

## Fiscal Burden Sharing

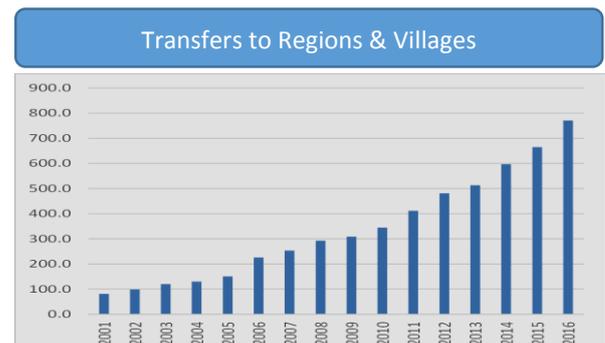
- The transfer amount to regional and village government have to be sustained at a certain level without having any negative impact on local public services and regional development. However, since the political promises made during the election requires the government to increase the transfer funds, it has to be followed by the sharing of fiscal burden to regional and village government.
- Fiscal burden sharing on pension funds for civil servants has to be done by both central and regional governments. The government must change the civil servant pension system from ‘pay as you go’ or PAYGO system to the ‘fully funded’ system. With the full-funding system, the government only needs to pay pension funds if the civil servant performs and the civil servant can gain access to their pension savings once they reach pension age. In order to do this, the government or the regional government have to pay the pension fee of the civil servants through BPJS mechanism, especially to the newly employed civil servants.
- One of the tasks that may be given to the village officials is health insurance expense for impoverished people in their respective village. Part of the health insurance expense is burdened to the central government while the other part is paid by the village government. This system can push the village government to take part in the program to end poverty and to make them better in reckoning poor people.
- The central government needs to provide wider and more inclusive funding access to village governments (to get local loans or issue local bond) in order to fund local infrastructure development which can boost local economic growth.

One of the nine priority agendas of the government led by President Jokowi, called the *Nawacita* (nine agenda), is **“developing Indonesia from the margins of the society by strengthening regional and village economy in the framework of the unitary state”**. This agenda is supported with the increasing amount of transfer funds that is allocated to regional and village governments. The amount of village funds rises by 125% in the 2016 government budget and is planned to keep increasing until 2019.

However, the increasing amount of the transfer funds towards regional and village governments raises question on how well does that policy act in-line with the fiscal needs of regional governments and their tasks. The fact that central government expense keeps increasing cannot be denied. The government needs funding in order to build infrastructure in a national scale, which is estimated to be above IDR 5500 trillion for the five-year period (IDR 1100 trillion a year).

### The Condition of the Capacity and Fiscal Burden Sharing between Different Government Levels

The transfer fund to local governments keeps increasing every year and has reached the highest share in the Indonesian GDP after 2010. It is also increased by large amount as the village fund keeps increasing since 2015. On the other side, government expenditure seems to be decreasing amid the decreasing government revenue’s share on the GDP. Since 2009, the government also chooses to reduce the central government expense instead of reducing transfer funds in responding to the decreasing government revenue.



The increasing regional government expense, however, is not followed by higher fiscal burden which means more expenditure assignments. From the period after the implementation of the Law No. 22/1999 in 2001 until after the implementation of Law No. 23/2014 at the moment, there has only been little change in the assignments of tasks which are handed to the regional governments. The decision made by the government by increasing transfer funds towards regional governments can only be regarded as effective if it is combined with higher assignment allocation to the regional governments. Furthermore, the Law No.23/2014 entails the government to increase the fiscal burden related to the funding and the assignment allocation towards the Governor as the representative of central government in local regions.

Furthermore, the source of local government revenue which comprises pure local government revenue and transfer funds from the central government keep increasing every year. Its share to the GDP was 1.2% in 2009 and increased to 1.7% in 2013. The Law no. 28 of 2009 is the reason behind this as it orders the tax revenue to be allocated towards regional government. Combined with central government transfer funds, the amount of revenue that can be put into expenditure by regional governments in 2005 was estimated to be around 7.4% of the GDP and is around 7.7% in 2016. Compared to the year 2005, the amount then was only 6.7%.

The implementation of the Law No.6 of 2014 on Village Fund also serves as a fresh new pressure on the government budget. The village fund itself is the realization of the campaign promise: one-billion rupiah transfers to every village. The new law *per se* doesn't entail the Government to increase the delegation of assignments towards village officials. The village fund might increase the inefficiency of government expenditure if there's no clear assignment allocation. The village fund started with the amount of IDR 20.8 trillion in 2015 and spiked by 125% in 2016, and will keep increasing until 2019.

### **The Need of Fiscal Burden Sharing to Regional and Village Governments**

As described above, it can be implied that the central government have to share their fiscal burdens to regional and village governments. The two important things that must be done by the central government are:

- Allocating more assignments to regional and village government.
- Anticipating the potential significant increase in fiscal burden in the future, especially on the social security expenses.

Another fiscal burden that can be allocated to regional governments in health sector is the Drug and Food Monitoring, which is ideally allocated to the province-level governments. In the education sector, the regional government must build vocational education units and skilled worker training institutions. In public works sector, there are still lots of things that need to be done as the current condition of infrastructure is far below minimum standard.