

## PROGRAM IMPACT ASSESSMENT FISCAL POLICY AND PUBLIC EXPENDITURE MANAGEMENT PROGRAM INDONESIA

### I. Executive Overview

1. Indonesia needs fiscal reform. The current economic growth rate of 5.1% may be strong by global standards, but it remains short both of government plans for growth of between 6% and 8% and the needs of Indonesia's growing population. Furthermore, the benefits of growth have not been evenly shared. Income inequality is persistently high, and the poor often have difficulty in accessing services that are notionally allocated to them.
2. Fiscal constraints are a significant feature of these problems. Indonesia's fiscal deficit is capped at 3%, and so higher levels of spending alone are not a feasible solution to poverty. More efficient delivery of public services will be necessary if the government is to reduce the perceived output gap and improve the distribution of income.
3. The subprogram delivers improvements in the modes of public service delivery as well as helping to fund services which governments in emerging economies need to provide. Its net quantifiable benefits have been estimated at \$4.1billion.

**Costs and Benefits of Subprogram 2**  
**Present Values in USD million\***

Output	Benefits		Costs	Net Benefits
	1	3,957	1,838	2,119
	2	2,038	107	1,931
	3	67	28	39

\*Totals may disagree due to rounding

4. The subprogram recognizes important connections between the rate of growth and the distribution of the gains. Many of the gains in output 1 accrue directly to the poor, and gains across the other two outputs also benefit the poor indirectly. Although output 3 contributes significantly less in monetary terms than the other two sets of reforms, its support in terms of stronger governance is essential to the overall success of the subprogram.

### II. Development Problem and Constraints

5. Economic growth in Indonesia has been respectable at around 5.1%, but it is appreciably and consistently below the government's target band of 6% to 8%, and its benefits are not being adequately channeled to the poor. The World Development Indicators place Indonesia's GINI coefficient<sup>1</sup> at 39.5, compared with an average for East Asia and the Pacific of 37.6.
6. The government now has a window of opportunity to channel more income to the poor, following the fiscal relief that flowed from the cancellation of major gasoline subsidies in 2015. However, limits on the government's deficit – which is constitutionally constrained to remain below 3% of GDP – mean that meaningful efforts toward poverty alleviation are also bound to require greater efficiency in public sector performance.

<sup>1</sup> A GINI coefficient is a measure of the evenness of distribution of output. It ranges between zero (perfect equality of income) and one hundred (perfect concentration).

7. Indonesia's need for these services remains unquestionably strong. The country's Human Development Index ranking was 113 out of 188 UNDP surveyed countries and territories in 2016.<sup>2</sup> Among the various dimensions of human development, health is a particularly pressing issue. Overall Indonesian expenditure on health, at around 2.84% of GDP, is among the lowest in ASEAN, and Indonesia ranks at 100<sup>th</sup> in the WEF's rankings on this measure.<sup>3</sup> This poor performance has been at least partly a reflection of government priorities. Health spending represents only 5.7% of government expenditure – the second lowest proportion in ASEAN.

8. The consequences of inadequate expenditure on health are evident in a wide range of lower level indicators. The WHO reports that life expectancies for males and females are only 67 and 71 respectively, and Indonesia ranks 103<sup>rd</sup> of 137 countries on the broad subject of health in the WEF's rankings – well below its overall competitiveness ranking of 36<sup>th</sup>. According to the WEF, Indonesia is among the worst countries in the world in terms of indicators related to tuberculosis, HIV/AIDS management and overall life expectancy.<sup>4</sup>

9. Indonesia lags also in terms of education. Only 49% of the population has completed secondary education, and only 44% of women have attained that qualification.<sup>5</sup> The overall primary enrolment rate is low by world standards, and 70% of pre-school age children in poor families are not enrolled in any form of pre-school education (World Bank, 2017). Ultimately, and despite recent improvements, Indonesia still stands at 106<sup>th</sup> in the world in terms of the primary enrolment rate.

10. A significant problem for government has been the targeting of the poor.<sup>6</sup> Indeed, the World Bank<sup>7</sup> has suggested that better integration and delivery of services should take precedence over expansion of target coverage. Its study identifies the extent of shortcomings in this area, highlighting the problems of updating of databases and errors in proxy means testing as major causes of the inability of government to identify and include the poor in its social assistance programs. In addition, local administration of social assistance benefits tends to be highly uneven and often inconsistent with objectives of the central government.

11. In addition to having delivered inadequate and inefficient social assistance, Indonesia's government has failed to provide adequate infrastructure. The World Bank (2014) estimates that if growth in infrastructure had been the same as economic growth in recent years, the latter would have been 0.5% higher,<sup>8</sup> while Bappenas reports that infrastructure needs in Indonesia are approximately 60% underfunded.<sup>9</sup> It also notes that Indonesia ranks 63<sup>rd</sup> of 160 countries in terms of the Logistics Performance Index and that public expenditure on infrastructure (2.3% of GDP) is well below the average for developing countries of 5.5%. The World Economic Forum ranks

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<sup>2</sup> UNDP (2016), "Human Development Report 2016" [http://hdr.undp.org/sites/all/themes/hdr\\_theme/country-notes/IDN.pdf](http://hdr.undp.org/sites/all/themes/hdr_theme/country-notes/IDN.pdf).

<sup>3</sup> World Development Indicators.

<sup>4</sup> WEF, <http://reports.weforum.org/global-competitiveness-index-2017-2018/countryeconomy-profiles/#economy=IDN>

<sup>5</sup> WDI, op cit.

<sup>6</sup> For a technical study of the allocation of education spend by income, see Wika and Widodo (2012) "Distribution of Government Spending on Education in Indonesia". [https://mpra.ub.uni-muenchen.de/79501/1/MPRA\\_paper\\_79501.pdf](https://mpra.ub.uni-muenchen.de/79501/1/MPRA_paper_79501.pdf).

<sup>7</sup> World Bank (2017:14), "Towards a Comprehensive, Integrated and Effective Social Assistance System in Indonesia", <http://documents.worldbank.org/curated/en/535721509957076661/pdf/120905-WP-SAPER-2017-pageview-PUBLIC-ENGLISH.pdf>.

<sup>8</sup> World Bank (2014), "Indonesia: Avoiding the Trap", <http://www.worldbank.org/content/dam/Worldbank/document/EAP/Indonesia/Indonesia-development-policy-review-2014-english.pdf>, p.86.

<sup>9</sup> Government of Indonesia (2017) "Public Private Partnerships: Infrastructure Projects Plan in Indonesia", [https://www.bappenas.go.id/files/9314/8767/3599/PPP\\_BOOK\\_2017.pdf](https://www.bappenas.go.id/files/9314/8767/3599/PPP_BOOK_2017.pdf).

Indonesia at 52<sup>nd</sup> in terms of infrastructure, scoring the country particularly poorly in relation to fixed telephone lines, electricity supply, as well as port and road infrastructure.

12. The reasons behind Indonesia's infrastructure deficit are numerous. However, like social services, they have been broadly related to the way that programs are delivered. The last of these is particularly interesting in that it highlights the relationship between infrastructure needs and the quality of the labor force. These issues of quality are, in turn, addressed in the health and education themes elsewhere in the sub-program.

13. Corruption in public services and procurement is a significant aspect of this problem. Indonesia scores worse on corruption than its overall WEF competitiveness index might suggest, and the FCPA Blog estimates that corruption in public procurement could cost the economy up to \$4billion per year.<sup>10</sup> Indonesia is also notorious for problems in procurement, bureaucracy, and land acquisition. Indeed, Accounting firm PwC has pointed out that execution rates against infrastructure budgets have been just a little over 70% and, despite improvements in certain sectors, sub-national governments struggle to absorb their allocations of infrastructure spending.<sup>11</sup>

14. Whatever its causes, inefficiency in public sector management clearly spills over into problems for the private sector. The World Bank has found<sup>12</sup> that of the 190 countries that it surveyed, Indonesia ranks: 144<sup>th</sup> in terms of starting a new business; 108<sup>th</sup> in terms of construction permits; 145<sup>th</sup> in terms of enforcing contracts; 114<sup>th</sup> in terms of paying taxes; and, 112<sup>th</sup> in terms of trading across borders. These indicators are inauspicious for an economy which has a clear need for private sector co-sourcing to bridge its infrastructure deficit. In that context, the government's announced objective of raising the country's WEF ranking on the ease of doing business from its current level of 109 to 40 is an encouraging sign of its awareness of the problems.

### III. Reform Program

15. The three outputs in this subprogram will all contribute to better service delivery for the poor. They work either directly – by providing higher levels of assistance to the poor and better targeting of those in need – or indirectly, through the improvement of infrastructure for better fiscal management.

16. **Output 1** asserts the commitment of Indonesia's government to the Sustainable Development Goals (SDGs) and its own National Medium-Term Development Plan (RPJPN). Although Indonesia remains a considerable distance from some of the SDGs, the United Nations points out that, in many respects, performance has shown remarkable improvement in recent years.<sup>13</sup> Indonesia attributes its success to cooperation among stakeholders, and it has flagged further efforts to integrate the SDGs into the national planning process.<sup>14</sup>

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<sup>10</sup> FCPA Blog (2014), "Indonesia Loses \$4billion annually to procurement fraud, study finds", <http://www.fcablog.com/blog/2014/6/5/indonesia-loses-4-billion-annually-to-procurement-fraud-stud.html>.

<sup>11</sup> PwC (2016), "Indonesian Infrastructure: Stable Foundations for Growth", p.1 <https://www.pwc.com/id/en/industry-sectors/cpi/infrastructure-in-indonesia.html>.

<sup>12</sup> World Bank, "Doing Business", <http://www.doingbusiness.org/rankings>.

<sup>13</sup> United Nations (2017), "Voluntary National Review: Indonesia", <https://sustainabledevelopment.un.org/index.php?page=view&type=6&nr=179&menu=139>.

<sup>14</sup> Ibid.

17. Further improvements to the architecture of service delivery are the subject of output 1.1(1) in the policy matrix, which targets national co-ordination of efforts toward achieving SDGs. More direct contributions are made via outputs 1.1(2) and 1.2(3), which provide higher levels of direct social assistance.

18. Progress toward the achievement of the SDGs has been particularly encouraging in relation to health (SDG three). Indonesia's health insurance system now covers 172 million people, and its coverage has increased from 52% of the population in 2014 to 66%. It is now one of the largest health insurance systems in the world, and the government is showing heightened commitment to health as a priority. Accounting firm PwC has observed that the 2016 revised budget to 5% - the first time it has reached this proportion since a law mandating it was enacted in 2009.<sup>15</sup>

19. The scheme, and other initiatives, have been responsible for some dramatic and recent improvements against some health indicators. The maternal death rate, for example, has dropped by 12% in the last five years. Better maternal care, as well as other initiatives in relation to nutrition have also contributed to dramatic improvements in key measures of infant health, notably reductions in wasting for those aged under five and a decrease in under-five stunting. Infant mortality also continues to decline.

20. Education (SDG four) is another area in which progress has been made. The UN reports rising rates of female enrolment in primary and secondary schooling. Age-specific fertility among females aged between 15 and 19 has been dropping, and there have been increases in enrolment rates.

21. Output 1 supports these achievements in several ways. In logistical terms, it reinforces government planning capability for the SDGs. The government has particularly emphasized targeting goals two (food security), three (healthy lives), four (education), five (gender equality), nine (infrastructure), fourteen (marine resources) and seventeen (global partnerships) in reporting against its SDG commitments. And in the specific area of infrastructure (Goal Nine), it is tightening the multi-year budgeting process and ceding greater control over budgeting and procurement to individual ministries. These plans dovetail well with the government's stated aims (in its VNR) of integrating separate national plans that with different time horizons and aligning them with its SDG ambitions.

22. As part of the efficiency initiative, Output 1 also includes better delivery of social assistance programs, via non-cash means. In particular, Item 1.2(3), in extends social assistance to a further 1.4 million households. These programs have shown considerable promise so far. The E-Warong program, for example, delivers non-cash grocery services to the poor, serves over 6million people, and is dramatically accelerating other social services programs.<sup>16</sup> Concurrent initiatives toward the distribution of social facilities through e-banking are another instance of the success of the delivery of cashless assistance.

23. Importantly, the streamlining of service delivery is likely to lead to better targeting of the poor and near-poor. Service delivery in Indonesia has often been mistargeted, partly because the poor are less aware of, and less able to access, services that are intended for them. Rice distribution programs have historically been a case in point. In a number of cases, these initiatives render inefficient public service distribution mechanisms obsolete. For example, new modes of

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<sup>15</sup> PwC (2016:8).

<sup>16</sup> Amindoni, A (2016) "Non-cash social assistance to speed up poverty alleviation: Minister" The Jakarta Post.

social assistance delivery have meant that the rice distribution mechanism program, Raskin, is no longer necessary. Social assistance can now be used to access rice through commercial distribution channels, and the government's inefficient parallel system is no longer required.

24. In addition to improving the logistics of service delivery, Output 1 supports the SDGs simply by increasing government funding of core services. This has been enabled partly by the withdrawal of gasoline subsidies, and it includes an 8% uplift in funding for primary education, as well as an extension of the conditional cash social assistance program to an additional 6.5 million families (Item 1.2(4)).

25. **Output 2** is primarily designed to improve Indonesia's budgeting process. Various levels of government have consistently failed to convert budget appropriations into productive projects. At the federal level, procurement and planning have not been properly coordinated, while at the local level, execution failures have been problematic. The initiatives in this output address some of the causes and, in that way, bring Indonesia closer to realization of its objectives under SDG nine ('industry, innovation and infrastructure').

26. The resolution of these issues will have widespread benefits. To the extent that the assets yield a rate of return, they improve the integrity of the government's fiscal position and reduce the financial burden of government spending on future generations of taxpayers. In addition, many of them enable infrastructure projects that are of immediate benefit to Indonesians. The government has identified a need for approximately \$353 billion in infrastructure funding through to 2019 – much of it involving transportation, and much of it being directed to the less prosperous eastern areas of Indonesia.<sup>17</sup>

27. The first set of reforms is designed to redeploy funding which is currently not being used (Item 2.1(6)). Indonesia has a long history of failing to measure and manage assets on the government's balance sheet.<sup>18</sup> Approximately \$2.8 billion worth of assets are estimated to be idle and are not being adequately managed. Properly deployed, these assets should be able to reduce Indonesia's infrastructure funding requirements. To ensure that, the government has issued procedures and protocols for the management of these assets.

28. The second, complementary, set of reforms involve improvements to the procurement process. Indonesia has historically struggled with the procurement process, despite the urgency of spending. Lower tiers of government often fail to disperse funds, and the procurement process is inefficient. The government has addressed these problems within output 2 in several ways.

29. First, it has improved the procurement and planning process at the ministerial level. Recent changes to the governance of national planning now mean that development priorities are set on a whole-of-government basis, rather than simply through the national planning agency. The government has also compiled and published a much wider range of data concerning its medium term fiscal framework, fiscal priorities and economic challenges. This is conducive to a much more coordinated approach to national development objectives. Lower tiers of government will benefit from complementary initiatives designed to lift their performance at the execution stage. The KRISNA system built by the government will allow coordinated tracking of procurement through to execution, as well as performance monitoring (Item 2.1(8)).

<sup>17</sup> Tarahita and Rakhmat (2017), "Solving Indonesia's Infrastructure Gap", <https://thedi diplomat.com/2017/05/solving-indonesias-infrastructure-gap/>.

<sup>18</sup> Prayoga, NE (2017), "Linkages between Good Governance and State Asset Management Reform in Indonesia, University of Canberra" [http://www.canberra.edu.au/researchrepository/file/b63da745-ea7e-4565-84ea-a2a46f356e64/1/full\\_text.pdf](http://www.canberra.edu.au/researchrepository/file/b63da745-ea7e-4565-84ea-a2a46f356e64/1/full_text.pdf).

30. **Output 3** supports the subprogram with the provision of stronger fiscal discipline around the disbursement of funding. As highlighted in the previous subprogram, failures in infrastructure deployment have often arisen at the local government level. An absence of discipline has led to poor selection of projects and a failure of government to ensure that funds are properly committed. Remediating this situation is a theme that applies across all three outputs of the subprogram. For example, Output 1 (Item 1.2(2)) delivers a stronger and more unified budgetary results program, while Output 2 develops stronger platforms for budgeting and infrastructure development (2.1(7) and 2.1(8)).

31. Output 3 continues the theme by constricting disbursements where projects are unfinished. Item 3(11) of the subprogram ensures that there are now stronger compliance mechanisms for the allocated funding grants (DAK). Absorption rates have also been specified, via a stage-gating compliance mechanism, to prevent local governments from simply saving allocated funds that are intended for infrastructure. The program also contributes to investment at the procurement stage, by adding criteria for project selection criteria under the Regional Incentive Funds (DID) disbursements program. These criteria have now been aligned with SDG goals.

#### IV. Benefits and Costs of the Reforms

32. The following table summarizes the main features of the reforms that the staff have identified for the Program in thematic terms. These benefits are not exhaustive, but provide an indication of the key aims.

Name of reform	Enabling Outputs			Summary of economic impact
	Output 1	Output 2	Output 3	
Alignment of planning with SDGs	*		*	Better alignment of national planning processes with the SDGs will and drive a more focused approach to poverty reduction.
Social assistance	*		*	Higher levels of funding for the poor and near poor reduce poverty and foster human capital development.
Public sector efficiency	*	*	*	Fiscal discipline at all stages of the investment process will ensure reduced fiscal outlays for a higher standard of service delivery.
Better project management and delivery	*	*	*	Better governance over project outcomes will ensure higher realization rates on deployed funding,

#### V. Methodology

33. The benefits of the reforms have been present-valued. Those that take the form of a flow over time are assumed to be continuous and indefinite, unless they have a stipulated termination date. This means that the present value of any such benefit may be approximated by dividing the flow of benefit by the social discount rate. Thus, while the benefits are indefinite, benefits which accrue far into the future are assumed to be less valuable than those that accrue over the next few years.

34. By contrast, benefits that occur on a once-off basis are valued at their notional value. For simplicity, they are assumed to take immediate effect, without phase-in or ramp-up processes, though many are likely to take several years to become fully effective.

35. The costs of the subprogram are mainly of two types: direct expenditure on welfare and infrastructure; and, the costs of administering or developing government programs. These would include wages and capital expenditure.

36. Mathematically, costs are valued in the same way as benefits. Those which take the form of a flow are expressed as the cost of funding the initiative in perpetuity at the current government bond rate. This can be justified on the basis that the overall costs of the subprogram are sufficiently small that they can be funded out of borrowing without breaching the constitutional cap on the government's deficit. Effectively, this implies that the incidence of any expense lies with future generations of Indonesian taxpayers. Such a cost may be modelled as a flow of debt servicing cost, converted to a present value, by taking the quotient of the debt servicing amount and the social discount rate.

37. Both cost and benefit calculations assume 13,504 Indonesian rupiah to the US dollar, a long-term interest rate (equal to the local currency government bond rate) of 6.55%, and the ADB's social discount rate of 9%. Benefit that are present valued are divided by the social discount rate whereas cost that government has to raise to implement reforms are calculated based on the long-term interest rate. Where an annual wage is needed to quantify the cost of increased government effort, a value of \$25,000 has been assumed.

38. Costs and benefits are summarized in the form of a stylized ledger below.

**Quantitative Costs and Benefits of the Subprogram  
(present value in USD millions)**

Benefits			Costs		
Policy Matrix Reference	Description	Value	Policy Matrix Reference	Description	Value
1.1(3)	Extending social assistance to 1.4 million families	156	1.1(3)	Extending social assistance to 1.4 million families	14
1.2(4)	Returns to education (direct social assistance)	3,801	1.2(4)	Funding social assistance	1,760
			1.2(4)	Social assistance administrative costs	65
			1.1(1)	Funding of SDG goals	28
2.1(6)	Redeployment of idle assets	2,038	2.1(6)	Redeployment of idle assets	15
			2.1(8)	KRISNA	50
			2.2(10)	OM SPAN	42
3(11) – (13)	Fiscal discipline initiatives	67	3(11) – (13)	Fiscal discipline initiatives	28

## VI. Benefits

39. Quantifiable gross benefits under the subprogram have been present valued at \$6.1billion.

40. Extending cashless payments to individual households (**output 1**) is expected to have an up-front cost (see below), but this needs to be offset against the ongoing reduction in service costs. These reductions have been conservatively costed at \$10 per household per annum and so, using the methodology outlined above, the overall gross benefit has a present-value of \$156 million. This benefit calculation is based on a conservative assumption of savings that government made from using warehouses to store subsidized rice compared to the smart card system which utilizes existing commercial channels (accredited shops).

41. A second benefit arises from the increase in spending on social assistance. This analysis focuses on the benefits of an education uplift, largely because education has the most readily quantifiable benefits and is a priority for the government.<sup>19</sup> The government's investment is motivated by its target of achieving universal completion of secondary schooling. Demographic data and UNESCO estimates of enrolment rates<sup>20</sup> suggest that there are currently 5,550,000 Indonesians of secondary age who are not enrolled in secondary education. A benefit to enrolment reform can be calculated by assuming that just 10% of this current cohort (ie. 550,000) are enrolled as a result of the measures in the subprogram. The benefits to these individuals can be estimated as a result of the increase in lifetime earnings that accrues from higher skill levels. Formal analysis of the Indonesian education system broadly suggests that a 20% increase in income would be appropriate for this calculation. Applying this uplift factor to the minimum wage of \$3,110 for the 550,000 students who are assumed to enroll delivers a present value of \$3.8 billion. Since this estimate is subject to a number of uncertainties, the following table presents alternative projections which vary assumptions around the number of students benefiting from the uplift, and the proportional change in the minimum wage brought about by extra education. The valuation chosen for this assessment is the central projection.

**Benefits of Education Initiatives**  
(present value in USD millions assuming 5.5million unenrolled students)

		Average increase in minimum wage for students		
		15%	20%	25%
	20%*	5,702	7,602	9,503
	10%	2,851	3,801	4,751
	5%	1,425	1,901	2,376

42. The major contribution of **output 2** is a \$2 billion uplift in the present value of the public-sector balance sheet. This assumes that \$2.8 billion in currently under-utilized assets such as abandoned mine and premises taken over by the government is mobilized for productive use. Calculation linking this to the infrastructure deficit or economic growth would be tenuous at best. Instead, conservatively we can assume that the idle assets would earn the risk-free ten-year government bond rate. When present-valued with the 9% social discount, this flow of income returns a \$2 billion uplift. An alternative investment strategy, which yields the same return, would be to assume that the government is able to liquidate \$2.8billion in existing unprofitable assets, and pay off existing debt off the bond market with the proceeds of the liquidation. This strategy would yield an annual saving to taxpayers approximately equal to the long-term government rate

<sup>19</sup> Other benefits arising from social assistance, while important, are more difficult to value reliably.

<sup>20</sup> For enrolment rates, see UNESCO, <http://uis.unesco.org/country/ID>. Cohort size of 22million estimated from data available at [https://www.indexmundi.com/indonesia/age\\_structure.html](https://www.indexmundi.com/indonesia/age_structure.html). Minimum wages sourced from Trading Economics, <https://tradingeconomics.com/indonesia/minimum-wages>.



on the retired debt. When discounted at the social discount rate, the present value of that saving would also be \$2billion.

43. The main benefit from **output 3** arises from the improved fiscal transparency measures. These measures are a prominent theme of output 3, but they feature throughout the subprogram, and their benefits have been consolidated into a single estimate. The better fiscal management program is assumed to generate a more reliable profile for government debt and a lower risk premium. This reduces the required yield paid ultimately by taxpayers to non-residents.

44. The benefits of enhanced fiscal stability are notoriously difficult to value and dependent in part on the government's commitment to fiscal rectitude over the long term. A conservative approach to valuation has therefore been taken, and a reduction of a single basis point on foreign held government debt has been assumed.<sup>21</sup> Since the outstanding stock of foreign-held government debt stands at around \$60.67 billion, this reduction has a present value of around \$67 million.<sup>22</sup>

## VII. Costs

45. The program also has significant costs attached. These have been present-valued at \$1,972 million.

46. The largest cost within **output 1** is the expense of funding the increase in social assistance. The government has expenditure of approximately \$151 billion in 2016, of which the education budget represented 20%. An 8% uplift in that spending, funded at the current bond rate and discounted at the social discount rate would return a present value of \$1.76 billion.

47. A second among the costs of output 1 is the expense of extending cashless social assistance to 1.4 million households. Identifying welfare to a household is assumed to have an average cost of \$10, and so this initiative generates a cost of \$14 million to taxpayers.

48. The output also generates the expense of funding the increase of social assistance to the poor. The value of the transfers themselves has not been factored into the valuation on the basis that it is a transfer from taxpayers to social assistance beneficiaries. Instead, the costs are assumed to be the administrative expenses of identifying and registering the additional 6.5 million households targeted for assistance. Again, assuming a one-off average administration cost of \$10 for each additional recipient family returns an overall cost \$65 million.

49. A final expense arising under output 1 is the administrative cost to government of resourcing its stronger commitment to the SDGs. The administrative costs within the output are assumed to total 100 staff. With an average wage of \$25,000 per annum, these costs of employment have a present-value of \$28 million.

50. The first cost arising under **output 2** is that of mobilizing under-utilized resources. The precise cost will depend significantly on how, and to what purpose, the funds are re-deployed, and a notional allocation of \$15 million has been made in the costings. This is slightly more than the employment cost of fifty full-time and permanent staff.

<sup>21</sup> Reductions in debt premia on domestically held debt are less clearly a net wealth transfer to Indonesia.

<sup>22</sup> This figure was derived by dividing a basis point of interest on the stock of debt by the social discount rate. That calculation is consistent with the methodology used elsewhere in this Assessment.

51. The remaining costs of output 2 accrue either as a result of project expenses (KRISNA) or ongoing efforts to improve government management processes. KRISNA has been costed at \$50 million, and the rollout of OM SPAN assumes a permanent increase in staff requirements of approximately 150. This yields a present valued cost of \$42 million.

52. There are no major macroeconomic costs or dislocations associated with **output 3**. The monitoring mechanisms outlined are assumed to be mainly an administrative burden which has been estimated with a staff of around 100. This reasonably high allocation of staffing reflects the need for labor-intensive and low-level monitoring of the performance of lower tiers of government against investment and spending targets. The implied resourcing cost is \$28 million in present-valued terms.

### **VIII. Key Risks and Other Considerations**

60. Risks in relation to the subprogram are evenly balanced. On the downside, although Indonesia has made laudable progress toward many of its SDGs, its longer-term history in terms of social assistance has been one of unsteady progress. Experience suggests that fiscal commitment to poverty alleviation may weaken a little if the economic cycle turns, or if constitutional constraints on government financing bind more tightly than at present.

61. On the upside, the rate of return on newly deployed assets has been estimated quite conservatively, given the potential benefits of better infrastructure. The assumed benefits of a tighter budgetary, and no allowance has been made for possible spillover effects into the pricing of corporate debt. Finally, the formal quantification also ascribes relatively little monetary value to the fact that many of the benefits are targeted directly at the poor.

### Summary

These are summary costs and benefits of the major policy initiatives under Subprogram 2. They include observations on some of the less readily quantifiable effects. Full descriptions of the initiatives are contained in the policy matrix for the Program.

Channel of Effect		Impact on the Sector/Economy		Estimated benefits, beneficiaries and benefactors
General	Specific	Short to medium Term	Long Run	
<b>Strategic Policy Alignment (output 1)</b>	<ul style="list-style-type: none"> <li>• More efficient delivery of services</li> <li>• Better targeting of services</li> <li>• More rigorous monitoring of government service delivery.</li> </ul>	<p>Higher costs in the short run, due to implementation expenses of new programs.</p> <p>The poor benefit from more extensive and convenient service delivery.</p>	<p>Benefits to taxpayers accrue as greater rigor in public service delivery reduces the cost of administration. Taxpayers also benefit from a decrease in unnecessary service provision to the non-poor</p>	<p>Benefits accrue to individuals through more efficient service delivery. Costs are administrative. They are skewed toward the short term and are borne by taxpayers.</p>
<b>Improved service targeting (output 1)</b>	<ul style="list-style-type: none"> <li>• Increased spending on social services</li> </ul>	<p>The poor are immediate beneficiaries of spending on health, education, social protection and public infrastructure.</p>	<p>These initiatives contribute directly to poverty alleviation and the achievement of a wide range of development objectives, include the government's own development plans and the SDGs.</p> <p>Taxpayers claw-back some of the costs of the spending as streamlining initiatives for public service delivery lead to more efficient performance by government</p>	<p>These initiatives are targeted directly and specifically at the poor. Education and health also benefit businesses in the long run. Costs are mainly levied on taxpayers. However, progressivity in the tax system ensures that the incidence is skewed toward those on higher incomes.</p> <p>The emphasis on efficient service delivery is expected to cap the incremental costs.</p>
<b>Better practices in budget preparation (output 2)</b>	<ul style="list-style-type: none"> <li>• More efficient and profitable use of public assets.</li> </ul>	<p>Taxpayers are the main beneficiaries of more efficient use of idle assets. The gains are reduced in the short run to the extent of costs to fund the initiative.</p>	<p>Taxpayers continue to benefit in the long run from better use of government funding. They also benefit from any improvements in fiscal policy which are seen by financial markets as contributing to more sustainable fiscal outcomes.</p> <p>More efficient and transparent targeting implies stronger performance against government social targets with benefits to recipients.</p>	<p>Taxpayers benefit from more efficient use of public funds.</p> <p>Recipients of social assistance are the main beneficiaries of better targeting of initiatives.</p>
<b>Better budgeting and cash management (output 2)</b>	<ul style="list-style-type: none"> <li>• More transparent budget targets.</li> </ul>	<p>Administrative costs of building capacity in government</p>	<ul style="list-style-type: none"> <li>• Benefits to taxpayers as higher earnings</li> </ul>	<p>The costs and benefits of this set of initiatives both accrue to taxpayers. Costs are short run and related to administration and capital expenditure, while the long run benefits are mainly those that flow from a more efficient, less expensive public sector.</p>
<b>Stronger fiscal transfer mechanisms (output 3)</b>	<ul style="list-style-type: none"> <li>• More effective services</li> </ul>	<p>There are relatively few costs in the short run.</p> <p>Benefits are widely distributed as more effective budgeting leads to better execution against spending plans.</p>	<p>The poor are particular beneficiaries, since many of the areas most affected by the initiatives are aimed at social service delivery.</p> <p>Taxpayers benefit from a reduction in the opportunity cost of idle funding, and from the withholding of funds in the event of unacceptable levels of under-absorption of allocations.</p>	<p>Benefits are very widely spread under this initiative as the government repairs its internal transfer mechanisms and enforces better governance.</p>