

Overview of Private Investment to Indonesia's New Capital City: Ibu Kota Nusantara (IKN)

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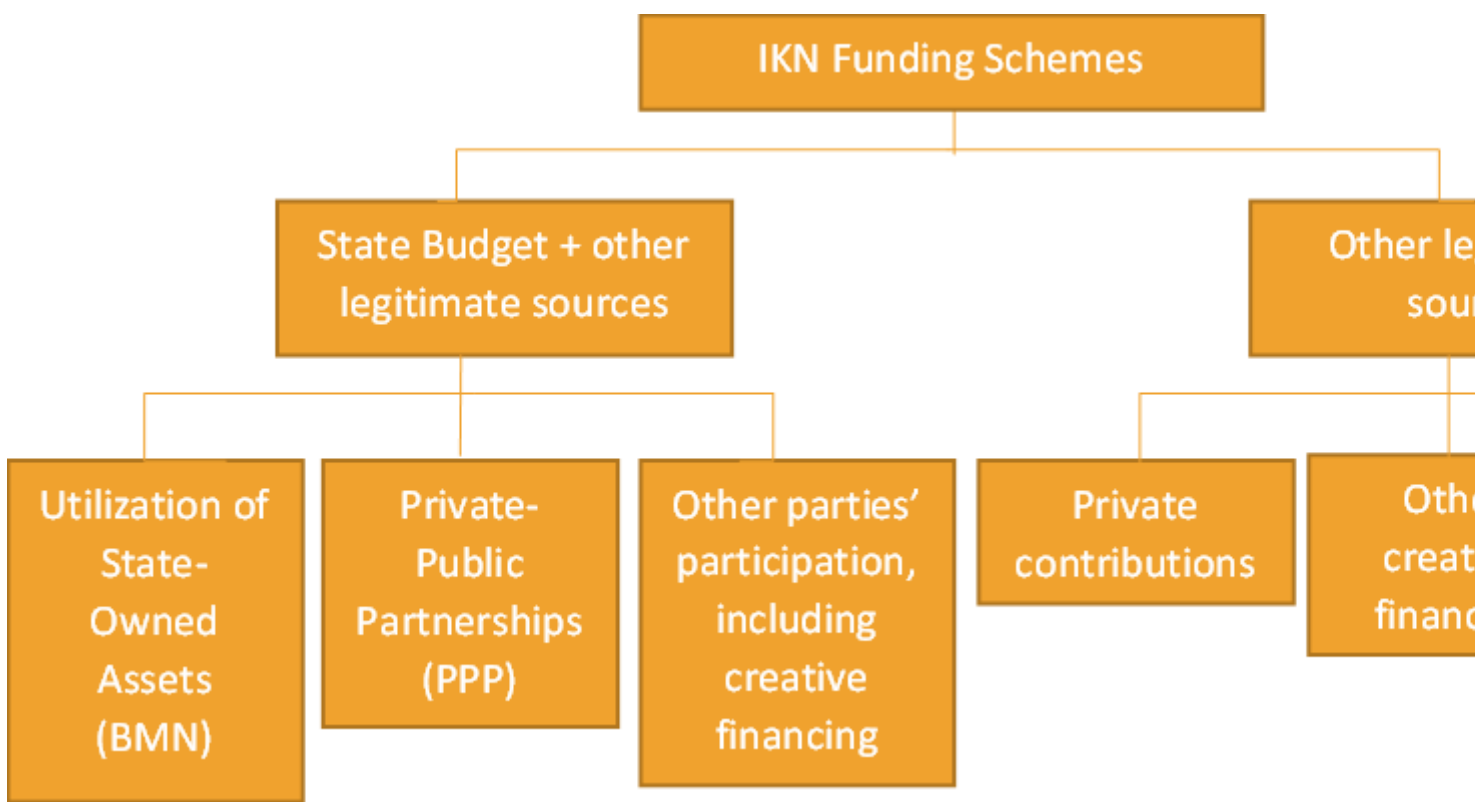
In 2019, President Joko Widodo announced that Indonesia's capital city would be moved from Jakarta in heavily populated Java Island to East Kalimantan province. Named Ibu Kota Nusantara ("IKN"), the new state capital city will be developed in five stages spanning from 2022 to 2045 with a total estimated cost of more than IDR460 trillion (approximately USD30 billion). According to the Government, 20% of the funds will come from the State Budget and the remaining 80% will be from outside the State Budget. This advisory provides an overview of the funding schemes and private sector participation in the development of IKN.

To encourage private sector participation, the government has issued several regulations aimed at accelerating the new capital city's infrastructure development, including:

1. Law No. 3 of 2022 on the State Capital City as the umbrella law for the development of IKN;
2. Government Regulation No. 17 of 2022 on Funding and Budget Management for the Preparation, Development and Relocation of the State Capital City and the Implementation of the Regional Government of the Special Capital City of Nusantara, which outlines the funding scheme for IKN;
3. Minister of Finance ("MOF") Regulation No. 220/PMK.08/2022 on Government Support for Government Cooperation with Business Entities and Creative Financing for the Acceleration of the Development of Infrastructure for Nusantara Capital City ("**MOF Reg 220/2022**"), which details the types of government support available for the development of IKN;

4. Minister of National Development Planning Regulation No. 6 of 2022 on the Procedure for Public-Private Partnerships in Nusantara Capital City, which provides guidance and procedures for implementing public-private partnerships (“**PPP**”) for the development of IKN; and
5. National Procurement Policy Agency Regulation No. 1 of 2023 on the Procedure for Procurement by Business Entities through Public-Private Partnerships with Business Entities in Nusantara Capital City, which provides detailed procedures and guidance on the selection of private businesses that will cooperate with the government through PPP schemes.

The sources of funding and schemes for the development of IKN, under the current regulatory framework, are summarized in the following chart:



How Can Private Investors Participate?

As shown in the chart, private businesses can invest in the development of IKN through either:

1. **PPP in cooperation with the Government:** PPP schemes allow the government to participate through the State Budget, while tenders will be held to select the participating businesses.

In short, a private investor may receive a return on its investment through either: (i) user payments, (ii) availability payments, or (iii) other forms of return. A PPP can be initiated by the Government Contracting Agency (“**GCA**”) (a “**solicited PPP scheme**”), or by a private entity (an “**unsolicited PPP scheme**”). If in a tender conducted by the GCA, no bidder submits an offer or passes the prequalification assessment or the proposal offer stage, or it fails to attract the required funding, a solicited PPP scheme may be converted into an unsolicited PPP scheme.

In certain conditions, an unsolicited PPP scheme can use a direct appointment procurement method if, among others: it utilizes new technology from a sole provider which is exclusively capable of supplying such technology, the business already owns most or all of the required land, or the procurement is deemed a priority. Typical guarantees for bid offers and performance will be required from the business entity.

2. **Creative financing:** This scheme allows funds sourced from private entities and non-government stakeholders to be combined with the State Budget (blended finance, including crowdfunding and philanthropy). Such arrangements will be determined by the MOF through the Director General of Financing and Risk Management.
3. **Purely private financing schemes:** In these schemes, financing is sourced entirely from a private entity, which may be entitled to incentives under prevailing regulations.

Further details will be provided in forthcoming regulations on (2) and (3).

Government Support

Under MOF Reg 220/2022, the MOF through the Director General of Financing and Risk Management will provide government support facilities for the development of IKN through the following financing schemes:

1. PPP financing schemes comprising: (a) preparation and implementation facilities, (b) government guarantees, (c) the use of BMN, and/or (d) viability support in the form of a fiscal contribution, or all of the above; or
2. Creative financing schemes comprising: (a) supporting facilities for the implementation of the funding scheme; and/or (b) project development facilities.

IKN Development Status and Conclusion

Development of IKN is already underway with an initial focus on building weirs, toll roads, a state palace, and housing for civil servants. These are all part of the first development stage and supposedly funded entirely by the State Budget. To date, we have not seen any PPP scheme implemented for IKN's infrastructure needs. Current development of the toll road linking KKT Kariangau to Sp. Tempadung is still reliant on the State Budget, despite a tender being held by the Ministry of Public Works and Public Housing.

Although PPP schemes are yet to be implemented for the new capital city's development, from a regulatory point of view, the government has provided the underlying legal basis to facilitate the building of IKN through partnerships with the private sector. We expect private investment will increase once the first stage of IKN have been successfully developed. We also anticipate private involvement will gain momentum after Indonesia's 2024 elections, provided the continuity of the new capital city plan becomes more certain beyond the conclusion of President Jokowi's second and final term.

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