Chapter 1

Introduction of National Strategic Projects

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Indonesia’s National Strategic Projects (PSN) scheme is an effort to realise a just and prosperous society based on Pancasila and the 1945 Constitution of the Republic of Indonesia, by developing physical and non-physical infrastructure that will have an important role in increasing economic growth. PSNs are an integral part of efforts to build a sustainable and socially just economy towards Golden Indonesia 2045.1

The government accelerates PSNs implemented by the central government, regional governments, and/or business entities to meet basic needs and improve national welfare. PSNs are stipulated by Presidential Regulation (Perpres) and listed in the Appendix, which is an integral part of the Presidential Regulation. For the first time, PSNs are contained in the Appendix of Perpres Number 3 of 2016 concerning the Acceleration of Implementation of National Strategic Projects, as amended several times, most recently by Perpres Number 109 of 2020. In accordance with the provisions stipulated in the Presidential Regulation, PSNs can be amended based on a study conducted by the Committee for the Acceleration of Provision of Priority Infrastructure (Komite Percepatan Penyediaan Infrastruktur Prioritas, KPPIP).

PSNs also play a role in supporting the development of various goods and service industries, as well as creating massive jobs to support the improvement of the national economy and welfare. One of the main factors for creating economic growth (Todaro and Smith, 2006; Canning, Fay, and Perotti, 1994) is infrastructure. PSNs accelerate infrastructure development that will boost the productivity of production factors, expedite the flow of goods and services and people, and uncover regional isolation. Infrastructure will create equitable distribution of development and increase investment competitiveness.

The implementation of a PSN is aligned to national development priorities that consider the needs, benefits, and supporting capacity for the well running of the PSN, as well as connectivity between infrastructure and/or centres of economic activity. So that, the implementation of a PSN can create an increasing and stable economic growth, as well as an equitable distribution of the results of national development to all levels of a just and prosperous society.

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1 Golden Indonesia 2045 is Indonesia’s vision for 2045 when Indonesia will celebrate its 100 years of independence. Indonesia expects to become a top five global economic power with excellent education, widespread prosperity, and strong governance. Through four development pillars that include human capital development and mastery of sciences and technology, sustainable economic development, equitable national development, and strengthening national resilience and governance, the vision is expected to be achieved. (Bappenas, 2019, 2023).
1. Background of National Strategic Projects

PSNs are projects and/or programmes implemented by the central government, regional governments, and/or business entities that have a strategic objective to increase growth and equitable development by creating jobs and improving people’s welfare.

PSNs are carried out by prioritising the integration of connectivity between infrastructure and/or centres of economic activity to encourage acceleration of regional-based economic growth by considering the direction of regional development contained in the national development plan.

The PSN scheme was first published in 2016 through Perpres Number 3 of 2016, which contains the number, details, and location of each PSN, and has undergone six amendments before finally being stipulated in the Regulation of Coordinating Minister (Permenko) for Economic Affairs of the Republic of Indonesia Number 21 of 2022. The change in the PSN in the Perpres and the Permenko, was mainly due to the change of projects that is included or excluded from the PSN list. Projects included in the PSN list are project proposals evaluated by the KPPiP and approved through a limited cabinet meeting, and projects from the previous list which are still being continued and being pushed by the government. Meanwhile, projects excluded from the PSN list are projects that have been declared completed and there are no issues that need to be resolved, and projects no longer requiring PSN support.

By being included in the list of PSNs, an infrastructure project will gain several advantages, in the form of accelerating development, because any obstacles, both regulations and permits, must be resolved by the relevant ministers, governors to regents, accelerated time for land provision, and guaranteed political security.

As PSNs, the project proposals are submitted by the central government, regional government, or the private sector to the KPPiP to be further screened by the KPPiP based on the criteria requirements, strategic benefits, inter-regional connectivity, and infrastructure that has been built as well as the deadline for completion. The results of the screening are then discussed at a limited cabinet meeting and finally the projects are stipulated through Perpres. For projects whose financing is non-state budget (APBN) or non-budgetary investment financing, the Minister of National Development Planning/Head of the National Development Planning Agency acts as the coordinator of the PSN and may propose changes to the PSN to the KPPiP.
2. Definition of National Strategic Projects

The PSN scheme was initiated by President Joko Widodo as one of the strategic steps to accelerate the fulfilment of the need for the provision of basic infrastructure needed to support economic growth and welfare. Since the 1998 economic crisis, the stock of Indonesia’s infrastructure has fallen sharply due to the absence of massive infrastructure development. The infrastructure budget allocation fell sharply, from around 9% of the gross domestic product (GDP) in the mid-1990s to only around 2% of GDP in 2001 (Salim and Negara, 2018). Similarly, the availability of Indonesia’s infrastructure has also decreased, from 49% of GDP in 1998 to 35% of GDP in 2015, although at the beginning of 2019 it increased again to 43% of GDP.

These conditions prompted the Minister of National Development Planning (Badan Perencanaan Pembangunan Nasional, Bappenas), for the 2016–2019 period to conclude that Indonesia needs to immediately catch up with the average standard of infrastructure availability in developed countries, China, and South Africa, which reached around 70%, 76%, and 87% of GDP, respectively (Bappenas, 2018).

The 2015–2019 National Medium-Term Development Plan (RPJMN) as regulated in Presidential Regulation (Perpres) Number 15 of 2015 stated that the main problem of the Indonesian economy is the limited availability of infrastructure to support economic growth. Limited infrastructure stock also creates obstacles in increasing investment, makes logistics costs expensive, and creates disparities between regions. The World Bank estimates that the poor quality of infrastructure has contributed to reduced economic growth by 1% since 2014.

Based on Bappenas, estimation, Indonesia needed a large investment to develop infrastructure, namely around Rp4.76 trillion during the 2015–2019 period, of which around Rp1,978.6 trillion or 41.3% is provided from the state budget (APBN) and regional budget (APBD), about Rp1,066.2 trillion or 22.2% came from state-owned enterprises (BUMN), and the remaining Rp1,751.5 trillion or 36.5% came from the private sector (Bappenas, 2018). For the 2019–2024 period, the need for investment funds in the infrastructure sector is projected to increase to Rp6,445 trillion (Hidayat, 2019), with the largest contribution expected to come from the private sector, namely 42% or Rp2,706.9 trillion, followed by APBN/APBD at 37% or Rp2.38 trillion, and from BUMN at 21% or Rp1,353.5 trillion.

The government initiated PSNs that are strategic infrastructure projects to increase economic growth, equitability, and community welfare. The PSN scheme is also adjusted to the 2015–2019 RPJMN to improve national connectivity, provide basic infrastructure such as drinking water and sanitation, electricity infrastructure, food and energy security, and develop urban mass transportation systems.
In the 2020–2024 RPJMN, infrastructure development is still one of the seven main national development agendas. One of the challenges facing the national economy is Indonesia's economic growth which tended to stagnate at around 5.0% during the 2000–2015 period. To get out from the middle-income trap, Indonesia needs to increase productivity and strengthen structural transformation, mainly by improving infrastructure, particularly connectivity infrastructure.

In this regard, one of the priorities of the 2020–2024 RPJMN is continuing infrastructure development to connect production areas with distribution areas, facilitate access to tourist areas, boost new jobs, and accelerate the economic added value increase. Infrastructure development during the 2020–2024 period is prioritised to support basic services, economic and urban development, which is supported by energy and electricity development, as well as the digital transformation implementation, considering the mainstreaming of sustainable development goals as well as social and cultural capital.

The innovative financing efforts are needed due to the limitation of government budget by encouraging the participation of the community and business entities through public–private partnership (PPP) schemes and other creative financing schemes. This is in accordance with the new paradigm of infrastructure funding which makes APBN and APBD the last alternative source of funding.

In carrying out the infrastructure development agenda (national priority), the 2020–2024 RPJMN has prepared Strategic Priority Projects (Major Projects). This project is structured to achieve development priority targets by making the RPJMN more concrete in resolving development issues and its benefits impact directly to the community. In the 2020–2024 RPJMN, 41 major projects are planned with clear targets, locations, and implementing agencies. The major project implementation involves ministries/agencies, local governments, state-owned enterprises (BUMN), and communities and business entities. The Major Project is a reference for emphasising policy and funding in the RPJMN, government work plans, and APBN. Integration funding is also carried out between funding sources through ministry/agency expenditure and other funding sources such as subsidies, transfers to regions, regional budget, communities, BUMN, and other funding sources. In addition, alternative funding mechanisms are also being taken, including PPP, blended finance, green finance, and output based transfers/grants to the regions. In its implementation, Major Projects and their indications of funding can be updated through the government work plans by considering the readiness for implementation, updating the amount and source of funding as well as the Presidential Directive. This is primarily to ensure that the Major Project can be carried out more effectively and efficiently in accordance with progress of developments. In addition, the Major Project became a development control tool, so that the development goals and targets in the 2020–2024 RPJMN can be continuously monitored and controlled.
3. National Strategic Project Criteria

The PSNs are required to meet three elements of criteria: basic, strategic, and operational. Elements of the basic criteria are compliance with the RPJMN and/or the Medium-term Regional Development Plan and strategic plans for the infrastructure sector, conformity with the spatial and regional layout plans as long as they do not change green open spaces.

Strategic criteria refer to the benefits of the project on the economy, social welfare, national defence and security, linkages between infrastructure sectors and between regions (connectivity), and the diversity of distribution between islands. The diversity of inter-island distribution refers to the balance between development in western and eastern Indonesia with the aim of encouraging connectivity and better distribution of goods. Meanwhile, the operational criteria are in the form of a pre-feasibility study and the investment value must be above Rp100 billion or the project has a strategic role in encouraging regional economic growth.

The PSNs are implemented by the central government, regional governments, and/or business entities. If there are no business entities or the private sector that are interested in working on PSNs because of the high return on investment and high financing needs, the government can appoint a BUMN to work on it. In its implementation, PSNs are required to prioritise the use of domestic components. One form of supervision carried out by the government is by forming an ad-hoc cross-ministry team to ensure the fulfilment of the domestic component level, which includes goods, services, and goods, including intellectual abilities.

In this book we clustered PSNs into three distinct groups: connectivity economic infrastructure, non-connectivity economic infrastructure, and social infrastructure. Connectivity economic infrastructure focuses on enhancing the economy by improving the mobility of people and goods. Non-connectivity economic infrastructure aims to stimulate economic activities aside from transportation. Social infrastructure refers to projects that contribute to the well-being of people. Later in chapter 3, the book showcases several selected PSNs from these distinct groups.
4. National Strategic Project Financing

PSN funding can be sourced from the APBN, APBD, and other sources that comply with laws and regulations. There are three methods for financing PSNs.

First, financial planning for PSNs sourced from the APBN and/or the APBD is carried out in accordance with the national development planning system. Second, financial planning for the PSNs originated from other legitimate funding sources is carried out through technical integration with the master plan of related sectors, economic and financial feasibility, and the ability of the business entity to finance the implementation of the provision of a PSN, which the business entity acts as the initiator and/or receives an assignment from the government. Third, financial planning for the PSNs from the combination of both APBN/APBD and other legitimate funding sources is carried out by prioritising the integration of planning, budget allocation, as well as plans for project completion and operation.

Funding for PSNs originated from other legitimate funding sources can be executed through PPP and/or other financing mechanisms through cooperation in accordance with statutory provisions. Regarding PPPs, funding for PSNs this way is based on government or business entity initiatives. In the case of a PPP based on a business entity initiative, the initiating business entity must provide a feasibility study for the proposed PSN, which includes the following categories: provision of public service infrastructure, optimising state-owned goods (BMN) and regional-owned goods (BMD), optimising BUMN assets, and increasing state and/or regional revenues.

Moreover, in terms of cooperation in accordance with statutory provisions, funding for PSNs through other legitimate funding sources can be done with the following:

a. Cooperation in providing public services, such as infrastructure provision cooperation, regional cooperation with third parties, and land value capture.

b. Cooperation in optimising BMN and/or BMD, as well as BUMN assets and other forms of limited management rights.

c. Cooperation in increasing national and/or regional income, such as rent.

d. Other forms of cooperation if it is not against the law.
In promoting the feasibility of a PPP project, the government has provided various facilities (KKBP, 2017), including:

a. Project development facility (PDF) to support the government contracting agency (GCA) in preparing PPP projects managed by PT SMI and PT IIF.

b. Viability gap funding to increase financial feasibility by contributing to construction costs managed by the Ministry of Finance based on a proposal from the GCA.

c. Financing guarantee, as a guarantee for the government obligations in the infrastructure concession agreement managed by PT PII.

d. Tax facilities as Minister of Finance Regulation (PMK) Number 159 of 2015 concerning tax holidays for pioneer sectors such as metal-based industries, oil refineries, basic petrochemicals, machinery, renewable energy, and telecommunication equipment.

e. Availability payment (AP) is the government’s periodic payment scheme during the concession period after the assets have been completed by the private sector; therefore, the project is bankable. This mechanism is managed by the Ministry of Finance if the AP funding comes from APBN. Otherwise, it is managed by the regional government and the Ministry of Home Affairs if AP funding comes from APBD.

f. The revolving land fund is a land acquisition fund facility for toll road projects to bridge the limited availability of funds for land acquisition by the private sector, which is managed by the State Asset Management Agency, the Ministry of Finance, and the Ministry of Agrarian and Spatial Planning. Figure 1.1 illustrates these facilities.
5. National Strategic Project Policies and Facilities, Ecosystem, and Governance Accountability

The government has established policies and strategic steps through Law Number 11 of 2020 concerning Job Creation to create the widest possible job opportunities, including the acceleration of PSNs. Regulations and institutions are still one vital obstacle, in addition to fiscal, infrastructure, and human resource obstacles. Existing regulations are considered unable to support business creation and development, and even tend to limit PSN implementation. Therefore, regulations that provide facilities for accelerating PSN implementation as well as ease of procurement, operation, and maintenance of the PSN are needed.

In accordance with Government Regulation Number 42 of 2021 concerning Ease of National Strategic Projects, the central government, regional governments, and/or business entities obtain PSN ease facilities. These convenience facilities are provided at the stages of planning, preparation, transactions, construction, operation and maintenance, and procurement process. These ease facilities are coordinated by the coordinating minister for Economy Affairs. The ease of PSN implementation provides certainty in the distribution of risks and division of tasks in each stage of the PSN implementation, including guarantees that the PSN will not be nationalised in a concession period.

Relaxation is also carried out in the procurement and selection process through the Business Entity Panel without reducing fair business competition to obtain implementing business entities. Another approach in ease of a PSN is carried out in the ability of the PSN to leverage for regional economic growth through infrastructure integration as a supply chain continuity system and the availability of a logistics system for enhancing the regional economy and empowering local workers through labour intensive. After completion of the construction and/or the concession period, the management of BMN and/or BMD includes the obligation to maintain, both operational continuity and the value of BMN and/or BMD.

The government also provides guarantees for a PSN whose financing comes from other legitimate financing. The government guarantee is provided for sharia credit or financing, business feasibility, PPP, and/or political risk. The guarantee is given by the Minister of Finance by considering the principles of financial capacity, fiscal sustainability, and APBN fiscal risk management. The government guarantee is given to a PSN that meets the following criteria: technically and financially feasible and adequately identifies documents and risk mitigation plans. The Minister of Finance can give special assignments to infrastructure guarantee business entities to provide government guarantees in accordance with statutory provisions.
Guarantees from the central government can also be given for PSNs carried out by business entities or local governments in collaboration with business entities for public interest infrastructure projects. The form of guarantees includes the related policies taken or not by the central government resulting in delays in the PSN and affecting the financial condition of business entities. Guarantees can only be submitted by ministries/agencies, regional governments, or BUMN, after the project procurement process has been completed. This government guarantee will automatically not apply if the main construction project fails to be carried out by a business entity within 2 years but can be extended if the cause of the failure is not the fault of the business entity.

To accelerate the strategic project implementation, ministers, governors, and regents/mayors provide permits and non-permits required for the implementation of a PSN in accordance with their authority. The permits and non-permits needed to start the implementation of a PSN include location determination, environmental permit, borrow-to-use permit for forest areas, and/or building permit. Furthermore, the minister can issue permits and non-permits, which are the authority of the minister as the person in charge of the PSN. In addition, governors, and regents/mayors, as mandated by Law Number 23 of 2014 concerning Regional Government, must provide licensing services in accordance with legislation through a one-stop integrated service unit based on related regulations.

The government issued Government Regulation Number 5 of 2021 concerning the Implementation of Risk-Based Business Licensing. Risk-based business licensing is a business license based on the level of risk of business activities. The implementation of risk-based business licensing includes regulation, norms, standards, procedures, and criteria for licensing; licensing through the OSS system service; procedures for supervision of licensing; evaluating and reforming the policy; funding; resolution of problems and obstacles to licensing; and sanctions.

The PSN implementation is carried out in accordance with the Regional Spatial Plan (RTRW), Detailed Regional Spatial Plan (RDTRD), or the Zoning Plan for Coastal Areas and Small Islands. Provision of land for the PSN is carried out by the central government, regional governments, and/or business entities in accordance with the provisions of laws. The PSN scheme also prioritises the use of domestic components. Furthermore, the central government provide guarantees for PSNs that are public interest projects implemented by business entities or regional governments in collaboration with business entities. The Coordinating Minister for the Economy Affairs evaluates and reports the PSN implementation to the President at least once in 6 months.
Figure 1.2. PSN Social and Environmental Principles

Source: Author.
The PSN implementation is carried out synergistically with ecosystem preservation. In essence, the condition of the ecosystem is directly proportional to the life processes in the development environment. Ecosystem stability that is maintained in the process of infrastructure development can increase the essence of the development itself. Before infrastructure development is carried out, its potential impact on social and environmental conditions must be well calculated. Damage to the ecosystems and the quality of community life is most likely to occur if infrastructure development is not accompanied by the concept of ecosystems and social and environmental preservation. The development of infrastructure must meet the social and environmental principles, as shown in Figure 1.2.

Next, to maintain accountability for accelerating the implementation of PSNs, the government issued Presidential Instruction 1 of 2016 concerning the Acceleration of Implementation of PSNs instructed to increase governance accountability and improve the function of the government’s internal supervisory apparatus in supervising PSN implementation (Sumarto, n.d.). The increase in governance accountability is carried out through:

a. Enhancing the governance oversight.
b. Investigative audits or specific purpose audits on cases of abuse of authority.
c. Calculating of the state financial losses if the loss occurred.
d. Supervising the follow-up of audit results in terms of losses of state finances are identified.
e. Assistance in the procuring certain goods/services based on requests from ministers or the KPPiP.

In implementing the supervision, the government internal supervisory apparatus reviews 11 aspects and the results of the review are reported to the President periodically. The 11 aspects of the review are project preparation, land provision, spatial planning, project funding, government guarantees, licensing and non-licensing, procurement of goods and services, domestic components utilisation, implementation of physical project development, supervision, and control, as well as regulation. In particular, the purpose of the review is to:

a. Map the achievements of the physical and PSN financial progress.
b. Identify obstacles to accelerating the implementation of PSN and its alternative solutions.
c. Identify the regulations that impede the PSN acceleration.
d. Identify the effectiveness of achieving the PSN target output.
e. Provide suggestions for alternative solutions to obstacles, inconsistencies, disobedience, and ineffectiveness in achieving the PSN target output.

Regarding the results of the review and audit showing the indications of administrative violations, further inspection actions will be taken, which are based on General Principles of Good Governance, objective reasons, conflicts of interest avoidance, and done with good intention.
6. Conclusion

The PSN scheme is one of the strategic steps to accelerate the fulfilment of the basic infrastructure needed to support economic growth and welfare to realise a just and prosperous society based on Pancasila and the 1945 Constitution of the Republic of Indonesia. As stated in Perpres Number 15 of 2015, the short supply of infrastructure is a problem for Indonesia’s economic growth. The low stock of Indonesian infrastructure since the 1998 Asian financial crisis has led Bappenas to conclude the need to improve the availability of infrastructure to the level of countries under similar conditions. Indonesia needs large investments to develop infrastructure, and due to the limitations of the APBN and ABPD, innovative financing efforts are needed.

A PSN is a project or a programme that has a strategic objective to increase growth and equitable development in the context of efforts to create jobs and improve community welfare. It is classified as a PSN if it fulfils basic, strategic, and operational criteria. The project is implemented by prioritising the integration of connectivity between infrastructure and/or centres of economic activity to encourage the acceleration of regional-based economic growth by considering the direction of regional development contained in the national development planning. Furthermore, it is implemented by the central government, regional governments, and/or business entities.

The funding for these projects is sourced from the APBN, APBD, and other sources that comply with laws and regulations. Funding from other legitimate sources is executed through PPP and/or other financing mechanisms through cooperation in accordance with statutory provisions. Being included in the list of PSNs, a project gains advantages compared to other infrastructure projects. In terms of funding, the facilities provided are PDF, VGF, financial guarantees, tax facilities, AP, and access to revolving land funds. The Indonesian government also facilitates the procurement, operation, and maintenance of the PSN. Additionally, it provides convenience facilities throughout various stages, including planning, preparation, transactions, construction, operation and maintenance, and procurement processes.

PSN implementation is carried out synergistically with ecosystem preservation that considers the environment, society, and governance. Governance accountability is carried out by the government’s internal supervisory apparatus. If there are indications of administrative violations, further inspection actions will be taken.

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2 Pancasila is Indonesia’s basic philosophy, way of life, and national ideology. Derived from the sanskerta word of panca (five) and sila (principle) it is defined as the five principles that guide Indonesia’s Ideology (Lenhamnas, 2012).
References


