

MISSION D'INDONESIE

PERMANENT MISSION OF THE REPUBLIC OF INDONESIA
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AND OTHER INTERNATIONAL ORGANIZATIONS
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The Permanent Mission of the Republic of Indonesia to the United Nations, WTO and other International Organizations in Geneva, presents its compliment to the Office of the United Nations High Commissioner for Human Rights, and with reference to the note POVERTY 2010 AF dated 17 December 2010, has the honour to submit the response of the Government of the Republic of Indonesia to the questionnaire as mandated by Human Rights Council resolution 8/11 of 18 June 2008 entitled "Human rights and extreme poverty".

The Permanent Mission of the Republic of Indonesia to the United Nations, WTO and other International Organizations in Geneva avails itself of this opportunity to renew to the Office of the United Nations High Commissioner for Human Rights, the assurances of its highest consideration.

Geneva 8 February 2011



Office of the United Nations
High Commissioner for Human Rights (OHCHR)
Attn. UN Independent Expert on the Question of
Human rights and Extreme Poverty
UNOG - OHCHR
Telefax: 41-22-917 90 06
CH - 1211 Geneva 10

OHCHR REGISTRY

- 9 FEB. 2011

Recipients :.....SPD.....

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Responses submitted by the Government of Indonesia**Questionnaire on Recent Adjustments of Public Expenditure and
The Impact on Those Living in Extreme Poverty****General Response****Introduction**

The ever increasing world oil prices in 2008 has forced Indonesia to deal with adverse situations such as sky-rocketing fuel price, declining economic growth, jobs lay-off, and increasing poverty rate. The Government of Indonesia had to revise its budget according to the uncertainty of external factor. The unconditional cash transfer was launched responsively to protect the purchasing power of poor households. By the second quarter of the year, Indonesia was alarmed by the possibility of being affected by the domino effect of global financial crisis that started in the Northern Hemisphere.

Indonesia immediately took several steps to identify how the crisis works. Based on the previous experience of Asian monetary crisis in 1997, those steps work through:

- a) fiscal transmission: many countries will need external financial support to keep the economy work and, later on, may need more foreign debt;
- b) monetary transmission of the crisis may affect international and domestic interest rate, foreign exchange and inflation;
- c) trade transmission will reduce export and import;
- d) investment transmission will temporarily halt foreign direct investment and portfolio investment;
- e) domestic industry and commodity market will be negatively affected.

Crisis Identification and Impact Analysis

An analysis to the demand for Indonesia's export showed that there was a 21% contraction in exporter's net profit by the end of 2008. The economy also showed there is a reduction of domestic production in the country's labor-intensive industry that has resulted in a decrease in the profit by over 16%. Manufacturing sector in Java's industrial zone recorded that there was a 10% decrease in its production volume. The impact of the above situation to employment was that around 100,000 workers in textile and garment industries have been laid off, while the automotive industry has laid off 40,000 of its labor. The construction sector has also reduced 30,000 of its labor. The electronics and pulp and paper industries have also laid off 10,000 and 3,500 workers respectively. By the end of August 2008, the Indonesia's Entrepreneur Association reported an increase in unemployment for about 200,000 workers, and 180,000 of them are mostly in Java.

Having understood the mechanism of the crisis transmission and found answers to the critical questions of what measure is working, what is needed, and what needs to be developed and when, the Government designed social and economic protection strategies with some basic principles that:

Government also revised regional minimum wage standard indexed to local cost of living and inflation rate.

Table 1: Employment-Intensive Programs by Development Sector, Fiscal Year 2009

No	Sector	Rp Billion	US\$ Billion Equivalence	Estimated Employment Creation (workers)
1	Public Works and Infrastructure	16,230.41	1.66	356,600
2	Transportation	4,655.93	0.48	362,200
3	Agriculture	797.10	0.08	12,500
4	Public Housing	197.12	0.02	6,100
5	National Education and Religious Education	5,815.07	0.59	183,000
6	Energy and Mineral Resources	2,589.27	0.26	81,500
	Total	30,284.90	3.09	1,001,900

Source: Deputy for Poverty, Manpower, and SMEs, Bappenas, 2009

Social Development Strategy

The experience from 1997 economic crisis provided invaluable lessons to the Indonesian people in bracing themselves to the 2008 crisis. Strategy and social policy to enhance post-crisis development are stipulated on the National Medium Term Development Plan 2010-2014. Social protection system consists of social assistance, social insurance, and social safety net.

Implementation of social assistance programs are divided into three clusters (see Figure 1). Cluster I is to intensify social assistance programs. It ensures health insurance for the poor (known as Jamkesmas) to be prioritized including for the near poor. It also prioritizes school operational assistance for potential drop out students whose parents are among laid off workers. Conditional cash transfer (*Program Keluarga Harapan*/PKH) started in 2007 with 388,000 household beneficiaries (the poorest families). Started in the same period, Indonesia has integrated several community development programs into the "National Program on Community Empowerment" (*Program Nasional Pemberdayaan Masyarakat*/PNPM) which belongs to Cluster II in social protection system. It covered 6,408 urban and rural sub-districts by 2009. PNPM also introduced pilot *PNPM-Generasi* that has similarities with PKH with community based characteristics. Cluster III is targeted for beneficiaries who manage to graduate from previous clusters.

Social insurance implementation in Indonesia is managed by several state-owned enterprises (as carriers). The leading institution on the development of social insurance is the Council of National Social Security (DJSN). In the next five years, the activity of DJSN will focus on two main priorities i.e. National Social Security Institutional Arrangement and Development of Health Care Financing.

Since the social safety net programs have been internalized into regular sector ministries' programs, the Government decided to use the existing 3 sub-clusters within

- a) maximize central and local governments' budget to be directed to high-labor-absorption program;
- b) utilize the criteria of beneficiaries within the three clusters of social assistance programs; and
- c) optimize the existing institutional coordination structure and close cooperation with local governments.

Fiscal Stimulus Package

In addition to the above strategy, the Government set some additional funds aside to boost employment further through infrastructure programs with the objectives to:

- a) increase labor absorption and avoid lay off;
- b) increase the community's purchasing power; and
- c) strengthen the competitiveness and endurance of entrepreneurs.

The criteria to select activities to be financed by the package are:

- a) have a significant number of employment creation;
- b) have an immediate output and it can be disbursed fast within 2009;
- c) have a possibility to complete the unfinished infrastructure network system;
- d) have to be part of government strategic plans;
- e) already have design or the design can be prepared fast; and
- f) have no hurdles with land status;

Another strategy to keep the economy working is the Government provided incentives and relaxed some business regulations for private and state-owned companies to maintain production. The Government also needs to keep consumption expenditure high and one major component to achieve this objective was the tax incentive where employers are not required to withhold employees' income tax if the income is equal to and less than USD 560 per month. By July 2008, the world oil prices started to go down and went down further towards the end of the second semester of 2008; enabling the Government to reduce domestic oil prices for 3 times between 1 December 2008 and 15 January 2009. This policy has helped push the inflation rate down, and in turn, maintain general purchasing power.

For the skilled and semi-skilled labor, the Government provided training programs and labor certification to prepare newly unemployed labors to adapt to new job. Indonesia also supports its business climate by improving regulations to widen or at least maintain the current investment and business opportunity, including those in the informal sector. Police and military forces have been asked to keep alert on the possible increase in illegal trade and security threat. The total cost for the fiscal stimulus package is around USD 7.92 billion.

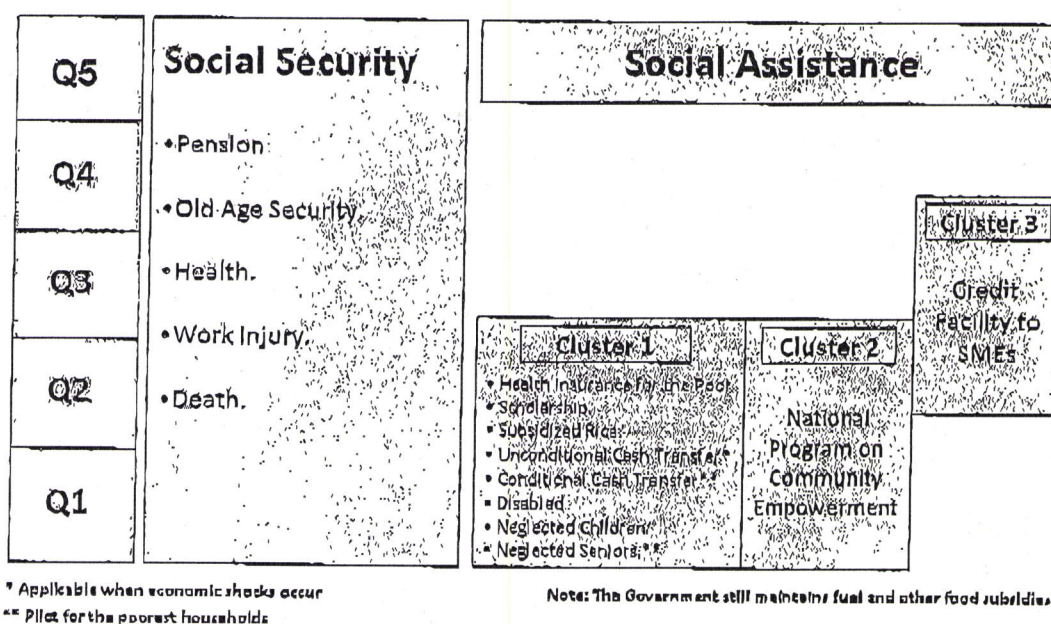
During the time of crisis, employment generation program was the main priority. The country initiated labor-based infrastructure programs to mitigate rising unemployment and to accelerate infrastructure development progress. Government also expanded labor-based approach to all ministries' activities (Table 1). The Government also invited the newly unemployed to attend training programs to increase their capability so that they are able to work or find new jobs. To maintain the labor's income level, The

the social assistance cluster as its major anti-poverty measures and add more funds to the programs.

To better target the beneficiaries (minimize exclusion and inclusion errors) within the first social assistance cluster, the Central Statistics Agency (BPS) renewed the poverty census database by:

- using existing poor household data as baseline;
- opening local registry office to receive community reports on recent poverty incidence and sweep areas with suspected high-poverty incidence;
- verifying newly poor household. The total amount of the social development programs is around USD 5.86 billion.

Figure 1: Social Policy – Post Crisis Development



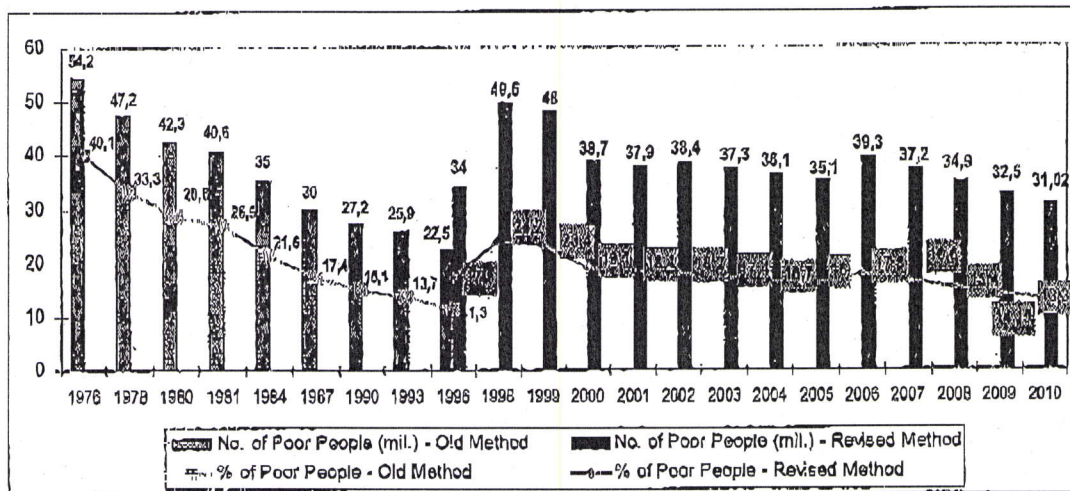
Source: National Coordinating Team for Poverty Alleviation (TKPK), modified by Deputy for Poverty, Manpower, and SMEs, Bappenas, 2009

End Note

Since the 1997 crisis, Indonesia has been through major overhaul in almost every aspect of development. The process still continues. As a new democratic country, Indonesia still has huge challenges in making the democratic system finds its own shape according to local history, culture and perspectives. Prudent economic and social policies have been maintained by the regime of last two democratically elected presidents. The results have brought the country to maintain its exchange rate at the value of Rp 9,800 (by 3 August 2009) since the last 9 months. The country's inflation rate during the first semester of 2009 was 6.1%. Indonesia's economic growth was 6.1% for 2008, while for the 1st and 2nd quarters of 2009 the growth was 4.4% and 4.1%

respectively. Due to decreasing world oil prices during the second semester of 2008, the Government was able to reduce domestic prices, resulting in a budget surplus of around USD 5.5 billion by the end of 2008 fiscal year. The 2009 debt to GDP ratio is 34% of GDP as compared to 97% of GDP during the peak of the crisis impact in 1998. The country has now enjoyed a relative low interest rate of 6.5% since July 2009. And lastly, all these economic performances made Indonesia possible to reduce its poverty incidence from 15.4% in 2008 to 13.3% in 2010 (Figure 2).

Figure 2: Poverty Indices: 1976 – 2010



Source: National Statistics Agency (BPS), 2010

To mitigate the aftermath impact of global financial and world oil price crisis in 2008, government has delivered fiscal stimulus package with a nominal value of USD 7.92 billion equivalent to 1.4% GDP. The fiscal stimulus package was delivered in the form of decreased tax burden for taxpayers, oil and food subsidies to poor households, and enhanced infrastructure expenditure. Stimulus package was expected to act as cushion and leverage that increase GDP growth around 0.1% - 0.2%. Fiscal stimulus package objectives are: to increase labor absorption, to avoid lay off, to maintain community's purchasing power, and to strengthen the competitiveness of domestic entrepreneurs. Social safety net is already integrated in the regular programs of most ministries and worked successfully to lower the negative impact of the crisis. Government has been rolling out social assistance system to poor community in three clusters which are better targeted through improved database. Social insurance system has been established and has been set as one of the several priorities in the Medium Term Development Plan 2010 – 2014.

Responses to Questionnaire

Question 1: Has your country adopted, or does it expect to adopt, contraction fiscal policy in the aftermath of the global economic crisis?

Unlike what happened to other countries, the global economic crisis in 2008 did not impact significantly on Indonesia's fiscal condition. It was due to the consolidation and

fiscal discipline that has been applied by the Government of Indonesia since the economic crisis in 1997/1998.

Indonesia did not implement contractionary fiscal policy after the 2008 global crisis. On the contrary, as a response to the crisis, Indonesia has enlarged its deficit from 1% of its GDP to 2.4% in its revision of the 2009 budget, which was meant as a fiscal stimulus. This was possible because the Indonesian fiscal condition was still sustainable. To reduce the negative impact of the global financial crisis, the Indonesian Government has made adjustments to its fiscal policy, especially in the year 2009. In order to protect the national economy, the Government has expanded its economic stimulus program by changing some of its macroeconomic economic assumptions, which were deemed no longer realistic, and modifying several calculations of its revenue, expenditure, deficit, as well as its financing.

Overall, most of local governments (LGs) have deficit budget and so contractionary fiscal policy is not likely to be implemented by local governments (LGs) in Indonesia. The total spending of LGs tends to increase every year as the total amount of transfer fund from central government has the same trend. For raising taxes, the chance for LGs to have that is limited as Law 28/2009 on local taxes and charges which is effectively implemented by January 2011, has transformed the open-list system to the closed-list one so that the number of local taxes and charges will be significantly reduced to 16 taxes and 30 charges. This reduction has relatively little impact on the decrease of LGs' revenue as the void taxes and charges only contributed insignificantly to the local revenue. The law also sets the maximum rate of taxes that LGs can levy.

More balanced fiscal policy with the implementation of counter cyclical fiscal policy has always been discussed. The implementation of counter cyclical fiscal policy is carried out, among others, by implementing expansive fiscal policy when the economy is faced with a potential drop in the global economy. Fiscal policy in Indonesia, particularly which has been applied until 2011, is still expansive. This could be seen from the increasing amount of the government expenditure and the persisting budget deficit in 2010 and in the upcoming 2011 budget. Additional state spending is focused to maintain the stability of the prices of goods and services, and to support the national development priorities which are described in the document of National Medium-Term Development Plan (*Rencana Pembangunan Jangka Menengah Nasional/RPJMN*) 2010-2014, at the same time is aimed at improving the people's welfare, reducing unemployment, and maintaining the momentum of the better recovery of national economy. Nonetheless, if in the coming years, the Indonesian economy improves, contracted fiscal policy might be an option.

Question 2: What percentage, if any, of expenditure reductions are being or will be directed at social expenditures, including education, health, social security, housing, water and sanitation?

As mentioned in the answers to Question 1, the Government of Indonesia did not reduce the social expenditures related with social assistances, including for education, health, social security, housing, water and sanitation.

Question 3: Please describe all actual or proposed reductions in expenditure on specific social protection programmes, including any reduction of benefits or number of beneficiaries?

In the beginning of 2010, in parallel to the positive development of the global economy, the performance of the Indonesian domestic economy has shown a significant improvement. Accordingly, the Government carried out efforts to intensify its poverty eradication programs, such as programs for social protection, community empowerment, and the strengthening of the small and medium enterprises. Infrastructure development has also become a priority for the Government. So far, the Indonesian Government has not carried out any contractionary fiscal policy. The Government of Indonesia did not reduce the social expenditures related with social protection programs. This will continue in 2011.

Question 4: Please describe all actual or proposed reductions in expenditure on the wage bill, including any gap or cut in wages of public health and education sector workers?

The Government of Indonesia did not reduce the social expenditures related with wages/salary for health and education sector workers. Furthermore, The Government of Indonesia reallocated the oil fuel subsidies to education and health programs in the period 2005-2008 as the Government of Indonesia put education and health, consecutively in the second and the third priority among 11 national priorities. Regarding the expenditure side, the need for financing expenditures for education, health, and infrastructure have continued to increase.

Efforts to increase health services have also been continually increased. In 2005, the budget allocation for health was USD 855.5 million, while in 2008 it was USD 1.98 billion. Most of the additional budget allocation has been used for enhancing health services at the Public Health Centers (*Puskesmas*) and at the Integrated Services Centers (*Posyandu*) that are financed by the health insurance for the poor (*Jamkesmas*), as the program aiming to serve the disadvantaged communities. In 2008, this program facilitated health services for 76.4 million people.

A portion of the continuously increasing health budget has been used for recruiting new doctors and paramedics, and for assisting regional governments in rehabilitating the *Puskesmas*, and for building new hospitals in various regions.

In addition, the budget allocated to the education sector has been increased dramatically. In 2005, the budget allocation was Rp 78.5 trillion. In 2008, the budget allocation for education, in accordance with the stipulation of the constitution increased two times to the amount of Rp 154.2 trillion. In 2009, by stipulation of the constitution that warranted the budget, the budget for education covered 20%

Question 5: Have current economic recovery policies taken into account developments in unemployment, food prices, and social inequalities?

There is an increasing trend of local spending for education, public service, health, social care, housing and public facilities during period of 2007 to 2009. This trend will remain for 2010 onward.

The current economic recovery policies takes into account developments in unemployment, food prices, and social inequalities. In the National Medium-Term Development Plan (*Rencana Pembangunan Jangka Menengah Nasional/RPJMN*) 2010-

2014, Indonesia adopted development policy of triple track strategy, namely *pro-growth*, *pro-poor*, and *pro-job*. Therefore, as part of the economic recovery efforts after the global economic crisis, the Indonesian Government consistently prioritizes employment opportunities to reduce the level of unemployment, and pro-poor programs to lower the level of poverty.

One of the concrete efforts of unemployment prevention within the framework of economic recovery policy. In the last global economic crisis, the Government of Indonesia launched the policy of fiscal stimulus package in 2009. Total amounts allocated for fiscal stimulus program, had reached USD 8.14 billion. USD 6.25 billion of the amounts had been set in the State Revenues and Expenditures Budget.

The three main targets of fiscal stimulus provided by the government, *inter alia*, are to maintain and/or to increase the people's purchasing power to maintain consumption growth rate above 4 percent or near 4.7 percent, to increase the labor absorption and to prevent termination of employment through infrastructure development. The budget allocation provided by government to achieve those targets is Rp 12.2 trillion.

In the fiscal stimulus package, the government also tried to maintain the resilience of corporate/business sector in facing the global economic crisis. The government provided stimulus to the business sector through taxation instruments and the provision of various subsidies, as well as additional financing. Thus, termination of employment by the business sector could be reduced so that the unemployment rate did not increase.

In relation with the prevention of increased poverty, by means of fiscal stimulus package, the government also tried to maintain and/or to increase people's purchasing power. The measures taken are the reduction of individual income tax rates and the increasing of non-taxable income limit (*Penghasilan Tidak Kena Pajak/PTKP*), as well as the provision of various subsidies, among others, generic drug prices subsidies and value-added tax subsidies on some final products for cooking oil and bio-fuel (*Bahan Bakar Nabati/BBN*). This policy is primarily intended for impoverished community to sustain their current levels of consumption.

For the future plan, regarding the food prices, one of the national development priorities is to maintain food security. One of the policies adopted is to maintain domestic food prices. This is manifested through government policies that include the increasing of expenditure allocation to increase the domestic food commodities and the infrastructure development to improve transportation and logistic network and system in Indonesia.

Another national development priority which deserved special attention in the National Medium-Term Development Plan 2010-2014 is poverty and income inequality reduction. The adopted policies are more directed at:

- (i) encouraging pro-poor growth which gives special attention on projects involving poor people and people with special needs;
- (ii) enhancing the quality of the poverty reduction programs and policies through the affirmative/partiality policies, and
- (iii) improving the effectiveness of the implementation of poverty reduction in the regions

Question 6: Does your country expect to restore public expenditure after a certain time period, and if so when?

The measures/policies to restore public expenditure composition to its position of initial planning were considered to be unnecessary, since there are no reductions in total expenditure/budget.

As has been stated earlier, the continuous increase of public expenditure is to stabilize the prices of goods and services, as well as to support the national development priorities set by the National Medium-Term Development Plan 2010-2014. This is achieved through, among others, infrastructure development program to accelerate economic growth in every corner of Indonesia. In addition, the poverty and unemployment eradication program is continued and further enhanced. However, it should be noted that the increase of public expenditure is based on sound public expenditure management principles, through the Intensification of efficiency and effectiveness in their implementation, and if the economic performance continues to improve and the problems are resolved, there will be a possibility of a less expansionary state budget policy.

Question 7: *What is the assessment of the current access of the most vulnerable groups (particularly women, children, the older people and persons with disabilities) to social goods, services and assistance, which are essential to their enjoyment of human rights? To what extent is their inadequate access attributable to the reductions in social expenditure? Please provide major findings.*

Social expenditure in local budget will keep increasing due to high demand and awareness from local people. The Government of Indonesia did not reduce the social expenditures, but it will implement the poverty eradication programs consolidation in guaranteeing the protection and the fulfillment of the rights of education, rights to health, food, sanitation, clean water, housing, work vacancy, which are aimed at public well-being.

The Ministry of Social Affairs has social protection program aimed for persons with disabilities with criteria: a. un-rehabilitated, b. very dependent on other persons in carrying out daily activities, c. poor and not able to support themselves.

The government provides a program aimed to assist around 163.000 persons with disabilities. This program has been running since 2005, and it consists of distribution of monthly aid in amount of USD 33.3 per month per person.

The access of the most vulnerable groups (particularly women and children) to social goods, services and assistance is relatively adequate. Generally, through the policies implemented by, among others, the Ministry of Social Affairs Republic of Indonesia, and the National Plan of Action, the most vulnerable groups could enjoy their rights. The Ministry of Social Affairs Republic of Indonesia in particular, carries out, e.g., the empowerment of the poor, the provision of social security for elderly and disabled persons, children social welfare programs, etc. Thus, the most vulnerable groups shall not impose any burden to society, and consequently, the social expenditure could be reduced at a minimum level.

Substantively, the Government of Indonesia had conducted various long-term policy approaches to make improvements towards social-life betterment on every social layer, among others by realizing self-reliance, technological proficiency in poverty eradication,

and by developing human resources, so as to achieve increasing productivity, and efficient economic-institutional building by applying best practices. Various enhanced technology focused on the fulfillment of basic needs, i.e. food, energy, health, and basic infrastructures such as housing, clean water availability, transportation and communication access, in order to improve social welfare. Technological implementation programs (*pro-poor technology*) could be carried out by diffusion or technological transfer programs, especially for small and medium enterprises, and by strengthening the intermediary institutions.

Question 8: Did the Government carry out any impact analysis (incidence analysis) of the impact of the public expenditure or social expenditure reduction on the most vulnerable groups in society prior to its implementation? If yes, please provide major findings.

The Government of Indonesia did not carry out any impact analysis on vulnerable groups, because there was no reduction of public and social expenditure.

Question 9: Were any alternative fiscal policies considered and discarded, and if so, why?

As has been mentioned, in the effort to curb the impact of global economic crisis, the Indonesian Government is carrying out fiscal expansion policy in order to prevent economic decline and boost economic growth. In 2009, the Indonesian Government has produced a USD 8.14 billion fiscal stimulus package, which was comprised of three components: tax reductions, tax and non-tax subsidies, and development of infrastructure. As a result of the policy, the Indonesia economy has achieved a 4.5% growth.

The policy programs which were subsumed in the framework of fiscal stimulus policy in 2009, include stimulus to increase public's purchasing power, stimulus to increase competitiveness and business endurance, stimulus to increase labor-intensive infrastructures. Along with that, in 2010, fiscal policy was directed towards strengthening the economic growth momentum parallel to the recovery of the global economy. For 2011, fiscal policy is aimed at improving national economic growth with an emphasis on the more productive areas of expenditures. This can be observed from the significant increase in the capital expenditures from USD 11.74 billion in 2010 to USD 12.8 billion in 2011. Additionally, the Government is also committed to the implementation of a more targeted subsidization policy, among which, through the restriction of the use of subsidized fuel for certain vehicles.

Question 10: What mechanisms are in place to ensure that human rights of those living extreme poverty are protected, respected and fulfilled in light of reductions in public expenditure?

To ensure the protection of the human rights of people living in extreme poverty, the Government of Indonesia has integrated the matter in its long and medium-term development plans, to which all local governments' local budget preparation must also refer. Transparency as a result of Indonesia's democracy also provides the mechanism that allows the more stringent people's supervision to the budget preparation and implementation.

Extreme poverty cannot be reduced in a short period and done altogether because of the complexity the problems confronted by the poor and the limited resources to fulfill the human rights. That is why the poverty reduction action plan is focused on the priority to respect, protect, and fulfill the right to food, health, education, housing, clean and safe water, sanitation, sound environment and natural resources, as well as the sense of security, through progressive realization.

The basic human rights fulfillment action plan has goals and targets for a period of five years with measurable targets in accordance to data and information availability, qualitative targets, policy steps, and policy instruments in the form of regulation, facilitation, and other programs related with the Medium Term Plan and its implementation programs.

It obviously affirms the Government's core obligation to make use of all available resources to progressively fulfill basic human rights of its citizens. They are: to manage budgeting, issue regulation, eradicate any obstacle and burden on the poor. The Government is also required to cooperate and coordinate with all stakeholders consisting of the provincial and district governments, NGOs, community organizations, business players, international agencies and other concerned parties, to fulfill civilian basic rights.

Question 11: Please indicate whether there was a public consultation prior to taking measures to reduce public expenditure. If yes, please describe to which non-governmental agencies or groups were consulted.

In designing every government income and expenditure plan, by law the Government has to discuss the plan with the parliament as the representation of the Indonesian people. If there is a policy that will reduce the public expenditure, which will have a significant impact on the social and economic condition, such as the reduction of subsidies, the Government always consults the policy with the Parliament. In the discussion with the Parliament, the aspiration of the people, including the NGOs, academics, or the groups who expect to be impacted by the policy, such as the Chamber of Commerce and Industry and the Organization of Land Transport, are already represented because the Parliament is the representation of the Indonesian people.

Local governments prepare the budget based on the inputs from the people through multiple-step public hearing with the village level as the first step. In addition, the local representatives will also hold public hearing before and during the budget deliberation.

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