

Press Release

For immediate release

Dentons HPRP Law and Regulations Outlook 2024: Ministry of Public Works and Public Housing Ministry (PUPR) Highlights Updates on the Development of Nusantara Capital City (IKN) in Alignment with Targets and Roadmap

JAKARTA, 26 February 2024 – The development of Nusantara Capital City (IKN) commenced in 2020 has been progressing according to its targets and roadmap set by the Government.

The progress was highlighted by Danis H. Sumadilaga, Head of the Task Force for Nusantara Capital City Development, during a recent seminar titled 'Dentons HPRP Law and Regulations Outlook 2024: Towards the New Nusantara Capital City: Infrastructure Financing and Readiness,' held at Hotel Shangri-La Jakarta on Monday, February 26th.

Danis then stated the progress in development of the State Palace in IKN has reached 53.37%, while the progress in development of the connecting highway serving the IKN region has reached 70%, making a ground travel time of 30 to 40 minutes to the nearby city of Balikpapan.

The IKN region has also seen the commencement of development of 89 construction work packages with investment valued at 68.6 trillion Rupiah, to cover office and housing complex, places of worship, as well as clean water and sanitation network systems.

"The development process has been progressed according to its planned stages," explained Danis H. Sumadilaga, in the event to commemorate the 34th anniversary of Hanafiah Ponggawa & Partners (Dentons HPRP).

Danis explained the development of IKN is being implemented in 5 stages. The first phase between 2022 and 2024 will see the initial stage of relocation of priority government functions with as many as 260 thousand people who will be the Capital City's residents.

The second stage between 2025 and 2029 is planned for the development of IKN's core area, including the expansion of the transportation network, housing, and the development of the research and talent region. The next stage between 2030 and 2034 is expected to see progressive development, including integrated utilities, industrial region, and enhancement of the smart city.

The fourth stage between 2034 and 2039 will be set for the development of overall infrastructure and ecosystem of three cities to accelerate the development of the Kalimantan island region. The final stage between 2040 and 2045 is expected to strengthen IKN's reputation as World City for All with resident numbers reaching 1.9 million people.

Sartono, Managing Partner of Hanafiah Ponggawa & Partners (Dentons HPRP), added that IKN represents a new and innovative change, initiated in 2020 and expected to be completed by 2045.

Dentons HPRP, he explained, expects to contribute to the harmonious cooperation with various parties for the development of IKN in order to boost the national economy.

In the same event, Troy Pantouw, Special Staff of Public Communications / Spokesperson of the Nusantara Capital City Authority (OIKN), added that one of the roadmaps of IKN development to be implemented this year is the celebration of Indonesia's 79th Independence Day in IKN.

"The development for this purpose has been progressing and some results have been achieved. By June 2024 there will be the topping off ceremony of Hotel Nusantara constructed by a private company. So by August, we will already be able to stay at the hotel," he explained

Irman Boyle, Executive Vice President, Head of Advisory Group of Indonesia Infrastructure Finance (IIF) explained that there are at least two key attitudes from the investors towards the IKN investment issue. Some want to do pilot projects bearing expectation of expansion to full-scale projects underlined by trust in the Government's regulations and commitment. Others will wait and observe for assurances (underwriting) from the Government.

"Whether we like it or not, the key to obtaining 600 trillion Rupiah within five years and getting 2 million people residents is financial underwriting by the Government: the main political capital must be the commitment of the next 15 years, not just a mere 5 years," he explained.

Apart from this matter, he added that there must be common bureaucratic capacity in that the Minister, Director to Head of Sub-Directorate levels must be ready to provide physical ease and permit processing to reach financial close," he said.

In the same event, Mohammad Faisal, Executive Director Center of Reform on Economics (CORE) highlighted the realistic planning and IKN development roadmap. He underscored the risks that must be carefully calculated, particularly on the population of the residents in which their role will be critical as the demand, consumer, and corresponding market.

Faisal gave example that by 2025 the population of IKN is targeted to be between 600,000 to 800,000 people. This figure, he explained, is almost the same as the population of nearby Samarinda of 850,000 to 900,000 people and Balikpapan of 700,000 to 750,000 people.

Later, the projection in 2035 will see IKN's population reaching 1.1 to 1.2 million people expected to rise to 1.7 to 1.9 million people by 2045. This means IKN will have a population threefold the populations of Balikpapan and Samarinda.

"This means that there must be an expedited realization of basic infrastructure development and other supporting facilities, as within the next one year the population will reach the level of Samarinda and Balikpapan," he explained.

Other challenges were pointed out by Berly Martawardaya, Research Director INDEF. He deemed that IKN will be a less than vibrant city just like the capital city in some countries like Putrajaya in Malaysia, Canberra in Australia, or Washington DC in USA if the city merely functions as the centre of state administration.

On this matter, he suggested that the Government encourages the country's best educational institutions, such as ITB, UI, or UGM open campuses in IKN that will attract population movement to the region, making IKN playing its role as a city of education.

"IKN is targeted to reach population of 1.9 million by 2045. Meanwhile Putrajaya has only 120,000 residents almost 30 years after its establishment as Malaysia's capital city. Canberra has only 350,000 and Washington DC has only 330,000 population after 110 and 230 years respectively," he said.

Berly further reminded participants of the challenges in the development of IKN by taking into consideration the condition of the State Budget where the Government is faced with priority budgeting, such as a 20% budget allocation for the education sector and an anticipated decline in exports.

Dentons HPRP Partner Michael A. Kaihatu touched upon the opportunities that can be gained from IKN, compared to investment in other regions.

"Currently, permit processing often faces hindrances between the central and regional governments. With the IKN Authority in place, I believe permit processing in the future will be easier with a one-stop institution there. This presents as a good opportunity from a legal aspect," he explained.

Dentons HPRP Partner Winda Tania explained the importance of creative funding in line with the challenge of investment in IKN, as currently no investment assurance from the Government exists.

The issues of readiness of utilities, status of land assets, restrictions on using assets as guarantees resulting from the cooperation (assets on Government land cannot serve as guarantee) will require solutions to enable lenders to guarantee their projects. Further, harmonization will also be required for the alignment of sectoral and IKN regulations.

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