Jokowi's Fiscal Legacy

Notes for Future Government

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Address : Tokopedia Tower 22th Fl. Jl. Prof. Dr Satrio Karet Semanggi,
Setiabudi, Jakarta Selatan. Indonesia 12950
Email Address : admin@celios.co.id
Website : www.celios.co.id
Social Media : @celios.id (Instagram)

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“We all have a stake in ensuring that governments implement fiscal justice policy: a tax system that is progressive applies higher tax rates to higher levels of income and generates sufficient public revenue. This revenue is fairly redistributed and focused on addressing extreme inequality and reducing poverty”.

Executive Summary

Global financial risks continue to increase significantly, triggered by several factors, ranging from the COVID-19 pandemic, war, and regional political destabilisation which have resulted in the disruption of global supply chains. As a result, economic growth was disrupted due to high inflation, including in Indonesia. Additionally, the government must respond to the heightened risk of climate change through various economic and energy transition policies that require massive investment and cost. In essence, the Indonesian's government fiscal policy must face difficult challenges.

In the midst of global economic uncertainty, one of the dimensions of the national economy that must be carried out by the government is ensuring the establishment of a sustainable development. In other words, the choice of economic policy must be beneficial for future generations and not burdensome. Economic policies must adhere to the principle of fiscal justice. This means that the upper class who have access to more resources must pay more to the country. On the other hand, lower class citizens must be provided with proper social protection to help them develop and play an active role in the economy.

Entering the year 2023, various programs and fiscal policy options have been taken by the President of the Republic of Indonesia, Joko Widodo, during his two administrative periods. Similar to other policies, there have been successful fiscal policies which have a positive impact on the wider community. At the same time, there are policies which are ineffective, controversial, and potentially burdening for state finances in the future.

This study summarises the traces of these fiscal policies with the hope that the next policy makers would have erudition and continue to be objective and rational regarding the current fiscal conditions in Indonesia.

This study also formulates a number of policy recommendations that could create an economic development that is sustainable and just. Not everything can be adjusted in a short amount of time, nor do all policy decisions need to be made simultaneously. However, it must be ensured that the next government continues with the existing fiscal policy innovations. More importantly, to avoid repeating the same mistakes and repeatedly fill in the blanks left by the previous government.

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Introduction

The prediction of a global recession in 2023 is an early warning for a number of countries after the COVID-19 pandemic.

A global recession can be interpreted as a prolonged decline in economic growth in various countries[1]. In the last seven decades, the world has experienced at least four global recessions, namely in the years 1975, 1982, 1991 and 2009. Several researchers from the World Bank have conducted simulations of three possible scenarios of the severity of the global recession[2]. The **first** scenario presumes that global supply chain disruptions, as a result of the Russia-Ukraine war, have begun to subside. However, the average global interest rate would still increase to 3,8% in 2023. In this scenario, the global GDP growth is predicted to decrease from 2,9% in 2022 to 2,4% in 2023, and would recover to 3% in 2024.

The **second** scenario speculates that inflation expectations in developed countries, such as the U.S., Britain and the European Union, have increased significantly to the point that the central banks in these countries must respond by increasing their benchmark interest rates. This scenario predicts the slow global growth from 2,8% in 2022 to 1,7% in 2023 to a recovery of 2,7% in 2024.

The **third** scenario assumes that policy makers in advanced economic countries respond to the two previous scenarios with extreme policies that are simultaneously implemented, for instance by raising interest rates by 200 base points, then global growth is certain to decline sharply from 2,8% in 2022 to only 0,5% in 2023 and could only manage to recover to 2% in 2024.

Although the three scenarios mentioned are only predictive in nature, history has shown a similar pattern between current conditions and previous recessions [3]. **Firstly**, since 1970, every global recession was often preceded by a decline in global GDP, as such in 2020 where the GDP had reached -3,3%. **Secondly**, global recessions often coincide with sharp economic plunges in several major economies, as currently experienced by the U.S. and the weakening of GDP from 2,3% in 2019 to -3,4% in 2020.

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1 Kose, M. A., Sugawara, N. & Terrones, M. E. (2020). *Global Recessions*. World Bank Group. [URL]

2 Guenette, J. D., Kose, M. A., & Sugawara N. (2022). *Is a Global Recession Imminent?* World Bank Group. pp. 21 – 25. [URL]

3 Ibid.

The threat of a global recession is also its own challenge for Indonesia. Failure to anticipate global economic disruption will have a significant impact on vulnerable communities including those in rural areas, especially due to inflation and food scarcity.

One of the interventions that must be carried out by the government to reduce those impacts is through fiscal policies[4]. However, the foundation of Indonesia's fiscal policies today is still fragile and leave little room for innovation, especially when it comes to improving social protection for low-income people.

There are three major challenges for Indonesia's fiscal policies.

First of all, under Jokowi's government, foreign debt persists to increase by 44% from $293 million at the end of 2014 to $422 million in October 2021 or equivalent to IDR 6,582 trillion[5].

In nominal terms, the government can compare and claim that the amount of Indonesia's debt is insignificant when compared to the total debt of developed countries such as the United States which has reached more than IDR 48,188 quadrillion in 2022[6]. However, this comparison is certainly not equitable. After all, the critical point of the debt condition of developing countries such as Indonesia is that the increase in the amount of debt does not coincide with an increase in the quality of public services such as healthcare and education[7], and in reality it tends to widen the economic disparity between *the haves and the have nots*[8].

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4 Tcherneva, P. R. (2011) Fiscal Policy Effectiveness: Lessons from the Great Recession. *Levy Economics Institute Working Paper No. 649* [URL]; Auerbach, A., & Gorodnichenko, Y. (2001). Fiscal Multipliers in Recession and Expansion. *NBER Working Paper No. 17447* doi: 10.3386/w17447 [URL]

5 Bank Indonesia. (n.d.). Retrieved from www.bi.go.id: https://www.bi.go.id/id/statistik/ekonomi-keuangan/sulni/default.aspx [URL]

6 The Department of the Treasury and the Bureau of the Fiscal Service U.S. (n.d.). *fiscaldata.treasury.gov*. Retrieved from fiscaldata.treasury.gov/datasets: https://fiscaldata.treasury.gov/datasets/debt-to-the-penny/debt-to-the-penny [URL]

7 Ollivaud, P. (2017), "Improving the allocation and efficiency of public spending in Indonesia", *OECD Economics Department Working Papers*, No. 1381, OECD Publishing, Paris. [URL]

8 Lustig, N. (2016). Inequality and Fiscal Redistribution in Middle Income Countries: Brazil, Chile, Colombia, Indonesia, Mexico, Peru and South Africa. *Journal of Globalization and Development, 7(1)* [URL]

Second of all, the Jokowi administration prioritises the development of infrastructure megaprojects which have the potential to burden the state budget in the future.

For example, in the midst of the pandemic in 2020, infrastructure budget reached IDR 423,3 trillion[9]. This budget allocation is the highest since 2015 and continues to show a rising trend every year. However, several researchers revealed that a number of infrastructure developments under the Jokowi Administration tend to be ambitious and unrealistic with respect to the available resources and existing technology[10]. One of them being the Jakarta-Bandung High Speed Railway megaproject which have caused cost overruns, risk of government debt and occupational hazards and accidents during the construction process.

Thirdly, the social protection system in Indonesia has not been capable of boosting people's welfare, especially for middle to lower class groups (low-income individuals).

For instance, in the Family Hope Program, the research results have shown that the program's scheme cannot yet be fully utilised by beneficiaries at the lowest decile[11]. Other findings also reveal that the program has not been able to produce significant growth in gross enrollment rates in primary schools[12]. The weak redesign and reformation of the social protection system in Indonesia is still an obstacle which must be resolved immediately.

Aim and Focus of Analysis

Based on the challenges at the global and national levels above, this paper aims to evaluate the conditions and fiscal policies of President Jokowi's government for two periods, 2014 – now. This analysis aims to answer the two questions as follows:

01

What are the fiscal conditions of Indonesia under the leadership of President Joko Widodo for two presidential periods?

02

To what extent have the efforts been made to reform the fiscal sector in Indonesia and what are the implications for the future economy?

9 Kementerian Keuangan. (n.d.). *anggaran.kemenkeu.go.id/in/post*. Retrieved from anggaran.kemenkeu.go.id: https://anggaran.kemenkeu.go.id/in/post/anggaran-infrastruktur [URL]

10 Salim, W., & Negara, S. D. (2018). Infrastructure Development under the Jokowi Administration: Progress, Challenges and Policies. *Journal of Southeast Asian Economies*, *35*(3), 386–401. [URL]

11 Hadna, A. H., & Askar, M. W. (2022). The impact of conditional cash transfers on low-income individuals in Indonesia .*Advances in Southeast Asian Studies*, 15(1), 23-41. [URL]

12 Hadna, A. H., & Kartika, D. (2017). Evaluation of poverty alleviation policy: Can conditional cash transfers improve the academic performance of poor students in Indonesia? *Cogent Social Sciences, 3(1)*. [URL]

Indonesia's Tax Policy Under the Jokowi Administration

A. Indonesia's Tax Ratio

Since 2015 – 2022, tax revenue in Indonesia is still dominated by Income Tax and Value Added Tax (VAT). Based on its performance, the amount of income tax and VAT revenues in the 2020 – 2022 period is classified to be lower than the 2017 – 2019 period. Moreover, income tax has been the biggest contributor to tax revenue in Indonesia. In reality, this is alarming for Indonesia's economy in the long run.

This is because tax revenues of developed countries are generally dominated by VAT instead of income tax. This can be seen from the percentage of VAT in Hungary of 27%, Finland (24%), Netherlands (21%), and Turkey (18%) [13]. In European Union countries, the average VAT is 21% or 6% higher than the standard VAT under EU regulations [14]. Meanwhile, after the ratification of Law No. 7 of 2021, the percentage of VAT in Indonesia reached 11%. This improvement should be appreciated even though it is relatively slow compared to the other countries mentioned.

Fundamentally, an increase in VAT rates often have a positive correlation with the increase in tax revenue, so that the country would have the potential to have a better economic growth. [15]

The reality is illustrated in Table 1 below, where tax revenues in 2020 and 2021 are lower than in previous years. This decline is similar to that experienced by countries in the European Union due to the COVID-19 pandemic[16].

[13] PwC. (n.d.). Retrieved from taxsummaries.pwc.com: https://taxsummaries.pwc.com/quick-charts/value-added-tax-vat-rates [URL]

[14] Enache, C. (2022, Januari 25). Retrieved from taxfoundation.org: https://taxfoundation.org/publications/value-added-tax-rates-vat-by-country/ [URL]

[15] Keen, M., & Lockwood, B. (2010). The value added tax: Its causes and consequences. *Journal of Development Economics*, 92(2), 138–151. [URL]

[16] Ioana-Laura, T. (2022). The impact of the COVID-19 pandemic on tax revenues in the EU. *Economic Research-Ekonomska Istraživanja*, 35:1, 2442 – 2459 [URL]

Tabel 1. State Revenue Realisation through Taxation 2015 – 2022 (in trillion rupiah)

Source	2015	2016	2017	2018	2019	2020	2021	2022
Tax Revenue	**1.240,41**	**1.284,97**	**1.343,52**	**1.518,78**	**1.546,14**	**1.285,13**	**1.375,83**	**1.510**
Domestic Tax	1.205,47	1.249,49	1.304,31	.472,90	1.505,08	1.248,41	1.324,66	1.468,92
Income Tax	602,30	666,21	646,79	749,97	772,26	594,03	615,21	680,87
Value Added Tax and Sales Tax on Luxury Goods	423,71	412,21	480,72	537,26	531,57	450,32	501,78	554,38
Property Tax	29,25	19,44	16,77	19,44	21,14	20,95	14,83	18,35
Acquisition Cost of Land and Building Rights	0,0003	0,0005	0,0012	0,00	0,00	0,00	0,00	0,00
Custom Tax	144,64	143,52	153,28	159,58	172,42	176,30	182,20	203,92
Other Tax	5,56	8,10	6,73	6,62	7,67	6,79	10,64	11,38
International Trade Tax	34,93	35,47	39,21	45,88	41,05	36,72	51,17	41,08
Import Tax	31,21	32,47	35,06	39,11	37,52	32,44	33,17	35,16
Export Tax	3,72	2,99	4,14	6,76	3,52	4,27	18	5,91

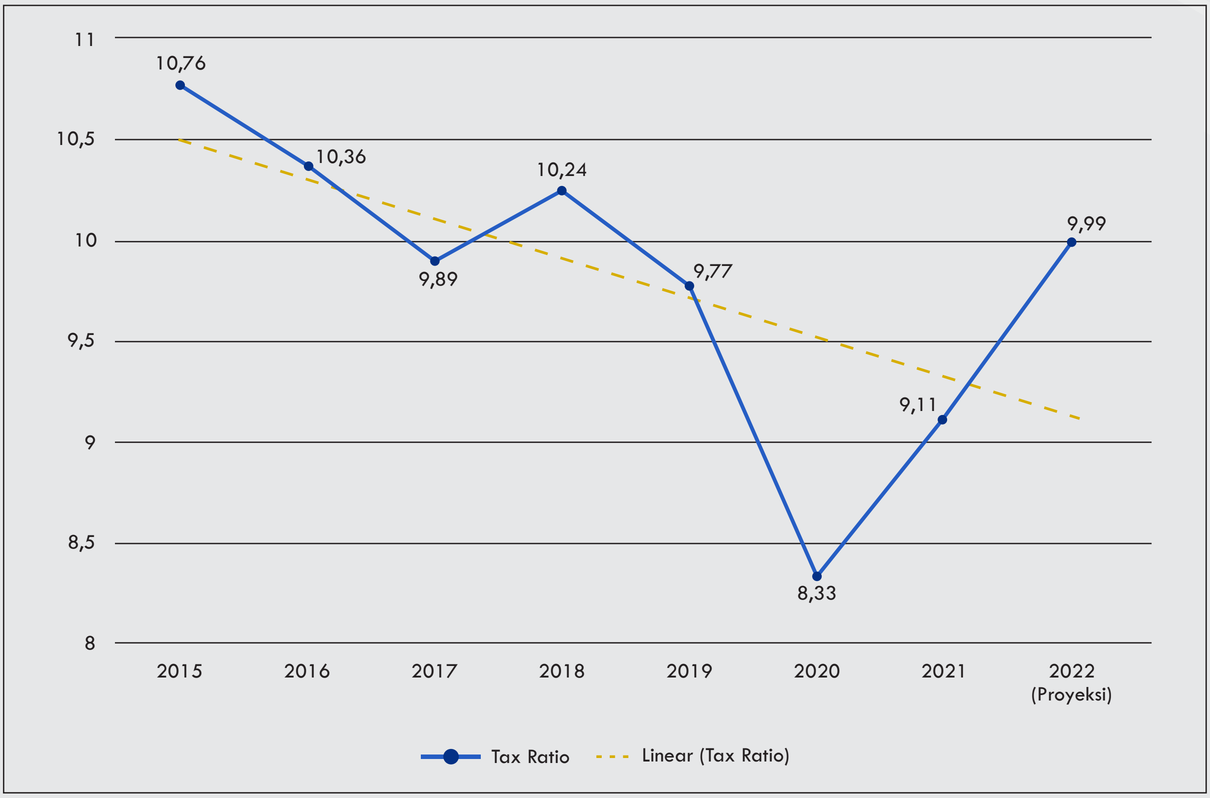
Source: Central Bureau of Statistics, 2022

Tax performance can also be seen from the tax ratio which shows the comparison between the country's tax revenue and its GDP (Figure 1). The higher the ratio, the higher the country's ability to collect taxes[17].

Since 2015, the trend shows that the tax ratio in Indonesia is declining.

[17] Davoodi, H. R., & Grigorian, D. A. (2007). Tax Potential vs. Tax Effort: A Cross-Country Analysis of Armenia's Stubbornly Low Tax Collection. *IMF Working Paper No. 07/106* [URL]

Figure 1. Tax ratio in Indonesia 2015 – 2022 (Projection)



Source: Ministry of Finance (processed)

The Indonesian government has not been optimal in increasing the amount of state revenue from income taxes, especially income taxes from billionaires who have enjoyed a bigger share of economic prosperity. In fact, imposing taxes on the super wealthy has the potential to significantly boost revenue and the tax ratio.

The Credit Suisse report estimates that the number of rich individuals in Indonesia with assets of more than $1 million reached 191,103 people in 2021[18]. This figure has marked up by 16,16% in comparison to the year 2020 with 164,519 people. The report also predicts that this number will continue to increase to 377,845 people by 2026. Additionally, Oxfam International report also revealed that the total wealth of the four wealthiest people in Indonesia is equivalent to the wealth of 100 million poor people[19].

[18] Credit Suisse. (n.d.). Retrieved from www.credit-suisse.com: https://www.credit-suisse.com/about-us/en/reports-research/global-wealth-report/tables.html [URL]

[19] Oxfam International. (n.d.). Retrieved from www.oxfam.org: https://www.oxfam.org/en/inequality-indonesia-millions-kept-poverty [URL]

B. Effectiveness of Tax Incentives as the Main Driver for Investment

Indonesia has two schemes for providing tax incentives. **First,** *the Tax Holiday* scheme which is regulated as Rule Number 130/PMK.010/2020 in accordance with the Ministry of Finance Regulation. This scheme can provide an income tax reduction of up to 100% within a certain period of time if investors are able to invest a certain amount of capital towards pioneer industries. The activities classified as the pioneer industry include integrated upstream basic metals, integrated oil and gas refining, as well as the digital economy.

Second, *Tax Allowance* scheme which is regulated under the Government Decree No. 78 of 2019. This scheme provides income tax amenities for investors that invest in certain business sectors in several regions. In this case, the referred amenity is a reduction in net income tax of 30% of the total investment value. From the two schemes, *Tax Allowance* is the tax incentive that receives the most attention from the government.

However, the implementation of Tax Holiday in Indonesia has become a dilemma as it has the potential to reduce state revenues and spike up the tax spending budget.

The latest repost has shown that the country has the potential to lose tax revenue of up to IDR 1,03 trillion in 2017 and IDR 0,79 trillion in 2018 for as long as the *Tax Allowance* scheme is implemented[20]. The research also revealed that the implementation of *Tax Holiday* still have a range of issues[21]. **Firstly,** the *Tax Holiday* policy has not been flawless at attracting foreign investors. This can be seen from the slow growth in the value of foreign investment, especially in 2017 and 2019. **Secondly,** the inconsistency of government regulations related to the *Tax Holiday* scheme tends to create uncertainties for investors when trying to carry out their investment plans. **Thirdly,** the technical problems experienced by investors as they are not familiar with the investment registration mechanism through Online Single Submission (OSS), which could result in the growing lack of interest to invest in Indonesia.

The other issue arises as there is no confirmed value of investment commitments that could earn *Tax Holiday* amenities. In 2022, only IDR 134,7 trillion of the total planned investment of IDR 1.708 trillion was materialised[22]. This means that the value of investment commitments that have not been fulfilled is still more than 90% or IDR 1.573,3 trillion. This is worrisome because the government does not seem to have a clear plan on how to pinpoint the value of the investment commitment. Moreover, the government is also known to not have set a deadline for the complete realisation of the value of investment commitments by the taxpayers receiving the incentives[23].

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[20] Badan Kebijakan Fiskal Kementerian Keuangan. (2020). *Laporan Belanja Perpajakan 2019*. Jakarta: Kementerian Keuangan. [URL]

[21] Pohan, C. A., Rahmi, N., Arimbhi, P., Mawarni, I., & Temburu, M. A. (2021). Evaluasi Efektivitas Kebijakan Tax Holiday Dalam Meningkatkan Investasi di Indonesia. *Jurnal Reformasi Administrasi Vol. 8 No. 1*, 85 - 96. [URL]

[22] MUC Consulting. (2022, Oktober 31). Retrieved from mucglobal.com: https://mucglobal.com/id/news/2991/pemerintah-kejar-rp-1573-komitmen-investasi-fasilitas-tax-holiday [URL]

[23] Ibid.

Besides Tax Holiday, the implementation of Tax Allowance in Indonesia is also problematic.

This is because the implementation of *Tax Allowance* in Indonesia is highly oriented towards corporations and investors instead of the lower to middle class or the common folks. As a result, the *Tax Allowance* scheme benefits corporations and harms the country as corporations receive high profits but tax withdrawals are reduced so tax revenues for the country decrease. On the other hand, the results of the evaluation performed by the Fiscal Policy Agency (BKF) verified that the *Tax Allowance* scheme failed to provide a *multiplier effect* and create jobs for the community. This criticism is also in line with the results of a research conducted in the UK that the implementation of *Tax Allowance* will only strengthen and widen the inequality gap if the government does not carry out structural and systematic tax reforms[24].

Multiplier Effect in *Tax Allowance*

The main aim for the provision of *tax allowances* is to increase direct investment in certain sectors or regions. In Indonesia, there are three criterias for applying for a *tax allowance*, i.e. having a high investment value or being export oriented, having a large employment intake, and having a high local content.

Reports from the BFK under the Ministry of Finance and the OECD show that the Tax *Allowance* policy in Indonesia has not shown sufficient impact[25].

Firstly, the BFK reports that of the 65 sectors that receive *Tax Allowance*, at least 40% or 26 sectors have a *multiplier effect* output that is below average, which is lower than 2.00 points. This means that the provision of tax incentives in the form of *Tax Allowance* has not been sufficient in boosting the economic growth for the lower middle class because the *Tax Allowance* policy is more targeted at investors and corporations.

Secondly, by using the *differences-in-differences* econometric model and guided by the five indicators, which are profit margins, export values, import values, the number of permanent workers, and the number of workers in total, the BKF concludes that the *Tax Allowance* scheme in Indonesia is ineffective and negligible. In other words, the *Tax Allowance* scheme has not been successful in increasing the value of exports, has failed to encourage the utilisation of domestic components, and has not been able to have a sufficient intake of both permanent and non-permanent workers.

Thirdly, OECD also criticises that the *Tax Allowance* policy in Indonesia has not set clear objectives and definitions in certain industry phrases within legal regulations. Thus, it could potentially lead to uneven investments in several sectors.

[24] Sutherland, H., Hancock, R., Hills, J., & Zantomio, F. (2008). *Keeping up or Falling behind? The Impact of Benefit and Tax Uprating on Incomes and Poverty. Fiscal Studies,* 29(4) [URL]

[25] OECD. (2020). *OECD Investment Policy Reviews: Indonesia 2020*. OECD Investment Policy Reviews. OECD Publishing. Paris. [URL]

C. Tax Amnesty and Its Impact on Taxpayer Compliance

During Jokowi's two leadership periods, the *Tax Amnesty* program was carried out in two volumes, where volume 1 was implemented from 1 July 2016 – 31 March 2017 and volume 2 from 1 January – 31 June 2022 (refer to Table 2). The application of volume 2 of *Tax Amnesty* is also referred to as the Voluntary Disclosure Program which is stated under Decree No. 7 of 2021 regarding the Harmonisation of Tax Regulations which is regulated further in accordance with the Ministry of Finance Decree No. 196/PMK/03/2021.

Historically, Indonesia has implemented *Tax Amnesty* programs three times outside of Jokowi's leadership period, in 1964, 1984 and 2008. Hence, the government of Indonesia has implemented *Tax Amnesty* a total of five times (1964, 1984, 2008, 2016, dan 2022).

Table 2. Comparison of Tax Amnesty Volume 1 and 2

<table>
<tr><th></th><th></th><th>Period 1 (1 July – 30 Sept 2016)</th><th>Period 2 (1 Oct – 31 Dec 2016)</th><th>Period 3 (1 Jan – 31 Mar 2017)</th><th>1 January – 31 June 2022</th></tr>
<tr><td rowspan="2">Volume 1</td><td>Domestic declaration</td><td>2%</td><td>3%</td><td>5%</td><td>-</td></tr>
<tr><td>Overseas declaration</td><td>4%</td><td>6%</td><td>10%</td><td>-</td></tr>
<tr><td rowspan="6">Volume 2</td><td rowspan="3">Policy 1
For Tax Amnesty participants in 2016 – 2017 who have not disclosed their assets as of 31 December 2015</td><td colspan="3">Domestic declaration</td><td>8%</td></tr>
<tr><td colspan="3">Overseas declaration</td><td>11%</td></tr>
<tr><td colspan="3">Assets abroad repatriated and domestic assets declared</td><td>6%</td></tr>
<tr><td rowspan="3">Policy 2
For individual taxpayers of 2016 – 2020 with assets that have not been disclosed in the 2020 SPT</td><td colspan="3">Domestic declaration</td><td>14%</td></tr>
<tr><td colspan="3">Overseas declaration</td><td>18%</td></tr>
<tr><td colspan="3">Assets abroad repatriated and domestic assets declared</td><td>12%</td></tr>
</table>

Source: Decree No. 11 of 2016 and Minister of Finance Decree No. 196/PMK.03/2021

Anytime the *Tax Amnesty* program is implemented, whether in Indonesia or in a number of countries, the government would always claim that this policy aims to maximise tax revenue, encourage taxpayers to pay their taxes, and boost compliance of future taxpayers[26]. However, several studies actually show the paradoxical consequences of applying the *Tax Amnesty* policy[27].

26 Sayidah, N., & Assagaf, A. (2019). *Tax amnesty from the perspective of tax official. Cogent Business & Management, 6(1)* [URL]; Ross, B. G. (1986). Federal Tax Amnesty: Reflecting on the States' Experiences. *The Tax Lawyer*, *40*(1), 145–184. [URL]

27 Torgler, B., & Schaltegger, C. A. (2005). Tax Amnesties and Political Participation. *Public Finance Review, 33(3), 403–431* [URL]; Leonard, Herman B. and Richard J. Zeckhauser. (1986). Amnesty, enforcement and tax policy. *NBER Working Paper Series No. 2096*. Cambridge, MA: National Bureau of Economic Research [URL].

For compliant and honest taxpayers, tax amnesty has the potential to be interpreted as an unfair policy.

As a comparison, referring to the Government Regulation No. 36 of 2017, non-*tax amnesty* taxpayers are subjected to tax rates ranging from 12,5% to 30%. This figure is much higher than the *tax amnesty* rate in 2022 which has a range of 6% - 8%. Hence, *Tax Amnesty* has caused taxpayers who were previously honest to begin anticipating subsequent tax payments with lower compliance and honesty[28].

Thus, in order to accomplish revenue optimisation and increase taxpayer compliance, there are at least three main points that the government needs to focus on[29].

First of **all**, the *Tax Amnesty* policy must be accompanied by a larger fiscal policy reform agenda. This is so that taxpayers or potential *Tax Amnesty* participants can be aware of the latest changes in tax situations for them to understand the urgency to alter their compliance and honesty in the long term.

Second, the government must be an entity that is trustworthy so that compliance of taxpayers improves. Recent study shows that there is a positive correlation to the level of public trust in the government with tax compliance[30]. One of the ways to convince the public to be compliant is to show that the *Tax Amnesty* program is a once-in-a-lifetime chance. This is because the implementation of multiple *Tax Amnesty* programs in a number of countries, such as Russia[31], Turkey[32], and India[33], proved to be unsuccessful in increasing revenue and compliance in the long run.

Third, public perception of the values of justice and equality also needs to be considered by the government because it is a crucial factor in maintaining taxpayer compliance and truthfulness. For instance, if the *Tax Amnesty* policy is seen as unfair and seemingly biassed to provide incentives towards the rich and tax evaders, then it is likely that the level of compliance will decrease overtime. This is proved by the study in Turkey, Switzerland and Costa Rica[34], where the public generally disagrees with the concept of *Tax Amnesty*. This challenge can be minimised by implementing inclusive voting and discussions with citizens regarding the urgency of carrying out the *Tax Amnesty* scheme[35]. This procedure is proven to increase citizens' sense of obligation as taxpayers so that tax compliance and honesty could at least be maintained for several years to come.

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[28] Ibid.
[29] Sabnita, N. (2020). What Is Known About Tax Amnesty? A Scoping Review. *Jurnal Pajak Indonesia (Indonesian Tax Review)*, *3*(2), 36–50. [URL]
[30] Inasius, F., Darijanto, G., Gani, E., & Soepriyanto, G. (2020). Tax Compliance After the Implementation of Tax Amnesty in Indonesia. *SAGE Open, 10(4), 215824402096879.* [URL]
[31] Alm, J., Martinez-Vazquez, J., & Wallace, S. (2009). *Do Tax Amnesties Work? The Revenue Effects of Tax Amnesties During the Transition in the Russian Federation. Economic Analysis and Policy, 39(2), 235–253.* [URL]
[32] Saraçolu, O.F., & Çakurlu, E. (2011). Tax Amnesty with Effects and Effecting Aspects: Tax Compliance, Tax Audits and Enforcements Around; The Turkish Case. [URL]
[33] Gupta, A. D. & Mookherjee, D. (1995). Tax Amnesties in India; An Empirical Evaluation. *Boston University - Institute for Economic Development 53*. Boston University, Institute for Economic Development. [URL]
[34] Torgler, B., & Schaltegger, C. A., *Op. Cit.*
[35] Ibid.

Track Record of Government Spending

A. The quality of public spending

Based on the realisation of the state budget, goods and personnel expenditures have been the two largest types of government spending.

Meanwhile, capital expenditure which tends to benefit the general public directly is the smallest type of spending (refer to Table 3). This budget posture is quite alarming for economic growth in Indonesia in the long run. This is due to a number of periodic studies that have proven that capital expenditure has a positive effect on economic growth[36].

Photo by Artem Podrez (pexels.com)

To increase economic growth, the government should increase the amount of capital expenditure instead of spending the budget on the bureaucracy, on personnel and goods.

Unfortunately, the trend over the recent years has shown the exact opposite.

[36] Devarajan, S., Swaroop, V., & Zou, H. (1996). The composition of public expenditure and economic growth. Journal of Monetary Economics, 37(2), 313–344 [URL]; Vu Le, M., & Suruga, T. (2005). Foreign direct investment, public expenditure and economic growth: the empirical evidence for the period 1970–2001. Applied Economics Letters, 12(1), 45–49 [URL]; Bose, N., Haque, M. E., & Osborn, D. R. (2007). *Public Expenditure And Economic Growth: A Disaggregated Analysis For Developing Countries. The Manchester School, 75(5), 533–556.* [URL]

Table 3. Central Government Expenditures by Type 2018 – 2023 (in trillion rupiah)

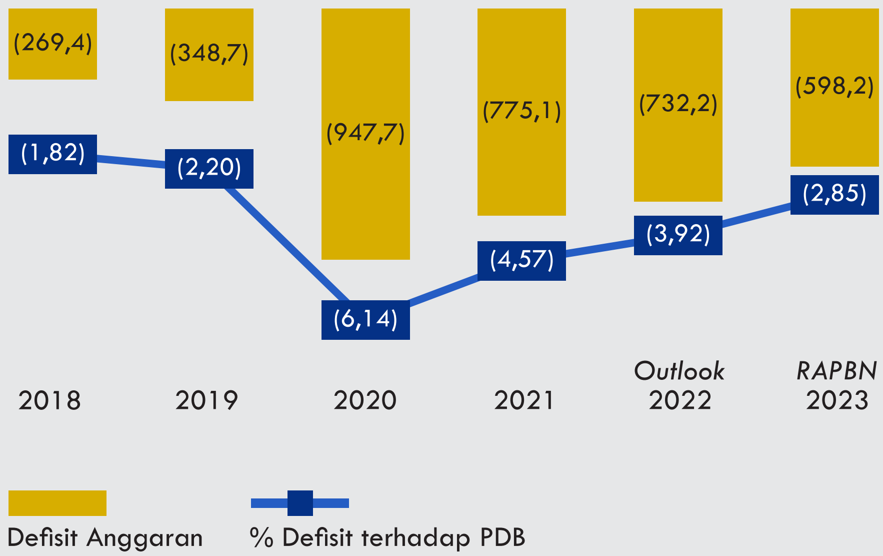
Type	LKPP 2018	LKPP 2019	LKPP 2020	LKPP 2021	*Outlook* 2022	RAPBN 2023
Personnel Expenditure	346,89	376,07	380,53	387,75	416,61	442,57
Goods Expenditure	347,46	334,41	422,33	530,05	406,01	379,29
Capital Expenditure	184,12	177,84	190,91	239,63	232,77	199,11
Debt Payment Interest	257,95	275,52	31,4	343,49	403,87	441,4
• Domestic	238,43	254,07	297,15	332,86	391,69	426,8
• Overseas	12,51	21,44	16,93	10,63	12,17	14,6
Subsidy	216,88	201,8	196,23	242,08	245,58	297,18
• Energy subsidies	153,52	136,87	108,84	140,39	208,92	210,66
• Non-energy subsidies	63,36	64,92	87,39	101,69	75,65	86,52
Grant Expenditure	1,52	6,47	6,27	4,31	5,03	0,01
Social Assistance Expenditure	84,31	112,48	202,53	173,65	143,66	148,56
Others	16,16	11,69	120,03	70,70	477,46	321,97
TOTAL	**1.455,32**	**1.496,31**	**1.832,95**	**2.000,70**	**2.370,02**	**2.230,02**

Source: *Book II of Financial Receipts with RAPBN 2023*

Data also shows that debt interest payment continues to increase from IDR 257 trillion in 2018 to IDR 343 trillion in 2021. On one hand, this figure illustrates that the government is improving its ability to repay debts, but on the other hand, it emphasises that the level of debt in Indonesia is also increasing.

Ironically, the increase in debt occurred amidst the trend of a budget deficit, which shows the government's tendency to repay debts by borrowing more, thus widening the budget deficit (Figure 2).

Figure 2. Budget Realisation Deficit 2018 – RAPBN 2023 (in trillion rupiah)



Source: *Book II of Financial Receipts with RAPBN 2023*

Based on the types, there have been a number of interesting trends in government spending under the Jokowi Administration (refer to Table 4). **Firstly,** spending on the education sector has increased yearly. Nevertheless, the main problem lies in the quality of budget consumption. Recent studies have shown that an increase in the fiscal budget does not relate to the quality of education, unless accompanied by institutional reforms and strong political will[37]. Until now, Indonesia is ranked 71 out of 77 countries with regards to the quality of education[38].

https://foto.data.kemdikbud.go.id/getImage/20207006/21.jpg

[37] Suryadarma, D. (2012). *How corruption diminishes the effectiveness of public spending on education in Indonesia. Bulletin of Indonesian Economic Studies, 48(1), 85–100.* [URL]

[38] Facts Maps. (n.d.). *factsmaps.com*. Retrieved from factsmaps.com: https://factsmaps.com/pisa-2018-worldwide-ranking-average-score-of-mathematics-science-reading/ [URL]

Table 4. Central Government Expenditure by Function 2017 – 2021 (in trilion rupiah)

Function	2017	2018	2019	2020	2021
Public Service	355,84	435,9	517,34	474,99	526,18
Defense	108,29	107,82	108,42	131,24	137,18
Order and Security	121,57	135,99	142,97	162,72	166,63
Economy	310,56	335,46	389,6	406,17	511,33
Environment	11,91	15,68	17,76	18,36	16,68
Housing and Public Facilities	29,68	31,5	26,51	30,35	33,21
Healthcare	61,72	65,06	62,75	61,14	111,66
Tourism and Culture	5,37	7,45	5,32	5,05	5,26
Religion	9,72	9,47	10,14	10,09	11,07
Education	143,13	147,56	152,69	156,89	175,23
Social Protection	157,68	162,55	200,8	226,41	260,06
Total	**1.315,52**	**1.454,49**	**1.634,34**	**1.683,47**	**1.954,54**

Source: *Central Bureau of Statistics, 2022*

Thus far, the increase in the education budget has not been able to optimally accelerate the improvement of education quality in Indonesia.

Secondly, the budget for defence continues to increase in comparison to the budget for healthcare. Even in the midst of the pandemic, in 2020 and 2021, the numbers for the defence budget tend to be higher than the healthcare budget.

Studies have shown that countries with greater defence or military spending than education and healthcare tend to have higher corruption rates.[39]

Thirdly, studies show that the allocation of social protection policy packages in Indonesia is considered lower than a number of countries in Southeast Asia [40]. For example, in 2020, the percentage of the budget for the social protection package to

39 Gupta, S., de Mello, L., & Sharan, R. (2001). Corruption and military spending. *European Journal of Political Economy, 17(4), 749–777* [URL]; Mauro, P. (1998). Corruption and the composition of government expenditure. *Journal of Public Economics, 69(2), 263–279.* [URL]

40 Asian Development Bank. (2021). *COVID-19 and Social Protection in Asia and the Pacific: Projected Costs for 2020–2030.* Metro Manila, Phillipines: Asian Development Bank [URL]; Asian Development Bank. (2019). *The Social Protection Indicator for Asia: Assessing Progress.* Metro Manila: Asian Development Bank. [URL]

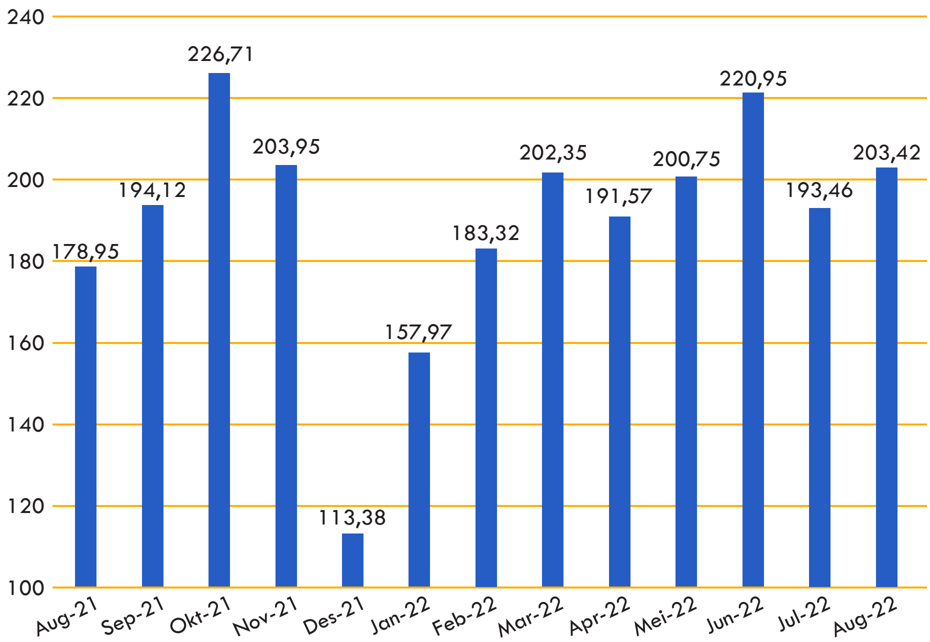
GDP in Indonesia is 1,62%. This figure is lower compared to Vietnam (2,37%), Malaysia (2,33%), the Philippines (2,14%), and Thailand (1,75%). Out of the government social protection programs, the PKH (Indonesian Conditional Cash Transfer Program) is one of the programs with the most impact and distribution. However, recent findings show that the benefits of the PKH tend to disregard households in the lowest decile[41]. Besides that, PKH is proven to not have a significant impact on the gross enrollment rates at elementary school level[42].

Fourth, economically, the country's spending on order and security matters is classified as non-productive spending. Yet, in the last five years, the expenditure on this function actually experienced a significant increase. As a country with high diversity and security vulnerabilities, this budget allocation is understandable. Nevertheless, evaluations on the effectiveness and impact of spending on order and security in Indonesia need to be carried out periodically.

B. Budget Settlement and Fiscal Leakage

Trillions of rupiah of the regional government budget in the whole of Indonesia are still deposited at banks. This means that this budget has not been realised for the needs and interests of the people (see Figure 3). In other words, regional governments actually have sufficient budgets, but have not utilised it efficiently to accelerate economic recovery and boost public service spending.

Figure 3. Settlement of Regional Government Budget in August 2021 – August 2022 (in trillion rupiah)



Source: *Ministry of Finance, 2022*

41 Hadna, A. H., & Askar, M. W. *Op. Cit.*
42 Hadna, A. H., & Kartika, D. *Op. Cit.*

The issue of regional government budgets settling in banks should be a concern for both the central and regional governments.

This problem is actually not a new issue, as it has been going on for a long time. However, until now, records or data regarding the regional government budgets being deposited in banks have never been outlined in financial recordings or other written reports belonging to the Ministry of Finance. Data and records of this are often only reported through meetings and conferences. As a matter of fact, the regional government budget is one of the instruments of the state budget and the level of realisation of the regional government budget could influence the level of realisation of the state budget.

Additionally, recent reports find that there are still many regional governments with a high potential to experience budget losses. In 2021 alone, the Audit Board of the Republic of Indonesia (BPK) found at least 1,235 budget-related issues in local governments (see Table 5). There are several causes that result in these thousands of issues, ranging from the fragility of the internal control systems, inefficiency, ineffectiveness, wastefulness, and lack of compliance with laws and regulations.

Table 5. Types of Problems and Potential Losses of Regional Government Budgets

1.235 ISSUES	**496** cases of fragile internal control systems		
	53 cases of inefficiency, ineffective, wastefulness	**32** *ineffective* (IDR 76,34 Million)	
		21 *unthrifty* (IDR 137,78 Billion)	
	696 cases of *Disobedient to regulation*	**210** Maladministration	
		476 *disobedient*	**265** losses (Rp 452,37 Billion)
			112 acquired less (Rp 587,55 Billion)
			99 losses potential (Rp 262,44 Billion)

Source: *Annual Report from the Audit Board, 2021*

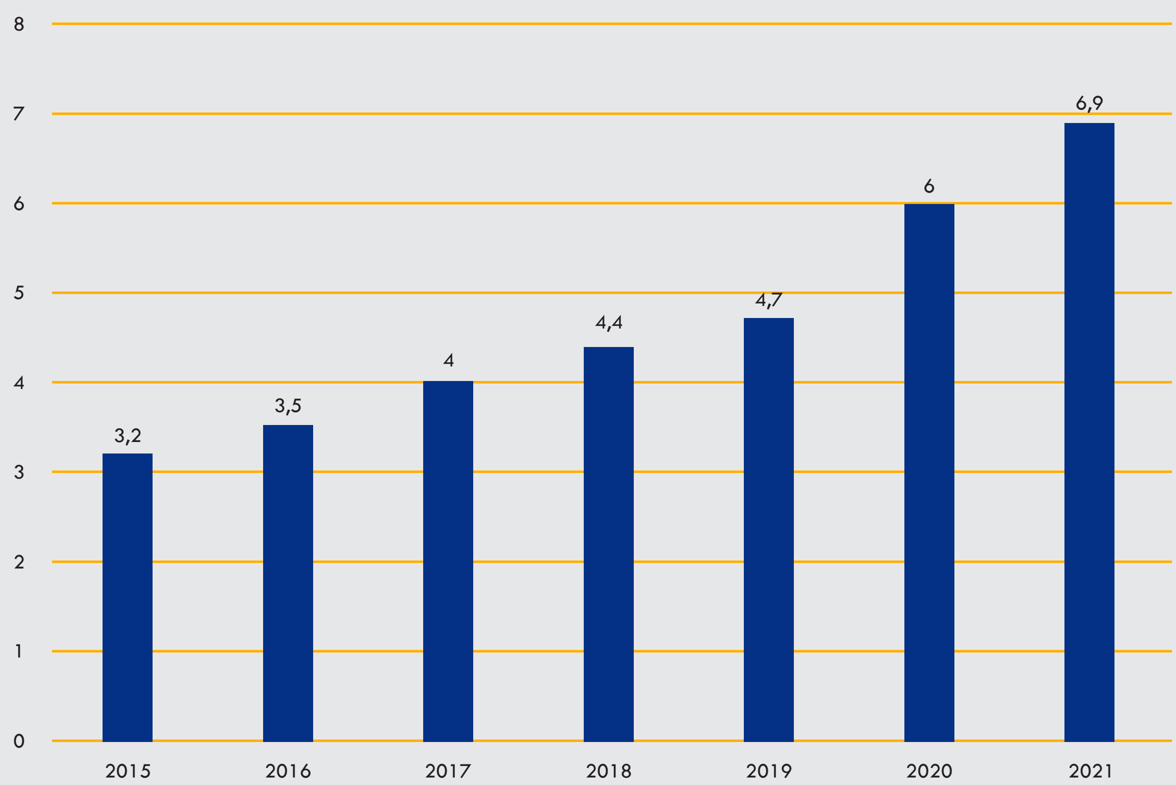
The BPK estimates that the local government suffered a loss of more than IDR 1,4 trillion. The actual figure is estimated to be much higher as not all potential losses could be detected by the BPK. This high potential loss is directly detrimental to the community and slows down the development progress, especially because it reduces the size of the budget that is meant for improving the quality of public services in the region.

Evidence Review of the Debt Conditions under the Jokowi Administration

A. Performance of Government Debt Instruments and Investments

Government debt under Jokowi's leadership continues to increase. The highest increase occurred between 2019 and 2020 reaching IDR 1,3 quadrillion (refer to Figure 4).

Figure 4. Total government debt 2015 – 2021 (in quadrillion rupiah)



Source: *Ministry of Finance, 2022*

In general, the government has two types of debt, namely loans (domestic and foreign) and Government Securities (Government Bond (SUN) & Government Islamic Securities (SBSN)). In the Financial Notes, the combination of these two debts is referred to as Debt Financing (refer to Table 6).

Table 6. State Budget Financing 2018 – 2023 (in trillion rupiah)

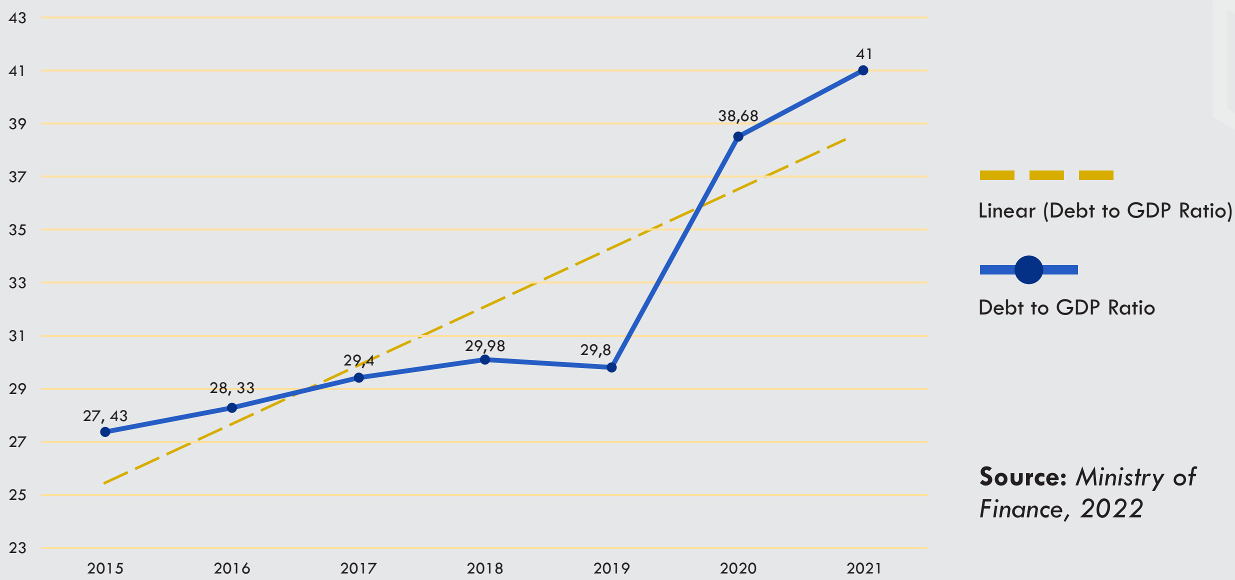
Types	LKPP 2018	LKPP 2019	LKPP 2020	LKPP 2021	*Outlook* 2022	RAPBN 2023
Debt Financing	378,02	437,53	1.229,62	870,53	757,55	696,31
Sovereign Debt	358,39	446,28	1.177,15	877,5	711,57	712,93
Loan (net)	13,63	(8,74)	52,47	(6,97)	45,97	(16,62)
DN Loan	1,35	3,03	2,36	944,2	1,57	0,749
LN Loan (net)	12,27	(11,72)	50,11	(7,91)	44,4	(17,37)
Investment Funding	(61,11)	(49,38)	(104,69)	(142,46)	(154,21)	(175,95)
Loan Disbursement	(4,26)	(1,27)	1,01	1,94	2,28	5,28
Guarantee Obligation	(1,12)	-	(3,59)	(2,71)	(1,13)	(0,33)
Other Fundings	0,168	15,18	70,93	144,42	127,75	72,83
Total	**305,69**	**402,05**	**1.193,29**	**871,72**	**731,24**	**598,15**

Source: *Book II of Financial Receipts with RAPBN 2023*

In Indonesia, debt financing tends to be higher than investment funding. This means that instead of spending the state budget on productive sectors, the Indonesian government is still struggling to pay off their debt.

According to Law No. 17 of 2003, the debt-to-GDP ratio limit is 60%. History records that since the law was declared, the debt-to-GDP ratio in Indonesia has never exceeded 60%. However, since 2015 till now, the ratio is increasing (see Figure 5) as the amount of government debt has also increased.

Figure 5. Debt to GDP Ratio (percentage)



Source: *Ministry of Finance, 2022*

The issue of state debt cannot be seen solely from the ratio or percentage of safety, but it is also important to consider the utilisation of debt and the types of creditor.

For comparison, the debt-to-GDP ratio in Japan and Greece in June 2022 is 231% and 182% respectively. To put it simply, the debt-to-GDP ratio of these two countries are twice as high as the ratio in Indonesia. However, Japan is considered to have a lower debt vulnerability than Indonesia and Greece.

In this case, the main creditor in Japan in the Bank of Japan itself, which is about 43% of the total debt in March 2022[43]. Japan is capable of managing its debts well because the Bank of Japan has a commitment to maintain the economic and political stability of the country. Meanwhile, debt in Greece is dominated by loans from foreign banks in Europe, particularly Germany[44]. As a result, the Greek government lost control of its economy when the financial crisis hit, to the extent that the budget deficit in Greece due to its debt was considered the worst deficit in modern history[45].

[43] CEIC Data. (n.d.). *www.ceicdata.com.* Retrieved from https://www.ceicdata.com/en/indicator/japan/government-debt--of-nominal-gdp [URL]; Ministry of Finance Japan. (2022, Maret). Retrieved from www.mof.go.jp: https://www.mof.go.jp/english/policy/jgbs/reference/Others/holdings01.pdf [URL]

[44] CEIC Data. (n.d.). Retrieved from www.ceicdata.com: https://www.ceicdata.com/en/indicator/greece/government-debt--of-nominal-gdp [URL]

[45] Amadeo, K. (2020, Mei 17). Retrieved from www.thebalancemoney.com: https://www.thebalancemoney.com/what-is-the-greece-debt-crisis-3305525 [URL]

The conditions and challenges faced by Greece with regards to its debt management are not much different from Indonesia. There are at least two arguments to describe Indonesia's vulnerability regarding debt. **First**, it should be noted that mathematically reducing the burden of state debt can be achieved by increasing revenue until there is a fiscal surplus.

The debt-to-GDP ratio in Indonesia still sits below the statutory threshold, but it should not be used as a reason to increase debt. This is because the value of exports, which is the main driver for increasing state revenues in Indonesia, is still dominated by non-renewable resources, such as coal, copper and natural gas.

In the future, it is highly likely that the value of exports will decrease, thereby reducing state revenues. Unlike Malaysia, whose debt-to-GDP ratio is 62,7% as of June 2022 [46]. Malaysia is capable of being ranked 23rd as a country with the largest export power in the world[47]. Furthermore, unlike Indonesia, Malaysia's exports have been dominated by the industrial and manufacturing sectors.

Second, the use of funds from loans in Indonesia is still utilised for procuring infrastructure megaprojects that have the potential to benefit its capital owners, further supported by various facilities by the government, such as the provision of *Tax Holidays* and *Tax Allowance*. As an example, the construction of a railway on the island of Kalimantan with the debt budget is actually burdened with the interests of the company that transports coal, and is prone to create negative impacts on the environment[48]. This type of investment tends to be short-lived and may not have a significant impact on the welfare of the surrounding community.


https://pxhere.com/id/photo/1434301

46 CEIC Data. (n.d.). Retrieved from www.ceicdata.com: https://www.ceicdata.com/en/indicator/malaysia/government-debt--of-nominal-gdp [URL]
47 Trade Map. (n.d.). Retrieved from www.trademap.org: https://www.trademap.org/Country_SelProduct_TS.aspx [URL]
48 Nugraha, I., & Saturi, S. (2017, Mei 21). Retrieved from www.mongabay.co.id: https://www.mongabay.co.id/2017/05/21/ketika-bangun-rel-kereta-api-batubara-katingan-gunung-mas-mulai-tanpa-izin/ [URL]
49 Kementerian Koordinator Bidang Perekonomian RI. (2020, Juli 1). Retrieved from ekon.go.id: https://ekon.go.id/publikasi/detail/355/skema-burden-sharing-membuat-bank-indonesia-bi-harus-menanggung-539-beban-bunga-apbn [URL]

B. The Political Side of Foreign Debt Policy

The Ministry of Finance underwent a *burden sharing* scheme with Bank Indonesia (BI) through the signing of Joint Decrees Volume I, II, and III to ease the inflammation of the state budget due to the costs of healthcare and social protection packages during the pandemic.

Based on the agreement in Volume III, BI will buy Government Securities (SBN), including types of state debt, which amounts to IDR 215 trillion in 2021 and IDR 224 trillion in 2022. In addition, the agreement also states that BI will bear all interest costs for funding vaccinations and healthcare facilities with a maximum limit of IDR 58 trillion in 2021 and IDR 40 trillion in 2022. In July 2020, BI was reported to bear 53,9% interest on the state budget[49].

Under the Law on Development and Strengthening of the Financial Sector, the *burden sharing* mechanism has been legalised and can continue after the pandemic. Although there are notes that state *burden sharing* shall only be carried out in the event of a crisis, the categorisation of the crisis itself is determined by the government.

The burden sharing system has the potential to make BI a mere 'cash cow' for the interests of development and political funding for the government.

In this context, there are at least two risks that the government needs to be aware of[50]. **Firstly**, the *burden sharing* policy has the risk of disrupting price stability as purchases of Government Securities affect BI's balance sheets. For instance, it is possible for BI to lose money if it continues to buy Government Securities when interest rates are low and when they are due, which increases interest rates sharply. With this, it creates *inflationary risk* or the risk that money printing policies can increase the money supply which can have an impact on inflation. Thus, when a crisis occurs and the cause of the crisis is high inflation, the *burden sharing* policy actually exacerbates the economic situation[51].

The International Monetary Fund (IMF) has advised that the purchase of Government Securities by the central bank should be done according to independent initiative, not at the request of the government or the Ministry of Finance.

The IMF clarified that the purchase of Government Securities should be done for financial stabilisation instead of merely achieving the government's interest, namely reducing the burden on the country's debt. This is because the government may end up choosing this route as an easy way out and it weakens fiscal discipline.

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[49] Kementerian Koordinator Bidang Perekonomian RI. (2020, Juli 1). Retrieved from ekon.go.id: https://ekon.go.id/publikasi/detail/355/skema-burden-sharing-membuat-bank-indonesia-bi-harus-menanggung-539-beban-bunga-apbn [URL]

[50] International Monetary Fund (IMF). (2021). *Indonesia: 2020 Article IV Consultation - Press Release; Staff Report; and Statement by the Executive Director for Indonesia*. International Monetary Fund (IMF). [URL]

[51] Thornton, Daniel L. (2010). "The downside of quantitative easing" Federal Reserve Bank of St. Louis Economic Synopses (34) [URL]

[52] Ibid.

Second, the independence of BI as a central bank needs to be questioned as it is now required to share the burden of the country's debt with the Ministry of Finance as part of the government.

The reason is because under normal conditions, the central bank would end the purchases of Government Securities in order to stabilise prices when inflation rises. However, since the government has become accustomed to cheap debt financing from the central bank, through the Ministry of Finance, the government will pressure on BI as the central bank to continue with the purchases of Government Securities. As a result, faith in the central bank to control inflation can deteriorate and future periods can be put in jeopardy with higher inflation.

It is known that the Ministry of Finance will stop the *burden sharing* scheme with BI at the end of 2022, but as a matter of fact, *burden sharing* is still included in the regulatory component of Law On Development and Strengthening of Financial Sector. Thus, the concrete step as of now is to ensure that the government will put an end to the *burden sharing* scheme with the revision of the law above.

SOE-based Infrastructure Project Risk Review

A. Performance of Infrastructure Financing

State Equity Participation for the development of a number of infrastructures managed by the Executives of SOE (State-Owned Enterprises) Infrastructure have succeeded in increasing several asset values, from 2,3 points to 17,2 points (refer to Table 7).

Table 7. Condition of SOE Infrastructure Executive 2015 – 2021 (in million rupiah)

SOE Infrastructure	Total State Equity Participation 2015 – 2021	Asset Increase 2015 – 2021	*Leveraging* (Asset Increase : Total PM)
PT PLN	45.060	298.846	6,6
PT Pertamina	28.397	487.978	17,2
PT Hutama Karya	52.300	120.580	2,3
PT Waskita Karya	11.400	73.292	6,4
PT Adhi Karya	1.400	23.409	16,7
PT KAI	12.500	40.376	3,2
PT Pembangunan Perumahan	2.250	36.445	16,2
PT Wijaya Karya	4.000	49.783	12,4

Source: *Book II of Financial Receipts with RAPBN 2023*

However, SOE-based infrastructure development possesses a number of risks. First of all, infrastructure projects built by SOEs may run smoothly economically, but may not be as successful commercially. Second of all, infrastructure development in Indonesia is known to be complicated, inconsistent, and tends to have ambiguous legal frameworks. Infrastructure developments are also often carried out not according to fiscal capacity53. As a result, these risks could affect the sustainability of the projects and increase state financing due to debt from the state or from private entities.

[53] The World Bank. (2018). *Indonesia Infrastructure Sector Assessment Program*. Jakarta: World Bank Group. [URL]

Indonesia's Strategic Position in China's Belt Road Initiative

The Belt Road Initiative (BRI) or what was formerly known as the One Belt One Road (OBOR) is an ambitious project led by the Chinese Government in 2013 to invest in more than 150 countries and various international organisations to form universally connected trade routes for the convenience of economic, diplomatic and geopolitical activities.

In the BRI project, China has at least two assistance and loan schemes called *Official Development Assistance* (ODA) and *Other Official Flows* (OOF). The ODA is an official assistance scheme provided by China to a number of partner countries, whereas the OOF is assistance in the form of debt or grants, but with commercial purposes. To put it simply, several literatures[54] refer to the ODA as a direct official assistance (aid), while the OOF is assistance with a debt mechanism. Of the hundreds of countries participating in the BRI with these two assistance schemes, Indonesia is considered to be the most strategic country for China in this project.

The study also revealed that Indonesia is ranked 4th and 6th out of the largest ODA and OOF recipient countries, respectively. As of 2017, Indonesia has received at least $4,42 million in ODA assistance and $29,96 million in OOF assistance. Based on the number of projects, there are at least 71 BRI projects in Indonesia with a value of $20,3 million.

Infrastructure projects in Indonesia are infamous for its inconsistency, complexity and having unclear legal framework[55]. This includes the Jakarta-Bandung High Speed Railway project (KCJB). During the dynamics of the development of the KCJB project for around six years, 2016-now, there are several findings of the differences in the original plan and the latest revision of the KCJB project, ranging from technical to economic matters (see Table 8)[56].

Table 8. Comparison of the Original and Revised KCJB Project Plans

	Track Length (km)	Number of Stations	Speed (Km/h)	Year of Operation	Shareholder	Expenditure Prediction
Orisinal	150,5	8	350 – 380	2019	China: 40% Indonesia: 60%	$5,5 million
Revision	142,3	4	250	2020 (Revision: 2023)	China: 90% Indonesia: 10%	$6 million

54 Malik, A., Parks, B., Russell, B., Lin, J., Walsh, K., Solomon, K., Zhang, S., Elston, T., and S. Goodman. (2021). *Banking on the Belt and Road: Insights from a new global dataset of 13,427 Chinese development projects*. Williamsburg, VA: AidData at William & Mary. [URL]

55 The World Bank. (2018). *Op. Cit.*

56 Negara, S. D., & Suryadinata, L. (2018). Jakarta-Bandung High Speed Rail Project: Little Progress, Many Challengese. *Perspective Issue 8 No. 2*. Yusof Ishak Institute [URL]

In this project, there are at least two main types of risks that the government must pay close attention to[57]. **First** is institutional risk, which is related to the availability of legal rules and permits from various institutions to ensure the success of the KCJB project. In 2018, this project was estimated to require 600 hectares of land. In order to acquire this land, the government must make multi-level regulations, from presidential, provincial, to operational regulations in the field.

However, it must be noted that the KCJB project does not only involve direct stakeholders at the management level, but also the community.

Therefore, it will certainly take more time to accept changes and adjustments to various regulations at all levels that would not create counterproductive resistance.

Second is economic and sustainability risks. It was later discovered that this project is estimated to earn revenues of up to $62,2 billion or IDR 961 trillion at the exchange rate of IDR 15,455 from 2019 - 2050[58]. Even though it has not been officially announced, tickets for the KCJB are predicted to range between IDR 154,000 to IDR 350,000. This means that in order to achieve the total revenue of IDR 961 trillion, the project must be used by at least 1,8 million people everyday from 2023 to 2050.

This figure is much higher than the average number of people travelling the Jakarta-Bandung route currently, which is around 19,000 people per day[59]. In addition to the highly ambitious revenue target, the KCJB project is planned to stop at four stations, namely Halim Station (Jakarta), Karawang, Padalarang and Tegalluar (Bandung), which cannot fully accommodate everyone's destinations.

The concept of a high speed railway also tends to be a mode of transportation for the middle and upper class. The change in financing from B2B, which is managed by SOE, to direct funds from the state budget is a form of budget deviation. The state budget is meant to be used as a subsidy for affordable public transportation but instead it is misdirected and causes further inequality.

Photo by Greece-China News (pexels.com)

[57] Nath, S., & Raganata, G. (2020). An Assessment of Economic and Financial Impacts of Jakarta-Bandung High-Speed Railway Project. *Journal of Business and Political Economy: Biannual Review of the Indonesian Economy*, 2(1), 45 – 55. [URL]
[58] Ibid.
[59] Ibid.

B. Capital City Relocation Project

There are five reasons for the government wanting to relocate the capital city[60]. Firstly, to reduce the population concentration on the island of Java, which has reached 57% of the total population of Indonesia. Secondly, to introduce economic equity because the economic contribution per island to National GDP is uneven. Third, water scarcity is becoming aN issue for the future in the island of Java, particularly for Jakarta and East Java. Fourth, the living capacity in Jakarta is considered to have exceeded its limits. Last but not least, Kalimantan is considered safer because it is less vulnerable to natural disasters, such as earthquakes and floods.

Historically, the relocation of the capital city in Indonesia is not a novel concept in the eyes of the world. Recent studies show that since 1912, there are at least 11 countries that have relocated their capital cities, which are India, Australia, Russia, Turkey, Pakistan, Brazil, Tanzania, Nigeria, Malaysia, Kazakhstan, and Myanmar[61]. From a number of these countries, there are several reflective notes that should be studied[62].

First, the transfer of the Brazilian capital city from Rio de Janeiro to Brasilia in1960 showed that the new capital was capable of developing, but it was surrounded by slums because the government did not take into account the needs of all the groups that wanted to live in the new capital.

Second, the official capital of Malaysia remains Kuala Lumpur. However, it should be recognised that Malaysia has also designated Putrajaya as an administrative capital city[63]. This means that many government and judicial offices are based in Putrajaya. However, recent reports show that many State Civil Servants in Malaysia prefer to live in Kuala Lumpur rather than in Putrajaya[64]. Consequently, Putrajaya stands as a centre of government during the day but becomes a ghost town at night and during the weekends.

Third, similar to Malaysia, South Korea also implemented a two-capital model in 2012[65]. Seoul is known as the official capital as well as the economic and cultural centre of South Korea. However, the administrative capital city is actually Sejong City where a number of offices and important government institutions are located to deconcentrate political power in Seoul.

60 Pusat Riset Politik BRIN. (2022, Maret 28). Retrieved from politik.brin.go.id: https://politik.brin.go.id/kolom/pemilu-partai-politik-otonomi-daerah/dampak-pemindahan-ibu-kota-negara-terhadap-pengembangan-kompetensi-aparatur-sipil [URL]; Hasan, F. (n.d.). Retrieved from www.dpr.go.id/: https://www.dpr.go.id/dokakd/dokumen/PANSUS-RJ-20211215-032734-8993.pdf [URL]

61 Manan, A. M. A., & Suprayitno, H. (2020). Preliminary Overview of Several Capital Relocations in Relationship with a Plan of Indonesian Capital Relocation. *Journal of Infrastructure and Facility Asset Management Vol. 2 Issue. 1*, 73 - 90. [URL]

62 Hasan, F. *Op. Cit*

63 Geoguessr. (2017, Oktober 11). Retrieved from www.geoguessr.com: https://www.geoguessr.com/seterra/en/p/countries-with-two-capitals [URL]

64 Hasan, F. *Op. Cit*

65 Geoguessr. *Op. Cit.*

Reflecting on the experiences of other countries, relocating the capital does not necessarily solve the problems at hand. As a matter of fact, relocating the capital has been proven to bring about new problems and multiply previous problems.

In Indonesian context, the plan to relocate the capital city as of now seems nonurgent and fiscally unsound.

Numerous arguments and evidence have been made with regards to how it is not economically feasible to transfer the capital city. **First of all**, the ratification of the capital city transfer law took place amid a decline in the state revenue through taxes due to the COVID-19 pandemic. The tax-to-GDP ratio of 10,24% in 2018 declined significantly to 8,33% in 2020 and only rose to 9,11% in 2021. In addition, the reality of the increasing debt in Indonesia both in percentage and in real terms has become growingly worrisome. Thus, the plan to relocate and develop the capital city using the state budget is not the correct priority when the country is faced with pressing issues, such as accumulating debt, healthcare management and economic recovery.

Second of all, during the Jokowi administration, the economic growth tends to remain stagnant[66]. Since 2014 till now, the economic growth in Indonesia has never exceeded 5,3%. The highest growth occurred in 2018 of 5,2% and the lowest occurred in 2020 of -2,1%. This indicates that the country does not have a strong economic base to accelerate growth. Hence, instead of ambitiously trying to transfer the capital city at a disadvantageous time, the government should first form a solid economic foundation, such as developing a digital economy and transitioning to a green economy.

The physical development of the capital relocation project is estimated to require a budget of IDR 466 trillion which is to be endured by three different schemes[67], i.e. through the state budget of IDR 89,4 trillion (19,2%), Public Private Partnership with IDR 253,4 trillion (54,4%), and budget from State-Owned and Local-Owned Enterprises of IDR 123,2 trillion (25,4%). Although the Public Private Partnership scheme is planned to be the biggest budget contributors for the capital relocation, recent information has revealed that SoftBank, a multinational company from Japan who was the main investor in the capital relocation project in Indonesia, actually resigned in March 2022[68]. Thus, until now, it appears that the government has yet to find another major investor, so there is a possibility that the project will burden the state budget and State-Owned and Local-Owned Enterprises.

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[66] The World Bank. (n.d.). Retrieved from data.worldbank.org: https://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG?locations=ID [URL]

[67] Ibu Kota Negara. (n.d.). Retrieved from ikn.go.id: https://ikn.go.id/en/ksp-pembangunan-ibu-kota-baru-perlu-anggaran-rp-466-t-tak-semua-ditanggung-apbn [URL]

[68] Pratama, W. P. (2022, Maret 13). Retrieved from ekonomi.bisnis.com: https://ekonomi.bisnis.com/read/20220313/10/1510074/softbank-cabut-dari-ikn-ekonom-sarankan-hal-ini [URL]

Third of all, it should be underlined that participation of private sectors in financing the transfer of the capital city will only occur if the economic climate shows improvements and the investment climate is conducive. Unfortunately, this has not been the case for the current economic conditions in Indonesia, especially subsequent to the COVID-19 pandemic. In the midst of being struck by the effects of the pandemic, the threats of a recession and an economic downturn, the government should instead focus more on handling healthcare, positive economic transformation and equal distribution of infrastructure that can encourage a productive industrial sector.

Policy Recommendations

Challenges	Recommendations	Actors
Tax revenue decreased	Taxation for the super rich	Ministry of Finance
Tax incentives are not in favor of the lower middle class	Application of tax incentives in an inclusive and divergent manner	Ministry of Finance, House of Representatives
Tax amnesty has the potential to reduce taxpayer compliance that has been honest	Public involvement through voting and deliberation regarding the urgency of tax amnesty	
The state budget is dominated by personnel and goods spending	Redesign of the state budget	Ministry of Finance
Defense spending dominates spending on health and social protection	Revitalizing the urgency of spending on health and social protection	Ministry of Finance, Health, and Social
Local government's budget settlement in banks	Strengthening political commitment at the regional level	Ministry of Finance, Governor, Mayor, and Regional's Stakeholders
	Synchronizing commitments of various stakeholders	
Expenditures are difficult to identify	Using Public Expenditure Tracking Survey (PETS) method	Ministry of Finance, Central Bureau of Statistics
The country is trapped in a vicious cycle of debt	Primary balance improvement	Ministry of Finance
SOE-based infrastructure development has the potential to fail economically and politically	SOE performance indicator reform	Ministry of SOE
	Revitalization of sustainability aspect	Ministry of SOE, Coordinating Ministry for Maritime and Investements Affairs

1. Tax Policy Strategy

1.1. Tax Imposition for the Super Rich

During the pandemic era, 2019 – 2022, tax revenues in almost all countries have experienced a decline. One strategy to increase tax revenue in Indonesia can be done by imposing tax for the super rich. In this case, the super rich is defined as an individual with a net worth of more than $1 million.

Should the Rich Pay More Tax?

People who reside in Indonesia with the 'super rich' status are approximately 21,430 people and the number is predicted to rise to 110% or 45,063 by 2025[69]. Meanwhile, until March 2020, the central Bureau of Statistics of Indonesia have estimated the inequality rate or the gini ratio in Indonesia will reach 0,384[70]. In fact, the combined wealth of the four richest people in Indonesia is predicted to equal the wealth of 100 million poor people in Indonesia[71]. Therefore, with the current pandemic situation and tax reductions, the tax imposition strategy for the super rich in Indonesia should be highly considered to be implemented by the government. During the post-pandemic commodity price boom, the wealth of the upper class continued to increase. However, the amount of wealth accumulated from exports of primary processed commodities have not been fully returned to the real sector in the country. Instead, export proceeds are still stored in foreign banks. Progressive tax policies for the super rich could be a solution to the inequality brought about by the pandemic and the commodity bonanza. A 2019 research also proved that increasing taxes for the super rich can increase state revenues through taxation while also providing a more progressive and inclusive budget distribution[72]. Besides tax implementation, cooperation with international taxation needs to be encouraged to have better transparency in the assets that the rich keeps abroad.

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[69] Knight Frank Research. (2021). *The Wealth Report*. Knight Frank. [URL]

[70] Badan Pusat Statistik. (2022, Juli 15). Retrieved from www.bps.go.id: https://www.bps.go.id/pressrelease/2022/07/15/1933/gini-ratio-maret-2022-tercatat-sebesar-0-384.html [URL]

[71] Oxfam International. (n.d.). *Op. Cit.*

[72] Limberg, J. (2019). 'Tax the rich'? The financial crisis, fiscal fairness, and progressive income taxation. European Political Science Review, 11(3), 319-336 [URL]

1.2. Implementation of Inclusive and Divergent Tax Incentives

As of now, tax incentives have not favoured the middle to lower class citizens. Hence, inclusive and divergent tax programs need to be made mainstream[73]. This strategy has been applied in a number of cities in the United States and has been proven to be capable of accelerating the income of local entrepreneurs[74].

Tax incentives are not always in the form of reducing tax obligations, but can also be reallocation of tax for empowering and developing the skills of the lower middle class so they can work in strategic industries within the economy.

1.3. Public Involvement in Tax Amnesty Policy

Many studies have shown that the *Tax Amnesty* program can trigger a *Tax Amnesty* backlash, which results in reducing taxpayer compliance and honesty in the long run. This backlash can be minimised by involving the public in discussions and votings regarding the urgency of implementing the *tax amnesty* policy. This strategy is proven to be effective in Costa Rica[75] as the public feel involved in making state decisions which helps to increase a sense of obligation as taxpayers. Thus, compliance and honesty of taxpayers are maintained whether the *Tax Amnesty* policy is applied or not.

2. Strengthening the Quality of State Expenditures

2.1. Redesigning the Posture of the State Budget

Several studies have proven that in order to accelerate economic growth, the government needs to increase the allocation of capital expenditures instead of personnel and goods expenditures[76].

Redesigning the posture of the state budget must be done in stages.

Such radical changes with a sudden markup in capital expenditures will undoubtedly be difficult for various institutions to follow. As a result, the best option as of now is to create a gradual and measurable redesign of the state budget posture by the central government. Additionally, the government's plan to use part of the state budget to finance the transfer of the capital must be put to a halt, especially if it has the implication of reducing the state budget for social protection and equitable development which is more prioritised by the public.

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[73] German, L. & Parila, J. (2021, Mei 5). *www.brookings.edu/blog*. Retrieved from www.brookings.edu: https://www.brookings.edu/blog/the-avenue/2021/05/05/how-tax-incentives-can-power-more-equitable-inclusive-growth/ [URL]

[74] Parila, J. & Liu, S. (2018, Maret). *www.brookings.edu/research*. Retrieved from www.brookings.edu: https://www.brookings.edu/research/examining-the-local-value-of-economic-development-incentives/ [URL]

[75] Torgler, B., & Schaltegger, C. A. *Op. Cit*.

[76] Devarajan, S., Swaroop, V., & Zou, H. *Op. Cit.*; Vu Le, M., & Suruga, T. *Op. Cit.*; Bose, N., Haque, M. E., & Osborn, D. R. *Op. Cit*.

2.2. Revitalising the Urgency of Spending on Healthcare and Social Protection

Research[77] has confirmed that countries with a high defence expenditures tend to have higher corruption rates. On the other hand, the low budget allocation on healthcare and social protection has a direct correlation on the provision of services and protection. Research results in Turkey also confirmed that an increase in spending on the healthcare sector have a positive impact on economic growth in the long term[78].

It should be noted that it does not mean defence spending is made null and void, but should be adjusted to the challenges currently faced, accompanied by a stronger supervision on defence budget.

2.3. Strengthening Political Commitment at the Regional Level

Data shows that regional governments struggle with budgetary inactivity and financial problems. One realistic step to deal with this matter is to encourage regional governments to create strategic plans for regional expenditure allocations towards productive sectors while doing so with strong political commitment. A number of research have proven that political commitment is one of the most crucial instruments in the success of every policy strategy in Indonesia[79].

2.4. Synchronisation of Various Stakeholders

The essence of synchronisation is to ensure that every stakeholder involved, such as governors, mayors and local organisations, at multi levels both horizontally and vertically can have the same orientation towards optimising public services with the aim of *zero mistakes*.

The government as a public servant should provide services for citizens without creating problems along the way, whether administratively, technically and economically.

2.5. Optimising the use of the Public Expenditure Tracking Server (PETS) to track expenses

This mechanism aims to see to what extent is the government budget compatible with programs and objectives desired by the beneficiaries or the community[80]. Since its national pilot in Uganda in 1996, PETS has been implemented in dozens of countries and has been proven to be effective for public financial management to improve results and quality of public services.

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77 Gupta, S., de Mello, L., & Sharan, R. *Op. Cit.*; Mauro, P. *Op. Cit.*

78 Esen, E., & Çelik Keçili, M. (2021). Economic Growth and Health Expenditure Analysis for Turkey: Evidence from Time Series. *Journal of the Knowledge Economy*. [URL]

79 Thuy, P., Moeliono, M., Locatelli, B., Brockhaus, M., Gregorio, M., & Mardiah, S. (2014). *Integration of Adaptation and Mitigation in Climate Change and Forest Policies in Indonesia and Vietnam. Forests, 5(8), 2016–2036* [URL]; Nathaniel, M., Matoso, M., & Hueso, A. (2016). Beyond political commitment to sanitation: navigating incentives for prioritisation and course correction in Ethiopia, India and Indonesia. WaterAid. Zambia [URL]

3. Exiting the Vicious Cycle of Foreign Debt

3.1. Strengthening Primary Balance

Currently, the government gravitates towards paying debt by loaning, thus the government needs to increase the primary balance[81]. Data from the Ministry of Finance shows that positive primary balance only occurred twice, in 2018 and 2019 within 2017-2021. However, in 2019, the realisation of the primary balance was only IDR 0,4 trillion. Primary balance can be maintained at a positive value with several interventions, such as increasing taxes by imposing tax to the super rich and strengthening supervision of state expenditures through PETS.

4. Risk Mitigation of Infrastructure Development

4.1. Reformation of State-Owned Enterprises Performance Indicators

With this point, there are two policy recommendations that can be considered. **First**, as a basis for regulation, the government needs to consider upgrading the Presidential Regulation No. 38 of 2015 which concerns the cooperation between the government and business entities in providing infrastructure to become a Government Regulation. Upgrading the status of this law will help bind and impact other regulations at a lower level so that the synchronisation of infrastructure development rules can be conducted swiftly.

Second, the government needs to reform performance indicators of State-Owned Enterprises, not just in terms of efficiency and economic benefits but to also ensure the sustainability and overall benefits of the project for the society.

4.2. Revitalisation of Sustainability Aspects

The success of mega infrastructure projects, such as the Jakarta-Bandung High Speed Railway and the relocation of the capital, should not only be seen from an economic perspective, but also from the perspective of sustainability (*continuous-use intention*). This is because if these projects turn out to be of less interest to the public and fail economically in the long run, then the government and the country will suffer financially and politically. Hence, any mega infrastructure project that affects people's needs must be accompanied by a redesign and reform of the overall blueprint.

The government must ensure the public that every development project worth trillions is not done in vain, but can provide benefits to all elements of society in a comprehensive and inclusive manner.

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[80] Gurkan, A.; Kaiser, K.; Voorbraak, D. (2009). Implementing Public Expenditure Tracking Surveys for Results: Lessons from a Decade of Global Experience. *PREM Notes; No. 145*. World Bank, Washington, DC. [URL]

[81] Secara matematis, keseimbangan primer merupakan total pendapatan dikurangi total belanja di luar pembayaran belanja bunga. Apabila keseimbangan primer bernilai positif berarti negara memiliki anggaran untuk membayar utang. Namun, jika bernilai negatif, maka negara harus berutang untuk membayar utang.

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