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Indonesia Development Forum 2017

Fighting Inequality for Better Growth

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Inclusive Economic Growth in Decentralized Context

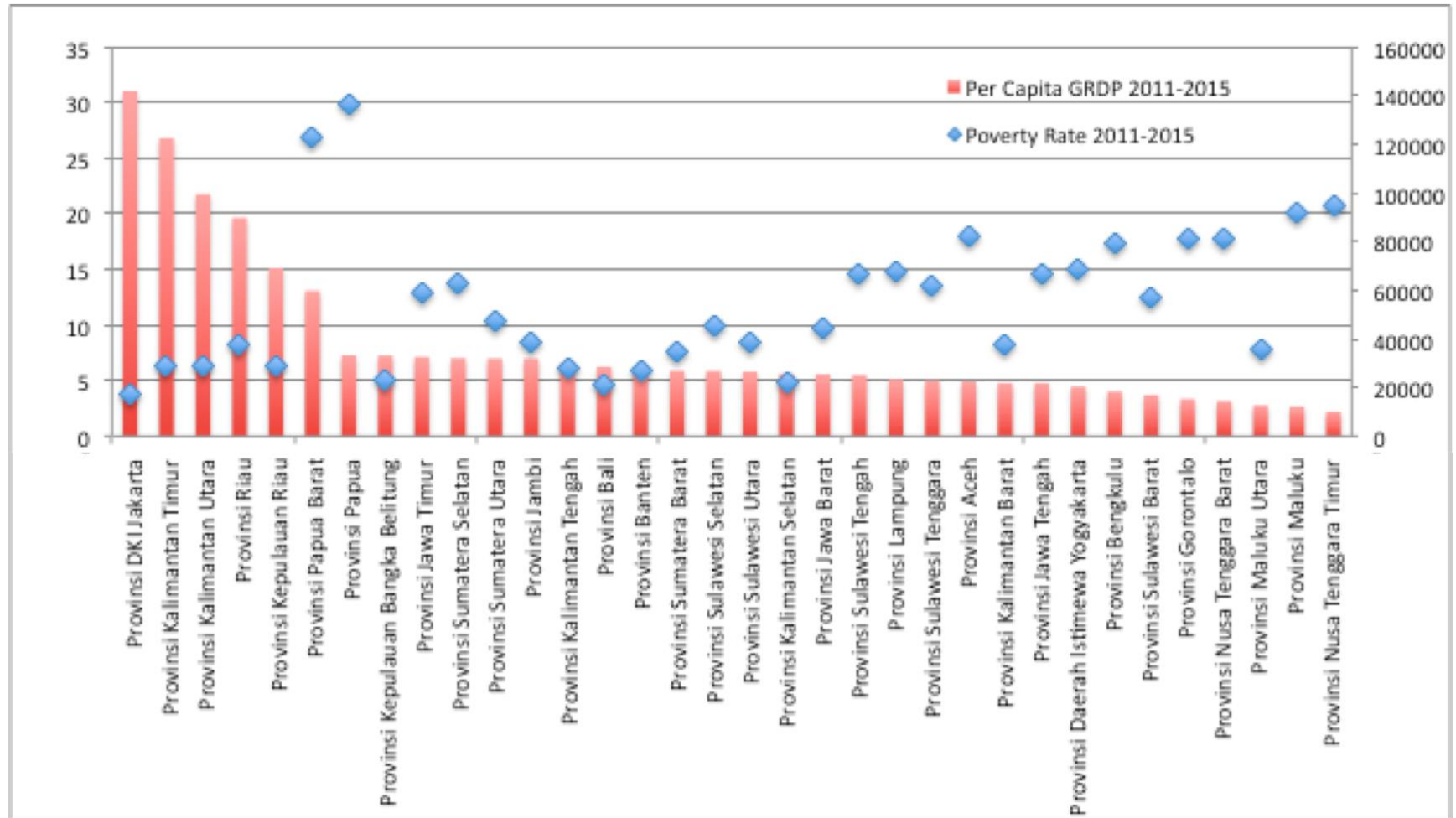
August 10, 2017

Riatu Qibthiyyah

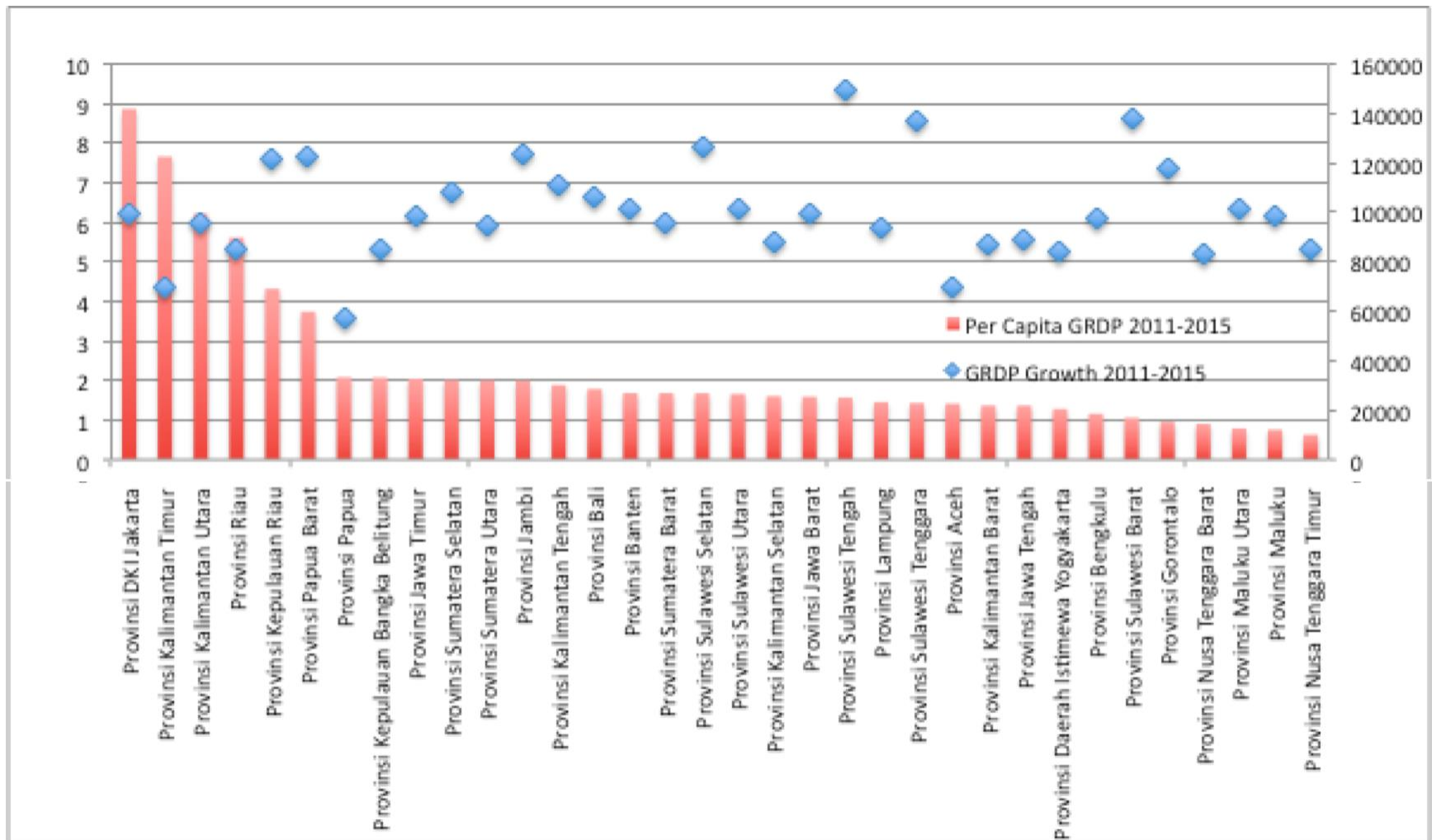
Outline

- Benefits of Economic Growth
- Distributive Policies: Past and Presents
- The Presence of Multi-Level Financing
- Recap and Lessons-Learned

High poverty rate in (poor) provinces

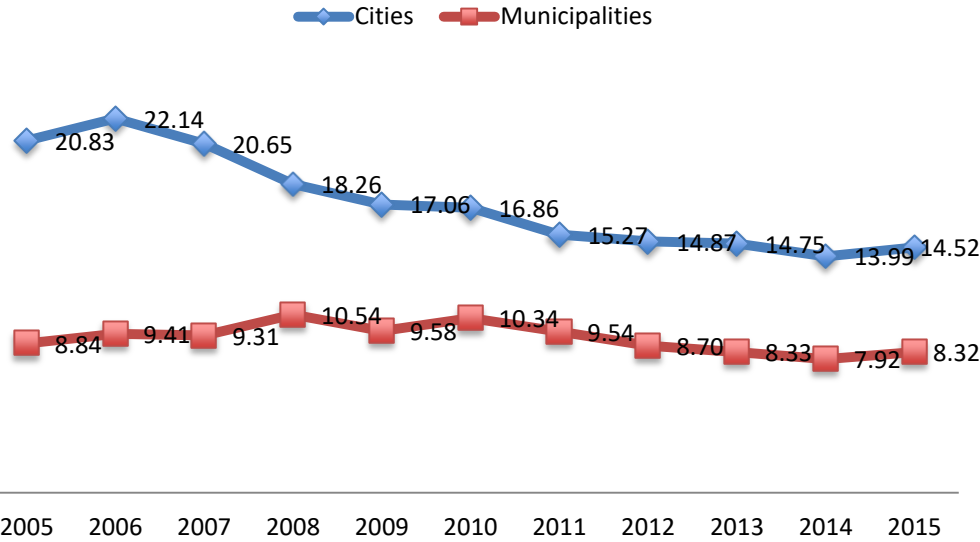


Some of (poor) provinces - provinces with low per capita GRDP – have high economic growth rate

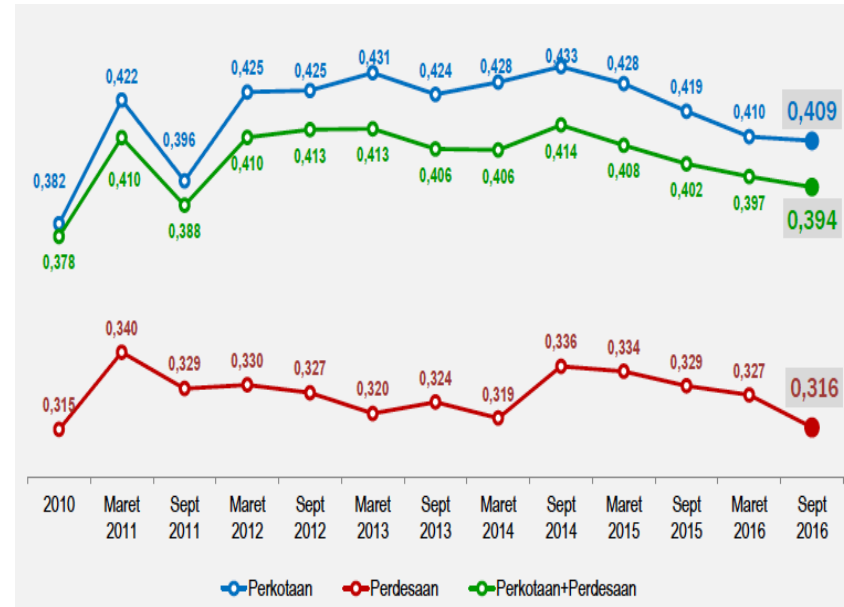
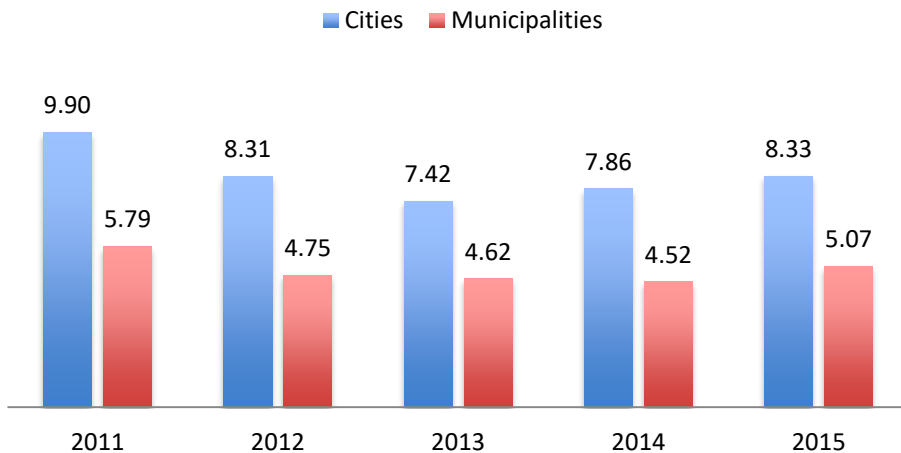


A decline of (average) poverty rate in cities. Income inequality maybe more of an issue in urban area

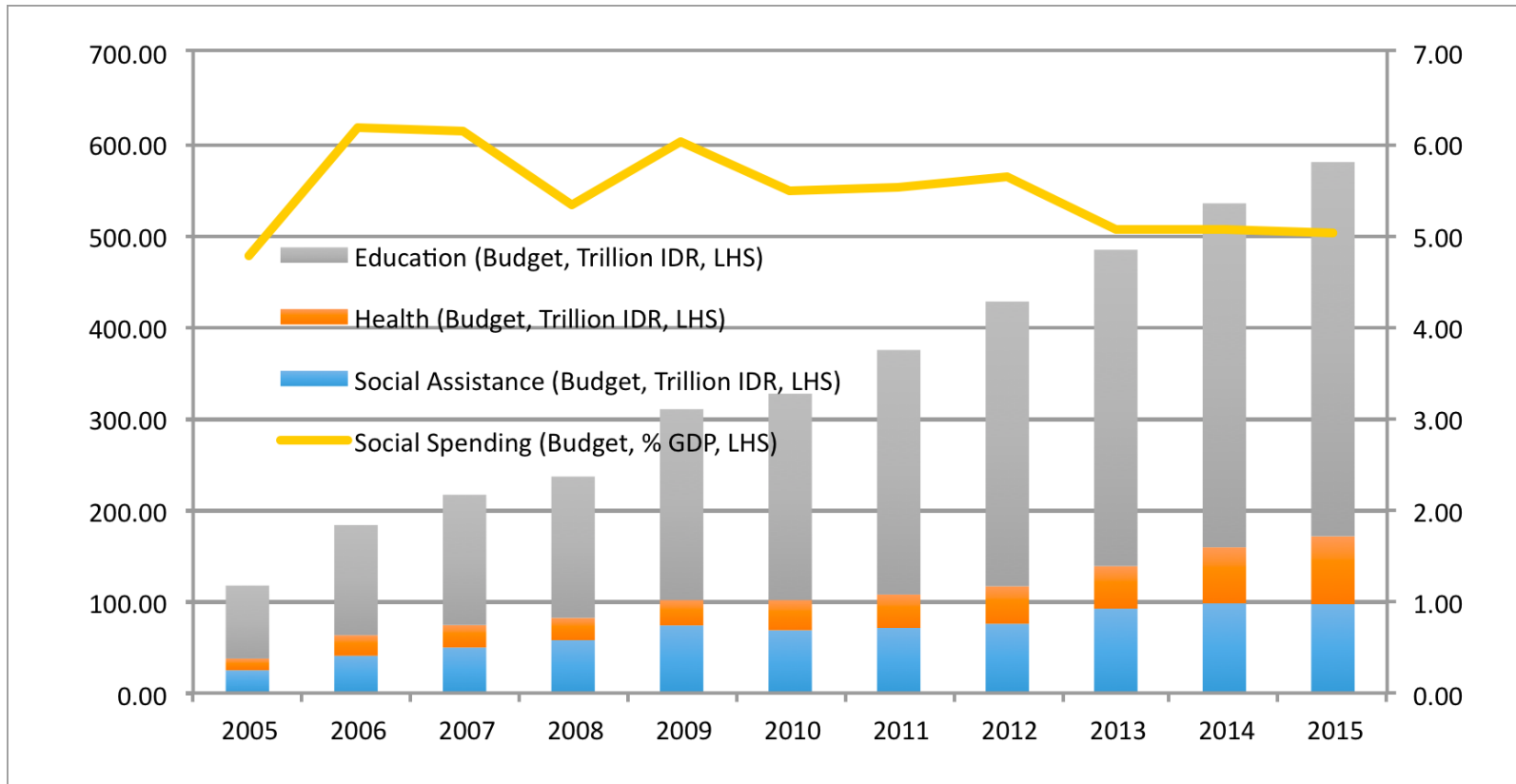
(Average) Poverty Rate



(Average) Unemployment Rate



Distributive Policies: Past and Present

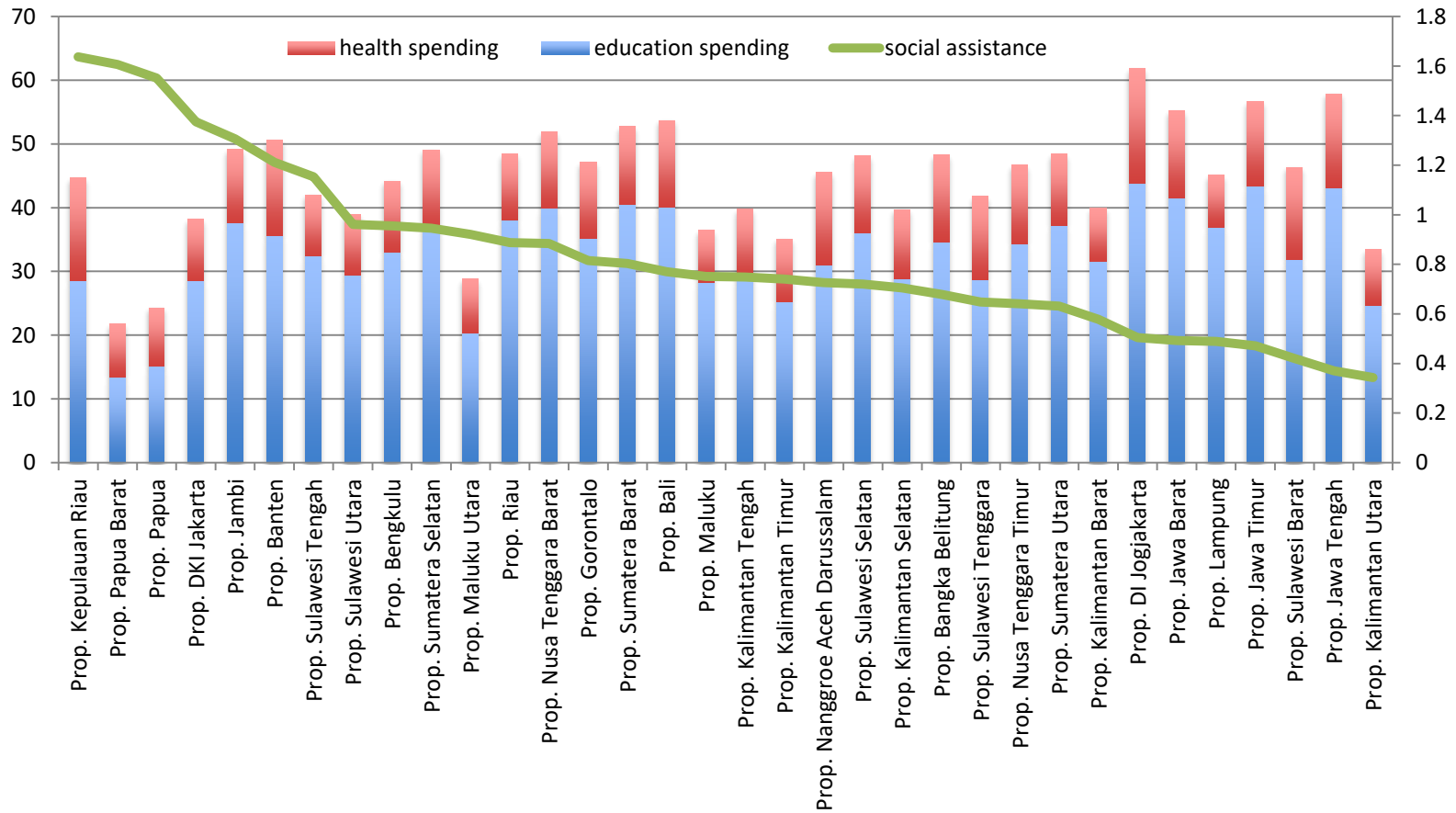


Note: Spending refers to central government budget spending and intergovernmental transfers (allocated to regions) in that respective sector.

Source: Ministry of Finance, CEIC

Figure 1. Indonesian Social Spending (in IDR Trillion and as % of GDP): 2005-2015

Local Governments Social Spending (as share of total expenditures) 2015



Universal Social Insurance Policy – National Health Insurance and Pension System, managed by central government (2014, 2015)



Sub-nationals. Intergovernmental Transfers, moving to conditionality and village transfers (2001, 2005, 2014)

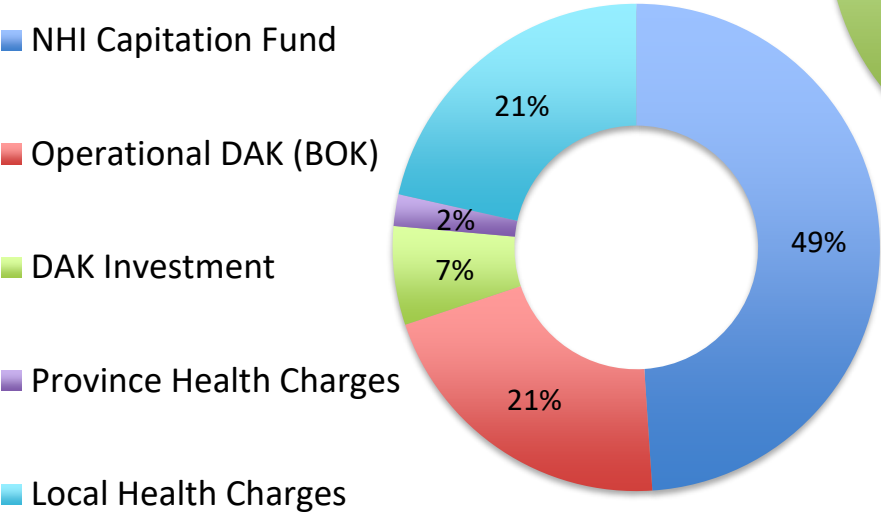


Poor Household – Family. Conditional cash transfer – social assistance program (2005, 2008, 2011)

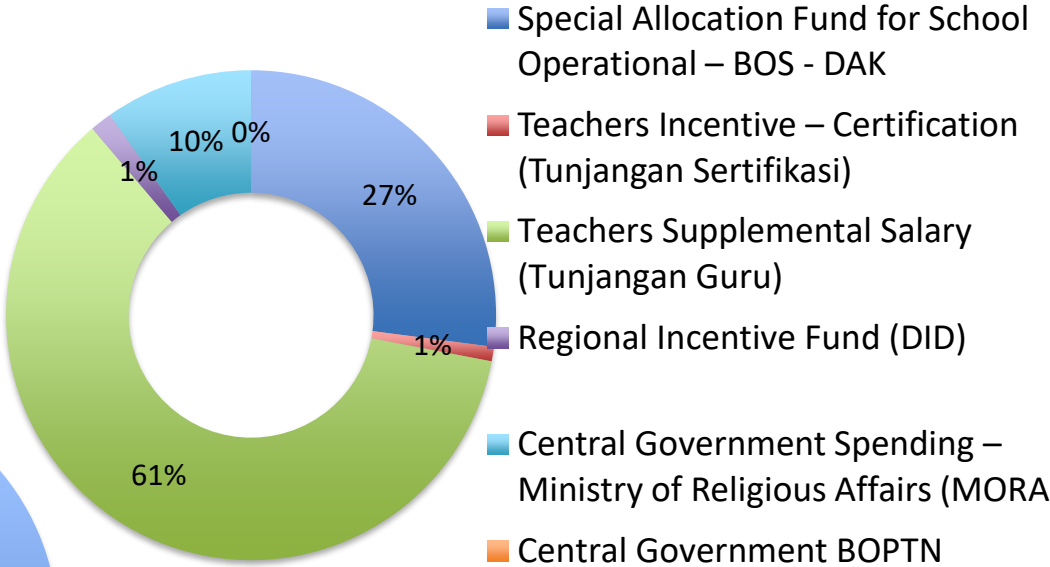


Multilevel Financing: Challenges and Opportunities

Government Support for Health Facilities

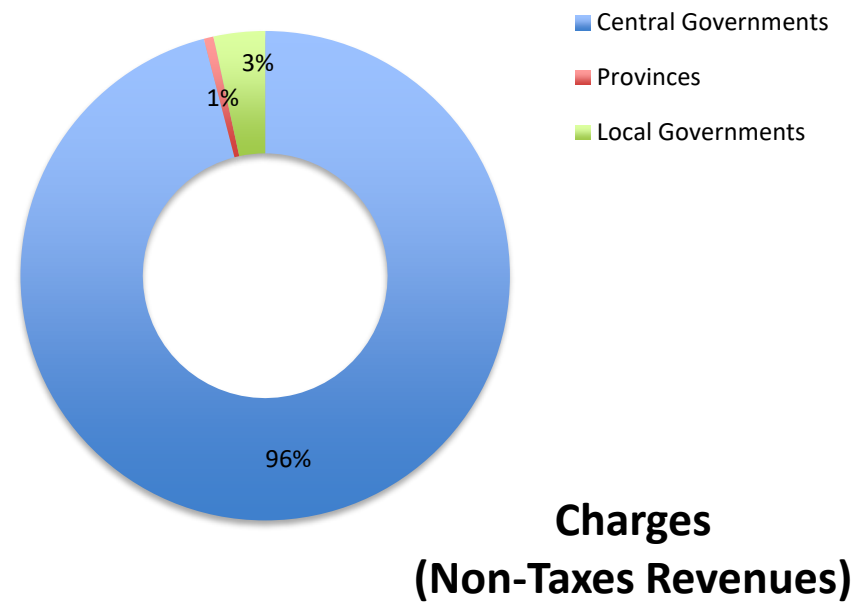
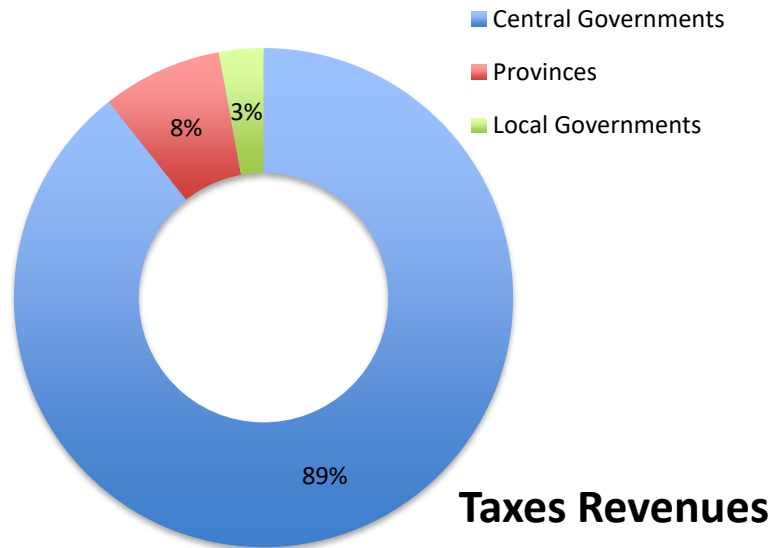


Central Government Support on School



Source: Government of Indonesia Budget – Revision (APBN-P) 2015;
Local Government Financial Report, Audit Board of the Republic of Indonesia

Multilevel Financing: Challenges and Opportunities



*Source: Government of Indonesia Realized Budget 2015;
Local Government Financial Report, Audit Board of the Republic of Indonesia (2015)*

Local Taxes and Charges

Table A.2 Components of Own Source Revenues

Components of Own-Source Revenues	Year	Provinces	Local Governments
Provinces or Local Taxes	2001	85%	43%
User Charges	2001	5%	33%
Profit of Government-Owned Companies	2001	1%	2%
Other Revenues	2001	8%	21%
Provinces or Local Taxes	2015	85%	46%
User Charges	2015	1%	10%
Profit of Government-Owned Companies	2015	2%	4%
Other Revenues	2015	12%	40%

Source: Local Government Financial Report, DGFB

Type of Province Tax	Provincial Share	Local Government Share
Annual Vehicle Tax (PKB)	70%	30%
Gasoline Tax (BBKB)	30%	70%
Cigarette Tax	30%	70%
Tax on Water (Surface) Consumption	50%	50%

Source: Law 28 2009

Province Tax	Local Government Tax	User Charges (Province and Local Government)
<ol style="list-style-type: none"> 1. Annual Vehicle Tax 2. Vehicle Transfer Tax 3. Gasoline Tax 4. Tax on Water (surface) 5. Cigarette Tax 	<ol style="list-style-type: none"> 1. Hotel Tax 2. Tax on Restaurant 3. Tax on Entertainment 4. Tax on Electricity Consumption 5. Tax on Mineral (Mining) 6. Parking Tax 7. Tax on (below surface) Water Use 8. Tax on Bird Nest 9. Property Tax on Urban and Rural 10. Property Transfer Tax 	<p>Charges for General Service Delivery (15 types)</p> <p>Charges for Use of Province or Local Government Asset or Services (12 types)</p> <p>Charges for License Issuance (6 types)</p>

Source: Law 28 2009

Recap: Inclusive Economic Growth in Decentralized Context

- Distributive policies, to an extent, can also include role of the province and local governments.
- There could be adverse impact due to scheme of central government transfers. It may lead to ineffectiveness of the program.
- Limited autonomy may lead to lack of fiscal correspondence at local level on public service delivery.

Recap: Inclusive Economic Growth in Decentralized Context

- Multi-level financing should be enhanced as central government intervention has some limitation.
- Improving local taxes and charges policies, will also support central government taxes policy.
- Central government transfers need to avoid direct support on input (i.e. salaries), as in the case of most education related transfers. It should instead link to beneficiaries (i.e. capitation).

References

- Qibthiyyah, R., S. Djamaludin, 2014. *Provinces and Local Governments Revenue Structure and Intra-Province Economic Disparity in Indonesia*. Presented in IRSA conference.
- Qibthiyyah, R., T. Dartanto, 2017. *Multilevel Financing of Social Spending: Present and Future Challenges*, presented in IEA conference.

Note

(engaging on) policy issues – a decentralized approach

- Decentralized approach – could be more relevant to local context and to an extent may lead to better quality of policy issuance.
- Incorporate stakeholders at the region – as policy issues may likely to be different across regions

(re-learning) policy issues

- Lessons learned from previous policies, -- avoid repeating what have not worked.
- Policies has also evolved, problems are not unique to Indonesia, lessons learned from other countries.