McKinsey&Company

Indonesia and India – realizing the potential

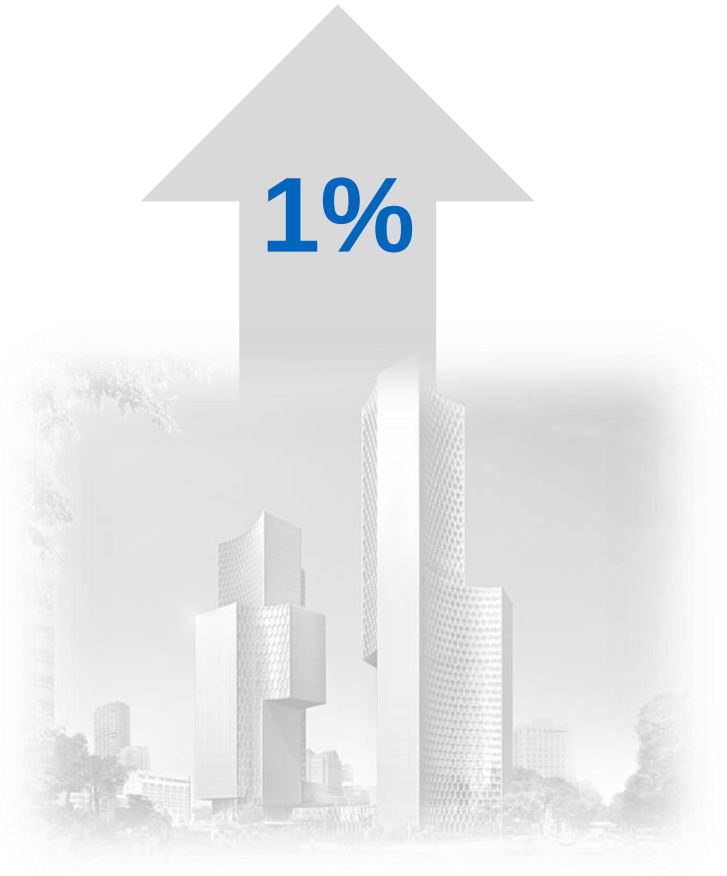
INDIA INDONESIA INFRASTRUCTURE FORUM, JAKARTA

MARCH 19, 2018

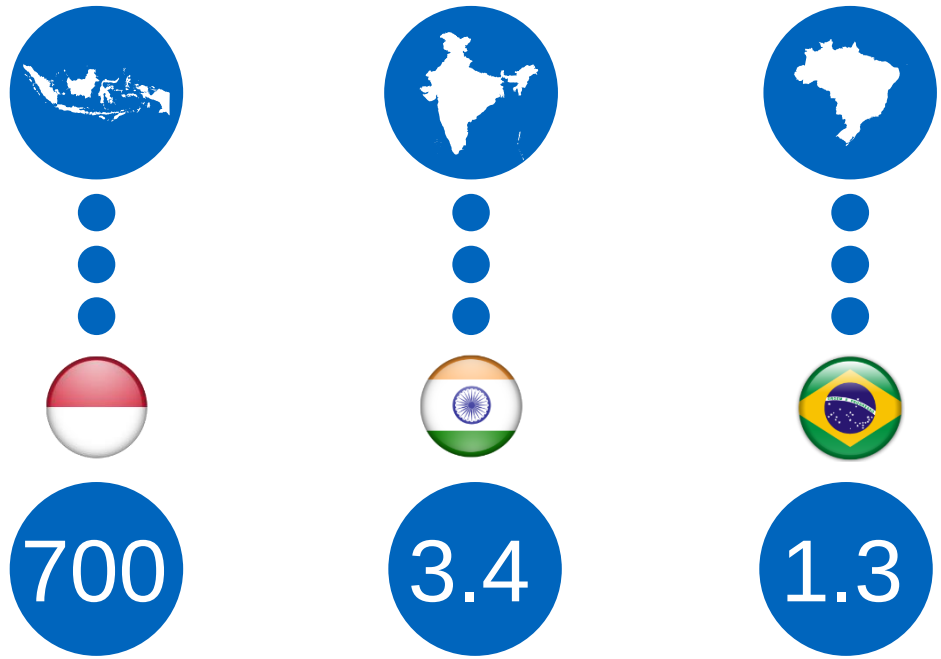
WORKING DRAFT

Every 10% increase in infrastructure investment contributes to 1% growth in GDP

A 10% increase in infrastructure investment contributes to a 1% growth in GDP[1]



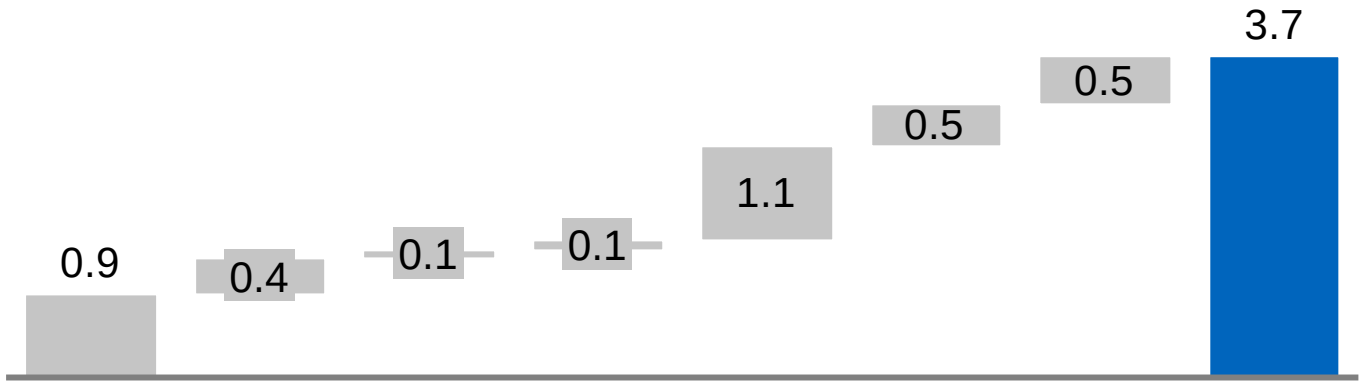
An increase in infrastructure investment equal to one percent of a country's GDP could add millions of jobs[2]



SOURCE: 1 Scott, Andrew and Prachi Seth. 2012. "Infrastructure services post-2015." ODI 2 Dobbs, Richard et. al. 2013. "Infrastructure productivity: How to save $1 trillion a year." McKinsey Global Institute

The world needs to invest $3.7 trillion annually in economic infrastructure through 2035 to keep pace with projected growth

Average annual need, 2017–35
$ trillion, constant 2017 dollars



	Roads	Rail	Ports	Airports	Power	Water	Telecom	**Total**
Annual spending % of GDP	1.0	0.4	0.1	0.1	1.3	0.5	0.6	**4.1%[2]**
Aggregate spending, 2017–35 $ trillion	18.0	7.9	1.6	2.1	20.2	9.1	10.4	**69.4[1]**

1. The estimated demand number has increased to $69 trillion compared to our previous estimates due to following reasons:
   a) Projections for 19 years (2017-2035) instead of 15 years (2016-30)
   b) The data is based on latest stock numbers of 2015 instead of 2012
   c) Base year prices have been revised from 2015 to 2017
   d) GDP growth forecasts has been increased by Global Insight requiring higher investments in Infrastructure annually

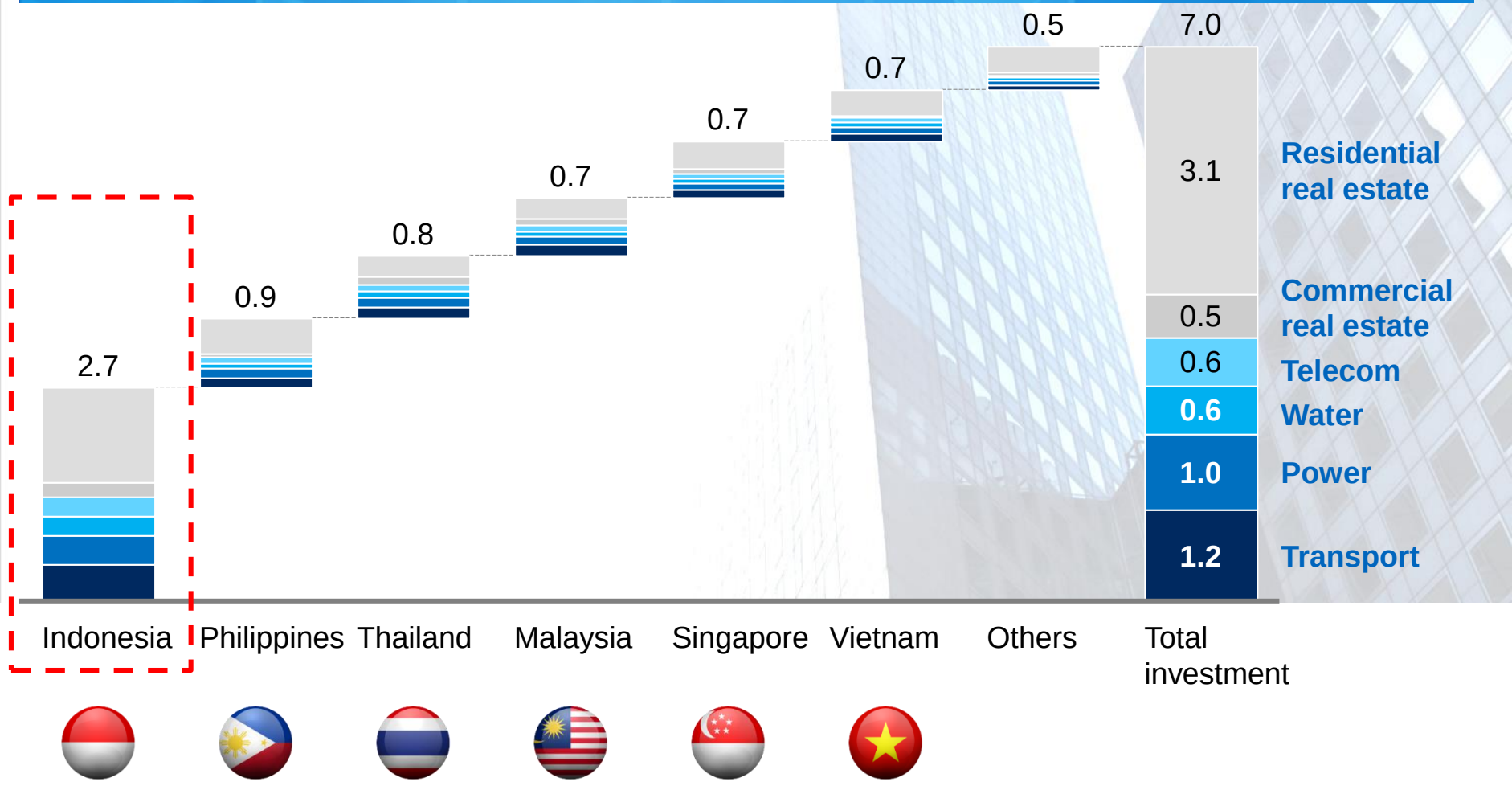
2. Underlying GDP growth rate of 3.1% from 2017-2035

NOTE: Numbers may not sum due to rounding.

SOURCE: IHS Global Insight, ITF, GWI, National Statistics; McKinsey Global Institute analysis

Indonesia will lead the infrastructure wave in ASEAN, with ~40% of the estimated $7 trillion in infrastructure and real estate investment

Required infrastructure and real estate investment, 2014–30
$ trillions

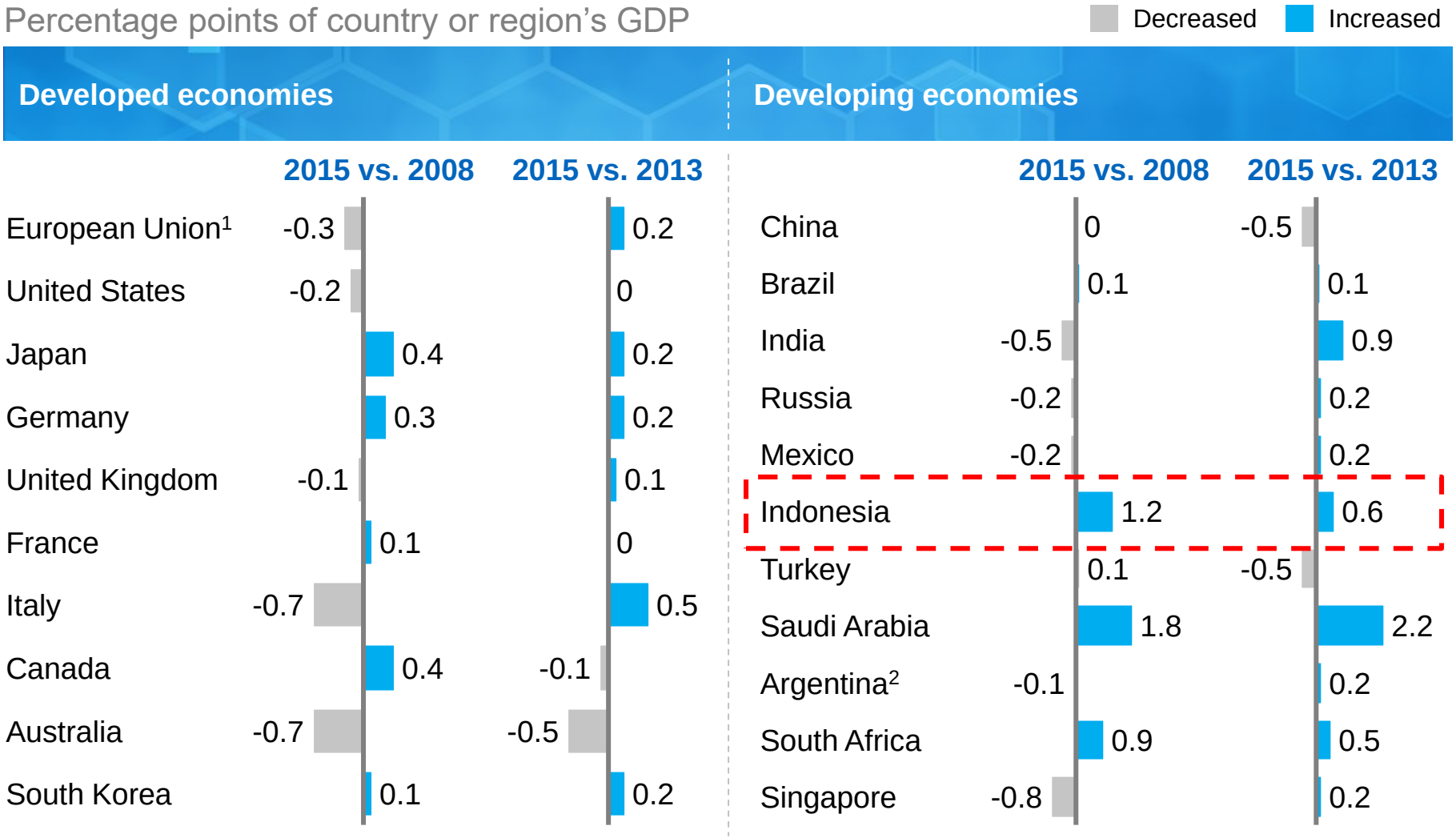


SOURCE: McKinsey analysis, government and press reports

There is positive momentum, Indonesian infrastructure investment rate has increased substantially over the last decade

Change in Infrastructure investment rate

Percentage points of country or region's GDP



1 Does not include Croatia, Cyprus, Estonia, Latvia, Lithuania, Luxembourg, Malta, Netherlands and Slovenia due to lack of data.
2 Data includes only power, water, and telecom sectors

SOURCE: IHS Global Insight; ITF: GWI, National Statistics: McKinsey Global Institute analysis

Indonesia is expected to invest ~USD 300 bn in strategic projects alone over the next 5 years, >25% of these projects are through PPP / private scheme

>25% of the projects based on PPP / private investment schemes

Projects

Road	Dam	Zone	Train	Energy	Port	Water Resources	Airport	Irrigation	Smelter	Techno-logy	Housing	Borderline	Marine	Seawall
74 projects	54 projects	30 projects	23 projects	12 projects	10 projects	9 projects	8 projects	7 projects	6 projects	4 projects	3 projects	3 projects	1 project	1 project

Program

Electricity	Airplane industry
1 program	1 program

SOURCE: KPPIP 1ST semester 2017 report

Infrastructure development in Indonesia has been impacted by gaps in execution and financing

1 Worst-in-class | 2 | 3 Average | 4 | 5 Best practice

Country	Fact-based project selection	Streamlined delivery	Making the most of existing infrastructure	Strong infra-structure governance and capabilities	Robust Funding and finance framework
Indonesia	2.6	2.5	1.8	2.2	2.3
Myanmar	2.3	1.2	1.4	1.5	2.0
Malaysia	3.5	3.0	3.0	3.0	4.0
Philippines	2.5	2.5	1.5	2.2	3.5
Singapore	4.5	4.0	4.5	4.5	4.0
Thailand	2.5	2.8	2.0	2.2	2.3
Vietnam	2.5	2.5	1.8	1.8	2.5

SOURCE: McKinsey Global Institute analysis

The Indonesian government is addressing these gaps through structured policy and fiscal initiatives

ILLUSTRATIVE

FISCAL INCENTIVES

Tax Holiday CIT break from 10%-100% for 5-15 years, can be extended up to 20 years

Tax Allowance, reducing net income up to 30% of investment in period of 6 years

Customs duty exemption for importation of certain machines and products

VAT and LST exemption for certain goods

POLICY INITIATIVES

PPP office – one stop service for coordination

BAPPENAS – **facilitate private financing**

Limited Concession Scheme (LCS) – proposed regulation for offering existing infrastructure investors as operational concessions.

ENABLING INSTITUTIONS

IIF – infrastructure financing and advisory

SMI – project financing and partnerships

Indonesia Infrastructure Guarantee Fund

KPPIP – project monitoring and acceleration

SOURCE: Government notifications, Press reports

Indonesian and Indian companies can cooperate across the infrastructure value chain

PRELIMINARY

SOURCE: team analysis