Indonesia: A snapshot

In the World Economic Forum’s Global Competitiveness Report for 2012-13, Indonesia ranks 92nd out of 144 countries for the quality of its overall infrastructure.\(^1\) The report identifies inadequate infrastructure as one of the three “most problematic factors for doing business” in Indonesia, surpassed only by the twin scourges of bureaucracy and corruption. This infrastructure deficit is evident everywhere from roads to ports to electricity. Yet there is also a perception that Indonesia’s weak infrastructure makes it a land of abundant opportunity for investors: indeed, Morgan Stanley has hailed the country’s infrastructure sector as a “$250 billion Opportunity.”\(^2\)

This bullish argument is based largely on expectations that infrastructure spending is poised to surge. Following the 1998 Asian financial crisis, spending on infrastructure plummeted from a peak of 9.2% of GDP in 1995 to about 2.5% in 2000. As a result of this underinvestment, Indonesia’s infrastructure seriously deteriorated. By 2009, infrastructure spending had recovered somewhat to 3.9% of GDP, and Morgan Stanley has predicted that it may jump to between 5.9% and 7% of GDP in 2015. The government itself has set a more modest — but still ambitious — target of spending 5% of GDP on infrastructure from 2009 to 2014. Much of this money is expected to go to railways, airports, ports, electricity and roads. Improved monetary conditions, a rise in foreign direct investment, and a wave of regulatory reforms — including an important land acquisition law — should also help.

In the meantime, road congestion remains a significant problem, not least in the traffic-clogged capital city Jakarta. The country’s electricity supply has also failed to keep pace with soaring demand, which has resulted in frequent power outages. The government set about addressing these economic challenges by launching the 2011-2025 Master Plan for the Acceleration and Expansion of Indonesia Economic Development.\(^3\) This plan will focus in large part on upgrading the nation’s roads, railways, ports and airports. Part of the goal is also to build industrial infrastructure in six “Economic Corridors”, including key areas of growth such as Sumatra, Papua and Kalimantan.

Private investors eager to profit from Indonesia’s impressive boom in infrastructure development must still contend with such hazards as weak contract enforceability, bureaucratic delays, and corruption. In Transparency International’s Corruption Perceptions Index for 2011, Indonesia ranked 100th out of 183 countries. Still, there is good reason for optimism — not least, the sheer size of the market in this resource-rich nation of 244 million people.


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**Major projects**

**Electricity:** Indonesia has been hit by regular electricity blackouts in recent years, and its energy supply shortfall continues to threaten economic growth. To address this, the government is looking to boost its thermal energy resources, relying on the addition of many coal-based and gas-fueled power projects. According to the *Wall Street Journal*, Indonesia’s state-owned power company PT Perusahaan Listrik Negara also has plans to create a 700-km electricity network between the islands of Sumatra and Java at a cost of $20 billion — part of a much broader program to improve Indonesia’s low rates of electrification.

**Renewable Energy:** Hydropower accounted for an estimated 14.6% of Indonesia’s total generation in 2011. Previous hydro projects have been small, but the *Jakarta Post* recently reported an announcement that 96 additional locations have been identified that are suitable for new hydroelectric power plants. The opportunities in Indonesia’s hydropower sector are expected to attract significant interest from both domestic and foreign private enterprises.

**Transport:** Indonesia’s outmoded transport system is so clogged up that President Susilo Bambang Yudhoyono announced plans for about $195 billion in spending to overhaul infrastructure such as roads, bridges, ports and railways. The National Railway Master Plan includes an array of potential projects to complete by 2030, including a Bali tourism train, the Jabodetabek commuter train, and a rail link to Jakarta’s Soekarno Hatta airport. The government’s 2012 Summary of Public Private Partnerships calls specifically for significant investment in toll roads.

**By the numbers**

- Indonesia’s 2011-2025 development plan seeks **$440 billion** of investment in highways, power plants, roads and other infrastructure.

- The government aims to invest about 5% of GDP in infrastructure. That’s up from a low of about 2.5% in 2000, but still far below the 1995 peak of 9.2%.

- The National Development Planning Agency estimated that **$121.65 billion** would be needed to fund 87 infrastructure projects from 2010-14. The government said it could cover only 30% of this sum, indicating that a major influx of private investors will be required for the nation to meet its goals.

- In November 2011, a 710-meter suspension bridge in East Kalimantan province collapsed when a steel support cable snapped, plunging traffic into the Mahakam river. At least 22 people died, 39 were injured and 14 were declared missing — highlighting concerns about the uneven condition of Indonesia’s infrastructure. The bridge was only 10 years old.

- About **15 million** Indonesian households have no access to electricity, according to Morgan Stanley. In outer islands such as Nusa Tenggara and Papua, as little as **20-30%** of the population has access to electricity.


Indonesia’s top 10 planned infrastructure projects

- Bukit-Asam Transpacific coal railway: $2 bn
- First metro line for Jakarta: $4.4 bn
- New Jakarta port at Tanjung-Priok: $1.29 bn
- Probolinggo-Banyuwangi toll road: $0.88 bn
- Trans Papua road: $5 bn
- Sunda Strait bridge: $16.5 bn (est.)
- New city at Maja, Banten: $14.3 bn
- Railway from Jakarta to airport: $0.25 bn
- Coal-fired power plant, Central Java: $4.4 bn
- Broadband infrastructure across Java: $3.5 bn

Sources: Bukit Asam, Indonesian government, Reuters
To discuss the issues

Global capital projects & infrastructure leader
Richard Abadie
Tel +44(0) 20 7213 3225
richard.abadie@uk.pwc.com

Argentina
Maximiliano Galli
Tel +54 11 4850 6887
maximiliano.galli@ar.pwc.com

Australia
Brian Gillespie
Tel +61 7 3257 5656
brian.gillespie@au.pwc.com

Brazil
Carlos Biedermann
Tel +55 51 3378 1708
carlos.biedermann@br.pwc.com

Canada
Michel Grillot
Tel +1 403 509 7565
michel.grillot@ca.pwc.com

Central and Eastern Europe
Julian Smith
Tel +7 495 967 6462
julian.l.smith@ru.pwc.com

China/Hong Kong
Gabriel Wong
Tel +86 (21) 2323 2609
jorge.m.fernandez@cn.pwc.com

France
Peter Vickers
Tel +33 1 56 57 73 05
peter.vickers@fr.pwc.com

Germany
Hansjörg Arnold
Tel +49 69 9585 5611
hansjoerg.arnold@de.pwc.com

India
Manish Agarwal
Tel +91 996 757 4800
manish.b.agarwal@in.pwc.com

Indonesia
Rizal Satar
Tel +62 21 5289 0350
rinal.satar@id.pwc.com

Italy
Guido Sirolli
Tel +390 6 57083 2125
guido.g.sirolli@it.pwc.com

Japan
Yumiko Noda
Tel +81 3 3546 8512
yumiko.y.noda@jp.pwc.com

Malaysia/Vietnam/Thailand/Cambodia/Laos
Andrew Chan Yik Hong
Tel +60 3 2173 1219
andrew.yh.chan@my.pwc.com

Mexico
Francisco Ibañez
Tel +52 55 56 682 0617
francisco.ibanez@mx.pwc.com

Middle East
Charles Lloyd
Tel +971 56 682 0617
charles.lloyd@ae.pwc.com

Netherlands
Martin Blokland
Tel +31 887 975 867
martin.blokland@nl.pwc.com

Russia
Julian Smith
Tel +7 495 967 6462
julian.l.smith@ru.pwc.com

Singapore
Mark Rathbone
Tel +65 6236 4190
mark.rathbone@sg.pwc.com

Africa
Jonathan Cawood
Tel +27 (11) 797 523
jonathan.w.cawood@za.pwc.com

Spain
Patricio de Antonio
Tel +34 679 186 806
patricio.de_antonio@es.pwc.com

Sweden
Lars Tvede-Jensen
Tel +46 8 555 33 403
lars.tvede-jensen@se.pwc.com

UK
Tony Poulter
Tel +44 20 780 4581
tony.poulter@uk.pwc.com

Uruguay
Jorge Seré
Tel +598 2916 0463 Int 1383
jorge.sere@uy.pwc.com

US
Peter Raymond
Tel +1 703 918 1580
peter.d.raymond@us.pwc.com

Contributors

Strategic direction
Richard Abadie
Tony Poulter
Peter Raymond

Marketing + outreach
Lee Ann Ritzman
Jenni Chance
Becky Weaver

Editor
William Sand

Design
Odgis + Company
Janet Odgis
Rhian Swierat