PART I

Health Shock

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Keeping Indonesia Safe during the Pandemic 2020–21

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> "Either write something worth reading or do something worth writing (Benjamin Franklin)"
>
> *This book is writing something worth reading about the effective policy known as Program Pemulihan Ekonomi (PEN) of Indonesia in 2020 and 2021*

1.1 SETTING THE SCENE

The World Health Organization (WHO) detected cases of "viral pneumonia" in Wuhan city in the People's Republic of China on 31 December 2019. The virus was later named COVID-19 (World Health Organization 2022). In January 2020, several countries reported their first cases of COVID-19, including Thailand on 13 January 2020, Japan on 15 January 2020, France on 21 January 2020, and the United States on 24 January 2020. At that time, Indonesia had not yet found any cases although the screening and preparedness to detect the virus had been in place, including the installation of thermal scanners at major airports and the appointment of more than a hundred COVID-19 hospitals. Indonesia had also imposed international travel restrictions from 1 January 2020, temporarily suspended all flights connecting Indonesia and China and imports of live animal products from China. The first cases of COVID-19 in Indonesia were detected and reported on 2 March 2020.

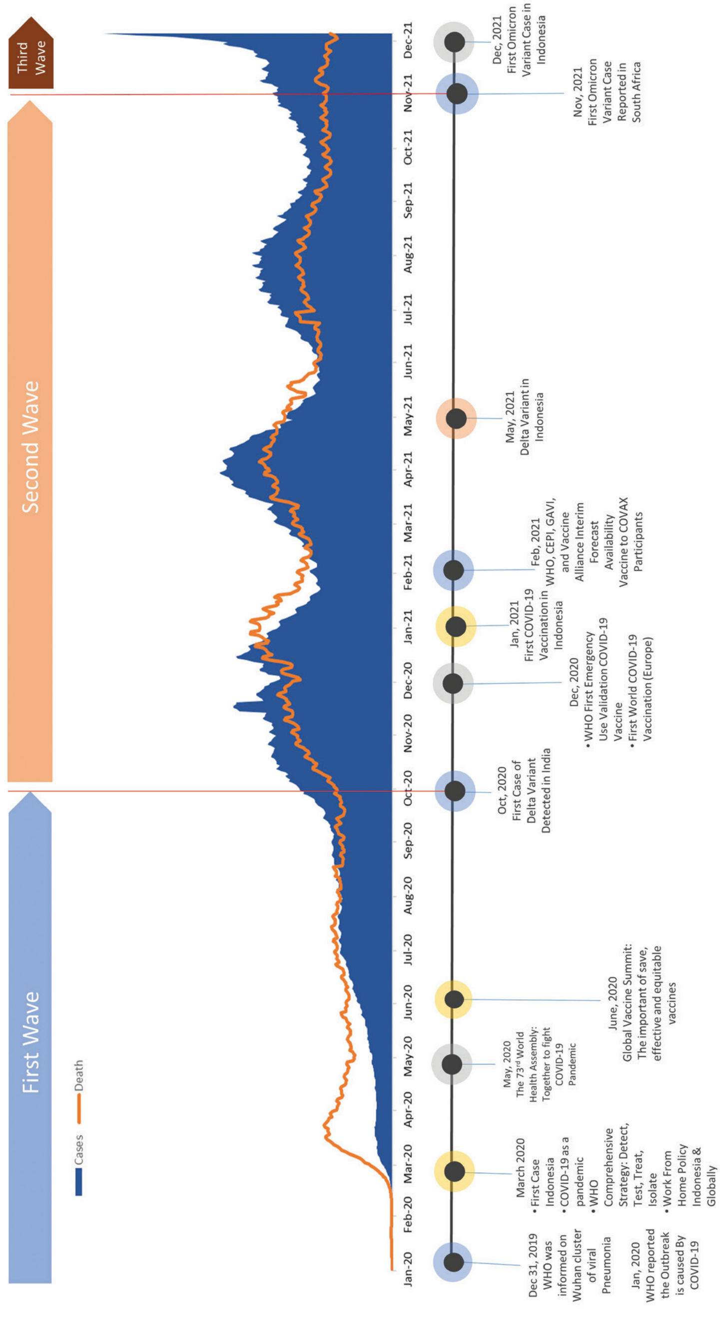
WHO and the Chinese health authorities closely studied the virus from its first discovery. On 24 February 2020, the WHO-China mission on COVID-19 reported the main findings of their mission and highlighted the importance of large-scale implementation of non-pharmaceutical public health measures, COVID-19 case detection and isolation, contact tracing and monitoring/quarantining as well as community engagement to control the COVID-19 transmission and reduce illness and death resulting from the COVID-19 infection (World Health Organization 2022). WHO declared COVID-19 as a pandemic on 11 March 2020 and regularly updated the COVID-19 situation and recommended measures to address the pandemic and mobilized resources on a global scale to handle the pandemic.

Many countries began to close their borders and implemented the measures recommended by WHO, including lockdowns. China took more extreme measures than what was recommended by WHO, locking down the city of Wuhan and other cities in Hubei province on 23 January 2020, to quarantine the centre of the COVID-19 outbreak. Indonesia introduced social distancing, namely the Work, Study, and Worship at Home policy, on 16 March 2020, and implemented large-scale social restrictions (*Pembatasan Sosial Berskala Besar*, or PSBB) on 10 April 2020 in Jakarta Province, the epicentre of COVID-19 in Indonesia. The social distancing measures continued with many different names and different stringency levels following the increase in case numbers.

Figure 1.1 shows the timeline of the escalation of the COVID-19 cases since December 2020. With vaccination not yet developed, the combination of speed of the transmission and mutation of the virus and unpreparedness of the society resulted in an increasing number of cases and fatalities during 2020 and early 2021. With vaccination, the fatality rate significantly subsided in the later period of 2021. Although the highest transmission rate occurred due to the Omicron variant of COVID-19 at the end of 2021, the fatality rate was very low.

The COVID-19 pandemic was not only about health issues. The catastrophic economic and social crisis worldwide has also changed the

FIGURE 1.1
COVID-19 Pandemic, 2020–21



way people live in a significant way. The outbreak and the implementation of social restrictions worldwide resulted in a reduction in economic activity by many consumers and producers, including corporate and banking stress (Siregar, Gunawan, and Saputro 2021), massive unemployment (Petrosky-Nadeau and Valletta 2020; Şahin, Tasci, and Yan 2020), global supply chain disruption (Deconinck, Avery, and Jackson 2020), and learning loss due to disruption of the education system (Donnelly and Patrinos 2021). This unprecedented combination of adverse shocks caused deep recessions in economies worldwide (World Bank 2020), including Indonesia (Gibson and Olivia 2020; Suryahadi, Al Izzati, and Yumna 2021). Global economies contracted by 3.1 per cent in 2020 in contrast to earlier growth forecasts of 3.3 per cent (IMF 2020, 2022). Indonesia experienced an economic contraction of 2.07 per cent in 2020 in contrast to the 5.3 per cent target in the 2020 budget (MoF 2020) and increased open unemployment from around 5 per cent to 7.07 per cent or about 9.77 million in 2020. The poverty rate also increased to more than 10 per cent, the Gini ratio rose from 0.380 to 0.385 (BPS 2021).

Countries around the world provided sizeable fiscal support in response to the pandemic. Indonesia's fiscal response to COVID-19 was modified according to developments at both global and national levels. In January 2020, the fiscal policy adopted was in response to COVID-19 and refocused and reallocated government spending to handle COVID-19 with modest stimulus of IDR8.5 trillion (Stimulus I) to protect the poor and vulnerable and to support the negatively impacted sectors followed by another stimulus of IDR22.5 trillion (Stimulus II) for business support including fiscal incentives and trade facilitation (MoF 2021).

In line with central government's budget policy, the intergovernmental transfer (*Transfer ke Daerah dan Dana Desa*, or TKDD) and regional budget policy were also modified. During the pandemic, the TKDD and regional budget policy focused and reallocated on handling the health and economic impacts of the COVID-19 pandemic. For instance, the requirements for the distribution and use of some TKDD funds, such as the Revenue Sharing Fund (*Dana Bagi Hasil*, or DBH), the General Allocation Fund (*Dana Alokasi Umum*, or DAU), and the Regional Incentive Fund (*Dana Insentif Daerah*, or DID) have been simplified since the pandemic began in Indonesia. It aims to ease the handling of the pandemic in the regional.

As soon as the first case of COVID-19 was declared in Indonesia, the Indonesian Financial System Stability Committee (*Komite Stabilitas Sistem Keuangan*, or KSSK)—comprising of the Ministry of Finance, the Indonesian

Central Bank (Bank Indonesia, or BI), the Indonesian Financial Sector Authority (*Otoritas Jasa Keuangan*, or OJK), and the Indonesian Deposit Insurance Corporation (*Lembaga Penjaminan Simpanan*, or LPS)—started to seek projections about what is going to happen with the economy. The global pandemic hit Indonesia in early 2020, decreasing its annual economic growth from 2.97 per cent in the first quarter to –5.3 per cent in the second quarter (BPS 2021).

A pressing issue at that time was the fact that there are no economic models to use, as COVID-19 was unprecedented. There is no relationship that can be established from past data, for example, number of infections and people's mobility and economic activity. Nevertheless, on one afternoon in March 2020, the above four agencies sat and discussed the projection, which was a bit closer to (educated) guesses.

With the worsening global and domestic economic indicators posing a risk to the financial system stability, the KSSK, chaired by the Minister of Finance, drafted a more comprehensive intervention package, a combination of fiscal, monetary and financial sector policy interventions which was later on 31 March 2020 enacted as Government Regulation Number 1 Year 2020 in Lieu of Law of the Republic of Indonesia Concerning State Financial Policy and Financial System Stability to Control Corona Virus Disease 2019 (COVID-19) Pandemic and/or in Response to Dangerous Threats to the National Economy and/or the Stability of the Financial System (referred to as PERPU 1/2020 in this book).

PERPU 1/2020 provided the legal basis for the National Economic Recovery Programme (*Program Pemulihan Ekonomi Nasional*, or PEN). PEN contained the essence of a stability function that was temporary or ad hoc where the programme being trimmed and finished once the economy recovered, the market and real sector returned to normal.

One of the important results of the solid synergy between the government and the agencies mentioned above is the implementation of the burden-sharing programme. This programme was implemented between the Ministry of Finance and BI due to the drastically increasing budget deficit for handling the pandemic and economic recovery. Based on PERPU 1/2020, Bank Indonesia is allowed to buy government bonds (*Surat Utang Negara*, or SUN, and *Surat Berharga Syariah Negara*, or SBSN) in the primary market. This is very important in providing financial certainty at low costs for the government in the midst of high volatility in the financial market at that time.

1.2 THE NATIONAL ECONOMIC RECOVERY PROGRAMME (PEN) POLICY FRAMEWORK

Before the pandemic, the Government of Indonesia adopted regularity in its planning process, with the five-year medium-term plan set within the long-term twenty-five-year plan. The fiscal policy followed the regularity of the national planning process. The annual government budget was designed and implemented in accordance with the medium- and long-term plans.

The 2020 government budget was already designed and approved by the Parliament in 2019. According to the law, changes to the approved budget require the Parliament's approval. The fiscal policy before the pandemic was disciplined within the mandatory fiscal deficit below 3 per cent of GDP. In 2019, the budget deficit was as low as 1.84 per cent of GDP, the lowest since 2013 (MoF 2019). The 2020 fiscal deficit was planned to be at 1.76 per cent of GDP (MoF 2020).

The uncertainties resulting from the COVID-19 pandemic require new way of governance as the regularity is no longer compatible to the new circumstances. With the projected extraordinary socio-economic impact of the COVID-19, the Ministry of Finance understood that the role of government is pivotal in the economics of the pandemic. When the consumption, investment and export (and import) were paralysed, the government expenditure becomes the only game in town. The government budget serves as cushions for not allowing the national output to slide down even further. The new circumstances require the fiscal policy to be flexible, responsive and adaptive at the same time.

Fiscal policy has three main functions: allocation, distribution, and stabilization. Each part may be mixed to achieve the primary objective of accelerating economic growth while keeping the inflation rate stable or simply, a stable economic growth. In normal situation, fiscal policy should keep market mechanisms properly working to avoid the so-called "crowding-out". This is known as fiscal discipline. The Government of Indonesia's budgetary disciplines before the arrival of the global pandemic were Indonesia's most advantageous factors supporting the government's budget deficit expansion above 3 per cent of GDP from 2020 to 2022.

PERPU 1/2020 provides flexibility for the fiscal authority to tackle the pandemic and its subsequent impact, and together with the OJK's financial sector relaxation, served as the basis for managing the economy, protecting the people towards economic recovery. The critical economic situation, as projected by KSSK at that time, provided justification for the government to issue the PERPU which was later legislated as Law Number 2, 2020 by the Parliament on 1 May 2020.

With PERPU 1/2020 as a legal basis, the government could quickly revise the 2020 budget to allow fiscal supports for the pandemic management, larger social protection to the poor and vulnerable, and greater supports to micro and small enterprises. In 2020, the budget was revised twice to allow budget reallocation and automatic adjustment without going through the parliamentary approval process which takes time. Nevertheless, the government always kept the Parliament informed of the planned budget revisions. With PERPU 1/2020, the OJK was also allowed to undertake necessary policies to support loan restructuring, and BI was allowed to purchase government bonds in the primary market. It is indeed a breakthrough in the fiscal-monetary policy coordination in Indonesia.

1.3 ABOUT THIS BOOK

The stabilization function of the fiscal policy is super relevant and vital when the economy is facing an economic crisis at the time when economic growth is negative, regardless of whether the inflation rate is skyrocketing (hyperinflation or stagflation) or plunging (low inflation rate or liquidity trap alike). In any economic crisis, the most dominant function is stabilization. This book assesses the impact of the pandemic and evaluates the effectiveness of fiscal stabilization in Indonesia amidst the global pandemic in 2020 and 2021.

It assesses the impact of the pandemic and evaluates the effectiveness of PEN, a countercyclical fiscal policy implemented in Indonesia during 2020–21. The challenge for fiscal policymakers during the pandemic was the need to design appropriate, agile and effective fiscal policies to support the economy that was projected to be very turbulent, leading to stagnation in the real sector and market mechanisms. Both the effectiveness of fiscal allocations and distribution function reform would affect the success of the fiscal stabilization function. This book is unique as it was jointly written by policymakers involved in the decision-making process and policy implementation, and independent analysts who evaluated the impact of the programmes.

The book discusses policy impacts and outcomes as revealed by several independent surveys and studies. The book begins with a chapter discussing the health aspect of COVID-19 and how the government, through the PEN programme addressed the health crisis. It is followed by four chapters in Part II addressing macroeconomic, monetary and financial sector developments as well as the institutional challenges faced in order to achieve a more flexible fiscal policy. Part III continues with the discussion on the revenue side challenges of the fiscal policy, followed by discussions on debt financing of the increased fiscal deficit. The next 2 parts discuss the expenditure side of the fiscal policy, with Part IV covering expenditure to protect people, and Part V on expenditure to support businesses. The regional dimension of the pandemic, how local governments handled the health crisis and its impact are discussed in Part VI as decentralization is an important element of economic development in Indonesia. As the pandemic triggered a new way of working, the final Part VII discusses the pandemic-induced bureaucratic reform.

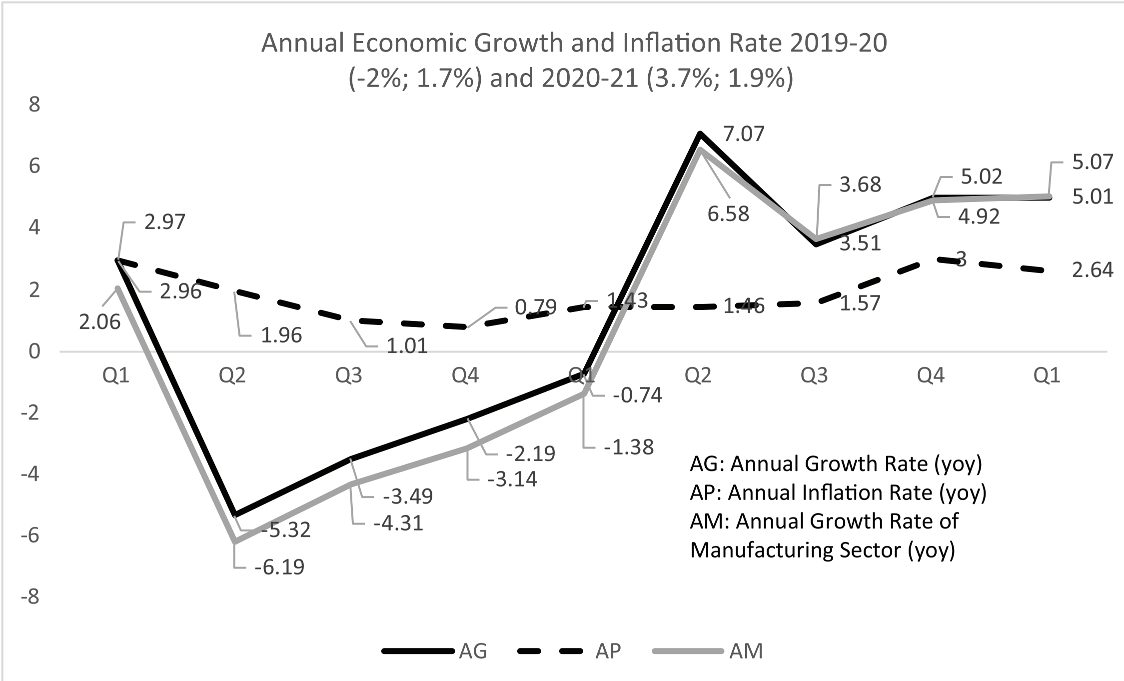
The chapters in this book discuss the lessons learnt and include discussions about the challenges such as lack of data and inclusion-exclusion error, policy scenarios, the chosen policy, and its output details, as well as the timeline explanation. The book then concludes with a self-critique, discussing the pros and cons of actions taken, factual-counterfactual approach, and study limitation description.

We argue that there are no perfect policies. Even if the best policies are implemented, there must be side effects. This book explains the side effects of the policies based on field research findings. It applies a post-factum perspective to assess the effectiveness of the related response policies made during the early pandemic, known as ex-ante policies.

In the long run, it shows that industrialization remains the game-changer, which explains why in 2021, the GDP per capita in US dollar, poverty rate and the Gini ratio returned to the pre-pandemic trajectory. In the short run, the PMI index (manufacture) as the aggregate supply-side proxy, in the third quarter of 2021 (Year-on-Year) has had a quicker recovery than consumption (CC Index) as the aggregate demand proxy. Thus, significantly improving the manufacturing sector with significant economic growth is vital. However, investigating this transformation is beyond the scope of this book.

In the short run, as shown in Figure 1.2, annual economic growth (AG) has recovered from –2.1 per cent (2020) to 3.7 per cent (2021), while

FIGURE 1.2
Indonesia's Economic Recovery Pattern (Total Real Growth, Inflation Rate and Real Manufacturing Growth)



Source: Authors' own illustration, BRS BPS (2022).

the annual inflation rate (AP) remained between 1.7 per cent (2020) and 1.9 per cent (2021). This pattern indicated that actual output had returned to levels attained in the last five years. The open unemployment rate has decreased from 7.1 per cent in August 2020 to 6.5 per cent in August 2021. The Gini ratio in 2021 was 0.381 and has very nearly returned to the 2019 level of 0.380. The poverty rate has returned to below 10 per cent of the population at 9.7 per cent. Indonesia's economic status has returned to the classification of upper-middle income country with higher than US$4,046 in contrast to its 2020 classification as lower middle-income level because of the global pandemic.

Indonesia's achievement during the pandemic was relatively better than most countries as it avoided stagflation and took only one year to recover. However, Indonesia continues to face structural and long-term manufacturing sector issues that were confirmed not only during normal times but also during the pandemic. The sector recovery was already falling behind other sectors, as seen from the lower level of the grey line which represents manufacturing growth compared to the black line of total economic growth in Figure 1.2. As argued, manufacturing remains a game-changer in Indonesia's economy as it connects both sources of economic growth of foreign direct investment (FDI) inflows and net export as well as short-run investments.

1.4 CHAPTER SYNTHESIS

Chapter 2: Ensuring Indonesians Are Safe from COVID-19

This chapter assesses the health aspects of COVID-19 in Indonesia. The authors analyse the strengths, innovations and limitations of the government interventions for the containment and mitigation of COVID-19. It discusses the measures adopted, the social distancing measures and the correlation with a case number. The authors found that the measures and the level of stringency are correlated with the case number.

The authors also discuss the medical supply chain disruption and how the PEN programme for the health sector is designed and addresses the issue. The authors also discuss the additional incentives provided to health workers, additional funding for diagnostic and patient treatment, vaccines, medicine and JKN (*Jaminan Kesehatan Nasional*) contribution support, and the tax incentives for imported health equipment and devices, medicines and COVID-19 vaccine.

The authors show that the COVID-19 vaccine is very crucial for Indonesia that the government of Indonesia intensified the vaccination programme using different channels and incentives which resulted in a significant increase in the number of beneficiaries.

The authors concluded the chapter with the lessons learnt from the global pandemic that there is a need to improve the public health sector. As a response, the government designed six transformation pillars for the future of the Indonesian health sector: primary care transformation, secondary care transformation, healthcare resilience transformation, health financing transformation, health talent transformation, and technology transformation.

Chapter 3: Maintaining Macroeconomic Stability during the Pandemic

This chapter focuses on how the government of Indonesia maintained macroeconomic stability during the COVID-19 pandemic. The global financial sector experienced one of the biggest shocks in history: stock markets collapsed, developing country exchange rates fell sharply, and there was the biggest sell-off in history. It did not stop there, the real sector also experienced great pressure due to restrictions on market activities throughout the world. Macroeconomic indicators reflected a severe contraction. This, in the end, also had an impact on the stability of the financial sector, where financial service institutions were under pressure from risks, such as credit risk.

Amidst the current health and economic crisis, a dilemma arose regarding what should be prioritized: health or the economy? Despite the risks associated with being forced to trade off health and economic activities, the Indonesian government chose to save both. The authors described how the Indonesian government quickly began to discuss the possibility of budget flexibility to deal with the unprecedented situation, through PERPU 1/2020. Despite taking extraordinary measures, the government has been maintaining measured and prudent fiscal policies.

The authors conclude the chapter with a medium-term reflection on the need for the government to implement fiscal consolidation by returning the budget deficit to a maximum of 3 per cent of the budget deficit in 2023 while continuing to strengthen fiscal measures for the COVID-19 pandemic handling and economic recovery as well as structural reforms.

Chapter 4: Financial Sector and Monetary Policy during the Pandemic

This chapter elaborates on the response of the financial sector and monetary policy to the need for keeping the Indonesian economy safe. During the COVID-19 pandemic, keeping the real and financial sectors active was very important, restricting people's activities could create a contraction of economic and business activities.

Increased credit risk, if it is not managed properly, would lead to a decline in consumer confidence in the banking system. Therefore, the government and the authorities (Indonesia's Central Bank and Financial Services Authority) immediately coordinated and arranged policy support to minimize the impact of the pandemic on the economy and the financial sectors.

The government and authorities maintained the banking industry's stability, supporting the postponement of principal payments, relaxing credit policies, and ensuring there was enough liquidity in the banking system. These policies were translated into several programmes as follows: direct placement of funds in the banking system, credit restructuring, interest subsidy programmes and credit guarantees.

The burden-sharing scheme, a monetary policy option that had never been included in textbooks, has proven to be able to bring a credible source of financing for the government to withstand the impact of the pandemic. In this scheme, BI participates in financing the ballooning fiscal deficit through the purchase of government bonds in the primary market. The first Joint Decree, commonly referred to as SKB I (*Surat Keputusan Bersama I*) was signed on 16 April 2020. This agreement ruled that BI could act as a backstop buyer in the primary market. Then, on 7 July 2020, SKB II (further amended on 20 July 2020) regulated the distribution of the burden of issuing government securities for public goods and non-public goods. And lastly, SKB III, initiated by BI, aimed to respond to the significant spread of the COVID-19 Delta variant and it required a large amount of funding for health and humanity.

Chapter 5: Financing to Save Indonesia

This chapter focuses on the discussion of how the government financed the fiscal stimulus when state revenues were declining. Facing the pandemic, the State Budget deficit was expected to surpass the maximum limit of 3 per cent of GDP. It raised the question of how the government could meet the debt financing targets. Amidst global debt market pressures, the government was also facing challenges in the depth of domestic financial markets, including the government bond market. Simultaneously, there was an outflow of foreign capital as reflected in the sharp decline in foreign ownership.

This phenomenon forced the government to analyse all available policy options amidst low demand from investors while maintaining prudent debt management. In this case, the government has to come up with a breakthrough strategy to meet the financing needs amid low demand from investors. The synergy of fiscal and monetary policies through the burden-sharing scheme was a very important milestone during the unfavourable financing market conditions at that time. The government launched SBN (*Surat Berharga Negara*) online to induce higher demand for retail investors. The government also relaxed the tax burden on bonds holding to a single rate of 10 per cent. These breakthroughs boosted the positive performance of SBN so that the Indonesian government still achieved its issuance target.

Chapter 6: Turning Bottlenecks into Breakthroughs

This chapter explores how the government responded to the pandemic quickly through institutional breakthroughs, even though they had no experience with the impact of pandemics. The government had to take emergency steps and extraordinary measures; there was stuttering and indecision because there was no legal basis for taking steps, no budget had been prepared, and there were no rules for implementing the budget in an emergency. The authors elaborate on how the government made a fundamental decision to address multiple crises by stipulating PERPU 1, 2020. The authors also emphasize the importance of engaging in communication with stakeholders in a transparent, routine and sustainable manner to gain support and build public confidence and trust. The authors argue that good communications, followed by high commitment and close cooperation were proven to be very important in overcoming deadlocks in the implementation of programmes or policies. In this case, Indonesia has also learned that the courage of leaders in making breakthroughs can make a very positive contribution to the handling of crises. On the other hand, governance, risk and control must be strictly maintained so that people who dare to take action can be held accountable in a good and transparent manner.

Chapter 7: Balancing the Scale: Providing Tax Incentives and Collecting Revenue

This chapter discusses Indonesia's responses to the global pandemic from the revenue side of the government budget. The Ministry of Finance (MoF) rearranges the annual budget with several scenarios taking into account various economic forecasts. This changing scenario includes the role of tax and collecting revenue as well as the provision of tax incentives. The MoF has provided information on fiscal incentives as part of the tax expenditure report since 2018. The increasing economic challenges due to the pandemic required more extensive fiscal support, including tax stimulus. Therefore, the MoF had launched a wave of financial support for tax and duties relief, deductions, and relaxation.

The global pandemic made the MoF adopt and apply a countercyclical fiscal policy with tax revenue dwindling as further fiscal intervention was necessary to boost the economy. The MoF designed the fiscal frameworks considering the avoidance of the "wasteful spending" principle and following the general directions of stimulus programmes. There are three general principles in designing a fiscal framework during a crisis: timely, targeted and temporary (Summers 2008).

This chapter shows the lessons learnt from the global pandemic during the implementation of the Indonesian tax incentives, which include a need for collaboration with external stakeholders such as the businesses to strengthen the government's understanding of the taxpayers' actual situation. This chapter also explains that the MoF had applied primary data collection through field surveys and secondary data analysis based on the administrative data. Both methods had equipped the MoF with comprehensive information on what had happened on the ground, which was essential for designing and implementing the right policies for the accurately targeted impacts.

This chapter shows that technology-led tax incentives administration impacts are vital because they significantly reduce the paperwork for the taxpayers and provide an effective monitoring method for the government of Indonesia. In the long run, the pandemic motivated the government to adopt, adapt and apply related fiscal reforms from domestic resources (Domestic Resource Mobilization, or DRM) and international taxation reforms (Pillar I and Pillar II).

Chapter 8: Protecting the People

This chapter elaborates on how social protection was provided during the pandemic. It begins with a brief elaboration on the existing social safety net programme and links the discussion to the necessary adjustments to effectively cushion the impact on poor and vulnerable households. Although immediately existing programmes such as conditional cash transfers to the poorest households, the family hope programme (*Program Keluarga Harapan*, or PKH) and the electronic food voucher (*Kartu Sembako*) were expanded, it appeared that more support was needed, due to exclusion errors encountered within the existing social assistance beneficiary database and the potential impact of the pandemic on vulnerable middle-income households.

The authors discuss elaborately and provide evidence from several surveys on how the government expanded the safety net in 2020 and 2021 to cover the poor and vulnerable families. It also discusses the challenges the government faced in expanding a programme, which did not happen smoothly at the beginning but covered most of the vulnerable groups in the end. The new social assistance programmes designed or adjusted from the existing non-social assistance programmes such as the Village Fund and Pre-employment Card programme successfully captured and protected the impacted households which were not already in the established database of social assistance beneficiaries. The authors also discuss the importance of monitoring and evaluating the safety net programme and how the government worked closely with universities and research institutes to monitor and evaluate the safety net programme during the pandemic.

The authors conclude with a reflection on the need for a robust social protection system in the future to protect Indonesians both in normal conditions and during crisis times throughout their life cycle. It will include a social registry, on-demand applications and increased levels of investment.

Chapter 9: *Kartu Prakerja*: A Breakthrough for Boosting Labour Market Productivity and Social Assistance Inclusiveness

President Joko Widodo's second term in government put human capital development as one of his main priorities. With the low quality of the workforce and limited skill upgrading programme, the Pre-employment Card Programme (*Kartu Prakerja*) was designed as a labour market instrument for skill upgrading. The programme was designed for implementation in 2020 for those at least 18 years old, who had graduated from school and/or were unemployed to get free training according to their preferences and receive some allowance after finishing the training. However, because of the pandemic and based on the review of the impact of the pandemic on households and the ability of existing available programmes to respond to the pandemic in early 2020, *Kartu Prakerja* was transformed into a programme with a double mission: skill upgrading and social assistance. The authors discuss the transformation of *Kartu Prakerja* from purely skill upgrading to an on-demand application social safety net which rode on the online skill-upgrading programme. The redesigned *Kartu Prakerja* was intended to allow the selected participants to take an online course and receive social assistance upon finishing the training.

This chapter begins with a discussion about the labour market in Indonesia and the original design of *Kartu Prakerja* and its strategy to fill the gap in the labour market. The authors follow with a discussion about the implementation of the redesigned *Kartu Prakerja* during the pandemic and the challenges encountered. The authors also presented an evaluation of the impact of the *Kartu Prakerja* as a social assistance and skill upgrading programme. The authors conclude the chapter with a reflection on the innovations in the *Kartu Prakerja* programme and the possible replication and expansion of the programme.

Chapter 10: Mental Health during the COVID-19 Pandemic: An Issue Less Visited

This chapter evaluates the impact of the global pandemic on mental health, which had negatively affected socio-economic life. From a public health perspective, government intervention during a pandemic not only focuses on physical health but also on mental health. The government of Indonesia, in mitigating the socio-economic impact of the pandemic, adopts several measures. One of the examples was the shifting role of *Kartu Prakerja* as both a reskilling and upskilling tool for the working labour force and to play a role as a scholarship for "discouraged workers", i.e., those who previously worked but lost their jobs because of the pandemic and were unable to obtain jobs but did not want to be unemployed. They decided to be a non-labour force. The *Kartu Prakerja* has provided beneficiaries with monetary benefits and new skills. The well-managed targeting and disbursement mechanism helped encourage workers to avoid mental health disorders, such as anger and anxiety. This chapter found that *Kartu Prakerja* had successfully acted as a scholarship to improve the beneficiaries' mental health during the pandemic.

This chapter analysed the results of a field survey covering 4,000 respondents in Indonesia nationwide on several mental health indicators such as happiness, anxiety, sadness and anger in this field survey. This survey found that people became less happy and felt pressure and sadness due to the pandemic. The problematic situation developed as a result of the existence of the direct physical threat encountered whilst facing a virus pandemic without available vaccines combined with other unforeseen experiences which caused more anxiety and, in the end, mental illness. The survey found that 50 per cent of the male respondents experienced deprivation of happiness, which was very slightly higher than female respondents. Respondents started to experience declining happiness in March 2020 when the Indonesian government announced its first pandemic patient and applied people mobility with a social restriction policy. This study found that in the job sector, around 60 per cent of the respondents had been severely impacted by the pandemic, particularly those working in the accommodation and restaurant sector. They also experienced the most severe deprivation of happiness. It found that the more the pandemic affected the industry, the higher the negative effect on its workers' mental health.

Chapter 11: COVID-19 and Education in Indonesia: When School Reopening Is Not Enough to Avert Losing a Generation

The COVID-19 pandemic and school policies gave students, teachers and parents huge challenges. Not every teacher and student had equal quality computers or smartphones. The quality of the connections was also not equal at home. To add to those issues, there was competition for the Internet reception at home. Another important issue was the education curriculum that need to be adjusted for a virtual meeting mode.

The pandemic added to the already existing learning gap and disparities in learning outcomes. The authors discuss the impact of COVID-19 on the education sector in greater detail benefiting from the World Bank High Frequency Household Survey. To begin the discussion, the authors highlight the importance of quality education for Indonesian growth. The authors continue the discussion with an elaboration on how the COVID-19 pandemic exacerbated the pre-existing challenges in the Indonesian education system—the learning gap and outcome disparities.

To mitigate the impact of the pandemic on education, the government implemented several interventions including the emergency curriculum, different modes of distance learning, and hybrid learning. However, significant variation remained in terms of access across students and variations in school readiness to deliver quality education. On the fiscal side, the government increased the budget allocation for education and changed the guidelines regarding the utilization of DAK (*Dana Alokasi Khusus*, or Special Allocation Fund) funding. The authors examined the effectiveness of government intervention during the pandemic. The authors conclude with forward-looking policy suggestions on how Indonesia should address these growing challenges to help drive the country's transition to a high-income country, from the education policy standpoint as well as budget policy.

Chapter 12: Towards an Inclusive Response to Combat COVID-19 Impacts on Women and People with Disabilities: Lessons from Indonesia for Peer Countries

Globally, the pandemic and its economic fallout were found to have had a regressive effect on the goals of gender equality and disability inclusion. Was Indonesia any different? This chapter looks at the pandemic from a gender and disability inclusion perspective. The authors discuss how gender and disability were impacted differently by the effects of the COVID-19 pandemic in Indonesia and how different it was from global trends.

The discussion in this chapter begins with the pre-pandemic state of the gender gap and disability inclusion in Indonesia followed by a discussion on the different impacts of the pandemic on women and people with disability. The authors contrast the impact of the pandemic on female-headed households with male-headed households as well as women-led businesses with male-led businesses. On the government response to the COVID-19 pandemic, the authors again apply gender and disability inclusion to the issue. The authors discuss in detail each of the government interventions during the pandemic and their effects on women and people with disability. The authors argue that although most policy responses were not designed specifically to address gender and disability inclusion, women and people with disability were covered by government intervention, through social assistance and business financial relief.

The authors conclude the chapter with a reflection on the long term and sustainable reform needed to address the gender gap and disability inclusion including consensus building on the importance of gender equality and disability inclusion, better investment in education, skills training, affordable childcare and aged care, provision of flexible working arrangement and investment in adaptive and inclusive social protection.

Chapter 13: Weathering and Recovering from the Pandemic: Lessons Learnt from MSMEs in Indonesia

This chapter discusses the impact of the global pandemic of COVID-19 on Indonesian Micro Small and Medium Enterprises (MSMEs) across sectors with the pattern of impacts as a result of the pandemic depending on when the infection numbers increased or decreased. The authors highlight that nine out of ten MSMEs experienced decreasing demand and revenue during the pandemic. Almost two-thirds of MSMEs experienced decreasing revenue and around 53 per cent of MSMEs experienced a decrease in asset value.

Under the PEN programme, the government of Indonesia had implemented policies for business sectors such as loan interest subsidies, deferred principal and interest loan payments, working capital loan guarantees, tax incentives and regional incentive funds. This chapter explains the impact of the pandemic on MSMEs with a discussion of the results of several previous surveys before the global pandemic came. It concluded that different kinds of strategies were adopted by MSMEs to contain the crisis. It identified appropriate strategy options to accelerate recovery progress for Indonesia and MSMEs around the world. It gives details of the policy's effectiveness and lessons learnt for the future.

This chapter elaborates that PEN has assisted MSMEs, but there was still room for improvement. Further extensive evaluation and refinement are needed to complete Indonesia's PEN to enable it to assist MSMEs with their recovery from any pandemic or aggregate demand pressure.

Chapter 14: Financial Inclusion and Economic Recovery Programme: From Limiting Factor to Opportunity

Financial inclusion is a key enabler to reducing poverty and boosting prosperity. Indonesia together with more than fifty-five other countries has adopted and implemented a national financial inclusion strategy. In the G20, Indonesia also promotes financial inclusion through a Global Programme for Financial Inclusion (GPFI) with the mandate to have tangible outcomes during Indonesia's current President's term in 2022. This chapter begins with a discussion on the essence of financial inclusion and why it is important for Indonesia. The authors provide a brief overview of Indonesia's National Strategy on Financial Inclusion.

The effect of the COVID-19 pandemic on society exposed the crucial role of financial inclusion. The authors discuss how the state of financial inclusion affected economic activities during the pandemic and the speed of delivery of government policy intervention. Interestingly, the authors discuss how the government, through its economic recovery programme, contributed to financial inclusion. The expansion of social protection programmes to families and financial support to micro-businesses during the pandemic is among the contributors to financial inclusion. The new beneficiaries are registered collectively by the government with financial institutions to receive financial support. The authors argued that the state of financial inclusion at the beginning was the limiting factor for the delivery of significant government support. Nevertheless, the authors provided evidence that the national economic recovery programme designed to mitigate the negative impact of COVID-19 helped improve financial inclusion. The chapter concludes with a reflection on the need to accelerate financial inclusion and the way to achieve it.

Chapter 15: Corporate Sector Performance during the COVID-19 Pandemic

With sales across sectors dropping significantly but financial commitments concerning workers, suppliers and lenders remaining, financial losses in most businesses were inevitable. Liquidity shortages in the corporate sector were foreseen which in turn could have potentially affected the stability of the financial system. The authors elaborate on the impact of COVID-19 on corporations in greater detail using multi-dimensional indicators developed from the performance of companies. The authors discuss the channels for relaying data on the effects of COVID-19 on the corporate sector and show the different effects on various sectors. Stringent social restrictions to contain the spread of the virus affected services involving direct contact between buyers and sellers, activities which resulted in people gathering in public places, travelling as well as non-essential sectors involving physical contact among employees. Business activities that could be undertaken remotely and those related to medical and pharmaceutical industries remained resilient.

The authors also evaluate the emergency lifeline that the government provided to support corporations, from loan restructuring, tax incentives and subsidies as well as the Financial System Stability Committee (*Komite Stabilitas Sistem Keuangan*, or KSSK) coordinated policy support, from macro to micro-prudential intervention, fiscal supports, and business facilitation. Two case studies of specific pandemic-related fiscal incentives add to the discussion. The authors conclude the discussion with an acknowledgement that the different measures undertaken resulted in different outcomes for corporations. Using two case studies of fiscal support to the automobile and real estate sectors, the authors showed that consumption stimulating fiscal incentives supported the faster recovery in some sectors.

Chapter 16: Regional Dynamics during the COVID-19 Pandemic in Indonesia

How the local government responded to the national policy for handling the pandemic and implementing PEN at the local level is explored in this chapter. In the midst of the pandemic, during which mobility restrictions were imposed, regions experienced a decline in income and economic activities.

Bali, for example, experienced a large increase in the unemployment rate and poverty. Bali is one of ten provinces with the highest increase in poverty during the pandemic. The central government issued policies regarding the distribution and use of Transfer Funds to Regions and Village Funds (*Transfer ke Daerah dan Dana Desa*, or TKDD) which were more focused on handling health and the recovery in economic conditions.

The government also directed the reallocation and refocusing of budget spending towards regional economic recovery. The central government also issued village cash assistance (*Bantuan Langsung Tunai Dana Desa*, or BLT Desa) and additional regional incentive funds (*Dana Insentif Daerah*, or DID) to accelerate economic recovery. Additional DID was allocated to local governments based on their performance and their innovations in preventing and managing the pandemic in their regions.

In 2021, it became evident that Indonesia had performed very well in limiting the spread of the virus, managing public health, providing social protection and promoting economic recovery.

From the pandemic, we learned that apart from being affected by sectoral factors, regional resilience to shocks is also influenced by the fiscal structure, especially in terms of balancing funds and regional original revenues (*Pendapatan Asli Daerah*, or PAD). For this reason, the government is using the lessons learnt during this pandemic to improve the quality of the central-regional financial relationship and the quality of fiscal decentralization by the ratification of Law No. 1 of 2022 concerning the relationship between central and regional finance or the fiscal decentralization law (UU HKPD).

Chapter 17: New Ways of Working: Bureaucracy Reforms

This chapter refers to the four factors known as the VUCA (Volatility, Uncertainty, Complexity, and Ambiguity) which have moved the world into new dimensions and challenges. Many governments have faced similar challenges in adjusting to the progress in fast information and digital technologies, given the VUCA. The global pandemic has significantly affected global health and the health system, education and social activities in general. This chapter analyses the challenges faced when adjusting to the fast information and communications technology (ICT) and ICT's role in cushioning the impact of the global pandemic.

This chapter has a disclaimer that focuses on the government's ICT development, particularly the Republic of Indonesia's Ministry of Finance (MoF). The analysis period is seven consecutive years which means before and during the pandemic. The MoF began applying the digital transformation as part of the MoF RBTK (Bureaucracy Reform and Institutional Transformation). This programme was launched in 2016 with four central pillars—Revenue, Budget, Treasury and Cross-Cutting (Corporate), and the so-called New Ways of Working (NWOW). The latter becomes more important as part of the response to the pandemic situation.

NWOW has become much more relevant but applicable because of the solid sponsorship and commitment from the top leaders. NWOW becomes vital as most MoF staff must adopt Work from Home (WFH).

This chapter also provides an explanation based on the internal survey in the MoF. The survey found that more than 88 per cent of the respondents have already used e-MoF since the beginning of WFH. Nevertheless, there is still room for improvements to make it close to 100 per cent. The MoF consistently focuses on upskilling and reskilling its existing digital talent using a strategic combination proportion of 70:20:10 for learning, development, and proper reward and incentive.

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