

RESEARCH REPORT

**The Role of the Fiscal Stimulus Program in  
Expanding Labor-Intensive Infrastructure  
in Response to the Impact of the 2008/09  
Global Financial Crisis**

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**SMERU Research Institute**

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## ABSTRACT

### **The Role of the Fiscal Stimulus Program in Expanding Labor-Intensive Infrastructure in Response to the Impact of the 2008/2009 Global Financial Crisis**

Hastuti, Syaikhul Usman, M. Sulton Mawardi, and Deswanto Marbun

The global financial crisis (GFC) that swept over the world in 2008/09 had an influence on the Indonesian economy. In an attempt to reduce the impact of the GFC, the government introduced a Fiscal Stimulus Program (FSP) in 2009 in order to encourage economic growth. The program consisted of two main elements, namely, tax cuts and increased government spending. This report presents the results of research into the implementation of the FSP, in terms of government spending to expand infrastructure in the context of reducing the impact of the crisis. The study, for which samples were selected in the *kabupaten* of Demak, Sragen, Sukoharjo, and Klaten (in Central Java) and the *kabupaten* of Gowa, Sinjai, and Bulukumba (in South Sulawesi), was part of the activities involved in monitoring the socioeconomic impact of the GFC, which has been carried out by the SMERU Research Institute since July 2009. This research was done in a qualitative way in order to obtain a general understanding of the impact of the GFC on the socioeconomic situation of the population, the process of formulation and decision-making in the implementation of the FSP, and the benefits of the FSP in overcoming the impact of the crisis on community livelihoods. On the whole, research findings indicated that FSP targets have not been in accordance with the impact of the GFC. Although the GFC had a sufficiently significant effect on the national economy during the period from the end of 2008 until the middle of 2009, its impact on the economies of the study areas was relatively minor. The allocation of FSP funding for *kabupaten* and *kota* shows a wide variation and was not related to the level of impact of the GFC or to the economic position of the region that had been impacted. The FSP funds had already raised the capacity of development spending in the recipient regions and the expansion of infrastructure provided benefits to the local economy; however, the FSP did not contribute directly to the assistance of community members who had been affected by the crisis.

Keywords: global financial crisis, fiscal stimulus program, infrastructure development

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## LIST OF ABBREVIATIONS

APBD	: Anggaran Pendapatan dan Belanja Daerah	Regional Budget
APBN	: Anggaran Pendapatan dan Belanja Nasional	National Budget
APBN-P	: Anggaran Pendapatan dan Belanja Nasional-Perubahan	National Budget–Amendment
AusAID	: Australian Agency for International Development	Australian Agency for International Development
Bappebti	: Badan Pengawas Perdagangan Berjangka Komoditi	Agency for the Supervision of Trade in Commodities
Bappenas	: Badan Perencanaan Pembangunan Nasional	National Development Planning Board
Bawasda	: Badan Pengawas Daerah	Regional Supervisory Board
BBM	: <i>bahan bakar minyak</i>	Fuel (oil-based)
BBN	: <i>bahan bakar nabati</i>	Fuel (plant-based)
BEI	: Bursa Efek Indonesia	Indonesian Stock Exchange
BKF	: Badan Kebijakan Fiskal	Fiscal Policy Board
BLK	: <i>balai latihan kerja</i>	work training center
BLT	: Bantuan Langsung Tunai	Direct Cash Transfer
BM	: <i>bea masuk</i>	Import duty
BM DTP	: <i>bea masuk ditanggung pemerintah</i>	Import duty paid by the government
BPKP	: Badan Pengawasan Keuangan dan Pembangunan	Agency for Finance and Development Supervision
BPPTK	: Balai Pengembangan Produktivitas Tenaga Kerja	Institute for Expansion in Labor Productivity
BPS	: Badan Pusat Statistik	Statistics Indonesia
CPO	: -	crude palm oil
DAK	: <i>dana alokasi khusus</i>	specific funds allocation
DAU	: <i>dana alokasi umum</i>	general funds allocation
DIPA	: Daftar Isian Pelaksanaan Anggaran	List of Budget Implementation Form
DJA	: Direktorat Jenderal Anggaran	Directorate General for Budgets
DME	: Desa Mandiri Energi	Independent Energy Village
DPDF	: Dana Penguatan Desentralisasi Fiskal	Funds for Strengthening Fiscal Decentralization
DPR	: Dewan Perwakilan Rakyat	House of Representatives
EKPD	: Evaluasi Kinerja Pembangunan Daerah	Regional Development Performance Evaluation
GDP	: -	gross domestic product
GFC	: -	2008/09 global financial crisis
HOK	: <i>hari orang kerja</i>	working days
KPA	: Kuasa Pengguna Anggaran	Authorized Budget User
KUR	: Kredit Usaha Rakyat	People’s Business Credit program

KVA	: -	kilo volt ampere
LKPP	: Laporan Keuangan Pemerintah Pusat	central government financial report
Menkeu	: Menteri Keuangan	Minister for Finance
Menko	: Kementerian Koordinator	Coordinating Minister
monev	: <i>monitoring dan evaluasi</i>	monitoring and evaluation
pemda	: <i>pemerintah daerah</i>	regional/local government
PHK	: <i>pemutusan hubungan kerja</i>	being dismissed from place of employment
PKL	: <i>pedagang kaki lima</i>	street vendors
PMK	: Peraturan Menteri Keuangan	Regulation of the Minister for Finance
PMN	: <i>penyertaan modal negara</i>	participation of state capital
PNPM	: Program Nasional Pemberdayaan Masyarakat	National Program for Community Empowerment
PNS	: <i>pegawai negeri sipil</i>	public servant
POK	: <i>petunjuk operasional kegiatan</i>	operational instructions for activities
Polri	: Kepolisian Negara Republik Indonesia	State Police of the Republic of Indonesia
PPD	: Percepatan Pembangunan Daerah	Accelerating Regional Development
P2DTK	: Percepatan Pembangunan Daerah Tertinggal dan Khusus	Acceleration of Development in Underdeveloped and Special Regions
PPh	: <i>pajak penghasilan</i>	Income tax
PPIP	: Program Pembangunan Infrastruktur Perdesaan	Program for Development of Rural Infrastructure
PPK	: 1. <i>pejabat pembuat komitmen</i> 2. Program Pengembangan Kecamatan	1. official making a commitment 2. Kecamatan Development Program
P2KP	: Proyek Penanggulangan Kemiskinan di Perkotaan	Project for Overcoming Urban Poverty
PPN	: <i>pajak pertambahan nilai</i>	value added tax
FSP	: Program Stimulus Fiskal	Stimulus Fiscal Program
PTKP	: <i>penghasilan tidak kena pajak</i>	non-taxable earnings
RAB	: <i>rencana anggaran biaya</i>	budget costs plan
RI	: Republik Indonesia	Republic of Indonesia
RKA-KL	: <i>rencana kerja anggaran</i>	budget working plans for ministries and state institutions
RTS	: <i>rumah tangga sasaran</i>	target household
SAPSK	: Satuan Anggaran per Satuan Kerja	Budget Unit per Work Unit
SE	: <i>surat edaran</i>	circular
SKPD	: <i>satuan kerja pemerintah daerah</i>	regional government work unit
SUN	: Surat Utang Negara	state bonds
TKI	: tenaga kerja Indonesia	Indonesian overseas workers
TNI	: Tentara Nasional Indonesia	Indonesian National Army
TOR	: -	terms of reference
UKM	: <i>usaha kecil dan menengah</i>	small and medium-scale businesses

## EXECUTIVE SUMMARY

There are indications that the 2008/09 global financial crisis (GFC), which swept over the world in the middle of 2008, had a negative impact on the economy of Indonesia. In an attempt to minimize the negative effect of the GFC, the government issued a Fiscal Stimulus Program (FSP) in 2009 to protect the real sector so that this sector could support economic growth. The government allocated an FSP budget of Rp73.3 billion, which was used to fund a cut in taxation (58.7%), to subsidize taxes and import duties (18.1%), and to provide subsidies for national spending (23.3%). In the context of creating employment opportunities and absorbing workers who had been dismissed from their jobs (PHK), the government allocated the component of the FSP dedicated to subsidies and national spending to expand labor-intensive infrastructure.

In order to observe the effectiveness of the FSP in attempting to reduce the negative impact of the GFC, the SMERU Research Institute, with the support of the Australian Agency for International Development (AusAID) and in cooperation with the National Development Planning Board (Bappenas), undertook a rapid study as part of the Monitoring the Impact of the GFC study, which had been undertaken since July 2009. In this second case study, SMERU studied the impact of the crisis and the role of the FSP in responding to the negative effect of the GFC, with a focus on government spending to increase labor-intensive infrastructure. This qualitative case study was undertaken in the period from January to April 2010. Field visits were carried out in several *kabupaten* (districts) that had received different allocations of FSP funds and were located in two of the provinces that had received relatively large FSP funds, namely, the *kabupaten* of Demak, Sragen, Sukoharjo and Klaten in the Province of Central Java and the *kabupaten* of Gowa, Sinjai and Bulukumba in the Province of South Sulawesi.

### The Impact of the GFC at the National Level and in the Study Areas

On the whole, the impact of the GFC was felt in Indonesia from the third quarter of 2008 until the middle of 2009. Several macroeconomic indicators showed that the rate of growth of the gross domestic product (GDP) in the second quarter of 2009 (4%) was far lower than the figures for the same quarter in 2008 (6.4%) and 2007 (6.3%). This was due, among other things, to the very sharp decline in exports. Export growth in September 2008 had reached 29%. In October 2008, however, it was only 5% and from November 2008 until the second quarter of 2009 it was negative. The direct result was that Indonesia experienced a balance of payments deficit, which in 2008 amounted to around US\$2.2 billion. In the labor force sector, the visible effect was that 17,488 workers lost their jobs, 23,927 workers were threatened with dismissal, and approximately 250,000 Indonesian workers (TKI) were repatriated (as of 12 December 2008). The impact of the GFC can also be seen from other macroeconomic indicators such as the weak rate of growth in investment, depreciation of the rupiah and the rise in the rate of inflation.

The effect of the GFC felt at the national level did not fully occur in the study areas. Qualitative information suggests that the GFC had no effect on the performance of local economies. This statement, however, warrants several qualifications. First, the GFC in fact had no impact on the economies of the study areas because these areas depend more on non-export commodities. Secondly, respondents' perceptions of the impact of the GFC in their areas did not fully reflect real conditions because they were not supported by adequate

information. Thirdly, the impact of the GFC was actually quite small or was not even felt because the crisis lasted for only a relatively short period of time.

## **The Fiscal Stimulus Program Policy**

### **The Aims of the Program**

The Fiscal Stimulus Program (FSP) was intended (i) to maintain the level of purchasing power, (ii) to safeguard the resilience of businesses, and (iii) to create employment and absorb workers who had lost their jobs. In the context of reaching the first of these objectives, the government provided a stimulus in the form of a reduction in personal income tax, an increase in the threshold for tax-free income, as well as the granting of various subsidies. To attain the second objective, the government provided stimulus to the business world through changes to taxation regulations and provided access to a number of subsidies and financing arrangements. To achieve the third objective, the government allocated FSP funds to be spent on labor-intensive infrastructure and the National Program for Community Empowerment (PNPM).

### **Formulation of FSP Policies**

The decision to carry out the FSP was the result of an emergency fiscal policy. For that reason the background, formulation, and execution of the FSP did not fully conform to the normal formulation mechanism adopted in routine budgeting. In view of the fact that Indonesia is a member of the G20, formulation of an FSP policy cannot be separated from the consensus and the range of strategic steps that had been produced at meetings of the finance ministers and heads of state within the G20.

### **The Role of State Institutions in Introducing the FSP**

The state institutions directly involved in introducing the FSP were the Ministry of Finance, the Committee for Budgeting in the House of Representatives (DPR), the Ministry for Coordination of the Economy, and various other ministries and institutions. Bappenas as a planning institution was not involved in this process. Bappenas only played a role as the agency monitoring and evaluating the FSP.

## **Implementation of the FSP in Study Areas**

### **Socialization and Allocation of FSP Funds in Study Areas**

Regional governments (*pemda*) and regional government work units (SKPD) at provincial and *kabupaten/kota* levels did not receive specific and formal socialization of the FSP. For that reason, these governments and SKPDs obtained their information from various sources such as news in the mass media, discussions in forums or meetings where the agenda did not include the FSP, and/or communications with related ministries and institutions. The time that it took for the program to reach the *kabupaten* varied between regions, and in fact some regions knew about the program only when it was being or had already been carried out. The difference in the time that it took for information to reach the regions greatly influenced the opportunity for regional governments to put forward proposals, and this in turn influenced the size of the FSP funds that were obtained.

The increase in infrastructure through Deconcentration and Auxiliary Tasks as well as Technical Assistance and Funding varied between provinces and *kabupaten/kota*. All provinces received an FSP allocation but not all *kabupaten/kota* within those provinces obtained funds. In fact, quite a large number of *kabupaten/kota* did not obtain any allocation of FSP funds at all. In Central Java, 13 (out of 35) *kabupaten/kota* did not get an allocation of FSP funds, while in South Sulawesi, 2 out of 22 *kabupaten/kota* did not. The allocation of the FSP funds that were obtained varied in size: in Central Java the amounts ranged between Rp159 million and Rp58 billion, while in South Sulawesi the range was from Rp358 million to Rp60 billion. The size of the allocation of FSP funds to be received by *kabupaten/kota* was decided at a meeting between the Budget Committee of the DPR and the ministries and institutions handling the program and in particular the Ministry of Finance. The size of the allocation was determined by, among other things, the proposals that were put forward, recommendations made by the related agencies (*dinas*) at the provincial level, and the commitment of the regional government to completion of the projects by the end of 2009. In the specific case of the construction of markets, the allocation of funds was also influenced by whether the local government owned the land, the existence of an embryonic market on the proposed location, and the condition of the existing building.

Although the FSP funds were issued in response to the effects of the GFC, decisions about the allocation of funds were not linked to the degree of distress caused by the impact of the GFC. The study areas that did not experience any impact from the GFC actually obtained rather large allocations. This was parallel to the fact that at the time when fund allocations were decided upon, no data was available for the impact of the crisis in each region. For that reason, the view emerged that the allocation of FSP funds to the regions was determined by factors such as the likelihood of their development as regional economic growth center, the existence of underdeveloped areas, and the absence of previous restoration/rehabilitation funds. Other factors that possibly influenced the allocation of FSP funds were the activities of regional government officials in “lobbying”, the speed in presenting proposals, and the existence of support by DPR members.

### **Selection and Implementation of Activities/Projects**

The FSP funds received by the study areas were used for the building of infrastructure that had been decided upon at the central level. Generally, the selection of locations for new infrastructure used a priority scale that took into account the level of usefulness and the extent of damage to the infrastructure in question. The SMERU research team, however, found one case of a project that had been recommended for selection because of intervention by a member of the DPR from the local electorate.

The management of the FSP used a mechanism that had already been established in the implementation of other projects. Even so, there were several aspects that made the FSP projects a little different from others, these being: assistance and consultation with related ministries and institutions and with the Ministry of Finance were carried out more intensively; while the reporting and monitoring mechanism was also more intensive, and; there was a regulation that projects had to be completed during 2009.

The implementation of the FSP in the regions commenced with an open project tender during May–June 2009. The winners of the tender were decided by a committee and were based on the value of the lowest bid. Generally, the winners of the tenders were local contractors because the value of the projects was relatively small ( $\geq$ Rp3 billion). There was also a limited number of winners from provincial capitals. It appeared that there was a tendency for tender winners to be contractors who had previously worked together with related SKPDs. Apart

from the size of the bid, there were other factors that influenced decisions about the tender winners, such as convenience in working together and confidence that the project would be completed on time.

Work on the FSP projects generally began at the end of July or the beginning of August 2009. There was a contract period of 60 to 120 days, depending on the type of project. The beginning of work on the FSP projects was later than on regular projects. All FSP projects in research locations, however, were completed before the end of the 2009 fiscal year. Even though project implementation tended to be hurried and the period of implementation relatively short, it was found from field visits and interviews that in general the FSP funded structures were of good quality because, among other things, monitoring had been quite intensive.

The majority of FSP activities were of a labor-intensive nature, which meant that they absorbed a great deal of the labor force. In fact, up to 385 persons per day were employed in the construction of a central market in Kabupaten Gowa. Nevertheless, in certain activities such as raising the height of river embankments, there was a tendency for heavy equipment to be used, which meant that labor absorption was reduced.

In general, workers received wages that were relatively similar to wage levels in the local area, although in a few cases they were paid a lower wage. Even so, these workers expressed no objections because they were aware that they were constructing facilities for their own benefit. Moreover, in one location members of the community took turns in providing food for contractors. Practices of this kind, although they expanded the concept of mutual assistance, meant that the contractors received a greater profit by putting pressure on communities that could generally be regarded as poor.

## **Benefits of the Program**

For the regions, the direct benefit of the FSP was an increase in the regional government's spending capacity for the development of economic and social infrastructure. The construction, rehabilitation and expansion of infrastructure like roads, bridges, water resources/irrigation, traditional and other markets are major activities in supporting an increase in the capacity and smooth functioning of the local economy, while the improvement of river embankments is of great importance in the prevention or minimalisation of floods. The FSP also attempted to construct a number of storehouses in the context of creating new rural economic institutions through the warehouse receipt system (Sistem Resi Gudang). Through this system it was intended that farmers or intermediate traders could store agricultural commodities then sell them when prices were good and obtain payments that could function as guarantees for loans at banking institutions. However, after several months, during which time several of the storehouses had been built, the warehouse receipt system was still not operating and its function had not been socialized, which meant that the storehouses were not utilized. Besides this, several parties were doubtful about the effectiveness of this system.

The overall infrastructure development required large inputs of labor. By December 2009 the FSP had absorbed 1,072,612 workers nationally. In addition to economic benefits, implementation of the FSP was also able to make a contribution to the increased capacity of regional employees. For example, the FSP managed by the Ministry of Public Works made the use of an electronic system of reporting and monitoring compulsory, which meant that their

regional employees received training in e-monitoring (electronic monitoring). This training was not just important in supporting the implementation of the FSP but also constituted an investment in regional human resources.

Apart from building physical infrastructure, FSP funds were also used for activities to increase the skills of youth groups through training in the operation of computers, embroidering of clothing, and the making of woven handicrafts. The purpose was to develop the skills of participants and to increase job creation opportunities. Nevertheless, the number of participants who attempted to utilize the outcomes of this training remained limited because of the existence of certain constraints.

## **Lessons Learned from Program Implementation**

The allocation of FSP funds to the regions was not linked to the extent of the negative impact of the crisis in the areas concerned. The size of the allocation of FSP funds to the regions was determined more by the proactive attitude of regional officials in putting forward their proposals for FSP assistance to the central government in Jakarta. Besides that, regions in which relations between the executive and legislative bodies were not amicable experienced delays in the withdrawal of funds from the central government as the FSP funding mechanism made it compulsory for projects to be completed in accordance with a tight schedule.

The absence of any linkage between the impact of the crisis and the allocation of FSP funds was also reflected in the lack of stipulations requiring the employment of workers who were living in the vicinity of FSP projects and who had lost their jobs. In the context of the sample regions, the fact that there were no requirements of this kind proved to be an advantage because in practice it was not easy to find persons who had been laid off as a consequence of the crisis. It was even more difficult to attract them to employment as laborers on development projects.

## **Recommendations**

Based on the findings of the study and analysis of the implementation of the PSF, the following are some recommendations for the implementation of similar programs in the future.

1. The government needs to undertake a thorough and comprehensive dissemination of the program to all the relevant agencies at the time the program is launched.
2. A special effort needs to be made to reduce/eliminate the practice of lobbying in determining the allocation of development funds, which, among others, can be done through:
  - a) The creation of an integrated information system on regional socioeconomic conditions that can be used as the basis for determining the allocation of development funds, and
  - b) A formal procedure for the submission of regional proposals to the central government for evaluation should be established, a procedure that balances the costs and benefits aspect of each proposal. Proposals that are rejected and the reason for their rejection should be given to the region submitting the proposal as material to be studied for assisting future proposals.

3. Sanctions should not be given in the form of cuts in the following year's budget but rather addressed directly to the program manager who did not carry out the project in accordance with the agreed rules. This is to avoid adverse effects on the implementation of regional development that still relies heavily on funding from the central government.
4. Disbursement of development funds should be scheduled relatively evenly throughout the year so that the development can be carried out optimally and with care, both in terms of the expansion of public participation and the quality of construction.
5. The PSF management system, such as the online reporting system (using a computer network) and intensive monitoring, can generally be replicated in various national development programs, including the poverty reduction programs implemented by regional governments.



# I. INTRODUCTION

## 1.1 Background

There are indications that the 2008/09 global financial crisis (GFC), which swept over the world from the middle of 2008, had a negative impact on the Indonesian economy in the months that followed. According to the 2009 report from the Bank of Indonesia, economic growth in Indonesia, which in the first three quarters of 2008 had been above 6%, declined in the fourth quarter to 5.2%. To contain the negative effects of the GFC to a minimum, the government issued a Fiscal Stimulus Program (FSP) to protect real sectors in the economy so that it could provide support for continued growth. The FSP was part of fiscal<sup>1</sup> policy to influence aggregate demand which in the short-term was expected to be able to stimulate the economy.

The FSP that was implemented by the government consisted of two main parts, namely, cuts in taxation and an increase in government spending. A tax reduction for households can increase their spending capacity, while for entrepreneurs it means a reduction in operational costs so that production capacity can be maintained and the dismissal of employees (PHK) can be avoided. Additional government spending can increase aggregate consumption expenditure. Economic rotation from the point of view of government spending of this kind can in turn increase the rate of growth of output in various business sectors.

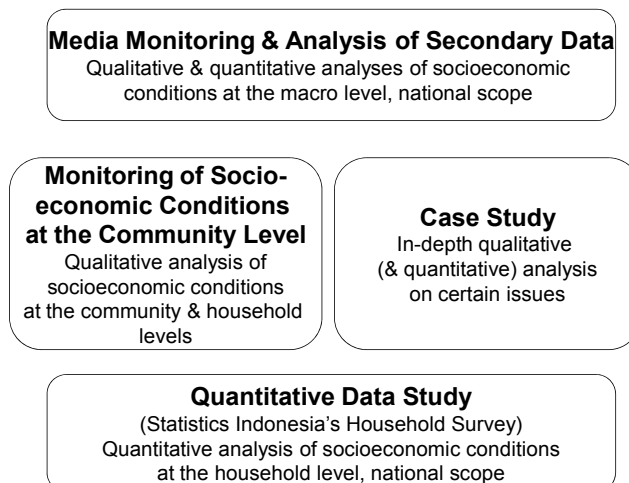
The government began planning the FSP in November 2008 and implementation commenced in 2009, with an allocation of Rp73.3 billion in the 2009 National Budget (APBN). Of these funds, 58.7% involved economizing on the payment of taxation, 18.1% represented taxation and excise duty for which the government was responsible (BM DTP) to the business sector and targeted households, and 23.3% took the form of subsidies and government spending given to the business sector and fields of employment (Badan Kebijakan Fiskal, 2009a; Indrawati, 2009).

The FSP in the form of subsidies and government spending for the business sector or employment was used for various types of activities. In the context of creating employment and absorbing workers who had been dismissed, the government allocated a component of the FSP to increase spending on infrastructure and expand the National Program for Community Empowerment (PNPM). The allocation of additional funds for infrastructure spending was given priority in order to expand labor-intensive infrastructure in several fields. Allocation of FSP funds in the form of government spending to increase labor-intensive infrastructure was channelled through three streams, namely, Central/Vertical, Deconcentration and Auxiliary Tasks, and Technical Assistance and Funding.

To observe the effectiveness of the FSP in reducing the negative impact of the GFC, the SMERU Research Institute, with the support of the Australian Agency for International Development (AusAID) and in conjunction with Bappenas, carried out a study at central and regional levels. This study is one of the components of the Case Studies in Monitoring the Impact of the GFC, which have been undertaken since July 2009 (see Figure 1).

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<sup>1</sup>Fiscal policy refers to economic policy carried out through fiscal instruments like taxes, transfers, or government spending; its objective is to influence macroeconomic indicators such as economic growth and inflation. On the whole, the focus of this policy is domestic goods, households, and companies/private persons/business people (Kusuma, 2009).



**Figure 1. Scope and nature of studies by The SMERU Research Institute in monitoring the impact of the GFC**

A case study was carried out every four months as an in-depth investigation of the problem. Decisions about the study topics were based on discussions with Bappenas and issues related to the crisis. In this second case study SMERU examined the role of the FSP in responding to the negative impact of the GFC, with a focus on government FSP spending to increase the expansion of labor-intensive infrastructure.

## 1.2 Objectives

The objectives of the current case study are:

- to obtain a general understanding of the impact of the GFC on socioeconomic conditions in society,
- to understand the process of FSP policy formulation,
- to follow the process of decision-making in the implementation of the FSP to increase labor-intensive infrastructure,
- to examine the benefits of the FSP in increasing labor-intensive infrastructure for people, and
- to forward reports and recommendations to the government that can hopefully constitute reference material for future policies.

## 1.3 Methodology

The present case study involved a qualitative approach that consisted of in-depth interviews using semi-structured question guidelines. The collection of information and data took place in two stages. In the first stage collection was undertaken directly at the central level in order to obtain an understanding of the policies that formed a background to formulation of the FSP and a general overview for its implementation. The central level agencies that were selected as sources for the study were (i) the Coordinating Ministry for the Economy and the Ministry of Finance as the main actors in the formulation of policy and allocation of the FSP

funds, (ii) ministries/institutions as implementors of the FSP to increase labor-intensive infrastructure, and (iii) Bappenas as the institution that monitored and evaluated the implementation of the FSP for labor-intensive infrastructure.

In the second stage SMERU researchers undertook field visits in two sample provinces to seek information and data about (i) the general impact of the crisis on the socioeconomic situation of the community and (ii) the implementation and benefits of the FSP in expanding labor-intensive infrastructure, especially in connection with overcoming the negative impact of the crisis. In the two research locations respondents, included: people from institutions that carried out the FSP; people from government bodies; persons such as contractors who had undertaken activities and projects, and; those who had benefited from activities and projects (laborers and members of communities living around the projects themselves).

Research locations were selected in a purposive way, based on considerations of regional divisions within Java (represented by the Province of Central Java) and outside Java (represented by the Province of South Sulawesi). More specifically, these two provinces were chosen because they had both received large allocations of FSP funds. In the two regions the team identified informants who had managed funds and received benefits from various FSP activities in situations where funding had passed through the Central/Vertical, Deconcentration and Auxiliary Tasks, and Technical Assistance Funding mechanisms. The research location in the Province of Central Java took place in the *kabupaten* of Sragen, Demak, Sukoharjo, and Klaten. For the specific purpose of looking at the Central/Vertical FSP, a visit was also made to the office of the Bengawan Solo Project. In the Province of South Sulawesi, the *kabupaten* that were the focus of the study were the *kabupaten* of Gowa, Sinjai, and Bulukumba. To obtain information about the Central/Vertical FSP, the team also conducted interviews at the Flood Control Project Office and the Office for Human Resources Development in Makassar. Field visits took place in February 2010 in Central Java and in March 2010 in South Sulawesi.

## 1.4 Structure of the Report

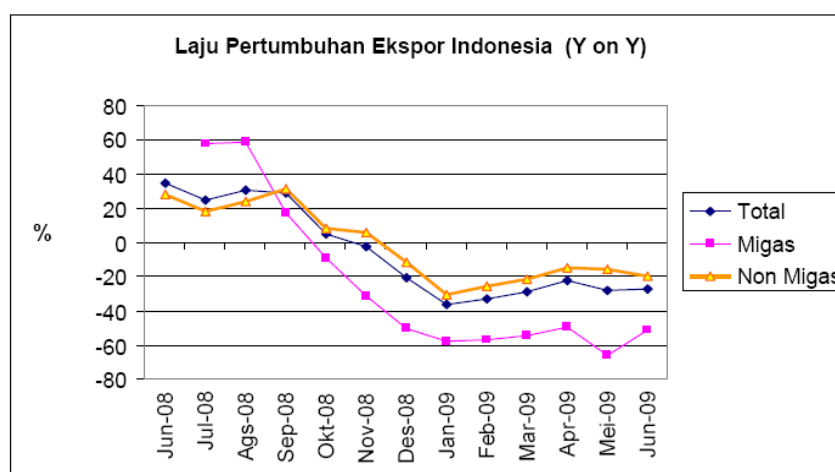
This report is divided into five chapters. Chapter one, consists of the introduction, and gives a brief description of the background, objectives, and methodology of the study. Chapter two presents a general picture of the impact of the global financial crisis on the Indonesian economy and the effects in the study regions from the end of 2008 until the middle of 2009. Chapter three, consists of a short presentation on the overall FSP program, and describes the dynamics of the decision-making process in determining the FSP, and the role of state institutions in this process. Chapter four provides information about the process whereby regional governments obtained an allocation of FSP funds, the types of activities that were funded, the mechanism for implementation of the FSP in the study areas, and the achievements of the FSP in reducing the negative impact of the crisis and the effects on community livelihoods in general. Chapter five presents lessons learned from the FSP, especially those relevant to the decision-making process and its implementation. Chapter five also offers recommendations for program executives and decision-makers.

## II. A GENERAL PICTURE OF THE SOCIOECONOMIC IMPACT OF THE GLOBAL FINANCIAL CRISIS OF 2008/09

### 2.1 The Impact of the Global Financial Crisis at the National Level

As a country whose economy is small and open in nature, Indonesia cannot escape the influence of the dynamics of the global economy. The Global Financial Crisis (GFC), symptoms of which began to be felt in the middle of 2008, had an impact on the performance of the Indonesian economy in 2008 and 2009. On the whole, the GFC caused the rate of economic growth to slow down. Signs of the effects of the crisis started to be felt in the third quarter of 2008, when the rate of growth was only 6.1%, which was lower than in the third quarter of 2007 when the rate was 6.5% (BPS<sup>2</sup>, 2009). Even so, Indonesia's economic growth in 2008 was still quite good on the whole, as it reached 6.06% (Fakultas Ekonomi Universitas Indonesia, 2009).

With the beginning of 2009, there were still no signs of recovery in the Indonesian economy. In fact, the rate of growth of the gross domestic product (GDP) continued to decline. In the second quarter of 2009, the growth rate of GDP *Y on Y* reached only 4%, which was far below the 2008 and 2007 values for the same quarter, which were, 6.4% and 6.3% respectively. In 2009, the overall effect of the GFC was estimated to have been responsible for restricting growth in the Indonesian economy to only around 4.4% (KompasBisnis.com, 2010). Even so, at that time several leading economists said that the Indonesian economy would be able to withstand the global crisis because the structure of the economy was not dependent on exports and the country possessed a large domestic market (Kompas, 2009b).



**Figure 2. Rate of growth of Indonesia's exports, June 2008–June 2009**

Source: BPS, 2009.

The decline in the rate of economic growth was the consequence of the slow performance of a number of growth components. One of these components was exports, that is, the export of both oil and gas (*migas*) and non-oil/gas commodities. Figure 2 shows that, beginning in October 2008, growth in exports experienced a sharp decline. In September 2008 the growth of

<sup>2</sup>Referred to as Statistics Indonesia in English.

total exports was still 29% but by October 2008 it had fallen to 5%. This situation of negative growth continued to worsen and from November 2008 Indonesian exports experienced a steady decline. In the first and second quarters of 2009, the negative growth of exports was -19 % and -16%. By comparison with non-oil/gas exports, oil and gas exports underwent an even worse decline. In May 2009, for example, non- oil/gas exports experienced a fall of -16%, while oil and gas exports dropped to -66% of levels prior to the GFC. The fall in oil and gas exports was due primarily to a decline in Indonesia's exports of unrefined oil because world market prices had dropped. For the non-oil/gas sector, the export commodities that underwent a sharp decline were rubber and rubber products, as well as fat and animal/vegetable oils.

The obvious effect of this decline in exports was a fall in the performance of the related industrial sector, which in turn had a spin-off effect on the labor sector. Job losses had already occurred in most export-oriented industries. This was followed by plans for the dismissal of workers in the textile and textile products sectors and in the paper industry and by plans to ask workers to remain at home in the timber and plantation industries. Besides that, the GFC also resulted in the dismissal of some Indonesian overseas workers (TKI) and their subsequent return to Indonesia. This not only put greater pressure on the domestic labor market but also meant a reduction in foreign revenue from TKI earnings, that is, from overseas remittances to their families in Indonesia (Lembaga Penelitian SMERU, 2009).

In the human resources sector, the number of workers who had lost their jobs as of 12 December 2008 was 17,488 persons, while another 23,927 workers were threatened with dismissal. Thus a total of 41,415 persons had already lost or were about to lose their job. Besides that, 6,597 workers had been asked to stay at home and plans had been made for another 19,091 workers to do the same; the total amounted to 25,688 employees. At the same time the number of TKI who were sent home was quite large; it involved 250,000 workers, most of whom had been employed in sawit oil palm and rubber plantations in Malaysia (Djaja, 2009).

In addition to the impact on the labor sector, the fall in exports also influenced the balance of payments. According to Bank of Indonesia estimates, Indonesia experienced an overall deficit of around US\$2.2 billion in the 2008 balance of payments. Another factor that helped to create this large deficit was the rather large amount of foreign capital that left the country, that is, capital outflow, especially in the market for State-issued Bonds (Surat Utang Negara, SUN) and Bank of Indonesia Certificates (SBI). Besides that, the factor of negative sentiment towards the condition of the global financial market also caused foreign investors to dispose of their financial assets to the point where the shift in financial balance and capital produced a deficit (Sekretariat Negara Republik Indonesia, 2009).

A picture of the negative impact of the GFC on the Indonesian economy can also be gained from the weakening that occurred in the rate of investment. Liquidity in the global market, which was becoming steadily weaker, causing competition in the withdrawal of foreign capital investments to become increasingly tight. Furthermore, the fall in the share price index in 2008 reduced the level of confidence among foreign investors. The national daily newspaper *Kompas* (2009a) noted that in the first quarter of 2009 investment grew at only 5.3%, which was lower than in the first quarter of 2008, which reached 6.2%. It was estimated that in 2009 growth in investment overall would fluctuate between 5.0% and 5.9%. The decline would occur mainly in foreign capital investments and portfolio investments. Nevertheless, this decline would be compensated for by government investment in the form of spending on capital goods, which would rise in parallel with the government policy of providing fiscal stimulus to the economy. The interest rate, which was tending to fall, would also help to prevent further weakness in investments (Sekretariat Negara Republik Indonesia, 2009).

In the monetary sector the GFC had already caused the exchange rate of the rupiah to depreciate as a consequence of the increasingly limited supply of US dollars. Figure 3 reveals that in August 2008 the value of the rupiah against the US dollar was still at a level of Rp9,149 but by November 2008 it had fallen to Rp11,711. In fact, in the last week of November 2008, it reached Rp13,150, which was its lowest value in the previous ten years (*Koran Tempo*, 2008). In the months that followed, up until April 2009, the exchange rate of the rupiah fluctuated between Rp11,025 and Rp11,853 (Sekretariat Negara Republik Indonesia, 2009).



**Figure 3. Movements in the exchange rate of the rupiah in terms of the US dollar, January 2008–April 2009**

Source: Sekretariat Negara Republik Indonesia, 2009.



**Figure 4. Rate of inflation in Indonesia, January 2008–April 2009**

Source: Sekretariat Negara Republik Indonesia, 2009.

Besides pressure on the value of the rupiah, the monthly level of inflation continued to undergo a rise during 2008. In January 2008, inflation was at a level of 7.36% and continued to increase until it reached its highest point of 12.14% in September 2008 (Figure 4). The increase in inflation in 2008 was the consequence of a jump in the prices of various commodities, in particular oil, which forced the Indonesian government to increase the price of subsidised fuel (BBM). After this period, inflation fell as a result of a drop in prices on the international market. Domestically, the most important factor influencing a fall in the inflation rate was the government policy, adopted in December 2008, of reducing the price of certain kinds of fuels (diesel and premium petrol), as well as the relatively high level of production of domestic food commodities. In April 2009 inflation in Indonesia was at a level of 7.31%. In the January–December 2009 period, the inflation rate was only around 2.78%. This figure was the lowest it had been in the last decade. Several factors were responsible, among them the effect of a global economic contraction, which meant that demand for certain Indonesian products declined (*Republika*, 2010).

In the financial sector the impact of the GFC began to be felt in September 2008. One indication, amongst others, was the fact that the banking sector began to put the brakes on the expansion of credit, especially where credit for long-term projects, foreign currency credit, and consumption credit were concerned (*Kompas*, 2008). Nevertheless, the impact of the GFC on the banking sector was not overly serious because at that time no increase occurred in the already high interest rate, and there was no rescheduling of unserviced loans and no rush or large-scale withdrawal of money. Thus, although a tightening up occurred in the channelling of credit, the amount of credit actually experienced a growth of 10.6% in 2009 (*Kompas*, 2010a).

## 2.2 Perceptions in the Study Areas of the Impact of the GFC

The above description shows that the GFC had a negative impact on the performance of the Indonesian economy. Nevertheless, the macro effects of the GFC in reality did not feature in the study areas. The information collected from a number of respondents, in particular qualitative information sourced from the regional bureaucracy, business people, and the community, revealed that the GFC had no effect on the performance of the local economy or at the very least its impact was not as serious as had been reflected in the macroeconomic indicators. “The economic situation in the region at the end of 2008 and the beginning of 2009 was regarded as normal, even though some people said that there was an overwhelming crisis,” said an official from the Government of Kabupaten Gowa (interview, male, 1 March 2010).

In any response to this view, at the very least, two aspects warrant noting. First, the GFC in fact had no impact on the economies of the study areas. The level of economic growth in the *kabupaten* of Gowa, Sinjai, and Bulukumba in 2008 and 2009 was above the level of national economic growth (Table 1). Besides indicators of economic growth, the resilience of the economy in the three sample *kabupaten* specifically, and in the Province of South Sulawesi generally, revealed that the figures for unemployment actually declined during the crisis period. According to an official from the Makassar Institute for Expansion in Labor Productivity (BPPTK), the unemployment figure actually fell by 34% from around 360,000 persons to around 269,000 during the 2008–09 period (interview, male, 2 March 2010). Based on this fact, the official concerned said that the impact of the GFC went no further than “causing fear” on paper because it often became the main news item in the mass media. In reality, at least in the case of the Province of South Sulawesi, this news-inspired fear was not felt. Officials in the study areas, in both Central Java and South Sulawesi, also said that they

did not experience any effects from the GFC. In their opinion, the reason for this was that these areas are food production centers, in particular rice farming, which at the time of the crisis came under no pressures in terms of either price or demand.

**Table 1. National Economic Growth and Economic Growth in Study *Kabupaten* in the Province of South Sulawesi**

Region	Economic Growth (%)	
	2008	2009
National	6.06	4.4
Study <i>Kabupaten</i> in South Sulawesi		
<i>Kabupaten</i> Gowa	6.92	>national figure
<i>Kabupaten</i> Sinjai	7.45	7.31
<i>Kabupaten</i> Bulukumba	8.06	8.14

Source: Interviews with government officials in each *kabupaten*, March 2010.

Secondly, respondents' perceptions of the impact of the GFC in their region did not fully reflect the situation at that time. This occurred because respondents did not have the support of the most recent data and valid information about the socioeconomic situation in their region. Their perceptions were based only on their own superficial observations or experiences. A government official in Kabupaten Demak, for example, said that the GFC had had a negative impact on the economy of his region (interview, male, 9 February 2010). In support of their opinions, respondents could give no empirical evidence but instead just said "that there had definitely been an impact from the crisis. If there had been no impact from the crisis, we would certainly not have received the fiscal stimulus funds." Another government official in Kabupaten Demak said that the dismissal of workers had already occurred in a number of factories located in the region. The indicator that was used by respondents to indicate the existence of dismissals was also not of an official nature. As one respondent said, "the number of workers riding their bicycle to the factory seems to be less" (interview, male, 10 February 2010).

A government official in Kabupaten Sragen stated that several factories in Sragen, like textile factories and factories producing livestock feed, experienced a drop in production because of the GFC. Nevertheless, this reduction in production did not lead to the dismissal of workers (interview, male, 12 February 2010). Several other government officials in the *kabupaten* of Sragen, Klaten, and Sukoharjo assessed that the GFC had had no impact on the local economy. In addition, entrepreneurs operating in the field of construction work as well as community members who were respondents in the survey declared that the GFC had not exerted any negative effects on local economic conditions. According to their observations and experiences, no obvious changes took place in any aspect of the regional economy during the 2008–09 period. In fact, some respondents found it strange that such a question should be asked about the local impact of the GFC as the primary economic activities in these regions are based on the cultivation of food crops. Therefore it was logical that local people did not feel any impact from the crisis. As already stated above, the GFC had a greater effect on economic sectors that had linkages to international markets.

The relatively small impact of the GFC, which in some cases was not felt at all, was also due to the fact that the period of crisis lasted for a relatively short time. Therefore, at the moment when transmission of the impact of the GFC had not had time to reach the local economy, the global and national economies had already undergone recovery.



## III. POLICIES OF THE FISCAL STIMULUS PROGRAM

### 3.1 Government Response through the Fiscal Stimulus Program

In an attempt to reduce the impact of the GFC, the government launched a countercyclical economic policy to anticipate various unfavorable possibilities that could disrupt economic growth, levels of unemployment, and efforts to reduce poverty. In less than three months, from November 2008 to January 2009, when a number of fundamental economic indicators pointed to a tendency for the situation to become worse, the government prepared and proposed a Fiscal Stimulus Program (FSP) worth Rp73.3 trillion or 1.4% of GDP to the House of Representatives (DPR) (see Table 2). The DPR officially gave its approval on 24 February 2009 by signing a summary of a working meeting of the Government of Indonesia (RI), which was represented by the Minister for Finance and the Budget Committee of the DPR.

**Table 2. Components and Allocation of Funds for the Fiscal Stimulus Program in Indonesia**

Description	Allocation of FSP Funds	
	Total (trillions of rupiah)	Percentage of GDP (%)
<b>1. Tax Reductions</b>	<b>43.0</b>	<b>0.8</b>
➤ Reduction in tariffs from income tax	32.0	
• Reduction in tariffs for PPh <sup>a</sup> companies	18.5	
• Reduction in tariffs for private individuals	13.5	
➤ Increase in PTKP <sup>b</sup> to 15.8 million rupiah	11.0	
<b>2. Tax subsidies-BM DTP to the Business World/RTS<sup>c</sup></b>	<b>13.3</b>	<b>0.26</b>
➤ PPN <sup>d</sup> oil/gas explorations/frying oil	3.5	0.07
➤ Import duty on raw materials and capital goods	2.5	0.05
➤ PPh for employees	6.5	0.12
➤ PPh on thermal energy	0.8	0.02
<b>3. Subsidies + State Spending to Business World/Employment</b>		
➤ Reduction in the price diesel fuel	<b>17.0</b>	<b>0.29</b>
➤ Discount on electricity tariffs for industry	2.8	0.05
➤ Additional spending on infrastructure + subsidies + PMN <sup>e</sup>	1.4	0.03
➤ Expansion of PNPM	12.2	0.20
	0.6	0.01
<b>Total</b>	<b>73.3</b>	<b>1.4</b>

Source: Badan Kebijakan Fiskal, 2009a; Indrawati, 2009.

<sup>a</sup>Income tax

<sup>b</sup>Non-taxed income

<sup>c</sup>Target households

<sup>d</sup>Value added tax

<sup>e</sup>Inclusion of state capital

The fiscal stimulus policy did not provide additional capital support for targets directly, but it stimulated the economy through tax cuts and increases in government spending, which in turn were expected to increase the rate of growth of products in various business sectors. In the 2009 Budget (APBN) the FSP funds were aimed at (i) maintaining the purchasing power of the community and even enabling household consumption to continue growing, (ii) safeguarding the resilience of the business sector, and (iii) creating employment and absorbing workers who had been dismissed from their jobs through a policy of building infrastructure in a labor-intensive way.

### 3.1.1 Maintaining and Increasing the Community's Purchasing Power

To maintain and increase the people's purchasing power, the government provided a fiscal stimulus package in the form of a reduction in the income tax paid by private individuals and an increase in the threshold below which income was not taxable (PTKP). This was accompanied by the provision of a number of subsidies (Table 3). The fiscal stimulus that was given for personal taxpayers consisted of a simplification and reduction in the tax tariffs for each income group and an increase in the threshold (PTKP) from Rp13.2 million to Rp15.8 million. The reduction in personal taxation meant a reduction in payments to the point where real income among the population increased. This was then able to increase the liquidity of the economy and promote an increase in household purchasing power.

**Table 3. Components and Allocation of Stimulus Funds to Increase Community Purchasing Power, 2009**

Description	Allocation (billions of rupiah)
<b>A. Taxation</b>	<b>24,500.0</b>
<b>1 Reduction in non-oil/gas PPh</b>	<b>13,500.0</b>
Reduction in the PPh for individuals (35% → 30%) and broadening of tariff groups	
<b>2 Increase in tax threshold to 15.8 million Rupiah</b>	<b>11,000.0</b>
<b>B. Spending Subsidy</b>	<b>1,410.0</b>
<b>1. Tax subsidy (DTP)</b>	<b>1,000.0</b>
PPN frying oil	800.0
PPN natural fuel (BBN)	200.0
<b>2. Non-tax Subsidy</b>	<b>410.0</b>
Frying oil	210.0
Generic medicines	200.0
<b>Total Stimulus</b>	<b>25,910.0</b>

Source: Badan Kebijakan Fiskal. 2009a.

From the point of view of spending, the government increased the basic salaries of civil servants (PNS), members of the armed forces (TNI) and police (POLRI) and pensioners by 15%. It also paid 13th-month salaries and gave Direct Cash Transfer (BLT) to 18.2 million target households for two months. This amounted to Rp100,000 per month to each target household. The government also continued its policy of imposing a value added tax (PPN) and retained the tax on frying oil which had commenced in 2008. In 2009 this PPN subsidy was aimed at the sale of bulk quantities of frying oil and plain packaged frying oil.

To reduce the burden on low-income households, the government carried out market operations for frying oil, which it subsidized at Rp100 per kilogram for 18.2 million households through the sale of one liter per month per target household for 10 months. In addition, the government provided a PPN subsidy for non-oil fuel (BBN) so that the price of BBN would be cheaper and be able to compete with non-renewable BBM. It was hoped that the provision of this subsidy would enable the production of BBN to continue to rise to the point where dependence on fossil fuel (BBM) would be reduced. Then, in the context of ensuring availability, affordability, and equitability in the supply of medicines in all regions in anticipation of an economic recession, the government provided a subsidy for the prices of generic medicines. This subsidy was provided for medicines that were most needed by the community, medicines to save lives, essential medicines, medicines for health programs and medicines that were of low economic value but greatly needed in the health service.

### 3.1.2 Safeguarding the Resilience of Companies/the Business Sector

To ensure the survival of companies and the private sector, the government provided a tax stimulus package together with a number of subsidies as well as financing. The tax stimulus package was given in the form of a reduction in the single tariff of tax-paying bodies, while the subsidy took the form of an exemption from the payment of import duties (BM), PPN facilities, tax on the incomes of employees (PPh)-21, reductions in the price of electricity for industry and cuts in the price of diesel fuel (solar). The financial stimulus took the form of inclusion of state capital (PMN) to allow credit for small entrepreneurs (KUR) and export guarantees.

In terms of taxation the stimulus that was provided took the form of a cut in tax payments that originated from implementation of the amendment to the PPh legislation. This amendment changed the sole tariff for tax-paying bodies to 28% in 2009 and provided a 5% reduction in tariffs for companies listed on the Indonesian stock exchange. In addition to this, these bodies also received a reduction in their tax burden in the form of tax incentives for companies that operated in certain sectors of the economy or were located in certain regions of Indonesia. In terms of state spending, the stimulus package consisted of an exemption from the payment of import duties (BM) the value-added tax (PPN) for oil/gas exploration was borne by the government, income tax (PPh) incentives for thermal energy, and PPh-21 facilities for employees, were also the responsibility of the central government. Reductions in the cost of electricity for industry and in the price of diesel fuel along with interest subsidies for clean water companies.

The government provided a facility for import duty paid by the government (BM DTP) to ensure that the need for goods and/or services in the public interest would be met, to promote the manufacturing sector, and to increase the competitiveness of certain domestic industries. The incentive, which took the form of subsidies for import duties (BM), was given to 14 sectors that, among other things, handled raw materials and components for heavy industrial equipment, raw materials and components for the making of small-capacity steam generators, raw milk materials, raw materials and components for the automotive industry, electronic components, and raw material and components for ships and airplanes.

In the context of imports, the PPN subsidy was given to companies involved in oil and gas exploration. It was hoped that with the availability of the PPN subsidy, more companies would invest in the oil and gas industry so that production would increase. In addition, the PPh tax incentive provided by the government was given for geothermal energy in order to increase activities in the utilization of geothermal energy sources so as to generate the electricity needed to meet the steadily growing demand for power.

The government also provided a PPh-21 facility that was intended to prevent the dismissal of workers by companies. The tax that was collected by companies from permanent workers was not deposited in the State Treasury but instead was held by the government so that this money could be used to increase working capital and to finance company operations. To reduce production costs, the government also provided a discount in the charges for electricity for industrial purposes, that is, industries with an installed capacity of between 20 kilo volt ampere (KVA) and 30 KVA, and industries with an installed capacity above 30 KVA. In peak periods the maximum charge was lowered from four times to three times the normal rate for electricity.

To reduce the burden of transportation costs for the community, the government lowered the price of subsidised diesel fuel by Rp300 per liter from Rp4,800 to Rp4,500 per liter on 15 January 2009, which meant that the price of subsidised diesel had accumulatively fallen by 18.2% from the middle of December 2008. It was hoped that, with this drop in the price of

diesel, transportation costs would go down by around 10%. In addition, to facilitate 10 million clean water connections for low-income households, the government provided an interest subsidy on bank loans for clean-water companies.

Besides these measures, a fiscal stimulus was also provided through PMN to PT Asuransi Exports Indonesia to strengthen funds for export guarantees and to Perum Jamkrindo and PT Askindo in the context of increasing funds for the people's business credit program (KUR) guarantees. These KUR guarantees were given for the purpose of increasing the access of micro and small businesses and cooperatives to sources of finance in connection with efforts to promote national economic growth. It was hoped that through PMN the KUR guarantee capacity would be increased.

**Table 4. Types of Activities and the Allocation of Funds of the Fiscal Stimulus Program for Increasing Labor-Intensive Infrastructure**

Program	Allocation (billions of rupiah)
<b>I. Spending on Infrastructure</b>	<b>7,775.0</b>
<b>1. Building of Infrastructure in the Field of Public Works</b>	<b>3,385.0</b>
a. Handling of disasters (including flooding of the Bengawan Solo River)	1,000.0
b. Rehabilitation of networks in connection with food security (South Sumatra, Banten, West Java, Central Java, Yogyakarta, East Java, Maluku, South Sulawesi, and Papua)	600.0
c. Expansion of distribution networks and the construction of treatment plants for drinking water	385.0
d. Acceleration in the settlement of multi-year contracts	1,000.0
e. Irrigation inspection roads in centers of aquaculture ponds	400.0
<b>2. Building of Infrastructure in the Field of Communications</b>	<b>1,325.0</b>
a. Construction and rehabilitation of rail networks	800.0
b. Additional funding for construction of the Kuala Namu Airport	200.0
c. Extension of runways and rehabilitation of airports	145.2
d. Construction and rehabilitation of harbors and wharves at ferry crossing points	179.8
<b>3. Building of Infrastructure in the Field of Energy</b>	<b>1,000.0</b>
a. Construction of main power generators and transmission lines	900.0
b. Self-reliant energy villages (DME)	75.0
c. Drilling for clean water in villages	25.0
<b>4. Building of Infrastructure in the Field of Public Housing</b>	<b>680.0</b>
a. Construction of rental apartments ( <i>rusunawa</i> ) for TNI/POLRI/workers/university students (40 twin blocks)	480.0
b. Construction of special housing (for fishers, in border areas and at sites for processing water resources)	200.0
<b>5. Building of Market Infrastructure</b>	<b>315.0</b>
a. Construction of markets for guidance of street vendors (PKL)/ mikro and small entrepreneurs	100.0
b. Construction of model markets	120.0
c. Construction of markets (synergy and supporting markets)	15.0
d. Construction of economic corridor markets in Yogyakarta, Sragen, Sleman, Solo, Magelang, and Bantul	80.0
<b>6. Construction and Rehabilitation of Road Infrastructure for Farmers and Irrigation at Farm Level</b>	<b>650.0</b>
a. Production roads in centers of plantation production	60.0
b. Farm and irrigation roads in centers of production (animal husbandry and horticulture)	125.0
c. Farm and irrigation roads in centers of food crop production	465.0
<b>7. Increased Training in the Field of Human Resources</b>	<b>300.0</b>
a. Training in skills by the work training center (BLK)	136.0
b. Increased facilities and infrastructure in the BLK	164.0
<b>8. Rehabilitaton of Warehouses for Storage of Basic Foods (rice and corn)</b>	<b>120.0</b>
<b>II. National Program for Community Empowerment</b>	<b>601.5</b>
<b>TOTAL</b>	<b>8,376.5</b>

Source: Badan Kebijakan Fiskal, 2009a.

### **3.1.3 Creation of Employment and the Absorption of Discharged Workers through a Labor-Intensive Policy of Building Infrastructure**

In an attempt to create jobs and absorb workers who had been dismissed from their employment, the government allocated a fiscal stimulus that was used for spending on infrastructure and the PNPM. The allocation of stimulus funds to achieve this objective was to be given priority in the form of development infrastructure that was carried out in a deliberately labor-intensive way in a number of fields (Table 4). Budget allocations for PNPM Mandiri in the 2009 fiscal year were used, among other things, for the implementation of programs/activities contained in the 2008 List of Budget Implementation Form (DIPA) but had not yet been completed by the end of the 2008 fiscal year. The PNPM Mandiri took the form of direct community assistance that consisted of: the Kabupaten Development Program (PPK); the Project for Overcoming Poverty in Urban Areas (P2KP); the Program for Development of Rural Infrastructure (PPIP), and; Acceleration of Development in Underdeveloped and Special Regions (P2DTK). Through PNPM Mandiri a mechanism was formulated in an effort to overcome poverty. It involved community elements from the planning and implementation stages up to the stages of monitoring and evaluation in a participatory, transparent, and accountable way.

## **3.2 The Process of Formulating the FSP Policy**

The decision to implement the FSP led to a policy of an emergency nature. For that reason the background to its formulation and implementation did not fully observe the normal process mechanisms pertaining to routine budgeting. Due to Indonesia being a member of the G20, formulation of the FSP policy was not independent of the various consensus and strategic measures that had been produced at meetings of finance ministers and heads of states within that organization. In this context there were three important aspects closely related to the concept of financial support and FSP components (see Table 5).

First of all, consensus No. 9 of the communique from the meeting of finance ministers and consensus No. 7 from the meeting of the heads of the G20 nations specifically stated that the fiscal stimulus policy constituted an important instrument in reducing the negative impact of the GFC. Furthermore, the FSP policy also represented a means to sustain the momentum of the drop in poverty figures that occurred in achieving the Millenium Development Goals (MDGs) (Badan Kebijakan Fiskal, 2008).

Secondly, G20 consensus No. 8 stated that in terms of economic policy on financing (countercyclical) they called on multilateral financial institutions to apply more flexible schemes for the payment of loans to developing countries that possessed a record of effective fiscal policy measures (Badan Kebijakan Fiskal, 2008).

Thirdly, formulation of the FSP in Indonesia was in accordance with the FSP components produced by the G20 meeting, mainly consensus No. 8. This consensus agreed to examine a number of attempts to increase the accessibility of developing countries in obtaining soft loans, especially those that were needed to pay for labor-intensive infrastructure projects and that favored poor groups.

**Table 5. Linkages between the G20 Commitment and the FSP in Indonesia**

Consensus Related to	Consensus No. 8 Communique of G20 Finance Ministers	Consensus No. 9 Communique of G20 Finance Ministers	Consensus No. 7 Commitment of G20 Heads of State
Formulation of the FSP	●	●	●
Financing of the FSP	●	●	
Components of the FSP	●		

Source: Badan Kebijakan Fiskal. 2008.

Notes: ● = There is a linkage/adjustment

Apart from the linkages with a number of the G20 consensus, what differentiated the formulation of the FSP from that of other policies was the rapid and intensive consultation process between the government and the Budget Committee of the DPR. The following gives a brief outline of the chronology of the consultation process between these two state institutions.

**2 December 2008.** The government held a working meeting with Commission XI of the DPR. In presenting its conclusions from this meeting, Commission XI asked the government to:

- a) take concrete and extraordinary steps that could be carried out through budget instruments and also through a simplification of regulations in several departments in order to protect sustainability in domestic production activities and to anticipate the impact of the GFC, while at the same time ensuring the safety of the national economy; and
- b) carry out anticipatory and real measures because of the possibility of dismissals rising rapidly in 2009, which could occur due to the impact of a decline in production and sales in a range of national industries because of a contraction in domestic and overseas market demand.

**27 January 2009.** As a follow-up to the meeting held on 2 December 2008, on 27 January 2009 the Minister for Finance put forward the government's response to the GFC and its strategic plan through Fiscal Stimulus in the 2009 Budget (APBN). His presentation in front of Commission XI of the DPR covered a number of important matters:

- a) The situation of the world economy was worsening as indicated by the decline in economic growth and in the volume of world trade at the end of 2008. In addition, the capitalization of shares in leading world companies and the domestic money market underwent a sharp correction. The effect was that all countries made revised estimates for their expected economic growth in 2009 (see Table 6).
- b) The state of the national economy had become steadily worse, as a number of indicators revealed: (i) market capitalization of the Indonesian Stock Exchange (BEI) and SUN commercial transactions declined; (ii) since October 2008 the rate of exports and imports had been falling in terms of both value and growth; (iii) the prices of Indonesia's export commodities, like crude palm oil (CPO), rubber and cotton, experienced a significant drop on world markets; (iv) annual growth in taxes like PPN on imports, domestic PPN and non-oil/gas PPh declined; (v) estimates of the impact of open unemployment, if not anticipated, could reach 8.87% by the middle of 2009, an increase of almost one per cent of a basic point by comparison with the figure in the middle of 2008.
- c) The government judged that, in the midst of a non-conducive economic situation, Indonesia would be more prepared to face a global crisis by relying on domestic markets and introducing a countercyclical fiscal policy in the form of the FSP as part of adjustments to the 2009 National Budget.

- d) The Minister for Finance proposed three components for the FSP. They were (i) an economizing of taxation payments to the extent of Rp 43 trillion, (ii) a BM DTP subsidy worth Rp13.3 trillion, and (iii) a subsidy along with state spending to businesses worth Rp15 trillion. The whole FSP had a value of Rp73.3 trillion or around 1.4% of GDP. Table 6 shows that by comparison with a number of other countries, the size of Indonesia's FSP fund was quite large.

**Table 6. Economic Growth and Fiscal Stimulus in Several Countries in 2009**

Country	Economic Growth (%)		Fiscal Stimulus (% GDP)
	Original	Revised	
United States	0.1	-0.8	1.2
United Kingdom	-0.1	-1.3	1.1
China	9.3	8.0	0.6
Japan	0.5	-0.2	1.0
South Korea	3.5	2.5	0.9
Australia	2.2	1.7	1.5
India	6.9	6.0	0.9
Singapore	3.5	-5.0	1.1
Thailand	4.5	2.0	1.8
Malaysia	4.8	0.2	4.4
<b>Indonesia</b>	<b>6.0</b>	<b>4.5–5.5</b>	<b>1.4</b>

Source: Indrawati, 2009.

**23–24 February 2009.** In 23 February 2009, in keeping with Clause 23 of Statute No. 41 of 2008 concerning the 2009 National Budget, the Minister for Finance put forward a proposal for an adjustment to the 2009 National Budget (APBN 2009) to the Budget Committee of the DPR to anticipate an emergency situation<sup>3</sup> due to the negative impact of the GFC. On 24 February 2009 the Budget Committee of the DPR supported an adjustment to the 2009 National Budget with a recommendation for funds amounting to Rp2 trillion for additional spending on the Infrastructure FSP.<sup>4</sup>

With this addition, the total FSP funds reached Rp73.3 trillion, of which Rp 12.2 trillion was allocated to ministries/institutions and the Division for Budget Funding Calculations for spending on infrastructure, subsidies and KUR guarantees. As a follow-up to this plan, the DPR requested that the sum of Rp12.2 trillion be put in the Budget Work Plans of State Ministries/Institutions (RKA-KL) of Year 2009.

**27 February–4 March 2009.** In the context of facilitating the conclusion of the RKA-KL related to the 2009 FSP, the Minister for Finance published Circular (SE) No. SE-812/MK.02/2009 dated 27 February 2009. The contents of this circular were, among other things, (i) the announcement of the size of the allocation and (ii) a request to related ministries/institutions to prepare the RKA-KL. This circular was later revised by the Minister for Finance through Circular No. SE-883/MK.02/2009 dated 4 March 2009.

<sup>3</sup>Clause 23 Paragraph (l) states that an emergency situation occurs if, among other things, the prognosis for economic growth is at least 1% below forecasts, while other macroeconomic prognostic indicators experience a deviation of at least 10% from forecasts.

<sup>4</sup>DPR support refers to a decision contained in the conclusions of a working meeting between the DPR Budget Committee and the government held within 24 hours following the government's proposal.



Several important matters contained in SE-833 were related to technical factors in preparation for the introduction of the FSP, the mechanism for the allocation of FSP funds and sanctions for the inability of regional ministries/institutions to absorb the FSP budget. For the RKA-KL the circular stated that:

- a) each ministries/institutions had to prepare details of spending that had received agreement from the Budget Committee of the DPR by 3 March 2009 at the latest, and
- b) each ministries/institutions had to prepare and forward the RKA-KL and FSP supporting data (TOR,<sup>5</sup> RAB<sup>6</sup> and other supporting data) to the Directorate General for Budgets (DJA) by 11 March 2009 at the latest.

The DJA would then examine the RKA-KL and decide on Budget Units according to Work Units (SAPSK) by 18 Maret 2009 at the latest. It was the SAPSK that then formed the basis for ratification of the DIPA.<sup>7</sup>

In addition to RKA-KL technical matters, point 5 in the SE-883 also stated that ministries/institutions as well as regional, provincial and *kabupaten/kota* governments that were committed to spending for the FSP had to be capable of completing FSP projects within one fiscal year. If they did not complete the projects within one fiscal year, the budget share would be reduced in 2010 on the basis of criteria that had been set by the government and the DPR together (further stipulations about these sanctions were contained in Regulation of the Minister for Finance (PMK) No. 220/PMK 02/2009).

**15 April 2009.** In the process of determining the FSP, a number of ministries/institutions put forward suggestions and changes concerning activities/locations after accommodating the recommendations of the Budget Committee of the DPR. To ratify these changes, the Minister for Finance then sent Letter No. S-214/MK.02/2009 to the Budget Committee of the DPR to obtain agreement.

**Mid-May 2009.** In the middle of May 2009, the Budget Committee of the DPR agreed to all the proposals for changes that the government had put forward, with the exception of those in the field of agriculture. The Budget Committee of the DPR only agreed to proposals in the field of agriculture through a discussion of changes to the 2009 National Budget (APBN-P) on 28 September 2009. The size of the FSP allocation for the Ministry of Agriculture, which had originally been Rp650 billion was changed to Rp260 billion, while the excess of Rp390 billion was transferred to the direct subsidy program for high grade seed, which was worth Rp295 billion, and the direct fertilizer subsidy, which was worth Rp95 billion.

### 3.3 The Role of State Institutions in the Process of Deciding on the FSP

The state institutions directly involved in the process of policymaking concerning the FSP were the Ministry of Finance, the Budget Committee of the DPR, the Ministry for Coordination of the Economy, and a number of ministries/institutions. As a planning body Bappenas was not involved in this process. Bappenas played a role in monitoring and

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<sup>5</sup>*Terms of reference.*

<sup>6</sup>Budgeting plans.

<sup>7</sup>The latest development in the review of the RKA-KL FSP sent to DJA officials in the Finance Ministry was that the first 2009 SAPSK FSP, which was decided upon on 23 March 2009, was for the Ministry for People's Housing, and the last SAPSK, which was decided on 7 October 2009 and 20 November 2009, was for the Ministry of Agriculture (19 January 2010).



evaluation through the Deputy for Evaluation of Performance in Regional Development (EKPD). The following provides a description of the role and function of a number of central-level key institutions that were involved in compilation, stipulation, and implementation of the FSP.

**The Ministry of Finance.** Three actors in this ministry were involved in processing of the FSP, namely, the Minister for Finance, the Ministry's Fiscal Policy Board (BKF) and the DJA. The Minister for Finance played an important role in formulating and deciding on the FSP. In the case of formulation, the Minister for Finance received inputs from the BKF as the institution that formulated the APBN posture. The Minister for Finance also played a role in the consultation process and in decisions about the size of the FSP together with the Budget Committee of the DPR and in issuing regulations to ensure certainty that effective implementation of the FSP would be achieved. This was indicated by the announcement of several ministerial regulations as well as circulars and letters from the Minister for Finance.

The BKF played a role in formulating the posture and components that would be included in the FSP. This was in accordance with the BKF's basic task and functions, namely, policy planning in the economic and fiscal fields and in international financial cooperation (Badan Kebijakan Fiskal, 2009b). In connection with the FSP, the BKF carried out a number of strategic steps such as (i) sifting through the consensus that had resulted from a number of meetings of finance ministers and heads of state that were grouped in the G20 forum; (ii) formulating FSP components and designs in order to be in keeping with the G20 agreements, and (iii) conducting consultations with international financial institutions to obtain inputs about FSP components (interview with an official from the Badan Kebijakan Fiskal, 22 January 2010).<sup>8</sup>

As was explained in SE Menkeu No. 883/MK.02/2009, the DJA played a role in receiving and studying the RKA-KLs. The results of the study then became an SAPSK document and the basis for ratification of the DIPA. In addition, the DJA also played a role in providing assistance for regional officials who were responsible for FSP implementation. This assistance was an important undertaking because program policy implementation and fiscal stimulus activities contained in the 2009 Budget had to be reported in the 2009 Financial Report of the Central Government (LKPP) in a separate report (SE Menkeu No. 883/MK.02/2009).

**The Coordinating Ministry for Economic Affairs (Menko Perekonomian).** The Coordinating Minister for Economic Affairs played a role in ensuring coordination between the ministries/institutions that put forward proposals for activities to be financed by the FSP. At the time when the FSP commenced, the positions of Minister for Finance and Coordinating Minister for Economic Affairs were held by Sri Mulyani Indrawati. This double position made it possible to accelerate the process of deciding on and implementing the FSP.

**Bappenas.** Unlike the regular process of development planning, the process of formulation, and decisions about and implementation of the FSP did not involve Bappenas in an intensive way. This institution did not take part in the planning of the activities and projects that would be funded by the FSP. The role of Bappenas was limited to monitoring and evaluation of activities connected with the FSP (interview, Bappenas official, male, 14 January 2010). Through the EKPD Deputy, Bappenas facilitated routine meetings between ministries/

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<sup>8</sup>In several meetings of G20 finance ministers and heads of state, the head of the BKF included the Indonesian Finance Minister who was represented by the head of the BKF; this person was the chairperson of a working group for the reform of the financial institutions of the twenty G20 countries in London (Badan Kebijakan Fiskal, 2009b).

institutions to discuss the progress of the FSP in program realization and the absorption of labor. Apart from coordinating activities, Bappenas also made visits to the field to see FSP implementation directly. In connection with these monitoring and evaluation activities, the head of Bappenas gave routine reports on FSP developments to the Indonesian president. Bappenas is recorded as making reports on the status of the FSP implementation in May, August, and December 2009.<sup>9</sup> These three reports contained information about budget absorption from the financial point of view and also the absorption of human resources.

**The Budget Committee of the DPR.** The clarification of Clause 23 in Statute No. 41 of 2008 states that every addition to state spending or reduction in state revenue as a consequence of changes in assumptions for economic growth and in the prognosis for other indicators must have the agreement of the DPR. In this context the agreement of the DPR is a decision that is expressed in the final conclusions of a working meeting between the Budget Committee of the DPR and the government; it is to be carried out within 24 hours from the time when the government proposal was received.

The clarification of this clause shows that The Budget Committee of the DPR plays a role in giving its agreement to proposals for changes that are put forward by the ministries/institutions. The Budget Committee of the DPR, which consists of representatives from the various commissions, holds a number of meetings with the Minister for Finance in connection with additional spending on infrastructure and the FSP subsidy. Members of the Budget Committee of the DPR also play a part in making certain that spending on FSP infrastructure has been allocated to the respective regions that have been selected, as was described in the explanation given by a Bappenas official (interview, male, 14 January 2010), a DJA official (interview, male, 19 January 2010) and an official of the Ministry of Trade (interview, male, 12 April 2010).

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<sup>9</sup>Reports on the status of FSP implementation were presented by the Head of Bappenas to the President through letters No. 0130/MPPN/06/2009, No. 0189/MPPN/09/2009, and No. 0019/MPPN/01/2010.

## IV. REGIONAL IMPLEMENTATION OF THE FISCAL STIMULUS PROGRAM

### 4.1 The Process of Obtaining Fiscal Stimulus Funds

The government and the DPR decided to implement the FSP at the beginning of 2009 but regional governments and their work units (SKPD) at provincial and *kabupaten/kota* levels did not receive special, formal socialization about the existence of the FSP. An official from the Ministry of Trade stated that socialization was not done because the FSP was undertaken very hurriedly (interview, male, 12 April 2010). Since there was no socialization, regional governments and their work units obtained information about the existence of the program from a number of different sources such as news reports in the mass media, discussions in forums or meetings with an agenda outside FSP affairs, or communications between the SKPD and related ministries/institutions.

In the Province of South Sulawesi a DPR member who originated from a local electorate participated in providing information about the FSP and specifically the FSP used for improvements in infrastructure through labor-intensive activities (interview with a government official of Kabupaten Sinjai, male, 4 March 2010; a government official of Kabupaten Bulukumba, 8 March 2010). At a forum that was conducted in Makassar at the beginning of 2009, this DPR member collected development proposals that had by chance already been prepared by the majority of *kabupaten/kota* governments that were present.

The absence of any specific, formal socialization of the FSP meant that the program information that was received by the districts and cities varied. From the point of view of “when” local governments received this information, there were time differences, that is, in some cases information was received not long after the program was announced, but in others at the time of the planning process when decisions were made about the allocation of funds or when the allocation of funds had already been decided. There were even regional governments that knew about the existence of the FSP only when the program was already being implemented or else had already been carried out. For example, an official in Kabupaten Sukoharjo said: “I have just heard today that there are fiscal stimulus funds” (interview, male, 16 March 2010). This admission strengthened indications that the distribution of information about the FSP was not widespread.

The time difference in receiving this information influenced the extent of the opportunities that regional governments had in which to put forward proposals; this in turn affected the size of the FSP funds that were obtained. Those that received information after decisions had been made about the allocation of funds or when activities were being carried out had a limited opportunity to put forward proposals, which could mean that they had difficulty in obtaining an allocation. Kabupaten Demak, which obtained information at the beginning from news in the mass media, had plenty of time to prepare and put forward proposals and so it obtained a rather large allocation of FSP funds, namely, Rp58 billion. By contrast, Kabupaten Sukoharjo did not know of the existence of the FSP and so the local government did not put forward any proposals and received absolutely no allocation of FSP funds.

The process of determining the allocation of FSP funds for infrastructure improvement in a labor-intensive way differed from the usual funding system. In the Central/Vertical FSP, the allocation process was not preceded by a special presentation of proposals from a lower level agency. The ministries/institutions at the central level used existing proposals, that is, proposals that had been put forward every year in a routine manner by the SKPD. In the FSP involving Deconcentration

and Auxiliary Tasks and the FSP involving Technical Assistance and Funding, the allocation of funds was generally preceded by the presentation of proposals by *kabupaten/kota* governments. On the whole, the proposals that were put forward were existing development proposals that were the result of annual consultations at the *kabupaten/kota* level. They were based on the outcomes of consultations at village and *kecamatan* levels but had not yet obtained an allocation of funds from either the regional budget (APBD) or the national budget (APBN). These proposals were put forward by the SKPD in the name of the *kabupaten/kota* of South Sulawesi and they were further strengthened by support from a DPR member from an electoral area in that province.

**Table 7. Allocation of FSP Funds for Expansion of Labor-Intensive Infrastructure through Deconcentration and Auxiliary Tasks as well as Technical Assistance and Funding**

No.	Districts/cities	Deconcentration and Auxiliary Tasks	Technical Assistance and Funding	Total
1	Aceh	10,059,930	20,000,000	30,059,930
2	North Sumatra	43,122,237	195,000,000	238,122,237
3	West Sumatra	25,205,638	60,000,000	85,205,638
4	Riau	11,157,060	20,000,000	31,157,060
5	Jambi	5,379,610	152,500,000	157,879,610
6	South Sumatra	10,325,998	129,000,000	139,325,998
7	Bengkulu	13,719,558	163,000,000	176,719,558
8	Lampung	11,627,011	50,000,000	61,627,011
9	Bangka Belitung	11,173,112		11,173,112
10	Riau Archipelago	11,952,990		11,952,990
11	Jakarta Special Area	3,199,742		3,199,742
12	West Java	64,334,161	119,000,000	183,334,161
13	Central Java	141,177,190	72,000,000	213,177,190
14	Yogyakarta Special Area	12,803,331	3,000,000	15,803,331
15	East Java	79,816,965	155,000,000	234,816,965
16	Banten	8,407,865	60,000,000	68,407,865
17	Bali	12,631,591		12,631,591
18	West Nusa Tenggara	20,720,110		20,720,110
19	East Nusa Tenggara	18,100,150	181,000,000	199,100,150
20	West Kalimantan	21,976,011	170,000,000	191,976,011
21	Central Kalimantan	3,144,810	65,000,000	68,144,810
22	South Kalimantan	113,574,476	10,000,000	123,574,476
23	East Kalimantan	3,876,031	48,000,000	51,876,031
24	North Sulawesi	23,643,275	45,000,000	68,643,275
25	Central Sulawesi	16,918,380	169,000,000	185,918,380
26	South Sulawesi	110,403,280	458,500,000	568,903,280
27	South East Sulawesi	17,976,337	15,000,000	32,976,337
28	Gorontalo	15,341,586	35,000,000	50,341,586
29	West Sulawesi	7,585,885	53,000,000	60,585,885
30	Maluku	17,726,880	220,000,000	237,726,880
31	North Maluku	9,934,700	115,000,000	124,934,700
32	West Papua	2,604,702	191,200,000	193,804,702
33	Papua	27,243,058	30,000,000	57,243,058
<b>Total</b>		<b>906,863,660</b>	<b>3,004,200,000</b>	<b>3,911,063,660</b>

Source: Peraturan Menteri Keuangan No. 220/PMK.02/2009.

These development proposals should already have been available in each ministries/institutions because every *kabupaten/kota* work unit (SKPD) always presented proposals for project plans to the related ministries/institutions every year. But for various reasons, whenever there was a special program, the regional government was usually asked to show its interest and seriousness in obtaining funds for the program in question through,

among other things, putting forward a special proposal to receive those funds. Generally, *kabupaten/kota* governments presented proposals to obtain FSP funds during January–February 2009. In March 2009 these governments received news about the FSP funds and in May 2009 they officially received certainty about the allocation of funds at the time when the related agencies at the central level announced their DIPA programs.

The allocation of the FSP funds between provinces and *kabupaten/kota* varied. All provinces received an allocation of the FSP funds, but not all *kabupaten/kota* received one. In fact, quite a number of *kabupaten/kota* did not obtain an allocation of FSP funds to improve infrastructure through Deconcentration and Auxiliary Tasks and Technical Assistance and Funding. In the Province of Central Java, of 35 *kabupaten/kota*, 13 did not receive FSP funds, while 22 other *kabupaten/kota* obtained funds but with rather large variations in the amounts that were requested and supplied. The lowest amount was Rp159 million and the highest was Rp58 billion (see Table A1 in Appendix 1). In South Sulawesi only 2 *kabupaten/kota* out of 24 *kabupaten/kota* did not receive funds and 22 other *kabupaten/kota* obtained funds that varied between Rp358 million and Rp60 billion (see Table A2 in Appendix 2).

The SMERU research team did not obtain any official government documents that could explain why allocations of FSP funds varied or what criteria was used in their allocation. Officials in the ministries/institutions that managed the FSP said that the size of the FSP funding that was obtained by *kabupaten/kota* was decided at a work meeting of the Budget Committee of the DPR with the ministries/institutions managing the program at the central level, especially the Ministry of Finance. The size of the allocation of funds for *kabupaten/kota* was influenced, among other things, by the proposals that were presented, recommendations from the related government agency (*dinas*) at the provincial level, and the commitment of the local government to completion of the projects by the end of 2009. In the special case of construction of markets, the allocation of funds was also influenced by whether the local government owned the land and whether there was evidence of an embryonic market on the site. In the case of the rehabilitation and reconstruction of existing markets, another factor was the condition of the current building and whether it was considered to present a danger to traders and to people visiting the market.

Although the FSP was presented as a response to the impact of the GFC, the SMERU research team did not encounter any informants who could give an explanation of the relationship between the allocation of FSP funds and the degree of damage done to the regional economy by the GFC. An official in the Ministry of Trade admitted that the allocation of the FSP funds to the regions did not take into account the extent of the crisis impact because at that time no regional data was available concerning the impact (interview, male, 12 April 2010). In South Sulawesi, which was the province that received the largest allocation of FSP funds, a number of officials in several of the sample *kabupaten* governments declared that the impact of the GFC was not felt in their region. The large allocation of FSP funds that flowed to the Province of South Sulawesi did not correlate with the negative nature of the GFC impact. According to informants, the main reason behind the allocation of a large amount of FSP funds to South Sulawesi was that this province was the center of economic growth for the eastern part of Indonesia. Besides that, according to an official in the Government of Kabupaten Sinjai, the fact that many regions in the Province of South Sulawesi were still classed as underdeveloped was also an important factor that caused the central government to allocate large amounts of FSP funds to this region (interview, male, 4 March 2010).

There are no proposal documents, either recommendations or reports on activities funded by the FSP, that give attention to the relationship between the FSP and the GFC (Dinas Sosial,

Tenaga Kerja, dan Transmigrasi Kabupaten Bulukumba, 2010; Dinas Pekerjaan Umum, Perumahan, dan Energi Kabupaten Demak, 2009; Dinas Perindustrian, Perdagangan, dan Penanaman Modal Kabupaten Sinjai, 2009). An official from the Kabupaten Sinjai local government, however, saw some connection between the FSP funds and general allocation funds (DAU). This official said that the existence of the FSP funds could “safeguard” the DAU<sup>10</sup> (interview, male, 4 March 2010). Official explanations by other regional governments about the FSP stated that the FSP constituted a government commitment to encourage implementation of regional autonomy and fiscal decentralization policies by allocating budget transfers to the regions in the APBN. These funds were allocated to certain regions for the purpose of helping to finance specific activities that were the affair of respective regions in accordance with national priorities (Dinas Pekerjaan Umum, Perumahan, dan Energi Kabupaten Demak, 2009).<sup>11</sup> So it can be said that the background to the central government’s provision of FSP funds, as explained in Chapter III of this report, consisted of the absence of sound socialization to the officials responsible for managing and carrying out FSP activities in the regions.

Kabupaten Bulukumba was one region that received only a small amount of FSP funds. According to an official from the Kabupaten Bulukumba local government, the FSP funds that they received were in actual fact the “spill-over” from Kabupaten Bantaeng (interview, male, 8 March 2010). Two thirds of the districts that were research locations in the Province of South Sulawesi received FSP funds in rather large amounts. Both the *kabupaten* of Gowa and Sinjai received Rp60 billion and Rp34 billion respectively, whereas Kabupaten Bulukumba only received Rp358 million (see Table A2 in Appendix 2), despite the fact that its socioeconomic conditions were no better than those in the other two *kabupaten*. A government official from Kabupaten Bulukumba suggested that this low allocation of FSP funds was due, among other things, to the lack of good relations between the executive and legislative bodies in this region (interview, male, 8 March 2010). Several development activities that had received funds from Jakarta had been the source of debate between the executive and legislative bodies for many years. A situation of this kind was obviously an obstacle for central government officials as they weighed up considerations about the allocation of the funds that were available for the region, especially since the FSP funds were given for activities that had to be completed by the end of the fiscal year.

Kabupaten Klaten was one of the regions that did not receive an allocation of the FSP funds. In discussion of this case, an official from the Kabupaten Klaten local government explained that as a consequence of the big earthquake in 2005, for the last three years (2006–08), Kabupaten Klaten had received a lot of money for restoration and rehabilitation/reconstruction from the government and from private organizations, both domestic and international: “For that reason it can be understood why our region did not receive an allocation of the FSP funds in 2009” (interview, male, 17 March, 2010).

Apart from these, there is indication of other factors that influences the allocation of the FSP funds. One of these was proactive activities on the part of regional government officials in the form of “lobbying” to obtain an allocation of development funds from the central government. Many regions undertook continuous efforts to obtain development funds through any kind of program at the central level. Besides presenting development proposals

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<sup>10</sup>The meaning is that the regional government could utilize the DAU more freely.

<sup>11</sup>This explanation is more or less the same as that given for specific allocation funds (DAK) (see Government Regulation No. 55 of 2005 and Usman et al., 2008). This explanation is also similar to the Funds for Strengthening Fiscal Decentralization (DPDF) and Accelerating Regional Development (PPD) (see Regulation of the Minister for Finance No. 42/PMK.07/2009). In 2009, in addition to allocating fiscal stimulus funds, the central government also allocated DPDF funds.

at the beginning of the year, which was a routine activity for all regional governments, they also put forward suggestions or merely asked about the allocation of development funds for their region at every forum or meeting or when they came specially to the related ministries/institutions. At the time when the FSP was launched, a number of regions undertook specific efforts that were quite extensive to obtain FSP funds.

The strong influence of “lobbying” in decision-making about the allocation of development funds like the FSP was admitted both explicitly and implicitly by a number of officials in the study areas. According to an official in the Government of Kabupaten Bulukumba, central government officials would be reluctant to give funds if they were not familiar with the persons to whom the funds were to be given (interview, male, 8 March 2010). Another official in the Kabupaten Bulukumba local government who knew about the FSP through contact with central government officials said that his section did not receive the FSP because he was not willing to give a “fee” (interview, male, 8 March 2010). “If a region wants to progress, we have to “attack” there (at the central level). If necessary we have to establish an office there [in Jakarta],” stated an official of the Kabupaten Demak local government (interview, male, 10 February 2010). In another explanation of efforts to obtain funds from Jakarta, a government official from Kabupaten Klaten said that there were two other important requirements, the first being that the “region had to be clever” (willing to undertake all sorts of methods) and the second being that there had to be “someone from the region who had become an important person” in Jakarta (interview, male, 18 March 2010). An official from the Ministry of Trade stated that a visit or a direct request by a regional official also helped to determine the selection of the region as the location for various programs, including the FSP, especially if it was supported by a commitment to provide accompanying funds from the APBD. This shows the seriousness and enthusiasm of the relevant regional governments in carrying out programs (interview, male, 12 April 2010). In connection to this, an article in the daily newspaper *Kompas* (2010b) stated that in the field there was “competition” between lobbies to determine budget allocations without any clear guidance from budgetary politics. In the same article, a former official of the central government, Ginandjar Kartasasmita, declared that lobbying of this kind still exists. The party that was strongest in lobbying obtained the largest share of the FSP funds.

Speed in presenting proposals also influenced the allocation of funds because the gap that was available between the decision concerning FSP implementation and the determination of fund allocations was relatively short. It was possible that regions that were not accustomed to strong “lobbying” and that did not put forward a special request to obtain the FSP before fund allocations were agreed upon, did not receive any allocation at all. A number of study areas that had not received FSP funds admitted that they had not made any special efforts or else had not put forward proposals to obtain an FSP allocation. Other study areas that had received relatively small amounts of these funds explained that they had the opportunity to put forward only a few suggestions. These two matters occurred mainly because the regional governments were late in receiving information about the existence of the FSP.

A member of the DPR made an attempt to explain about the FSP to a meeting of representatives from all the regional governments of South Sulawesi. At the same time he collected project proposals, which helped to influence the size of the FSP funds obtained by *kabupaten/kota*. In actual fact, the Province of South Sulawesi was the recipient of the largest amount of FSP funds, namely, Rp569 billion,, while the second largest recipient was the Province of North Sumatra, which ranked far below this figure and obtained only 42% of the funds received by the Province of South Sulawesi (see Table 7). The size of these funds was made possible because the process of determining regional funding allocations was done through discussions with the ministries/institutions, in particular with the Ministry of Finance

and with the Budget Committee of the DPR. A number of officials from one of the study *kabupaten* in South Sulawesi that had received a relatively small allocation of the FSP funds, admitted that at the time when the meeting was held just several weeks before decisions were made about the allocation of funds, they were present but had not brought any proposals with them. They later tried to send the development proposals that were already prepared, but apparently this was too late because they arrived too close to the time when funding allocations were decided.

## 4.2 Selection and Implementation of Activities/Projects

Those agencies responsible for managing the FSP funds for the building of infrastructure consisted of a number of ministries/institutions. In the study *kabupaten* the FSP for Deconcentration and Auxiliary Tasks was provided through three ministries/institutions, namely, the Ministry of Trade, the Ministry of Cooperatives and Small and Medium Businesses (UKM), and the Ministry of Labor and Transmigration, while the whole of the FSP for Technical Assistance and Funding was provided through the Ministry for Public Works. Those who implemented the FSPs for Deconcentration and Auxiliary Tasks and the FSPs for Technical Assistance and Funding were the related SKPDs within *kabupaten/kota* governments, while those that implemented the Central/Vertical FSP were institutions at the provincial level or *kabupaten/kota* that structurally were agencies directly under the executive ministries/institutions. In accordance with the executive ministries/institutions, those who implemented the FSP in the study *kabupaten* were the Public Works Agency, the Trade Agency, the Cooperatives and UKM Agency, and the Social Affairs, Labor and Transmigration Agency.

The selection of projects and activities to be funded by the FSP was based on general and special criteria or criteria for the preparation of activities (Circular of the Ministry of Finance No. 883/MK.02/2009). General criteria consisted of (i) the possibility of creating a significant number of jobs, (ii) quick results from projects that could be completed in 2009, (iii) fulfillment of Inpres No. 5 of 2008 concerning the Focus of Economic Quota Programs for 2008–09, (iv) improvement of the infrastructure network so that it could be more efficient, and (v) inclusion as a part of the government's strategic plans. Special criteria covered (i) the existence of a design or else the capacity to prepare a design quickly, (ii) the absence of any problems concerning land ownership, and (iii) certainty that the budget could be absorbed in 2009.

The FSP funds received by the study *kabupaten* were used for a variety of infrastructure development activities that had already been determined at the central level. The Ministry of Trade, for example, used FSP funds for the building and expansion of distribution infrastructure in the form of markets at the *kabupaten* level and for development of the warehouse receipt system (Sistem Resi Gudang), while the Ministry of Cooperatives and Small and Medium Businesses used these funds to improve market facilities by constructing or rehabilitating traditional markets at the village level. The Ministry of Labor and Transmigration used FSP funds to consolidate programs for employment creation in the form of labor-intensive infrastructure and the empowerment of labor through the application of appropriate technology. The Ministry of Public Works used the Technical and Funding Assistance FSP funds for bridge and road maintenance in *kabupaten* and *kota*, the construction, improvement and rehabilitation of infrastructure related to water resources for the irrigation of agricultural land and for fisheries, the provision and maintenance of drinking water infrastructure and the development of urban and rural housing areas in the form of local and village roads, while the Central/Vertical FSP was used, among other things, for the building of sea wharves, the rehabilitation of irrigation networks and flood control.



The locations of these undertakings were discussed at the central level based on the suggestions presented by *kabupaten/kota* governments. These discussion forums which were also referred to as assistance forums were conducted after the decision had been made about which *kabupaten/kota* were to receive FSP funding. Assistance was carried out by *kabupaten/kota* governments with the related ministries/institutions to discuss budget work plans (RKA). It was then followed up by involving the DJA in order to complete the RKA.

The *kabupaten/kota* that were recipients of construction or rehabilitation of market place activities usually obtained an allocation for only one or two markets, while the maintenance and improvement of roads usually consisted of several packets of activities for several stretches of road. Generally, in the selection of locations for the building of infrastructure a scale of priorities was used that involved consideration of the extent to which the community used the infrastructure and the degree to which the infrastructure was damaged. The SMERU research team, however, found one case of village road improvement where the original road surface had been replaced by reinforced concrete, which indicated that the location had been chosen because of intervention by a DPR member from the local electoral area who had promised to improve the road in question. This assumption became stronger because funds for construction of this road, according to the type of activity, were designated for the maintenance of roads and bridges in *kabupaten* and *kota*, and not for village roads.

In the case of the use of FSP funds in study areas, the FSP components that were allocated for state spending were not aimed directly at economic or regional aspects that had been subject to the impact of the GFC. Most of the FSP components for state spending were used for the building of infrastructure that had no direct connection with the crisis impact. Even so, almost all of the criteria stated in the Circular of the Minister for Finance No. SE-883/MK.02/2009 (see the explanation at the beginning of Chapter 4.2 ) could be met with the exception of the criterion concerning a significant creation of employment. This criterion was not carried out in all types of activities because in a limited number of cases there were activities that used heavy equipment, such as projects to increase the height of embankments to prevent floods and the repair of asphalted roads.

The FSP was a development program of an ad hoc nature (that is, it was intended for a specific purpose) as an attempt to reduce the negative impact of the GFC. In the substantial sense, the government did not create a new mechanism in the handling of the FSP projects but instead continued to refer to the mechanism that was already available in implementation of other projects of a routine or ad hoc nature. Nevertheless, there were a number of matters that made the FSP projects a little different from other projects.

- a) Before the DIPA reached the regions, there was an intensive system of assistance both between the SKPD and the related ministries/institutions and also between the SKPD, the related ministries/institutions and the DJA. Several SKPD officials in some of the study areas said that the assistance process that was carried out in Jakarta was administratively more complicated than the implementation of certain other kinds of projects. The assistance period was also quite lengthy, that is, it took around six days.
- b) The FSP projects had a reporting and monitoring mechanism that was more intensive than that used in routine projects. The SKPDs prepared a monthly report for the related ministries/institutions. In the special case of projects under the Ministry of Public Works, reporting was done electronically through a system of electronic monitoring (e-monitoring). Although the frequency of visits in the context of monitoring by central or regional levels varied between *kabupaten*, on the whole there was a tendency for visits to be more frequent than in the case of routine projects. Central level agencies that at some stage had carried out

monitoring of the FSP projects in the study areas included Bappenas and the Inspectorate General of related ministries/institutions. Regional agencies from the provincial and *kabupaten* levels that normally undertook monitoring were the Budget Users Authority (Kuasas Pengguna Anggaran/KPA) and the Regional Supervisory Body (Badan Pengawas Daerah/Bawasda). Besides these agencies, in several study areas it was also stated that there were visits from the audit institution: the Agency for Finance and Development Supervision (BPKP).

- c) The regional governments that obtained an allocation of FSP funds had to be able to complete the projects in the 2009 fiscal year. This meant that 100% of the available budget had to be absorbed by the end of 2009. If the regional government was unable to do so, the central government would impose sanctions in the form of a reduction in counterbalance funds in the 2010 fiscal year. This was in accordance with the fifth point in the Circular from the Ministry of Finance No. SE883/MK.02/2009, which stated that fiscal stimulus spending had to be as already stipulated, in keeping with the conclusions of the work meeting which had already declared that budget allocations in 2010 would be reduced based on the criteria that had been set by the government and the DPR together.

In terms of implementation, the FSP projects were the same as other projects. Implementation was commenced by inviting work colleagues who were interested in taking part in project auctions. For this purpose advertisements were placed in the mass media, at both national and local levels. The announcement of auctions was not done simultaneously in all regions because implementation depended on when the DIPA was made available to the regions. In the study areas, both in South Sulawesi and in Central Java, the announcement of auctions was generally done before the DIPA was available, that is, in the period of May–June 2009.

The project auctions were open in nature in the sense that contracting companies, no matter where they were based, had the right to participate, provided that they had the necessary qualifications. In the case of projects whose value was less than one billion rupiah, those who participated were generally local contracting companies (from the same *kabupaten*). In the case of projects worth between Rp1 and 5 billion, in addition to local contractors, project auctions also attracted regional contractors. With projects valued at more than Rp5 billion, national-scale contracting companies, both private and state-owned (BUMN) took part.

Projects or packages of FSP activities in the study locations were generally worth three billion rupiah or less, with the exception of those projects that involved the construction of markets. Although several regions received rather large allocations of FSP funds from the Ministry of Public Works, the funds were divided into a number of relatively low-value project packages. In Kabupaten Demak, for example, funds for the maintenance of *kabupaten* roads and bridges worth Rp17 billion were divided into 15 activity packages, each of which was undertaken by a different contractor.

In accordance with the stipulations that applied, the winners of auctions were decided by an auction committee on the basis of the lowest bid. In general, auction winners who carried out the FSP projects were local contractors. The reason was probably that these projects were relatively small in value. In several study areas, there were also auction winners who came from the capital city of the province. It appeared that there was a tendency for winners to be contractors who had previously worked together with the related SKPD. In these cases, apart from the fact that these contractors had submitted the lowest bids, there was also another factor that exerted influence, such as the convenience of working together and confidence that the contractor would be able to complete the project within the time limit that had been set.

Work on the FSP projects generally began at the end of July or the beginning of August 2009. The contract period usually lasted for 60 to 120 days, depending on the type of project. According to an official in the Government of Kabupaten Sinjai, the commencement of work on FSP projects was later than on regular projects which usually began in June (interview, male, 4 March 2010). With the exception of the construction of a central market in Gowa, all of the FSP projects in the study areas were finished before the end of the 2009 fiscal year. In the special case of the central market in Kabupaten Gowa, work on the part of the building funded by the FSP was already finished. Nevertheless, as a whole the market was not yet completed and therefore could not be used. The reason for this was that FSP funds had been used only for construction of the ground floor, while construction of the two other floors and the finishing stage received financing from other sources of funds.<sup>12</sup>

The FSP projects tended to be carried out hurriedly as the DIPA for these projects was received later than in the case of a regular DIPA. As a consequence, the time for physical construction work was relatively short since projects had to be finished within the 2009 fiscal year. This situation gave rise to concerns about the technical quality of the work. Nevertheless, based on visits to a number of project locations and interviews with several related parties, the SMERU research team concluded that structures using the FSP funds were of good quality. In fact, a traditional market building in Kabupaten Sragen that had been funded by the FSP to the extent of Rp1 billion was considered to be of extremely good quality. The fact that FSP funded buildings were of quite good quality can perhaps be explained by, among other things, the rather intensive monitoring that was conducted during project implementation. Even so, in a number of instances, cases of construction of poor quality were found, such as the construction of a concrete road in one of the study regions in the Province of South Sulawesi. This concrete road had already started to disintegrate even though it had only been completed three months before the visit of the SMERU research team and was now rarely used by vehicles.

One of the objectives of the FSP, especially where labor-intensive building of infrastructure was concerned, was the creation of employment and the absorption of workers who had lost their jobs. In the study areas, no recapitulation of data was available for the number of workers absorbed by all of the FSP projects. This happened because each project manager or SKPD head presented their report directly to the relevant ministries/institutions. Nevertheless, from interviews with officials in a number of SKPDs and also with contractors, former workers and members of communities in project locations, it was found that most of the FSP activities of a labor-intensive nature absorbed quite a lot of labor. In fact, the FSP project was able to absorb up to 385 persons per day in the construction of the central market in Gowa. Nevertheless, some activities, like raising the height of river embankments, tended to involve the use of heavy equipment and consequently employed less labor. The use of labor varied between projects and between stages in project implementation, depending on need. Table 8 gives information about the average absorption of labor in a number of FSP projects in the study areas.

In the case of the absorption of workers who had been dismissed from their jobs as a consequence of the negative impact of the GFC, the SMERU research team did not encounter any special attempts to employ these particular persons. Although people who had lost their jobs were working on the FSP projects, they had not been selected intentionally by project managers just because they had been recently dismissed.

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<sup>12</sup>Construction of the Minasamaupa Central Market in Kabupaten Gowa was financed by a number of funding sources and was carried out over a period of several years. Of the total project funds, which amounted to Rp73 billion, Rp20 billion came from FSP funds, ad hoc funds provided Rp20 billion and APBD funds gave Rp33 billion.

**Table 8. Number of Workers Absorbed in FSP Projects in Research Areas**

<i>Kabupaten</i>	Type of Project	Project Value (millions of rupiah)	Number of Workers (persons)	Duration of Work (days)	Days of Labor (HOK)
Demak	Rehabilitation of irrigation canals	900	80	45	3,600
	Rehabilitation of irrigation canals	384	50	50	2,500
Sragen	Concrete surfacing of local roads	270	20	30	600
	Rehabilitation of village markets	1,000	60	75	4,500
Sinjai	Rehabilitation of village markets	910	45	60	2,700

*Source:* Results of interviews with government officials in each *kabupaten*, February and March 2010.

Although the government did not make any special regulations concerning the implementation of the FSP projects, some of the SKPDs suggested that contractors employ local labor. The meaning of local labor, however, was not clear and as a result there were several interpretations. There were contractors who took local labor to mean workers living in the vicinity of project sites, while others understood it as workers who came from the same *kabupaten* administrative area. Some even understood it to mean workers from neighboring *kabupaten*. In actual practice quite a large number of contractors used workers living near the project sites, especially for heavy jobs that did not require any expertise. This was also due to cost efficiency considerations as local workers did not need transportation expenses.

In all project locations that were visited by the SMERU research team, contractors generally paid workers equal to the level of local wages. However, in a few cases, the amount of money paid to the workers was equal to the local wage level, but they did not get any midday food or cigarettes although this is considered the norm on other jobs.

Besides that, there were contractors who paid wages below the local rate and yet still did not provide any food or cigarettes. Even so, local workers did not object because they were aware that contractors were building facilities that would be in the interest of local communities. In fact, in one location where a reinforced concrete road was being constructed, members of the community, under the coordination of the head of the RT, took turns in providing a midday meal and beverages to the workers. On the one hand, practices of this kind had a positive effect because they encouraged mutual-assistance and awareness, but on the other hand they are negative because contractors can hide behind the excuse that they can pay sub-minimal wages as they are building public infrastructure: obtaining a greater profit because of the assistance given by local people who are generally poor.

The level of wages in the study areas varied between provinces. There was a tendency for South Sulawesi wages, which ranged from Rp35,000 to Rp70,000 per day, to be higher than those in Central Java, where the range was from Rp20,000 to Rp45,000 per day. This was in keeping with differences in the cost of living and local wage levels. Besides that, there were differences in the wages paid to workers in the same location, depending on the type of work and the extent of the worker's expertise.

### 4.3 Program Benefits

For the regions, the FSP constituted an additional source of funds for projects, meaning that the FSP projects were additional and outside the allocation for normal planned projects. In other words, the FSP was a windfall project for the regions. This statement is certainly true because up until that time allocations of development funds for the regions were always far below the amounts needed. Broadly speaking the FSP had two benefits, namely, in terms of fulfilling the need for infrastructure of a long-term nature, and in terms of dealing with a number of short-term economic aspects.

“It is unfortunate that the FSP is to cease,” said an official of the Kabupaten Sragen local government when he learned that this program would only be available for one year (interview, male, 8 February 2010). An official in the Kabupaten Bulukumba local government declared: “We are very grateful for the presence of the FSP” (interview, male, 8 March 2010). “We really used the FSP funds in the interests of the people,” said a core official of the Kabupaten Sinjai local government (interview, male, 4 March 2010). These three examples of statements by regional government officials about the FSP indicate that the regions are still short of the development funds needed to improve services for their communities. Funds for the maintenance of roads at the *kabupaten* level, for example, are on average less than half of what is needed. For that reason the construction and repair of roads are usually done by completing the work bit by bit, whereas through the FSP many regions were able to construct and improve several stretches of road at the same time within a year.

Through the FSP, several SKPDs obtained development funds that amounted to many times the funds that they usually received from the regional budget (APBD). In fact, some SKPDs obtained FSP funds that were more than ten times the budget that they normally received from year to year. For that reason, regional officials in study locations expressed the hope that the FSP would continue to exist in subsequent years. They even wanted larger FSP funds than they had received in the previous year. An official from the Kabupaten Demak local government, for example, recommended that the share of the FSP budget for road infrastructure in the coming year be increased so that a greater length of road could be constructed and a wider section of the community could be reached (interview, male, 9 February 2010).

The following gives details and/or the logical connections of FSP benefits in research areas.

#### a) Increased project efficiency

By comparison with the funding packages for routine projects, the package for the FSP projects tended to be more efficient. Within certain limits the latter was better, in the sense that project funds were sufficient to complete the whole project. This differed from the situation where projects obtained their funds from the routine budget, which was generally so small in value that it was impossible to complete project work within the yearly budget cycle. According to the term used by officials of the Public Works Agency in Kabupaten Demak, work on projects whose funding source was routine funds involved “paying in installments” (interview, male, 9 February 2010). Designs for the implementation of projects of this kind were not efficient because the work required to repair a road 300 meters in length was not completed in one year of the funding cycle. Furthermore, the regional government had to await funds from the next budget. As a consequence, damaged roads that had not yet been repaired became worse, to the point where an even greater amount of funds was needed. Through the FSP scheme, although the funds that were available were not sufficient to improve all bad stretches of road, the selected stretches that were improved tended to be of a greater length and able to take in all sections that

were in poor condition. In the construction of traditional markets and warehouses (*resi gudang*), this was even clearer because the FSP provided sufficient funds for the construction of these facilities until they are ready for use.

#### **b) Repair of economic and social infrastructure**

The main benefit of the FSP for the regions lay not in overcoming the impact of the crisis but rather in the fact that the FSP increased the capacity of the regional development budget. Development plans for physical infrastructure that had not yet received a budget allocation in 2009 or in the following fiscal years could in fact be carried out. One example is the use of the FSP in the construction of markets in Kabupaten Demak. According to information from an official in the Industry and Trade Agency, this was the first time since independence that the region had received a large amount of project funds for market construction in a large amount, namely, Rp13 billion for distribution markets and Rp2 billion for traditional markets. Based on experience, it was clear that such large funding could not possibly be given in the scheme of routine budget allocations (interview, male, 8 February 2010).

#### **c) Increased capacity of the local economy**

The development, improvement and rehabilitation of roads, bridges, water/irrigation resources, markets and traditional markets are important as these constitute the major pieces of infrastructure supporting the capacity and functioning of the wheels of the local economy. Improvement of such infrastructure can increase economic efficiency, for example, through the provision of transportation and distribution facilities that become steadily better and cheaper, access to markets gets easier and selling locations become greater in number and more convenient. In a situation of this kind, both producers and consumers will obtain greater benefits. For example, through the building of roads that facilitate transportation and reduce costs, farmers can obtain certain agricultural inputs more readily and more cheaply, while intermediate traders can reduce the cost of transporting agricultural produce and this in turn can hold down selling prices to consumers. In one project for the development of irrigation water resources, rice-growers in the research location had already felt the benefits. Through this project, water in simple irrigation channels was always available, which meant that farmers no longer needed to rely on pumps that used diesel and so they were able to economize on labor and fuel costs. Since water was always available and was of better quality, they predicted that rice production would rise.

#### **d) Prevention of natural disasters**

In addition to projects that are supporting the economy, the FSP also funded the building of infrastructure to prevent the occurrence of natural disasters, especially floods. The offices of the officials responsible for handling water resources in the Province of Central Java and the Province of South Sulawesi obtained fairly large allocations of FSP funds. These funds were used, among other things, for the building or rehabilitation of flood control facilities and infrastructure such as the enlarging of river embankments. Through such projects, areas that had previously been subject to frequent flooding or that had even once been affected by floods became flood-free.

#### **e) The provision of physical facilities for new economic institutions**

The warehouse receipt system, which constituted a new economic institution in rural areas, was introduced by the Ministry of Trade through the Agency for the Supervision of Trade in

Commodities (Bappebti). Under the warehouse receipt system, farmers or intermediate traders could deposit their agricultural commodities in a warehouse and sell them when prices were high. When they placed their agricultural commodities in a warehouse, they would obtain a statement from the warehouse that could be used as a guarantee to borrow money from a banking institution. In this instance the FSP played a role in the physical building of the warehouses only and was not involved in developing the institutional system. At the time of the SMERU research team's field visit in February and March 2010, the warehouse receipt system had not begun operating and so the warehouses, construction of which had been completed in December 2009, had not yet been utilized. A number of parties who expressed doubt about whether the system would work gave the following reasons for their uncertainty:

- (1) the warehouse receipt system was new but until now there had been no socialization of its use among community members;
- (2) communities, especially farmers, usually found it difficult to change their habits;
- (3) in order to store products in a warehouse, farmers would face labor and transportation expenses, whereas they normally waited for intermediate traders to come to them; and
- (4) in the Province of Central Java in particular, intermediate traders usually also owned rice mills as well as rather large warehouses; some actually had warehouses that were larger than the warehouses built as FSP projects.

#### **f) Increased skills and job opportunities**

The FSP undertakings were not limited to the building of physical infrastructure. The program also contained activities intended to increase skills. This was done through training at the work training centers (BLK), although the proportion was relatively small in comparison with the allocation of FSP funds that were provided. In the study areas, training activities were carried out only in Kabupaten Gowa and Sinjai. The training material that was given took the form of knowledge about how to operate a computer, how to embroider cloth and how to make woven handicrafts. Training was given to those who registered; in the case of embroidery and woven handicrafts, participants had to already have basic sewing and weaving skills. In several instances these activities did not just improve the expertise or skills of participants but also opened up opportunities for the creation of new fields of business. Nevertheless, after several visits with training participants, it was established that not all participants were able to take advantage of the skills that they had obtained. Many of those who had undertaken computer training were still unemployed and so could not put into practice their new skills. Only two individuals from among 16 participants in the embroidery training had made use of their new skills, the reason being that before attending the training they already owned sewing businesses.

#### **g) Absorption of labor**

The FSP projects were a source of business opportunities for many contractors, who at the same time were able to provide jobs. As already explained in sub-section 4.2 above, most of the FSP projects were deliberately labor-intensive activities that absorbed large numbers of local labor. Through this absorption of workers, although it took place within a relatively short period of time, the FSP became a source of community earnings. In the course of FSP implementation, the number of workers absorbed nationally by all the FSP projects had reached 1,072,612 persons by December 2009. This figure for labor absorption was smaller than the target, which was 1,342,926 persons. This happened because, among other things, the share of the budget allocation that was absorbed reached only 93.61% or Rp10,817 billion from the total allocation of Rp11,549 billion (Bappenas, 2010).

#### **h) Increased capacity of regional employees**

In the context of accelerating the process of reporting and monitoring projects in the field, the FSP that was handled by the Ministry of Public Works made use of a compulsory electronic reporting and monitoring system. Regional employees, who had until then been accustomed to using a manual format for reports, received e-monitoring training. This training was important not only in supporting implementation of the FSP but also because it constituted an investment in human resources in the regions. Officials and project managers were of the opinion that an online reporting system or one within networks (monthly) was a system that was simple and uncomplicated but able to provide room to expand the communications network (with central officials) and make the members of the regional apparatus work more effectively and endeavor to finish their work on time. This reporting system helped to make the series of activities in project management easier, such as the cashing of funds and the monitoring of field work. On the whole, the system of reporting and monitoring of FSP projects made the regional managers of the FSP work harder and more carefully, although on the whole the method of managing FSP projects in the field was the same as the management of regular projects that were funded by the APBD or even the APBN.



## V. LESSONS LEARNED AND RECOMMENDATIONS

### 5.1 Lessons Learned from Program Implementation

- a) On the whole, the negative impact of the GFC was not felt very much in the research areas. Even so, regional government officials admitted that the FSP was of assistance in dealing with events that had no connection with the GFC but events that could disrupt the regional economy, such as natural disasters, increases in the prices of raw materials for production, or rises in the prices of daily necessities. Even though the regions did not face economic disturbances, the FSP funds that they received helped to safeguard economic stability in recipient regions. Thus in practice, the allocation of FSP funds to the regions did not take into account and was not linked to the negative impact of the GFC.
- b) Every year, or even every time that there was an opportunity for their officials to go to Jakarta, some regions actively put forward proposals for project construction to the related ministries/institutions and industriously “presented their faces” (lobbied). These regions had a greater chance of obtaining funds, including FSP funds, from the central government.
- c) Regions in which relations between the executive and legislative bodies were not harmonious were hindered in drawing funds from the central government. This was even more the case with the 2009 FSP funds because projects had to be completed within the fiscal year.
- d) Development projects that were funded by the FSP were undertaken with great enthusiasm and a careful attitude on the part of the regional apparatus. On the one hand, this was the result of two push factors. The first was the existence of an online system of reporting that was carried out on a monthly basis along with intensive monitoring by both parties. The second push factor was the existence of sanctions that involved a reduction in the budget share in the following year if the ministries/institutions and regions were unable to absorb all of the FSP funds in one fiscal year. This stipulation became a kind of “spur” for ministries/institutions and provincial and *kabupaten/kota* governments to finish FSP projects on time. On the other hand, the local authorities endeavored to work extra hard so that work would be completed on time, the quality of the work would be in accordance with planned project standards and the results of construction would bring real benefits to the community. The hope was that in following years funds of this kind would continue to flow to the regions (pull factor).
- e) On the whole, the projects that were funded by the FSP gave direct benefits to the community. It is suspected that a few cases of projects that were judged to be less beneficial, such as the Resi Gudang project in Kabupaten Demak, were the result of an early initiative that originated from the center (ministries/institutions/DPR). This suspicion was based on the fact that there are no proposal documents for establishment of the warehouse receipt system in either Kabupaten Demak or Gowa. In Kabupaten Gowa, however, prospects for the use of this project are quite good for two reasons. The first is that the new warehouse is located in an area that has a food production surplus, especially a surplus of rice. The second is that in the surrounding area there are no intermediate traders who own large storage facilities. On the other hand, if the warehouse receipt system were to operate in Kabupaten Demak, it would encounter serious obstacles because of the presence of large numbers of intermediate traders who have for decades been carrying out

transactions with farmers in the vicinity of the warehouse. In fact, some of them own warehouses that are larger than the storage shed built by the government through the FSP.

- f) Central/vertical agencies carried out central/vertical FSP projects in the way that they carried out regular projects, but the FSP projects had to be completed within the fiscal year and had to have direct benefits for the community. The agencies, however, were familiar with the reporting and monitoring system in their projects, as it was the same as the system used in the FSP.
- g) The use of local workers from areas around project sites, including the employment of persons who had been dismissed from their jobs, was not included in the agreements between the officials who made commitments (PPK) and the contractors. This matter tended to be a concern for the contractors themselves, whose decisions were based on economic considerations regarding profit and loss. Within a limited time, such as the one-year period for FSP implementation, it was not easy to find people who had lost their jobs. As an official of the Ministry of Trade said, “while it is not easy to identify those who had been dismissed, even to decide which *kabupaten* and cities had been impacted by the GFC was difficult, as no data was available” (interview, male, 12 April 2010).
- h) The hurried preparation and implementation of the FSP projects within a limited time tended to make the management of projects far from optimum. This could be seen from the angle of efforts to widen the participation of the community in the development process and also from the angle of the quality of results. Kabupaten Bulukumba, for example, only received the DIPA and operational directions for activities (POK) at the beginning of November 2009 or two months before the end of the fiscal year (Dinas Sosial, Tenaga Kerja, dan Transmigrasi Kabupaten Bulukumba, 2010).<sup>13</sup> The consequence of this short period for project preparation was that the process of socialization among the community receiving the project was barely undertaken. The selection of the subdistrict as the location of activities was not discussed widely and comprehensively with participants. The main weaknesses of the FSP continually mentioned by both regional and central government officials was the suddenness of planning and information, as well as the need to carry out the project in a very short time (one fiscal year). The process of cashing funds and undertaking development activities, which tended to be done at the end of the fiscal year, occurred not only with the FSP but also with many other government development programs whose funding came from the APBN and APBD. This situation had taken place for many decades and many criticisms had been made about this system, however, the government continued to repeat the same method of work.
- i) A number of FSP projects that needed further funds for guidance were unable to function optimally. For example, if they had not been accompanied by attempts to provide further guidance in the form of assistance with capital and the marketing of products, efforts to empower workers through the application of appropriate technology in Kabupaten Bulukumba and Gowa would not have succeeded. Thus projects that were funded by just one program using an approach like the FSP model had to take the form of a project that as soon as it was finished could provide benefits to the community, and be capable of continuing to function independently.

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<sup>13</sup>As explained above, this was possible because the fiscal stimulus funds received by Kabupaten Bulukumba were the excess funds from Kabupaten Bantaeng.

## 5.2 Recommendations

The inadequate socialization of the FSP is the first matter that needs to receive attention from the central government. The government must provide an adequate and thorough socialization of programs to all relevant agencies at the time when the programs are launched. This is very important, especially if the government is weighing up whether or not to increase the types of development programs that are *ad hoc* in nature, short term, and are distributed to all levels of government throughout the country. An integrated information system describing the impact of the crisis or socioeconomic conditions in various regions should be the main instrument made available at the central level. In turn, the information obtained from this system can become the basis for determining the allocation of funds for development that has been proclaimed as top-down by the central government. This must be done to prevent “lobbying” activities that up until now have been a factor in determining the granting of development funds in the regions.

An official procedure must be made available for the process of putting forward development project proposals that cannot be funded by the APBD from the regions to the center (ministries/institutions/Bappenas). Evaluation of the feasibility of these proposals at the central level must take into consideration the aspects of cost and benefit. When proposals are rejected, the reason for rejection should be forwarded to the region concerned so that it can become reference material for the preparation of subsequent project funding proposals. If this process is carried out properly, there will be no need for visits by regional officials to the center to “lobby” and this practice can gradually be eliminated. In this way the energy and cost of “lobbying” can be used for the improvement of services for the community in the region.

There is proof that SE-883 and PMK 220, which, among other things, mentioned the sanction mechanism by which the budget share would be reduced in the following year, were able to push the ministries/institutions and regional governments to finish FSP projects on time. Nevertheless, sanctions of this kind could have a negative impact on the implementation of development in regions that still depend very much on an allocation of funds from the center. Sanctions should in fact be aimed at program managers who are unable to carry out programs in accordance with the regulations that have previously been agreed upon.

The cashing of development funds, which tends to be undertaken at the end of the fiscal year, made the management of development projects less than optimum. For this reason, the cashing of funds must be scheduled relatively evenly throughout the year. At the very least, development funds should begin to be cashed in the month of May in the current year.

The FSP management system, like the online reporting system and intensive monitoring, can generally be imitated again in a range of national development programs, including programs to reduce poverty that are carried out by regional governments.

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# **APPENDICES**

## APPENDIX 1

**Table A1. Allocation of FSP Funds for Labor-Intensive Improvement of Infrastructure through Deconcentration and Assistance Tasks as well as Technical Assistance and Funding, in the Province of Central Java (thousands of rupiah)**

No.	Districts/Cities	Deconcentration and Assistance Tasks	Technical Assistance and Funding	Total
1	Kabupaten Grobogan			0
2	Kabupaten Karanganyar			0
3	Kabupaten Kebumen			0
4	Kabupaten Klaten.			0
5	Kabupaten Pemalang			0
6	Kabupaten Semarang			0
7	Kabupaten Sukoharjo			0
8	Kabupaten Tegal			0
9	Kabupaten Temanggung			0
10	Kabupaten Wonogiri			0
11	Kota Magelang			0
12	Kota Salatiga			0
13	Kota Tegal			0
14	Kabupaten Batang	159,435		159,435
15	Kabupaten Blora	159,435		159,435
16	Kabupaten Kendal	159,435		159,435
17	Kabupaten Magelang.	178,235		178,235
18	Kabupaten Boyolali	523,250		523,250
19	Kabupaten Purbalingga	1,000,000		1,000,000
20	Kabupaten Cilacap	1,038,405		1,038,405
21	Kabupaten Purworejo	1,159,435		1,159,435
22	Kabupaten Wonosobo.	1,159,435		1,159,435
23	Kabupaten Rembang	1,376,865		1,376,865
24	Kabupaten Banyumas	1,897,500		1,897,500
25	Kota Pekalongan	1,933,530		1,933,530
26	Kabupaten Brebes	2,111,765		2,111,765
27	Kabupaten Pati.	159,435	10,000,000	10,159,435
28	Kota Semarang	13,093,265		13,093,265
29	Kabupaten Banjarnegara	14,000,000		14,000,000
30	Kabupaten Pekalongan	14,938,405		14,938,405
31	Kabupaten Jepara	20,400,000		20,400,000
32	Kabupaten Sragen	1,000,000	20,000,000	21,000,000
33	Kota Surakarta	23,329,360		23,329,360
34	Kabupaten Kudus	20,400,000	5,000,000	25,400,000
35	Kabupaten Demak	21,000,000	37,000,000	58,000,000
<b>Total</b>		<b>141,177,190</b>	<b>72,000,000</b>	<b>213,177,190</b>



## APPENDIX 2

**Table A2. Allocation of FSP Funds for Labor-Intensive Improvement of Infrastructure through Deconcentration and Assistance Tasks as well as Technical Assistance and Funding, in the Province of South Sulawesi (thousands of rupiah)**

No.	Districts/Cities	Deconcentration and Assistance Tasks	Technical Assistance and Funding	Total
1	Kabupaten East Luwu			0
2	Kota Palopo			0
3	Kabupaten Bulukumba	357,610		357,610
4	Kabupaten Wajo	1,000,000		1,000,000
5	Kabupaten Barru	2,500,000	1,000,000	3,500,000
6	Kabupaten Tana Toraja	4,500,000		4,500,000
7	Kabupaten Pinrang	10,000,000		10,000,000
8	Kabupaten Soppeng	357,610	10,500,000	10,857,610
9	Kota Parepare	1,207,030	18,500,000	19,707,030
10	Kabupaten Luwu		20,000,000	20,000,000
11	Kabupaten North Luwu		20,000,000	20,000,000
12	Kabupaten North Toraja		20,000,000	20,000,000
13	Kota Makassar	15,648,090	6,000,000	21,648,090
14	Kabupaten Takalar	5,450,000	20,000,000	25,450,000
15	Kabupaten Bone	18,500,000	15,000,000	33,500,000
16	Kabupaten Sinjai	4,000,000	30,000,000	34,000,000
17	Kabupaten Sidenreng Rappang	3,000,000	34,000,000	37,000,000
18	Kabupaten Jeneponto	7,857,610	30,000,000	37,857,610
19	Kabupaten Enrekang		40,000,000	40,000,000
20	Kabupaten Pangkajene and Kepulauan	2,255,050	39,000,000	41,255,050
21	Kabupaten Maros	3,000,000	39,000,000	42,000,000
22	Kabupaten Kepulauan Selayar	2,770,280	39,500,000	42,270,280
23	Kabupaten Bantaeng	4,000,000	40,000,000	44,000,000
24	Kabupaten Gowa	24,000,000	36,000,000	60,000,000
<b>Total</b>		<b>110,403,280</b>	<b>458,500,000</b>	<b>568,903,280</b>