

BRIDGING THE GAP BETWEEN URGENCY AND CHALLENGES OF SUSTAINABLE INVESTMENT IN THE DEVELOPMENT OF INDONESIA'S NEW CAPITAL CITY

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ABSTRACT

The gap between the grand vision of developing the New Capital City (IKN) as a modern and sustainable city and realizing investment is still limited, so further studies are needed on the challenges and practical investment strategies. This study aims to examine the urgency and obstacles to investment in supporting sustainable and inclusive city development. This research relies on online research methods by relying on data sources from the official website of the Indonesian government. The data obtained were then analyzed using the Nvivo 12 Plus analysis tool with a thematic analysis approach. This study shows that the urgency of developing the New Capital City (IKN) is driven by the complexity of problems in Jakarta and the need for equitable development and climate resilience. Although investment interest is relatively high, with 304 letters of interest in 2023, investment realization until 2025 is still limited, indicating a gap between intention and implementation. The main challenges include the sustainability of environmentally friendly investment, energy efficiency, social inclusion, and financial sustainability. Therefore, concrete strategies are needed, such as simplifying regulations and fiscal incentives, strengthening public-private partnerships, developing transparent, integrated digital platforms, and providing state guarantees to strengthen investor confidence and accelerate the realization of IKN as a sustainable and inclusive city.

Keywords: Sustainable cities, investment interest, sustainable investment, urban development, investment policy, social inclusion

1. INTRODUCTION

In 2019, the Indonesian government announced plans to move the nation's capital from Jakarta to a new location to be built on the island of Borneo [1]. This project is known as the New National Capital (IKN). The main purpose of moving to the capital city is to overcome the problems in Jakarta, such as traffic jams, flooding, and high pollution levels. In addition, moving the capital also aims to expand economic development outside Java Island and accelerate the development of eastern Indonesia [2]. The government has conducted a feasibility study and area mapping by the National Development Planning Agency (Bappenas) to determine the most suitable location for the IKN. After a selection process, the selected area is located near Balikpapan Bay, in the province of East Kalimantan [3]

The government has a vision to make IKN a capital city that is modern, sustainable, and environmentally sound [4]. It is planned that the development will be carried out in stages. The IKN project will cover various infrastructure and facilities, including government buildings, business centers, housing, transportation, education, health facilities, parks, and green open spaces. The government also plans to develop sophisticated information and communication technology to strengthen connectivity in IKN [5]. In the context of the development of IKN, the Indonesian government requires a large amount of money and investment in urban development.

Investment in urban development has a very important urgency [6]. Urban development can encourage economic growth. With the right investments in urban infrastructure and facilities, such as efficient transportation, office buildings, shopping centers, and business centers, cities can become centers of sustainable economic activity [7]. This investment will attract private investment, create jobs, and increase people's income [8]. In addition, investment in urban development is also important for improving residents' quality of life [9, 10]. In urban development, these investments can also reduce problems such as traffic congestion, air pollution, and flooding, thereby creating a better environment for residents [11].

In addition, investment in urban development can increase the competitiveness and image of cities at the national and international levels. Well-developed Cities that offer modern and complete infrastructure and facilities will attract international business, tourism, and investment attention [12]. This will positively impact economic growth and job creation, as well as raise the city's profile as an attractive place to live, work and invest. Overall, investment in urban development has great urgency in driving economic growth, improving the quality of life, realizing sustainable development, and increasing the competitiveness of cities. This investment needs to be carried out with careful planning involving various parties, including the government, the private sector, and the community, to achieve optimal results.

Much research has been done on development investment, but more research is needed relating it to the case of the construction of IKNs in Indonesia. However, there is still some relevant literature that can support the analysis of this study. First, development will involve various infrastructure and facilities, including government buildings, business centers, housing, transportation, education, health facilities, parks, and green open spaces. The government also plans to develop sophisticated information and communication technology to strengthen connectivity in IKN. Second, developing cities with complete infrastructure and good business conditions will attract investment. Third, investment in urban development often requires large funds. The main challenge is finding sufficient sources of funds, whether through the government budget, private investment, or funding through public-private partnerships.

This study aims to examine in depth the urgency and obstacles to investment in the development of the National Capital City (IKN) to create a modern, sustainable, and inclusive city. It also aims to understand the extent to which investment realization can answer the structural, environmental, and social challenges faced in the IKN project and identify concrete strategies that the government and stakeholders can use to encourage investment that is not only financially oriented but also pays attention to aspects of sustainability and equitable regional development.

2. LITERATURE REVIEW

Studies related to IKN (New State Capital) development policies in Indonesia have provided various insights about the aspects that must be considered in developing this project. For example, a study by Bappenas in 2019 detailed the master plan for developing IKN by analyzing the needed social, economic, environmental, and infrastructure aspects [13]. Other studies discuss the importance of urban planning and good governance in the context of IKN, while other studies highlight the perspective of sustainable development that must be considered in building IKN [14]. The results of other studies focus on infrastructure planning and development, while others emphasize sustainable economic impacts and benefits in the development of IKN

[15]. These studies provide insight into various aspects that should be considered, such as urban planning, resource management, community participation, and environmental sustainability.

In addition, several other relevant studies are related to the development policy of IKN (New Capital City) in Indonesia. There are governance challenges faced in the development of IKN, including coordination problems between agencies, public participation, and government integrity [16, 17]. Meanwhile, other studies highlight environmental aspects that must be considered, such as impacts on ecosystems, biodiversity, and climate change [18, 19]. These studies have helped to provide diverse perspectives on the important aspects that should be considered in IKN development policies, from governance and the economy to environmental, social, and strategic planning. This can be an important consideration in supporting IKN development policies in the future.

Urban development does require adequate and sustainable investment [20, 21]. Adequate investment can provide the financial resources needed to build the necessary physical infrastructure, public facilities, and urban services to support growth and good quality of life for residents [22–24]. Sustainable investment is also important to ensure urban development by considering economic, social, and environmental aspects [25, 26]. Sustainable investment focuses on creating long-term value, reducing negative environmental impacts, paying attention to social welfare, and promoting inclusiveness [27–29]. Sustainable investment in urban development can include using green technology and innovation to increase energy efficiency, sustainable water management, environmentally friendly transportation, and reduced greenhouse gas emissions [30, 31]. This can also involve developing environmentally friendly residential areas, restoring and preserving natural areas, and empowering local communities in decision-making processes [32, 33].

Sustainable investment in urban development not only provides short-term benefits but also contributes to achieving long-term sustainable development goals, such as inclusive economic growth [34, 35], environmental protection [36], and a better quality of life for the entire population [37]. In this case, government, the private sector, and civil society roles are very important. The government needs to create policies and regulations that support sustainable investment, provide incentives for investors committed to sustainable practices, and ensure transparency and accountability in using investment funds [38]. Meanwhile, the private sector can play a role in providing financial and technical resources, as well as innovating sustainable solutions [39]. Civil society can also support and oversee sustainable investment to ensure the public interest is represented [40]. With adequate and sustainable investment, urban development can generate long-term benefits, including economic growth, improved quality of life, social welfare, and environmental preservation.

3. METHODS

This research relies on Online Research Methods (ORMs) with data sources from the government's official website (<https://www.ikn.go.id/>). A data filtering process is carried out on the web-based on keywords (investment). The analysis tool uses Nvivo 12 Plus and implements thematic analysis units. Thematic analysis is a research method used to identify, organize, and understand the thematic patterns or patterns of meaning that emerge from the data collected. In the context of the new capital city development policy and the challenges of sustainable

investment in Indonesia, a thematic analysis using Nvivo 12 Plus is carried out in the following stages:

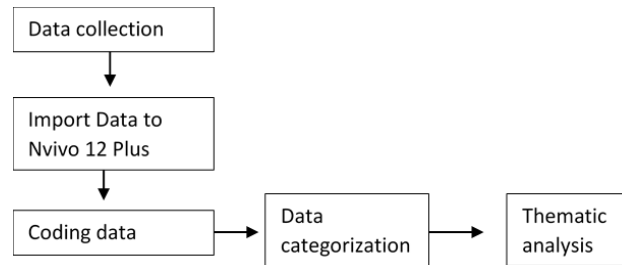


Figure 1.Data analysis process

Figure 1 shows the flow of research data analysis starting with the data collection stage. Relevant data were collected from the Indonesian government's official website related to the new capital city development policy and sustainable investment by checking the data available (<https://www.ikn.go.id/>). The data found is captured in Google Chrome. The data is then transferred to the Nvivo 12 Plus analysis tool. After that, data coding was carried out by identifying interesting themes in the data. After creating the codes for the main themes, proceed with providing codes for specific parts of the document relevant to each theme. After all the data has been coded, proceed with the thematic analysis provided by Nvivo 12 Plus to identify emerging thematic patterns. These data are then interpreted to answer research questions.

4. RESULTS AND DISCUSSION

4.1.A reason for the urgency of the IKN development policy

As a vast archipelagic country with a large population and abundant natural diversity, Indonesia faces complex challenges in sustainable development [41, 42]. To overcome existing problems and prepare for a better future, the Indonesian government has taken a historic decision by planning the development of a new National Capital (IKN). This national capital development policy emerged as an urgency to address the increasing problems in the capital city of Jakarta, such as traffic jams, excessive urbanization, and environmental degradation. The increased risk of flooding, land subsidence due to excessive groundwater drilling, and other infrastructure problems are increasingly causing a burden that cannot be ignored by this most populous metropolitan city in Indonesia. The mapping of the urgency is described as follows:

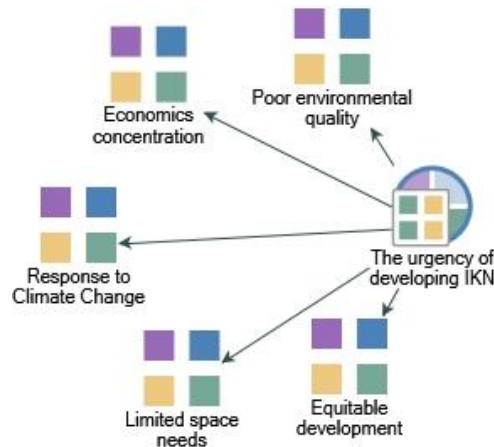


Figure 2. The urgency of developing IKN

Source: Processed by researchers using Nvivo 12 Plus (2025)

Developing a new State Capital (IKN) in Indonesia is an urgent need driven by several important factors. First, the development of IKN aims to achieve equitable distribution of development in Indonesia. As the economy and population grow rapidly, Jakarta, the capital city, is currently experiencing a high concentration in infrastructure, public services, and economic opportunities [43, 44]. By developing new IKNs, the government can expand development opportunities to other regions, promote equitable economic growth, and reduce regional disparities. In addition, the problem of limited space requirements in Jakarta is an important factor in supporting the urgency of developing IKN. Jakarta is a dense city with limited land, which limits opportunities to build new infrastructure, city parks, and green open spaces. By developing the IKN, the government can design a wider area, including adequate urban parks and a sustainable natural environment.

Climate change is also one of the urgent factors in the development of IKN. Jakarta faces high risks related to climate change, such as increasingly frequent floods and land subsidence [45–48]. By planning new IKNs, governments can implement more resilient designs to climate change, including better drainage systems and environmentally friendly infrastructure, thereby reducing disaster risks and improving people's quality of life. Apart from that, the too-high concentration of the economy in Jakarta is also an urgent factor for developing new IKNs. As a center of economic and financial activity, Jakarta is experiencing economic concentration, which impacts development inequality in other regions in Indonesia [49, 50]. By developing new IKNs, the government can increase economic growth, attract investment, and create new jobs in a wider area.

Finally, the problem of poor environmental quality in Jakarta is the reason for the urgency to develop new IKNs. Air pollution, water pollution, and other environmental damage are becoming serious problems in the current capital city of Jakarta [51, 52]. By developing new IKNs, governments can design greener areas, adopt environmentally friendly technologies, and prioritize nature conservation and the sustainable use of resources. Overall, developing a new State Capital in Indonesia is urgently needed to realize equitable development, respond to climate change, overcome high economic concentration, and improve environmental quality. By

planning and carrying out the development of IKN properly, a capital city that is more sustainable, inclusive, and provides long-term benefits for the people of Indonesia can be realized.



Figure 3. Empirical evidence of progress in IKN development, 2025

Source: liputan6.com (2025)

The urgency of developing a new State Capital (IKN) in Indonesia is directly related to the large investment needs in the project. First, the development of IKN requires substantial investment to build new infrastructure, such as roads, bridges, transportation systems, and other public facilities. This investment is needed to create a strong foundation for the development and functionality of the National Science Institute as a center of government and center of economic activity. In addition, investment is also needed to realize the concept of sustainable development in the development of IKN. Investments in renewable energy, environmental protection, and eco-friendly site design are critical to responding to the challenges of climate change and improving environmental quality. Sustainable investment can also involve developing green technology, such as using renewable energy and energy efficiency, which will affect the sustainability and efficiency of IKN as a center of economic activity.

Overall, the urgency of developing IKN is linked to the need for significant investment in basic and sustainable infrastructure development. This investment will provide a solid foundation for the development of IKN and support the achievement of the government's goal of creating an area that functions effectively and sustainably and benefits the people of Indonesia. However, behind the huge potential benefits, big challenges must be overcome in implementing this policy, especially regarding aspects such as sustainable investment.

4.2. Sustainable investment challenges

The development of the new State Capital (IKN) in Indonesia is an ambitious and strategic policy in overcoming the existing problems in the capital city of Jakarta and encouraging sustainable development. As a response to the various problems faced by Jakarta, the Indonesian government decided to plan and build a new IKN as a step towards a better future. Currently, IKN has received 304 Investment Interest Letters [53].

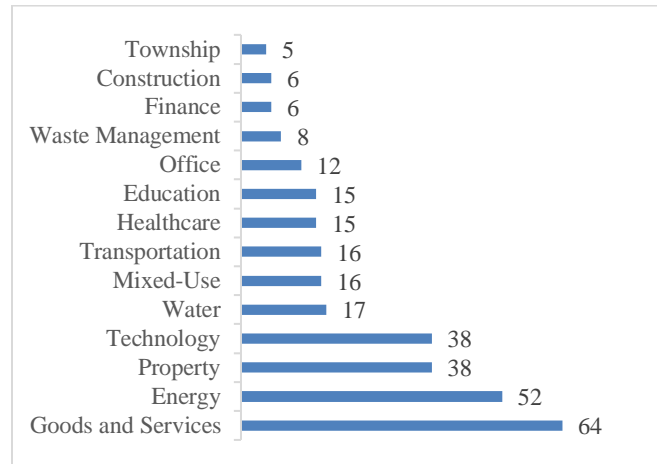


Figure 4. Number of Investment Interest Letters in IKN by Sector, 2023

Source: Indonesian Capital City Authority (2023)

Figure 4 shows that the Goods and Services sector occupies the highest position with 64 activity units, followed by the Energy sector (52) and Property and Technology (38). The dominance of the goods and services sector reflects the development orientation that is still focused on meeting consumption and logistics needs. Meanwhile, the energy sector, which occupies the second position, indicates the importance of energy infrastructure in supporting the operation of new areas such as the Indonesian Capital City (IKN). The involvement of the technology sector on par with property also marks efforts towards a smart city, which is one of the main visions of IKN. However, the low number of units in strategic sectors such as Finance (6), Construction (6), Township (5), and Industrial Estates (5) indicates that the development of fundamental aspects that support the long-term economy is still uneven or has not been maximized.

In 2025, a new investment worth IDR 3.65 trillion from six companies will enter the Indonesian Capital City (IKN). These six companies cover diverse sectors—culinary, hospitality, education, retail, construction, and commercial and residential property—which indirectly support the creation of a comprehensive urban ecosystem. With this addition, the total investment value in IKN until April 2025 has reached IDR 62.08 trillion from 42 companies [54]. This is an early indicator that IKN is not only attracting the interest of domestic investors but is also starting to form a profile as an area with multi-sector economic potential.

A comparison between 2023 data that recorded 304 investment interest letters with investment realization up to April 2025 involving only 42 companies with a total IDR 62.08 trillion shows a significant gap between initial interest and actual implementation of investment in the IKN. Although the interest letters reflect investor enthusiasm and optimism toward the potential of the IKN, the much lower realization indicates structural obstacles in regulation, infrastructure readiness, legal certainty, and investment governance. This gap reflects that the transformation from interest to real commitment requires a mature and integrated investment ecosystem and handling issues such as cross-sector coordination, transparency, and sustainability assurance. Without improvements in these aspects, there is a risk that the IKN project will experience implementation stagnation even though it continues to show a high level of interest.

The entry of this investment also needs to be criticized strategically. The sectors that enter are still dominated by downstream activities such as property, consumer services, and construction. In contrast, upstream or strategic productive sectors such as manufacturing, high technology, and renewable energy have not been seen significantly. This can cause the IKN to grow as a consumptive city, not a productive one, thus risking creating dependence on short-term speculative investments. In addition, there is no clarity regarding the sustainability scheme, the involvement of local MSMEs, and the socio-environmental impacts of this massive development. Through the IKN Authority and the government, the regulatory framework and investment governance need to be strengthened so that development is oriented towards financial value and contributes to the strategic goals of the IKN as a sustainable, inclusive, and innovation-based city.

However, behind the huge potential benefits offered by the development of IKN, there are a number of significant challenges that must be faced related to sustainable investment. Investment in this project must take into account environmental, social and economic aspects to achieve comprehensive sustainable development goals. In this context, it is important to analyze and understand the challenges of sustainable investment related to the development of IKN. The following are the sustainable investment challenges faced:

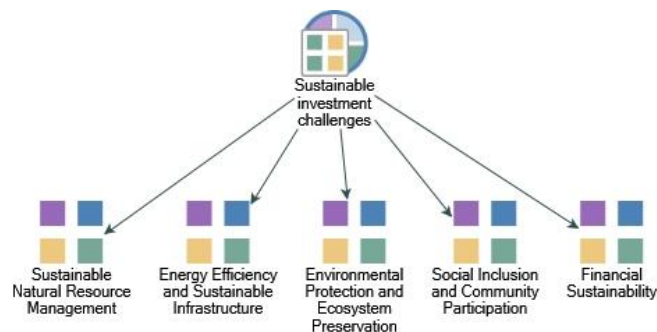


Figure 5. Sustainable investment challenges

Source: Processed by researchers using Nvivo 12 Plus (2025)

There are several challenges to sustainable investment in the development of IKN, including sustainable natural resource management, energy efficiency, sustainable infrastructure, environmental protection and ecosystem preservation, social inclusion, community participation, and financial sustainability. The development of IKN requires wise management of natural resources. This involves careful consideration of land, water, and energy use. The challenge of sustainable investment is to ensure that the development of IKN does not sacrifice the environment but pays attention to sustainability aspects such as natural resource conservation, environmental restoration, and the use of renewable energy. In addition, sustainable investment in the development of IKN also includes energy efficiency and sustainable infrastructure. The challenges in this regard are developing efficient infrastructure, reducing carbon emissions, and using environmentally friendly technologies. In addition, it is important to build infrastructure that can handle sustainable urban growth, including efficient mass transportation, reliable telecommunications networks, and sound waste management.

Sustainable investment in the development of IKN must consider environmental protection and ecosystem preservation. The challenge is maintaining a balance between infrastructure

development and protecting and restoring existing ecosystems [55, 56]. A comprehensive strategy is needed to integrate environmental aspects in the planning and implementation of IKN projects, including water management, pollution control, afforestation, and biodiversity conservation. In addition, sustainable investment in the development of IKN must also pay attention to aspects of social inclusion and community participation. The challenge faced is ensuring that the entire community is involved in the decision-making process and benefits from the development of the National Public University. An approach oriented towards community empowerment, increasing access to public services, and reducing socioeconomic disparities is needed.

Another challenge is financial sustainability, where sustainable investment in the development of IKN requires adequate and sustainable funding sources. The challenge faced is ensuring the availability of long-term funds, both from internal and external sources, to implement the IKN project and ensure long-term operational sustainability. The challenges of sustainable investment mentioned before are directly related to the costs of developing IKN. Developing a new IKN is a large-scale project requiring significant investment. The challenge of sustainable investment in the development of IKN related to sustainable management of natural resources directly impacts development costs. For example, using green technologies and adopting renewable energy may require a higher initial investment than conventional solutions. Infrastructure development that considers sustainability, such as an environmentally friendly mass transit system or sustainable building materials, can also cost more than conventional solutions.

The challenges of sustainable investment in the development of IKN related to environmental protection and ecosystem preservation also impact development costs. Efforts to integrate environmental aspects in the planning and implementation of IKN projects, such as good water management, pollution control, and biodiversity conservation, require an adequate allocation of funds. Implementing environmentally friendly technologies and methods like state-of-the-art sewage treatment systems may also involve additional costs. In facing the challenges of sustainable investment, the government and related stakeholders must consider development costs related to sustainability aspects. This requires careful planning, identifying adequate financial resources, and exploring innovative funding models, such as public-private partnerships or sustainable funding involving environmentally concerned financial institutions. By allocating suitable investment, the development of IKN can be carried out by considering important sustainability aspects, thereby providing long-term benefits for society and the environment.

The Indonesian government needs to adopt a series of strategic steps to support the development of the New Capital City (IKN) and open up investment opportunities. First, the government must create clear and attractive policies and regulations for investors. This involves simplifying the licensing process, reducing bureaucracy, and increasing legal certainty. By providing a conducive investment environment, the government will encourage investor interest and trust in the development of IKN. In addition, the government needs to build a strong partnership between the public and private sectors to facilitate investment in the development of IKN. This collaboration could involve utilizing public-private partnership mechanisms in financing and managing infrastructure projects. In addition, the government can provide fiscal and non-fiscal incentives to investors participating in the development of IKN, such as tax exemptions, financing facilities, and legal protection.

The government also needs to develop training and capacity-building programs for local workers to take advantage of job opportunities resulting from the development of IKN. By providing quality training and access to the labor market, the government will strengthen competitiveness and social inclusion in the development of IKN. In addition, the government needs to promote sustainable development and response to climate change in the development of IKN. This could include incentives for investors to adopt green practices and sustainable technologies. By encouraging sustainable investment, the government will create more sustainable IKNs and obtain long-term environmental and societal benefits. By implementing these steps, the Indonesian government can create a conducive investment climate, accelerate the development of IKN, and open up attractive investment opportunities. By utilizing the existing investment potential, Indonesia can realize IKN that is sustainable, inclusive and provides long-term benefits for society and the country.

To increase the attractiveness of investment in the National Capital (IKN), the government must also build an integrated digital investment platform as a center for investment information and services. This platform must contain accurate and up-to-date data on investment opportunities, land availability, licensing procedures, and available incentive schemes [57]. This approach is in line with other findings, which show that transparency of information and efficiency of licensing services are two key factors in increasing investor confidence [58]. By utilizing digital technology, the government can reduce bureaucracy, speed up decision-making, and provide legal certainty for investors. The presence of a digital-based one-stop service system will also support more transparent and accountable investment practices.

Another concrete step is proactively promoting and conducting investment roadshows abroad, especially to strategic partner countries and financial center regions such as Singapore, the United Arab Emirates, and Japan. This roadshow needs to be accompanied by a narrative of the development of the IKN as a future city oriented towards a smart city, green city, and inclusive city, as mandated in Law Number 3 of 2022 concerning the National Capital. Another study emphasized that international promotion based on evidence and real achievements effectively increases global investor interest [59]. The government must present the initial achievements of the IKN development and concrete investment return projections to attract long-term investors, including institutional investors such as sovereign wealth funds or green infrastructure funds.

In addition, the government is advised to provide a sovereign guarantee for strategic projects in the IKN, especially for the basic infrastructure and renewable energy sectors that require significant capital and long-term risks. According to other studies, sovereign guarantees can increase project feasibility and reduce financial risks for private investors [60]. This will also encourage more government-to-business cooperation (KPBU) schemes, which are adequate for financing large-scale public projects (Bappenas, 2023). However, the provision of this guarantee must be carried out selectively and transparently in order to maintain the country's fiscal health. With a combination of digital approaches, strategic promotion, and risk guarantees, the Indonesian government has an excellent opportunity to accelerate the realization of sustainable investment in the IKN.

5. Conclusion

The urgency of developing the National Capital City (IKN) is driven by various structural, environmental, and economic challenges that are increasingly burdening Jakarta, such as severe

traffic jams, land subsidence, pollution, and limited space. IKN is designed as a solution to these problems and a strategy for equitable regional development, increasing resilience to climate change, and sustainable development. Empirical findings and investment trends show the need for basic infrastructure development and large-scale sustainable investment to realize these goals. However, behind the potential for great benefits, this policy faces significant challenges in its implementation, especially related to ensuring the sustainability of investment so that it is in line with the inclusive, environmentally friendly, and long-term vision.

Although there is relatively high investment interest in the IKN, with 304 letters of interest recorded in 2023, investment realization until 2025 is still limited to 42 companies, indicating a gap between initial enthusiasm and actual implementation. The main challenges in sustainable investment in the IKN include natural resource management, energy efficiency, environmentally friendly infrastructure, ecosystem protection, social inclusion, community participation, and financial sustainability. High development costs for implementing green technology and environmental conservation are obstacles. Therefore, the government needs to take strategic steps such as simplifying regulations, providing fiscal incentives, strengthening public-private partnerships, and training local workers. With the right policies and multi-party support, the IKN can be built sustainably and inclusively, providing long-term benefits for the community and the environment.

In addition to the steps mentioned above, the government can develop an integrated digital platform for IKN investment services that provides transparent, real-time, and integrated information on investment opportunities, licensing procedures, incentives, and land and project status. This platform must have a one-stop service facility that allows investors to access administrative services efficiently without going through a lengthy bureaucratic process. In addition, the government needs to actively conduct international roadshows and promotions, especially in strategic partner countries and global financial centers, to attract foreign investors with an evidence-based approach, including conveying the success of the early stages of IKN development and the potential for long-term investment returns. The government is also advised to establish a sovereign guarantee for specific strategic projects to increase investor confidence in the security and sustainability of investment projects in the IKN.

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