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# Australian investors set to win with Indonesian energy and infrastructure

**John Donovan** explores some of the trends that are making Indonesia one of the most exciting investment opportunities around.

Last year Tony Abbott visited Jakarta to witness the inauguration of Indonesia's President. Following a decade of President Susilo Bambang Yudhoyono, Indonesia's 190 million eligible voters chose a new path at the July 9th presidential election. The result – the election of the former provincial leader Joko Widodo and Jusuf Kalla to President and Vice President – represents a milestone in Indonesia's transition from a three-decade military dictatorship into a democracy. It also represents an important crossroads in Indonesia's transformation into the economic giant of Southeast Asia and its potential to become amongst the world's five largest economies by 2030-2040.

Nonetheless the challenges facing President Widodo are considerable. For example, the country's infrastructure shortfall (only 73.7% of the population has access to electricity). These challenges also present great opportunities, and with the new government highlighting energy security and infrastructure development as key priorities for their first term, Australian investors are well placed to help the Indonesia. Australian superannuation funds are long-term infrastructure investors across airports, seaports and toll roads. These funds invest mainly domestically with little Asian investment exposure. Our funds can both help Indonesia's infrastructure investment and make money for members and build the bilateral relationship.

### Background: a growing economy with growing needs

The Asian Financial Crisis of the late 1990s impacted the economy and led to the downfall of long-time President General Suharto. Indonesia has since staged a remarkable comeback, beginning with the 2004 election of outgoing president Susilo Bambang Yudhoyono.

Over the last decade, Indonesia has recorded average GDP growth of 6.0% per annum (with 65% of that growth attributed to domestic consumption alone) and its 253 million-strong population continues to expand at 1.49% per annum. However, with such a large population squeezed into the equivalent of one third of Australia's total landmass, the problem of powering this emerging economic powerhouse is acute.

Indonesia has the 3rd-lowest electrification rate of the ASEAN nations – just 73.7%, meaning approximately 62.4 million Indonesians must continue to rely upon alternative forms of energy such as diesel and gas-based fuels to power their homes. Different regions have different electrification, with 96.4% of Jakartans having access to electricity compared to 32.1% in Papua Province (See Figure ii). With a reliance on imported fossil fuels, Indonesia holds abundant, underdeveloped sources of renewable energy – hydropower, mini hydro, geothermal, biomass and solar.

### The next 5 years: infrastructure top of the agenda

President Widodo has signaled his intent to focus on energy security and infrastructure development as priorities for his first term – with both policy objectives vital to maintaining and raising the 6.0% GDP annual growth rate Indonesia has experienced over the past decade. Key amongst these energy security policies are goals to achieve a 90% electrification rate across the archipelago by 2020 (requiring 1.3 million new connections per annum) and to encourage renewable energy from 12% to 20% of the total national primary energy fix within this same timeframe. Sitting alongside this focus are a range of infrastructure projects both planned and currently under construction – including the long-awaited Jakarta MRT (Mass Rapid Transit System), Jakarta Monorail and extensions to the capital's Soekarno-Hatta International Airport.

### Conclusion: providing capital & expertise is Australia's golden opportunity

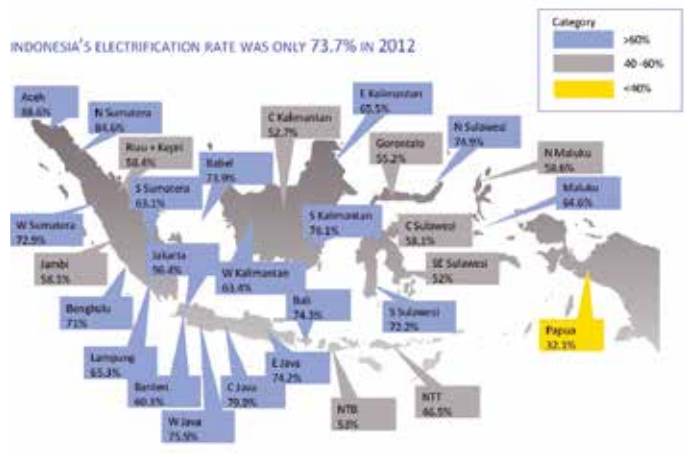
Australia, with its \$1.5 trillion superannuation national savings pool (equal to annual GDP), world-leading infrastructure investment expertise and focus on the Asian century, is well placed to participate. Indonesia could benefit from our superannuation funds investing in priority infrastructure projects and our technical and investment expertise. **FS**

**Figure 1. Indonesia has one of the lowest electrification rate in the region**



Source: ASEAN Centre for Energy

**Figure 2. Energy sector overview**



**Table 1. Indonesia by numbers**

	2013/14	2022
<b>Population</b>	253,609,643 (4th)	272,911,000 (5th)
<b>Middle Class Consumers</b>	74,000,000	140,000,000 (2020)
<b>GDP</b>	\$894,000,000,000 (16th)	\$2,568,000,000,000 (10th)
<b>GDP Per Capita (PPP)</b>	USD \$4,271	USD \$15,500 (2025 Goal)
<b>GDP Growth (Per Annum)</b>	5.78% (2013)	6.3% (2015-19)
<b>Foreign Direct Investment</b>	\$6,800,000,000 (2012)	-
<b>AUS-Indo Bilateral Trade</b>	\$14,600,000,000 (2012)	-