



# **7th Asian Regional Roundtable Building Capacity and Connectivity in ASEAN+3 Economies: Indonesia Experience**

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# Key Drivers



- Technology
  - Developed Digital Economies
  - Transformation to Industry 4.0 → Transformation to the digitization of manufacturing
- Maturing Population and Rising Middle Income Class
  - Demographic Dividend
  - Aging Population Issues
- Trade Protectionism and Growing Regional Affluence and Final Demand

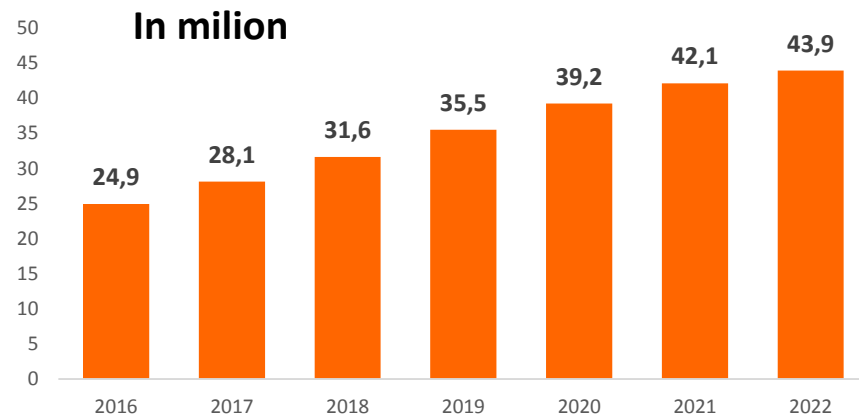
# Key Driver: Technology

GDP Growth by Sector (% YoY)	2017				2018				2019
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
<b>Primary Sector</b>	<b>3.69</b>	<b>2.87</b>	<b>2.47</b>	<b>1.39</b>	<b>2.45</b>	<b>3.96</b>	<b>3.30</b>	<b>3.19</b>	<b>2.00</b>
Agriculture, Forestry, and Fishery	7.11	3.32	2.83	2.39	3.34	4.72	3.66	3.87	1.81
Mining and Quarry	-1.30	2.11	1.83	0.04	1.06	2.65	2.67	2.25	2.32
<b>Secondary Sector</b>	<b>4.69</b>	<b>4.32</b>	<b>5.52</b>	<b>5.30</b>	<b>5.39</b>	<b>4.56</b>	<b>4.84</b>	<b>4.72</b>	<b>4.51</b>
Manufacturing	4.28	3.50	4.88	4.51	4.60	3.88	4.35	4.25	3.86
Electricity, Gas, and Water	1.80	-2.09	4.88	2.50	3.33	7.29	5.62	5.64	4.48
Construction	5.96	6.95	6.98	7.24	7.35	5.73	5.79	5.58	5.91
<b>Tertiary Sector</b>	<b>5.60</b>	<b>5.20</b>	<b>5.89</b>	<b>5.92</b>	<b>5.80</b>	<b>5.70</b>	<b>6.03</b>	<b>5.80</b>	<b>6.56</b>
Trade and Retail	4.61	3.47	5.22	4.53	4.99	5.22	5.28	4.39	5.26
Transportation and Warehousing	8.06	8.80	8.88	8.21	8.56	8.70	5.65	5.34	5.25
Information and Communication	10.48	11.06	8.82	8.27	7.76	5.11	8.14	7.17	9.03
Financial Services and Insurance	6.01	5.93	6.13	3.82	4.23	3.06	3.14	6.27	7.33
Other Services	4.32	3.89	4.78	6.26	5.56	6.17	6.79	6.45	6.96
<b>GDP</b>	<b>5.01</b>	<b>5.01</b>	<b>5.06</b>	<b>5.19</b>	<b>5.06</b>	<b>5.27</b>	<b>5.17</b>	<b>5.18</b>	<b>5.07</b>

## Indonesia has experienced the impact of digital revolution:

- Digital economy (e-commerce) is predicted to be the **drivers of future investment growth**.
- **High growth GDP** is recorded in information and communication sector, supported by increasing in internet usage penetration, particularly in e-commerce and digital economy activities.
- Indonesia's e-commerce market **is the biggest and fastest growing in South-East Asia**
- **Potential of fintech development in Indonesia is enormous:** more than 200 fintech companies (in which 46% is dominated in fund raising and distribution business model/ P2P). In 2018, total fintech lending reached USD 1 billion, fintech lender: 160 thousand people, and fintech borrower: 2,3 million people.

## E-commerce User & Outlook



Source: Statista

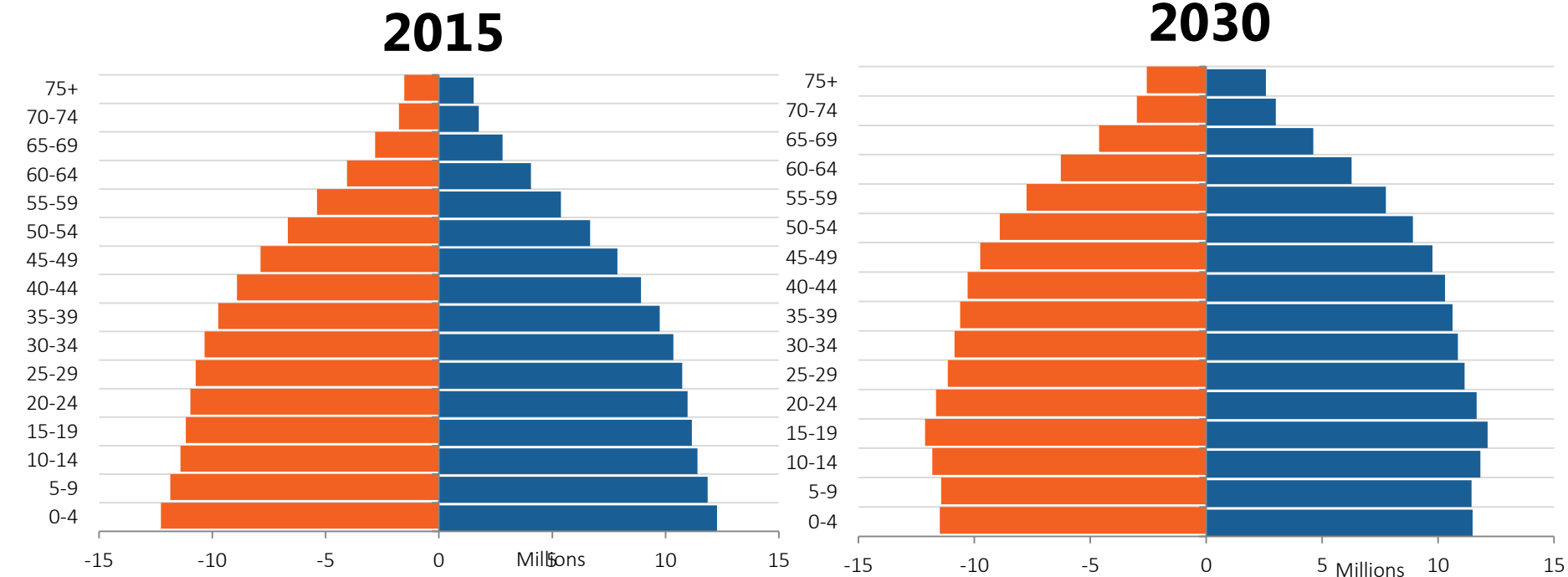
## Indonesia was launched Roadmap for Industry 4.0

-Include five priority sectors: food and drinks, automotive, textile, electronics, and chemicals.

# Key Driver: Maturing Population and Rising Middle Income Class

## Demographic in Indonesia

Based on Fiscal Policy Agency projection, productive age will dominate Indonesia population by the end 2030.



## Demographic challenges:

1. Aging Population Risk. (Health/Social Cost)
2. Urbanizing.
3. Growing Middle Class.
4. New Source of Growth.

Rising middle class and affluent customers in Indonesia. Currently accounting for 54.7% of total population.

# Key Driver: Trade Protectionism

## Trade War Score Board: Impact on Indonesia and ASEAN

- ❑ OCBC (2018) developed a scoreboard measuring potential impact of trade war on ASEAN based on aspects of dominance of manufacturing sectors, trade exposure, integration in global supply chain and investment environment
- ❑ Based on the factor of dominance of manufacturing sectors, trade exposures, integration in global supply chain, the greatest impact of trade war is predicted to be for Malaysia and Singapore, while **impact to Indonesia is predicted to be modest.**

	Dominance of Manufacturing Sector	Trade Exposure	Integration in Global Supply Chain	Investment Environment	Total
ID	5	3	5	4	17
MA	6	6	7	4	23
PH	5	4	5	2	16
SG	5	7	7	4	23
TH	7	6	6	2	21
VN	3	7	6	3	19

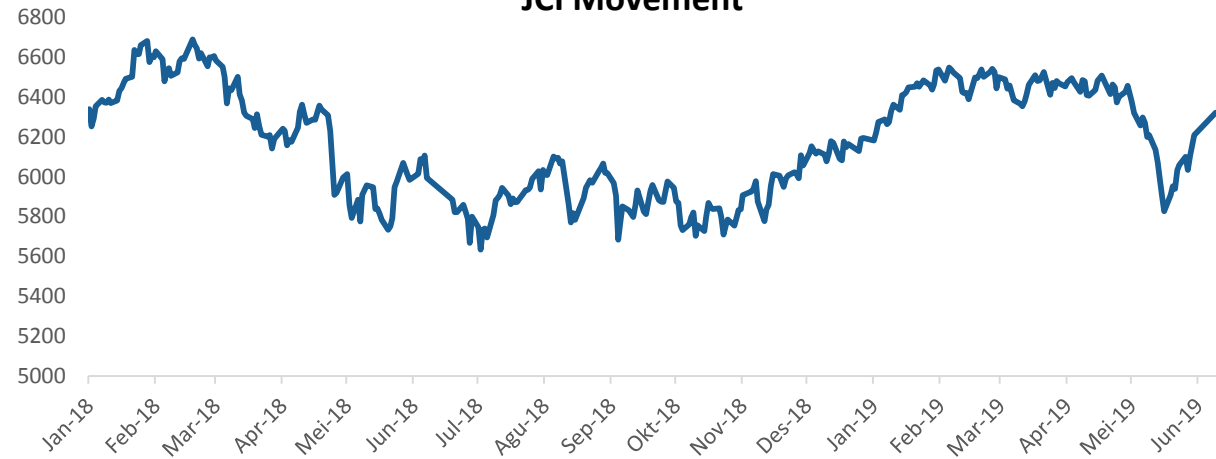
Source: OCBC 2018, Trade Tariffs and its impact to ASEAN

# Global Financial Market Dynamics Affects Domestic Financial Markets

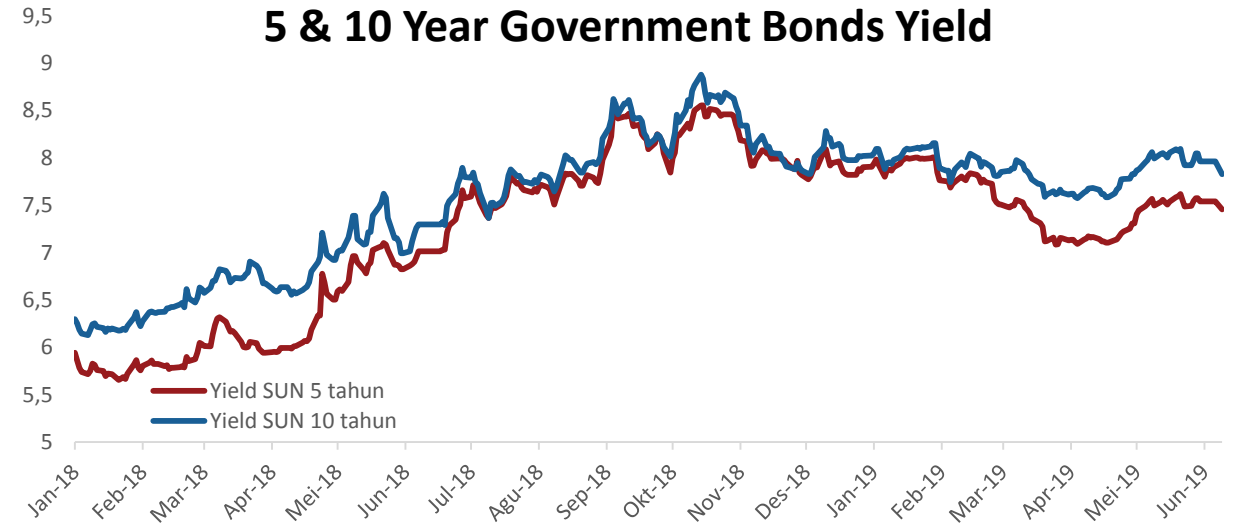


**Net capital outflow occurred on the domestic financial market, especially in the stock market**

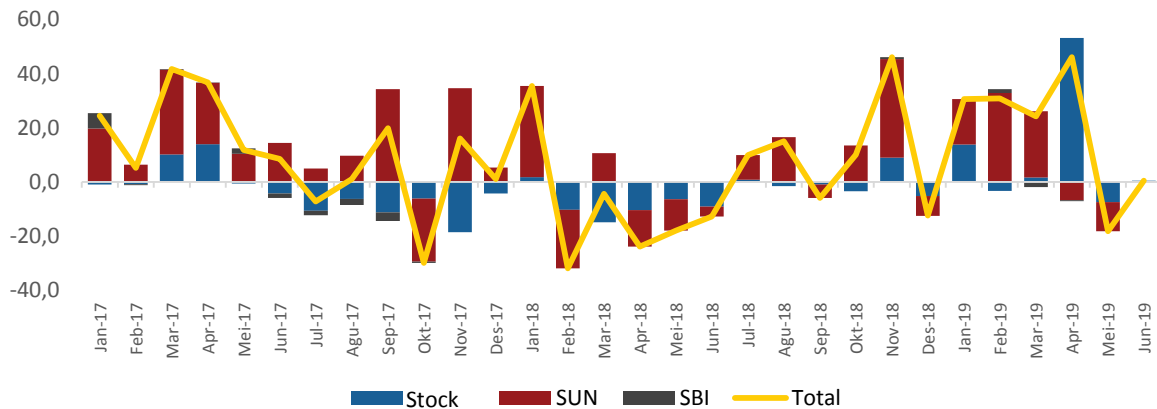
**JCI Movement**






**5 & 10 Year Government Bonds Yield**



**Government Bond (SUN), Stock, and Bank Indonesia Certificate (SBI)**



-  **The increasing uncertainty in the global financial market in May 2019 led to capital outflows on the stock market and a decline in the JCI**
-  **Capital outflows occurred in the Government Bond market drives the yield rise**
-  **Net capital outflow in May '19 was one of the factors driving the weakening of the rupiah exchange rate**



# Gaps to Capacity and Connectivity

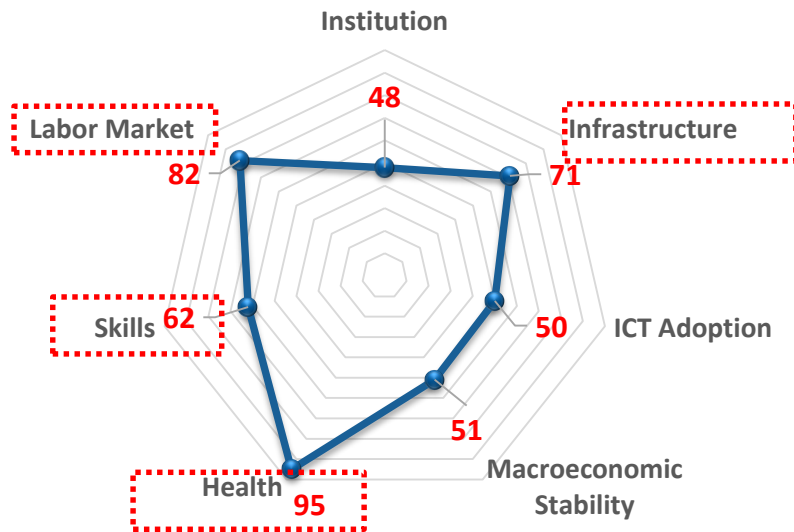


# INDONESIA'S COMPETITIVENESS FACES VARIOUS CHALLENGES

Lagging in several aspects such as health, labor, and infrastructure

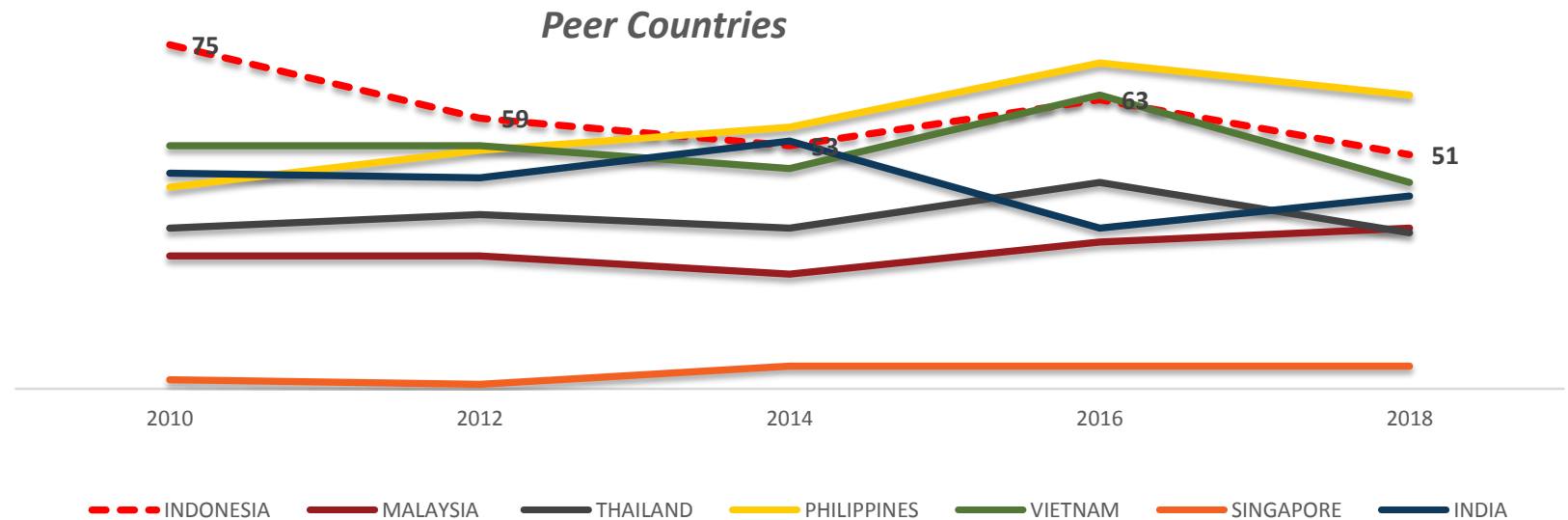
## Global Competitiveness Index (2018)

### Indonesian Sector Ranking



Source: Global Competitiveness Report, WB (2018)

## Logistic Performance Index (2018)



Source: LPI, IBRD (2018)

- Indonesia's competitiveness, despite its improvement, is still below the average of its peer countries;
- Indonesia's logistics performance also has not been optimized to improve regional competitiveness;
- The development of human resources (health, education, labor) and infrastructure needs to be accelerated to catch up and increase economic growth.





# INDONESIA STILL FACES INFRASTRUCTURE GAP

Indonesia needs an additional USD 47 billion or around 4.7% GDP to cover Infrastructure Investment Gap for 2016-2020 period

**Table 3: Estimated Infrastructure Investments and Gaps, 25 DMCs, 2016-2020**  
(\$ billion in 2015 prices)

	Estimated Current Investment (2015)	Baseline Estimates			Climate-adjusted Estimates		
		Annual Needs	Gap	Gap (% of GDP)	Annual Needs	Gap	Gap (% of GDP)
Total (25)	881	1,211	330	1.7	1,340	459	2.4
Total without PRC (24)	195	457	262	4.3	503	308	5.0
Selected Central Asia Countries (3)	6	11	5	2.3	12	7	3.1
Selected South Asia Countries (8)	134	294	160	4.7	329	195	5.7
Selected Southeast Asia Countries (7)	55	147	92	3.8	157	102	4.1
Selected Pacific Countries (5)	1	2	1	6.2	2	2	6.9
India	118	230	112	4.1	261	144	5.3
Indonesia	23	70	47	4.7	74	51	5.1
PRC	686	753	68	0.5	837	151	1.2

Sumber: Meeting Asia's Infrastructure Needs, ADB (2017)

Uraian	2016	2017	2018	2019
Infrastruktur	269.1	379.4	410.4	415.0
% PDB	2.17	2.79	2.77	2.57

Every year, Indonesia is only able to allocate 2.5-2.7% of GDP for infrastructure financing. Whereas the current existing infrastructure financing needs gap is around 4.7-5.1% of GDP



# Bridging the Gaps



## □ National Policies to Mitigate the Gaps

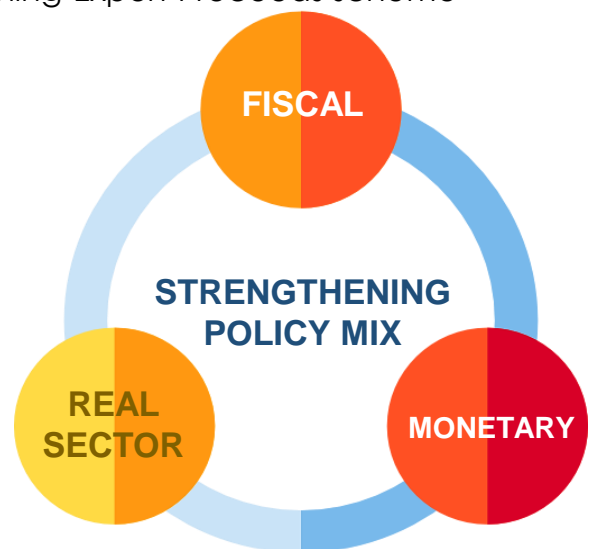


# INTEGRATED STRUCTURAL REFORMS FOR HIGHER ECONOMIC GROWTH

## Comprehensive reforms to enhance potential growth and navigate through challenges

### Strengthening Policy Mix to Enhance Economic Stability amid Global Volatility

- Maintaining prudent fiscal policy
- Strengthening tax incentives scheme, including Tax Holiday
- Strengthening Export Proceeds scheme



- Simplifying business licensing including the implementing Online Submission System & Post-Border impact management
- Negative List of Investment relaxation
- Infrastructure acceleration

- Monetary policy to support macroeconomic stability
- Price stability and sustainable current account deficit
- Efficient and credible financial sector

### Fiscal Policy

- Successful Tax Amnesty Program in Improving Tax Compliance and Widening Tax Base
- Law on Financial Institution Account Access – part of the budget reform initiative on the revenue side, which grants the Tax Office access to accounts exceeding IDR1bn
- Implementation of Automatic Exchange of Information

### Monetary Policy

- Reformulation of Monetary Policy Operational Framework through: (1) Implementation of BI 7 Day Reverse Repo Rate; (2) Implementation of Reserve Requirement (RR) Averaging; (3) Implementation of Money Market Deepening Program

### Structural Reform Policy

- The issuance of 16 economic policy packages to maintain purchasing power and driving investment
- Out of 215 initial regulations, 203 have been deregulated (comprising of 49 at the Presidential level and 154 at the Ministerial/Institutional level)
- Competitiveness and productivity enhancement through infrastructure acceleration, improving investment climate, human capital quality enhancement, and industrialization
- Encouraging potential and productive sectors such as tourism and digital industry

### Commitment to Infrastructure

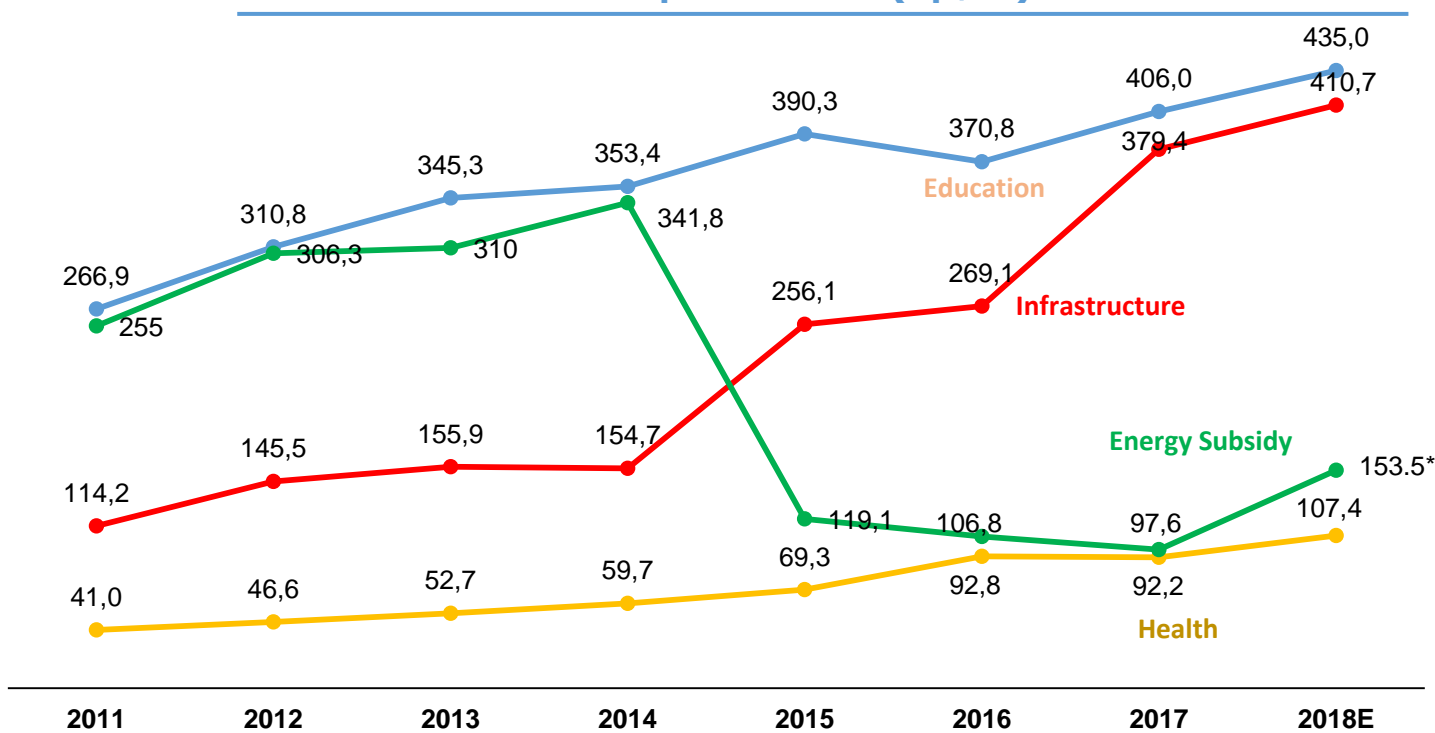
- Establishment of PPP Unit
- Supports for PPP (Viability Gap Fund, Project Development Facility, Guarantees, Infrastructure Financing Fund, Availability Payment)
- Establishment of special State Asset Management Agency (LMAN) to expedite land clearing process



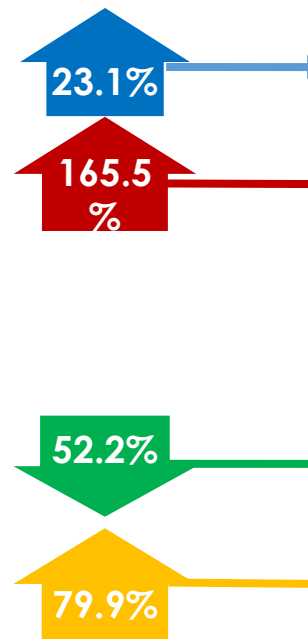
# CONTINUE STRENGTHENING QUALITY OF SPENDING

Reallocation to more Productive Expenditures: **Education, Health, Infrastructure**

Expenditures (Rp/tn)



Δ 2018 vs 2014



State Budget 2019



- State budget remains committed at 20% for education, 5% for health to support human capital quality
- Infrastructure acceleration remains one of spending priorities

# INFRASTRUCTURE DEVELOPMENT ACCELERATION



Breakthrough in developing creative and innovative financing by empowering the role of the private sector, SOEs and regional governments to accelerate infrastructure completion

**TOTAL FUNDING NEEDS for 2015-2019 Rp4.796,2 T**

**TOTAL BUDGET (2015-2019) Rp1.730,3 T**

## STATE BUDGET

Allocated funding target  
Rp1,978.6 trillion/  
USD131.91 billion (41.3%)

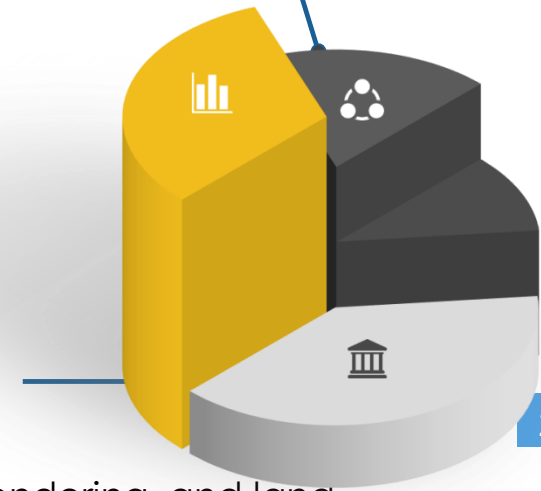
**Rp415.0 T/ USD27.67 B**  
2018: Rp410.4 T/ USD27.36 B  
2017: Rp379.7 T/ USD25.31 B  
2016: Rp269.1 T/ USD17.94 B  
2015: Rp256.1 T/ USD17.07 B

## SOE

Allocated Funding target  
Rp1,066.2 tn/  
USD71.08 bn  
(22.2%)

## PRIVATE SECTOR

Allocated Funding Target  
Rp1,751.5 tn/  
USD116.77 bn (36.5%)



## Financing gap: need an innovative financing

- |                                   |                                     |
|-----------------------------------|-------------------------------------|
| 1. Viability Gap Fund (VGF)       | 6. SOE Asset securitization         |
| 2. Project Development Fund (PDF) | 7. Green Bond                       |
| 3. Availability Payment (AP)      | 8. Green Sukuk                      |
| 4. Guarantee                      | 9. Direct lending                   |
| 5. State Investment               | 10. Non Budget Investment Financing |

## Challenges

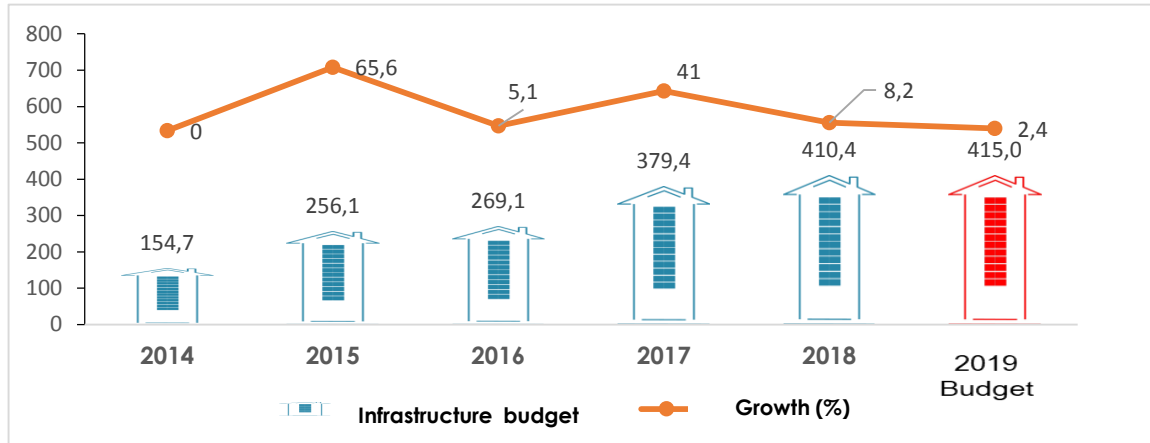
- Mechanism for licensing, tendering, and land acquisition process require considerable time.
- Limited financing capacity
  - Several financing schemes are still based on the infrastructure sector

## 2020 POLICY DIRECTIONS

- Encourage the role of private sector and SOE in financing the strategic national projects through creative, efficient and sustainable financing schemes.
- Optimize PPP and non-PPP mechanism options as a long-term financing scheme
- Encourage the expansion of financing for other sector (not only infrastructure), such as for Ultra Micro / MSME business financing, insurance, provision of educational and health facilities and clean water

# STRENGTHENING INFRASTRUCTURE DEVELOPMENT THROUGH INNOVATIVE FINANCING

## Breakthrough Infrastructure to accelerate infrastructure completion



### Some improvements are made for 2019

- Improvement in implementation of infrastructure project;
- Intensifying of intra-sectoral coordination, including with local government;
- Empowerment of state-owned enterprises and private through availability payment scheme.

Trillion Rupiah

	2018	2019
<b>Central government</b>	<b>183.0</b>	<b>173.8</b>
Ministry of Housing & Public Works*	104.7	108.2
Ministry of Transportation*	44.2	38.1
*) Personnel expenditure is excluded		
<b>Local government</b>	<b>184.1</b>	<b>196.2</b>
DAU and DBH non earmark**	122.1	130.4
DAK	33.9	33.5
Village Fund	24.0	28.0
**) 25% is for infrastructure		
<b>Financing</b>	<b>48.1</b>	<b>45.0</b>
PMN	6.1	17.8
LMAN	35.4	22.0



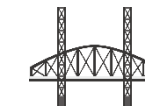
Road building/reconstruction (km) **2,007**



Building new airport (unit) **4**



Irrigation (thousand ha) **162**



Bridge building and rehabilitation (m) **27,067**



Rail track building/finishing (km'sp) **415.2**



Dam (unit) **48**



# INFRASTRUCTURE INFRASTRUCTURE PROJECTS AND FINANCING SCHEME

## PPP, SOEs and Private Sector as alternative to direct budgetary spending

### Infrastructure Development Remains Key Priority

- **Infrastructure Development in order to:**
  1. Accelerate growth particularly in rural areas
  2. Support industrial development and tourism
  3. Reduce unemployment and poverty
- Infrastructure fundraising needs: **USD345.1bn (~IDR4,600tn)**
- **245 National Strategy Projects** under National Medium Term Plan for 2015 – 2019 with an estimated total cost of IDR4,197tn (~USD313bn)
- **37 priority infrastructure projects** with an estimated cost of IDR2,490tn (~USD180bn)
- Majority of 37 priority projects are expected to **commence commercial operation by 2018 - 2022**

### Establishment of PPP Unit

<b>Broad Objective</b>	<ul style="list-style-type: none"> <li>• Champion project preparation and acceleration of the PPP agenda in Indonesia</li> </ul>
<b>Core Mandates</b>	<ul style="list-style-type: none"> <li>• Improve quality of project selection under KPPIP – OBC criteria</li> <li>• Support project preparation through Project Development Facility support and highly qualified transaction advisors</li> <li>• Act on behalf the Minister of Finance in providing government support and approvals for projects</li> </ul>
<b>Additional Mandates</b>	<ul style="list-style-type: none"> <li>• Coordinate all public finance instruments</li> <li>• Provide input for PPP Policy Development and Regulations</li> <li>• Implement capacity building program for GCAs</li> <li>• One stop shop for PPP promotion &amp; Information</li> </ul>

#### Budget

- **Central & regional budget (special allocation fund & rural transfer)**
- **Primarily to support basic infrastructure projects:**
  - **Food security:** Irrigation, dams etc.
  - **Maritime:** Seaports, shipyards etc.
  - **Connectivity:** Village roads, public transportation etc.

#### Public Private Partnership

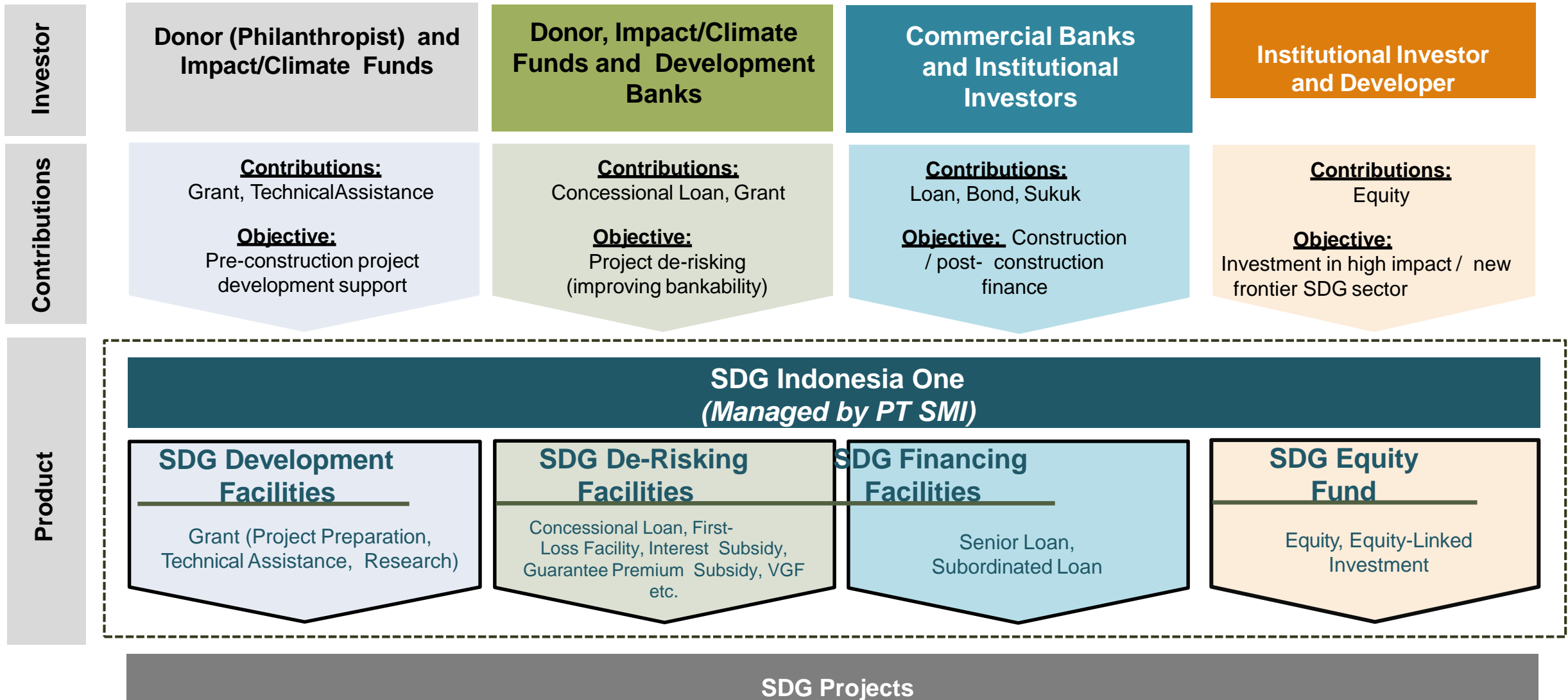
- **Certain infrastructure projects to be funded and operated through a partnership between the Indonesian government and the private sector** Projects ready for auction under the PPP Scheme:
  - Water supply projects such as the West Semarang and Pekanbaru Project
  - Transportation projects such as Hang Nadim Airport and Makassar – Parepare Railway
  - Telecommunication project such as the Multifunctional Satellite project
  - Health project such as Dharmais Cancer Hospital project
- **Various government support for PPP:**
  - **Project Development Facility (PDF):** Helps Government Contracting Agencies (GCAs) in project preparation and transaction
  - **VGF (Viability Gap Fund):** Improves financial viability of PPP projects
  - **Government Guarantees:** Supports PPP projects' bankability by providing sovereign guarantees
  - **Infrastructure Financing Fund:** Provided through PT SMI and IIGF
  - **Availability Payment (AP):** GCA pays private partner based of availability of infrastructure services

#### SOE & Private Sector

- **Government to inject capital into SOEs:** Intended multiplier effect to develop more infrastructure projects
- **Key focus areas:**
  - Infrastructure and maritime development
  - Transportation and connectivity
  - Food security
- **Medium term infrastructure developments to focus on:**
  - Water Supply
  - Airports
  - Seaports
  - Electricity and power plants
  - Housing
  - Mining



# SDG Indonesia One Provides End-to-End Financing Support to Project Development



# Commitment to Drive Investment

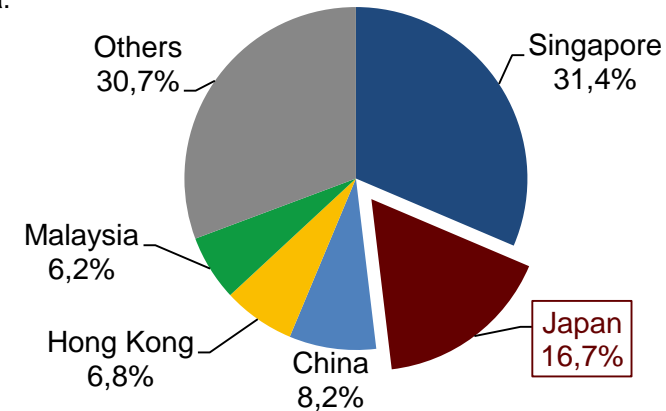
Through the Improvement of Investment Climate and Provision of Fiscal Incentives

## Direct Investment Realization

Nominal (USDbn)	2016		2017		2018	
	Nominal	Growth (%)	Nominal	Growth (%)	Nominal	Growth (%)
Domestic	16.3 <sup>1</sup>	21.3	19.6 <sup>2</sup>	20.6	23.1 <sup>3</sup>	17.7
Foreign	29.0	(1.1)	32.2	11.3	29.3	(9.1)
<b>Total</b>	<b>45.2</b>	<b>6.0</b>	<b>51.8</b>	<b>14.6</b>	<b>52.4</b>	<b>1.0</b>

## Indonesia Source of FDI 2018

Japan has been providing the second most foreign direct investment (FDI) to Indonesia.



## Tax Incentives Policy

- **Tax Holiday** is granted to pioneer industries,
  - ✓ 100% income tax discount between 5 to 20 years in accordance with investment value. Plus addition 2 years of 50%
- **Tax Allowance** to support investment,
  - ✓ Investment allowance of 30% from investment value (5% per year for 6 years), accelerated depreciation and amortization, dividend tariff for foreign taxpayers up to 10% or according to tax treaty, extended loss compensation beyond 5 years (maximum 10 years)
- **Tax Deduction** to support vocational as well as research and development activities.

The amount of tax expenditure in 2017 is IDR154.4tn (1.14% of GDP) while in 2016 is IDR143.4tn (1.15% of GDP)

# Increasing transfer to regions and village Fund (TKDD) to support public service in the region

**Increasing** allocation of Transfer to Regions and Village Fund (TKDD) Budget **proportionally** (fits to the region's needs and capacity, and also state financial capabilities)

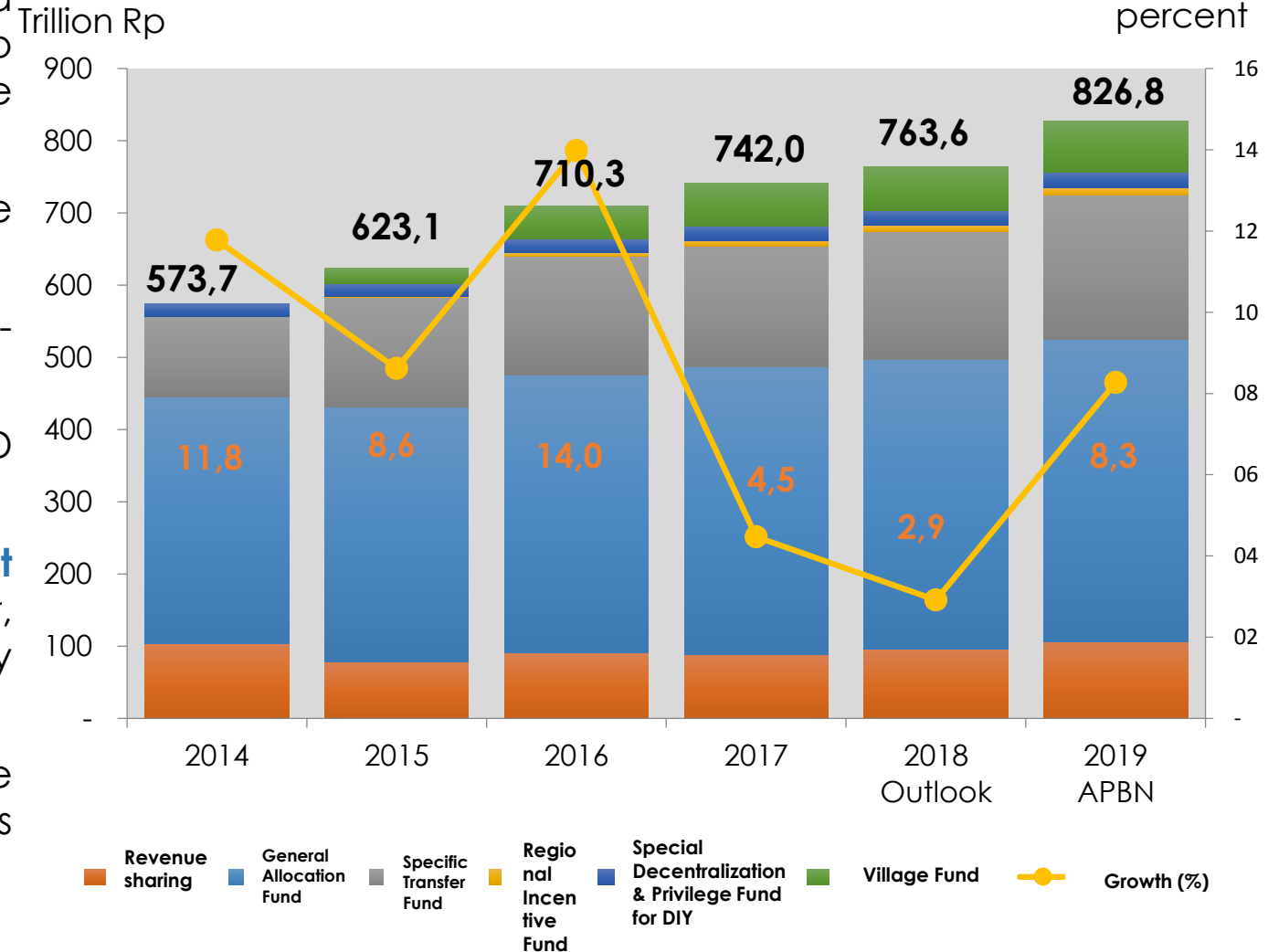
Supporting **the regions financing needs** (to provide services and developments)

Focus on **decreasing service inequality** between-region

**Synchronizing** planning and budgeting of TKDD with Line Ministries expenditure

Maintaining the 5 years sustainability **development program** (human resource development, connectivity, tourism destination, poverty reduction, village fund strengthening)

Encourage **effective, efficient, and productive** use of region's budget with value for money as its principle.



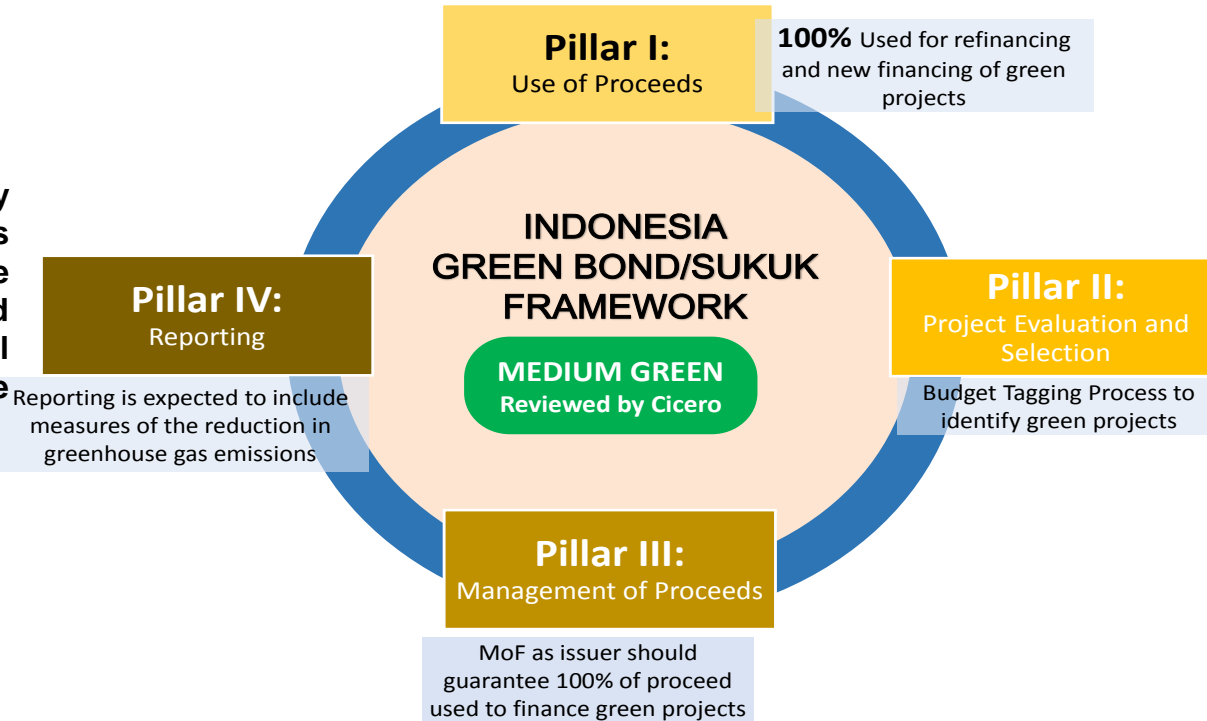
# Indonesia Global Green Sukuk

Financing & Refinancing Eligible Green Projects to Reduce Emission and Improve Climate Resilience



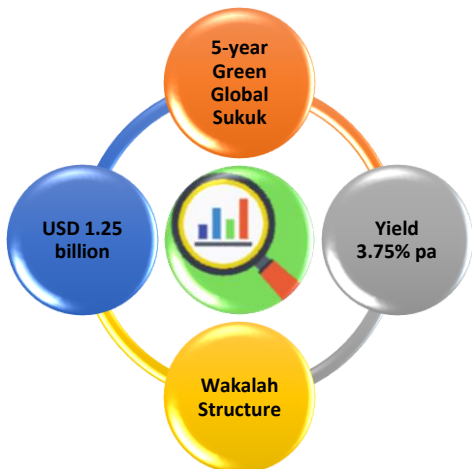
## GREEN SUKUK (ISLAMIC BOND)

Instrument to financially support the green projects contributes to the Climate Change Mitigation and Adaptation programs, as well as for the Sustainable Development Goals (SDGs).



## 9 Eligible Green Sectors

- ❖ Renewable Energy;
- ❖ Resilience to Climate Change for Disaster Risk Areas;
- ❖ Energy & Waste Management;
- ❖ Sustainable Transportation;
- ❖ Sustainable Agriculture;
- ❖ Green Tourism;
- ❖ Sustainable Natural Resources Management;
- ❖ Use of Clean Technology for Power Generation; and
- ❖ Green Buildings.



### 1<sup>st</sup> Indonesia Sovereign Green Sukuk valued USD1.25b (March 2018)

- ❑ First Global Sovereign Green Sukuk Issuance
- ❑ The largest bid of Global Sukuk issuance from a non-GCC sovereign entity
- ❑ Tapping new green investors (29%)
- ❑ International Awards on Sovereign Global Green Sukuk
- ❑ 1<sup>st</sup> Annual Impact Report has been audited by KPPG International with Positive Result.

### 2<sup>nd</sup> Indonesia Sovereign Green Sukuk valued USD750m (Feb 2019)

# Regional Cooperation needs to Intensified



## □ Enhancing Regional Cooperation

- ❖ Encourage the **completion of a bilateral trade transaction framework in Local Currency (LCY)** in the region (Indonesia, Malaysia, Philippines and Thailand was signed *Letter of Intent/LOI*).
- ❖ **ASEAN Banking Integration Framework (ABIF) initiative** → promote improvement in banking regulatory frameworks and cooperation and financial stability arrangement for regional financial integration.
- ❖ **Strengthening regional financial safety nets** to enhance Regional Stability → Strengthen CMIM operational.
- ❖ **Enhancing intra-trade among ASEAN+3 members** to increase economic complementarity.