

Indonesia's Economic Geography and Fiscal Decentralization 10 years after designing the *big bang*



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BOGOR, 23 JULY 2009**

Main messages

- Growth will always be unbalanced but development can still be inclusive (message from the World Development Report 2009)
- Indonesia is a high diverse and unequal country but decentralization has been equalizing because ...
- ... poor provinces have been the main beneficiaries of Indonesia's decentralization, particularly in the last 5 years.
- Today, main challenge is not to transfer additional funds to poor regions, but to help poor regions spend the resources well.



The new Economic Geography:

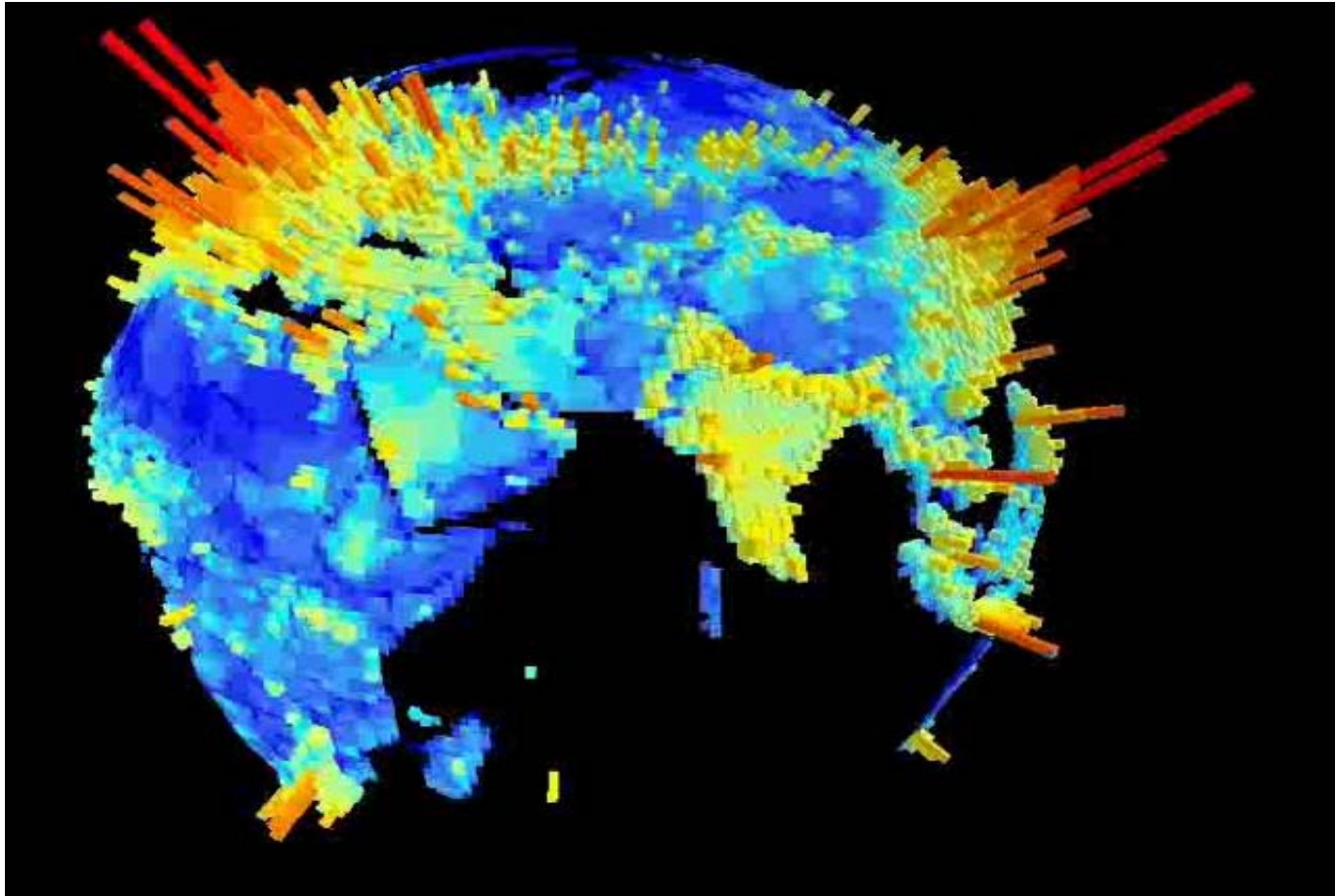
Seeing Development in 3D (World Development Report 2009)

The three 3Ds and three Special Places in the world

- ***Density: Tokyo—the biggest city in the world***
 - 35 million out of 120 million Japanese, packed into 4 percent of Japan's land area
- ***Distance: USA—the most mobile country***
 - More than 35 million out of 300 million changed residence in 2006; 8 million people changed states
- ***Division: West Europe—the most integrated continent***
 - About 35 percent of its GDP is traded, almost two thirds within the region

Concentration, a fact of life,

Half of the world's production.....



at the global spatial scale

...can fit onto 1.5% of its land, less than the size of Algeria





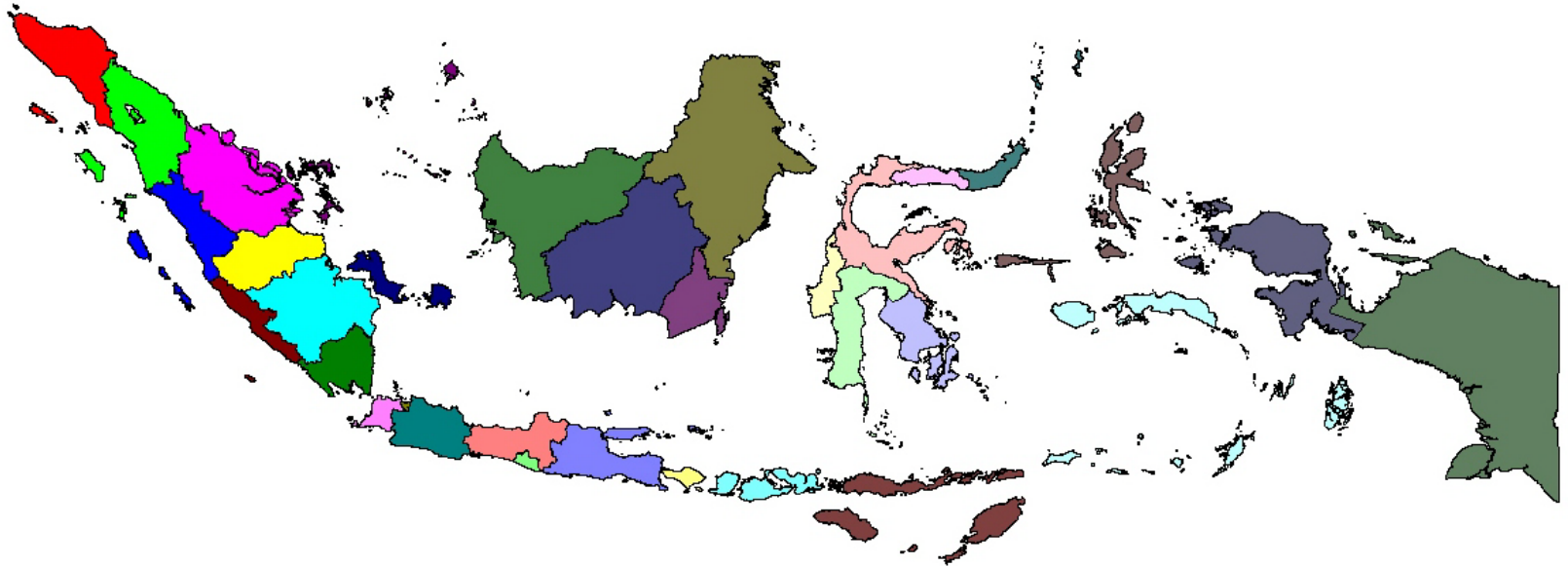
Indonesia's social and economic geography

Indonesia: one of the most diverse countries; living standards range from developed country standards to entrenched poverty

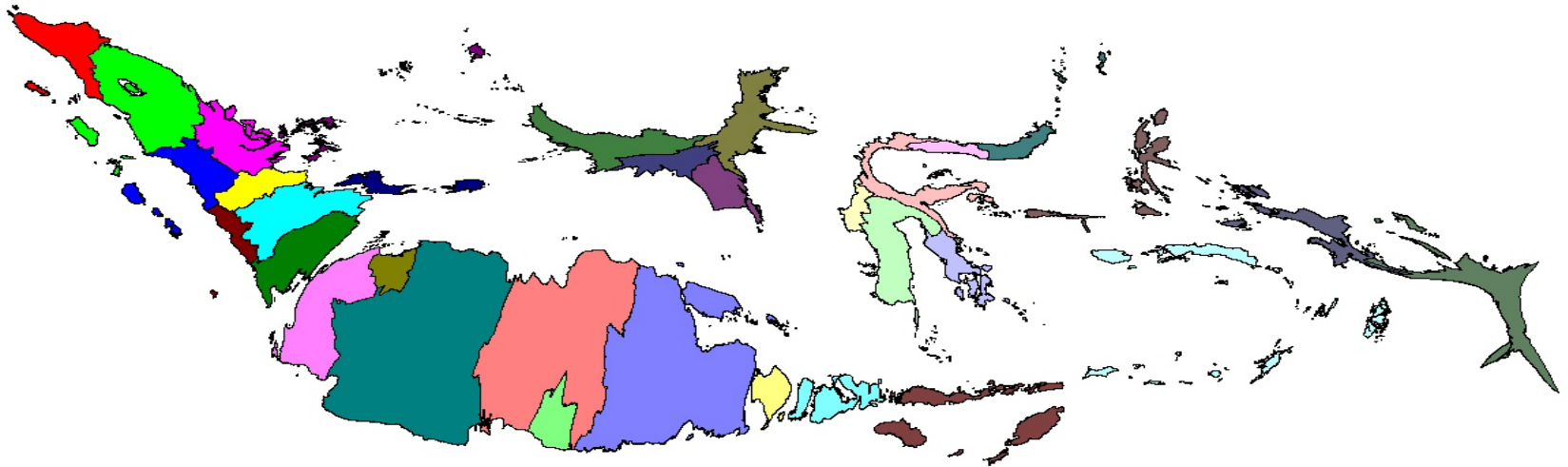
Indicator	Strongest district	Weakest district	Average	Standard Deviation	Mexico (Middle high)	Zambia (Low)
GRDP Per Capita (USD)	33,759*	208	1055	2104	6500	491
Poverty rate (%)	3	51	18	10	20	73
Adult literacy rate (%)	99	21	91	9	90	68
Secondary Gross Enrollment Rate (%)	125	9	82	15	109	26
Life expectancy (years)	73.7	57.5	66.3*	3.1*	75	38

• City of Bontang (East Kalimantan) has the highest GDP per capita in Indonesia. The city has 120,000 inhabitants and its economy is dominated by oil&gas

Indonesia as we know it: With 17,000 islands in 33 provinces

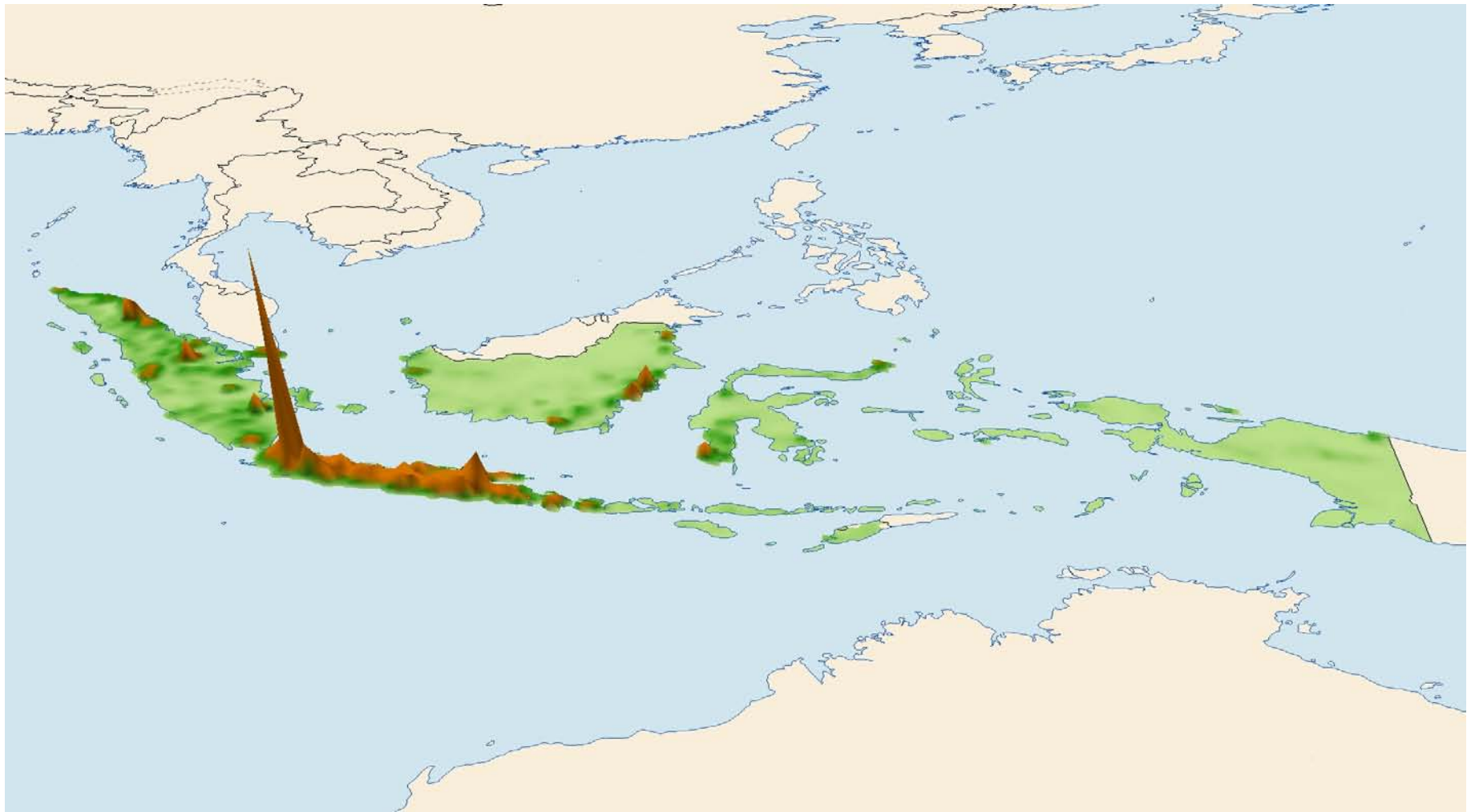


Indonesia's population is heavily concentrated: 90% of the population lives in Java and Sumatra

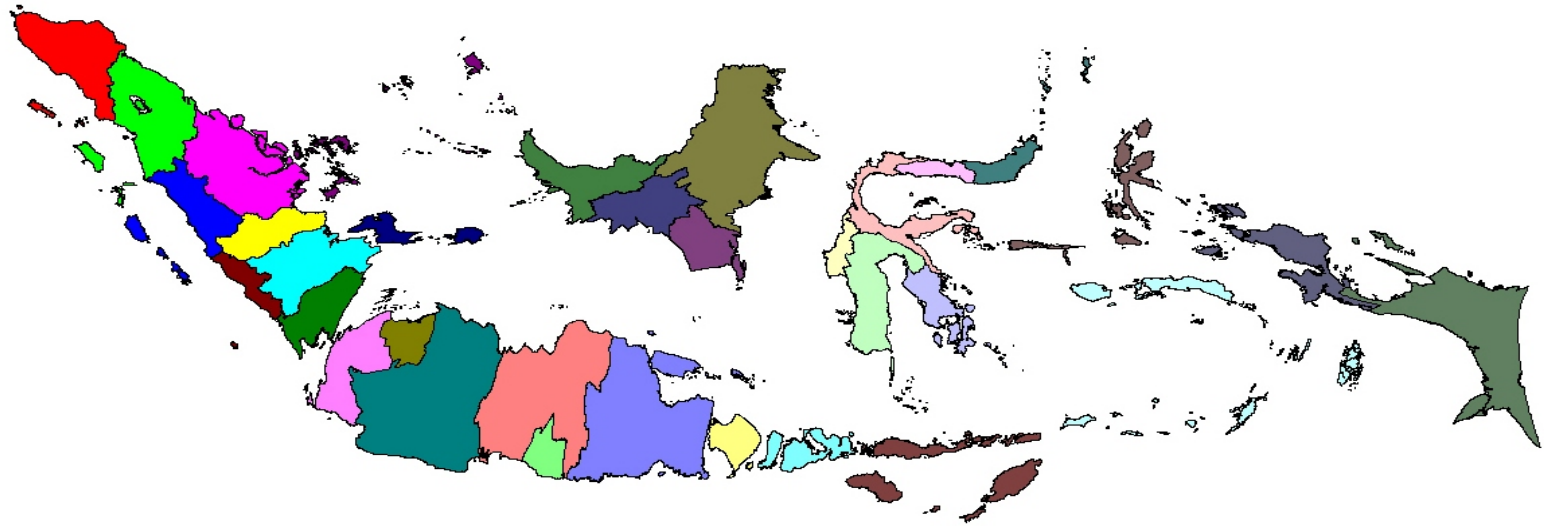


Note: Provincial's size shows the proportion of provincial population relative to national population

.. resulting in very high economic concentration in Java



However, Indonesia's fiscal decentralization is counterbalancing its economic concentration

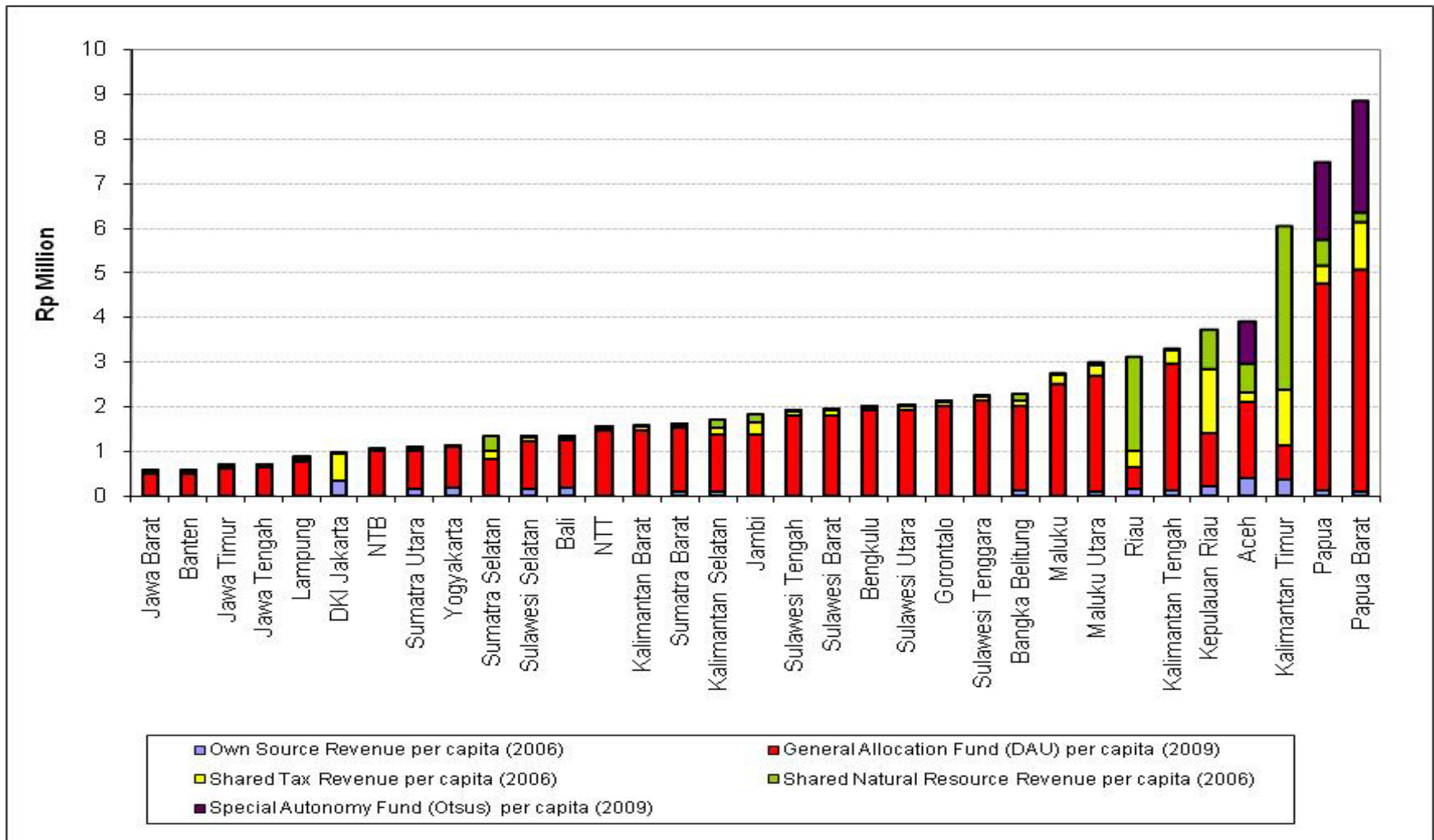


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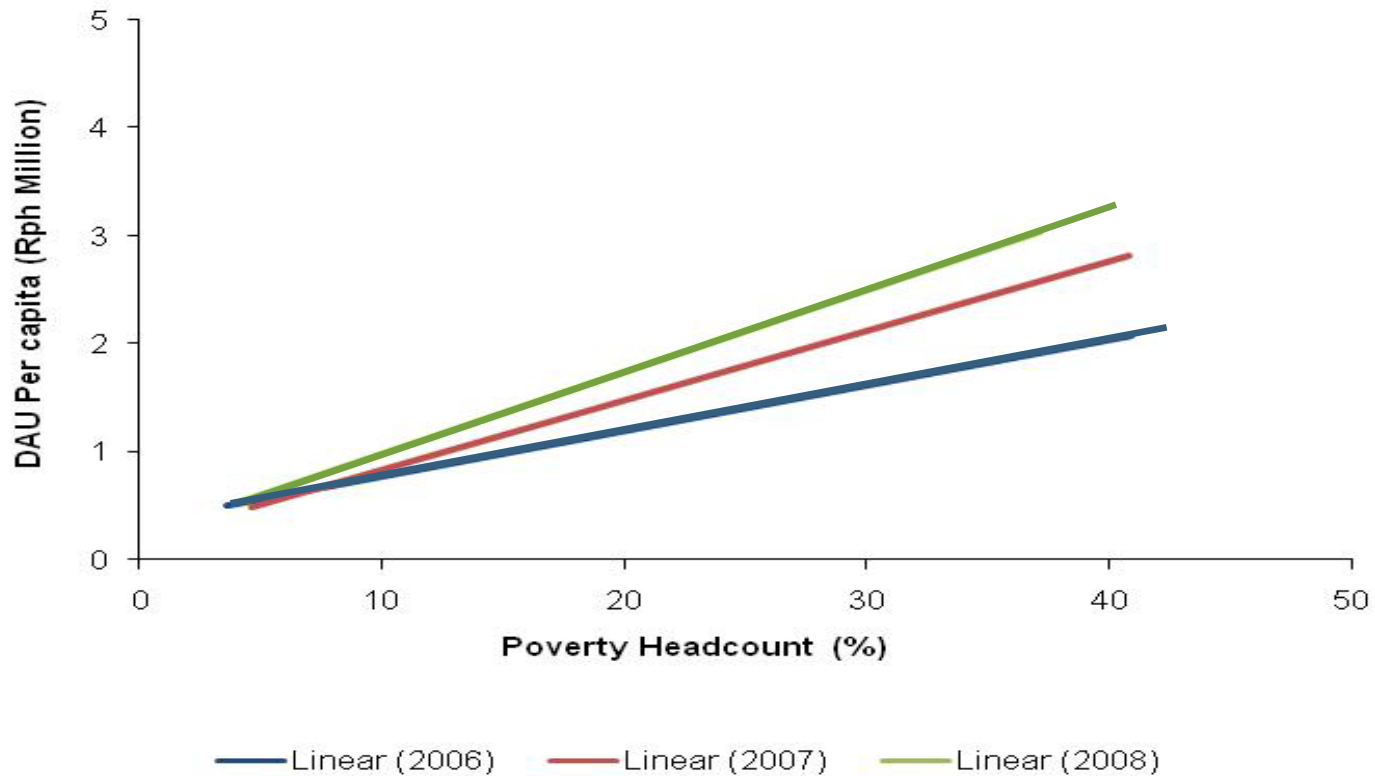


Fiscal Decentralization and Equalization in Indonesia

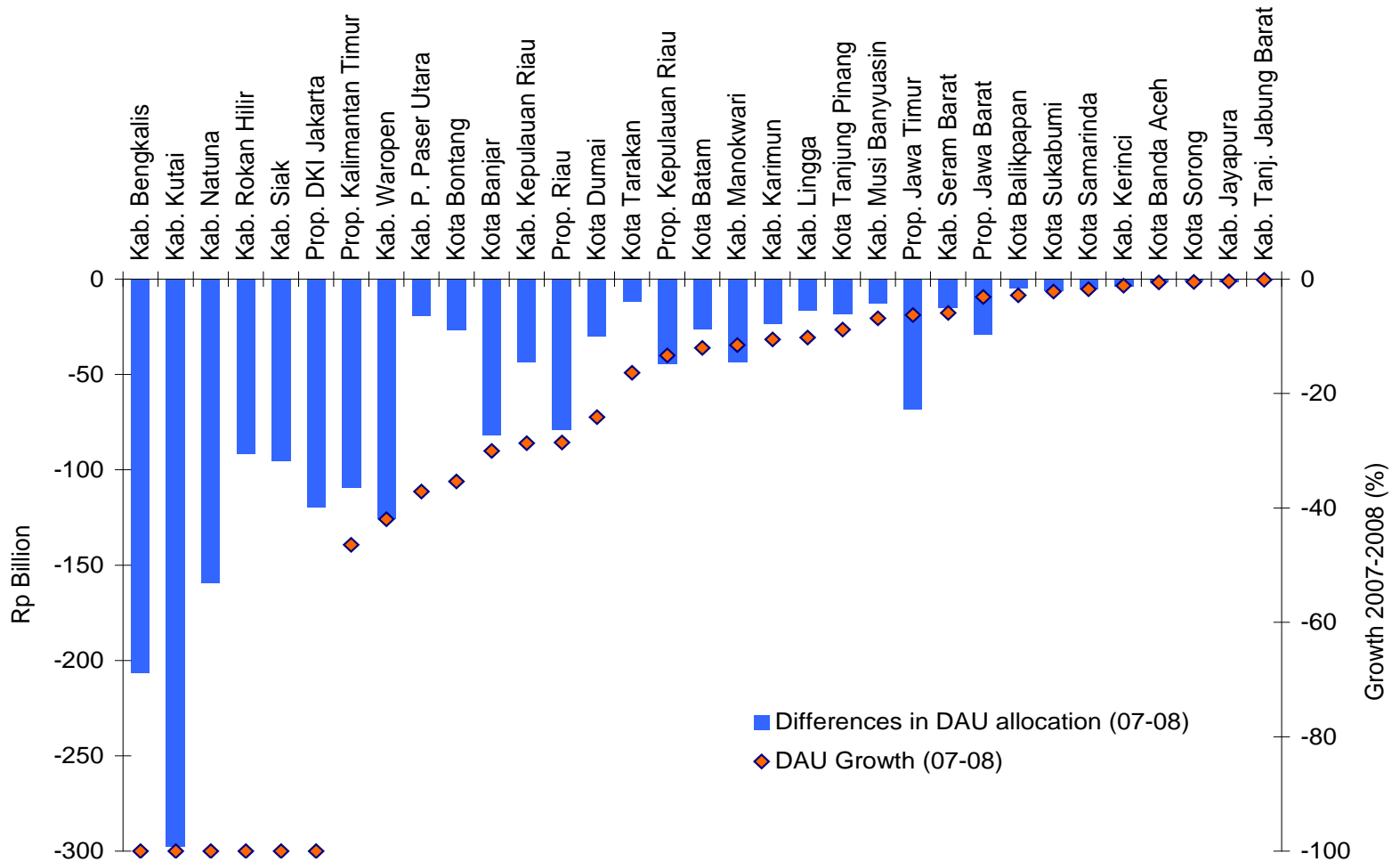
Poor provinces have become the main beneficiary of transfers



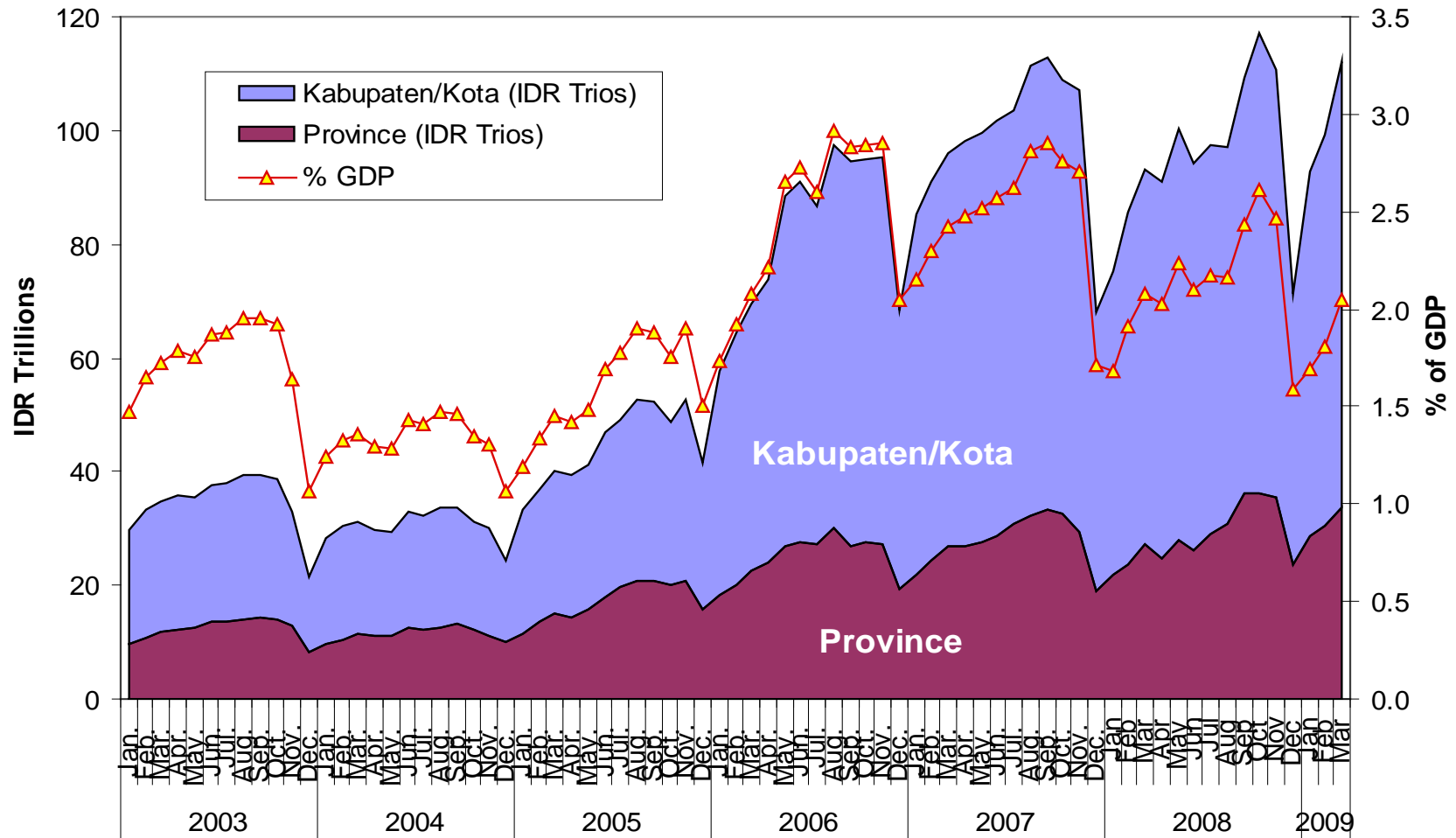
Transfers to poor region has become more pro-poor



The phase out of the “hold harmless” rule made the transfer system more equalizing



The challenge is on spending – well



Conclusions

- Indonesia is becoming an urban country – 60% urban by 2015.
- It is important that decentralization policies take on the “urban challenge”.
- Indonesia’s inter-governmental transfer system has been equalizing Indonesia’s disparities.
- The challenge is to provide – direct and indirect – incentives to improve the quality of spending.



TERIMA KASIH
DANKE
ASANTE SANA

Transfers have increased 5 times since 2000, and stabilize at the high level

