD ECONOMICS

## SOCIAL INFRASTRUCTURE INVESTMENT

\$BN, CURRENT PRICES, 2014 EXCHANGE RATES



SOURCE: OXFORD ECONOMICS

# 'BUILDING INFRASTRUCTURE WILL HAVE A HUGE POSITIVE IMPACT ON OUR ECONOMIC GROWTH'

*The position of Presidential Chief of Staff was recently created by President Joko Widodo (Jokowi) and Teten Masduki is the second to take on the role. He sits down with The Worldfolio to talk about his new role, infrastructure investment and Indonesia's improving business climate*



Teten Masduki with President Joko Widodo

**After more than six months as Chief of Staff what would you say are the Jokowi administration's top priorities at the moment?**

President Jokowi is now focusing on economic issues. The three major priorities are infrastructure, deregulation and human resources development.

Indonesia faces significant challenges in its Infrastructure development, but the benefits beyond connectivity are well known, with heightened spending on infrastructure likely to have a positive effect in terms of economic growth.

Our target economic growth when President Jokowi came to power was 7 percent, but now, after the global slow down, we have revised that figure to around 5 percent. Infrastructure spending will be focused on a number of key areas, including power generation through the 35,000 Megawatt program, but also toll roads, railways, harbors and ports. We have some issues regarding logistics cost, for example the distribution of the logistics from west to east leaves a large gap. This has led to uneven economic growth between the western and eastern islands of Indonesia. We have huge potential in natural resources in the east, but due to infrastructure limitations, this area remains under developed.

**The position of Chief of Staff is a recent one in Indonesia. What is your main role?**

We are not an implementation agency; we are the back office of the President. We have to make sure that the Ministries will implement all of the President's agenda and promises. We interact with planning and budgeting on the Ministerial level. Our core function is to influence the policy of the government based on the President's priority and vision.

We need to make sure that the President's priority programs are implemented. We have monitoring and evaluation programs for all of the ministries. We report to the President if we have found any problems in the implementation. So, this office is also taking part in the revision of certain programs, which means the job is not easy. Sometimes we have to take over certain functions of subordinate entities to ensure that implementation runs smoothly. I think the main problem of our

government has previously been lack of coordination between different organizations, which is part of the reason the anti-corruption agenda and bureaucratic reform is so important. It makes everything easier. So the deregulation program is very important, as we want to make sure that our bureaucracy is efficient transparent and we want Indonesia to be attractive for investors.

**How is Indonesia progressing in terms of its ease of doing business ranking?**

Indonesia's ease of doing business is now 109 and the President has instructed all of the ministries to work together to achieve a ranking of 40. We are working with the Coordinating Ministry of Economic Affairs together to achieve this target and I am also the chairman of the working group for deregulation, which will accelerate this process.

We have announced 12 economic policy packages thus far and we are still evaluating whether or not the 12th package will have a large impact on our economic growth target. If it is only a small impact, we will need to change it. We want a big impact. We have to look at what the investors need in terms of incentives.

**How is the government consulting and working with the Private sector?**

We have communicated with the private sector and consulted with them about what steps the government should take, and which policy should be reformed to improve the ease of doing business. They are very interested in the development of our infrastructure, especially in power generation; I think we have the biggest project in the world in power generation now, 35,000 Megawatts. This draws investors' attention to Indonesia even though we still have a bit of a problem with land acquisition.

**Indonesia has previously had quite a low profile on the international scene. What is your current focus in communicating internationally?**

Our focus now is to communicate our priorities to the target groups such as investors and the private sector. Communicating better is very important to us because we want the investments to come in as soon as possible. That's why we are focused on deregulation, to make the investment climate better. What we do know is that the President has made a number of high profile international trips and he is always very clear that Indonesia is open for business and investment friendly. We are inviting investors to actually come and join us, to work with us. Indonesia's growth is actually one of the highest in the region, even though for us it is still low.

**You have recently undertaken a nation branding initiative. How is this progressing?**

Nation branding is very important to us, we are using our hosting of the Youth Olympics event to kickoff our national branding campaign. We are now still preparing it and we have been working with a consultant for a year to prepare the research. I hope this year we will finish the research so that next year we will start with the creative production. The research is being conducted in 18 countries; this is to understand the perception of the people of Indonesia in those countries.

## ECONOMIC STIMULUS PACKAGES OF THE INDONESIAN GOVERNMENT:

| PACKAGE | UNVEILED          | MAIN POINTS   |
|---------|-------------------|---|
| 1st     | 9 SEPTEMBER 2015  | <ul style="list-style-type: none"> <li>• Boost industrial competitiveness through deregulation</li> <li>• Curtail red tape</li> <li>• Enhance law enforcement &amp; business certainty</li> </ul>   |
| 2nd     | 30 SEPTEMBER 2015 | <ul style="list-style-type: none"> <li>• Interest rate tax cuts for exporters</li> <li>• Speed up investment licensing for investment in industrial estates</li> <li>• Relaxation import taxes on capital goods in industrial estates &amp; aviation</li> </ul>   |
| 3rd     | 7 OCTOBER 2015    | <ul style="list-style-type: none"> <li>• Cut energy tariffs for labor-intensive industries</li> </ul>   |
| 4th     | 15 OCTOBER 2015   | <ul style="list-style-type: none"> <li>• Fixed formula to determine increases in labor wages</li> <li>• Soft micro loans for &gt;30 small &amp; medium, export-oriented, labor-intensive businesses</li> </ul>  |
| 5th     | 22 OCTOBER 2015   | <ul style="list-style-type: none"> <li>• Tax incentive for asset revaluation</li> <li>• Scrap double taxation on real estate investment trusts</li> <li>• Deregulation in Islamic banking</li> </ul>  |
| 6th     | 5 NOVEMBER 2015   | <ul style="list-style-type: none"> <li>• Tax incentives for investment in special economic zones</li> </ul>   |
| 7th     | 4 DECEMBER 2015   | <ul style="list-style-type: none"> <li>• Waive income tax for workers in the nation's labor-intensive industries</li> <li>• Free leasehold certificates for street vendors operating in 34 state-owned designated areas</li> </ul>  |
| 8th     | 21 DECEMBER 2015  | <ul style="list-style-type: none"> <li>• Scrap income tax for 21 categories of airplane spare parts</li> <li>• Incentives for the development of oil refineries by the private sector</li> <li>• One-map policy to harmonize the utilization of land</li> </ul>   |
| 9th     | 27 JANUARY 2016   | <ul style="list-style-type: none"> <li>• Single billing system for port services conducted by SOEs</li> <li>• Integrate National Single Window system with 'inaportnet' system</li> <li>• Mandatory use of Indonesian rupiah for payments related to transportation activities</li> <li>• Remove price difference between private commercial and state postal services</li> </ul> |
| 10th    | 11 FEBRUARY 2016  | <ul style="list-style-type: none"> <li>• Removing foreign ownership cap on 35 businesses</li> <li>• Protecting small &amp; medium enterprises as well as cooperatives</li> </ul>  |
| 11th    | 29 MARCH 2016     | <ul style="list-style-type: none"> <li>• Lower tax rate on property acquired by local real estate investment trusts</li> <li>• Harmonization of customs checks at ports (to curtail dwell time)</li> <li>• Government subsidizes loans for export-oriented small &amp; medium enterprises</li> <li>• Roadmap for the pharmaceutical industry</li> </ul>                           |
| 12th    | 28 APRIL 2016     | <ul style="list-style-type: none"> <li>• Enhancing the ease of doing business in Indonesia by cutting procedures, permits and costs</li> </ul>  |
| 13th    | 24 AUGUST 2016    | <ul style="list-style-type: none"> <li>• Deregulation for residential property projects for low-income families</li> </ul>  |



# UNPRECEDENTED INFRASTRUCTURE INVESTMENT FUELS INDONESIA'S MARITIME AMBITIONS WITH UNITY AND COOPERATION

*For decades Indonesia had its back turned away from the sea that makes up 70 percent of its territory. But under President Jokowi, the archipelago nation will create a global maritime axis, while at the same time cutting red tape, building vital infrastructure and inviting foreign investors to participate in the exploitation of its oil and gas resources. In this interview, Coordinating Minister for Maritime Affairs, Luhut Pandjaitan discusses these issues, as well as Indonesia's role in the ASEAN region and why he believes President Jokowi is the ideal man to take the country forward*

**What role can Indonesia play in ASEAN in the coming years, especially with the 50-year anniversary coming up next year?**

Indonesia is the largest Muslim population in the world and the largest in terms of population in ASEAN; our GDP is nearly US\$1 trillion, and we are a member of the G20, so of course we will have a role to play. So if we make this country more efficient and we improve the quality of education, because our country is very rich, I think we can play a role in really stabilizing the region.

ASEAN's population is around 600 million and Indonesia is 250 million, so almost half, and our middle class is also growing, currently it's around 50 million. We can be a big part of the region's future growth, especially as we have a huge demographic bonus with 60 percent of the population of young people in ASEAN.

**Some have also seen this demographic bonus as a challenge; how is the Government seeking to take advantage of this?**

I think right now we are seeing an unprecedented government infrastructure program, this is a historical first, we are spending US\$300 billion per year for the next 5 years and this is creating many job opportunities. However we don't just want to talk about growth, we also want to ensure equality. You have to create programs across the country, especially in the 74,000 villages, for the ordinary people. If we don't tackle this problem in the regions, there is a greater chance of radicalism due to poverty. We need urban and rural development to occur in parallel, which will reduce the extremism and boost the economy.

**These programs focused on equality will be very important in reaching the eventual 7**



Coordinating Minister for Maritime Affairs, Luhut Pandjaitan

**percent GDP growth target. How have the 13 economic policy packages contributed to this goal?**

When talking about the challenges in this country, number one has been the regulation, which is overlapping. We need to make it easier and more efficient and to do this the Government has really been cutting this red tape. What we say is that simplicity is the best; we don't want it to be complex for those people that want to invest in Indonesia. We can talk about economic packages one to thirteen, but the bottom line is cutting regulation. An example is that local and national regulations are overlapping, so the President has ordered that this be tackled as a priority. Around 3,000 to 5,000 regulations have already been cut. And we will continue to cut more; right now we have 42,000 regulations and laws and we are going to cut these in half.

**In a speech you gave at the Center for Strategic Studies in 2014, you mentioned that one of the key problems has been working with the DPR (People's Representative Council) to get new legislation and policies through. Is that still the case?**

If you look back to 2014, there were major political problems and people were very concerned as to whether Jokowi could manage as President, as he had only 58 percent support in the parliament. After one year people could see he knew how to deal with this relationship, and now he controls more than 75 percent of the parliament. Jokowi has been successful in bridging the gap between the opposition and the government, by just communicating his programs to alleviate poverty and help the ordinary people. Disagreeing with his programs is really disagreeing with the Indonesian people.

**Indonesia has a maturing democracy, a success in a region where democracy has found limited success. How is that working on a practical level? What benefits is it bringing to the people?**

At the last local election 269 districts elected officials in one day without a problem or incident and this is perhaps even a world first to have elections on such a large scale. This is the real democracy; sometimes I have told my friends that too much democracy is not good, especially in a country like Indonesia, which is so diverse and geographically expansive. To govern Indonesia is not easy, there are over 17,000 islands, and so we can't be compared to Singapore for example, we are on a completely different scale. We are moving in the right direction when it comes to democracy, and it is very promising because the leadership has given a good example to the people. If the leader gives a good example, the people will follow; this is the case all over the world.

**Communicating this success internally can sometimes be a real challenge, but also externally, communicating it to the world. How are you overcoming these challenges?**

Of course it is a challenge, but we recently attended the G20 and it was very successful. Of course we collectively admit our problems and mistakes, but we are working hard to address these problems. If you see any problem, I just say that 'this is my name card, do not hesitate to contact me any time. I will personally help solve the problems'. And at the panel discussion after G20 in Shanghai, I made sure that investors could approach me and talk directly about these issues. We have Pak Purbaya in charge of the 'de-bottlenecking' program and we have people complaining, but we will solve these problems one by one.

**Turning now to one of the Jokowi administration's core policies, which is the creation of a global maritime axis. Has Indonesia neglected its waters for too long?**

This is the problem with Indonesia, when you look at the history, at first, President Sukarno (Indonesia's first president, serving from 1945 to 1967), he declared Indonesia as a maritime country, but since then we have really forgotten the sea. We began to talk about Indonesia the same as a continental country, which is incorrect given 70 percent of our territory is water. Today Jokowi has said that we need to go and restore the dream of the first president, so we are working hard to create the sea toll at this time. Right now we already have 77 programs

concerning Indonesia as a maritime nation, we understand that seabed mining and the maritime economy will be increasingly important in the future.

We need to explore this area and these resources, and we need to make it attractive to explore. We have now fixed regulation 79, which was previously an issue, and next week we will sign that. We are also going to launch seismic data 2D program and we are mobilizing vessels, it may take up to six years to gather the data, but if we have the data and the regulations, we will offer it to foreign investors. If they can get 15 percent ROI (return on investment) then of course they will do it.

**Maritime sovereignty has also been an issue in the region, particularly in the South China Sea. How is that playing out from Indonesia's perspective?**

The Chinese claim the South China Sea on the basis of the historical territories explored by Admiral Cheng Ho, as well as traditional fishing grounds. I recall mentioning to my Chinese counterpart that if everything was based on history we could claim Sri Lanka, due to our own exploration. We can say that by international law they do not recognize the arbitration, so we have to respect that, but also we must maintain our good relations with China. In the case of our own interests, we will expedite the exploitation of natural resources in the Natuna block and we will be offering close to 51-49 on these production-sharing contracts.

**You also have a big focus on infrastructure development to improve connectivity. Much of this work is being done through the state-owned enterprises (SOEs). How has this strategy found success?**

Well yes SOEs will play an important part, but it is very important that the private sector is involved as well, because if we try and do everything ourselves we would be turning into a communist country. So it needs to be mixed. In Lombok in West Nusa Tenggara, we discovered that they can produce 800,000 tons of corn, but we can double that just through creating a dam. So then we can reduce the price and produce cattle and other things. Also, with a seaport, we can transport anywhere from this island on low cost vessels.

This is where the concept of creating the 'sea toll' is so important, as it allows for far greater connectivity throughout the island. Even at the early stages, this has shown good results, and you can see it in South Sulawesi where the economic growth

is 8.05 per cent. Bitung as well, now we have full authority on that, with direct connections to export market. It is the same for fishing; there is no reason for produce to go to Jakarta first, it should go direct to the market and buyer. This is very important in ensuring equality, so that more than just Jakarta gets to feel the positive changes. The cost structure for things such as gas is extremely disadvantageous to the people in the regions, and we are now working to combat this. For something like gas, if we can structure it right, it can become the real prime mover of the economy, creating many jobs.

**You are currently the caretaker for the ever-important energy portfolio. Particularly on the downstream there have been delays, with not one refinery finished. How are you looking to rectify this?**

Since I have only been there one month, I have identified the key issues, including the underperformance. You're right we have built no new refineries in the last 15 years, and consequently we don't have downstream petrochemicals, which means we need to import.

In terms of Pertamina, we want greater efficiency and we want to see more local content used. When (Japanese oil company) Inpex came here the other day, they asked for a ten-year extension as they lost 10 years because of studies. They put forth their case that they will create jobs and it will be a positive thing, and that was it, we just shook hands and agreed there and then.

**Looking towards 2019 and considering your recent appointment as Coordinating Minister of Maritime Affairs, what are your main priorities?**

Well of course I would like to see the global maritime axis established and the connectivity within the country improved. I believe that 7 percent growth for 2019 is very achievable and even more to 8 or 9 percent by 2023. I am confident we will be a better country tomorrow, as we have such good leadership in Jokowi today.

Indonesia is vastly different from the year before and we just need to increase efficiency and boost growth. We can add value and manufacture electronics, as there are so many opportunities here in Indonesia. I am confident that in my own experience, we are moving in the right direction. I have confidence in the unity and cooperation we have today and with the leadership of Jokowi, I'm not saying we don't face obstacles, but I'm still confident.

# PUBLIC WORKS

## MINISTER TAKES IT FROM POP TO ROCK N' ROLL

*The Worldfolio sits down with Dr. Ir. M. Basoeki Hadimoeljono, M. Sc, Minister of Public Works and Public Housing, to discuss Indonesia's ambitious infrastructure program and his efforts to accelerate project delivery*

There is huge amount of money going into infrastructure investment at the moment with US\$ 7.4 billion in this year's 2016 budget alone. Much of the content of the infrastructure program is similar to that we saw previous to President Jokowi's election. You have been with the Ministry of Public Works for over 35 years, how have things changed since President Jokowi's election?

Yes, the program we currently have is similar and this Ministry is ready to build dams, irrigation, water supply, sanitation, transportation, roads and bridges, toll roads amongst other things. Then in housing we have similar efforts including the one million housing development program. So while the program is similar, what has changed is implementation. Put it this way, when it used to be that if I sing a song, it is like pop music, and that was how we were previously in the Ministry. However, now, we are all singing rock n' roll.

Even though we have five days to work it isn't enough, we have to work seven days a week. Even two shifts are not enough anymore, now we need three shifts, from 8am to until 5am in the morning. For land acquisition, we have to clear the land and the process has to start a year ahead, we cannot do the acquisition and construction at the same time, it has to be sequential.

I have been working in this Ministry for 35 years and the program is still the same, but the difference is the implementation and methodology. There is real commitment to follow up, imagine, the President visits the project not only once, like the North Sumatra Road project, he has been there for five or six times. If the President himself visits the project five or six times, how many times do I have to go there?

Much of the infrastructure development is within the regions, how are you coordinating with the regions for development?

Before the Government was decentral-



Dr. Ir. M. Basoeki Hadimoeljono, M. Sc, Minister of Public Works and Public Housing

ized, the regions were my subsidiaries, but now they are not my subsidiaries anymore; my approach is now more like marketing. I need to influence people, ensure their loyalty to me and not scare them, but I have to serve them, I have to help solve their problems. There is a national program, provincial program and district Program and I need to make sure we take the correct approach to these programs, so we always have what we call 'Konreg'— regional consultation before we design these programs.

The regional consultation is really to synchronize the program, and its important to discuss the division of responsibility between APBNs (state budgets) and the national government, APBD (local budget) 1 is for the provincial, APBD 2 for the Kabupaten (municipality) and cities in Java. So they have to synchronize the program.

One more approach for the program is that we use the concept of regional development, to synchronize all the sectors;

internally I manage four sectors here, water, housing, human settlement, and roads and bridges. With this regional development I have to coordinate for those four programs in one region, and with the strategic regional development concept, Indonesia is divided into 35 strategic development regions. It is divided differently than the Governor's regions, as it is not administrative.

For example, there are divisions for the industrial region, special economic zones, and then 10 tourism destinations. So for those sectors we could coordinate in those regions. Those three strategies allow us to coordinate with the regional governments. First by concept, second by the mechanism of regional consultation, and then third we use these strategic divisions. It also means that I have to minimize the subjectivity of the program, it is development focused, no close friends in the region get more money, it is purely based on strategic outcomes.

How is your Ministry working with state-owned enterprises (SOEs) and the private sector to accelerate infrastructure development?

The Ministry of Public Works and Housing doesn't only utilize the SOEs, but we are also responsible for industrial construction development, I have the responsibility of improving their capacities. However following the President's word, the priority for development is the private sector, if the private sector does not like that or it is not financially viable on certain projects, or they are not interested, then the SOEs have to work together on these projects. If this still doesn't work, that is when the Government will invest directly.

I have to build 49 dams in the next 5 years, before the state owned companies would join together to develop these dams. Now, I have to find alternatives so state-owned companies should join with the private sector to work on these projects.



**So the Ministry of Public Works and Housing will be making greater use of PPP (public-private partnership) frameworks to implement projects?**

We have successfully implemented PPPs in toll roads, as well as in water resources. We are currently looking to implement one on water supply in East Java, that was just approved last month. This will be the first PPP in water sector and Umbulan water supply will create 4000 liters per second to serve Surabaya and other 5 surrounding kabupatens with an investment of IDR 3 billion (US\$250,000).

**For foreign investors looking to get involved with Indonesia's massive infrastructure plan, what would you advise them?**

The message is clear, infrastructure is the number one priority program of the Jokowi and JK Government era and there are a lot of things that can be done. Not only to be done by the Government, because the Government takes only 30 percent or 40 percent of the projects, the rest would be an opportunity for private and state owned companies. This was the message from the President at the last cabinet meeting; we have to encourage the private sector to get involved.

**And what sort of incentives would the private sector have for taking these projects up?**

You can see there have been good reforms through the 15 economic policy packages and this is all to make investment easier. On my side there are two ministerial decrees signed to revise regulations because the Coordinating Minister of Economic Affairs sees that there are some things that are hindering the ease of doing business in my particular sector.

**We recently interviewed the Minister of Industry and he mentioned the positive cooperation between Ministries, and specifically with you on Industrial Parks. How are you cooperating on these key projects?**

We are cooperating strongly on incorporating the industrial areas, working on how to connect between the market and the producers. For example in Kendal, there will be an industrial part, and I have to build the water supply, and I have to provide the housing for employees, so we work together with the other Ministries on this. Even on health for example we provide water for Government based public clinics in the rural/districts, so we work together with the transmigration unit to provide the basic infrastructure.



Bajulmati Dam, Jawa Timur Province



A bridge constructed in Maluku Province

**You have been at the Ministry now for 35 years, and I am sure you have seen many changes over that time. Looking toward 2019, how would you like to see the Ministry and its projects at that stage?**

Now is the era of competitiveness, and to be competitive we need better connectivity, which will reduce the disparity between East and West Indonesia. We also have the

challenge of creating employment opportunity and reducing poverty. The role of Infrastructure is becoming more and more important in addressing these challenges.

This government is focused on serving the people, so when I look back on my term as Minister, in 2019, I will be looking at what was achieved for the people, not what was planned.

# CAN INDONESIA REACH 5.4 PERCENT INDUSTRIAL GROWTH?

*Indonesia's industries contribute 30 to 40 percent to GDP and that is set to grow with the further development of new strategic sectors and manufacturing. Indeed, the Government is making concerted steps to move away from a commodities-driven economy, prioritizing infrastructure spending and investment in manufacturing to push Indonesia over 5 percent annual GDP growth. Minister of Industry Airlangga Hartarto discusses the implementation of policies to boost industrial development and attract foreign investment in manufacturing*



Minister of Industry Airlangga Hartarto

**For the first time in ten years, Indonesia is welcoming foreign investment in an unprecedented number of sectors and businesses. This so called “big bang” liberalization is set to be a game changer in the pursuit of a more diversified and resilient economy. What impact will this have on foreign direct investment and on the business environment?**

The government strives to enlarge the market and improve cooperation for national industry. This is materialized in the comprehensive implementation of free trade agreements. More opportunities for international industrial cooperation are expected to increase the performance of exports, as well as increase employment in Indonesia.

We entered the era of the ASEAN Economic Community in December last year. In 2018, another agreement, the Regional Comprehensive Economic

Partnership (RCEP), is going to be implemented. Meanwhile, the government is also committed to creating a conducive business climate in order to attract more investment, by introducing a package of economic policies and deregulation to make doing business in the country easier.

So far the government has launched 15 economy policy packages. One of these is related to investment in the industrial and trade sector, which is expected to boost the economic activity, and particularly to promote FDI.

**As the newly appointed Minister of Industry, what is your primary focus for 2016-17?**

Firstly, according to the National Medium-Term Development Plan (2015-2019), the priority focus of the Ministry of Industry includes the development of industrial zones outside Java by facilitating

*“The Ministry of Industry has several centers for research around the country—each specializing in different areas such as agriculture, metals and textiles—that offer research and development services for industry”*

the development of 14 industrial estates and 22 centers for small and medium scale industry around the country; and increasing competitiveness and productivity through enhancement of technical efficiency, technology and innovation, and the development of new products.

For the 2016-2017 period, one important priority is lowering the price of en-



ergy for industry. The Ministry of Industry is making every effort to reduce the price of gas for 10 industrial sectors, including fertilizer, petrochemical, oleochemical, iron and other metal, ceramics, glass, tire and rubber gloves, pulp and paper, food and beverages, and the textile and garment industry.

Another priority is the establishment of infrastructure in Sei Mangkei, Morowali, Palu and Bantaeng industrial estates, including axis roads and tank farms, polytechnics and community colleges, and also development of small and medium scale industry in Seruyan and Sumbaya.

We are also working on developing five industrial techno parks for electronics and telematics; facilitating new small and medium scale entrepreneurs; facilitating machinery and tools restructuring for 65 industry units; and developing 19 centers and clusters for small and medium scale industry.

### What is the importance of technical research and development in the industry?

Technology mastering is absolutely vital. The goals of research and development are to increase the efficiency, productivity, added value, competitiveness and independence of national industry. While industry struggles with daily production activity, research institutions could contribute by implementing the research results. The implementation of research results in industry helps to solve problems without having to add more investment or depend on foreign countries. Furthermore, through research in industrial technology, natural resources could be processed in the country.

The Ministry of Industry has several centers for research around the country—each specializing in different areas such as agriculture, metals and textiles—that offer research and development services for industry. The centers have qualified human resources, tools, standards and competency for conducting research. They offer ‘one-stop-shop’ services for industry, including testing, calibrating, standardizing, training, certification and research.

### Can you discuss the aggressive expansion of the textile and garment industry?

The textile and garment industry is amongst the strategic industrial sectors because of its ability to be a motor that moves the manufacturing sector. In Indonesia, the sector has been integrated from upstream to downstream and well-known for the quality it produces in international market.

In 2015, textile and garment industry employed 3 million workers—10.6 percent of total employees in the manufacturing sector—with an investment value that reaches 8.45 trillion (US\$530 million). The contribution is also significant to national income with exports valued at US\$12.28 billion in 2015. To raise the exports, the government facilitates the industry with potential incentives; including tax exemptions for raw materials used in exported products from value added tax and lower gas prices.

The development of the Kendal Industrial Park in central Java is also a manifestation of the government’s commitment to promoting the textile and garment industry. The Ministry of Industry projects the industrial estate will be the center of labor-intensive industry. An integrated ‘fashion city’ is also going to be built over an area of 100 hectares on the estate.

### What other key industrial sectors are priorities for investment?

To achieve the 5.4 percent industrial growth target in 2017, small and medium-scale industry is being promoted in order to attract investment. This includes the development of 22 small and medium-scale industry centers.

Creativity is the main capital needed for small and medium-scale industry. In Indonesia, the creative industry is rapidly growing. Therefore, the development of human resources in the industrial sector is considered a strategic step for entrepreneurship development in order meeting the industrial growth target.

President Joko Widodo has also proposed that the private sector needs to contribute to vocational education in industry. The Ministry of Industry promotes cooperation with other institutions and companies to create and implement training programs that are applicable for industry.

*“To achieve the 5.4 percent industrial growth target in 2017, small and medium-scale industry is being promoted in order to attract investment. This includes the development of 22 small and medium-scale industry centers”*

### What are the regulatory challenges that most addressed to encourage FDI?

Some barriers in increasing Foreign Direct Investment (FDI) include:

- Limited raw materials supply
- Lack of infrastructure facilities
- Limited supply of energy, electricity and connectivity of roads and ports, especially for areas outside Java
- The price of land, which increases rapidly, and the complicated procedures in land procurement
- The slow progress of industrial estate development due to land acquisition issues

The Ministry of Industry has facilitated the development of industrial estates, especially outside Java for the sake of economy equity. Fourteen industrial estates located outside Java that are focused on natural resources manufacturing industries have been offered to investors.

As I said before, industrial growth in 2017 is expected to reach 5.4 percent, or 0.1 percent higher than economic growth. This target could be reached by deepening the industrial structure, enacting a competitive gas price policy, giving tax allowance and tax holiday incentives, and harmonizing tariffs.

The contribution of the industrial sector toward GDP is around 30 to 40 percent. It is projected to increase along with the growth of manufacture sector and other new strategic sectors. The government has prioritized infrastructure spending and investment in the manufacturing industry to boost GDP growth to beyond 5 percent. The Ministry of Industry is going to play the major role in the implementation, expansion and development of these policies.



# INDONESIA GEARS UP FOR ASIAN GAMES IN 2018

*The Worldfolio talks to Indonesia's Minister of Youth and Sports Imam Nahrawi to discuss the country's success at the 2016 Rio Olympics, as well as the importance of Indonesia's youth-demographic bonus.*

**You just returned triumphant from the Olympics with one gold medal and two silvers, you must be very proud of your athletes. How did the Olympics unify Indonesia?**

In principle, sport is a tool of unifying a nation, sport is unity, it also means diversity, and sport is a way to eliminate all differences. The Olympics is the highest dream of all athletes, for all stakeholders, to unite the mindset at the peak of achievement. Obviously, all the countries want to be a winner, all athletes want to be a champion. We do not have a grandiose target; what is important is to bring back the gold medal tradition to Indonesia. Athletes have been through a long and hard process, full of sacrifice and struggle, giving up everything they have for the sake of this nation, for one purpose: to win medals at the Olympics.

**How will you continue that winning spirit into the next big event coming up, the Asian Games that Jakarta and Palembang will host in 2018?**

The Asian Games is a very valuable moment for Indonesia to show our new spirit to the world, to show the world that Asia is the pearl that is to be explored and transformed to become even greater.

Even before the Asian Games, we will host events that will allow Indonesia to demonstrate our readiness to become the host of the Asian Games. This will boost the public's trust that we are ready to host. One of the events is the Tafisa Games, Sports for All, which will be held in October 2016. The country delegations will take part in recreational sports instead of a real competition.

That's pre-Asian Games, and post-Asian Games we will host some events. We are also currently working on Moto GP and Formula 1. We are working on unifying differences through sports – from Sabang to Merauke we will unify with sports.

**Teten Masduki, Second Chief of Staff of the Executive Office of the President, has spo-**

**ken about the importance of hosting international events in Indonesia and boosting its profile globally. What policies are you implementing to gain more events?**

Major policies from President Jokowi see that sport is a promotional tool: the esteem of the nation. He said high priority should be given to the Asian Games and we are working on creating an adequate circuit where we can host the Moto GP in 2017. President Jokowi is committed to sports and I am convinced that there will be a lot of changes in the future, and

*“The Asian Games is a very valuable moment for Indonesia to show our new spirit to the world, to show the world that Asia is the pearl that is to be explored and transformed to become even greater. Even before the Asian Games, we will host events that will allow Indonesia to demonstrate our readiness to become the host of the Asian Games. This will boost the public's trust that we are ready to host”*

we will not only align with events held in Malaysia or Singapore, but also far beyond that.

**Gatot S. Dewa Broto (Deputy Minister for Sport Achievement):** In a cabinet meeting, the President saw the presentation from the Minister of Public Works and Housing about the renovation of the sport center in Senayan. This is part of the international branding of Indonesia and it should be friendly and usable for everyone. The sport center was built before 1962 for the previous Asian Games, and President Jokowi said it should be better

than the last time, not totally renovated because it's national heritage, a national landmark of where the President would like to welcome the sporting heroes home.

The President also said that we should be prioritizing sports; everything should be at the standard of the Olympics. We have many limitations in financial resources, for Moto GP, F1, and others; the instruction is for the ministry to create a special agency that can provide these financial resources.

**Apart from the supporting program for Olympians, obviously sports for school kids is very important for health, for their own education. What plans do you have for sports on this level in Indonesia?**

I guess early-age fostering is absolutely prevalent in all countries. We have to maximally support the School of Sports as the part of a long-term process for the emergence of high achievers. We've got some sports schools, Sekolah Kekhususan Olahraga (SKO) in Ragunan, and some other places. There is also BBLB, which will be the place to foster the best young athletes for the Olympics. On a more social level, sport is the solution to many of society's problems.

**Gatot S. Dewa Broto:** For the youth program, Indonesia has achieved well. For example, last year the Minister joined the Asian Schools Olympics program. Indonesia got the most awards compared to Singapore, Malaysia, and so on. In the youth program, Indonesia achieves well, but for athletes the problem is, when they have to go to university after high school, they have to choose either their sports or their career. We are now cooperating with a private university to give them scholarships abroad so they can study at university and can compete also; like this, Indonesia will be the winner in the youth program.

**When you became Minister, what type of changes did you want to implement in the**



Minister of Youth and Sports Imam Nahrawi, above in a black strip, with Indonesian President Joko Widodo to his left, in white, at a youth soccer event

### relationship to the different unions and associations?

We don't want to just concentrate on solving the structural problems because usually the cost to complete the structure is much higher than the coaching. Now we are focusing on achievements first, and the issue of the board comes later. The government will intervene directly in the structure linked with the coaching. Each association must communicate intensively with the government so that we can manage and share the role; for example, the search of 'high quality seeds', fostering competition at the early age, and the promotion at the level of competition in each activity.

**The Ministry of Youth and Sports is perhaps the most important ministry in Indonesia because it is focused on the youth and therefore the future. Pak Jokowi speaks about the demographic bonus and the importance of not only education, but also productivity. What programs do you have for the empowerment of Indonesia's youth?**

The demographic bonus is very important and positive; however if it were not handled in a productive way, it would be a fatal threat to sustained prosperity. Our programs must be sustainable, beginning

with the formation of character, and utilizing natural resources, we must explore the full potential of entrepreneurship. The next generation will have alternative professions, not only civil servants, but also in the creative industries.

**The creative economy is very important in fostering links with the private sector. What sort of interest have you had from the private sector, especially internationally?**

I think we are open; even the President has issued a new negative investment list for anyone to get involved. For example, in the field of sports, anyone can build a stadium, facilities and infrastructure in the country. There must be convenience in investments; with licensing there should be ease of doing business. Investment is an absolute must, and it should be open to everyone, especially for the creative economy. We still need a lot of money for whoever wants to get involved because we have so much potential in our youth. We should encourage them to think and then promote local products at the international level.

**When you look into the future, what are your top priorities as a Minister of Youth and Sports?**

One of them is an Olympic bonus, and allowance for future athletes. The other major project is facilities, sports facilities, focusing on those sports which are Olympic. I'll tell you about a bonus given at the Sports Heroes Homecoming Parade. In the history of Olympic bonuses, this is the biggest in Indonesia; the gold medalist got a IDR 5 billion. It was the third biggest of any country.

Beyond that, Olympic athletes got an annual pension allowance – *Tunjangan Hari Tua*. So if they won medals, and then retired, their lives would be covered by the government until death. This only happened in the era of President Jokowi.

In the area of youth, the President never ceases to encourage the creative industry; youth should also be a promoter of cultural richness, tradition, tourism destinations, and the youth should be actively involved in them.

**As a Minister and father, what kind of legacy do you want to build for Indonesia's youth?**

The legacy would be the passion for change, youth should not give up, and there must be innovations. The state is owned by Indonesia's youth in the future, and I hope there will be sporting momentum like never before.

# 'BETTER INTEGRATION OF ASEAN WILL LEAD TO A BETTER ASEAN COMMUNITY'

*Rahmat Pramono, Permanent Representative of Indonesia to ASEAN, discusses infrastructure investment, creating a more investment-friendly environment, the main goals of the ASEAN G2B infrastructure summit, and enhancing integration across the region*

## How will the 'big bang' liberalization of Indonesia increase the attractiveness of Indonesia for foreign direct investment (FDI)?

The 13 economic policy packages is an effort by the current administration to implement its policy objective to expedite Indonesia's economic growth, prioritizing on several key sectors of the economy, such as infrastructure, as well as increasing foreign investments in Indonesia.

The liberalization efforts include opening up of some key sectors of the economy to 100-percent foreign equity participation and removing impediments to private investment, by easing up on permits and licenses for example. These efforts are hoped to improve the country's investment climate and provide greater incentives for foreign investors.

This policy stance has given rise to Indonesia's growth projections for the next two years. The Asian Development Outlook 2016 forecasts an increase in Indonesia's GDP from 4.8 percent to 5.2 percent in 2016 and again to 5.5 percent in 2017.

## How are economic reforms increasing Indonesia's competitiveness within ASEAN?

A series of economic reforms introduced by the current administration is focusing mainly in infrastructure development and creating a more investment-friendly environment. By focusing on infrastructure development, Indonesia is addressing its infrastructure challenges which have been lagging behind other ASEAN countries such as Malaysia and Thailand.

Indonesia is ranked 109th in the Ease of Doing Business rankings by the World Bank, putting it in number 7 among ASEAN countries, just above Cambodia, Myanmar and Lao PDR. We are aspiring to reach the top 50 in the rankings with the initiatives to cut back on permits and other bureaucratic inefficiencies, mainly through the economic policy package number 12. The ease of doing business will allow greater flow of FDI, which is very crucial in increasing productivity, and in turn enables Indonesia to be more competitive in the regional and global market.

## What are the key goals for you at the ASEAN G2B Infrastructure Investment Forum 2016?



Rahmat Pramono, Permanent Representative of Indonesia to ASEAN

From my perspective they are three main goals of this event:

1. The Leaders of ASEAN have just adopted the new Master Plan of ASEAN Connectivity (MPAC) 2025 on September 2016 in Vientiane, Laos. The MPAC 2025 outlines the grand design of connectivity in ASEAN in the next 10 years through three dimensions, namely physical, institutional and people-to-people connectivity. This is a continuation of the first MPAC 2010. This forum is a good platform and gives us the opportunity to explain and inform the public as well as all stakeholders of the new MPAC 2025 in its entirety.
2. This forum is also a good platform for the public and particularly private sectors and potential investors on the opportunity that ASEAN and its member states could offer, particularly on the physical connectivity or infrastructure.
3. This forum also opens the opportunity to network among all stakeholders and, exchange views, information which hopefully could bring benefit for business community.

## What will the impact of MPAC 2025 be?

Better connectivity means better integration of ASEAN that will lead to a better ASEAN Community that we are now embarking on. Better and integrated ASEAN Connectivity will promote trade and business, it will also ease movement of peoples and at the end of the day it will promote peace and prosperity in the region.

## How much potential do you see in partnering with the private sector through public-private partnership (PPP) mechanism on infrastructure projects?

As we all know, developing infrastructure connectivity requires a substantial amount of money, which might become a burden and challenge for ASEAN member states should they have to bear it by themselves. Therefore, the PPP mechanism/model is seen as the most viable way to develop infrastructure connectivity in the region. Through this mechanism, both public and private sectors share the burdens as well as the benefits of developing infrastructure connectivity in the region. Moreover, by sharing the projects, both sides are also developing a sense of ownership, which will generate positive impacts on the whole projects.

## How are you working to enhance cooperation across government?

Within MPAC 2025, member countries are tasked to establish ASEAN Connectivity Coordinating Committee (ACCC). The task of ACCC is to coordinate with each other on the development and implementation of MPAC 2025 as well as its programs/projects. At the national level, each member country is required to set up the National Coordinator (NC) where the task is to coordinate at the national level especially when it comes to proposing projects under the MPAC 2025. Besides, NC is also tasked to coordinate and oversee the implementation of the MPAC projects at the national level.

For Indonesia, the MPAC 2025 should be in line with and supporting the national interest with regard to developing connectivity in the region. Maritime issue is one of Indonesia's main priorities now. The government has been pushing hard to develop and resolve issues related to maritime including maritime connectivity.

Both MPAC 2010 and MPAC 2025 consist of the development of maritime infrastructure/connectivity in the region. We believe that development of land connectivity in the region would not be enough without the development of maritime connectivity. Although only Indonesia and the Philippines are considered to be archipelagic states in the region, the combination of land maritime connectivity should be developed hand in hand.





# INDONESIA AND ASEAN: A GROWING REGION



THE ASEAN ECONOMY:  
ASIA'S EMERGING GLOBAL ENGINE OF GROWTH

INDONESIA:  
ROOM TO GROW



## 625 MILLION

Total population of ASEAN



## 7TH

Largest combined global economy



## \$2.6 TRILLION

Combined GDP of ASEAN (2015)



## 4TH

Largest economy in the world by 2050



## \$136 BILLION

Foreign direct investment in the region (2014)



## \$110 BILLION

ASEAN infrastructure investment required annually



## 255 MILLION

Estimated population (2015)



## 29

Median age of the population



## \$888.5 BILLION

GDP (2014)



## 16TH

Largest economy in the world



## 4.9%

Projected GDP growth 2016 (IMF)



## 5X

Increase in foreign direct investment (2009-2013)

# INVESTMENT IN HARD AND SOFT INFRASTRUCTURE IN INDONESIA

## CRUCIAL TO BOOST PROSPERITY

*Indonesia hopes that the lion's share of investment will come from the private sector. But before that happens, it must provide a conducive investment climate for foreign investors*

One particular subject of the Indonesian economy that has been hampering Indonesia's economic and social development is the lack of quality and quantity of its infrastructure. Whether it is 'hard' infrastructure (such as roads, airports and electricity supply) or 'soft' infrastructure (such as social welfare and health care) Indonesia seems to have a hard time pushing for efficient development.

In the most recent edition of the World Economic Forum global competitiveness index (GCI, 2015-2014), Indonesia ranks 61st out of 148 economies with regard to the state of the country's infrastructure. Expansion of Indonesia's infrastructure has not been able to keep up with robust macroeconomic expansion since recovery from the Asian Financial Crisis in the late 1990s and as a consequence its economic growth cannot yet reach its full potential. It is estimated that when Indonesia would possess over adequate infrastructure its gross domestic product (GDP) could grow between seven and nine percent annually, instead of the current rate of 6.0 -6.5 percent.

### How is infrastructure hampering Indonesia's Economic Development?

Lack of adequate infrastructure causes Indonesia's logistics costs to rise steeply, thus reducing the country's competitiveness and attractiveness of the investment climate. According to data published by the Indonesian Chamber of Commerce and Industry (Kadin Indonesia) around 17 percent of a company's total expenditure in Indonesia is absorbed by logistics



*Regarding (soft) social infrastructure (such as the education system, healthcare and social welfare) Indonesia also still has a long way to catch up. In order to provide a healthy and skilled workforce, necessary to grow into an innovation-driven society, these matters need to be resolved. The government has made new efforts in these fields in recent years*

costs. In peer regional economies this number lies below 10 percent. In particular transport costs are high; for land as well as sea.

Despite Indonesia's archipelagic geography, the country's sea transport is yet to be developed substantially. Currently, sea transport is even more expensive compared to land transport. The weak circumstances for fostering a conducive inter- and intra-island trading network result in inflationary pressures on domestically produced products. This partly explains the paradoxical situation that sometimes domestically produced fruit is more expensive compared to imported fruit. It also leads to substantial regional price differences. Rice or cement, for example, are much more ex-

pensive in eastern Indonesia than in Java or Sumatra due to extra costs that arise from point of production to end user.

It also means that Indonesian entrepreneurs are losing out on lucrative opportunities as logistic problems (which includes transport, warehousing, cargo consolidation, border clearance, distribution and payment systems) kills or prevents certain businesses from expanding. One might assume that Indonesia – being the world’s largest archipelago and, as such, having large quantities of waters as well as seas at its disposal – contains a flourishing seafood business. However, it is far from flourishing, largely due to a lack of cold storage transport. This same matter is hampering Indonesia’s horticulture businesses.

Indonesia is often plagued by blackouts because of shortages in the country’s electricity supply. Despite the abundance of energy resources, Indonesia has a structural problem regarding the public energy supply. Part of the problem is that state-owned electricity distributor Perusahaan Listrik Negara (PLN), which has a monopoly on electricity distribution in Indonesia, is heavily dependent on government subsidies as the cost of production is higher compared to the fixed selling price. This means that PLN loses money with each kilowatt-hour (kWh) of electricity that is sold, if it was not supported by huge government subsidies. Thus, having had few financial resources for large-scale investments, energy demand has outpaced energy supply in recent years.

Currently, the government is shifting its focus from (expensive) oil-fired power plants to the establishment of new coal- and gas-fired plants. But it will still take some time to ensure decent electricity supply throughout the country and, therefore, will continue to hamper Indonesian businesses in the near future.

It should also be mentioned that the lack of good-quality physical infrastructure in combination with weather phenomenon (such as heavy tropical rainfall) or forces of nature (earthquakes) can cause disruptions to the flow of goods and services. Indonesia is located on the Pacific Ring of Fire and therefore has to absorb many earthquakes. But even a relatively minor one can seriously damage the infrastructure.

Regarding (soft) social infrastructure (such as the education system, healthcare and social welfare) Indonesia also still has a long way to catch up. In

order to provide a healthy and skilled workforce, necessary to grow into an innovation-driven society, these matters need to be resolved. The government has made new efforts in these fields in recent years. A new healthcare system is about to be introduced covering all Indonesians and spending on education has increased markedly. However, as with physical infrastructure, there is usually more planning than action as well as a gap between desired targets and accomplished results.

### Why are investments in infrastructure a problem?

The main problem for the Indonesian government to invest in the country’s infrastructure is the lack of financial resources. Therefore, private sector participation – both foreign and domestic – is needed. However, in order for the private

*Despite Indonesia’s archipelagic geography, the country’s sea transport is yet to be developed substantially. Currently, sea transport is even more expensive compared to land transport. The weak circumstances for fostering a conducive inter- and intra-island trading network result in inflationary pressures on domestically produced products*

sector to join in, a conducive investment climate is required and – although improving – Indonesia is struggling to provide such an environment.

The legal framework involving land acquisition has been a serious obstacle for infrastructure projects to materialize and makes investors hesitant to invest. Due to land disputes infrastructure projects have been idle for years or canceled altogether. But there have recently been taken steps to improve the land situation. At end-2011, the government and parliament approved the new Land Acquisition Law (UU No. 2/2012) that is regarded to speed up the land acquisition process notably as it deals with the revocation of land rights to serve public interest, puts time limits on each procedural phase and ensures

safeguards for land-right holders. The bill, confirmed by the signing of a presidential regulation by president Susilo Bambang Yudhoyono in August 2012, is expected to be implemented in 2012. Both government projects and public-private partnerships (PPPs) on state-owned land are protected by this bill.

In recent years the government has given infrastructure spending a relative small allocation of public spending. In 2011 only 2.1 percent of the country’s GDP was reserved for infrastructure (and mismanagement as well as bureaucracy reduces effectiveness of spent funds). In comparison, countries such as China and India spend almost 10 percent of their GDP on infrastructure. The government has, however, put infrastructure as a top priority on its agenda in order to accelerate economic growth. Regarding funding for infrastructure projects, the government has set targets in both the National Medium-Term Development Plan 2010-2014 (RPJMN) and the Masterplan for the Acceleration and Expansion of Indonesia’s Economic Development Plan (MP3EI 2011-2025) which - to a large extent - will be financed by the private sector. It is projected that more than 70 percent of both the US\$150 billion investment needs in the RPJMN and the US\$468 billion investment needs in the MP3EI will be contributed by the private sector through public-private partnerships. Approximately 45 percent of the MP3EI is reserved for infrastructure development.

However, up to date these public-private partnerships have not yet showed satisfying results. To provide more assurance for private investors, the government has established the Indonesia Infrastructure Guarantee Fund (IIGF). This institution gives certain guarantees against infrastructure risks for projects under the PPP scheme.

The paragraphs above explain why Indonesia suffers from a lack of quantity of its infrastructure, but it also faces a lack of quality: damaged roads, collapsed bridges, aging ports are just a few examples. Besides the common lack of financial resources to be used for maintenance purposes after infrastructure has been built, mismanagement, corruption and incompetence are frequent causes of inadequate infrastructure.

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# INFRASTRUCTURE DEVELOPMENT IN INDONESIA: \$450 BILLION REQUIRED

*It is estimated that Indonesia will need some US\$450 billion in funds to finance the government's infrastructure development plans for the 2015-2019 period. However, through the state budgets the government can only deliver US\$230 billion, or roughly 50 percent of required funds. The remainder should originate from the private sector (30 percent of total funds) and state-controlled enterprises (20 percent). However, is it likely that the private sector (both foreign and domestic) is to come up with US\$141 billion for investment in infrastructure up to 2019?*

During the Susilo Bambang Yudhoyono (SBY) administration (2004-2014) authorities were already well aware about the importance of infrastructure development across the archipelago as this would push down logistics costs, boost the nation's competitiveness, and make the investment climate more attractive. Therefore, the government unveiled its Masterplan for Acceleration and Expansion of Indonesia's Economic Development (abbreviated MP3EI) in 2011. The MP3EI is a long-term development program that aims to turn Indonesia into one of the world's largest economies by the year 2025.

The MP3EI also places high priority on infrastructure development through public-private partnership (PPP) projects. However, there have been few successful examples of PPPs for infrastructure development in Indonesia. This weak performance has been attributed to the difficulty of land acquisition, the high degree of regulatory uncertainty and the general lack of interest from the private sector to engage in costly infrastructure projects that require many years before they can see return of investment (particularly in emerging markets where the number of users of infrastructure projects is regarded to be relatively small). Moreover, the economic slowdown of Indonesia that occurred after 2011 (partly due to heavily falling commodity prices) added negative sentiments to Indonesia's investment climate.

During the last years of the SBY administration we often read about the MP3EI in local media or we heard ministers talk about the MP3EI program. However, since the inauguration of Joko Widodo, Indonesia's seventh president, the MP3EI is rarely heard of. Instead the focus has shifted to the series of economic stimulus packages that have been released since September 2015. These packages contain more concrete measures (although true implementation of reform policies always remains problematic in a vast and diverse country that is ruled



by bureaucracy) that aim to boost overall economic growth of Indonesia in the years ahead. Through deregulation and tax incentives these packages also aim at improving the investment climate.

At the 41st Annual Meeting of the Islamic Development Bank (IDB) Group Board of Governors, Himawan Prayoga, official at the Indonesia Investment Coordinating Board (BKPM), said the public-private partnership scheme has not had success yet in Indonesia. According to him the main problem lies in the planning of the infrastructure projects that are envisaged to be developed through a PPP scheme. Since 2001 Indonesia has been transformed by the process of decentralization, implying that regional leaders have become actors in terms of contract-making for development projects.

However, the quality of human resources at the local level has been insufficient, while weak coordination and cooperation between the central and local governments makes the planning process difficult (causing regulatory uncertainty for investors, including uncertainty about the tariffs that are to be charged to the people

that use the infrastructure after the project has been completed). This is an issue that cannot be solved rapidly as it will require enhanced education as well as a "mental revolution" that is advocated by President Widodo.

Government-led infrastructure development includes the government's program to add 35,000 megawatts to the nation's power capacity, 1,000 kilometers of additional toll roads, 3,258 kilometers of railway, 15 new airports and 24 new ports.

Domestic and foreign direct investment in Indonesia in the first quarter of 2016 totaled US\$11 billion. However, most of the funds went to pulp & paper and base chemicals, not to infrastructure development. A simple calculation suggests that it is highly unlikely for the private sector to come up with US\$141 billion for infrastructure development up to 2019 without some real breakthroughs.

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## WHAT ARE INDONESIA'S PRIORITY INFRASTRUCTURE PROJECTS IN 2016-2019?

*There are 30 projects that have been selected as priority infrastructure projects in Indonesia for the period 2016-2019. In total, all these projects together will require some IDR 5.519 trillion (approx. US\$415 billion) worth of investment. However, the Indonesian government (including state-owned enterprises and regional governments) can only come up with IDR 1.4 trillion, or 26 percent of the required funds. The remainder therefore needs to be covered by the private sector. As such, the key for success is fruitful cooperation between the private and public sector (for example through public-private partnerships).*

|   |
|---|
| BALIKPAPAN-SAMARINDA TOLL ROAD                            |
| MANADO-BITUNG TOLL ROAD                                   |
| SERANG-PANIMBAN TOLL ROAD                                 |
| TRANS SUMATRA TOLL ROAD                                   |
| SOEKARNO-HATTA RAILWAY                                    |
| NORTH-SOUTH LINE JAKARTA MRT                              |
| MAKASSAR-PAREPARE RAILWAY                                 |
| KUALA TANJUNG PORT  |
| BITUNG PORT   |
| KARANGKATES HYDROELECTRIC POWER PLANT                     |
| KESAMBEN HYDROELECTRIC POWER PLANT                        |
| LODOVO HYDROELECTRIC POWER PLANT                          |
| INLAND WATERWAYS CIKARANG-BEKASI-SEA                      |
| LRT SOUTH SUMATRA   |
| LRT JAKARTA   |
| NATIONAL CAPITAL INTEGRATED COASTAL DEVELOPMENT (PHASE A) |
| WASTE PROCESSING SYSTEM JAKARTA                           |
| DEVELOPMENT PLAN WATER SUPPLY SYSTEM SEMARANG             |
| HIGH VOLTAGE DIRECT CURRENT                               |
| ELECTRICITY TRANSMISSION SUMATRA                          |
| CENTRAL-WEST JAVA ELECTRICITY TRANSMISSION                |
| BATANG POWER PLANT  |
| ELECTRIC STEAM POWER PLANT INDRAMAYU                      |
| ELECTRIC STEAM POWER PLANT SOUTH SUMATRA                  |
| BONTANG OIL REFINERY                                      |
| REVITALIZATION REFINERY DEVELOPMENT MASTERPLAN            |
| WEST JAVA PORT (NORTHERN COAST)                           |
| TUBAN OIL REFINERY  |
| PALAPA RING BROADBAND                                     |
| EAST KALIMANTAN RAILWAY                                   |

# KPPIP TASKED TO ENSURE THE SUCCESSFUL DELIVERY

## OF US\$85BN WORTH OF PRIORITY INFRASTRUCTURE PROJECTS

*Out of the US\$369 billion worth of infrastructure projects to be executed in Indonesia over the coming years, the Committee for Acceleration of Priority Infrastructure Delivery (KPPIP) will focus on the overseeing the delivery of 30 priority projects, valued at some US\$85 billion. In this interview, KPPIP Program Director, Rainier Haryanto, discusses how the committee is monitoring projects and working with other stakeholders to ensure these projects are delivered ‘properly, on time and within budget’*

### What changes have you seen since Jokowi was elected President of Indonesia?

I must say there's a huge change. I joined KPPIP only 12 months ago and prior to joining KPPIP, I was in the private sector. Ever since Jokowi was elected, the differences can be felt both on both a business and social level. It seems there is a bright side at the end of the tunnel in which he started to make a lot of real actions and as a result, it has increased the confidence level across society.

These real actions are reflected in the economic packages issued to present. Every single economic package, in which development is consulted to the private sector, is aiming to strengthen the Indonesian economic growth. Overall, I believe the government truly shows a big commitment and this is also embedded in many stakeholders with whom I work in delivering results.

Moreover, the Coordinating Minister for Economic Affairs, Pak Darmin Nasution – he's the chairman of this committee – has been genuinely focusing on taking action, not simply on planning policies but also on executing them.

### Currently one of Jokowi's priorities is overall infrastructure development across the nation. How much progress has been made through KPPIP?

In terms of implementation and delivery, KPPIP is mainly focusing its efforts on the 30 priority projects. To provide an overall picture on these priority projects, total project value is estimated at US\$85 billion and this represents a quarter of the total infrastructure investment required for all the projects in Indonesia, which is approximately at US\$369 billion.

These projects are identified as challenging and complex projects and require high investments. Additionally, these projects require a specific “debottlenecking” action to accelerate the delivery, for an example: permits/licensing and the quality of the project preparation in which many cases are not following international standards.



*“The Ministry of Industry has several centers for research around the country—each specializing in different areas such as agriculture, metals and textiles—that offer research and development services for industry”*

*Rainier Haryanto,  
KPPIP Program Director*

On the project implementation, the most recent success is the Central Java Power Plant. The financial close of the project had been delayed for almost four years due to the land acquisition issues. However, we together with other stakeholders managed to finally deliver the financial closure about two months ago.

On the PPP (public-private partnership) projects, there were significant efforts being allocated to bringing the project into the next phase. This year, at least up to present, there have been three PPP projects achieving a financial close phase. One is the Central Java Power Plant and others are the Western and

Central packages of the Palapa Ring Project which are aiming to develop infrastructure in the ICT sector. Another significant milestone project is the Umbulan Water Supply Project. The project was initiated 40 years ago and the tender preparation and transaction had been running for roughly 20 years. We partnered with SMI and other stakeholders, and finally managed to close the transaction and this was celebrated about a month and a half ago through the signing ceremony of the PPP agreement in the office of the Coordinating Ministry of Economic Affairs.

On setting the future roadmap, the national strategic project or Proyek Strategis Nasional (PSN) has been introduced, where 225 infrastructure projects and one electricity program were selected and considered to be another level of focus for KPPIP. The PSN was set through the President Regulation No.5, issued at the beginning of the year. KPPIP's role in this group of projects is to monitor and evaluate the project status, and hence, to meet the mandate, KPPIP has started to collect all project data and to store it centrally.

To assist such effort, KPPIP has developed a tailor-made IT system for project monitoring that is currently on the process for implementation. The system will also be used to promote and provide information on the projects, particularly to allow for the private sector to actively participate in the project delivery. Why will such a system be useful? For some companies that are already present in Indonesia, this system will allow them to jump into the opportunity promptly. With others that require time and a reason to establish their operations, this system will help them to justify their investment in Indonesia.

### How much involvement do state-owned enterprises (SOEs) have in these projects and how would you assess their performance?

SOE involvement in these projects is to support the government to deliver the project. What does this mean? Let's just come back to the





reason why SOEs are being employed. The government is trying to utilize any instrument available within their capacity to get the projects started. SOEs can immediately start the project because they do not need to go through the complex tender process. Even if they require a sub-contractor, the SOE can normally run the tender using their internal SOP and on most cases, is always faster. One of the recent examples is the South Sumatera Light Rail Transit system. This project is compulsory for the ASEAN Games and therefore, must be finished by 2018. With this circumstances, could you imagine, if the government actually entrusted this task fully to the private sector? The task must follow the national procurement process that requires a full tender document to be prepared and with a series of processes required to go through, such targets will be hard to achieve.

#### How are you collaborating with other governmental authorities?

In terms of working with other institutions, we put an effort to form synergies with others. Such effort is required because our mandate at KPPIP is pretty unique. KPPIP is an ad-hoc committee to accelerate infrastructure in Indonesia and therefore, part of our role is to fill in a gap until the responsible party is ready to take over. Such synergies have been formed for instance when we worked with BKPM and the outcome was very satisfactory. When it came to the promoting aspect they were the ones in charge because the mandate is theirs, meanwhile when it was more about technical issues we would step in. It worked very well.

#### The One-Stop Center is one of the proposed concepts to solve some of these infrastructure bottlenecks. How far do you see KPPIP from really playing that role?

Informally we are already playing that role for the priority projects. Nowadays we are focusing on debottlenecking issues to accelerate the project delivery which sometimes look pretty simple but actually are quite complex to deal with. As an accelerating committee, we try to bring all the right ministries to work together so that the projects can delivered properly, on time and within budget.

#### How can foreign investors get involved in the infrastructure development of Indonesia?

First, you need to understand the way Indonesian operates. You can't just operate like Westerners, by just jumping and joining the tender. Unfortunately having previous experience and good presence in the market is considered important. Having said this, now is the right time to be here, as the government is changing, they have already introduced a lot of facilities encouraging the participation of the private sector.

Additionally, SOEs are close to reaching their limit even though holdings are to be formed. Therefore, there are still great opportunities and room for growth for the private sector. But again, if you don't have any presence in Indonesia, it will be difficult to build the trust in the market.

In summary, I would like to re-highlight that this is a good time to be in Indonesia. This is the right for companies to participate

*“KPPIP has developed a tailor-made IT system for project monitoring that is currently on the process for implementation. The system will also be used to promote and provide information on the projects, particularly to allow for the private sector to actively participate in the project delivery”*

in the Indonesian market and should you miss this, you might need to wait for the next opportunity, probably in 2020.

#### In a few words, how would you brand Indonesia?

I believe Indonesia is all about the untold story. If you look at the recent things President Jokowi has done, not many people are aware of that. There are a number of efforts that have been made in delivering the different policies. These were unfortunately not communicated strongly enough to the public.

Many people say that except for Bali, the rest of Indonesia is quite dangerous. Given this situation it is genuinely difficult to get foreign people and tourists to visit our country. Certainly, the perception the international community has about Indonesia is not the best one, however, once they come here and get to know the inner beauty of our country, I am sure that they will not think twice about coming back.

# INDONESIAN INTEGRATED CONSTRUCTION GIANT

## TO BE REGIONAL LEADER WITHIN 2 YEARS

*In this interview with The Worldfolio, Ir. Tumiyana, President Director of PTPP, one of the largest construction and investment state-owned enterprises (SOEs) in Indonesia, discusses his vision for the future of the company; the impact of new government policies, as well as positioning PTPP as a one of the ASEAN's premier companies*

**After the Presidential elections in 2014 there was a tremendous sense of hope in the new administration and what they could achieve. From your perspective, and specifically in terms of infrastructure development, where have you seen real changes?**

I think it's important to understand the President's vision when it comes to infrastructure and how it will be implemented. This is especially the case when it comes to the Nawa Cita or 'nine priorities'. All of these important programs are being carried out according to timeline and budget and it is important to understand the resources involved in doing this and what they will mean for state owned enterprises (SOE), such as PT-PP.

In terms of spending the forecast for the next 5 years is IDR 4.9 trillion (approx. US\$376 million), and approximately IDR 1.5 trillion of that is coming from Government spending. This means that the SOE capex will amount to some IDR 2.4 trillion, with the balance made up by the private sector. This has been allocated to the overarching infrastructure plan, including power, roads, bridges, ports and airports.

This is a vast and complex series of national upgrades that can not be carried out successfully with highly motivated and capable leadership. I would like to give you an example of my experience with the President that demonstrates just how committed this administration is to getting things done. One of the major areas we are operating in is power generation, and I was recently tasked with building 8 units together.

Around two months before a big event I met with the President in Lombok. The President asked me, whether PT PP could finish the power project in 2 months. I informed him that it would take at least 6 months based on the engineering calculations we had made. The President replied 'if your engineers have calculated and say it cannot be done, you should ask them to recalculate again and again'. That is what we did, and we confirmed that the project could technically be done in 2 months and we made sure there were no delays and maximum efficiency.



Ir. Tumiyana, President Director of PTPP

So based on this guidance, on the 27th of July 2016, during the event scheduled, the power project was completed. The President could see what was really achievable with the right motivation, and with the project being carried out by the right people.

**A critical part of the infrastructure acceleration plan is empowering SOE's through direct funding. How has this impacted on your company's work capacity?**

Based on estimates, total SOE assets now amount to around IDR 5 trillion, close to three times the Indonesian budget. This is how we can improve our capacity; we can accelerate capex spending and get more done. Accelerating infrastructure development is a top priority for the government, and a top priority for PT PP. With the resources behind us we can undertake the ambitious infrastructure upgrades that are needed to strengthen the country's macro-economic standing.

**The government is also trying to get the private sector more involved. How do you see your colleagues from privately-owned companies contributing to infrastructure development?**

The private sector is certainly boosting its participation and contribution to infrastructure, however we at PT PP remain the trailblazers. However, when our spending is done and SOE capex spending is done, the private sector will start to really get involved to a much larger extent in the infrastructure development process investing in new projects.

**How do you think the deregulation drive by the government will affect the ability of multinationals to operate in Indonesia?**

The deregulation is certainly a step in the right direction. We certainly welcome the competition, and in the region we are competitive; construction companies normally maintain margins of 1.45-2 percent. But at PT PP we are looking at raising this to 6-7 percent net. At present we are already achieving 5.7 percent this year.

**The tax amnesty program that the government is undertaking is also set to have an impact on property and capital markets. What impact will the tax amnesty have on PT PP?**

When you have available, fresh money, you are going to choose investments that give you a greater yield. You are going to buy shares on a bourse, and maybe you are going to get an average return of 30 percent. But if you invest in property, how much return on investment will you make? Maybe more than that, except PT PP property gives you a return of around 55 percent! So certainly we will be a sought as investment partners following the tax amnesty.

**The President and Minister of State Owned Enterprises have announced that the State Owned Enterprises are to be restructured into 6 separate holding companies. What opportunities and challenges do you see in this new structure?**

I think this will be a good move in terms of building capacity, especially balanced capacity in terms of engineering, technical expertise and business flow. It will take time to consolidate, but this will be an important step in terms of improving competitiveness as well.

For example, at the moment we cannot compete in tenders with European companies on big power generation projects. This is despite the fact that we have carried out 15 power generation projects over the last 5 years.

The issue is that when we are tendering for a 200 megawatt bid, the Indonesian company is the best option. However if you look at 1,000 megawatts, we cannot compete with foreign companies. Even with our strong balance sheet we cannot meet requirements and that is why we need a holding company to strengthen our synergies.

With a bigger company, we can execute bigger projects, which at the end of the day serves Indonesia better.

In terms of the structure itself, would each of the subsidiary companies retain independent management? What time frame do you see for this consolidation?

Well first of all SOEs are not managed like private companies. If we were a private company that is to be consolidated, it would not take much time, and the process would be quite simple and straightforward.

However, with SOEs there is a different corporate culture, various stakeholders and a long history to be taken into consideration. We need to find the right balance of decision-making to meet the requirements of our stakeholders, and we have to consolidate the balance sheet first. We also have to meet the most stringent levels of transparency, similar to a publically owned investment company, in terms of auditing. The next step after that is to take one or two years after to consolidate with sister companies that have the same business.

We positively agree that the holding must be created, but it will take some time, and it needs to be done right.

*For our international readers who are looking at gaining some exposure to Indonesia's big infrastructure drive, what advice would you give them?*

Buy my shares. This is the best exposure to Indonesia's development, because first you get the margin from my investment, second you get the margin from my construction business, and third you can benefit from the downstream business. You won't find a margin of 6 percent anywhere else in the construction industry.

If I wasn't a director I would be buying as many shares as I could. As it is, all of my employees have share options. As a form of reward to employees, the company provides an opportunity to have employees share the success of the company through an incentives program.

*You started out as an engineer here many years ago and you have worked your way up to become the President Director. How has that shaped your approach to management at PT-PP?*

I've been here 30 years already and as a result I know how to really deliver projects.

My experience is not just in the technical field, but also in management. I started out as an engineer and then a supervisor, and a project supervisor and then when the company went public I became the Finance Director. As a result I really know this company from top to bottom.

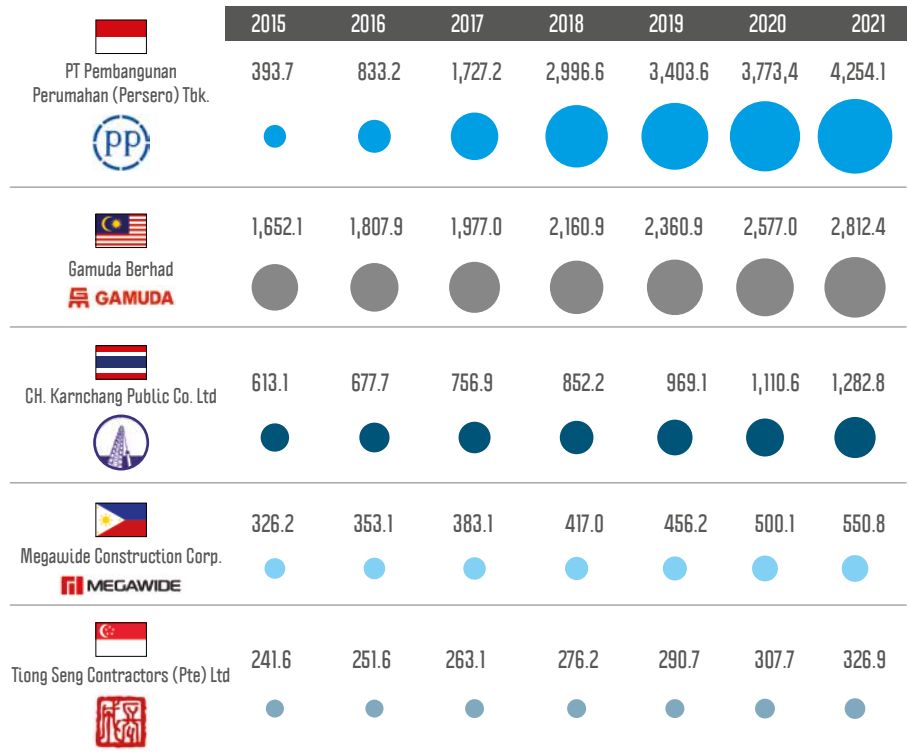
I learned much during my time as the Finance Director. Colleagues challenged me all the time, and that is how I improved and I respect them for it. As the old saying goes, "Challenge a



COMPARISON OF EQUITY PROJECTION OF ASEAN CONTRACTORS

EQUITY 2021  
4,254.1

(in Million USD - per October 2016)



\* Dividend payout assumption = 20% EAT    \*\* Equity = previous equity + 80% EAT

fool and he will hate you, challenge a wise man and he will appreciate you".

I knew that leading this company would be a big responsibility because PT-PP has become a very diversified and integrated company since it was established 65 years ago. We have completed a lot of very important and diversified projects during this time, which required corporate change and new innovations.

As a leader, I have an obligation to continue this tradition of striving for innovation and there is no better example of that than the 'metro cap-sul' transportation system. This project, outside of the usual scope of work we engage in, was 100 percent engineered in Indonesia and has huge potential. It can really meet both domestic and foreign demand, as it is highly competitive on pricing and quality.

*I know PT PP is a source of national pride, but you are now looking to make it a regional and international player. The company was recently awarded numerous regional accolades in 2016, which is important for PT PP to become a sustainable ASEAN class company. With this being said, where do you see PT PP moving in the future?*

When I retire I want to leave behind the biggest company in South East Asia.

I have already explained this to all of my employees. This is our target and this is the work we are going to do. Building PT PP into such a company will be my legacy.

We have received many awards in 2016, and I know we are heading in the right direction. One of the awards received was PP as the Best Managed Company in Indonesia and Best Investor Relations awarded by Finance Asia and Credit Suisse.

Furthermore when we talk about our growth in the region we received the Gold Award for Dual Fuel Power Plant of the Year at the ASIAN Power Awards 2016, held in Seoul. Another regional award was the Best Civil Engineering Project award for an outstanding and remarkable contribution for the advancement of Civil Engineering and Development in Asia ( Project: Kalibaru New Port) awarded by the Asian Civil Engineering Council, held in Hawaii. So you can see that just from the awards and accolades this year, we are really building a strong presence in ASEAN.

More importantly though is our balance sheet, and this is something that investors and the business community needs to take note of.

Last year in 2015, our equity stood at IDR 5.12 trillion. Our projection is that by 2018 this figure will increase to IDR 58.97 trillion. This 690-percent increase will be driven by our corporate action (extensive long-term corporate diversification strategy, such as taking our business from six pillars to eight pillars by adding energy and infrastructure lines) and also the acceleration of infrastructure priority program by the Indonesian government. By this measure we will be larger than every other major construction company in the ASEAN.





beyond construction

PT ADHI KARYA (Persero) Tbk.

## INDUSTRY

Manufacturing precast concrete to support road, bridges and other infrastructure projects.



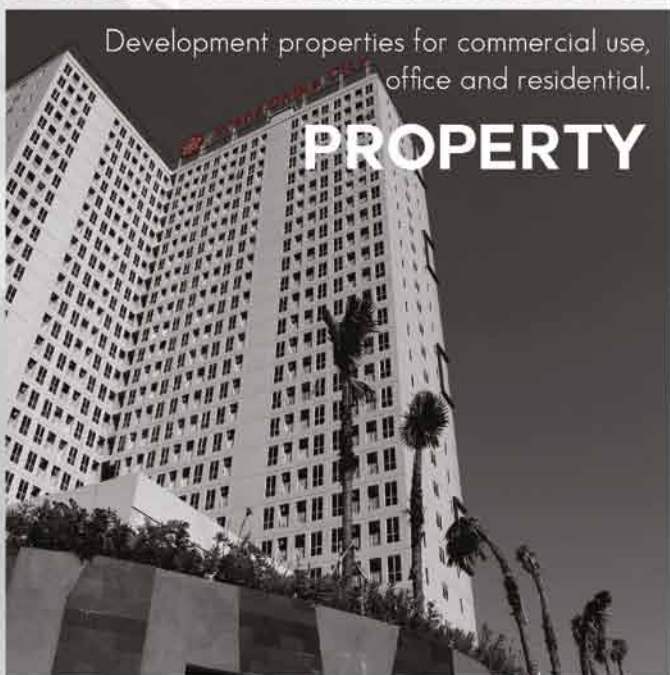
## CONSTRUCTION

Civil construction for building and infrastructure.



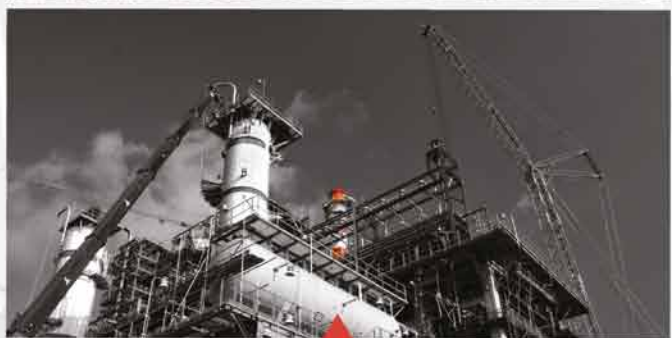
Development properties for commercial use, office and residential.

## PROPERTY



Engineering, procurement, and construction for the oil and gas industry as well as power industries.

## ENERGY



## INVESTMENT

Investment on Infrastructure projects.



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# JAKPRO REVOLUTIONIZES JAKARTA'S TRANSPORT AND INFRASTRUCTURE

*The Worldfolio sits down with Satya Heragandhi, CEO of one of Jakarta's most important companies, Jakarta Propertindo (Jakpro), to speak about their most important infrastructure and transport projects, and his shared ethos of service, aligned with that of Governor Ahok*

**Much has changed since President Jokowi's election in 2014. How do you see the Government's performance thus far?**

Indonesian economics has always been in a situation where we have many controlled zones. In the past, Indonesia was just open at the border, but now, we are also opening the heart. This incentivizes the new generation to start taking over some of the most important positions. That's why the Indonesia of the future won't only be filled by the dynamic of the old business players, conglomerates, multinationals and so on. In the future you will see many start-ups that are disrupters and that become very successful, companies like GoJek.

**Indonesia and particularly Jakarta is boosting its profile internationally through the hosting of international events such as the Asian Games in 2018. How is Jakpro supporting the Jakarta's hosting efforts?**

The Asian Games is just one of the things that will see our country become a magnet for visitors in 2018. Jakarta needs so much new infrastructure, we need to do something with public transportation. At a certain level, you will just end up with Jakarta being the world's largest parking lot. But government pushed hard for infrastructure.

By adding busses and increasing frequency, more people can be carried while waiting for the construction of the MRT (Jakarta Mass Rapid Transit), LRT (Jakarta Light Rail Transit), and the high-speed railway. It's already a dense area. It's not because we don't want to build roads; we don't have more space to build them. Therefore, the LRT comes in handy, because it is smaller than the MRT. It can serve as a feeder, and can maneuver around the dense population. The MRT is obviously bigger and faster, but it's slower to maneuver.

**What are your key priorities at the moment in terms of infrastructure? LRT is one, what are the others?**

Beyond LRT we have clean water, waste



President Director of Jakpro, Satya Heragandhi and Governor of Jakarta Basuki Tjahaja Purnama launch Asian Games' major projects

management, IT infrastructure, better ports, and of course property. We will build the whole fiber-optic network surrounding Jakarta. This is vital for creating a new generation of entrepreneurs in the high tech industries. With the port, we need integration with an industry cluster; it can't only be the port. We have been learning from the best with the Port of Rotterdam.

In property we have at least around 1.9 million homes needed in Jakarta, because we don't have enough land, so we need to build more apartments. That means we need better waste management and water, and especially electricity. Jakarta is in need of 3000-9000 MW in the next 5-10 years.

**When researching JakPro, from the name, it sounds like it's more about property development, but obviously it's far more than that. When you look at the diverse projects you are planning, how far have you taken these to implementation and execution?**

JakPro has already launched seven projects in last three months. The first of

these projects is clean water, we supply an additional 500 litres per second of clean water to the system. The second is the gas project. We acquired gas stations, not the fuel, but the LPG (liquefied petroleum gas) for Transjakarta busses, for public transportation, because we want public transportation using gas instead of liquid fuels. We have the LRT for the Asian Games, and the next one is a little bit challenging, ITF waste management, because there are many social challenges. When we talk about having a waste processing plant near their living area, they don't have the experience of Singapore or any other places, where waste-processing plants can be very clean, when we tell them we want to put waste management plant, they will think of Bantar Gebang Bekasi, which has a dirty reputation. The power plant is also challenging, because it takes a while to do it right. These are all big projects that will change Jakarta's faces in the next 2 years.



# ADHI KARYA THRIVES ON INDONESIA'S INFRASTRUCTURE PUSH

*After several setbacks and delays, the central government and the local Jakarta administration finally seem to have set aside their differences to allow work to begin on the Jakarta light rail transit system, which will be constructed by Adhi Karya*

Indonesian publicly-listed construction firm Adhi Karya is expected to be one of the main beneficiaries of the government's push for infrastructure development across the archipelago. Adhi Karya is 51 percent government-owned, playing an important role in accelerating infrastructure development.

Adhi Karya's corporate earnings should rise in the years ahead on the back of the light rail transit (LRT) project that is expected to provide IDR 33 trillion (approx. US\$2.5 billion) worth of contracts for the construction company. Adhi Karya was appointed to construct the Greater Jakarta part of the LRT that will connect Jakarta with the satellite cities around the capital city. This project is set to bring plenty of long-term profit for Adhi Karya.

The Jakarta LRT is one of Indonesia's many infrastructure projects that had been delayed for many years. Now, however, the central government and the local Jakarta administration finally seem to have set aside their differences about the route, rail model as well as other issues and gave the green light to complete the project before the start of the 2018 Asian Games. Ground-



Budi Harto Dirut Adhi, President Director, Adhi Karya

breaking for the project is scheduled to take place later this month. There will be a LRT in Jakarta and one outside Jakarta that connects the satellite cities.

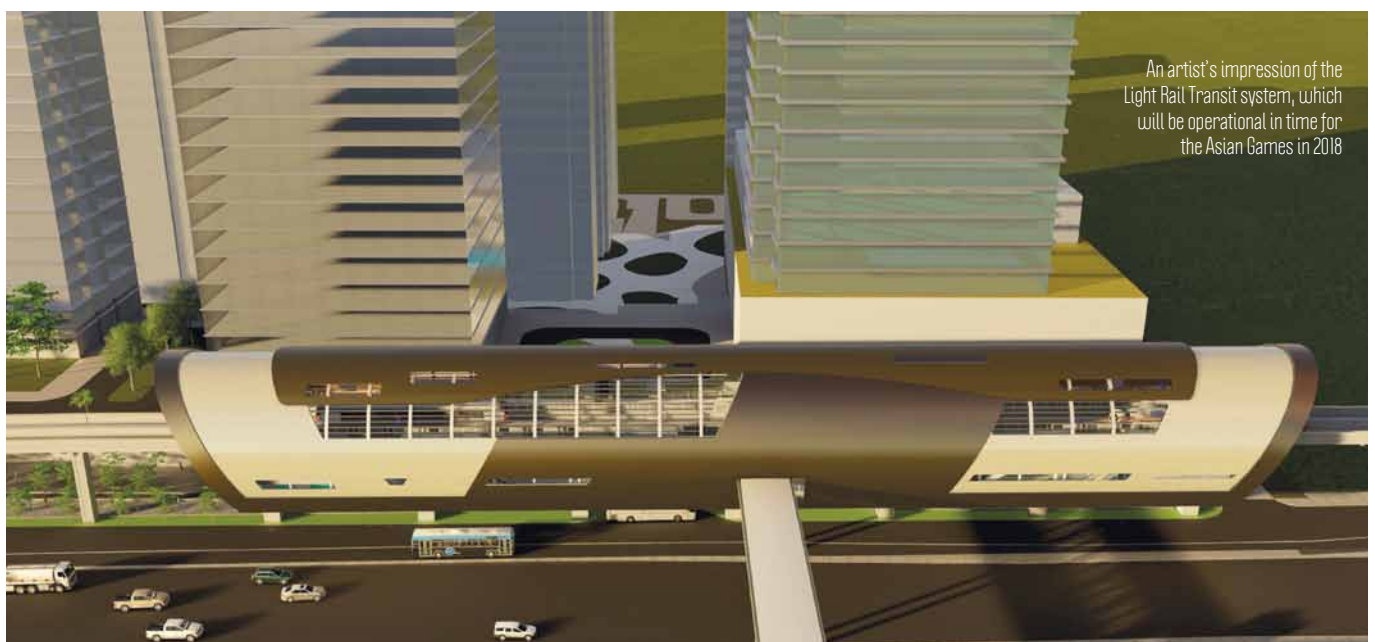
The one outside Jakarta is called the Greater Jakarta LRT project and will connect Jakarta to the satellite cities Bogor, Depok, Tangerang and Bekasi. Adhi

Karya has been appointed to handle the construction of this track that will be built in two phases. The company obtained additional funds from a limited right issue (IDR 2.75 trillion).

In full-year 2015 Adhi Karya was awarded IDR 15.9 trillion worth of contracts. However, due to the LRT project, this year's contracts are expected to more than double. Furthermore, as a side effect of the LRT development, there should be property development taking place along the LRT route. This could be another source of revenue for Adhi Karya, one of Indonesia's leading construction firms.

Experts still see enough room for growth advising investors to get involved with the company's shares climbing 7.48 percent this year. In the medium-term net profit of Adhi Karya is expected to grow by an average 37 percent per year up to 2017 on the back of government-led infrastructure projects.

The Worldfolio would like to thank Indonesia Investments for its kind permission to reproduce this article that originally appeared on its website, [www.indonesiainvestments.com](http://www.indonesiainvestments.com)



An artist's impression of the Light Rail Transit system, which will be operational in time for the Asian Games in 2018





## Welcome to Mega Kuningan in the heart of Jakarta

Oakwood Premier Cozmo Jakarta located strategically in the central business district of Mega Kuningan with entertainment and dining venues nearby. Recognised by online reviews as Jakarta's premium international serviced apartment epitomising modern luxury, replete with 5-star hotel hospitality. Oakwood Premier combines the luxury of success with the comfort of home.

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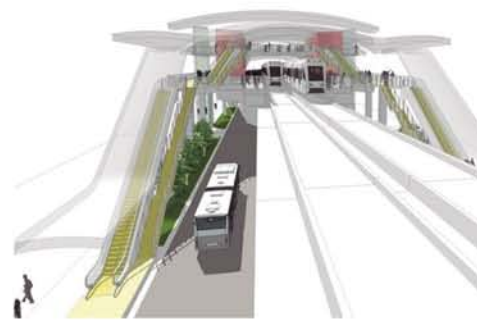
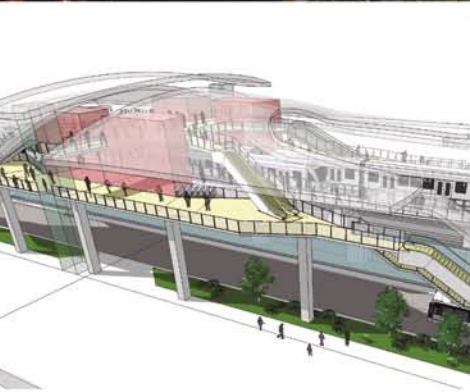
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# JAKPRO

PT JAKARTA PROPERTINDO



**“AN EXCELLENT COMPANY  
FOR A BETTER JAKARTA”**



# 'WE NEED TO SYNCHRONIZE TO MAKE SURE THAT THERE IS EVEN DEVELOPMENT ACROSS THE COUNTRY'

*In this interview with The Worldfolio, Dr. Soni Sumarsono, Director General for Regional Development & Local Autonomy and the Ministry of Home Affairs, says that one of the Ministry's main priorities is to help each region to promote itself in order to attract more investment, trade opportunities and human resources. Cutting red tape is crucial for each region to attract more investment, particularly in infrastructure. This why his department is supporting regional governments to streamline regulations, and has already eliminated 3,143 of them*

## What changes have you seen since President Jokowi has been elected president of Indonesia?

Actually, a lot of changes have happened in the last two years especially from the regulation perspective. From the 15 economic policy packages, he has assigned the 12th reform package to the Ministry of Home Affairs and has made deregulation directly a regional policy. I have been personally assigned with this task by the Minister of Home Affairs and also entrusted to review local regulation. All the local regulations, even though they have been reviewed by the local parliament have to be reviewed by us as well. All this regulation process affects the ease with which business can be done in Indonesia, ranked on the 109th position, meanwhile Singapore is ranked first and Malaysia 18th. Currently we are aiming to make it to the 40th position and only efficient regulation will see it achieved, especially at the local level. We have already reviewed around 30,000 local regulations, and already eliminated 3,143 of them.

## How are these regulations affecting the development of the infrastructure sector?

The first challenge for investment in this sector is acquiring the permits linked to the activity; there is a huge problem in terms of the amount of time that it takes to obtain them. For instance, one investor in the infrastructure sector has to prepare around 32 documents which usually takes one or two years. So, if you invest and start to arrange everything today, you will probably finish after two years. That is why President Jokowi said regulations have to be revised and everything has to be changed, the faster the better. We reviewed all of them and omitted 3,143. Certainly we have a great masterplan for the infrastructure sector, which will bring a lot of benefits to the country, however first we have to figure out how to implement it efficiently.



Dr. Soni Sumarsono, Director General for Regional Development & Local Autonomy and the Ministry of Home Affairs

## How are synergies being created between the local and the central government?

So, for instance in the context of infrastructure development there are three different levels, which are: development of national infrastructure, provincial infrastructure and district infrastructure. We need to synchronize to make sure that there is even development across the country, and we have put in place systems to ensure that. We also have the Five Year Plan initiative, which is the basis for development in the provinces and at a district level.

From my perspective, an issue that should be addressed in order to facilitate this process is decreasing the dependence of the regional autonomies' revenues on the national one, which is roughly 80 percent of our budget, meanwhile revenue arising from the regions is only 20 percent.

## As you know, President Jokowi's agenda is quite an ambitious one, aiming for an economic growth of 7 percent of GDP by 2019. From your perspective, what are the main challenges you are facing to achieve this goal?

Certainly it is a very ambitious agenda, yet achievable. Everyone is optimistic and

genuinely motivated as the targets are challenging. The main challenge to overcome is in the infrastructure area. Indonesia is not Singapore; we have to look at it from a geographical point of view. There is also a huge gap in the infrastructure sector between Java and some other islands. That is also very challenging, as carrying construction activities in some areas, especially the remote ones, requires of a great amount of resources, which unfortunately, are not always available.

Another issue that has to be faced is our capacity. One country, 34 provinces and 524 districts. We still do not count with the capacity required in order to respond to all these needs. Nevertheless we are working very hard in order to improve it. There has to be supervision from the Ministry of Home Affairs over the local government by getting all the regional heads together and ensure that this goal is achieved. Nowadays we can also count on great technology including the use of the e-Government concept, reflected through smart cities. The latter is actually very useful to further develop and enhance infrastructure. Take as an example Jakarta, Surabaya and Bandung, which are already very developed cities. They have good ICT infrastructure support.

## What are your top priorities for the next couple of years?

The priority is still covering basic needs and this can only be delivered through investment in infrastructure. It has to be both soft and hard infrastructure. For instance, in the border areas, access to education is very limited because there is no infrastructure at all. This will only be achieved by taking a regional development approach. Finally, another priority is to help the regions to promote themselves in order to attract more investment, trade opportunities and human resources.



# JAKARTA'S GOVERNOR FOCUSES ON DEVELOPING 'SMART CITY' INFRASTRUCTURE

*Popular Jakarta Governor Basuki "Ahok" Tjahaja Purnama is seen as someone who fights corruption, keeps bureaucracy simple, and always has the public's interest at heart. The Worldfolio asks Governor Ahok to discuss some of his smart city initiatives and their impact*

**Under your leadership Jakarta has introduced a raft of smart city initiatives. What progress has been made in implementing these new ideas?**

For me, the important thing is how you make the people want to participate to develop this city. Participation is the most important thing. When we talk about a smart city, it is easy to make it happen, but how can you make sure that people will participate and interact with the government? The vision of this city is human development; how do we improve the quality of human life? I always say that for that quality of human life we need a full brain, a full stomach, and a full wallet.

My first mission to get this vision accomplished was to turn bureaucrats into public servants. As I always said, I am not a government official, I am just an employee, and I came here to find a job. I just need to work. We have too many employees here in Jakarta, we have 72,000 employees, but half of them work as teachers and in the hospital. However, I want to create a very simple, smaller bureaucracy in this city, this is why we need technology.

Jakarta is a big city and I need technology that allows me to know what the people think, their reactions, responses. We initiated the smart city software that integrates CCTV, the command center, and monitoring. So when people complain to us, we work on it immediately. We worked with a team of young developers to create this sort of app, called Qlue.

**Jakarta is a huge city with 267 sub-districts and 44 districts. What role do they play in governing the city?**

So first of all, I altered their role; instead of being a government official, they should act like an estate manager. I altered their perception: you're not a bureaucrat, you're an estate manager who controls your area, which is one sub-district. They should also act like a parent and take care of your children. So, when there are problems like garbage, flood shortages, or electricity black outs, they need to take care of it. This is where the app comes in: you just need to take a picture of the problem. We are now working



Jakarta Governor Basuki "Ahok" Tjahaja Purnama

with Google maps and the location will come out, become the red dot, and this machine will automatically send the notification to our sub-district head. If they don't open the report more than one day, the dot remains red. If they give responses, it turns yellow; and if the problems are solved, the dot turns green.

My app is a bit different, we call it CROP. It's an abbreviation for Cepat Reaksi Opini Publik – quick response to the public opinion. We have an app for the government official. Through the control, they will know what is working, what is not.

I have another app, called Qlue dashboard, I just need to tap two times on the screen and I will see the list of which employees gave quick responses. If you are always around the lowest for three months, I will fire you.

**How are you ensuring a sense of community is instilled amongst residents of the city?**

We need to ensure the people share and care for each other. When you live in one sub-district, we need you to share and care. But to build that community, the community needs a place, which is why we created RPTRA. RPTRA is a children friendly integrated pub-

lic space, in Bahasa Indonesia. R-P-T-R-A stands for Ruang Publik Terpadu Ramah Anak (integrated child friendly space). The fact is, it's not only child friendly, it's friendly for everyone. We want to create the sense of belonging so everyone will feel like they own these spaces.

The university created social mapping on what people want and need. For instance, nursing rooms, badminton, and volleyball, we built everything for them. For the elders we have hydroponic farms, fish, herbal plants, health screening rooms, and music and library rooms. My plan is to make sure there is one RPTRA for each sub-district. We have already accomplished 53 and this year there are 120 under construction. The ideal population in one integrated park is 2,500 citizens, so eventually we will have more than one per sub-district.

**Health care is another important thing that the Government of Jakarta is taking care of.**

The health care program is for everyone; they must own a health care program card, we call it BPJS Kesehatan. We used to have the Healthy Jakarta Card, or Kartu Jakarta Sehat, which became nationalized – Kartu Indonesia Sehat – after Pak Jokowi left this office to become the president. It was first implemented in Jakarta in 2014. This is a very good card; if you get sick, just come to our community hospital.

We are also doing more in terms of health infrastructure. We are on a planning to construct a cancer hospital that could accommodate up to 1,000 stroke patients and 1,026 brain cancer patients; in total it's 2,026 beds in one very big hospital. The groundbreaking is targeted to be next year.

**How are you improving education within the city?**

In this city, 40 percent of the teenagers are school dropouts, according to the World Bank report. So, we introduced the Kartu Jakarta Pintar (KJP) – Jakarta Smart Card. It's like a scholarship. This card is a saving account. We provided education for more than 550,000 students with marginalized backgrounds.

The total amount of the subsidy is almost US\$160 million. We applied this non-cash policy so there wouldn't be any misuse. They can only use the card as a debit card, but no money withdrawal is allowed – if they do this, they lose the right to use this card. For those who want to go to university, we will provide them IDR 18 million, about US\$1,200 annually, which is about US\$120 per month to fund their study.

We will eventually turn the Jakarta Smart Card into Jakarta One, because we want to make the city a cashless society. I don't want cash transactions; everything should be transparent.

I believe the root of the problem in this country is corruption, so we need to make sure everything is transparent, both budgets and transactions. All transactions must now use bank transfer, so I can track it easily; I will have proof of the money flow.

### Jakarta is known as one of the most congested cities in the world. How has transport infrastructure development progressed in the city?

We already have Metro transportation designed from south to north with MRT, west to east with MRT, west to east from and to other provinces like West Java and Banten province. And between the south and north we have a commuter line. Now we are developing nine corridors of LRT, which are under construction. Hopefully in 2018 we will have one or two routes accomplished, including our MRT from south to north.

I have already changed our policy on buses; we really want to provide better bus rapid transit. I think the previous policy was not good enough; our bus rapid transit only focused on the busway corridor. What we want to do is take control of all the bus routes in the whole city – no operator should take this right – and we will use our own company to take care of this. I also want to know what people's destination point is – that's why now we are developing a card tap system where, for instance, we will know if they want to go from A to B, but there's no direct bus.

This year I ordered 152 buses, free of charge for the main protocol road. I will ban the motorcycle so people could walk, and if you're tired, you can just use the bus for free. We will also have, maybe by the end of this year, 48 double-decker buses. I provide a very big PSO, Public Service Obligation: a IDR 5.2 trillion (about US\$270 million) subsidy for the bus, not only in Jakarta but also the ones that come from the suburbs. I hope they will leave their motorcycles at home, and they would save money, and improve the cost of living.

### How is infrastructure being improved for public safety?

We improved the quality of the National Monument Park: this year we changed the lights to LED lights, so it will shine very bright at night, and we will open the park until 10 pm. We will also improve the Lapangan Banteng Park. This is primarily about energy saving. When we get hit by strong seasonal rain, I have a team 24/7 that keeps monitoring to get updates on which areas are flooding during or after heavy rains. These days, Jakarta has improved in terms of handling floods.

### The Government of Jakarta also has operations in food security and nutrition. What is your focus in this area?

Currently, the poor people spent 70-75 percent of their income on food, but we managed to set the best rice price that happened last year, even during the Eid holidays – inflation was very low. We made frequent interventions in the rice market. Before that, they sold premium rice for IDR 20,000 per kg; now it's only IDR 15,000 per kg. We hope we can eventually control pricing on the nine basic needs like sugar, rice, meat, eggs, even food like onions, chilies, also cooking oil. We want to provide very low cost food for the people.

### The cost of housing is another major concern for the citizens of Jakarta. How is housing being improved?

This year, we are starting to develop a new system of ERP – we built apartments, but for the middle class. We only charge them the room, not the land, for about US\$7-8 daily. It's about IDR 5 million monthly, IDR 100,000 daily. Therefore, the middle class can work in this city and live in this city too. Most of the middle class people don't have money to buy a house here, they have to live in suburban areas. With this system, on the weekdays, they could stay in the city. This program is for the young families with kids, so they will have more time with their families.

They would live in low-cost apartments; therefore they could save time and money to buy another house in suburban areas. They can go back to the suburbs on the weekends. This will decrease the number of vehicles coming into the city for work. The idea is how to invite them back to the city. These commutes generate 3.5 million vehicles every day, they cause heavy traffic jams. For the upcoming Asian Games, we will build many athlete villages, and we will use these for the young professionals to stay afterwards.

### Fostering the retail sector is also important. How are you starting incubators in this area?

We have 153 markets but this market has never really helped the poor for many reasons. If you like the private sector and the shopping mall, 1m<sup>2</sup> space is US\$20 or US\$30 per month: why don't you want to rent in the shopping mall? Because they're asking for two years rent in advance. Poor people cannot afford it. How about our market?

That's why we changed the system. Before that, corrupt officials owned 20-40 units and they rented them to others. Now, one family could only own one unit. I made a new law, and maybe next month, or this month, I will open three markets, which will act as an incubator. How about if they want to inherit it? Your children or son or daughter-in-law could own this, but if they don't want to do business there, you must give it back to us, you cannot not sell it, because this is our incubator.

### There are so many different plans for Jakarta, many of them very interesting for international investors. In terms of international investors and business people, how can they get involved in the transformation of Jakarta?

Actually we are the first province in Indonesia which has big open data. Just go to the Jakarta Smart City website to see the open data; we published it there. We also have a one-stop service in all district and sub-district offices – we are like a broker, but a very kind broker, no tipping; this is the one-stop service. People come here on a daily basis. In less than one hour they could get their permit.

We created co-working spaces for young developers on the third floor of this building. We are also developing two co-working spaces, in Kuningan, for developers, and the other one is for fashion, in Waduk Melati. If you're a very smart developer, and you need a place but you don't have money, we provide computers, 3D printers. It's like going to the gym, you just pay a monthly or daily fee and you could get this facility to work in.

We also want to make co-working spaces for fashion design. Every year, we have Jakarta Fashion Week. We work with them to help young designers to develop themselves. We provide all the equipment they need; they just need to bring their body, mind, and ideas. We want to create many young entrepreneurs, that is why we subsidize these facilities – this is a socialist idea, not a capitalist idea. I believe if we didn't give equal opportunities to the poor, they wouldn't stand a chance.

### What should the brand of Indonesia be? In the case of Jakarta, what is the nation's capital branded as?

Very easy: "Enjoy Jakarta", that's our brand.

# ENORMOUS UNTAPPED POTENTIAL FOR SMES

*Indonesia's West Nusa Tenggara province, whose two largest islands are Lombok and Sumbawa, is encouraging its youth and SMEs with a plan to create 100,000 new entrepreneurs. It is also looking to maximize the maritime potential of the Lombok Strait, and in tourism it sees no problem in hitting its target of boosting visitor numbers by 50 percent. Governor Muhammad Zainul Majdi has the details*

## As Governor of West Nusa Tenggara (NTB), how has the region changed during your time in office?

We have had a lot of changes, for example our economy now is relatively stable, and in the last two years it has performed above the national average. We are ambitious about how the growth in West Nusa Tenggara (NTB) can contribute positively to the national growth of Indonesia. Furthermore, we are hoping to have more sustainable growth. One of our main priorities is ensuring that the environment in NTB can support our growth in the long term.

## In terms of stable economy and sustainable growth, how are your programs with entrepreneurs and young people contributing to the economy of West Nusa Tenggara?

Since 2008 we introduced our program called "100,000 Wirausaha Baru" (100,000 New Entrepreneurs). The backbone of this program is our youth and we aim to empower the young generations of NTB through its implementation. I believe that NTB's economic structure can be strengthened not only in the agriculture sector, but also in the entrepreneurial sector. Through this strengthening we can create sustainable growth through micro and small-medium enterprises.



"Our President has declared creating the global maritime axis as one of his administration's priorities, and of course we will contribute to do that. In fact, to achieve this global maritime axis, a key factor would be the utilization of Lombok Strait (Selat Lombok). Lombok Strait has several characteristics that Malaka Strait does not have"

*Muhammad Zainul Majdi  
Governor of West Nusa  
Tenggara*

## This is very much in tune with the World Islamic Economic Forum, which is focused on decentralizing growth and improving future business by creating opportunities for SMEs. One of the factors that will contribute to the success of SMEs is connectivity. How is connectivity being improved in NTB?

Our President has declared creating the global maritime axis as one of his administration's priorities, and of course we will contribute to do that. In fact, to achieve this global maritime axis, a key factor would be the utilization of Lombok Strait (Selat Lombok). Lombok Strait has several characteristics

that Malaka Strait does not have. Firstly, Lombok Strait's sea is very deep, so it could accommodate very large vessels. Secondly, Lombok Strait is already well known internationally. There are already a lot of vessels from Europe, Japan and China going through this strait. If we focus on making it a global hub, I believe we would attract even more from the shipping and logistics industry. We have a very good location for a potential port in Lombok called "Kayangan". We have already started talking with the people there, so I believe the needs of land acquisition could be fulfilled. We will be preparing the regulations that will accommodate this plan now, and we are communicating with the central government to make the territory a Special Economic Zone (SEZ). This aims to give incentives for investors who plan to build and develop Kayangan area.

## What would you like to communicate to the international investors who are considering investing in the Special Economic Zone or tourism businesses of West Nusa Tenggara?

We would like to communicate the potential that NTB has; we have already become a major destination, but we still have much to develop. We are just next to Bali and we can use this to our advantage to leverage our tourism potential. We also have very diverse tourism attractions here, from mountains such as Rinjani and Tambora, to the deep ocean. Lombok is really a one-stop destination.

Beyond this, our Mandalika Special Economic Zone is one of the 10 main destinations for tourism development beyond Bali. Our geostrategic position in terms of sailing makes it possible to be developed as a global hub, especially in the northern area of Lombok.

NTB also has amazing potential in agriculture, particularly in products such as paddy, corn, seaweed, and fisheries. We would like to say that Lombok and Sumbawa, as a part of NTB, are very conducive to investment. We want to give the best incentives for investors to invest long term in our area.





**Your work in attracting “Muslim or family-friendly tourism” has been lauded by the Minister of Finance, Minister of Tourism and Coordinating Minister of Maritime Affairs. What role do you think halal tourism or family-friendly tourism will play in Lombok’s future?**

Objectively family-friendly tourism is a huge market and it keeps on growing year after year, yet Indonesia has never really taken this market seriously. Starting from last year, Indonesia has decided to take this market more seriously and NTB has declared to the central government that we are willing to be the first province to develop this family-friendly tourism, or Muslim-friendly tourism.

We believe that this will be very good for NTB’s tourism development, because we are still going to facilitate conventional tourism. We have already prepared the local regulations and we invite our partners and stakeholders to prepare themselves to move ahead with these developments. We believe the new market of Muslim-friendly tourism in NTB will contribute immensely to national development and recognition.

In 2008, NTB received 480,000 tourists, and then by 2013, we reached 1 million tourist arrivals. In the year of 2016, we have already achieved 2 million tourists. As we can see, the growth accelerates very quickly under the right conditions. Our target for the Minister for this year is very ambitious, 3 million tourists. Other regions had targets of a 20 percent increase, the Ministry gave us the target of a 50 percent increase and we are very optimistic about reaching that target.

**What could people learn from what Lombok has been doing in the tourism industry?**

Tourism in NTB has one very important lesson for us; the values of Islam are compatible with tourism. So it is wrong if people say that tourism cannot grow in an area with a Muslim majority. It shows that Islam actually teaches people to be open, live in harmony and contribute to the society for their shared interest. NTB sets an example as the majority of the people here are Muslim, but other religions live in peace and harmony in NTB. With this we would like to say that harmony is our most precious asset. In Indonesia you see that Islam contributes

positively, unlike in other countries that make Islam’s teaching the base of their conflicts and destruction. In Indonesia, our diversity makes us stronger.

Second, I would also like to say that the potential for the small and medium enterprises to develop in NTB is enormous. We just need the financial access. We believe with enough capital we could really see decentralized growth, but this is only possible if there is inclusive financial access. It is very important that everyone can access financial services. Here, we are trying to create a bridge between SMEs and existing financial and banking services. We hope that countries attending the WIEF can work to create a model that ensures financial access to everybody. Huge capital cannot give any benefit to society if the people cannot access it. It is very important to create a model that gives people the opportunity of financial access.

**What makes Lombok so unique?**

I think it is about harmony in Lombok. It is our culture and we are doing our best to maintain it. It is our most important asset, yet it is intangible.

# MAYOR KAMIL LOOKS TO PPPS FOR BANDUNG'S INFRASTRUCTURE FUTURE

*The city of Bandung is the capital and economic heart of West Java. In this interview with The Worldfolio, Mayor Ridwan Kamil, a former architect and lecturer, discusses how Bandung has become Indonesia's 'smart city' and a hub for ICT and the creative economy. He also discusses infrastructure project financing and invites investors to be a part of the city's remarkable transformation*

**Before you were Mayor of Bandung, you were a professional architect and academic. How did you come to be mayor? Within the context of the World Islamic Economic Forum, what role can Bandung play in creating better relations and understanding around Islam?**

I have never considered myself a smart person, but I have always been a quick learner, I love to learn. Before I was Mayor of Bandung, I was an architect and a university professor, so bureaucracy is something new for me. After three years in the job, I am amazed to see how power can change civilization when it is practiced in the right way.

I am the product of direct elections. In Indonesia we are adopting this Western form of democracy, which means people like me, who are outside the political norm, have a chance to be elected. I am not a political party member, I am not a movie star, I'm just a regular guy, but I was the only one in the campaign using Youtube, Facebook, Instagram and Twitter. This is an important message to the West, that in a Muslim country, we have direct elections that are peaceful and democratic.

I was educated in the U.S. at UC Berkeley and I am part of a generation that was educated overseas and then returned to the country with a global perspective. In that sense I see Bandung as the perfect diplomatic vehicle to the world in a time of global uncertainty around Islam. I really want to send a message to the West: come to Indonesia, come to Bandung to talk about Islam. When people think about Islam, the West always thinks about the Middle East, they never speak to the silent majority, which is me. Indonesia's Muslim population outnumbers the entire Muslim population of the Middle East. Despite this, in terms of dialogue, we are never really invited to the table for these discussions.

In the future Indonesia needs to be included as a larger part of the dialogue, and Bandung should be used as a setting for this. Bandung is well qualified for the position; in 1955 Bandung hosted the Asia-Africa confer-



Ridwan Kamil, Mayor of Bandung

ence that liberated many countries in Asia and Africa. For this reason we are called the solidarity capital of Asia and Africa. We need to talk about Indonesia beyond just the economic perspective; lets send a message to the world that we have an open invitation to discuss these complex issues.

Well one example is that I built the city square not using public money but using CSR (corporate social responsibility) money. As you say, a key strength of Indonesia is its democracy and stability, especially with so many diverse cultures in one country. How is it possible to have such a harmonious society?

There is no economy if there is no political stability. Compared to the instability in places such as the Middle East, we have not seen instability in Indonesia because we are unique. We are bonded not by religion or languages, but by one universal

value system and that is Pancasila. Without Pancasila I have no idea how we can bring together 700 languages, 400 ethnicities and 17,000 islands.

Bandung is a model city, it is representative of Indonesia, we have 4,000 mosques, the highest per capita in the country, but we also have bars, clubs and karaoke. We are an open-minded society, so it all works together. Bandung is also very open to social media; of the 2.4 million people living in the city, 2.1 million are Facebook users. We are lucky to have such a connected and engaged society, Bandung loves to be engaged through public participation, so we need to be accountable to them.

**Bandung has undergone a remarkable transformation during your time as mayor, how have you initiated and funded your projects?**

Well one example is that I built the city square not using public money but using CSR (corporate social responsibility) money. This year I also built four junior high schools, a record number for schools in one year, also with CSR money. This shows that building the country does not necessarily need to be dependent on government resources. I was part of an international business before this, I had projects in the Middle East, in China and I have used this network to help Bandung, which is why in the last three years I have received more than 50 international institutions that want to engage Bandung.

Now as a city of 2.4 million, and with six million people visiting the city every year, we require better infrastructure. I am focusing on transportation projects including the monorail, LRT, cable car, electric buses, highways and hospitals. Bandung is the capital of West Java, so with healthcare and education, we also need to cater to the surrounding areas.

These projects will require a significant budget, but in the last few years I have found a problem in the way Indonesian cities spend their money. Our cities are not



progressive enough; we finance 100 percent mostly through the central government, which is not nearly enough. For example, my annual budget for development is \$300 million. Now, over five years that is \$1.5 billion to spend on everything, however my planning team translated my vision for Bandung and it was more or less \$6 billion. I am short \$4.5 billion, so Bandung either needs to wait for nine mayors to finish the job, or you fund things in a creative way.

Last year I flew to London and I learned about public-private partnerships (PPPs) in Nottingham. I went to Spain and many other places to find a way to build a city without relying too much on government funds. There are really two options, municipal bonds or PPPs. Indonesia is not really ready for municipal bonds, but with PPPs you bring the products and you already deliver the highway and the monorail and then we pay for the long-term lease.

Bandung is the first city to really push this agenda. I lobbied the President and I said that Bandung needs at least \$4 billion, and if you multiply that by the 500 cities in Indonesia, that is \$2 trillion for city infrastructure. That number needs to be communicated to the world, we need to invite investors to Indonesia and tell them that besides federal projects there are city projects. So in Bandung we have set up a PPP center so investors will have an independent unit set up to accommodate the process.

So with 2 trillion opportunities, I am inviting investors all over the world to come to Indonesia to take this opportunity and get involved in city and regional infrastructure projects. Bandung is growing at nearly 8 percent and economically it is a great city to be a part of. That. Perhaps more importantly, we are happy. To me, this is the most important indicator.

### What is the main strength of Bandung in terms of its people? What makes it such an attractive investment destination?

In terms of the economy, Bandung does not have natural resources or energy resources, so human capital resources are our focus, which means I am focused on having a more creative economy in Bandung. Part of this is our aim to become the Mecca for Muslim fashion. This is only logical as the biggest Muslim population is Indonesia and the most fashionable city here is Bandung. We have the talent and we have the fashion industry nearby. So we can become the Paris of Indonesia, a real Muslim fashion hub in the next five to 10 years.

### Another part of this creative economy is attracting international businesses to Bandung to use it as a base. What success have you had with this so far?

Anything related to creative economy should be based in Bandung. The creative economy has 15 different sectors and one of the 15 is ICT. I am creating these ICT hubs everywhere, much of it hidden, where we have fitted out old buildings with the best technology. They are our so-called 'guerilla workshops'. Beyond this, one of our flagship projects is the new ICT park, which is six hectares dedicated solely to technology and called Bandung Technopolis.

This year I secured \$100 million in investment from UTC, an aerospace production company in the U.S. They are going to be based in Bandung Technopolis. They chose our city because we have world-class engineers that live in Bandung and beyond that our population is young; 60 percent are under 40, and highly educated, as we have 50 universities and research institutes here. Investors can use Bandung to tap into the 50 million middle-class Indonesian consumers, or they can use it like UTC, which does not actually sell into the Indonesian market.

Currently, I am in talks with Apple, which is thinking about opening a startup workshop in Bandung, similar to the ones they have in Brazil. I am coordinating with MENKOMINFO (the Ministry of Communication and Informatics) to use Bandung as the base. Additionally, I have already secured an animation business for Bandung with 600 employees. It is clear that investors are already seeing the value.

### Bandung is Indonesia's smartest city, with innovation at the center. How will you take Bandung to the next level of smart city?

I define smart cities into three types, 1.0, 2.0, 3.0. For 1.0, which is already finished, we digitized data and made that data open to the public so people in Bandung can now see how much I spend in my budget. For 2.0, which is what we are doing now, it is about interaction with the public. Initiatives include the scorecard for feedback and checking the progress of projects online. Another thing is transportation apps for people to check bus schedules and capacity. These are simple things that help people in their daily lives and create less stress. The next level is the smart city 3.0, which is building machine-to-machine communication. For example, I am building apps that can check things like a leaking pipe, which would be sent to the relevant maintenance

crew and fixed. This is very exciting for us in terms of the amount of things we will be able to handle.

### Bandung is certainly a model city, how are you sharing this success with the rest of Indonesia?

Of course, I do not want the success of Bandung to be ours alone, I have reached out to and spoke with all the Mayors of Indonesia and told them that we have 300 apps, and they don't have to budget them for themselves. Twenty cities have already signed MOUs (memorandums of understanding) with me to use my software. Two months ago the Ministry of Internal Affairs, and MENKOMINFO voted us the smartest city in Indonesia. Now, my mission this year is to spread the smart city to all underprivileged cities that do not understand the smart city concept. Of course, when I say I saved \$150 million because of the e-budgeting software, they are very interested.

Bandung is also the President of the Smart City Alliance for Asia and Africa and that is where my practice of smart cities is being spread globally. This really supports our position as the solidarity capital of Asia and Africa; in 1955 it was about decolonization, now it will be about smart cities.

### Businesses have already felt the impact of some of these smart city initiatives. How do you see the ease of doing business in Bandung?

Previously, we would frequently receive complaints about how difficult it was to register an SME in Indonesia. I knew that I needed to find a revolutionary way to have SMEs register here problem free. With the decentralization of power to my office, I was able to push these reforms through on a local level. I made registration free, no permit and everything to be done online. After six months we have 30,000 businesses registered, so it speaks for itself.

### What lessons could WJEF delegates take away from your leadership strategies?

I think number one is visionary political will. Sometimes you can be smart but if you do not have political will, there is no change. Political will needs a concept, a master plan and clear blueprint. Bandung is a success because its innovation inspires others. The Mayor himself has to do the trailblazing, but my leadership is always from the middle. This is the best place to lead from. If you are in front, you might leave people behind because you can't see them. In the middle you can push those out in front of you and drag along those lagging behind you.



# ASEAN'S ECONOMIC CENTER

## BY 2020

*United World speaks with the Governor of Riau, Arsyadjuliandi Rachman, about the opportunities in Riau province and the importance of better infrastructure and investment from international and local investors*

### How do you see infrastructure development after the election of Jokowi? How is Riau benefiting from this focus on infrastructure?

President Jokowi has a strong focus on infrastructure, which we really support. We need projects that are going to bring better electricity, roads, ports, and airports. Our connectivity needs to improve, especially in Riau where we are looking to expand value-added industries. Infrastructure is our number one priority, because with good infrastructure the economy will immediately expand, just because there is better connectivity.

I believe the decentralization of more infrastructure projects to the regional governments is a positive step. On the regency level through to the province level we see good opportunities for linkages and synergies and ultimately the acceleration of infrastructure development. We need central, regional, and regency governments to work hand in hand to deliver the projects on time. Our budget now is around US\$1 billion, but Riau needs to keep up with rapid population increases. To keep up with this growth, we need to build schools, hospitals, places of worship and other critical infrastructure.

We need to create jobs, and part of that is through improved infrastructure. We are looking to the central government to support us on some infrastructure; particularly some of the much-needed toll roads, railways and national highways. Any investment that the government makes here will see huge returns in terms of economic activity.

### How are you encouraging the private sector to invest in Riau?

We are working hard to attract investors to the region and we are making sure that it is as easy as possible to invest. For example, on the licensing side we make it easy to get the license free of charge, and much quicker than it used to be. We are also upgrading and digitizing our systems and working closely with BKPM to ensure that we enhance the ease of doing business.



*"We are looking to create jobs in value-added sectors, as we have all the raw materials, we just need to develop the downstream. For this we will need the private sector's involvement. We would like to see another refinery, as well as labor intensive manufacturing in areas such as food processing and production"*

*"We invite the private sector to get involved in the region's projects; the opportunities are here and we will support investors in any way we can. This is the perfect place to put your money"*

*Arsyadjuliandi Rachman,  
Governor of Riau*

We are not able to be flexible on taxes, as that is a central government role, but for our Riau Government services everything is free of charge.

We already have a strong private sector presence here, which remain significant employers and make an important contribution to the economy. We are very happy to have such investments, as they create jobs and contribute to further industrial development. We believe that Riau will continue to be an ideal place to base local and international companies.

### Part of the attraction of Riau is its strategic location. Tell us more about Riau's vision 2020.

Riau has a vision to position this province as ASEAN's economic center by 2020. Our position in the region is right at the heart,

we are perhaps the best-located province to take advantage of ASEAN's economic integration. We have an impressive mix of regional and multinational companies that are already based here and that number is set to grow. We have abundant natural resources, such as oil, palm oil, forestry and we are looking to further diversify this to include key products like sagu, cotton and rubber, which have huge potential in terms of exports.

### What are your main strategies for job creation in Riau?

We are looking to create jobs in value-added sectors, as we have all the raw materials, we just need to develop the downstream. For this we will need the private sector's involvement. We would



Candi Muara Takus

like to see another refinery, as well as labor intensive manufacturing in areas such as food processing and production. In this area, we would like to attract international investors to improve our industries to export quality, particularly in terms of packaging.

We are also looking to attract further investment from existing domestic investors, as there are great opportunities for them here as well. Pekanbaru itself is a strategic national area, and the capital of Riau and we have many people from across Indonesia moving here to find jobs. These jobs will need to be supported by industry and Pak Airlangga, the Minister of Industry will be coming to Riau to open the Riau Expo and look at the opportunities here for further industrialization.

We also believe we can create many jobs from the creative economy. Riau has many unique and rich traditions and cultures through its regencies, and many of our creative handmade pieces are very desirable for export markets. For big investors and SMEs alike we will be focused on really helping them, if they would like to invest, we will do everything possible to support them.

### Tell us about Riau's unique branding and contribution to Indonesia.

Well we have contributed much to Indonesia for the natural resources like Palm



Surfing in Riau Province

Oil, Crude Palm Oil (CPO) and coconuts. We have also given them the language, we have contributed much in terms of resources, and we will continue to do so, particularly in areas of culture. Our unique brand is that we are "Riau the homeland of Malayu." This brand will be a big part of expanding our presence internationally.

### What does leadership mean to you? How did you get into politics here in Riau?

I see my role as Governor as an opportunity to really build trust amongst all stakeholders in Riau. As for how I got to this place, it was like water in a river. I worked extensively within the private sector after I first returned from my studies in the U.S. I then worked within the Young Entrepreneurs Association (HIPMI), eventually moving to Jakarta as an MP and a Chamber of Commerce (Kadin) representative. From there, through my long membership in Golkar, it was a natural progression to become Vice Governor and eventually Governor of Riau.

I have been here two and a half years already, and I am working harder than ever to bring new and diverse businesses here. I am focusing a lot on tourism, which has not been done much before. We are looking abroad, we see the potential, and I am sure investors will as well. Riau is home to some of the most successful investments and companies in Indonesia, and even the region. With this sort of support from the private sector, Riau is set to make far greater steps in new types of businesses, increasing our value-added industries.

We invite the private sector to get involved in the region's projects; the opportunities are here and we will support investors in any way we can. This is the perfect place to put your money.



# PT RAPP

## LEADS SUSTAINABLE, PROFITABLE GROWTH FOR RIAU

*21 years since its formation, RAPP is the model of sustainable and profitable forestry management in Indonesia*

PT Riau Andalan Pulp & Paper (RAPP), a subsidiary of Asia Pacific Resource International (APRIL) is one of the country's leading pulp companies. Based out of Riau in Sumatra the company has grown its balance sheet tremendously in recent years. To meet anticipated demand, RAPP invested heavily in improving its downstream product and is using this period of low commodity prices to upgrade its capacity, including commissioning a new IDR 4 trillion (US\$500 million) paper mill.

Business is booming both at home and abroad. Earlier this year, executives from APRIL signed \$50 million worth of MOUs with international partners when they joined President Joko Widodo on a trip to bolster European trade ties. However, it is the company's approach to ensuring environmental sustainability that has garnered it international attention.

### Government Commitment and Support

RAPP has been implementing progressive, sustainable practices since the year 2000, when it first introduced controlled certification for accepting trees from suppliers. This ensured that material used in pulp hadn't been illegally logged. Five years later, the landmark high-conservation-value program was initiated by the company. This saw a quarter of million hectares of forest within its concession being set aside for conservation.

Last year, RAPP's forestry management policy 2.0 was introduced. This sees the company pledge to conserve one hectare of existing forest for every hectare of new woodland it has planted.

Furthermore, the company announced it would conserve an additional 80,000 hectares in addition to the 70,000 hectares already protected under RAPP's Eco-restoration Initiative. This commitment was undertaken during last year's United Nations Climate



*"We have a total of 400,000 hectares under restoration and conservation at the moment. We are committed to spending US\$100 million for conservation over 10 years and that is not an easy commitment"*

*Tony Wenas,  
President Director, RAPP*

Change Conference in Paris, France.

"We have a total of 400,000 hectares under restoration and conservation at the moment. We are committed to spending US\$100 million for conservation over 10 years and that is not an easy commitment", explains Tony Wenas, the company's President Director.

In addition to supporting the government's promise to conserve Indonesia's forests, RAPP is undertaking a monitoring role to assess the range of fauna within its conservation areas. Some 250 cameras were

put in place inside of RAPP conservation areas, which filmed Sumatran tigers roving the territory.

Given the proximity of areas such as the Bukit Batu Biosphere Reserve, a peatland area featuring sustainable forestry and wildlife reserves, it is critical that large companies with forest concession adopt such practices. These areas include the habitat of not only tigers, but other unique endangered species that include orangutans, elephants, tapirs, and Malayan sun bears. There is great potential for establishing sustainable economic development projects in these areas for the benefit of local inhabitants.

As a result of research conducted into the wildlife of its conservation areas, RAPP has pledged to undertake no new developments in its forested peat lands.

Its efforts in land management were commended by the Peatland Restoration Agency this June which assessed similar companies across the nation.

### Prevention Over Suppression

The most significant threat to Riau's forests are the vast peat forest fires that regularly break out during the dry season. These are mainly caused by out of control illegal agricultural fires lit by small holder farmers. Slash and burn agricultural practices are used to clear jungle that has overtaken fields to allow for replanting. Burning is far cheaper and faster when compared with clearing land by hand or using machinery like excavators, and dried peat is a volatile fuel that easily combusts.

The large-scale air pollution caused by out of control peat forest fires has created the seasonal Southeast Asian haze phenomena. Transboundary haze in Southeast Asia has actually been observed since 1972, with significant affects not just on the health and economy of local Sumatran forest-users but



also on populations in neighboring Malaysia and Singapore.

To reduce slash and burn fires caused by farmers, RAPP implemented a revolutionary initiative called “program desa bebas api” or fire-free village program (FFVP).

Beginning in 2014, in 4 pilot villages in fire prone areas, the FFVP aimed to encourage responsible land management practices by provide incentives to communities that end slash and burn activities. Villages that keep their area free of fire receive IDR 100 million (approx. \$7.7 million) in annual assistance.

Alternatives to burning off are provided through the company’s agricultural assistance program. Excavators and hand tractors are made available to villagers that couldn’t otherwise afford them. These are used to clear and plough fields as an alternative to slash and burn.

Village fire crew leaders are hired as look outs to monitor fire use and promote the no burning policy. Furthermore, they raise awareness about the health dangers of haze to further encourage responsible fire use. Community groups and NGOs are supported by RAPP to work to change community mindsets away from fire suppression and response to outright prevention. These start with school lectures aimed at primary

school students to instill an understanding of environmental issues.

Fire incident data has shown positive results. A reduction of 90 percent in fire incidents in participating villages has become recorded this year, compared with 2015. Its success has now seen a voluntary adoption of the program by five more villages, bringing the total to nine. Livelihoods have returned to the area under the program, with farming, palm oil, fishing and forestry work being carried out safely with the dissipating of haze.

There are now plans to both upscale and replicate the FFVP in other parts of the country.

### Footprint in Riau Province

The forestry sector has been a critical contributor to Indonesia’s economic growth and poverty alleviation and one that can continue to do so only if managed correctly.

As an example, RAPP’s operations in Riau provide 250,000 direct and indirect jobs while creating an additional 90,000 across the province. There is no reason why it can’t continue to do so.

As Mr. Wenas points out, “Forestry is a renewable resource, it can last forever if we manage it well and it can provide enormous benefit to the Indonesian people.”

The challenge for elected officials is managing the balance between environmental protection and economic growth. The example set by RAPP demonstrates just how this can be achieved in a commercial setting.

This bodes well for Riau Province as a whole, which manages to maintain strong economic growth exceeding the national average. Its fast-growing, largely resource-based economy has been boosted by wise utilization of crude oil, palm oil, rubber trees and forestry assets. However, the local government continues to seek more investment and is working to improve the ease of doing business. As a result, all local government services, such licensing, are free of charge. Upgrading and digitizing local government systems is underway to speed up processing time and diminish read tape.

“We already have a strong private sector presence here, with significant employers making an important contribution to the economy. We encourage such investments, as they create jobs and contribute to further sustainable, economic development,” says Mr. Arsyadjuliandi Rachman, Governor of Riau.

It is expected that future investors take note of the RAPP example and carry out their business practice in an equally responsible and far-sighted manner.



April beery farmers

# PROMOTING SUSTAINABILITY, CONSERVATION AND AN END TO THE ASEAN HAZE

*APP's gotong royong approach to solving environmental issues with stakeholders is yielding positive results in Sumatra*

## Sustainability through conservation

Asia Pulp & Paper (APP) Group is best known as a manufacturer of pulp and paper products to customers both in Indonesia and worldwide. The company was established in 1972 and is based in Jakarta, Indonesia with operations in Indonesia and China. APP, best known as a subsidiary of Sinar Mas, has engaged on a committed path towards sustainable landscape management, conservation and fire prevention in Sumatra.

It is the company's approach to protecting the island's unique biodiversity, including orangutans, tigers, elephant, tapirs, rhinos and sun bears and a plethora of birds and reptiles, that has made headlines in recent years. All of these species that can only flourish in viable populations sustained by large areas of habitat, which has been rapidly decreasing in recent decades.

To prevent this extinction, APP has set aside 600,000 hectares of supplier forest for these animals as exclusive wildlife conservation zones. Approximately 70 percent of the habitat of Sumatra's iconic fauna is located within these designated conservation zones, which host much of the island's tropical rainforest heritage. This encompasses the Ramin rehabilitation program, which sees that the endangered Ramin Tree, found only in peatland ecosystems in Sumatra and Kalimantan, is protected.

The company monitors the wildlife in

these areas, via a network of cameras, for science and conservation purposes.

Additionally, these protected areas absorb untold tons of carbon emissions.

APP made a major step towards realizing its bold environmental strategy in early 2013, when it adopted a policy that ended the use of natural forest fiber in its products. At the forefront of this is APP's requirement that pulp is harvested from responsibly managed plantations that replant following felling. This ensures renewable resources for paper production and that the entire production chain is free from deforestation-associated timber. All pulpwood is checked on arrival at mills to ensure legality.

A year and a half after this commitment, APP's management pledged to restore and conserve 1 million hectares of rainforest for the mitigation of climate change and the benefit of local community.

Eight large scale areas for conservation were established in Sumatra and two in Kalimantan, covering the 1 million hectares mentioned. Five are in Riau Province alone, namely: Senepis, Kampar Peninsula, Kerumutan and Bukit Tigapuluh (spread between Jambi and Riau).

Giam Siak Kecil in Riau, one of seven Biosphere Reserves, is an excellent case in point. This contiguous landscape covering over 705,000 hectares, contains significant amounts of above and below ground carbon.

It is known for the array of flora and fauna present, including protected flora species and endangered mammals such as Sumatran tigers and elephants, and important fresh water fish species.

## A pragmatic, multi-stakeholder approach

An undertaking to protect an area such as Giam Siak Kecil, on paper, sounds quite simple. However it entails a vast spectrum of issues including solving multiple land claims issues, protecting the territory from illegal logging, fires, poaching as well as human encroachment. Sumatra's species have been consistently diminished by human-wildlife conflict.

However the situation is one that cannot be carried out by a company acting alone. APP's approach to long term, sustainable land management revolves around the concept of landscape scale conservation. This paradigm is focused on pragmatic action that combines a multi-stakeholder engagement approach to conservation.

Educating communities and employees of timber suppliers to ensure proper management of human-wildlife conflict is imperative. As is protection and reforestation of supplier forests through employing rangers, seedling planters and ecologists.

Fostering stakeholder cooperation and building consensus on land management between different stakeholders: farmers,



APP made a major step towards realizing its bold environmental strategy, when it adopted a policy that ended the use of natural forest fiber in its products



plantations, government, different villages and populations, the business community and APP's customers is critical to this endeavor.

Brokering integrated land use programs that build farmer livelihoods to preserve forests and mangroves is critical for long term sustainability of conservation approach. This allows agribusinesses such as plantations, rubber, oil palm, grass fields and rice paddies to flourish.

However the issue of fire control is one that can threaten both man and nature on a scale rarely seen in Sumatra's history. It is APP's strategy towards addressing this issue, the resources involved and the outcome that has amazed observers.

### Smothering the fire threat

The vast smoke hazes which affect the health and livelihood, not only of locals in Sumatra but also of populations as far away as Singapore and Malaysia have emerged as the most significant, modern ecological threat facing the island's forests.

The importance of fire management for locals, and the necessity of establishing an integrated fire management system for the vast forests under APP's protection have led it to establish a well-funded defense.

In terms of fire suppression, the company mans a sophisticated situation room replete with the latest ICT equipment. Hot spot information for all of the group's forestry units is fed into this integrated array of surveillance and monitoring systems that include satellite feeds and surveillance drones. This means that when an on-site fire tower or a machine detects signs of a fire, information is relayed to command points and fire marshal prepare deploy fire fighters. These include both ground units and air-

craft that water-bomb remote jungle sites.

Elite fire fighters are sent by super puma helicopter which are supplied, trained and paid for by the company. Three such fire suppression aircraft are currently in service.

These work with provincial, central government and military personnel to tackle the fires at a wider landscape level. Over 1,700 trained firefighters cooperate with a vast network of community members from APP's Fire Awareness Program (Masyarakat Peduli Api).

It is this community engagement program that is able to mobilize more than 2,600 reserve firefighters across 220 villages. They provide training and equipment for local forest fire management personnel who are members of the local communities.

Of course preventing fires to begin with better than deploying resources to extinguish them. The Desa Makmur Peduli Api (DMPA) -A Prosperous Village Cares about Fire Program - supports economic empowerment and improvement of rural communities on or near forestry concession.

These agricultural advisory services provided to the community to increase the productivity of the land without utilizing slash and burn techniques. This prevents fires that rage out of control from ever being lit to begin with.

In December of 2015, APP committed to support the economic development of 500 villages in the landscapes surrounding its forest supply chain. This expansion of DMPA aims to prove that sustainable economic development can be undertaken in a manner that allows the country's forest to be protected.

Support from the company is being provided through delivering a series of pilot community agroforestry programs.

These include, but are not limited to: rearing initiatives for livestock, techniques for sustainable growing of fruit and vegetable and training in forestry and business skills. The goal is to enable alternative livelihoods in these communities that do not require beneficiaries to clear the natural forest around their villages.

So far, these programs have reduced the pressure on Indonesia's remaining natural forests by improving the livelihoods of local communities. In addition, the programs also include components to reduce instances of land-conflict by providing less land-intensive development options. They have also reduced instances of land encroachment and slash and burn activities.

This program has brought together expertise covering agriculture, forestry and vocational skills development. Its syllabus has been formed by incorporating local knowledge, best practices and hands-on techniques from agribusiness operators, agronomists and academia.

As Aida Greenbury, APP's Managing Director, Sustainability explains, "We believe that this agroforestry program will help communities to achieve economic development while protecting Indonesia's forests. The issues facing Indonesia's forests need to be managed at the landscape level, and local communities have a very important stake in the forest".

As a result of community initiatives such as DMPA and APP's Fire Awareness Program, total fire alerts, monitored and published by one show a vast reduction in Sumatran peat fires. It is hoped that further community cooperation and sustainable economic development can create lasting fire prevention and effective response measures for Sumatra's forests.



DMPA empowers local communities



# INDONESIA'S MOVE TO ECO-TOURISM

By Stephanie Gabriella Kalele

*A focus on eco-tourism will help to further boost Indonesia's already booming tourism industry, which will be biggest contributor to Indonesia's foreign exchange income by 2020*



Indonesian Tourism Minister, Arief Yahya, has long been an advocate for ecotourism.

At the 70th session of the United Nations General Assembly in New York in September, more than 20 world leaders presented their national plans for dealing with climate change. With this global push toward environmentally friendly development policies, Indonesia is intensively promoting ecotourism as a way to play a greater role in world sustainability. This is, of course, also a move that will bring greater economic benefits to Indonesia, whose tourism relies on its natural beauty as its charm and attraction, as the ASEAN powerhouse stands to become Asia's next big eco-tourism destination.

### Government Commitment and Support

Bringing in US\$8.2 billion in the last year, tourism ranks as the fourth largest contrib-

utor to Indonesia's foreign exchange income. President Joko Widodo has stated that his administration has prioritized tourism development and even mandated infrastructure and transportation projects to bolster the tourism industry's growth prospects.

In accordance with the President's instruction, Indonesian Tourism Minister, Arief Yahya, has long been an advocate for ecotourism. His Ministerial Decree regarding sustainable development of tourism destinations aims to harness Indonesia's vast natural resources as it makes such a significant contribution to the economy. In the 2015-2019 strategic plan for development of tourism destinations and industry, the Government of Indonesia is committed to facilitat-

Komodo Island







ing ecotourism-based creative economy development. Indonesia's commitment is reflected by the budget allocation increase for the Ministry of Tourism and the tourism promotion budget increase, which was quintupled in 2015 to around US\$95 million.

The government has also changed its strategy from giving equal tourism budget to each of province, to now concentrating the budget on 10 priority tourism destinations. This shift will accelerate development in those key destinations and enhance Indonesia viability in the world map as the branding, marketing and advertisements of Indonesia's tourism destinations have a more concise and direct message to global audiences. These collective actions by the government make Indonesia a far more attractive destination to visit.

### Maritime Prestige and Global Recognition

With over 18,000 islands, Indonesia is a proud maritime nation, forming an important part of the people's identity and the country brand. Recently three of

*"Since 2014 alone, the number of foreign tourists visiting Indonesia has grown as much as 7.2 percent, or around 9.4 million tourists and in the first quarter of 2016 up to May there has seen a year-on-year increase of 7.4, percent or around 4.4 million tourists"*

Indonesia's tourism destinations were acknowledged as placing in the world's top tourism destinations and put on internationally recognized lists alongside 46 other countries. Those three destinations all placed in other important rankings including, Plataran L'Harmonie Menjangan (northwest Bali) that is now in the list of The World's Top 100 Global Green Destination, Misool Island (Raja Ampat, West Papua) and Labuan Bajo

(Flores, East Nusa Tenggara) see in The World's Top 100 Global Destination list. The recognition was made during the world's celebration of the Global Green Destination Day in Ljubljana, Slovenia, as the European Green Capital 2016, from 27-28 September 2016.

Such recognition, and further investment in tourism is set to see a greater number of tourists visiting Indonesia annually. Since 2014 alone, the number of foreign tourists visiting Indonesia has grown as much as 7.2 percent, or around 9.4 million tourists and in the first quarter of 2016 up to May there has seen a year-on-year increase of 7.4, percent or around 4.4 million tourists.

This is a significant increase compared to the 4.7 percent global tourism growth rate. Looking at these figures, tourism is projected to be the biggest contributor to Indonesia's foreign exchange income by 2020. Beyond this, a focus on eco-tourism will provide an avenue for better promotion of Indonesia globally, whilst also contributing to global sustainability aspirations.



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