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## ECONOMIC GROWTH

# Investment growth crucial for 2018

**Marchio Irfan Gorbiano**

THE JAKARTA POST/JAKARTA

The government will use its resources to maintain last year's export and investment growth momentum into this year as it serves as a key pillar for economic growth along with household consumption, a senior minister said.

Finance Minister Sri Mulyani Indrawati said on Monday the government would focus on sustaining the positive momentum in investment as well as exports this year.

"It is the focus of the government to maintain the momentum of recovery in investment and exports in 2018. We are prepared to use any [policy] instruments," she said at a discussion in Jakarta on Monday.

Sri Mulyani added that she has instructed her deputies, namely fiscal policy head Suahasil Nazara, Director General of Taxation Robert Pakpahan as well as Director General of Customs and Excise Heru Pambudi, to review all production sectors in order to formulate policies that would encourage companies to expand in 2018.

The minister also said she would work with relevant ministries, including the Trade Ministry and the Industry Ministry, among others, to assess the kinds of fiscal instruments that the government could use in order to encourage investment growth in the private sector.

Investment grew 7.11 percent year-on-year (yoy) in the third quarter of 2017, data from the

Central Statistics Agency (BPS) revealed, higher than average investments in the last two years. Investments were recorded at 4.5 percent and 5 percent in 2016 and 2015, respectively.

Meanwhile, exports rose 17.27 percent yoy and imports increased to 15.09 percent in the third quarter.

Sri Mulyani said the increase in exports was due to the recovery in commodity prices. Imports, meanwhile, increased mainly in capital goods as well as raw materials, making it a "leading indicator" in the next quarter or in the first half of 2018 to assess the domestic industry, she said.

Trade surplus was recorded at US\$12.02 billion in the January-November period last year, surpassing the overall surplus in 2016 of \$9.5 billion, driven by growth in the country's manufacturing industry, Sri Mulyani said.

She also projected that consumption could be maintained following international events, such as the International Monetary Fund (IMF) and World Bank annual meeting as well as the quadrennial sporting event, the Asian Games, which will be held in Indonesia in the second half of this year.

The Asian Games are scheduled to be held from Aug. 18 to Sept. 2 in Jakarta and Palembang, South Sumatra, while the IMF-World Bank meeting will be held in Nusa Dua, Bali, on Oct. 12 to 14.

"With those international events we hope consumption can

grow to above 5 percent," she said.

Household consumption, which accounted for more than half of the country's gross domestic product (GDP), was below expectations at 4.93-percent growth yoy in the third quarter last year. The indicator traditionally grew at around 5 percent.

Indonesian Chamber of Commerce and Industry chairman Rosan P. Roeslani said while private sectors had the capital to expand its businesses, concerns remained on the demand side, particularly for consumption.

"The private sectors have the capital to expand but have yet to spend [the capital]. It depends on the government to encourage people to spend by formulating sustainable policies," he said.

Bank Mandiri senior economist Andry Asmoro said the government would need to make sure that the execution of the policies would not create an unnecessary nuisance for businesses if the government wanted to rely on investments to spur economic growth.

He added that legal certainty, as well as easier procedures for businesses to obtain permits, could also drive investment.

"The permit [issuance] should be transparent and concise, and not only for big businesses but also for small and medium enterprises [SMEs]," he said, adding that education was also vital to make sure the businesses have adequate human resources when it expands. (srs)

# Govt to scrap 40 unfavorable decrees

Viriya P. Singgih

THE JAKARTA POST/JAKARTA

The Energy and Mineral Resources Ministry is preparing to scrap at least 40 decrees that it believes put off investors or are irrelevant in the current business environment.

The ministry seeks to revoke at least 10 decrees for each of the four sectors under its supervision, namely oil and gas, minerals and coal, electricity and renewable energy.

The ministry's secretary-general, Ego Syahrial, said on Tuesday that his office was reviewing all of the decrees it had issued.

"We plan to announce [the result] in February," Ego said.

Among the regulations the ministry eyes for possible elimination were certificate requirements, such as for the use of certain aircraft and pressure vessels in petroleum-related operations, he added.

Previously, Ego said the ministry was drafting a new decree on open data systems that would afford registered individuals online access to oil and gas field data.

That regulation may pave the way for a review of Decree No. 29/2017 on oil and gas licensing, which obligates investors to meet certain requirements to obtain Indonesia's oil and gas data, such as from seismic surveys as well as from exploration and exploitation activities.

Business players have welcomed the ongoing review of decrees deemed detrimental to the business climate and expect better-formulated rules to govern the sectors.

Indonesian Private Electricity Producers Association (APLSI) chairman Arthur Simatupang said he hoped the ministry would

Ministry puts all decrees under review

At least 40 decrees to be revoked

Business players express hopes for better business climate

evaluate several regulations in the electricity sector, particularly pertaining to tariffs, in order to rekindle investors' appetite.

"Several regulations on electricity tariffs, whether for power generated from fossil fuels or by renewable power plants, have scared investors away," Arthur said.

Decree No. 19/2017, for instance, caps tariffs for electricity produced by mine-mouth and regular coal-fired power plants.

In the case of mine-mouth power plants, it dictates that if the cost to supply electricity (BPP) in one region is higher than the national average, the electricity tariff there should be capped at 75 percent of average national rates.

As for regular coal-fired power plants with a capacity below 100 megawatts, it stipulates that if the BPP is lower than the national average, the tariffs must not exceed the local BPP.

Developers of renewable power plants have repeatedly voiced concerns over Decree No. 50/2017 on the use of renewable energy for power generation, which they claim makes domestic renewable projects commercially unfeasible.

Among other things, the decree caps the tariff on electricity from renewable energy sources, except geothermal, hydro and waste, at 85 percent of the BPP if it is high-

er than the national average.

"It would be better if the government gradually adjusts the price caps," said Halim Kalla, the Indonesian Chamber of Commerce and Industry's (Kadin) representative for renewable energy.

He explained how such an adjustment might be carried out, namely by applying a cap of 115 percent of the BPP in the first seven years of operation of a power plant and reducing it to 100 percent in the next seven years, before eventually lowering it again to only 80 percent.

Meanwhile, Indonesian Mining Institute (IMI) chairman Irwandy Arif expressed his hope for an examination of decrees contradicting the 2009 Mining Law.

In early 2017, the ministry issued decrees No. 5/2017 and No. 6/2017, which allow miners to continue exporting copper concentrates, certain amounts of low-grade nickel and washed bauxite. The arrangement, Irwandy claims, contravenes the law, which imposes a total ban on mineral ore exports in 2014 and requires miners to build mineral processing facilities to help spur the downstream industry.

In the BMI Mining Risk/Reward Index issued last May by Fitch Group's BMI Research, Indonesia only gets 25.4 points out of 100 in the category of mining regulation, indicating the unattractiveness of the country's mining sector.

"Major Asian mining countries remain set on resource nationalistic policy stances that will significantly impact the mining sector in the near future. Countries most at risk remain the largest mineral producing countries in Asia, such as Indonesia and China," BMI Research said.

BANKING INDUSTRY

# Major lenders told to submit plans for funding green projects

**Anton Hermansyah**

THE JAKARTA POST/JAKARTA

The Financial Services Authority (OJK) has obliged big and medium-scale lenders as well as branches of foreign banks to submit plans for funding sustainable projects this year in a move aimed at pushing financing for ecological projects and businesses.

OJK senior executive analyst for sustainability financing Edi Setijawan said on Tuesday that the lenders had to submit a separate document in addition to their banking business plan (RBB) every year.

"If you have a financing program for organic farming, a waste management company or a building with green certification, you have to include it in the sustainable financing plan," he said during a seminar at the Indonesian Stock Exchange (IDX) in Jakarta.

Beginning in 2019, he added, those lenders would also need to issue sustainable finance reports describing sustainability-related financing programs carried out in the previous year. The reports would need to be submitted to the OJK and published on corporate websites separately from annual and financial reports by April 30 each year.

The obligations on sustainability financing and reporting are

based on OJK Rule (POJK) No 51/2017, which was issued in the middle of last year. The rule applies to all financial service companies — banks, insurers, leasing firms, pension funds — debt instrument issuers and public companies, but it will be implemented in steps until 2025.

It applies first to big lenders categorized as BUKU IV institutions with core capital above Rp 30 trillion (US\$2.24 billion) and medium lenders from the BUKU III category with core capital between Rp 5 trillion and Rp 30 trillion.

Smaller banks of the categories BUKU I — with core capital below Rp 1 trillion — and BUKU II — with core capital between Rp 1 trillion and Rp 5 trillion — must follow the rule by 2020, as must debt instrument issuers and public companies with total assets exceeding Rp 250 trillion.

Meanwhile, pension funds are the last on the timeline, as their reporting obligation will begin only in 2025.

"We created this rule to push more financing for green projects and businesses. At least we can monitor the financing commitments through the reports," Edi said.

He added the authority had conducted 29 training events for corporate secretaries since 2016. The workshops were aimed at fa-

miliarizing companies with sustainability reports.

However, there will be no financial punishment of companies failing to or being late in submitting the reports. The OJK will only issue written warnings to violators of the rule.

"We are still in the socialization phase until 2022. Our priority is to get more and more companies to publish sustainability plans and reports," Edi said.

Some companies appear to be confused about the format of the requested documents, as the OJK has yet to provide a template in addition to its guidelines.

"Is there any template of the document that we can use as an example?" pharmaceutical company PT Kalbe Farma corporate communications manager Melina Karamoy asked.

OJK sustainable finance researcher Istiana Maftuchah responded that the OJK would currently accept any format for the document, as long as it was made according to the guideline. After seeing the submitted reports there would be a chance for the authority to provide templates.

"We deliberately have not put many details in the reporting guidelines, because sectors have varying degrees of detail on sustainability programs, and this is just the beginning," she said.

# 'Cantrang' ban still in place despite protests

Moses Ompusunggu  
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The government has said a ban on the use of environmentally damaging fishing equipment known as *cantrang* (seine nets) would not be revoked despite outrage from fisherfolk staging rallies across Indonesia over the past two days.

"[The ban] remains in place," Coordinating Maritime Affairs Minister Luhut Pandjaitan said on Tuesday.

Thousands of fishermen in Tegal, Central Java, staged a rally on Monday to voice their displeasure over the prohibition, blockading a part of the city's outer ring road as part of their protest against what they deemed as a policy that hurt their pockets.

A group of fishermen in Lamongan, East Java, also voiced their discontent over the prohibition, saying no studies had been conducted to prove that *cantrang* harmed coral reef.

Fishermen use *cantrang* to reach the seabed, where it sweeps up marine life using fine mesh. Experts say as a consequence, fish spawn, which are important for the habitat's sustainability, are also caught.

Maritime Affairs and Fisheries Minister Susi Pudjiastuti issued a regulation in 2015 banning the use of *cantrang* to protect the country's marine ecosystem and promote sustainable fishing.

The ban was initially introduced in 1980; however, its full implementation faced delays amid unceasing repudiation from fishermen who had long used *cantrang* to earn a living.

President Joko "Jokowi" Widodo also revoked the 2015 policy last May following complaints from thousands of fishermen worried about the impact of the ban on their livelihoods, allowing them to use *cantrang* until December last year. The ban has been in effect since Jan. 1.

The National Commission on Human Rights (Komnas HAM) said in October that the *cantrang* ban violated the constitutional rights of fishermen.

Komnas HAM argued that the sustainable harnessing of natural resources in the sea could not be done in a way that neglected the rights of people, especially fishermen.

Luhut claimed he had met with a team of scientists from the University of Indonesia (UI) and said *cantrang* could be used by fishermen as long as the equipment did not reach the seabed and was

not used for a prolonged period of time.

Asked whether the study could be used by the government to review the *cantrang* prohibition, Luhut, a retired Army general, said, "Don't speculate."

Luhut said on Monday as quoted by *kompas.com* the issue had also been discussed at a high-level meeting on the same day, when he gathered a number of ministers, including Susi.

Susi, however, refused to answer questions from journalists after the meeting.

The ministry's director general for fishing, Sjarief Widjaja, did not answer a text message and phone calls from *The Jakarta Post* on

Tuesday.

In December, the ministry's secretary-general, Rifky Effendi Hardijanto, said fishermen across Indonesia had to obey the prohibition and that it was common for people to disagree over a policy.

Rifky said the ministry was working on providing new, eco-friendly fishing equipment to fishermen who previously used *cantrang*.

In some regions, fishermen have voluntarily stopped using *cantrang* as they are concerned about the environmental impacts.

Muhammad Arsyad Bua, chairman of the Indonesian Fishermen Association's (HNSI) chapter in Makassar, South Sulawesi, said of around 11,000 fishermen

in the organization, 110 still used *cantrang* to catch fish.

"We are aware of the environmental destruction caused by the use of *cantrang*," Arsyad said.

However, Arsyad said the government had to ensure the *cantrang* ban would not harm the livelihoods of fishermen, including by providing cash assistance during the transition to using more environmentally friendly catching equipment.

"There are fishermen who cannot buy new fishing equipment because they don't have the money to do so," Arsyad said.

AMAN ROCHMAN CONTRIBUTED TO THIS  
ARTICLE FROM LAMONGAN, EAST JAVA.

# RI sets up aid agency for int'l assistance

Agnes Anya and Dian Septiari

THE JAKARTA POST/ JAKARTA

Indonesia wants to enhance and better manage its existing international assistance programs by setting up an agency called Indonesian Aid.

The country is allocating an initial budget of Rp 1 trillion (US\$70 million) in the 2018 State Budget to support its diplomatic relations particularly, but not limited to countries in the South-South and Triangular Cooperation (SSTC), a cooperation scheme between developing countries in the Asia, Africa and the South Pacific.

"The commitment to enhance South-South and other technical cooperations shall be gradually strengthened with the establishment of a single agency that is responsible for the delivery of Indonesia's international assistance," said Foreign Affairs Minister Retno LP Marsudi during her 2018 annual press statement in Jakarta on Tuesday.

The Rp 1 trillion assistance, she said, was set to be disbursed to at least 31 developing countries under the SSTC scheme, including to Palestine, to improve cooperation in various fields ranging from food security and fisheries to small and medium enterprises (SMEs) and micro finance.

Nonetheless, the aid can also be allocated to other regions, including developed ones, under certain circumstances.

"The aid priority depends [on circumstances], which means that if there is a disaster or humanitarian crisis [in any country] we will help with the funds," she said after the press statement.

She said the fund would be managed by an agency under the Foreign Ministry, which would consist of officials from other ministries, such as the Finance Ministry. However, the details of the establishment of the agency are currently being discussed, along with the procedures for the disbursement of assistance.

Although the assistance funds have been allocated in the state budget, there is as yet no legal umbrella governing the disbursement of them.

It is expected that the deliberation of the matter would be finished within the first three months of this year.

Retno also said that as a middle-income country, which as of the third quarter of 2017 booked a gross domestic product (GDP) of more than Rp 12 quadrillion, Indonesia has been involved in capacity-building cooperation programs with many countries, especially those in the Pacific region.

"However, currently the work [and funding] are scattered throughout separate ministries," she said.

As a result, at times there are overlapping programs or the funds cannot be disbursed in a timely manner because of long procedures.

Indonesia allocates Rp 1 trillion for initial budget of Indonesian Aid

FM Retno lays out eight focuses for Indonesia's foreign policy in 2018

Hence, Indonesian Aid is expected to integrate the programs and ease the procedures, she said.

Separately, Foreign Ministry spokesman Arrmanatha Nasir said the integration system was also meant to avoid any possibility of corruption.

Aside from Indonesian Aid, Retno said Indonesia's foreign policy in 2018 would have eight other focuses.

One, she said, would be to strengthen ASEAN unity and centrality by supporting Singapore's chairmanship. "Indonesia shall actively strive for ASEAN and China to produce a practical and effective CoC [code of conduct] for the sake of stability and security in the South China Sea."

Indonesia is also supporting the ASEAN Secretariat by constructing a new building, the groundbreaking of which was conducted on Friday.

Another focus would be to enhance Indonesia's peace and humanitarian diplomacy. "Indonesia shall enhance partnerships with like-minded countries, which will be a tangible contribution for world peace and prosperity," said Retno.

Other focuses include hosting a number of important multilateral events such as the Asian Games and international conferences and intensifying the campaign to be selected as a non permanent member of the United Nations Security Council for the 2019 to 2020 period.

Indonesia will also continue to safeguard its borders and sovereignty through the intensification of boundary delimitation negotiations, to strengthen the protection of Indonesians abroad, to intensify trade and economic cooperation negotiations in various forms and to strengthen the fight against transnational crimes, including human trafficking, illegal and unreported fishing, illegal drug smuggling and radicalism and terrorism.

Retno reiterated that Indonesia's position on Palestine was very clear, firm and consistent, including on the status of Jerusalem. "Indonesia's support for Palestine is not only in the form of political support, but also economic support and technical cooperation," she said.

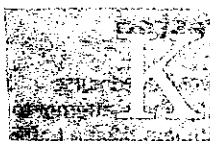
Retno also introduced the Treaty Room website to provide the public with online access to every international agreement that has been agreed upon since Indonesia's independence.

Afterwards, Retno invited the guests to lunch at the new *Kantin Diplomasji* (Diplomatic Canteen).

Jan 10, 2018  
J. Post

Jan 10, 2018  
J. Rossi

## High tax revenue target



Key macroeconomic indicators for 2017 in Indonesia's fiscal consolidation, as Finance Minister Sri Mulyani Indrawati announced Monday, all showed significant improvements, with the budget deficit controlled at

2.4 percent of gross domestic product. This is lower than the estimated 2.9 percent.

Total budget disbursement hit an all-time record of 93.1 percent, with capital expenditures rising to 89 percent from 82 percent in 2016 and goods procurement to 95 percent from 85 percent. Government debts were also well controlled below 30 percent.

The biggest disappointment in the fiscal sector was tax revenues, which were still 8 percent short of the target in spite of the nine-month tax amnesty, said to be one of the world's most successful tax pardons. The tax-to-GDP ratio also remained less than 11 percent, still far below the internationally recognized 15 percent minimum threshold for stimulating economic growth.

Businesspeople therefore raised concerns when the 2018 state budget set the tax revenue target 20 percent higher than last year's, based on the assumption that the economy would grow 5.4 percent against last year's 5.01 percent. The government seemed confident that the Rp 4.86 quadrillion (US\$365 billion) in hidden assets taxpayers declared during the tax amnesty would significantly broaden the tax base.

But business circles and many analysts still consider the 20 percent increase in the tax revenue target too ambitious despite the larger tax base, because projected growth this year is only 5.3 percent to 5.5 percent, or a mere 0.50 percentage point higher than last year. In fact, between 2015 and 2017 when growth averaged only 5 percent, tax receipts increased by only 8.5 percent in 2015, by 3.6 percent in 2016 and 4.5 percent in 2017.

Businesspeople fear tax officials might resort to inordinately repressive measures to achieve the unusually high revenue target by focusing more on intensifying measures ("hunting in the zoo") for registered taxpayers instead of netting new taxpayers.

True, the unrealistic tax revenue target could affect the credibility and integrity of tax officials: Unrealistically high estimates may force them to resort to any and all means to achieve the target, while unrealistically low targets could make them complacent and tempt them to pocket the revenues collected in excess of the target.

Minister Sri Mulyani seemed aware of the concern, because she assured businesspeople at Monday's gathering in no uncertain terms that she would see to it that tax officials would not resort to threatening measures, even if the 2018 tax revenue target had been increased by 20 percent to Rp 1.62 quadrillion.

We rest assured that the target is based on an accurate tax potential map, drawn by connecting the databases and benchmarks of all tax offices across the country. Moreover, tax officials are now authorized by law to access taxpayers' financial information (bank accounts) for taxation purposes.

Given her track record, let's give the minister the benefit of the doubt.

# Opposition parties aim to control Java before 2019

Safrin La Batu and Nurul Fitri Ramadhani

THE JAKARTA POST/JAKARTA

With around half of voters residing in Java, the nation's main opposition parties — the Gerindra Party and the Prosperous Justice Party (PKS) — are working to forge an alliance in the island's three major provinces, though their attempt may falter after failing to find a worthy candidate in East Java.

Political alliances in regional elections do not always reflect the political structure on the national stage, with members of the ruling coalition and those of the opposition often forced to stand behind the same candidates. However, Gerindra and the PKS believe that finding the right ally in Java is key.

Gerindra deputy chairman Fadli Zon said all parties should begin thinking about forming a political alliance for the 2019 presidential election.

The party has said it will nominate Prabowo Subianto again in 2019. The former general, who lost to President Joko "Jokowi" Widodo in 2014, is still seen as Jokowi's strongest rival.

"West Java, Central Java and East Java account for half of the total population. It would be strategic for the parties to aim to win [the regional elections] in those regions. Winning the presidential election is our top goal," Fadli said.

In the 2014 elections, the three provinces were home to 48 percent of the total number of voters.

Gerindra and the PKS have brought the National Mandate Party (PAN), which joined the ruling coalition in 2016, onto their bandwagon. Despite having a representative in Jokowi's Cabinet, PAN has been critical



JP/Zul Trio Anggono

**Down the gauntlet:** Gubernatorial candidate Ida Bagus Rai Darmawijaya Mantra (*left*) and his running mate I Ketut Sudikerta (*right*) lead a parade after officially announcing their run for Bali governor at Renon Park in Denpasar on Tuesday. They are supported by the Bali People's Coalition (KRB) and seven political parties.

Gerindra, PKS, PAN aim to forge coalition in Java provinces

Coalition part of strategy to challenge Jokowi in 2019

of Jokowi and has often stood against the government's policies at the House of Representatives.

The three parties have formed an alliance in West Java, the country's most-populous province, throwing their support behind retired two-star general Sudrajat and Bekasi Deputy Mayor Ahmad Syaikhu.

The pair will go up against the front-runner, Bandung Mayor Ridwan Kamil, who is paired with Uu Ruzhanul Ulum, a member of the United Development Party (PPP). The pair is supported by the NasDem Party, the PPP, the National Awakening Party (PKB)

and the Hanura Party.

Meanwhile, the ruling Indonesian Democratic Party of Struggle (PDI-P) has thrown its support behind former military general TB Hasanuddin and former police general Anton Charliyan.

Gerindra, the PKS and PAN have also secured their alliance in Central Java by endorsing former energy and mineral resources minister Sudirman Said. The three parties have engaged the National Awakening Party (PKB), pairing Sudirman with PKB executive Ida Fauziah, who is currently chairwoman of the PKB faction at the House.

However, it is likely that the parties will fail to repeat their success in East Java, with the only candidate having a chance of winning the election in the province, Yenny Wahid, declining their offer to become their nominee.

East Java has become a battlefield for politicians linked to Nah-

dlatul Ulama (NU), to which most people in the province are affiliated. Yenny, the daughter of former NU chairman Abdurrahman "Gus Dur" Wahid, is seen to have what it takes to beat two other NU contenders, Deputy Governor Saifulah Yusuf and Social Affairs Minister Khoffah Indar Parawansa.

Yenny has reportedly refused to forge a political deal with the PKS, which promotes a brand of Islam that is widely seen as anti-theological to that of NU. "We hope we can team up to challenge the incumbent in the 2019 presidential election. The regional elections, including in East Java are part of our strategy ahead of 2019," said PKS deputy secretary-general Mardani Ali Sera.

As of today, Gerindra, the PKS and PAN have yet to find a candidate to endorse and have been considering the idea of joining the PDI-P coalition and endorsing Saifullah.

Fadli acknowledged that plans to form a coalition with fellow opposition parties did not always work out as hoped, citing the fact that his party and the PDI-P had become strange bedfellows in Papua, where incumbent Lukas Enembe is supported by other political parties.

Nevertheless, the three parties have formed an alliance in North Sumatra, the largest province outside Java.

Charta Politica executive director Yunarto Wijaya said many factors were involved in the forming of coalitions in regional elections.

"It's about finding a notable figure [...] The coalition pattern at the regional level is fluid," he said

SUHERDJOKO, APRIADI GUNAWAN AND NETHY DHARMA SOMBA CONTRIBUTED TO THIS STORY FROM SEMARANG MEDAN, PAPUA

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## KPK questions lawmakers in e-ID case

**JAKARTA:** The Corruption Eradication Commission (KPK) is probing the possible involvement of other suspects in the multitrillion-rupiah e-ID graft case and has summonsed a number of politicians for questioning.

Investigators are scheduled to question five former and current lawmakers as witnesses for businessman and suspect Anang Sugiana Sudihardjo in the case on Tuesday. They include North Sulawesi Governor Olly Dondokambey and former lawmaker Jafar Hafsah from the Democratic Party (PD).

Olly was a member of the House of Representatives' Budget Committee during the deliberation of the Rp 5.9-trillion (US\$439 million) e-ID procurement project for the period of 2010 to 2011. Meanwhile, Jafar served as head of the PD faction at the House.

KPK spokesman Febri Diansyah confirmed that investigators continued to probe the deliberation of the e-ID project, including suspected fund flows to several lawmakers.

The lawmakers, including Olly and Jafar, were implicated in the case when their names were mentioned in the indictment of former Home Ministry officials Irman and Sugiharto, who were tried in early May last year. Both former officials were convicted two months later for their roles in the graft case, which reportedly caused Rp 2.3 trillion in state losses. — *JP*



# 2018 infrastructure outlook:

## Opportunities, challenges

**Aamay Sukaesih**  
AKARTA

### mandiri

We estimate that the infrastructure sector will grow faster in 2018 than in 2017. In the Government Work Plan 2018, the government aims for infrastructure development to help achieve long-term gross domestic product (GDP) growth of 7 percent.

Meanwhile, infrastructure conditions in Indonesia are relatively poor. While the country's infrastructure competitiveness, according to the Global Competitiveness Index, improved from 50<sup>th</sup> position in 2016 to 52<sup>nd</sup> in 2017, Indonesia still lags behind ASEAN countries like Singapore (2<sup>nd</sup>), Malaysia (22<sup>nd</sup>) and Thailand (43<sup>rd</sup>). Therefore, massive infrastructure development is necessary to catch up with other countries.

The government has tried to accelerate infrastructure development through so-called national strategic projects, and it is these projects that will drive infrastructure construction in 2018. According to data from the Committee for Acceleration of Priority Infrastructure Delivery (KPPPI), there are 245 national strategic projects and 2 programs based on Presidential Regulation No. 58/2017.

Investment for the 245 national strategic projects is estimated at Rp 4.42 quadrillion. As of December 2017, the progress on these projects (based on four stages) is: completed (6 projects), under construction (145 projects and 1 program), in the bidding

process (9 projects) and in preparation (85 projects and 1 program).

The 245 projects, according to Presidential Regulation No. 58/2017, come from 225 projects outlined in Presidential Instruction No. 3/2016, minus 20 projects completed in 2016 and 15 cancelled projects and plus 55 new projects. Based on KPPPI data, financial support is one of the main obstacles for infrastructure development.

There are three main financing sources mentioned in infrastructure development plan 2015-2019, namely government budgets at the central and regional level, state-owned enterprises and private investors.

The state budget for infrastructure spending has increased over the past five years. According to Finance Ministry data, infrastructure spending was set at Rp 410.7 trillion in the 2018 state budget, doubling from Rp 154.7 trillion in 2014. Strong government support for infrastructure also reflects in the fact that 25 percent of regional transfer funds must be allocated to infrastructure development, as stipulated in Finance Ministry Regulation PMK No. 47 of 2016.

Nevertheless, the government's fiscal capacity, including the state budget and regional budgets, is limited. According to Bappenas data, the state and regional

budgets can only finance 41 percent of the Rp 4.796 quadrillion in needed infrastructure investment from 2015-2019. Therefore, involvement from state-owned enterprises and the private sector is needed for infrastructure financing.

The government expects the remaining 59 percent to come from SOEs (22 percent) and private investors (37 percent).

However, the contribution of the private sector in infrastructure financing through public-private partnerships (PPP) is relatively low. Since 2005, only seven PPP projects achieved financial closure. They are the Batang Power Plant, Umbulan Water Supply, Palapa Ring Broadband, Manado-Bitung toll road, Balikpapan-Samarinda toll road, Batang-Semarang toll road and Pandaan-Malang toll road.

The government plans to support PPP projects with regulatory reforms by issuing Presidential Regulation No. 38/2015. The regulation introduces a direct appointment mechanism, new tender procedures and a definition of Government Contracting Agency (GCA), including multi-sector GCAs and SOEs acting as the GCA. However, the PPP scheme has not yet optimized infrastructure development, although the government introduced various funds and guarantee facilities.

Given the low involvement of private investors in infrastructure financing, the government is encouraging SOEs to play an active role in infrastructure financing by assigning mainly

SOEs in the construction sector. For instance, the government assigned Hutama Karya to develop the Trans-Sumatra toll road and Adhi Karya to construct the light rapid transit (LRT).

However, the policy to assign SOEs could increase liquidity risks of state-owned construction companies, because the rising number of infrastructure projects has translated into growing balance sheets for these companies, including their accounts receivables.

State construction companies are experiencing a tightening of cash flows due to a mismatch between inflows and outflows. Companies will only receive the investment return from infrastructure projects in the long run. Meanwhile, they must finance infrastructure development in the short term, including debt and interest.

Based on the financial reports of four listed companies (Adhi Karya, Pembangunan Perumahan, Wijaya Karya and Waskita Karya), debt-to-equity ratio has continued to increase. Besides, total receivable days kept increasing to 211 days in 2016 from 146 days in 2011.

To overcome obstacles in infrastructure financing, we recommend alternative efforts. To address private investors' reluctance to participate in PPPs, the government needs to prepare PPP projects thoroughly and demonstrate political leadership through effective coordination.

Furthermore to encourage SOEs role in infrastructure devel-

opment, the government needs to decrease cash flow problem and liquidity risks of state-owned construction firms. The government funds SOEs carrying out infrastructure projects through state capital participation (PMN). The government should accelerate the disbursement of PMN funds to state firms carrying out big infrastructure projects to reduce cash flow problems at the firms.

The government should assign SOEs projects of high commercial value, so that the SOEs can receive investment returns from infrastructure development as soon as possible. Eventually, SOEs can use that revenue for other infrastructure projects assigned by government.

In addition, the government could use a build-and-sell mechanism and asset securitization. In the build-and-sell mechanism, SOEs divest infrastructure projects they develop soon after their completion.

Meanwhile, asset securitization could be done by issuing asset securitization products from revenue of infrastructure development. Jasa Marga has done this for the Jagorawi toll road to raise to Rp 2 trillion in 2017. The government needs to undertake efforts to protect state construction companies against cash flow problems before they become a new problem.

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