



# **COVID-19: Impact on the Finance and Delivery of Local Public Services in Indonesia**

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# Outline

- State of Local Service Delivery under Covid-19
- Objective and Preview of Main Points
- Geography of Covid-19 and Role of Subnational Governments
- Conceptual Framework
- Intermediate Impacts of Covid-19
  - Economic Growth
  - Central Government Revenues
  - Intergovernmental Transfers
  - District Spending
  - Household Spending
- Effects of Covid-19 on Household Access to Services
- Caveats
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- Conclusions

## Access to Local Services under Covid-19: Claims

- Phased re-opening of schools in “green and yellow zones” but enrolments are still declining
- Renewed focus on health care but puskesmas and regional hospital service utilization rates are falling
- Reduced access to improved water constraining necessary uptick in hand washing
- Shrinking access to improved sanitation (toilets, treated wastewater) exacerbating spread of coronavirus

- Reasons
  - District provision of public services deteriorating due to cut-backs in funding?
  - Household ability to pay for services worsening because of reduced income and consumption?
- Solutions
  - Increase funding to districts?
  - Expand income support to households?

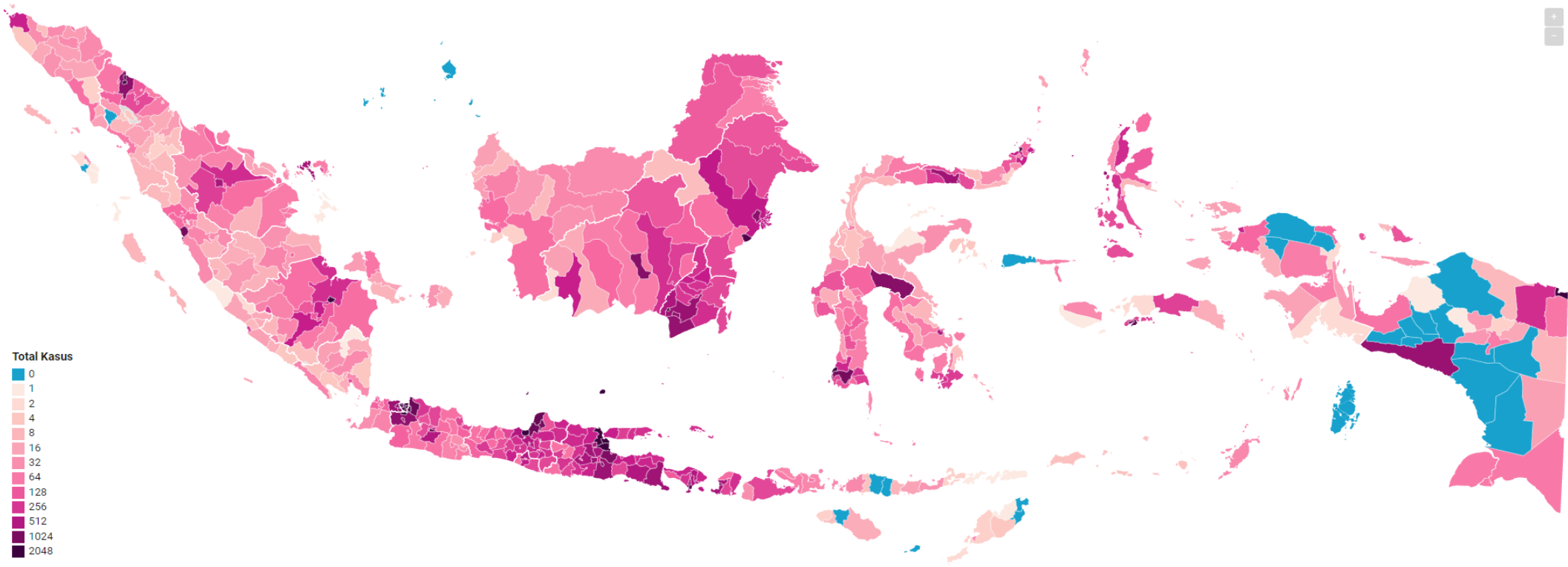


## Objective and Preview of Main Point

- Examine the impact of Covid-19 on the finance and delivery of district public services
  - Intergovernmental transfers/district spending and household spending
  - Household access to education, health, and infrastructure services
- We find:
  - Rather modest effects of decreased district and household spending on local public service access
  - Caveats...

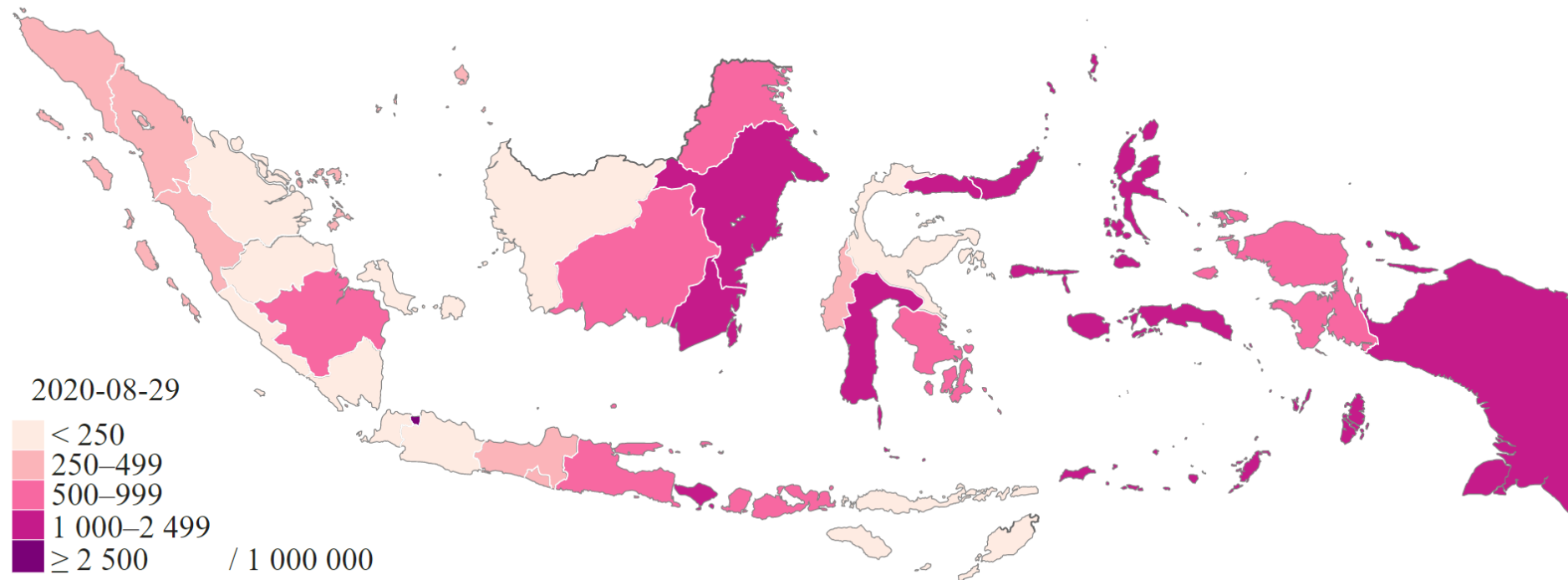
## Covid-19 Geography

- Covid-19 has spread to all 34 provinces
- 489 out of 514 districts have reported Covid-19 cases
- Total cases more concentrated on Java
- Per capita caseload severe in Jakarta, South and East Kalimantan



## Cumulative Confirmed COVID Cases by District

Source: Kawal COVID19, retrieved from <https://datawrapper.dwcdn.net/MwHOx/81/>



### **Cumulative Confirmed COVID Cases Per Million Population by Province**

Source: Kawal COVID19, retrieved from <https://commons.wikimedia.org/w/index.php?curid=90617451>

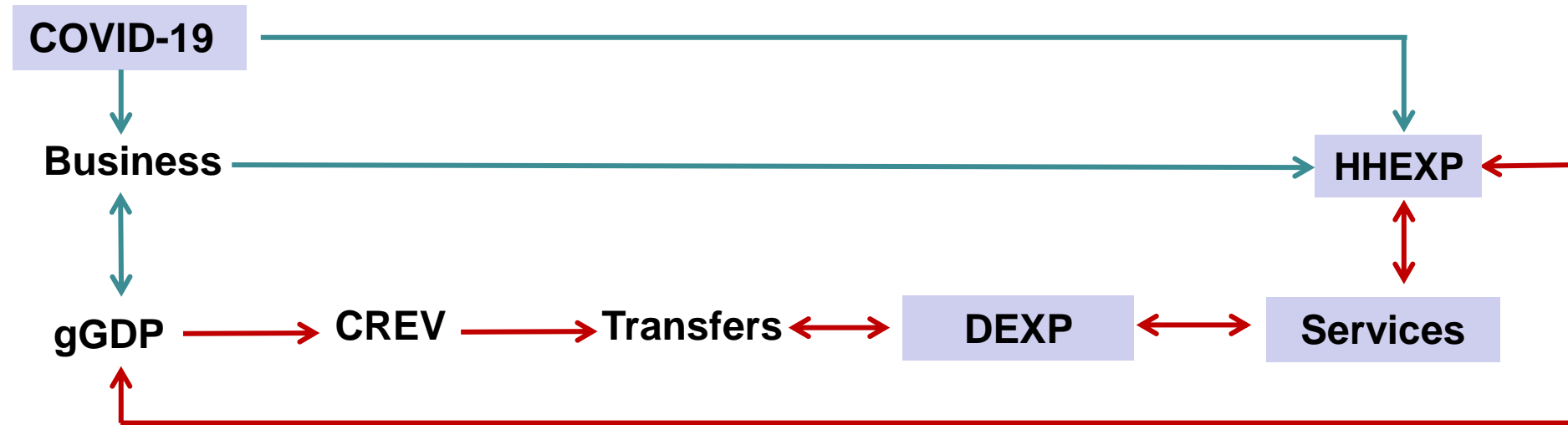




## Role of Subnational Governments

- Subnationals may lead mitigation efforts but only under strict guidelines provided by central government
- Districts responsible for large-scale social restrictions but only after securing Ministry of Health approvals
- Nevertheless:
  - District task forces guide overall local mitigation efforts
  - Puskesmas responsible for initial screening of cases, contact tracing, monitoring of suspected cases, surveillance testing
- MoF has instructed that subnationals reallocate budgets to respond to the crisis

# Conceptual Framework



gGDP	Growth of GDP	DEXP	District Expenditure Per Capita
CREV	Central Government Revenue	HHEXP	Household Expenditure Per Capita
Transfers	Intergovernmental Transfers Per Capita	Services	Household Access to Services

## Impact of COVID-19 on Local Service Delivery



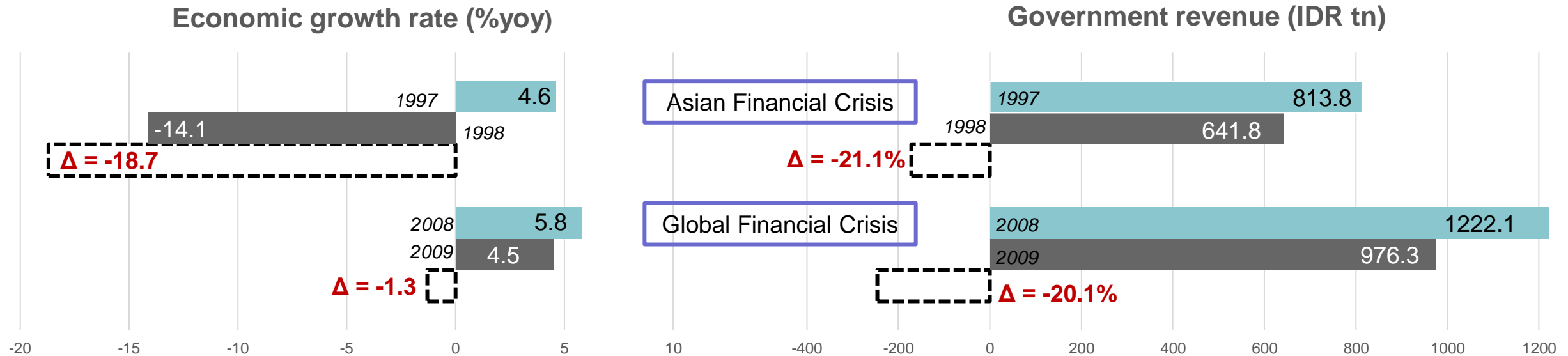
# INTERMEDIATE IMPACTS OF COVID-19



## Economic Growth

- 2019 Economic growth: 5.0 percent
- MoF estimates that economic growth in 2020 may decline to between 0.2 and -1.1 percent
- Change in economic growth rates between 2019 and 2020 may lie somewhere between -4.8 and -6.1 percentage points
- (Note that a variety of estimates for 2020 economic growth are available: World Bank, 0.0 percent; IMF -0.3 percent; and ADB, -1.0 percent)
- We take the midpoint of government's growth projection as our working estimate, giving a decline in economic growth of -5.45 percentage points

# Central Government Revenues

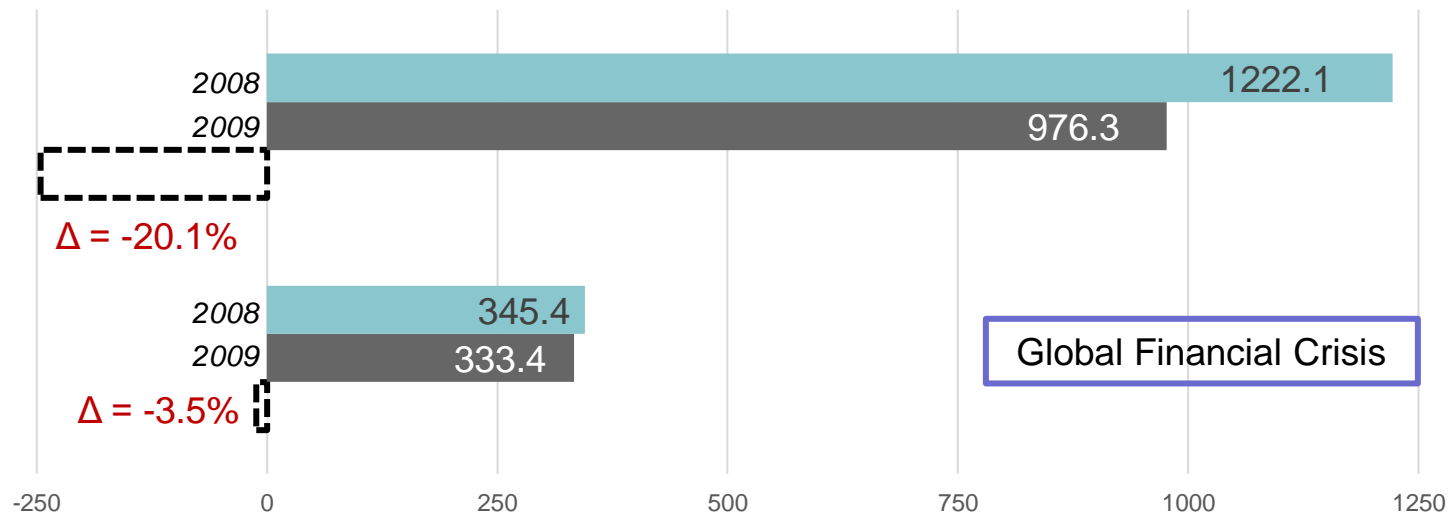


Figures are in constant 2010 terms.  $\Delta$  for economic growth is the difference in growth rates.  $\Delta$  for government revenue is the percent change

**MoF estimates that government revenues in 2020 will drop by about **21.5** percent**

# Intergovernmental Transfers

Government revenue and Intergovernmental transfers (IDR tn)

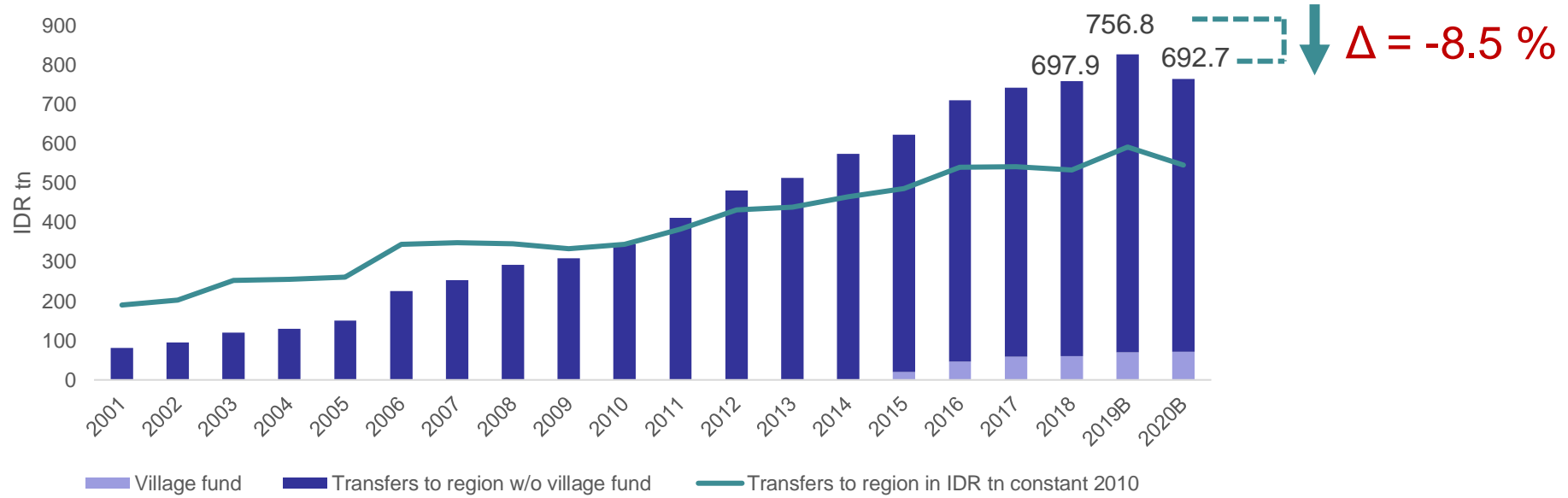


Figures are in constant 2010 terms.  $\Delta$  for government revenue and intergovernmental transfers are percent changes

**MoF estimates that intergovernmental transfers in total (not including village transfers—*Dana Desa*) will decline by **8.5** percent in 2020 from 2019 levels**

**This represents a reduction in per capita district transfers of about **5.5** percent**

### Total transfers to region



2019 and 2020 are budget figures. GDP deflator for 2019 and 2020 is assumed to be at the same level of 2018, which is 1.4

### Central fiscal transfers to regions, 2001-2020

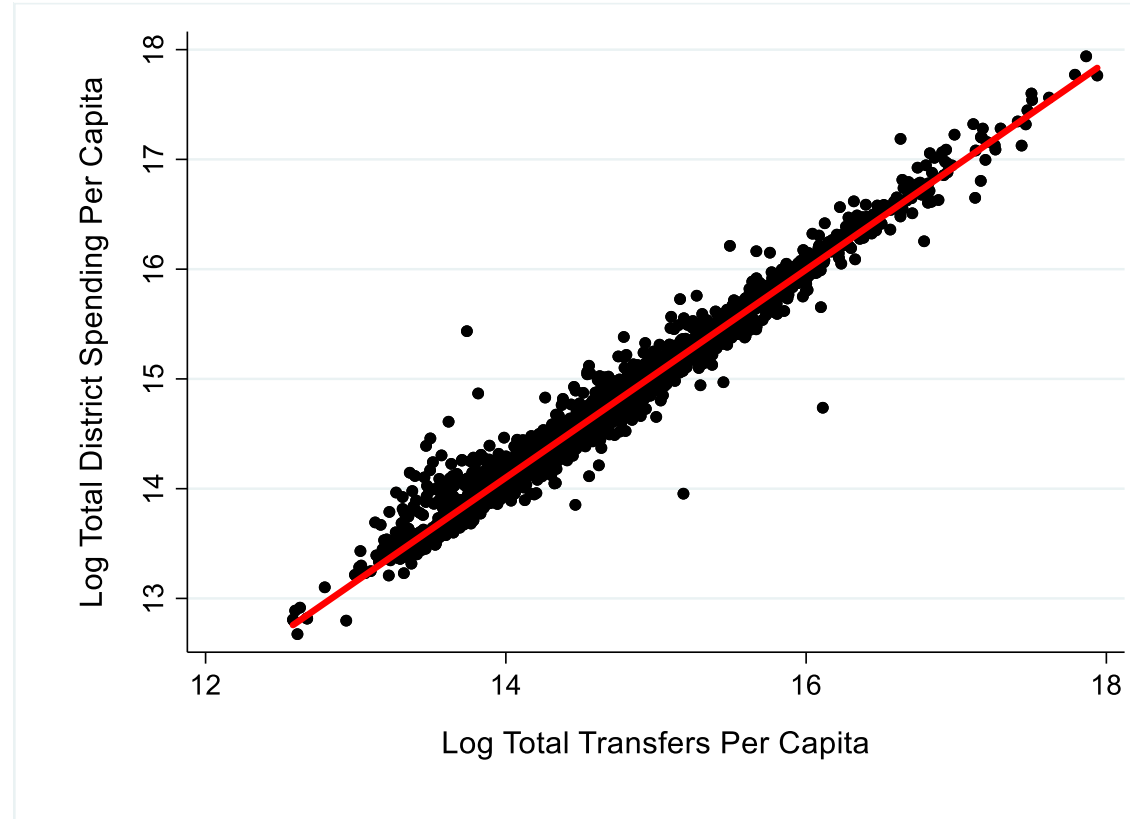
## District Spending

- To examine the impact of Covid-19 on district spending we specify an econometric model that posits spending as a function of intergovernmental transfers and various controls.
- We estimate that a one percent decrease in district transfer revenue per capita leads to a **1.1** percent decrease in district spending per capita.
- So, a **5.5** percent decline in district transfers would lead to about a **6.0** percent decline in district per capita spending.





1% change in per capita fiscal transfers leads to a 1.1% change in district per capita spending



**Transfers determine district spending, 2010-2018**



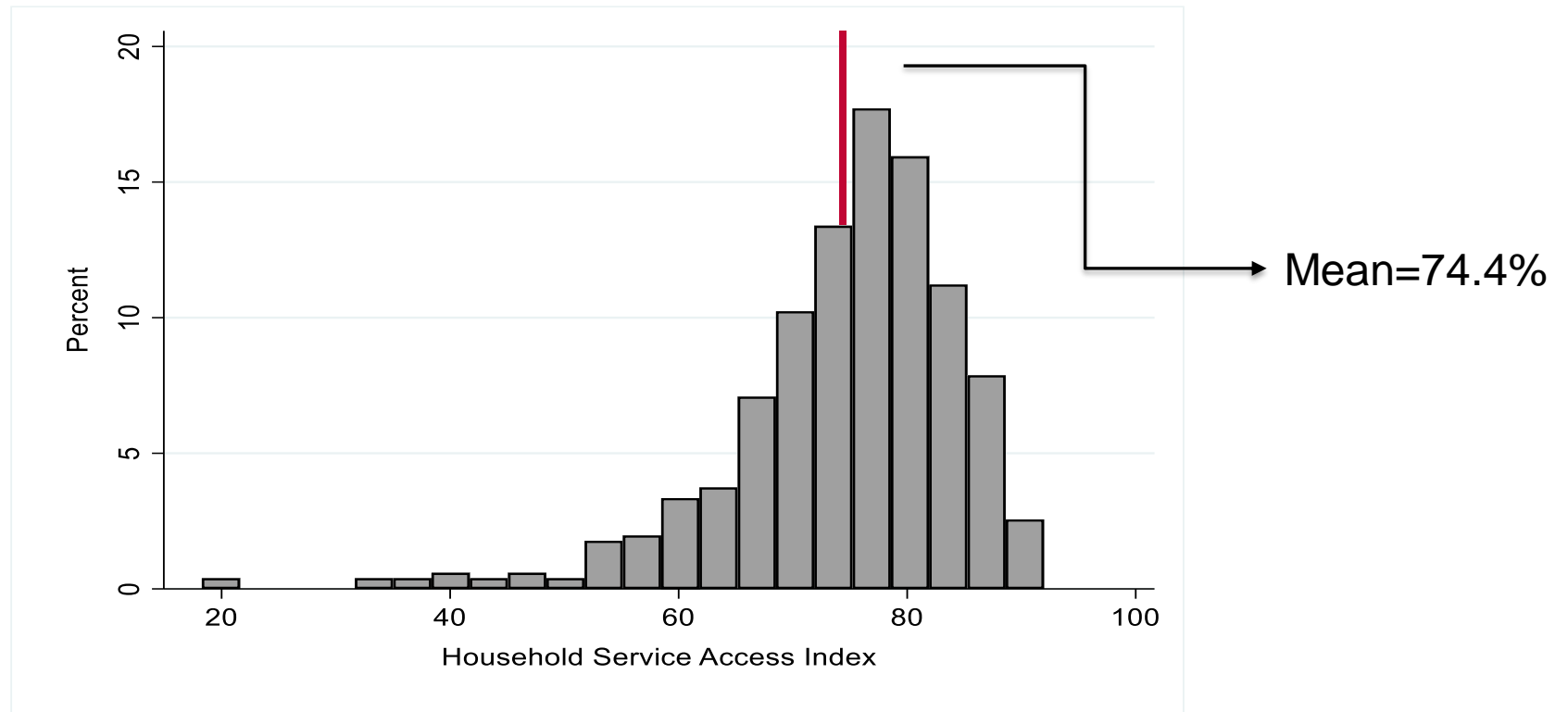
## Household Spending

- We base our estimate of the impact of Covid-19 on household spending on Suryahadi et al (2020)
  - One percentage point change in economic growth is associated with a 1.4 percent change in household spending per capita.
- A change in the economic growth rate of **-5.45** percent is associated with a change in household per capita spending of approximately **-7.6** percent



# Household Access to Services, 2018

Service index is simple average of school enrolments, attended births, and household access to water and sanitation





# Summary of Intermediate Effects

## **COVID-19 Effects, 2020**

<b>Change in:</b>	<b>Effect</b>
Economic growth rate	-5.5
Central government revenues	-21.5
Transfers per capita	-5.5
District spending per capita	-6.0
Household spending per capita	-7.6

Effect for economic growth rate is the percentage point change in the rate of growth. Effects for all other variables represent percent changes.



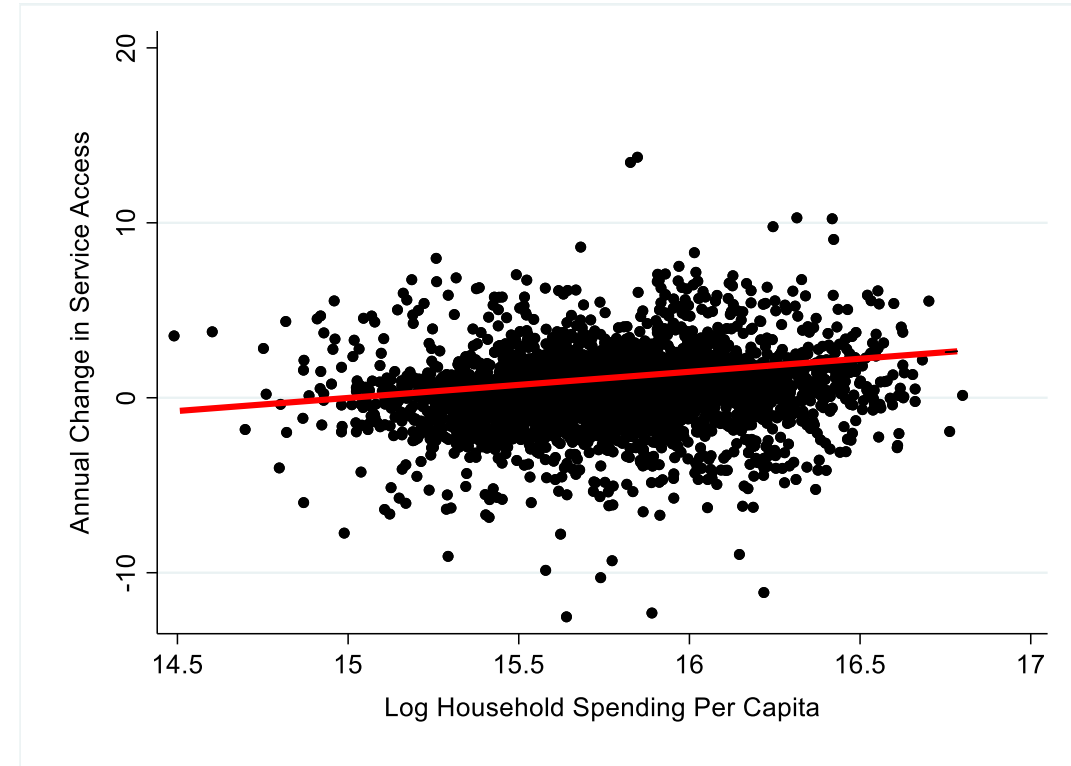
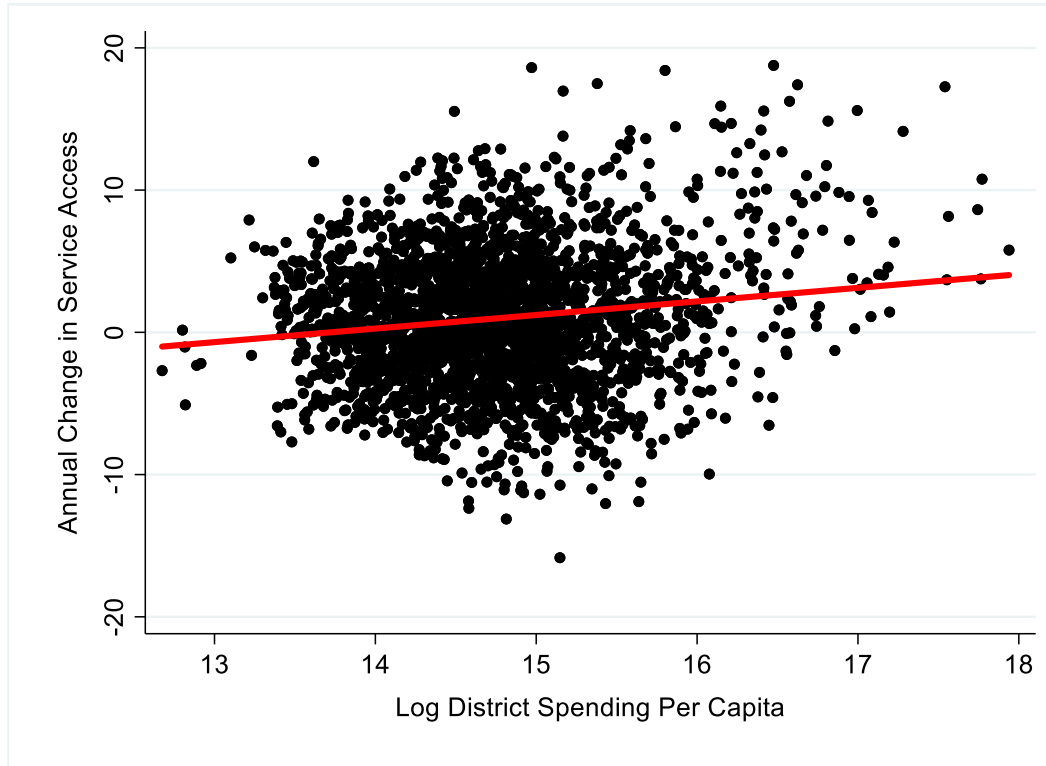
# Final Effects of Covid-19 on Household Access to Services

- To examine the impact of Covid-19 on service access, we first estimate an econometric model that posits change in **access to services as a function of district spending, household spending and several control variables**
- We then simulate the impact of a simultaneous **6.0** percent decrease in district spending per capita and a **7.6** percent decline in household spending per capita on the change in annual service access based on estimated model



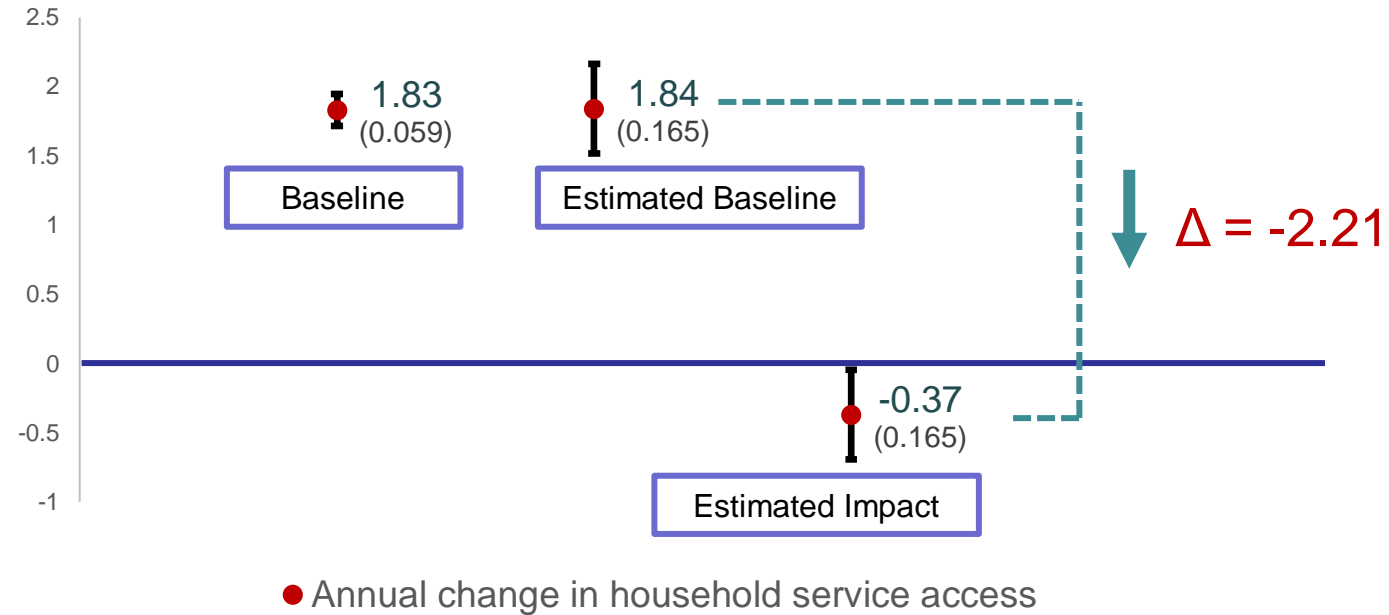
1% change in district spending leads to a 0.2 percentage point change in service access

1% change in household spending leads to a 0.1 percentage point change in service access



### Impact of District and Household Spending on Change in Service Access

## Impact of COVID-19 on household service access



Numbers are percentage point changes in service access. Figures in parentheses are standard errors

Households will experience an estimated **2.2** percentage point decline in service access

## Caveats

- Geographic heterogeneity of impact
- Differential effects for districts that rely to a larger extent on own-source revenues
- Differential effects given variation in district budget reallocations
- Effects of downturn in provincial spending
- Effects of Covid-19 on quality of local public services
  - Education and shift to online learning
  - Core health services given shift in focus to Covid-19



# Government Policy Response

- Focus on maintaining level of village transfers and expanding conditional cash transfers (among others)
- Should government increase intergovernmental transfers to provinces and districts as many have advocated?
- Probably not. Why?
  - Central government budget deficit
  - Asymmetric districts needs
  - Subnational fiscal reserves
  - Subnational spending inefficiency
  - Subnational governance
- Alternative approach: a crisis loan program
  - Significant challenges, given experience with subnational lending



# Conclusions

- We estimate that the combined downturn in district and household spending would subsequently result in an approximate **two percentage point reduction in access to local public services** from the baseline
- Ironically perhaps, **inefficient district government spending and the rather weak linkage between household spending and service access** both help to constrain the negative impact of the crisis on service delivery
- This points to the relative importance of more **structural factors**—initial conditions, population size and density, poverty rates, the level of economic activity, and a variety of district fixed effects (and “unobservables”)—in determining local service delivery
- And **social distancing initiatives directly affect some local public service access**, especially education and health
- Potentially more significant impact may relate to effects of Covid-19 on **local public service quality**
- **Increase in intergovernmental transfers unnecessary at present; crisis subnational loan program perhaps better idea, but significant challenges exist**