Indonesia: 2015 and beyond

Delivering change

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What I’ll be talking about

► Indonesia: the record and the potential

► But challenges, old and new
  ● Increasing growth to reach high-income—before Indonesia ages
  ● Slowing poverty reduction and rising inequality
  ● Slowing growth, falling commodity prices, declining commodity exports

► Delivering change: the priorities
  ● Spending more and better
  ● Raising revenues
  ● Facilitating private investment and job creation
    ▶ Infrastructure
    ▶ Business regulatory environment
Indonesia 2015 and beyond

THE POTENTIAL AND THE CHALLENGES, OLD AND NEW
Indonesia: the record and the potential

- Rapid recovery after the devastating twin crises in 1998
  - restoration of macroeconomic stability and growth,
  - ongoing process of democratic consolidation and governance transition from centralized authoritarian regime to decentralized noisily but robustly democratic state

- USD 900 billion economy in 2013, USD 3,500 GDP per-capita (past the magic USD 3,000 threshold); 2011 ICP: 10th largest economy

- (Still) young and dynamic population, emerging consumer class--fourth most populous country, largest Muslim population, leading example of thriving and stable democracy among predominantly Islamic countries
But some longstanding challenges: increasing growth to reach high-income ...
But some longstanding challenges:

...getting rich before becoming old

<table>
<thead>
<tr>
<th>Country</th>
<th>Year</th>
<th>GDP per-capita (constant 2012 USD)</th>
<th>GDP per-capita in year demographic bonus ended and population started aging</th>
</tr>
</thead>
<tbody>
<tr>
<td>Japan</td>
<td>1970</td>
<td>20,017</td>
<td></td>
</tr>
<tr>
<td>Hong Kong, SAR, China</td>
<td>1982</td>
<td>12,424</td>
<td></td>
</tr>
<tr>
<td>Singapore</td>
<td>1991</td>
<td>24,218</td>
<td></td>
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<tr>
<td>Korea</td>
<td>2000</td>
<td>14,274</td>
<td></td>
</tr>
<tr>
<td>Indonesia (projected)</td>
<td>2030</td>
<td>8,531</td>
<td>6% real GDP growth 2013-2030</td>
</tr>
<tr>
<td>Indonesia (projected)</td>
<td>2030</td>
<td>16,618</td>
<td>10% real GDP growth 2013-2030</td>
</tr>
</tbody>
</table>
…and some new challenges: slowing poverty reduction
...and some new challenges: rising inequality

Gini coefficient of consumption inequality


...and some new challenges: slowing growth
...and some new challenges: falling commodity prices
...and new challenges: declining commodity exports

% change in commodity exports: Jul-Aug 2013 to Jul-Aug 2014

- Rubber
- CPO
- Crude oil
- Gas
- Coal
- Copper
- Nickel

price
volume
value
Delivering change: the priorities

SPENDING MORE AND BETTER
Spending more…

► …to break the cycle of poverty by increasing total social assistance spending from 1% to 1.5% of GDP over 4 years
  ● 93 million Indonesians live on under $2 dollars per day
  ● 40 million people who are poor this year, were not poor last year

► …to raise health spending from 1% of GDP—fifth lowest in the world—to 2.5% of GDP, to provide funds for:
  ● Maternal, child health and nutrition programs to save 16,000 woman who die in childbirth every year and save 9.3 million children from stunting
  ● Provide all Indonesians access to basic health services

► …to increase public infrastructure investment from IDR 182 trillion in 2013 (2% of GDP) to IDR 740 trillion by 2018
  ● China spends 10.5% of GDP on public infrastructure and Thailand, 7% of GDP
  ● Infrastructure investments needed to provide clean water, sanitation, transportation, housing in urban areas and to connect farmers and firms to markets
Spending better…

**Roads**
Central gov. spending tripled from IDR 5.3 trillion to IDR 19.3 trillion in four years, but produced only 25% more roadway.

**Water**
Spending increased six times from IDR 478 billion to 3.7 trillion in 7 years, but the percentage of people with access to sustainable safe water fell from 48% to 41%.

**Education**
Total government Spending tripled to IDR 284 trillion in 10 years), but student achievement scores for 15 year olds 2nd lowest amongst middle-income countries.
...including “spending better” at the district level

Increases in health expenditures and changes in immunization coverage at the district level

% change in real health expenditure: 2003-2011

% change in immunization coverage: 2004-2011
Delivering change: the priorities

RAISING REVENUES
Fiscal space is limited…

- Central government personnel costs: IDR 259 trillion per year
- Could save IDR 159 trillion over 5 years by growing personnel cost of central government in line with inflation

- Energy subsidies: IDR 350 trillion per year before November increase, projected to be around IDR 250 trillion per year after

- Transfers to regions: IDR 597 trillion per year
…so urgently need to raise revenues

- Broadening the tax base
- Simplifying tax structures
- Rationalizing tax types
- Adopting a strategic, risk-based approach to compliance management
- Increasing voluntary compliance
Delivering change: the priorities

FACILITATING PRIVATE-SECTOR INVESTMENT AND JOB CREATION
Boosting private sector investment: the priorities

► Facilitating investment in infrastructure—energy and transport in particular
  ● Implement transparent & consistent system of land acquisition. Ensure effective regulations and enforcement of the new land law in 2015
  ● Ensure transparent and consistent processes for planning and prioritizing infrastructure projects supported at the highest level. Revamp prioritizing body (KP2IP) co-chaired by MOF and BAPPENAS
  ● Solutions to large scale challenges (water, mass transit, waste management) are blocked and delayed by the lack of coordination and cooperation between central & local governments, amongst line ministries and across local governments. Address leadership bottlenecks

► Minimize space for corruption and rent-seeking by reducing discretion, through:
  ● Introduction of electronic licensing procedures, to improve transparency and avoid manipulation.
  ● Rollout of national single window for customs.
  ● Replacement of import quotas with tariffs

► Make it easier to invest by:
  ● Spreading local best practices in business regulation, e.g., Aceh and Jogja: construction permits; Manado: property registration
  ● Eliminating redundant procedures (mining permits) and legal contradictions (horticulture laws)
From what to how: implementation is key

“It is about management. How to plan, how to organize, how to decide actions. In my opinion, the most important thing in governance is management control.”

Joko Widodo
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