

Indonesia Investments

National Strategic Projects

- New Coordinating Minister for Economic Affairs Regulation Came into Effect: List of National Strategic Projects Revised
- What Are Indonesia's National Strategic Projects and How Does the Government Support These Projects?
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Van Der Schaar Investments B.V.
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Update – 19 August 2022

**‘National Strategic Projects; Government
Adds 13 New Projects’**



Preface

In addition to our reports, Indonesia Investments sends updates on key economic, political or social developments to our subscribers to make sure that our subscribers do not miss out on vital information. Topics in these updates will often be discussed in more detail (and in an updated form) in forthcoming monthly reports.

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- Infrastructure -

National Strategic Projects; Revision Introduced Through a New Coordinating Minister for Economic Affairs Regulation

On 22 July 2022 a new regulation came into effect, titled Coordinating Minister for Economic Affairs Regulation No. 9 of Year 2022 on the Amendment of Coordinating Minister for Economic Affairs Regulation No. 7 of Year 2021 on the Amendment of the List of National Strategic Projects (henceforth: Regulation 9/2022).

It is a revision that is worth taking a closer look at. First, however, we need to go back to basics and answer the following question: what are these national strategic projects (abbreviated as NSPs) exactly?

NSPs, which were introduced under the administration of President Joko Widodo (via Presidential Regulation No. 3 of Year 2016), are capital-intensive infrastructure projects that are regarded strategic in the sense that they help to encourage national economic growth, equitable development, welfare, and regional development.

While private sector players are more than welcome to invest in these NSPs, it has so far primarily been the public sector players that act as the driving forces behind

construction of the NSPs. The main reasons why private sector players are not overly enthusiastic to invest in these projects is because these projects are expensive (as they require large sums of money, for example because a large size of land has to be bought, such as in the case of toll roads) and they require quite some years before investors can expect to see profit (whereas typically investors want to be profitable within a 3-to-5-year time span).

Moreover, the bigger the project – and the longer it takes to complete the project – the bigger uncertainty becomes. For example because of excessive bureaucracy (red tape), especially in case more than one regional government is involved, or because of the threat of changing regulations (as we see quite some ad hoc policy-making in Indonesia instead of stable, long-term commitments).

Therefore, with private sector involvement being relatively limited, the majority of investment funds need to originate from somewhere else: the central government's annual state budgets (APBN), the regional governments' budgets (APBD), and from certain state-owned enterprises (SOEs), particularly those involved in construction, that are appointed to handle these NSP projects (with some of these SOEs obtaining a capital injection from the central government's state budget to handle projects).

Meanwhile, the central government also wants to maximize the role of the Indonesia Investment Authority (INA) in NSP funding, both in the form of equity and loans. INA

(which – being Indonesia's sovereign wealth fund – enjoys large funding capacity) has the potential to fund various NSP projects (with INA obtaining its funds and assets from the Indonesian government as well as through investment commitments from the large global institutional investors).

Lastly, what separates a NSP from other infrastructure projects is that all involved levels of government institutions (such as ministers, governors, and regents) need to treat the project as a priority project, and so regulations and licensing procedures are not allowed to obstruct progress of the project. In other words: all officials need to support the NSP project by facilitating its construction.

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