

CIVIL SOCIETY COALITION FOR APBN WELFARE

RESTORING APBN AS A STATE INSTRUMENT BEARING THE CONSTITUTIONAL MANDATE:

“APBN FOR THE PROSPERITY OF THE PEOPLE”

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Second Presidential Debate Quo Vadis Indonesian Budget Politics?

The state budget (APBN) is a manifestation of popular sovereignty, as it's essentially the people who determine it. Moreover, it's a state instrument that's responsible for ensuring the welfare of its citizens, educating the nation, and fulfilling its citizen's basic rights. In accordance with the fifth principle of Pancasila; “Social Justice for all Indonesian People”, the budget must be used for the equitable and ever-increasing prosperity of the people, requiring all national resources to best do so.

However, the APBN has 6 key weaknesses that have already been laid out by the previous government, and will now become the burden of the new government:

- The design of APBN is very technocratic, and it's not well positioned as an ideological instrument that should be used to realise the state's purpose as mandated in the constitution.
- The APBN has been designed to always be in deficit, thus opening the door for additional debt (domestic and foreign).
- Macroeconomic assumptions are only based on microeconomic objectives.
- APBN allocations and expenditure don't support “the prosperity of the people”, as they're bureaucratic, inefficient, ineffective and laden with corruption.
- The APBN doesn't reflect the mandates of the Law i.e. health budget allocations should be a minimum of 5% of the APBN, but it's still estimated to account for only 2% of the APBN.
- State income is extremely low, both in terms of tax revenue and non-tax revenue (PNBP).

In the presidential debate on 15th June 2014, a number of important issues were raised. Our criticisms are as follows:

1. Tax Policies

Both Jokowi and Prabowo don't have a solid stance on tax as they're yet to view tax revenue as a primary form of state income, even though on average, 70-80% of the APBN is sourced from tax revenue. In the debate, it appeared that neither Jokowi nor Prabowo had a comprehensive strategy or serious attitude towards fiscal policies, as demonstrated by their lack of courage in determining a tax ratio. In actual fact, Jokowi and Prabowo put more emphasis on revenue from natural resources.

In order to find out more about state income, one only needs to examine Indonesia's tax ratio. Indonesia's tax revenue is far lower compared to the tax ratio of other countries with similar

economies. Up until now, it hasn't even reached 14% and in 2013, only averaged 12.7%, demonstrating the myriad of underlying issues in Indonesia's taxation system. As referenced by the Independent Budget Commission (2012) and the Prakarsa Policy Review (2012):

- 1) Sources of tax revenue don't reflect the basic principles of justice, as most taxpayers (WP) are employees/officials and contributions from wealthy taxpayers are minimal;
- 2) Public awareness of taxpaying is still low. At the end of 2011, there were only 22 million taxpayers (19.8 million individual taxpayers and 2.2 million corporate taxpayers). Nevertheless, of the total population of approximately 247 million, a potential further 60 million should also be taxpayers;
- 3) Misuse or corruption of tax revenue remains high, and isn't only performed by tax officers but also by taxpayers;
- 4) There's a high amount of tax evasion, particularly by wealthy corporate or individual taxpayers which reduces potential tax revenue;
- 5) Taxation regulations aren't particularly strong, with some overlapping;
- 6) The taxation system in Indonesia is disorganised, for example, taxation falls under the Ministry of Finance - even though it's a judicial authority - which hasn't been able to form a powerful tax authority.

2. Non-Tax Revenue

Jokowi and in particular, Prabowo are both hinging on natural resources being a reliable form of state income, even though Indonesia's natural resources have largely been converted into land plots by land concessions and contracts. Furthermore, PNBK contributions to APBN have tended to decrease, especially in terms of income from the natural resources sector. Two issues have influenced these trends: i) Poor natural resource governance has contributed to state losses; ii) Unjust natural resource management contracts. In 2013, the government renegotiated its non-tax revenue policies but with less than optimal results. In terms of contracts, 9 businesses wholly approved the renegotiations, 23 businesses partially approved, whilst 5 didn't agree.

3. BUMN Management

Both Jokowi and Prabowo didn't specifically address BUMN performance. The performance of State-Owned Enterprises (BUMN) has been by-and-large unsatisfactory, especially in terms of the attitude of BUMN managers and the government, who have disregarded professionalism in their business management. In 2012, of a total 141 BUMN, there were 14 Public Corporations, 109 Limited Companies, and 18 Publicly Listed Limited Companies. Between 2005 - 2011, shareholdings decreased, particularly when it came to Limited Companies.

Furthermore, there was a decline in the government's share of BUMN profits from Rp 30.1 trillion in 2010 to Rp 28.2 trillion in 2011, but it then experienced an increase to Rp 30.7 trillion in 2012 and Rp 33.5 trillion in the 2013 Revised State Budget. However, the government's share of BUMN profits can't be compared with its capital investments in the 141 BUMN of Rp 573.3 trillion, when of the 141 BUMN, only 118 shared their profits.

The unsatisfactory performance of BUMN can also be seen between 2005-2011, when as many as 6,433 cases saw BUMN contributing to a total state loss of Rp 20.4 trillion. Furthermore, during the same period, there were 5,850 cases involving BUMN parent

companies that amounted to state losses of Rp 20.1 trillion and 583 cases involving BUMN subsidiary companies that amounted to Rp 319 billion.

4. Food and Energy Subsidies

Both Jokowi and Prabowo are yet to reveal their food and energy subsidy policies, despite the fact that they're significant issues in Indonesia's budget policies. Because the subsidies require an enormous amount of funding, they're considered not particularly well-targeted and difficult to revoke (it's feared that excessive subsidies will be provided). In fact, subsidies over the past 5 years have increased from Rp 201.2 trillion (APBN-P 2010) to Rp 317.2 trillion (APBN 2013).

For this reason, there needs to be a strategic plan that addresses food and energy subsidy policies. Currently, food subsidies aren't designed to strengthen food sovereignty; instead, they're being used to bring in seeds and fertiliser from overseas, under the control of a few companies. Rather, food and energy subsidies should support the strengthening of food sovereignty and investment in alternative energy sources.

5. State Debt

One of the largest issues in budget management is debt. At the end of 2013, Indonesia's debt was over Rp 2.137 trillion and was considered to be limiting the government's fiscal discretion. However, state debt wasn't discussed by the two presidential candidates, even though the moderator raised the issue. As a result, the second presidential debate hasn't given us a thorough understanding on how the management of state debt can form a part of the wider strategy to improve public welfare.

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