

*Indonesia Public
Expenditure
Review*

2020



MINISTRY OF FINANCE
REPUBLIC OF INDONESIA

Canada



EUROPEAN UNION



Swiss Confederation



Australian Government



THE WORLD BANK
IBRD • IDA

Spending *for* Better Results



**Public expenditure is key to achieving Indonesia's
development goals**

*The World Bank worked with the Ministry of Finance on a
Public Expenditure Review for Indonesia.*

*The Review identifies constraints and makes recommendations
to improve the quality of spending to close gaps in human
capital and infrastructure*

The report addresses the following questions:

Sustainability & adequacy

Is the level of Indonesia's public spending sustainable and adequate to address Indonesia's development challenges, both on aggregate and within sectors?

1

Efficiency

Have public resources been used efficiently in delivering public services? What are key instruments for the Government of Indonesia to improve the quality of spending?

2

Effectiveness

Have public resources been used effectively to achieve Indonesia's development objectives?

3

Navigating the Report

PART 1

Overview & Institutional environment

- 1

Overview: *aggregate spending, sustainability, efficiency and effectiveness*
- 2

PFM: Improving expenditure management for better quality of spending
- 3

Reforming the intergovernmental fiscal transfer system for better services
- 4

Data for better policy making

HUMAN CAPITAL			INFRASTRUCTURE			
<div>5</div> <div>Health</div>	<div>6</div> <div>Education</div>	<div>7</div> <div>Social assistance</div>	<div>9</div> <div>National roads</div>	<div>10</div> <div>Housing</div>	<div>11</div> <div>Water resources</div>	<div>12</div> <div>Water supply & sanitation</div>
<div>8</div> <div>Nutrition</div>						

PART 2

Human Capital

PART 3

Infrastructure

1

Over the past two decades Indonesia's development trajectory has been remarkable with many notable achievements



1 Robust GDP Growth



5.3%

5.3% annually between 2000 and 2018...

2 GNI per Capita

6x

...leading gross national income (GNI) per capita to grow more than six fold...

2000

US\$580

2018

US\$3,840

3 Poverty Rates

...and poverty rates to decline fast

—1/2

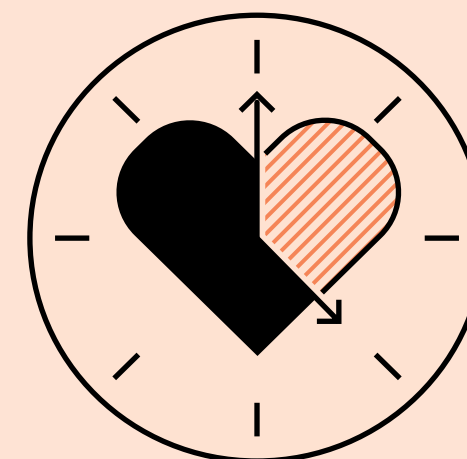
2000

19%

MARCH 2019

9.4%

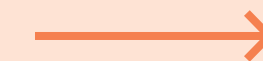
4 Improved human capital outcomes



...with increased life expectancy and reduced under-five mortality

LIFE EXPECTANCY

66
YRS



69
YRS

2000

2017

UNDER-FIVE MORTALITY

Per 1,000 live births

52

2000

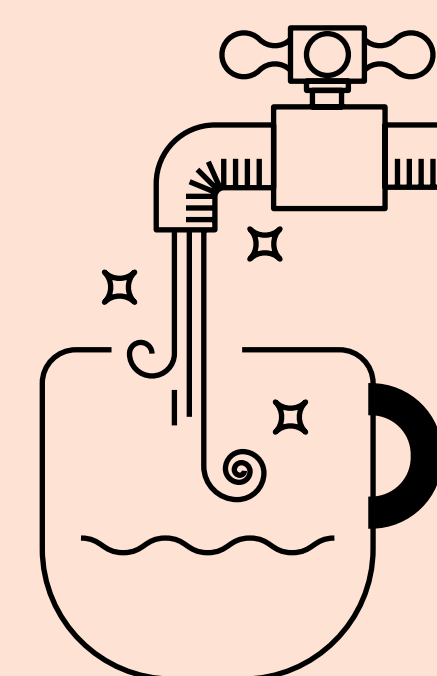


25

2017

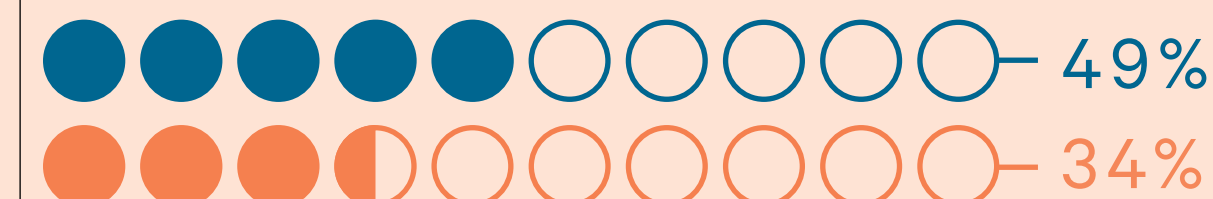
5 ...better access to infrastructure services

...with an increase in households' access to improved drinking water and sanitation services

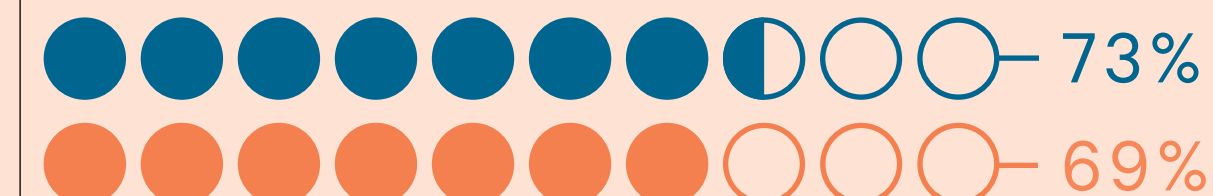


● Drinking water
● Sanitation Service

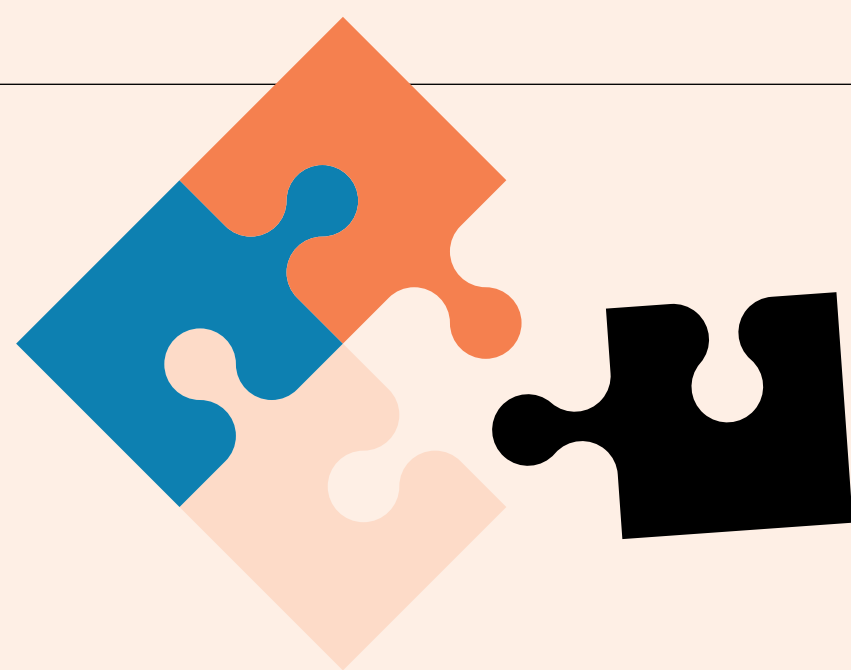
2000



2018

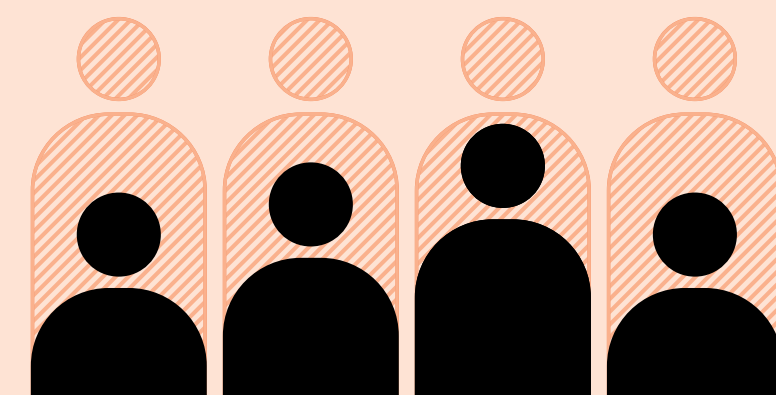


But many development challenges remain: Indonesia still faces large human capital and infrastructure gaps

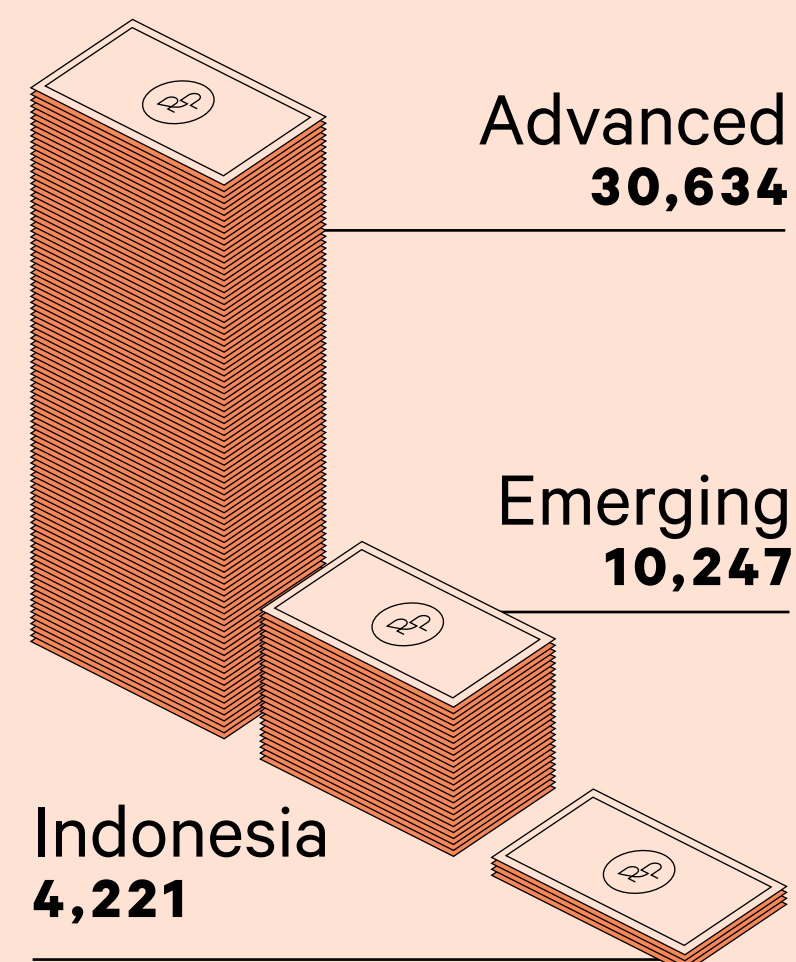


53%

A child born in Indonesia today will only be 53 percent as productive when she grows up as she could be if she enjoyed complete education and full health



3 Infrastructure Gaps



Indonesia's per capita public capital stock is only a third of other emerging economies, implying an estimated gap in infrastructure assets of around US\$1.6 trillion, affecting long-term growth

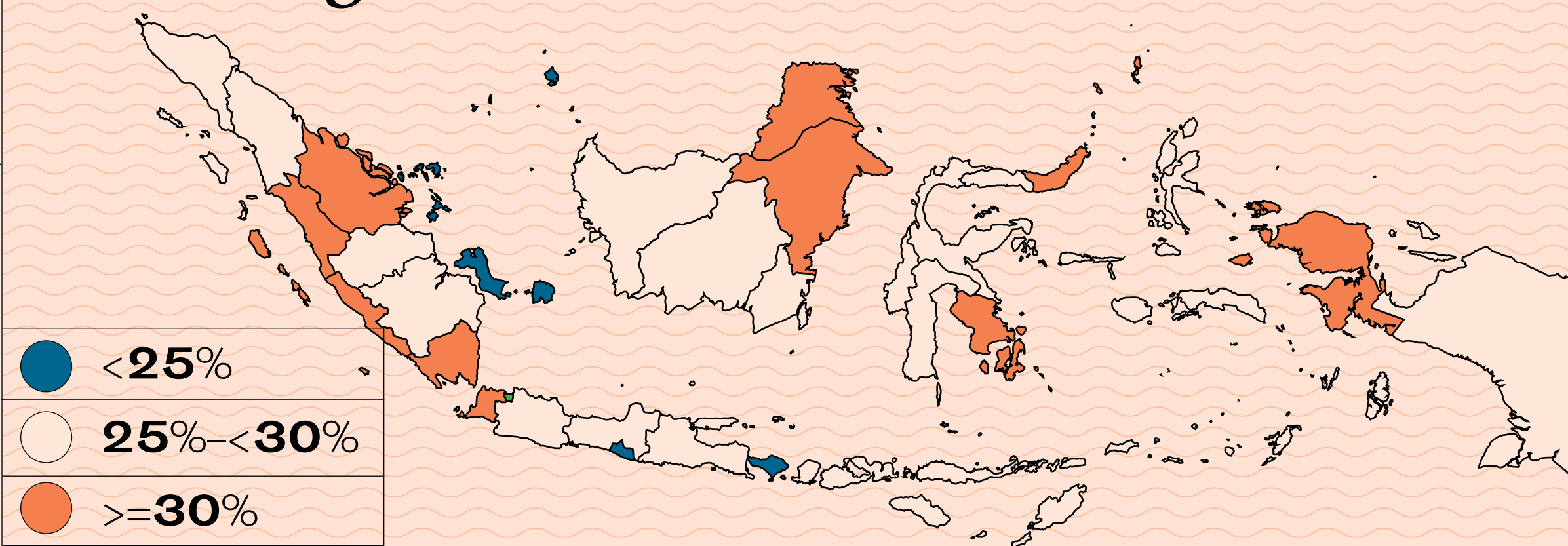
US\$ 1.6 trillion Gap

4 COVID-19 Impact

*The ongoing COVID-19
Pandemic in 2020
puts these gains in
development outcomes at
risk.*

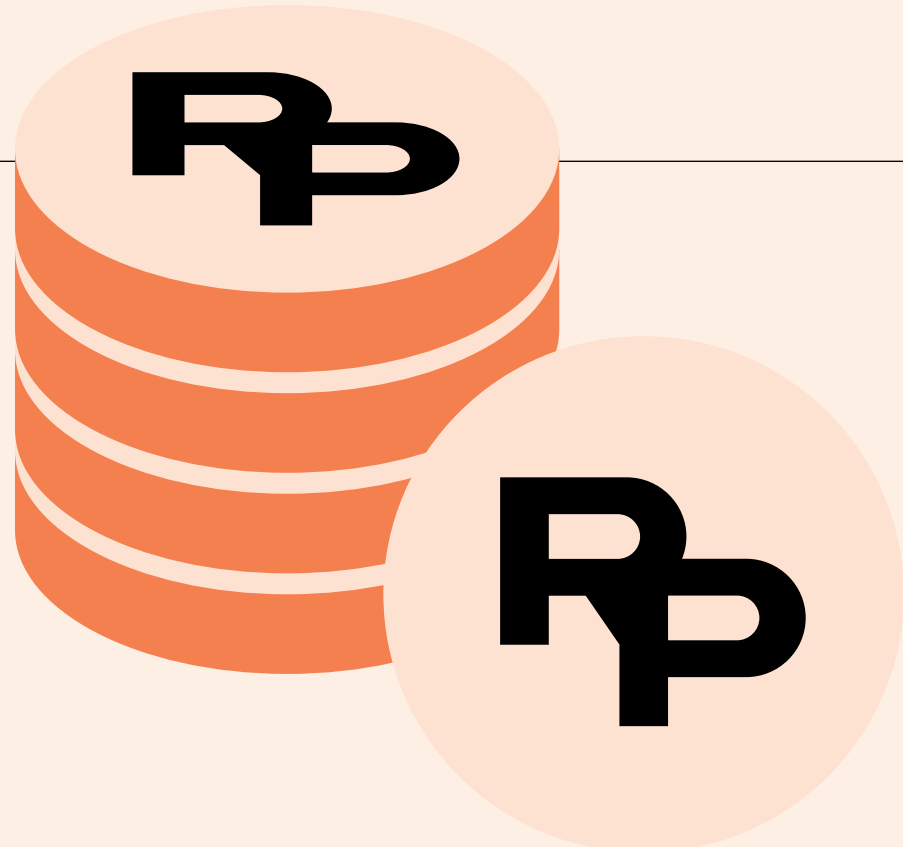
- | | |
|---|--|
| 1 | GDP growth in 2020 is projected to be the lowest since the 1997 financial crisis with adverse impact on income and employment |
| 2 | The government has put in place a large fiscal response package to contain the pandemic, support households and livelihoods, and economic recovery |
| 3 | The resulting decline in fiscal revenue and higher debt and interest payments will reduce fiscal space for priority spending on health, social assistance and infrastructure |

2 Stunting Prevalence



3

The review identifies the following constraints to improve the quality of spending to close gaps in human capital and infrastructure:



1 Limited fiscal space for development spending due to low revenue collections, especially from tax, and spending on poorly targeted subsidies and less effective programs

2 Systemic constraints across sectors that impede the efforts to improve the quality of spending

Lack consistency between planning and budgeting and performance orientation of the budget

Coordination challenges across agencies and between levels of government

Fiscal transfers to SNGs do not incentivize performance

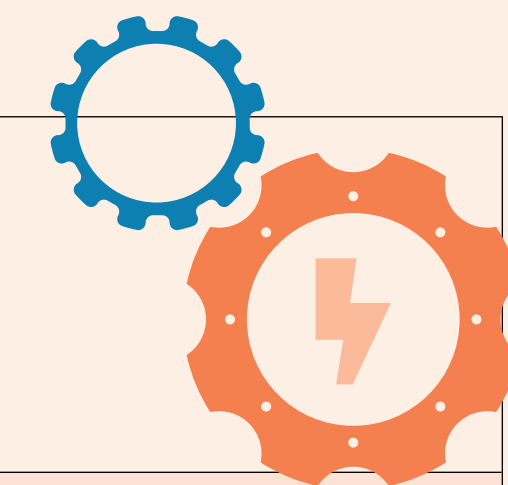
Inadequate data and information systems

Constraints to private sector participation

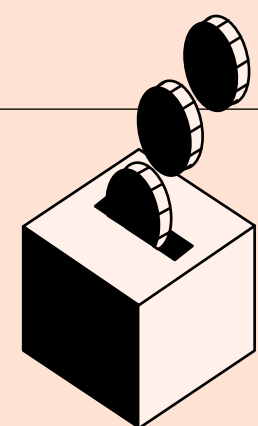
3 Sector specific constraints in the design and implementation of major sectoral programs

4

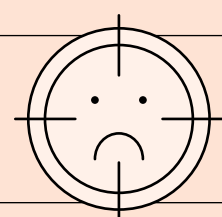
To improve the effectiveness and efficiency of spending, the report makes the following recommendations:



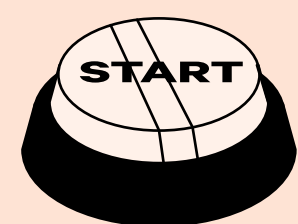
1 Maintain and widen fiscal space for development spending, through



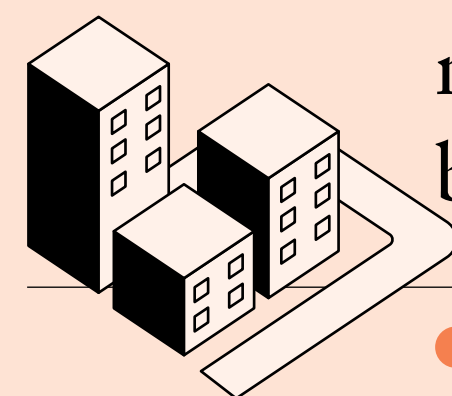
- Collect more revenue to spend more on health, education, social assistance and infrastructure



- Target spending only for the poor

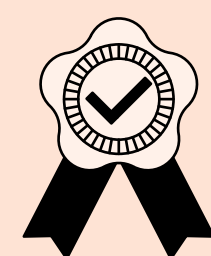


- Spend more on early and preventive health and education programs – it is better and cheaper than doing it later



- Spend more on infrastructure maintenance today – so there will be less costly rebuilding tomorrow
- Give fast-growing cities more money - to make more of them more livable and less congested

2 Address cross-cutting or systemic constraints to quality of spending.



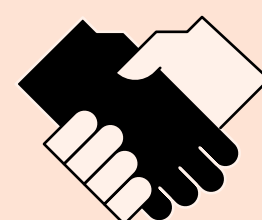
- Ensure the budget helps achieve national development priorities better and focuses on quality, not only quantity



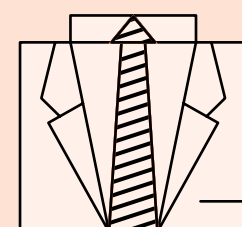
- Collect better data on results and delivery of development priorities to improve budget performance



- Focus fiscal transfers to local governments on outputs and performance



- Central and local governments work better together to deliver infrastructure and health services



- Attract more private sector finance to close the infrastructure gap because the budget is not big enough

3 Address sector specific constraints to efficient and effective spending by improving design and implementation of major sectoral programs



The Indonesia Public Expenditure Review is available for download in English and Bahasa Indonesia at www.worldbank.org/idper