



Slow construction, land acquisition could delay Indonesian new capital project

Indonesian President Joko "Jokowi" Widodo hopes to leave office next year with a lasting legacy – a new green capital in East Kalimantan, on the island of Borneo, which he plans to inaugurate in August 2024 to coincide with Independence Day.

But construction of some key buildings that were supposed to be ready by then is only 21% to 25% complete, because, analysts said, the planned capital is facing land acquisition problems and funding shortfalls as foreign investors seemed lukewarm to a project they viewed as offering 'uncertain returns'.

According to reports from Jakarta on 8 September, Jokowi has expressed optimism that his government could start moving to the new capital, Nusantara, before his term ends in October 2024.

"Next year, God willing [the Independence Day ceremony]

will be in the new capital," Jokowi told reporters on Aug. 17 at the presidential palace in Jakarta.

Relocation of national capitals occurs rarely. Since Nusantara began in 2019, East Kalimantan's neighbours Sabah and Sarawak have been considering its economic, social-cultural impacts given its proximity.

Officials have said construction of a presidential palace and office, a parliament complex and some ministry buildings are on track for completion by then, but analysts are sceptical they will be.

The presidential palace at the new capital site is 21% complete and the presidential office 25%, local media reported last month, citing public works ministry officials, although The Jakarta Post quoted a construction task force official as saying work was 36% complete on "the core region of Nusantara."

Indonesia's Benar News repeatedly contacted officials at the Nusantara National Capital Authority, which is tasked with planning and constructing the new capital, but did not receive any response.

Jokowi has said that moving the capital is necessary because Jakarta is facing challenges such as severe traffic congestion, air pollution, frequent flooding and earthquakes because of over-extraction of groundwater.

Jakarta is home to more than 10 million people and has one of the highest population densities in the world.

The government has struggled to attract foreign investors for the new capital project because they want to see concrete results on construction, the number of civil servants who move there and the commitment of Jokowi's successor, said Agus Pambagio, a public policy analyst in Jakarta.

“Now what will investors build? Houses, but there are no people yet. There’s no guarantee. They will only build if they know when they can get their money back,” he told Benar News.

Indonesia goes to the polls next February and Jokowi leaves office after his second term – because of term limits – eight months later, in October 2024.

The ministry of administrative reform has said that 1,800 civil servants will move to Nusantara by July 2024. The National Development Planning Agency projected that by 2045, the new capital would have a population of 1.9 million – about 10 times the area’s current number.

The population of Nusantara was an important factor for investors as it would affect the economic activity in the area, said Tauhid Ahmad, executive director of the Institute for Development of Economics and Finance, a Jakarta think tank.

“If 50,000 people move there, that’s relatively small. Naturally, the private sector will still wait and see,” he told Benar News.

As a result, the project doesn’t have a single foreign investor.

Japanese tech conglomerate Softbank withdrew its plans to invest in the project in March 2022. In December, Investment Minister Bahlil Lahadalia said the company pulled out because the Indonesian government had deemed its proposal was unfair.

Jokowi has personally pitched the project to businessmen during his trips to China, Singapore and Germany this

year, but has not secured any significant deals.

Agung Wicaksono, deputy for financing and investment at the Nusantara National Capital Authority, said seven local companies – two of them state-owned – had committed to invest in the new city.

They include state-owned energy company Pertamina, property developers, an international school, and a hotel chain.

In January during a visit to Jakarta, Malaysia Prime Minister Anwar Ibrahim said potential investment pledged by 10 Malaysian companies in Nusantara was valued at 1.66 billion ringgit (U.S. \$379 million).

Land acquisition problems are compounding the delays at Nusantara.

The new capital is expected to cover 56,000 hectares (138,000 acres), but 6,500 hectares (16,061 acres) remain under the private sector’s control, according to Tauhid.

The government’s budget for land acquisition for Nusantara alone in 2023 is about \$55 million, but this may not be enough as land prices in the area are rising, he said.

“I think that’s going to a problem,” he told Benar News.

Tauhid also questioned the feasibility of the financing scheme for the project.

The estimated cost of the project is US\$33 billion, with 20% coming from the central

government’s budget and the rest from state-owned enterprises, local governments, public-private partnerships and private investors.

Tauhid said that the government had planned to spend \$5.8 billion from the state budget over 25 years, or by 2045 when the project is supposed to be completed, but it would have already disbursed \$3.2 billion by 2024.

“In 10 years, there might be no more funds left from the state budget. Can the government commit to its promise?” he said.

An inauguration ceremony for Nusantara could be held next Independence Day, that is Aug. 17, 2024, but the area would not be remotely habitable, Trisakti University city planning expert Nirwono Joga told The Jakarta Post in May.

“If it’s to be considered a city, of course it won’t be ready [by 2024], let alone a livable one; that’s still far away,” Nirwono said.