Recent Efforts to achieve Better Public Investment Management and Resource Mobilisation: Indonesia’s Experiences

MOHAMAD IKHSAN,

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Indonesia’s Growth Performance after AFC 1998 a bit Disappointed

Indonesia: Growth Episodes, 1960-2017 (% p.a)

Pre dev (1960-66)
Development Era: 1997-67
Economic Crisis 2000-98
Reformasi Era: 2017-00

1960s:
- Politic led Economy Nationalization

Oil led Development: 1973-83

Deregulasi Ekonomi: 1973-83
GDP: 6.34 % p.a

Krisis Ekonomi 1997/98
Government Budget allocation not fully support growth, poverty reduction and Inequality

Source: IMF (2015a); and IMF staff estimates.
One of the reasons Could be OUR fiscal performances
## Description of Benefit received by HH (per annual)*

<table>
<thead>
<tr>
<th>Description</th>
<th>LPG Price Subsidy</th>
<th>Electricity Subsidy</th>
<th>Diesel Price Subsidy</th>
<th>Rastra</th>
<th>PKH</th>
<th>PIP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Benefit received by HH (per annual)*</td>
<td>Rp17,7T</td>
<td>Rp66,0T</td>
<td>Rp2,1T</td>
<td>Rp7,6T</td>
<td>Rp2,6T</td>
<td>Rp7,3T</td>
</tr>
<tr>
<td>Poverty Changes (% point)</td>
<td>-0,53</td>
<td>-2,59</td>
<td>-0,01</td>
<td>-0,07</td>
<td>-0,39</td>
<td>-0,58</td>
</tr>
<tr>
<td>Change in Gini Ratio (point)</td>
<td>-0,26</td>
<td>-0,63</td>
<td>0,01</td>
<td>-0,17</td>
<td>-0,11</td>
<td>-0,21</td>
</tr>
<tr>
<td>Poverty reduction effectiveness (%/ tr Rp)</td>
<td>0,030</td>
<td>0,039</td>
<td>0,005</td>
<td>0,009</td>
<td>0,150</td>
<td><strong>0,079</strong></td>
</tr>
<tr>
<td>Efektivitas Penurunan Gini (poin / tr Rp)</td>
<td>0,015</td>
<td>0,010</td>
<td>-0,006</td>
<td>0,022</td>
<td>0,041</td>
<td><strong>0,028</strong></td>
</tr>
</tbody>
</table>

* menggunakan data SUSenas 2014
Government Spending is below the International standard

PPP Per Capita GDP (2011)
Government Revenues are also below the Normal Pattern as well

\[ y = 0.0005x + 21.803 \]

\[ R^2 = 0.4799 \]
Higher infrastructure: increase CG spend & DAK physical

- Increase CG and LG spending on infrastructures both for capital spending and O&M
- Improve the composition of infrastructures -
  - spend more on electricity, water and sanitation, housing, transport and irrigation
- Encourage PPP

Composition of infrastructure investment by entity and sector (%), 2012
Efforts To achieve Higher and Better PUBLIC INVESTMENT

1. Creating Fiscal Space through
   ◦ Revenues Mobilization Reform
   ◦ Reallocation of Spending

2. Spending Efficiency Reform

3. Quasi-Budget Financing and PPP
A large potential gap on both tax and non tax revenues

Given recent tax competition across countries, most of additional revenues should come from the tax administration reform rather than policy changes

Tax administration reform would take some time to yield the outcomes
Large TAX REVENUE POTENTIAL GAP

- IMF (2013)\(^1\) estimated Indonesia’s tax effort between 0.42-0.47 in 2011
- IMF (2013)\(^2\) also estimated Indonesia’s total revenue gaps of 5.0% of GDP
- IMF (2011, 2014)\(^3\) and Sugana-Hidayat (2013)\(^4\) estimated VAT gaps between 47-60% of the current revenue

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\(^2\) *Taxing Times*, Fiscal Monitor, World Economic and Financial Surveys, IMF, October 2013
Increasing Tax Revenue Over The Years
Future policies will be directed at expanding the tax base and increasing compliance

**Tax Revenue (in IDR trillion)**

Tax revenue increased by 20.4% in 2018 compared to 2017

<table>
<thead>
<tr>
<th>Year</th>
<th>Revenue (Trillion)</th>
<th>Ratio to GDP (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>1.146.9</td>
<td>13.1%</td>
</tr>
<tr>
<td>2015</td>
<td>1.240.4</td>
<td>11.6%</td>
</tr>
<tr>
<td>2016</td>
<td>1.285.0</td>
<td>10.9%</td>
</tr>
<tr>
<td>2017</td>
<td>1.343.6</td>
<td>10.7%</td>
</tr>
<tr>
<td>2018</td>
<td>1.618.1</td>
<td>11.6%</td>
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**In Trillion Rupiah**

- **2018 Allocation:** 1,618.1
- **2017 Realization:** 1,343.6

**Tax Improvement Efforts**

- **Automatic Exchange of Information (AEOI)**
  - Expanding tax base
  - Prevent tax evasion (Base Erosion Profit Shifting)

- **Data and Information System of Tax**
  - Up to date and integrated (e-filing, e-form and e-faktur)

- **Tax Compliance**
  - Sustainable compliance through e-service, mobile tax unit, Small/Micro Tax Office, and outbound call

- **Tax Incentive**
  - Tax holiday and tax allowance
  - Review on tax exemption

- **Human Resource and Regulation**
  - Improving services and organization effectiveness

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*Tax ratio derived from tax revenue + revenue from natural resources/GDP
Source: Ministry of Finance*
Non-Tax Revenue
Efficiency and Effectiveness on Natural Resources Management and Public Service Improvement

Non-Tax Revenue (in IDR trillion)

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Revenue (in IDR trillion)</th>
<th>Ratio of non-tax revenue to Total Revenue</th>
</tr>
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<tbody>
<tr>
<td>2014</td>
<td>398.6</td>
<td>25.7%</td>
</tr>
<tr>
<td>2015</td>
<td>262.0</td>
<td>17.0%</td>
</tr>
<tr>
<td>2016</td>
<td>16.8%</td>
<td></td>
</tr>
<tr>
<td>2017</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2018</td>
<td>275.4</td>
<td>14.5%</td>
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Yearly Growth

Improving Regulation
- Revise Non-Tax Revenue Law and Government Regulation on Non-Tax types and tariff.

Improving Monitoring on Management
- Deposit revenue as its record
- Collection of Accounts Receivable
- Follow up the audit results

Non-Tax Revenue Optimization
- Improve efficiency and effectivity of natural resource administration
- Improve SOEs performance
- Improve efficiency of Non-Tax Revenue operation
- Revise contracts → cost recovery efficiency
- Discover new potentials

Improving Public Services
- Transparency and easing
- IT Utilization
- Improvement on non-tax revenue administration

Source: Ministry of Finance
Efforts to create fiscal Space for public investment through reallocation of spending

Source: World Bank LDFIS database using MoF data
Quasi Budget Financing and PPP

- Quasi Budget Financing through SOE capitalization and asset revaluation
  - Seems to work for toll road projects
  - But create potential problem over crowding out of private sector
  - And fiscal risks:
    - Recapitalization will raise SOE’s borrowing capacity and if not well planned might potentially create additional fiscal risks.
## Efforts through PPP

<table>
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<tr>
<th>Fiscal Reforms</th>
<th>Institutional Reforms</th>
<th>Regulatory Reforms</th>
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<tbody>
<tr>
<td><strong>Viability Gap Funding (VGF)</strong></td>
<td><strong>KPP IP</strong></td>
<td><strong>Direct Lending</strong></td>
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<tr>
<td>Increase project financial feasibility by contributing up to 49% of the construction cost (MoF Reg. No. 223/2012)</td>
<td>KPP IP is actively involved in accelerating delivery of priority infrastructure projects</td>
<td>Allow guarantee for direct lending to SOE to accelerate financial close process for infrastructure projects (Presidential Reg. No. 82/2015)</td>
</tr>
<tr>
<td><strong>Availability Payment</strong></td>
<td><strong>PT. Sarana Multi Infrastruktur</strong></td>
<td><strong>Land Acquisition</strong></td>
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<tr>
<td>Issuance of regulatory framework to allow annuity payment by the Government during concession period to concessionaire since project operation based on infrastructure service availability (MoF Reg. No. 190/2015 for Central Gov’t and MoHA Reg. No. 96/2016 for Regional Gov’t.)</td>
<td>Merging between PT. SMI and Gov’t Investment Center (PIP) to become an infrastructure funding company</td>
<td>Stipulate land acquisition acceleration based on Law No. 2/2012 (Presidential Reg. No. 148/2015) and land acquisition fee payment for impacted community (Presidential Reg. No.56/2017)</td>
</tr>
<tr>
<td><strong>Land Revolving Fund</strong></td>
<td><strong>Indonesia Infras. Guarantee Fund (IGF)</strong></td>
<td><strong>Economy Packages</strong></td>
</tr>
<tr>
<td>A revolving-fund sourced from State Budget, to accelerate land acquisition (MoF Reg. No. 220/2010)</td>
<td>IIGF has the potential to provide project guarantee for non-PPP projects</td>
<td>Conduct deregulation for issues hindering infrastructure delivery and develop a task force under CMEA to ensure the effectiveness of economic packages implementation</td>
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<tr>
<td><strong>Risk-sharing Guidelines</strong></td>
<td><strong>PPP Unit</strong></td>
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<tr>
<td>IIGF has issued risk allocation and mitigation guidelines for PPP project</td>
<td>Provide facilities to help GCA on preparing PPP project (PDF/TA)</td>
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<td><strong>Tax Incentives (Tax Holiday)</strong></td>
<td><strong>BLU LMAN</strong></td>
<td></td>
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<td>MoF Reg. No.35/2018 allowed 100% Tax Holiday for 17 Pioneering Industries for 5 – 20 years depending on the investment value</td>
<td>The State Asset Management Agency (BLU LMAN) is mandated to provide land fund for National Strategic Projects to ensure timely land acquisition process</td>
<td></td>
</tr>
<tr>
<td><strong>Indonesia Infrastructure Guarantee Fund (IGF)</strong></td>
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<td>IIGF has the potential to provide project guarantee for non-PPP projects</td>
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Source: Committee for Acceleration of Priority Infrastructure Delivery (KPP IP)
Reforms Along the Project’s Life Cycle
...to encourage and accelerate infrastructure project using PPP scheme

Government of Indonesia

**Preparation**
- Project Development Facility (PDF)
- Viability Funding Gap (VGF)
- Guarantee Fund
- Tax Facilities
- Availability Payment
- Land Acquisition

**Bidding Process**
- A facility with contribution to construction cost to increase project financial viability
  - Managing Entity: Ministry of Finance based on GCA prepare project proposal
  - Govt.’s commitment: 49% max. Per project cost
- Guaranteeing Govt. contractual obligations under infrastructure concession agreements and MoF Regulation No 159/PMK. 08/2016 re: Govt guarantee for electricity project acceleration
  - Managing entity: IIGF and MoF
  - Govt.’s commitment: US$ 450 mn
- A scheme in which concessionaires receive sum of money periodically from central or regional government after the completion of an asset.
  - MoF Regulation, and MoHA Regulation on Availability Payment has been ratified.
  - Managing entity: Ministry of Finance & Ministry of Home Affairs
- A facility to support land acquisition for infrastructure projects particularly projects that involve private sector
  - Managing entity: Ministry of Finance, Ministry of Agrarian and Land
  - Govt.’s commitment: US$ 12 mn (2016)

**Construction**
- MoF Reg. No. 159/PMK. 010/2015 re: tax holiday for pioneer sector, such as base metal, oil refinery, basic petrochemical, machinery, renewable energy, & telco equipment industries. Sector will be further expanded
  - Managing entity: Ministry of Finance

Source: Committee for Acceleration of Priority Infrastructure Delivery (KPPiP)
The results ..

GDP growth has been slowly recovering led by a strong growth in gross investment
1. Political Cycles and Reform
   - There are some setbacks over reallocation efforts particularly on subsidy reform
     - Suspension automatic tariff adjustment in electricity, suspension of fuel price formulae; Capping over coal price domestic obligation
     - Suspension of Direct Electricity Subsidy scheme for low income households
   - Reintroduction of populist policies: food, renegotiation of toll contract etc.

2. Fragmented Decision Making
   - No dominant party for the next 10 years – many compromised policy agendas have to be taken.
   - Many vested interest at all levels and branches

3. Weak implementation capacity almost at all levels
   - The ineffective implementation following the increase on capital spending in 2015
Suggestions for Discussion

1. **How use effectively political cycle**: in reality, any reform(s) can only be implemented during the first three year max (of 5 year political cycle). Use effectively the remaining years for preparing the reforms. Window of opportunity is typically limited.

2. **Good [Program and Project] preparation** is always rewarded. Use the political off session to prepare any reform programs and projects

3. **Effective Political Communication** with the political leaders is equally important.
   - Should not push too hard to implement the reform during the political cycle otherwise we might end up with set-back on the current reform status.
Suggestion for discussion

4. Budget is only one element of good public investment management. The implementation capacity is equally important as well as institutional supporting elements like land acquisition program.

5. **Setting the right incentive for the implementing agencies.** Think about to use **Result Based Grant or Spending** as a contract mechanism between Central Government and local government and or Ministry of Finance and Line ministries.