



GLOBAL CHALLENGE

"Leading Sustainable Development through Quality Infrastructure"



Series – 4

Nusantara Capital City (IKN) PPP Framework 2022

Indonesia has recently declared its movement to establish a new capital city, signaling a monumental shift in the country's governance and urban development under Law of the Republic of Indonesia Number 3 of 2022 on National Capital (UU IKN) which has been signed by President Joko Widodo on February 15, 2022. With this law prevailing, the government has cemented a legal basis to develop the New Capital City (IKN) in East Kalimantan province. The urgency of relocating the capital city lies in several key points: firstly, it addresses future challenges in line with Indonesia's 2045 Vision of becoming an advanced nation necessitating economic transformation; secondly, the new capital should stimulate inclusive and equitable economic growth, particularly in Eastern Indonesia; and thirdly, Jakarta's current objective conditions, characterized by population density, traffic congestion, and environmental issues, no longer make it suitable as the capital.^[1]



The development of IKN is one of the strategic priority projects that requires Creative Financing Instruments to support the financing needs of IKN development. According to the appendix II of the IKN Law 3/2022 regarding IKN funding schemes, the following schemes will be used: State Budget (APBN); Public-Private Partnership (PPP) schemes; Participation schemes for business enterprises; international funding/support schemes; and other financing schemes.

The PPP approach offers a strategic framework for sharing risks and responsibilities between the government and private sector, fostering transparency and accountability in project implementation. This scheme model holds the potential to attract significant investment, to promote and support IKN developments.^[2]

[1] Directorate General of State Assets (DJKN), Ministry of Finance (MoF), Article on the Urgency of Relocating the National Capital, 2022

[2] Directorate of Government Support Management and Infrastructure Financing (PDPPP), MoF, PPP Scheme in the development of IKN, 2022

PPP Projects implemented in IKN are regulated differently from other PPP projects under BAPPENAS Regulation 6/2022. Relation between BAPPENAS Regulation 7/2023 and 6/2022:

	Non IKN	IKN
Solicited		
Non Solicited		

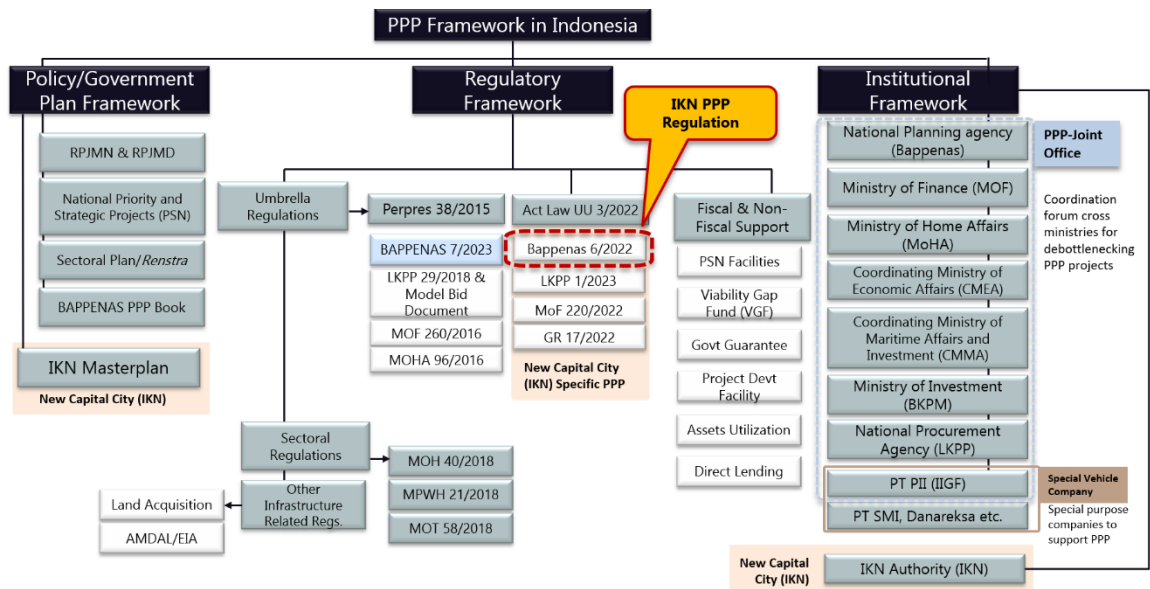
Source: Global Challenge Indonesia

The PPP Nusantara Capital City framework in Indonesia is structured around several key components that lay the foundation for effective collaboration between the public and private sectors. Firstly, it encompasses a range of policy and government planning frameworks, with the Infrastructure Development Plan (IKN Masterplan) being specific to the developments related to the new capital city of Nusantara.

Secondly, the regulatory framework, the umbrella Law 3/2022 on the National Capital,





serves as a comprehensive legal framework governing various aspects of infrastructure development for IKN, including funding schemes, one of which is PPP. Details about Public-Private Partnerships (PPPs) in the new capital city are outlined in BAPPENAS Regulation 6/2022, which regulates the step-by-step process of conducting PPPs. LKPP (1/2023) regulates the tender process, and the Ministry of Finance (MOF) (220/2022), alongside other supporting sectoral regulations, also plays a significant role. Lastly, the institutional framework involves key entities such as the IKN authority.

Similar to the non-IKN PPP framework, IKN PPP relies on its Masterplan as the Policy Plan Framework, Bappenas R6.2022 as the PPP Regulatory Framework and the IKN Authority as the Institutional Framework.



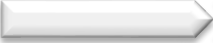



Source: Global Challenge Indonesia

PPP Process IKN Solicited Based on Bappenas 6/2022

	Planning 	Preparation 	Transaction 	Implementation 
Objective	<ul style="list-style-type: none"> • Ensure project needs • Ensure compliance with government plans • Confirm value for money (VfM) in applying PPP qualitatively 	<ul style="list-style-type: none"> • Ensure project needs • Ensure compliance with government plans • Confirm value for money (VfM) in applying PPP qualitatively 	<ul style="list-style-type: none"> • Conduct PPP tender • Reach financial close 	<ul style="list-style-type: none"> • Manage contract (Ensure construction, operation, performance monitoring and asset hand back)
Milestone	<ul style="list-style-type: none"> • Document Identification • Summary of Document Identification • Public Consultation 	Documents for the IKN PPP in the Ready to Offer category: <ul style="list-style-type: none"> • Pre-Feasibility Study (Pre-FS) • Public Consultation & market sounding 	<ul style="list-style-type: none"> • Announcement of winning bidder • Signing of PPP Agreement • Financial close 	<ul style="list-style-type: none"> • Construction • Commissioning • Commencement of Operation Date (COD) • Asset hand back
Required Document	<ul style="list-style-type: none"> • Document Identification • Summary of Document Identification • Report of Public Consultation 	Documents for the IKN PPP in the Ready to Offer category: <ul style="list-style-type: none"> • Pre-Feasibility Study (Pre-FS) • Report of public consultation & market sounding 	<ul style="list-style-type: none"> • Tender document (Pre-Qualification & Request for Proposal Document) • In-principal govt support • Guarantee agreement • PPP Agreement 	<ul style="list-style-type: none"> • Detail Engineering Design • Construction permits • Operation permits • Administrative Report • Performance Monitoring Report
Content of Analysis	Document Identification: <ul style="list-style-type: none"> • Ensure compliance with IKN Master Plan • Analysis VfM • Report of Public Consultation • Recommendations and FU plans 	<u>Pre-FS Study:</u> <ul style="list-style-type: none"> • Legal and institutional analysis • Technical analysis (incl. location, land, environmental and social analysis) • Economic and commercial analysis (incl. quantitative VfM analysis) • Risks analysis 		

Source: Global Challenge Indonesia

PPP Process IKN Unsolicited Based on Bappenas 6/2022

	Planning	Preparation	Transaction	Implementation
				
Objective	<ul style="list-style-type: none"> • Ensure project needs • Ensure compliance with government plans • Confirm value for money (VfM) in applying PPP qualitatively 	<ul style="list-style-type: none"> • Ensure suitability of applying PPP scheme, confirmed by quantitative VfM analysis • Ensure bankability of PPP scheme 	<ul style="list-style-type: none"> • Conduct PPP tender • Reach financial close 	<ul style="list-style-type: none"> • Manage contract (Ensure construction, operation, performance monitoring and asset hand back)
Milestone	<ul style="list-style-type: none"> • Letter of Intent (LOI) • Feasibility Study (FS) • Results of the GCA assessment of Private Initiatives 	Documents for the IKN PPP in the Ready to Offer category: <ul style="list-style-type: none"> • Feasibility Study • Summary of Feasibility Study • Letter of acceptance by GCA • Letter of acceptance by IIGF • public consultation & market sounding 	<ul style="list-style-type: none"> • Announcement of winning bidder • Letter of Award • Signing of PPP Agreement • Financial close 	<ul style="list-style-type: none"> • Construction • Commissioning • Commencement of Operation Date (COD) • Asset hand back
Required Document	<ul style="list-style-type: none"> • Letter of Intent (LOI) • Document Feasibility Study 	Documents for the IKN PPP in the Ready to Offer category: <ul style="list-style-type: none"> • Feasibility Study • Summary of Feasibility Study • Report of public consultation & market sounding 	<ul style="list-style-type: none"> • Tender document (Pre-Qualification & Request for Proposal Document) • In-principal govt support • Guarantee agreement • PPP Agreement 	<ul style="list-style-type: none"> • Detail Engineering Design • Construction permits • Operation permits • Administrative Report • Performance Monitoring Report
Content of Analysis	FS Study: <ul style="list-style-type: none"> • Legal and institutional analysis • Technical analysis (incl. location, land, environmental and social analysis) • Economic and commercial analysis (incl. quantitative VfM analysis) • Risks analysis 	<u>Pre-FS Study:</u> <ul style="list-style-type: none"> • Legal and institutional analysis • Technical analysis (incl. location, land, environmental and social analysis) • Economic and commercial analysis (incl. quantitative VfM analysis) • Risks analysis 		

Source: Global Challenge Indonesia

In the PPP Nusantara Capital City, it is possible to choose either the scheme of Solicited or Unsolicited projects. Solicited Small-Scale PPP projects are initiated by the government, specifically the IKN Authority, through open tenders. On the other hand, IKN unsolicited PPP proposals are initiated by the private sector. Both in the Solicited and Unsolicited IKN PPP Projects, there are four stages: Planning stage, Preparation stage, Transaction stage, and Implementation stage.

In non-Integrated National Capital City (IKN) PPP, the Government Contracting Agency (GCA), which refers to the minister, agency head, regional head, or State-Owned Enterprise/Regional-Owned Enterprise, acts as the provider or executor of infrastructure in accordance with regulations. Conversely, in IKN PPP, the GCA comprises the Minister, Agency Head, State-Owned Enterprises' Board of Directors, and/or Head of the Nusantara Capital City Authority (OIKN), fulfilling the same role in line with legal provisions.

Line ministries such as the Ministry of Public Works and Housing (MoPWH) and Ministry of Finance (MoF) provide support to OIKN during preparations of infrastructure projects. This support includes technical advice from MoPWH and project development facilities provided by MoF, offering expertise to aid OIKN in managing various infrastructure developments.

OIKN obtains various support in project development and preparation from line ministries.

For IKN Solicited projects, in the Planning stage, the Government Contracting Agency (GCA) needs to prepare the Document Identification. These documents consist of ensuring compliance with the IKN Master Plan, Analysis of Value for Money (VfM), Report of Public Consultation, and Recommendations and Follow-Up plans. After the planning stage is finished, the next stage is Preparation, during which the GCA needs to prepare the Pre-Feasibility Study and conduct Public Consultation and Market Sounding.

For IKN PPP Unsolicited projects, the difference in the Planning stage is that the Initiator needs to prepare the Letter of Intent (LOI), Feasibility Study (FS), and the Results of the GCA assessment of private initiatives. In the FS study, the initiator needs to include: Legal and institutional analysis, Technical analysis (including location, land, environmental, and social analysis), Economic and commercial analysis (including quantitative VfM analysis), and Risk analysis.

Overall, IKN PPP projects can choose between Solicited or Unsolicited schemes, each comprising four stages: Planning, Preparation, Transaction, and Implementation. In the Planning stage of Solicited projects, the GCA prepares Document Identification, while in Unsolicited projects, the Initiator prepares the FS Study.



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