



FISCAL POLICY AGENCY
MINISTRY OF FINANCE OF THE REPUBLIC OF INDONESIA

THE ROLE OF LOCAL ECONOMIES IN ACHIEVING INCLUSIVE GROWTH FOR INDONESIA

Prof. Suahasil Nazara

*Chairman of Fiscal Policy Agency
Ministry of Finance, Republic of Indonesia*

The 14th IRSA Conference 2018 “Strengthening Regional and Local Economy”

Surakarta, July 2018

**This year marks
the 20th year of IRSA Annual Meeting**



Indonesian Regional Science Association

The Indonesia Regional Science Association (IRSA) is an Indonesian academic organization that actively promotes the advancement of research across the country.

This network has now reached a critical mass that can play a major role not only in the academic arena through research and publications but also contribute to the evidence-based regional development policies nationally, regionally, and locally

The Idea Emerged at Mid 1980s, Bandung

- The idea to form IRSA was formed during an international regional science seminar in Bandung held by Pacific Regional Science Conference Organization (PRSCO).

IRSA is Formed at 12 December 1996, Jakarta

- IRSA is formalized during a meeting between Budy P. Resosudarmo and Geoffrey Hewings at the World Bank Jakarta. Here the IRSA Working Committee was formed.

IRSA Formal Inauguration, 13 March 1997, Jakarta

- A gathering is held by IRSA Working Committee. The meeting also formed IRSA Formatuur, tasked to appoint IRSA's president.

First IRSA's President was Appointed, August 1997

- Prof. Bambang Bintoro Soedjito was elected as the first president of IRSA in August 1997.



APPRECIATION TO THE FOUNDERS

... some dreams come true ...

- Melting pot of academic discussions in regional science
- Contributions to policy making process
- Now, we can see many young scientists join in the IRSA conference



Prof Geoffrey J.D. Hewings

University of Illinois at Urbana-Champaign
Regional Science Association International (RSAI)



Prof. Bambang Bintoro Soedjito

Bappenas, Institut Teknologi Bandung (ITB)
First IRSA President

IRSA Conference

- consistently conducts annual conference since 1998
- good collaboration: universities, policy makers, partners and sponsors
- enthusiastic participants from domestics and Asian countries

Dates and Place	Chair	Topics
Jakarta, 20-21 Oct 1998	Bambang P.S. Brodjonegoro	Regional Development Policy: Theory and Practice
Jakarta, 28 Feb 2000	Budy P. Resosudarmo	Indonesian Regional Development Policy: Challenges in the New Millennium
Jakarta, 20-21 March 2001		Indonesia's Sustainable Development in the Era of Decentralization
Bali, 20-21 Jun 2002 U. Indonesia & Bappenas	Budy P. Resosudarmo, Armida Alisjahbana and Bambang P.S. Brodjonegoro	Decentralization, Natural Resource, and Regional Development in the Pacific Rim
Bandung, 18-19 Jul 2003 U. Padjadjaran & Bappenas	Armida S. Alisjahbana	Regional Development in a Decentralized Era: Public Services, Poverty, and The Environment
Yogyakarta, 13-14 August 2004 U. Gadjah Mada & Bappenas	Catur Sugiyanto	Regional Development in Transition: Governance, Public Services, and Eco-tourism
Jakarta, 3-4 August 2005 U. Indonesia & Bappenas	Suhasil Nazara	Natural Disasters' Impacts and Challenges for Recovery: Economic Development Strategy Focusing on Aids, Governance, Infrastructure & Environment
Malang, 18-19 August 2006 U. Brawijaya & Bappenas	Candra Fajri Ananda	Empowering Regional Economic Development toward Sustainable Poverty Alleviation: Good Governance, Financing Development, and the Environment
Bandung, 2-3 Nov 2007 ITB & Bappenas	Ibnu Syabri	Sustainable Regional Development: The Role of Infrastructure in Achieving Millennium Development Goals

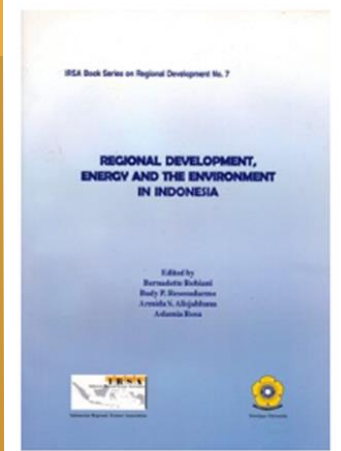
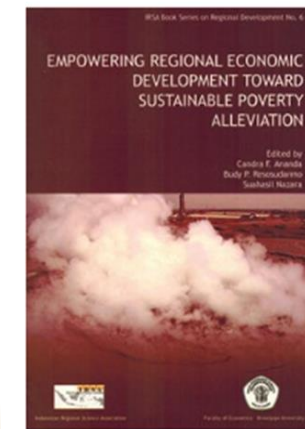
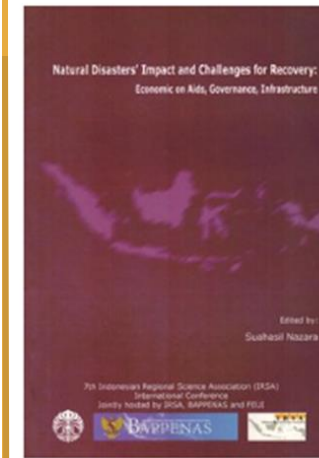
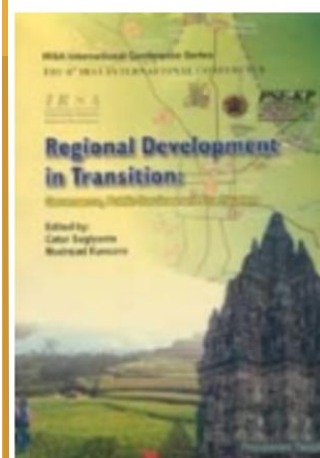
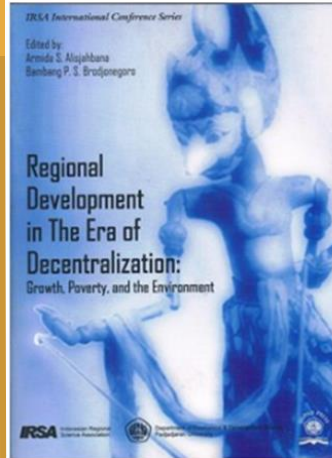
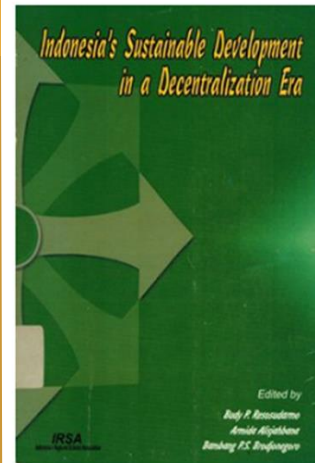
IRSA Conference

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- enthusiastic participants from domestics and Asian countries

Dates and Place	Chair	Topics
Palembang, 30-31 Jul 2008 U. Sriwijaya & Bappenas	Bernadette Robiani	The Current and Future Issues of Regional Development, Energy and Climate Change
Bogor, 22-23 Jul 2009 IPB & Bappenas	D.S. Priyarsono and Ernan Rustiadi	The Political Economics of Regional Development
Surabaya, 28-29 Jul 2010 U. Airlangga & Bappenas	Bambang Eko Afiatno	Reintegrating Indonesian Regional Economy in the Global Era
Padang, 19-21 Jul 2011 U. Andalas & Bappenas	Hefrizal Handra	Regional Development and Finances: Challenges for Expanding and Financing Public Services in the Decentralized Era
Banjarmasin, 9-11 Jul 2012 U. Lambung Mangkurat & Bappenas	M. Handry Imansyah	Natural Resources, Environment and People's Welfare in Decentralized Indonesia
Bandung, 2-4 Jul 2013 U. Padjadjaran & Bappenas	Mohamad Fahmi	Green Growth and Global Recovery: A Regional Perspective
Makassar, 2-3 Jun 2014 U. Hasanuddin	Hamid Paddu	Political Economy of Regional Development in Indonesia
Bali, 3-5 Aug 2015 U. Udayana	I K. G. Bendesa	Tourism And Sustainable Development
Malang, 25-26 Jul 2016 U. Brawijaya	Devanto Pratomo	Demographic Change and Regional Development
Manado, 17-18 Jul 2017 U. Sam Ratulangi	Noldy Tuerah	Maritime Infrastructure and Regional Development

IRSA Books

Publishing selected articles from IRSA conference – Covering a wide range topics on regional science -- Contributing to academic achievements



2002

2003

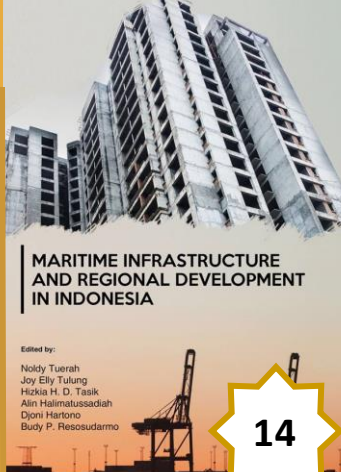
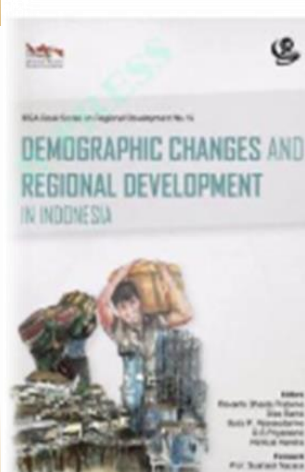
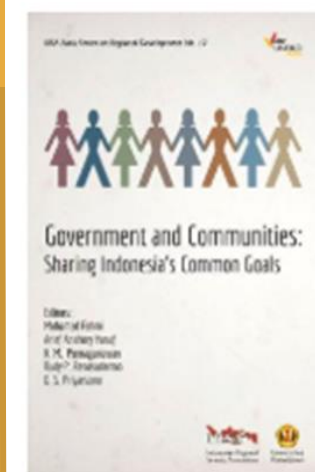
2004

2005

2006

2007

2009



2010

2013

2014

2015

2016

2017

2018

BKF Participations

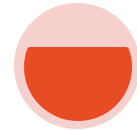
Fiscal Policy Agency as a think tank institution in MOF actively participates in the IRSA programs



2016

6 Papers presentation

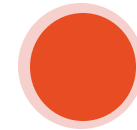
Topic:
"Demographic Change and Regional Development"



2017

14 Papers presentation

Topic: *"Maritime Infrastructure and Regional Development"*



2018

2 Special Sessions

#1 Topic: *Local Government Budget and Regional Economy;*

#2 Topic: *Village Fund*

15 Paper presentation

Topic: *"Strengthening Regional and Local Economy"*

Economic Development: Where we were and Where we are now?

Asian Financial Crisis Leading to Reforms

One of the Major Reform: Regional Autonomy & Fiscal Decentralization

Regional Scientists was taking a significant roles on the reform

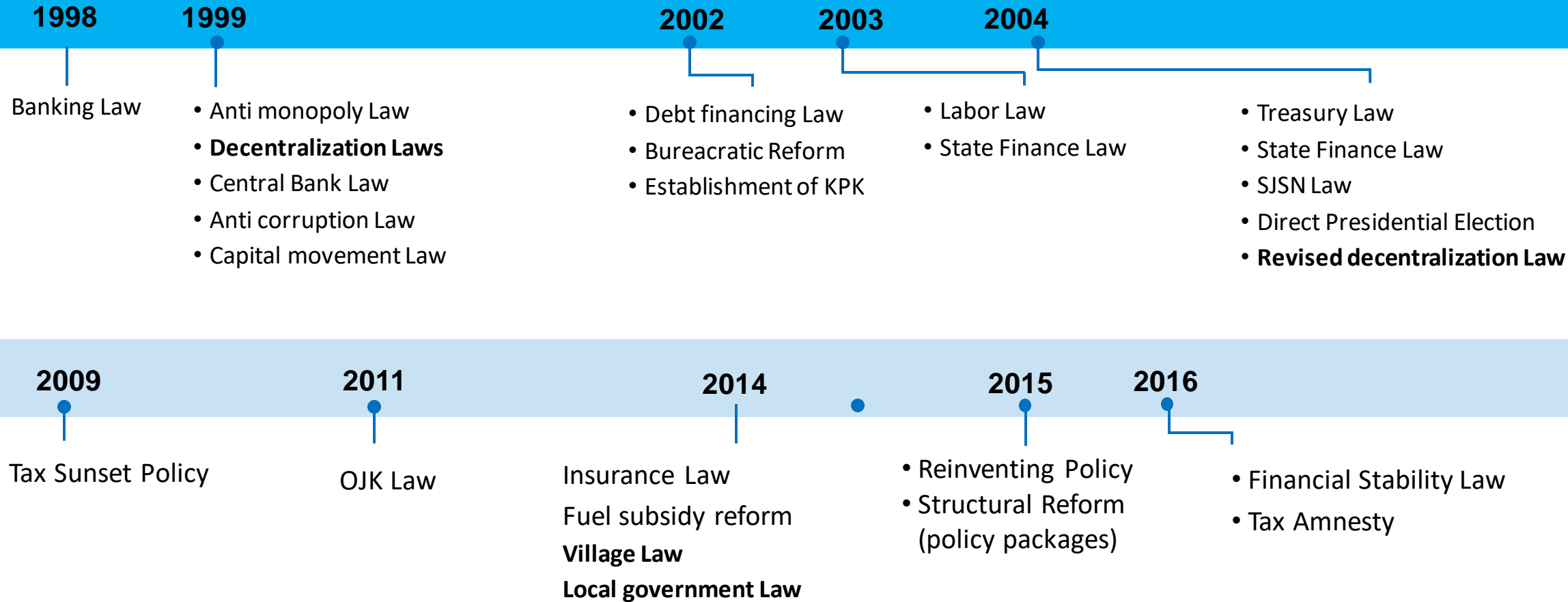
The reform contributes to the economic development recovery but some challenges remain

20 years ago, Indonesia was severely hit by the Asian Financial Crisis, an event that made the country implement various **FUNDAMENTAL CHANGES**



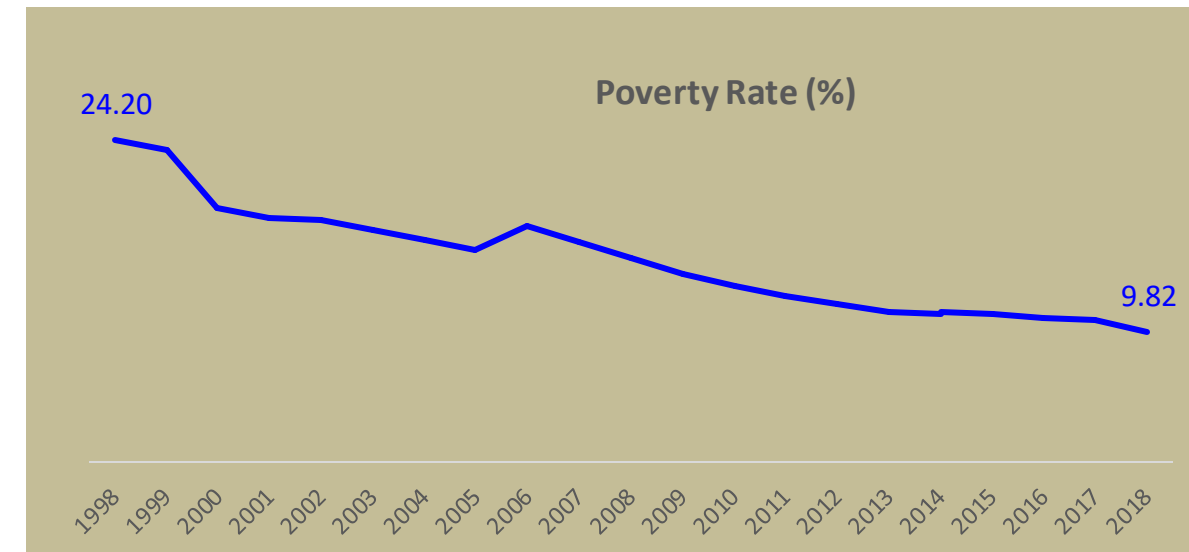
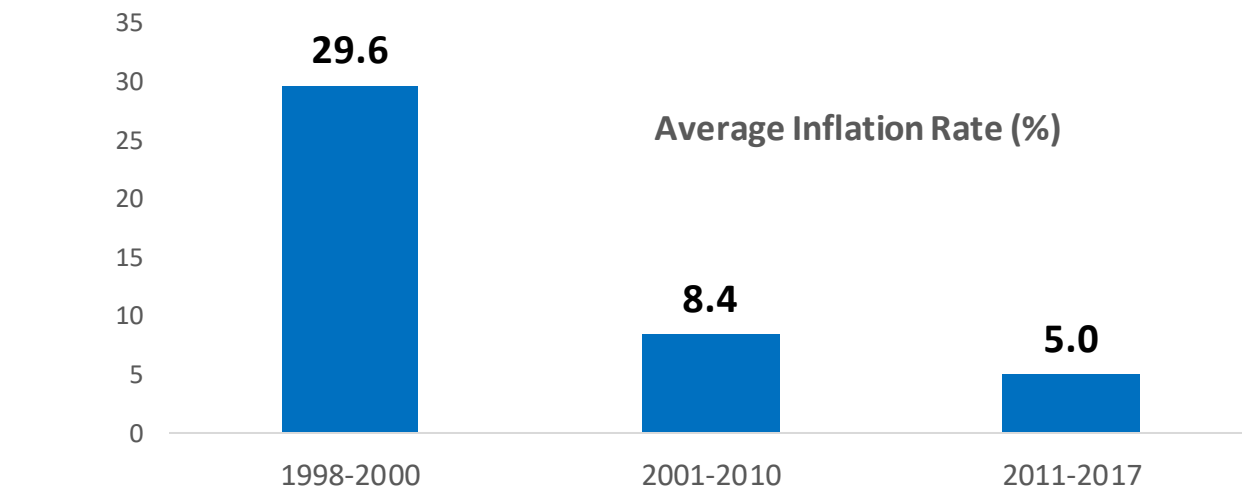
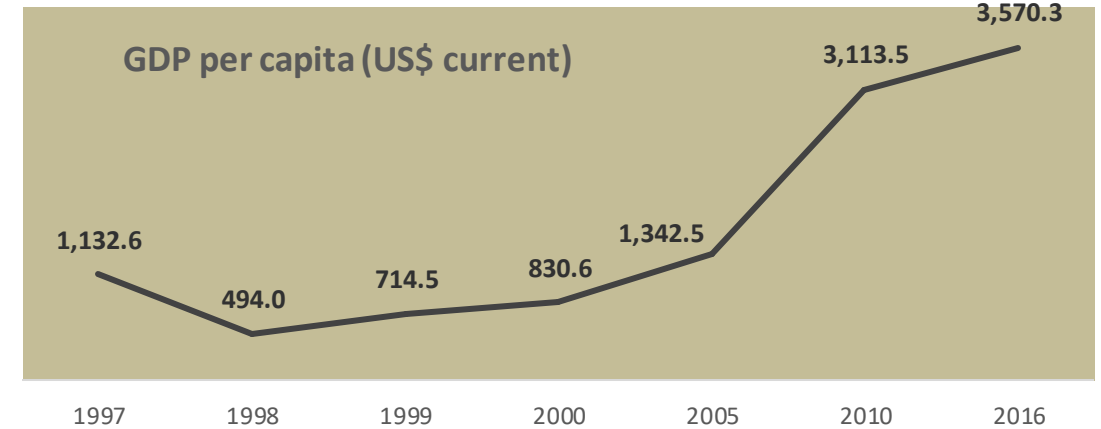
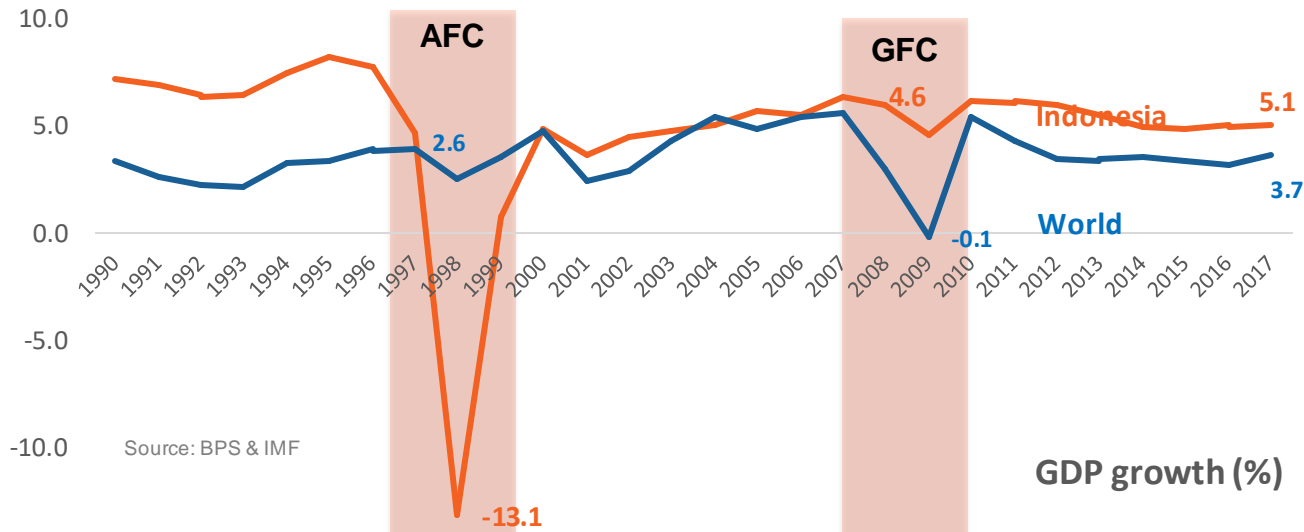
Reform

Series of reforms have been implemented and vital laws have been launched to significantly improve the whole nation's governance



In the course of 20 years

through the reforms, growth has been more resilient, welfare increases, and inflation is more benign



20 years after AFC

Indonesia regains investment grade status as fiscal prudence and creditworthiness improving

**STANDARD
& POOR'S**

19 Mei 2017
BB+ → BBB-

"We consider **strong public finances** a cornerstone of our investment-grade rating on Indonesia"

FitchRatings

20 Des 2017
BBB- → BBB

"The focus on macro stability is also evident in **credible budget assumptions** in the previous few years."



Japan Credit Rating Agency, Ltd.

12 Feb 2018
BBB- → BBB

"**infrastructure development** has been gaining momentum under strong initiative of President Joko Widodo for determination of National Strategic Projects (PSN)"

R&I

7 Mar 2018
BBB- → BBB

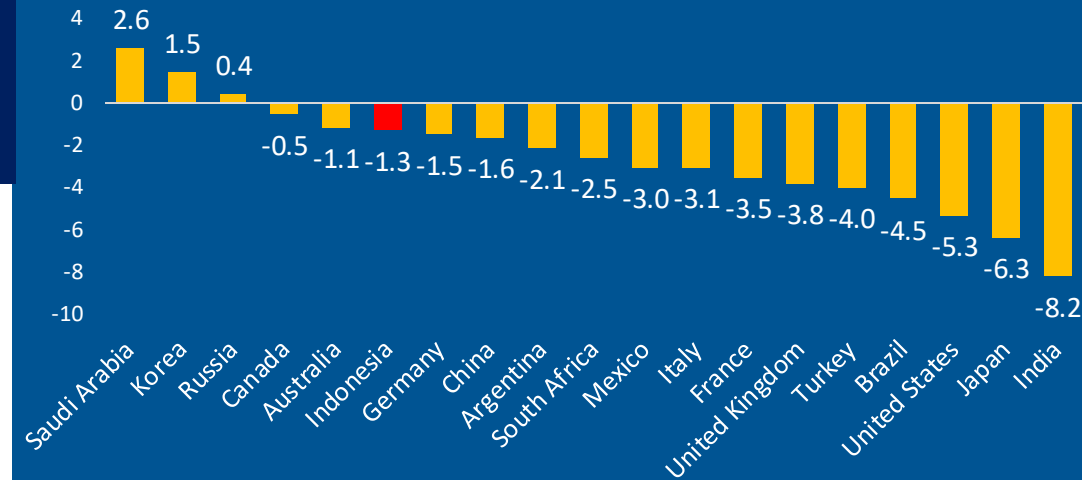
"Indonesia's **economy continues its strong performance**, with inflation remaining low and stable. Fiscal deficits have been reined in, and government debt is low"

MOODY'S

13 Apr 2018
Baa3 → Baa2

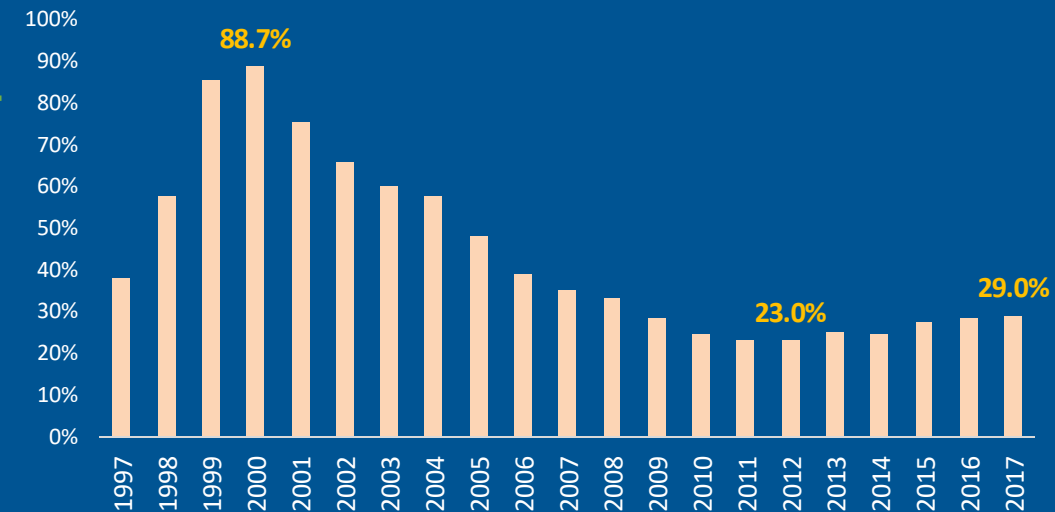
"The upgrade to Baa2 is increasingly underpinned by a **credible and effective policy framework** conducive to macroeconomic stability"

Average General Gov't Deficit in Two Recent Decades
(% of GDP, 1998-2017)



Source: IMF

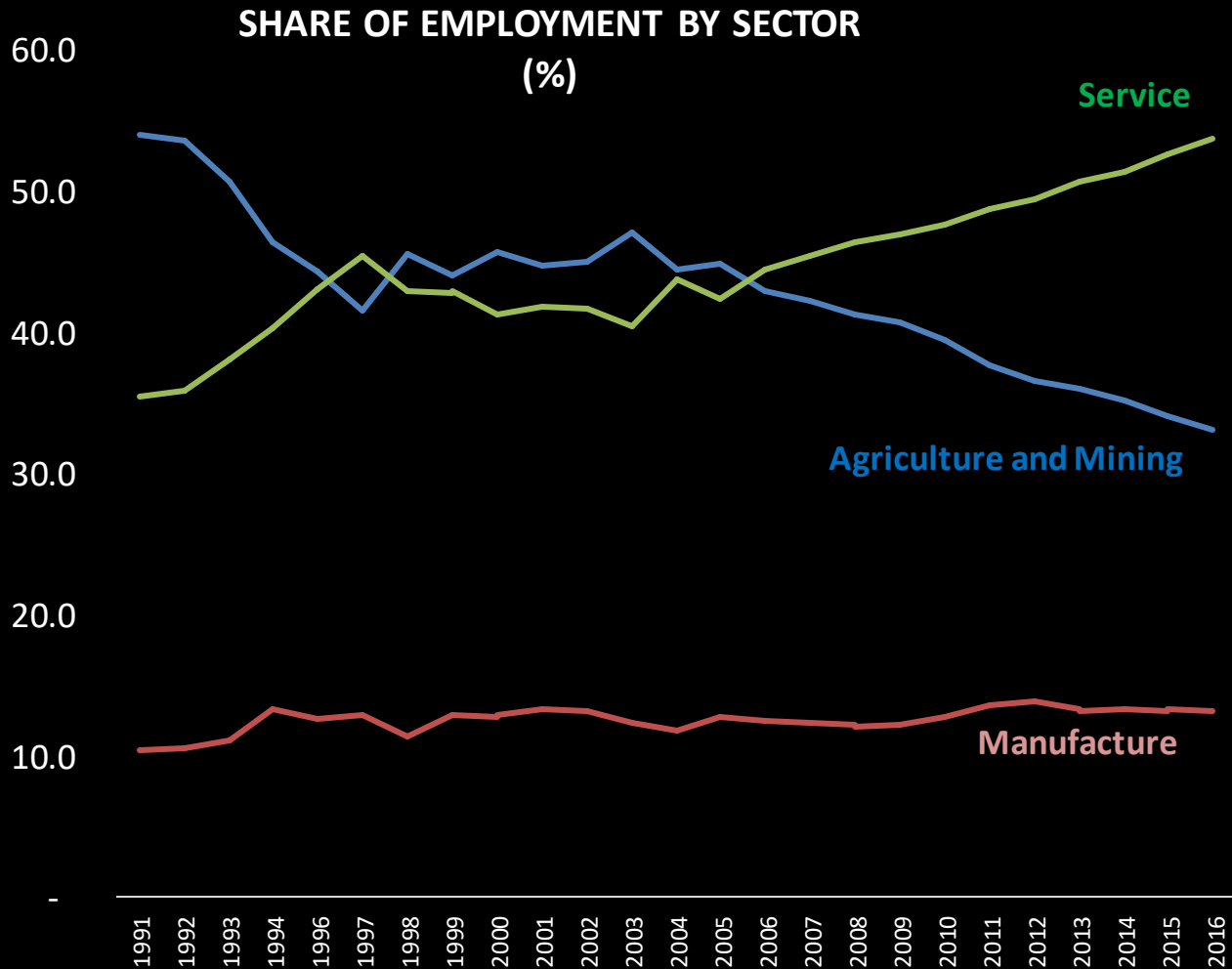
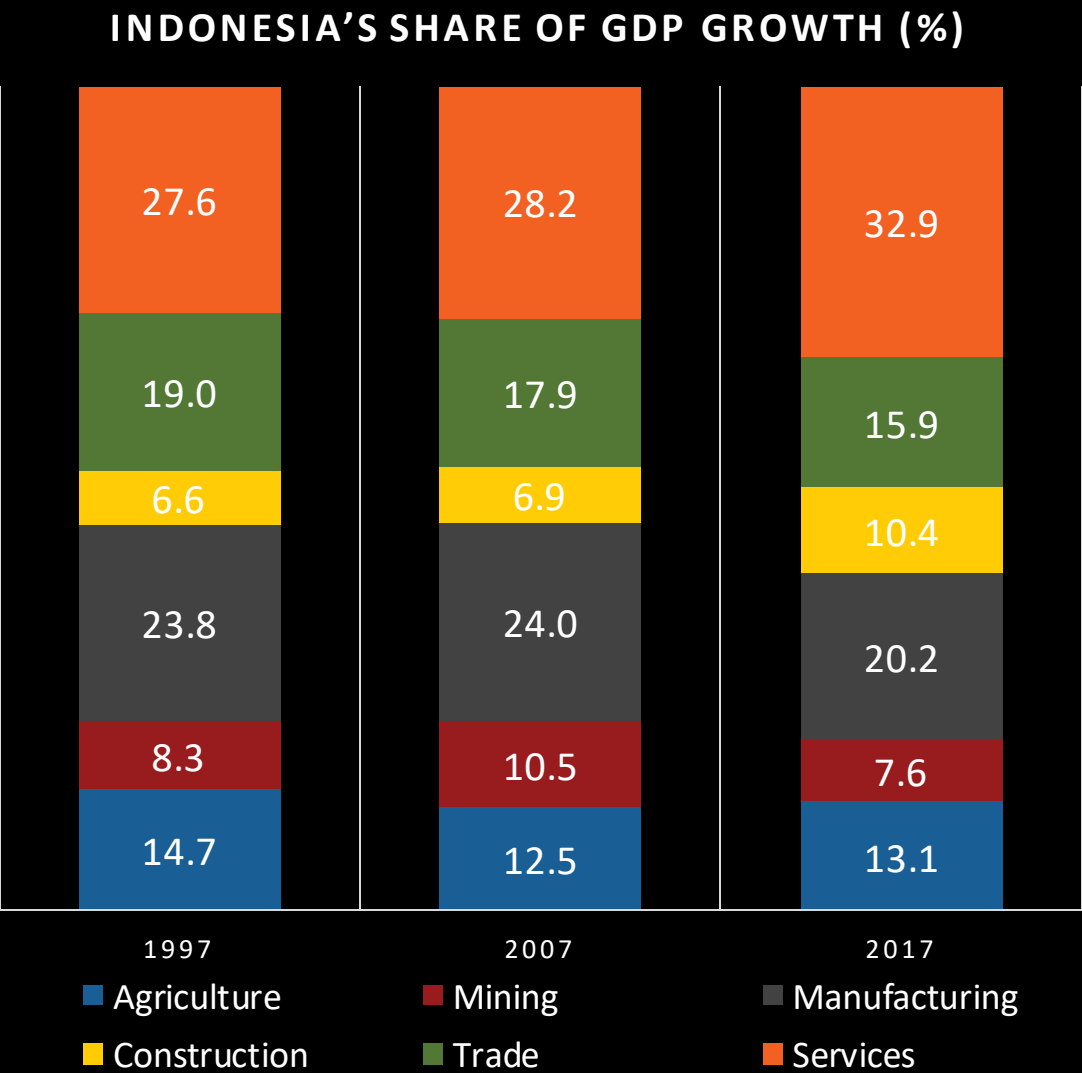
Indonesia Debt to GDP Ratio



Source: MoF

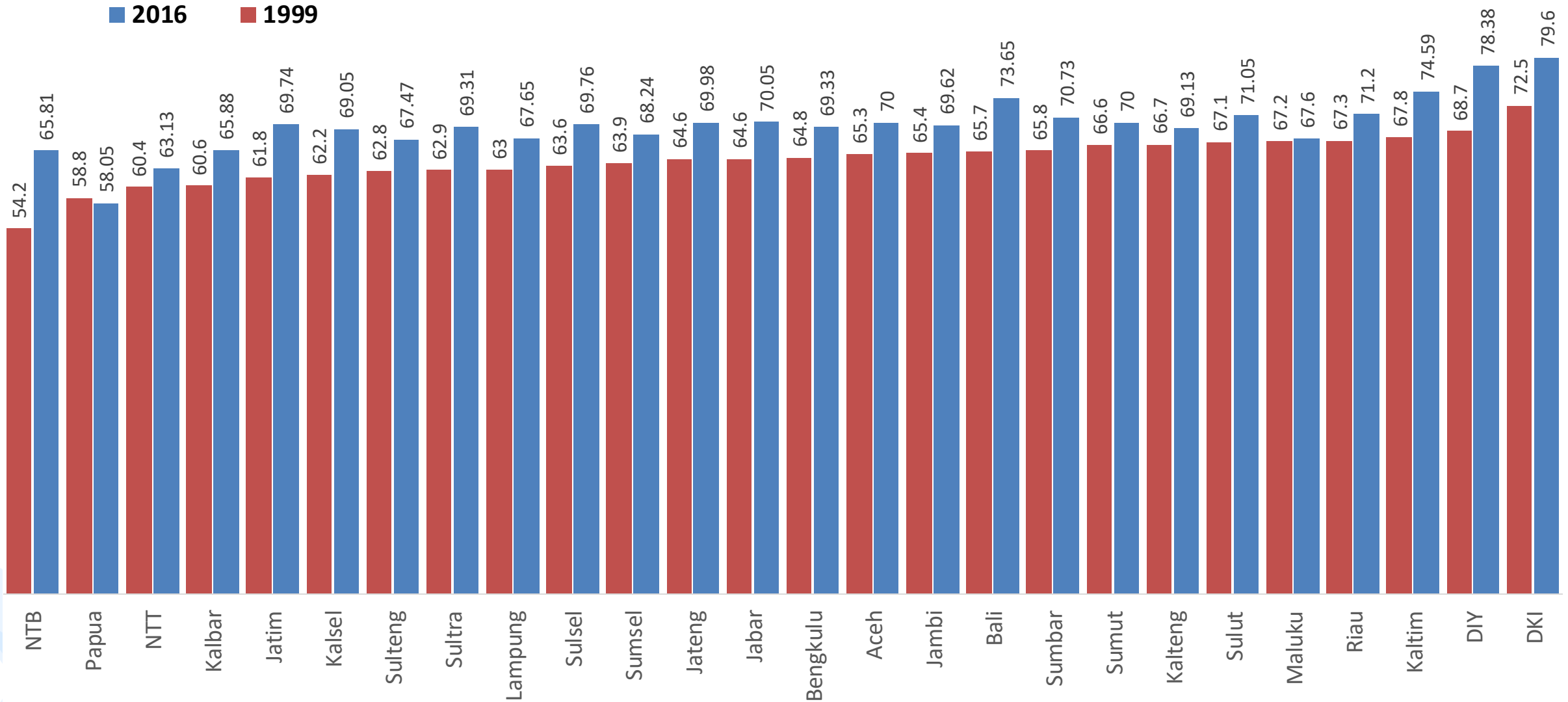
20 years after AFC

Economic Structure Has Been Shifting – Service Sector Play Higher Role in the Economy



20 years after AFC

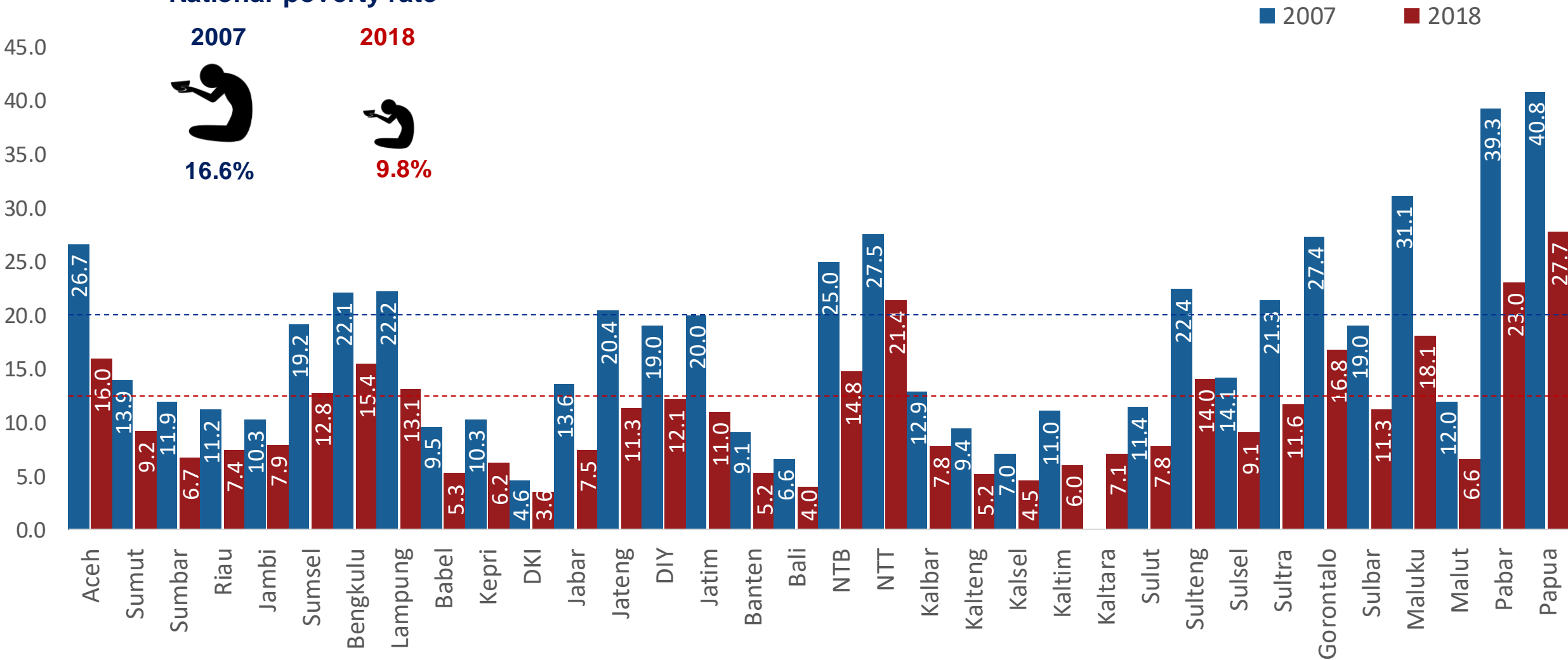
Regional Development Improves – Human Development Index Increases in all regions but Papua



20 years after AFC

Regional Development Improves – Poverty Rate Declines in All Regions

National poverty rate

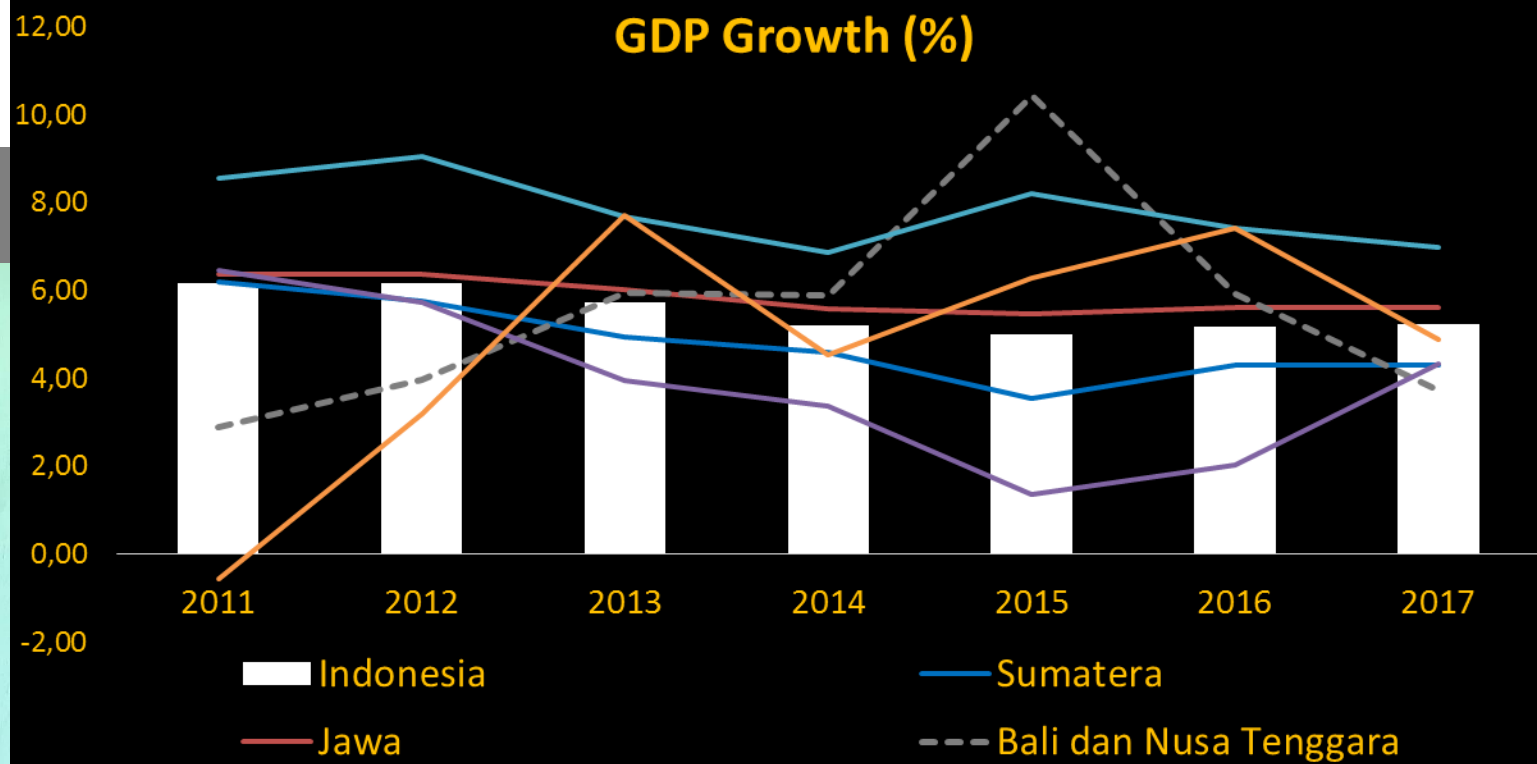


Challenges #1 Unequal Growth Among Regions Remain

The majority of growth contribution is still coming from Java



Picture: two women in Labengki Island, Sulawesi



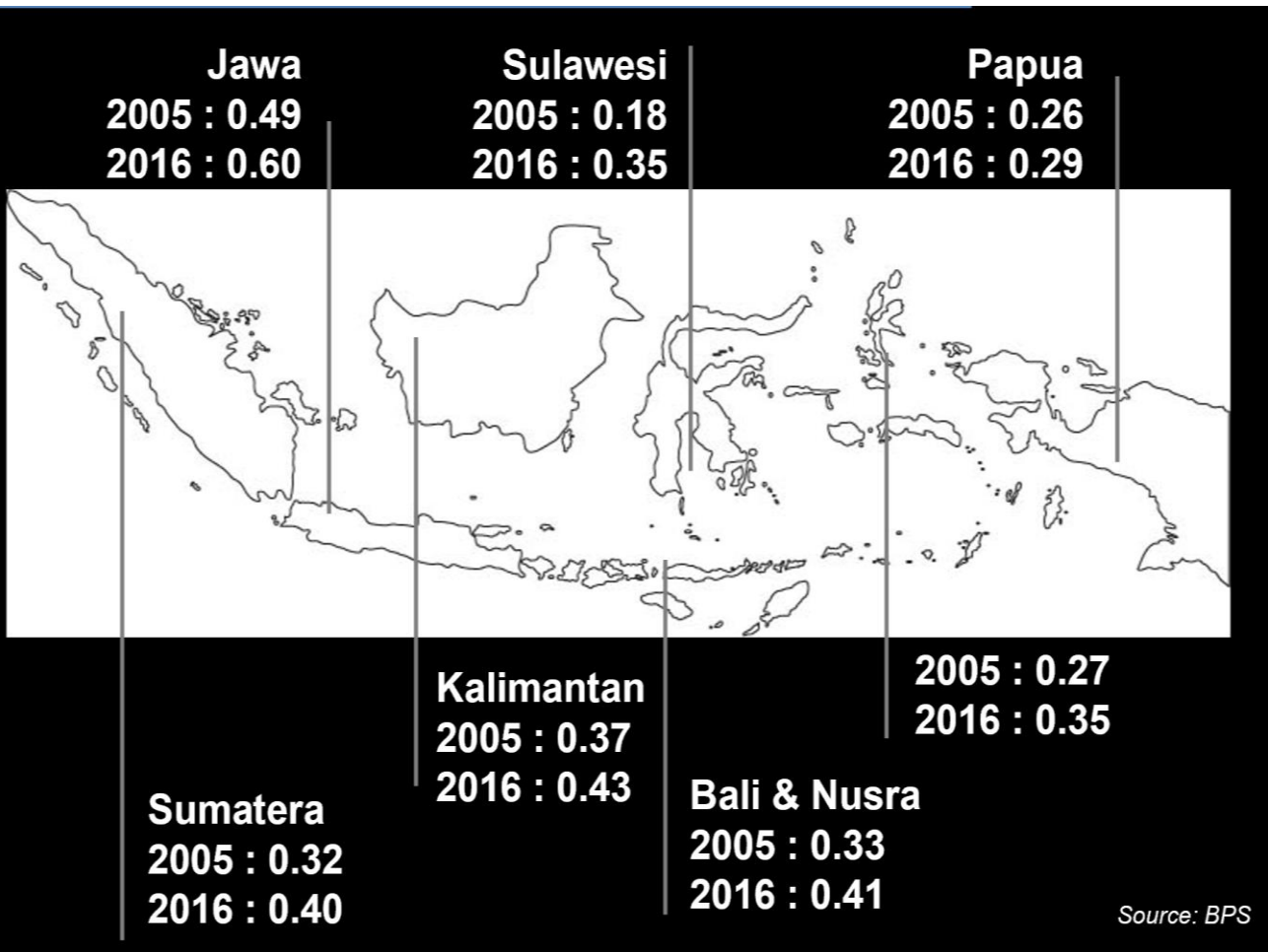
GDP Distribution

	2010	2017		2010	2017
Sumatera	22.39%	21.34%	Kalimantan	9.41%	8.43%
Jawa	57.28%	58.59%	Sulawesi	5.19%	6.04%
Bali & Nusra	3.03%	3.03%	Maluku & Papua	2.70%	2.57%

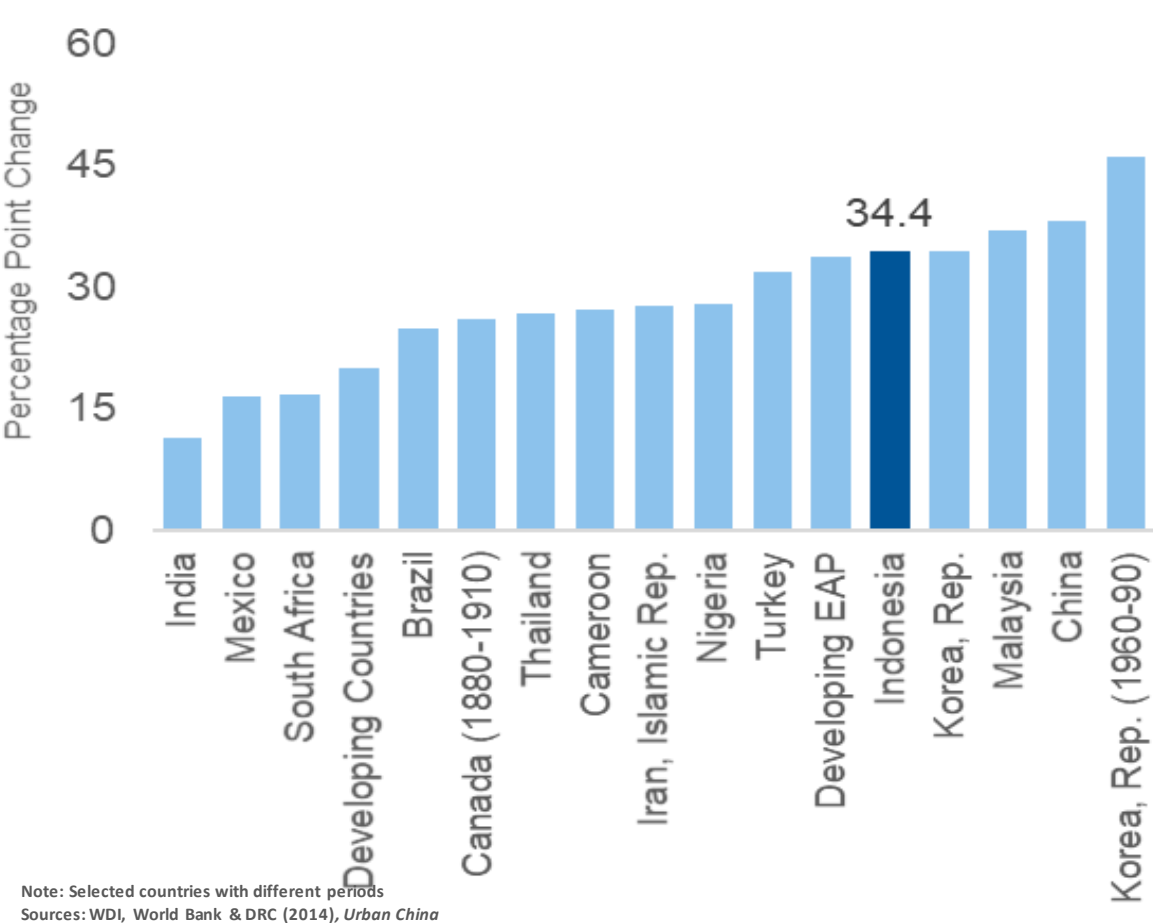
Challenges #2 Indonesia Experiences Rapid Urbanization

The pace of population growth and urban land expansion has been uneven across regions

Population living in Urban Areas (to total population)



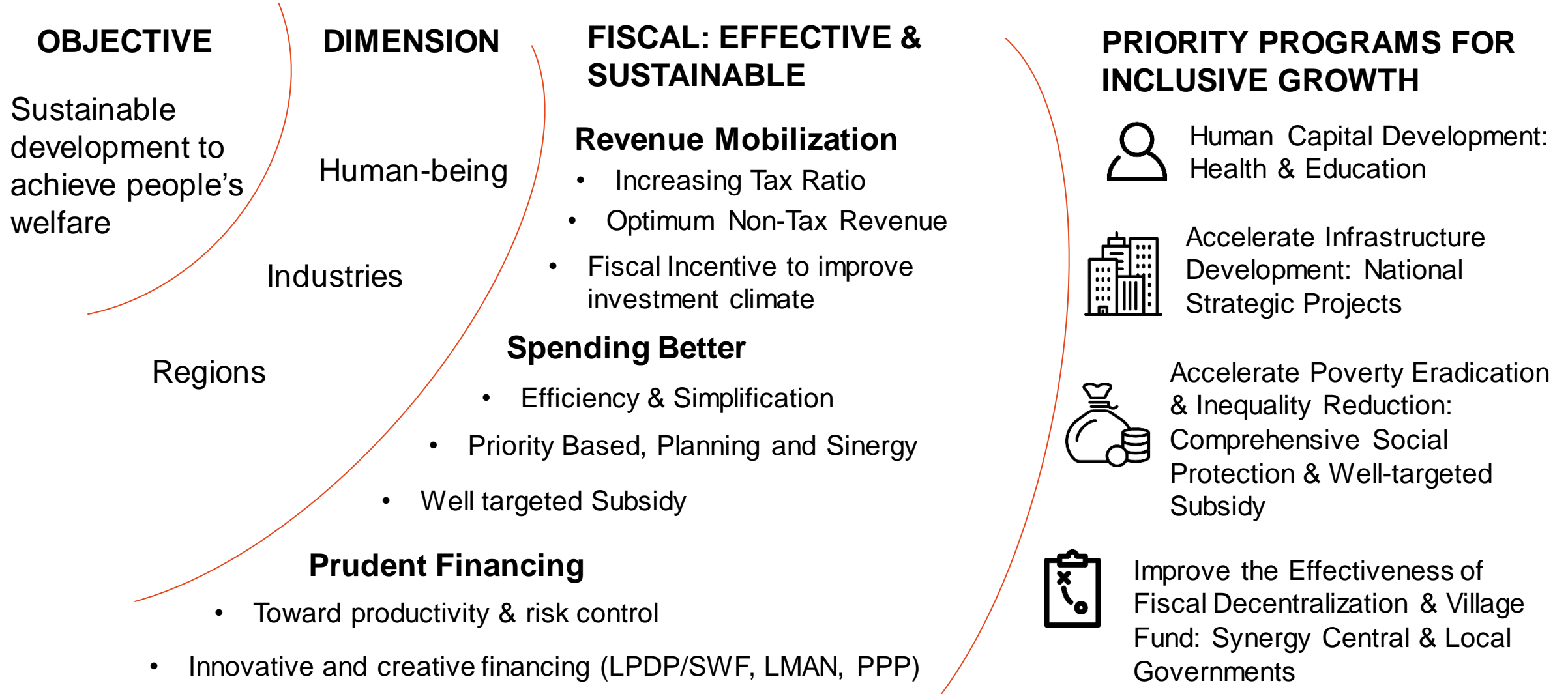
Absolute change in share urban population, 1975–2015



Note: Selected countries with different periods
Sources: WDI, World Bank & DRC (2014), Urban China

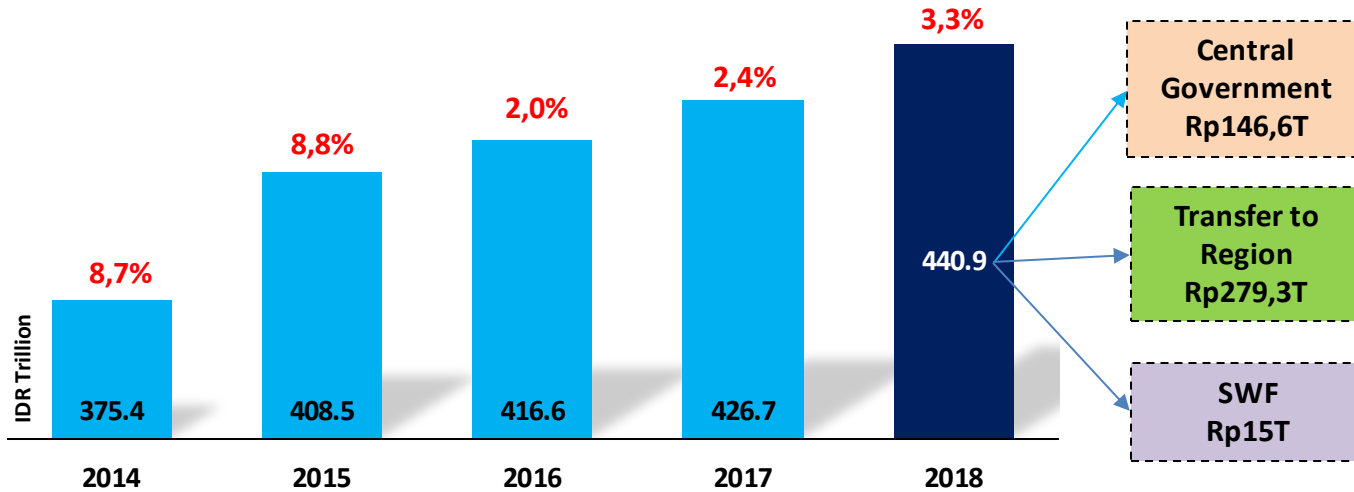
Fiscal Supports Inclusive Growth

FISCAL STRATEGY TO SUPPORT INCLUSIVE GROWTH



Maintain 20% Budget Allocation For Education

...equalizing access & quality of education, strengthening vocational and SWF for education



POLICY DIRECTIONS

1. Expanding access to education (particularly for the poor) and improving quality of education
2. Improving the quality of school facilities
3. Synergizing between central and sub national government
4. Strengthening vocational schools and synchronizing the curriculum of SMK (link and match)
5. Synergizing programs to improve the access (BOS, PKH, PIP, Bidik Misi dan DPPN) for sustainable education

Targeted Program



Smart Indonesia Program
(Program Indonesia Pintar)

19,7 million student



School Operational Assistance
(Bantuan Operasional Sekolah/BOS)

56 million student



Assistance for College Student
(Bidik Misi)

401,5 thousand
college students



Development/
rehabilitation of school/
classroom

61,2 thousand



Teacher allowances

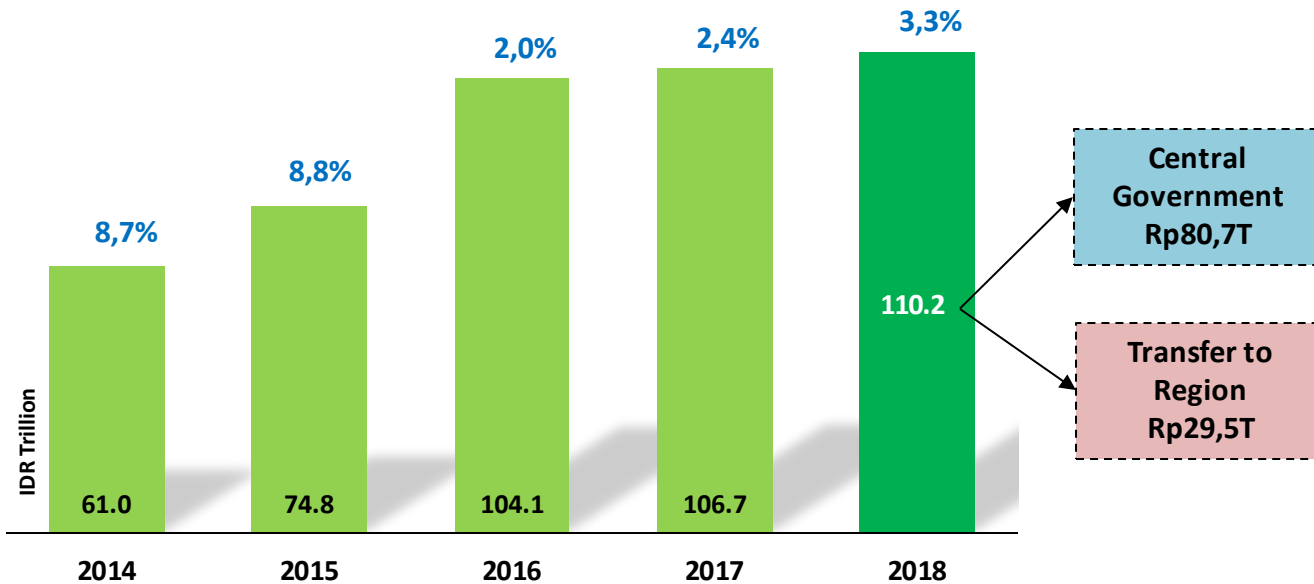
- Non PNS
- PNS

213,7 thousand teachers







257,2 thousand teachers

Allocating 5% For Health Budget Since 2016

...expanding supply side, improving access and quality of health care and maintaining the sustainability of JKN



Targeted Program

	Jaminan Kesehatan Nasional (JKN)/ National Health Insurance	92,4 million people
	Family planning (KB)	1,8 million people
	Immunization for baby 0-11 month	92,5%
	High quality health care facilities	49 hospitals/ health facilities
	Certification of drugs and food	74,0 thousand
	Malaria and HIV treatment	52% HIV cases treated 95% Malaria cases treated

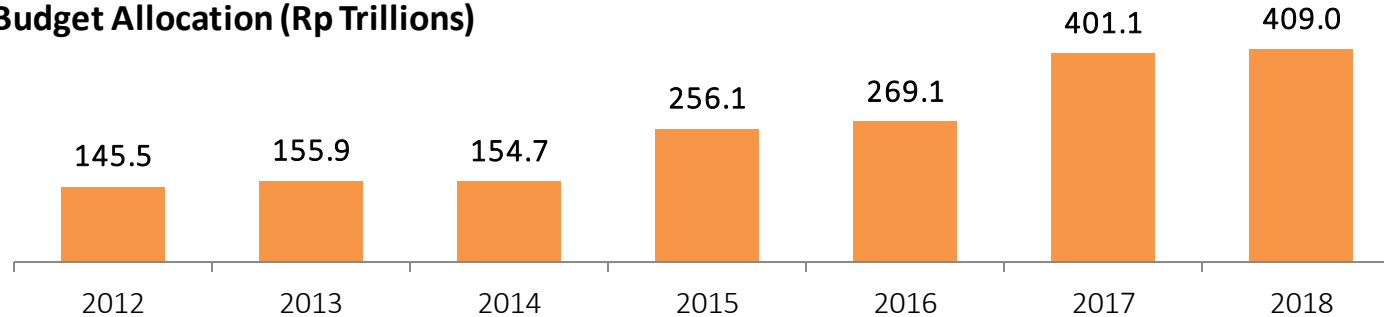
POLICY DIRECTIONS

1. Increasing and improving the uneven distribution of health facilities and and health professionals
2. Strengthening promotive and preventive programs focused on NCDs and programs for maternity through Gerakan Masyarakat Sehat (Germas)
3. Improving the effectivity and sustainability of JKN
4. Strengthening local government role for supply side and improving the quality of health care

Strategy To Improve Infrastructure

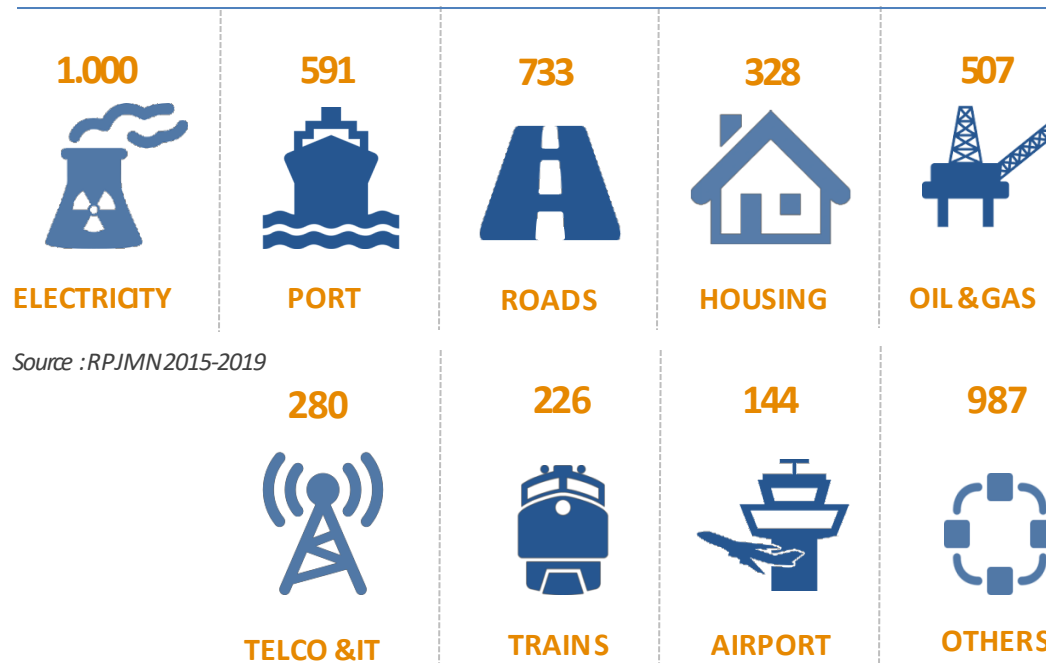
... developing new ways to attract infrastructure investment`

Budget Allocation (Rp Trillions)



- Allocating more money does not necessarily mean an increase in infrastructure quality. The capacity of spending and the quality of spending relation does not align perfectly.
- For infrastructure spending, Indonesia should invite more private capital (through PPP). Infrastructure funding gap, expected to be potentially fulfilled by either SOE & Private Sector

Infrastructure Needs by Sector 2015 - 2019 (Rp Trillions)



Source : RPJMN 2015-2019

Area of infrastructure financing alternative

Above the line

STATE REVENUE

Tax Allowance, Tax Holiday, Fiscal Incentives

STATE EXPENDITURE

Line Ministries

(Ministry of Public Works, Ministry of Transportation, Ministry of Energy, etc)

Non Line Ministries

(o/w. VGF, PDF, grants, PSO)

Transfer to the Regions & Village Fund

(o/w. DAU (25%), Physical DAK, Village Fund)

Below the line

FINANCING

Revolving Fund (o/w. FLPP), Project based bonds (e.g. SUKUK), Capital injection in PT SMI & PT IIF (financing) as well as PT IIGF (guarantee), *Subsidiary Loan Agreement*, Guarantee, Investment (capital injection) in SOE, Capital injection in BLU LMAN for land clearing

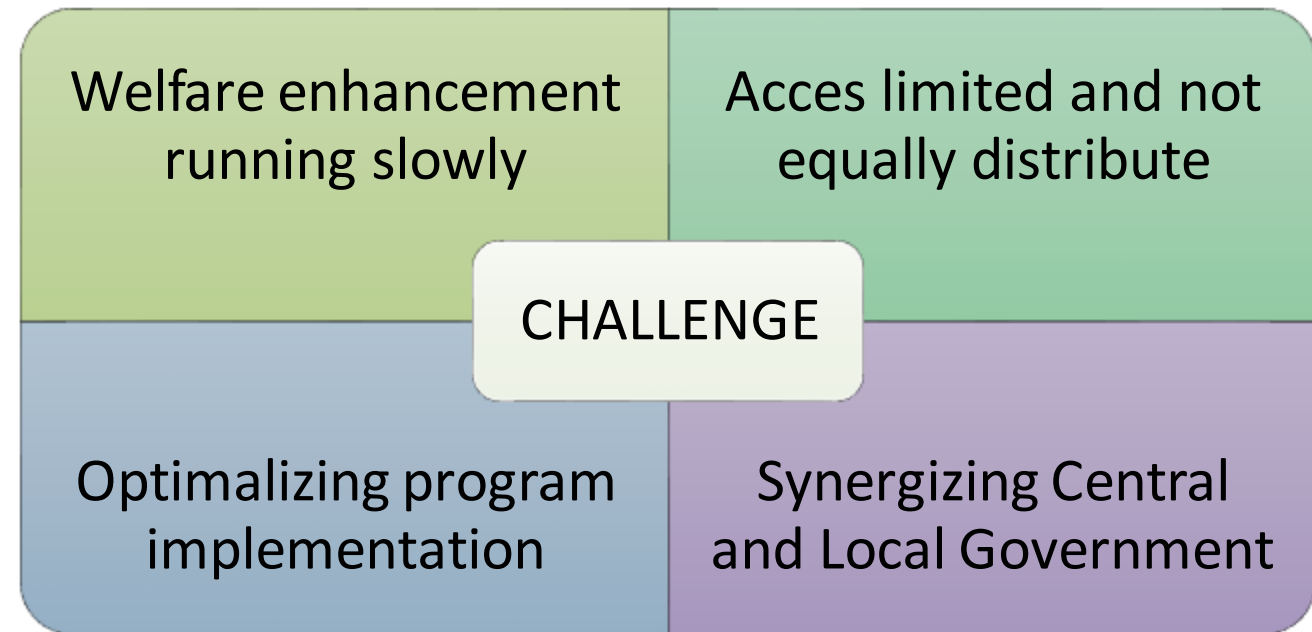


Accelerate Poverty Alleviation And Disparity

...encourage effectiveness of social protection program

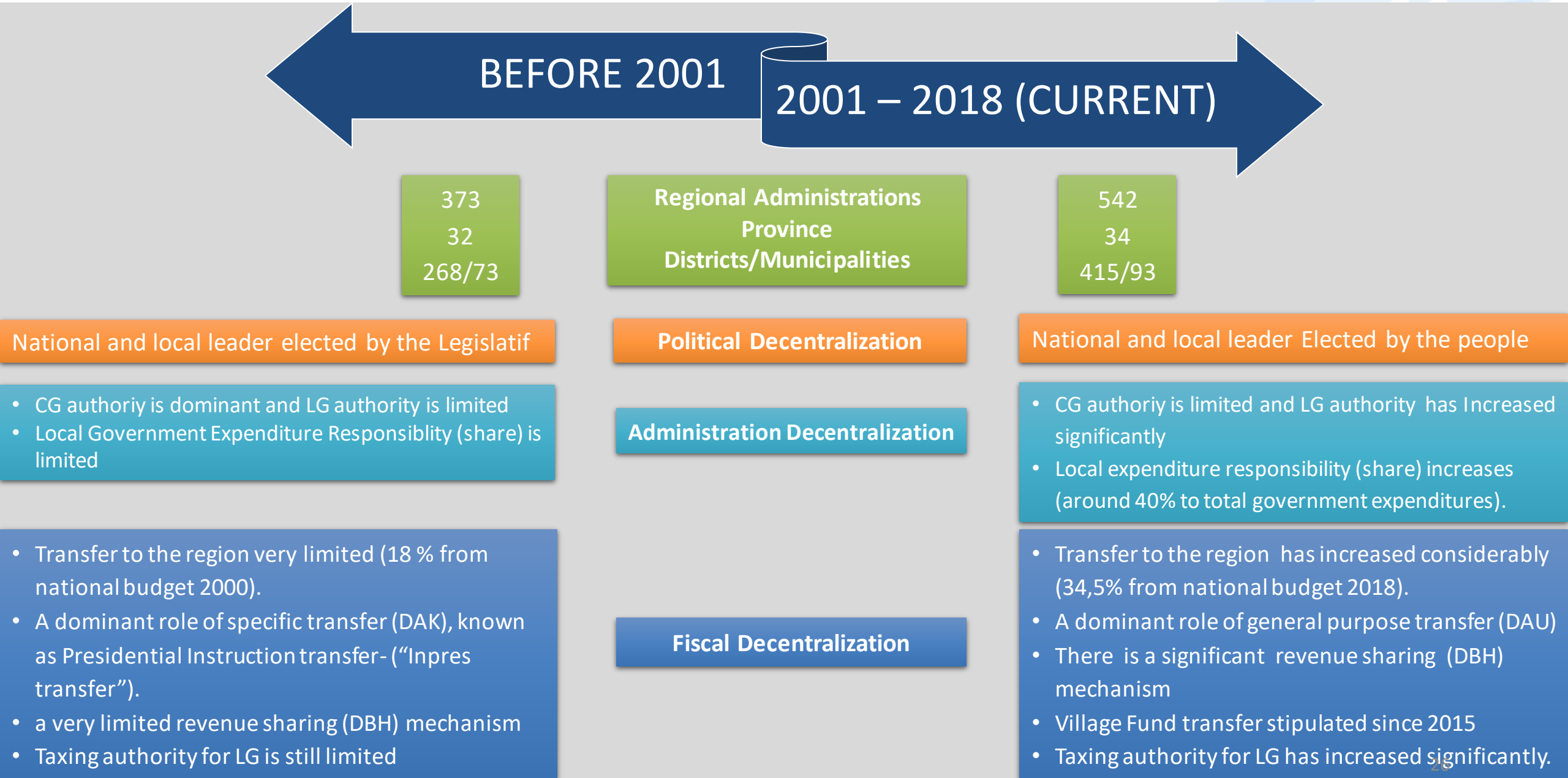
Budget Allocation (Rp Trillions)

	2014	2015	2016	2017 Real Sem	2018 APBN
Bantuan Sosial					
PKH	4,4	6,4	9,1	12,8	17,1
PIP	6,7	11,7	11,0	10,0	10,8
PBI JKN	19,9	19,9	24,8	25,5	25,5
Bidik Misi	2,2	2,8	3,2	3,4	4,1
BPNT	-	-	-	1,5	13,2
Bansos Rastra				-	7,3
Subsidi					
Subsidi BBM	240,0	60,8	43,7	50,6	46,9
Listrik	101,8	58,3	63,1	50,6	47,7
Rastra	18,2	21,8	22,1	19,4	-
KUR	2,348	1,433	4,18	3,17	11,98
Total	395,6	183,1	181,1	176,9	184,5



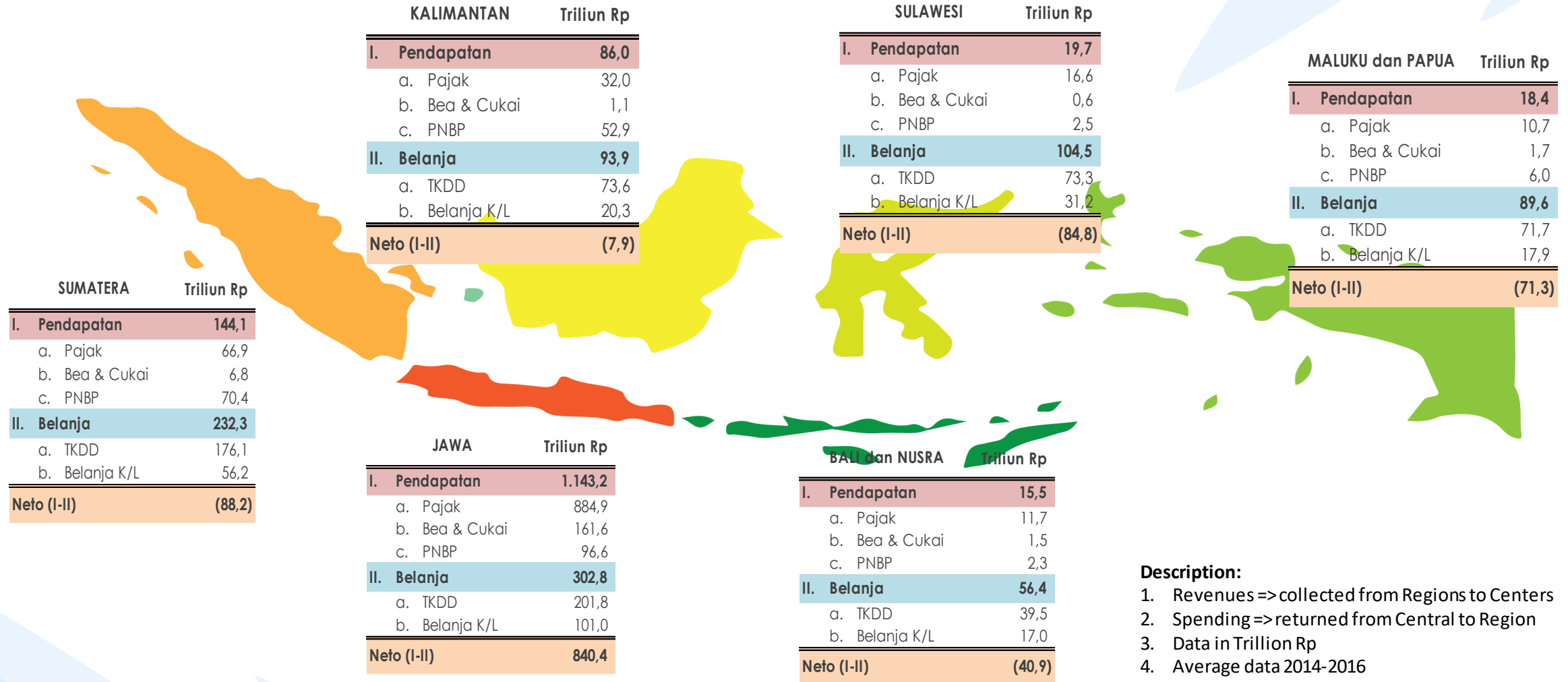
Fiscal Decentralization

FISCAL DECENTRALIZATION OF INDONESIA : THE VOYAGE



REGIONAL FISCAL SUPPORT

...equalization the central budget taxes and transfer to regions to support fiscal decentralisation

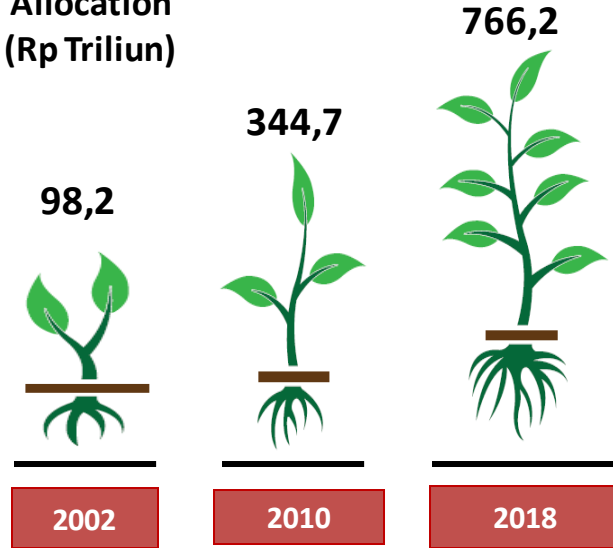


Expansion budget policy to outside Java to support accelerating the equalization of Java and outside Java

IMPROVING QUALITY OF TRANSFER TO REGION AND VILLAGE FUND

...enhancing the quality of public services, creating job opportunity, reducing poverty and inequality between regions

Allocation
(Rp Triliun)



- Allocation increases with average growth 13,7% per year.
- In the last five years Transfer to Region and Village Fund funded more than 70% of local government budget every year.

Transfer to Region

Revenue Sharing

- Expanding the utilization of DBH Cukai Hasil Tembakau (CHT)
- 25% for infrastructure spending**

General Allocation Fund/DAU

- 25% for infrastructure spending**

Regional incentives Fund

- Stimulating performance improvement of public services and financial management

Physical DAK

- Focusing on public infrastructure gap
- Money follow* program;
- Affirmative policy

Non Physical DAK

To reduce burden for public services

Special Autonomy Fund

- Accelerating infrastructure development in Papua & Papua Barat.

Village Fund

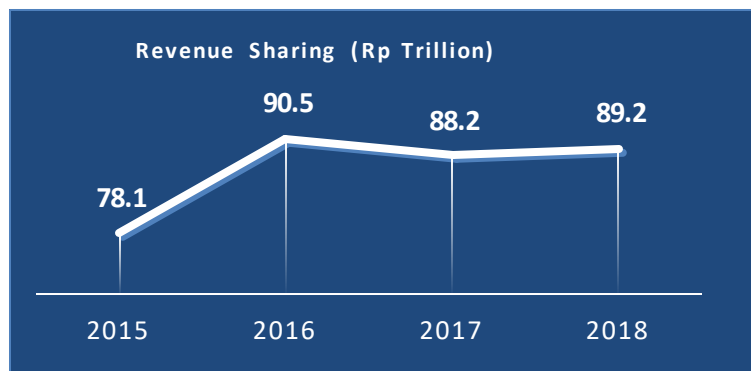
- Better formulation focusing on poverty reduction and regional disparity
- Performance based



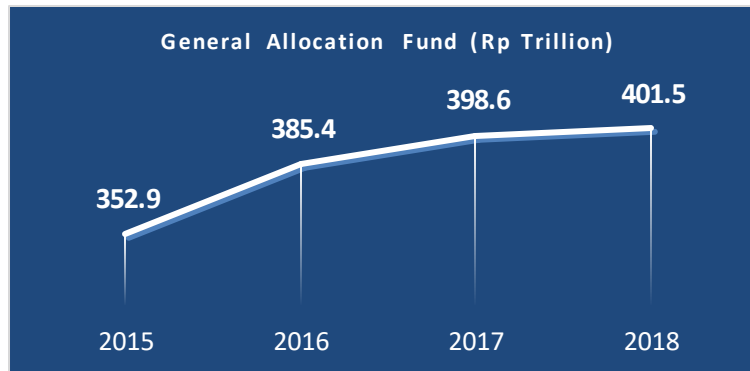
BALANCE FUNDS 2015-2018

...the strengthening of balance funds policy is continuously conducted to achieve better outcomes

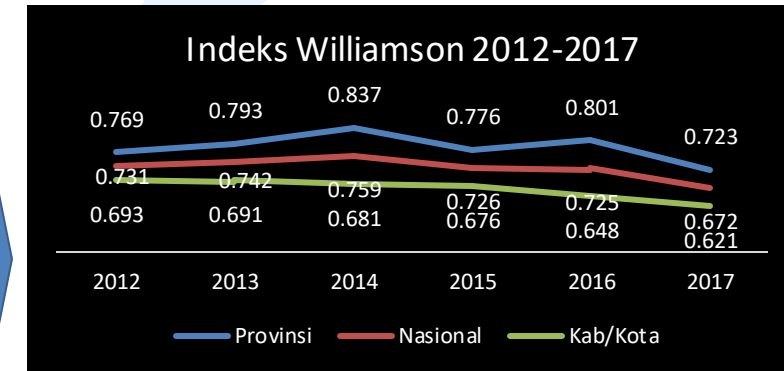
General Transfer (DTU)



Reducing vertical fiscal imbalances

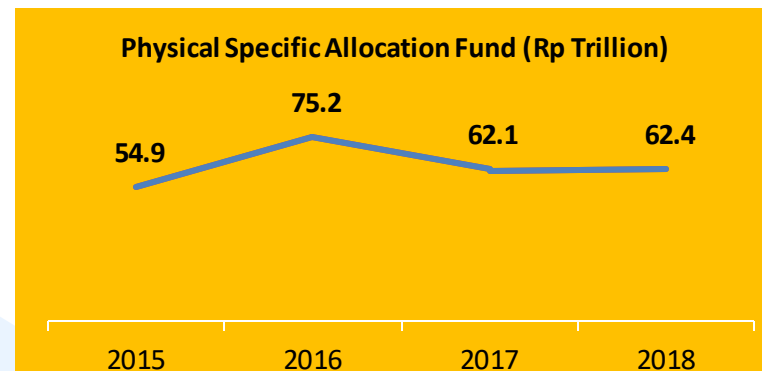


Reducing horizontal fiscal imbalances

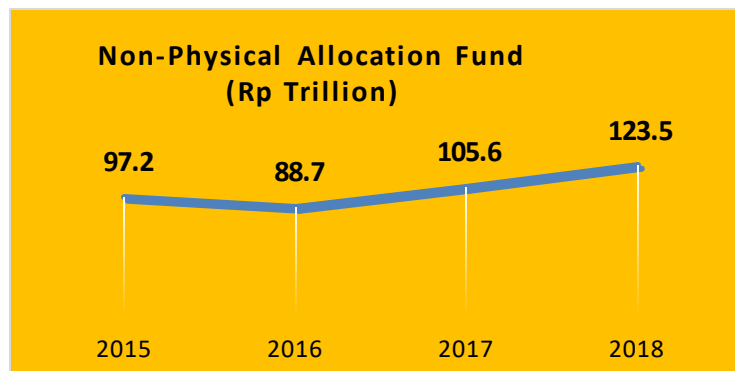


The Smaler IW shows better fiscal equity

Spesific Transfer (DTK)



Accelerate national priority achievement



Helping LG in providing basic services

Infrastructure



Roads:

- maintenance 1.503 km
- enhancement 9.798 km
- build 1.033 km



Education

- fixed 28.278 broken class room
- Build 5.284 new class room
- BOS for 45,12 million student
- BOP PAUD for 5,12 million children
- TPG for 1,22 million teacher.

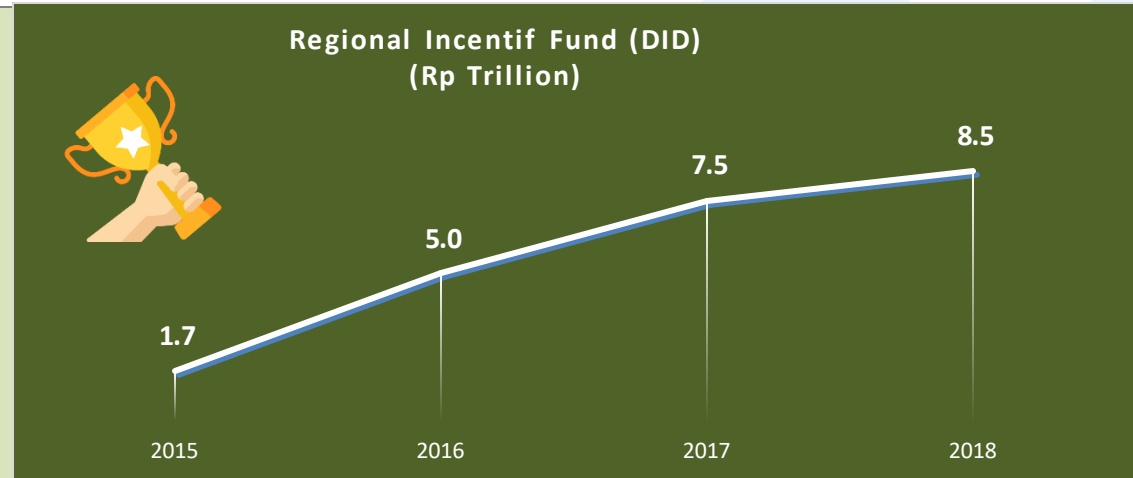
Among other 2017 output

POLICY of DID, OTSUS, AND DANA KEISTIMEWAAN DIY 2015-2018

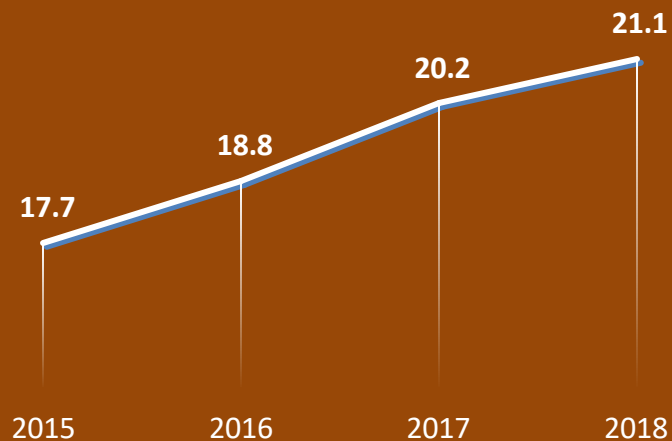
...strengthening the policy continuously for improving the quality of regional development

Regional Incentives Fund (DID)

- DID is rewarded to LG for good performance in fiscal management, public services, and enhancing social welfare.
- Allocation of DID based on main criteria and performance categories.
- Assessment is connected to innovation, creativity, and output/outcome of local government.



SPECIAL AUTONOMY FUND AND DANA KEISTIMEWAAN DIY (Rp Trillion)



Dana Keistimewaan DIY

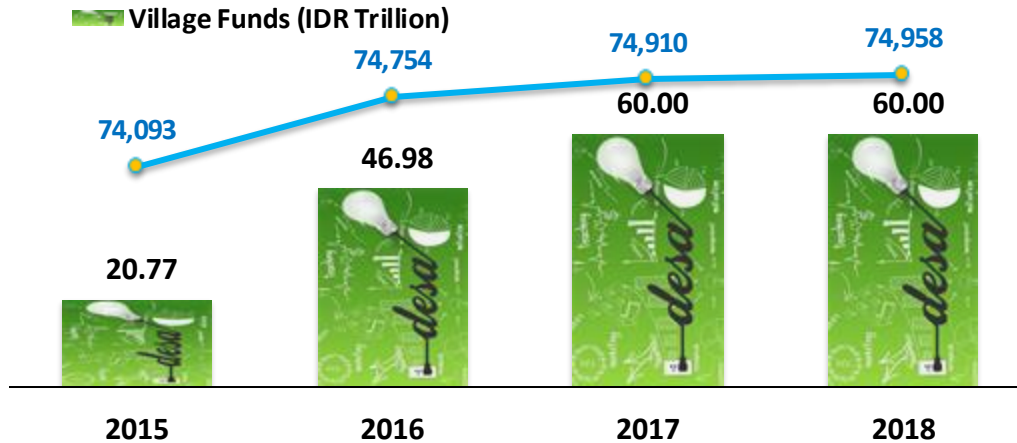
Special fund for DIY to finance special activities for DIY consist of DIY Sultan coronation, cultural maintenance, land management, and spatial planning.

Special Autnomy Fund (Dana Otonomi Khusus/Otsus)

- Special fund for Papua, Papua Barat, and Aceh Province to accelerate the government priority program (education health and infrastructure).
- Otsus Papua applied 20 years form 2002 until 2021 and otsus Aceh applied 20 years from 2007 until 2027
- Distribution is based on performance of budget realization.

STRENGTHENING VILLAGE FUND TO SUPPORT NAWACITA AND FISCAL DECENTRALIZATION

Reducing inequality and affirmative policy for villages in special region “Tertinggal, Perbatasan, dan Kepulauan”



The 3rd Nawa Cita:

“Membangun Indonesia dari pinggiran dengan memperkuat daerah-daerah dan desa dalam kerangka NKRI”

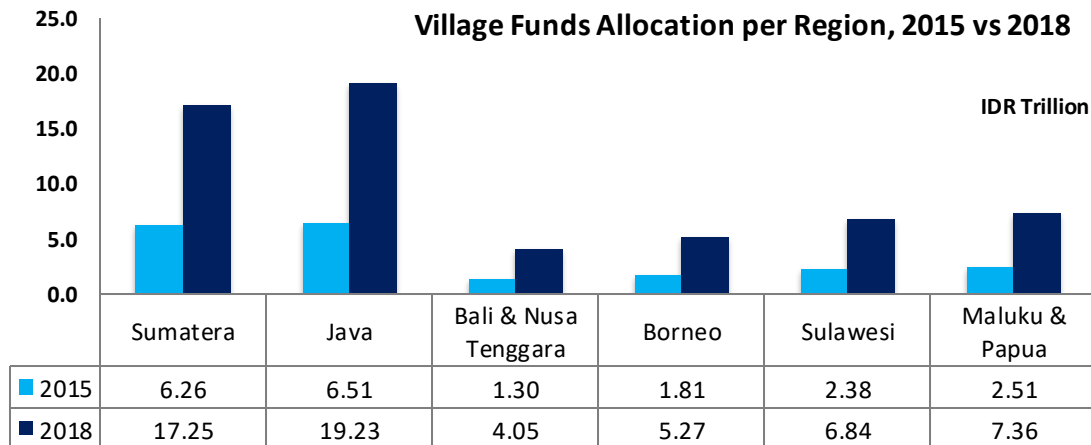
Village Fund as a key instrument of fiscal decentralization has strategic roles for

- Reducing inequality between regions
- Alleviating poverty
- Affirmative policy villages in special region “Tertinggal, Perbatasan, dan Kepulauan”



Allocation and Distribution of Village Fund

- Improving allocation up to 10% of State Budget exclude the Transfer to Region
- Reformulation of Village Fund considering distribution and equality.



Output dan Outcome of Village Funds

Achieving output on the utilization of Village Funds can be increased significantly through synergy of village-funded management that is oriented towards poverty alleviation, employment creation, reduction of unemployment, and encourage inclusive economic growth



VILLAGE ROADS

199.100 km



BRIDGE

1.599 km



CLEAN WATER

325.599 unit



VILLAGE POND

4.656 unit



POSYANDU

48.271 unit



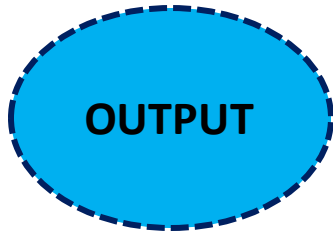
VILLAGE MARKET

19.794 unit

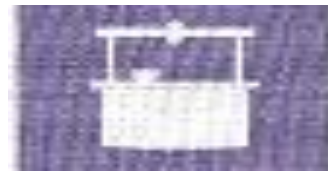


EARLY CHILDHOOD EDUCATION IN VILLAGE (PAUD)

43.723 unit



OUTPUT



WELLS & LATRINES

342.407 unit



DRAINAGE & IRRIGATION

299.345 unit

OUTCOME



Rural Gini Ratio (Inequality)



	2014	2017
National	0,34	0,32



Number of Rural Poor (Poverty)



	2014	2017
National	17,37 mill	16,31 mill



Percentage of rural poor population (Poverty)



	2014	2017
National	14,2%	13,5%

Source: Central Agency on Statistics

Output of Village Funds, 2015-2017

Thank You

