

SUSTAINING  
**PARTNERSHIP**

Indonesia Infrastructure Week 2019

Special Edition

MEDIA INFORMASI KERJA SAMA PEMERINTAH DENGAN BADAN USAHA



**CREATING  
SUSTAINABLE  
INFRASTRUCTURE  
FOR  
THE FUTURE**



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**PUBLISHED BY:** Ministry of National and Development Planning/Bappenas **EDITOR**

**AT LARGE:** Director of Public-Private Partnership and Engineering. **EDITOR IN**

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**TRANSLATOR:** Bambang Irawan, Drs. Sugiyanta **PHOTOGRAPHER:** Yudhi

Mahatma, Maha Eka Swasta **ILLUSTRATOR/MEDIA DESIGNER:** Divanda Gita

Desiani, M. Iqbal Wahid **SUPPORTING TEAM:** Hakam Adi Nugroho, Vandana

Ram Topandasani **EDITORIAL ADDRESS:** Jalan Taman Surapati nomor 2

Jakarta 10310 **PHONE:** (021) 31934175, **FAXIMILE:** (021) 31923813

For the 7th time, Indonesia has again held the Indonesia Infrastructure Week (IIW) in 2019. This monumental event is the result of cooperation of the Ministry of Public Works and Public Housing (PUPR), Ministry of National Development Planning (PPN)/National Development Planning Agency (Bappenas), Construction Services Development Institute (LPJK), and the Chamber of Commerce and Industry (KADIN). The event that took place at JI EXPO Kemayoran, Central Jakarta on November 6-8, took the theme "Construction Supply Chain 4.0 in Supporting the Acceleration of Infrastructure Development."

The IIW 2019 is an important forum that brings together the government and the private sector as well as the whole community to discuss and exchange information and study various forms of potential cooperation in supporting the acceleration of sustainable infrastructure development in Indonesia. In addition, it is also expected that, through the IIW 2019 event, all parties can increase their collaboration to develop various supply chain management innovations in an effort to realize the Indonesia Onward vision.

## Strategic Role of Public-Private Partnership to Accelerate Infrastructure Development

Parallel in the IIW 2019 event, the *Indonesia Infrastructure Development Financing* (IIDF) forum was also held by theme "Go Beyond for Sustainable Infrastructure" which was attended by central and regional governments, representatives of friendly countries, private entities, International Development Partners, Financial Institutions, and academics and practitioners. The IIDF is a very strategic forum for sharing experiences between governments, private entities, and practitioners in implementing alternative financing schemes such as public-private partnership and *green finance* to prepare various high-quality infrastructure projects that are sustainable, and ready to be funded.

At present, Indonesia's total infrastructure investment in 2020-2024 has reached Rp.6,445 trillion consisting of government funds of Rp.2,385 trillion, BUMNs Rp.1,353 trillion and the private sector Rp.2,707 trillion. Looking at the composition of infrastructure financing needs, then there is the potential for funding schemes that can be collaborated between the government and private entities to accelerate development in Indonesia. There are various sectors that can be established under the Public-Private Partnership scheme which include urban and social as well as connectivity networks. It is expected that with the cooperation between the government and business entities, infrastructure development in Indonesia can be accelerated and bring about impacts and benefits to the community and further enhancing economic growth in Indonesia.



*Editor*

# Challenges and Solutions for Public-Private Partnership

***"PPP Joint Office was established to improve coordination, facilitation and capacity building so that it can accelerate the implementation of PPP scheme in Indonesia."***

Public-Private Partnership (PPP) Scheme has been running since 2005. The initial milestone of KPBUs scheme began with the issuance of Presidential Regulation (Perpres) No. 67 of 2005. This scheme underwent various regulatory adjustments during its fourteen years of development. This adjustment has one objective of further encouraging private entities to actively participate in infrastructure development in Indonesia. At present the regulations used as legal basis for the implementation of PPP scheme are Presidential Regulation (Perpres) 38 of 2015 and Minister of PPN/Bappenas Regulation No. 4 of 2015.

In addition to regulatory adjustments, the government is also taking other strategic steps in initiating the establishment of PPP joint-office in 2016 that was going active in 2017. "PPP Joint Office was established to improve coordination, facilitation and capacity building so that it can accelerate the implementation of PPP scheme in Indonesia" explained Sri Bagus Guritno, Director of Private Government Cooperation and Design of the Ministry of PPN/Bappenas. There are seven ministries and institutions incorporated in this *joint office*, namely the Coordinating Ministry for Economy, Ministry of PPN/Bappenas, Ministry of Home Affairs, Ministry of Finance, Government Goods/Services Procurement Policy Agency (LKPP), Investment Coordinating Board (BKPM), and PT Penjaminan Infrastruktur Indonesia / Indonesia Infrastructure Guarantee Fund.

Although there have been adjustments to regulations and also strategic steps with the formation of PPP joint office, implementation of this scheme is not without challenges. According to Sri Bagus, in general there are four challenges faced in the implementation of PPP scheme. First, challenges often arise when governments want to establish cooperation and collaboration with investors and sponsors. Second, PPP scheme implemented in Indonesia needs to have standardization so that it can apply internationally. Third, "it is important to encourage international consultants to be able to actively participate in PPP projects and the final challenge is to ensure that infrastructure development can support economic growth in Indonesia," said Sri Bagus.

Apart from the challenges faced by the Government of Indonesia, it has a Medium-Term Policy Framework 2020-2024 for KPBUs Scheme Implementation. This policy framework consists of infrastructure development investment





budget of IDR 6,445 trillion consisting of State Budget of IDR 2,385 trillion; State-Owned Enterprise (SOEs) contribution of IDR 1,353 trillion; and private sector contribution of IDR 2,707 trillion.

In addition, this policy framework also regulates the increased utilization of PPP scheme. This is done by strengthening the various lines that have a direct link to the PPP scheme. *First*, strengthening the regulatory sector by ensuring the applicable legal framework has clarity and detailed regulation. *Second*, strengthening the role of PPP joint office by standardizing related documents, processes, supervision, and knowledge. *Third*, strengthening four pillars of PPP consisting of regulator, investor, investee, and transaction advisor. Finally, strengthening the project planning and preparation.

The important thing that is often questioned by private entities desiring to participate in KPBU projects is related to the return scheme. Sri Bagus explained that there are three forms of return scheme in PPP projects. The first is availability payment, i.e. periodical payments taken from the Government Contractual Agency (GCA)

originating from State Budget funds. "Second is the user charge scheme obtained from users of the PPP project and third is the return in other form as long as it does not conflict with applicable laws and regulations" Sri Bagus explained.

### Guarantee of PPP Project

PT Penjaminan Infrastruktur Indonesia (PII) / Indonesia Infrastructure Guarantee Fund plays a role to provide guarantees to private entities participating in PPP project. Guarantee provided by PT PII includes risks due to changes in regulations, delays in project approval and project termination by GCA. In addition, PT PII also guarantees risks that may occur in pre-construction and operational stages. In pre-construction stage,

stage, the guaranteed risk is related to delays in land control, and approval of budget allocations. Whereas in operational stage, the guaranteed risk is payment and tariff adjustment risk.

The guarantee given to PPP projects is in accordance with the capital belonging to PT PII. "Until now, we guarantee KPBU projects up to Rp.10 trillion. If the PPP project value is above Rp.10 trillion, PT PII will conduct a co-guarantee with the government" disclosed Wahid Sutopo President Director of PT PII. Wahid emphasizes that PT PII's role in the guarantee scheme is as second obligor.

There are four stages to a project so that it can obtain assurance from PT PII. The first stage is obtaining a confirmation



to proceed letter. The second stage is that a project must pass the appraisal. "Only projects that qualify for appraisal will receive guarantees from PT PII" added Wahid. Next is the completion of documents consisting of in principal approval, draft guarantee approval, and guarantee costs. The final stage is the signing of the guarantee agreement.

PT PII plays the role of *government's single window*. The role of PT PII as a *single window* is important for several things including producing consistent policies for applying the appraisal stage and project underwriting. In addition, with the role of PT PII as a *single window*, a consistent and transparent process will be created and claims for a project will only go through one process so it is very efficient.

With the guarantee from PT PII, there are various benefits if a private entity wants to invest in building infrastructures under a PPP scheme. The guarantee given by PT PII will ensure the bankability of a project so that the business entity can comfortably finance the project. Furthermore, the guarantee given by PT PII is very transparent and also accountable.

The guarantee also ensures a fair risk allocation between the government and private entities. Finally, with this guarantee, the credibility of a PPP project will increase.

### **Strategies to Enhance Phase and Implementation of PPP Projects**

The planning, preparation and financing of PPP projects in Indonesia cannot be separated from various challenges. For example, in the planning stage, cross-sectoral cooperation must be increasingly

that can extend the financing negotiation process. Other challenges also exist in the inter-agency coordination sector. There are various ministries and institutions that must coordinate with each other to ensure the PPP project can run well.

Although there are challenges, according to Takeo Koike Director of Advisory Service 1 Asian Development Bank (ADB), there are various key strategies to address the challenges faced by the government and business entities to

develop infrastructure projects using PPP scheme. The main thing is the government must ensure clarity of the scope of a project and the specifications and outputs needed. "Private entities need confirmation at an early stage regarding expected

***"Until now, we guarantee KPBU projects up to Rp.10 trillion. If the PPP project value is above Rp.10 trillion, PT PII will conduct a co-guarantee with the government".***

optimized. Then in the preparation stage, political will must be strengthened to ensure the implementation of the PPP project. At the financing stage, it is important to structure the project so that it is truly bankable. In addition, other challenge in this stage is the dynamics of changes in laws and regulations

outputs" Takeo explained. Furthermore, GCA must allocate resources that have the capability to carry out PPP projects. Then, what is also important in the KPBU scheme is monitoring the achievement of *value for money* (VfM) in all stages of the project under PPP scheme.

# Potential PPP Projects in the Transportation Sector

The Ministry of Transportation as government institution responsible for the transportation sector is aware of the importance of cooperation with private entities to finance various infrastructure projects that are currently significant to be developed. With this infrastructure, a mutually connected connectivity will be created and the impact can increase economic growth and improve efficiency in transportation costs in Indonesia.

One of the government contractual agencies (GCAs) in the Ministry of Transportation is the Directorate General of Land Transportation. In addressing the importance of collaboration in land transportation infrastructure financing under the Public Private Partnership (PPP) scheme, the Directorate General of Land Transportation has prepared a Policy Framework for Land Transportation Infrastructure Development 2020-2024. The goal to be achieved through this policy framework is to increase accessibility, capacity and integration of land transportation network.

There are seven main policies in this policy framework which include strengthening the land transportation system connectivity, intermodal connectivity to support national logistics, revitalizing the city transportation system, applying traffic safety and road transport policies, strengthening the supervision of safety aspects, modernizing the land transportation system services, and optimizing the implementation of the transportation system during national holidays.

To ensure that everything that falls within this policy framework can work, adequate funding is needed. According to the Director General of Land Transportation of the Ministry of Transportation Budi Setiyadi, the required budget ceiling reaches Rp.12.8 trillion.

"Based on the 2020 State Budget, the Directorate General of Land Transportation only receives the allocated amount of IDR.5.89 trillion, the remaining amount of around IDR.6.9 trillion has the potential to be cooperated under PPP scheme" explained Budi.

Apart from the very limited amount of State Budget, there are other factors that can open potential cooperation under PPP scheme. The first factor is the limitations of human resources. Furthermore, the development of this infrastructure project also requires a capable technology and information system whereas the core of business of the Directorate General of Land Transportation is not on its development. Another factor is the change in location due to changes in administrative areas.

Budi explained, in general the Directorate General of Land Transportation is committed to increasing professionalism in land transportation services. This is realized in the PARIPURNA concept which includes participation, innovation, in providing archipelago-oriented services and making the land transportation sector in Indonesia world-class. "The Directorate General of Land Transportation is committed to improving and developing the land transportation sector in Indonesia to create prosperity for all Indonesians. Therefore, we are ready to work with private entities to be able to continue all land infrastructure development programs in Indonesia," disclosed Budi.

## PPP scheme for Land Transportation Development

There are various land transportation infrastructure development projects that have the potential to be developed using PPP Scheme. The first project is the construction of the

Center for Roadworthiness Testing and Motor Vehicle Certification (BPLJSKB) or proving ground. The project planned to be developed in Bekasi, West Java has a project value of Rp1.64 trillion. A total area of 90 hectares has been prepared to build this proving ground. The concession period of a project is 20 years under an investment return scheme of availability payment. The proving ground project is in the final business case (FBC) stage.

The next project is the development of 134 weighbridge units in Sumatra and Java Islands. This project is worth Rp.336.01 billion with a concession period of 15 years under investment return scheme of availability payment. This project is in the outline business case stage. The third project is the revitalization of six bus terminals into type A in Central Java Province. The project is currently in the preliminary study stage. This revitalization is aimed at improving terminal functions to become transit-oriented development (TOD) so that the role of bus terminal can be more strategic to the community.

The last project that has the potential to be collaborated under PPP scheme is the construction of three ferry ports located in West Papua Province. This project is worth Rp.213.94 billion with a concession period of 20 years and using availability payment as the investment return scheme. This project includes designing, constructing and maintaining crossing port infrastructure. This project is in the outline business case stage.



## Enhancing Project Attractiveness for Business Entities

The land transportation infrastructure development project carried out by the Directorate General of Land Transportation of the Ministry of Transportation must be able to attract private entities so that they can invest in the project. Investment from private entities can reduce the burden on the state budget for infrastructure development. Therefore, strategic steps are needed to be able to obtain financing from private entities.

According to Mark Rathbone from Price Waterhouse Cooper, there are three strategic steps to ensure that this infrastructure project succeeds in attracting funding from business entities. The first step is that a project must have a strong foundation in terms of regulations and institutions. In this regard, the regulatory framework must be implemented consistently and can also accommodate various changes.

In addition, it is also important to prepare a dispute resolution mechanism and establish a government unit specifically responsible for PPP scheme. Political commitment is also important to ensure that each party has the same view regarding the project.

In this first step, public understanding of a PPP project must also be improved. This can be done by organizing activities that involve the public to be able to explore PPP projects. Various sources of information and also collaterals related to PPP projects must also be provided to the community so that they can better understand any project being developed.

In the second step, the focus of the strategy is on achieving success in the procurement stage. This can be done with close coordination between governments at all levels, national, provincial, and local. It is also important to prepare various matters related to planning, project design, feasibility studies and implementation. Another thing that needs to be considered in this step is the balance between risks and benefits that stakeholders will receive.

The third step is to ensure the sustainability of a project. There are two important things that must be considered in this third step: increasing accountability of a program and updating program monitoring mechanism.

# Accelerating Future Sustainable Infrastructure

Over the past six years, the Indonesia Infrastructure Week (IIW) event series has become an activity for all stakeholders such as ministries/institutions, State-Owned Enterprises (SOEs), and other important parties to discuss the infrastructure development carried out in Indonesia now and in the future with potential investors.

IIW 2019 is the seventh event and held at Jakarta International Expo Kemayoran, Central Jakarta on November 6-8, 2019. The previous event in 2018 was also held in JI Expo Kemayoran.

IIW 2019 event brought together 16 thousand professionals in energy, utilities, transportation and construction sectors to jointly invest in infrastructure development in Indonesia. IIW 2019 event can be held upon the cooperation between the Ministry of Public Works and Public Housing (PU/PR), Ministry of National Development Planning (PPN)/Bappenas, Construction Services Development Institute (LPJK), and Indonesian Chamber of Commerce and Industry (KADIN).

IIW 2019 event has a strategic and important role to be visited by investors. IIW 2019 is the only exhibition of its kind in Indonesia which is 100% dedicated to supporting infrastructure and also fully opening potential B2B cooperation, with more than 14,000 high-quality participants.

Indonesia Infrastructure Week 2019 also generates profitable business potential. Exhibitors supported by our unique technology thus they can make the right connections with target groups which include the Government, Infrastructure Project Owners & Operators, Infrastructure Contractors & Developers, Traders and Service Providers. For 2019, IIW takes the theme "Construction Supply Chain 4.0 in Supporting the Acceleration of Infrastructure Development."

One of the important activities in IIW 2019 event is the Indonesia Infrastructure Development Financing (IIDF) 2019. IIDF 2019 took the theme "Go Beyond for Future Sustainable Infrastructure." IIDF focuses on conducting multi-national stakeholder dialogues, consisting of government, state-owned enterprises and private sector, Multilateral Development Banks (MDBs) and financial institutions, civil society, including academics, in handling and finding solutions to the biggest challenges of financing alternative implementation in Indonesia's infrastructure development.

IIDF 2019 consists of High Level Panel Discussions, 4 (four) thematic panels, and several one on one sessions. Participants will come from Indonesian policy makers (central and regional government institutions), foreign government institutions, infrastructure and financial special,

portfolio managers from BUMN and private sector companies, academics and think tanks institutions, and MDB..

## Boosting Indonesian Economic Growth and Competitiveness

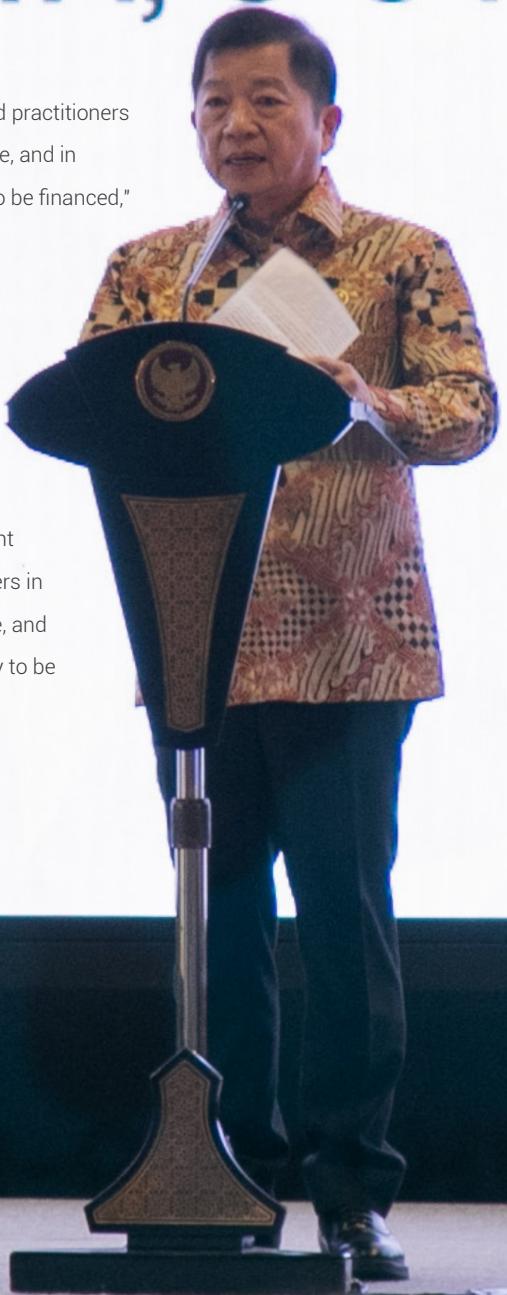
Indonesia Infrastructure Week (IIW) 2019 was officially opened by the President of the Republic of Indonesia Joko Widodo. The President was accompanied by the Minister of National Development Planning/ Head of Bappenas Suharso Monoarfa, Minister of Public Works and Public Housing Basuki Hadimuljono, Chairman of Indonesia Chamber of Commerce and Industry (KADIN) Rosan P. Roeslani, and several other officials. The opening ceremony of IIW 2019 began with singing the national anthem Indonesia Raya which was then followed by a presentation of Indonesian traditional dance.

In his remarks, Suharso also explained that the 2019 IIW event will also be filled by Indonesia Infrastructure Development Financing (IIDF) 2019 forum attended by 1500 participants coming from the Central Government, Regional Governments, Representatives of foreign countries, SOEs / Regional-Owned Enterprises (ROEs), National and foreign private companies, International Development Partners, financial institutions, both banks and non-banks, as well as practitioners and academics.

# JAKARTA, 6-8 NOV

"This event is aimed at sharing experiences between the government and practitioners in the application of alternative financing, such as PPP and Green Finance, and in preparing quality and sustainable infrastructure projects that are ready to be financed," disclosed Suharso.

In his remarks, Suharso also explained that the 2019 IIW event will also be filled by Indonesia Infrastructure Development Financing (IIDF) 2019 forum which will be attended by 1500 participants coming from the Central Government, Regional Governments, Representatives of foreign countries, BUMNs/BUMDs, National and foreign private companies, International Development Partners, financial institutions, both banks and non-banks, as well as practitioners and academics. "This event is aimed at sharing experiences between the government and practitioners in the application of alternative financing, such as KPBU and Green Finance, and in preparing quality and sustainable infrastructure projects that are ready to be financed," disclosed Suharso.



# PERESMIAN PEMBUKAAN KONSTRUKSI INDONESIA 2019



Indonesia Infrastructure Development Financing



Konstruksi indonesia



Indonesia Infrastructure Week

JAKARTA, 08 NOVEMBER 2019



Furthermore, President of the Republic of Indonesia Joko Widodo (Jokowi) gave a speech and officially opened the IIW 2019. The President in his remarks explained that infrastructure development in Indonesia plays a very important role. "Infrastructure boosts economic growth, infrastructure improves our competitiveness and logistics index. Infrastructure also improves equitable development," explained President Jokowi. In addition, the president also stressed that the development currently being carried out by the government is not only focused in Java Island.

President Jokowi also mentioned the increase in Indonesia's competitiveness which has increased very rapidly compared to eight years ago. Based on data from 2018, Indonesia's ranking in infrastructure development has been in the position of 52 and managed to rise by 30 from its position in 2010. "This is a very good achievement and we expect our competitiveness will

continue to increase following the existing infrastructure development," disclosed President Jokowi.

In his remarks, President Jokowi also alluded to the concept of the New State Capital (IKN) in East Kalimantan Province. The first thing the president emphasized is that the government does not merely move the center of administration. Through the new IKN, the government wants to build a city that is more advanced, modern, and also great. In addition, there are several important clusters in the new IKN. "There are government, information technology and also world class education clusters for best universities," President Jokowi explained. Besides, there are also health and tourism clusters targeted to possess world class services. "So we want this new capital answer the desires of city life in Indonesia, which is a city that provides the highest quality of life for its residents, emission-free city in which its residents can go on foot,

cycling and use emission-free public transportation, dynamic, affordable and yet also a pleasant city, a pluralistic, tolerant society full of mutual cooperation," added President Jokowi.

The New IKN is also expected to become a city that drives national economic growth. This can be achieved by building business centers that employ people who have world-class talents. "Hence it is expected that this city will attract the diaspora and great people of the world to live in this city," said President Jokowi. The Development of New IKN is a small fraction of our national development needs. In the next five years, the government will continue to accelerate infrastructure development in Indonesia.

To accelerate Indonesia's infrastructure development, President Jokowi stressed several important things that must be done. Improving quality production supply chain management is important.

"Human resource readiness in the construction sector must receive serious attention. Furthermore, we must keep on improving the quantity and quality of experts in construction sectors. Finally, it is necessary to accelerate for the certification in accordance with existing international standards thus enabling the increase of the quality of infrastructure development in Indonesia", concluded President Jokowi.

## New IKN Infrastructure Development

Related to infrastructure development in New IKN, the government focuses on three sectors. The first infrastructure to be built is related to water resources management. Based on the explanation from the Ministry of Public Works and Public Housing (PUPR), the need for drinking water consumption in New IKN will reach 300 liters/day/person. To meet this need, the required water flow reaches 6.9 m<sup>3</sup>.

Furthermore, the government will also focus on building road networks serving as the backbone of transportation sector in New IKN. There are five types of road networks that will be built in New IKN. The government plans to build a 57-km national toll road network that will require around 4,000 hectares of New IKN land. In addition to the toll road network, the government will also build a national (non-toll) road network consisting of 71 km of roads in the Core Area of Administration Center, 629 km



of roads in the IKN area, and 198 km of roads in the IKN expansion area. To encourage people to actively cycle, the government will also build bicycle lane networks. Finally, the government will also build a railroad network to improve the public transportation network in the IKN area. To meet the housing needs of the community in the New IKN area, the government will build 307,879 housing units for 1.5 million people.

To finance the construction of various infrastructures in New IKN, a significant amount of funding is needed. It will require Rp.466 trillion to build the entire infrastructure of New IKN. This funding is divided into three forms. State Budget funding amounting to Rp.89.4 trillion or 19.2 percent, private sector contribution of Rp.123.2 trillion or 26.2 percent, and the potential Public-Private Partnership of Rp.253.4 trillion or 54.6 percent.



## Overcoming Gaps in Infrastructure to Raise the Economic Growth in Indonesia

Indonesia is currently the largest economy in Southeast Asia and the fourth most populous country in the world, with a population of more than 260 million. The World Bank estimates that Indonesia's total GDP is USD888 million, with a GDP growth target set at 5.2 percent in the coming years.

In addition, Indonesia ranks 72nd out of 189 countries in the 2018 Ease of Doing Business List, rising by 19 in 2017. Indonesia is also among the 3 Best Asian Investment Destinations According to The Economist, and ranks among the top 3 in Japan's JBIC ranking. There is no doubt that the above statistics make Indonesia a favorite choice investment destination.

The government, led by President Joko Widodo in his second term, has long established a non-discriminatory policy towards foreign and domestic investment, and has specifically campaigned for infrastructure development. It's no secret that Indonesia has been plagued with poor productivity resulting from lack of adequate infrastructure. This in turn leads to economic inefficiencies, increase in logistical costs, lack of business competitiveness due to high costs of doing business, and widening social inequalities.

Infrastructure and macroeconomic development have a reciprocal relationship. Infrastructure development will bring about economic expansion through multiple effects, while economic expansion requires the development of existing infrastructure to absorb growth hence requiring further infrastructure development. Indonesia's population continues to grow, but the existing infrastructure is not well equipped to absorb their demand, resulting in infrastructure gaps. Lack of adequate infrastructure also impedes



investment. Other countries have expressed doubts about entering the market due to various uncertainties, ranging from inconsistent electricity supplies to rising transportation costs

According to McKinsey & Company, to overcome these already critical infrastructure gaps in the next 10 years, the government must invest at least USD 600 billion to build and to improve the infrastructure. However, very large gaps can only be closed with a large and sustainable response, however the government's ability to handle infrastructure investment has been limited by various problems including fiscal constraints, with significant budget commitments to encourage subsidies, among others. State-Owned Enterprises (SOEs), which in the past have been assigned by the government to undertake major projects, are also financially and operationally stretched. Alternative financing methods are needed to overcome this potential setback.



## Learning From Other Countries

Indonesia has participated in, and held a number of high-level meetings in the infrastructure sector and various dialogues with multi-national stakeholders. One such event was the High Panel Meeting in Indonesia Infrastructure Development Financing (IIDF) 2019. Important figures from various participating countries showed the potential increase toward PPP schemes currently being developed in Indonesia.

Former Deputy Prime Minister and Minister for infrastructure of Quensland Australia, Hon. Paul Lucas, believes that it is important for Indonesia to learn from the mistakes of other countries in implementing the PPP scheme. "I hope and believe that Indonesia, with a massive economic growth, and supported by enormous enthusiasm, will do various things to study the lack of implementation of the PPP scheme that has been carried out by Australia so that it can avoid the potential for errors in this financing" he explained.

He highlights the fact that countries have gone through a very large learning cycle, which consists of four different stages. The first learning experience came from the UK, specifically in terms of how they manage

their performance standards. In this regard it is important to establish a set of parameters to measure and report on the effectiveness and efficiency of the project, because its absence will trigger unsatisfactory service quality. Thus, the Indonesian Government must maintain clarity in terms of the projects they want to develop, what they need to develop, and efforts to measure the success of the project. He also reminds that setting a reasonable time frame would lead to a reduction in long-term costs, and had to be decided in advance by those who were eligible to do so.

The second learning experience, according to Lucas, came from his own country, Australia. Australia has been criticized in the past for overstating the possibility of demand. In extreme cases, inaccurate patronage forecasts can even lead to bankruptcy in the private sector. Such failure can lead to further distrust of a country's ability to implement PPP schemes, and prevent the private sector from investing in such a scheme.

This lesson is also very relevant when determining the level of success of PPP projects in various countries. Lucas believes that the level of success is very dependent on one's efforts to define success. Very optimistic projections of demand, as mentioned earlier, can cause projects to be disliked. For this reason, Indonesia should not only focus on the quality of infrastructure, but also on the benefits of the project for its users. This can help them sort through priority projects and ensure that each priority project gets their full attention.

The third stage of the cycle, Lucas continues, is the era of market sounding. This process is important because it allows the government to get important feedback from bidders or candidates. The progress of infrastructure development can largely rely on this process, and by doing market sounding, the Indonesian government can also gain the trust of the private sector.

The fourth and final experience is understanding investors and the positive contribution they make to the whole scheme. Previously, banks would only hand over the funds needed to the proponent and subsequently receive their share. Banks and other financiers are now more actively involved and positioning themselves in such a way as to examine the capacity of operating companies, and even to replace companies if they become bankrupt before creating an impact on the government.

Understanding investor activities can also provide insight into the level of project bankability. D. J. Pandian, Vice President and CIO of the Asian Infrastructure Investment Bank acknowledged that bankability of a project is indeed a challenge for some countries. Ideally, risks and rewards in PPP scheme should be distributed evenly, but in reality, present a different picture.

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***"The private sector does not come to do charity, but the government is sometimes under compulsion to do charity. If they want to do charity, then they have to take a big risk." explained DJ Pandian.***

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D.J Pandian implies that in reality, the government is expected to take more risks than the private sector. Therefore, adequate risk and reward allocation from certain projects, which includes the risk mitigation process and the costs of the mitigation process, must be done to encourage investors to fund certain projects. Appropriate regulatory mechanism is also needed to get the trust of investors. The government must be transparent in choosing tenders. However, there are some cases when the government ensures transparency at all levels, and has not been criticized by certain groups for 'privatizing government assets'. In such a scenario, political leaders are advised to remain calm and continue the projects, because there are no projects that will eventually become more expensive in the long run.

Ömer Fatih Sayan, Deputy Minister of Transport and Infrastructure of the Republic of Turkey adopted the same attitude in terms of not having more expensive projects for the country. Sayan noted that while the project has its own advantages and disadvantages, the general consensus is that the project must be developed without regard to it. Regarding the value of project bankability, what is unique about Turkey's PPP scheme is that its financing structure is quite complex, and that they adopted a form of hybrid funding to produce the scheme, which is based on four factors: coordination, contracting, governance, and policy.

According to Sayan, the mixed KPBUs model was more suitable in resolving the country's infrastructure needs and in attracting the private sector. As such, Turkey has maintained a favorable investment environment for implementing PPP projects, particularly transportation projects. He stressed the importance of coordination between the government and the private sector and the need to maintain strong leadership and governance throughout the implementation of the scheme. In addition, he believes that the Indonesian government can improve the implementation of the PPP scheme by fostering competition in the private sector and to trust as well as gain trust from the private sector.

# Inside Indonesia Infrastructure Week

2019



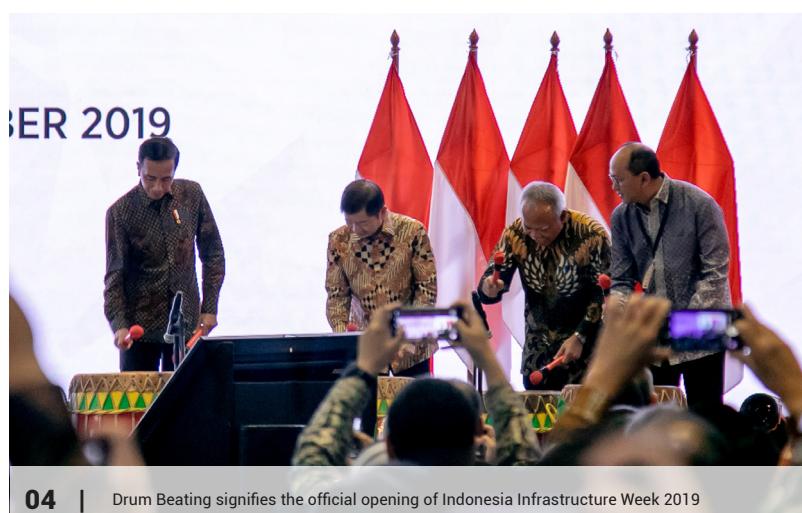
02 | The inauguration of Indonesia Infrastructure Week 2019 by President Joko Widodo



01 | President Joko Widodo and other officials visit the booth of Indonesia Infrastructure Week 2019



03 | Minister of National and Development Planning/Head of Bappenas Suharso Monoarfa gives his remark on the opening of Indonesia Infrastructure Week 2019



04 | Drum Beating signifies the official opening of Indonesia Infrastructure Week 2019



05 | The opening of Indonesia Infrastructure Week 2019 enlivened by national dance from Kalimantan



**06 |** High Level Panel Discussion of "Alternative Financing to Accelerate Infrastructure Development" opened the Indonesia Infrastructure Week 2019



**07 |** Discussion taking place in Public-Private Partnership joint-office booth



**08 |** Representatives of Ministry of Public Work and Housing delivers the presentation to the participant of discussion in Indonesia Infrastructure Week 2019



**09 |** Judging session of Instant, Healthy, and Simple House Construction Competition (RISHA)



**10 |** Jane Holmes from the Treasury Australia delivers the presentation in thematic discussion



**11 |** The presentation of placard to one of the speakers in thematic discussion



**12 |** Determination of Instant, Healthy, and Simple House Construction Competition winner in Indonesia Infrastructure Week 2019

## Infrastructure Development to Encourage Changes in Behavior

**H**endar Prihadi can be said to be a regional official full of achievements and innovations. Hendrar is the Mayor of Semarang for the period of 2016-2021.

The man born in Semarang 48 years ago is also incumbent; previously in the 2013-2016 period Hendrar sat in the same position. Since Hendrar led the Semarang City, many innovations and achievements have been inscribed so that the city he leads is one example of the success of regional management.

Hendar Prihadi leads Semarang with a total area of 372.3 km<sup>2</sup>. The city, which is famous for its *lumpia* (spring rolls), has 1.7 million inhabitants spread over 177 *kelurahan* (sub-districts) and 16 *kecamatan* (districts). Before Hendrar sat as mayor, Semarang was in an unfavorable condition. This was reflected in 2011; at that time the Semarang's Human Development Index (HDI) was 77.58 percent. In addition, 54 percent of the road networks is damaged and 41 percent of the area is prone to flooding. Investment entering the Semarang is also low at only IDR 900 billion.

However, this began to change when Hendrar sat as Mayor of Semarang. "Building a city is the same as building a citizen and this is realized through the development of infrastructure to encourage changes in behavior," Hendrar explained. During Hendrar's position as Mayor of Semarang, he focused on building and revitalizing existing infrastructures. Some of them which have successfully changed the face of Semarang is the rearrangement of Semarang River. Hendrar uses the concept of waterfront city in revitalizing Semarang River. This was paid off; Semarang River which was previously



Head of Design Sub-Directorate I Ministry of National Development Planning/Bappenas Astu Gagono Kendarto presenting placard to Mayor of Semarang Hendar Prihadi in Thematic Discussion Forum Indonesia Infrastructure Development and Financing (IIDF) 2019.

in slum condition is now neatly arranged and also often becomes a location for taking photos. There are even residents who earn income as tourist photographers in Semarang River. Besides Semarang River, Hendrar also normalized the Tenggang River system so that it can hold more water. In fact, Tenggang River has a festival initiated by the community so that it improves the function of River not only as a source and place for running water, but also as a tourist location.

To implement changes in Semarang, cooperation from all parties is needed. Hendrar named this cooperation joint mobile program (*program bergerak bersama*). In this program the government cannot stand alone as subject of development. "The government must cooperate with the community, companies, and also reporters," explained Hendrar. A successful example of this Joint Mobile Program is the realization of the West Semarang Water Supply System. This social infrastructure project is constructed through the Public-Private Partnership scheme with an investment value of Rp1.170 trillion.

Besides developing social infrastructure, Hendrar also innovates emergency services based on digital technology. Currently, Semarang Residents can report various emergencies only through SMS, social media, and also applications. After being verified by the administrator and distributed to the relevant regional authorities, follow-up will be given within five days. Communities as reporters will also be given the results of follow-up so they can directly monitor the work carried out by the local government. This system is also directly connected to the situation room so that it can be monitored directly and real time.

To empower the community, the Wibawa (*Wirausaha Bangkit Menjadi Juara*) Credit program was launched. Through this credit program, Semarang Residents can get loans up to a maximum of IDR 50 million with an installment scheme for two years. Loans up to a maximum of Rp.5 million were also released from collateral.

The condition of Semarang has changed very significantly since it was led by Hendrar Prihadi. This can be seen through various indicators. First, from the economic growth viewpoint. In 2012 the economic growth of Semarang City was only 5.97 percent and rose in 2018 to 6.52 percent. Second, in the investment sector; in 2011 the investment that entered Semarang was only IDR 900 billion and this figure rose in 2018 to IDR 27.5 trillion.

Slum area has also decreased. If there was a total slum area of 416 hectares in 2015, it fell to 112 hectares in 2018. Areas affected by flooding have also declined. In 2011, 41.02 percent of the Semarang City area was affected by flooding. It then fell to 17.4 percent in 2018. Damaged road conditions have also declined; previously in 2011 as much as 54 percent of the road conditions in Semarang City were in damaged condition. This amount fell to 10.5 percent in 2018. Finally, Semarang City's Human Development Index (HDI) continues to rise from 77.58 in 2011 to 82.72 in 2018. These achievements received attention from the central government. Semarang won the award for "The Best City in Development Planning in Indonesia in 2019."



Emil Elstianto Dardak, Deputy Governor of East Java

## Private Entities Creates Efficient Infrastructure Management

**E**mil Elstianto Dardak is a familiar figure at the national level. Emil is the Deputy Governor of East Java Province for the period of 2019-2024. Before serving as deputy governor, Emil was the Regent of Trenggalek for the period of 2016-2019. Emil is one of young leaders who won the highest position at the provincial executive level.

East Java is a province with the highest economic growth at the national level. In fact, the economic growth of East Java Province in the second quarter of 2019 was 5.72 higher than the national level of 5.05. In addition, the level of competitiveness in East Java Province also ranked second after DKI Jakarta in 2018.

In the infrastructure sector, East Java Province is famous for the Umbulan Drinking Water Supply System project that utilizes Public-Private Partnership (PPP) scheme. In addition to this, Emil also explained that East Java Province will have a Waste Power Plant also using a PPP scheme. "PT Sumber Organik manages, builds incinerator and sells its electricity to PLN," Emil said. The investment needed in this project is USD 49.86 million.

According to Emil, the most important thing in the PPP scheme is the role of business entities in providing infrastructure. Even, its cooperation can be as simple as a management contract or even further in the form of a concession. "PPP paradigm should not be viewed in the way of government being ran out of money. Instead, private entities can be more efficiently in managing a service. Efficient is not only cheaper, but ther better service in the same price" said Emil.





Furthermore, Emil explained that the high economic growth in East Java Province made the provincial government have plenty of room to involve private entities in infrastructure development. Even so, Emil reminded that risk management in the PPP scheme should really be considered. According to him, if tariff certainty, political, land acquisition risks are all borne by the private sector, there may be private entities taking the project. However, the price can be too high or the competition is too low because only a small number is interested.

Related to this, Emil stressed the importance of preparing a PPP project. With good preparation, a professional private entity can be chosen and later ready to manage the project. Coordination with the government such as the Ministry of Finance and also the Ministry of PPN/Bappenas is no less important.

"If the project is not seriously prepared, then it cannot attract investments. The government also does not dare to decide which risks will be borne," said Emil.

Emil revealed that if a region wanted to use the PPP scheme for a project, then it should not be done due to solely lack of budget. In addition, the current PPP scheme makes the government that was previously as a spending agency become a contracting agency. "This is a long-term relationship, so you must know this is not a project to be completed in a year. This project will be a long term cooperation, so it must really be prepared from all elements, the community, the legislature and the government itself," Emil explained.

East Java's high economic growth shows that investors are highly interested to this province. Investors' high interest to invest in East Java is influenced by various factors such as macroeconomic stability, governance and institutional layout, finance, business, and guaranteed labor conditions, as well as good quality of life and infrastructure development. In addition, the high economic growth rate of East Java Province also makes this province the gateway to the Eastern Part of Indonesia economy. Developing East Java in the end will also develop and spur Eastern Part of Indonesia's economic activities.

# Limited Concession Scheme at Glance

**B**eside using the Public-Private Partnership Scheme, the issues of budget limitation during the development of infrastructure can also be overcome using another creative financial scheme known as Limited Concession Scheme. However, what is Limited Concession Scheme?

Limited Concession Scheme allows private entity to manage and to develop the existing infrastructure. However, the ownership of those infrastructures is still in the possession of government. There are several important principles regarding the implementation of Limited Concession Scheme. First, there should be transfer of concession right of brownfield asset owned by government or State-Owned Enterprise (SOE) to private entity for further operation and expansion. Second, in return government and SOE will receive upfront payment and/or annuity payment during the concession period. Third, future capital expenditures will be the responsibility of concessionaire, thus easing the burden on government budget.

Furthermore, there are several requirements to ensure that infrastructure can be managed using the Limited Concession Scheme such as the

infrastructure has been in operation for at least two years. The infrastructure should also generate positive cash flow as well as those managed under this scheme should also have the potential to be further efficiently improved. Then, the infrastructure should have a remaining beneficial asset life at least ten years.

Limited Concession Scheme is an optimal solution to raise the infrastructure fund. This scheme is based on technocratic study of Mid-Term Development Plan 2020-2024 developed by National Development and Planning Agency (Bappenas). It is explained that the development of infrastructure will require the investment of IDR 6.445 trillion and only 58 percent in which can be funded using state budget and SOEs. Thus, it is expected that private entity can actively participate in generating investment toward the construction of infrastructure. Currently, the regulatory framework under Presidential Rule is being finalized as well as the sectors which can be funded using this scheme.

There are several strategic advantages once the infrastructure is managed using the Limited Concession Scheme. Those advantages include immediate benefit from construction expenditure and additional direct benefit for the government in the form of upfront concession fees.

The successful implementation of Limited Concession Scheme is determined by several factors. First the diligent preparation. In this stage, comprehensive analysis on technical, commercial, financial, and other strategic is required to generate fundamental basis to meet government objective. Second, the adequate structuring which allows government to design a project based on their goal capabilities, risk appetites, and market interest while reducing uncertainty for potential investors at the highest value. Next is adequate risk allocation between asset owner and private entity to ensure fair and balance concession mechanism.

Next factor that should be observed to further succeed the implementation of the scheme is the prominent strategic investor. Objective prequalification process is required to retain the most appropriate profiles of candidates aligned with its sectoral expertise. Last factor is about the dispute resolution. Clear and transparent provision on applicable law are important things to observe.

Several countries have successfully implemented Limited Concession Scheme. Turkey is a country seen to be successful in implementing this scheme to raise the funding source in building the infrastructure.



First stage official opening of Great Istanbul Airport took place last autumn, replacing the former Ataturk Airport

Turkey started using this scheme in 2005 to build Istanbul Ataturk Airport. Turkish Government has successfully obtained upfront payment of US\$ 3 million in this project.

Then during 2005-2015, Turkish Government has successfully secured important agreement regarding the development of infrastructure under Limited Concession Scheme. There are at least eight other airports in Turkey which were built using this scheme with a deal value of US\$ 2.8 billion. Then, the Turkish Government also secured US\$ 3.2 billion investment to build six seaports and up to US\$ 16 billion for the construction of other infrastructures. During a decade, the total amount of upfront payment and infrastructure investment secured by Turkish Government has reached US\$ 22 billion.

## LIMITED CONCESSION SCHEME (LCS) AS ONE OF THE OPTIMAL WAYS TO RAISE INFRASTRUCTURE FUNDING



### PRINCIPLES OF LCS

- ✖ 1. Transfer of concession right of brownfield asset owned by Government or SOE to private entity for further operation & expansion;
- ✖ 2. In return, Government and SOE will receive upfront payment and/or annuity payment during the concession period; and
- ✖ 3. Future capital expenditures will be the responsibility of the concessionaire, thus easing the burden on government's budget.



### TECHNICAL REQUIREMENT OF ASSETS ALLOWED FOR LCS

- ✖ 1. Has been in operation for at least 2 (two) years
- ✖ 2. Generates positive cash-flow
- ✖ 3. Has potential for further efficiency improvement
- ✖ 4. Has remaining beneficial asset life of at least 10 (ten) years

Currently being finalized  
under Presidential Regulation  
as well as eligible sector



# The Practices of Smart and Sustainable Infrastructure

**B**anyuwangi Regency is already familiar at the national level. The regency which is located the easternmost in East Java Province has a myriad of achievements. Total transformation has been conducted and has given a very positive impact, especially when the district was led by Regent Abdullah Azwar Anas. Various transformations in Banyuwangi Regency have even become the center of attention at the national level.

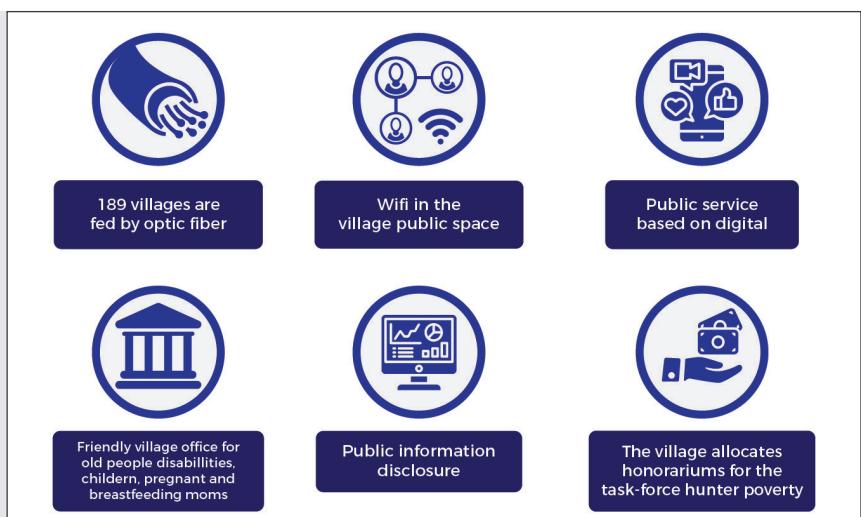
Speaking of Banyuwangi, this district is one of the pioneers in the application of the smart city technology. The implementation of smart city in Banyuwangi can be seen from various indicators such as 189 villages connected by fiber cables, wireless (Wi-Fi) internet access located in public facilities, and digital based public services. In addition, from the open budget management viewpoint, Banyuwangi is also very transparent. The public know the use of local budgets easily and clearly. Various public facilities and also government offices are also friendly to people with disabilities, children, pregnant and breastfeeding mothers.

The Regency Government (Pemkab) of Banyuwangi also focuses on alleviating poverty which can be seen from the allocation of a portion of the APBD for the honorarium of poverty alleviation task force.

Besides being famous for smart city, Banyuwangi is also famous for the concept of sustainable infrastructure development particularly in rural areas. The sustainable infrastructure concept is reflected in the construction of Banyuwangi Airport. The construction and operation of the airport strongly takes into account the equilibrium with the surrounding nature. In terms of electricity usage, Banyuwangi Airport is very efficient and 70 times lower compared to other equivalent airports. In addition, to maintain the green land to be used for agriculture, the Banyuwangi Regency Government has banned the construction of new buildings around the airport.

Banyuwangi Regency also holds various other infrastructure development potentials that embrace the sustainable infrastructure concept. One of them is the Red Island development project. In addition to embracing the concept of sustainable infrastructure, this project also constitutes a form of cooperation between the Banyuwangi Regency Government and business entities. The development phase will be conducted by PT Perhutani whereas the construction will be carried out by PT Patra Jasa and PT. Wijaya Karya (WIKA).

Smart City  
In Banyuwangi  
Version:  
**SMART  
KAMPUNG**



# BANYUWANGI PERFORMANCE

To encourage various community activities in the villages, the Banyuwangi District Government built a green open land that also adheres to the sustainability concept. With this green open land, the community can carry out its activities in the form of sports and arts as well as a place for people to socialize and hold friendly meetings.

Various innovations and transformations that carry the concept of smart and sustainable infrastructure have a positive impact on the development of Banyuwangi in various sectors. This positive achievement can be seen from various indicators. Banyuwangi people's income per capita rose from previously IDR 20.8 million in 2010 to IDR 48.75 in 2018 or an increase of 134 percent. Banyuwangi Regency's Gross Domestic Product (GDP) also rose very significantly from IDR 32.46 trillion in 2010 to IDR 78.48 trillion in 2018. Banyuwangi Regency tourism sector also has positive achievements which can be seen from the increase in domestic tourist visits from 491 thousand people in 2010 to 5.2 million people in 2018 or an increase of 960 percent. The same thing can also be seen from the high number of foreign tourist arrivals of only 12,505 people in 2010 to 127,420 people in 2018.

With a variety of infrastructure development, especially airports, connectivity to and from Banyuwangi Regency has become shorter. Previously, it took 21 hours from Jakarta to Banyuwangi, since the existence of the airport, the travel time is significantly reduced to 90 minutes. In addition, this airport also shortens the travel time from Banyuwangi to Surabaya, from previously seven hours to 50 minutes now. In addition, with the advancement of infrastructure and management in Banyuwangi Regency, various awards were also won such as the 2018 ASEAN Clean Cities Award and the City of Tourist award from United Nations World Tourism Organization (UNWTO) in 2016.

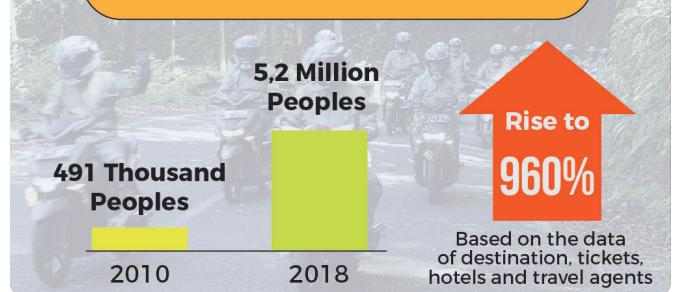
## People's Per Capita Income



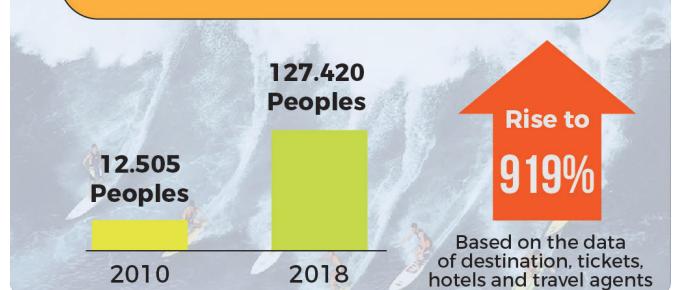
## Gross Regional Domestic Product

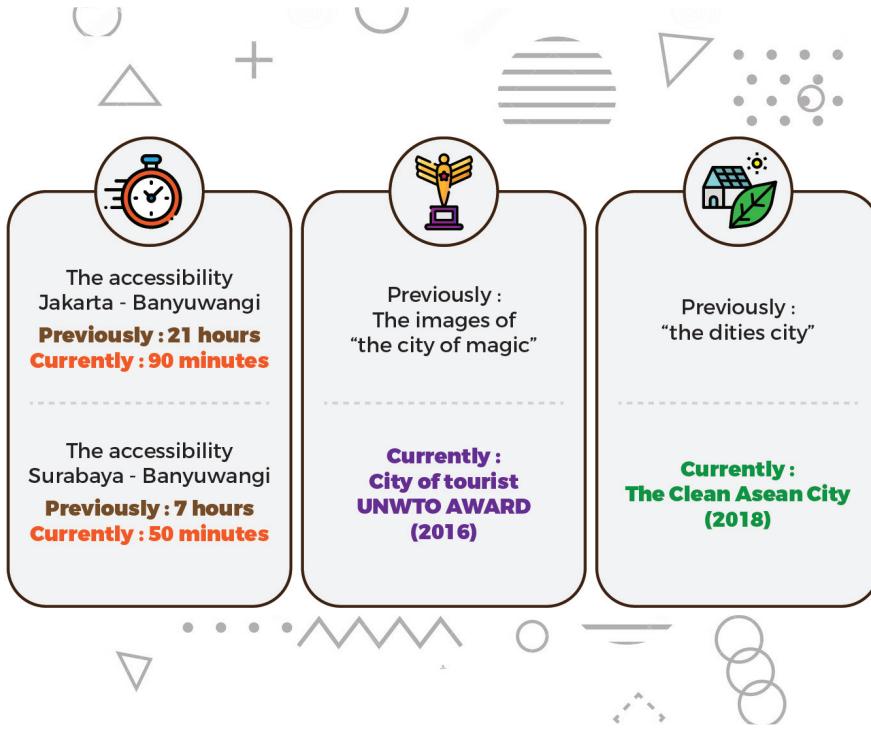


## The Visitation of Domestic Tourists



## The Visitation of Foreign Tourists





## Learning From Singapore

Singapore is an example of development based on the smart and sustainable infrastructure concept. Learning from the implementation that has been carried out in Singapore, there are various positive things that can be adapted by Indonesia. Smart and sustainable Technology innovation serving as the backbone of infrastructure can be built at affordable prices. In addition, the high number of investors and financiers can be a potential to encourage smart and sustainable development.

Financing is important in smart and sustainable infrastructure development. There are four financing stages that have been successfully carried out in Singapore using this concept. The first phase is known as developmental funding. At this stage, Singapore cooperates with multilateral development banks to finance infrastructure development. In the second phase, the main focus is placed in involving semi-private companies as infrastructure owners and managers. In addition, in the

next stage, private companies are fully involved, especially in the operational and maintenance stages. Through the involvement of the private sector, the services provided can be improved. Thus, institutional capacity can be further encouraged at this stage. The important thing that must not be forgotten is capital market utilization. Through this, there will be new, more innovative ways to monetize assets and access potential new capital in infrastructure development.

Furthermore, there are various important enabling conditions to consider in order to be able to mobilize Public-Private Partnership schemes. First, the government, both at the central and regional levels, needs to provide predictable sources of revenue so as to encourage banks and investment institutions to provide capital for infrastructure development. Second, the master plan must be strong and integrated which is reflected in more transparent lines of responsibility for land

development, asset sales and monetization. Third, it is important to conduct professional feasibility studies to increase the interest and trust of the private sector to finance infrastructure projects. Furthermore, risk allocation is important and must be transparently explained. Private sector tends not to take any infrastructure development risk at early stages. Finally, the government must ensure that laws and regulations are able to help investors increase their investment in infrastructure projects.

In Southeast Asia region, Singapore is one example of successful development of smart and sustainable infrastructures. This is inseparable from the ecosystem developed by Singapore Government to support smart and supportive infrastructure investment. Ecosystem in Singapore offers convenience and flexibility including broad expertise spread throughout the entire infrastructure chains. In addition, the parties involved in infrastructure financing have an understanding of the potential opportunities and challenges existing in Singapore and Southeast Asia Region. Singapore also has infrastructure managers (operators) with capable track records.

# Green Financing Is an Instrument to increase Green Growth

## Green Financial Industry in the Blue Continent

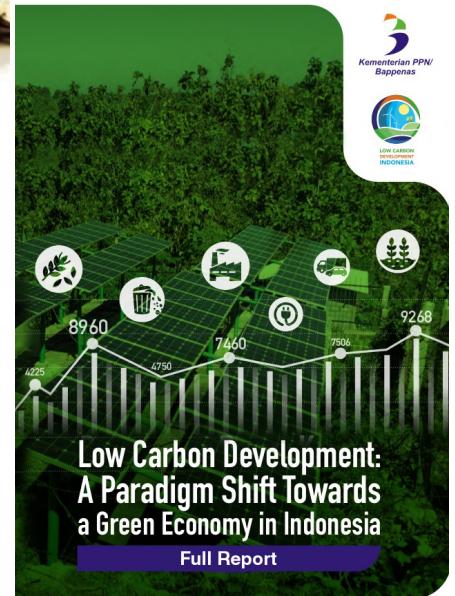
One of the countries in Europe that has been successfully implementing the green finance industry is United Kingdom. This country pioneers the promotion of green finance initiatives and investment in renewable energy projects. This was realized by the British Government through various policies such as the climate change law issued in 2008. Through this law, UK is targeting greenhouse gas emission in 2050 to be 80 percent lower than in 1990. In addition, in January 2016, the British Government together with the City of London launched the green finance initiative (GFI). The aim of the establishment of GFI is to promote UK as global center in providing green financial services.

There are various factors that are key to the success of UK as pioneer of the green financial industry. The British government has long-term targets and policies to encourage and achieve low carbon emission. In addition, the British Government also established a special organization to promote the green finance agenda. The British Government also established a government organization with specific task of explaining the Green Investment Bank (GBI) and Green Finance Initiative (GFI). Furthermore, high-quality business expertise generates support for the launch of various bankable infrastructure projects in UK.



In March 2019 Bappenas released the comprehensive Low Carbon Development Initiative (LCDI) report, which highlights the opportunity for Indonesia to pursue a low carbon development pathway.

Should the LCDI Moderate Scenario be adopted, Indonesia is slated to:



**29%** less emissions in 2030, which is Indonesia's unconditional nationally-determined climate target



An average of  
**US\$ 14,8 BILLION/YR**  
in 2020-2024  
and  
**US\$ 40,9 BILLION/YR**  
in 2024-2045  
of additional investments.

