travel allowance also consistently increases in the last five years, with the highest growth recorded in 2014. In 2017, the travel allowance increases by 15.8% (y.o.y) and continues to increase in 2018 by 21.7% (y.o.y). In 2017, the meeting package grows by 2.2% (y.o.y), and in 2018 it increases dramatically by 30.2%. These components need to be efficiently allocated, and the government should have policy instruments in place to control the excessive growth of those expenditures to support more productive and quality spendings. This study investigates the efficiency of material expenditure using flat and cap policy approach for all spending with the objective to create wider fiscal space in 2018.

The flat policy is a policy approach to limit the increase of material expenditure align with the inflation growth. This study adopts the flat policy for material expenditure by using the inflation rate of 3.5% (2018); therefore the growth of material spending for all line ministries should be uniformly leveled at 3.5%. Using flat policy, the government has generated wider fiscal space of Rp 34.8 trillion through more efficient material expenditure or about 0.23% of the GDP. With the cap policy, this approach suggests all line ministries adopt budget allocation as the same level as the previous year. Using this approach, the government yields Rp 42.7 trillion wider fiscal space in 2018 that equals to 0.29% of the GDP.

Table 2. The Flat and Cap Policy

Items (IDR Trillion)	Revised Budget	APBN	Flat Policy (3.5%)	Cap Policy
	2017	2018	2018 - A	2018 - B
Operational	37.10	39.74	38.40	37.10
Non-operational	60.65	76.21	62.77	60.65
Service	32.27	34.44	33.40	32.27
maintenance	37.04	35.86	35.86	37.04
Travel	33.58	40.66	34.75	33.58
BLU	34.00	38.27	35.19	34.00
Referred to Local/community	45.58	55.10	47.18	45.58
Others	15.97	18.56	16.53	15.97
Total	296.19	338.83	304.08	296.19

Source: Ministry of Finance, processed data

Shifting the fiscal burden to the SOEs and BLUs is another option to create wider fiscal space in the APBN. To achieve this, the government provides state capital participation (PMN) for the SOEs with the aim to increase their financial capacity and leverage. The total PMN provided by the government within the period 2015-2017 is about Rp120 trillion, reducing fiscal burden for infrastructure financing. However, this PMN is not well spent in the first year and mostly in the form of idle cash. As a result, many infrastructure developments may be delayed.

3.3 Infrastructure Financing Options

The government utilizes several options for infrastructure financing including Availability Payment (AP), Viability Gap Fund (VGF), government guarantee, bond issuance and asset securitization.

3.3.1 Availability Payment (AP)

The AP is a part of the PPP scheme, and it is a payment disbursed by the government to the executing agencies for the provision of infrastructure projects. The AP includes capital expenditure, operational expenditure, and investment return rate, but it does not cover promotional cost and cost of managing service revenue. Regarding payment, the AP is only paid by the government during operational period and no payment made to the executing agencies during the construction period.

To support the AP scheme, the government releases Presidential Decree Number 38 of 2015 on Public Private Partnership for Infrastructure Provision and Minister of Finance Decree PMK No. 260/PMK.08/2016 on Payment Procedure for Public-Private Partnership Projects. The source of revenues of the AP is derived from the APBN and local budget (APBD). As the AP fund has to be allocated as the mandatory spending for certain periods in the APBN, this is one of the significant challenges the government has to tackle given limited fiscal capacity. When more infrastructure projects are using the AP scheme, the government needs to allocate more fund in the APBN. Therefore, there should be a maximum limit of the AP installment each year to maintain country's fiscal sustainability. The AP scheme has been piloted for Eastern Sumatra Highway with the project Value of Rp20 trillion and Trans Papua Road with the project Value Rp16 trillion. The AP scheme has been well administered and one of the most feasible options among others for infrastructure financing.

3.3.2 Viability Gap Fund (VGF)

The VGF is government support given in cash to PPP projects that already economically viable but has not had financial feasibility. It can be given when there is no other alternative to make the PPP projects financially feasible. Local Government can also contribute to the provision of this support after obtaining the approval of Local Parliament. With the VGF, feasibility support is given for the PPP projects up to 49% of the construction cost, and it is provided through the APBN in the form of cash payment.

The underlying philosophies of the VGF are:

a) To enhance financial feasibility of the PPP projects and raise interest and participation from the private sectors to the Cooperation Project.
b) To lower service tariff provided by the PPP projects.

To support the VGF implementation, the government releases Minister of Finance decree No. PMK 223/PMK.011/2012 on the government feasibility support for the PPP projects; and Minister of Finance Decree NO. PMK 143/PMK.011/2013 on the guideline for feasibility Support for the PPP projects. The PPP projects that have received the VGF support includes the Umbulan Drinking Water Supply System and Bandar Lampung Drinking Water Supply System.

3.3.3 Government Guarantees

Given limited fiscal capacity, infrastructure provisions through PPPs and SOEs have been used by the government for infrastructure financing. The government needs to strengthen SOEs financial resources by providing state capital participation (PMN) and government guarantees for SOEs loans.

The government guarantees aim to provide the incentive for the private sectors to take part in government infrastructure projects, as this may reduce project risks. In 2018, the government allocates project guarantee of about Rp1.13 trillion that includes the guarantee for coal-fired power plants (Rp299 billion); water utilities (Rp1.1 billion); PPP guarantees (Rp392 billion); and Sumatra Highway project (Rp284.7 billion).

3.3.4 Rupiah Global Bond

Indonesia's Rupiah global bond refers to the Masala Bond that has been previously issued globally (offshore*)* by the International Finance Corporation for infrastructure development in India. The Masala Bond is first issued in 2013 using local currency denomination (Rupee) with short-term tenors of 3, 5, and 7 years. The total issuance of the Masala Bond is about 62 billion Rupee or equal to USD1 billion. Until recently, the Masala Bond has issued USD 3.6 billion across the world. Another global bond is Dim Sum Bond issued by China Development Bank and the Chinese government in local Yuan denomination with a value amounting*.* Published by China Development Bank (CDB and some Chinese companies with the value amounting to USD37 billion. As an alternative source of financing, this instrument has large upside potential. Indonesia bond currently has a credit rating of BBB with stable outlook making Rupiah Global Bond is a financing option with the lower cost of fund.

Indonesian Government with the Asian Development Bank (ADB) have issued Rupiah Bond in the international market *(*IDR-Linked Bond) with domestic currency denomination with the value amounting to Rp1 trillion and 11 years tenor. The bond yield is 6.60%, within 30 bps margin higher than government bond (SUN) with the similar tenor. The Jasa Marga, Indonesia infrastructure SOE, has also issued Komodo Bond with the value Rp4 trillion. The global bond instrument has a great benefit to reduce currency mismatch risk, but other risks such as domestic inflation should also be considered. Higher domestic inflation may increase the global bond yield, resulting in a higher cost of financing.

3.3.5 Perpetual Bond

Perpetual bond (PB) is debt with no maturity date with the coupon payment paid in perpetuity. The PB usually has some modifications or special additional features, including call option from the publisher after 5 or 10 years. The PB can be issued by the government or private sectors. For example, US and UK have issued perpetual bond; and from the private sector. Total Energy and Volkswagen issued PB valuing at USD5.7 billion and USD2.6 billion respectively. With large potential upside, the PB can be used as an alternative for infrastructure financing to meet development needs. Some challenges of implementing the PB are mainly on the legal aspect and accounting recording treatment. For example, the bond is treated as debt in accounting, while the stock is treated as equity. The PB has both features.

3.3.6 Asset Securitization

Asset securitization is another option for infrastructure financing. The asset securitization is the long-term bond issuance guaranteed by some underlying assets. This asset securitization in Indonesia has huge upside potential with potential collection up to Rp157 Trillion. This financing option, however, is not yet optimal given some regulatory challenges in particular with tax, accounting treatment*,* and legal aspect.

4. CONCLUSION

This study uses descriptive and explorative method to examine Indonesia's fiscal space that can be formed through more efficient expenditures and innovative financing through fiscal diamond approach. The aim of this study is as follows: 1) Optimizes material expenditure to create a larger fiscal space; 2) Identifies innovative financing schemes for infrastructure development. The results suggest that wider fiscal space can be achieved through three channels. From the revenue side, the government needs to increase tax revenue and tax ratio. On the spending, the government should pursue more efficient spending through flat and cap policy approach. Using flat and cap policy, the government can create wider fiscal space of about 0.2 – 0.3 percent of GDP. Regarding financing, creative financing such as availability payment, viability gap fund, government guarantee, Rupiah global bond, perpetual bond and asset securitization can be used by Indonesia's government for infrastructure financing. Our results suggest that Rupiah Global Bond is one of the most viable options for infrastructure financing due to its high upside potential, wider investor base and lower cost of fund.

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