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Comments on Session II: Fiscal Space Towards SDs – How to Create Fiscal Space for Future Investment Towards SDGs and Real Income Convergence

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Fiscal Space

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Reforming General Subsidies to Finance UHC

3

Financing the SDGs, Incentives and Multilevel Governance:
South-South Examples and Lessons for Indonesia



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1. Comments on: Fiscal Space

Definition of fiscal space is varied.....



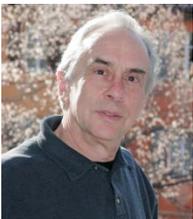
IMF (Nov, 2016):

Fiscal space is a multi-dimensional concept reflecting whether a government can raise spending or lower taxes without endangering market access and debt sustainability



Ministry of Finance (Indonesia):

“Fiscal Space is defined by a ratio of income which is free from earmarked programs or activities under certain purposes including employee and interest expenses.”



Heller (2005):

The availability of budgetary room that allows a government to provide resources for a desired purpose without any prejudice to the sustainability of a government’s financial position”



Schick (2009, 2012):

Fiscal space is the financial resources available to the government for fiscal policy, namely growth-enhancing investment in physical and human capital that governments can finance with borrowed funds without prejudicing the long-run sustainability of its fiscal position.

With this.....there are various approach to calculate fiscal space

A proposed framework to assess fiscal space is worthwhile...

Some challenges are:

- Operationalization of the framework, due to some constraints, such as: fiscal rule (*deficit-based fiscal rule*)
- Some indicators/considerations are difficult to quantify
- Inconsistency between planning and budgeting → reduce the efficiency of fiscal space utilization

EXAMPLES:

In Stage 1 of Fiscal Assessment Framework:

- Macroeconomic conjuncture
- Structural gaps -----→ assessment on *structural reforms and infrastructure gaps are difficult to measure*
- Public investment efficiency

Some thoughts...



- **Fiscal space is very important** for every country, as it will provide a room of government to intervene markets with policy
- The assessment of fiscal space is also very beneficial
- However, before doing assessment of fiscal space, some emerging countries -- like Indonesia --- **a priority should be put on:**
 1. A fiscal reform, such as: tax reform
 2. A planning and budgeting reform, to provide a more coherent process between planning process and budgeting process



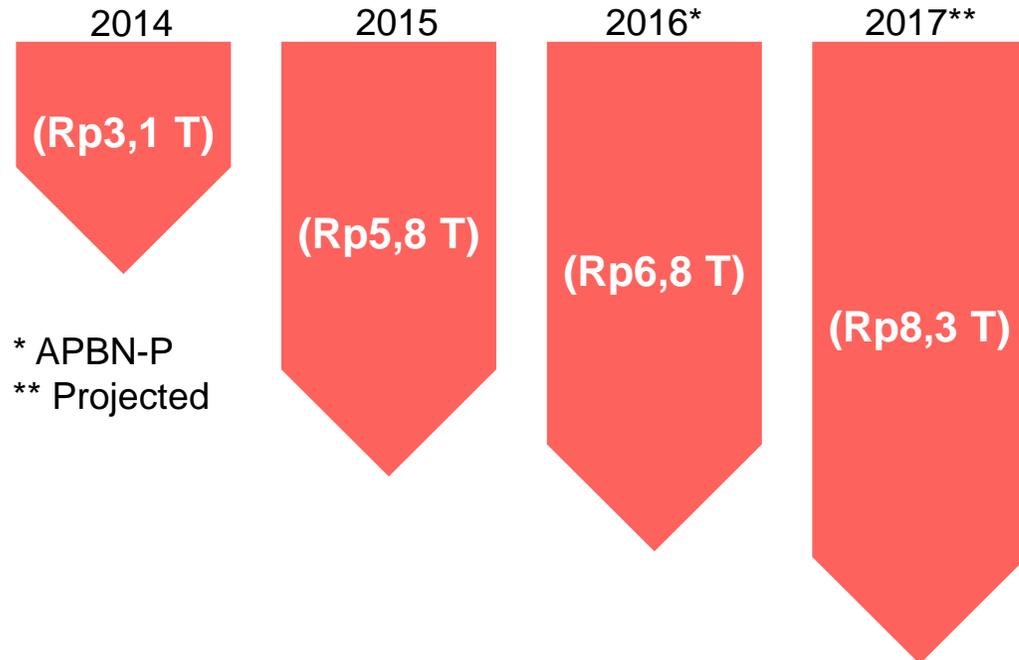
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**2. Comments on:
Universal Health Coverage in Indonesia -
*Informality, Fiscal Space and Sustainable Financing***

Fiscal Issues and Universal Health Coverage.....(1)

A Mismatch Between Premium and The Claim

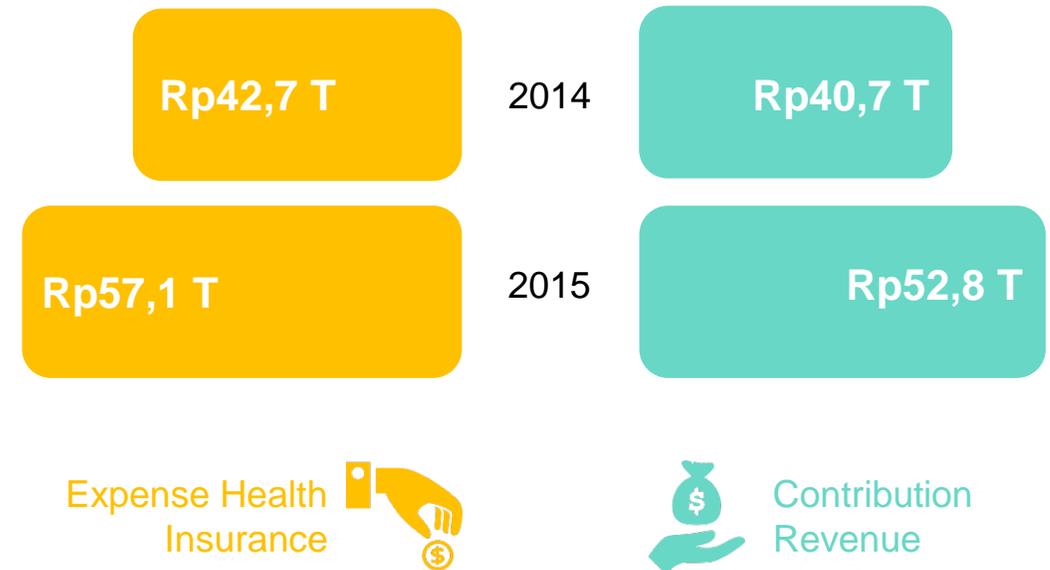
Since it was first-implemented in 2014, the financial condition of **Social Security Fund (DJS) Health** is deficit and is projected to continue to 2017



* APBN-P
** Projected

Potential fiscal risks of the implementation of national social security program comes from the mismatch between revenue and payment of dues to claim social security benefits.

Contribution revenue can not cover health expenses



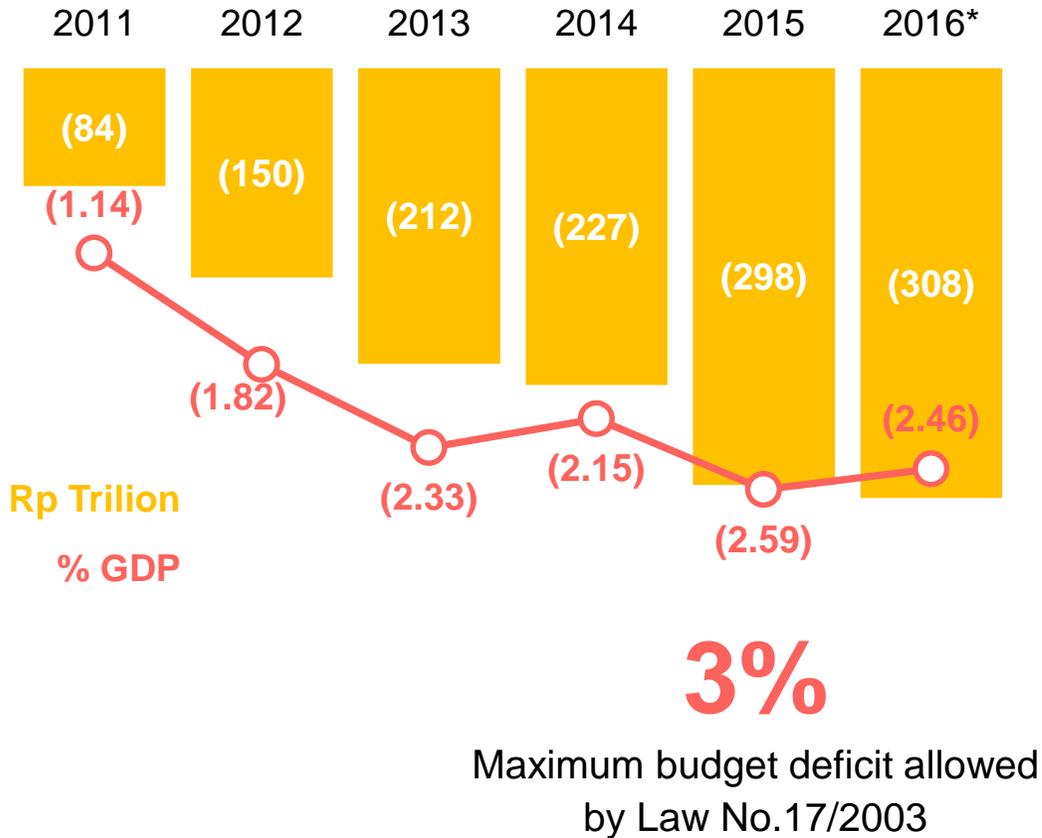
Source: BPJS Kesehatan

Government contingent liabilities occurs when there is an additional deficit **Social Security Fund (DJS) Health** due to the deviation between the target admission fees and financing program and its realization.

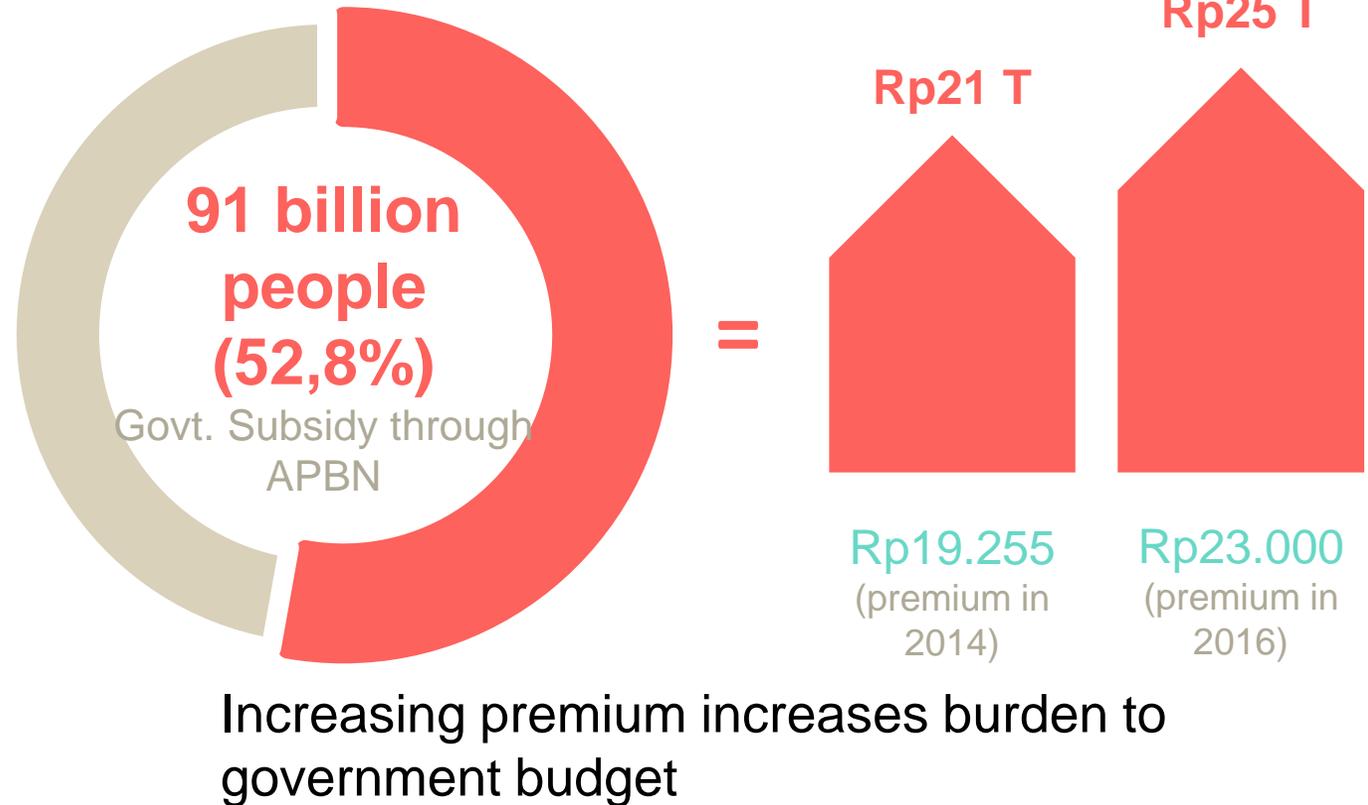
Fiscal Issues and Universal Health Coverage.....(2)

Burden on Government Budget

Deficit budget has increased over the last 5 years.



The number of BPJS Health Care member covered by government budget are still dominant



Source: Ministry of Finance; BPJS Kesehatan

UHC Sustainable Financing to Reduce Fiscal Burden



Legal Basis

To provide better social security to citizen:

- Law No 40 /2004 on the Social Security
- Law No 24/2011 on BPJS (Operator for Social Security)

To ensure sustainability of **Social Security Fund (DJS) Health** Financing:

- ❖ Increasing public knowledge on insurance scheme
- ❖ Improving health condition by health prevention and promotion → Germas (Gerakan Masyarakat Hidup Sehat) and awareness of traditional medicine to improve wellness and well-being
- ❖ Reducing moral hazard
- ❖ Improving UHC management to ensure sustainable payment of the member



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3. Comments on :
Financing the SDGs, Incentives and Multilevel Governance:
South-South Examples and Lessons for Indonesia

Ineffective Tax Collection in Developing Countries needs to be resolved....

- In the case of Indonesia, tax revenue is around 10-11% of GDP and difficult to be raised.
- For SDGs commitment, Indonesia has put a target on tax revenue $\geq 12\%$ of GDP in 2019. Indonesia needs to put high efforts to achieve this target



Note: * = Projection; ** = target for SDGs

The main problems in Developing Countries

“A well-functioning revenue system is a necessary condition for strong, sustained and inclusive economic development. However, the revenue systems in some developing countries have fundamental shortcomings”

(Adapted from: Carnahan (2015))

The main challenges in Developing Countries

- 1. Trade liberalization:** cut tariff means less revenue
- 2. Transfer pricing and Illicit Capital Flight** due to Financial liberalization
- 3. Personal income tax has been limited to distributional effects.** Personal income taxes have been introduced in some developing countries, but play only a marginal role due to political and administrative difficulties in broadening the income tax net and a high level of tax evasion
- 4. Limited capacity of tax authority:** tax leakage in developing countries is due to poor functioning tax authorities caused by many reasons
- 5. Large informal economy:** Most developing countries have a large informal economy, which is under-taxed or completely untaxed.



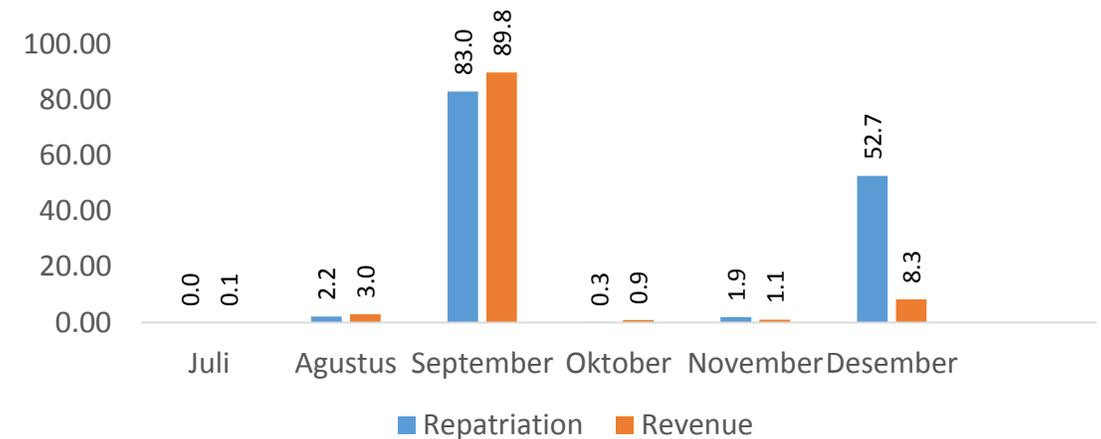
Key Lessons for Indonesia

The key lessons presented are worth-suggestions: a *continued-national tax reform is needed by Indonesia*

Progress until now:

- Removing energy subsidies: in 2017 the government will remove electricity subsidies for 450 and 900 KVA subscribers
- Tax amnesty program is entering the third phase

Current Progress of Tax Amnesty Program in Indonesia (Rp Trillion)



Indonesia continues to put efforts on fiscal reforms, in particular to support a Sustainable Development in Indonesia



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Thank You