INDONESIA

UNITARY COUNTRY

ASIA PACIFIC

BASIC SOCIO-ECONOMIC INDICATORS

Income group - **LOWER MIDDLE INCOME** Local currency - **Indonesian rupiah (IDR)**

POPULATION AND GEOGRAPHY

AREA: **1 910 930** km²

POPULATION: **254.454** million inhabitants (2014), an increase of 1.3 % per year (2010-2014)

DENSITY: **133** inhabitants/km²

URBAN POPULATION: **53%** of national population

CAPITAL CITY: **Jakarta** (4% of national population)

Sources: World Bank World Development Indicators, UN World Urbanisation Prospects, ILO

ECONOMIC DATA

GDP: **2676.1** billion (current PPP international dollars) i.e.10 517 dollars per inhabitant (2014)

REAL GDP GROWTH: **5%** (2014 vs 2013)

UNEMPLOYMENT RATE: **5.9%** (2014)

FOREIGN DIRECT INVESTMENT, NET INFLOWS (FDI): **25 889.7** (BoP, current USD millions, 2014)

GROSS FIXED CAPITAL FORMATION (GFCF): **35%** of GDP (2014)

HUMAN DEVELOPMENT INDEX: **0.684** (medium), **rank 110**

TERRITORIAL ORGANISATION AND SUBNATIONAL GOVERNMENT RESPONSIBILITIES

MUNICIPAL LEVEL	INTERMEDIATE LEVEL	REGIONAL OR STATE LEVEL	TOTAL NUMBER OF SNGs
508	-	34	542
REGENCIES (KABUPATEN) **AND CITIES** (KOTA) AVERAGE MUNICIPAL SIZE: **500 894 INHABITANTS**		**PROVINCES** (PROVINSI)	

MAIN FEATURES OF TERRITORIAL ORGANISATION. Indonesia is a unitary country with two levels of sub-national governments composed of 34 provinces and 508 local governments (regencies and cities) in 2015. Indonesia also counts over 83 000 villages (desa and kelurahan), which have gained some autonomy since the new 2014 Village Law. Sub-national governments in Indonesia have gained considerable power, responsibilities and autonomy over the last two decades. The number of districts has grown significantly since the late 90s (there were 292 districts in 1999), in a bottom-up process which was halted in 2010. Local governments are democratically elected parliaments since 1999 (Law 22/ 1999), and democratically elected heads since 2005. Law 32/2004 has led to well-established district and provincial autonomy, which were no longer subordinate to provincial governments. Yet, recent legislative reforms tend toward rearranging decentralization for more effective public sector. Whereas provincial governments used to be the most powerful level of sub-national government, central government's authority is now stronger and more assertive, with mandates to dismiss renegade regional government leaders.

MAIN SUBNATIONAL GOVERNMENTS RESPONSIBILITIES. Following Law 22/1999, local governments gained wide responsibilities, making Indonesia one of the largest decentralized countries in the world. Most competences were delegated to local governments, with the central government retaining responsibility only for areas of national security, foreign and monetary policy, justice, governance and planning, religious affairs. Competences for public works, healthcare, education, cultural and social affairs, labor, environment protection, land, citizenship and investment are devolved to local governments. In particular, municipalities are responsible for education, healthcare, labor, public works, spatial planning, youth and sport, telecommunication, housing, transport, etc. Yet, the fragmentation of local jurisdictions leads to conflicting and overlapping laws and regulations across levels of government.

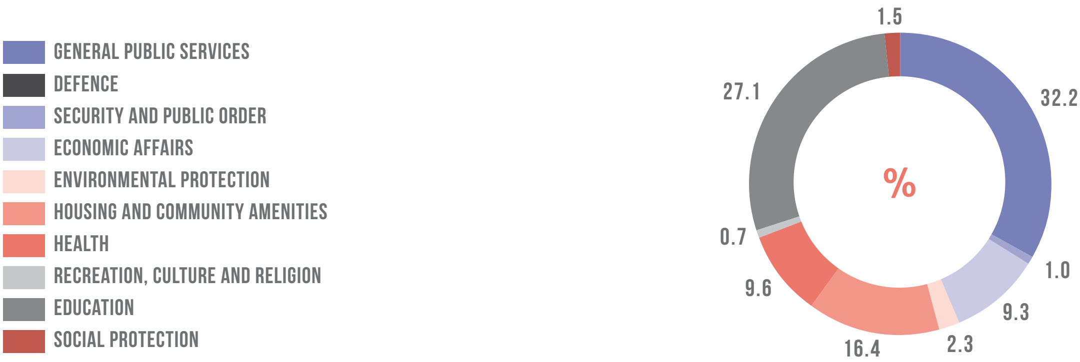
SUBNATIONAL GOVERNMENT FINANCE

EXPENDITURE	% GDP	% GENERAL GOVERNMENT (same expenditure category)	% SUBNATIONAL GOVERNMENT
TOTAL EXPENDITURE (2013)	**6.8%**	**36.4%**	**100%**
CURRENT EXPENDITURE	5.5%	-	80.9%
STAFF EXPENDITURE	3.0%	56.4%	44.2%
INVESTMENT	1.3%	40.8%	19.1%

Because of issues of democratic accountability and clarity of responsibilities, the largest share of subnational expenditures goes to current expenditures compared to the share allocated to investment and provision of public goods and services.

EXPENDITURE BY FUNCTION

% SUBNATIONAL GOVERNMENT EXPENDITURE



Sub-national main categories of expenses include general public services (32.2% of total sub-national expenditure), education (27.1%) and housing (16.4%). Part of the high average spending on administration may be due to the continued proliferation of new districts in Indonesia.

REVENUE BY TYPE	% GDP	% GENERAL GOVERNMENT (same revenue category)	% SUBNATIONAL GOVERNMENT
TOTAL REVENUE (2013)	**7.2%**	**42.6%**	**100.0%**
"REGIONALLY-GENERATED" REVENUE	1.2%	9.7%	16.8%
GRANTS AND SUBSIDIES	5.4%	-	75.0%
OTHER REVENUES	0.6%	-	8.1%

Despite the shift in the responsibility for providing public services introduced by law 25/1999, the task of revenue collection remains primarily in the hands of the central government. To ensure that the regional and local governments had sufficient resources to undertake their new responsibilities, a new system of intergovernmental funds transfer was introduced, guaranteeing at least 26% of net domestic revenues to local governments, of which 90% to districts and municipalities, plus a share of natural resource revenues in the form of intergovernmental transfers.

TAX REVENUE. The Law No. 28 of 2009 details the fiscal revenues allocated to sub-national governments. Provincial taxes include a vehicle tax, a vehicle ownership transfer tax, a vehicle fuel tax, a surface water tax, a cigarette tax. Local taxes include a hotel tax, a restaurant tax, an advertisement tax, a public lightning tax, a non-metal and stone minerals tax, a parking tax, a land and building tax, a land and building acquisition tax, etc. Property taxes (land and building tax, land and building acquisition tax) where only decentralized recently; local governments started collecting them between 2011 and 2014, and the central government stopped collecting it in 2014. Maximum tax rates are set by the central government, and sub-national governments are not able to collect taxes other than those set by law by central authorities or impose any surtax.

GRANTS AND SUBSIDIES. The high share of intergovernmental transfers make for a high budget dependence of the local government to the central government, and makes local government vulnerable to political intervention. Transfers from the central government consist of three major components: the general allocation fund, the revenue-sharing fund and the specific purpose fund. The general allocation fund (*Dana Alokasi Umum*, DAU) is an equalization transfer system aiming at reducing fiscal imbalances between sub-national governments. Transfers are formula-based, consisting of a base allocation (equal to the amount of spending on personal) and a fiscal gap allocation (which can be positive or negative). This fund is allocated to the provinces (10%) and districts and municipalities (90%); it accounts on average for 50% of local revenues. The shared revenue fund (*Dana Bagi Hasil*, DBH) is sub-divided in two categories. The DBH from taxes is a shared tax system, based on receipts from the personal income tax, etc. The DBH from natural resources is based on revenues derived from forestry, mining, oil, etc. Last, the special allocation fund (Dana Alokasi Khusus, DAK) is a transfer system to fund responsibilities that are considered as national priorities.

OTHER REVENUES. Other sources of sub-national revenues include service fees for healthcare, education, cleaning, parking, waste processing, etc, licenses, property revenues, etc.

OUTSTANDING DEBT	% GDP	% GENERAL GOVERNMENT
OUTSTANDING DEBT (2013)	0.2%	0.8%

Sub-national debt must not exceed 75% of the previous year's budget revenues. Sub-national governments are not allowed to borrow internationally; those with outstanding arrears on government loans are prohibited from borrowing. A cumulative lending limit for sub-national loans is set by the ministry of finance.

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Sources: IMF Government Finance Statistics • Crawford School of Economics and Government Working Paper No. 2010/14 • Pal, S. and Z. Wahhaj (2012), "Fiscal Decentralisation, Local Institutions and Public Goods Provision: Evidence from Indonesia" • Asian Development Bank (2012), "Republic of Indonesia: Local Government Finance and Governance Reform" • B. Prasetiamartati (2013), "Policy and Participatory Local Governance in Indonesia", UNDP Indonesia • Suharnoko Sjahrir, B., et al (2014), "Administrative Overspending in Indonesian Districts: The Role of Local Politics", World Development Vol. 59 • Bank of Indonesia: 2014 Economic Report on Indonesia • World Development Vol. 59, pp. 166–183, 2014 • Ministry of Home Affairs Regulation no.56/ 2015.