

Measuring Local Governments' Financial Capability in Realizing the MP3EI Program

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According to data from the Master Plan for the Acceleration of Indonesian Economic Development (MP3EI) issued by Badan Perencanaan Pembangunan Nasional (BAPPENAS) in 2011, funds needed for regional infrastructure development for the period 2011-2025 and indicative investment required for 22 major economic activities have reached IDR1,786 trillion and IDR2,226 trillion respectively, leading to a total investment of IDR4,012 trillion.

This considerable investment needed cannot be entirely financed by the Indonesian government. Currently it can contribute 10% at most of the total investment or IDR401.2 trillion, in the form of basic infrastructure such as roads, seaports, airports, railways, and power plants.

To close the financial gap, state-owned enterprises (SOEs) and private parties are expected to play a bigger role, contributing 18% of the total investment, or about IDR722 trillion in form of infrastructure development and main economic activities. Private parties, meanwhile, are encouraged to contribute even more to support the development of major economic activities 51% of the total investment, or IDR2,046 trillion, with the remaining 21%, or IDR843 trillion, expected through public private partnership (PPP) schemes.

To measure the capabilities of local regional governments (LRGs) to finance their infrastructure development, we will view the actual capital expenditure of the 22 provincial governments (out of 524) that are part of the MP3EI program. The capital expenditure data is taken from the 2011 local government financial report (LKPD). Based on this data, the actual capital expenditure of these local governments was only IDR19.42 trillion, or an average of 19.19% of the total revenue budget (APBD), which means that their contribution over the next 10 years (the general term of the bonds) will only be IDR194.2 trillion, or 48.40%, of IDR401.2 trillion.

The realization and real capabilities of local regional governments are considered very small. To cover the shortage, they should find alternative funds such as LRG loans. The law currently allows LRGs to have a debt service coverage ratio (DSCR) of a maximum of 2.5 times. With this ratio, the 22 provincial governments can increase the capacity of their capital expenditure to reach 23.37% of the total revenue budget (APBD) or a total of IDR24.68 trillion per year. Over the next 10 years, total local government investment will reach IDR246.80 trillion, or 61.55% of IDR401.2 trillion. Although it is still shortage, but at least local governments are able to contribute more to achieve the target.

This means that LRGs can increase their contribution to the infrastructure development funds through LRG loans such as municipal bonds, an instrument that is able to address the needs of funding for regional development using investors.

Advantages of municipal bonds:

1. Municipal bonds are a financial product with a fixed and competitive interest rate, depending on the rating obtained by the LRG, and have a long tenor which is suitable to fund long-term projects such as developing infrastructure needed by the community
2. They are an instrument traded in capital markets so that local projects can actually be owned by local investors
3. The projects the bonds finance can, in the future, increase local sources of revenue (pendapatan asli daerah)
4. They can improve the liquidity of our capital market since they add a greater variety of attractive financial products in the domestic capital market.

Based on the advantages listed above, it is expected that municipal bonds may soon become a reality in Indonesia in supporting local infrastructure development. The availability of good infrastructure will help the nation achieve its targeted economic growth of 7% to 9% annually according to BAPPENAS data. With this high economic growth rate, Indonesia is expected to become a developed country in accordance with the MP3EI target program in 2025.

Table. Measuring Local Government’s Financial Capability in Realizing the MP3EI Program

No.	PROVINSI	Master Plan Percepatan Pembangunan Ekonomi Indonesia 2011-2025			MP3EI Kemampuan (Tn)	2011 CAPEX	Obligasi 10 tahun		
		Lokus	Keg Ekonomi Utama	Pelaku			Pokok	P + B (10%)	
01	Jawa Timur	St. Kertosari, Pematang Mangrove	Makanan, Minuman, Perikanan	Bumih Hartono	Jalan. Padalaran, Sural	2,92	2,92	0,00	0,00
02	Jawa Barat	Banjar, Banjar, Sambutan, Jarakot	Industri Tekstil, Kimia, Tambak	PT. PT. PT. PT. PT. PT.	Jalan. Bandar, Cirebon	3,00	3,00	0,00	0,00
03	Sumatera Utara	Sumut, Cilegon (KPA) S. Sunda	Peta. Peta. Tambak, Sialit. Sialit.	Bumih Hartono	Jalan. Bandar, Cirebon	2,00	2,00	0,00	0,00
04	Jawa Tengah	Selatan Jawa Tengah	Peta. Peta. Tambak	Bumih Hartono	Jalan. Padalaran, Sural	4,07	2,70	0,00	0,00
05	Sumatera Utara	Kuala Sarik Mulya	Sialit. Sialit.	BUMIT	Jalan. Bel. Karim, Sing	2,00	2,00	0,00	0,00
06	Bali	Jembrana, Bangli, Selatana, Badung	Pelabuhan, Perikanan	Bumih Hartono	Jalan. Tali. Padalaran	30,12	2,34	0,00	0,00
07	Bali	Kelusa, Karang, Karang, Karang	Perikanan, Perikanan, Perikanan	Bumih Hartono	Jalan. Bandar, Cirebon	30,00	3,00	0,00	0,00
08	DKI Jakarta	Jakarta Barat	Industri, Jasa, Perikanan	Bumih Hartono	Jalan. Bandar, Cirebon	20,00	2,00	0,00	0,00
09	Sulawesi Selatan	Kota Baru, Tanah. Ganda. Ganda	Perikanan, Perikanan	Bumih Hartono	Jalan. Bandar, Cirebon	20,00	2,00	0,00	0,00
10	Lombok	Kuta, Lombok, Kuta, Kuta, Kuta	Jambatan, Sialit. Sialit.	Pem. Swasta	Jambatan	20,00	2,00	0,00	0,00
11	Kalimantan Barat	Pangkalan, Pangkajene	Perikanan, Perikanan, Perikanan	Bumih Hartono	Jalan. Bandar, Cirebon	3,00	3,00	0,00	0,00
12	Sumatera Selatan	PT. Sialit. Sialit. Sialit. Sialit.	Perikanan, Perikanan, Perikanan	Bumih Hartono	Jalan. Bandar, Cirebon	20,00	2,00	0,00	0,00
13	Jawa Tengah Barat	Kota Baru, Kota Baru	Perikanan, Perikanan, Perikanan	Bumih Hartono	Jalan. Bandar, Cirebon	20,00	2,00	0,00	0,00
14	Buru	Kawasan Industri Champi	Sialit. Sialit.	Bumih Hartono	Jalan. Padalaran, Sural	3,00	3,00	0,00	0,00
15	Kalimantan Timur	Bontang, Kota. Bontang, Bontang	Perikanan, Perikanan, Perikanan	Bumih Hartono	Jalan. Bandar, Cirebon	20,00	2,00	0,00	0,00
16	Sumatera Utara	Sumatera, Tanah. Sialit. Sialit.	Perikanan, Perikanan	Bumih Hartono	Jalan. Bandar, Cirebon	3,00	3,00	0,00	0,00
17	Sumatera Tengah	Kota. Kota. Kota. Kota. Kota.	Perikanan, Perikanan, Perikanan	Bumih Hartono	Jalan. Bandar, Cirebon	20,00	2,00	0,00	0,00
18	Sumatera Utara	Kota. Kota. Kota. Kota. Kota.	Perikanan, Perikanan, Perikanan	Bumih Hartono	Jalan. Bandar, Cirebon	20,00	2,00	0,00	0,00
19	Jawa Tengah Timur	Muko, Muko, Muko, Muko, Muko	Perikanan, Perikanan	Pem. Swasta	Jalan. Bandar, Cirebon	3,00	3,00	0,00	0,00
20	Sumatera Barat	M. M. M.	Perikanan, Perikanan	Bumih Hartono	Jalan. Bandar, Cirebon	3,00	3,00	0,00	0,00
21	Kalimantan Utara	Marau, Marau	Perikanan, Perikanan	Bumih Hartono	Jalan. Bandar, Cirebon	2,00	2,00	0,00	0,00
22	Buru	Tanda. Mulya	Perikanan, Perikanan, Perikanan	Bumih Hartono	Jalan. Bandar, Cirebon	27,00	2,00	0,00	0,00
						2.700,00	270,00	0,00	0,00

Source: MP3EI Data in 2011-2025 and LRG Financial Audit Report 2011

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