



Pointers Video Taping

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**THE IMPORTANCE OF URBAN PLANNING AND INNOVATIVE AND
CREATIVE FINANCING FOR INFRASTRUCTURE**

Jakarta, 30 March 2018

Indonesia's Demographic Profile

- When Indonesia celebrates its 100th anniversary as an independent nation in 2045, our population is expected to reach 309 million people. The world population will also grow and projected to reach 9.3 billion by 2045.
- With this demographic change, urbanization becomes a constant challenge for Indonesia. In 2045, 75% of our population is predicted to live in urban areas. Infrastructure --such as housing, water, electricity, transportation-- will be very much needed by the populace.
- According to the World Bank, Java and Bali is the most urbanized region in Indonesia with 50% population living in urban areas. While in Kalimantan and Sumatra, respectively 36% and 34% of the population lives in cities. In the other four main island, urbanization rates are in the mid to upper 20% levels.
- Oxford Economics asserts that Jakarta's GDP will grow by USD 354 billion from 2013 to 2030, while the population will increase by 6.2 million.

Cities as Future Source of Economic Growth

- With more and more people moving and living in the cities --especially in megacities around the world-- it is not surprising that urban areas will contribute more significantly to the future economic growth. A research by Oxford Economics predicts that by 2030, 750 cities around the world will contribute to around 61% of world's total GDP or about US\$ 80 trillion.

The Predicament of Uncontrolled Urbanization

- The rise of cities and megacities around the world as a more potent source of economic growth will drive more urbanization. As a consequence, cities and megacities will continue to expand in an exponential rate.
- Policymakers should be able to anticipate this trend, in the form of better urban planning. Therefore city dwellers would be able to reap optimum benefits from the cities' potential as a center of economic growth.
- Without proper urban planning, cities would only benefit some segments of society. Usually those who have power, resources, and connections are those who will mostly reap the benefits, while others will be left behind.
- Furthermore cities without proper urban planning are bound to suffer many chronic societal problems, such as poverty, poor public transport, slum areas, high rate of criminality, poor sanitary condition, and low quality of education. All of these will widen the gap between the have and the have not, thus contribute significantly to rising inequality.
- For example, many urban projects of the last decade have contributed to a physical reinforcement of inequality. Gated communities and enclaves proliferate. They cast differences in stone or concrete—not for a few undesirable outcasts, but for generations of new urban dwellers who continue to flock to the city in search of jobs and opportunities.

- Inequality and exclusion within cities will offset some of the beneficial dynamics. First, inequality and exclusion reduces the benefits of economic growth. In and of itself higher inequality and exclusion creates tensions in society, especially when it occurs across visible socioeconomic groups, such as migrants, religions, or slum dwellers.
- Second, inequality and exclusion reduces investment efficiency. Because of the high fixed costs of investment and imperfect credit markets, those with more wealth are better able to invest in their entrepreneurial projects, thus diverting capital from the poorer but possibly more gifted entrepreneurs.
- Third, inequality is particularly damaging when it affects the middle class that has a key role in generating the income.
- Fourth, inequality and exclusion also raises the price low income people must pay for essential services, thus reducing their capacity to invest in shelter improvement or education.

Why Proper Urban Planning Matters

- To avoid or at least minimise the negative effects of uncontrolled urbanisation –along with the social, economic, and political problems that follows— it is crucial that every cities should have a good and proper urban planning. Furthermore, to avoid the widening of inequality in the cities, there must be capacity to implement the urban plan effectively, efficiently, and systematically.
- Proper urban planning and delivery is something that needs to be undertaken for the public to maintain its trust in our government. Trust can quickly be forfeited either through missteps or inaction. Proper long-term urban planning is extremely important for the country and something we take seriously.

- Proper urban planning should also produce cities with a good quality and affordable housing, integrated public mass transports, reliable health service, and good quality educations for its citizens. This way, cities will develop as an inclusive living space which provide an equal economic opportunity for all segments of its citizenry.
- Planning and investment for housing and infrastructure --particularly transport-- should be linked to ensure that all parts of the metropolitan area have access to quality, affordable housing, key public services --such as healthcare, transport, parks and recreation spaces-- and economic opportunities.
- Inclusive cities as a result of proper urban planning would improve productivity, creativity and happiness of its citizens.

Creative Financing

- Indonesia's infrastructure profile is still below the average of our peer countries. As such, proper planning and infrastructure development must be accelerated.
- The government can no longer depend on the national budget and traditional delivery mechanisms alone. We must engage other entities -- such as private institutions, SOEs, and other sources--to invest in infrastructure.
- These entities will bring innovative ideas and alternative financing sources to infrastructure delivery. Indonesia has implemented many policies to promote PPPs and they will be very important in helping deliver the services our people expect.
- The Ministry of Finance provides fiscal facilities such as viability gap funds (VGF), project development facilities (PDF), and government guarantees to

increase the appetite of the private sector to undertake project risks that cannot be or should not be handled by public sector companies.

- The role of SOEs is also optimized by allowing them to properly allocate the budgets they receive from the government in the form of government investment or capital injection for their operational requirements and corporate financing needs.
- The government's fiscal capacity is also not sufficient to provide for all infrastructure investment needs. Increased budget deficits and the increase of public debt vis-à-vis our GDP can impact the availability of funds for infrastructure expenditures.
- In the Midterm Development Plan (RPJM) 2019, infrastructure financing needs are projected to reach Rp4,796.2 trillion, but only 41.25% of this amount can be financed from the national budget. Therefore, the remaining 59.75% for infrastructure financing must be financed from other sources.
- Amidst this budget constraints, innovative and creative financing for infrastructure investments becomes a necessity.
- One example is the government's effort to promote Sukuk financing. The total project financing through Sukuk from 2013 to 2017 have reached Rp39.9 trillion.
- In 2018, we will see a significant jump for agencies and projects using PBS as financing. With funding value of Rp22.53 trillion, seven agencies will use PBS as their funding sources to build infrastructure projects.
- Recently, the government of Indonesia has issued Global Green Sukuk in the amount of US\$1.25 billion with a 5 year tenor and Global Sukuk in the amount of US\$1.75 billion with a 10 year tenor. Indonesia's sovereign Global Green Sukuk is the first of its kind in the world.

- I firmly believe that the government's recent achievements are because we are dedicated to proper planning. We are also open to the innovation of the private sector to participate in infrastructure developments. Furthermore, we developed various schemes of financing to help the industry grow.
- There is still a lot to do. There are many large infrastructure projects planned by the government today. I hope all of you can participate in these projects. This is all aimed to help Indonesia serve its people better by improving connectivity and efficiency within our vast archipelago.
- Thank you.