

Press
Release

Minister Bambang Outlines Investment and Funding Scheme Plans for State Capital Relocation

JAKARTA – The Ministry of National Development Planning/Bappenas held the 4th National Dialogue on the Relocation of the State Capital (IKN) titled "Investment and Financing Strategy for the Relocation of the State Capital" at its offices on Monday (16/9).

During his speech, the Minister of National Development Planning/Head of Bappenas Bambang Brodjonegoro emphasized that the relocation of the State Capital to East Kalimantan is a serious attempt at helping secure more investment to areas outside of Java to reduce economic disparity between Indonesia's islands.

"The construction of this new governmental center is an investment to help reduce the excessive economic domination of certain islands. Investment is an instrument that can accelerate economic growth as well as the resolution of various developmental problems which can lead to the reduction of poverty and inequality through job creation. Therefore, investment should be prioritized in the national development scheme," Minister Bambang noted.

Minister Bambang gave examples of the experience in calculating the economic impact of moving a capital city from Kazakhstan and Brazil, both of which have done so to strengthen the economy and reduce poverty and inequality in their countries.

"The transfer of Kazakhstan's capital from Almaty to Astana helped spur the country's national and regional development. Its poverty rate fell from 46.7% in 2001 to 2.5% in 2017. Kazakhstan's gross domestic product (GDP) grew more stable, and its Gini index experienced a decrease. Meanwhile Brazil's relocation of its capital from Rio de Janeiro to Brasilia in 1960 resulted in a population growth in the central Brasilia territory, increasing from 136,643 from the beginning of the relocation to 4,558,991 in 2019," the Minister explained.

"In the first 10 years of relocating the capital city, Brasilia experienced an average population growth of 14.4% per year, compared to Rio de Janeiro, which only saw a 4.2% increase per year. The resulting output multiplier effect is 2.93, while the employment multiplier effect is at 1.7 for private jobs created from each public sector job in the city," added the Minister.

Relocating the capital city from Jakarta to Kalimantan is expected to have both direct and indirect impacts on the Indonesian economy. The direct impacts include the addition of economic activity through further government investment for the development of supporting infrastructure and government operational facilities. The indirect impacts are the second round effect that will occur due to a multiplier effect on the economy, causing job creation, economic growth, and increasing residential income. Therefore, the total impacts of the IKN relocation will also contribute to improving GDP growth and welfare levels.

"Regarding the timeframe, the IKN relocation will bring positive impacts in both the short term and long term. In the short term, a lot of construction will take place and the process will help increase investment towards infrastructure, job creation, the supply chain, leading to increased trade between Kalimantan and its surrounding regions. Meanwhile, the medium to long-term effects will include the increased economic activity in both traditional and non-traditional government sectors, which will increase productivity and help reduce disparities between income groups between regions," explained Minister Bambang.

It is projected that the short term effects of the relocation will increase investment to East Kalimantan by 47.7%, the entire island of Kalimantan by 34.5% and to Indonesia as a whole by 4.7%. These effects will help encourage economic growth in East Kalimantan by 7.3%, Kalimantan Island by 4.7% and Indonesia by 0.6%. The increase of job opportunities on Kalimantan Island is projected to be at 10.5% while the national increase will be at 1.0%.

In the medium to long-term, the increase in economic growth has two scenarios, with the first scenario being East Kalimantan experiencing 6.8% growth, Kalimantan Island 4.3% and Indonesia 0.02%. The second scenario involves a growth of 7.6% for East Kalimantan, 4.9% for Kalimantan Island and 0.1% for the whole of Indonesia. Public-private partnerships (PPP) and private financing schemes are expected to be the main sources of financing.

The benefits of using the PPP funding scheme include the ability to:

- 1) Maintain state fiscal sustainability
- 2) Ensure construction of quality infrastructure
- 3) Encourage risk-sharing between the government and private sectors
- 4) Assure smooth delivery of the project
- 5) Highlight investment potential as an entry point for private sector investment
- 6) Return of investment certainty through government payments
- 7) Assure smooth financing of the project

The dialogue was held to collect views and opinions regarding the impacts of investment as a result of relocating the State Capital and on innovative financing strategies. Notable attendees include the Ministry of Finance's Director General of State Asset Management Isa Racmatarwata, University of Indonesia Dean of the Economics and Business Faculty Ari Kuncoro, Executive Member of Bank Indonesia's Supervisory Board M. Edhie Purnawan, PwC Indonesia Infrastructure Finance Advisor Julian Smith, Bangun Cipta Kontakto (KPBU Spam Umbulan) Managing Director Djoko Sarwono, Indonesian Chamber of Commerce (KADIN) Deputy General Chairperson for Property Hendro Gondokusumo, and CORE Indonesia founder Hendri Saporini.

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