



LPEM-FEBUI Working Paper - 059
April 2021

ISSN 2356-4008

PROVINCE AND LOCAL FINANCES IN INDONESIA DURING COVID-19 PANDEMIC

Riatu Mariatul Qibthiyyah

Chief Editor : Riatu M. Qibthiyah
Editors : Kiki Verico
Setting : Rini Budiastuti

© 2021, April
Institute for Economic and Social Research
Faculty of Economics and Business
Universitas Indonesia (LPEM-FEB UI)

Salemba Raya 4, Salemba UI Campus Jakarta, Indonesia 10430
Phone : +62-21-3143177
Fax : +62-21-31934310
Email : lpem@lpem-feui.org
Web : www.lpem.org

Province and Local Finances in Indonesia during COVID-19 Pandemic

Riatu Mariatul Qibthiyah^{1,★}

Abstract

In the year 2020, in response to COVID-19 health crisis, there were series of adjustment adopted by provinces and local governments. From their stated revised budget, most of provinces and local governments responded by shifting spending allocation to COVID-19 related activities mitigation, rather than by expanding expenditures. Lower-level government average expenditures growth in 2020 is -10.11% and -12.11% respectively for provinces and local governments. Expenditure contraction occurred in all provinces and only 12.4% of local governments show of a positive growth in its public expenditures. On the type of expenditures adjustment, a high increase of emergency spending which covered of 3.3% of total provinces and local government expenditures, may also translate to higher health expenditures. Based on aggregate provincial level data and given that COVID-19 fatalities were concentrated in Java-Bali region, the preliminary results show that emergency spending seem effective in reducing COVID-19 fatalities for the case of provinces in Java-Bali region.

JEL Classification: H24; J2

Keywords

state and local finance — government expenditure — pandemic COVID-19 — emergency spending

¹ *Institute for Economic and Social Research (LPEM) Faculty of Economics and Business, Universitas Indonesia*

★ **Corresponding address:** Institute for Economic and Social Research (LPEM) Universitas Indonesia Building. Campus UI Salemba, Salemba Raya St., No. 4, Jakarta, 10430, Indonesia. Email: riatu.mariatul@lpem-feui.org.

1. Introduction

WHO declared COVID-19 as pandemic on March 11, 2020, as the infection had spread by an alarming speed, as at the end of February, around 114 countries had reported confirmed cases of COVID-19 infections which is more than tripled only in the past two weeks (Cucinotta & Vanelli, 2020; WHO, 2020). In Indonesia, a start of the outbreak came to be publicly identified in March 2020, as the government announced treating two COVID-19 patients in March 2, 2020 (Djalante et al., 2020).

Government early period response on COVID-19 pandemic, on health coordination, was first conducted centralized, through the issuance of COVID-19 as a national health emergency, and it was treated as a national disaster, handled by BNPB (National Disaster Management Agency). Then, national task force for rapid response to Covid-19 was established, based on Presidential Decree, *Keppres 9 2020*, effectively on March 13, 2020 (Djalante et al., 2020). The health sector, in Indonesia is decentralized, as various public hospitals are funded and managed either by the provincial level and/or local governments. Therefore, in handling COVID-19 crisis, the task force had also been set-up at the provincial and local government level.

On provincial and local finance, an early outbreak of Covid-19 is in the period in which lower-level government budget had already been approved and effectively disbursed for the fiscal year 2020 that started in January 2020. Therefore, the central government issued a guideline for provinces and local governments to revise their 2020 budget (APBD) to take into account the needed priority of handling COVID-19 health problem in the respective regions. The Ministry of Home Affairs stipulated a decree,

Permendagri 20 2020, addressing that revision of the 2020 budget has to allocate budget for Covid-19 task force and/or other activities needed to handle Covid-19 health problems. The emergency expenditure item, called *Belanja Tidak Terduga*, can be used as a reference for provinces and local governments, to pool budget allocation for Covid-19 related government activities.

This paper will discuss provinces and local governments finance early response of COVID-19, from the available recent budget realization data. Based on 2020 budget realization data, I will explore provincial and local government revenues and expenditures profile, including of whether the suggested re-allocation policy, at least in the short term may have or have not been working on handling the COVID-19 pandemic at the provincial level.

2. Province and Local Finances: Current Status

The issuance of the Ministry of Home Affairs Decree (*Permendagri 20 2020*) on a guideline to provinces and local governments, is more on re-allocating spending item, to ensure that provinces and local governments have sufficient funding to manage the Covid-19 pandemic in their respective region. Although there are needs to allocate fund to handle Covid-19 health crisis, in some provinces and local governments, the revised budget to some extent is lower than previously planned (Qibthiyah 2020). Though there may be a condition in which operating costs of provincial and/or local government related services and/or revenues was expected to decline.¹

¹ There was lower budget size for provinces, such as province of DKI Jakarta, East Java, and West Java. Though lower budget may also an

In regard to emergency spending item, all provinces and almost all local governments had allocated budget for emergency spending. Based on compiled the 2020 revised budget data per end of April 2020, there were only 2 local governments that had no budget allocation on emergency spending item, municipality of Mappi in Papua province and municipality of Teluk Bintuni in West Papua. However, based on the 2020 realized budget, these two local governments had disbursed emergency spending.

A joint decree between the Ministry of Finance and Ministry of Home Affairs, SKB No. 119/2020, also stated a guideline for provinces and local governments, to make re-assessment of salary spending (*belanja pegawai*), goods and services purchases (*belanja barang dan jasa*), as well as on capital expenditure (*belanja modal*). Provinces and local governments are requested to reduce 50% of their goods and services purchases and capital expenditures. Despite the expenditure allocation of province and/or local government is a full discretion of the respective lower-level government, the central government at times put conditionality on spending allocation. Previous policies on expenditure conditionality was generally applied through intergovernmental transfers policies and not through fiscal rules on type of expenditures that needs to be allocated by provinces and/or local governments.²

The Ministry of Finance, has also revised the allocation of 2020 intergovernmental transfers, allocated for provinces and local governments. Based on PERPU No. 1/2020, there is a revision on the size of intergovernmental transfer to 691.5 Trillion IDR³. An 11% reduction of intergovernmental transfer is based on initial allocation stated in the central government budget, APBN 2020. Lower allocation of intergovernmental transfers is a consequence of a relatively lower prediction on central government taxes revenues.

The 2020 APBD adjusted naturally as for most local governments and also in some of the provinces, a dominant source of revenues come from intergovernmental transfers. A reduction in intergovernmental transfers and further lower economic growth may translate to taxes revenues shortfall for the provinces and/or local governments. Some of the provinces and local governments may need to deal with fiscal distress if there are no adjustments on the spending side or as lower-level governments may view a need to sustain a high level of expenditures to response on COVID-19 pandemic.

Given the above policies, central government policy signals lower government expenditures by either provinces and/or local governments. As stated earlier, in PERPU No. 1/2020, there was instead major revision on 2020 APBN (state budget allocation) on the size of central government expenditures and its revenues' projection, including size of intergovernmental transfer allocated to provinces and local governments. Facing the risks of an economic slowdown, lower-level governments may revise downward their

implication of lower operating costs and delay of activities on capital spending. For example, as there are school closures, to some extent, some of the operating costs may as well decrease, though there is also a need.

²There is government expenditure threshold on education and health expenditures for provincial and local government as stipulated in sectoral Law, however it is also binding to central government.

³The size of the transfer has not included village fund.

revenue target stated in their budget.

Provinces and local governments revised the 2020 budget in response to the Covid-19 pandemic. From the revised budget, most of provinces and local governments keep the same size of 2020 budget or set higher budget than 2019 budget, amid concern that revenues may drop either from a lower allocation of intergovernmental transfer or taxes revenues shortfall. Only 5 provinces that set a lower 2020 budget size than the 2019 budget, and in the context of local government, there are 156 local governments that set a lower 2020 budget. A relatively high number of local governments that set a lower 2020 budget in comparison to the 2019 budget may be due to central government announcing of a lower intergovernmental transfers' pool fund.

2.1 Intergovernmental Transfer

Intergovernmental transfers are the dominant source of revenues for most of local governments. Despite a decrease of intergovernmental transfer pool fund in 2020 APBN, in comparison to 2019 APBN, there are still 264 local governments (51.36%) stated in its revised 2020 APBD, an increase of intergovernmental transfers allocation, and only 8 provinces reported of a decrease in intergovernmental transfer allocation.

General Allocation Fund (DAU – *Dana Alokasi Umum*) is one type of intergovernmental transfers that has been cut, as the pool fund is linked to central government revenues that mostly come from taxes revenues. Totaling 384.38 trillion IDR⁴, there is a reduced size of DAU in 2020 APBN. DAU is allocated monthly and there are generally no or at least few conditionalities on its disbursement. In the previous year, DAU allocation will generally be received 100% by provincial and/or local government as conditionality attached to DAU only have a consequence of delayed disbursement. However as shown in Table 1, there is a lower DAU realization which is 379.28 trillion IDR, indicating that conditionalities of DAU that are not met by province or local government may also lead to a cut of DAU allocation. From Table 1, allocation of DAU in 2020 contracted on average -9.58% and -8.54% respectively for the provincial and local government level.

Other types of transfers, especially conditional transfers such as DAK – *Dana Alokasi Khusus*, are disbursed more slowly. As shown in Table 1, DAK disbursement rates are lower for the provincial level which is 74.19% and it is 88.04% for the case of local governments. DAK consists of *physical* which is a capital grant and *non-physical* DAK. This *non-physical* DAK is an instrument of the central government to support operating costs for the provision of certain public services, as in the case of education and health. The DAK allocation consists of physical or non-physical DAK, and in the case of non-physical DAK, it is mostly on education and health in the form of BOS (*Bantuan Operasional Sekolah*) and BOK (*Bantuan Operasional Kesehatan*). In 2020, an additional incentive for health workers, as stated in Finance Minister Decree – PMK 35/PMK 07/2020 - is also disbursed in the form of BOK.

During the year 2020, revenue sharing allocation called DBH - *Dana Bagi Hasil*, had increased for most provinces

⁴Based on Presidential Decree No. 54/2020.

and local governments. As shown in Table 1, DBH allocation for the provinces grew on average 19.9% and for local governments 15.73% in comparison to 2019. There are additional adjustments in the revenue sharing allocation, as DBH is generally allocated by prognosis, a forecast on the revenue sharing. The allocation of DBH will be adjusted based on end of year central government realized collection to be distributed in a subsequent year if realized collection is higher than the prognosis, and vice versa. Some of revenue sharing is conditional on the use of fund. For the year 2019, there are higher realization than the prognosis not only from type of natural resource revenue sharing, but also in terms of revenue sharing from central government taxes, as stated in PMK 113 2020. The stated regulation, PMK 113 2020, is issued in August 2020, to an extent has explained of a relatively high realized revenue sharing allocation received by both provinces and local governments compare to allocation stated in APBD. Table 1 shows revenue sharing allocation received by provinces and local governments on average are respectively 115.84% and 117.07% of the budget allocation.

To note, revenue sharing allocation consist of natural resource revenue sharing and taxes revenue sharing. The central government shared taxes revenues are based on the following taxes: payroll income taxes, property taxes from natural resources, and cigarette excise. DBH cigarette excise allocation can only be spent on health-related programs, and in 2020, there was a guideline that 50% allocation received from cigarette excise need to be spent to mitigate COVID-19 health problems.

2.2 Province and Local Taxes Revenues

For the year 2020, all provinces and most of local governments had revenues shortfall. As shown in Table 1, there is a negative (nominal) average growth of revenues, which is -10.48% for the provincial government, and -11.66% for local governments. Severe revenues shortfall referring to a reduction of more than 50% than the target stated in the budget experienced by only 4 local governments and as no provinces had revenues shortfall of more than 50% (see Table 1). From Table 1, provinces and majority of local governments has lower revenues, mostly due to a decrease in intergovernmental allocation as well as on own source revenues (OSR) especially from taxes revenues.

For the provincial government, the decline of OSR is relatively higher than IGT revenues. In 2020, all provinces experienced revenues shortfall. Meanwhile, at the local government level, there are some local governments with positive growth of revenues in 2020. On average, OSR at the local level contracted -8.47%, though given a small share of OSR, it may not lead to revenues distress especially for local governments with highly dependent revenues source from intergovernmental transfers.

From Table 1, on average, local government taxes revenues pose a lower negative growth than provincial level, which is -9.47%, and similarly in the case of user charges. There are 113 local governments still had positive growth in its taxes revenues collection. However, most local governments covering of around 80% of local governments experienced negative growth of taxes and/or user changers revenues. For the provincial government, only 3 provinces had positive growth of taxes revenues in 2020, and those

provinces are Aceh, North Sumatera, and Central Sulawesi. The high negative growth of taxes revenues referring to contraction of more than 20%, occurred in 7 provinces: DKI Jakarta (-20.84%), East Nusa (-21.28%), East Kalimantan (-22.1%), Bali (-24.71%), Banten (-27.78%), and Southeast Sulawesi (-31.37%).

For the year 2020, a moderate decline of provinces and local governments taxes revenues may plausibly due to revenues from capital type of taxes as in the case of property or vehicle or property tax as well as on its transfer of ownership that are relatively stable compared to consumption type of taxes. Provincial level taxes revenues mostly come from vehicles-type related taxes. Meanwhile at the local level, dominant taxes revenues in cities are generally property taxes or property transfer tax, and/or electricity consumption taxes (*pajak penerangan jalan* - PPJ) on most of municipalities.⁵

Furthermore, in the year 2020, some provinces and local governments introduced taxes incentives or some types of taxes relief. Provincial and local taxes revenues may not be much affected if taxes incentives that were adopted mostly in the form of extending tax payment deadline as well as if there were higher effort on collection of arrears. Extending the tax payment deadline is generally part of provinces and/or local governments taxes relaxation. Provinces and local governments have also adopted policies of eliminating penalties of prior taxes delinquencies, waiving small taxes delinquencies, and other policies.

2.3 Province and Local Government Expenditures

Provinces and local governments expenditures on average have declined as well in 2020. As shown in Table 1, there is a negative average growth of -10.11% for provincial government expenditures, which is slightly a lower reduction than the average revenues shortfall. Local governments also have negative average growth of expenditures, which is -12.11%. A moderate decrease in provinces and local governments expenditures may signal a relatively manageable provincial and local government finance, at least to most of provinces and local governments. As noted earlier, the reduction of provinces and/or local governments expenditures may be caused by activities adjustment of government services or facilities as in the case of education sector, and there may as well expenditures arrears (Utz et al., 2021).

From Table 1, by type of expenditures, it is capital expenditures of local and provincial governments that experienced the highest drop in 2020, compared to other type of expenditures, referring to government expenditure on personnel, and good and services expenditures. Provinces and local governments capital expenditures contracted -25.43% and -28.11% respectively. Limitation on mobility to some extent create hurdles in execution of the capital expenditures

⁵Electricity consumption tax is levied on residential electricity consumption (PPJ), mostly referred to electricity from PLN, a national SOE on electricity. In 2020, there were discounted electricity tariff targeted to residential use. An increase of PPJ revenues was plausible only if residential electricity consumption highly increased, for example as households spend most of their activities at home, that exceed revenues shortfall that may occur from tariff reduction. Some local governments reported an increase of electricity consumption taxes revenues in 2020, while others reported a decline of electricity tax revenues.

that generally dominated by infrastructure related programs. Therefore, disbursement is also low for capital expenditure, which is on average is 62.75% for provinces and 72.3% for local governments. At the provincial and local government level, some of the programs classified as capital expenditures are frequently funded from intergovernmental transfer in the form of DAK. In this case, as shown in Table 1, DAK disbursement rate at the provincial level on average has dropped to 71.94%. Although at local government level, DAK disbursement on average is relatively higher, which is 88.04%. To a less extent, expenditures on goods and services (G&S) have also contracted which may be due to limitation on travel and gathering activities.

In contrast to other types of expenditures, personnel expenditures have not much affected by COVID-19 pandemic as most of provinces and local governments still have a positive growth on its personnel expenditures. Table 1 shows average growth of personnel spending, which are -1.24% and 1.3% respectively for provincial and local government level. In this case, expenditures on personnel refers to both direct and indirect personnel expenditure. Only two provinces have a negative growth of personnel expenditure more than 20%, province of DKI Jakarta and province of Papua. Personnel expenditure can also be a proxy of operating costs for the provinces and local governments, and thus as there is not much of changes in terms of personnel spending, most provinces and local governments have managed adjusted expenditure programs without changing and/or reducing its expenditures on personnel.

During the year 2020 the extent of low disbursement intensified. Over a one-year cycle, consolidated provincial and lower-level government disbursement is generally in the ranged of 90 to 95% of the stated budget. However, in 2020, the total provincial and local government realized expenditures is only 80% of the planned budget. Provincial and local governments, in year 2020, as noted earlier in addition to deal with changes on implementation activities as there are limitation on mobility, provincial and local government may also need to deal with additional guideline on the case of new policies. These new policies related to expenditure programs, as well as in the context of revenues, are expected to bring consequence of a lower disbursement at both provincial and local government.

2.4 Emergency Spending and Expenditure on Health Sector

Following a guideline issued by MOHA, on refocusing of APBD to provide higher allocation to fund activities aiming to mitigate the COVID-19 health crisis, most of the provinces and local governments allocate the intended fund on emergency spending item (*pos belanja tidak terduga*).

The category of expenditures can also be based on whether it is spent on personnel, goods and services, and/or capital spending. In the case of emergency spending, from the available data, it is not yet plausible to break-down the type of spending of this emergency spending, whether it is allocated more on personnel spending, or instead goods and services, or capital spending. Furthermore, provincial and local government expenditures by function for the year 2020 that is available to the public are only on budget data, and not realization. Therefore, we may only proxy of provincial

and local government expenditures, following guideline, in aggregate through the allocation of emergency spending and not by the functional type of expenditures.

Figure 3 in Annex shows a realized emergency spending from 2010–2020, in which there is high increase of emergency spending in 2020 on sub-national and local level emergency spending. Before the year 2020, emergency spending of provincial and local governments is generally less than 0.1% of their total spending. For the year of 2020, emergency spending is 3.32% of total provinces and local government spending.

Meanwhile, Figure 4 in Annex shows emergency spending across provinces for the year 2020. The allocation of emergency spending refers to province emergency spending as well as all local governments emergency spending for each respective province. In the aggregate of provincial and local government emergency spending, high allocation of emergency spending occurred in Java provinces, and these provinces have allocated more than 3% of its expenditures for emergency spending. In the case of DKI province, the allocation of emergency spending covered 9.71% of total expenditures. Excluding DKI Jakarta, total emergency spending from local governments exceeded allocation from provincial government.

We assume provinces and/or local governments had fund to handle Covid-19 health problem when there is an allocation on emergency spending item (*pos belanja tidak terduga*) based on realized budget data. Following MOHA guideline, the emergency spending had primarily covered the Covid-19 mitigation health sector related activities. The provincial and local government responses can plausibly be identified from changes in health expenditures composition as an overall and across level of governments. Government spending function, i.e. government expenditures on health sector may as well linked to activities of COVID-19 mitigation. In this case, we are assuming that the government responded if there is an annual increase in health sector spending and/or if there is an increase in the share of health expenditures across level of government.

In comparison to budgeted provincial and local governments health expenditures, which is planned to be around 188.7 trillion IDR, the total emergency spending is 18.4% of this planned health expenditures from all provinces and local governments. These planned provincial and local health expenditures cover around 18.1% of total provinces and local governments expenditures.⁶ The share of lower-level government health expenditures to their total expenditures, has increased from 14.1% in 2019. In contrast, central government expenditures on health, is around 4–5% to central government expenditures during the last 10 years, although overall public expenditures on health have increased above 8% especially as intergovernmental transfers have included as well operating grant to provincial and local governments health providers in the form of BOK (*Bantuan Operasional Kesehatan*).

In general, the health sector is one of the most decentralized sectors - plausibly on par with the education sector

⁶Figure 4 in Annex shows health spending composition across level of government from 2010–2020. The data refers to realized budget data except for the year 2020, which is still based on budgeted (planned expenditure) data.

- in which local as well as provincial government have a relatively dominant role. Health provision, such as provincial or local government hospitals as well as a smaller unit of health providers, i.e. *Puskemas*, are provided and mostly managed by lower-level government. Since 2010, there is a mandatory 5% budget allocation for the health sector for central government and 10% of the budget from lower-level governments referring to provincial and local government budget as stated in Law 36 2009.⁷ Figure 4 in Annex shows public health expenditures of lower-level governments, especially local governments, are higher than central government health expenditures, signaling that much of intervention in the health sector need to channeled or coordinated in the provincial and local government level.

Other than emergency spending, there could as well be intervention to support socio-economic hardship during this period of COVID-19 pandemic in terms of social assistance spending and/or grant allocation conducted by provinces and/or local governments. However, as shown in Table 1, the amount of social assistance spending as well as grant are relatively small in comparison to emergency spending. These spending items seem to have been extensively used during the year 2019 but less so for the case of 2020 to mitigate the COVID-19 pandemic, indicated by a ratio of realization to budget allocation (disbursement rate) as shown in Table 1. In this context, as large intervention at the national level also occurred in the form of social assistance spending, and it is unlikely that this intervention may overlap with provincial and local government activities given a small amount allocation of social assistance spending and grants by provinces and local governments during the year 2020.

3. Covid-19 Severity across Provinces

In early March 2020, the government has stated 100 hospitals to be referred to treat COVID-19 patients, and later on extended to 287 hospitals (Djalante et al., 2020). Though after almost one year, the expected containment policies seem to be yet unseen. Since the end of March 2020, the daily confirmed case of COVID-19 in Indonesia had increased from 1,500, and to 56,381 cases in three months, and to 743,198 cases at the end of December 2020.

The extent of COVID-19 infections and its fatalities are different across regions. Given populated and dense regions are characteristics of Java regions, provinces in Java and Bali tend to have a larger cases and casualties. In this context, DKI Jakarta province is categorized as the epicenter of COVID-19 endemic covering around 25% of the total number of confirmed COVID-19 patients, alongside with other populated and dense province such as East Java province, West Java, and Central Java. On aggregate, daily infection of COVID-19 cases in Indonesia has not yet slowed down, driven by still relatively high COVID-19 infection cases in those provinces. In terms of fatality of COVID-19, referring to the death rate, as shown in Figure 5 in Annex, death

rate varies across provinces. Based on data up to December 2020, provinces with a death rate that is still more than 5% are East Java province and South Sumatera.

At the national level, mitigation of Covid-19 health crisis at first is handled by the national task force (SATGAS) of COVID-19. There was also Covid-19 task force set at the regional, provincial and local government levels. The national task force of COVID-19 prioritizes mitigating public health crisis of COVID-19, though it is later on expanded, in which national SATGAS of Covid-19 also include task force focusing also on economic related policies, chaired by the Economic Coordinating Minister and the task force, one of them consisting of Minister of State Own Enterprise (*Kementerian BUMN*). Djalante et al. (2020) and Olivia et al. (2020) pointed out the lack of coordination in handling the Covid-19 health crisis, in terms of health policies, that generally in other countries are much driven and directed by the Health Ministry.

The scale of the COVID-19 public health crisis at a relatively short period, taking into account capacity health providers, prompting restriction on mobility in some of the provinces. Restrictions to prevent a surge in COVID-19 infections, are requested by some of provinces and/or local governments. The Ministry of Health on April 3rd 2020, issued a regulation on the procedure to adopt restriction policy by either provinces and/or local governments, referring to what is called PSBB (*Pembatasan Sosial Berskala Besar*). The Health Ministry Decree No. 9 2020 stated that restriction can be proposed by province and/or local government, to be approved by the Minister of Health. In mid and late April 2020, there are 18 regions, consisting 2 provinces and 16 local governments that had adopted PSBB. The majority of these regions are in Java islands.

Based on Ministry of Health Decree No. 9 2020, PSBB policy is a restriction in the form closure and/or limitation on: (1) school and offices, (2) religious activities, (3) activities in public places or facilities, (4) social and cultural activities, (5) transportation modes, and (6) other activities specifically related to defense and security. The exception only applied to essential activities. As PSBB policy is requested and implemented at the provincial and/or local government level, enforcement is coordinated as well at the local level. To some extent, provinces and/or local governments conduct coordination with the police agency, which is a national or central government agency. PSBB is only one type of schemes on stay-at-home mandate, as some local governments adopt a limitation in terms of curfew, or recently restriction that is called as PPKM (*Pemberlakuan Pembatasan Kegiatan Masyarakat*).

Lower mobility may not only be due to restriction policy, as that can also refers to voluntary decision of households. Figure 5 in Annex, shows a drop in average changes of mobility to workplaces, based on Google mobility data, especially in Q2 2020. However, there is still low mobility to workplaces on average in Q3 and Q4 referring to a period in which government mobility restriction on a wide provincial and/or local government level have been lifted. In some provinces, Q4 2020 is even associated on average with the lowest mobility to workplaces in comparison to the previous three quarters, as in the case of West Papua, Lampung, Riau, and North Maluku.

⁷Law 36 2009 set the minimum percentage of public health expenditures for central as well as lower-level government excluding payment for salaries. In this case, share of health expenditures as shown in Figure 4 has not yet excluded payment of salaries, given the data have not been available for long series of years.

3.1 Hardest-Hit Provinces: Aggregated Provincial and Local Government Spending and Covid-19 Fatalities

Based on aggregated data to the provincial level, Table 2 shows, in general, emergency spending seem to affect severity of Covid-19, as it correlates to a lower death rate in the case of provinces in Java and Bali islands. Higher realized emergency spending by both province and local governments may link to a reduction of Covid-19 death rate. As shown in Figure 2, there is a relatively high allocation of emergency spending in Java provinces, though estimation result in Table 2 also shows a relatively higher death rate of COVID-19 for provinces in Java and Bali islands, and unfortunately it may have not been adequately mitigated from solely higher allocation of emergency spending.

The estimation result has not included intervention directly conducted by central government. And in terms of the mobility restriction policy, from estimation results in Table 2, although the coefficient is negative, it is not statistically significant. Also, the aggregation level as well as period of estimation may not be suitable to actually assess the effectiveness of mobility restriction policy. Yet, we included the variable only as a control variable, and to take into account that intervention through the province and local government expenditures is only one type of responses in handling COVID-19 health problems.

4. Conclusion

Pandemic COVID-19 is one of major challenges on how government need to adjust activities and tailor its policies to handle this health crisis. Other than programs or interventions that have been designed and channeled by central governments, there are also responses from lower-level governments. These responses from provincial and local government level, can be initiated by the respective province and/or local government, following directive from the central government. Based on lower-level government 2020 budget data and its realization, provinces and local governments mostly did not respond by increasing their government expenditures, but rather through reallocation of expenditure items.

In terms of the province and local government 2020 realized budget, lower-level government expenditures and revenues on average have contracted. The decline of government revenues is relatively lower than their expenditures for most of local governments plausibly due to low expenditures disbursement especially on capital expenditures. The average local government expenditures growth is -12.11% while on average revenues contracted 11.06%. For the provincial government, on average, government revenues contracted slightly higher than its expenditures, which are -10.48% and -10.11% respectively. During 2020, there was a negative growth on all provinces' government expenditures.

On the revenue side, despite a lower intergovernmental transfer received by most of provinces and local governments, revenue sharing allocation (DBH) has increased partially due to adjustments referring to additional allocation which came from previous years higher realized revenue sharing collected by the central government. In terms of own source revenues, contraction at the provincial government

not only contributed from shortfall of their taxes revenues but also to an extent a very low collection rate of provincial user charges. Meanwhile, though the revenues shortfall on average is low for local governments, 22% of local governments or 114 out of 514 local governments, experienced negative growth of more than 20% in its revenues.

The issuance of the Ministry of Home Affairs Decree (*Permendagri* 20 2020), on refocusing guideline, was translated by provinces and local governments, through re-allocation of spending to emergency spending (*belanja tidak terduga*) in the revised budget. This type of spending is intended to mitigate the COVID-19 health crisis in respective province and/or local government. At the end of 2020, a realization of this emergency spending is much higher than initial allocation in the revised budget. Aggregating data to the provincial level, my preliminary result show that emergency spending seem effective to reduce COVID-19 fatalities, referring to the indicator of COVID-19 death rates, for the case of the provinces in the Java-Bali region.

References

- Cucinotta, D., & Vanelli, M. (2020). WHO declares COVID-19 a pandemic. *Acta Bio Medica: Atenei Parmensis*, 91(1), 157-160. doi: <https://dx.doi.org/10.23750/abm.v91i1.9397>.
- Djalante, R., Lassa, J., Setiamarga, D., Sudjatma, A., Indrawan, M., Haryanto, B., ... & Warsilah, H. (2020). Review and analysis of current responses to COVID-19 in Indonesia: Period of January to March 2020. *Progress in Disaster Science*, 6, 100091. doi: <https://doi.org/10.1016/j.pdisas.2020.100091>.
- Joint Decree between Ministry of Finance and Ministry of Home Affairs No. 119 2020 (SKB No. 119 2020).*
- Ministry of Finance Decree No. 113 2020 (PMK 113 2020).*
- Ministry of Health Decree No. 9 2020 (Permenkes 9 2020).*
- Ministry of Home Affairs Decree No. 20 2020 (Permendagri 20 2020).*
- Olivia, S., Gibson, J., & Nasrudin, R. A. (2020). Indonesia in the time of Covid-19. *Bulletin of Indonesian Economic Studies*, 56(2), 143-174. doi: <https://doi.org/10.1080/00074918.2020.1798581>.
- PERPU (Peraturan Pemerintah Pengganti Undang-Undang) No. 1 2020.*
- Presidential Decree No. 54 2020 (Peraturan Pemerintah 54 2020).*
- Qibthiyyah, R. (2020, July 1). Incentives and province-local taxes administration policies (in Bahasa). *Presentation material*.
- Utz, R., Mastruzzi, M., Vazquez Ahued, F., & Tawfik, E. (2021). An overview of the potential impact of the COVID-19 crisis on the accumulation of government expenditure arrears. *Macroeconomics, Trade and Investment: Equitable Growth, Finance & Institutions Insight*. International Bank for Reconstruction and Development / World Bank. <http://hdl.handle.net/10986/35042>.
- WHO. (2020, 11 March). WHO Director-General's opening remarks at the media briefing on COVID-19 - 11 March 2020. *Speeches*. World Health Organization. <https://www.who.int/director-general/speeches/who-director-general-s-opening-remarks-at-the-media-briefing-on-covid-19---11-march-2020>.
- World Bank. (2020). *Spending better to reduce stunting in Indonesia: Findings from a public expenditure review*. World Bank. <https://doi.org/10.1596/34196>.

Annex

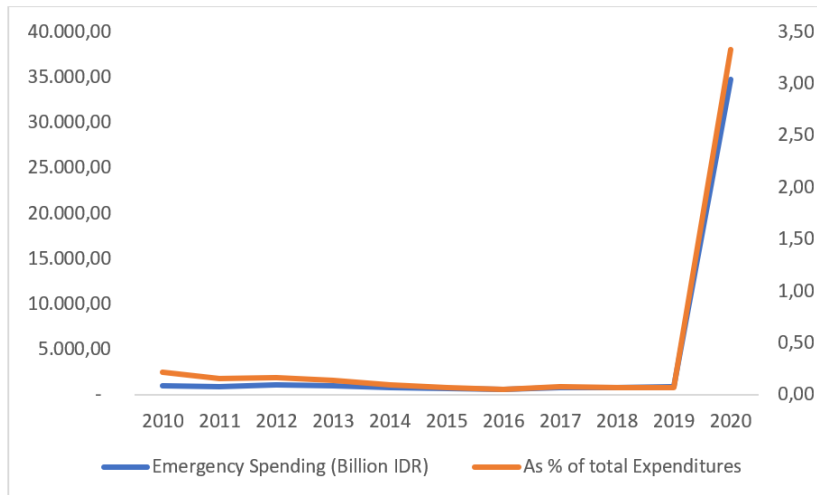


Figure 1. Emergency Spending 2010–2020: Aggregate Provincial and Local Government Level
Source: Ministry of Finance, Directorate General of Fiscal Balance

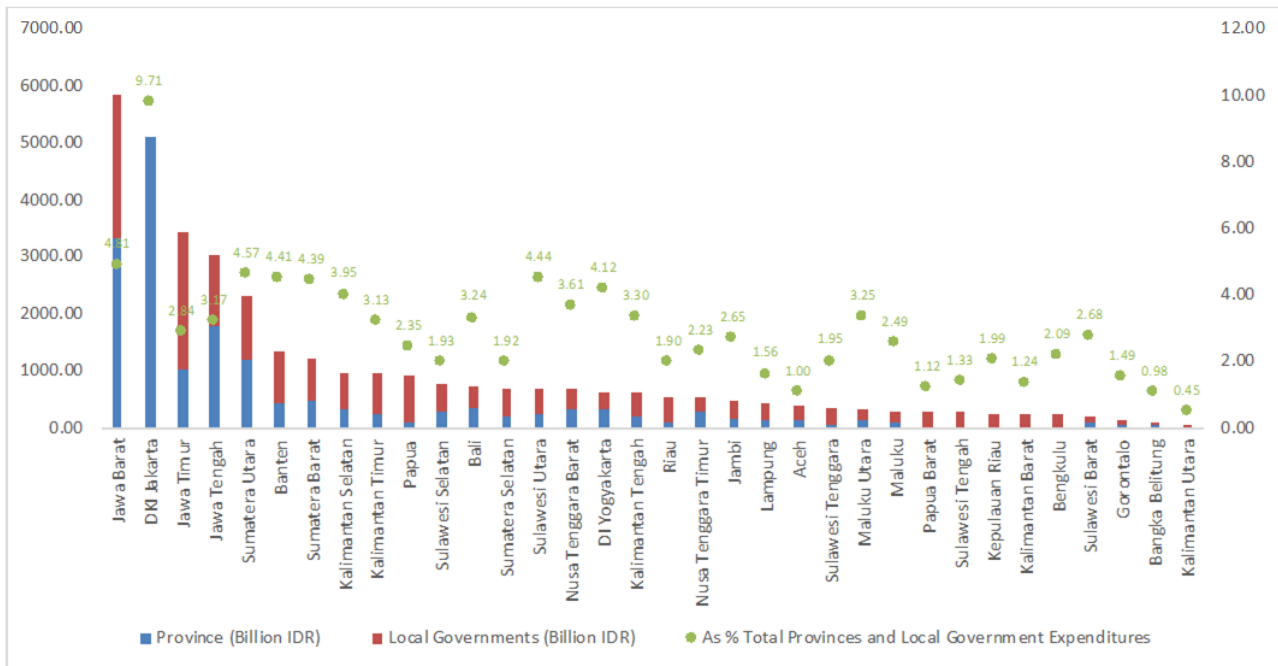


Figure 2. Emergency Spending in 2020: Provinces and Aggregated Local Governments
Source: Ministry of Finance, Directorate General of Fiscal Balance

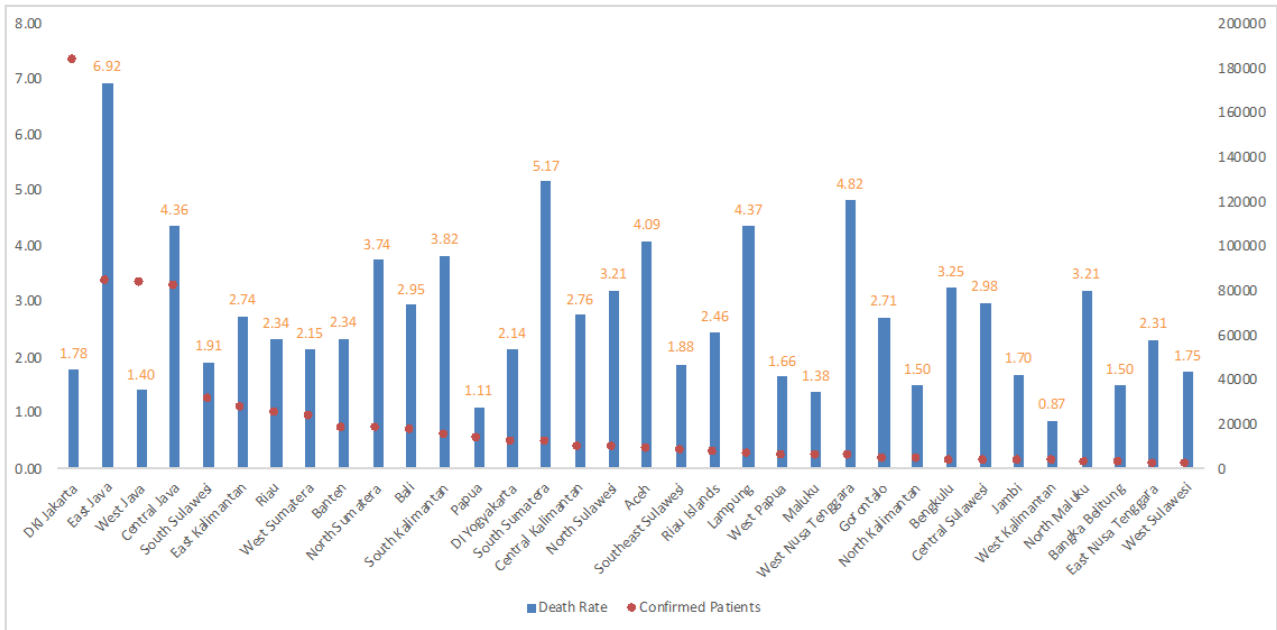


Figure 3. Number of Confirmed Covid-19 Patients and Death Rate, at end of 2020
 Source: Ministry of Health, CEIC

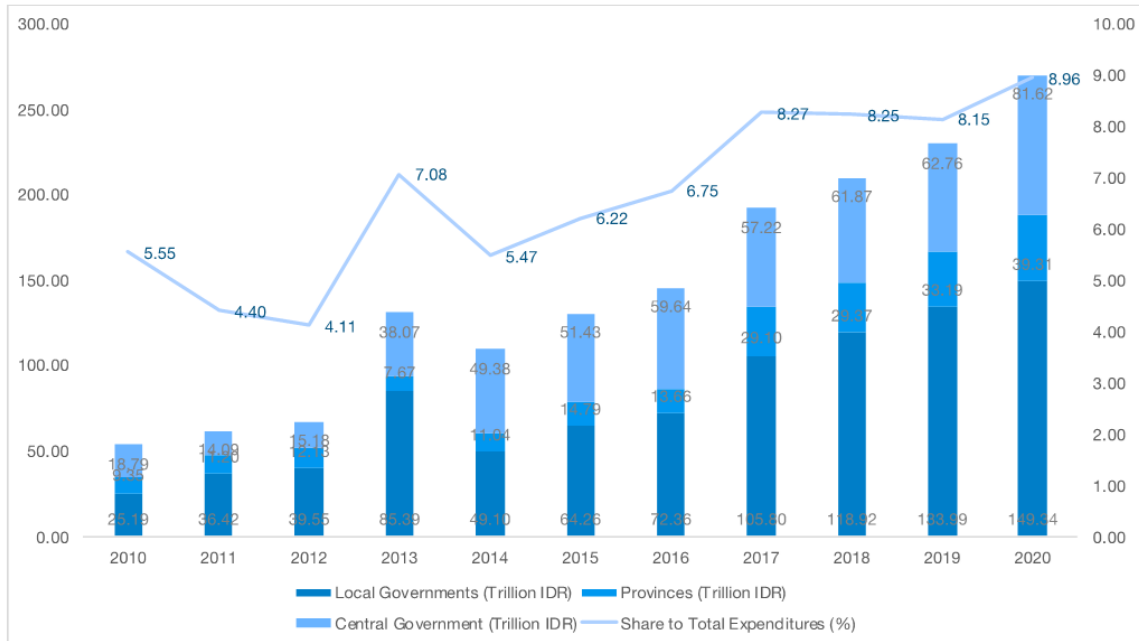


Figure 4. Composition of Health Expenditures across Level of Governments: 2010–2020
 Note: health expenditures in 2020 is a budget data, while data 2010-2019 is a realization.
 Source: Ministry of Finance, Directorate General of Fiscal Balance and Fiscal Policy Office



Figure 5. Average Changes of Mobility to Workplaces, at end of 2020

Source: Google Mobility Daily Changes, CEIC

Table 2. Estimation Results on COVID-19 Fatalities

Dependent: C19 death rate	
C19 confirmed patients	0.00003 * (0.00)
Population	0.00012 *** (0.00)
Emergency Spending	-0.00033 (0.00)
Region Java & Bali	0.775 (0.53)
PSSB provinces	-0.427 (0.61)
Interaction: Region Java & Bali * Emergency Spending	-0.0011 ** (0.61)
Constant	2.029
R-Squared	0.35
No. Observations	34

Note: *** 1% significance level, ** 5% significance level, * 10% significance level.

Gedung LPEM FEB UI
Jl. Salemba Raya No. 4, Jakarta 10430
Phone : +62-21 3143177 ext. 621/623;
Fax : +62-21 3907235/31934310
Web : <http://www.lpem.org/category/publikasi/workingppers/>

