

*Press Release
Jakarta
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***An Alternative State Budget for Fiscal Year 2013: Moving towards
Constitutionally-based State Budgets***

Indonesia's State budget (known as APBN) is still falling short of meeting mandates in the Constitution. APBNs formulated by government thus far have had at least six basic flaws:

1. **APBNs have always been framed as deficit budgets**, leaving doors open for inefficiencies and corrupt activities. Deficit budgeting makes APBNs beholden to outside players—foreign entities and multilateral institutions; it subjects APBNs to a barrage of interests not in line with the national interest; and it means that Indonesian fiscal sovereignty has not yet become a reality. Accordingly, our “Alternative APBN for 2013” has been designed as a balanced budget to avoid a situation where, in the long term, State fiscal space is constricted by burdens of debt servicing.
2. APBNs have thus far been treated purely as technical processes to allocate economic resources (budgeting processes) and not, in addition to that, as **instruments to achieve the ideological aims of nationhood** laid down in the Constitution.
3. Macro-economic assumptions underpinning APBNs have been narrowly based on economic growth, for example, and have failed to take account of social justice issues such as income inequality. Of course, government has used assumptions relating to poverty, but its calculations have been premised on flawed standards.
4. APBN appropriations **have reflected neither the proper context of Indonesia's development nor the array of issues involved**. Most of our workforce is engaged in the agricultural and industrial sectors in micro or small to medium-sized enterprises; but APBN appropriations for these sectors are minimal.
5. **Constitutional mandates are not all being properly implemented**. For example, a minimum 5% of APBNs should be spent on health but thus far the sector has been receiving less than 2%.
6. **Calculations of State revenue have been very low**, be it from tax or non-tax sources, opening the door for the sort of corruption around State revenue that has been occurring up to now.

Against this background, our alternative APBN has been framed to ensure that fiscal instruments are genuinely designed to give substance to the Constitution and our national ideology; to serve the public interest; to allocate funding proportionately among sectors of the economy; and to prevent the incidence of corruption (especially of State taxation revenue, for example).

The alternative APBN retains economic growth as an important element of its macro-economic framework, but does not treat it as the be-all and end-all. **As experience thus far indicates, the concept of economic growth can, in some applications, inflict suffering on parts of the community.** It is inappropriate to place economic growth on a pedestal if it results in higher incidence of poverty, income inequality, unemployment and exploitation of natural resources.

Table: Assumptions of Alternative APBN v. Government Assumptions (2013)

No	Item	Alternative APBN	Government
1	Economic Growth (%)	6.5	6.8-7.2
2	Income Inequality ("Gini ratio")	0.35	-
3	Poverty (%)*	20.5	9.5-10.5
4	Unemployment (%)*	11.0	5.8-6.1
5	Informal Sector Workers (% of total work force)	55	-
6	Inflation (%)	5.5	4.5-5.5
7	Exchange Rate (Rp/US\$)	9,250	8,700 – 9,300
8	Interest Rate on Treasury Bills (% , 3 months)	5.5	4.5-5.5
9	Oil Price (US\$/barrel)	115	100 – 120
10	Oil Lifting ('000 barrels/day)	910	910-940
11	Gas Lifting ('000 barrels/oil equivalent/day (MBOEPD))	1,290	1,290
12	Tax ratio (%)	14	-

Remarks: *Poverty and unemployment rates of the alternative APBN have been determined using different measures to those employed by government

The overall shape of our desired alternative APBN can be outlined thus:

- 1. The bulk of funds appropriated should not be used to serve bureaucratic interests.** The fact is that thus far growth in civil service expenditure (on both staff and goods) has outstripped the rate of growth of the APBN itself. Thus, appropriations for civil service costs in the alternative APBN for 2013 are lower than in previous years. That would require various savings to be made such as: reductions in official travel; less money spent on office accoutrements and official vehicles; and lower allocations for staff welfare.

2. **Interest on recapitalization bonds**—a carry-over from management of the 1997/98 financial crisis—**should not be borne by APBNs**. In the government's draft 2013 APBN those interest payments amount to around Rp 8.52 trillion (in 2011 the figure was Rp 13.19 trillion and in 2012 Rp 11.03 trillion). These interest payments should be removed from APBNs.
3. **To reduce current fiscal burdens, amounts being repaid as principle and interests instalments on borrowings should be renegotiated**. It is estimated that in 2013 those instalments will amount to Rp 260 trillion. Payment of such an amount, all at once, would be a serious burden on the APBN and thus should be renegotiated. One option would be to extend the repayment period, thereby reducing the level of instalments payable to around Rp 130 trillion. This seems a reasonable approach, given that in the first quarter of 2012 total incomings from loans amounted to US\$ 212.55 billion compared to outgoings of US\$ 213.2 in the form of loan repayments of principle, interest and costs—leaving a net deficit of around US\$ 18.64 billion (around Rp 170 trillion). If no renegotiation takes place, the budget could be kept in balance (out of deficit) by lifting the tax ratio to 15%.
4. **Subsidies are an appropriate fiscal policy instrument** and thus should continue to be included in APBNs. Overall, fuel subsidies continue to be large, given fuel's potential impact on other sectors and other commodities. That said, fuel subsidies are at a lower level in our alternative APBN; but that does not mean that price hikes for petrol or *solar* are proposed. Price hikes would be avoided by reducing petrol and *solar* quotas and replacing them with (cheaper) natural gas. This measure would require a faster rate of conversion to gas during 2013 (throughout the whole of Java, at the very least).
5. **Government must be committed to implementing provisions of law**. Thus levels of appropriations for education and health should correspond to what is prescribed in law. Thus far government has met legally mandated minimum levels of expenditure on education, but not so in the case of health. The alternative APBN steps into the breach by allocating 5% for health.

In light of the foregoing, the alternative Budget has been framed to provide higher levels of funding than in previous years—and vis-à-vis other sectors—for **agriculture** (in the broad sense), **micro, small & medium-sized enterprises, workforce development** and **industry**. We are optimistic that its range of programs would be able to create six million new jobs and reduce the number of poor by five million (leading to a drop of 2.3% in the unemployment rate in 2013).

Jakarta, 15 August, 2012

Civil Society Coalition for Welfare-Based APBNs
(SEKNAS FITRA, INDEF, KAU, P3M, IHCS, TURC, YAPPIKA, KIARA, SNI,
KERLIP, ASPPUK)

One Attachment

ATTACHMENT

Table: Estimated Growth by Sector, 2013 (%)

Sector	Government *	Alternative APBN
Agriculture, Livestock	3.7-4.1	4.5
Mining and Quarrying	2.8-3.2	2.5
Processing Industries	6.5-6.9	7.2
Electricity, Gas and Clean Water	6.6-7.0	6.3
Construction	7.5-7.9	7.1
Commerce, Hotels and Restaurants	8.9-9.3	8.5
Transport and Communications	12.1-12.5	11
Finance, Real Estate, dan Commercial Services	6.1-6.5	6
Services	6-6.4	6
Gross Domestic Product	6.8-7.2	6.56

Source: *Ministry of Finance, 2012

Table: Overall Shape of Alternative APBN for 2013 (Rp trillion)

Component	Revised 2012 APBN	Alternative APBN for 2013
A. STATE INCOME AND GRANTS	1,358.2	1,650
I. DOMESTIC REVENUE	1,357.4	1,650
1. Tax Revenue	1,016.2	1,200
2. Non-tax Revenue	341,1	450
II. REVENUE FROM GRANTS	0.8	-
B. STATE EXPENDITURE	1,548.3	1,650
I. CENTRAL GOVERNMENT SPENDING	1,069.5	1,100
1. Civil Service Costs	212.2	221.7
2. Expenditure on Goods	186.5	172.9
3. Capital Expenditure	168.6	200
4. Payment of Interest on Borrowings	117.7	135
5. Subsidies	245	250
6. Expenditure on Grants	1.7	-
7. Social Aid	55.3	75
8. Other Expenditure	68.5	46
9. Additional Funding	13.4	-
II. Transfers to Regions	478.7	550
C. Surplus/(Deficit)	(190.1)	0