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Assessing Indonesia's Provincial Development Policies: The Case of Bali

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Assessing Indonesia's Provincial Development Policies: The Case of Bali

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October 22, 2021

1 Introduction

The present government, under Governor Wayan Koster, had adopted the vision of "Nangung Sat Kerthi Loka Bali" which consists of three main goals. First, it seeks to re-establish the balance between Balinese culture and nature; Second, to level the province's development, the government aspires to be more responsive to the needs, expectations, and aspirations of every resident. Lastly, the government aims to have the foresight that will enable it to prepare Bali for any future local, national, and global challenges.

The government's policies revolve around five main priorities. The first priority targets food, clothing, and shelter. The government aims to direct developmental policies and programs, from upstream to downstream products, to fulfil the needs of the Balinese people, tourists, and the export sector, in both quantity and quality. The second priority involves health and education, in which the government seeks to direct policies and development programs to fulfil the needs of the Balinese people in sufficient quantity and quality in these sectors. The third priority targeting social security and employment aims to refocus Bali on human capital, specifically on modern agriculture, tourism, culture-based creative industries, architecture and design, and traditional medicine.

The fourth priority is on customs, tradition, religion, art, and culture. Here, the government aims to advance Balinese culture via protecting, fostering, developing, and utilizing Balinese traditions and arts. The last priority centring on tourism focuses on policies that are quality-oriented and cover various aspects. These include the promotion and development of tourist destinations and facilities, as well as tourism products and industries. In the context of quality tourism, Bali aims to attract tourists who stay for prolonged periods, tourists who care about the environment and culture, and tourists who empower local resources.

1.1 Balancing tourism investments and societal needs

Bali has proved itself to be a world-class tourism player that has weathered past downturns and disasters. For example, since the Bali bombings of 2002, the province has hosted multiple international conferences, such as the 2007 UN Climate Change Conference and 2013 APAC and WTO summits.

As such, Bali's investment climate is heavily dominated by the tourism sector. There were six main tourism sectors before the pandemic: ecotourism, silent tourism, agrotourism, sports tourism, spiritual tourism, and retirement tourism. The tertiary sector was the main beneficiary of both domestic and foreign investments. In the third quarter of 2019, the tertiary sector (including industries that support the tourism industry) raked in IDR 4.58 tr in domestic investments over 419 projects including electricity, gas and water (7 projects), construction (12 projects), trade and repair (113 projects), hotels and restaurants (171 projects), transportation, warehouse and communication (13 projects), housing,

estates, industry (16 projects) and other services (87 projects). By comparison, the non-tourism related secondary and primary sectors attracted only IDR 227.46 mn and IDR 35.53 mn worth of domestic investment respectively. Similarly, foreign investors also heavily favoured the tertiary industry. In the third quarter of 2019, the tertiary sector (including industries that support the tourism industry) attracted IDR 4.86 tr spread across electricity, gas and water (6 projects), construction (5 projects), trade and repair (260 projects), hotels and restaurants (550 projects), transportation, warehouse and communications (15 projects), housing, industrial and office areas (158 projects) and other services (649 projects) (Yolanda, 2019).

However, these investments could result in uneven infrastructure developments that have advantaged pre-existing tourist enclaves to the detriment of local residents. For example, in Celukan Bawang, a coal-power plant was built to meet rising power demand amidst burgeoning tourism projects. Social and environmental activists have fervently pushed back against the project, to the extent that a lawsuit was filed by residents and Greenpeace against the provincial government (Taylor, 2018). The lawsuit cited the absence of public consultation activities, as well as air, soil, and water quality impact assessments conducted before the project commenced (Greenpeace Indonesia and Others v. Bali Provincial Governor, 2018). Thus, it is imperative to balance the needs of the society in line with developments in tourism infrastructure, aptly encompassed by the government's second goal of "Nangung Sat Kerthi Loka Bali".

1.2 Diversifying the province's economy

The struggles to obtain funding for tourism and infrastructure development was intensified during the COVID-19 pandemic. With the tourism sector contributing 53 per cent of the economy, the global travel disruption had cascading effects on other supporting local sectors such as food and beverages, transportation, industry, and trade. As early as April 2020, the Indonesian Tourism Industry Association (GIPI) Bali had projected a loss of IDR 138.6 tr with a decline in visitors reaching a hefty 93.24 per cent. Ultimately, the shutdown of tourism has led Bali to rethink its economic priorities and question the sustainability of its campaigns to attract tourism-related FDI.

This is coroborrated by the Assistant Deputy for Strategic Investment of the Coordinating Ministry for Maritime Affairs and Investment, Bimo Wijayanto. In a recent webinar on "Bali Economic and Investment Forum 2021: Grand Design of Bali Economic Recovery" organised by Nawa Cita Tourism Indonesia, he underscored the shift in the government's plan to look towards other sectors to secure Bali's economic resilience. This is in line with the government's third goal of "Nangung Sat Kerthi Loka Bali".

1.2.1 Empowering the agricultural sector's export capabilities with smart solutions

The agricultural sector has been identified as a promising alternative driver of Bali's economy. The agricultural sector has consistently contributed to around 14% of Bali's total GRDP since the first quarter of 2014, rising to close to 16% in the second quarter of 2020 onwards (Indonesia's National Bureau of Statistics, 2017). Proponents of agricultural expansion in Bali have pointed to its flexibility in terms of responding to current demands and this has been evidenced by the hastened increase in agricultural land use.

At present, the agricultural sector has some gaps to address before it can be a competitive and reliable agricultural exporter. For one, the sector will need to consider downstream strategies that will enable agricultural players to process key local produce such as rice, coffee, tobacco and snake fruit. To this

end, the government has committed IDR 100 bn for Bali's agricultural sector - 30 per cent higher than past budgets.

An economic analyst from Bank Indonesia, Setyawan Santoso, notes that budgets should be allocated to the digitalization of the agricultural sector (Sugiari, 2021a). Going digital, he believes in a two-pronged approach: The first entails automating operations using machinery, that would assist labourers in increasing the productivity of businesses. The second relates to the consumer-facing process, where applications and online platforms can be used to market fresh or processed products to consumers within and beyond Bali. In the latter, digital solutions can be used to efficiently plan the logistics end of export delivery.

1.2.2 Tapping into the creative and lifestyle industries

The Creative Industry has been highlighted out as a promising alternative for Bali. The Governor mooted the idea of incorporating Balinese motives to create a niche in the apparel industry, as well as encouraging domestic and foreign media to capitalise on Bali's allure for film and advertisements (Sugiari, 2021b). Besides the growth of the production and marketing of handicrafts and artistic goods, the Indonesian Young Entrepreneurs Association or Himpunan Pengusaha Muda Indonesia (HIPMI) cited the emergence of the e-cigarette businesses as an upcoming alternative industry (Rhismawati, 2020). MSMEs are poised to take centre-stage in creative industries, ranging from startups that focus on digital bookings to eco-friendly products.

In July 2020, the provincial government partnered with Mbizmarket, an integrated platform with a modern transportation, distribution, and warehousing service system (Provincial Government of Bali, 2020b). The partnership aims to increase the involvement of MSMEs as providers of goods and services both by consumers and the government. Additionally, this platform is expected to guarantee transparency and accountability in the process of government procurement of goods and services.

1.3 Tourism in the new era

While Bali's government has been actively seeking out new economic opportunities, it cannot simply turn away from tourism considering its majority share of employment.

The government has proposed IDR 260 bn from the National Economy Recovery (PEN) fund for infrastructure development that is not only set to improve the lives of locals but also to put the tourism sector in a competitive position when travel returns. The fund will be used to reorganise previous tourist hotspots - Sanur, Ubud, Nusa Dua - as zones for green tourism as well as improving land, sea, and air transportation to attract tourists to less-travelled parts of the province. Last but not least, there are significant attempts to market Bali, particularly the Nusa Dua regency as a MICE (Meeting, Incentive, Convention, Exhibition) destination that is safe and aligned with international health protocols (Mustofa, 2021). Recently, the governor has also made it compulsory for tourist sites to work towards implementing QRIS, the government-backed digital payment system. This move is yet another one that hopes to assure returning tourists that health protocols in view of COVID-19 have been adopted in Bali. This locales-specific initiative also builds upon the nation-wide Guidelines for Cleanliness, Health, Safety and Environmental Sustainability (CHSE). Nevertheless, Bali aims to pivot away from mass tourism to quality tourism such as maritime tourism, medical tourism, MICE/Blessure, and nomadic tourism.

With the health and safety protocols in place, the central government has been pushing the Work From Bali campaign for Jakarta-based civil servants to boost the resort island's economy. From a public

relations standpoint, the success of this campaign could further boost domestic tourism as it might convince other Indonesians and foreign tourists that the province is safe for travel.

Bali's COVID-19 situation recently took a turn, delaying reopening plans that were previously set for July 2021. The situation remains uncertain for the moment and some key issues include whether the alternative sectors can be developed in time to sustain the economy and whether current government spending in view of public health safety and social safety nets can be maintained in an economy that is yet to see a sure return.

2 Economic Development

To capture a holistic understanding of Bali's economic performance, this section will provide an assessment of the macroeconomic and microeconomic conditions of the province. The macroeconomic assessment considers time-series analysis of both the canonical macroeconomic variables such as Gross Regional Domestic Product (GRDP), inflation, investments and trade indicators, and variables relevant to the local context such as tourism, as well as farmer's and fisherman's exchange rates. Subsequently, the microeconomic assessment concerns firm-level statistics.

Review of Bali's Macroeconomic Indicators

Fig. 1 illustrates the economic development of Bali from 2014. Bali's economy showed an upward momentum since 2014, registering 5.5% to 6.5% of annual real GRDP growth before a huge drop in 2020 by -9.31% due to the COVID-19 pandemic. Accommodation and food services is the largest industry in Bali, making up a fifth of the provincial GRDP prior to the pandemic, followed by agriculture, and construction. The tourism industry is the pillar of Bali's economic development, and prior to the pandemic, Bali was among the most successful tourist destinations in the Southeast Asian region - with international tourist arrivals numbering 12 million in 2018 (Indonesia's National Bureau of Statistics, 2018).

Bali generally experienced an expansion in all economic sectors, except for the mining sector. High growth industries since 2014 include the information and communication (ICT), human health and social work, and wholesale and retail trade sectors, which recorded average annual growth rates of 8.22%, 8.08%, and 8.02% respectively from 2014 to 2019.

The rapid growth in the ICT sector is in line with the province's vision of making Bali a Smart Island. One of the main initiatives towards this vision has been the provision of free public WiFi in the capital city of Denpasar (Supartika, 2019). The 2019 progress report from the Department of Information Communication and Statistics has also extensively laid out Bali's e-government progress in entrenching digital solutions in government functions and public services (Information Communication and Statistics, 2020). From using geo-tracking technology in managing clean water distribution and waste management to using data analytic in its safe city programme, the provincial government strives to engrave technology into the fabrics of its governance and economy.

Owing to the economic robustness of the province, income levels have risen during this period - at IDR 37.51 mn, Bali's GRDP per capita in 2019 is 26% higher than the 2014 level. At the same time, inflation in the province remains relatively stable since 2015 at a rate below 3%. In 2020, inflation plummeted to 0.55%, the lowest in the province since 2014 as COVID-19 put a toll on workers' incomes (see Section 3) and dampened consumer spending (Bank Indonesia, 2021a).

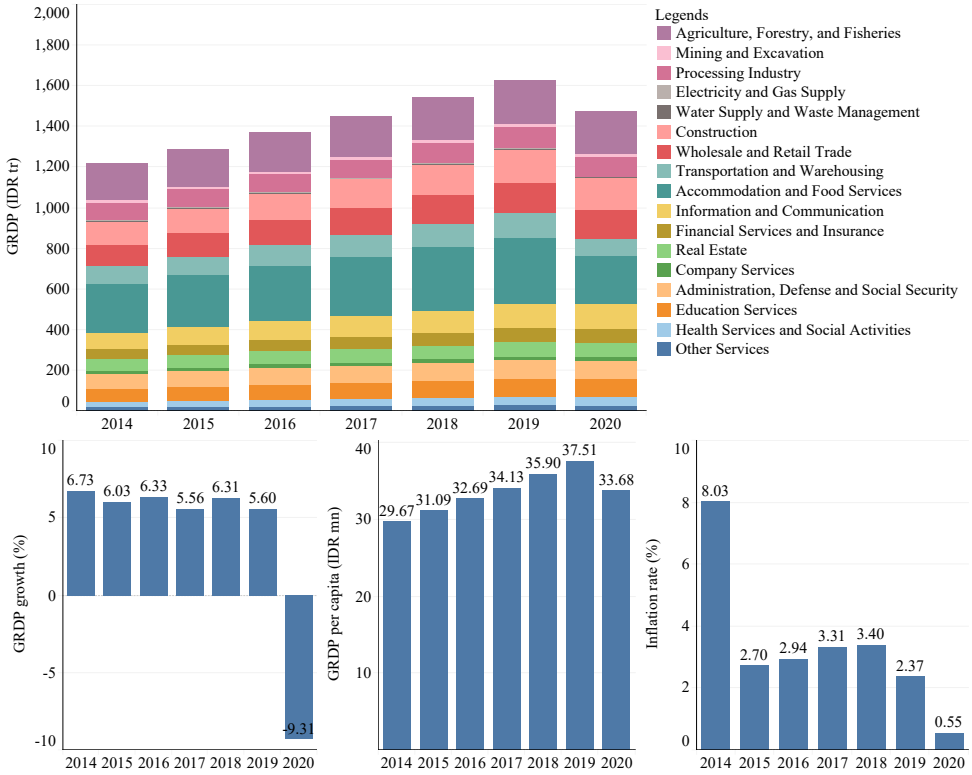

Figure 1: GRDP by sectors (top), GRDP growth (bottom-left), GRDP per capita (bottom-middle), and inflation rate (bottom-right)

Source: Indonesia's National Bureau of Statistics

Despite having a prospering economy from 2014-2019, the economy reversed its track in 2020 as Bali became one of the worst affected provinces to be hit by the COVID-19 pandemic. Bali's tourism-reliant economy is particularly fragile to the pandemic, particularly after the shutting of international borders. Yuniti et al. (2020) and Japutra and Situmorang (2021) have discussed the devastating effects of COVID-19 on the hotel industry and food services industry which reaps the majority of its revenue from tourist spending. An earlier ACI publication has also addressed the pandemic woe on the tourism industry (Liew et al., 2021).

To provide a more complete assessment of Bali's macroeconomic conditions, it is imperative to take into account the province's exports and investment landscape. Fig. 2 shows that Bali's net exports have increased tremendously in 2015 and then remained stable ever since. Bali's venture into the fisheries exports, along with a large rise in prices of tuna (one of Bali's export products) contributed to the increase in Bali's exports in 2015. This sector continued to perform well during the COVID-19 pandemic in 2020 as food demand soared (Bank Indonesia, 2021a), thus contributing to the strong net exports. In the case of investments, foreign direct investment (FDI) constituted 80%-90% of total investments in Bali for 2014-2018. FDI tapered off in 2019 and further decreased in 2020. The recent years also saw a huge increase in domestic direct investment (DDI). A sectoral decomposition of investment would provide a deeper insight into Bali's investment climate.

Bali's economic structure is unique among provinces in Indonesia in which its investment inflows are

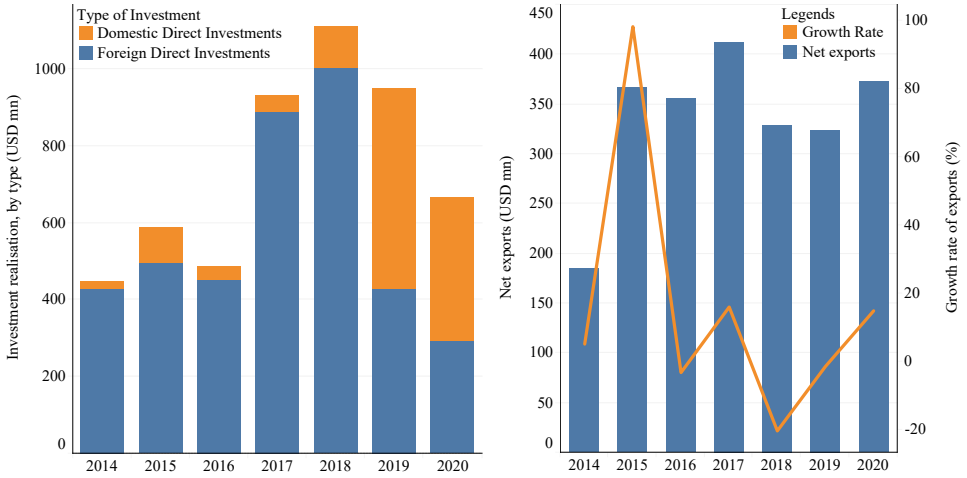

Figure 2: Overview of investments (left) and exports (right)
Source: Indonesian Investment Coordinating Board, Indonesia's National Bureau of Statistics

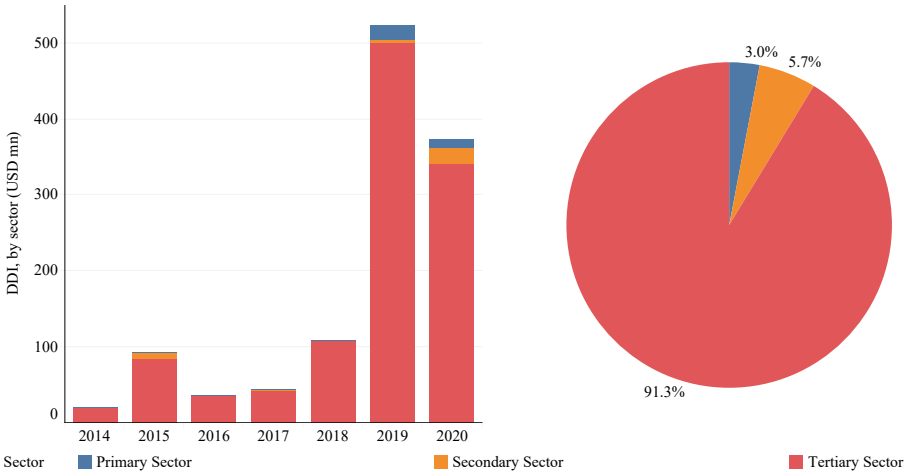

Figure 3: Overview of DDI by sector for 2014-2020 (left) and 2020 (right)
Source: Indonesian Investment Coordinating Board

concentrated in the tertiary sector. In 2020, DDI inflows into the tertiary sector comprised 93.2% of total domestic investments (see Fig. 3).

Fig. 4 shows that in the tertiary sector, the majority of DDI flows into the hotels and restaurants industry from 2014 to 2019. During the COVID-19 pandemic, while most of the DDI still went into the tertiary sector, the hotels and restaurants industry is no longer the highest recipient. Instead, DDI in Transportation, Warehouse and Telecommunication sector rose 49% y-o-y to USD 168.63 mn. Bank Indonesia (2020b) attributed this to a multitude of infrastructure projects set to take place in Bali, including the construction of ports, toll roads, and other infrastructure. As for the secondary sector, the food industry is the only sector with a consistent annual investment realisation. Although it plummeted

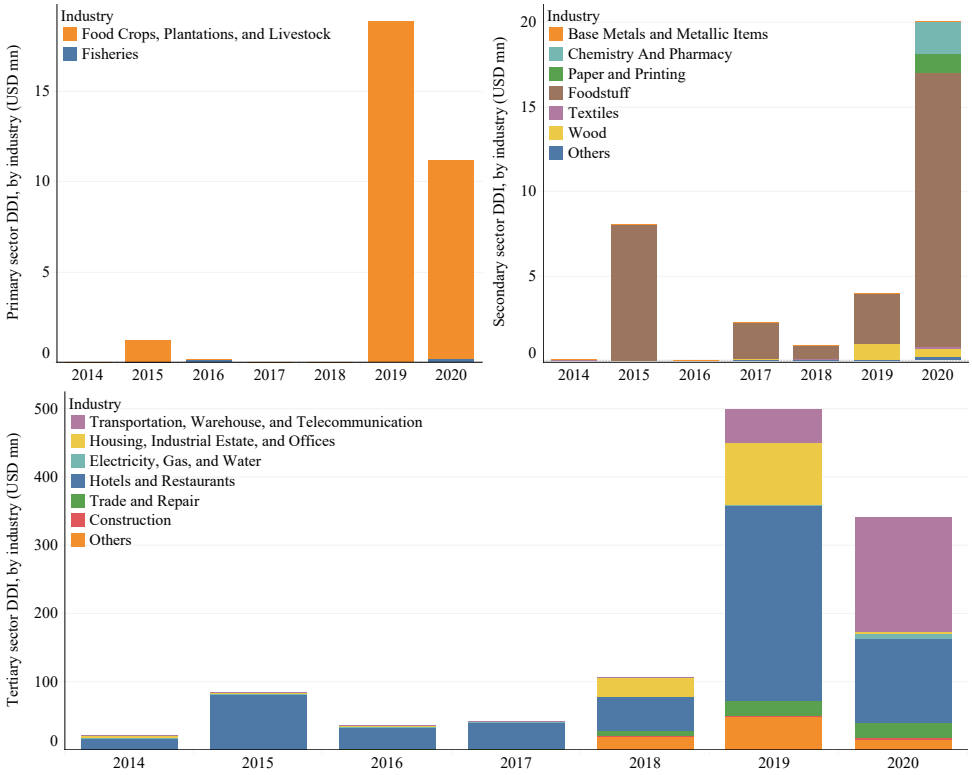

Figure 4: DDI by sectors: primary (top-left), secondary (top-right), and tertiary (bottom)
Source: Indonesian Investment Coordinating Board

to below USD 1,000 in 2016, the investments in this sector have increased considerably since then. Albeit with some short term fluctuations, it reached USD 16.19 mn in 2020. This is akin to observations in Amri (2020) where demands for food-related products increased during the pandemic. In particular, transactions for food products and herbal products rose by 350% and 200% respectively.

In contrast with DDI which experienced annual growth from 2014-2019, FDI in Bali was subject to a greater degree of fluctuations. According to Fig. 5, Bali's FDIs were highest in 2017 and 2018, reaping in USD 0.9 bn to USD 1 bn respectively. It then experienced a decrease in both 2019 and 2020. In 2019, the delay of several construction and infrastructure projects have slowed the inflow of foreign investments (Bank Indonesia, 2020a), and in 2020, the amount of foreign investment is further eroded by COVID-19. Similar to the DDI experience, FDI inflows end up mostly in the tertiary sector. In 2020, 93.2% of FDI flows to the tertiary sector, while primary and secondary sectors only received 2.3% and 4.5% of FDIs respectively. Despite the pandemic, Fig. 6 shows investments into tourism-related businesses such as the hotels and restaurants industry remained resilient, as Bali is still viewed internationally as an attractive tourism hub.

While its tourism sector is attractive to both domestic and foreign investors, Bali finds it challenging to diversify its investments to other sectors. In particular, Wismayanti (2014) argued that Bali's infrastructure (e.g. electricity, water, and road) is in dire need of development; and if this situation is not addressed in the short run, Bali will soon face infrastructure deficiencies. As a support pillar of the economy, this infrastructure gap, if left dilapidated, ought to affect Bali's wider economic activities.

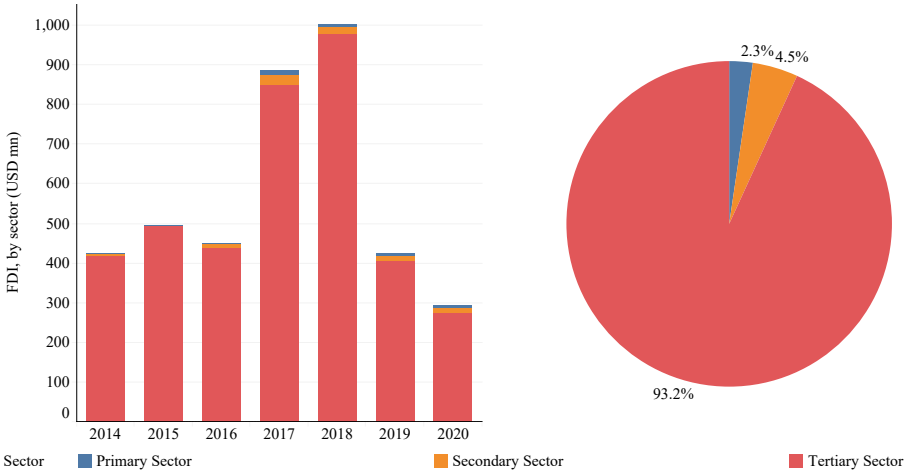

Figure 5: Overview of FDI by sector for 2014-2020 (left) and 2020 (right)
Source: Indonesian Investment Coordinating Board

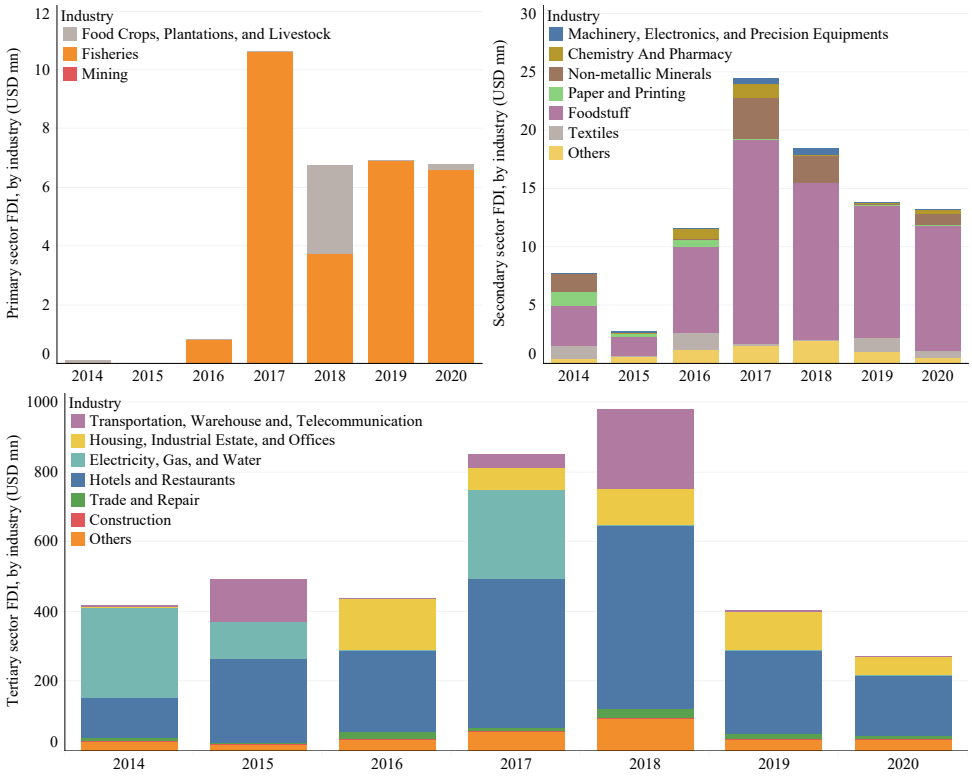

Figure 6: FDI by sectors: primary (top-left), secondary (top-right), and tertiary (bottom)
Source: Indonesian Investment Coordinating Board

Therefore, the government needs to actively engage investors who are interested in Bali's infrastructure investment and provide them with information on the procedure for such investments to expedite the development process.

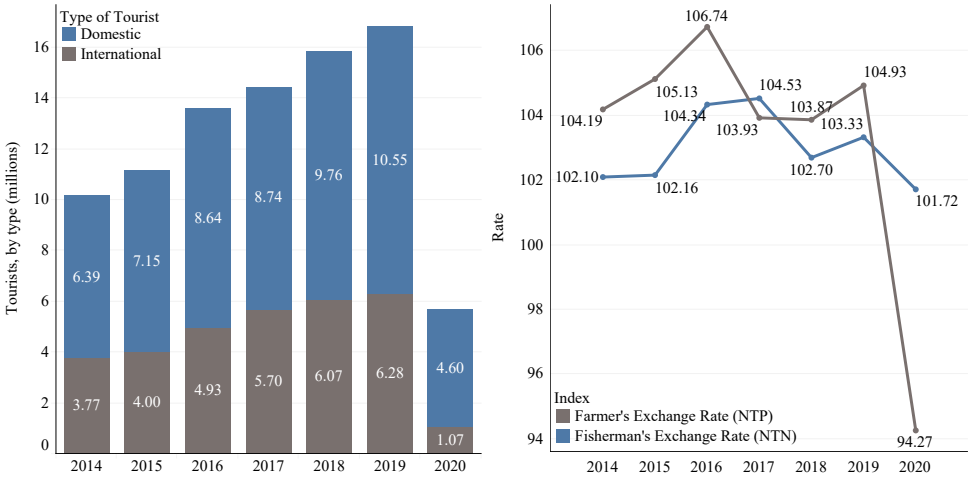

Figure 7: Tourist arrivals, by type (left) and farmer's/fisherman's exchange rates (right)
Source: Indonesia's National Bureau of Statistics

As evidenced in our findings thus far, the emergence of the COVID-19 pandemic has caused a dent in Bali's economy. The halting of international travel has resulted in a drop of international tourist arrivals by 82% and domestic arrival by 56% from 2019 to 2020 (see Fig. 7). As the tourism economy falters, hotel workers reportedly took up farming and fishing as alternative income sources (Laula and Paddock, 2021). With the increase of agricultural workers, it is vital to assess the farmer's exchange rate (NTP) and fisherman's exchange rate (NTN) to measure the purchasing power of these workers.[1] Fig. 7 shows that NTP and NTN indices are above 100 from 2014-2019, which is an indication that the purchasing power of the farmers and fishermen in Bali is higher than their production and consumption costs. In 2020, while NTN remains higher than 100, NTP has plunged to 94.27. Darwis et al. (2020) studied the effect of NTP in Indonesia during Covid and posited that the fall in NTP was due to low agricultural prices and depressed demand as provincial household income plummeted.

Review of Bali's Microeconomic Indicators

This section takes into account two components of Bali's microeconomics conditions, namely the number of Micro, Small and Medium Enterprises (MSMEs) and business cooperatives. A cooperative, according to the International Cooperation Alliance, is "an autonomous association of persons united voluntarily to meet their common economic, social and cultural needs and aspirations through a jointly owned and democratically controlled enterprise" (International Cooperative Alliance, 2018).

There are 64.2 million MSMEs in 2018 (Asian Development Bank, 2020). In the same year, MSMEs comprised over 99.99% of total enterprises in the country and employed 97% of its workforce. Due to its wide reach into every tenet of the country's economy, the sector is one of the main motors of Indonesia's

[1] Indonesia's National Bureau of Statistics defines farmer and fisherman exchange rate as the ratio of the price index for agricultural/fishery produces of the farmer/fisherman and their consumption and production costs

economic development (Guridno and Efendi, 2020). Fig. 8 shows that the number of MSMEs in Bali increased steadily over the years. According to Sunariani et al. (2017), MSMEs in Bali is dominated by those in the craft, food and beverages, and fashion sectors.

While data is yet to be available, anecdotal evidence suggests that the COVID-19 pandemic has caused the decrease in demand for creative products and in turn affected almost 98% of workers in this industry (Bank Indonesia, 2021a). To support the struggled MSMEs, the provincial government of Bali has launched the interest subsidy program and credit guarantee for MSMEs as part of the National Economy Recovery Program (Provincial Government of Bali, 2020a). Aside from National Economy Recovery Program, the National Public Procurement Agency has also allocated several slots for Bali SMEs to participate in open bidding for government projects (Provincial Government of Bali, 2021b). Furthermore, Governor Wayan Koster has pledged to involve MSMEs in 40% of government procurement as a way to support local enterprises.

Other than MSMEs, business cooperatives also play a pivotal role in enhancing the wellbeing of Indonesian society via income channels and have been identified by the Indonesian government as important participants in nation-building towards the creation of an advanced, fair and prosperous society (Agusalim et al., 2019). The ideas behind cooperative such as people-centric and value-driven as opposed to profit-driven are compelling to governing authority as they aspire cooperative to lead the way towards the collective economy, social entrepreneurship and sustainable enterprise (International Cooperative Alliance, 2018; Sugarda, 2016).

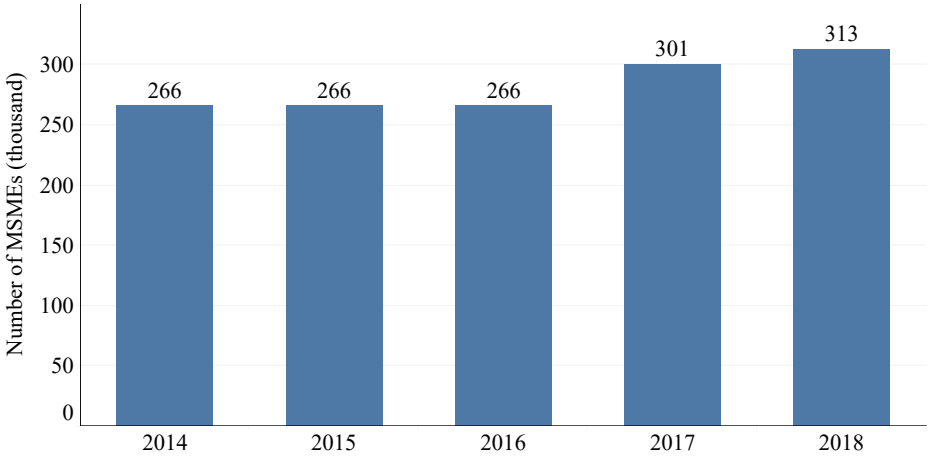

Figure 8: Number of MSMEs
Source: Provincial Government of Bali

According to Law of Indonesia (UU) No. 17/2012 on Cooperative, cooperative consists of the primary and secondary cooperative. A primary cooperative must be established by at least 20 individuals, who owned the authorized shares of the cooperative. A secondary cooperative is the consolidation of at least three cooperatives. The categorization of cooperative is further delineated into an active and inactive cooperative. Based on Regulation of Minister of Cooperative and Small & Medium Enterprises No. 25/2015, an active cooperative involves a cooperative that has held an Annual Members Meeting for the most recent three consecutive years and has provided corporate services to its members.

Fig. 9 shows that the percentage of active cooperatives in Bali from the year 2015 to 2020 has been decreasing. In particular, the year 2018-2019 shows a drop from 4,268 active cooperatives (87.42% of total cooperatives) in 2018 to 4,004 active cooperatives (79.65% of total cooperatives) in 2019. In the same period, the number of inactive cooperatives had increased from 614 to 1,023. This increase is likely due to several longstanding challenges faced by Bali's cooperatives such as low professionalism and accountability in their management, low human resources capacity in accessing technology, low capital, difficulty in performing effective marketing, tight competition, difficulty in gaining basic material, difficulty in production technique and skills, low knowledge in financial management, and less conducive business climate (Department of Cooperatives and SMEs of Bali, 2018).

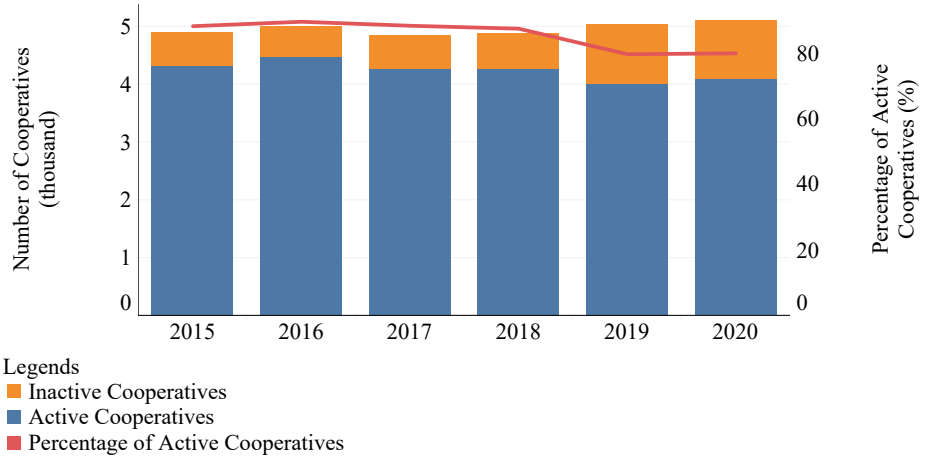

Figure 9: Number of Active and Inactive Cooperatives
Source: Indonesia's National Bureau of Statistics

Current progress vis-a-vis RPJMD targets

This section charts the progress of selected macroeconomic indicators against their corresponding targets from Bali's medium-term development plan (RPJMD) for the period of 2014-2023, and the associated priority programmes outlined in its latest RPJMD[2].

Fig. 10 shows that Bali's GRDP growth has been relatively stable from 2014-2019, but it failed to hit the target since 2015. This prompts the government to revise its target down to a more achievable goal in its 2019-2023 RPJMD. However, the unprecedented impact of COVID-19 in 2020 drove an economic downturn, which widens the gap between real GRDP growth and its target counterpart. Fig. 10 also highlights that while GRDP per capita has been steadily increasing, it failed to reach its targeted value from 2016 onwards. While it is commendable that the provincial government of Bali sets enterprising economic targets, the grandiose and constantly unachievable targets warrant a re-assessment of its RPJMD and priority programmes and whether they are within realistic expectations.

There is a multitude of programmes in the RPJMD aimed at advancing the economic prosperity of Bali. The 2019-2023 RPJMD showcases the priority sectors of Bali which are the agricultural sectors,

[2]The policies listed in this section are non-exhaustive. Refer to Bali's RPJMD 2019-2023 for the complete list

fisheries, and the tourism industry. To enhance the comparative advantage of its agricultural and fisheries sectors, the government introduced several programmes such as 1) Organic Farming Programme, 2) Urban Farming Programme, 3) Food Crops and Horticulture Development Programme, 3) Agricultural Facilities Improvement Programme, and 4) Increased Value Added for Fisheries Produce Programme. For the tourism sector, the RPJMD outlines the following programmes: 1) Tourism Destination Development Programme, 2) Tourism Marketing Programme and 3) Tourism Information Programme[3].

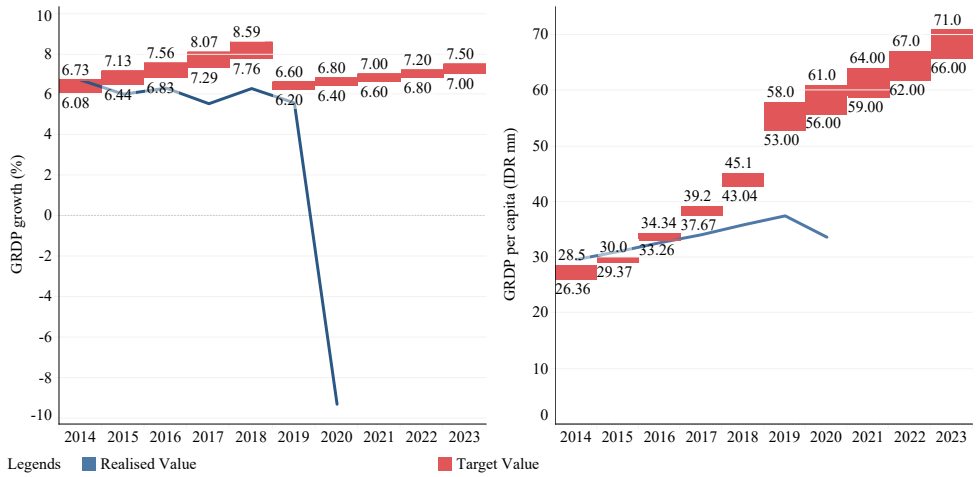

Figure 10: GRDP growth (left) and GRDP per capita (right), and respective RPJMD targets
Source: Indonesia's National Bureau of Statistics, Provincial Government of Bali

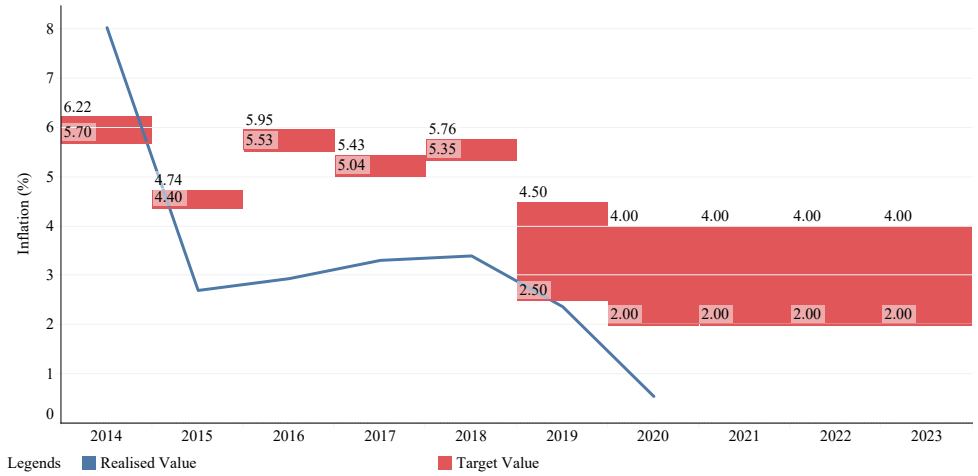

Figure 11: Inflation and RPJMD targets
Source: Indonesia's National Bureau of Statistics, Provincial Government of Bali

[3]This programme aims to enhance tourists' access to information

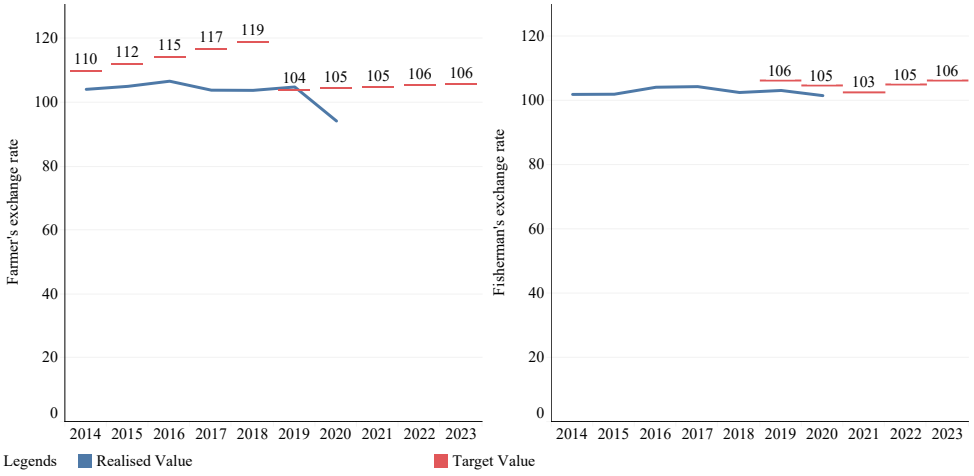

Figure 12: Farmer's exchange rates (left) and Fisherman's exchange rates (right), and respective RPJMD targets

Source: Indonesia's National Bureau of Statistics, Provincial Government of Bali

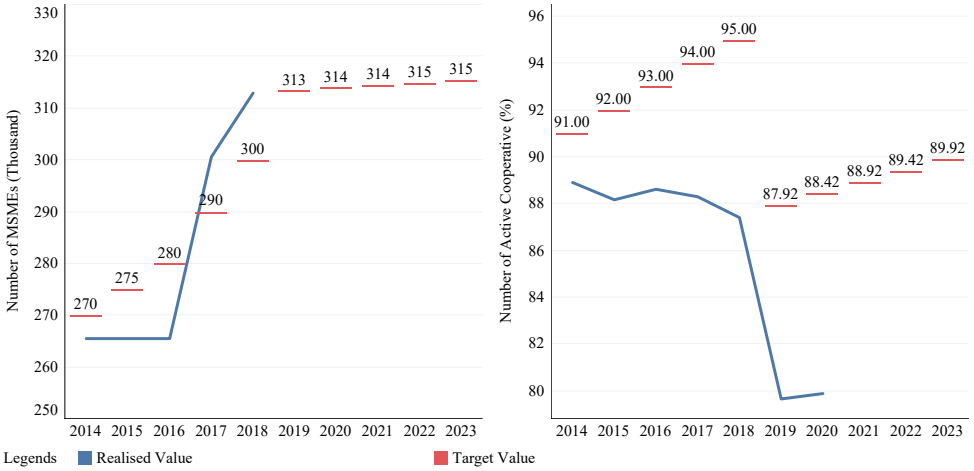

Figure 13: Number of MSMEs (left) and Number of Active Cooperatives (right), and respective RPJMD targets

Source: Indonesia's National Bureau of Statistics, Provincial Government of Bali

Fig. 11 illustrates that the actual inflation rate is below the targeted rates for most years. Based on past performance, the government has revised its inflation target in the latest 2019-2023 RPJMD. The actual inflation rate in 2019 has been observed to fall within the targeted band of 2.5% to 4.5% rate, but in 2020, inflation plunged to the lowest, as we discussed above, due to fall in consumer demand amid the COVID-19 pandemic (Bank Indonesia, 2021a).

The NTP and NTN had constantly missed the set targets (see Fig. 12). Subsequently, the government has further revised its NTP target in the 2019-2023 RPJMD to more realistic expectations. Bali's

provincial government has also set a target for NTN, which was not done in the earlier RPJMD, due to the acknowledgement that the fishery industry constitutes a significant proportion of its economy. The programmes that had been set up to meet these targets are the same as the ones put in place to enhance the GRDP in the agricultural and fisheries sector.

In terms of MSMEs, the number of MSMEs, as portrayed in Fig. 13, has shown strong annual growth, which surpassed its targets in 2018 and 2019. The government's supports for MSMEs such as 1) Building of Conducive Business Climate for MSMEs Programme and 2) Human Resource Development Programme have proven to be effective drivers of MSMEs' growth. On the other hand, the percentage of active cooperatives as a percentage of total cooperatives has been decreasing over the years despite the government's initiatives to enhance the business conditions for cooperatives. As explained earlier, this decrease is largely due to a rise in the number of inactive cooperatives.

3 Labour Market Dynamism

The labour market concerns the employment and income level of an economy. Economists often monitor the labour market conditions to determine the structure and health of an economy. As such, to evaluate the labour market conditions of Bali, this section will illustrate the employment situation and wage statistics of the province. The indicators that will be used for this assessment include labour force participation rate, unemployment rate, numbers of workers by industry, average monthly wage and provincial minimum wage. The presented data is from two reporting periods: February and August of each year.

Fig. 14 shows that the labour force participation rate appears stable over the years, though this number has dropped to 73.71% in February 2021, the lowest since 2016, as a result of the COVID-19 pandemic. This information should be analyzed in conjunction with Bank Indonesia (2021a)'s reports of the shift in the workforce from formal to informal sector - suggesting that the workers turned to informal employment in a time of crisis. The unemployment rate paints a more grim reality, where the unemployment rate skyrocketed to 5.63% and 5.42% in August 2020 and February 2021 respectively. This is in contrast with the pre-pandemic level of below 2% unemployment rate.

Further investigation into employment by industry in Fig. 15 reveals a drop in the number of workers in all industries, except for the agriculture industry which has expanded by 12.5% when compared to February 2020 (pre-pandemic). This is consistent with the expansion of the agricultural sector during this period, as evidenced by (Laula and Paddock, 2021). In August 2020, employment in the tourism-related industry had been the hardest hit: The industry had shaved off over a hundred thousand of its workforce due to the pandemic, resulting in a contraction in the number of workers by 11.6%. Come February 2021, there appears to be some rebound in this trend, with an expansion of 6.5% in its workforce to 0.84 million people, as domestic tourism resumed before the third wave of COVID-19 hit Indonesia in May to current period (Bank Indonesia, 2021b). However, years of international tourism receipt could not entirely be replaced by revenues generated from domestic tourism. As such, even as Bali garnered a slight expansion of workforce in the tourism-related industry, the number of workers in February 2021 is still 5.9% below February 2020 figure. Bali's economy is inseparable from the tourism industry: even in the manufacturing sector, its produce of arts and crafts rely on a constant flow of tourist visits (Simandjuntak et al., 2019). This further resulted in the 21.2% y-o-y contraction of its manufacturing workforce in February 2021.

With the intertwining relationship between multifaceted sectors of its economy and tourism, the

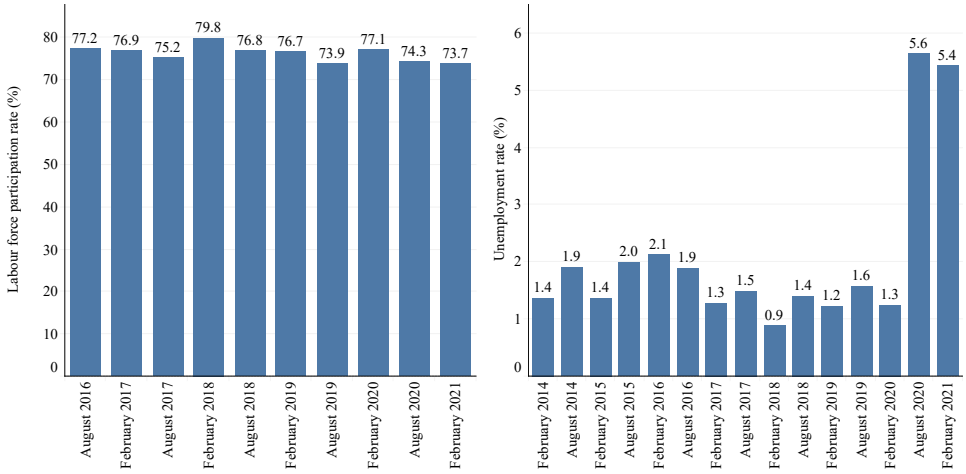

Figure 14: Labour force participation rate (left) and unemployment rate (right)
Source: CEIC, Indonesia's National Bureau of Statistics

economic recovery of Bali, therefore, hinges upon its management of COVID-19 and subsequently the reopening of international travel.

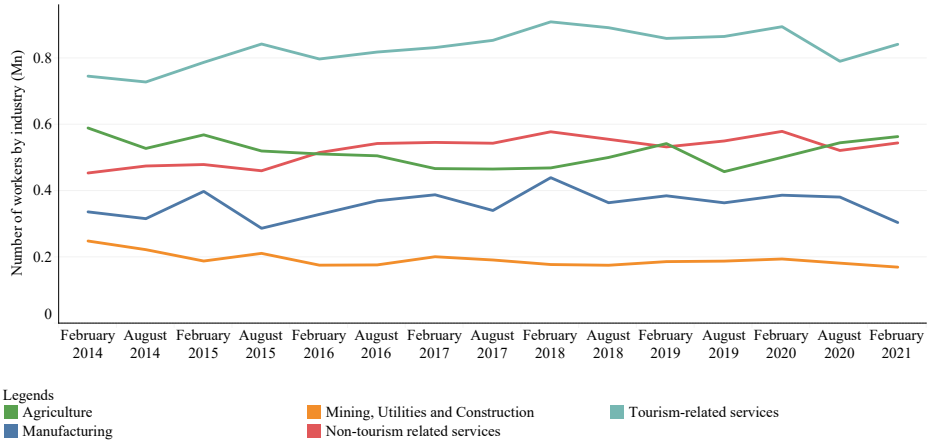

Figure 15: Number of workers by industry
The classification for industry is aggregated based on the groupings in (Liew et al., 2021)
Source: CEIC

The income level of the population has also seen a rapid improvement pre-COVID, with growth in average monthly wages from IDR 1.88 mn in 2014 to IDR 3.08 mn in February 2020 (see Fig. 16). Even as the government gradually set a higher minimum wage, the gap between the average monthly wage and the minimum wage widens considerably. For instant, right before COVID-19 reached the shore of Bali, the average monthly wage of Balinese was 23.6% higher than the formal minimum wage. For the

first time since 2014, Bali's average monthly wage dipped below the minimum wage in August 2020 as a corollary of the pandemic. This prodigious contraction in the income level was also part of the consequence of the shift of employment from the high paying tourism jobs to lower-income agricultural sector (Laula and Paddock, 2021).

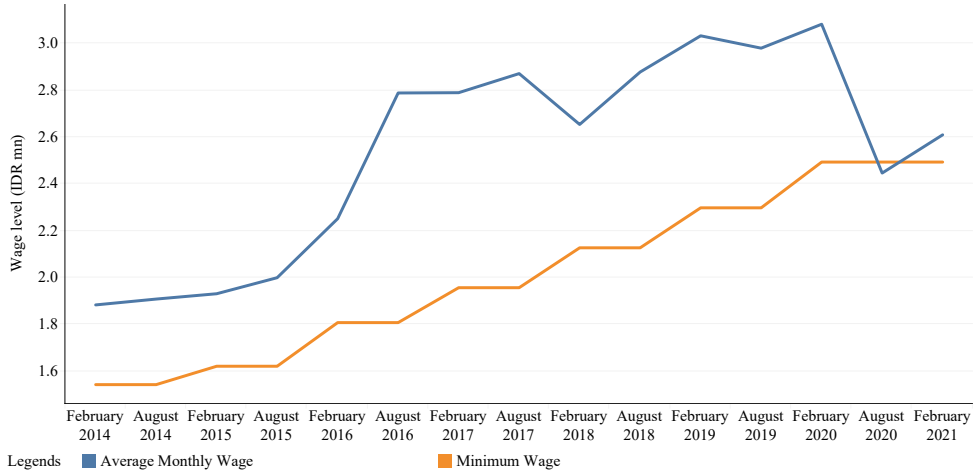

Figure 16: Average monthly wage and minimum wage
Source: CEIC

The dip in income level warrants the government's intervention. The assistance from the government agency comes in two forms, first on social subsidy and second on pre-employment card program for workers affected by COVID-19. On social subsidy, the disbursement from the welfare department amounted to IDR 449 mn from January to July 2021 (Provincial Government of Bali, 2021a). These arrived in the form of conditional cash transfer programmes such as the Family Hope Program (PKH) and non-cash programmes such as rice package assistance. On top of these basic forms of social subsidy, the pre-employment card program provides training grants and income support for furloughed workers for up to four months (Coordinating Ministry for Economic Affairs, 2021). The training support offered in this scheme allowed the Balinese workforce to obtain new skill sets while receiving income assistance during the economic downturn. This forward-looking strategy was to improve the employability of Balinese workers when the pandemic recedes, and subsequently path the return to the pre-pandemic income level.

Current progress vis-a-vis RPJMD targets

This section charts the progress of selected labour market indicators against their corresponding targets laid out in the RPJMD for the period 2014-2023, and the associated priority programmes carried out by the government as outlined in the RPJMD[4].

Referring to Fig. 17, the labour force participation rate has been performing below target. On the other hand, its unemployment rate has outperformed the targeted figures before the pandemic hit in 2020. From the RPJMD, it was observed that the provincial government has put in place several measures to enhance the quality of human resources in the province. These include 1) Workforce Competency

[4]The policies listed in this section are non-exhaustive. Refer to Bali's RPJMD 2019-2023 for the complete list

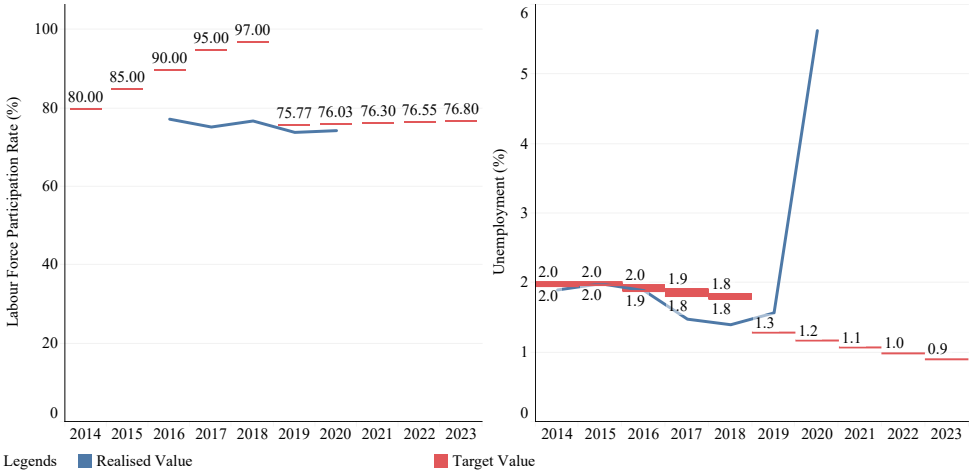

Figure 17: Labour force participation rate (left) and unemployment rate (right), and respective RPJMD targets

The real labour market data is derived from the August labour force reports of the respective year
Source: CEIC, Indonesia's National Bureau of Statistics, Provincial Government of Bali

and Productivity Enhancement Programme and 2) Job Placement and Expansion of Job Opportunities Programme. On top of that, the government has also promoted workers rights and welfare via 1) Workers' Protection programme and 2) Workplace Environment and Worker's Health Enhancement Programme.

4 Infrastructure

Prior to the global pandemic, the overall outlook on Bali's infrastructure had been that the province was adequately interconnected but stands to gain significantly should infrastructure be advanced further.

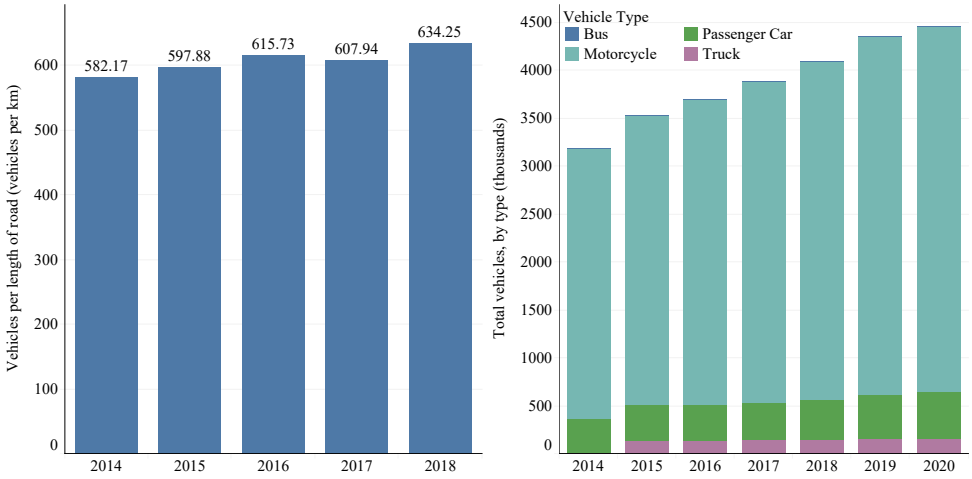

Figure 18: Vehicles per length of paved road (left) and total vehicles, by type (right)
Source: Indonesia's National Bureau of Statistics

In terms of advancing transport systems, the consensus among policymakers, researchers, and residents, was that the province needed to make public transport more efficient and accessible. This would, in particular, address the growing traffic congestion as the number of tourists grows. From Fig. 18, the total number of vehicles on roads grew by 25.01% while the length of paved roads lagged, resulting in a growth of 8.95% of cars per length of paved road over 2014-2018. Responding to the significantly growing number of vehicles on the road, Bali's Department of Transportation and the central government announced a transport master plan in 2019, outlining the potential public transport routes (inclusive of road, rail, and sea networks) to reduce the number of private vehicles on the road (Department of Tourism of Bali, 2019). The plan involved the construction of light rail transit (LRT) and autonomous rail rapid transit networks. The rail network is expected to shorten travel time and increase connectivity between the Ngurah Rai International Airport, the Buleleng Airport, and the upcoming North Bali International Airport. In addition, the network will improve the sustainability of transportation, as well as enhancing safety, logistics competitiveness and tourism. As of June 2021, the provincial government of Bali and the central government have engaged the Korea National Railway (KNR) to conduct a feasibility study on the development of the LRT (Eloksari, 2021).

From Fig. 19, Bali's pre-pandemic air traffic by the number of passengers had increased consistently over the period by 37.5% from 17.26 million in 2014 to 23.73 million in 2019. Bali's sole airport, the Ngurah Rai International Airport has undergone several expansion plans. The most recent project was the IDR 2.1 tr expansion plan in 2018 which included the reclamation of 47.9 hectares from the sea to accommodate additional parking lots, the lengthening of the runway, and the possibility of a second runway in the future (The Straits Times, 2018). There were also proposals for the construction of a new airport in the northern region of Bali, but there has yet to be concrete plans. In contrast, sea transport by the number of passengers had generally been significantly lower than air traffic, fluctuating from 3.86

million in 2014 to nearly 7 million in 2018. Nevertheless, the number of seaports had increased from 6 to 8 throughout the period.

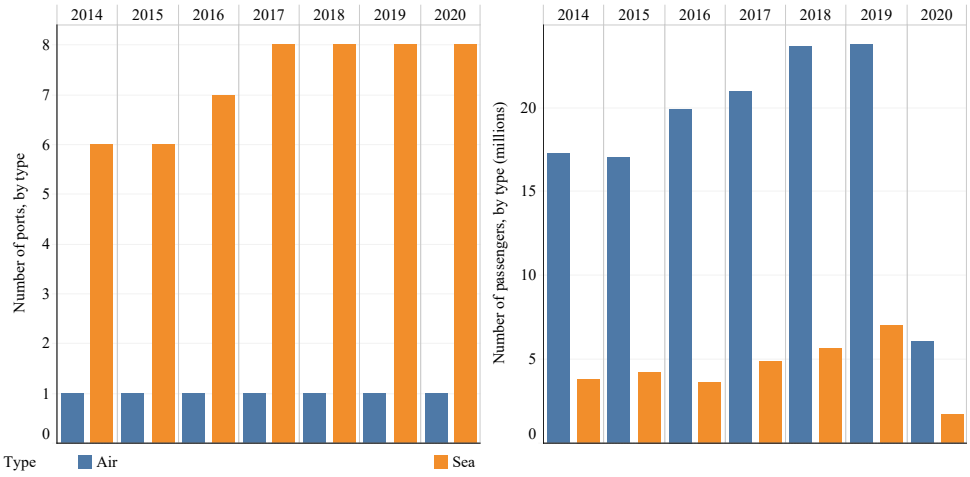

Figure 19: Number of ports (left) and number of public transport passengers (right)
Source: Indonesia's National Bureau of Statistics, Provincial Government of Bali

Given the prolonged impacts of COVID-19, the aforementioned transport plans have largely come to a halt. However, it should be noted that the success of the government's Work-From-Bali campaign has highlighted the need to push through with Bali's infrastructure development plan despite the pandemic. The remote working scheme has been touted as the driving force for the province's 2021 second-quarter economic growth of 2.83%, up from -9.81% in the previous quarter (Bank Indonesia, 2021c). Considering how the return of international travel remains uncertain, the province should continue to attract domestic tourism and long-term visitors.

Connectivity also concerns local digital access for both residents and visitors to the province. The percentage of households with internet access increased by 74.13% between 2014 and 2019. This is a marked improvement that has made the province comparable to large cities such as DKI Jakarta and DI Yogyakarta in terms of internet accessibility. With regards to the proportion of households with fixed and high-speed broadband access, Bali stands with just eight other provinces that are above the national average of 14.98%. In Bali, 25.76% of households have access to a fixed broadband network (Indonesia's Bureau of Statistics, 2019). Additionally, the TIK Index[5] for Bali has been rising throughout the period, with Bali consistently among the top 5 best-ranked provinces.

A deeper analysis of how the internet is being accessed however shows that much more can be done to harness the economic advantages of digitalisation. From Fig. 21, Bali presents a promising pool of digital users, judging from the high number of mobile phone users. The percentage of households that uses mobile phones remained generally above 90% for 2014-2019. The situation now calls into question whether the modes of digital consumption have productive effects on socio-economic development. For example, despite the high internet access for households, ownership of personal computers remains low in the province. In fact, after a slight increase from 2014-2016, the percentage of personal computer

[5]Information and Communication Technology Development Index (TIK) measures the level of development of information and communication technology, the digital divide, and the potential for ICT development of a province. For more information, see (of Statistics, 2020)

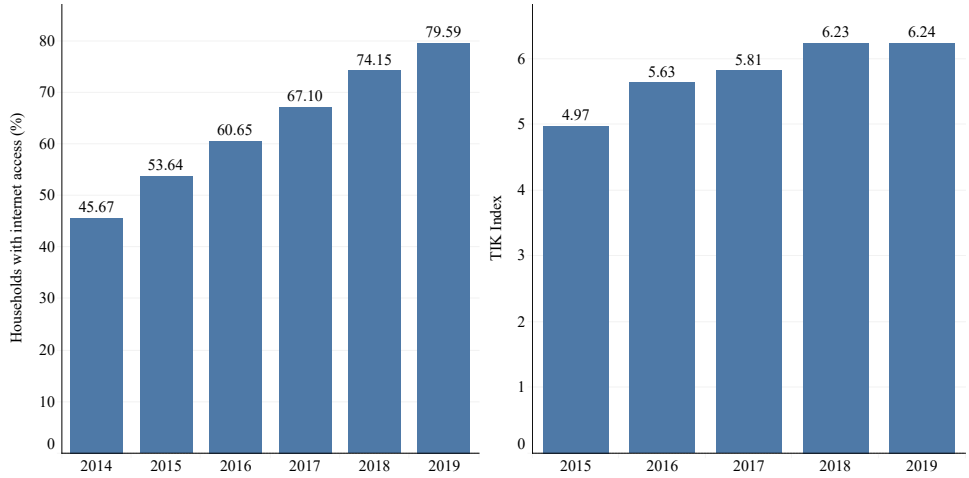

Figure 20: Households with internet access (left) and TIK Index (right)
Source: Indonesia's National Bureau of Statistics
Note: Household with internet access refers to households that has accessed internet in the past 3 months

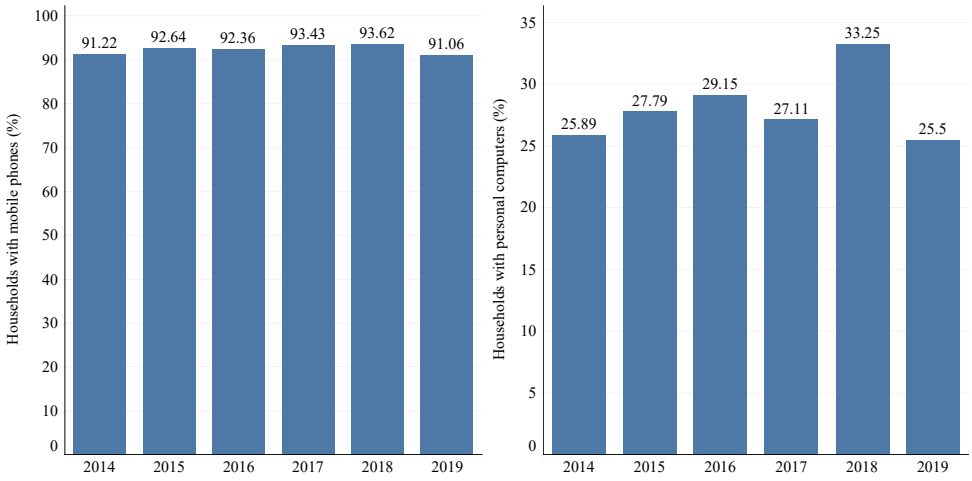

Figure 21: Households with mobile phones (left) and Households with personal computers (right)
Source: Provincial Government of Bali
Note: Data from 2019 was obtained from Indonesia's National Bureau of Statistics

ownership took a dip, such that by the end of 2019, the percentage (25.5%) was even lower than the 2014 value of 25.89%. We note that this could also be due to an increase in the number of households. Nevertheless, these basal statistics have been a key driving factor for digital literacy programs in the province. Bali has been a target province in the central government's digital literacy program. In July 2021, it was one of five provinces chosen to host the local five-day series of cyber knowledge workshops.

The COVID-19 pandemic has widened the digital gaps in the broad areas of education and the economy, to say the least. While developed economies and their populations have largely gained from

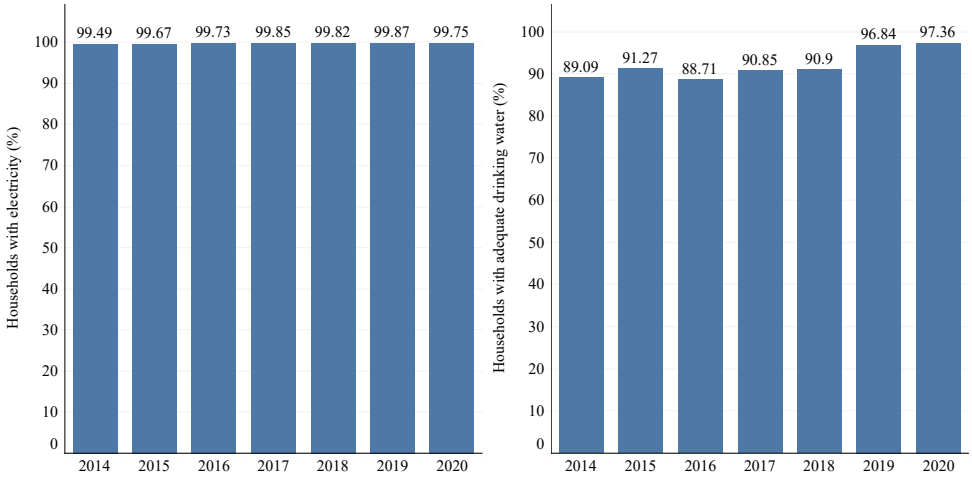

Figure 22: Households with electricity (left) and households with access to drinking water (right)
Source: Indonesia's National Bureau of Statistics

telecommuting, including the decrease in commuting times and operating costs- to name a few - developing countries have suffered from a double setback due to the lack of digital access. First, businesses and education providers alike would have trouble pivoting to digital platforms, which was essential to keeping their work alive. The inability to do so forced many school-going children to halt their learning in Indonesia. During the heightened measures (PPKM) preventing normalcy in education, Bali school children faced a delay as no Bali cities or regencies allowed face-to-face learning. Given the hardships faced by the students in current times, the idea of catching up to global education standards has become an even more far-fetched idea.

Bali's percentage of households with electricity as shown in Fig. 22 is nearly 100% since 2014, while the corresponding figure for water has risen greatly in recent years to reach 97.36% as of 2020. This puts Bali among the most adequate provinces in Indonesia for electricity and water sufficiency. The government had made great efforts to ensure these basic needs are stable and consistent, to benefit not only locals but tourists as well. In 2019, the Sidang and Tamblang dams were constructed, solidifying Bali's water security and complementing its capacity of 29.85 million cubic meters from six damns (Maulana, 2019). While Bali's percentage of households with electricity is close to universal, the government aims to phase out fossil fuel generators in favour of clean energy in the future, as well as expediting the Java-Bali interconnection system project (Kusdiantono, 2019).

Current progress vis-a-vis RPJMD targets

This section charts the progress of selected indicators against their corresponding targets laid out in the RPJMD for the period 2014-2023, and the corresponding priority programmes carried out by the government as outlined in the RPJMD[6].

From Fig. 23, Bali's actual passengers by sea had been generally increasing before the pandemic, rising to close to 7 million in 2018, but still way below the target of 14.33 million. In contrast, Bali's arrivals by air had been gradually increased, closely following the targets with the largest gap in 2015 at

[6]The policies listed in this section are non-exhaustive. Refer to Bali's RPJMD 2019-2023 for the complete list

1.59 million.

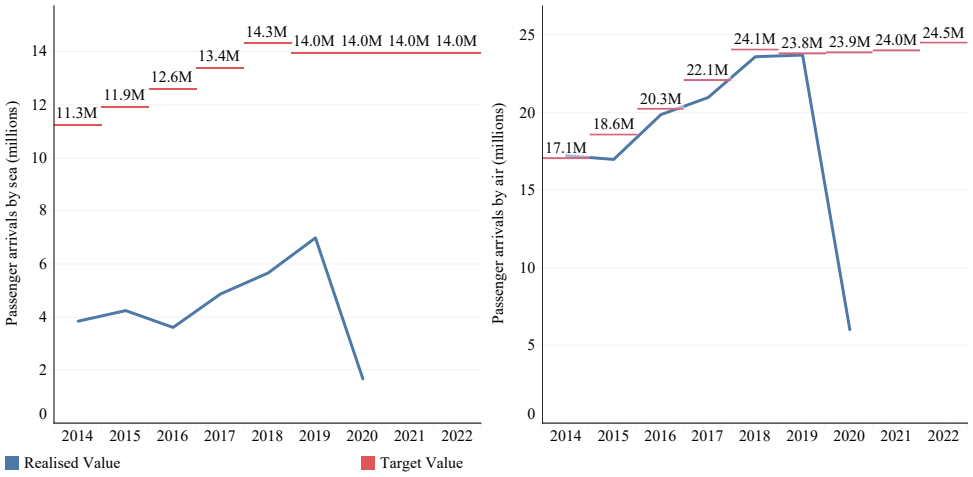

Figure 23: Passenger arrivals by sea (left) and passenger arrivals by air (right), and respective RPJMD targets

Source: Provincial Government of Bali, Indonesia's National Bureau of Statistics

Fig. 24 shows the status of the seaports and airports in Bali. Bali's number of seaports closely followed the target set, but the number of airports had lagged the target despite rising passenger arrivals by air. Key policies in the RPJMD to improve connectivity, safety, and ridership include: 1) Shipping Traffic and Transportation Service Improvement Programme and 2) Bali Province Regional Feeder Port Operational Improvement Programme. There were also policies targetting road transport infrastructure such as the 1) Road Transport Service Improvement Programme, 2) Trans Sarbagita Transport Service Improvement Programme, and 3) Road Equipment Availability Improvement Programme.

Fig. 25 reflects Bali's mobile and landline connectivity among households. Prior to 2019, the Bali government did not have targets for these indicators. The percentage of households with mobile phones had been generally increasing from a high of 91.22% in 2014 to a low of 93.62% in 2018, while the percentage of households with landlines had been gradually dropping from 9.88% in 2014 to 5.34% in 2019.

From Fig. 26, Bali's percentage of households with internet access has been consistently increasing from 28.78% in 2015 to 46.42% in 2018. Meanwhile, the percentage of households with personal computers had been generally stagnant apart from the jump to 33.25% in 2018 but had fallen to 25.50% in 2018. Recent policies in the RPJMD to expand communications networks and improve internet usage include the 1) Public Information Management and Dissemination Programme, 2) Communication, Information, and Mass Media Development Programme, 3) TIK Infrastructure Development Programme, and 4) Application Management and Information Systems Programme.

Fig. 27 shows Bali's household electricity and water infrastructure. The percentage of households with electricity is consistently close to 100% throughout the period. Meanwhile, the percentage of households with access to clean drinking water shows room for improvement before 2017 but had surpassed the targets set after 2017. The RPJMD highlighted several programmes to improve water quality and sustainability such as the 1) Drinking Water Service Quality Improvement Programme, 2) Environment and Water Resources and Forestry Development Programme, 3) Programme for the Development,

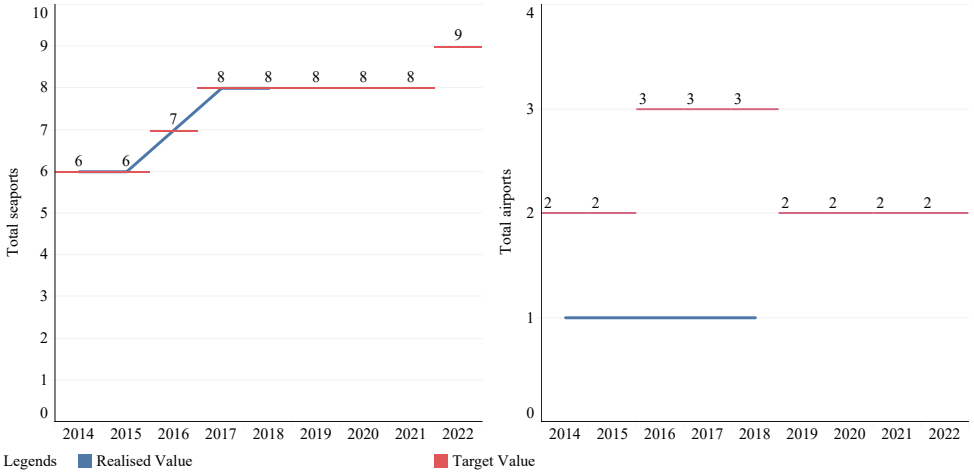

Figure 24: Total seaports (left) and total airports (right), and respective RPJMD targets
Source: Provincial Government of Bali

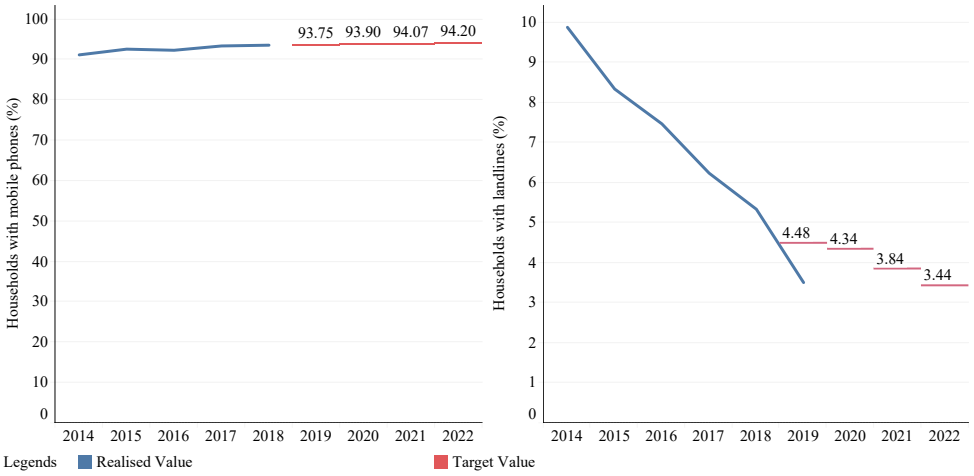

Figure 25: Households with mobile phones (left) and households with landlines (right), and respective RPJMD targets
Source: Provincial Government of Bali
Note: Data from 2019 was obtained from Indonesia's National Bureau of Statistics

Management, and Conservation of Rivers, Lakes and Other Water Resources, and 4) Drinking Water Management Performance Development Programme.

5 Social Development

Social welfare and human development are pertinent components to the holistic progress of a nation. Several indicators used to measure social welfare - most notably the GINI Index and the Human Devel-

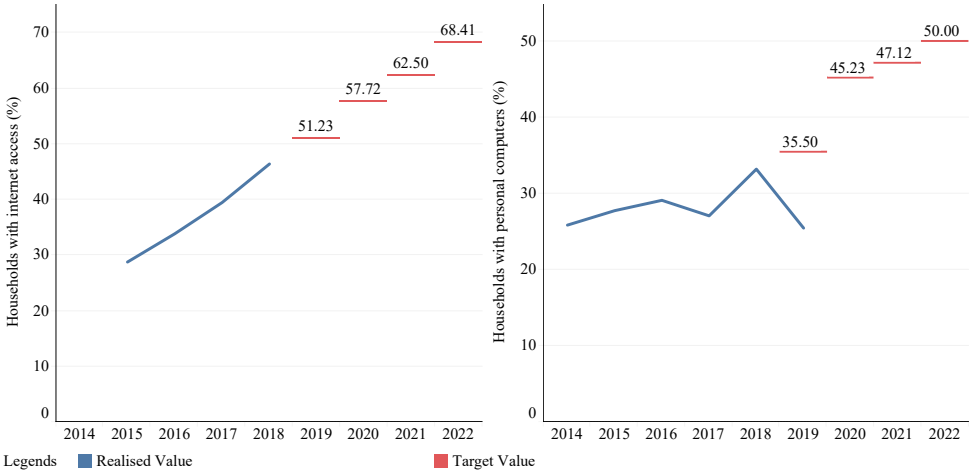

Figure 26: Households with internet access (left) and households with personal computers (right), and respective RPJMD targets

Source: Provincial Government of Bali

Note: Data from 2019 was obtained from Indonesia's National Bureau of Statistic

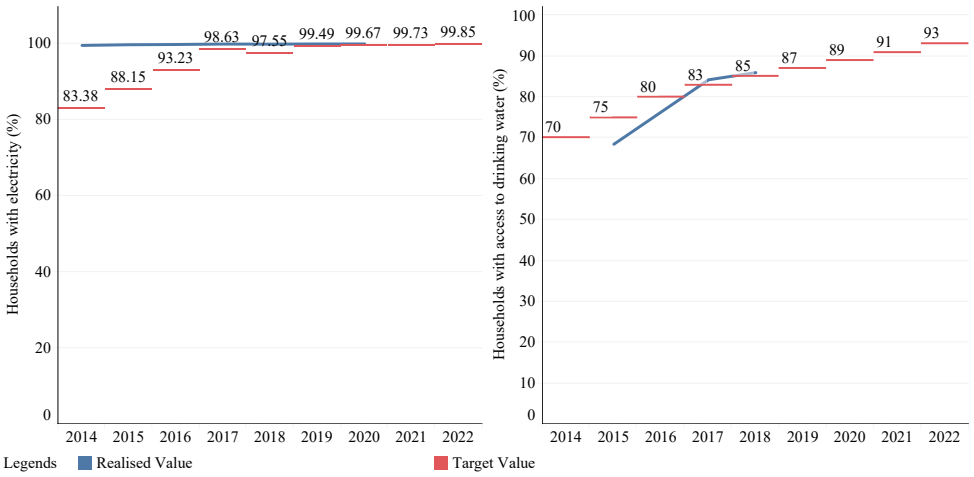

Figure 27: Households with electricity (left) and households with access to drinking water (right), and respective RPJMD targets

Source: Provincial Government of Bali

Note: Data from 2019 was obtained from Indonesia's National Bureau of Statistics. Targets set before 2018 for households with electricity were in terms of absolute number of households, which were converted to percentages based on data obtained from CEIC

opment Index (HDI) - are congruent to the realisation of the United Nation's Sustainable Development Goals (SDG). The Bali government had pioneered the Bali Mandara programme which includes various initiatives to address poverty, income distribution inequality, and regional disparities.

Fig. 28 shows the GINI Index for Bali had been steadily decreasing since 0.41 in 2014 with a spike

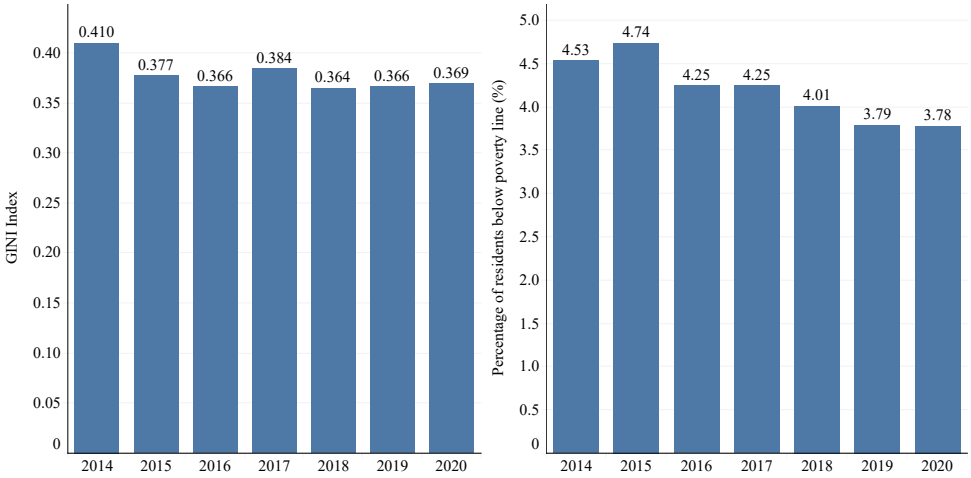

Figure 28: GINI Index (left) and percentage of residents below poverty line (right)
Source: Indonesia's National Bureau of Statistics

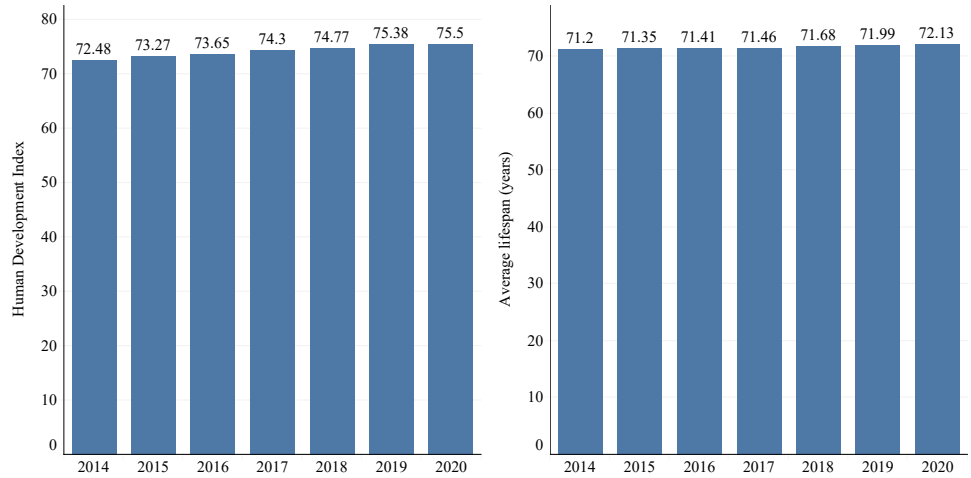

Figure 29: Human development index (left) and average lifespan (right)
Source: Indonesia's National Bureau of Statistics

in 2017. Post-2017, the GINI Index had been marginally increasing before reaching 0.369 in 2020. Meanwhile, the percentage of residents below the poverty line had been gradually receding since 2015 and had reached the lowest level of 3.78% in 2020, which is among the lowest nationwide. This indicates that while there are lesser people under the poverty line, the disparity in wealth has been rising in recent years. Nevertheless, the Bali government had undertaken several measures to raise the welfare and consumption of the underprivileged with the ultimate goal of alleviating poverty. These measures include the 1) Joint Business Group Programme (KUBE) to empower poor community groups by providing business capital (Social Department of Buleleng Regency, 2018), 2) Integrated Farming System Programme (Simantri) which aims to reduce unemployment and poverty rates in the agriculture industry, as well as increasing

agriculture output (Dewi et al., 2020), 3) Bali Mandara Credit Guarantee (Jamkrida) which provides easy, safe, and widespread credit access to people and businesses in Bali (Jamkrida Bali Mandara, 2014), 4) House Improvement Program, which aims to make poor families own houses that are livable and can meet their basic needs, and 5) Bali Mandara Health Insurance (JKBM) [7] which subsidises medical treatments for families without health insurance.

From Fig. 29, Human Development Index (HDI) or Indeks Pembangunan Manusia [8] for Bali had been increasing over the period from 72.48 in 2014 to 75.5 in 2020. Likewise, the average life expectancy of Bali residents had been increasing from 71.2 in 2014 to 72.13 in 2020. In light of the increasing life expectancy, the provincial government had taken prudent initiatives to ensure the well-being of the elderly such as 1) providing facilities for integrated health services for the elderly, 2) expanding referral services between hospitals and geriatric service providers, 3) enhancing the Home Care and Long Term Care services, and 4) increasing and diversifying activities at integrated healthcare centres for the elderly (posyandu lansia).

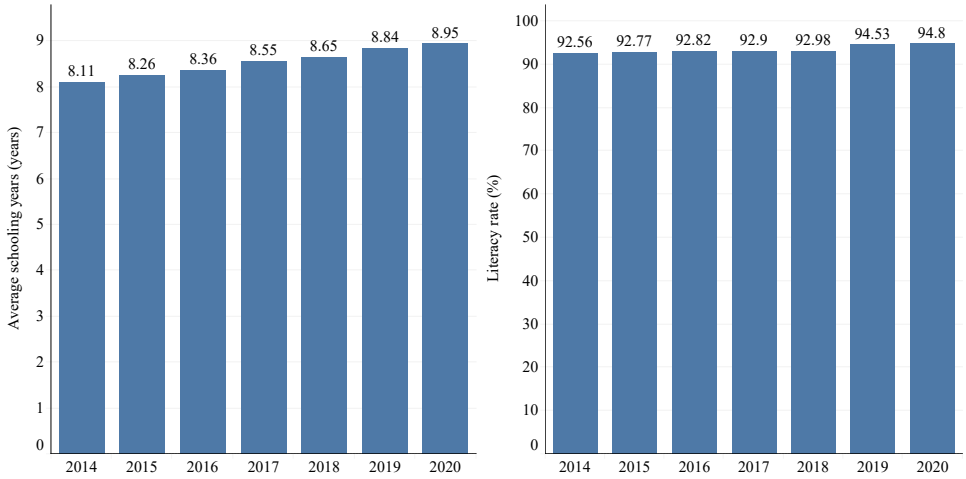

Figure 30: Average schooling years (left) and literacy rate (right)
Source: Indonesia's National Bureau of Statistics

Average schooling years and literacy rate are critical components of the HDI. In these metrics, Bali has performed well throughout our period of study. From Fig. 30, both average schooling years and literacy rate have been consistently improving each year. Average schooling years had increased from 8.11 years in 2014 to 8.95 in 2020, while the literacy rate had increased from 92.56% in 2014 to 94.8% in 2020. The aforementioned Bali Mandara programme includes numerous initiatives to boost education quality and accessibility (Tiara, 2016), such as 1) optimising the implementation of the 12-year Compulsory Education program, 2) increasing the number of scholarships for vocational high schools (SMK), 3) establishing schools for special needs students (SLB) and boarding schools, and 4) implementing the Smart Card programme and the Bali Mandara Savings Book to aid underprivileged students.

Bali's net participation rate for all levels of education had generally been increasing from 2014 to

[7] The JKBM has been discontinued but is under consideration for reintroduction. For more information on the JKBM, see (Health Department of Badung Regency, 2016)

[8] HDI is a composite index consisting of the following indicators: per capita real gross regional domestic product, life expectancy, expected years of schooling, and average years of schooling (Karyono et al., 2020)

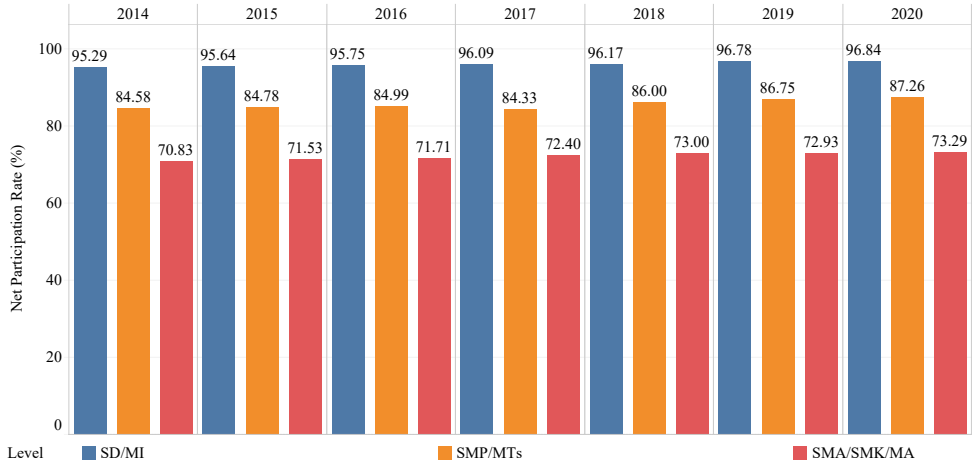

Figure 31: Net participation rate for various levels
Source: Indonesia's National Bureau of Statistics

2020 (see Fig. 31). At the elementary level, the net participation rate had increased yearly from 95.29% in 2014 to 95.84% in 2020. Likewise, net enrolment at the lower secondary level had been increasing from 84.58% in 2014 to 87.226% in 2020, except for a marginal dip in 2017. Similarly, for the higher secondary level, the corresponding rate had increased every year from 70.83% in 2014 to 73.29% in 2020. Bali has a relatively higher education attainment rate for all levels among the provinces in Indonesia. Nevertheless, the Ombudsman Representative Office for Bali Province has laid out several targets (Kinandana, 2019) such as 1) improving the quality of educational services such as the facilities and human resources, parallel to the growth in school participation rates, 2) implementing the offline school-based registration scheme (PDBB) transparently and accurately, and 3) streamlining and unifying the registration procedures for the PSBB for both public and private education institutions.

While Bali's Gender Empowerment Index [9] had shown marked improvement over the period, Bali's female labour participation rate showed mixed results. From Fig. 32, Bali's Gender Empowerment Index of 62.25 in 2014 was below the national average but had risen over the national average to 72.16 in 2020. However, Bali's female labour force participation rate had fluctuated drastically over the period from 67.26% in 2014 to a high of 70.56% in 2016 and a low of 65.67% in 2019 before settling at 68% in 2020. In 2020, 34.65% of women in Bali are engaged in informal work (Indonesia's National Bureau of Statistics, 2021). The prevalence of women in informal occupations has been on a downward trend since 2015 when the value was 37.78%. This highlights the increasing recognition of women's roles and contribution to the economy via the formalisation of their work.

Current progress vis-a-vis RPJMD targets

This section charts the progress of selected indicators against their corresponding targets laid out in the RPJMD for the period 2014-2023, and the corresponding priority programmes carried out by the

[9]The Gender Empowerment Index (IDG) is a composite measure by Indonesia's National Bureau of Statistics, that includes a percentage of women in parliament, proportion of women in professional and technical occupations, and wage differences between men and women.

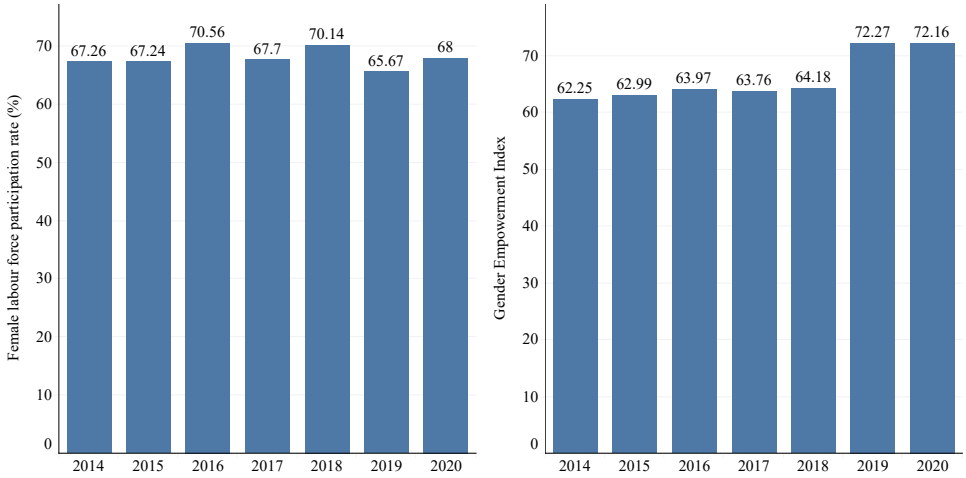

Figure 32: Female labour participation rate (left) and Gender Empowerment Index (right)
Source: Indonesia's National Bureau of Statistics, Women's Empowerment and Child Protection Agency

government as outlined in the RPJMD[10].

From Fig. 33, Bali's actual GINI coefficient has been lagging its target since 2014, with its gap growing to as large as 0.1085 in 2018, while the new target set in 2019 puts it closer to its realised value of 0.366. However, the gap continues to widen post-2019. Bali's percentage of population below the poverty rate, while lagging the targets, showed healthy improvement up to 2018 and even surpassed its target by 0.06 percentage points in 2019, but the values diverged after that. Priority programmes outlined in the RPJMD to raise the welfare of the underprivileged community include the 1) Basic Housing and Settlement Facilities Development Programme, 2) Programme for Handling the Poor, 3) Social Security and Protection Program, 4) Social Service Program, and 5) Food Availability Improvement Program.

Referencing Fig. 34, Bali's human development index lagged its targets but showed steady improvement, until 2019 when Bali's HDI exceeded the new targets set for 2019 and 2020. Bali's life expectancy stagnated from 2016 to 2018 but surged ahead in 2019 and 2020 after new targets were set. Key programmes set in place to improve residents' health and wellbeing include the 1) Pharmacy and Medical Devices Programme, 2) Health Human Resources Improvement Program, 3) Health Service Improvement Program, 4) Community Health Improvement Program, and 5) Healthy Environment Development Program.

Fig. 35 shows Bali's average schooling years significantly lagging the RPJMD target since 2014, and the gap exacerbates throughout the period, with the greatest gap at 1.33 years in 2020. However, Bali's literacy rate has significantly exceeded targets even after the new targets were set in 2019.

From Fig. 36, Bali's actual elementary school net enrolment rate has lagged behind its targets, much more so after the new targets being set in 2019. For middle school and high school, Bali's net enrolment rate for both of them had exceeded targets until 2018 and was exacerbated further as Bali pursued a more aggressive target of 100% beginning 2019. For education, the most recent RPJMD highlighted several programmes to increase schooling rates as well as improve the quality of teaching personnel such as the 1) Special Education and Language Development Program, 2) Programme for Educators and Education

[10]The policies listed in this section are non-exhaustive. Refer to Bali's RPJMD 2019-2023 for the complete list

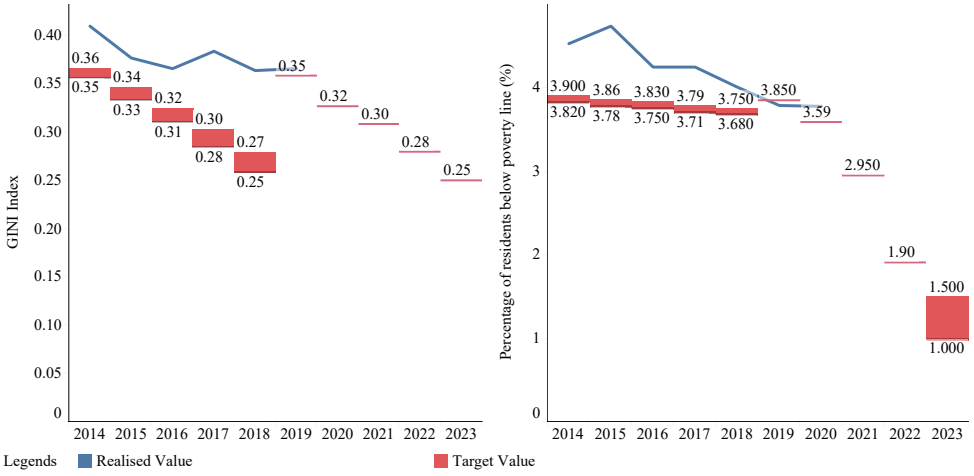

Figure 33: GINI Index (left) and percentage of residents below poverty line (right), and respective RPJMD targets

Source: Indonesia's National Bureau of Statistics, Provincial Government of Bali

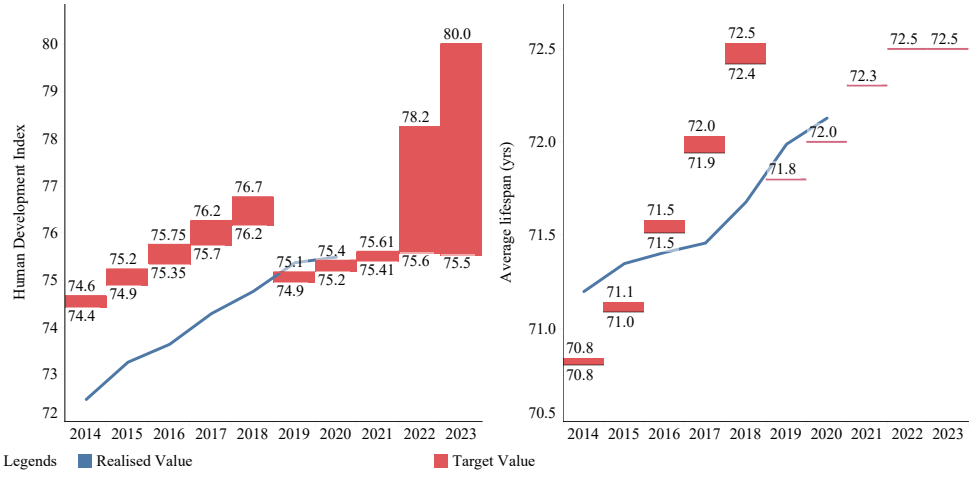

Figure 34: Human development index (left) and average lifespan (right), and respective RPJMD targets

Source: Indonesia's National Bureau of Statistics, Provincial Government of Bali

Personnel, and 3) Educational Technology Development Program.

From Fig. 37, Bali's total fertility rate is stable around its RPJMD target, ranging from a maximum of 2.34 in 2015 to a minimum of 2.1 in 2020. Meanwhile, Bali's female labour force participation had outperformed targets since 2014 but has fallen short of the revised targets post-2019. Programmes to boost female employment and welfare include the 1) Women's Empowerment Program, 2) Women's Protection Program, and 3) Family Planning Programme.

Fig. 38 shows infant mortality rate has remained stable and has generally improved from 5.99 in 2014 to 4.55 in 2020, significantly better than the targets. Similarly, the percentage of malnourished toddlers

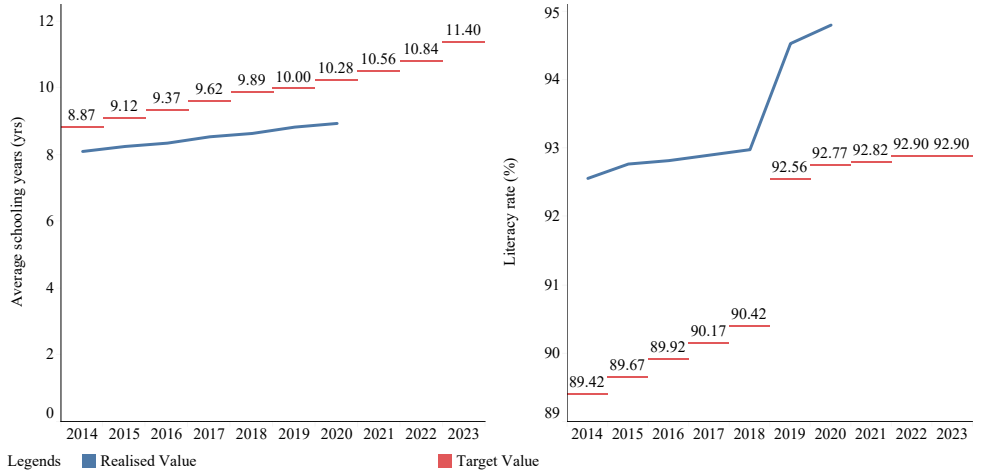

Figure 35: Average schooling years (left) and literacy rate (right), and respective RPJMD targets
Source: Indonesia's National Bureau of Statistics, Provincial Government of Bali

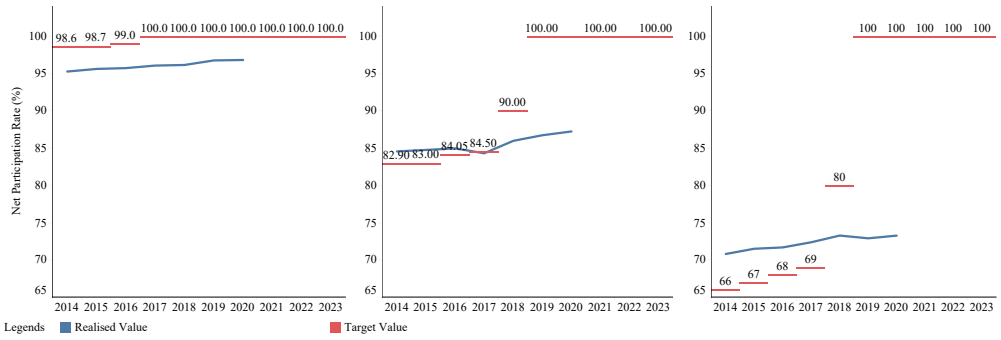

Figure 36: Net participation rate for SD/MI (left), SMP/MTs (centre), and SMA/SMK/MA (right), and respective RPJMD targets
Source: Indonesia's National Bureau of Statistics, Provincial Government of Bali

- while still lagging the targets - has initially shown tremendous improvement from 3% in 2014 to 1% in 2016, but has deteriorated to 2% in recent years. The Child Protection Programme was cited in the RPJMD as a key enabler towards this realisation.

6 Governance

To briefly analyse governance aspects of Bali, this section will focus on governance indicators related to fiscal condition and government's performance.

We will first evaluate the fiscal balance time-series data. As illustrated in Fig. 39, Bali has been running a constant fiscal deficit since 2014. From 2014-2016, Bali experienced a gradual improvement in its fiscal balance, whereby the fiscal deficit had been shrinking from IDR 1 tr in 2014 to IDR 442 bn in 2018. To further explain this progression, Fig. 40 (left) shows that the reduction in fiscal deficit was

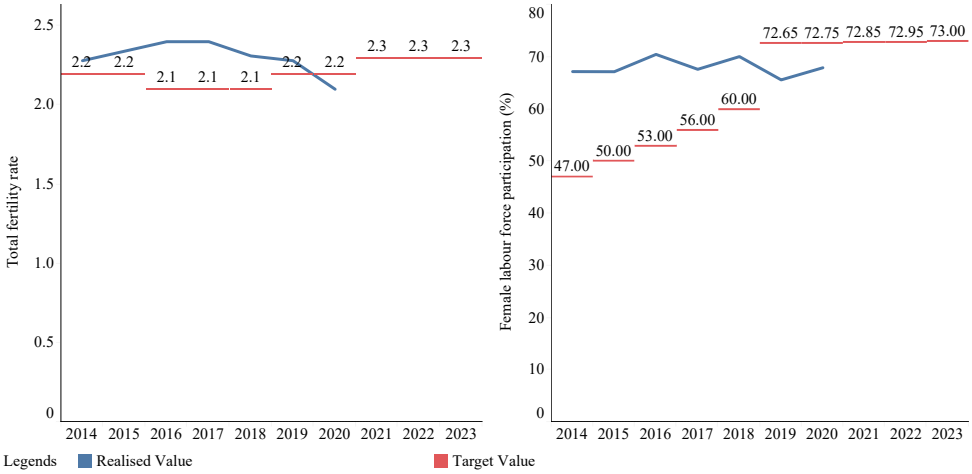

Figure 37: Total fertility rate (left) and female labour force participation rate (right), and respective RPJMD targets

Source: Indonesia's National Bureau of Statistics, Provincial Government of Bali

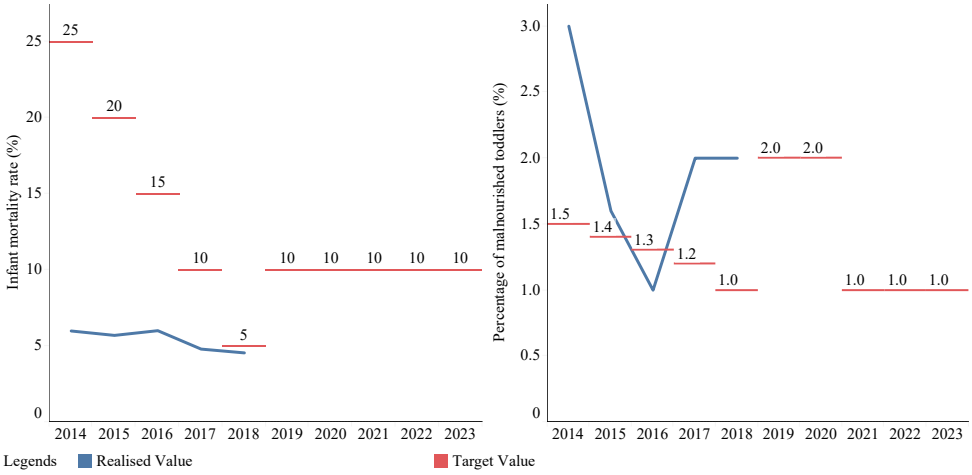

Figure 38: Infant mortality rate (left) and percentage of malnourished todddlers (right), and respective RPJMD targets

Source: Indonesia's National Bureau of Statistics, Provincial Government of Bali

driven by the significant decrease in the local government financing from 2014 to 2016, followed by a decline in direct expenditure in 2017.

However, the fiscal deficit has begun to widen since 2018, particularly due to the considerable hike in direct expenditure from IDR 1.5 trillion in 2018 to a high of IDR 2.7 trillion in 2020. The rise in fiscal deficit in 2020 reflects Bali's expansionary fiscal policy to maintain its economic growth amidst the COVID-19 pandemic, by stimulating investment and consumption (Bank Indonesia, 2021a). These efforts include budget refocusing and reallocation for COVID-19 handling, as well as provision of social

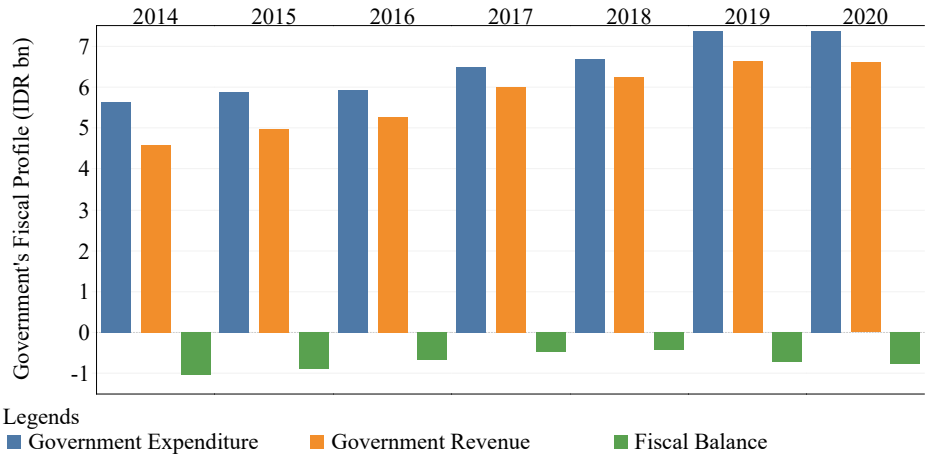

Figure 39: Government Fiscal Profile
Source: Financial Statistics of Provincial Government (Indonesia's National Bureau of Statistics)

assistance for the impacted communities (Regional Development Planning Agency of Bali, 2020).

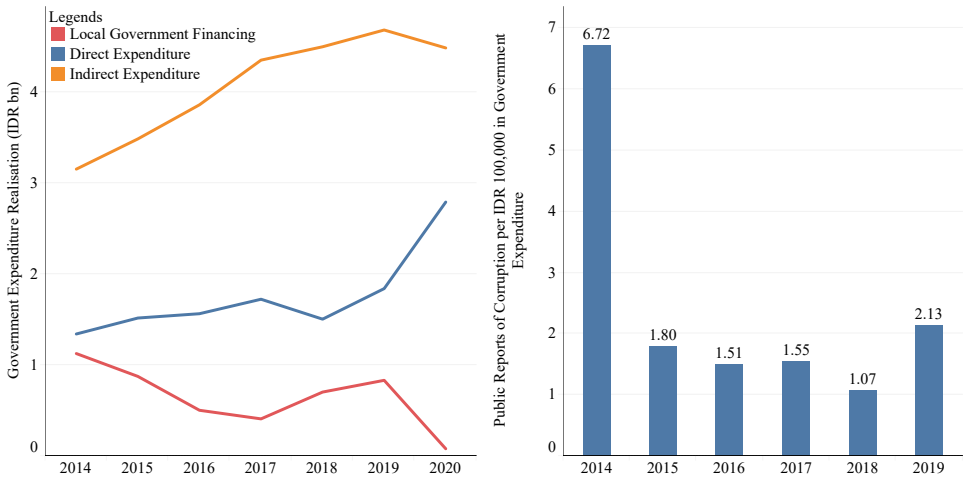

Figure 40: Government Expenditure Realization components (left) and Public Reports of Corruption per IDR 100,000 in Government Expenditure (right)
Source: Financial Statistics of Provincial Government (Indonesia's National Bureau of Statistics), Corruption Eradication Commission (KPK) Annual Report

Concerning the government's performance, Indonesia has been implementing a decentralisation policy since 2004 that gives the provincial government the authority for management and policy decision making. The provincial governments across Indonesia are expected to fully utilize their knowledge of the local context to maximize the allocation of productive resources, including the management of regional finance (Mardiasmo, 2002). However, the financial performance of the province is greatly affected by human

capital factors, such as administrative experience, educational background, and age of the provincial head (Gomes et al., 2013).

Another aspect of governance concerns the public reports of corruption. This measure is akin to a brief appraisal of Bali's civil servants' quality from the public's point of view. Fig. 40 (right) shows the trend of the number of public reports of corruption, which is expressed in every IDR 100,000 of government expenditure to normalize the number of reports with the size of the government. Overall, there had been a significant improvement in this measure from 2014 to 2019. This is shown by the fall in the ratio by 3 times throughout the period. As we can see from Fig. 40 (right), the ratio had hit a record high of 6.7 in 2014 before falling sharply to 1.8 in the following year. Then, the ratio began to decrease steadily from 1.8 in 2015 to nearly 1.0 in 2018 and marginally went up to 2.1 in 2019 – doubled than the previous year.

This breakthrough in corruption reporting is in line with the Audit Agency of Indonesia's (BPK) opinion on Bali's Regional Government Performance Report which shows a considerable improvement from 2014 to 2020. As we can see from Fig. 41, in 2014, there were 3 districts in Bali that obtained Fair with Exceptions (WDP) opinion score from BPK. This is the second best opinion score given by the BPK. The best score a province can obtain is the Fair Without Exception (WTP). In 2015, the number of districts that obtained WDP has reduced to 2, with the rest of them obtaining the WTP opinion score. As the Bali government strives to comply with the prevailing laws and regulations by adopting UNDP's principles of good governance, such as rule of law, transparency, and accountability (Sutrisna and Utama, 2021), all of the districts and cities in Bali were finally able to receive WTP opinion score from 2016 until 2020.

District/City	2014	2015	2016	2017	2018	2019	2020
Jembrana	WTP	WTP	WTP	WTP	WTP	WTP	WTP
Tabanan	WTP	WTP	WTP	WTP	WTP	WTP	WTP
Badung	WTP	WTP	WTP	WTP	WTP	WTP	WTP
Gianyar	WTP	WTP	WTP	WTP	WTP	WTP	WTP
Klungkung	WDP	WTP	WTP	WTP	WTP	WTP	WTP
Bangli	WDP	WDP	WTP	WTP	WTP	WTP	WTP
Karangasem	WDP	WDP	WTP	WTP	WTP	WTP	WTP
Buleleng	WTP	WTP	WTP	WTP	WTP	WTP	WTP
Denpasar	WTP	WTP	WTP	WTP	WTP	WTP	WTP
Prov. Bali	**WTP**	**WTP**	**WTP**	**WTP**	**WTP**	**WTP**	**WTP**

Figure 41: The Audit Board of the Republic of Indonesia's opnion on Bali's Regional Government Performance Report

**Fair Without Exception (WTP), Fair with Exceptions (WDP), Unfair (TW) and Not Providing Opinions (TMP)*

Source: The Audit Board of the Republic of Indonesia

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