



MINISTRY OF FINANCE
REPUBLIC OF INDONESIA



THE 39TH INDONESIA UPDATE – AUSTRALIAN NATIONAL UNIVERSITY

HUMAN CAPITAL, GENDER EQUALITY, AND FISCAL POLICY

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Canberra, 17 September 2022



INDONESIA: THE LARGEST ARCHIPELAGIC COUNTRY IN THE WORLD WITH PROMISING DEMOGRAPHIC PROFILE

G-20

Member since 1999

273.9 mn

Total population in 2021

With abundance (~69%) of **productive age population** to achieve demographic dividend.

~5%

Avg GDP growth over the last decade

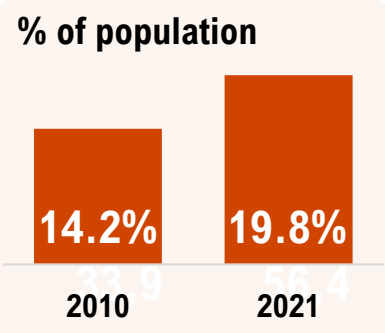
With rising **middle class**

As well as **aspiring middle class**

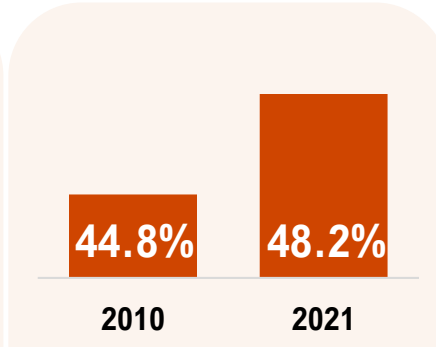
And **consistent decline in poverty**

35.3%

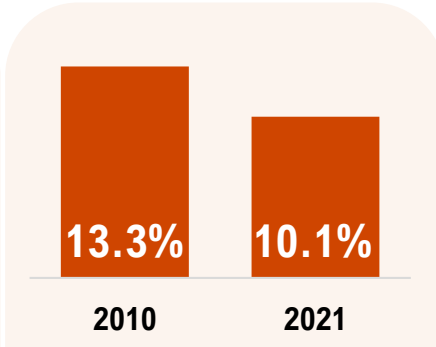
of Southeast Asian GDP, the **largest** in the region



Become an engine of economic growth and plays important social and political role.



Potential to enlarge middle-income class.



Poverty rate drop to single digit after the pandemic (9.54%; March 2022)

~4%

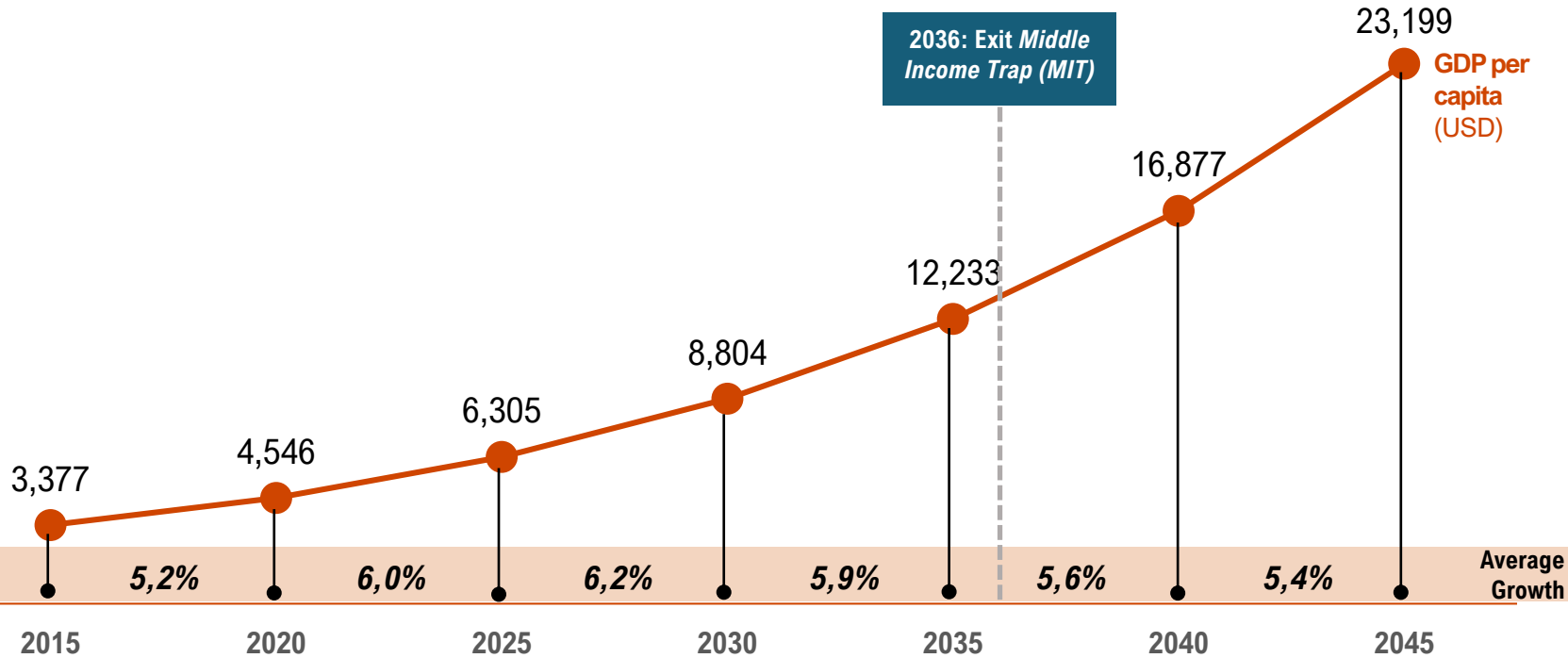
Stable inflation rate over the last decade

INDONESIA VISION 2045: TO BECOME A HIGH-INCOME COUNTRY

This vision will be achieved with qualified and productive human capital **as well as higher female participation**



Indonesia Growth Trajectory Towards 2045



2045

223 million middle-income class

72.8% lives in urban area

Natural unemployment rate (3-4%)

65% female labor force participation

Near-zero poverty

Source: Bappenas (2021)

4 Pillars in supporting Indonesia Vision



Human Development and Mastery of Science and Technology



Sustainable Economic Development



Equitable Development

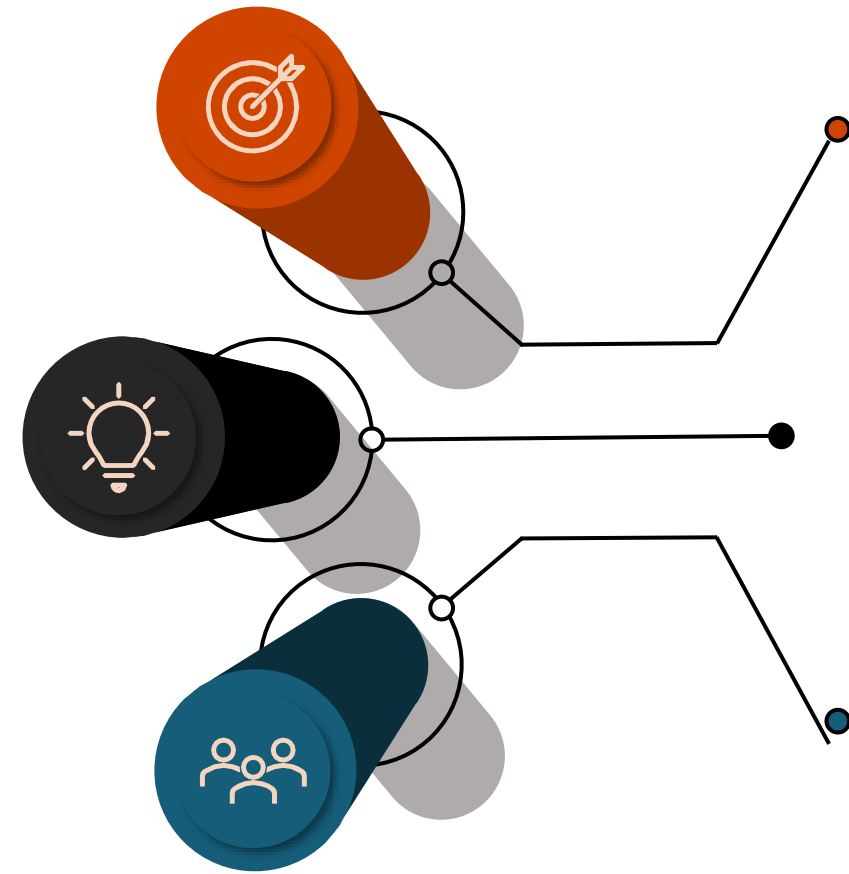


Bureaucratic & Structural Reforms



INVESTING IN HUMAN CAPITAL IS CRITICALLY IMPORTANT TO BOLSTER LONG-TERM GROWTH

Priorities will be given to three main pillars: health, education and social protection, to generate healthier and productive human resources



HEALTH

Supporting Health System Transformation:

- Preventive and promotive strengthening
- Encouraging the independence of the health sector industry
- Strengthening health security preparedness

EDUCATION

Improving the Quality of Education :

- Strengthening pre-schools
- Infrastructure development and rehabilitation
- Accessible education for all
- Improving teacher competence

SOCIAL PROTECTION

Acceleration of Social Protection Reform :

- The improvement of lifelong social protection (social assistance for the elderly and disability concessions)
- Adaptive social protection, and empowerment



ENHANCING HEALTH SECTORS IS KEY IN HUMAN CAPITAL DEVELOPMENT



Over the past 50 years, the Government has been committed in investing in human capital through the health sector

1960s >>>

onward

(1967)
Initiating **Family Planning Program**

(1970)
National Family Planning Coordinating Board (**BKKBN**) was established

(2000)
Family Planning Program included as a part of National Development Program

(2020)
Bangga Kencana Program - amplification of **Family Planning Program**

1980s >>>

(1986)
Initiating **Community Health Care** (Puskesmas & Posyandu)

(2009)
Provision of **complete immunization** for children

(2016)
Allocate at least **5% of the national budget on health**

2000s >>>

(2005-08)
Healthcare for the poor (**Askeskin**)

(2008-13)
Community Health Insurance (**Jamkesmas**)

(2014)
National Health Insurance (JKN)

**POLICY IN
HEALTH
SECTORS**



FAMILY PLANNING PROGRAMS AND NATIONAL HEALTH INSURANCE: TWO MAJOR MILESTONES IN INDONESIA'S HUMAN CAPITAL DEVELOPMENT

Family planning has enhanced the wellbeing of families, while the universal health coverage is aimed to improve their financial protection



FAMILY PLANNING PROGRAM
to benefit family, women and communities



NATIONAL HEALTH INSURANCE (JKN)
to achieve Universal Health Coverage

Empowering women

Improving women's health

Enhancing the wellbeing of families

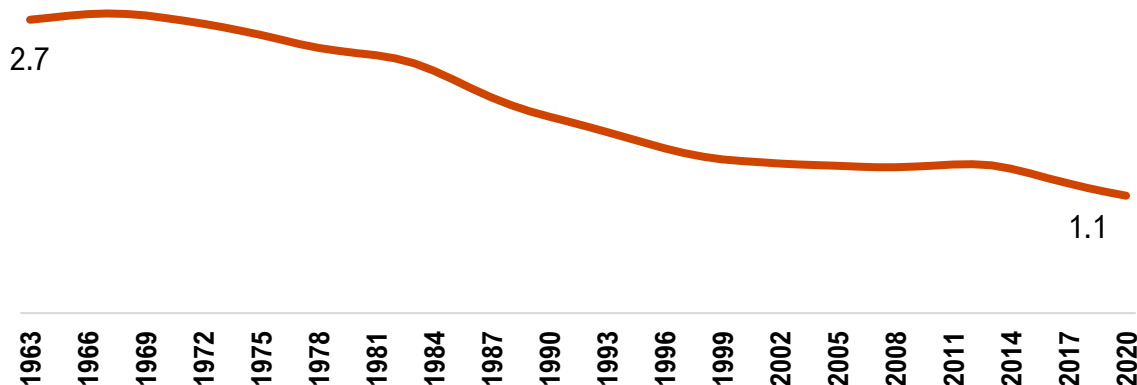
Increasing the quality of human resources

Improving financial protection by reducing out of pocket health expenditure

Increasing utilization

Increasing health facilities

Indonesia's Population growth (%)



Indonesia's family planning program has increased contraceptive use from non-existent to more than 60 percent within four decades.

As of February 2022, JKN already cover:

236.8 million people or 86.5% population

National Health Insurance (JKN) is established in 2014. Using social health insurance (contributory system), JKN aims to achieve universal health coverage to ensure that health-care services are equally accessible to the entire population. For the poor and vulnerable, contribution is paid by the government.

INVESTMENT IN EDUCATION HAS ALWAYS BEEN A KEY PRIORITY OF INDONESIA ECONOMIC DEVELOPMENT



Priorities on education has been evolving in gradual manner over the years: from the primary to higher education and innovation

1970s >>>

onward

(1984)
6 years
compulsory
education program

(1994)
9 years
compulsory
education program

(2011)
Establishment of Indonesia
Endowment Funds for
Education (**LPDP**)

(2013)
12 years compulsory education program
First batch of **LPDP awardees** was appointed

(1973)
School expansion policy
(considerable school
construction program—
Inpres Primary School)

(2003)
Building stronger
**National Education
System** (Law 20/2003)

(2019)
Education
transformation
through **Merdeka
Belajar**

(2021)
**Link & match
program** from
vocational education
to industry

2000s >>>

(2005)
School
Operational
Assistance (**BOS**)

(2009)
Allocate **20% of
national budget
on education**

(2014)
Smart Indonesia
Program (**PIP**)

(2019)
Super Tax Deduction For
Industrial Vocational Activities

**POLICY IN
EDUCATION
SECTORS**



LPDP HAS BEEN A BREAKTHROUGH TO SUPPORT HIGHER EDUCATION, RESEARCH AND INNOVATION IN TANDEM WITH SOME TAX INCENTIVES

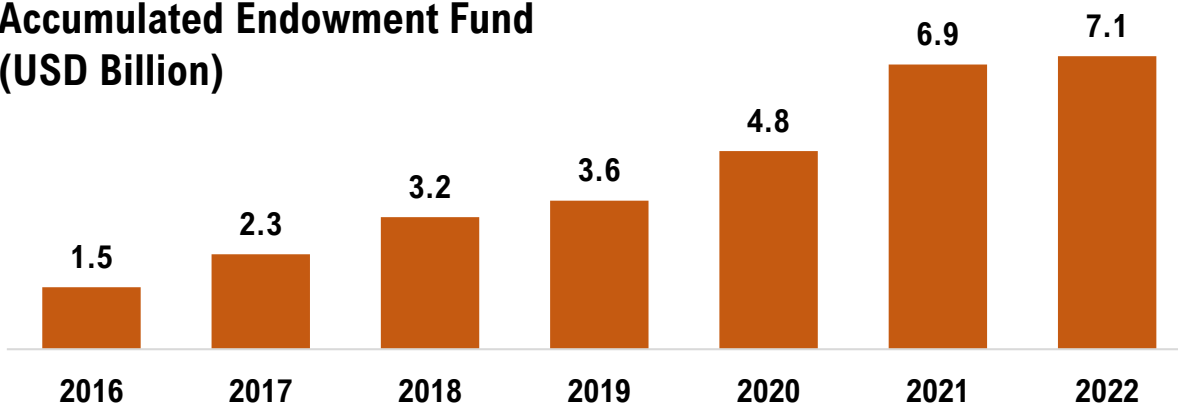
After implementing 12-year compulsory education, the policy began to put priorities on higher education, research and innovation



INDONESIA ENDOWMENT FUNDS FOR EDUCATION

National Education Development Endowment Fund	Culture Endowment Fund
	Higher Education Endowment Fund
	Research Endowment Fund

Accumulated Endowment Fund (USD Billion)



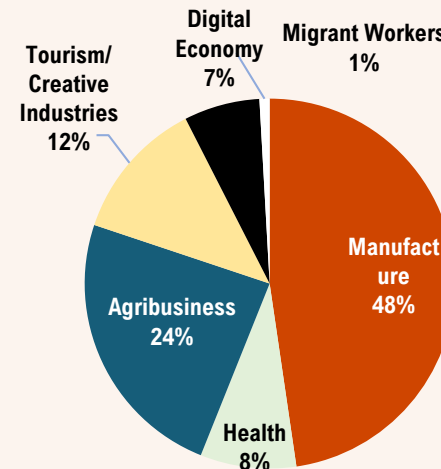
32,842 scholarship awardees
52.4% are women

>1,668 research projects



SUPER TAX DEDUCTION FOR INDUSTRIAL VOCATIONAL ACTIVITIES

Percentage of Sectors Utilizing Facilities



FACILITIES:

The maximum gross income reduction is 200%, consists of:

- 100% REAL COSTS in the context of work practices, apprenticeships, and/or learning activities
- HIGHEST ADDITIONAL 100% OF REAL COST in the context of work practices, apprenticeship, and/or learning activities.

SUBJECT:

Domestic Corporate Taxpayer who incur costs for work practices, apprenticeships, and/or learning activities in the context of fostering and developing human resources based on certain competencies



SOCIAL PROTECTION AND POVERTY ERADICATION PROGRAMS AIMS TO ADDRESS INEQUALITY AND ENHANCE HUMAN CAPITAL QUALITY

At the early stage of development much focus was on anti-poverty, nowadays it evolves to a more comprehensive social protection

1960s >>>

onward

(1964-1969)

Massive agricultural credit programs, such as BIMAS/INMAS Program

(1993)

Presidential Instruction on Disadvantaged Villages – Inpres Desa Tertinggal (IDT)

(1995)

Disadvantaged Village Infrastructure Development Program – Pembangunan Prasarana Pendukung Desa Tertinggal (P3DT)

1990s >>>

(1999)

Decentralization Program

(2010)

Establishment of National Team for the Acceleration of Poverty Reduction (**TNP2K**)

(2015)

Energy Subsidy Reform

2000s >>>

(2004)

National Social Security System

(2007)

Initiating Conditional Cash Transfer - **Family Hope Program (PKH)**

(2012)

Unified Database for Social Protection Program

(2018)

Reform on Food Assistance Program (from subsidy to targeted social assistance)

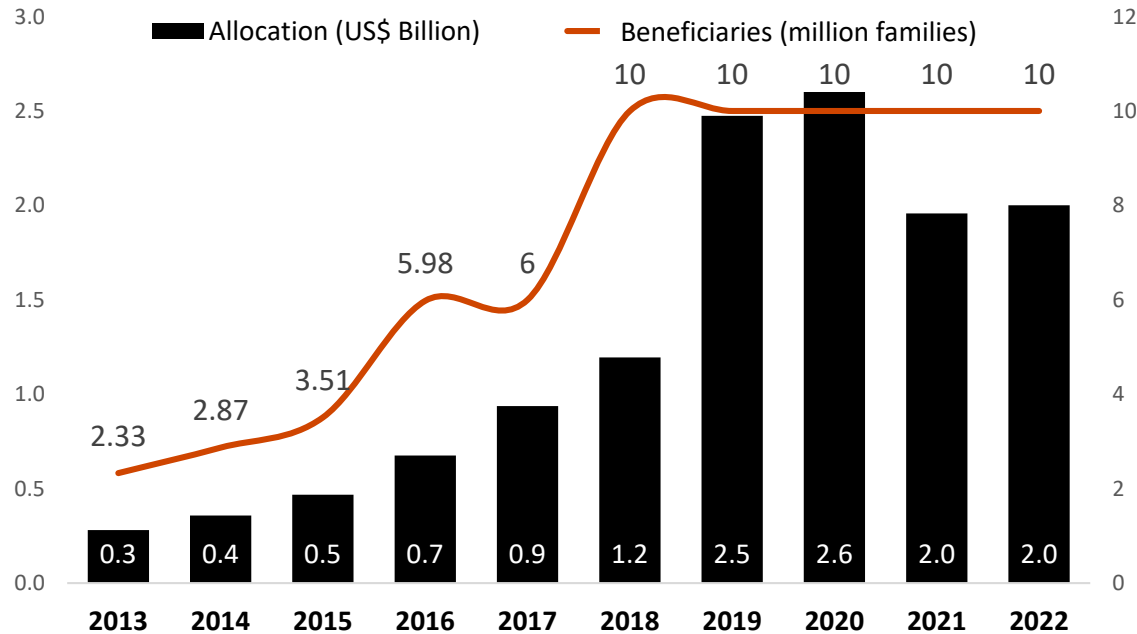
SOCIAL PROTECTION

SOCIAL WELFARE PROGRAMS (e.g. PKH) AND EMPOWERMENT PROGRAM (e.g. UMI & MEKAR) TO ACCELERATE POVERTY REDUCTION

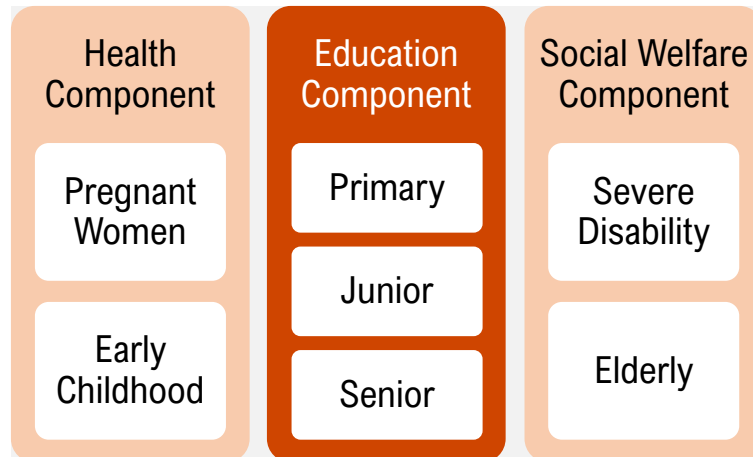


And provide necessary condition for women to thrive

PROGRAM KELUARGA HARAPAN (PKH)



- **10 Million Families**
- **Benefit varies** according to conditionality component
- Disbursement: **quarterly**
- **Cash transfer** through State-Owned Banks



ENHANCE ACCESS TO FINANCING & SUPPORT FOR MSMEs



ACCESS TO FINANCING

- ❖ Loans for ultra-micro entities (**Kredit Ultra Mikro/Umi**). Up to 2021, the program has provided funding to more than **5.38 million SMEs**; **95% of them are women**.
- ❖ **Membina Ekonomi Keluarga Sejahtera (Mekaar) and Mekaar Syariah**. Up to last year, approximately **11.1 million women enrolled** in the program.
- ❖ During Covid-19 pandemic, government provided capital support for **12,8 million SMEs through Bantuan Produktif Usaha Mikro (BPUM)** with **70% of them are managed by women**.

SUPPORT FOR MSMEs

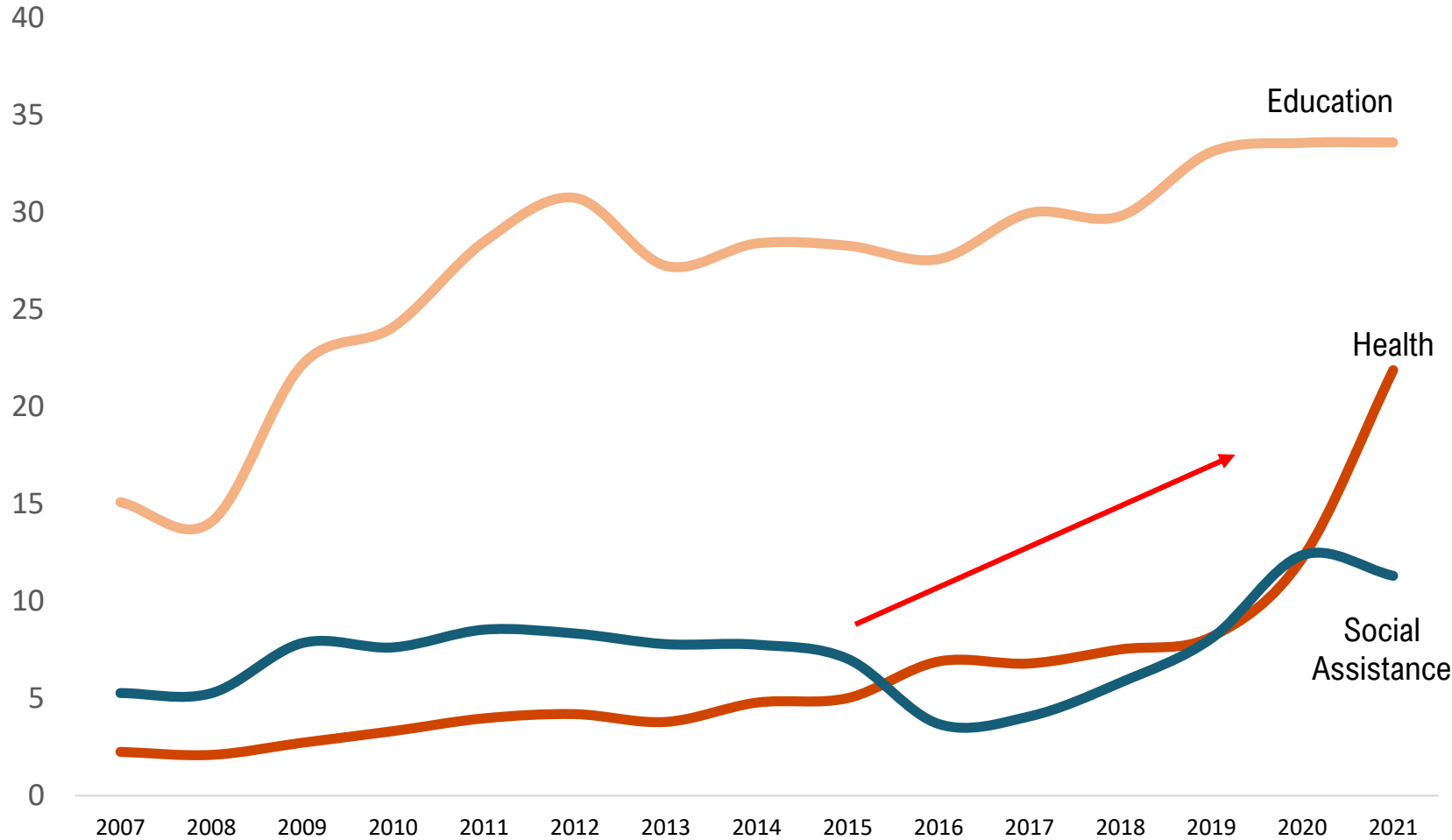
- ❖ **Final income tax for SMEs of 0.5%** of gross sales and Nontaxable income threshold amounting to IDR500 million per year for individual SMEs.
- ❖ **Training for micro businesses** to develop entrepreneurial skills, including managing micro-scale companies and using technology.
- ❖ **Developing virtual marketplaces** to facilitate meetings and transactions between MSMEs and buyers in the online market.

SPENDING ON EDUCATION AND HEALTH HAVE BEEN ENHANCED THROUGH MANDATORY RULE



Continuous efforts to increase quality of spending

Spending on Education, Health and Social Protection (US\$ billion)



Source: Ministry of Finance

Δ 2007-2021

Education

↑ 237.2%

Set a mandatory spending 20% in 2003 to improve education system

Health

↑ 1,369.0%

Add mandatory spending policy 5% for health in 2009

Social Assistance

↑ 224.4%

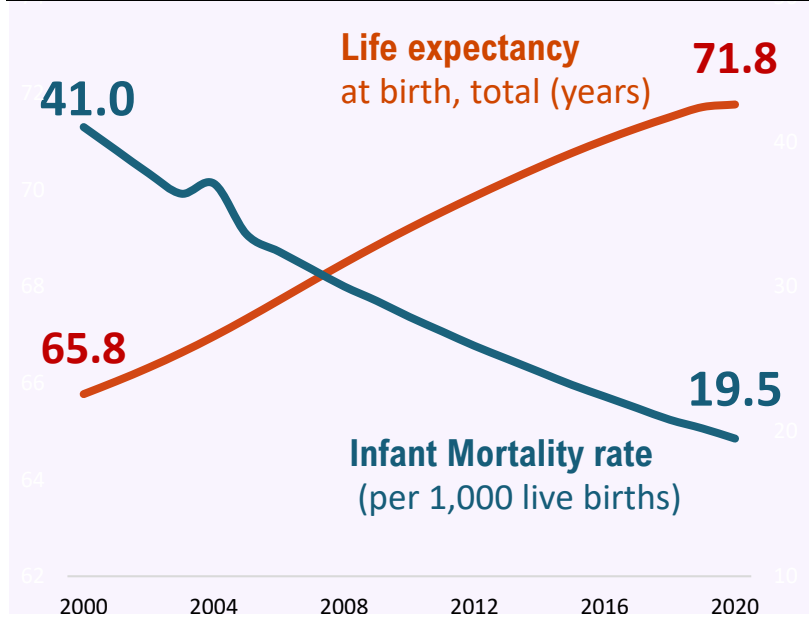
Continuously strengthen protections for the poor and vulnerable

INDONESIA HAS ACHIEVED SUBSTANSIAL PROGRESS ON HUMAN CAPITAL DEVELOPMENT

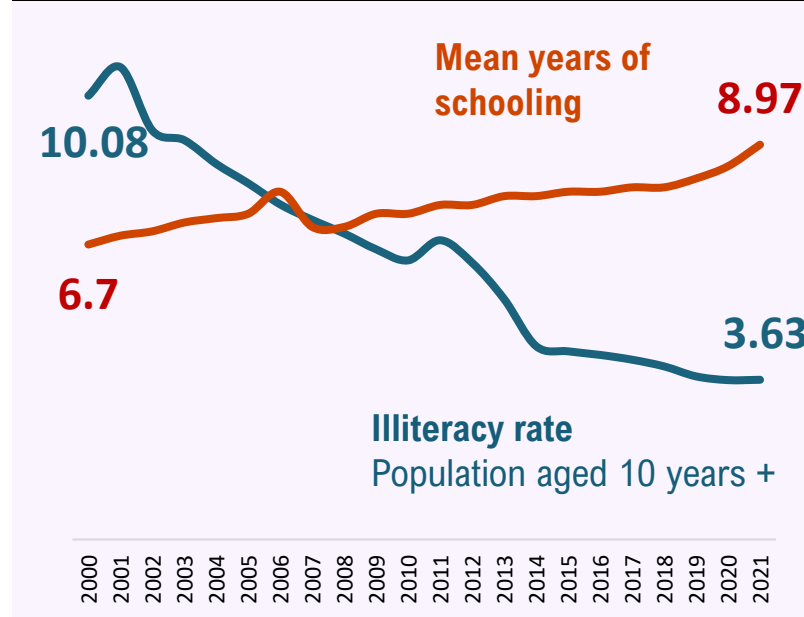


Human capital policy has gained healthier, more educated, and better-off population

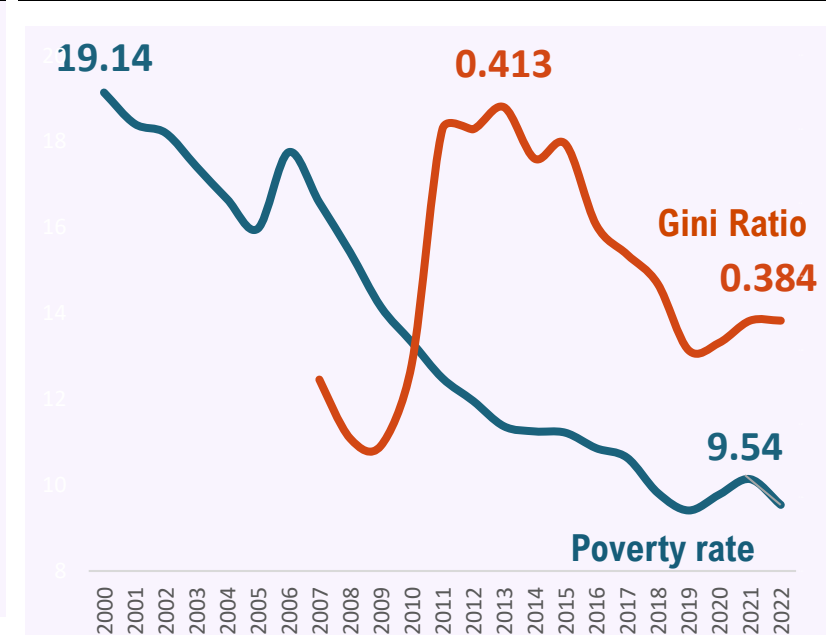
Increasing life expectancy with declining infant mortality rate ...



More well-educated people ...



Falling poverty and better equality ...



Improving women empowerment ...

Women Enrollment Rate (Secondary) 81.5% 2012 **90.5%** 2019 ↑

Women representatives in parliament 18.0% 2012 **21.9%** 2021 ↑

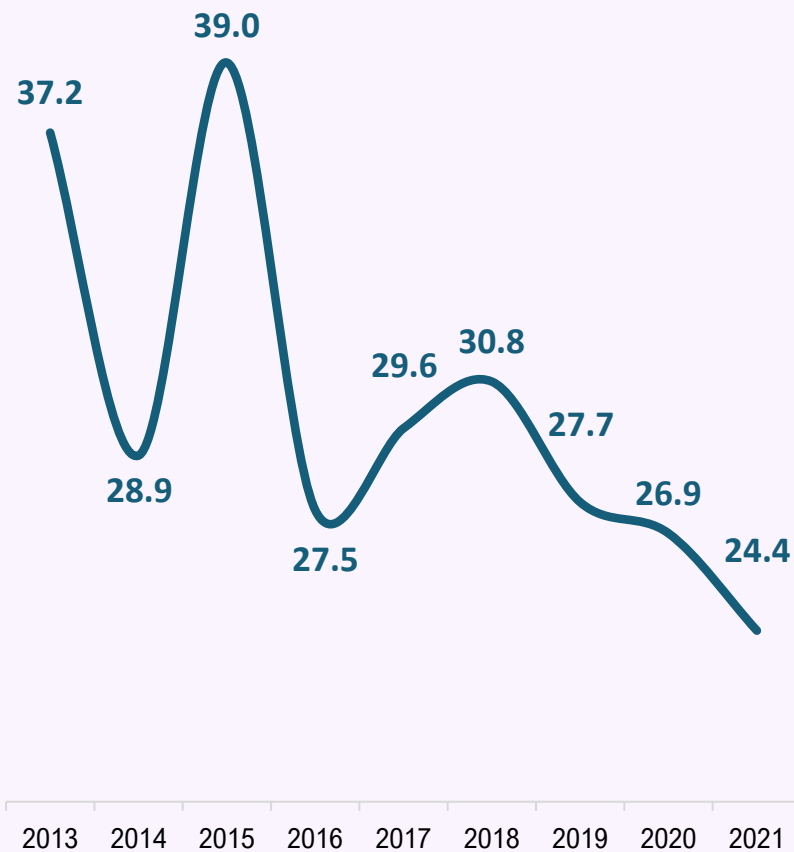
Women in professional workforce 45.2% 2012 **50.0%** 2021 ↑

HOWEVER, SOME CHALLENGES REMAIN



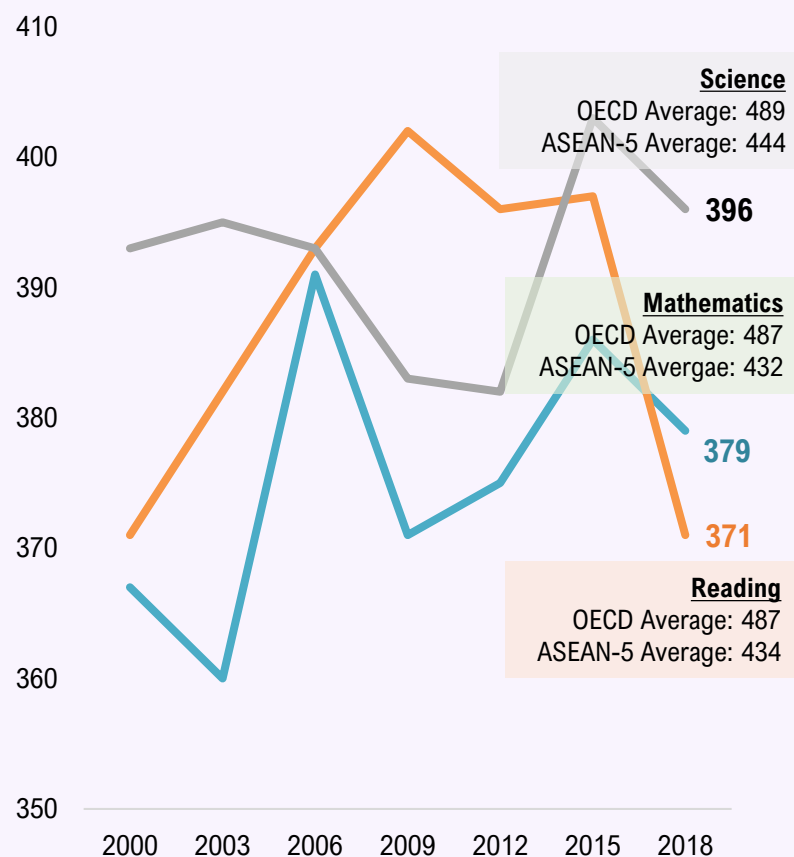
Stunting, effectiveness of spending in education, and increasing female labor participation, among other challenges that will be addressed going forward

Continue lowering stunting prevalence (%) through better social welfare programs



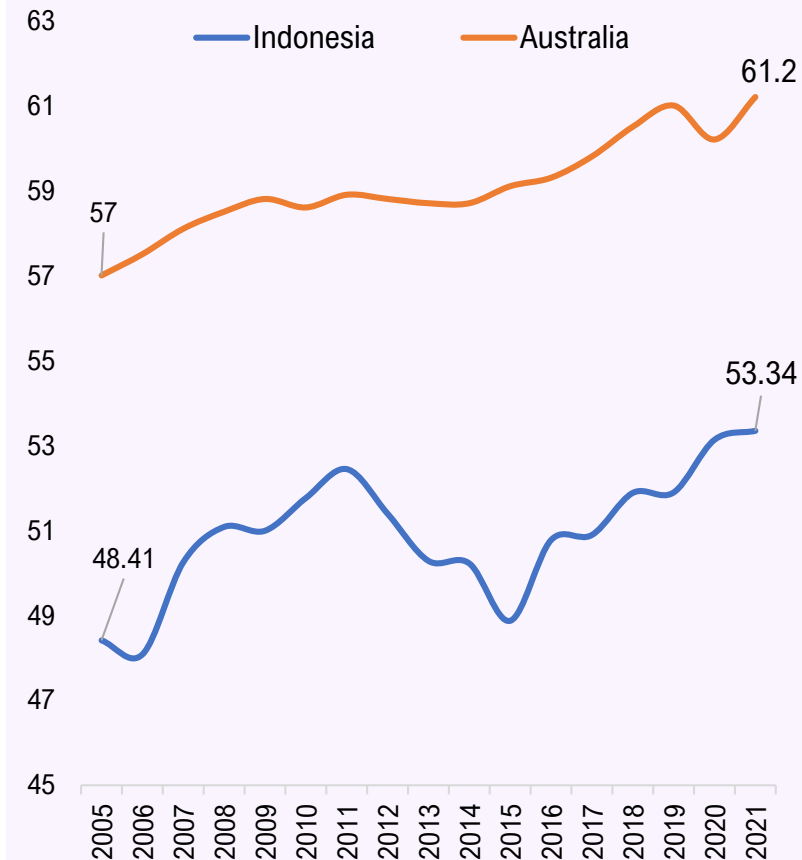
Stunting could affect educational attainment and lead to losses in the human capital

Addressing the effectiveness of education spending, i.e. improving PISA score



	Australia	China	Malaysia	Thailand	Vietnam
Science	503	590	438	426	543
Math	491	591	440	419	496
Reading	503	555	415	393	505

Increasing Female Labor Force Participation Rate (%) through better social and economic environment



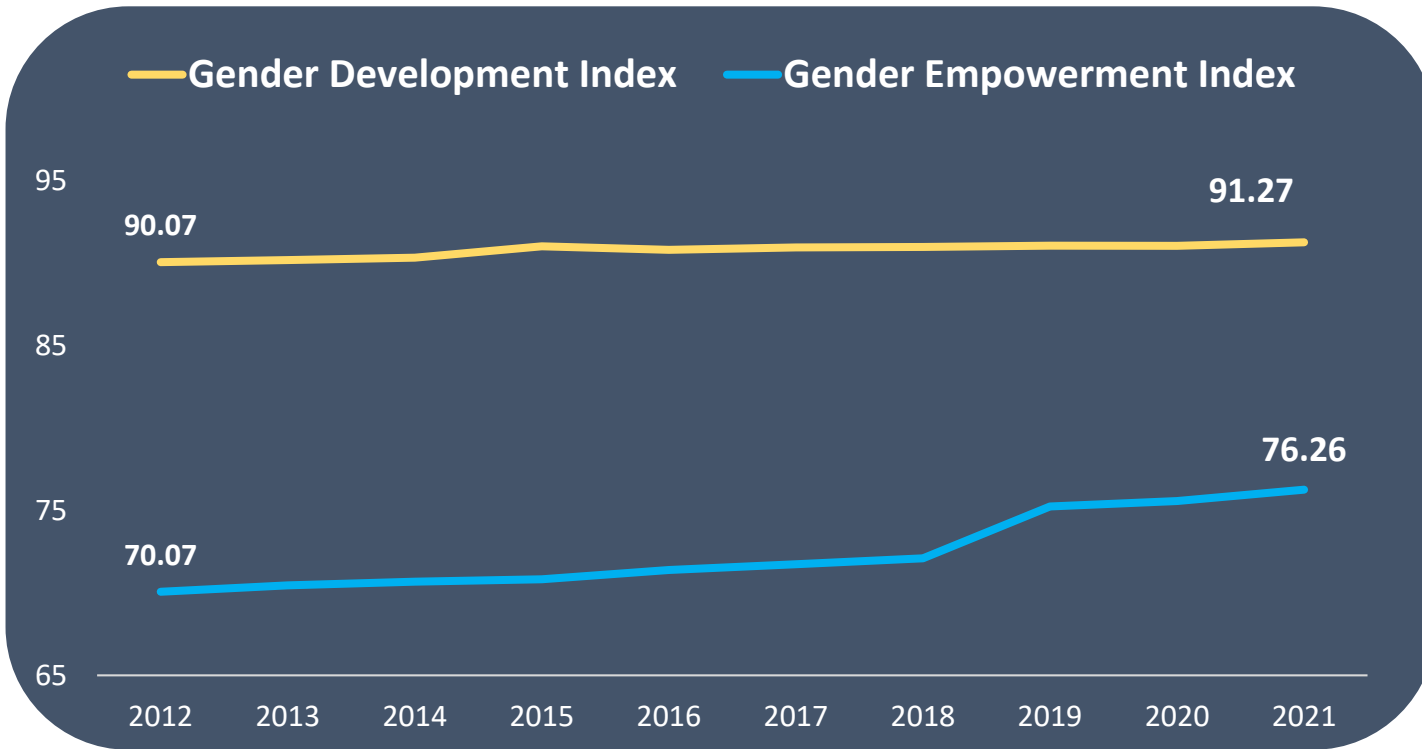
Sociocultural norms and domestic roles are one of the obstacles for women in the labor market and their dynamic shifting

PROMOTING GENDER EQUALITY WILL ENHANCE FURTHER HUMAN CAPITAL

Gender equality in Indonesia has just slightly improved



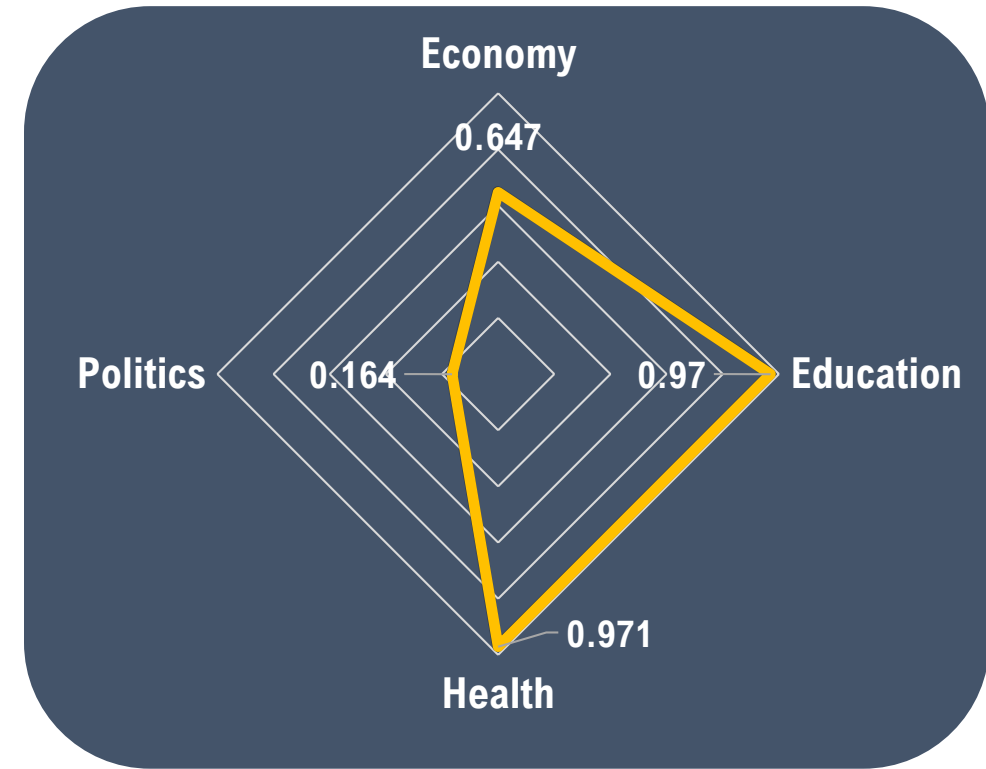
INDONESIA'S GENDER DEVELOPMENT INDEX & GENDER EMPOWERMENT INDEX



Source: Statistics Indonesia, processed

Women's participation in the economic, political, and managerial fields shows an increase, but is still lagging behind men

INDONESIA GENDER GAP INDEX 2021 (0: imparity and 1: parity)



Source: World Economic Forum, processed

Indonesia has closed 68.8% of its overall gender gap. But the challenges remain, especially in economic participation & opportunity and politics.

GENDER EQUALITY IS CRITICALLY IMPORTANT FOR ECONOMIC DEVELOPMENT

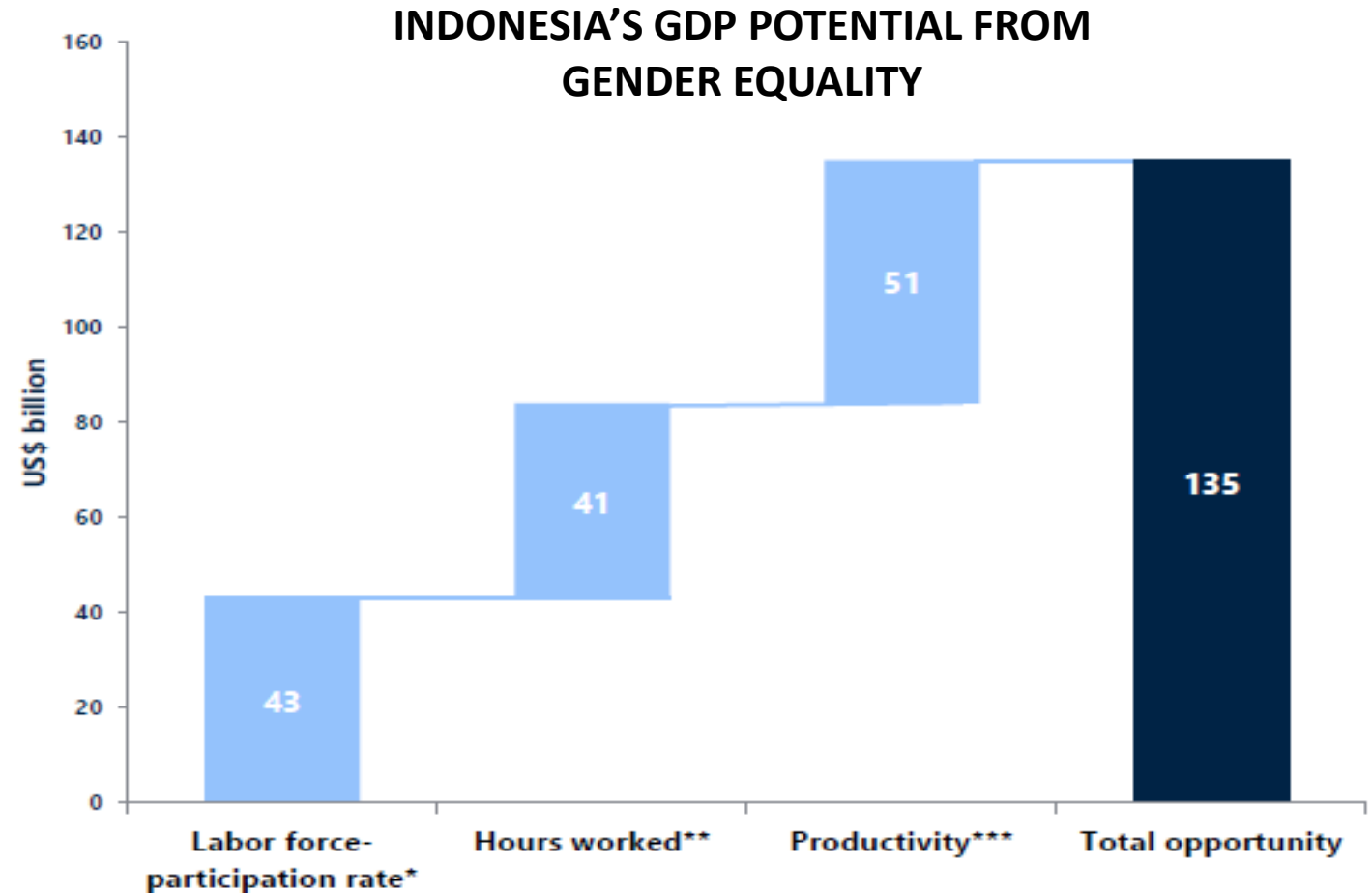


McKinsey Global Institute (2020):

- Taking action now to advance gender equality could be valuable, adding **USD13 trillion** to global GDP in 2030 compared with the gender-regressive scenario.
- In a gender-regressive scenario in which no action is taken to counter these effects, global GDP growth could be USD 1 trillion lower in 2030 than it would be if women's unemployment simply tracked that of men in each sector.

World Bank (2021)

- Gender equality in women participation workforce in Indonesia can increase economic growth by ~9% or around **USD135 billion** in 2025.

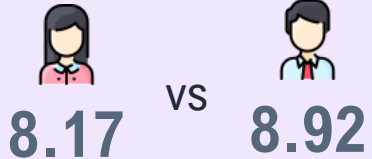




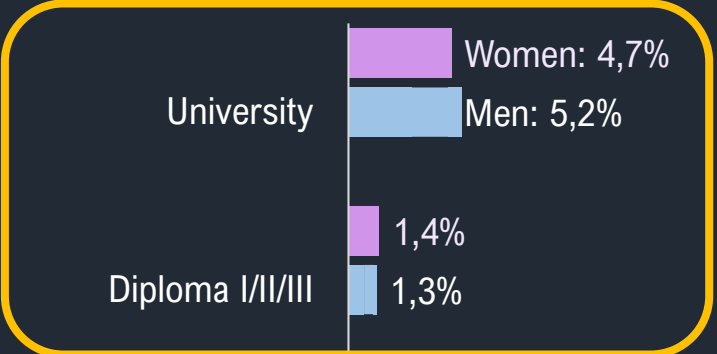
SEVERAL ASPECTS WHERE THE GENDER GAP NEED TO BE FURTHER IMPROVED

Education

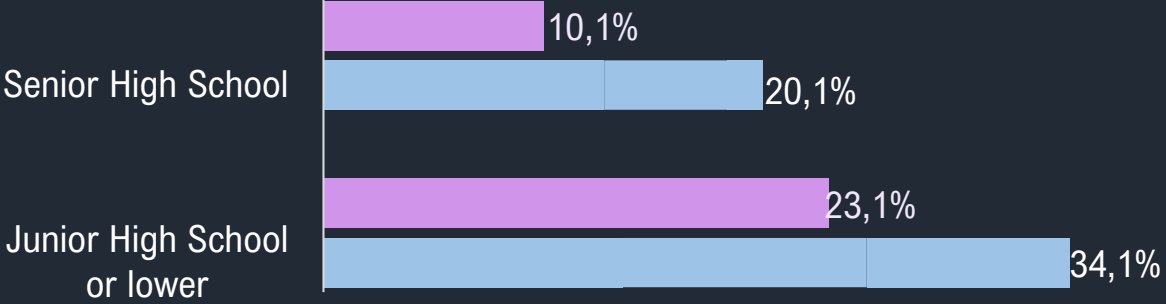
Average Years of School 2021



Proportion of Employment by gender and education 2022 (%)



Labor market is still dominated by men in almost every level of education, except at the higher education levels (Diploma and University).



Economy

Women's Income Contribution (2021): **37.22%** vs 62.78% for men

Per Capita Expenditure (2021): **IDR9 mn** vs IDR15.8 mn for men

Health

Number of Health Complaints (2021): **28.3%** vs 26.15% for men

Maternal Mortality Rate (2020): **305** per 100.000 live births vs 140 of SDGs 2030

Politics

Women's representation in the legislature in 2019:

20.5% DPR

30.9% DPD

Internet access

44.86% vs 50.50% for men (2019)

Source: BPS, Feb 2022, calculated

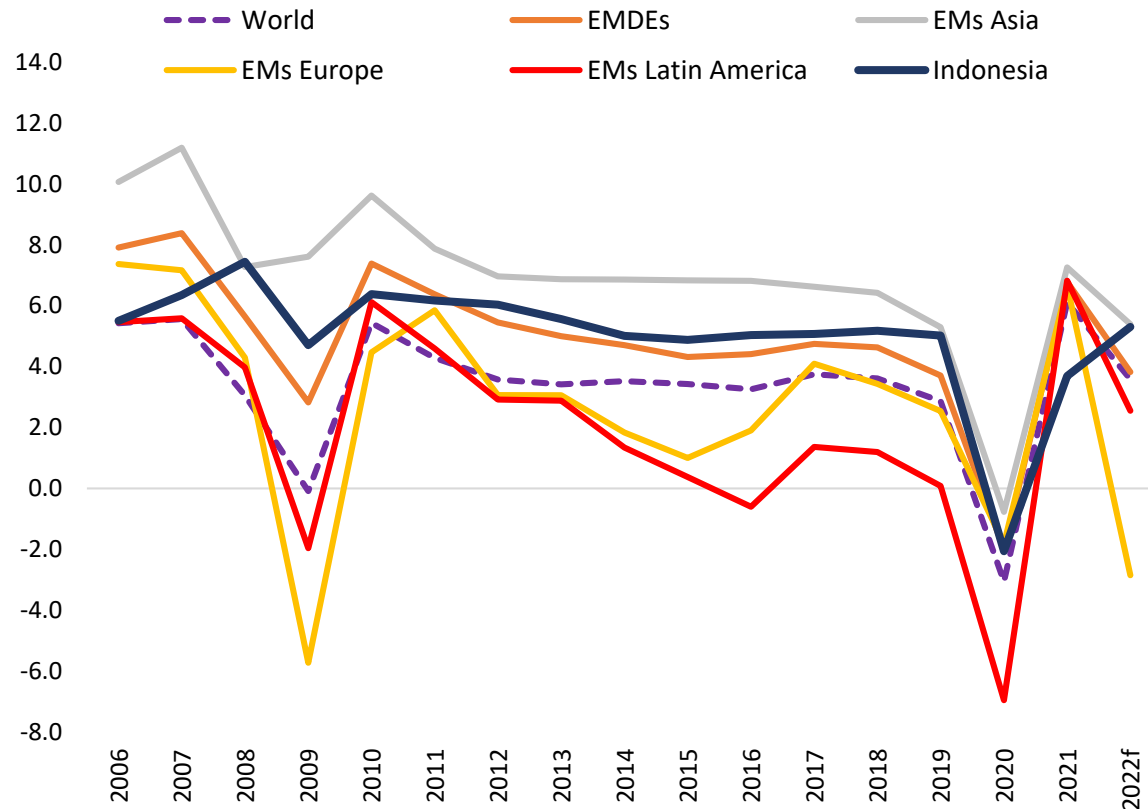
PROGRESS IN THE HUMAN CAPITAL DEVELOPMENT HAS BEEN SUPPORTED BY STRONG AND STABLE MACROECONOMIC PERFORMANCE



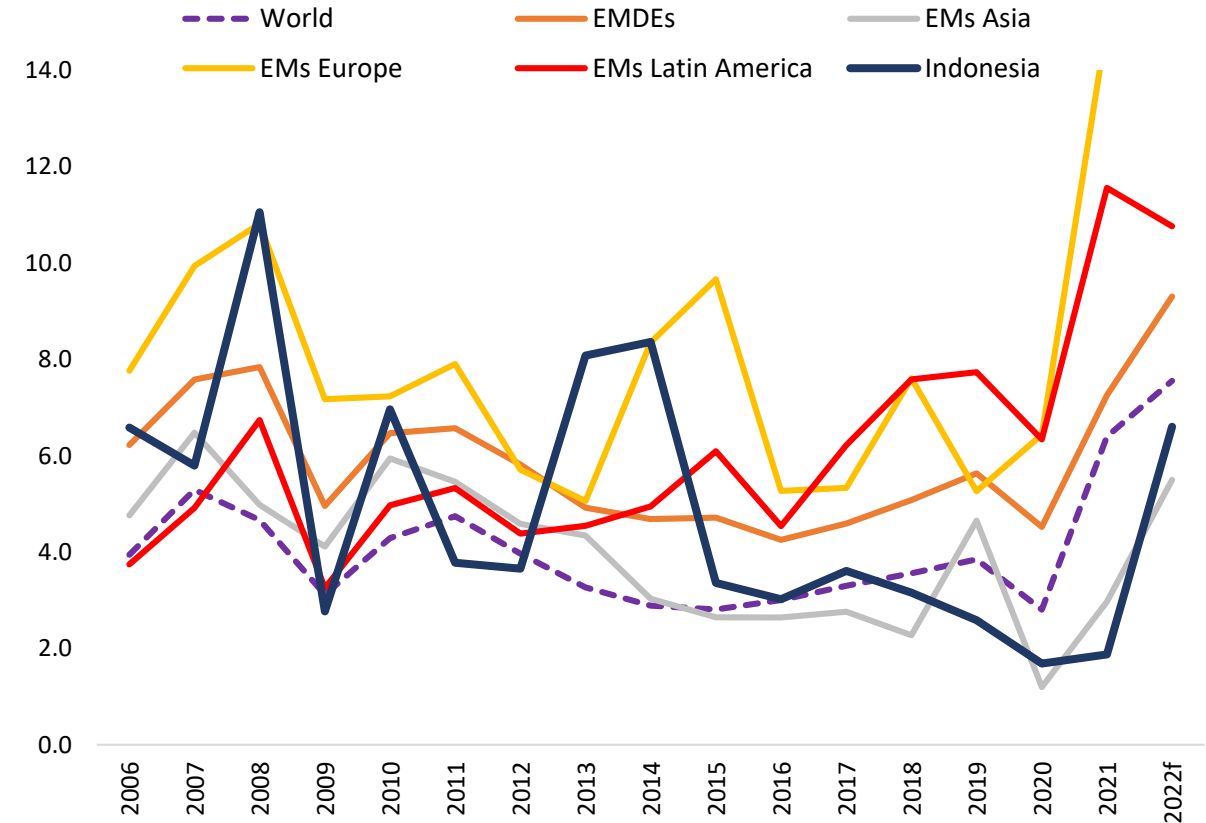
Along with various social protection programs, the strong growth and low-stable inflation facilitate further the decline of poverty rate

- Indonesia economic growth always above global growth, the 2nd highest after EMs Asia
- Inflation rate has been under control and below peers

GDP Growth, 2006 - 2022



Inflation Rate, 2006 - 2022

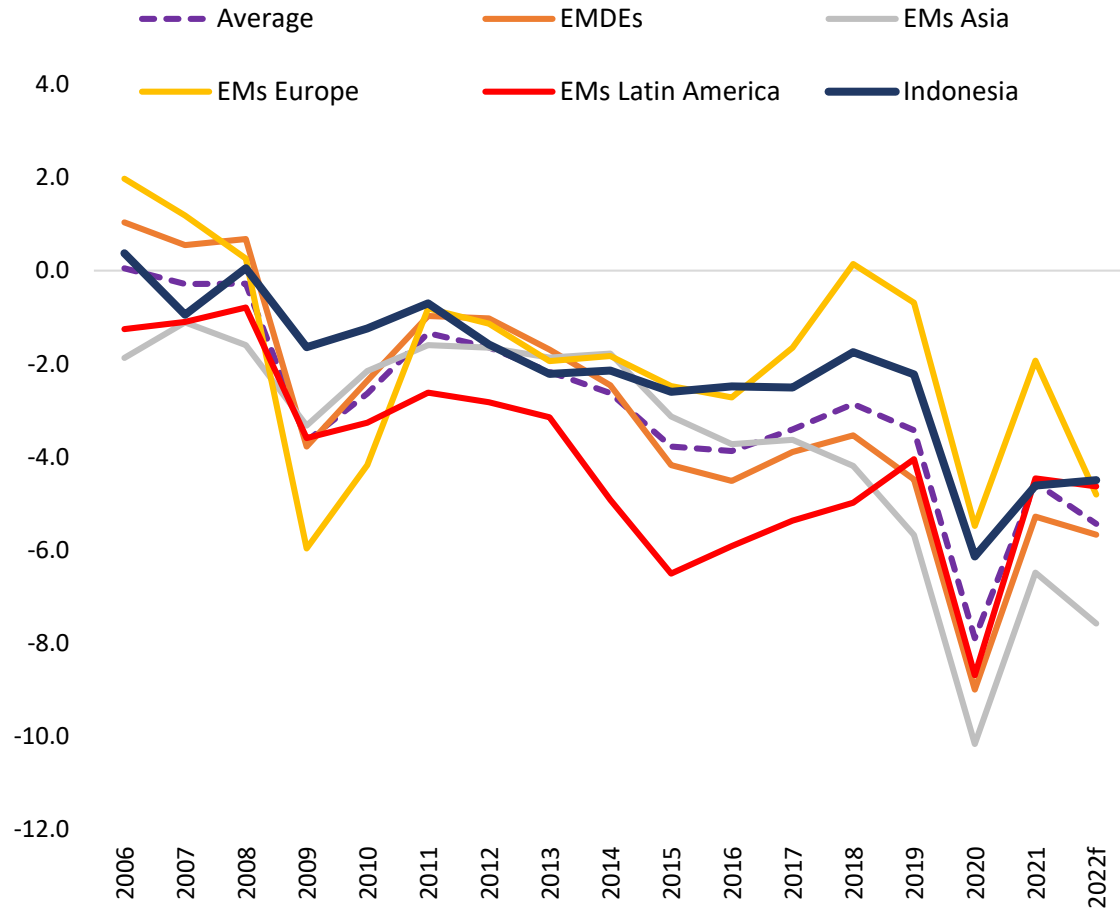


SOUND AND PRUDENT MACROECONOMIC POLICIES HAVE PLAYED IMPORTANT ROLES

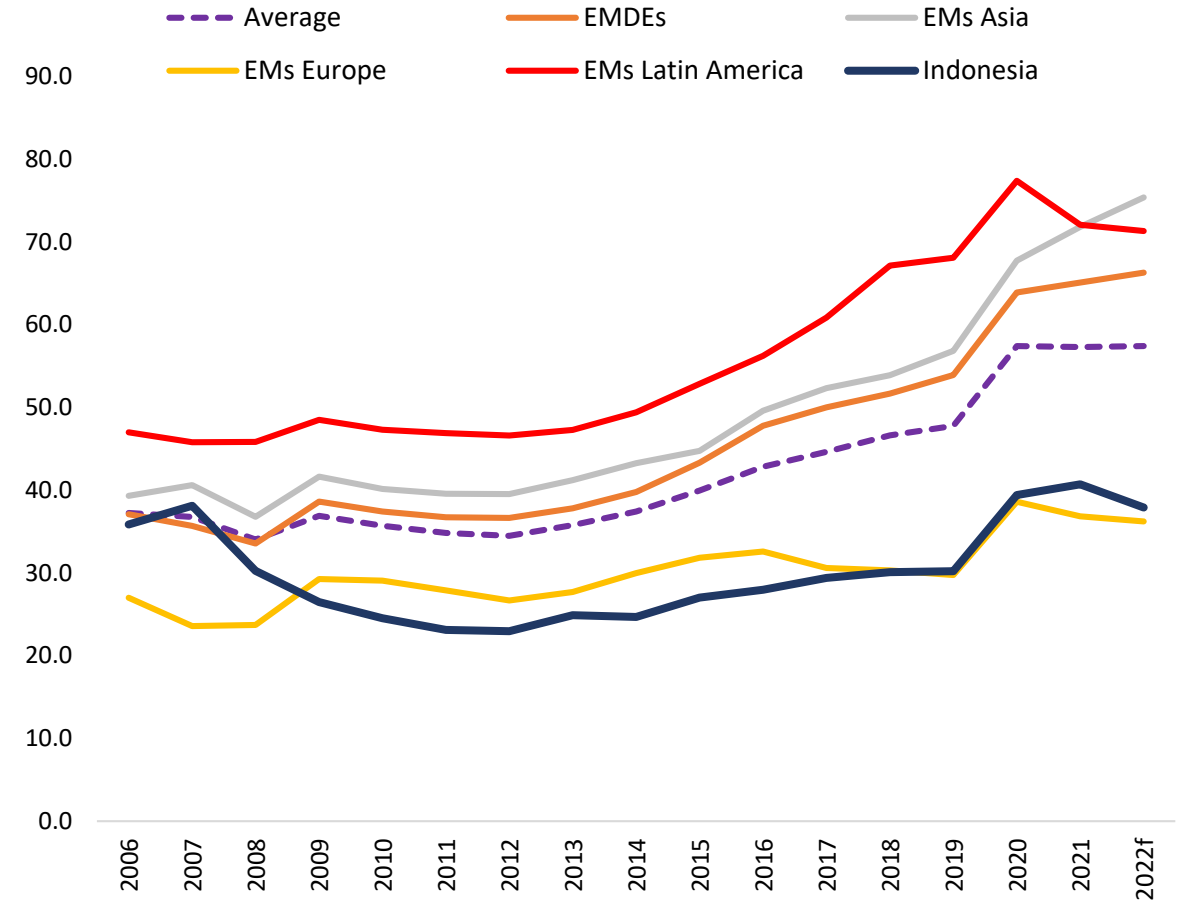


Fiscal balance and government debt has followed closely fiscal rule of maximum 3% of GDP and 60% of GDP, respectively, lower compared to other emerging market peers

Fiscal Balance Among EMs (% of GDP), 2006 - 2022



Government Debt Among EMs (% of GDP), 2006 - 2022



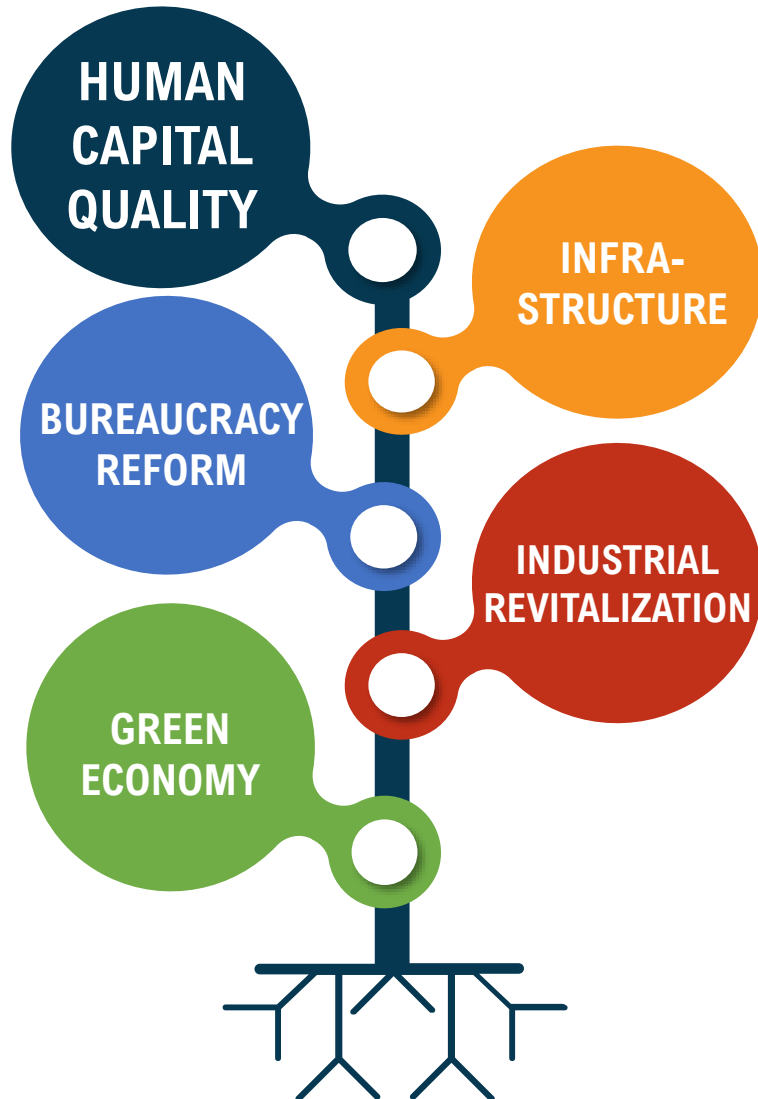
Source: Fiscal Monitor IMF database & IMoF,

INDONESIA'S FISCAL POLICY CONTINUES TO DRIVE PRODUCTIVITY & SUPPORT DEVELOPMENT GOALS

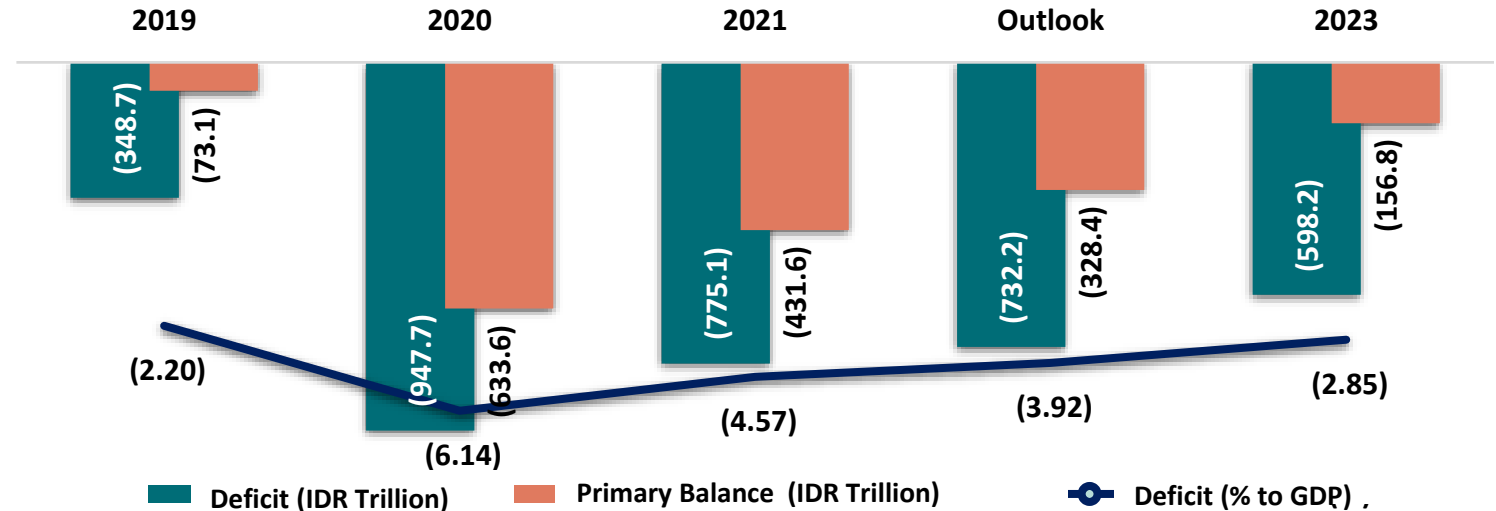


Prudent and productive fiscal policy will be maintained to support various strategic sectors, including human capital

2023 Fiscal Policy Focus



Prudent & Productive Fiscal Policy



HUMAN CAPITAL RELATED POLICY IN THE 2023 PROPOSED BUDGET

Education:

- ✓ Improving education access and quality
- ✓ Increasing the quality of facilities and infrastructure for education
- ✓ Strengthening link and match
- ✓ Enhancing quality of early childhood education
- ✓ Endowment education funds

Health:

- ✓ Improving primary health service to strengthen promotive and preventive
- ✓ Accelerating the availability, quality, and distribution of health workers
- ✓ Increasing the quality of medical devices, pharmaceutical, and health emergency system
- ✓ Strengthening the quality, service, and sustainability of National Health Insurance (JKN)
- ✓ Innovation and technology utilization
- ✓ Lowering stunting

Social Protection:

- ✓ Improving data and targeting through social-economic registry
- ✓ Strengthening lifelong social protection
- ✓ Enhancing adaptive social protection



STRUCTURAL REFORM

HUMAN CAPITAL

- Quality and competitive education
- Integrated and reliable health system
- Lifelong and adaptive social protection
- Gender Equality & Women Empowerment

ECONOMIC TRANSFORMATION

- Increasing production capacity & sustainable growth (infrastructure connectivity, mobility and productivity)
- Improving investment climate (implementation of Job Creation Law)
- Capitalizing key emerging trend (Digital & technology Adoption, high value added industry, green economy)
- Institutional reform (bureaucratic and regulatory reform)



FISCAL REFORM

- Tax reform (broadening the tax base and increasing compliance)
- Spending reform (zero based budgeting): focus on priority programs, efficient, synergistic and results-based
- Innovative, prudent, and sustainable financing (Strengthening the SWF, PPP scheme, and efficient fiscal buffer)
- Strengthening budget functions: allocation, distribution, stabilization

Accelerating recovery & growth
Unleashing economic potential
Achieving development goals



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THANK YOU