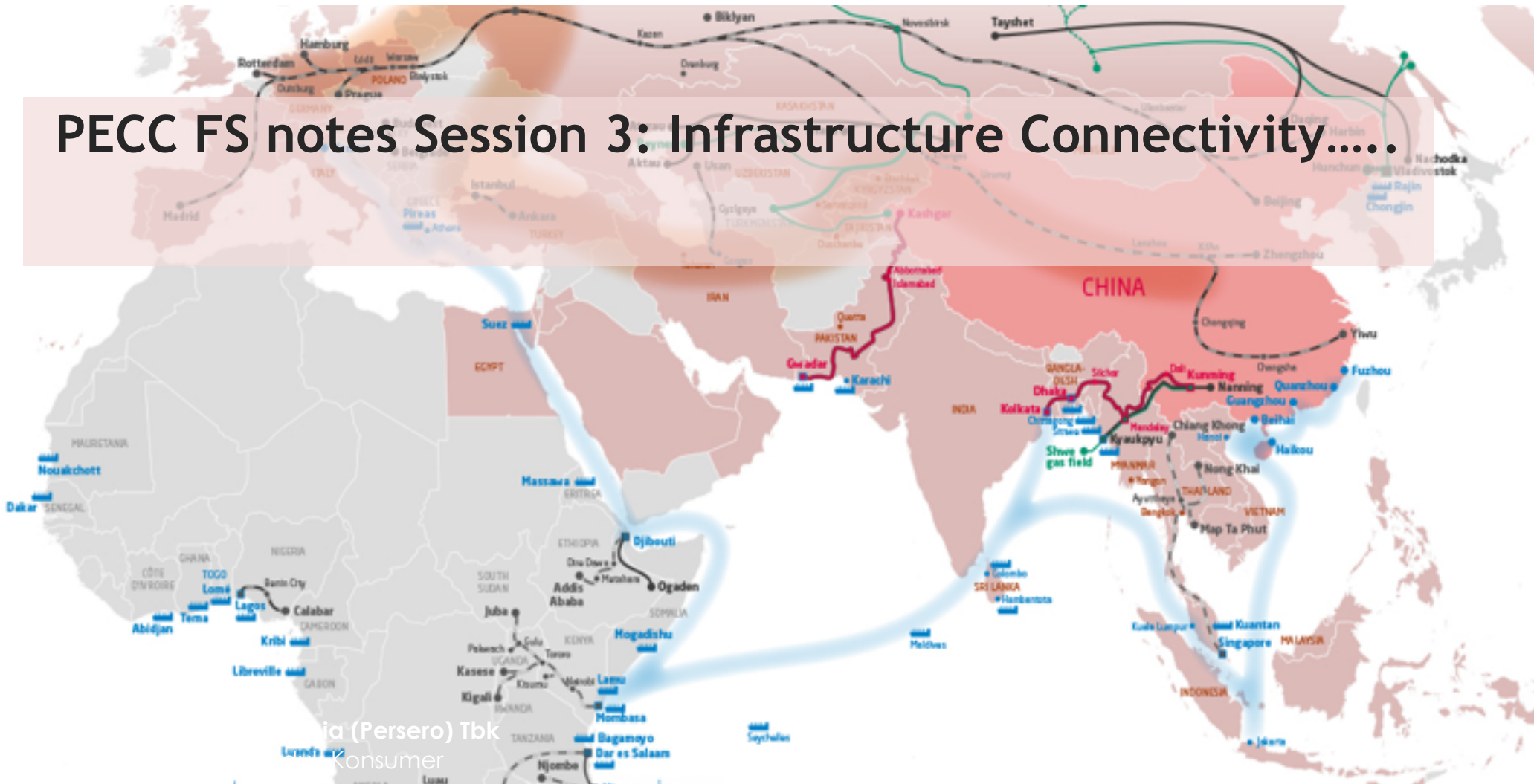


PECC FS notes Session 3: Infrastructure Connectivity....



ia (Persero) Tbk

Konsumer



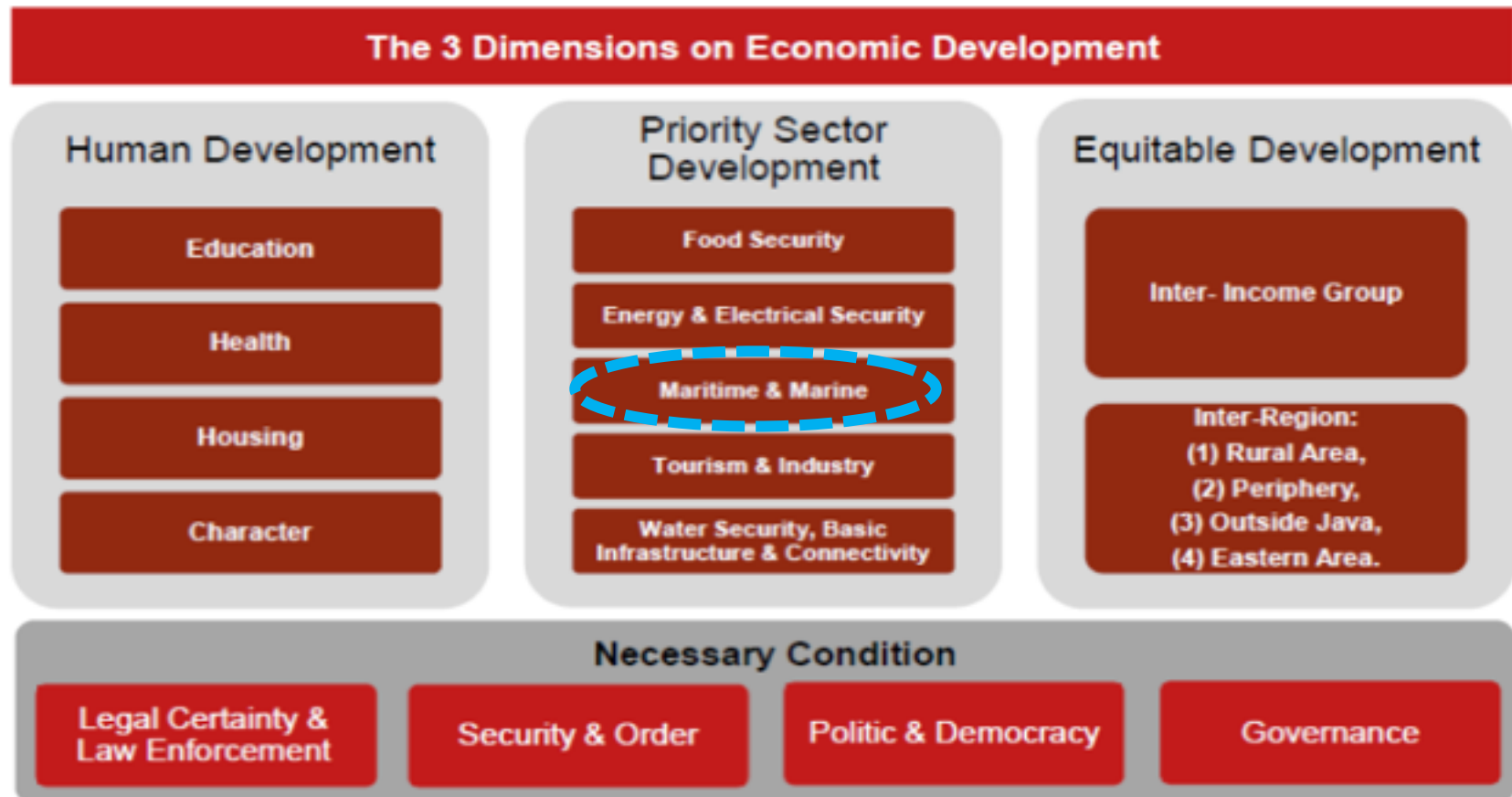
CONTENTS

1. **INDONESIA'S 3 DIMENSIONS ECONOMIC DEVELOPMENT & IT'S NEW ECONOMIC STRUCTURE**
2. **THE MARITIME & INFRASTRUCTURE DEVELOPMENT PRIORITY PLAN**
3. **HOW TO FINANCE...?**
4. **RISK FACTORS**
5. **CONCLUDING REMARKS**

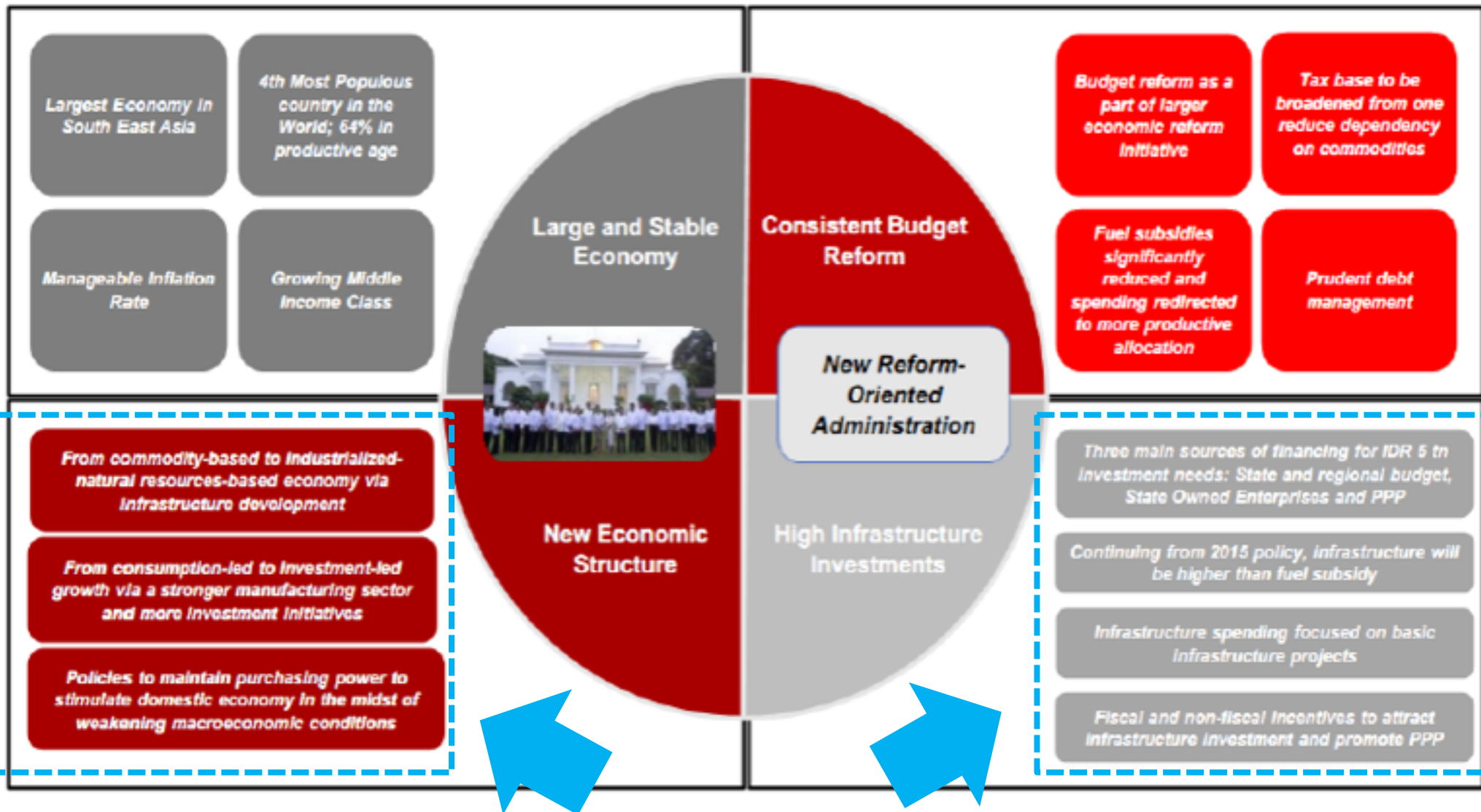
INDONESIA'S 3 DIMENSIONS ECONOMIC DEVELOPMENT

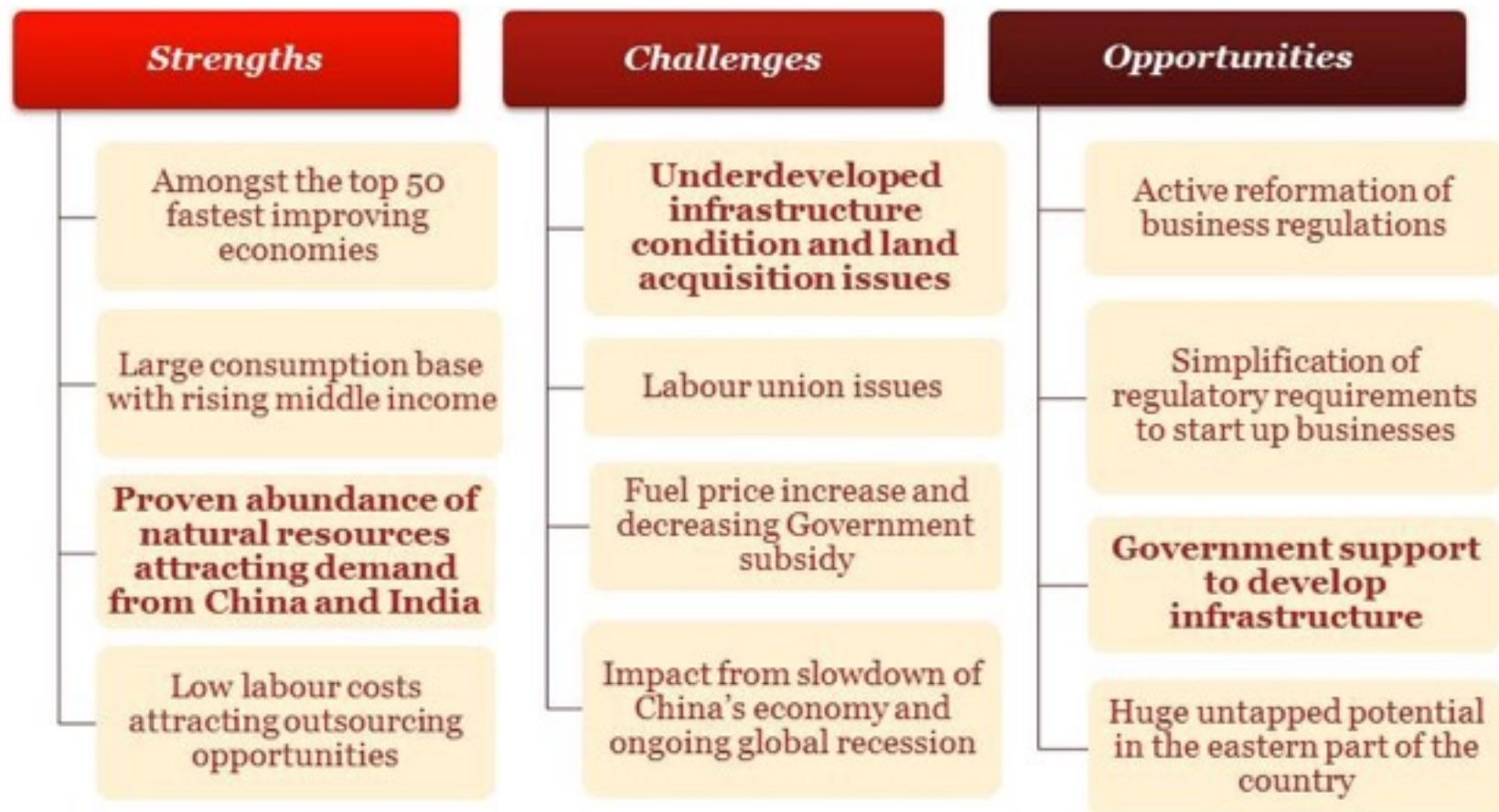
Jokowi's Vision of Indonesia becoming a global maritime axis; integration & connectivity

National Strategic Development Plan (Nawa Cita) will accelerate high economic growth, inclusive and sustainable.



INDONESIA NEW ECONOMIC STRUCTURE: From Commodity based to Manufacturing Requiring Infrastructure Investments





PRIORITISED INFRASTRUCTURE DEVELOPMENT IN 2015 - 2019



*Improve transport efficiency by **road development and maintenance***

- Develop **2,650 km** new roads
- Develop **1,000 km** toll roads
- Rehabilitate **46,770 km** of existing road



*Strengthen connectivity through **air transport infrastructure development***

- Develop **15** new airports
- Procure **20** pioneer aircrafts
- Develop **air cargo facilities** in **10** airports



Sea toll concept** as a means to support Indonesia in becoming the **world maritime axis

- Develop **24** new ports
- Procure **26** pioneer freights
- Procure **2** livestock vessels
- Procure **500** traditional vessel
- Procure **50** units crossing ferries
- Develop **harbour crossings** in **60** locations



*Develop **urban transportation***

- Develop Bus Rapid Transportation in **29** cities
- Develop Mass Rapid Transportation in **6** metropolitan cities and **17** large cities



*Reduce logistics cost by improving **railway Infrastructure** by developing new tracks in Jawa, Sumatera, Sulawesi and Kalimantan:*

- **2,159 km** intercity railways and
- **1,099 km** urban railways



*Achieve **electrification ratio** of **96.6%** by 2019 through increased capacity*

- Develop **power plants** with total capacity of **35,000 MW**



*Improve **connectivity** by building **IT infrastructure***

- Improve broadband coverage up to 100% in regencies/cities
- Improve e-Government index up to 3.4 (scale of 4.0)
- Development of e-procurement, e-health, e-education, and e-logistics



*Achieve food sovereignty through **irrigation system improvement***

- Develop **49** new reservoirs / dams
- Develop new **1 million ha** irrigation network
- Rehabilitate **3 million ha** of existing irrigation network



*Ensure **efficiency of fuel production** by optimizing domestic refineries*

- Build new oil refineries with capacity of **2x300k** barrels
- Develop **5** new **FSRUs** in Java and Sumatera

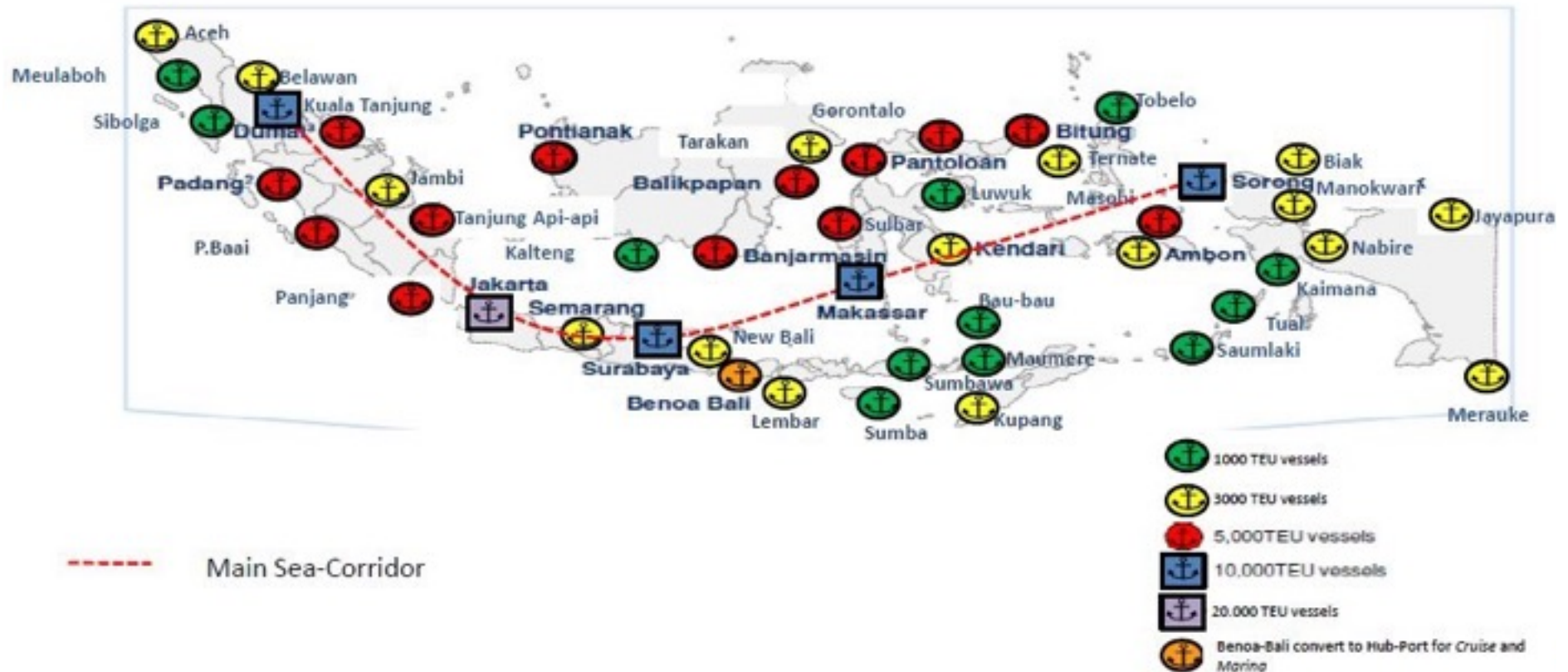
Source: BAPPENAS – December 2014

INDONESIA SEA TOLL ROAD PROGRAM



Source: IPC (2012)

PORT DEVELOPMENT PROGRAM 2015 - 2019



RAIL INFRASTRUCTURE PLAN, 2015 - 2019



- Completion of Trans Sumatra Track
- Development of Trans Kalimantan, Sulawesi, & Papua, as well as enhancement of existing line capacity to be the double track at Sumatra and Java, especially South Java.

Source: Ministry of Transportation

AVIATION INFRASTRUCTURE PLAN, 2015 - 2019



State Budget



Plan of 15 new aviation port
Bandara Baru

Procure 20 of new plane



Development of 9 ports of aviation
cargo service

Source: Ministry of Transportation






INTERNET CONNECTIVITY PLAN, 2019

"Palapa Ring" project will establish fiber-optics backbone connectivity across all regencies/counties in Indonesia by 2019. MCIT takes the 57 municipalities which are not commercially feasible for any telco operator



We hope that by 2019, people in every part of Indonesia will have the same opportunity to access the internet. Two of the three packages have entered the concession agreement signing.

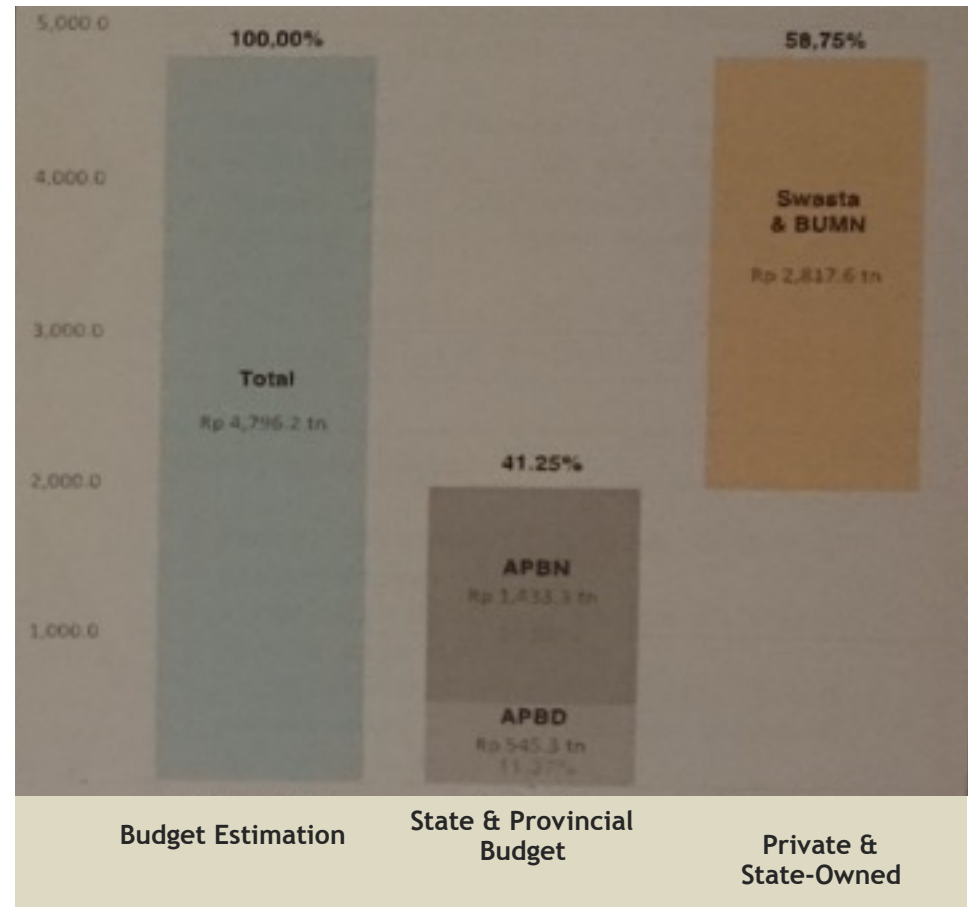
- Using the USO fund and structured as Public-Private Partnership (PPP) scheme.
- The Government of Indonesia (GoI) provide guarantee through Availability Payment (AP);

	West	Central	East
 Number of Provinces	2	5	4
 Number of Cities	5	17	35
 Length of cable	1,980 km 88.9% undersea cable 11.1% land cable	2,647km 63.1% undersea cable 32.4% land cable 4.5% MW	5,224 km 60.7% undersea cable 22.3% land cable 12% MW
 Target Construction Completion (online)	2018 (Jan 2019)	2018 (Jan 2019)	2018 (Jan 2019)
 Status as of Today	Concession Agreement signed on Feb 29, 2016	Concession Agreement signed on March 4, 2016	Pra-qualification

INFRASTRUCTURE PLAN, BUT HOW TO FINANCE...?

Amount of Indonesia's Infrastructure Mid Term Development Plan 2015-2019 (IDR Trillion)



SECTORS	STATE BUDGET	PROVINCIAL BUDGET	STATE-OWNED	PRIVATE	TOTAL
Road	268	200	65	200	733
Train	93	-	11	122	226
Sea Transportation	260	-	238.2	93	591.2
Aviation	64	5.0	50	25	144
Land	37	-	10	-	47
Urban Transportation	61	15.0	5	5	86
Electricity	120	-	445	435	1,000
Energy	4.3	-	151.5	351.5	507.3
Information Tecnology	15	15.3	27	223	280.3
Water Resources	196	68	7	179.9	450.9
Drinking Water & Waste	131	198	44	30	403
Housing	184	44	12.5	87	327.5
Total	1,433.3	545.3	1066.2	1751.4	4,796.2
Prosentase	29.88%	11.37%	22.23%	36.52%	100%



HOW TO FINANCE: THE LONG TERM STRATEGIES

Long Term Strategies to Achieve Sustainable Growth ...stimuli to promote investments



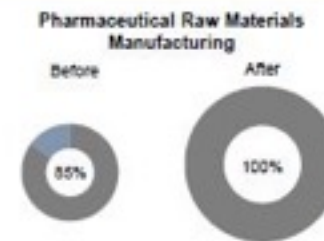
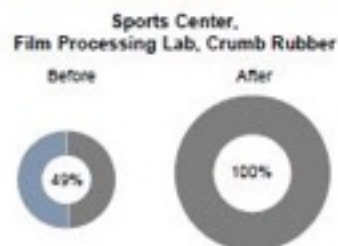
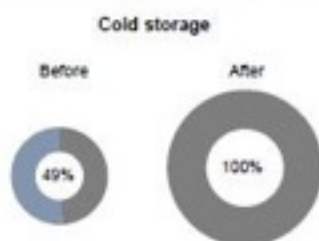
Licensing Incentives	Tax Incentives	Business and Infrastructure Incentives					Other Incentives
 Permit & licensing simplification	 Income tax relief for labor intensive industries	 Incentives for footwear and apparel industries	 Simplification of import licensing for drugs and raw food	 Accelerating infrastructure development	 Water management and regulation	 One map policy	
 Relaxation of entry visa policies	 Tax incentives for REITs	 Dwelling time optimization	 Oil refinery development	 Aviation sector incentives	 Downstream industries	 Debt To equity ratio	
 Special economic zones	 Tax incentives on property	 Integrated logistics zones	 CPO fund	 Support for export-oriented industries	 Village-city logistics improvement	 Acceleration of power infrastructure	
						 Expansion of coverage and interest subsidy for MSME	
						 Relaxation of negative foreign investment list	

HOW TO FINANCE: THE BIG BANG POLICY

‘The Big Bang’ Policy on Relaxation of Foreign Investment ...promoting competition and growth from investments



Introduction of New Foreign Ownership Regulation for Strategic Sectors

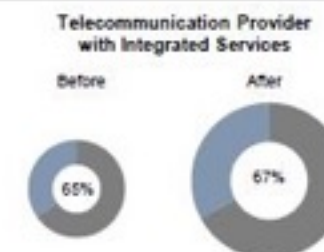
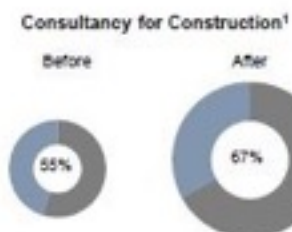
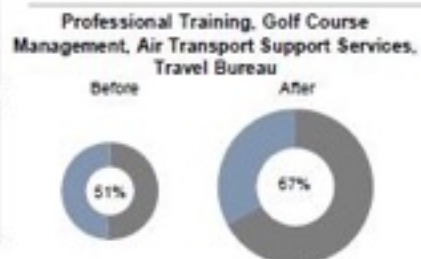
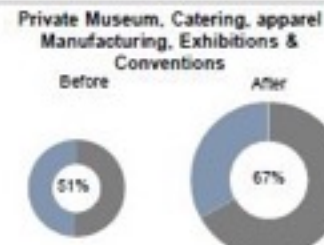


Key Reforms in Negative Foreign Investment List

Revision of "Partnership" category to refer to partnership with Micro, Small and Medium Enterprises (MSMEs)

Grandfather Law: If a particular sector is tightened in future, existing foreign investor does not need to comply with tighter stake

Strengthen implementation of negative investment law through active roles from ministries, agencies and regional governments



¹ For total project value of IDR10bn and above

OPPORTUNITY: ONE BELT ONE ROAD STRATEGY: WILL STIMULATE A MASSIVE DOLLAR MARKET

One Belt One Road will stimulate a massive, trillion dollars market, perhaps larger than China's domestic one

OBOR Scope

- The 65 countries included in OBOR have a total population of **4.4 billion**
 - Combined GDP is around **USD21 trillion**, about 1/3 of the global economy
- It includes large area of China and foreign countries
- Focus on **infrastructure** – transport, power, and others



Spending and Investments

- OBOR is planned to **mobilize 1.6T USD of infrastructure spending** in the next 10 years
 - China Development Bank is prepared to spend **800B USD**, among others
- Also is expected to stimulate **2.5T USD of trade** among countries along its span
- Total value of **ongoing projects** already exceeds **150B USD**
 - Railway: **80B USD**
 - Public road: **20B USD**
 - Airport: **20B USD**
 - Harbor: **30B USD**

Infrastructure Spending

- Concentrates on connectivity and transport infrastructure
- The **total transport infrastructure** need in the covered region is estimated to hit **5T USD** over the next five years, equivalent to 2.5 times the market size in China
- Chinese provinces have already announced planned OBOR projects worth **100B+ USD domestically**



Sources: Government announcements, Industry reports, Literature research, Strategy&PwC analysis

EODB (Ease of Doing Business) improving but still significant challenges; Policy Implementation is a challenge; particularly at local government level (land issues, etc)

Banking sector: Stable however; lacks long term financing capability and LDR already at 90% therefore need to attract FDI's

Social and Environment Safeguard: Indonesia should be committed to SDG's and climate change

Import of labour for large projects is a sensitive domestic issue; cooperation will not be sustainable if social issues are not addressed

Rebalancing as a result of Trump's Policy and a likely major shift in Europe; what this means to Asia Pacific, ASEAN and Indonesia (geopolitical assessment required on South China Sea, etc)

FDI's to support Infrastructure Financing:

Most visible FDI's are coming from China and Japan to support infrastructure projects

A closer cooperation between China and Japan with Indonesia should include an understanding of the risk factors: China's OBOR and Japan's response introducing Open and Free Indo Pacific Strategy. A keen observation of US current narrative that will affect China and Japan. Note Trump's recent position on China and Abe seeking confirmation of US support)

Diversification of the industries: value added resource based; manufacturing sector, service sector as high employment generator and infrastructure (in support primarily for energy efficiency, food security, connectivity)

ATTACHMENT



President Jokowi has a bold National 'Vision' for Indonesia in 2085

World Class human capital

A Nation which values pluralism, culture, religion and ethics

A global centre of education, technology and civilization

A People and a Government free from corrupt practices

Quality Infrastructure distributed across the whole of Indonesia

An independent, respected and regionally influential Nation

An economy which is fully integrated into regional & global value chains



Principle#1: Social and Environmental Assessment and Management System (SEMS)

Principle#2: Labour and Working Conditions

Principle#3: Pollution Prevention, Abatement, & Climate Change

Principle#4: Community Health, Safety, & Security/Dam Safety

Principle#5: Land Acquisition and Involuntary Resettlement

Principle#6: Biodiversity Conservation and Sustainable Natural Resources Management

Principle#7: Indigenous People (IP)

Principle#8: Cultural Property and Heritage

POLICIES TO SUPPORT GROWTH

FISCAL POLICY

- Sustainable revenue sources (shift away from commodity-based revenues)
- Broaden tax coverage
- Higher spending productivity
- Well targeted subsidy scheme
- Empowerment of local governments
- Prudent deficit & debt management

STRUCTURAL REFORM POLICY (Real Sector)

- Maintain purchasing power
- Improve investment climate)



POLICY PACKAGES

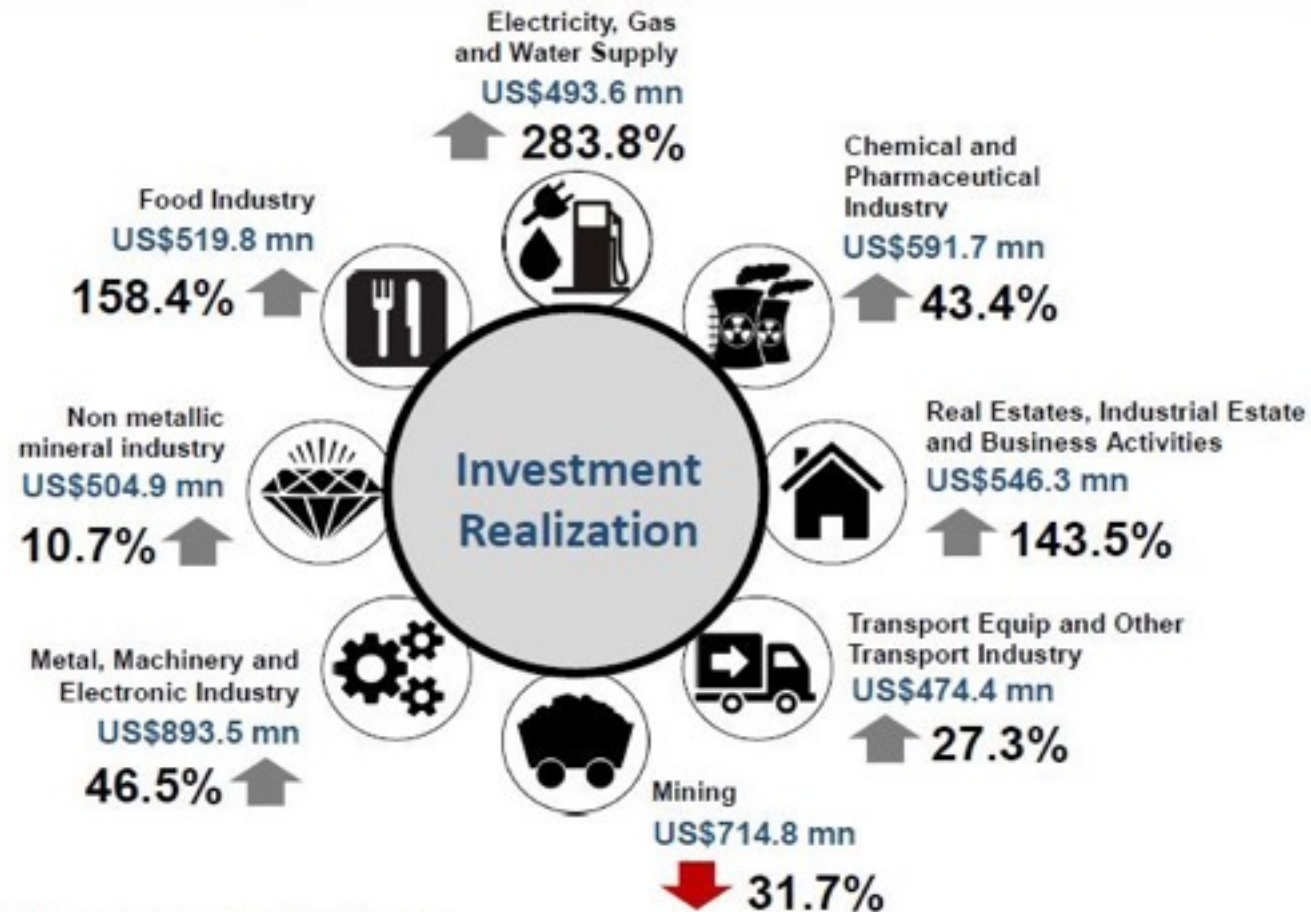
MONETARY POLICY (Bank Indonesia)

- Inflation management
- Prudent monetary policy support for stabilization and growth
- Accommodative macroprudential policy
- Exchange rate management to reduce volatility

HOW TO FINANCE: THE COUNTRY'S FDI REALIZATION



FDI Realization by Sectors (Q2-2016)



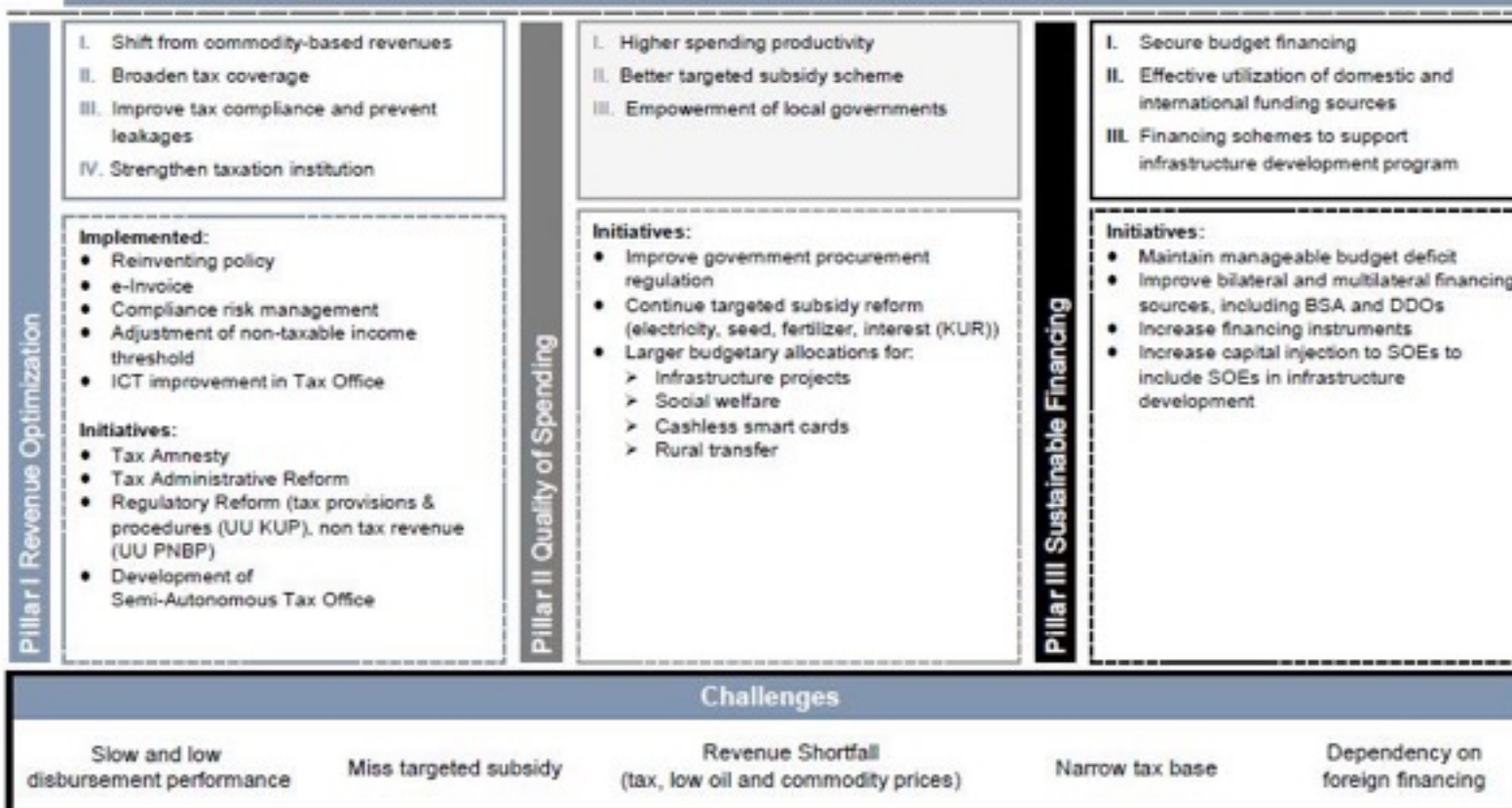
Source: Investment Coordinating Board (BKPM), compared to Q2-2015 period

HOW TO FINANCE: THE BUDGET REFORM



Budget Reform as a Part of Larger Economic Reform Initiative ...to support sustainable and equitable economic growth

Objective: Creating a Sustainable and Equitable Economic Growth for Indonesia



Source: Ministry of Finance

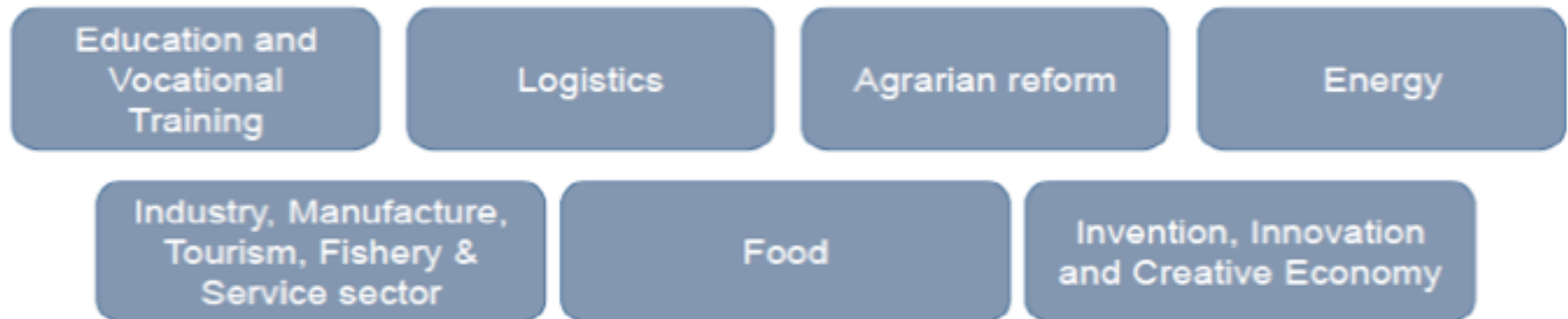
WHY INVEST IN INDONESIA: ECONOMIC POLICY PACKAGE (3/3)

Economic Policy Package I - XIII

On 13 economic policy package, the Government focuses on six strategies issues



Next Phase of Policy Packages based on Sectoral and Thematic Issues



WHY INVEST IN INDONESIA: ECONOMIC POLICY PACKAGE (2/3)

Economic Policy Package I - XIII

Government proactive to reform the economic policy to meet investors expectations

"To improve national industry competitiveness, export and investment to generate significant economic growth"

Harmonizing Regulations	Simplifying Bureaucratic Process	Ensuring Law Enforceability
<p>Phase I (9 Sept '15) Improving national industry competitiveness</p> <p>Phase II (29 Sept '15) Easing permit requirement and simplifying export proceeds requirement</p> <p>Phase III (7 Oct '15) Financial services facilitation, export financing and elimination of business unnecessary burden</p> <p>Phase IV (15 Oct '15) Social safety net and betterment of people welfare</p> <p>Phase V (22 Oct '15) Improving industry and investment climate through tax incentives and deregulation on sharia banking</p> <p>Phase VI (6 Nov '15) Stimulating economic activities in border areas and facilitating strategic commodities availability</p> <p>Phase VII (7 Dec '15) Stimulating business activities in labor-intensive industries nation-wide through incentives in the form of accelerating land certification process for individuals</p>		<p>Phase VIII (21 Dec '15) Resolving land acquisition disputes, intensifying domestic oil production, stimulating domestic parts and aviation industries</p> <p>Phase IX (27 Jan '16) Accelerating electricity generation, stabilizing meat prices and improving rural –urban logistics sector</p> <p>Phase X (11 Feb '16) Revising Negative investment List and improving protection for SMEs</p> <p>Phase XI (29 Mar '16) Stimulating national economy through facilitation to SMEs and industries</p> <p>Phase XII (28 Apr '16) Improving Indonesia's rank on Ease of Doing Business (EODB)</p> <p>Phase XIII (24 Aug '16) Low Cost Housing for Low-Income Communities</p>