



REPUBLIC OF **INDONESIA**

Ambassador Mulya Wirana @ Proforum | 2015

Indonesia's Business Potentials

4th
World's Most
Populous Country

248 million
Population (in 2013)

17,508 islands
Biggest **Archipelagic** Nation

IND



NESIA



16th
World's Largest **Economy**

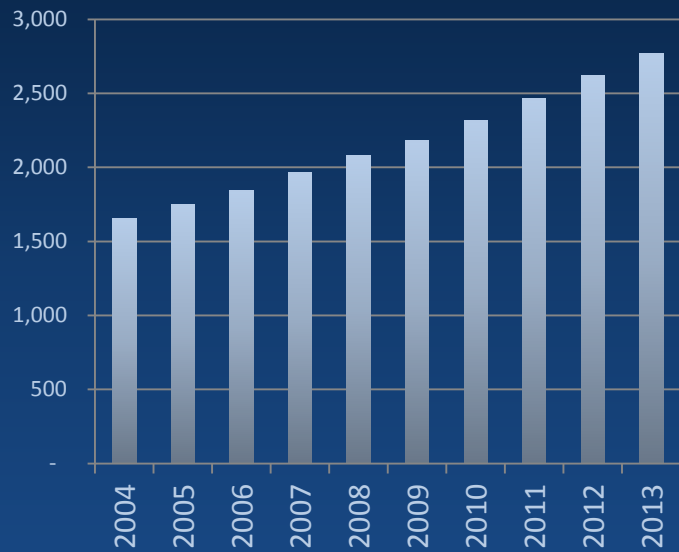
1 trillion
USD **GDP** (PPP)

4,876
USD **GDP**
per capita (PPP)

Member State
G20

“Investment
Grade” (Moody's, Fitch and R&I)





5.1%
GDP Growth
in 2014

**Indonesia's GDP
In the last 10 years**
at 2000 Constant Market Prices
by Expenditure 2004-2013
(IDR Trillion)

2nd fastest
Growing Economy
Among **G-20 Countries**
(After China, in 2013)

“Indonesia's Growth Beats Estimates...”

Indonesia's GDP growth in 2013 beats all estimates in a Bloomberg News survey of 25 economists, where the median was 5.34 percent.

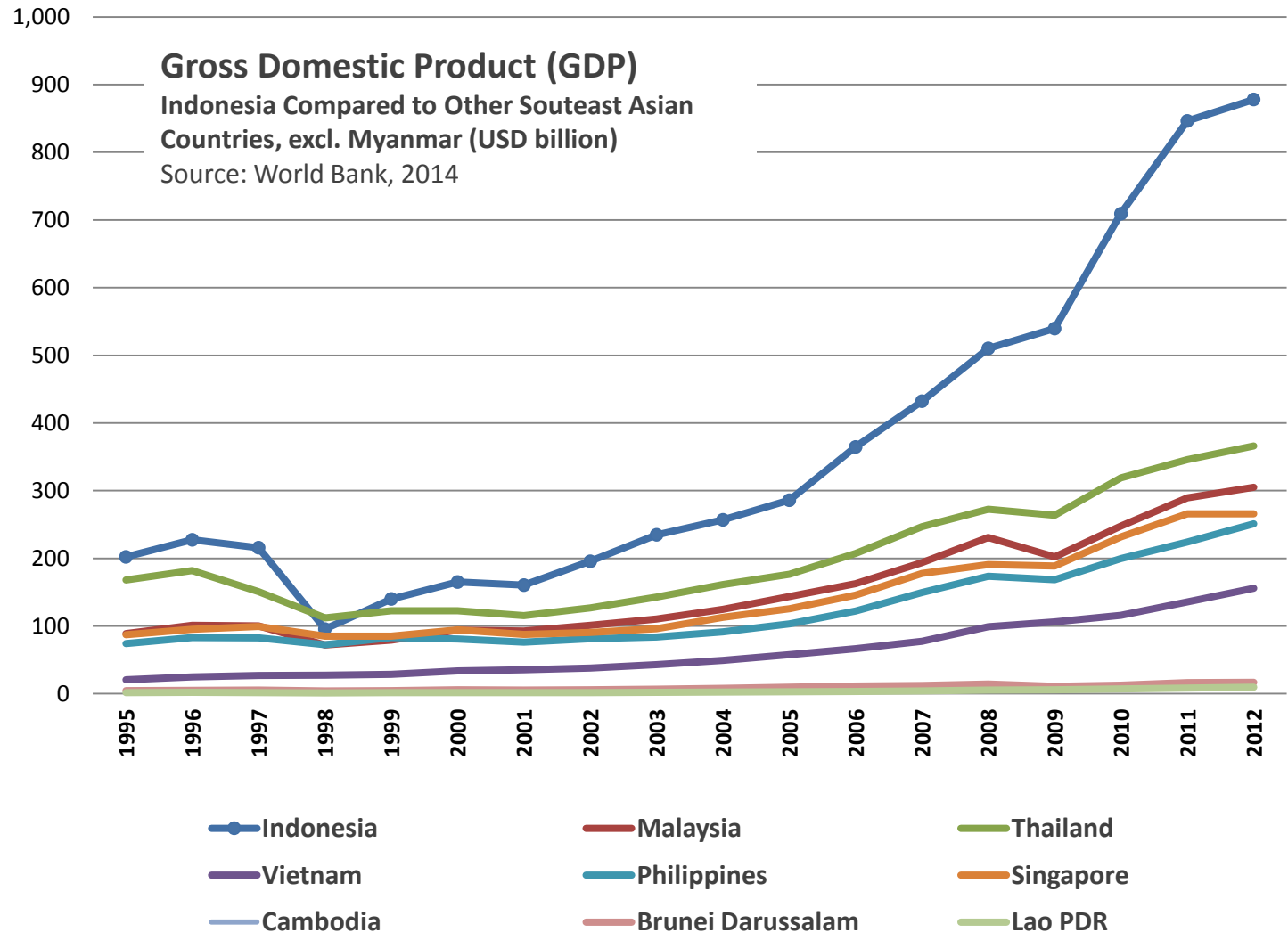
(Bloomberg, 2014)

sustainable
GDP
growth

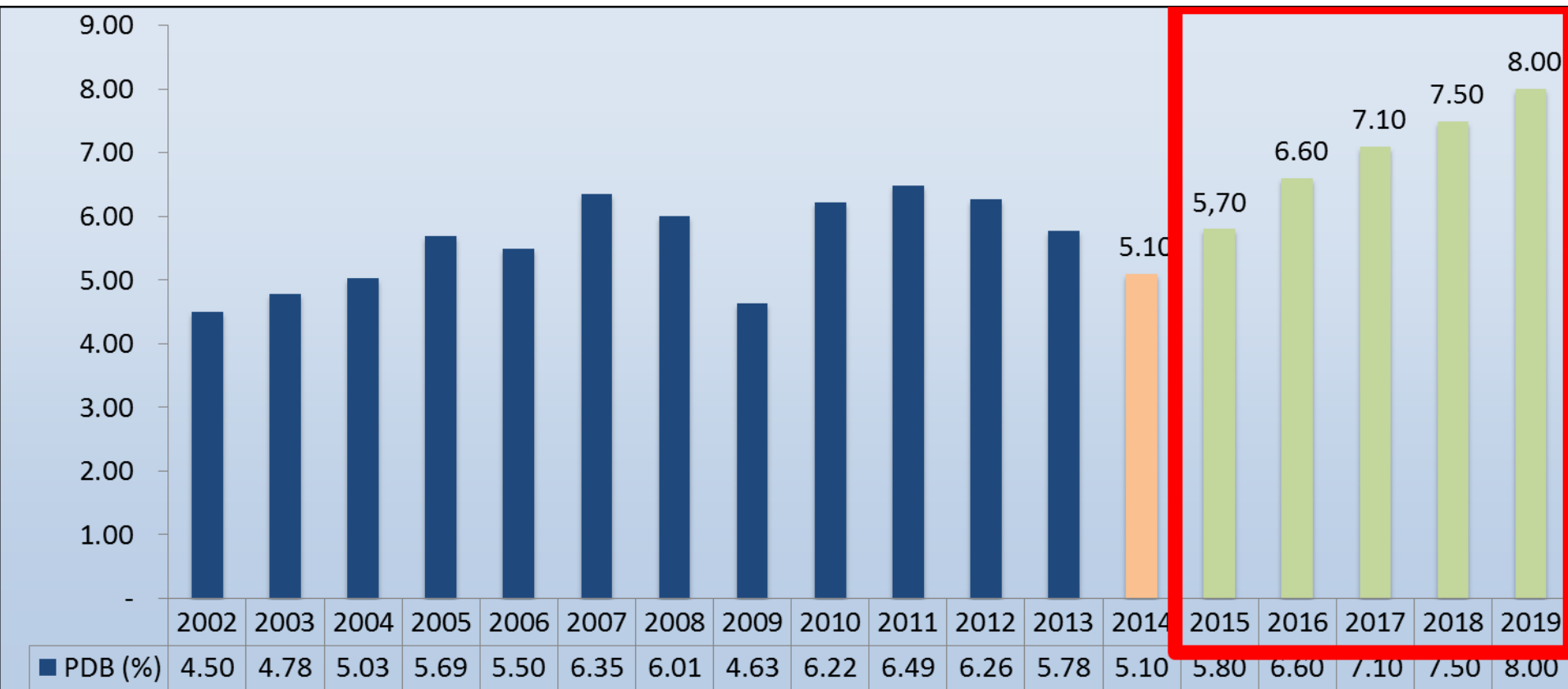


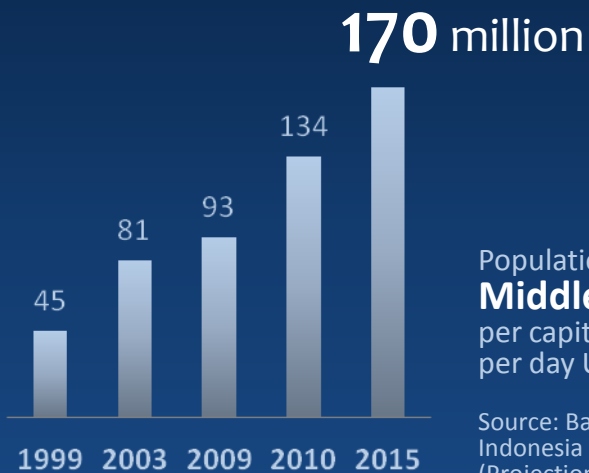
Indonesia's Economy

Among other Southeast Asian Countries



Indonesia's Economic Growth For 2015-2019





Population in
Middle Income with
per capita expenditure
per day USD 2-20

Source: Bank Indonesia and
Indonesia Statistics Agency, 2012
(Projection)

4th
World's Most
Populous Country

Covering more than
39%
total population
of **South East Asia**

More than
60%
Population in
working age

70%
2015 Population (projected)
in **Middle Income** with
per capita expenditure
per day USD 2-20

A photograph of a young girl with long dark hair and a child looking up at two balloons, one red and one green, against a blurred night background with bokeh lights. The text 'Large and growing market' is overlaid on the left side of the image.

**Large and
growing
market**



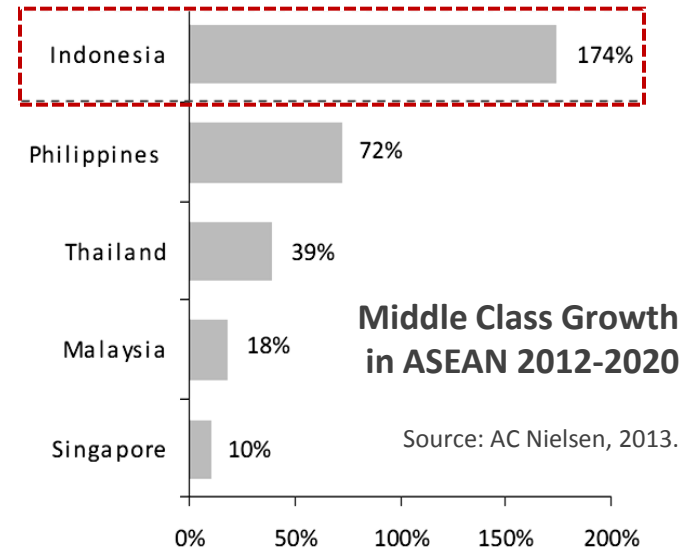
110.5%

Middle class growth
in **Southeast Asia**
2012-2020

174%

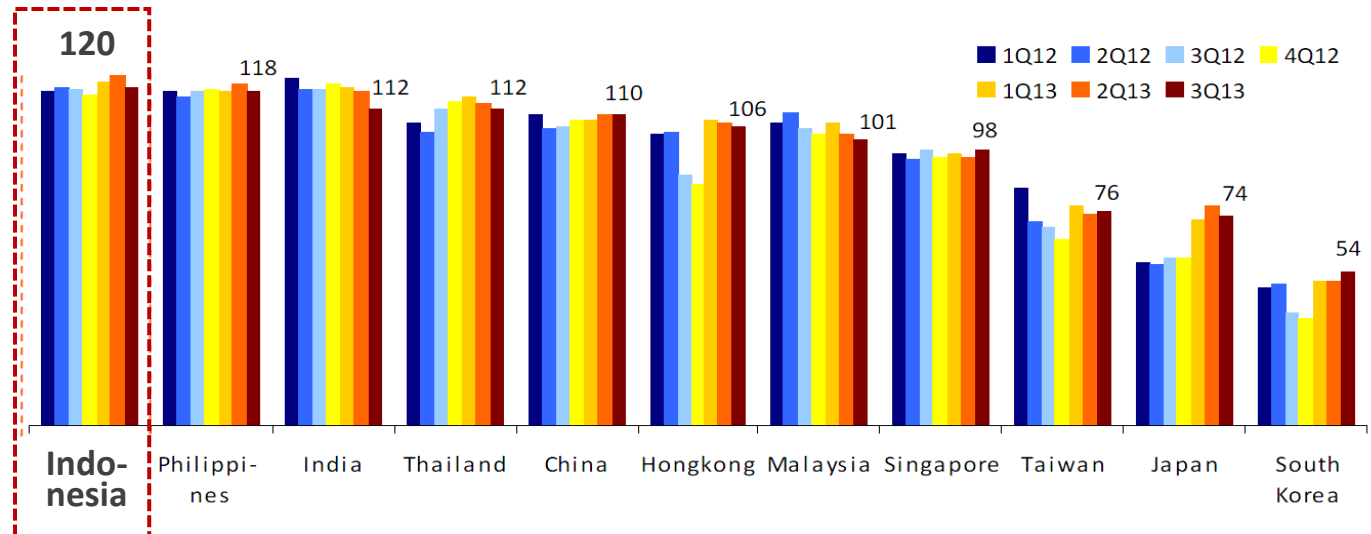
Middle class growth
in **Indonesia**
2012-2020

The **highest** middle class growth &
consumer confidence index



Nielsen Consumer Confidence Index

Source: AC Nielsen, 2013.





The **most promising country** for overseas business

(Japan Bank for International Cooperation Survey 2013)

Rank	2005	2006	2007	2008	2009	2010	2011	2012	2013
1	China	China	China	China	China	China	China	China	Indonesia
2	India	India	India	India	India	India	India	India	India
3	Thailand	Vietnam	Vietnam	Vietnam	Vietnam	Vietnam	Thailand	Indonesia	Thailand
4	Vietnam	Thailand	Thailand	Russia	Thailand	Thailand	Vietnam	Thailand	China
5	US	US	Russia	Thailand	Russia	Brazil	Indonesia & Brazil	Vietnam	Vietnam
6	Russia	Russia	US	Brazil	Brazil	Indonesia	-	Brazil	Brazil
7	Korea	Brazil	Brazil	US	US	Russia	Russia	Mexico	Mexico
8	Indonesia	Korea	Indonesia	Indonesia	Indonesia	US	US	Rusia	Myanmar
9	Brazil	Indonesia	Korea	Korea	Korea	Korea	Malaysia	US	Rusia
10	Taiwan	Taiwan	Taiwan	Taiwan	Malaysia	Malaysia & Taiwan	Taiwan	Myanmar	US

Positive Factors

1. Future growth potential of local market
2. Inexpensive source of labor
3. Current size of local market
4. Supply base for assembler
5. Industrial cluster development

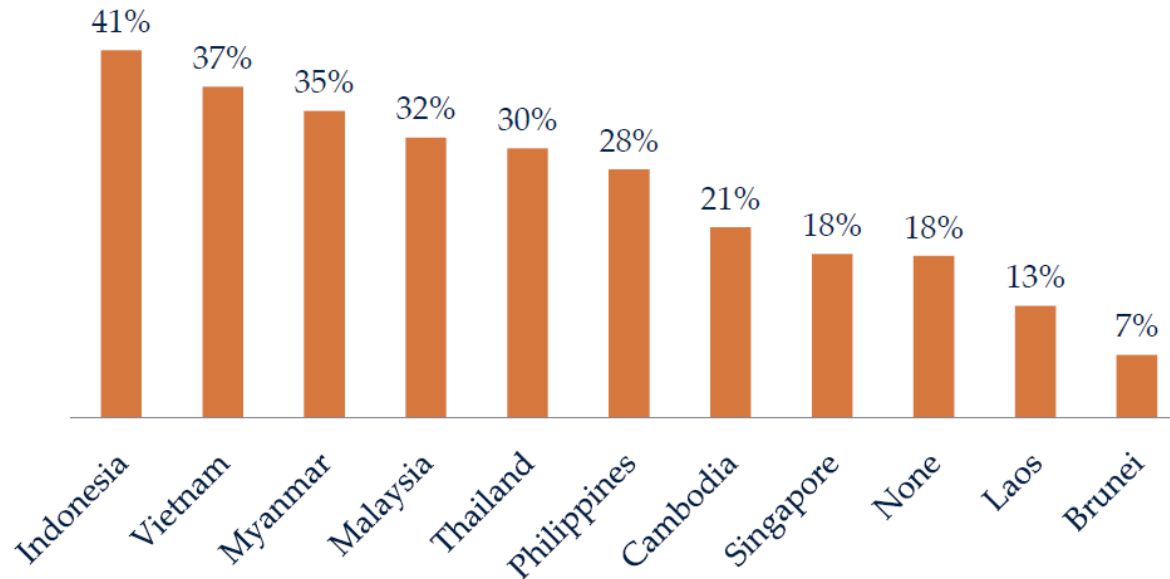
Issues of Concern

1. Rising labor costs
2. Underdeveloped infrastructures
3. Execution of legal system unclear (frequent changes)
4. Intents competition with other companies
5. Difficult to secure management-level staff
6. Labor problems



The most preferred destination in Asean region for future expansion

(AmCham Singapore and US Chamber of Commerce)



Strengths

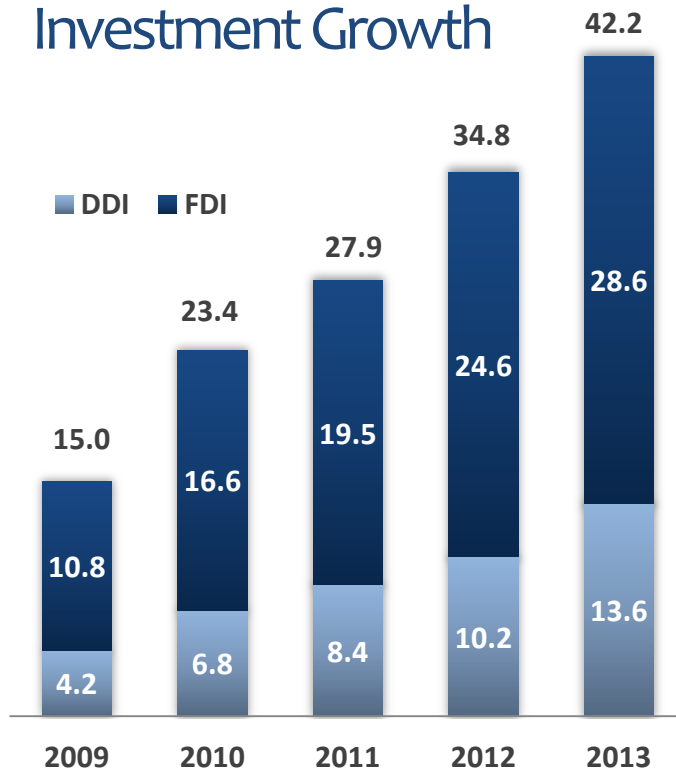
1. Tax structure
2. Stable government and political system
3. Personal security
4. Housing costs
5. Availability of low cost labor

Challenges

1. Infrastructure
2. Corruption
3. Laws and regulations
4. New business incentives offered by government
5. Availability of trained personnels



Sustainable Investment Growth



Investment Realization in Indonesia

Based on Capital Expenditure (USD Billion)

Excl. oil, gas, and financial sectors

Assumption:

Q1-Q2 rate USD 1 = IDR 9,300

Q3-Q4 rate USD 1 = IDR 9,600

USD **42.2** billion
total investment realization
in 2013 (IDR398.6 trillion),
2.1% above the 2013 target,
IDR390.3 trillion.

27.3% increase
from 2012 (IDR313.2 trillion)

FDI
2013

22.4% increase
from 2012

67.8% share
of total investment realization

DDI
2013

39.0% increase
from 2012

32.2% share
of total investment realization



Investment Realization Progress

Semester I 2014

Semester I 2014	y-o-y
DDI	20.2%
FDI	13.5%
Total	15.6%

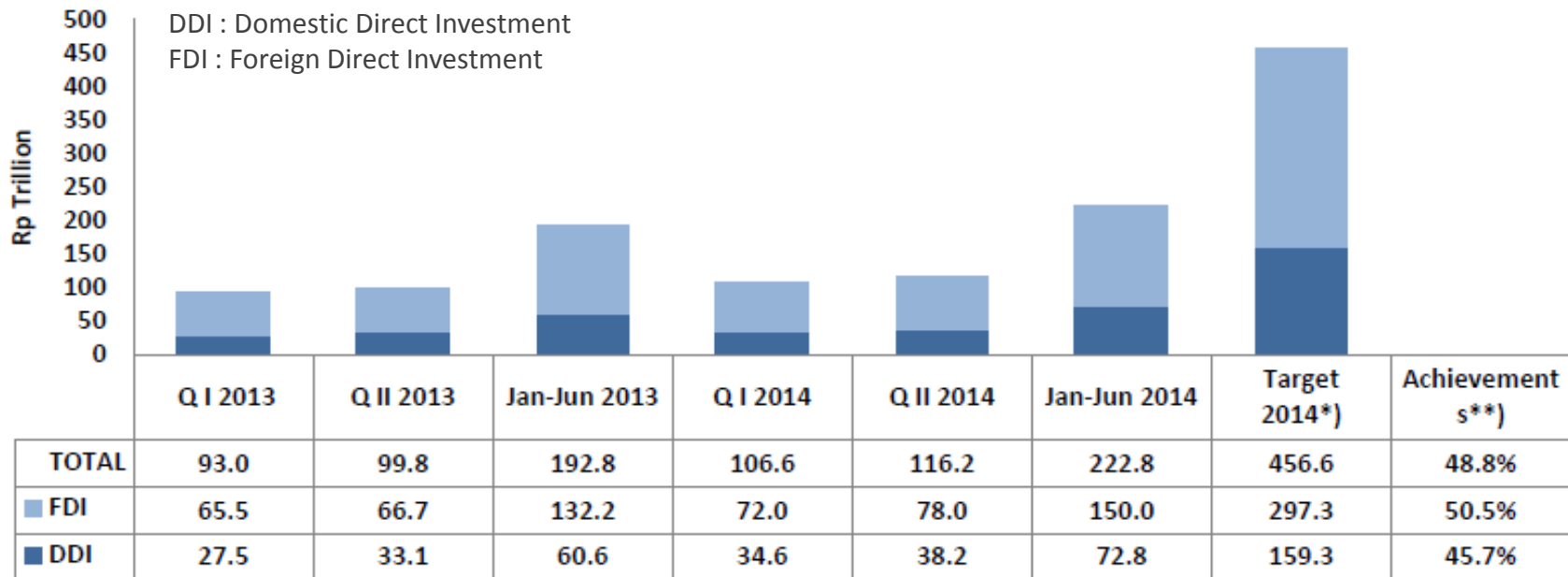
Investment Realization in Indonesia

Based on Capex (IDR Trillion)

Excluding Oil & Gas and Financial sectors

Exchange rate USD1 = IDR10,500

Based on State Budget of 2014



*) Revised investment target 2014, BKPM Strategic Plan 2010 -2014

**) Towards the 2014 target



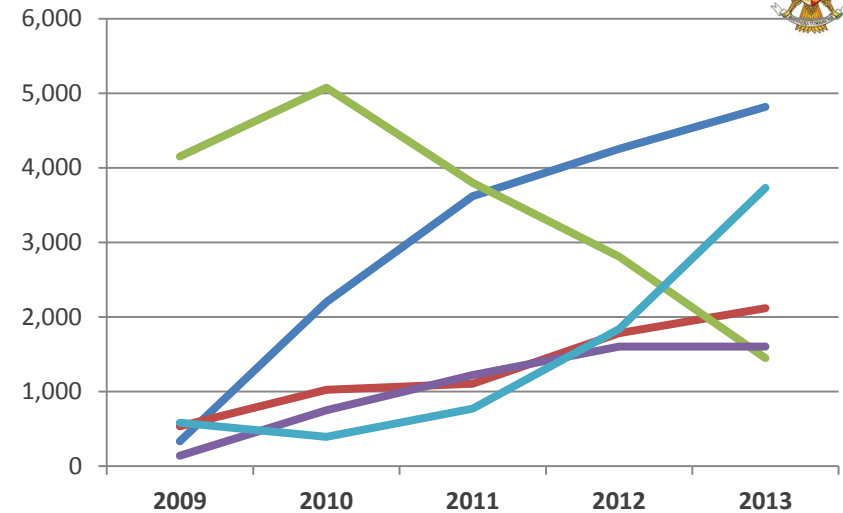
FDI Realization 2009-2014(S1)

47% of FDI flows to secondary sectors in 2014(S1) and 55% in 2013

FDI Realization in Indonesia by Sector

Top-10 Sectors Based on Capital Expenditure (USD million) in 2014(S1)

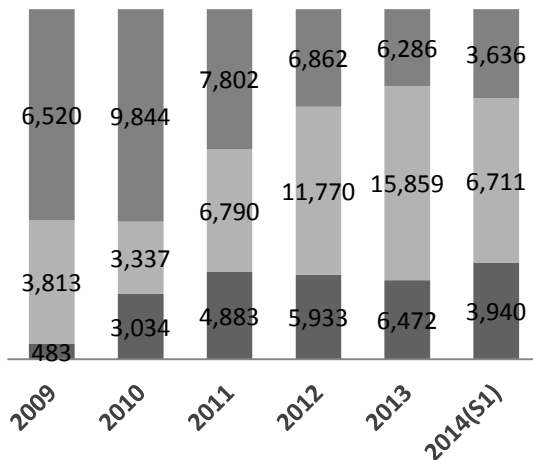
Excl. oil, gas, and financial sectors



Component of FDI Realization

Based on Group of Sectors

■ Primary ■ Secondary ■ Tertiary



Rank	Sector	2009	2010	2011	2012	2013	2014(S1)
1	Mining	333	2,201	3,619	4,255	4,816	2,740
2	Food Industry	534	1,026	1,105	1,783	2,118	2,065
3	Transport, Storage, and Telecom.	4,152	5,072	3,799	2,808	1,450	1,650
4	Plantation and Crops	143	751	1,222	1,602	1,605	1,142
5	Transport Equipment Industry	583	394	770	1,840	3,732	1,028
6	Chemical and Pharmacy Industry	1,183	793	1,467	2,770	3,142	979
7	Steel, Machinery and Electronics Industry	655	590	1,773	2,453	3,327	859
8	Paper and Printing Industry	68	46	258	1,307	1,169	536
9	Non-Ferrous Mineral Industry	20	28	137	146	874	523
10	Electricity, Gas, and Water	349	1,429	1,865	1,515	2,222	430
Total		10,816	16,215	19,475	24,565	28,616	14,288



McKinsey: Indonesia by 2030, additional **USD1.3 trillion market opportunity** from growing middle class

16th-largest economy in the world
45 million members of the consuming class
53% of the population in cities producing **74%** of GDP
55 million skilled workers in the Indonesian economy
\$0.5 trillion market opportunity in consumer services, agriculture and fisheries, resources, and education

Indonesia today



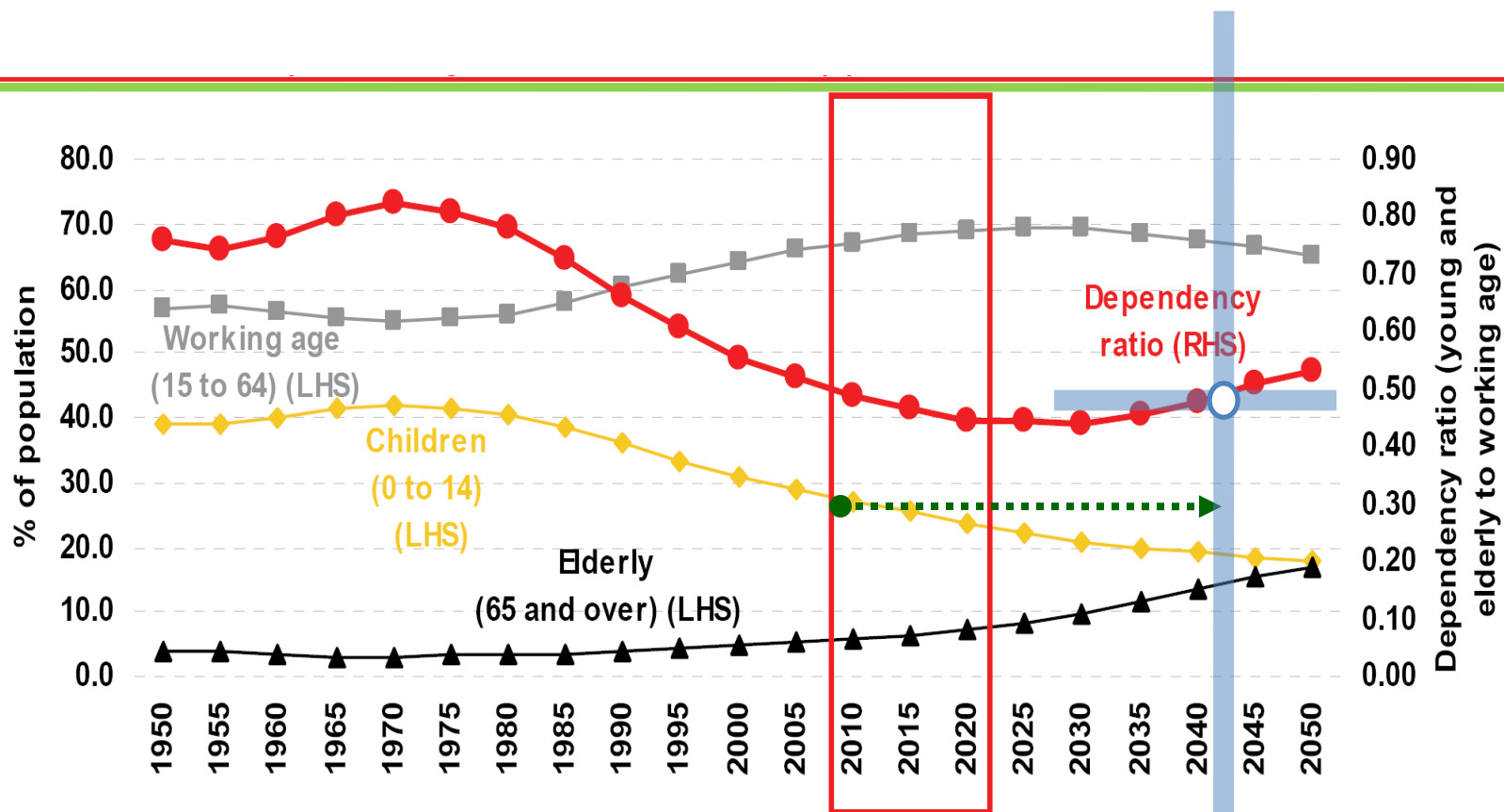
7th-largest economy in the world
135 million members of the consuming class
71% of the population in cities producing **86%** of GDP
113 million skilled workers needed
\$1.8 trillion market opportunity in consumer services, agriculture and fisheries, resources, and education

Indonesia in 2030



Source: McKinsey Global Institute, September 2012.

DEMOGRAPHIC STRUCTURE THAT ARE YOUNG AND PRODUCTIVE



Source: BPS

More than 30 years the
Index Dependency Ratio is
still minimal



Priority Sectors of Investment

According to Indonesia Long term Investment Plan 2010-2025

Investments that support...

Energy Security

Food Security

Infrastructure Development



Improvement of Ease of Doing Business

No.	Indicator	2013			Improvement		
		Procedure (number)	Time (days)	Cost (% of income per capita)	Procedure (number)	Time (days)	Cost (% of income per capita)
1	Starting a business	10	48	20.5	5	5	16.6
2	Getting electricity	6	101	370.6	4	15	311.5
3	Paying taxes & premium insurance	52	259 hours/year	32.2 (% of profit)	7	136 hours/year	32.2 (% of profit)
4	Enforcing contract	40	498	139.4 (% of claim)	24	175	1.28* (% of claim)
5	Resolving insolvency	-	4.5 years	18 (% of estate)	-	1.75 years	5.08 (% of estate)
6	Registering property	6	22	10.9 (% of property value)	-	12	10.9 (% of property value)
7	Dealing with construction permit	13	158	87.2	5	22	36.2



TAX HOLIDAY

(MoF Regulation No.130/PMK.011/2011)

5-10 years
Tax relief facility, starting from the commencement of commercial production.

50% for a further 2 years
Reduction of income tax after the expiration of the tax holiday and can be extended by MoF.

Pioneer industry

1. Basic metal industries;
2. Oil refinery industries and/or basic organic chemicals;
3. Machinery industries;
4. Industries of renewable resources;
5. Communication devices industries.

IDR **1** trillion
Minimum **investment** plan.

Incentives

TAX ALLOWANCE

(Government Regulation No.52/2011)

30% of investment value
Reduction of corporate net income tax for 6 years, 5% each year.

129 business segments
Eligible for tax allowance, expanded from 38 segments in the previous regulation.

Under **certain requirements** among others: minimum amount of **investment value** and **workforce**, and certain project **location** (especially outside Java island).

IMPORT DUTY FACILITY

(MoF Regulation No.176/PMK.011/2009)

Machines, goods, materials for production

2 years import duty exemption or **4 years** for companies using locally-produced machines (min.30%).

Industries

Which produces **goods** and/or **services**, including:

1. Tourism and culture
2. Public transportation
3. Public health services
4. Mining
5. Construction
6. Telecommunication
7. Port

Infrastructure Development Strategy under President Jokowi Administration



President Jokowi's administration has selected priority projects and national strategic projects for acceleration...

Priority Infrastructure criteria (Pres. Reg No. 75/2014):

- | | |
|-----------------------------|---|
| Basic Criteria a | <ul style="list-style-type: none"> Conform with National Medium Term Planning (RPJMN) and sectoral strategic planning (<i>Renstra</i>). Conform with spatial planning (not changing Green Open Space/<i>Ruang Terbuka Hijau</i>). |
| Strategic Criteria c | <ul style="list-style-type: none"> Has strategic roles to the economy, social welfare, defense, and national security (contribute to GDP, employment, socio-economy and environment impacts). Interconnected across infrastructure sector and regions (complementary effect). Project distribution across regions. |
| Operational Criteria | <ul style="list-style-type: none"> If the project proposal does not have quality Pre-FS study, KPPIP will facilitate a re-do. Investment cost must be more than IDR 500 Billion or the project must have strategic roles in improving regional economy. Readiness criteria include GCA |

*National Strategic Project or in Bahasa called *Proyek Strategis Nasional (PSN)* championing, other stakeholders' commitment, and no critical technical issues.

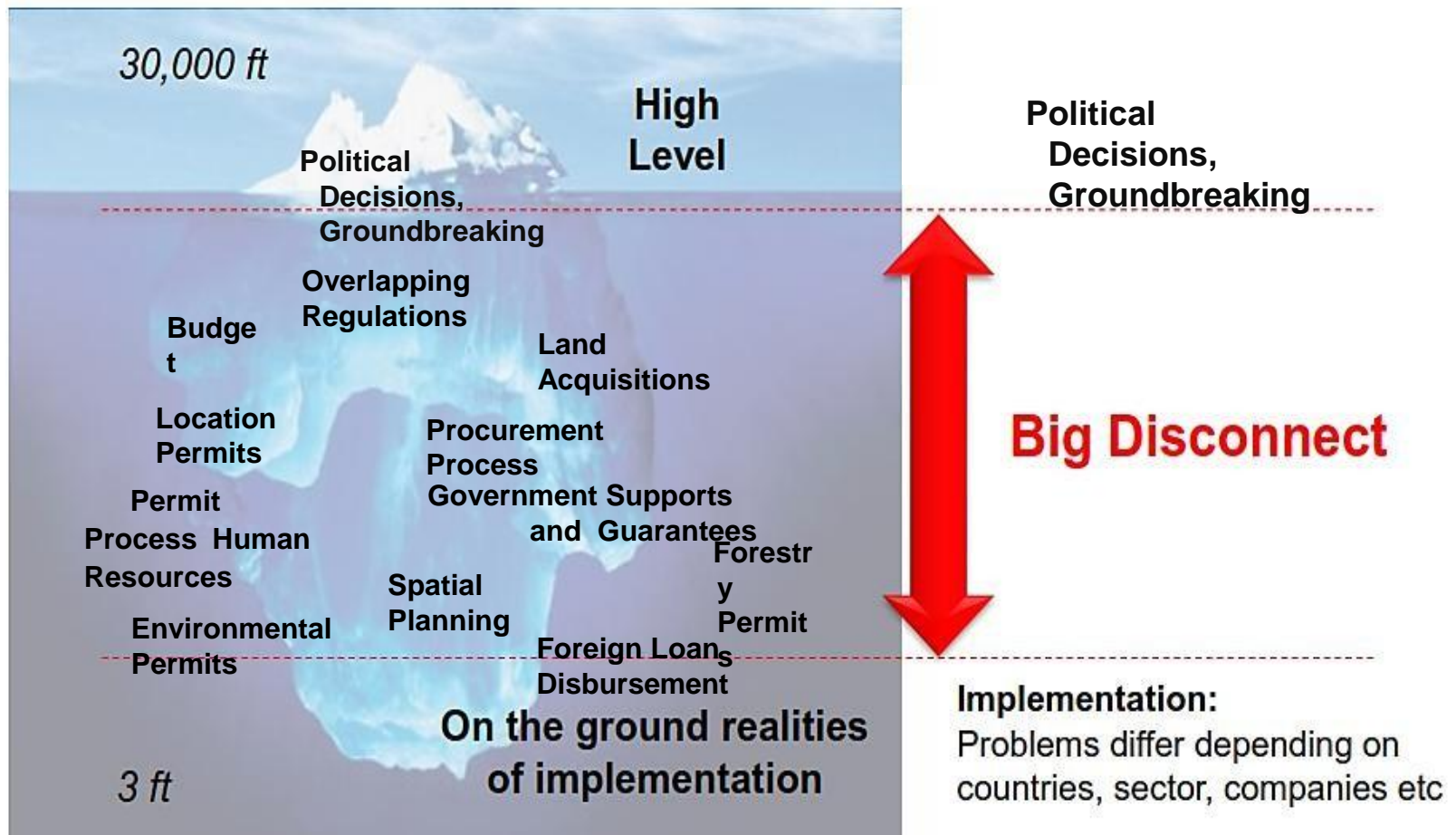
National Strategic Projects* criteria (Pres. Reg pending):

- | | |
|-----------------------------|--|
| Basic Criteria a | <ul style="list-style-type: none"> Conform with National Medium Term Planning (RPJMN) and sectoral strategic planning (<i>Renstra</i>). Conform with spatial planning (not changing Green Open Space/<i>Ruang Terbuka Hijau</i>). |
| Strategic Criteria c | <ul style="list-style-type: none"> Has strategic roles to the economy, social welfare, defense, and national security (contribute to GDP, employment, socio-economy and environment impacts). Interconnected across infrastructure sector and regions (complementary effect). Project distribution across regions |
| Operational Criteria | <ul style="list-style-type: none"> New project proposals must have a Pre-FS study. Investment cost must be more than IDR 100 Billion or the project must have strategic roles in improving regional economy. |

- Priority infrastructure projects are a **subset of PSN**.
- Priority infrastructure and PSN projects will be **coordinated under KPPIP (Committee for Acceleration of Priority Infrastructure Delivery)** as Project Management Office (PMO).
- Priority infrastructure projects will be given **added funding facilities to ensure quality project preparation**, on top of the

facilities and permit acceleration provided to PSN

... However, Indonesia is facing numerous issues in implementing the



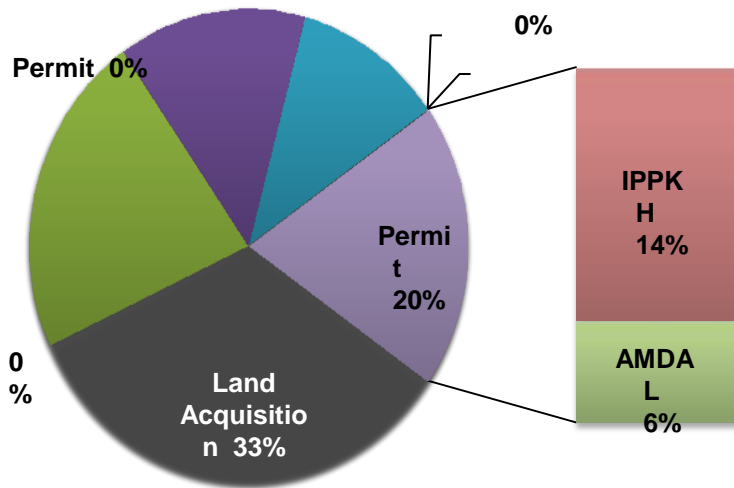
Lack of synchronization between political decisions and implementation creates a big gap which hindered project implementation. Comprehensive solutions need to be introduced to overcome the issues and accelerate infrastructure provisions needed by Indonesia.

Main causes for the infrastructure deficits includes delivery bottlenecks, under investments and lack of government led funding schemes

The key issues and bottlenecks faced by a selection of priority projects:

Official expenditure data in infrastructure is around 5% of GDP – The actual percentage of APBN and APBD is actually lower, since this data includes costs of office buildings for related ministries.

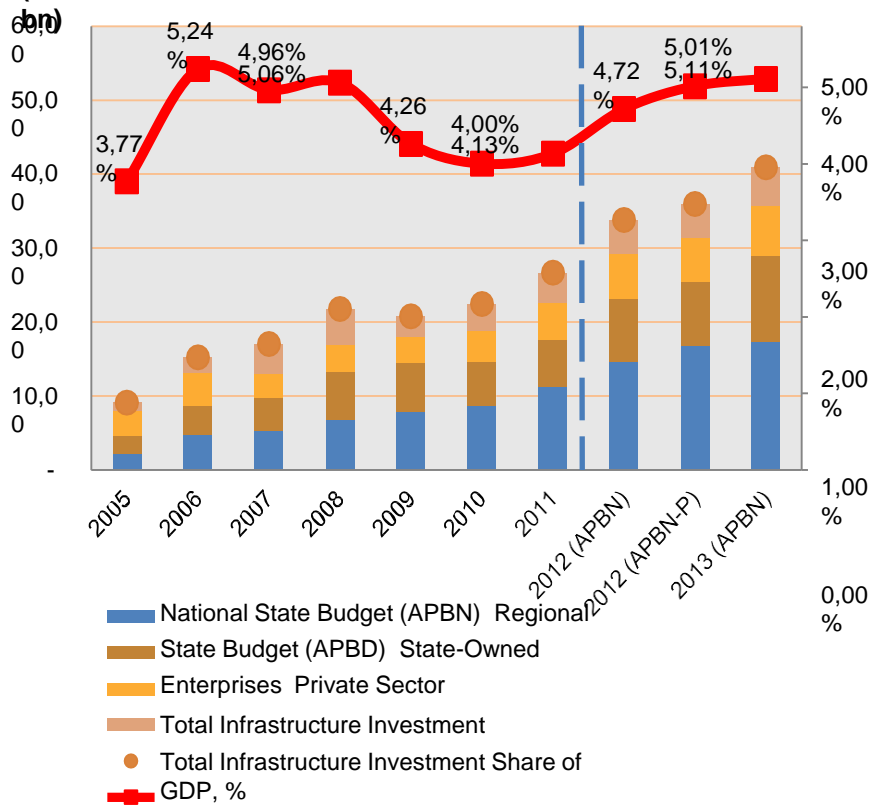
Main issues:



Other cross cutting issues faced by many infrastructure projects:

- Ambiguous legal and regulatory frameworks
- Lack of long-term financing
- Inadequately prepared projects
- Poor asset management
- Lack of consequence management
- Weak human capital and poor institutional capacity
- Lack of industry capacity
- Absence of community support for infrastructure projects

(USD



In the next 5 years, Indonesia needs IDR 4,796 trillion for infrastructure development, 36.5% of which comes from private sector

Infrastructure Projects Investment Needs by Sector (2015-2019)

Infrastructure Projects Investment Needs by Sector (2015-2019)					In IDR trillion
SECTOR	State Budget	Regional Budget	SOE	Private/PPP	Total
Roads	268	200	65	200	733
Railways	93	-	11	122	226
Sea Transportation	260	-	238	93	591
Air Transportation	64	5	50	25	144
River Transportation & Ferries	37	-	10	-	47
Urban Transportation	61	15	5	5	86
Electricity	120	-	445	435	1000
Oil & Gas	4.3	-	152	352	507
Information & Communication Technology (ICT)	15	15	27	223	280
Water Resources	196	68	7	180	451
Drinking Water & Sanitation	131	198	44	30	403
Housing	184	44	13	87	328
Total funding needs	1,433.3	545.3	1,066	1,751	4,796
Allocation percentage	29.88%	11.37%	22.23%	36.52%	100%

The above infrastructure investment is required in order to achieve 7% annual economic growth

Thus, Indonesia is looking to boost private sector participation in various stages of infrastructure preparation

	Private Sector Roles	Improved Support for Private Sector
Planning	<ul style="list-style-type: none"> Propose unsolicited projects Prepare OBC (Outline Business Case) and other planning documents 	<ul style="list-style-type: none"> The PPP Pres. Reg provides incentives for unsolicited projects New procurement regulation and OBC facilities from KPPIP and Bappenas support quality consultant procurement Debottlenecking support from KPPIP
Preparation	<ul style="list-style-type: none"> Prepare FBC (Final Business Case) Provide Transaction Advisory Acquire land* 	<ul style="list-style-type: none"> New procurement regulation and PDF/TA facilities from PPP unit under MoF support quality consultant procurement Direct appointment allowed for investors that propose power projects, which have acquired the land Land acquisition regulations and Land Capping Fund provide certainty and acceleration
Implementation	<ul style="list-style-type: none"> Design and construct infrastructure Operate and maintain infrastructure 	<ul style="list-style-type: none"> Debottlenecking support from KPPIP Fiscal support and guarantee from MoF and IIGF improve project bankability Availability payment from state and regional budgets for construction, operations and maintenance Long-term financing by PT SMI and PT IIF

*) Under most projects, land acquisition will be done by the Government through BPN. However, in a few projects, such as mine-mouth power plant, land can be provided by private sector.

Recent policies aim to create a more conducive investment climate for private sector

Presidential Regulation (PR) No. 38/2015 regarding PPP (4th revision of PR No. 67/2005)

Government has revised the original regulation on PPP (Presidential Regulation No. 67/2005) three times to accommodate more concerns regarding PPP development in Indonesia. For example, the revision accommodates international institutions to provide feasibility study/ project preparation support, criteria and compensation for unsolicited project proposal, the need of stronger fiscal support from Ministry of Finance.

Presidential Regulation (PR) No. 39/2014 regarding the New Negative List of Investment

Government has revised the previous Negative list of investment to encourage more foreign businesses to take part in infrastructure development. For example, in transport sector, foreign ownership of seaport facility increased from 49% to 95% during PPP concession period. The government also allows 100% foreign ownership of power plant >10MW during PPP concession period (previously 95%).

Minister of Energy & Mineral Resources Reg. No. 3/2015 regarding Procedure for Power Purchase through Direct Selection and Direct Appointment

This regulation allows for power purchase from mine mouth coal power plant, coal power plants, gas/micro gas power plants, and hydro power plants can be done with direct selection and direct appointment with the purpose to accelerate procurement process.

Minister of Finance Regulation No. 190/PMK.08/2015 on Availability Payment in PPP for Infrastructure

This regulation allows the use of Availability Payment mechanism using State or Regional budgets to ensure sustainable quality service from PPP infrastructures, optimize Value for Money of State and Regional budgets, and provide an option of return of investment to attract Private's interests in PPP projects.

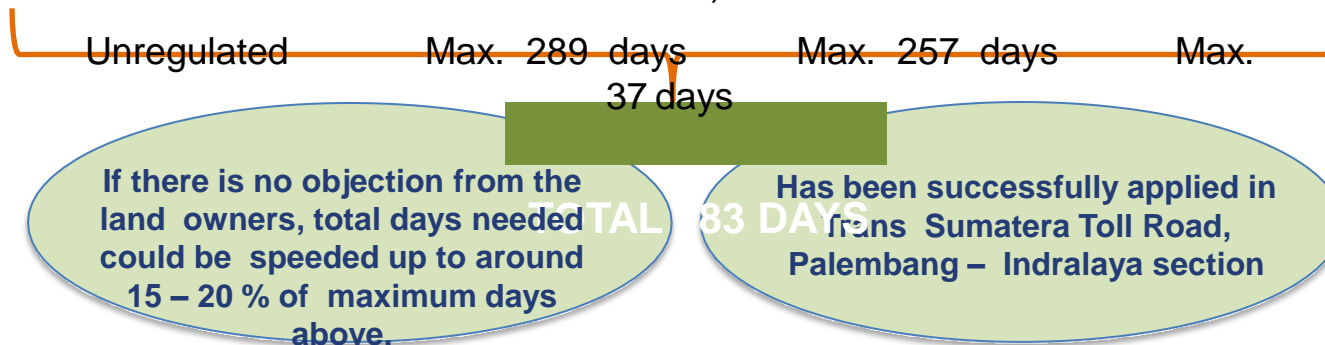
Presidential Regulation No. 82/2015 on Government Guarantee for Direct Lending from International Finance Institution to State Owned Enterprises

This regulation allows for Bilateral/Multilateral organizations to provide direct lending to State Owned Enterprises without going through State Budget processes and parliament approval. Central Government provides guarantee to Bilateral/Multilateral organizations which provides direct lending based on the risk management of State Budget.

Additionally, Law No. 2/2012 aims to accelerate land acquisition and it has been implemented successfully



Time span in working days (Assuming there will be objections from land owners):



Implementation of Law No.

2/2012:

Law No 2 / 2012

BPN as central agency in implementation of land acquisition

More detailed regulation on implementation of land acquisition

Neutral decision making regarding community rejection

Better Land Appraisal Team Appointment

Less bureaucratic land right revocation process

Successful case of the implementation of the New Law



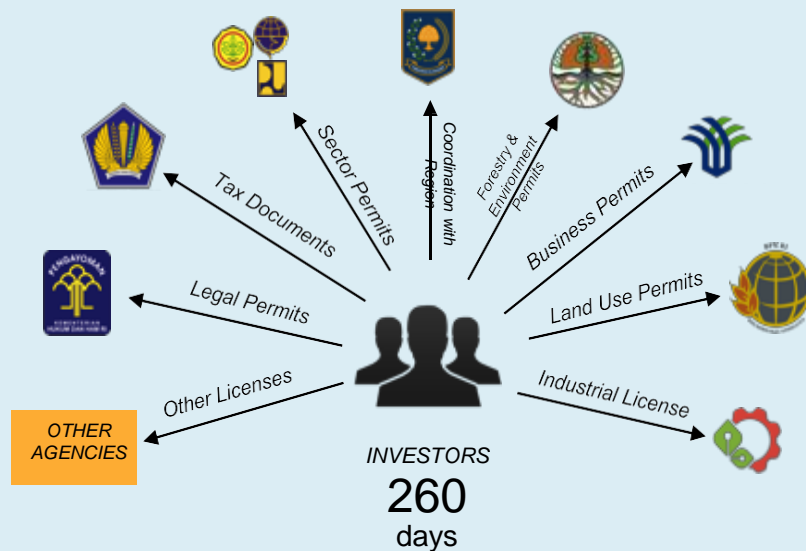
- The best example of a successful implementation of the law is the city of Bojonegoro, where the civil society was socialized early to the law and where the land appraisal and compensation amount were attractive.
- **Outcome: the overall land acquisition process for the Java North Line Double Track Rail project took less than 2 years.**

The government has also centralized and shortened approval process, permits and license issuance



The Indonesian Investment Coordinating Board (BKPM) launched the One Stop Service Center (PTSP in Indonesian) on January 26th 2015 in an effort to streamline investment permits for all sectors. This program gives BKPM the authority over 134 key permits usually issued by the 22 different ministries/agencies. The PTSP would put the permit issuance process into a single roof in BKPM thus ensuring faster process and clear guidelines. The process is expected to be optimal by April 2015.

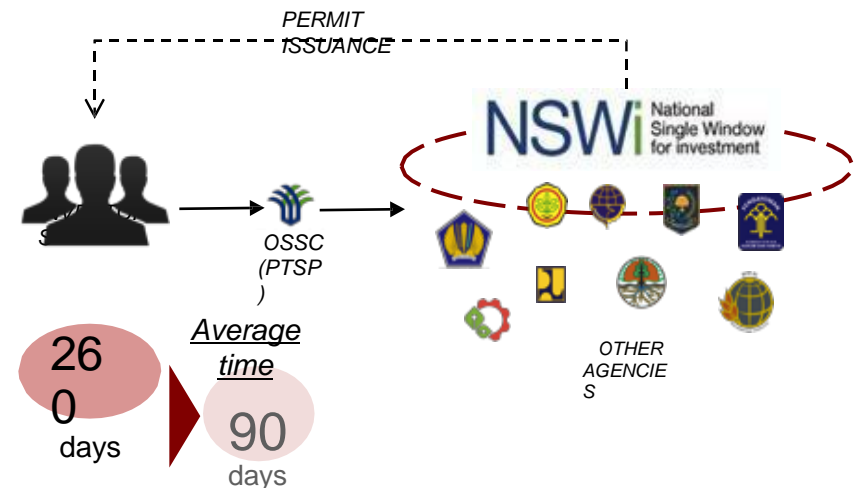
Before PTSP



In the past investors have had to seek permits and licenses from individual government agencies. They would refer to BKPM for business permits while refer MoF for taxes. Investors would need to go to ministry of law for legal permits while going to sector ministries for sector/operational permits.

Before the PTSP it takes on average 260 days to issue a full business permit. The worst, licenses for power plants - is estimated to take up 930 days or almost 3 years.

After PTSP



The new One Stop Service Center would encompass 22 different ministries and agencies into a single service center for investment managed by the National Single Window for Investments. This integrated coordination would accelerate permits from an average of 260 days to only 90 days. It even promises to expedite power plant permits to just 240 days. The OSSC provides consultation, front office and administration services to investors. The office provides issuance for investment, business expansion, tax levies, import and export permits, and human capital permits.

Indonesia needs international partners in infrastructure development

Expectation

S



Invest in and develop infrastructure and in industries that support infrastructure development and provide demand for the infrastructure



Bring intellectual know-how in preparing, designing, constructing, operating and maintaining infrastructure



Intensify cooperation with domestic players through increased local content and knowledge transfer



Collaborate with State Owned Enterprises in infrastructure investment

Incentive

S



Permits simplification and acceleration through deregulation



Tax incentives



Fiscal support and guarantees to ensure bankability



Debottlenecking and land acquisition support

Thank You

Terima Kasih



invest in
remarkable
Indonesia