EFFECTIVE PUBLIC SPENDING: THE CASE OF INFRASTRUCTURE

Armida Alisjahbana
Minister of State for National Development Planning/
Head of National Development Planning Agency
Government of Indonesia

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Scope of Presentation

- How to enhance the effectiveness, efficiency and transparency of public spending in infrastructure?

- What is a good policy enabling environment for the infrastructure investment cycle, from planning to delivery, including private sector involvement?

- How to create sustainable fiscal space for infrastructure, ensuring that investment and maintenance costs are financed in a fiscally sustainable manner?

- How to ensure coordination between the different steps of infrastructure projects and between different levels of government?

- How can international co-operation support strengthening of national capacities?
How to enhance the effectiveness, efficiency and transparency of public spending in infrastructure?

Improving the Effectivity of Public Spending in Infrastructure

- Policy and Regulation Reforms
- Planning and Budgeting Reforms through Implementing Medium Term Expenditure Framework (MTEF)
- Multi-year Contract for Priority Projects
- E-procurement to Accelerate the Procurement
- Government Support for PPP projects (Public-Private Partnership)
What is a good policy enabling environment for the infrastructure investment cycle, from planning to delivery, including private sector involvement? (1)

**A Policy Environment for the Infrastructure Investment Cycle**

**Policy and Regulation Reformation**
- Infrastructure Road Map (National Connectivity Blue Print)
- Sectoral Restructurization (Rearranging for Regulator and Operator)
- New Sectoral Laws
- New Implementation Regulation

**Improving the Effectivity of State Budget Projects**
- Improving state budget and international partners
- Multi-year contract for priority projects
- E-Procurement to accelerate the procurement
- Implementation of Medium Term Expenditure Framework (MTEF)

**Government Support for PPP projects (Public-Private Partnership)**
- Infrastructure fund (PT. Sarana Multi Infrastruktur)
- Risk management unit under Ministry of Finance
- Guarantee Fund (PT. Penjaminan Infrastruktur Indonesia)
- Land Revolving Fund and Land Capping
- Project Development Facility – PDF to improve FS quality
- Guidelines of Doing Business in Infrastructure
Planning and Budgeting Reforms

- **Budget planning reforms have focused on MTEF**
  - places budget information in medium term perspective
  - links objectives, policies, activities and results
  - identifies responsibility for inputs and outputs

- **Better oversight:**
  - Improved structuring of information
  - medium term projections and ceilings
  - linkage of policies to expenditure
  - performance information on expenditure programs
  - identification of responsible Minister or bureaucrat
  - better linkage between budget and final accounts
What is a good policy enabling environment for the infrastructure investment cycle, from planning to delivery, including private sector involvement? (3)

**Planning and Budgeting Reform**

<table>
<thead>
<tr>
<th>Aggregate Fiscal Discipline</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Tax/GDP Ratio</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>- Deficit/GDP Ratio</td>
<td></td>
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<tr>
<td>- Debt/GDP Ratio</td>
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MTFF: Medium Term Fiscal Framework

<table>
<thead>
<tr>
<th>Allocative Efficiency</th>
<th></th>
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</thead>
<tbody>
<tr>
<td>Allocation to Priorities</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Program → outcome</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>- Activity → output</td>
<td></td>
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</tbody>
</table>

MTEF: Medium Term Expenditure Framework

- Forward Estimates
- PBB: Performance Based Budgeting
- Unified Budget

<table>
<thead>
<tr>
<th>Operational Efficiency</th>
<th></th>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>- External Control</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Internal Control</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>- Management Accountability</td>
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</tbody>
</table>

- Performance Culture (Performance Based Budgeting)
- Good Governance:
  - Bidding
  - Official Travel (at cost)

*) The National Medium-Term Development Plan (RPJMN) (5 years Development Planning, with 3 Years Rolling Plan through Government Annual Work Plan (RKP) and State Revenues And Expenditure Budget (APBN)
Government Support for PPP Projects

- Determining which project can be taken up through PPP → PPP Book
- Facilitation at the design stage – project preparation – detail feasibility report → Project Development Facility – PDF
- Facilitation in the pre-construction stage → land revolving fund, land capping, and land acquisition process
- Providing avenues for long term finance → Infrastructure fund (PT Sarana Multi Infrastruktur – PT Indonesia Infrastructure Fund)
- Understanding contingent liabilities → providing government guarantee
- Providing Viability Gap Funding
- Ensuring quick and effective dispute resolution mechanism
- Ensuring transparency and fair play through adequate regulation and disclosure
- Building effective and sustainable partnership
What is a good policy enabling environment for the infrastructure investment cycle, from planning to delivery, including private sector involvement? (5)

Creating Policy Environment for PPP

Legal and Regulatory Framework

- Land Acquisition Fund
- Guarantee Fund (PT PII)
- Infrastructure Fund PT SMI – PT IIF
- PDF
- P3CU

Private Investor → SYNERGY → Financial Institution/Lender

To Promote Infrastructure Development Growth through PPP

PPP Project Pipeline
What is a good policy enabling environment for the infrastructure investment cycle, from planning to delivery, including private sector involvement? (6)

PPP as Infrastructure Financing Scheme

1. Economically viable, Financially not viable
   - Private
   - Public
   - Hybrid Financing

2. Economically viable, Financially Marginal
   - Public
   - Private
   - PPP with Government Support

3. Economically viable, Financially viable
   - Private
   - Regular PPP

Legend:
- Orange: Operation and Maintenance
- Green: Financing
Creating Sustainable Fiscal Space for Infrastructure

• Sustainable fiscal space for infrastructure plays a pivotal role in **enhancing the national unity and cohesion**, and is believed to be the trigger to regional development.

• Strengthening national connectivity (transportation and ICT):
  ✓ one of the principal bonds of the Unitary State of the Republic of Indonesia
  ✓ serves as the backbone of the distribution of goods, passengers, and services
  ✓ as an essential aspect for raising the productivity of the production sector
Creating Sustainable Fiscal Space for Infrastructure

To accelerate the infrastructure development, the government has pursued a number of primary tracks:

- **The government budget**, specially for providing basic infrastructure services

- **Providing guarantee to State-Owned Enterprises (SOE/BUMN)**. For example providing guarantee to State Electricity Company (PLN) to raise capacity of power generation all over Indonesia

- **The government opens the widest possible opportunity to private sector** to participate in the construction and operation of infrastructure in fair, competitive and transparent fashion through **PPP mechanism**.
How to create sustainable fiscal space for infrastructure, ensuring that investment and maintenance costs are financed in a fiscally sustainable manner? (3)

Infrastructure Resource Allocation

Central Government Financing (APBN)

Government Guarantee

Public Private Partnership (PPP)

External Loans/Grants (PHLN)

Government Guarantee For SOEs’ Projects

Commercial Infrastructure Project

Government Revenue (Rupiah)

Basic Infrastructure services

PPP Book

Blue Book
How to create sustainable fiscal space for infrastructure, ensuring that investment and maintenance costs are financed in a fiscally sustainable manner? (3)

Baseline Allocation 2010 - 2014 Infrastructure

Goverment Policy:.....To Boost Infrastructure Financing Up to 5 % of GDP

<table>
<thead>
<tr>
<th></th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
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</thead>
<tbody>
<tr>
<td>Growth (%)</td>
<td>5,1</td>
<td>5,5</td>
<td>6,2</td>
<td>6,8</td>
<td>7,3</td>
<td>7,7</td>
</tr>
<tr>
<td>Nominal GDP (Rp Trillion)</td>
<td>5.206,5</td>
<td>5.989,5</td>
<td>6.718,3</td>
<td>7.632,3</td>
<td>8.611,0</td>
<td>9.523,3</td>
</tr>
<tr>
<td>Infrastructure Needs 5 % GDP (Rp. Trillion)</td>
<td>260,3</td>
<td>299,5</td>
<td>335,9</td>
<td>381,6</td>
<td>430,6</td>
<td>476,2</td>
</tr>
</tbody>
</table>

Total of Infrastructure Needs (2010 - 2014) Rp. 1.923,7 Trillion (US$ 213,3 Billion)
How to create sustainable fiscal space for infrastructure, ensuring that investment and maintenance costs are financed in a fiscally sustainable manner? (4)

Investment Needs 2010-2014

- 7% growth target required: Rp 1,923,7 Trillion (about US$ 161.8 billion) of investments during 2010-2014.
- Central Government budget covers only 29.1% of total investment need.
- Big opportunities for private investments through PPP (Rp 668,34 Trillion or 34.7%).
Indonesia can afford to spend more on infrastructure development... because its fiscal and debt position is strong.

<table>
<thead>
<tr>
<th>Scenario 1: Low growth</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP growth (%)</td>
<td>3.5</td>
<td>4.5</td>
<td>5.5</td>
<td>5.5</td>
<td>5.5</td>
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<tr>
<td>Budget deficit (% GDP)</td>
<td>-1.6</td>
<td>-1.4</td>
<td>-1.1</td>
<td>-0.9</td>
<td>-0.8</td>
</tr>
<tr>
<td>Public debt to GDP ratio (%)</td>
<td>32.9</td>
<td>32.2</td>
<td>30.8</td>
<td>29.3</td>
<td>27.8</td>
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<tr>
<td>GoI gross financing needed (IDR trillion)</td>
<td>221</td>
<td>223</td>
<td>216</td>
<td>218</td>
<td>248</td>
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<table>
<thead>
<tr>
<th>Scenario 2: Business as usual</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
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</thead>
<tbody>
<tr>
<td>GDP growth (%)</td>
<td>5.4</td>
<td>6.0</td>
<td>6.2</td>
<td>6.2</td>
<td>6.2</td>
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<tr>
<td>Budget deficit (% GDP)</td>
<td>-1.6</td>
<td>-1.4</td>
<td>-1.1</td>
<td>-0.9</td>
<td>-0.8</td>
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<tr>
<td>Public debt to GDP ratio (%)</td>
<td>31.9</td>
<td>30.8</td>
<td>29.2</td>
<td>27.6</td>
<td>26.0</td>
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<td>GoI gross financing needed (IDR trillion)</td>
<td>224</td>
<td>228</td>
<td>223</td>
<td>226</td>
<td>258</td>
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<table>
<thead>
<tr>
<th>Scenario 3: Big push</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
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<tbody>
<tr>
<td>GDP growth (%)</td>
<td>5.6</td>
<td>6.4</td>
<td>6.8</td>
<td>7.0</td>
<td>7.2</td>
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<tr>
<td>Budget deficit (% GDP)</td>
<td>-2.6</td>
<td>-2.4</td>
<td>-2.1</td>
<td>-1.9</td>
<td>-1.8</td>
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<tr>
<td>Public debt to GDP ratio (%)</td>
<td>32.8</td>
<td>32.4</td>
<td>31.5</td>
<td>30.4</td>
<td>29.2</td>
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<tr>
<td>GoI gross financing needed (IDR trillion)</td>
<td>284</td>
<td>298</td>
<td>304</td>
<td>324</td>
<td>375</td>
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<table>
<thead>
<tr>
<th>Scenario 4: Bigger push</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP growth (%)</td>
<td>5.6</td>
<td>6.5</td>
<td>7.1</td>
<td>7.4</td>
<td>7.6</td>
</tr>
<tr>
<td>Budget deficit (% GDP)</td>
<td>-2.6</td>
<td>-2.6</td>
<td>-2.6</td>
<td>-2.6</td>
<td>-2.6</td>
</tr>
<tr>
<td>Public debt to GDP ratio (%)</td>
<td>32.8</td>
<td>32.6</td>
<td>32.1</td>
<td>31.5</td>
<td>30.9</td>
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<tr>
<td>GoI gross financing needed (IDR trillion)</td>
<td>284</td>
<td>307</td>
<td>343</td>
<td>388</td>
<td>463</td>
</tr>
</tbody>
</table>

Source: World Bank May, 2010
How to ensure coordination between the different steps of infrastructure projects and between different levels of government? (1)

Coordination among sectors and between different levels of Government

- Master Plan for Acceleration and Expansion of Indonesia Economic Development (MP3EI) and National-Regional Spatial Development Plan are critical tools for coordinating inter-sector and inter-government level actions and alignments.

- The key purpose of perspectives is to:
  - bring about synergy
  - bring about complementarities
  - maximising the overall social and economic returns on government development spending

- Inter-provincial or inter-municipal cooperation, in order to:
  - realise joint investments in infrastructure
  - foster regional economic development
  - manage natural resources
  - manage local services (economies of scale)
  - inter-sectoral coordination
How to ensure coordination between the different steps of infrastructure projects and between different levels of government? (2)

Multi Stakeholder Consultation Forum for Development Planning (Musrenbang) as Key Driver for Effective Participatory Planning and Budgeting

- Musrenbang is a deliberative multi-stakeholder forum that identifies and prioritizes community development policies.
- It aims to be a process for negotiating, reconciling and harmonizing differences between government and nongovernmental stakeholders and reaching collective consensus on development priorities and budgets.
- There is a hierarchy of these forums for synchronizing between ‘bottom up’ and ‘top down’ planning (At the community level, at the sub district level, the district level, provincial level, and national level).

Musrenbang focused on two aspects:

- **Principles that encourage inclusive, broad-based participation** is applied at all stages of the decision-making process—including consultation at the policy planning, budgeting, resource allocation, implementation, monitoring and evaluation levels; and
- **Technical analytical work, including synchronization of development planning priorities between different sectors and levels of government** (national, provincial, district, sub district and community).
How can international co-operation support strengthening of national capacities? (1)

Paris Declaration and Jakarta Commitment on Aid Effectiveness

- International co-operation (foreign aid) plays a significant part in creating fiscal space for infrastructure
- International co-operation to be an important resource for government budgets. But this aid needs to be effective and support national budget execution process
- **Jakarta commitment** is a strategic step initiated by Government of Indonesia to take advantage of large agenda of international aid effectiveness as expressed in the Paris Declaration.
- Jakarta Commitment is embodiment of the pillars of the Paris Declaration in the form of country-level action plans by Indonesia
Jakarta Commitment on Aid Effectiveness

1. Stronger national ownership in defining aid architecture and processes
2. A shift from a donor-recipient relationship to a paradigm of equal and innovative partnership
3. Moving from financial assistance to a more strategic and catalytic role of aid
4. Transition from scattered project-based assistance to a more programmatic approach
5. Stronger focus on capacity development and result orientation embedded in national programmes
6. Greater mutual accountability and alignment between the government and international partners
Sunda Strait Bridge
(artist impression)

THANK YOU
Ministry of National Development Planning, Indonesia

Existing Budget Allocation Mechanism

Ministries/Other Public Institutions (as COOs-Chief Operating Officers)

Proposed

to be revised

National Planning Agency/Bappenas

Ministry of Finance (as CFO-Chief Financial Officer
On behalf of President
as CEO-Chief Executive Officer)

National Priority Program
And Ceiling Budget

Government Proposal

rejected

Indonesian Parliament

National Budget Availability

approved
# PPP projects ready for transaction

<table>
<thead>
<tr>
<th>No</th>
<th>Projects</th>
<th>Contracting Agency</th>
<th>Investment Estimation (US$ Million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Tukad Unda Water Treatment Facility</td>
<td>Bali Provincial Government</td>
<td>59.1</td>
</tr>
<tr>
<td>2</td>
<td>Purukcahu-Bangkuang Coal Railway</td>
<td>Central Kalimantan Provincial Government</td>
<td>2,100.0</td>
</tr>
<tr>
<td>3</td>
<td>Maros Water Supply</td>
<td>Maros Regency</td>
<td>12.9</td>
</tr>
<tr>
<td>4</td>
<td>Tanah Ampo Cruise Terminal</td>
<td>Ministry of Transportation</td>
<td>36.0</td>
</tr>
<tr>
<td>5</td>
<td>Bandung Solid Waste Management (unsolicited)</td>
<td>Bandung City</td>
<td>86.0</td>
</tr>
<tr>
<td>6</td>
<td>Surakarta Solid Waste Management (unsolicited)</td>
<td>Surakarta City</td>
<td>7.4</td>
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<tr>
<td>7</td>
<td>Southern Banten Airport</td>
<td>Banten Provincial Government</td>
<td>85.0</td>
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<tr>
<td>8</td>
<td>Umbulan Water Supply</td>
<td>East Java Provincial Government</td>
<td>204.2</td>
</tr>
<tr>
<td>9</td>
<td>Medan - Kuala Namu – Tebing Tinggi Toll Road</td>
<td>Toll Road Agency (BPJT)</td>
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<tr>
<td>10</td>
<td>Jatiluhur Water Supply</td>
<td>Ministry of Public Work</td>
<td>189.3</td>
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<td>11</td>
<td>Sunda Strait Bridge</td>
<td>Badan Pengembangan Kawasan Strategis Selat</td>
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<td>12</td>
<td>Pandaan – Malang Toll Road</td>
<td>Toll Road Agency (BPJT)</td>
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<td>13</td>
<td>Pasir Koja – Soreang Toll Road</td>
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<td>14</td>
<td>Pekanbaru – Dumai Toll Road</td>
<td>Toll Road Agency (BPJT)</td>
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<tr>
<td>15</td>
<td>Development of Pondok Gede Water Supply</td>
<td>Bekasi City</td>
<td>22</td>
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</tbody>
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