Indonesia: Investment Driven Economic Growth

Financial sector reforms boost international confidence

Over the last four years, under the administration of President Joko Widodo (known as Jokowi), Indonesia, Southeast Asia's largest economy and the fourth-most populous nation in the world, has intensified its efforts to improve its competitiveness within the global marketplace. Indonesia's GDP has grown by more than 5 percent in five consecutive years, with the World Bank predicting growth to rise by 5.3 percent in 2018 and remain at that level on to 2020.

One of the key economic drivers is the government's ambitious infrastructure plan to improve connectivity and logistics and enhance trade efficiencies throughout the archipelago.

The five year plan outlines more than 1,250 miles of new roads, railroads, industrial parks, dams, urban transport solutions and the expansion of seaports and airports. There are also plans to install more than 35 GW of electrical capacity by building more than a hundred power plants. The government is calling on private investors to provide around $150 billion to help fund the ambitious agenda.

Now Asia's fourth-largest economy, Indonesia is attracting growing interest from overseas players: investor confidence has increased in large part to the regulatory framework created by the Financial Services Authority (OJK).

Wimboh Santoso
Chairman, Financial Services Authority (OJK)

Suprajarto
President Director, Bank Rakyat Indonesia (BRI)

Eugene K. Galbraith
Deputy President Director, Bank Central Asia (BCA)

Batara Sianturi
CEO, Citibank Indonesia

As Wimboh Santoso, the OJK's Chairman, explains, the OJK's reforms have been central to stabilizing the financial sector: "At the OJK, we ensure that all the financial organizations are kept in-check. All investments must go through a structured process to assess if they are meeting international standards. We are here to provide assistance and give assurance to the investor community that their interests are well protected. Furthermore, we are working on customizing different avenues for investors to come in and to promote sustainable financial growth."

Batara Sianturi, CEO of Citibank Indonesia, comments on the investment climate: "Indonesia as an investment grade country presents an exciting opportunity for portfolio and strategic investors in the capital markets. Furthermore, the banking sector is solid in terms of liquidity, capital, and portfolio quality."

Investors will also have taken notice of the World Bank's Ease of Doing Business index 2018: Indonesia improved 19 places to 72 in the ranking and has received investment grade status by the leading global credit rating agencies.

There is ample room for financial growth, argues Eugene K. Galbraith, Deputy President Director of Bank Central Asia (BCA): "Most financing relies on banks, and the bond market is pretty thin, but we are developing both the capital and banking markets. More mutual funds and life insurance companies are growing, and this will all contribute to a deeper capital market."

BCA, Indonesia's largest lender by value, is investing resources to strengthen its core transaction and lending business, while optimizing technology. "BCA is the market leader in digital delivery channels. Now, 98 percent of our transactions occur digitally, and only 2 percent happen at the branches," says Mr Galbraith.

Indonesia has seen rapid expansion in electronic banking applications. "The exponential growth of smartphone users leads to an increase of digital banking and it plays a key role in reaching communities across the archipelago," explains Mr Suprajarto, President Director of Bank Rakyat Indonesia (BRI). He adds: "E-channels have been transformative to improve financial inclusion through access to loans and digital banking."

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INDONESIA HOSTS IMF-WORLD BANK MEETINGS

Bali, Indonesia, hosts the IMF – World Bank Group Annual Meetings 2018 from October 8 to 14. The meetings bring together central bankers, ministers of finance and development, business leaders, academics, and representatives from NGOs to discuss issues of global concern, economic development and the world economic outlook. Around 15,000 delegates from 189 countries will attend the meetings and take part in seminars, regional briefings and investment fora focused on the global economy.

Transport infrastructure central to economic development

For many years underinvested, Indonesia's infrastructure is now the focus of an ambitious plan launched by President Widodo to upgrade roads, railways, bridges, airports and ports, water facilities, power plants and much else.

The proposed infrastructure development budget will be raised from $27 billion this year to more than $28 billion for 2019. In addition to government funding and the contribution of state-owned companies, a large bulk of funding is to come from the private sector.

Indonesia's vast, scattered geography is a major challenge, with some 17,000 islands spread over 3,200 miles from east to west. The infrastructure projects will be concentrated in six economic corridors or growth centers: Sumatra, Java, Kalimantan, Sulawesi, Bali-Nusa Tenggara, and Papua-Maluku.

Heru Budi Hartono, Head of the Presidential Secretariat, explains the government's approach to realizing the infrastructure projects: "There were too many local government regulations slowing things down, and this has changed. Now, different ministries are synergized and they are coordinating to speed up processes. This is needed to improve the investment climate. The government is open to public-private partnerships and we also invite private investors for infrastructure projects."

At the same time, the government is creating logistics centers throughout the country where businesses can benefit from tax and import duty incentives and goods can be stored for up to three years.

Growth in retail and e-commerce, along with a rise in imports and exports due to free trade agreements have been driving Indonesia's logistics sector, recording double-digit growth in recent years that is forecast to continue. Efficient logistics are fundamental for Indonesia's international trade and better logistics standards will improve economic performance.

"Indonesia is a developing country and an emerging economy, so opportunities are always there. With the ongoing infrastructure projects, consumption will come up across Indonesia and logistics services will be needed in more areas," says Bonny Budi Setiawan, President Director of Mega Manunggal Property (MMP). Indonesia's leading logistics property company, focused principally on the development and provision of logistics facilities related to warehouses and office buildings.

"High transportation costs in Indonesia, in part due to poor roads and lack of infrastructure between ports and rail, have slowed down economic growth. But now, we anticipate a logistics boom with the new toll roads under construction," says Mr Setiawan.

In the 2018 Logistics Performance Index (LPI) of the World Bank, Indonesia climbed up 23 places in the past two years to the 46th rank of the 160 countries surveyed. Some of the indicators include the quality of trade and transportation-related infrastructure, as well as the competence and quality of logistics services that are key to efficient supply chains and logistics performance. "What matters in logistics is the transportation and the closer we are to the consumer and factory the more efficient we can be," explains Mr Setiawan.

MMP owns eight assets in five strategic locations in the greater Jakarta area and is looking to expand to Surabaya, Bali and Medan, where the ports are being upgraded. The company, a star performer on the Jakarta Stock Exchange since 2010, offers Build-to-Suit property solutions that are specifically tailored to its client's needs and focuses on operational efficiencies.

"We study our client's business and the way how they operate and propose what is most efficient for our tenants. We carry out an analysis to make their operations easier through a total solutions system. Our tenant-centric approach takes care of the warehouse maintenance, and we also manage the light, temperature and other specifications. The properties are designed in such a way that they adjust to the client's requirements, by placing equipment and make it happen, providing added value." concludes Mr Setiawan.

The digital economy is unleashing Indonesia's next phase of growth

Indonesia has developed into one of Southeast Asia's most dynamic internet markets with a fast-growing demand for ICT products and services among the country's business community and its large population. Recent estimates put the number of smartphone users at more than 100 million, while Indonesia is one of the top four Facebook markets globally.

Companies have moved swiftly into implementing digital strategies and there has been rapid growth in tech startups capitalizing on Indonesia's digital market potential. The country already has four tech unicorns - companies that have reached $1 billion in valuation without tapping the stock markets - including ride-hailing company Go-Jek, travel site Traveloka, and market places Bukalapak and Tokopedia.

"The ICT sector has seen growth between 9 to 11 percent year-on-year, higher than most sectors in Indonesia. We have an ambitious target to achieve which is to boost the digital economy to $130 billion by 2020, reflecting around 11 percent of the GDP," says Mr Rudiantara, Minister of Communication and Information Technology.

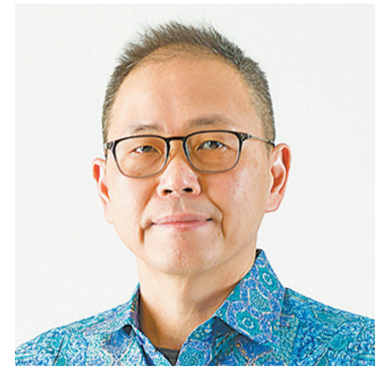
With its eye on creating more jobs and connecting the country, the Indonesian government wants to help the domestic e-commerce industry grow further. Rapid improvements in development planning under the government's e-commerce roadmap have outlined over 30 initiatives to spearhead Indonesia's digital economy.

One of the initiatives is the Palapa Ring project, a significant investment in broadband infrastructure. The project will integrate existing networks with new networks and consists of an undersea fiber-optic cable network as well as an onshore network, stretching along 22,500 miles.

"The Palapa Ring project involves building 8,500 miles fiber optic cable network to provide high speed Internet in both the urban and rural areas across the country," says Mr Rudiantara.

"The development strategy of the Palapa Ring is structured as a Public-Private Partnership project, with the winning consortium building and operating the network," explains Mr Rudiantara. The network is planned to be fully operational by 2019. He believes that encouraging partnerships among Indonesia's telco players is key to developing the telecommunication infrastructure.

Rudiantara
Minister of Communication and Information



Ferdinandus Aming Santoso
President Director, Protelindo

Companies like Protelindo, Indonesia's largest independent owner and operator of towers for wireless operators are already doing just that. "We work closely with the local operators. Protelindo is actively looking into forming partnerships with others who are able to work with us and mutually strengthen our range of network services," says Ferdinandus Aming Santoso, Protelindo's President Director, adding: "We need better network coverage for the people of Indonesia and we are here to aid that. At Protelindo we are open to collaborating with potential partners as we foresee that we can further grow our business to tap into these opportunities, especially for rural areas."

Mr Aming believes the increase in demand for data connectivity in Indonesia will drive growth in the coming years in telecommunications. "The rise in mobile phone internet user penetration serves as a positive indicator for further expansion opportunities. For this year, we expect the amount of data usage per connection to go up over 60 percent. Telco infrastructure is a very exciting sector to be in and it is showing great potential to deliver returns to its investors," concludes Mr Aming.

Citi in Indonesia: 50 years enabling progress

Citi's mission is to serve as a trusted partner to its clients by responsibly providing financial services that enable growth and economic progress. In Indonesia, Citi has operated since 1968 and has been one of the largest foreign banks in the country since.

Indonesia is one of the 160 countries and jurisdictions where we do business every day, and this global perspective is a competitive advantage with clients. We're focused on serving our target clients in two core businesses: our Institutional Clients Group (ICG) and our Global Consumer Bank (GCB).

"This year, we are celebrating our 50th anniversary in Indonesia, and our tagline is 50 years of dedication for Indonesia," notes Citi Indonesia's Chief Executive Officer, Batara Sianturi. Batara, who is entering his fourth decade with Citi added. "Our legacy in Indonesia is based around talent and innovation." On innovation, Citi is embracing a mobile first strategy to be relevant in key digital ecosystems where our clients are active. With two platforms delivering mobile banking, namely Citi Mobile in consumer banking and CitiDirect in institutional banking, Citi is very focused on conveying its mobile banking capabilities.

Citi also implements an "Asia-to-Asia" initiative, whereby the bank has the network in Asia to support global MNCs including many from Asia that are increasingly investing in the region. Indonesia itself is a $1 trillion economy, with investment grade ratings and a significantly improved business environment.

It is also a country with huge domestic demand and population, with over 250 million people and around 17,000 islands. Looking at these facts, investors should be excited to explore many opportunities across various sectors in the country. With Citi's global footprint, the bank is a natural choice for multinational corporations that want to expand into Indonesia. We are also increasingly supporting Indonesian companies on the regional and global stage.

Reaffirming Citi's commit-

ment to increasing economic growth in Indonesia, Citi Indonesia and the Indonesian Investment Coordinating Board (BKPM) signed a Memorandum of Understanding in 2016. The MoU emphasized cooperation in joint promotions and the utilization of banking products and services to investment activities.

"We believe that investors can look forward to many long-term strategic investments in the hope of creating more export-oriented Foreign Direct Investments (FDIs) for Indonesia," emphasizes Batara, concluding: " This will make Indonesia a strategic part of the ecosystem of global trade flows. These export-oriented FDIs will support Indonesia's growth, improve the current account, trade accounts and balance of payments. This is a great win-win for Indonesia and its strategic investors."

Tech solutions drive dynamic telecom sector

With over 6,000 inhabited islands stretching for 3,200 miles, Indonesia has always been challenging for the telecom sector. Nowadays, these challenges are growing as Indonesians move from voice to data services. Operators are dealing with surging data growth (expected to be 62 percent in 2018 alone) while continuing to expand coverage outside of the main island of Java. Built on the back of these growing networks is a flourishing ecology of e-shopping, e-food, e-transport, and e-delivery companies. Indonesia now counts three country-specific, high tech unicorns, the highest in Southeast Asia.

As Indonesia's largest independent telecom tower and infrastructure company, Protelindo is a significant partner in this growth. With over 17,000 towers, nearly 29,000 tenants 3,000 VSAT's and nearly 4971 miles of fiber, we serve every province in the country, from Sabang to Merauke. Our operator partners depend on us to build towers where none exist, to collocate them on existing towers for quick expansion and to connect them to fiber to accommodate data demand. To deliver this service, we employ over 1,000 people and work with over 360 vendors employing over 10,000 people, all located in Indonesia.

The result has been revenue growth of 48 percent CAGR from 2007 to 2017, revenue of $355,8 million in 2017, and a market cap of nearly $2 billion on the Indonesia Stock Exchange, among the 35 highest. Despite investing nearly $1 billion over the last 6 years, we have the lowest leverage of any publicly traded tower company in Indonesia. As a result, we are among the only private sector companies to have an investment grade rating from all three rating agencies, S&P, Moody's and Fitch.

Indonesia has one of the most dynamic sectors in the world and we are proud to be an integral part of it.

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Bank BRI: innovation and digital transformation is driving financial inclusion in Indonesia

Providing quality banking services to a population of some 240 million people spread across a 3,977-mile archipelago network of more than 16,000 islands requires commitment and collaborative efforts between government and financial institutions. The Indonesian government has pledged to promote financial inclusion and the country has made significant improvements in the last years. According to the latest World Bank Global Findex 2017, 49 percent of Indonesia's adult population now have a bank account, compared to 36 percent in 2014.

A key player in helping with financial inclusion is majority state-owned bank Bank Rakyat Indonesia (BRI), the biggest bank in Indonesia by assets. Since its inception, BRI consistently focuses on micro, small and medium enterprises and has established itself as the pioneer of microfinance in Indonesia. After its initial public offering in 2003, BRI became one of the blue chip stocks on the Indonesia Stock Exchange and has been the country's most profitable bank for thirteen consecutive years.

"This year, we target a loan growth of 12 to 14 percent and a deposit growth of 10 to 12 percent. Asset growth will mainly be driven by microcredit. We are confident of reaching these targets on the back of increased connectivity and improved infrastructure. SMEs will continue to develop, and their need for banking services will increase," explains Mr Suprajarto, President Director of BRI.

BRI is carrying out innovative strategies to reach its targets and expand its network, especially through digitization. In June 2016, the bank launched its own satellite, BRISat. BRI is the first bank in the world to own and operate a satellite, providing reliable broadband solutions, connecting almost 10,000 BRI outlets and over 320,000 e-channels to ensure efficient banking and financial data availability. The $250 million project has allowed BRI to expand digital banking services to all corners of Indonesia and beyond, serving its customers throughout Southeast Asia.

"The exponential growth of internet, social media and smartphone users support the business growth of technology-based enterprises and e-commerce," says Mr Suprajarto. "This requires BRI to transform in terms of business strategy and we are developing and marketing new products and services."

Access to real-time data and data analytics have increased productivity significantly and BRI's digital transformation is on-going. The bank has also digitized its leading microlending division and is developing applications to provide small businesses with credit scoring, fraud detection, early warning and loan origination.

BRI's floating bank Bahtera Seva I serves all the communities in the Thousand Islands with banking facilities

Notwithstanding the many opportunities that digital banking offers, not everyone owns a smartphone and distance is the main barrier to opening an account for Indonesia's unbanked population. Therefore, BRI found resourceful ways to achieve its mission.

In 2015, BRI launched its flotilla of "floating banks": the world's first three specially equipped vessels with fully-fledged, air-conditioned banking branches, together with automatic teller machines that reach out to remote islands where there are no banks at all. The floating banks provide coverage to serve Indonesia's islands in the middle and eastern regions. BRI has also pioneered mobile banks by sending fleets of vans to remote villages and districts, mainly providing micro-banking services.

Another unique strategy is BRI's built-up a network for more than 260,000 branchless agents, known as BRILink Agents. In rural and remote areas, the BRILink Agents have access to BRIs e-banking infrastructure and they are enabled to provide the communities with banking facilities and carrying out transactions.

"The availability of integrated banking access for communities in remote areas is important for thriving regional economies and lowering development disparity among the regions. We aim to provide quality services to both urban and rural areas, everyone needs to have access to the same quality financial services," concludes Mr Suprajarto.

BANK BRI
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