

PERSPECTIVE

RESEARCHERS AT ISEAS – YUSOF ISHAK INSTITUTE ANALYSE CURRENT EVENTS

Singapore | 20 October 2021

Indonesia's Economic Recovery Programmes: Progress and Challenges

*Siwage Dharma Negara and Muhammad Oktovan Tito**



This aerial picture shows motorists commuting in Jakarta on September 15, 2021.
Picture: Bay Ismoyo, AFP.

** Siwage Dharma Negara is Senior Fellow at ISEAS – Yusof Ishak Institute. Muhammad Oktovan Tito is Research Intern at ISEAS – Yusof Ishak Institute. He is currently studying at King's College London. The authors thank Cassey Lee, Lee Sue-Ann, and Manggi Habir for their helpful feedback on an earlier draft. The usual disclaimer applies.*

EXECUTIVE SUMMARY

- Indonesia is struggling to deal with the economic and social impact of the Covid-19 pandemic, which has reversed its development achievements over the last two decades.
- In response to the current pandemic wave, the government has introduced new restrictions on public activities (Emergency PPKM) and added US\$3 billion into its National Economic Recovery (PEN) budget. The new restrictions and longer-than-expected Covid-19 containment will stretch the country's limited resources and further hinder its economic recovery.
- The government faces serious challenges in carrying out its economic recovery programme. The size of the stimulus package (at about 4% of GDP) is too small to address the magnitude of the crisis.
- Given its limited resources, the government will need to correctly prioritise the vulnerable sectors. Aiding the recovery of the micro, small and medium enterprises (MSMEs) should be a key focus, as they account for 60% of GDP and 97% of domestic employment. About half of the 64 million MSMEs have gone bankrupt since the pandemic started.
- The government will also have to overcome massive implementation difficulties. Disbursement of the budget for recovery has been painfully slow, due to bureaucratic red-tape and the decentralisation of government. Regional authorities are not always aligned with the central government's priorities. Poor data gathering results in vulnerable groups missing out on sorely needed assistance. Finally, there is the perennial problem of funds leakage due to corruption.

INTRODUCTION

At the start of 2021, Indonesia appeared to have passed the worst of the pandemic. Its quarterly GDP growth had been improving after suffering a contraction of 5.32% in Q2 2020: Indonesia's economy contracted by 2.07% in 2020 and experienced a reduced contraction of 0.74% in Q1 2021. Real GDP rose 7.07% in the second quarter from a year earlier, and several early projections indicated that Indonesia was on track to achieve 4-5% growth in 2021.

However, a second wave hit the country in June 2021: Daily cases tripled from 4,800 in early June to almost 22,000 by the end of the month. The country has been struggling to overcome the prolonged impact of the pandemic, and this year's economic recovery is expected to be slower than initial projections.

In July, the IMF revised downward its forecast for Indonesia's 2021 economic growth from its April forecast of 4.3% to 3.9%. Slower growth means it will take longer for Indonesia to get back to where it was before Covid-19. The pandemic has reversed two decades of gains in poverty and employment. A study conducted by SMERU shows that the poverty rate had increased from 9.2% in 2019 to 10.2% in 2020, and it would have been higher without the massive social assistance programmes launched by the government.¹

Furthermore, the pandemic has left Indonesia with a 5.8% shortfall of real GDP in Q2 2021 when compared to pre-pandemic levels. Open unemployment has increased from 5% in 2019 to 9.7% by 2021. As a result, the World Bank has downgraded Indonesia to lower-middle-income status on 1 July, with a gross national income per capita of US\$3,870.² The government is facing tough challenges, and needs to overcome the pandemic and ensure effective implementation of economic recovery programmes.

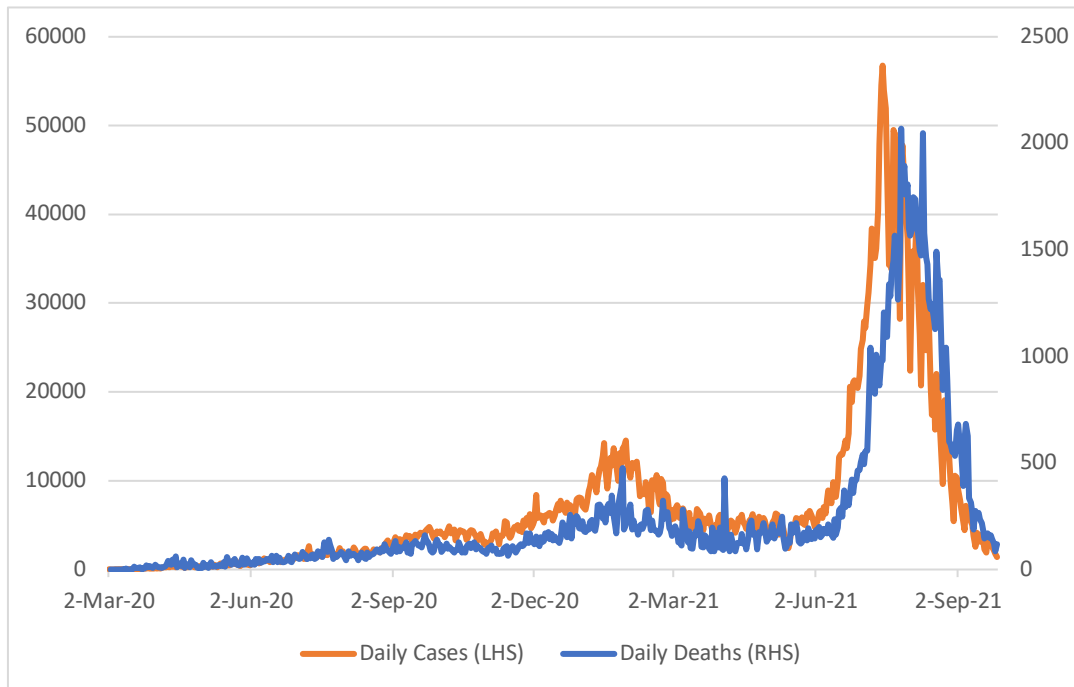
This essay looks at the progress and challenges of the national economic recovery programmes (Program Pemulihan Ekonomi Nasional or PEN). We argue that given the protracted uncertainty about the pandemic and its impact on the economy, the most effective way of addressing the vulnerabilities in the short term is to increase the stimulus, improve its effectiveness through a targeted approach, and raise the speed of the disbursement of the stimulus measures. The following section gives an update on the Covid-19 situation in Indonesia. The subsequent section discusses the national economic recovery programmes and the challenges their implementation faces. The last section concludes with some thoughts on the way forward.

THE COVID-19 SITUATION: IMPROVING BUT STILL SOME WAY TO GO YET

Indonesia's Covid-19 situation seems to be improving since the peak in July caused by the Delta variant. As shown in Figure 1, daily new confirmed cases passed 50,000 for the first time on 18 July, four times the previous peak on 1 February 2021. As of 20 September, the daily cases have declined to below 2,000 cases per day. Correspondingly, daily deaths hit 2,000 in July, five times higher than the previous peak reached on 31 January (Figure 1), but by the end of September, this has sharply declined to below 150. However, it is

important to note that these official figures could underestimate the actual cases given the low test rates and problematic data collection.³

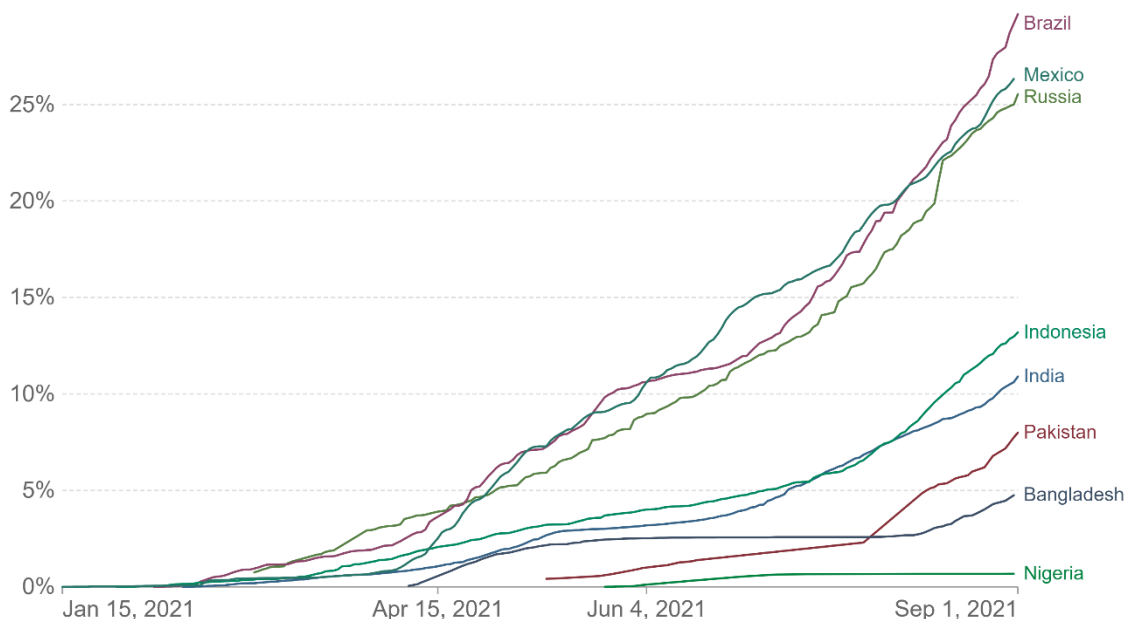
Figure 1: Daily Infection and Deaths due to Covid-19



Source: <https://covid19.go.id/peta-sebaran>

Figure 2 shows that just around 13% of Indonesia’s population is fully vaccinated so far. Considering the need for vaccinations to ‘break’ the link between infections and hospitalisations and deaths,⁴ this rate is too low for a fast recovery. At this current rate, Moody’s Analytics has predicted that Indonesia can only reach herd immunity in 2023, while most Asia-Pacific countries are expected to manage that in 2022.⁵

Figure 2: Share of the Population Fully Vaccinated against Covid-19 in Selected Countries (up to 1 September 2021)



Source: Our World in Data

Indonesia also has one of the lowest test rates in Southeast Asia, with just 150,000 tests per million population (tmp). This is significantly lower than its neighbours; for example, Malaysia has 560,759 tmp and The Philippines 151,000 tmp.⁶

Accelerating vaccination rollout, increasing testing rate, as well as ensuring public compliance on strict health protocols and safe distancing are necessary steps for Indonesia to take before it can reopen its economy safely.

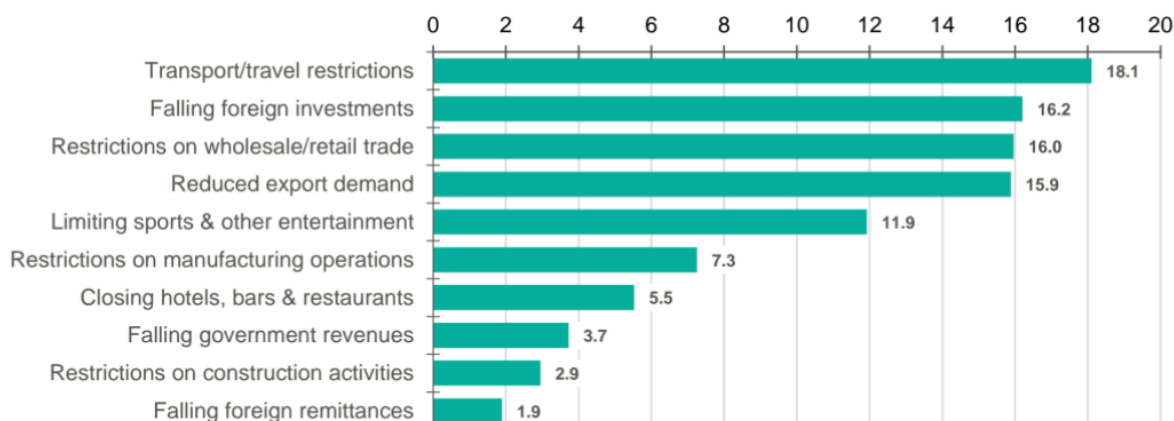
GOVERNMENT POLICY ON COVID-19 PANDEMIC CRISIS

In response to the worsening Covid-19 situation, the Indonesian government implemented on 3 July a multi-tiered Emergency Restriction on Public Activities (PPKM) policy to reduce mobility.⁷ There are four levels of PPKM designated for each area, based on the severity of infections, hospitalisations, and deaths in proportion to the area’s population. At the time of the writing, Bali and most of Java are classified under PPKM Level 3 or 4.⁸

Crucially, non-essential businesses are mandated to implement a 100% work-from-home (WFH) policy and non-crucial commercial activities are not allowed (see Table 1 in the Appendix). Essential businesses, meanwhile, are allowed to implement a 50% WFH policy and essential government services a 25% WFH policy. Educational institutions are also instructed to conduct online learning. Furthermore, domestic travellers via air, sea and railway must present a vaccine certificate and a negative PCR test. Places of worship are also temporarily closed. Food stalls, street vendors, and hawker stalls are currently allowed

to open until 9 pm, limiting patrons’ mealtime to 30 minutes in Level 3 and 20 minutes in Level 4 areas.⁹

Figure 3: Contributions of restrictions and shocks to GDP losses, by impact channel, April-May 2020, in per cent of total GDP losses



Source: *International Food Policy Research Institute*

The PPKM measures will impact the economy significantly. Last year’s lockdown in April (PSBB) alone resulted in an estimated US\$26.4 billion loss in GDP, with the services and industry sectors losing 29.7% and 23.4% of their sectoral GDP, respectively.¹⁰ Figure 3 shows that transport/travel restrictions and wholesale/retail trade restrictions during PSBB accounted for one-third of the GDP losses. As PPKM measures also impose stringent travel restrictions and strict limits on retail trade operations, they will likely have detrimental impacts on the economic recovery.

To support PPKM implementation and rescue the economy, the government has increased the budget for its National Economic Recovery Programmes (PEN) by 6% from IDR 699.43 trillion to IDR 744.75 trillion on 18 July.¹¹ Table 1 shows that approximately half of the budget is directed towards healthcare and subsidies and aids, while the other half is for business incentives, financial assistance for micro, small, and medium enterprises (MSMEs) and corporations, and priority projects.

The following section looks at some of the challenges faced by the government in implementing the national economic recovery programmes.

CHALLENGES AHEAD AND MITIGATION STRATEGIES

There are three major challenges faced by the government in managing the current situation. These are: (1) The size of the stimulus; (2) The target of the stimulus, and; (3) The distribution and realisation of the stimulus.

Firstly, the size of the stimulus, which is about 4% of GDP, is way too small to boost its economic recovery.¹² Understandably, this is because of limited fiscal space. Since the introduction of PEN 2021, the GDP growth has only increased by 2.3% (see Table 2

Appendix). Furthermore, household consumption and government expenditure have only grown by 6% and 7.6%, respectively, since 2Q20 (Ibid.). Given the recovery gap of approximately 7% to reach its pre-pandemic GDP, the growth in household consumption, the main component of GDP, and government expenditure require a more significant stimulus.

Secondly, given the limited fiscal space, setting the right target for the stimulus is critical. The government needs to place more emphasis on supporting MSMEs recovery. MSMEs comprise 99% of Indonesian businesses and contribute more than 60% of the GDP.¹³ They also account for 97% of domestic employment and 56% of business investment as of 2018,¹⁴ making them a significant cornerstone of Indonesia's economy. Since the pandemic started, 30 out of 64 million MSMEs have gone bankrupt.¹⁵ This has caused a substantial increase in unemployment rates, expectedly increasing to around 7.35% in August 2021, higher than the 7.07% figure in August 2020, and 5.23% in August 2019. Therefore, the government should focus on stimulating MSME recovery and transition to post-pandemic challenges.

Lastly, a serious challenge facing the implementation of the stimulus package is the low rate of disbursements, which will likely delay economic recovery. This needs to be speeded up.

Table 1: Allocated and Realised Budget of PEN 2021 (as of 20 August)

Category	Allocated Budget (trillion IDR)	Realisation (trillion IDR)	Realisation
Healthcare	214.95	77.18	35.9%
Social Assistance	187.84	99.33	52.9%
Priority Projects	117.94	50.25	42.6%
Aid for MSME and Corporations	161.20	48.02	29.8%
Business Incentives	62.83	51.97	82.7%
Total	744.75	326.74	43.8%

Source: Kompas¹⁶

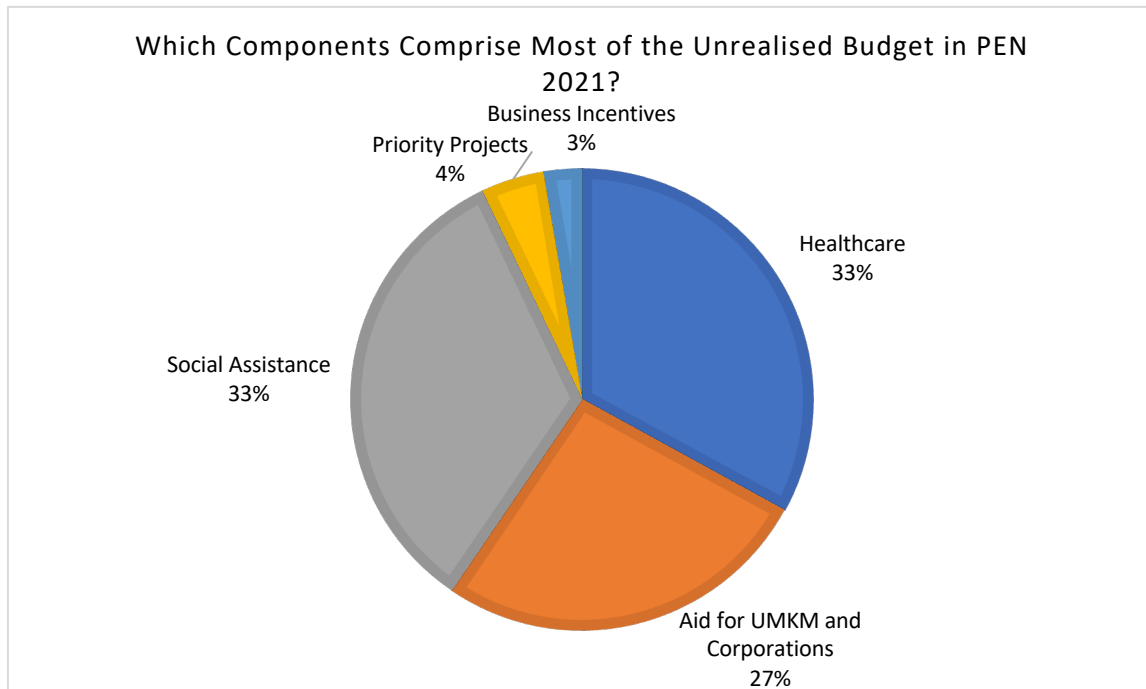
Table 2: Comparison of Realised Budget of PEN 2020 and PEN 2021 (as of 20 August)

Category	PEN 2020 Realisation	PEN 2021 Realisation (20 August 2021)	Difference (pp)
Healthcare	63.8%	35.9%	-27.9%
Social Assistance	95.7%	52.9%	-42.8%
Priority Projects	N/A	42.6%	N/A
Aid for MSME and Corporations	97.8%	29.8%	-68%
Business Incentives	46.5%	82.7%	+36.2%
Ministries & Institutions (K/L) and Local Governments	98.1%	N/A	N/A
Total	83.4%	43.8%	-39.6%

Source: Katadata¹⁷

As shown in Table 1, the realisation for PEN 2021 remains low at 43.8% as of 20 August 2021. There is a slow realisation for healthcare and social assistance, two critical components, at just one-third and half, respectively. Table 2 shows the comparison of the realised budget of PEN 2020 and PEN 2021. PEN 2021 is lagging in disbursement compared to PEN 2020, with 39.6 percentage points to catch up to the 2020 realisation of 83.5%. It will be even more challenging to meet the full disbursement target by the end of the year.

Figure 4: Breakdown of Unrealised Budget by Components in PEN 2021 (20 August 2021)



Source: Kompas

Figure 4 shows the breakdown of the unrealised budget by the components of PEN 2021. Strikingly, healthcare, aid for MSME and corporations, and social assistance comprise 80% of the unrealised spending in PEN 2021.

The low realisation rates are partly due to the highly bureaucratic process of disbursing the funds.^{18 19 20} There is anecdotal evidence that unclear and complex bureaucratic processes across the implementing agencies have constrained the implementation of PEN.²¹ These administrative barriers have been made worse by Indonesia’s vast decentralised system, which gives regional governments unique power to implement their respective policies/programs.

Another challenge for programme implementation is the lack of up-to-date and accurate data for better allocation of state resources. For example, the Social Affairs Ministry’s integrated social welfare data (DTKS) does not capture many vulnerable groups, such as those without employment social security records (BPJS). As a result, operators face difficulty in transferring funds to intended programme beneficiaries. Worse, data discrepancies have led to not only slow but also mistargeted distribution of Covid-19 relief. No doubt, there are variations between programmes. For example, the social protection programmes that were most effectively scaled up were those with well-established institutions and accountability and clearly identified beneficiaries.²²

Finally, the government must improve monitoring of resource allocation to minimise leakages during the disbursement process. There are reports of widespread leakages in the

disbursement of the social assistance programme, or *bansos*, which comprises 25% of PEN 2021. A former investigator of the Corruption Eradication Commission (KPK)²³ claimed that as much as IDR 2 trillion (US\$139.5 million) was lost through opaque contracts involving government-appointed suppliers of *bansos* packages. Given the critical importance of *bansos* to ensure the livelihood of vulnerable people, it is imperative that the government controls such corrupt practices. A more transparent tender process in awarding *bansos* suppliers is needed.

CONCLUSION

Compared to the huge economic impacts due to the pandemic, arguably, the size of the stimulus is too small to get the economy to recover quickly to pre-pandemic levels. Given the budget constraints, government spending needs to target vital sectors, particularly MSMEs, whose survival and robust recovery would benefit millions in the workforce. Effective and quick government spending is critical to support the recovery momentum. Yet, budget disbursement has been stubbornly slow, with only 43.8 per cent of the stimulus budget being disbursed as of late August 2021. The government must also improve the coverage and targeting mechanism of PEN this year. Without effective PEN disbursement, there is concern that the damaging effects of the pandemic will drag on, causing harm even in the long term.

APPENDIX
Table 1. Government Measures to Control COVID-19 Spread

	School	Office	Places of Worship	Mall & Markets	Transport	Motorcycle	Covid-19 Isolation & Others
PSBB I 9 Apr-4 Jun 2020	Closed and schools moving online	Closed with most offices moving to work from home (WFH) -Exception for 11 essential activities	Closed with services moving virtual	Closed except for supermarkets, pharmacies and traditional markets -restaurants only take-outs	- Cars 50% capacity -public transport 50% -partial restriction between provinces	- Only for carrying goods	-Patients with mild symptoms can self-isolate at home -Covid designated hospital and isolation wards set up
PSBB Transition I 5 Jun-13 Sep 2020	No change	50% WFH	50% capacity	Mall open 50% capacity -Restaurants open with social distancing	No change & no travel limits between provinces	-Allowed to carry persons within same residence	Continue to expand beds for Covid patients
PSBB II (Emergency Brake) 14 Sep-11 Oct 2020	No change additional restriction of student gatherings	75% WFH	No change	No change except restaurants now closed and only take-outs allowed	No change	No change	Self-isolation at home not allowed. All cases have to be isolated and at designated places (added several hotels) -Wearing masks compulsory with sanctions
PSBB Transition II 12 Oct-Dec 2020	No change	50% WFH	No change	No change and restaurants allowed open but with social distancing	No change	No change	No change
Emergency PPKM in Java-Bali January 11 -8 Feb 2021	No change	75% WFH	No change	Malls open at maximum capacity until 7pm and restaurants operating at 25% capacity	Negative rapid test for public transportation commuters	No change	No change
Emergency PPKM nationwide 3 July-9 October 2021	No change	Non-essential sectors: 100% WFH	Closed	Malls closed and restaurants to offer takeaways only	70% capacity for public transports	No change	Self-isolation at home for asymptomatic patients.

		Essential sectors: 50% WFO					
		Critical sectors: 100% WFO					

Source: <https://covid19.go.id/storage/app/media/Regulasi/Kisi-Kisi%20Pelaksanaan%20PSBB.pdf>

Table 2: Indonesia's Decomposition of Growth (Quarter-to-Quarter)

Date	C	I	G	X	M	GDP Growth
03/2019	0.0%	-45.8%	-5.9%	-7.0%	-16.4%	-0.5%
06-2019	1.7%	36.2%	0.5%	-1.3%	0.3%	4.2%
09-2019	3.1%	-0.8%	6.0%	11.2%	6.1%	3.0%
12-2019	0.0%	37.1%	3.8%	-2.5%	3.5%	-1.7%
03-2020	-2.0%	-44.0%	-8.0%	-6.3%	-12.5%	-2.4%
06-2020	-6.5%	22.2%	-9.7%	-13.4%	-15.0%	-4.2%
09-2020	4.7%	16.9%	8.5%	11.7%	0.0%	5.0%
12-2020	0.5%	27.1%	4.2%	2.4%	16.3%	-0.4%
03-2021	-0.6%	-43.7%	-2.2%	8.1%	6.7%	-0.9%
06-2021	1.3%	29.1%	-2.7%	6.6%	5.8%	3.3%

Note: C is consumption, I is investment, G is government spending, X is export, and M is import. We use the current prices of GDP components, Source: Computed by authors using CEIC data

¹ <https://smeru.or.id/id/content/situasi-kemiskinan-selama-pandemi>. Accessed 22/09/2021

² Indonesia graduated to upper-middle-income status with a GNI per capita of US\$4,050 in 2020.

³ <https://theconversation.com/tiga-alasan-mengapa-data-covid-19-di-indonesia-tak-dapat-dipercaya-dan-bagaimana-mengatasinya-159535>. Accessed 19/10/2021.

⁴ <https://news.sky.com/story/covid-19-data-shows-vaccines-reduce-risk-of-hospitalisation-and-death-but-you-need-to-read-it-with-a-clear-head-12365728>. Accessed 29/7/2021.

⁵ <https://www.thejakartapost.com/news/2021/06/04/indonesia-wont-reach-herd-immunity-until-2023-moodys.html>. Accessed 29/7/2021.

⁶ <https://www.worldometers.info/coronavirus/?zarsrc=130>. Accessed 29/7/2021.

⁷ <https://indonesien.ahk.de/en/infocenter/news/news-details/covid-19-developments-in-indonesia>

⁸ <https://www.kompas.com/tren/read/2021/07/26/083000465/daftar-daerah-yang-kembali-menerapkan-ppkm-level-3-dan-4-hingga-2-agustus?page=all>. Accessed 29/7/2021.

⁹ <https://www.tribunnews.com/nasional/2021/07/26/batas-waktu-makan-di-tempat-pada-daerah-dengan-ppkm-level-3-maksimal-30-menit-level-4-cuma-20-menit>. Accessed 29/7/2021.

¹⁰ <https://ebrary.ifpri.org/utills/getfile/collection/p15738coll2/id/133789/filename/134002.pdf>. Accessed 17/8/2021.

- ¹¹ <https://money.kompas.com/read/2021/07/18/063000126/varian-delta-bikin-anggaran-pemulihan-ekonomi-naik-totalnya-rp-74475-triliun>. Accessed 29/7/2021.
- ¹² <https://www.imf.org/en/Topics/imf-and-covid19/Fiscal-Policies-Database-in-Response-to-COVID-19>. Accessed 04/09/2021. There is no appropriate fiscal stimulus size given different fiscal capacity among countries. For comparison, US allocates 25%, Singapore and Australia 18%, Japan and Germany 16%, Korea and Sweden 4% of its GDP.
- ¹³ <https://www.asiapacific.ca/publication/new-normal-digitalization-msmes-indonesia#:~:text=Indonesia%20had%20already%20set%20its,cent%20of%20the%20national%20GDP>. Accessed 17/7/2021.
- ¹⁴ <https://www.oecd.org/publications/sme-and-entrepreneurship-policy-in-indonesia-2018-9789264306264-en.htm>. Accessed 17/8/2021/
- ¹⁵ <https://www.cnnindonesia.com/ekonomi/20210326124010-92-622407/30-juta-umkm-bangkrut-7-juta-orang-kehilangan-kerja>. Accessed 30/7/2021.
- ¹⁶ <https://ekonomi.bisnis.com/read/20210721/10/1420229/realisasi-pen-per-16-juli-capai-372-persen-kesehatan-masih-kedodoran>. Accessed 30/7/2021.
- ¹⁷ <https://databoks.katadata.co.id/datapublish/2021/01/07/hingga-akhir-2020-realisis-anggaran-penanganan-covid-19-dan-pen-cuma-834>. Accessed 30/7/2021.
- ¹⁸ <https://radartegal.com/realisasi-pen-di-daerah-rendah-karena-birokrasi-sri-mulyani-ini-perlu-untuk-kita-atasi-bersama.7547.html>. Accessed 30/7/2021.
- ¹⁹ <https://news.ddtc.co.id/penanganan-covid-19-terhambat-birokrasi-pp-23-2020-perlu-direvisi-22802>. Accessed 30/7/2021.
- ²⁰ <https://ekonomi.bisnis.com/read/20200803/9/1274195/serapan-anggaran-pen-birokrasi-dan-akurasi-data-masih-mengganjal>. Accessed 30/7/2021.
- ²¹ Robert Sparrow, Teguh Dartanto & Renate Hartwig (2020) Indonesia Under the New Normal: Challenges and the Way Ahead, *Bulletin of Indonesian Economic Studies*, 56:3, 269-299.
- ²² *Ibid*, p. 284. Accessed 30/7/2021.
- ²³ <https://www.tribunnews.com/nasional/2021/07/07/eks-kasatgas-kpk-kerugian-negara-dalam-kasus-korupsi-bansos-covid-19-bisa-mencapai-rp-2-triliun>. Accessed 1/8/2021.

<p>ISEAS Perspective is published electronically by: ISEAS - Yusof Ishak Institute</p> <p>30 Heng Mui Keng Terrace Singapore 119614 Main Tel: (65) 6778 0955 Main Fax: (65) 6778 1735</p> <p>Get Involved with ISEAS. Please click here: https://www.iseas.edu.sg/support</p>	<p>ISEAS - Yusof Ishak Institute accepts no responsibility for facts presented and views expressed.</p> <p>Responsibility rests exclusively with the individual author or authors. No part of this publication may be reproduced in any form without permission.</p> <p>© Copyright is held by the author or authors of each article.</p>	<p>Editorial Chairman: Choi Shing Kwok</p> <p>Editorial Advisor: Tan Chin Tiong</p> <p>Managing Editor: Ooi Kee Beng</p> <p>Editors: William Choong, Lee Poh Onn, Lee Sue-Ann, and Ng Kah Meng</p> <p>Comments are welcome and may be sent to the author(s).</p>
--	---	--