

WHAT ARE CHALLENGES TO ACHIEVE INCLUSIVE  
DEVELOPMENT, TECHNOLOGY TRANSFER,  
EMPLOYMENT CREATION AND HUMAN DEVELOPMENT  
THROUGH QUALITY INFRASTRUCTURE

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# THE CHALLENGES AND PROBLEMS

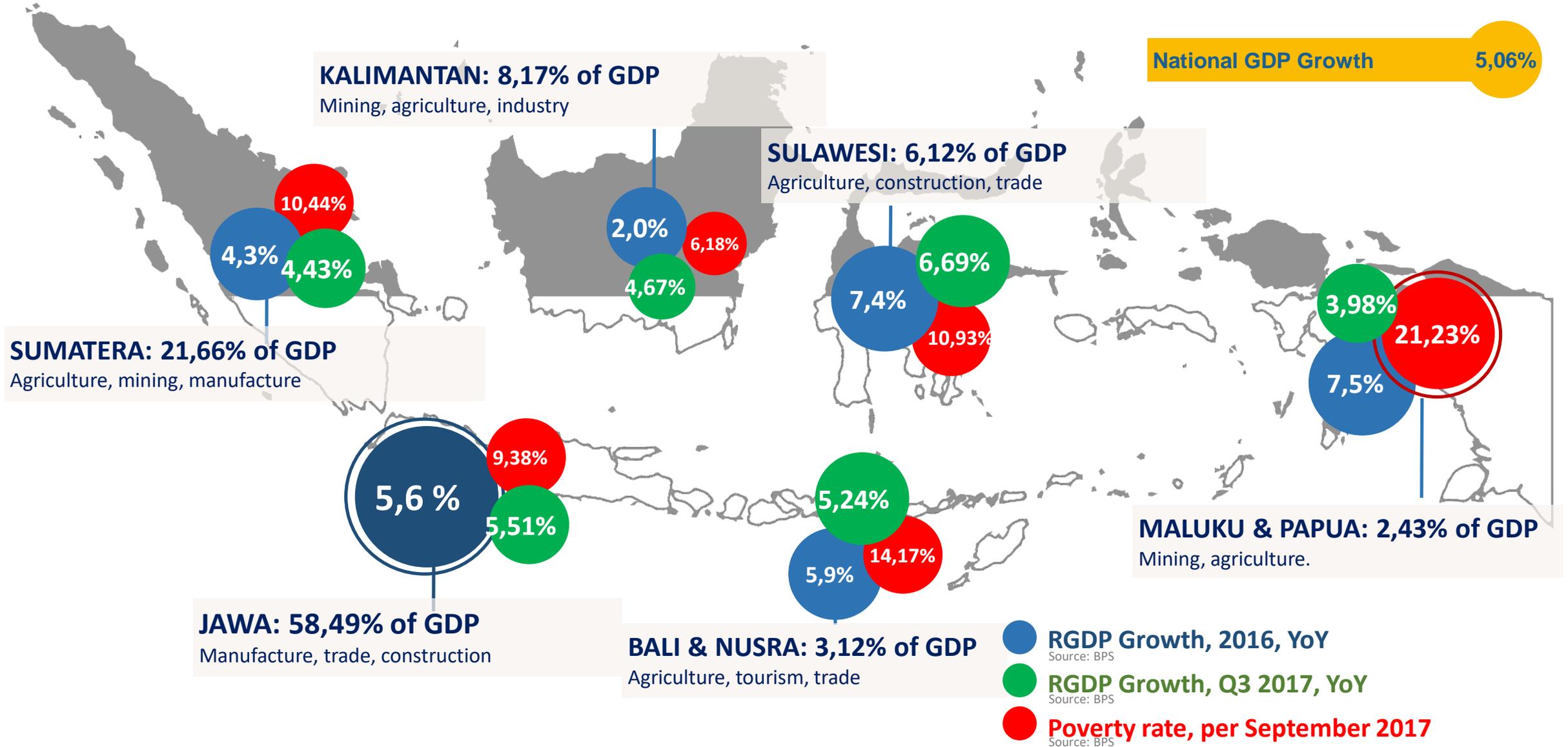
## **CHALLENGES:**

- Population of 265 million,
- more than 50% live in urban area,
- with growing and affluent middle class to support GDP has a large domestic market.
- where 55% of GDP is derived from private consumption.

## **PROBLEMS:**

- According to Global Competitiveness Report, in 2015 the country ranked 62nd out of 140 economies in the category of infrastructure development.
- logistic performance index 63rd of 160 countries with logistics costs increasing to become the highest in South East Asia approximately 26% of GDP.
- Since the economic crisis in 1998 Indonesia has struggled to reduce a wide and growing infrastructure deficit.
- This problem is a result of decades of underinvestment following the economic crisis in 1998.
- As an illustration of infrastructure deficit, according to ADB report, after the economic crisis in 1998, urban infrastructure spending averages 3% of GDP compared to 8% of GDP in the years before 1997.

# REGIONAL INEQUALITY



# INFRASTRUCTURE DEVELOPMENT PLAN (2015-2019) in Rp trillions

Sectors	National Budget <sup>1</sup>	Local Budget	SOE's <sup>2</sup>	Privates <sup>3</sup>	Total
Roads	340.0	200.0	65.0	200.0	805.0
Railways	150.0	-	11.0	122.0	283.0
Sea transport <sup>4</sup>	498.0	-	238.2	163.8	900.0
Air transport infrastructures	85.0	5.0	50.0	25.0	165.0
Land Transport (ferry included)	50.0	-	10.0	-	60.0
Urban Transportation <sup>5</sup>	90.0	15.0	5.0	5.0	115.0
Power <sup>6</sup>	100.0	-	445.0	435.0	980.0
Energy (Oil & Gas)	3.6	-	151.5	351.5	506.6
ICT	12.5	15.3	27.0	223.0	277.8
Water Resources	275.5	68.0	7.0	50.0	400.5
Clean water and sanitation	227.0	198.0	44.0	30.0	499.0
Housing	384.0	44.0	12.5	87.0	527.5
<b>TOTAL</b>	<b>2,215.6</b>	<b>545.3</b>	<b>1,066.2</b>	<b>1,692.3</b>	<b>5,519.4</b>
Percentage	40.14%	9.88%	19.32%	30.66%	100.00%

# INFRASTRUCTURE PROJECT FINANCING

## **FINANCING**

- The state budget is appropriated mainly to build infrastructures in the region where the availability of the infrastructure still under developed such as in the eastern part of Indonesia and in the outer islands region
- The projects with high financial viability is offered to the private sector through competitive bidding.
- The projects with medium financial viability is conducted through the public-private partnership scheme.
- The projects with low to moderate financial viability especially those that have not got funding consideration from the private sector are directed to the state own company.

## **FUNDING FACILITIES:**

- PT. Sarana Multi Infrastruktur (PT.SMI) to provide infrastructure financing and advisory services for commercially viable infrastructure projects.
- PT.Sarana Multigriya Finansial (PT.SMF) to provide housing loans.
- PT. Penjaminan Infrastruktur Indonesia (PT.PII) to provide financial guarantee for PPPs so that the private sector can obtain loans from banks or from non-bank financial institutions.

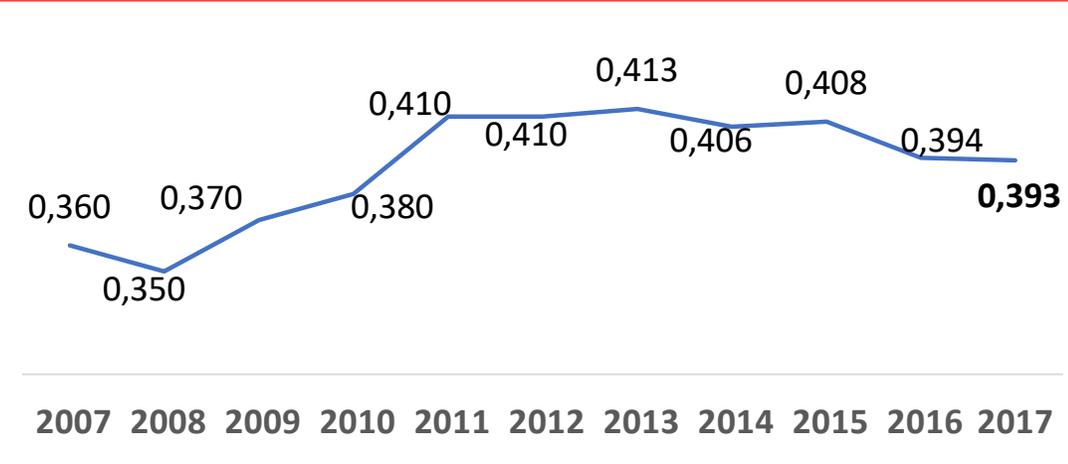
# OUTCOMES

After 4 years of implementation of such a program under President Joko Widodo administrations, the result is quite encouraging.

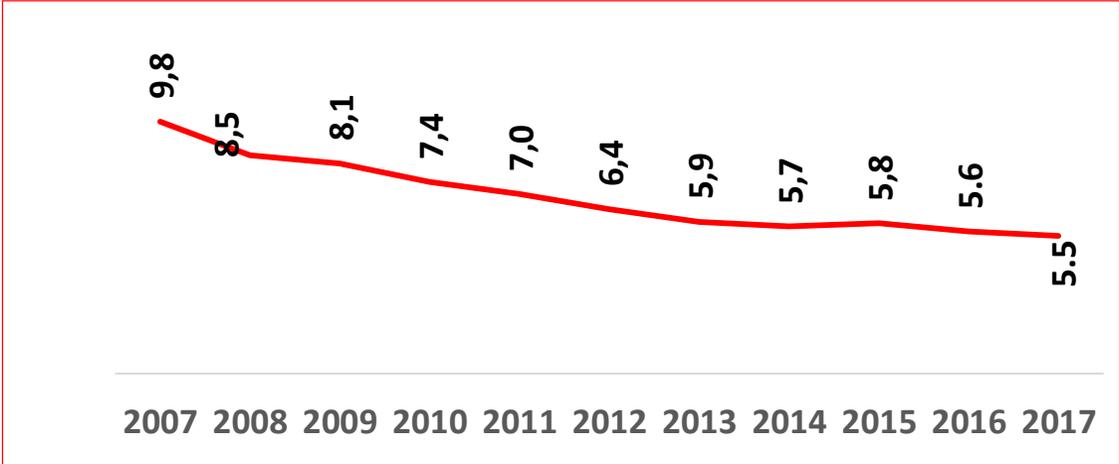
- The country ranked in the category of infrastructure development has improved from **62nd in 2015 To 52nd in 2018.**
- Logistic performance index improved from **63rd in 2015 to 46th in 2018.**
- According to the Worldbank, the combination between infrastructure development and the social assistance program shows that these efforts not only contributed to the economic growth **but also contributed to the reduction of inequality and to the poverty alleviation as well.**

# FURTHER OUTCOMES

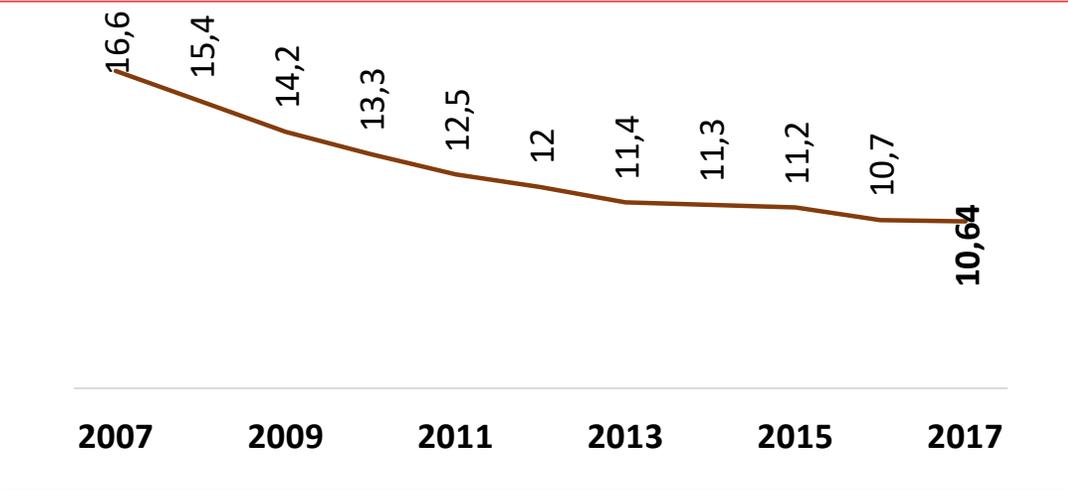
### Gini Ratio: Inequality



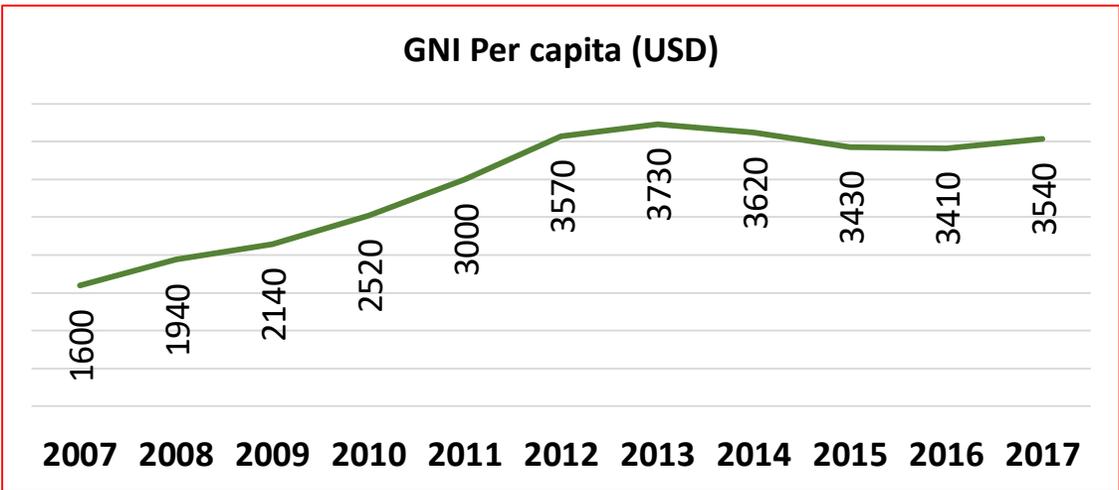
### Unemployment (%)



### Poverty Level (%)



### Productivity (USD/capita)



# RECOMMENDATIONS

- **First**, long-term funding for infrastructure development is basically available with relatively low interest rates, therefore Indonesia needs to elaborate further funding opportunities provided by multilateral financing agencies such as JBIC and ADB, and other multilateral institutions.
- **Second**, the assets of various financial facilities that are currently dispersed in different state-owned institutions need to be consolidated. The consolidated assets of the state-owned financing institution such PT.SMI, PT.PII, and PT.SMF is necessary because it would become a funding strength that can be capitalized in the form of a strong development bank as it has been developed in several countries.
- **Third**, the combination of infrastructure improvement along with social assistance programs for low income families need to be continuously strengthened as this effort has been shown to be able to reduce the inequality and alleviate poverty.
- **Fourth**, productivity improvement through education and training, complemented with knowledge infrastructure development including ICT facilities need to be extensively implemented so that the productivity could be significantly improved. Like steelmaking in Industry 1.0, ICT infrastructures equipped with sensors and intelligent controls is the backbone of Industry 4.0.
- **Fifth**, various study shows that higher TFP is associated with the higher science and technology endowment of a country that lead to a high productivity. In this perspective, Indonesia need to gradually improve the human capital especially in higher education through the creation of talents, new knowledge and technology to contribute to the development of a knowledge base economy.

## FINAL WORDS

- Allow me to use this opportunity to update you on the current economic and political development in Indonesia.
- The economic growth of Indonesia is stable at 5%. Indonesia is among the top 3 of high economic growth performers in the G20.
- Despite the current global financial turmoil, Indonesia's economy remains healthy and stable.
- Debt-to-GDP ratio relatively low at 30%, budget deficit less than 3%, the inflation rate is low, and just recently Fitch has reaffirmed Indonesia's position on sovereign credit rating at BBB or the investment grade.
- From the political point of view, the upcoming general election including the presidential election will be held for the first time simultaneously on April 2019.
- Indonesia's structural transition to democracy and the quality of democracy are steadily improving and stable.
- It can be concluded that from economic and political perspectives, Indonesia has remained and will always be a good place to invest.