



**MINISTRY OF FINANCE
THE REPUBLIC OF INDONESIA**
Directorate General of Fiscal Balance



INDONESIA DEVELOPMENT FORUM 2018
10 JULY 2018

OPTIMIZATION TRANSFER TO THE REGIONS FUND AND LOCAL BUDGET TO REDUCE REGIONAL DISPARITIES:

REFLECTION AND SOLUTION



GENERAL POLICY OF TRANSFER TO REGIONS



Allocating DAU higher than 26% of National Revenue to assure minimum standard of public services at local level and reducing fiscal gap among the regions



Speeding up the development by directing the minimum utilization of 25% of block grant transfer for public infrastructure spending;



Improving the implementation of Specific Transfer Fund policy to be more focus performance based and reducing the disparity of public services among regions;

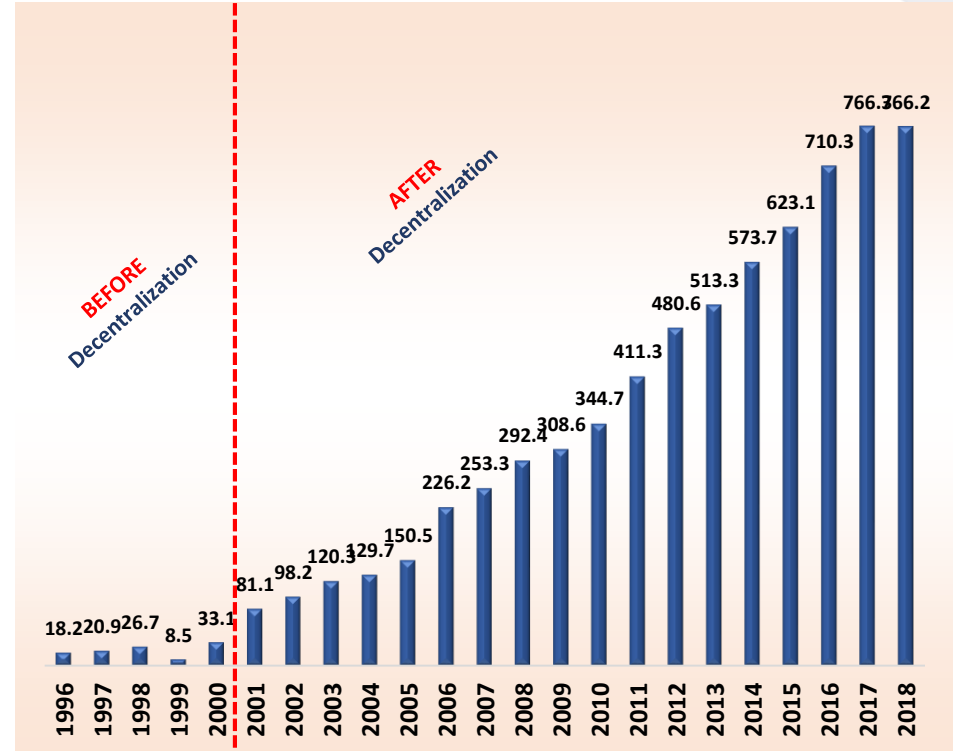


Allocating incentive funds for local government to foster better performance in public financial management, public service, and social welfare.



Reformulating the Village Fund as an instrument in increasing and equalizing the social welfare and poverty alleviation.

TRANSFER TO THE REGIONS BEFORE & AFTER DECENTRALIZATION



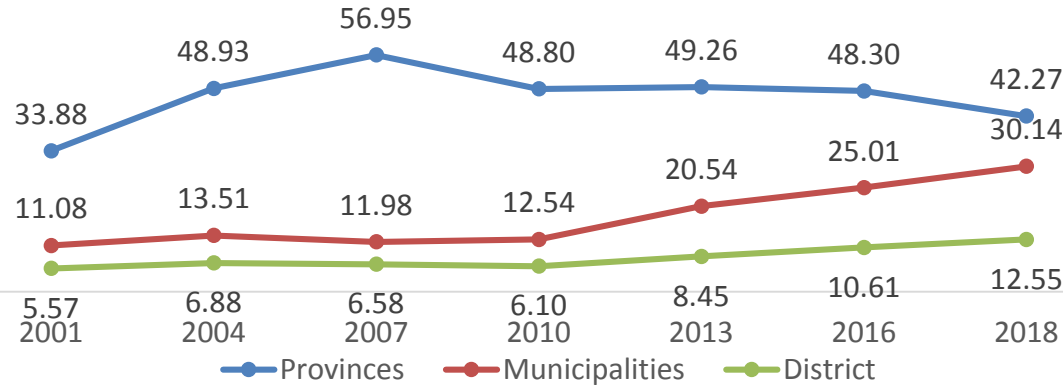
The size or nominal amount of Transfer to The Regions Fund has increased significantly from only IDR 33.1 trillion in 2000 to IDR 766.2 trillion in 2018



OPTIMIZING OTHER SOURCE OF FUND FOR LOCAL DEVELOPMENT

Encouraging Local Government to optimize their local own-source revenue in order to reduce high dependency to the Transfer

Share of Local Own-Source Revenue to Total Revenues (%)



Share of Local Own-Source & Transfer to Total Revenues (2018)

in trillion

Local Own Source (LOS)	% LOS to Total Local Revenue	Transfer to the Regions	% Transfer to Total Local Revenue	Total of Local Revenue
269,89	24,65%	766.16	69,97%	1.094.97

Encouraging Local Government to optimize other alternative of fund such as borrowing

	2014	2015	2016	2017	2018
Total Regional Loans	IDR 465,40 billion	IDR 478,43 billion	IDR 373,12 billion	IDR 2,5 trillion	IDR 4,95 trillion
Number of Regions	5 regions	7 regions	3 regions	13 regions	22 regions
Utilization*:	Roads and Bridges Hospital Terminal	Roads Hospital	Roads Hospital Market	Roads and Bridges Hospital Market	Roads and Bridges Hospital Market

Public-Private Partnership (KPBU)

- Pilot project: Umbulan Water Supply Project located in East Java (Rp1,8 trillion)

Municipal Bond

- Pilot project : the development public infrastructures in Central Java i.e: water supply projects, hospitals, and vertical housing; (Rp3,0 trillion)

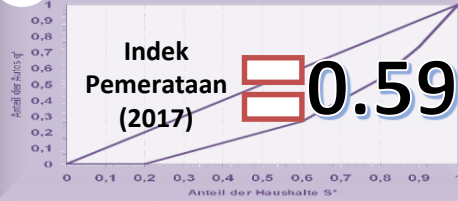


PROBLEMS, CHALLENGES, AND OPPORTUNITIES

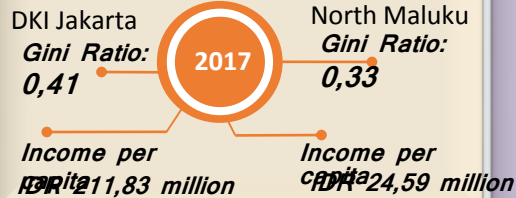
To achieve the goals of Fiscal Decentralization there are some issues, challenges and opportunities that need to be managed.

ISSUES AND CHALLENGES

1 High Fiscal Imbalance



2 Welfare Inequalities



3 High Public Services Gap



Balikpapan Municipality
97,7%
Nduga Regency
0,28%

Access to Drinking Water

4 Inefficient and ineffective Local Financial Management

- **Dependence on intergovernmental transfer** is still high and only slightly decreased from **76,6% in 2001** to **71,3% in 2017**.
- Low **local tax ratio** about **2,27 %** in 2017.
- **Overlapping funding** between regional budget and ministries/agencies budget.
- **7,950 findings** and **12,168** top problems related to **Internal Control System** based on BPK's audit report.
- **Fraud and Corruption** has caused **financial loss** in 2017 in amount of **IDR 2,9 Trillion**
- **Lack of human resources** on local financial management, both in **quantity and quality**. **Total personnel needs** is around **81.000**, meanwhile the **actual personnel number** is around **30,977** with only **1.004 (3,2%)** have **economic background**.

OPPORTUNITIES

Positive Global Economy



- Increasing demand and investment
- Fixing Ease Of Doing Business and Regional Infrastructure

Political will



- Implementation of 3rd Nawacita (development from the village and local level)
- Bigger concern on Local Government's funding

Demographic Bonus



- Bigger working population (182,9 million in 2014 -> 192,1 million in 2017)
- Lower dependency ratio (49,6% in 2014 -> 48,9 in 2016)
- Optimizing local spending on human resource development



FUTURE POLICY AND STRATEGY

Short Term

Policy formulation in 2019

- Fulfillment of Mandatory spending (i.e education, health)
- Flexible/Dynamic allocation of DAU
- Affirmative allocation for poor, border, island (3T)
- Affirmative allocation on Village Fund to emphasize poverty alleviation
- Fiscal transfer based on target/output realization (especially on earmarked transfer)

Policy Reformulation of Regional Financial Management

- Simplification and standardization programs
- Standardization of unit cost (such as additional officer allowance based on performance/Tukin)
- Implementation Value for money
- Implementation of E-Government

Policy Reformulation on Transfer Mechanism and Financial Management

A. The improvement of intergovernmental transfer

system:

- 1) Reform of Specific Grant Transfer Formula focusing on performance based (performance based both on allocation and disbursement of Dana Alokasi Khusus)
- 2) Reform of Block Grants Transfer (i.e Reform % sharing and formula of DBH, Reform DAU Formula for better calculation of Local Fiscal Needs)

B. The enhancement of local

expenditure's quality

Standardization of unit price/cost for Local Government in budgeting regional expenditure .

C. Local finance management

- 1) Simplification, Refocusing, and harmonization program across Local Government, in line with national program
- 2) Punishment for head of Local Government and legislative for not fulfilling mandatory spending requirement.

Policy reformulation on Local Own-Source Revenue

- Strengthening own source revenue administration
- Restructuring of local tax & rationalization of charges (such as piggy back tax on Individual Income Tax)
- Strengthening legal basis of own source revenue
- Strengthening supervision & control of own source revenue

Intermediate Term



CONCLUSIONS

- Intergovernmental transfer had increased significantly, but still need to be improved in terms of formulation and the usage at local level, in order to boost better quantity and quality of local public services delivery.
- Encouraging Local Own Source Revenue is essential for reducing dependency on Transfer and improving local accountability.
- Encouraging Local Governments to find alternative sources of fund (such as borrowing and public private partnership) is crucial for fulfilling the gap of local budget need for public infrastructure development.
- Government had already prepares several policy reformulation, both in short term and longer term, especially on four aspects, which are: reformulation on Local Own Source Revenue; reformulation on transfer mechanism; reformulation on local financial management; and reformulation on financing policy.



Thank You