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for Economic Governance

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AIPEG PROGRESS REPORT

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Executive Summary

AIPEG January to June 2017

Politics dominated the economic policy discourse over January-June 2017; locally, the Jakarta elections and globally, the re-set prompted by the new US administration. It was never truer that politics and economics enjoy a symbiotic relationship.

Section one reports that the Indonesian economy is on an even keel at about 5% growth helped by stronger than expected commodity markets. But, an important story shaping the 2019 elections is emerging. It is that "Bursa Efek" (Indonesia's financial epicentre) is thriving while "Tanah Abang" (the real economy) is struggling.

Realising the president's election pledge of 7% growth is increasingly remote and formal sector jobs are falling behind. The looming 2019 election makes it less likely that tough but essential reform will be pursued. With a property market downturn, local consumers and investors are struggling to sustain spending.

A long-term slide in religious tolerance hit the headlines when the Jakarta governor, known as Ahok, was prosecuted and jailed for blasphemy. The economic implications of the emergence of religion as a political wedge issue is difficult to discern but there is little doubt that key local investors are watching these developments.

In section two we find that the interaction of politics and economics is not new to Indonesia. We take a first-hand look at the Asian Crisis twenty years on.

The Asian crisis triggered the collapse of political and economic institutions that had delivered remarkable growth for 30 years. It is the challenge of rebuilding these broadly-defined institutions, albeit fit for a middle-income democracy, that is still the challenge for economic-governance support to Indonesia.

Also in the second section, we look at private sector and human development: the two pillars of Australia's strategic development framework.

The numbers tell the story. Indonesia has about 58 million firms – about one firm for every 4.5 people; in Australia, there are less than half the number of firms per capita. Yet, Australia has about five times more listed firms than Indonesia. Almost 99% of Indonesia's firms are trapped or incentivised to stay small despite poor productivity. Transition to mid-size is rare and a missing link in private sector development.

Indonesia has climbed up world human development rankings by improving access to education and healthcare, among other things. Yet in one crucial area the country still does poorly: women in work. Indonesia has fewer women in work relative to men compared to any other country in East Asia.

Section three, on management, looks at enhanced activity planning and budgeting, stronger monitoring and evaluation, and communications. The section reports on Tim Asistensi's work plan and its recent evolution. Section four of the report details AIPEG and its activities.

Despite a more challenging environment, as Indonesian politics become more important ahead of the 2019 election, AIPEG looks forward to continuing to support the government achieve strong, sustainable and inclusive growth.

David Nellor
Amanda Robbins
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Highlights

MARKETS

- Renewal of business trade licences and company registration made easier.
- New logistics policy to speed up trade, advocated by Indonesia Services Dialogue.

FINANCE

- Fintech advisory forum launched by financial regulator (OJK).
- Good progress in financial oversight as rated by International Monetary Fund.

REVENUE

- Core tax system preparations underway.
- World-class IT project management system (Agile) adopted by tax office.

SPENDING

- First time rolling multi-year budgets produced by all central agencies.
- Budget spending reviews to reduce Ministry overheads.

ECONOMIC SUPPORT POLICY

- Stronger macro evidence-base in budgeting and planning.
- New disability research to assist with monitoring of 2016 Disability Law.

ECONOMIC SUPPORT CROSS-CUTTING

- Better policy for capital injections to State Enterprises.
- Public private partnerships joint office to accelerate project development.

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Context

Bursa Efek versus Tanah Abang

The context for 2017: Financial markets versus the real economy

Indonesia's economic stability and prospects, helped by a more favourable global economy, improved during this six-month report period; January 2017 – June 2017.

Yet reality is hitting home. The next election is looming in 2019, and there is an unspoken realisation that, while growth might edge up, there is little prospect of a return to the rapid growth rates seen only a few years ago.

A winner among emerging markets

Indonesia stands out as a winner in a less than stellar emerging market neighbourhood. The long-awaited S&P upgrade of Indonesia's creditworthiness in May 2017 is emblematic of this positive assessment by global financial markets.

Economic prospects and financial stability were boosted by ample global liquidity and a more sustained pick-up in commodity prices than many people had predicted.

Coal prices, for example, averaged 60% higher than year ago-levels in the first half of 2017, even though 20% off their early 2017 highs. These higher commodity prices boosted government budget revenues, narrowed the external current-account deficit, and lifted financial markets.

As a result, short-term concerns about economic prospects subsided over the first part of the year, despite the distraction of political uncertainties. The outlook benefitted from steady growth of about 5%, prudent budget management, reduced external vulnerability, and an improvement in trend inflation.

We estimate that almost a half of the 14% pick-up in first half government revenues can be attributed to stronger commodity markets. Oil and gas alone explains over a third of the increase.

The current account will decline by about 0.4 points of GDP owing to commodity market developments.

Macroeconomic stability has thus improved giving little for the economic intelligentsia to get either excited or stressed about.

Of course, global risks remain the constant for Asia and its emerging markets. Global shocks – whether policy-induced tightening of global liquidity, China's slowdown and stability, or geo-political events – remain risks.

Domestically, the budget is still too stretched to respond to shocks. Despite the pick-up in revenue, the budget deficit continues to run up against the 3% of GDP legal ceiling, leaving reining in spending as the adjustment factor.

While there are no immediate storm clouds on the horizon neither is a boom around the corner. Growth is not close to reaching levels of a few years ago and nor is the economy doing enough to deliver formal-sector jobs.

"Bursa Efek versus Tanah Abang"

At a more granular level, however, the economic picture is very much one of two contrasting stories. Like elsewhere, there is an Indonesian version of "Wall Street versus Main Street" playing out. For financial-market participants, the story is rosy: call it Bursa Efek – the Indonesian stock exchange – versus Tanah Abang – a famous Jakarta market reflecting the real economy.

Financial markets hit records

Indonesia's "Wall Street" has been booming. Markets have benefitted from easy global liquidity. Flows into the bond market have continued unabated and, after some hesitation, foreign investors have returned to the stock market.

Foreign investors have invested more in the first half – about A$1.7 billion – than in the whole of 2016. Reflecting this renewed interest, the Jakarta stock-market index reached record levels by mid-2017 – up about 10% since the beginning of the year. This outturn was helped by a recovery in listed company earnings which, for the largest 100 companies, grew by about 17% in Q1, helped by the commodity recovery.

Large financial gains have been secured in the bond market and more are in prospect. Foreign flows into the bond market have accelerated, despite concerns about Fed rate hikes. They amounted to about A$10.5 billion in the first half and, like the stock market, exceeded total 2016 inflows.

Helped by a cautious Bank Indonesia monetary policy and significant yield differentials, investors point out that the benchmark sovereign bond yield has yet to return to the levels seen before the May 2013 "taper tantrum". Investors thus see scope for large capital gains and are encouraged by the prospect of further capital inflows that might be triggered by the S&P upgrade.

Main Street struggling

The second story, looking at "Main Street," is less rosy. Private-sector investment is struggling to revive, private consumption is mixed, and property prices are falling.

Private investment is growing modestly – we estimate Q1 growth of about 1.9% over Q1 last year – and the pace of growth likely slowing. Certainly, capital goods imports were flat at best over the first half, suggesting systemic weakness in investment. A pick up in capital goods growth in the last month or two of the semester appears to be narrowly related to mining equipment.

Private consumption indicators look weaker than in 2016 even though the national accounts consumption measure is steady. Food and beverage sales are holding up well, growing by 8.2% in the first half, compared to the same period last year.

For all other spending categories, the picture is bleak. The telecom sector, which had been growing at about 28% in 2016, is now contracting. The remaining spending categories recorded negative growth, falling by -1.6% in the first half.

The property market is in recession and this is an important sign that Main Street is likely weaker. Apartment prices and rentals as well as office rentals are falling. Other property prices and rentals are not keeping pace with inflation.

A recovery is not likely in a hurry. New office supply in 2017 is up 50% over a year ago and the delivery of office space in 2017 will be more than double seen in any year before 2016. The average Jakarta vacancy rate is about 20%. It will take time for market growth to absorb this surge in supply.

In the meantime, construction will likely slow, weighing on investment. Construction accounts for about 80% of investment in the national accounts. Consumption may well also be hampered because property is the key non-financial savings vehicle.

The closing window for boosting growth

President Joko Widodo is partly trapped by his campaign promise of 7% growth by the 2019 election and so continues to push for higher growth. Nonetheless, his government's budget has scaled 2018 growth back to 5.4% after initially spelling out a range that kept 6.1% as the 2018 growth aspiration.

With the rapidly closing window before the 2019 election and a struggling Main Street, the political challenges, including equity and perceptions that some regions are being left behind, that have bedevilled governments globally are rising to the surface. These political challenges underscore the President's concern on growth as well as his policy re-set toward inequality and regional equity.

Yet the willingness to take on the political battles needed to realise a much higher growth rate must be in doubt.

Indonesia's climb up the World Bank Doing Business rankings is welcome. The various reform packages, most recently on logistics, are expected to continue this improvement. Efforts to improve public infrastructure are also helpful.

However, these positive reform efforts do not fundamentally challenge the interests standing in the way of a better investment environment. In the end, policy steps beyond investment climate and public infrastructure will define success.

The scale of the challenge is large as Indonesia's competitiveness has been sagging. The government has introduced as many import-related non-tariff measures over the past five years as it had cumulatively in previous decades.

Despite the increase in infrastructure spending, roads, power and sanitation are not yet keeping pace with depreciation, much less to meet rising demand at 5% growth.

Fostering openness is one challenge. Public statements continue to focus on a mercantilist squeeze on imports rather than a trade and investment strategy supporting participation in global value chains and foreign direct investment.

Progress on bilateral agreements and ASEAN's Regional Comprehensive Economic Partnership will be important litmus tests.

Challenging the labour market status quo is critical for private-sector development. An appetite to tackle the labour law on layoff rules, where Indonesia ranks poorly from a global perspective, has yet to develop.

Developing a real pipeline of private infrastructure investments is another challenge. This will require aligning line ministry and state-owned enterprises incentives to develop and design infrastructure projects that will be attractive to the private sector. At present, private investors have largely been crowded out of infrastructure provision.

These structural reforms, along with improved transparency, fundamental legal governance and respect for contracts, are no doubt difficult but they are doable. Much can be done that is solely within the government's control.

Economic prospects and politics

Politics has dominated the economic outlook globally over the past six months – in Indonesia it has been no different.

Globally it has been US protectionism, mounting restrictions on immigration, and Brexit.

In Indonesia, the Jakarta gubernatorial elections and the prosecution and jailing of the Jakarta Governor, Basuki Purnama (Ahok), was the biggest story in this review period.

At one level, the Jakarta election set the scene for the 2019 presidential elections. The candidates were viewed as proxies for the various runners and riders thought likely to shape 2019.

The mass demonstrations of late 2016 and early 2017 certainly shifted focus from reform to political stability. Arguably, these developments also played a role in the emergence of inequality and regional equity as a focus of economic policy.

But, at another level, the prosecution and subsequent jailing of Ahok brought to the surface a deeper and longer-term concern. This is a view that tolerance for minorities, religious and racial, which has been sliding for many years, is threatening the secular rule of law.

The possibility that the long-term deterioration in tolerance will shape inclusive economic and political institutions, which are the foundation of sustainable development, is a topic of conversation in the investment community.

Some observe that Wahhabism has grown in influence helped by the space created by an extended period of weak public services at the local level. Others note the pending implementation of the 2014 Halal law, which states that all products that are distributed, traded, and marketed in Indonesia need to have halal certification.

Less on the surface, legal protection, security, and property rights are also a concern for the Indonesian Chinese community, which accounts for a significant share of private investment.

Developments in the first half of the year have revived memories of 1998. Political statements around the Jakarta election, as well as the revival of the 1998 Bank Indonesia liquidity support cases by the anti-corruption commission, for example, have reinforced concerns.

Against this background, some investors are asking about prospects in the coming decades as they assess long-term investments. Investment will be shaped by certainty about property rights. For prospective foreign investors, this has been a concern over the years, especially in the mining sector. These concerns may be broadening to other groups of investors. How much this is harming investment is impossible to assess, but it is perhaps a headwind.

The institutional anchors of Indonesian economic policy are thus critical. Traditionally these have been the placement of strong technocrats in the primary economic portfolios, the preservation of the central bank's independence, and observing the 3% fiscal rule. The developments in the first half of this year raise questions about whether these anchors will be enough.

These political developments have prompted some constructive responses from the government. The president has stressed the importance of tolerance. He has established a senior advisory group, including a former president, to restore the guiding role of Pancasila, which upholds the rights of six officially recognised religions, to promote a shared understanding of an inclusive society.

By the numbers
The Indonesian economy

ECONOMIC GROWTH

4.9% (Q4 2016) | 5.0% (Q1 2017)

Growth edged up to 5.0% in Q1 2017, up from 4.9% in Q4 2016. Private consumption growth weakened but was offset by higher net exports. Government expenditure grew positively after slowing down during the second half of 2016. The government now aims for 5.2% growth in 2017.

INFLATION

3.0% (Dec 2016) | 4.4% (Jun 2017)

Indonesia's annual inflation rate rose to 4.4% in June 2017 mainly due to an increase in administered prices for transport and electricity. Core inflation remained stable at 3.1%. The inflation rate is within the central bank target of 3-5% for 2017.

EMPLOYMENT GROWTH

3.1% (Aug 2016) | 3.2% (Feb 2017)

Indonesia's labour force rose to 132 million people, an increase of 6 million from August 2016. Employment grew by 3.2% in February year-on-year, mainly driven by growth in the public service, transportation, and agricultural sectors.

INEQUALITY

0.394 (Sep 2016) | 0.393 (March 2017)

The Gini ratio as a measure of inequality decreased marginally in March 2017 to 0.393, inching closer to the government's target of 0.390 in 2017. However, large urban-rural and regional discrepancies persist.

INVESTMENT

$12.4 bn (Q1 2017) | $12.8 bn (Q2 2017)

Total investment in Q2 2017 was up by 3% for the quarter and 16% year-on-year. Domestic direct investment increased by 17% and foreign direct investment by 15% year-on-year. The Investment Coordinating Board's target is to reach USD 50 billion total investment in 2017.

TRADE BALANCE

$1.0 bn (Dec 2016) | $1.6 bn (Jun 2017)

Indonesia's trade surplus increased to USD 1.6 bn in June 2017. This was due to a deeper decline in imports (-17.2% year on year) compared with exports (-10.3% year-on-year). Cumulatively, January-June 2017 recorded a higher trade surplus of USD 7.6 bn over the same period last year.

The Big Issues

From being a miracle to needing one

The Asian Crisis twenty years later – a personal reflection*

In 1996 Southeast Asia was celebrating its "economic miracle", as the World Bank had described the region's spectacular growth. At the time, I was in Jakarta with ASEAN countries that had come together to celebrate the Asian miracle. The mood was ebullient.

Less than a year later, on July 2nd, 1997, Thailand floated the baht, triggering the Asian financial crisis. I watched with the Philippine central bank governor as his country sold off its reserves in a futile effort to defend its own collapsing currency.

In Indonesia, the rupiah would lose 85% of its value; GDP would fall by almost 15%; and the banking crisis would become the most expensive in history, at over 50% of GDP. And, this simple accounting does not capture human cost of the crisis.

After decades of economic success, it was not surprising that denial, the first stage of grief, persisted for many months. By 1998, however, the scale and severity of the Asian crisis was clear. I spoke at an ANU conference titled "East Asia in Crisis: From Being a Miracle to Needing One!"

Signs of excess

Signs of excess had emerged in the 1990s. The Petronas Towers had risen over Kuala Lumpur, the tallest building in the world and the symbolic leading indicator of a downturn.

More fundamentally, competitiveness declined, speculative ventures and external debt were on the rise, and financial systems were liberalised without matching supervision.

Critically, by the mid-1990s, a rising US dollar was dragging up Asian currencies, owing to unannounced pegs, resulting in further loss of competitiveness.

Economic policy choices matter

These factors were all part of the Asian crisis, but the crisis stemmed essentially from a failure by the region's central banks to respect a basic economic principle: it is impossible to set the exchange rate and interest rate policy simultaneously while keeping capital markets open.

Violating this principle provided investors with a "free lunch." The central bank set interest rates higher than US rates and, by their unannounced decision to fix their currencies to the US dollar, created a one-way bet for investors.

Funds had rushed into Thailand. The current account deficit swelled to 8% of GDP. Some investors – famously George Soros – took positions against the baht knowing the peg was not sustainable.

As questions began to mount about whether Thailand had enough dollars to meet its repayment needs, the rush to the exit started. The baht's peg to the dollar collapsed and the crisis had begun. A flawed economic policy would expose a range of vulnerabilities, especially in financial sectors, that sent shock waves across the region.

Navigating a seven-year journey

For Indonesia, the road to recovery would be a challenging journey, lasting from 1997 until 2003.

A sequence of symbolic images captures the Indonesian crisis. From lines at banks during the 1997-98 bank closures; a skyline of unfinished buildings; the iconic photograph of President Suharto and the IMF's Camdessus; rioting at the end of the Suharto regime; stepping back from the edge of hyperinflation under President Habibie; and seeking to build democracy alongside wrenching economic reform.

*David Nellor, AIPEG Facility Director, was based in the region and involved in all Asian Crisis countries over the crisis period. He managed the IMF's Jakarta office over the last few years of the crisis.

Each piece of this mosaic of events that tell the Indonesian story has its own intriguing back-story. However, for the two-thirds of Indonesians who were either not born in 1997, or were still children, much of what is "remembered" today is folklore.

Yet the crisis still resonates. It triggered the collapse of political and economic institutions that delivered remarkable growth for 30 years. It is the challenge of rebuilding these institutions, albeit redesigned for a middle-income democracy, which is the overriding challenge for of economic-governance support to Indonesia.

Maturity of political institutions

The maturity of political institutions shaped recovery. The crisis countries all experienced political change. But political change meant very different things in different countries.

Political change provided a mandate for tough economic reform where governments were popularly elected. South Korea overcame the crisis quickly even though the economic shock was as large as elsewhere. But a new government benefited from a fresh mandate and took on reform definitively.

In Indonesia, political change meant something very different: it was a mandate to build democracy. The end of the Suharto regime signalled the end of political legitimacy based on delivering high growth. So, unlike Korea and Thailand, political change focused on emerging political institutions.

Economic reform was very much subsidiary to building a new democracy. In fact, the economic reform program was almost entirely off track for the duration of the 1999-2001 Gus Dur administration.

The economy suffered and, in 2001, while not widely known, Indonesia was on the edge of crisis once again. Political change, with the arrival of the Megawati administration after the impeachment of Gus Dur, proved to be the beginning of economic recovery.

Reform and economic institutions

The crisis and changing political institutions, including a dramatic decentralisation of political and fiscal power, meant that economic institutions had become redundant if not damaged irreparably by the crisis.

The Suharto policy framework was driven by a small group of highly capable policy makers who made proposals to the president for his decision. The key ministers – including coordinating ministers – were legitimatised by the political power bestowed upon them by the president.

The civil service was to implement, not develop, these policies. Its structure was organised along military lines with the ranks and matching numbers of units unrelated to business need.

The reforms over the seven years of the crisis were grafted onto this existing structure; the economy was free-falling so there was no scope to think about a new system, let alone create one.

In fact, the same structure remains largely intact today even though its "fit" for the task at hand is problematic. Indonesia went from centralised economic decision-making to diffuse decisions across a range of players whose effectiveness depended on their personal motivation and ability to drive results.

Some temporary agencies were set up to help deliver reforms but they had mixed success. The bank restructuring agency (IBRA) was established to bypass the central bank and to have a business-oriented focus. Other processes were also used such as a new commercial debt restructuring task force (JITF).

Indonesia also tried to work around the old system by setting up new agencies. It established the anti-corruption commission (KPK), anti-monopoly agency (KPPU), and the commercial court, among others. But these agencies have, to varying degrees, struggled and arguably have been captured by the system rather than setting a new direction.

Indonesia enacted legislation designed to be the foundation of the new economy, such as laws on state finance, treasury and audit. These were important steps forward. However, the effective implementation of these laws remains on the agenda today including because agencies are fighting back to regain lost power.

The lasting impact of the crisis on policy

The crisis has left a lasting legacy on a range of economic policies. For macroeconomic policy, there is a fear that, if the rupiah weakens, it may repeat the crisis-like free-fall. In fact, a weaker rupiah, along with lower interest rates, would have supported growth and job creation.

Likewise, an undue concern about relatively modest public debt has, at times, led the government to tighten fiscal policy more than it might have. This owes much to the memory of the near 100% debt-to-GDP ratio after the crisis.

For infrastructure, no effective replacement for the Suharto era system for delivery of roads, ports and power stations has been developed. Under Suharto, the government operated under a so-called balanced budget fiscal rule.

The rule provided that the capital budget was fully funded by development agencies. The World Bank, Asian Development Bank and Japan International Cooperation Agency worked with Bappenas, Indonesia's planning agency, to develop and fund infrastructure projects.

The fiscal rule was abandoned in the crisis and donor funding diverted to broad budget support. The previous capacity to deliver infrastructure was lost and efforts to replace it continue.

In the financial sector, the massive use of public money in resolving the banking crisis sparked arbitrary and selective legal action against officials. It explains why so many are risk-averse today. Markets worry that this risk aversion will prevent officials from taking essential action that could prevent the next banking crisis. Will officials provide adequate liquidity support to solvent banks? Will insolvent banks be resolved in a timely manner to avoid bank-runs? The law dealing with banking crises, passed in 2016 after more than a decade of effort, is a step forward.

The challenge of economic governance

Twenty years on, Indonesia's institutions of economic governance are still striving to overcome the lasting legacy of the crisis. The work plan today is to improve the government's ways of working and their capacity to deliver targeted policies that are internally consistent and coordinated.

Robust economic institutions may not always prevent crises. They can, however, increase a country's resilience in the face of them. They might even prevent a repeat of the terrible costs inflicted by the Asian crisis.

Growing pains

The state of the Indonesian private sector

Indonesia's private sector is uneven. At one end are the small businesses. These include the millions of traders who sell food from rickety handcarts, or work in the warung and workshops, all of them part of a sprawling informal economy.

At the other end are the large conglomerates. Owned by Indonesia's tycoons, these firms typically made their money from monopoly concessions handed out by Soeharto and have since entrenched their positions in the economy. These days they have interests in everything from shopping malls and coal mines, to mobile phones and palm plantations.

What is missing from Indonesia's private sector are examples of small firms graduating into the medium-sized ones which dominate the private sector and drive innovation and productivity in the world's advanced economies.

Mid-sized firms also play a pivotal role in manufacturing supply chains, churning out components for large factories; without them, Indonesia will struggle to rebuild its manufacturing base.

The composition of Indonesia's private sector still resembles that of a low-income country, skewed towards small and informal firms, rather than that of a higher income economy with a larger share of medium-sized firms to raise growth.

Misallocation of resources limits jobs growth

When resources are allocated efficiently, the most productive firms expand and take control of more capital and labour, pushing up total factor productivity—perhaps the most important determinant of an economy's prosperity in the long run.

In Indonesia, 90% of the country's workers are employed by tiny firms with fewer than five people. There is a staggering 58 million such minnows in Indonesia—equivalent to one small business for every three people of working age—often in sectors of the economy that do not add much value.

Each worker in these small firms produces only 3% of the output of a worker at a large firm with 100 or more people. This is why they account for only 37% of GDP despite employing most of the country's workers. The misallocation of resources is a major drag on economic growth.

One of the reasons for the absence of mid-sized firms is unfair competition from the informal sector. This was the number-one complaint by the firms who responded to the World Bank's latest enterprise survey. It was especially troublesome for firms with 5-19 employees—the ones that are in closest competition with the informal sector.

Unfair competition keeps firms informal

A small firm aspiring to grow into a medium-sized one must not only overcome obvious obstacles such as access to capital, but also compete with businesses in the shadow economy that pay no taxes and flout laws on minimum wages, national insurance, and so on. The government is, in effect, giving a subsidy to informal firms by failing to ensure a level playing field with other businesses. This partly explains why they continue to survive and control such a large proportion of the country's labour despite being so unproductive.

More financial services through Fintech

Indonesian small businesses seeking to grow have a tough time raising capital. Banks will not lend to them as they are considered too risky so their only option is to borrow from family and friends. But that is starting to change—Fintech firms are breaking down the financing barriers that small businesses face. AIPEG is supporting Indonesia's regulator (OJK) to strengthen oversight of the fast-growing fintech sector through a "sandbox" approach to regulation. This allows firms to experiment with new products while protecting consumers. AIPEG is also supporting an "innovation hub" to help fintech start-ups navigate regulations.

Indonesia's large businesses are far more productive than its small ones. Firms with 100 workers or more—there are some 5,000 of these—account for only 3% of employment but 40% of GDP.

This attests to the giant leap in productivity that Indonesia could achieve if it could move more labour into larger firms, especially into manufacturing, where each worker produces about $15,000 each year at constant 2010 prices, almost double that of services ($7,800) and five times that of agriculture ($3,200).

Indonesia's large private-sector firms are, however, less productive than similarly sized ones in many other economies. In part, this reflects the dominance of large state-owned enterprises (SOEs).

Crowding out costs productivity

Indonesia still has more than 100 SOEs, including oil-and-gas giant Pertamina, three of the country's four main banks, construction firm Adhi Karya, motorway operator Jasa Marga, and electricity provider PLN. As a share of the overall economy SOEs seem relatively small, accounting for only around 6% of GDP and 5% of capital stock, according to AIPEG estimates.

Yet the preferential access they receive to government contracts and capital, and the influence they wield over policy and pricing, mean that they crowd the private sector out of important sectors.

This matters because SOEs are less productive than private enterprises. AIPEG estimates that the return on $1 of capital used by SOEs is, at best, only $1.9 compared with $2.4 for private firms.

In other words, the labour and capital SOEs control would be better used by the private sector. But, it has been many years since the government last sold off even a small stake in an SOE. In fact, the government has injected significant amounts of capital into state-owned behemoths in recent years in a misguided bid to drive the economy towards higher growth.

Tariffs and other barriers restrict competition

Indonesia's large privately owned firms may be more productive than the SOEs but they are hardly world-beating businesses.

Crowded out of the economy's most lucrative sectors by SOEs, they face serious obstacles to engaging in industries such as manufacturing that add more value.

Indonesia's family-owned conglomerates typically focus on selling to the domestic economy rather than the rest of the world. Because they tend not to produce goods or services that are traded across borders, they are not exposed to foreign competition.

Moreover, high tariff and especially non-tariff barriers mean they do not compete with foreign firms for a share of Indonesia's own market either. All this tends to sap productivity.

Joko Widodo, a successful furniture exporter before he became president in 2014, has pushed through more than a dozen policy packages intended to make the economy more competitive, including by reducing permits and other red-tape.

Jokowi, as the president is universally known, has also opened up some sectors to foreign investors and is investing more in roads, ports and other infrastructure to give the archipelago a fighting chance of rebuilding its manufacturing base. All this should make life easier for the private sector.

Improving the business environment

President Joko Widodo has made it simpler to start a business, pay tax and get electricity among other reforms intended to lift Indonesia's position in the World Bank's influential doing business rankings. Indonesia leapt 15 places in the latest rankings, to 91st from 106th previously, making it one of the world's ten most-improved economies. AIPEG is working with the Indonesian government to speed up permitting processes and make it simpler to trade across borders. Areas of cooperation include: a new online system for obtaining construction permits in Jakarta (one of the most complicated permits to obtain); easier renewal of trade and company registration licences; and greater coordination through the "National Single Window" for export and import processes.

Levelling the playing field

But the government should do more to level the playing field for aspiring private-sector firms. At present, firms face an uphill slog. Smaller firms seeking to grow into larger ones must compete with businesses in the shadow economy that pay no taxes. Meanwhile, larger firms are crowded out of many key sectors by SOEs. And, with the country's manufacturing ambitions frustrated by challenging infrastructure and regulatory challenges, many larger firms are left to dig up minerals, plant palm or build shopping malls.

Counting the cost

A gender lens on human development in Indonesia

Indonesia has risen up the world's human development rankings by improving access to education and healthcare, among other things. Yet in one crucial area the country still does poorly: women in work.

Indonesia has fewer women in work relative to men compared to any other country in East Asia. Since the 1990s the proportion of Indonesian women in work has remained more or less the same, at about 51%. That compares with 84% for men.

Millions of women never enter the workforce, stop working after they marry or have children, and many of them never get a job again. It represents a significant loss of productive potential.

Contribution to growth

As a member of the G20, Indonesia is committed to narrowing the gap between the proportion of men and women in work by 25% by 2025. That implies an increase of eight percentage points in female participation, to 59%. If Indonesia is able to attain this target, GDP could be $123 billion higher by 2025, while GDP per person would reach around $7,800, a rise of around $430 according to AIPEG analysis. A much more conservative estimate of an increase in female participation of just two percentage points to 53%, would increase GDP growth by 0.18 percentage points each year equivalent to about $31 billion in 2025. Even a small increase in female participation in the labour market could lead to big economic gains.

More women are better educated

Indonesian women are better educated than ever before. Among Indonesians aged 25-29 there are actually more women with a college or university degree than there are men. This represents a striking reversal from their parents' generation (those aged 55-59) where men are twice as likely as women to have completed tertiary education.

So far, however, women's higher educational attainment has not led to improved prospects in the labour market.

About half of Indonesia's working-age population of 188.6 million are women yet they account for just 17% of seats in the national parliament—well below a 30% target set by law. In Indonesia, women in the civil service account for 49% of all staff but only 14% of the executive-level Echelon 1 and 13% of Echelon II staff.

Women in the finance ministry

Gender is getting in the way of a more effective civil service. Few women are in leadership roles and the payoff from diversity is absent. One government agency that is making progress towards greater gender equality is the Ministry of Finance. Led by Sri Mulyani Indrawati, the Ministry is considered a 'mentoring' institution among the civil service. A competition to uncover gender responsive practices in 2016, designed and adjudicated with AIPEG support, revealed several good practices including provision of child-care at multi-day training courses and nursing rooms at customs offices for both employees and customers.

Among high-income OECD countries, it is common for women to take a break from work during the peak child-bearing age of 25-45, however in those economies a much higher proportion of women are working in their mid-20s and more return to work by their mid-40s.

Costing corporates

This low participation and representation of women has costs beyond potential growth. Research increasingly shows that low female participation in the workforce also impacts on corporate performance. In large public companies, "For every 10 per cent improvement in gender diversity, you'd see a 2-4 per cent increase in profits" according to a 2015 study by McKinsey of large public companies. Possible explanations for this include diversity leading to greater debate informing decisions and an expanded talent pool.

Women account for only 8% of senior managers at state-owned enterprises. They do poorly in the private sector, too: women occupy only 11% of the top posts at Indonesia's 10 largest listed companies.

Behavioural economics also points to improved risk management with greater diversity on boards. This has the potential to be an important consideration for Indonesia's stability, including in sectors such as the financial market. And yet women currently make up just 20.3% of board members in the top five Indonesian banks.

A job is key to equality and inclusion

Failing to work is costing women. Work is central to financial independence. Women working, and holding leadership positions, is also critical to challenging gender roles and social norms. And yet Indonesia's laws and regulations continue to impede the ability and opportunities for women to work through limited opportunities for flexible work arrangements, restrictions on part-time work, and limited support for women looking to return to work after children.

Family-friendly arrangements such as being able to work flexible hours are rare in Indonesia. Some companies even prohibit their employees from marrying one another. If two employees do strike up a relationship, one of them must resign. More often than not, it is the woman who does so.

A large proportion of women who manage to work outside of the family home are not actually paid. Ten percent of women in Indonesia earn nothing from their non domestic work; many help their parents at small family-run businesses. The wage gap is wide, too: women working in the formal sector earn one-third less than men, while those working informally get half of what men earn.

All this represents a big loss of productive potential, corporate success and female financial inclusion and empowerment.

Helping more women into work

The G20 has come up with its own recommendations for raising female labour force participation, including supporting mothers who want to go back to school, providing childcare and parental leave, and making work places more family-friendly.

In Indonesia's case, there are some additional steps the government could take. First of all, it could lead by example by appointing more women

to the most senior posts in the civil service and at state-owned enterprises.

Workplace flexibility and return to work initiatives are also important. Indonesian women separated from the workforce due to marriage and raising children, often do not know how to reconnect with employment opportunities. There is a role for the private sector to lead efforts to address this challenge, and initiatives like the Australian supported project "Investing In Women".

Over the medium term, other areas to develop further include funding for childcare services, enhanced parental leave policies and tax structures that have the right incentives for working women.

Overcoming persistently low female participation rates is no simple task. Policy support along with shifting social norms is needed. But, the time to start is now, before another generation of opportunity is lost.

An integrated gender strategy

Gender is an important issue across AIPEG's engagement areas. In revenue, AIPEG is advocating a gender-neutral tax policy through analysing how current tax regulations influence female labour supply decisions, household savings, and the tax base in Indonesia. In spending, AIPEG is supporting the national strategy for gender responsive budgeting and planning. In finance, AIPEG aims to promote financial inclusion through support for fintech development and promoting diversity in financial sector regulators. In markets, work on the digital economy holds significant potential for women including in working in new ways and new sectors in the labour market of the future.

As an organisation, AIPEG is strengthening its internal processes, through recruitment, leadership and other activities. AIPEG has boosted female leadership, established a Gender Management Committee and adopted best practices in recruitment and development to support women in a traditionally male dominated sector.

Managing for Impact

Ensuring high performance

Planning, Budgeting, Operations, and M&E

AIPEG has significantly enhanced activity planning and budgeting, strengthened monitoring, evaluation and communications, and made further improvements to management systems.

In a time of great uncertainty, AIPEG maintained adequate staff continuity and delivered a growing work program. Traction in areas such as revenue policy, budget systems and financial development is evident. Requests in new areas such as skills and inequality reflect Indonesian government priorities.

Program expenditure rose substantially. AIPEG and Government Partnerships Fund (GPF) support expenditure totalled AUD 11.4 million over January to June 2017, compared to AUD 8.7 million in the previous six months. This figure is inclusive of some forward activity allocations agreed with DFAT to occur in the second half of 2017.

AIPEG continues to draw on in-house expertise, rapid engagement of short-term technical experts, and expand partnerships, including with Government Partnerships Fund, UN Pulse Lab and the Australian Centre for Financial Studies, amongst others.

The evolution since 2014 to Engagement Areas working across multiple Ministries, rather than single counterparts, is paying dividends. Evidence of greater coordination and evidenced-based policy, is evident in macroeconomic policy and financial regulation. Opportunities are also arising in planning and budgeting.

AIPEG continues to deliver a large portfolio of activities. 24 technical assistance contracting activities have been undertaken, including 17 national and 7 international positions. Two major sub-consultancies were progressed. In general, over the last six months AIPEG's technical assistance activities were larger in scope and value.

Enhanced planning and budgeting

Throughout April to June, AIPEG conducted a joint planning and budgeting process across engagement areas to ensure alignment with emerging domestic and international opportunities, and incorporation of partnership priorities of private sector development, gender and trade.

Comprehensive activity planning, consultations with government counterparts and other stakeholders was undertaken this period. Opportunities to strengthen program coordination were identified: for example activities supporting the digital economy, which has the potential to involve the markets, finance, tax and spending engagement areas.

Leveraging knowledge

The Knowledge Management Team (includes M&E) provided input throughout the AIPEG forward planning and budgeting process, ensuring a focus on AIPEG's goal of strong, sustainable and inclusive growth in Indonesia through increased competitiveness. This included feedback from Indonesian government partners gained through M&E activities.

AIPEG's capacity to communicate to stakeholders has also been strengthened with an Economic Communications Adviser. This role will support work with teams to improve the communication of research and policy advice to reach targeted audiences.

Planning and budgeting was informed by findings from a range of M&E activities, including a major program evaluation that will inform the AIPEG completion reporting.

AIPEG's way of working is to engage in five thematic areas - markets, finance, spending, revenue and economic policy - and explore multiple pathways with change agents within the Indonesian government to contribute to strong, inclusive and sustainable growth.

AIPEG commissioned two independent experts to see how well this worked in practice and what lessons could be learnt to guide future investment. Based on 10 case studies spanning the reform of business licences to the set-up of a new financial regulator, the team considered: what significant economic policy or institution changes occurred with AIPEG's support; and how AIPEG worked to assist Indonesia.

The evaluation findings will continue to inform AIPEG's work agenda and activity planning with government counterparts. The lessons and approach to M&E will also be shared across the Australian development program in consultation with DFAT.

Strengthening operating procedures

AIPEG strengthened operating procedures through enhancements to the Management Information System. This was informed by a survey of users, including DFAT, and resulted in improved monthly contract/input summaries for Short Term Advisers, a search function, and travel/visa/mobilisation status for incoming team members.

Achieving milestones

AIPEG met the agreed milestones this period:

- **Port dwell times:** Informing ease of doing business reforms to improve trading across borders by supporting the Ministry of Trade to investigate dwell times at ports through the delivery of a study in collaboration with UN Pulse Lab. The findings have been presented to government and stakeholders.

- **Insurance:** Delivering the academic paper attached to the regulation of the insurance sector, including on demutualisation by conducting research in collaboration with the Fiscal Policy Agency and the Australian Centre for Financial Studies. This is an important element of the corporate governance framework for insurance companies.

- **Regional spending:** Contributing to Finance Ministry regulations and a potential economic reform package on improving regional spending, through preparation of an assessment of Public Financial Management at the regional level, including findings from consultations with three local governments.

- **Infrastructure:** Developing an infrastructure dashboard, including systems and data management processes with the Ministry of National Development Planning which will, for the first time, bring together spending on infrastructure from national and local governments, state-owned enterprises, and the private sector.

- **Management systems:** Strengthening program reporting and oversight through improvements to the AIPEG Management Information System, following consultation with users, including DFAT.

Steps towards sustainability

Program sustainability is being pursued through three avenues: Tim Asistensi, made up of senior Indonesian advisers; greater co-funding of activities by the Indonesian government; and collaboration with Government Partnerships Fund.

The capacity of Tim Asistensi is developing. Tim Asistensi is now fully staffed and has an established office provided by the Coordinating Economic Ministry. Governance arrangements, including the Steering Committee, have been implemented. The Indonesian government has repeated its commitment to contribute funding to Tim Asistensi in the 2018 Budget.

The Indonesian government is increasingly contributing financially and co-designing activities. Examples include work on consumer protection in the Financial Services Authority which was jointly funded. Also training in a new multi-year budget system developed by AIPEG to be applied across all central agencies and delivered by the Ministry of Finance.

AIPEG worked with several Government Partnership Fund (GPF) teams including both deployed officials and supporting short term technical and coordination visits.

AIPEG's finance team facilitated an agreement between the Australian Securities and Investments Commission and Indonesian Financial Services Authority to collaborate on FinTech market development and regulation.

AIPEG's spending team will support GPF Finance transition from a deployee model to one based on technical visits. AIPEG's revenue team continues to co locate with GPF's Australian Tax Office deployee and coordinate plans on business process mapping and visits to Australia.

As logistics and finance manager for GPF activities, AIPEG supported 52 GPF events in Indonesia and Australia in line with GPF work plans agreed with DFAT. AIPEG's role ranged from procurement and contracting to payments for travel, workshops and translation services.

AIPEG is increasingly engaged in supporting GPF to capture activities and events, including through reporting in the fortnightly newsletter, and will continue to support opportunities for closer collaboration.

Working towards handover

In June 2017, the GPF-AIPEG Advisory Board Co-Chairs approved AIPEG Engagement Design Documents (EDDs) through to September 2018. Following an accelerated timeframe towards the next phase of assistance, AIPEG will now conclude in February 2018.

AIPEG management will prioritise activities with the highest chance of completion and support transition of the EDDs to the next program, noting that expectations for activities and results need to be scaled back. Updated work plans are contained in the section 'AIPEG in Detail'.

Enhancing evidence-based policy

Developments in Tim Asistensi

Tim Asistensi, a team of senior Indonesian policy experts supported by AIPEG, provides evidence-based strategic advice and promotes coordination across economic agencies.

This support is delivered through real-time second opinions, quick response advice, and medium/long-term analysis for priority issues as guided by the Steering Committee. The primary counterparts are the Coordinating Ministry for Economic Affairs, Ministry of Finance and the planning agency, Bappenas.

Stronger policy coordination

Tim Asistensi advocated for a medium term fiscal framework matching revenue reforms with growing spending needs during the review period. The Minister for Finance presented the proposed framework to senior officials from Finance, the planning agency and Bank Indonesia, shaping the 2017 economic narrative and policy reform priorities.

Tim Asistensi accommodated 'just in time' requests with responses on macroeconomic and other projections informing the budget, tax, tariff and excise proposals, and proposed economic policy packages, including the government's flagship fairness package.

The economic policy framework improved with central economic agencies using a common framework to develop economic assumptions for the 2017 and 2018 budgets. Tim Asistensi led macroeconomics training for Ministry of Finance, Planning, Coordinating Ministry and Bank Indonesia staff supported this outcome.

A look ahead

Coordinating Economic Minister Darmin Nasution has tasked Tim Asistensi to support work on food policy, industrialisation, regional economic development and national requirements for local governments, with a focus on construction as a pilot.

The Tim Asistensi model of development is based on the evidence that influencing policy in Indonesia requires high-level commitment and intensive efforts to work at different levels within government and across at least three key economic agencies.

Tim Asistensi refers government priorities to AIPEG and draws on the expertise of AIPEG advisers. In turn, Tim Asistensi members are able to share AIPEG work more broadly and at the highest levels of government.

Tim Asistensi looks ahead at challenges on the horizon. A regional study on decentralisation, is one example, looking at a growing area of public expenditure and how the central government can improve the quality of that spending. AIPEG and Tim Asistensi have conducted an analysis of challenges faced by regional governments, which will inform a future economic package and the quality of regional spending.

Steering committee views on sustainability

In April, the Tim Asistensi Steering Committee considered options for strengthening sustainability drawing on lessons from within the Indonesian government and other development models. This includes: the need for a phased-in development process, evolving over time and as opportunities allow; flexibility and responsiveness as key strengths of the Tim Asistensi model to be preserved; and ensuring Tim Asistensi maintains support across economic ministries. The committee agreed that the next phase would include Indonesian government funding in 2018 for two studies and building on the existing Secretariat established in the coordinating ministry.

Sustainability and Governance

Substantial progress has been made in the oversight of Tim Asistensi. The Tim Asistensi Steering Committee formally met in April - consisting of the Secretary to the Coordinating Minister, the Head the Fiscal Policy Agency, and the Planning Ministry's Deputies for Economy and Finance as well as a DFAT representative. Results from policy analysis and economic research were presented, followed by discussion on future support, including institutional development.

Coordination across advisers has also been strengthened with regular fortnightly meetings. To respond to the Coordinating Minister's request on the medium-term priorities, Tim Asistensi Advisers will hold a series of consultation sessions with stakeholders.

As AIPEG looks to strengthen the impact of Tim Asistensi, it is important to combine the agility that makes the approach successful along with institutional sustainability.

Work on the enabling environment for Tim Asistensi will be explored in the coming period. The government has repeated its commitment to budget funding in 2018, boosting the sustainability of the Tim Asistensi model.

AIPEG in Detail

A guide to AIPEG

Goal: To support *strong, sustainable and inclusive economic growth* through increased competitiveness

Long-term outcomes	Intermediate outcomes	AIPEG Engagement Area
Well-functioning markets	Reduced barriers to trade and investment	Markets
	Reduced cost of market entry, operations, exit	Markets
Stronger economic institutions	Improved economic policy framework	Economic support team
	Increased financial system stability	Finance
	Deeper and more diversified financial sector	Finance
Better management of public resources	Better spending policy	Spending
	Better budget systems	Spending
	More effective revenue policy	Revenue
	More effective revenue administration	Revenue
Economic support team (cross-cutting): Addressing issues of institutional capability, infrastructure and gender equality		

Item	Detail
Facility Name	Australia Indonesia Partnership for Economic Governance (AIPEG)
Sponsor Agency	Coordinating Ministry for Economic Affairs (CMEA)
Other Partner Agencies	Include: Ministry of Finance (MoF), Ministry of Trade (MoT), Ministry for National Development Planning (Bappenas), Ministry of State Apparatus and Bureaucratic Reform (MenPAN RB), Financial Services Authority (OJK), Investment Coordinating Board (BKPM), Business Competition Supervisory Commission (KPPU), President's Office, Vice-Presidents' Office.
Commencement Date	1 December 2009
Scheduled Completion Date	28 February 2018
Facility Value	AUD 124.7 million
Managing Contractor	SMEC

Activities, intentions and challenges

This section summarises progress by engagement area and activity streams. AIPEG Management facilitates an integrated approach across activity streams to foster collaboration and contribution to outcomes.

Markets

Markets Engagement	Doing Business	Trade and Investment
Outcomes	**Lower cost of doing business**	**Lower barriers to trade and investment**
Progress Jan-June 2017 (6 months)	**Business licence and company registration** was made easier. Businesses can now submit an online form with re registration confirmed within 3 days, consistent with a joint AIPEG-Pulse Lab study on 'starting a business'. **Logistics package** supported through advocacy of the Indonesian Services Dialogue. **Dwell times study** completed of dwell times in ports of Jakarta and Surabaya undertaken with Ministry of Trade and UN Pulse Lab to inform reforms to improve trading across borders. **Good practices** in Australia, South Korea and Vietnam reviewed regarding: obtaining electricity; insolvency; construction permits; and enforcing contracts. This included benchmarking visits with senior government officials. **Policy Dialogue** series with the Investment Coordinating Board on doing business reforms continued. Numerous roundtables also held with private sector survey respondents (lawyers, notaries). **Building permits** pilot completed with Jakarta's One Stop Service Agency with significant improvements made in the processing of permits. **Construction sector national standards** study completed with recommendations to improve systems and processes for building codes.	**Non-tariff barriers** cost compliance analysis continued for industries including steel, sugar, mobile phones and used capital goods. **Reform priorities** for further trade and economic integration in light of the changing outlook for the Trans Pacific Partnership analysed with Ministry of Trade and Coordinating Ministry of Economic Affairs. **Policy Dialogue** monthly series in collaboration with the Ministry of Trade on contemporary domestic and international trade issues. **Indonesia Services Dialogue** supported to set new strategic direction based on a campaign-focused agenda. **Commodities and Futures exchanges** - review of Jakarta Future Exchange and the Indonesia Commodity and Derivative Exchange commenced, focusing on low utilisation rates. **Sector study** completed on expansion of technology related manufacturing sector with a focus on mobile phone production. **Trade policy** training delivered to Ministry of Finance and other agencies on analysis of tariffs and other policies, including anti dumping.

Markets Engagement	Doing Business	Trade and Investment
Outcomes	**Lower cost of doing business**	**Lower barriers to trade and investment**
Next period July 2017 – February 2018 (8 months)	**Policy papers** produced together with the Investment Coordinating Board on international best practice options for select doing business indicators. Topics may include: dealing with construction permits; obtaining electricity; registering property; obtaining credit; protecting minority investors; trading across borders; enforcing contracts; or resolving insolvency. **Insolvency resolution and contract enforcement** supported by updating the training manual that will be an important resource for judges and also the private sector in understanding and enforcing creditor rights. **DKI Jakarta collaboration** expected to continue, based on priority reform actions. **Regulatory simplification** supported through more online processes, including construction permits (IMB system) **Unique Business Identifiers** (from multiple business registrations to one) - opportunities identified in collaboration with Revenue team. **Sub-national reform** supported by working with the National Institute of Public Administration to promote success stories.	**Non-tariff barriers** cost compliance analysis completed and shared with Ministry of Trade and other stakeholders to demonstrate the impact of these barriers on competitiveness of business. **Service sector reform** evidence-base strengthened through empirical analysis of the economic benefits for Indonesia with a focus on the telecommunications sector. **Barriers to skills** development identified with an initial analysis of impediments in the automotive sector. **Commodities and Futures** exchanges review completed and shared with the Ministry of Trade. **Global Value Chain policy paper** prepared, building on AIPEG's 2015 diagnostic. **Indonesian Services Dialogue** campaigns commence in areas such as regulation of vocational education, FinTech, logistics or the VAT regime for services exports. **Annual Trade Symposium** led by the Ministry of Trade supported on "A New Paradigm in Trade Governance to Increase Domestic Efficiency and Strengthen Global Competitiveness". **Digital economy** regulatory best practice brief prepared with the competition authority (KPPU), and a broader sector study on the digital economy in Indonesia commenced. **Trade integration** supported with the Ministry of Trade through measures to meet commitments under Asia-Pacific Economic Cooperation and Free Trade Area of the Asia-Pacific.
Challenges and opportunities	**High-level goals and targets** for ease of doing business remain ambitious. AIPEG will continue to follow a demand-driven approach to supporting and advising agencies that continue to demonstrate interest and leadership (at present, Coordinating Economic Ministry, Jakarta administration and Investment Coordinating Board).	**Closer economic integration** and increased participation in global value chains has become more challenging in a more protectionist global environment. New opportunities for advocating reform may arise with initiatives such as the Regional Comprehensive Economic Partnership and bilateral trade agreements.

Finance

Finance	Financial Stability	Financial Development
Outcomes	**Increased financial system stability**	**Deeper and more diversified financial sector**
Progress **Jan-June 2017** (6 months)	**Banking supervision** was supported with a workshop on Finance Ministry responsibilities under proposed changes to Bank Indonesia, Banking and OJK laws. **Market analyst and economist forums** continued with Finance Ministry. **Financial market surveillance** was supported through work with the Fiscal Policy Agency in developing a financial vulnerability model. Public reporting was strengthened with a communication workshop and help with weekly reports. **Deposit Insurance Commission** officials were trained on topics such as: banking risk; bridge banks; and least cost analysis for resolution of financial institutions. **Financial conglomerates supervision**: A framework for supervising conglomerates, developed with the support of AIPEG and Australian financial regulators APRA and ASIC, is now operational after a pilot with six bank-led conglomerates. **Bank resolution and recovery planning** was supported with OJK issuing three new enabling regulations on supervision and recovery plans for systematically important banks. **Market conduct** unit at OJK was supported to develop a framework for supervision; and conduct a pilot on market risk assessment. **Single financial ombudsman** service roadmap with OJK was supported through policy dialogue with ASIC, the Australian Ombudsman and UK authorities.	**Infrastructure financing** discussions led by Ministry of Finance were supported and continued to gain insights from stakeholders such as state owned enterprises and investors. This culminated in plans to do a first securitisation of receivables (electricity tariffs) for state owned electricity company PLN, with another securitisation of state enterprise Jasa Marga for toll road cashflows is also planned. **Insurance markets** research was supported through a partnership between the Fiscal Policy Agency and Australian Centre for Financial Studies (ACFS) on the topics of demutualisation, policy holder protection, and foreign ownership. This research, together with benchmarking visits to Australia and the region, will inform implementing regulations under the Insurance Law. **Fintech market** development was supported with the establishment of a Fintech Advisory Forum to strengthen oversight of the sector. The forum includes experts from Bank Indonesia, government ministries, the Indonesian Fintech Association, and the police's financial crimes department, among others. AIPEG also supported an agreement between ASIC and OJK on regulatory cooperation, and Indonesia's participation in a survey of fintech penetration across Asia (jointly undertaken by Cambridge University, Tsinghua University in China and ACFS)

Finance	Financial Stability	Financial Development
Outcomes	**Increased financial system stability**	**Deeper and more diversified financial sector**
Next period July 2017 – February 2018 (8 months)	**Financial market surveillance** strengthened through work with the Fiscal Policy Agency on early warning systems and better links with markets. **Financial System Stability Forum Secretariat** strengthened through organisation development support. **Financial Sector Assessment Program**: follow-up activities to address deficiencies noted by the IMF's 2017 assessment, including measures to strengthen stress testing and interest rate risk in banking books. **Conglomerate supervision** progressed in collaboration with APRA to hone OJK regulation for financial conglomerates and training of supervisors of the new directorate. **Bank resolution planning** progressed with OJK and commercial banks on implementation of the new OJK regulations. **Market conduct** supervision supported through plans for a consolidated external dispute resolution body and training of conduct supervisors at OJK.	**Development of pensions market**: Assist BPJS to upgrade risk and asset management skills. Commence discussion with OJK on regulation for investment from the prudential perspective (such as the Government bonds regulation). Support BKF to develop a new governance structure for BPJS pension separating the board from the investment office and formulate an investment strategy. **Capital market expansion**: AIPEG will continue to support Fiscal Policy Agency efforts around securitisation of receivables by state enterprises. Initial offerings in IDR, then USD issues for foreign investors **FinTech**: In conjunction with ASIC, assist OJK with the operationalisation of the FinTech Hub and interfaces with industry. Assist OJK to develop regulations in areas including crowd-funding and block-chain technology. **Insurance market** regulation supported in collaboration with Fiscal Policy Agency to issue rules on policy holder protection (implementing regulation under Insurance Law).
Challenges and opportunities	**Changes in OJK leadership in 2017** have the potential to create substantial uncertainty. Nonetheless, priorities of bank supervision, market conduct and dispute resolution, will likely progress with Deputy Commissioners and Senior Executives remaining focused on these areas. AIPEG will also look to support the new leadership priorities.	**Finance sector road map development** remains slow due to lack of coordination from a lead agency. AIPEG continues to leverage opportunities to deepen and diversify the financial sector through areas such as infrastructure financing, insurance markets, and new technologies.

Spending

Spending	Spending policy	Budget Systems
Outcomes	**Better spending policy**	**Better budget systems**
Progress **Jan-June 2017** (6 months)	**Spending reviews** in Ministry of Finance supported, with a focus on implementable policies for the revised 2017 and 2018 budgets. Advice on improving budget allocations was provided to the President's Staff Office to inform discussions for the preparation of the 2018 Government Work Plan. **Expenditure efficiency analysis** finalised for key sectors - infrastructure, health, education and agriculture. The analysis compares Indonesia to similar countries over time, and across regions in Indonesia. This advice has been shared with a range of government counterparts, including the Directorate General of Budgets and the Fiscal Policy Office. Advice also shared with other Australian aid programs to inform policy development. **Policy planning training program** delivered to Ministry of Finance and Bappenas officials on the 'Better Business Case Framework'. The training considered an Indonesian case study and aims to improve development or projects particularly for large-scale, high-risk policies. **Budget forecasting** supported through revenue forecasting workshops for staff in Ministry of Finance and Bappenas.	**Budget IT application enhanced** to integrate several budget-related applications (potentially including planning applications). This will streamline the budget process, enable improved tracking of expenditure and reduce the reporting burden on line ministries. Multi-year budget estimates are now being produced across thousands of spending units, and more accurate budget forecasts are being generated to give greater certainty to stakeholders. **Regional public financial management diagnostic** completed on central-level impediments to better local budgeting. Based on national-wide analysis of budget information and in-depth field work in three locations (Pontianak, Semarang and Padang) the team found that multi-year budgeting and contracting was not well applied at local level, compromising spending efficiency. The findings will be used to inform future finance regulations and national-led efforts to improve public financial management. **Planning and budgeting regulation** revisions were informed by advice from AIPEG on potential to streamline roles and responsibilities between the Ministry of Finance and Bappenas. This work is ongoing with a need for further coordination between the two Ministries and ongoing discussion of the planning and budgeting regulation.

Spending	Spending Policy	Budget Systems
Outcomes	**Better spending policy**	**Better budget systems**
Next period July 2017 – February 2018 (8 months)	**Aggregate budget allocation analysis** undertaken to identify which sectors, regions and types of expenditure provide most support to economic growth over the short to medium term. Accurately estimating these elasticities, and promoting and supporting their use within government, would support designing reform packages that provide the most support to economic growth. This also includes contributing to AIPEG's macro-fiscal studies and projections. **Expenditure efficiency analysis** expanded with deeper studies in key sectors (possible areas could include health, education, or agriculture) to develop medium-term policy recommendations and savings options. The recommendations will be designed to feed into the 2018 and 2019 budgets, as well as the next National Medium-Term Development Plan. **Budget transparency improvements** focused on improving the quality of budget documentation (drawing on international best practices as described by the Open Budget Initiative).	**Budget system improvements**, including refinements to the budget process to ensure a more medium-term focus for budgeting and stronger links to plans and policies. This includes contributions to key budget regulations and further refinements to the budget IT application. **Financial reporting improvements** identified, including the quality and timeliness of consolidated regional and central government financial data, together with exploring improvements to planning, budgeting and reporting systems. This also includes working with DG Treasury regional offices to build their capacity to collect regional data and to conduct spending analysis and monitoring. In addition, support will be provided to improve the quality of regional economic and fiscal analytical reports prepared by the Ministry of Finance. **Building analytical and IT** capacity through training modules to develop capability of Budget Analysts in the Ministry of Finance and Bappenas (a new job classification). Training will also be provided to IT programmers in DG Budget to enable better links between the IT applications in budget and treasury (SPAN).
Challenges and opportunities	**Tighter fiscal conditions** are an opportunity to garner support for fiscal reform. The urgent need to address the tight fiscal outlook provides leverage for medium- to longer-term reforms. However, as the election approaches, there may be reluctance to implement bold policy changes.	**Budget process** improvements require continued commitment. Coordination between the Ministry of Finance and Bappenas remains a significant challenge. This will be supported through ongoing support for the budgeting system together with training budget analysts. AIPEG will also strive to build support within Bappenas for an integrated planning and budgeting framework.

Revenue

Revenue	Revenue Policy	Revenue Administration
Outcomes	**More effective revenue policy**	**More effective revenue administration**
Progress Jan-June 2017 (6 months)	**Vision for revenue reform** (medium-term reform strategy and implementation plan) drafted for consultation with Ministry of Finance's newly formed Tax Reform Team. **Tax law reform proposals** supported including amendments to: VAT Law; Income Tax Law; and General Tax Provision and Procedure Law. **Tax policy** analysis at the Fiscal Policy Agency supported, including: evaluation of excise tax on plastic bottles; effectiveness of tax holidays; and the optimal level of VAT threshold. Measures to address multinational tax avoidance were also investigated including strengthening the rules on controlled foreign corporations and tax treaty abuse. Greater institutional capability at Fiscal Policy Agency also supported through business process mapping. **Tax training** undertaken with officials from Fiscal Policy agency and DG Tax on revenue forecasting, modelling VAT and excise taxes, and computable general equilibrium modelling.	**Tax Reform Team** supported - as an official Observer appointed by the Finance Minister, AIPEG is playing pivotal role advising the Tax Reform Team and has convened two donor coordination meetings. **Core tax system** preparations commenced with selection of a firm to develop a road map and system specifications for overhaul of the tax office IT system and business processes. This will revitalise core administration functions including taxpayer registration, returns and refunds processing, taxpayer information services, amongst others. Tax office public relations team also supported with a focus on internal change management for tax reforms. **IT project management** – Together with GPF Australian Taxation Office, uptake of Agile system supported through secondments to Australia and follow-up workshops. **Taxpayer engagement** supported through an e-filling study with Pulse Lab to seek suggestions from taxpayers for system improvements. Also, a roundtable on upcoming tax administration and policy reforms, including private sector representatives. **Data analytics** exercises undertaken with tax office using examples of fake invoice detection and e-auditing.

Revenue	**Revenue Policy**	**Revenue Administration**
Outcomes	**More effective revenue policy**	**More effective revenue administration**
Next period July 2017 – Feb 2018 (8 months)	**Vision for revenue reform** developed with Fiscal Policy Office and other Ministries setting out tax policy framework and directions over a medium-term horizon. **Tax policy analysis** supported at the Fiscal Policy Agency including advice on amendments to VAT and Income Tax Laws. Institutional development further supported through organisation design, business processes and human resources plan. **Taxpayer engagement** supported through a Tax Policy Dialogue Forum to identify stakeholders and improve tax policy formulation processes. Also, support convening of a Tax Agents Forum to encourage greater information exchange and supervision of tax agents.	**Core tax system** preparations underway with a consultant to develop a roadmap, system requirements and budget specifications for a new IT system. Also work on business processes, human resource and change management plans. In addition, AIPEG will advise on procurement policy and regulations. These inputs will help inform a procurement package and project office at DG Tax to oversee delivery of a new core tax system, in phases over a multi-year period. **Data preparation** through advice on data cleansing and matching ahead of possible migration to a new core tax system. **Change management capacity** developed through technical support and workshops designed to improve readiness of Tax Reform Team and DG Tax Project Management Office.
Challenges and opportunities	**A long list of regulations and policy change proposals** are earmarked by the Fiscal Policy Agency. including amendment of the Income Tax Law, but the internal capacity to deliver this work is limited. AIPEG will continue to engage with the Fiscal Policy Agency and DG Tax in developing capability for tax policy and supporting prioritisation of this work plan consistent with a medium-term framework. **Taxpayer engagement shows potential for significant expansion** as the Finance Minister aims to build trust in the tax system and the tax administration.	**Procurement of the core tax system** is a major opportunity but also high risk. A failed procurement may severely decrease momentum and stall the reform process. The Minister for Finance has indicated provision for the procurement will be made in government budget, which is a significant commitment. However, capacity and focus in DG Tax remains limited. This comes at a critical time for tax administration reforms prior to the 2019 election. **A proposed semi-autonomous revenue agency**, if passed by parliament under the Tax Administration Law, may derail tax reform efforts. **Capacity to recruit senior expert staff is limited** with only eight months remining in AIPEG.

Economic Support Team

Economic Support Team	Economic Policy	Cross-Cutting Activities
Outcomes	**Improved economic policy framework**	**Increased competitiveness by addressing cross cutting areas of infrastructure investment, gender equality and institutional capability**
Progress Jan-June 2017 (6 months)	**Regional competitiveness study** completed on the effectiveness of regional governments in delivering strategic national reforms. Field visits were conducted to Pontianak, Semarang and Padang. The assessment examined national-level constraints to improving the business, trade and investment climate, and local government budgeting. Recommendations were presented to the Coordinating Economic Ministry and Finance Ministry. **Macroeconomic model** re-development at Bappenas was supported as the main analytical tool to develop annual and medium term development plans. A second 'Macroeconomics for Practitioners' training course was also held with an executive lecture delivered by the Finance Minister. **Tim Asistensi Steering Committee** meeting was conducted. Overall updates of policy analysis and studies were presented followed by discussion of plan for future supports, including institutional development. **Maritime and resources sector** exports were analysed in preparation of calculating contribution to GDP and employment for this important sector (includes: transport, fisheries, tourism, energy and minerals).	**Infrastructure dashboard** further developed together with the Ministry for National Development Planning (Bappenas), bringing together all four infrastructure spending components of national government, local governments, state enterprises and private sector. Several series were updated to 2016, alongside manuals and data management processes. **Public-Private Partnerships joint office** supported with business process mapping to speed up coordination. The office brings together seven government entities, including government procurement agency, Bappenas, and Indonesia Infrastructure Guarantee Fund, in an effort to fast track infrastructure projects. **State Owned Enterprise capital injection study** completed with recommendations for improved financing included in Indonesia's 2017 budget planning documents. **State Assets Management Agency** supported to convert more idle government assets, and with further institutional development. **Institutional diagnostic study** completed to identify opportunities, challenges and risks for further institutional reform support. **Regulatory impact/cost benefit analysis** capacity development program delivered for key government agencies, facilitated by the National Legal Development Board.

Economic Support Team	Economic Policy	Cross-Cutting Activities
Outcomes	**Improved economic policy framework**	**Increased competitiveness by addressing cross cutting areas of infrastructure investment, gender equality and institutional capability**
Progress Jan-June 2017 (6 months)	**Policy briefs for international meetings** were supported including G20 economic growth reform commitments. **Disability research** completed and shared with Ministry of National Development Planning and other stakeholders, as a resource to assist with monitoring the implementation of the 2016 disability law. **Evidence-based policy** advice provided to Coordinating Ministry, Finance Ministry and Planning Ministry via Tim Asistensi, Tim Tarif, and other AIPEG Engagement Areas through analysis of macro fiscal variables, along with customised analysis.	**Regulatory impact/cost benefit analysis** capacity development program delivered for key government agencies, facilitated by the National Legal Development Board. **Female workforce participation** evidence base strengthened with analysis of female transitions in the labour market. Also baseline survey of public transport (buses) impacts on access to work in Jakarta, together with INDII/KIAT. Roundtables held with Bappenas, Transjakarta and other stakeholders to take recommendations forward. **Ministry of Finance Gender Impact Assessment** supported, to evaluate 10 years of implementing gender mainstreaming in budgeting and planning and key areas for work going forward. **National Strategy for Gender Responsive Planning and Budgeting** – input for next strategy (2017-2019) supported together with UN Women.
Next period July 2017 – Feb 2018 (8 months)	**Maritime and resources sector** contribution to GDP and employment analysis presented to Coordinating Ministry for Maritime Affairs and other agencies. **National guidelines for local governments** (NSPK) reviewed together with the Coordinating Ministry for Economic Affairs, using opportunities to streamline construction permits as an example. **Fertilizer sector** review commenced to analyse the impact, recipients, and cost of Indonesia's fertilizer subsidy, and assess the effectiveness of fertilizers in terms of production in Indonesia, considering regulatory and other factors influencing the fertilizer sector and productivity.	**Infrastructure dashboard** systems and processes further developed with government stakeholders and data updated to 2016-17. **State owned enterprises** role in driving GDP growth through investment evaluated together with the Fiscal Policy Agency. **Infrastructure investment** stocktake undertaken to identify main issues and bottlenecks for public and private investments, and the need for an infrastructure investment strategy. **State Asset Management Agency** supported to grow, and secure more assets and revenue, through enhanced business process and human resource systems.

Economic Support Team	Economic Policy	Cross-Cutting Activities
Outcomes	**Improved economic policy framework**	**Increased competitiveness by addressing cross cutting areas of infrastructure investment, gender equality and institutional capability**
Next period July 2017 – Feb 2018 (8 months)	**Tim Asistensi Steering Committee** meeting conducted to present work updates and forward plan for 2018, including studies potentially funded through the Indonesian government budget. **International economic engagement** review completed, identifying ways for Indonesia to achieve its vision for international engagements through fora such as the G20, ASEAN and APEC, and to support delivery of domestic reforms. **Coordinating economic ministry** support strengthened through an AIPEG 'hub' focused on analysis in support of economic policy priorities and the AIPEG-GPF Co-chair. **Evidence-based policy advice** and economic analysis provided to Coordinating Ministry, Finance Ministry and Planning Ministry via Tim Asistensi, Tim Tarif, and other AIPEG Engagement Areas.	**Public-Private Partnerships joint office** – targeted support continued together with other donors and KIAT. **Female workforce participation** analysis shared with more stakeholders and policy ideas regarding public transport progressed with stakeholders including Transjakarta, in collaboration with INDII/ KIAT. New analysis undertaken on contribution of increased female labour participation to GDP and policy recommendations, to be progressed with government stakeholders. **Gender analysis undertaken of select tax policies**, laws and regulations, initially focussing on ambiguity in female registration and filing practices.
Challenges and opportunities	**Just in time policy analysis** is highly valued by government partners. However, collaboration to produce good quality policy papers is increasingly challenging in some areas where staff have departed or have other work priorities. AIPEG will continue to work in consultation with counterparts and provide training and support for systems that build sustainability. **Securing economic reform** continues to be a promising opportunity through Tim Asistensi but challenges remain is some areas, including: securing expert advisers; ensuring Tim Asistensi remains a cross-Ministry network supporting the Coordinating Ministry, Bappenas and Finance Ministry; and delivering high-quality, rapid and longer-term advice to decision makers. Regular coordination meetings initiated this period will help sharpen the focus of available resources.	**Building support for private investment in infrastructure** remains challenging. Officials in Bappenas and Ministry of Finance are committed to collaborate on studies, and make progress where opportunities arise. **Progress on policy uptake for gender equality** across Indonesian government agencies remains a challenge. To address this, AIPEG will focus on areas to address gender-related issues within each engagement area. **Institutional reform** remains a significant constraint to improving economic governance. The scale of the challenge and limited government capacity to reform, means that AIPEG resources will focus on unlocking institutional constraints in key counterpart agencies, rather than efforts for broad bureaucratic reform which will require a larger, Indonesian led effort.

Performance and Policy Improvement

In this section, results are presented following DFAT's Performance Assessment Framework (version 2.0). AIPEG directly contributes to the following indicators:

- **Leverage:** Amount of additional funding directed towards more effective infrastructure and economic development.
- **Skills applied:** Number of women and men who apply improved technical skills to improve economic governance.
- **Private sector partnerships:** Increased engagement with the private sector for pro-poor development.
- **Policy improvement:** in market efficiency, regulation and financial systems; and public revenue and expenditure management.

Leverage

New funding for infrastructure and economic development: AUD 4.9 million over 2016-17

Initiative: The Ministry of Finance's Directorate General of State Assets (DJKN) sought to pilot a new state assets management approach on the assets directly under its control. The idea was to create an agency specifically charged with responsibility for maximising use of government assets for society. State assets management agency, LMAN, was formally launched by the Minister of Finance in December 2016.

Amount of funding invested by DFAT: AUD 520,000

Other funding: Over 2016, as LMAN was established, personnel and operating budget was sourced from the existing allocation to Ministry of Finance Directorate-General of State Assets.

Role of AIPEG: AIPEG in collaboration with Australian Government Partnership Fund (GPF) supported institutional set-up of LMAN. Specialised assistance from AIPEG, including a private sector property specialist, helped LMAN convert idle assets, including a disused oil refinery complex and apartments, into assets generating revenue.

Impact of additional funding: Better use of state assets is one way to address a fast-growing gap between Indonesia's spending needs and revenue mobilisation. Without new revenue measures, by 2019 government spending will fall flat (as a share of GDP), including in priority areas of infrastructure, health, education and social assistance. LMAN is well placed to generate further revenues, save on a range of asset servicing costs and possibly generate cash from asset sales.

Skills Applied

Period: 1 July 2016 to 30 June 2017

Number of women and men who apply improved technical skills to improve economic governance.	**657**
Male	420
Female	237

These results were derived from a survey of 194 randomly selected participants at AIPEG skills development workshop/ training sessions (duration of 2 days or more), conducted during the period of July 2016 to June 2017. 90% of sampled respondents stated they “have improved and applied skills gained through AIPEG workshop/ training”. 36% of these respondents were female and 64% male. None of the respondents reported having a disability or impairment.

Examples of skills development training conducted by AIPEG over the period include workshops/ training in Macroeconomics for Practitioners, International Trade Policy, Tax System and Tax Policy, Tax Analysis and Revenue Forecasting, Business Process Mapping, Cost Benefit Analysis in Policy and Regulation Development and Internal Audit.

Some of the ways in which officials indicated they were using new skills include:

“I use the knowledge I learned from AIPEG Macroeconomics for Practitioners training when doing macroeconomic variable analysis, making projection and review (sic) the interlinkages between variables particularly when doing analysis using FPP (Financial Programming and Policies)”.

“I apply what I learned from AIPEG training when conducting impact calculation for custom duty policy”. (Tax Design Policy Training)

“I now know how to write public policy analysis in popular language”. (Training on Development of Assessment Instrument for Local Government Capacity for Business)

In addition, over 2016-17, AIPEG also supported the Ministry of Finance to train around 1,000 officials from all 86 central government line ministries and agencies in a new multi-year budget application to help prepare the 2017 Indonesian government budget.

Private sector partnerships

Number of private sector engagements: 21 (through the Indonesia Services Dialogue)

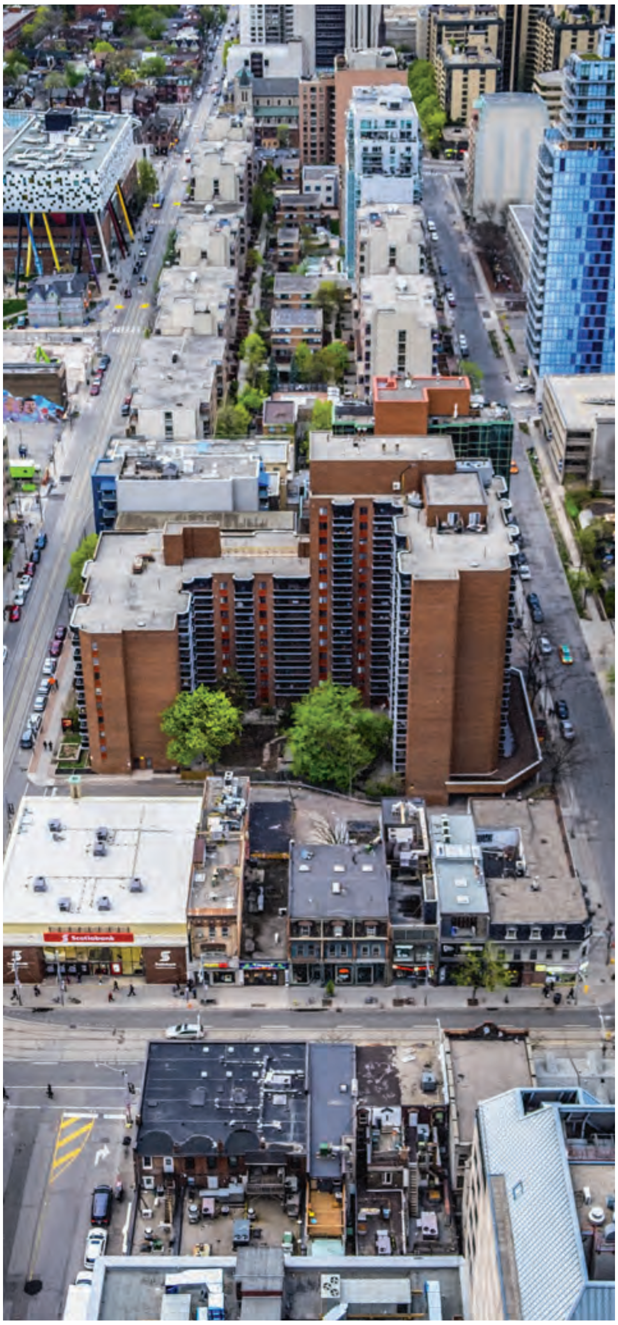
The Indonesia Services Dialogue (ISD) is an industry association that brings together private companies, Ministry of Trade and Centre for Strategic Studies (research institute) to support services growth in Indonesia.

Services are a key sector for poverty reduction and employment of women. Indonesian researchers Suryahadi, Hadiwidjaja and Sumarto (2012) found that between 1984 and 2008, 80% of poverty reduction in rural areas and 86% in cities could be directly attributed to growth of the services sector. According to World Development Indicators, the share of women in Indonesia's service sector increased from 35% to 52% between 1986 and 2013.

The ISD has 21 private company/association members (18 retained from 2015-16, and 3 new members): Indosat Oreedo; Kuehne+ Nagel; Maersk Line; Pacto; Indika Energy; Trakindo; PwC Indonesia; Roosdiono & Partners; PT. H.M. Sampoerna Tbk; Asia Group Advisors; Accenture; PT. Tira Ausenite Tbk; Bahar & Partners; Chevron; PT. Gajah Tunggal Tbk; Garuda Indonesia; High Scope Indonesia; IKEA; PT. Hutama Karya Realtindo; Asosiasi Fintech Indonesia (association); and Institut Akuntan Publik Indonesia (association).

AIPEG has been working with ISD since 2012 as part of a broader effort to support reform in the services sector. Since late 2013, AIPEG has been the main funder of the organisation. ISD leads on events, reform initiatives and advocacy; AIPEG supports with economic analysis, organisational development (strategic review, human resources development, finance and administrative procedures) and policy development.

A higher 2016-17 target of 37 private sector engagements was originally developed for AIPEG on the basis of expected membership growth in ISD. In 2017, as a result of a strategic review, the ISD model is changing to focus on campaigns with company contributions to specific issues (e.g. regulation of vocational education, FinTech and logistics as well as the VAT regime for services exports). Under this model, ISD is not seeking to grow the core membership base substantially, but rather partner with select companies on an issues basis to better shape policy and regulation.



Policy Improvement

A better budget system for spending on government priorities

Indonesia now has budgeting tools to clearly identify savings and to spend more effectively on priority investments, including infrastructure, health and education. Through AIPEG and GPF, the Australian government has supported Indonesia's Finance Ministry to develop a better budgeting system applied across all central agencies, consistent with Australia's experience in pioneering the use of medium-term expenditure frameworks.

Context: Budgeting in Indonesia is largely done on a year-by-year basis. This results in uncertain funding and potential for budget cuts to priority spending, as occurred in 2016 with cuts to infrastructure investment. It also means that flagship Indonesian government policies, such as the equity package to improve welfare and reduce inequality, may not always be fully costed through the budget process. Although Indonesia adopted a Medium Term Expenditure Framework (MTEF) in 2003 [1], until now Indonesia lacked the accounting policies and tools to put an effective MTEF into practice.

Full description of outcome: For the first time, the Ministry of Finance's regulation for the 2017 budget instructs all line ministries and central government agencies to use a new IT application and procedures to deliver medium-term budgeting, developed with the assistance of AIPEG. [2]

Public policies should flow from a budgeting process that tests and costs the viability of those policies. Importantly, many policies also require multi-year funding commitments. This allows policymakers to distinguish between 'baseline' and 'new initiatives'. The baseline is usually a four-year estimate of current government policies. New initiatives are costings for new policy announcements that are made each in each year's budget.

The improved budget system aims to tackle these issues and was developed by AIPEG in partnership with Directorate-General Budget in the Ministry of Finance. The system made a number of new innovations possible:

- **Improved baseline budget estimates.** Automatic rollover of baseline estimates replaces the current manual and time-consuming baseline review process. It also increases transparency, and lessens discretionary negotiation over budget estimates.
- **Standard classifications.** Standard definitions and output/activity names allow finance officials to benchmark costs across agencies and identify savings in areas such as meetings, travel and human resources costs.
- **Better practices.** The new regulation introduces new best practice processes. For example, a move from over 40,000 'spending units' submitting proposals to a 'one door' policy approach means that budget estimates are based on adjustments only by approved senior officials.

Significance: This is a major milestone in Australia's support to better budgeting in Indonesia, building on years of effort. The new accounting policies and IT application was used by all 86 central government line ministries and agencies as part of the preparation for the 2017 budget – a nation-wide policy change.

International evidence shows that MTEFs significantly improve the budget process, reduce wasteful expenditure and deliver new spending on priority areas such as health. [3] A MTEF also significantly improves budget sustainability and lowers the volatility of expenditure.

Prior to AIPEG support for new accounting policies, business processes and multi-year budget IT application, MTEF could not be applied in Indonesia effectively:

"AIPEG's support to the improvement of MTEF application has successfully changed our mindset on budgeting process. It has enabled a multi-year budgeting system to be put in place for the Government of Indonesia to more effectively and sustainably plan forward."

Bapak Yonathan Setianto Hadi, Head of Sub-directorate of Budget System Transformation, Ministry of Finance. [4]

In the 1980s, Australia was one of the first countries in the world to adopt a policy of medium-term budgeting and forward estimates. This change, combined with a forum for contesting and coordinating policies, led to major changes. Over 1983-94 new spending in priority areas of social services, health, transport and education increased. This was funded by savings within these portfolios together with a significant reduction in 'other' spending [5].

Spending in these areas is critically important for Indonesia - an emerging economy with growing spending needs. AIPEG analysis reveals that the gap between spending plans and revenue is growing rapidly; it amounts to IDR 363.8 trillion (AUD 35.3 billion) or 2.2% of GDP in 2019 [6]. Along with expanding the revenue base, Indonesia must achieve greater spending efficiency to deliver priority investments.

Mr Peter Fane of the Japan International Cooperation Agency (JICA), who is also working on public financial management with the Indonesian government, said: *"The MTEF Application could potentially be a game-changer."* He noted that *"This will enable both the Ministry of National Development Planning and Ministry of Finance to undertake meaningful analysis of the efficiency of service delivery by government agencies". [7]*

The detailed budget estimates have already yielded new analysis. The Ministry of Finance, with support from AIPEG, can now more clearly isolate overheads and identify better spending. For example, the Ministry of Health has relatively high overhead costs (including office costs, salaries, workshops and travel). AIPEG estimates that non salary overhead costs could be reduced by IDR 1 trillion per year (AUD 100 million) without diminishing service delivery. These savings could fund scholarships to train more than 6,000 doctors over the next six years. [8]

The policy change contributes to the Indonesia Aid Investment Plan objective of effective economic institutions and infrastructure, through improved spending and revenue policy of the central government.

Next steps: Indonesia has successfully implemented an MTEF for the 2017 budget, which is a significant achievement. However, much remains to be done to improve its quality and embed operations. [9] The process must be sustained and improved through the 2018 budget and beyond. Encouragingly, AIPEG training in the new budget application was scaled up by the finance ministry in 2016 and 2017 through the government's own funds and led by the Ministry's training centre (Financial Education and Training Agency).

An area for further development, and a major ongoing challenge for Indonesia, is integrating the budgeting process at the Ministry of Finance with the planning process in Bappenas. A government regulation, which aims to add clarity on roles and responsibilities and emphasise the importance of a single source of data for both planning and budgeting, was enacted in 2017. AIPEG will continue to work with Ministry of Finance and Bappenas on ways to work more closely together. AIPEG will also continue to support Directorate General Budget at Ministry of Finance to evaluate policy proposals as well as undertake spending reviews of existing programs and identify efficiencies.

Contribution: Australia has been a major contributor in supporting improvements to Indonesia's budget system, alongside other development partners. Several development partners contributed to the adoption of MTEF budgeting in Indonesia. The World Bank's Public Financial Management team led early advocacy on the benefits of an MTEF. In the 2000s, the Bank instituted a large program of support to integrate the three core budget functions of planning, budgeting and disbursements (treasury). The 'SPAN' system for treasury functions was one of the main changes underpinned by this program.

Australia's support for budgeting with the Directorate General Budget has been the cornerstone of work under the Government Partnership Fund (GPF) program since its commencement. From 2009 to 2012, GPF supported the development of regulations to introduce the first MTEF budget in 2011 and subsequent budgets. GPF continued to support the implementation of MTEF in Indonesia, including through the provision of technical workshops and advice, and staff secondments and study visits to the Australian Department of Finance and other relevant Australian Government institutions.

AIPEG's significant contribution was to develop the policy to put MTEF into practice – detailed guidance on improved budget process and standard output/activity classifications, underpinned by a new budget IT application. Since 2013, AIPEG has undertaken the following:

1. **Developed the new budget application.** This was produced with an IT developer in close collaboration with Directorate General Budget in Ministry of Finance.

2. **Designed new standard output and activity classifications.** These standards were adopted by Ministry of Finance and are being delivered through the new budget application.

3. **Drafted finance regulation section on new budget process** in close collaboration with Directorate-General Budget in Ministry of Finance.

4. **Supported the Ministry of Finance to train over 1,000 government officials** in 2016 on the new budget application.

The Japan International Cooperation Agency (JICA) is also providing complementary support to AIPEG's work with the Ministry of Finance, focusing on another element of improved financial management, namely performance-based budgeting, and monitoring and evaluation of spending outcomes.

Evidence base :

[1] Law 17/2003 on State Finance

[2] Minister of Finance Regulation No. 163/PMK.02/2016 dated 31 October 2016, on Guidelines for Development and Review of Work Plan and Budget Plan of Ministries/Agencies and Endorsement of Budget Implementation Checklist.

[3] Brumby, Jim (2013) Fiscal Performance and Global Experience with Medium Term Expenditure Frameworks, Presentation at IMF-World Bank Conference on Fiscal Policy, Equity and Long-Term Growth in Developing Countries, April 2013.

[4] Interview with Bapak Yonathan Setianto Hadi, Head of Sub-directorate of Budget System Transformation, Ministry of Finance, 27 October 2016.

[5] Research by Dixon (1993) quoted in Holmes, Malcom Improving Budgetary Outcomes, The Role of an MTEF.

[6] AIPEG (2016) AIPEG Medium/Long-Term Macro Fiscal Outlook Study, April 2016.

[7] Interview with Mr Peter Fane, JICA funded performance based budgeting project, 26 October 2016.

[8] AIPEG (2017) Preliminary Analysis – Ministry of Health, Powerpoint presentation May 2017

[9] AIPEG (2017) Evaluating AIPEG 2009-2017 Case Study on Better Quality Spending.

Methodology for establishing contribution:

General elimination method: Alternative explanations tested through key informant interviews with AIPEG staff, Bapak Kunta Wibawa (Director of Budget Development, Ministry of Finance), Bapak Yonathan Setianto Hadi (Head of Sub-directorate of Budget System Transformation, Ministry of Finance), Bapak Langgeng Suwito (Head of Sub-directorate of Standard Costs, Ministry of Finance),Bapak Hari Purnomo (World Bank), Mr. Peter Fane (JICA funded performance based budgeting project), Ms. Anita Haider (GPF).

Expanding financial services through new regulation to support FinTech growth

In 2016, Indonesia issued its first FinTech regulation to support expansion of financial services, drawing on advice from Australia (through AIPEG and GPF). FinTech is expanding financial inclusion through digital financial services, particularly to middle-lower income groups, small and medium-sized enterprises, and remote locations not properly covered by major banks.

Context: Indonesia has a huge financing gap for critical investment in start-ups and small-medium sized enterprises, unbalanced distribution of finance between provinces, and very low levels of financial inclusion. One in three adults in Indonesia have a bank account with a formal financial institution and 99% of the population still pay for electricity and other bills in cash [1]. Financial Technology (or FinTech) is a key channel to accelerate financial inclusion and grow innovative businesses. At the same time, rapid expansion of financial services must be balanced with consumer protection and stability of the financial system.

Full Description of outcome: Australia has been a longstanding supporter of the Indonesia Financial Services Authority (OJK) even having a hand in supporting its formation in 2011. Australia's support is delivered in two ways: through institutional partnerships via GPF with Australian Prudential Regulation Authority and the Australian Securities Investment Commission; and, second, through an imbedded office of technical staff within OJK via AIPEG. These programs work in tandem to achieve policy and technical outcomes.

In 2016, OJK committed to drafting the first set of governing regulations to protect consumers in an emerging Indonesian FinTech sector. OJK borrowed heavily from the Australian experience having introduced a similar set of regulations several years earlier. These regulations covered non-bank borrowing and lending services and needed to balance consumer protection and support innovation in financial services at the same time [2].

Australian support resulted in Indonesia adopting a similar regulatory approach to ASIC and directly transferred innovations across to Indonesia such as 'sandbox' regulatory environments to provide new FinTech player a space to trial new products. In Indonesia's case,

- FinTech companies can register and then have 12 months to obtain a financial services license
- Some legal and regulatory requirements for lending services have been relaxed but other consumer protections remain in place.
- Requirements for capital ownership are specified (1 billion (AUD 100,000) at the time of registration, growing to IDR 2.5 billion (AUD 250,000) when applying for a license.
- Limits are placed on loan amounts to a maximum of IDR 2 billion (AUD 200,000) and are directly linked to capital growth overtime.

AIPEG provided direct technical assistance **t**oward drafting the Indonesian regulations however the approach and intent were borrowed directly from the institutional partnerships with Australian regulators. The combination of support has resulted in widespread industry support and ongoing industry collaboration bringing about a staged approach to regulation for a highly innovative sector.

FinTech companies also have obligations to collect information about their customers and provide information to consumers along with their products. There are requirements for privacy, data security and reporting. In addition, FinTech lenders are required to provide virtual and escrow accounts. These are types of accounts where money is held by a third party on behalf of two other parties that are in the process of completing a transaction, and one safeguard to filter out money laundering and terrorist financing.

The outcome of our support has been the development of regulations that strike the right balance between encouraging innovation and competition in financial services while protecting consumers and the public interest. The new regulations were announced by the Deputy Commissioner OJK and widely covered in Indonesian news outlets (e.g. Jakarta Post, Kompas, Detik.com) [4].

Significance: IThe opportunities presented by FinTech for Indonesia are huge. They include [5]:

- **Closing Indonesia's massive financing gap** which reached USD 75 billion in 2015. FinTech is expected to channel funds from foreign loans to Indonesia.
- **Reducing the imbalance in distribution of funds across Indonesia.** Currently 60% of total financing is concentrated on Java Island. FinTech is expected to reduce the cost of loan risk assessments and speed up loan distribution across Indonesia.
- **Increasing financial inclusion.** Around 80% of Indonesia's small and medium-sized enterprises are considered 'unbankable'. FinTech is expected to open up new sources of financing for SMEs.
- **Increasing the velocity of e-money.** Indonesia's turnover of e-money (e.g. electronic funds transfers, direct deposits) is the lowest in ASEAN. In Indonesia, an estimated 80% of wage earners receive payments in cash for example.

Over 2016 as the regulation was being developed, the number of FinTech companies registered with OJK rapidly grew from 51 to 180. Since then, the number has risen even higher to 165 [6]. OJK has registered new FinTech start-ups offering 'end to end' solutions for the agricultural sector, right across Indonesia, not just in regional hubs as serviced by conventional finance options. Companies such as Kudo are specifically targeting middle-lower income households - an underserviced market - partnering with banks for 'branchless banking' and exploring lending services. Similarly, FinTech Modalku matches lenders and borrowers for enterprise financing of up to IDR 500 million (AUD 50,000).

In terms of DFAT aid investment goals in Indonesia, a well regulated FinTech market contributes to effective economic institutions for economic growth and poverty reduction (Objective 1). A progressive regulatory environment also enables increased bilateral interest in FinTech collaboration and market entry.

Next Steps: Indonesia's first regulation on FinTech lending services is a significant step forward creating greater certainty, whilst still fostering innovation. OJK Circular Letters will be used to deal with emerging issues and expand coverage progressively to new financial products.

OJK's other priority is to establish a FinTech Hub – a learning space for FinTech companies and regulators - with peer support from the Australian Securities and Investments Commission (ASIC) and other experts. OJK's plans for the hub draw on the ASIC model which is highly regarded internationally.

OJK is also following ASIC's example of forming a Digital Advisory Committee, comprised of OJK representatives, other regulators, academics and industry, which will consult and advise the OJK.

Learning from other regulators in this fast moving market is key. In April 2017, OJK signed a new agreement, facilitated by Australia Indonesia Partnership for Economic Governance (AIPEG), with ASIC, to share information on market trends, regulatory issues and ways to promote innovation in digital finance. This initiative was welcomed stakeholders, including in Australia:

"It's great to see our regulators are willing to engage and learn from incredibly fast moving, dynamic and emerging markets, and also that these markets see Australia's FinTech policy environment as an example of best practice."

FinTech Australia CEO, Ms Danielle Szetho, April 2017 [7]

Contribution: The new regulation on FinTech was led by Indonesia's Financial Services Authority (OJK), responding to direction from the President.

Australia's support was key to helping OJK quickly and efficiently understand the best regulatory approach and to consult with other regulators. As a result, the regulation is an improved policy outcome and a good start to expanding supervision of this vibrant sector.

"FinTech is a key component of OJK's financial inclusion development planning, to expanding people's access to finance. As regulators, we are keen to encourage innovation, whilst also protecting the public interest. Through Australia's support, we have been able to quickly absorb the examples of other countries. We have drawn on Australia's experience and progressive approach to regulation as we learn more about this rapidly growing and changing sector and its potential".

Chairman of OJK Board of Commissioners, Bapak Muliaman Hadad, January 2017 [8]

Over 2016, AIPEG played a pivotal role in leveraging external stakeholders to inform OJK's first FinTech regulation, including:

1. **Establishing the analytical foundations for the regulatory approach.** This was achieved through an AIPEG-facilitated research partnership between OJK and Australian Centre for Financial Studies (ACFS) throughout 2016 [9]. The OJK research team, with whom ACFS worked, was tasked with producing the FinTech regulation. The partnership provided the OJK team with a learning opportunity about Australia, as a key FinTech incubator in the region. OJK officials visited Australia to work with ACFS and Government Partnership Fund agencies, including the Australian Securities and Investments Commission (ASIC). The ACFS team also visited Jakarta and helped progress the FinTech regulation.

2. **Sharing regional approaches to regulation.** AIPEG organised for OJK staff to participate in the Mekong Business Initiative FinTech Regulatory Bootcamp in Singapore, November 2016 – an initiative funded by the Australian Government through the DFAT ASEAN Regional Office and the Asian Development Bank.

3. **Understanding international good practice in FinTech and consumer protection.** AIPEG supported OJK officials to participate in the International Financial Consumer Protection Organization (FinCoNet) International Seminar on "Fast Innovation and Development of Fintech: Striking the Balance between Financial Inclusion and Consumer Protection", in Jakarta, November 2016.

4. **Engaging with the private sector.** AIPEG organised a seminar with 80 Fintech companies in Jakarta in early December 2016, where OJK officials together with ACFS experts explained the nature of the upcoming regulation, and in particular the need for a phased approach, citing examples of regulation roll-out in Australia and other markets.

Although OJK engages with a range of partners on financial system stability and supervision, including the World Bank and IMF, in this case Australia was the only partner specifically engaged on regulation of FinTech.

Evidence-base:

[1] World Bank, Global Findex database, 2014

[2] OJK Regulation No. 77/POJK.01/2016 on Information Technology based Financial Saving and Lending Services, 29 December 2016.

[3] Jakarta Post, Fintech to Further Grow with New Rule 5 January 2017

[4] Jakarta Post, Financial Authority Issues Regulation on FinTech Lending 4 January 2017

Kompas, Important rule on "Peer to Peer" lending for FinTech, 3 January 2017

Detik.com OJK issues FinTech rule, 10 January 2017

[5] OJK (2016) Developing Indonesia's FinTech Ecosystem; and Moyes, Tom (2016) Financial Inclusion in Asia: A Review of the Data, Presentations at FinTech Bootcamp, Singapore November 2016.

[6] Data from Strategic Planning, IT Department, OJK.

[7] InnovationAus.com ASIC's Indonesia FinTech play 26 April 2016.

[8] Email correspondence with Pak Muliaman Hadad, Chairman OJK Board of Commissioners.

[9] ACFS (forthcoming) Catching up with Indonesia's FinTech Industry.

Methodology for establishing contribution:

Performance story based on AIPEG's theory of change: effective research, workshops and on-the job training leads to expansion of financial products supported by sound regulation – a step along the way to a deeper and more diversified financial sector (AIPEG intermediate outcome).

Better management of state assets generates new revenue

State asset management agency, LMAN, has generated almost AUD 5 million in new revenue this financial year, supported by Australian advice on institutional set-up and asset management. Through AIPEG and GPF, Australia supported Indonesia to draw on public finance, institutional and property management experts to convert public assets to better use. In time, more assets may be transformed, saving on maintenance costs, generating revenues and possibly cash from asset sales.

Context: The newly established State Assets Management Agency (LMAN), is a big step towards better use of idle state assets, and increased funds for government services in Indonesia. The government holds around IDR 770 trillion (AUD 77 billion) worth of miscellaneous assets [1], such as office buildings, land and also many non-core assets such as hotels and shops. Not all are being used effectively, and some have laid idle for decades. AIPEG estimates at least 10% of the assets underused, representing an opportunity cost of IDR 5 trillion (AUD 500 million) per year (based on a 6.5% rate of return).

Full Description of outcome: In December 2016, Finance Minister Sri Mulyani formally launched the State Assets Management Agency (Lembaga Manajemen Aset Negara – LMAN) on the first anniversary of its establishment [2]:

"There are many government assets that for a long time have been neglected, idle, and caused financial burden to the government. It is hoped that LMAN can turn them into their maximum values for government revenue and for the prosperity of Indonesian people."

Minister Sri Mulyani, 23 December 2016 [3]

Previously, management of state assets was handled by an internal department at the Ministry of Finance's Directorate General of State Assets (Direktorat Jenderal Kekayaan Negara – DJKN). At DJKN, no single person or unit had specific accountability for addressing under utilised assets and therefore many assets lay idle.

Already, LMAN has successfully put several buildings, land allotments, and two former oil refinery complexes into operation generating IDR 49 billion (AUD 4.9 million) revenue, as at June 2017.

LMAN has received 126 government assets to manage. This includes 20 government-owned buildings, offices, shopfronts, ex oil refineries and 106 apartments [4]. These assets are being restored, rented out and/or utilised for government offices. In 2017, LMAN is working to double its revenue take to IDR 65 billion (AUD 6.5 million), up from IDR 26 billion (AUD 2.6 million) in 2016. [5]

As a separate Public Service Agency (Badan Layanan Umum), LMAN has the following advantages:

- **Clear performance indicators** – Accountability for ensuring efficient use of assets.
- **Financially independent** – LMAN has the ability to apply revenue raised to upgrading and maintaining assets. It can also return any surplus to general government revenue.
- **More flexibility in procurement of services** – For example, LMAN can readily procure legal services to settle claims over assets.
- **Focus on optimising asset utilisation** – Options include lease, joint operation, private partnership and reinvestment of returns to improve the earning potential of assets.
- **More flexibility in personnel recruitment and management** – A Public Service Agency is not restricted to only engage civil servants but may also seek private sector experts, including property development specialists.

Significance: LMAN can play a significant role in generating non-tax revenue for government services. Indonesia is an emerging economy with rapidly growing spending needs. AIPEG's macro fiscal analysis finds a fast growing gap between government spending plans and revenue, amounting to IDR 363.8 trillion (AUD 35.3 billion) or 2.2% of GDP in 2019 [6]. Without new revenue measures, by 2019 government spending will fall flat (as a share of GDP), including in priority areas of infrastructure, health, education and social assistance.

The policy change is a breakthrough in effective use of government assets that have been idle for decades. Successful scale-up could result in more state assets assigned to their most efficient user, generating millions of dollars of revenue or substantial cost savings, each year.

While the initial revenue is small compared to the backlog of unproductive assets, LMAN is already demonstrating enhanced efficiency. LMAN is just starting out and has been allocated around 4% of Ministry of Finance's assets. Over July-December 2016 (6 months), LMAN delivered new revenue equivalent to 13% of DJKN's revenue generated over the whole of 2015 with a much larger portfolio.

The road ahead is complicated by the difficult process of negotiation required to secure the assets for management. Overall, through improved inventory data, under-utilised assets are easier to identify than was previously the case. Going forward, LMAN is likely to be well placed to enhance public service provision through better use of assets, generate revenues, save on a range of asset servicing costs and possibly generate cash from asset sales. [7]

The policy change contributes to the Indonesia Aid Investment Plan objective of effective economic institutions and infrastructure, through improved spending and revenue policy of the central government.

Next Steps: LMAN has successfully been established with legal and financial backing from the Indonesian government and has a clear mandate to manage state assets.

In practice, as a new agency, the LMAN leadership will need to keep maximising the utilisation of its existing asset portfolio, build trust and secure the commitment of the Ministry of Finance (and potentially other government agencies) to continue the transfer of assets to LMAN.

In 2017, new tasks of planning funding, land banking and procurement compensation were added to the LMAN [8]. The Indonesian government has allocated IDR 16 trillion (AUD 1.6 billion) in capital to LMAN through the 2016 revised state budget for additional works, i.e. to support land procurement, particularly for road construction and other infrastructure priorities. An additional IDR 20 trillion (AUD 2 billion) capital has been allocated in the 2017 budget.

To manage this 'land bank' function, alongside state assets, LMAN has been elevated to an agency on par with Directorate General level with the flexibility to recruit skilled professionals [9]. AIPEG has supported the institutional design of the expanded agency through standard operating procedures, benchmarking for new staff recruitment, and key risk indicators for the agency.

Going forward, LMAN will need to continue to develop capability in human resource management, communications and IT, and to recruit a pool of property professionals to support its asset management function.

Contribution: The Ministry of Finance determined that it needed to improve management of state assets, drawing on earlier advice provided by the Australian Department of Finance through the Government Partnerships Fund (GPF) program. This included briefing papers, benchmarking visits to Australia and workshops on asset management.

In 2015, the Ministry of Finance decided to establish a new public service agency to manage state assets. AIPEG supported the Ministry of Finance and LMAN leadership with the following: [10]

1. **Key documents for LMAN establishment.** This included a business plan, initial budget, financial projections, organisation structure, data management strategy, code of conduct and corporate governance framework.
2. **Key Performance Indicators (KPIs).** AIPEG recommended that the KPIs should not solely focus on revenue generation (profit maximisation) but also cost savings through allocation to best government users. This will ensure the right incentives are in place for creating value for society. AIPEG's recommendations were accepted by government.
3. **Data management, governance and financial model.** AIPEG assisted LMAN to model data and information systems to integrate with DJKN, to develop standard operating procedures to comply

with government regulations, and develop financial, management and oversight functions of LMAN.

4. **Communication.** The Government Partnerships Fund supported creative communication of LMAN functions. A video on LMAN, featuring animated graphics and an interview with the Minister for Finance, has been used to communicate the role of LMAN to government officials and other stakeholders, including the December 2016 launch.

5. **Asset review.** Together with Government Partnerships Fund, AIPEG conducted two workshops on government frameworks and processes for improving management of state assets, and methods and tools to review best use of assets in public service delivery (e.g. buying verses leasing office buildings).

AIPEG recommendations on LMAN establishment, key performance indicators and core mandate to assign assets in a way that creates the most value for society, are reflected in the Indonesia Financial Memorandum for the 2017 Budget [11].

There are no other development partners working with the Ministry of Finance on management of state assets. Without Australian government support from the Government Partnerships Fund and AIPEG, LMAN may not have been established as quickly and operate as efficiently with clear performance indicators in place.

"AIPEG has been our excellent partner in the process of establishment that enriches our insight of international best practice for us as well as providing us with expertise from diverse areas."

Ibu Rahayu Puspasari, Director of LMAN, September 2016 [12]

Evidence-base:

[1] Ministry of Finance (2017) Central Government Audited Financial Report 2016, Government 'other assets' (Kekayaan Negara Lainnya/KNL)

[2] Finance Minister Regulation No. 219/PMK. 01/2015 on Organisation and Governance of State Asset Management Agency

[3] Finance Minister asks LMAN to Manage Assets Professionally, antaranews.com, 26 December 2016

[4] Input Completion Reports of AIPEG National Property Management Specialist, 2017

[5] Email correspondence with LMAN, May 2017

[6] AIPEG (2016) AIPEG Medium/Long-Term Macro Fiscal Outlook Study, April 2016.

[7] AIPEG (2017) Evaluating AIPEG 2009-2017 Case Study on LMAN.

[8] Presidential Regulation No. 102/2016 on Land Funding

[9] Finance Minister Regulation No. 54/PMK. 01/2017 on Organisation and Governance of State Asset Management Agency

[10] LMAN's Key Performance Indicators (KPIs); LMAN Revenue Target, "Penetapan Pendapatan sebagai Target Kinerja LMAN"; LMAN's Role and Function, "AIPEG Asset Management Draft Policy Paper #2: Tinjauan atas Peran dan Fungsi BLU Lembaga Manajemen Aset"; LMAN's Financial Sustainability, "Kesinambungan Finansial LMAN: Kajian Pengelolaan Aset Tusi"; Enhancing the Effectiveness of GoI Assets "Enhancing the effectiveness of Government of Indonesia's asset portfolio, AIPEG briefing note, 29 July 2015"

[11] Financial Memorandum for 2017 Budget Nota Keuangan 2016

[12] Interview notes, Ibu Rahayu Puspasari, Director of LMAN, September 2016

Methodology for establishing contribution:

General elimination – Alternative explanations tested through key informant interviews and e communications with: AIPEG staff; Director of LMAN (Ibu Rahayu Puspasari); Deputy Director of LMAN (Bapak Anton Listyanto); Head of Sub Division for Treasury and Risk Management of LMAN (Bapak Kiki Nurman Setiawan); and Government Partnerships Fund deployee (Ms Anita Haider).

Abbreviations and acronymns

ACFS	Australian Centre for Financial Studies
AIPEG	Australia Indonesia Partnership for Economic Governance
APEC	Asia Pacific Economic Cooperation
APRA	Australian Prudential Regulation Authority
ASEAN	Association of Southeast Asian Nations
ASIC	Australian Securities and Investment Commission
Bappenas	Badan Perencanaan Pembangunan Nasional, Ministry for National Development Planning
BKF	Badan Kebijakan Fiskal, Fiscal Policy Agency
BKPM	Badan Koordinasi Penanaman Modal, Investment Coordinating Board
CMEA	Coordinating Ministry for Economic Affairs
DFAT	Department of Foreign Affairs and Trade
DJKN	Direktorat Jenderal Kekayaan Negara, Directorate General of State Assets
Fintech	Financial Technology
GPF	Government Partnerships Fund
IMB	Izin Mendirikan Bangunan, Building Construction Permit
IMF	International Monetary Fund
INDII/KIAT	Indonesia Infrastructure Initiative/Kemitraan Indonesia-Australia untuk Infrastruktur-Australia Indonesia Partnership for Infrastructure
ISD	Indonesia Service Dialogue
JICA	Japan International Cooperation Agency
JITF	Jakarta Initiative Task Force
KPK	Komisi Pemberantasan Korupsi, Corruption Eradication Commission
KPPU	Komisi Pengawas Persaingan Usaha, Business Competition Supervisory Commission
KSI	Knowledge Sector Initiative
LMAN	Lembaga Manajemen Aset Negara, State Assets Management Agency
MAMPU	Maju Perempuan Indonesia untuk Penanggulangan Kemiskinan, Empowering Indonesian Women for Poverty Reduction
OECD	Organisation for Economic Co-operation and Development
OJK	Otoritas Jasa Keuangan, Financial Services Authority
S & P	Standard and Poor's (Rating Agency)
SME	Small and Medium Sized Enterprise
SOE	State Owned Enterprise
VAT	Value Added Tax

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