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## **REPORT ON ANALYSIS OF REGIONAL BUDGETS 2008-2011**

**Findings of a Study of Local Budget Management in 20 Kabupatens and Cities  
Participating in the *Kinerja* Program**

**Seknas FITRA**

**The Asia Foundation**

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**Translated into English by Denis Fisher**

## Table of Contents

<b>TABLE OF CONTENTS.....</b>	<b>2</b>
<b>GLOSSARY OF TERMS AND ABBREVIATIONS.....</b>	<b>4</b>
<b>LIST OF TABLES.....</b>	<b>6</b>
<b>LIST OF GRAPHS.....</b>	<b>7</b>
<b>1. PREFACE .....</b>	<b>9</b>
1.1 INTRODUCTION .....	9
1.2 RESEARCH OBJECTIVES .....	9
1.3 RESEARCH BENEFITS .....	9
1.4 RESEARCH METHODOLOGY .....	10
<i>a. Scope of Analysis .....</i>	<i>10</i>
<i>b. Methods of Data Collection and Analysis .....</i>	<i>11</i>
<b>2. LOCAL BUDGET INCOME.....</b>	<b>13</b>
2.1 OVERVIEW OF LOCAL GOVERNMENT BUDGET INCOME.....	13
2.2 COMPOSITION OF LOCAL GOVERNMENT INCOME.....	14
2.3 REGIONAL FISCAL BALANCE FUNDING ( <i>DANA PERIMBANGAN</i> ) .....	15
2.4 OTHER LAWFUL LOCAL INCOME.....	17
2.5 OWN-SOURCE LOCAL REVENUE.....	19
<b>3. LOCAL BUDGET EXPENDITURE .....</b>	<b>21</b>
3.1 OVERVIEW OF LOCAL GOVERNMENT BUDGET EXPENDITURE.....	22
3.2 ANALYSIS OF COMPOSITION OF LOCAL BUDGET EXPENDITURE.....	23
3.3 ANALYSIS OF CIVIL SERVICE EXPENDITURE.....	23
3.4 ANALYSIS OF EXPENDITURE ON SOCIAL AID AND GRANTS.....	25
<b>4. LOCAL BUDGET FINANCING.....</b>	<b>26</b>
4.1 FISCAL SPACE .....	26
4.2 BUDGET SURPLUSES/DEFICITS .....	27
4.3 BUDGET FINANCING .....	28
<b>5. ANALYSIS OF LOCAL BUDGET PLANNING, REVISION AND REALIZATION.....</b>	<b>31</b>
5.1 ANALYSIS OF PLANNING AND REVISION OF LOCAL BUDGET INCOME.....	31
5.2 ANALYSIS OF PLANNING AND REVISION OF LOCAL BUDGET EXPENDITURE.....	34
<b>6. ANALYSIS OF EDUCATION-RELATED BUDGETS.....</b>	<b>37</b>
6.1 GENERAL ANALYSIS OF EXPENDITURE ON EDUCATION.....	37
6.2 ANALYSIS OF COMPONENTS OF EDUCATION EXPENDITURE AND PUPIL/TEACHER RATIOS .....	39
6.3 ANALYSIS OF EXPENDITURE ON EDUCATIONAL PROGRAMS.....	40
6.4 ANALYSIS OF EXPENDITURE ON THE 9 YEARS OF OBLIGATORY EDUCATION PROGRAM.....	41
6.5 ANALYSIS OF PLANNED BUDGETS AND REALIZED BUDGET EXPENDITURE OF SCHOOLS.....	42
<b>7. ANALYSIS OF HEALTH BUDGETS.....</b>	<b>45</b>
7.1 ANALYSIS OF EXPENDITURE ON HEALTH .....	45
7.2 ANALYSIS OF ALLOCATIONS FOR MATERNAL, NEWBORN AND CHILD HEALTHCARE.....	48

<b>8. ANALYSIS OF BUDGETS FOR PUBLIC WORKS .....</b>	<b>51</b>
8.1 ANALYSIS OF EXPENDITURE ON PUBLIC WORKS.....	51
8.2 ANALYSIS OF PUBLIC WORKS EXPENDITURE BY ECONOMIC CATEGORY .....	52
8.3 ANALYSIS OF EXPENDITURE ON ROADS AND BRIDGES .....	53
<b>9. CONCLUSIONS AND RECOMMENDATIONS .....</b>	<b>57</b>

### Glossary of Terms and Abbreviations

(Compiled and inserted by translator)

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AAD	Analisis Anggaran Daerah—analysis of local budgets
Adjustment funds	<i>Dana penyesuaian</i> —a form of fiscal transfer from the Center to regions: a source of “other local own-source revenue” (LPDS)
APBD	<i>Anggaran Pendapatan dan Belanja Daerah</i> —local government budget as approved by DPRD
APBD-M	<i>Anggaran Pendapatan dan Belanja Daerah-Murni</i> —(unaltered) original local government budget as approved by DPRD and not yet revised: same as APBD
APBD-P	<i>Anggaran Pendapatan dan Belanja Daerah-Perubahan</i> —(mid-year) revised local government budget as approved by DPRD
APBD-R	<i>Anggaran Pendapatan dan Belanja Daerah-Realisasi</i> —realized local government budget (end-of-year local budget outcomes)
APBN	<i>Anggaran Pendapatan dan Belanja Negara</i> —State budget as approved by parliament (DPR)
APM	<i>Angka Partisipasi Murni</i> —net enrollment ratio, indicating the number of school children studying at education levels corresponding to their age.
APS	<i>Angka Partisipasi Sekolah</i> —school participation rate
BAPPENAS	<i>Badan Perencanaan Pembangunan Nasional</i> —National Development Planning Agency
BLUD	<i>Badan Layanan Umum Daerah</i> —Local community service agency
CSO	Civil society organization
BOS	<i>Bantuan Operasional Sekolah</i> —operational assistance for schools
BPK	<i>Badan Pemeriksaan Keuangan</i> —national Audit Board
BPS	<i>Badan Pusat Statistik</i> —National Bureau of Statistics
DAK	<i>Dana Alokasi Khusus</i> —Special Purpose Fund, a mechanism for fiscal transfers from the Center to regions
DBH	<i>Dana Bagi Hasil</i> —Revenue Sharing Fund, a mechanism for fiscal transfers from the Center to regions
DAU	<i>Dana Alokasi Umum</i> —General Allocation Fund, a mechanism for fiscal transfers from the Center to regions
bansos	<i>bantuan sosial</i> : social aid, a line item of indirect expenditure in Indonesian budgets (see footnote No. 6 on p. 25 of text)
Dana perimbangan	Fiscal balance transfers from the Center to local governments in regions to reduce fiscal imbalances between the Center and regions and among regions
Dekonsentrasi	the delegation of authority (and funds) from the Center to a regional government or a central government official stationed in a region to perform a not yet decentralized function
Direct expenditure	<i>Belanja langsung (BL)</i> : also known as “development expenditure”: costs incurred by a work unit in implementing a specific program or activity (cf. indirect expenditure)
DISP	<i>Dana Infrastruktur Sarana dan Prasarana</i> —Fund for Infrastructure and Public Facilities, a <i>dana penyesuaian</i> program
DJPK	<i>Direktoral-Jendral Perimbangan Keuangan</i> —D-G of Regional Fiscal Balance (Ministry of Finance)
DPD	<i>Dewan Perwakilan Daerah</i> —Regional Representative Council, the 2 <sup>nd</sup> (“upper”) chamber of Indonesia’s bicameral Parliament
DPDF PPD	<i>Dana Penguatan Desentralisasi Fiskal Percepatan Pembangunan Daerah</i> —Fund to Strengthen Fiscal Decentralization to Speed up Regional Development, a <i>dana penyesuaian</i> program
DPID	<i>Dana Infrastruktur Daerah</i> —Fund for the Strengthening of Local Infrastructure, a <i>dana penyesuaian</i> program
DPIP	<i>Dana Percepatan Infrastruktur Pendidikan</i> —Fund to Speed up Development of Educational Infrastructure, a <i>dana penyesuaian</i> program
DPIPD	<i>Dana Penguatan Infrastruktur dan Prasarana Daerah</i> —Fund to Strengthen Local Infrastructure and Public Facilities, a <i>dana penyesuaian</i> program
DPR	<i>Dewan Perwakilan Rakyat</i> —the House of Representatives (Indonesia’s national legislature)
DPRD	<i>Dewan Perwakilan Rakyat Daerah</i> —regional representative assembly: the legislative wing of government at the provincial, kabupaten and city level
FGD	Focus group discussion
Fiscal Index	See footnote No. 1 p. 17 of text for explanation of how this is calculated
Fiscal space	a government’s degree of spending discretion (see page 26)
FoI	Freedom of information
GDP	Gross Domestic Product

HDI	Human Development Index
Indirect expenditure	<i>Belanja tidak langsung</i> (BTL): also termed “routine expenditure”: common costs incurred by a work unit in implementing the whole gamut of its programs (cf. direct expenditure)
IPKM	<i>Indeks Pembangunan Kesehatan Masyarakat</i> —Community Health Development Index
Kabupaten	One of three terms for sub-national governments in Indonesia, the other two being provinces and cities
Kecamatan	sub-district: units of government administration that constitute kabupatens and cities
KIBBLA	<i>Kesehatan Ibu, Bayi Baru Lahir dan Anak</i> —maternal, newborn and child health
KiPAD	<i>Kinerja Pengelolaan Anggaran Daerah</i> —local government budget performance
Kota	City: one of three terms for sub-national governments in Indonesia, the other two being provinces and kabupatens
LBA	Local Budget Analysis
LBI	Local Budget Index
LBS	Local Budgets Study
Local government	<i>Pemerintah daerah</i> —any sub-national government (provincial, kabupaten or city)
LKPD	<i>Laporan Keuangan Pemerintah Daerah</i> —report on local government finances (issued by the national Audit Board (BPK))
LPDS	<i>Lain Pendapatan Daerah yang Sah</i> —other lawful local revenue
MoF	Indonesian Ministry of Finance
Otsus	<i>Otonomi khusus</i> —special autonomy
PAD	<i>Pendapatan Asli Daerah</i> —local own-source revenue
PDDA	<i>Pembangunan Daerah Dalam Angka: Regional Development in Figures</i> (a government publication)
PDRB	<i>Produk Domestik Regional Bruto</i> —regional gross domestic product
PMK	<i>Peraturan Menteri Keuangan</i> —regulation issued by the Minister of Finance
RAPBS	<i>Rencana Anggaran Pendapatan dan Belanja Sekolah</i> —school budget
Region	any sub-national government area (province, kabupaten and city) in Indonesia
SIKPA	<i>Sisa Kekurangan Penggunaan Anggaran</i> —overall budget deficit
SILPA	<i>Sisa Lebih Penggunaan Anggaran</i> —overall budget surplus carried forward to next fiscal year
TAF	The Asia Foundation
TNP2K	<i>Tim Nasional Percepatan Penanggulangan Kemiskinan</i> —National Team for Accelerating Poverty Reduction
Tugas pembantuan	co-administered function: an arrangement by which central government directs and funds a local government to administer a not yet decentralized activity or function on its behalf.

## List of Tables

Table 1.1 General Statistical Data on Regions Studied.....	10
Table 1.2 Data Used and Its Sources.....	11
Table 2.1 Total DAK Allocations by Program Area to 20 <i>Kinerja</i> Regions, 2008-11 (Rp Million, Based on Current Prices) .....	16
Table 4.1 Surpluses/Deficits as a Proportion of Local Budget Income, 2008-2011.....	28
Table 4.2 Receipt and Repayment of Borrowings in Five <i>Kinerja</i> Regions Studied, 2008-2011 (Rp Million).....	29
Table 4.3 Regions with Overall Budget Deficits Carried Forward (SiKPA).....	29
Table 4.4 Summary of Local Budgets of Simeulue, 2008-2011 (Rp Million).....	30
Table 7.1 Ratios between Doctors/Nurses/Midwives and Population/Geographical Area in Select Regions....	47

## List of Graphs

Graph 2.1 Average Per Capita Local Budget Income, 2008-2011 (Rp million/person/year, Based on Constant 2008 Prices).....	13
GRAPH 2.2 HIGHEST AND LOWEST LEVELS OF REAL INCOME GROWTH IN <i>KINERJA</i> REGIONS STUDIED, 2008-11.	14
GRAPH 2.3 AVERAGE COMPOSITION OF INCOME IN 20 <i>KINERJA</i> REGIONS, 2008-2011 .....	14
GRAPH 2.4 AVERAGE COMPOSITION OF LOCAL INCOME IN 20 <i>KINERJA</i> REGIONS, 2008-2011 .....	15
Graph 2.5 Average Per Capita Transfers of DAU to 20 <i>Kinerja</i> Regions, 2008 dan 2011 (Constant 2008 Prices)	15
Graph 2.6 Comparison of Regions' Level of Central Government Transfers Per Capita (2008-2011, at Constant 2008 Prices) and Their 2009 Human Development Indices (HDIs) .....	17
Graph 2.7 "Adjustment" and Special Autonomy ( <i>Otsus</i> ) Funding Compared to DAK Transfers (2008 and 2010) & as a Proportion of Total Budget Income (2010) in 20 Regions Studied .....	18
Graph 2.8 Shared Provincial Taxation Revenue as a Proportion of Local Budget Income, 2008-2011 (%)	19
GRAPH 2.9 AVERAGE PAD/PERSON/YEAR, 2008-2011 (Rp MILLION, CONSTANT 2008 PRICES) .....	199
GRAPH 2.10 PERCENTAGE CONTRIBUTIONS TO PAD BY SOURCE, 2010 .....	190
GRAPH 3.1 AVERAGE LOCAL GOVERNMENT EXPENDITURE, 2008-2011 (Rp MILLION/PERSON, BASED ON CONSTANT 2008 PRICES) .....	21
GRAPH 3.2 HIGHEST AND LOWEST RATES OF GROWTH IN BUDGETARY EXPENDITURE AMONG <i>KINERJA</i> REGIONS STUDIED, 2008-2011 .....	22
GRAPH 3.3 AVERAGE OVERALL COMPOSITION OF <i>KINERJA</i> KABUPATEN/CITY EXPENDITURE, 2008-2011 .....	22
GRAPH 3.4 AVERAGE COMPOSITION BY REGION OF SPENDING OF <i>KINERJA</i> GOVERNMENTS STUDIED, 2008-2011 ..	23
GRAPH 3.5 PROPORTION OF DAU SPENT ON CIVIL SERVICE COSTS IN 20 <i>KINERJA</i> REGIONS STUDIED, 2010 .....	24
GRAPH 3.6 AVERAGE CIVIL SERVICE EXPENDITURE PER LOCAL INHABITANT (2008-2011, CONSTANT 2008 PRICES) & CIVIL SERVANT/POPULATION RATIOS IN 20 <i>KINERJA</i> REGIONS STUDIED.....	24
GRAPH 3.7 AVERAGE % OF TOTAL LOCAL BUDGETS OF <i>KINERJA</i> REGIONS STUDIED SPENT ON SOCIAL AID & GRANTS (2008-2011) .....	25
GRAPH 4.1 AVERAGE FISCAL SPACE IN 20 <i>KINERJA</i> REGIONS, 2008-2011 .....	27
GRAPH 4.2 SiLPA AS A PROPORTION OF BUDGET EXPENDITURE IN 9 <i>KINERJA</i> REGIONS STUDIED, 2008-2011 (%)	28
GRAPH 5.1 COMPARISON OF INCOME TARGETS IN APBD-MS AND APBD-PS WITH REALIZED INCOME IN APBD-Rs IN 20 <i>KINERJA</i> REGIONS STUDIED (AVERAGED), 2008-2010.....	31
GRAPH 5.2 ACTUAL END-OF-YEAR LPDS COMPARED TO ORIGINAL BUDGET (APBD-M) AND MID-YEAR REVISED BUDGET (APBD-P) TARGETS IN 20 <i>KINERJA</i> REGIONS STUDIED, 2010.....	32
Graph 5.3 Actual End-of-Year Local Own Source Revenue (PAD) Compared to Original Budget (APBD-M) and Revised Budget (APBD-P) Targets in Nine <i>Kinerja</i> Regions Studied, 2008-2010 .....	33
GRAPH 5.4 ACTUAL END-OF-YEAR (APBD-R) EXPENDITURE COMPARED TO ORIGINAL BUDGET (APBD-M) AND REVISED BUDGET (APBD-P) EXPENDITURE TARGETS IN 20 <i>KINERJA</i> REGIONS, 2008-2010.....	35
GRAPH 5.5 ACTUAL END-OF-YEAR (APBD-R) CAPITAL EXPENDITURE COMPARED TO ORIGINAL BUDGET (APBD-M) AND REVISED BUDGET (APBD-P) EXPENDITURE TARGETS IN 20 <i>KINERJA</i> REGIONS, 2010.....	36
GRAPH 6.1 SPENDING ON EDUCATION AS A PROPORTION OF LOCAL EXPENDITURE, 2008-2011 .....	37
Graph 6.2 Average Education Allocations per Child in School Aged 7-18 in Regions Studied, 2008-2011 (Rp Million/Child) .....	38
Graph 6.3 Average Contributions of DAK and "Adjustment" Funding to Educational Expenditure, 2009-2010	38
GRAPH 6.4 INDIRECT EXPENDITURE AS A PROPORTION OF TOTAL EDUCATION BUDGET (2008-11) & PUPIL/TEACHER (PERMANENT) RATIOS IN STATE ELEMENTARY SCHOOLS (SDN) & STATE JUNIOR SECONDARY SCHOOLS (SMPN) (2008-2009) .....	39
GRAPH 6.5 COMPONENTS OF EXPENDITURE ON EDUCATION PROGRAMS, 2011 .....	40

GRAPH 6.6 EXPENDITURE PER PUPIL ON 9 YEARS OF OBLIGATORY EDUCATION PROGRAM COMPARED TO NET JUNIOR STATE SECONDARY SCHOOL PARTICIPATION RATES (2010) .....	41
GRAPH 6.7 CONTRIBUTIONS PER STATE PRIMARY SCHOOL (SDN) AND STATE JUNIOR SECONDARY (SMPN) TO THE 9 YEARS OF OBLIGATORY EDUCATION PROGRAM COMPARED TO PUPIL/CLASSROOM RATIOS IN SDNs AND SMPNs, (2008-09).....	42
GRAPH 6.8 COMPONENTS OF INCOME OF 15 PRIMARY SCHOOLS (SND) IN THREE KABUPATENS IN WEST KALIMANTAN, 2011 (%) .....	422
Graph 6.9 School Income and Expenditure (excl. Civil Service Salaries) in 15 Schools in 3 Kabupatens in West Kalimantan, 2011 (Rp Million/Pupil; Current Prices) .....	443
GRAPH 6.10 COMPONENTS OF NON-SALARY SCHOOL INCOME IN 15 SCHOOLS IN 3 KABUPATENS IN WEST KALIMANTAN, 2011, CURRENT PRICES (%).....	44
GRAPH 7.1 PROPORTION OF PROPOSED EXPENDITURE IN ORIGINAL BUDGET (APBD-MS) EARMARKED FOR HEALTH PROGRAMS, 2008-11 (%).....	45
Graph 7.2 Average Expenditure/Person on Health (2008-2011) Compared to 2009 Community Health Development Indices .....	46
Graph 7.3 Average Proportion of Direct and Indirect Expenditure, Original Budgets (APBD-MS) 2008-2011 .....	47
Graph 7.4 Expenditure per Capita on KIBBLA and KIBBLA Expenditure as Proportion of Total Spending on Health, 2011 (current 2011 prices) .....	49
GRAPH 7.5 PROPORTION OF MEDICALLY ASSISTED BIRTHS COMPARED TO DEATH RATES OF NEWBORNS .....	50
GRAPH 8.1 BUDGET ALLOCATIONS ON PUBLIC WORKS AS A PROPORTION OF TOTAL LOCAL GOVERNMENT EXPENDITURE, 2008-2011 .....	51
Graph 8.2 Average Public Works Allocations per Geographic Area (Rp/Km <sup>2</sup> ), 2008-2011 (Constant 2008 Prices).....	52
GRAPH 8.3 PUBLIC WORKS EXPENDITURE BY CATEGORY OF ACTIVITY, 2008-2011.....	53
GRAPH 8.4 LEVEL OF MOBILITY AND ROAD CONNECTIVITY ... ..	53
Grafik 8.5 Graph 8.5 Average Allocations for Roads/Bridges per Road Length and Allocations for Road Development as a Proportion Total Budgets for Roads/Bridges, 2008-2011 (Constant 2008 Prices).....	54
Graph 8.6 Average Allocation of Funding for Road/Bridge Development (2008-11, Constant 2008 Prices), and Length of Unsealed Roads (in kms).....	55
Graph 8.7 Average Allocations for Road Rehabilitation and Maintenance per Unit of Damaged Road, 2008-11 (Rp million/Km, Constant 2008 Prices).....	56



# 1. Preface

## 1.1 Introduction

***Budgets are instruments used by government to implement policies and action programs.*** The essential aims of decentralization in Indonesia are to bring the delivery of public services closer to the people, and to stimulate regional economic development more in accord with local conditions. Budgets translate government policies and plans into programs and activities; they also reflect the extent to which a particular local government provides for—or fails to provide for—local economic growth and more effective delivery of public services attuned to the needs of the poor and—via gender-sensitive budgeting—of women.

***The National Secretariat, Indonesian Forum for Budget Transparency (Seknas FITRA), in cooperation with local civil society organizations (CSOs) and The Asia Foundation (TAF), has already completed two studies of local budgets.*** This third study was undertaken under the aegis of the *Kinerja* program (funded by USAID)—part of a consortium led by Research Triangle Institute (RTI) International. The hope is that this study will provide basic data before implementation of the consortium's program. The Local Budgets Study (LBS) project has two components:

- (i) *Local Budget Management Performance* (KiPAD for short), also known as the *Local Budget Index* (LBI): This is a study of the extent to which local governments applied principles of good governance—transparency, participation, accountability and gender equality—in their management of four key parts of the budget cycle—planning, framing & adoption, implementation and accountability.
- (ii) *Analyses of Local Budgets* (AAD for short), also known as *Local Budget Analysis* (LBA): This part of the study assesses how efficiently and effectively local budgetary policies respond to people's needs.

This document only presents the findings of the AAD study. KiPAD is the subject of a separate report.

## 1.2 Research Objectives

The aims of the AAD study were:

1. To identify general trends and policy frameworks of local budget income, expenditure and financing; and to compare original budgets to mid-year revised budgets and end-of-year budget outcomes;
2. To make a particular study of the effectiveness of budget policies on education, health and public works;
3. To compare trends in budget policies adopted across regions studied;
4. To provide a snapshot of local government budgeting and what might be done to improve it in the future.

## 1.3 Research Benefits

***This study will hopefully be of benefit to both central and local governments, as well as CSOs; and will also help Kinerja to sharpen the focus of its assistance programs.*** But those who stand to benefit most from AAD—indeed LBS as a whole—are local governments, regional representative councils (DPRDs) and local CSOs. We hope that our research findings will be drawn on by local governments to enhance the quality of public services they deliver to local communities. Hopefully also, the central government

will use the report's findings as a tool for monitoring and evaluating local governments and for helping them to improve budgetary policies. We also hope our study will provide useful information to those implementing *Kinerja* programs: particularly those engaged with education, health and climate change (the Business Enabling Environment (BEE) Program).

## 1.4 Research Methodology

### a. Scope of Analysis

***The focus of AAD was a general analysis of overall budgets of kabupatens and cities studied and specific analyses of budgeting for three strategic sectors.*** The overall analysis looked at patterns and trends evident in budget income, expenditure and financing. Sector-specific analysis focused on expenditure on education, health and public works.

***The study covered 20 kabupatens and cities in four provinces participating in Kinerja programs.*** Particular kabupatens/cities were chosen at random—within the provinces of Aceh, East Java, West Kalimantan and South Sulawesi—from interested *Kinerja* participants. Table 1.1 lists the 20 regions chosen and provides some basic statistical information on them.

**Table 1.1 General Statistical Data on Regions Studied**

No.	Kabupaten/City	Province	Population	Regional Gross Domestic Product (PDRB Rp Billion)	Human Development Index	Poverty Level (%)
1	Aceh Singkil	Aceh	102 213	641	68.58	19.38
2	Aceh Tenggara	ditto	178 852	1 280	71.60	16.78
3	Bener Meriah	ditto	121 870	1 573	70.98	26.22
4	Simeulue	ditto	80 279	486	69.28	23.61
5	City of Banda Aceh	ditto	224 209	6 502	77.45	9.19
6	Tulungagung	East Java	989 821	14 563	73.34	10.64
7	Jember	ditto	2 346 498	21 413	64.95	13.27
8	Bondowoso	ditto	736 530	4 590	62.94	17.89
9	Probolinggo	ditto	1 095 370	13 326	62.99	25.22
10	City of Probolinggo	ditto	216 967	4 190	74.33	19.03
11	Bengkayang	West Kalimantan	214 785	2 146	67.55	7.81
12	Sambas	ditto	496 116	5 287	64.84	10.08
13	Sekadau	ditto	181 377	1 089	66.99	6.77
14	Melawi	ditto	179 586	847	68.67	13.76
15	City of Singkawang	ditto	186 306	2 202	68.86	6.12
16	Bulukumba	South Sulawesi	394 757	3 255	71.19	9.02
17	Barru	ditto	165 900	1 441	70.86	10.68
18	Luwu	ditto	332 863	3 196	73.98	15.43
19	Luwu Utara	ditto	287 606	2 691	74.32	16.24
20	City of Makassar	ditto	1 339 374	31 264	78.79	5.86

Source: Central Bureau of Statistics (BPS) Results of 2010 census and PDRB Statistics 2009

***The study looked at local budgets (APBDs) over a four year period: 2008-11.*** For fiscal years 2008-10 researchers had data on budget outcomes (termed APBD-R) to hand; for 2011 original budgets (termed APBD-Ms) were used. In addition to budget documents, researchers made use of other information from local governments and various central government institutions.

## b. Methods of Data Collection and Analysis

**Data on APBDs and regional development was collected both at the local level and nationally.** In regions, information was brought together via formal freedom of information (FoI) processes (similar to those used in KiPAD), and informally by local researchers with the help of *Kinerja* local public service specialists. To supplement that information, researchers had recourse to the APBD database within the Directorate-General of Regional Fiscal Balance (Ministry of Finance (MoF)) and reports of local government finances (LKPD for short) done by the national Audit Board (BPK). Information on regional development was gathered from various sources: the Central Bureau of Statistics (BPS); the National Team for the Acceleration of Poverty Reduction (TNP2K for short); the publication *Regional Development in Figures* (PDDA); local governments (provinces, kabupatens and cities); the World Bank; and relevant central government ministries.

**Table 1.2 Data Used and Its Sources**

No	Data	Data Type	Source
1	Summaries of 2008-2010 local budgets*	Planned/Adopted, Revised, Realized	APBD, BPK Audit Reports (LKPD)
2	Summaries of 2011 local budgets	Planned/Adopted	APBD, LKPD of BPK
3	Summaries of 2008-2010 of local budget items	Planned/Adopted	D-G for Fiscal Balance (MoF) and World Bank
4	Agenda – Programs and Activities 2008-2010**	Realized	APBD and D-G for Fiscal Balance (MoF)
5	Agenda – Program and Activities 2011	Planned/Adopted	APBD and D-G for Fiscal Balance (MoF)
6	“Adjustment” Funds 2008-2011***	Planned/Adopted	D-G for Fiscal Balance (MoF)
7	Data of 2010 Population Census	-	Central Bureau of Statistics (BPS)
8	Education Statistics	-	BPS, TNP2K, World Bank & Ministry of National Education
9	Health Statistics	-	BPS, TNP2K
10	Statistics on Roads and Bridges	-	World Bank and PDDA
11	Other Statistics	-	BPS

Remarks:

\* 2010 APBD-Ps were not available for the city of Banda Aceh or Bulukumba; those for Aceh Tenggara, Simeulue, Bengkayang and Sekadai were unable to be accessed.

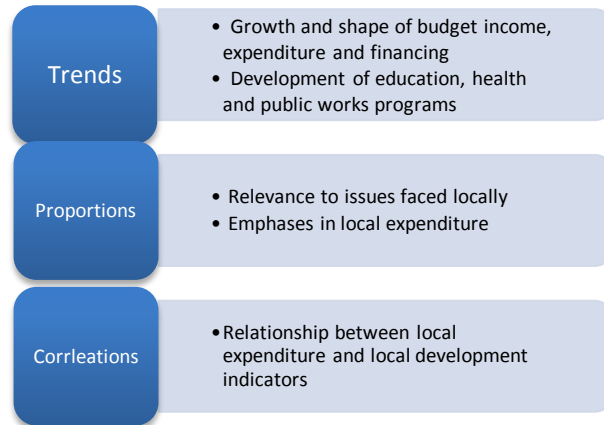
\*\* APBD-Ms were used in Jember, Bondowoso and Probolinggo.

\*\*\* Funds referred to are: Fund for Infrastructure and Public Facilities, 2008 (Minister of Finance Regulation (PMK).81/PMK 07/2008); Details of Fund to Strengthen Fiscal Decentralization to Speed up Regional Development, 2009 and 2010 (PMK 42/PMK 07/2009 and PMK 118/PMK 07/2010); Additional Income for Teachers, 2009 and 2010 (PMK 223/PMK 07/2009 and PMK 119/PMK 07/2010); Regional Incentives Fund, 2010 and 2011 (PMK 198/PMK 07/2009 and PMK 61/PMK 07/2011); Fund to Strengthen Local Infrastructure and Public Facilities, 2010 and Fund for Acceleration of Development of Local Infrastructure, 2011 (PMK 140/PMK 07/2011; and Fund for the Strengthening of Local Infrastructure 2011 (PMK 25/PMK 07/2011).

**Data was processed in stages: data entry, cross-checking, compilation and interpretation.** Locally obtained data was entered by on-the-spot researchers; nationally sourced data by Seknas FITRA staff. All data was arranged by region and year, double-checked with other sources and only then analyzed and interpreted.

***Analytical techniques used included identification of trends, calculating proportions and establishing correlations, along the lines of the following flow chart.***

**Schema 1.1 Flow of Data Analysis**



***Researchers analyzed overall budgets, but focused particularly on education, health and public works.*** The aim of the broad analysis was to gain an overview of trends of budget income, expenditure and financing. Sector-specific analyses honed in on the composition and growth of general expenditure in the sectors concerned. To position each region nationally, regions studied were compared to each other and against national averages. Comparisons were also made between budget data and various development indicators.

## 2. Local Budget Income

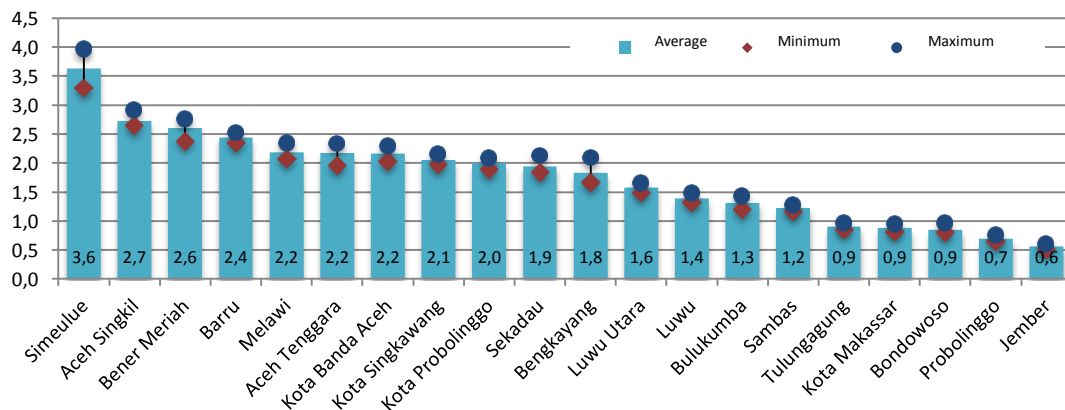
***It is important to study local budget income in order to gauge local fiscal capacity to finance budget programs.*** According to Law No. 33/2004 concerning *Fiscal Balance between the Center and Regions* there are three principal sources of local government income:

- (i) Regional fiscal balance funding (*dana perimbangan* in Indonesian) consisting of the General Allocation Fund (DAU), the Special Allocation Fund (DAK) and the Revenue Sharing Fund (DBH);
- (ii) Local own-source revenue (PAD for short) consisting of local taxes, local fees and charges, revenue from management of locally owned assets and other lawful PAD;
- (iii) Other lawful local revenue (LPDS for short) consisting of grants, emergency funding, tax revenue shared with provinces and other local governments, “adjustment” funding, special autonomy grants, financial aid from provinces and other local governments, and other LPDS.

### 2.1 Overview of Local Government Budget Income

***Levels of per capita budget income in the 20 Kinerja regions studied varied greatly: from very high in the kabupatens and cities in Aceh to low in East Java.*** All regions studied in Aceh had high average levels of revenue per capita: the kabupaten average was Rp 2.1 million/person/year between 2008 and 2011, with Simeulue leading the others with Rp 3.6 million/person/year over the period. In East Java, by contrast, average revenue levels were low: less than Rp 1 million/person/year; the only exception was the city of Probolinggo (Rp 2 million/person/year).

**Graph 2.1 Average Per Capita Local Budget Income, 2008-2011 (Rp million/person/year, Based on Constant 2008 Prices)**



Source: APBD-Rs 2008-2010, APBD-Ms 2011 and 2010 Census Population Statistics (BPS), processed by Seknas FITRA and TAF

Remarks: All Rupiah amounts in this table and henceforth are in real terms (at constant 2008 prices)

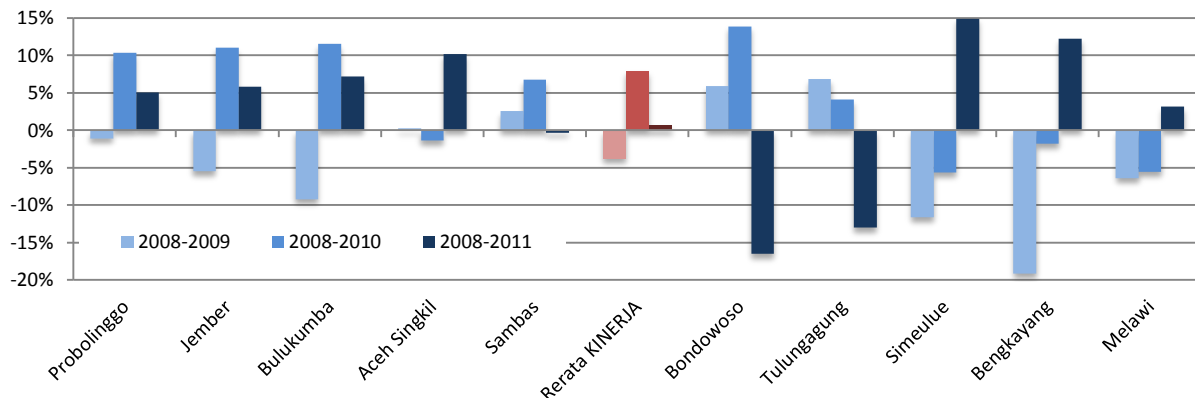
In the above graph and elsewhere in this report “Kota” before a place name=“city of.”; places not preceded by “Kota” are kabupatens.

***In most Kinerja regions surveyed (except Bondowoso and Bengkayang) year-on-year variations of average budget income were not large: only about 10% over the 4 years studied.*** In 2010 Bondowoso’s income was Rp 0.96 million/person (constant 2008 prices)—3% more than its average over the four years studied (2008-11); for its part, Bengkayang’s income in 2008 was Rp 2.09 million/person, 15% higher than its average over the four years (2008-11).

***Budget income (at current prices) in the 20 Kinerja regions studied grew over most of the period, although, in real terms, growth was negative in 2008-09.*** Regions studied had average growth rates of budget income of -6.1% in 2008-09, rising to 11.9% in 2010 and falling slightly to 6.8% in 2011. In real

terms, the growth rate was reduced by very high inflation in 2008 (10.3%) and further inflation of 6.1% in 2010 (6.1%) (both rates averaged across regions): That contributed to average real growth rates of -3.8% in 2008-09 and just 0.6% in 2010-2011.

**Graph 2.2 Highest and Lowest Levels of Real Income Growth in Kinerja Regions Studied, 2008-11**



Source: APBD-Rs 2008-2010 and APBD-Ms 2011, processed by Seknas FITRA and TAF

Remarks: "Rerata KINERJA"=Kinerja Regions Average.

**Four kabupatens—Simeulue, Bengkayang, Melawi and Tulungagung—had overall negative budget income growth rates for the period studied.** The first three named experienced negative growth over the two-year periods 2008-09 and 2009-10, but were in the black—especially in the case of Simeulue and Bengkayang—over the following period (2010-11); but even so, all three of them were in negative territory over the four years studied. As for Tulungagung, it experienced positive rates of budget income growth in the first two periods (2008-09 and 2009-10), but those gains were insufficient to cancel out the negative growth over the third two-year period (2010-11); and thus it was in negative territory overall.

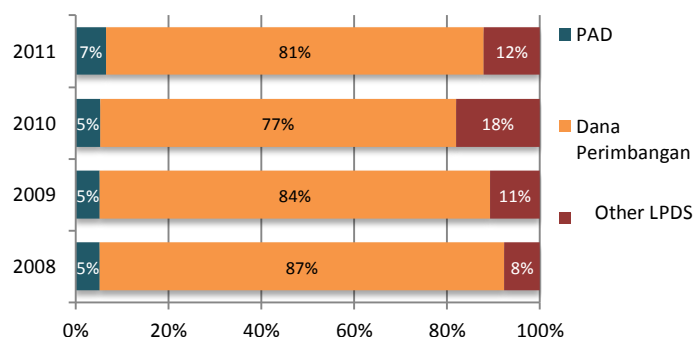
**On the other hand, five kabupatens—Probolinggo, Jember, Bulukumba, Aceh Singkil and Sambas—experienced quite high rates of budget income growth over the period studied.** The first three named had a negative growth rate, in real terms, in 2008-09, but in 2010 and 2011 they experienced average growth rates of at least 5%, bringing their average over the four year period to 3% pa. The pattern in the other two regions—Aceh Singkil and Sambas—was different but they too ended up achieving an average growth rate over the four years of 3% pa.

## 2.2 Composition of Local Budget Income

**Overall, during the years surveyed, regional fiscal balance funding (*dana perimbangan*) tended to decline as a proportion of local budget income, while other lawful local revenue (LPDS) increased.**

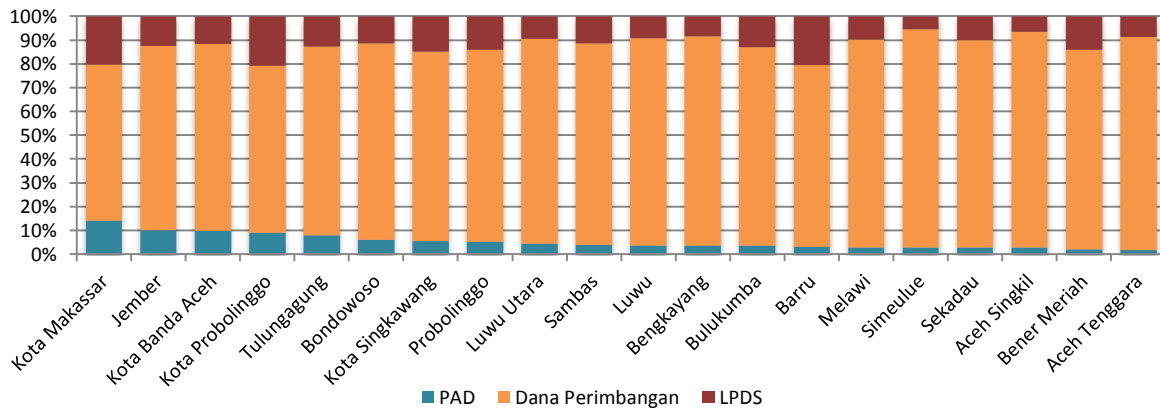
Between 2008 and 2010, *dana perimbangan*'s contribution to budget income in the 20 Kinerja regions studied declined, on average, from 87% to just 77%. At the same time, LPDS's share increased from 8% to 18%; and local own-source revenue (PAD)'s share was steady. In 2011, however, original budget (APBD-M) figures indicated that all 20 regions were expecting LPDS's contribution to decrease and PAD's to increase.

**Graph 2.3 Average Composition of Income in 20 Kinerja Regions, 2008-2011**



**Except for the three city governments outside East Java and four of five governments studied in East Java, local *Kinerja* governments surveyed depended to a very high degree on *dana perimbangan* and LPDS.** The seven exceptions had a relatively high average level of PAD: over 5% of all local budget income. The rest of the regions studied obtained more than 95% of their budget income from central government transfers in the form of both *dana perimbangan* and LPDS. The latter contributed as much as 20%-21% in three regions—the cities of Makassar and Probolinggo and kabupaten of Barru—but less than 15% in other regions. Indeed, in 2010 around 25% of budget income in the three regions just mentioned came from LPDS.

**Graph 2.4 Average Composition of Local Income in 20 *Kinerja* Regions, 2008-2011**



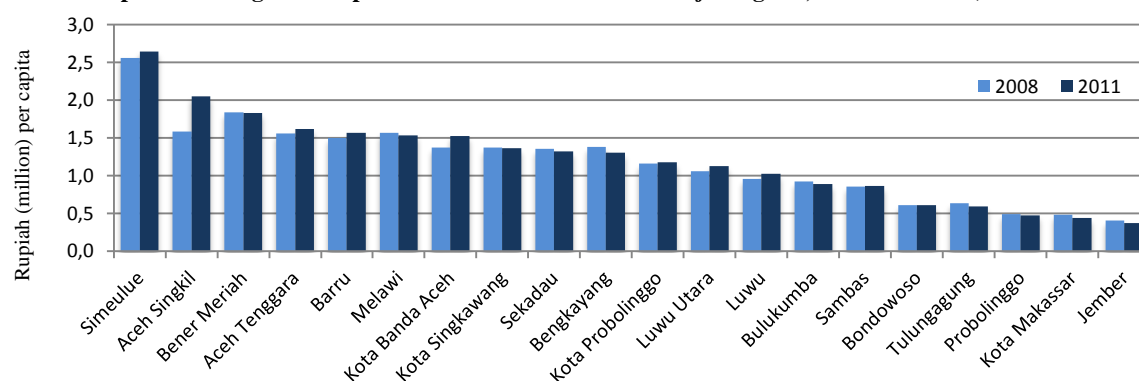
Source: APBD-Rs 2008-2010 and APBD-Ms 2011, processed by Seknas FITRA and TAF

### 2.3 Regional Fiscal Balance Funding (*Dana Perimbangan*)

**General Allocation Fund (DAU) transfers—regions’ principal source of *dana perimbangan*—did not grow to any meaningful extent, in real terms, over the four years studied.** Overall DAU transfers contributed around two thirds of regions’ budgetary income over the period; the city of Makassar was the only exception: less than half of its income in 2010 and 2011 derived from the DAU. Despite not growing markedly in real terms, DAU transfers (in nominal terms) grew steadily over the period except in 2008-09 in Tulungagung, Jember and Bengkayang and in 2009-10 in Melawi and the city of Makassar. Thus by 2011 per capita DAU transfers (in real terms) in the *Kinerja* regions studied were only 1.3% higher than in 2008.

**In eleven of the regions studied, DAU receipts, in real terms, declined between 2008 and 2011.** Aceh Singkil was a standout exception, receiving 29% more DAU in real terms in 2011 than in 2008. But most other regions experienced little change, except for 11 that experienced negative growth—mainly in East Java (except for the city of Probolinggo) and West Kalimantan (except for Sambas).

**Graph 2.5 Average Per Capita Transfers of DAU to 20 Kinerja Regions, 2008 dan 2011 (Constant 2008 Prices)**



Source: APBD-Rs 2008-2010 and APBD-Ms 2011, processed by Seknas FITRA and TAF

**The range of sectoral funding provided by the Special Allocation Fund (DAK) expanded over the period, but amounts of funding in real terms tended to decline.** In 2008 only eleven sectors received DAK funding; by 2011 the number had jumped to twenty two. Thus, while in 2008 just four different activities bearing on public works and transportation were funded, by 2011 the number had risen to eleven, one of which—village electrification infrastructure and facilities—was not funded at all in the 20 *Kinerja* regions studied. So too in the area of health: just one area of funding in 2008 turned into 4 by 2011 (including family planning).

**Table 2.1 Total DAK Allocations by Program Area in 20 Kinerja Regions, 2008-11 (Rp Million, Based on Current Prices)**

No.	Type of DAK	2008	2009	2010	2011
1	Roads	185 878	168 540	105 093	160 575
2	Irrigation	56 688	51 938	36 518	48 004
3	Clean Water and Sanitation	57 977	51 954	Split up (See 4&5)	Split up (See 4&5)
4	Clean Water	Nil	Nil	15 310	17 929
5	Sanitation	Nil	Nil	14 883	19 338
6	Governmental Facilities	16 253	13 648	6 990	13 865
7	Village Infrastructure and Facilities	Nil	11 641	13 806	11 164
8	Village Electrification	Nil	Nil	Nil	-
9	Village Transportation	Nil	Nil	Nil	6 501
10	Housing and Human Settlements	Nil	Nil	Nil	4 607
11	Infrastructure and Facilities in Border Areas	Nil	Nil	Nil	26 503
12	Ground Transport Safety	Nil	Nil	Nil	4 608
13	Education	328 818	419 761	376 142	Split up (See 14-15)
14	Elementary Education	Nil	Nil	Nil	359 585
15	Junior High School Education	Nil	Nil	Nil	86 107
16	Health	184 285	Split up (See 17-20)	Split up (See 17-20)	Split up (See 17-20)
17	Health – Basic Services	Nil	150 948	93 294	43 652
18	Health – Referred Services	Nil	30 177	31 506	37 840
19	Health – Pharmaceutical Services	Nil	Nil	Nil	46 966
20	Family Planning	Nil	14 671	13 678	16 652
21	Population	10 981	Nil	Nil	Nil
22	Agriculture	76 301	66 027	52 153	90 319
23	Marine and Fisheries	53 271	42 311	45 744	57 157
24	Forestry	6 198	3 958	10 160	17 062



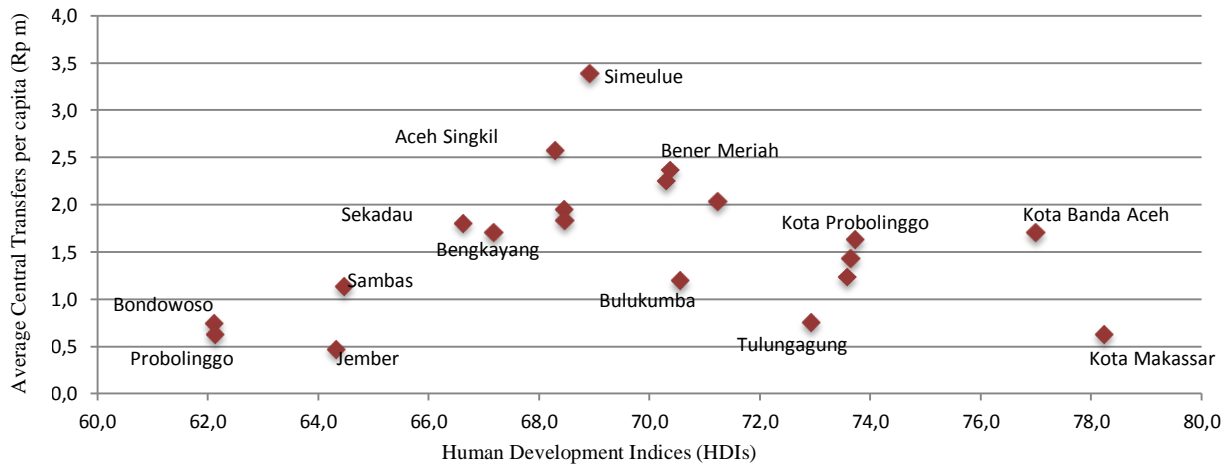
No.	Type of DAK	2008	2009	2010	2011
25	Commerce	Nil	6 148	4 856	13 329
26	Environment	15 803	14 601	14 379	15 562
<b>Total</b>		<b>992 453</b>	<b>1 046 323</b>	<b>834 512</b>	<b>1 097 324</b>

Source: DAK allocations based on various Minister of Finance regulations, processed by Seknas FITRA and TAF  
Remarks: Based on APBD-Ms and current prices.

**Two of the 20 Kinerja regions studied—Simeulue and Barru—had fiscal indices<sup>1</sup> higher than one but nonetheless received DAK allocations.** Under the DAK’s “general” criterion only regions with fiscal indices lower than one are eligible to receive DAK transfers, but two other criteria—“special” and “technical”—make it possible for regions with fiscal indices greater than one to receive DAK funds. These latter criteria, which easily ruled out other regions studied, made it possible for Simeulue and Barru to receive DAK allocations. In 2010 both these kabupatens received thirteen different types of funding—not including for governmental facilities or commerce—to the tune of Rp 33.8 billion (Simeulue) and Rp 32.6 billion (Barru). In 2011, further DAK funding worth no less than Rp 50 billion was provided for 16 program areas in Simeulue and Rp 39 billion for thirteen different sectors in Barru.

**Overall, central government transfers to regions studied were not linked to local community welfare levels.** We calculated total central government transfers to each region by adding together *dana perimbangan* and LPDS derived from the Center in the form of grants, emergency funding, “adjustment” funds and special autonomy grants; and comparing that total for each regions with its Human Development Index (HDI). Graph 2.6 tabulates the results: It shows that there was no correlation between a region’s average per capita transfers during 2008-11 and its HDI index. Regions with high HDIs such as the city of Banda Aceh still received quite substantial amounts of central government transfers; and three regions in East Java—Probolinggo, Bondowoso and Jember—and Sambas (West Kalimantan), all with low HDIs, received low levels of central government transfers.

**Graph 2.6 Comparison of Regions’ Central Government Transfers Per Capita (2008-2011, at Constant 2008 Prices) and Their 2009 Human Development Indices (HDIs)**



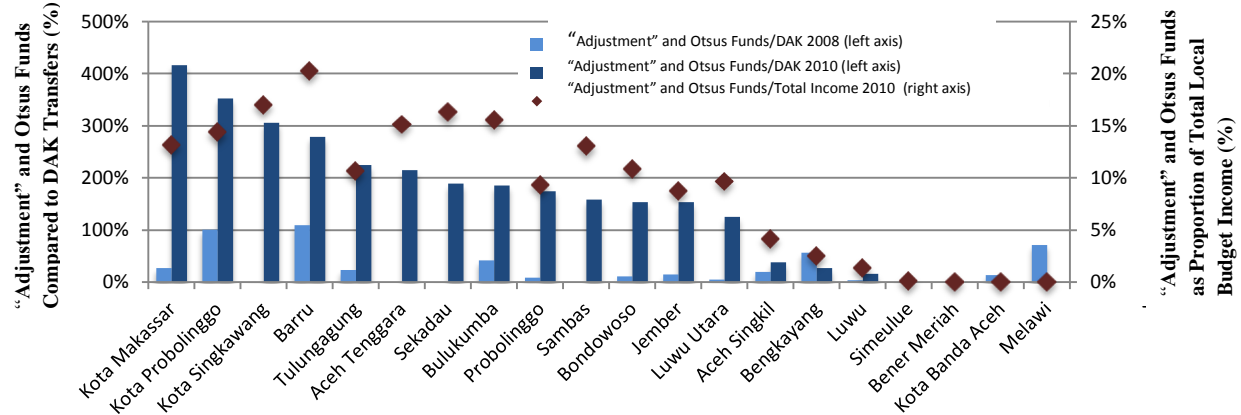
Source: APBD-Rs 2008-2010, APBD-Ms 2011 and HDI (2009, National Team for Accelerating Poverty Reduction (TNP2K), processed by Seknas FITRA and TAF

<sup>1</sup> A region’s fiscal index is calculated by comparing its fiscal capacity with the national average (fiscal index = 1). A region with a fiscal index of less than 1 is regarded as having low fiscal capacity. Fiscal capacity = (PAD + DBH + DAU + LPDS – Civil Service Expenditure) ÷ Total No. of Poor.

## 2.4 Other Lawful Local Income (LPDS)

***“Adjustment” funding and special autonomy grants increased in importance over the four years studied.*** In 2008 they contributed an average of just 2% of total budget income in the 20 *Kinerja* regions surveyed; by the end of the period their share had risen to 9% (2010) and 7% in 2011. These increases resulted from acceleration of regional infrastructure funding in 2008-11, regional incentive scheme payments in 2010 and 2011 and increased payments for teachers in 2009-10<sup>2</sup>.

**Graph 2.7 “Adjustment” and Special Autonomy (*Otsus*) Funding Compared to DAK Transfers (2008 and 2010) and as a Proportion of Total Budget Income (2010) in 20 Regions Studied**



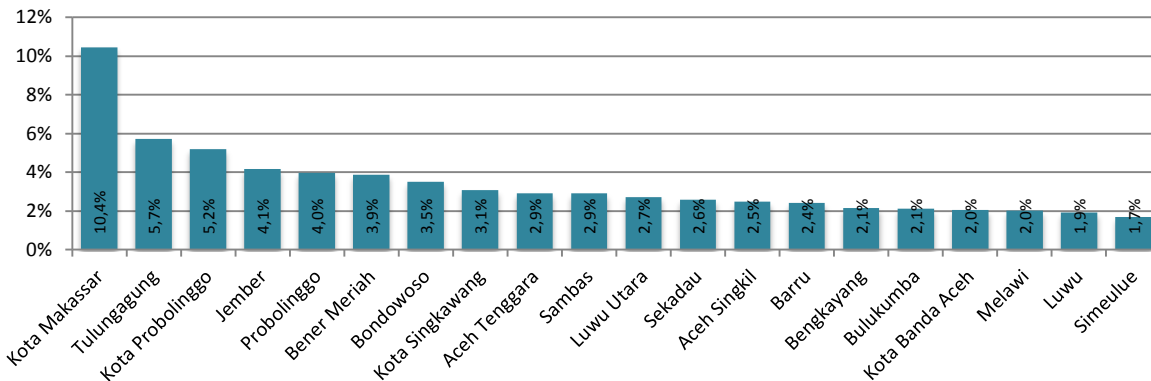
Source: APBD-Rs 2008-2010 and APBD-Ms 2011, processed by Seknas FITRA and TAF

***In 2010 “adjustment” and special autonomy (otsus) funding eclipsed DAK allocations in thirteen Kinerja regions studied.*** All five regions in East Java and four regions in South Sulawesi (Luwu being the exception) benefitted from “adjustment” and *otsus* allocations that exceeded their DAK receipts and contributed a minimum of 9% to total local budget income. In three cities—Makassar, Probolinggo and Singkawang—“adjustment” and *otsus* funding was triple that received under the DAK. By contrast, still in 2010, four of the five regions surveyed in Aceh (Aceh Tenggara was the exception) and three kabupatens in other provinces received only small amounts of “adjustment” and *otsus* funding.

***Another important component of LPDS, particularly in the city of Makassar and Kinerja regions studied in East Java, was tax revenue sharing with provincial governments.*** The biggest single contributor to this revenue stream was taxation on motor cycles; and the sharing of that revenue contributed an average of 3.5% to total local income in 2008-11 in the regions just referred to. There was one interesting feature of this situation: in Bener Meriah, shared provincial tax revenue contributed 3.9% to local budget income in 2010, much more than in the three preceding years.

<sup>2</sup> Fund for Infrastructure and Public Facilities, 2008 (Minister of Finance Regulation (PMK).81/PMK 07/2008); Fund to Strengthen Fiscal Decentralization to Speed up Regional Development, 2009 and 2010 (PMK 42/PMK 07/2009 and PMK 118/PMK 07/2010); Increased Payments for Teachers, 2009 and 2010 (PMK 223/PMK 07/2009 and PMK 119/PMK 07/2010); Regional Incentives Scheme, 2010 and 2011 (PMK 198/PMK07/2009 and PMK 61/PMK 07/2011); Fund to Strengthen Local Infrastructure and Public Facilities, 2010 and Fund for Acceleration of Development of Local Infrastructure, 2011 (PMK 140/PMK07/2011; and Fund for the Strengthening of Local Infrastructure 2011 (PMK 25/pmk07/2011).

**Graph 2.8 Shared Provincial Taxation Revenue as a Proportion of Local Budget Income, 2008-2011 (%)**

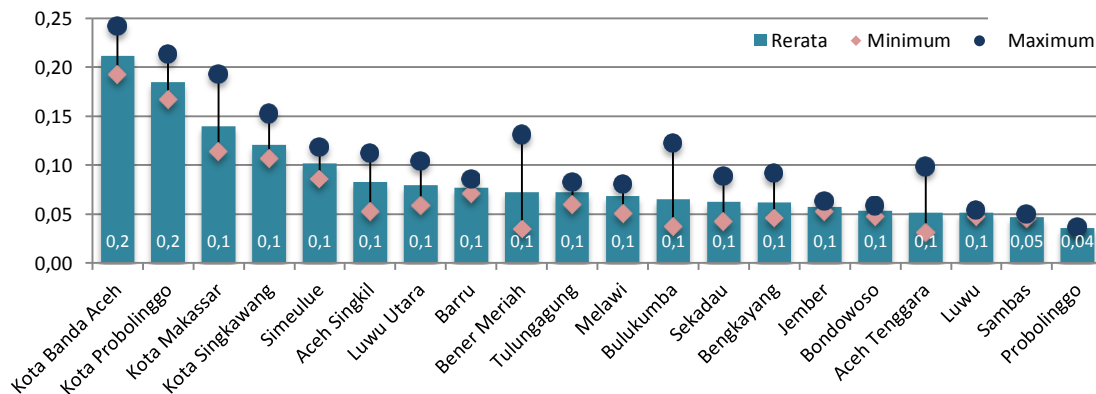


Source: APBD-Rs 2008-2010 and APBD-Ms 2011, processed by Seknas FITRA and TAF

## 2.5 Own-Source Local Revenue (PAD)

*Per capita own-source local revenue (PAD) was significant only in city areas.* Graph 2.9 shows that of the 20 *Kinerja* regions studied only the four city governments had meaningful levels of PAD: an average of over Rp 120 000/person/year. Other regions collected low levels of PAD: indeed, the kabupaten of Probolinggo had just Rp 35 000/person/year of PAD. By contrast, the national average for PAD/person/year was Rp 93 000 in 2010.

**Graph 2.9 Average PAD/person/year, 2008-2011 (Rp Million, Constant 2008 Prices)**



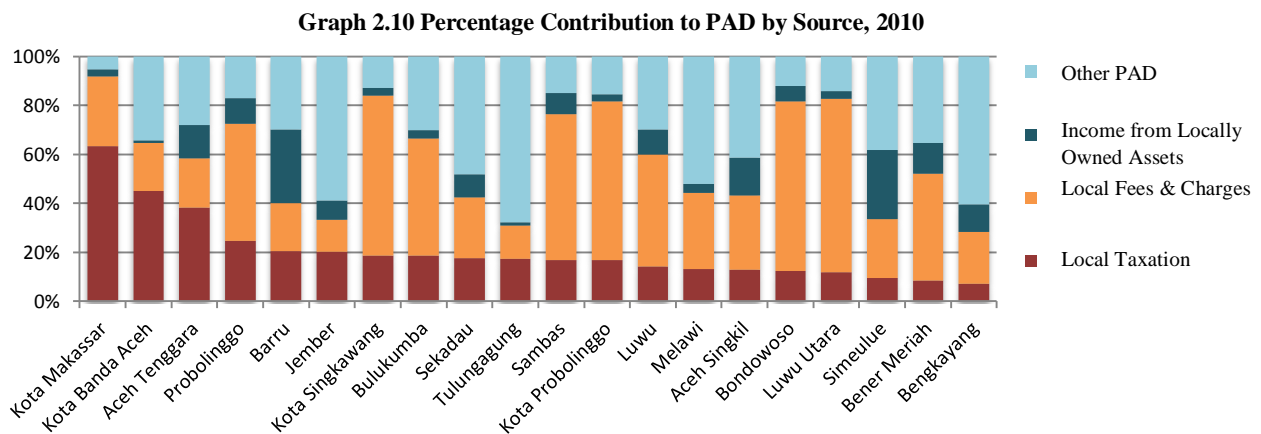
Source: APBD-Rs 2008-2010, APBD-Ms 2011 and 2010 Census Population Statistics, processed by Seknas FITRA and TAF  
Remarks: Rerata=Average;

*Six regions estimated PAD for 2011 at much higher levels than in preceding years.* These were the city of Makassar and the kabupatens of Aceh Singkil, Bener Meriah, Bulukumba, Sedakau and Aceh Tenggara: all of them estimated that their 2011 PAD would be 40% higher than in 2010. A closer look at the data reveals that the increase was not because of the entry into force of Law No. 28/2009 on *Regional Taxes, Fees and Charges*. Only in Aceh Singkil and the city of Makassar did local taxes become the major contributor to PAD in 2011; in the other four “other lawful PAD” continued to contribute most to PAD.

*Apart from two provincial capital cities—Makassar and Banda Aceh—Aceh Tenggara derived most income from taxation revenue.* The former are large cities with an extensive tax base—hotels,

restaurants, places of entertainment—while Aceh Tenggara is a relatively isolated area; but it nonetheless managed to increase its proportion of PAD from taxation from 18% in 2008-09 to 34% in 2011.

***Fees & charges and “other PAD” were the most important contributors to PAD in most regions studied.*** Fees and charges contributed most to PAD in Probolinggo, Bulukumba, Sambas, Luwu, Bondowoso, Luwu Utara and Bener Meriah, and the cities of Singkawang and Probolinggo. Most of this revenue came from health and local marketplace charges mostly borne by the lowest echelons of society. Other regions—Jember, Sedakau, Tulungagung, Melawi, Aceh Singkil, Simeulue and Bangkayang—relied on “other PAD” for their PAD revenue. This was noteworthy given that the revenue in question came either from interest on bank deposits—evidence that money available to local governments to spend was being put aside rather than spent on development—or from charges for services provided by local community service agencies (known as BLUDs). Given that local governments often use BLUDs for establishing hospitals or community health centers, this means health service users (read the poor) are major contributors to PAD.



Source: APBD-Rs 2008-2010 and APBD-Ms 2011, processed by Seknas FITRA and TAF

### 3. Local Budget Expenditure

*It is important to analyze overall local government expenditure to get a quick feel for the quality of local budget policies.* A general analysis can pinpoint whether a local government emphasizes spending on delivery of public services and economic development—that is, on capital expenditure and provision of goods and service—or tends to focus instead on meeting the needs of its own bureaucracy (only some which doubles as expenditure on public services). A quick analysis will also reveal amounts spent on grants and social aid (*bansos*) both of which can “gobble up” budgets.

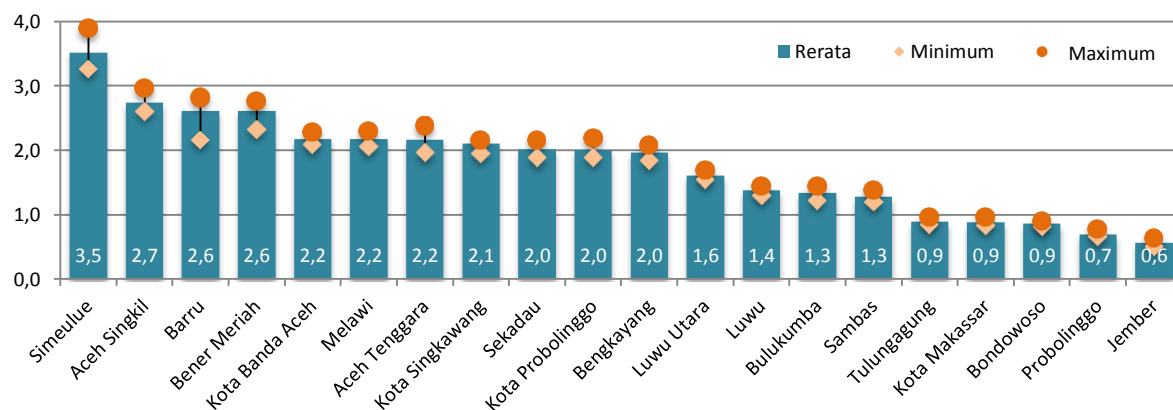
Based on Home Affairs Minister regulation No. 13/2006, local budget expenditure can be reduced to two broad categories:

- (i) “Indirect” expenditure: including civil service costs, interest payments, grants, social aid, spending shared with provinces/kabupatens/cities & villages, and unanticipated expenditure;
- (ii) “Direct” expenditure: consisting of spending on civil servants, goods and services and capital expenditure.

#### 3.1 Overview of Local Government Budget Expenditure

*Kinerja regions studied exemplified a very wide range of budgetary expenditure, with the five regions in Aceh province at the high end of the scale and four of the five in East Java at the low end.* Over the four years (2008-11) the five governments surveyed in Aceh spent an average of Rp 2 million/person/year (constant 2008 prices); Simeulue—the biggest per capita spender of all the regions studied—reached an average of Rp 3.5/million/person/year. Apart from the five Aceh governments, Barro, Melawi and city of Singkawang also spent in excess of Rp 2 million/person/year. But, in East Java, four of the five regions studied—the city of Probolinggo being the only exception—spent less than Rp 1 million/person/year (with Jember spending least: just Rp 561 000/person/year).

**Graph 3.1 Average Local Government Expenditure, 2008-2011 (Rp Million/Person, Based on Constant 2008 Prices)**



Source: APBD-Rs 2008-2010, APBD-Ms 2011 and 2010 Census Population Statistics, processed by Seknas FITRA and TAF

Remarks: Rerata=Average

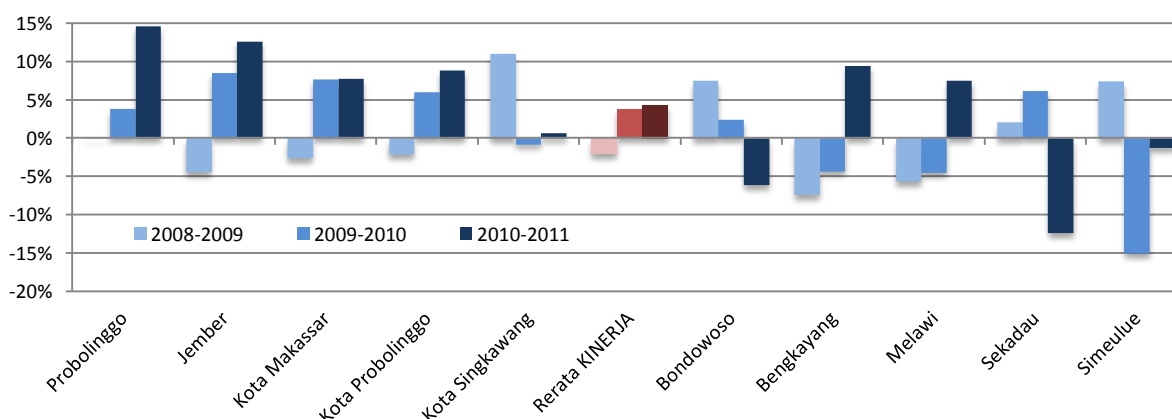
*Average expenditure over the period studied fluctuated by approximately 10% in only five of the regions surveyed.* On the high side, in Simeulue, spending in 2009 reached Rp 3.9 million/person/year, far more than its average for 2008-11 (Rp 3.5 million); so too in Probolinggo and Jember (both in East Java) 2011 APBD-M spending targets were 12-13% above their 4-year average. But, on the low side, in Barro and Bener Meriah, spending virtually plummeted at times: in the former it fell (in 2009) to just

17% of the kabupaten's yearly average for 2008-11; and in Bener Meriah in 2008 it was just 11% of its four year average.

**After experiencing negative growth in real terms in 2008-09, budgetary spending in Kinerja regions studied grew by an average of 4% over the following two years.** In nominal terms, regions' expenditure rose consistently at an average of 8% in 2008-09, 7.6% in 2010 and 10.8% in 2011. But high rates of inflation in 2008—an average of 10.3% in the 20 regions studied—reduced real expenditure growth rates in 2008-2009 to -2.8% p.a. Lower inflation in 2010-11—3.7% in 2010 and 6.1% in 2011—contributed to positive growth of expenditure at an average rate of 3.7% in 2010 and 4.4% in 2011.

**City governments' expenditure budgets tended to grow more strongly than those of kabupaten.** Of the five top spenders among regions studied three were city governments: Makassar, Probolinggo and Singkawang; they all notched up average expenditure growth rates of 4% over the four years surveyed; another city—Banda Aceh—also achieved quite high levels of expenditure growth (an average of 2.3% over the four years). Two of the five top spenders—the kabupaten of Probolinggo and Jember—were located in East Java: their spending grew by approximately 6% over the period studied. By contrast, three regions in West Kalimantan—Bengkayang, Melawi and Sekadau—as well as Simeulue (in Aceh), on average, experienced negative growth rates in expenditure; and Bondowoso, despite having positive rates of expenditure growth, ranked fifth lowest for spending among the 20 *Kinerja* regions studied.

**Graph 3.2 Highest and Lowest Rates of Growth in Budgetary Expenditure among Kinerja Regions Studied, 2008-2011**

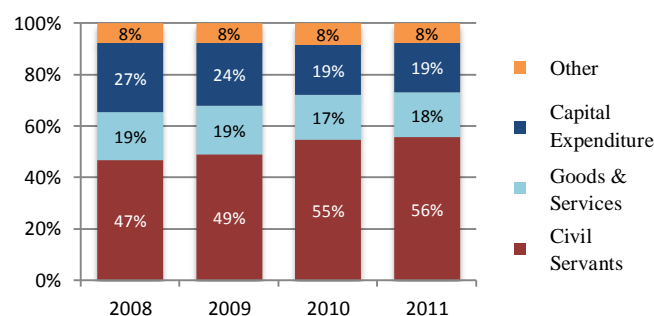


Source: APBD-Rs 2008-2010 and APBD-Ms 2011, processed by Seknas FITRA and TAF

### 3.2 Analysis of the Components of Local Government Expenditure

**Spending on local civil services increased over the period studied, causing capital expenditure to decline.** In 2008-09 civil service expenditure—"direct" and "indirect"<sup>3</sup>—constituted, on average, less than 50% of government expenditure in *Kinerja* regions studied. By 2010-11 the proportion had risen to 55%-56%. With expenditure on goods & services

**Graph 3.3 Average Overall Composition of Kinerja Kabupaten/City Expenditure, 2008-2011**

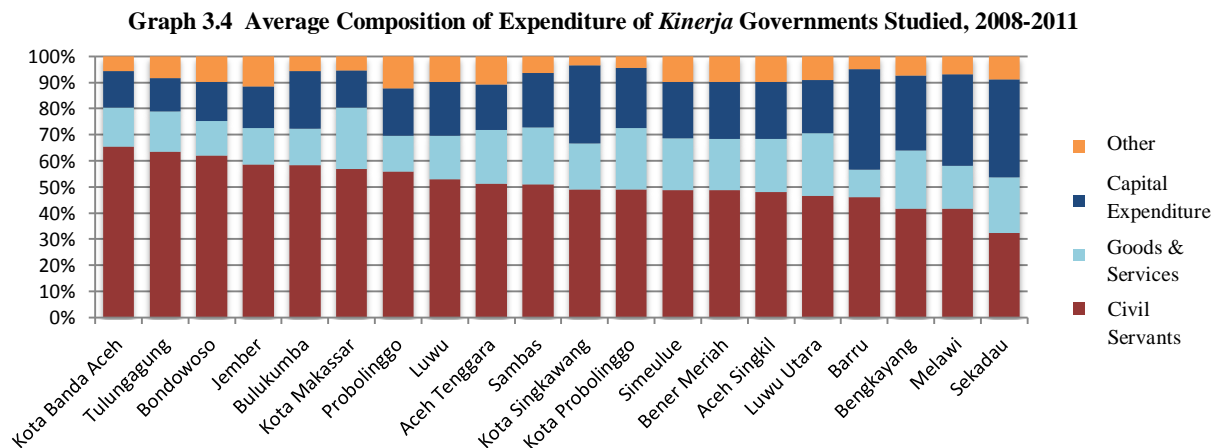


<sup>3</sup> Home Affairs Minister regulation No. 13/2006 divides civil service spending into two separate categories: "indirect" expenditure (specifically for civil servants) and "direct" expenditure. But many regions are still using the budgetary structure outlining in Home Affairs Minister regulation No. 29/2002 which treated civil service expenditure as a unit. A number of national Audit Board reports also use that same unified structure.



and “other items”<sup>4</sup> remaining constant at around 17%-19% and 8% respectively, capital expenditure felt the squeeze and declined over the period. In 2008 regions studied spent an average of 27% of their budgets on capital expenditure, but that proportion had fallen to around 19% by 2010 and 2011.

**Half of the regions studied allocated more than 50% of their budgets to fund civil service costs (calculated from average expenditure for the period (2008-11)).** Among these were the four kabupatens studied in East Java and three regions in South Sulawesi: Bulukumba, Luwu and the city of Makassar. Of all regions studied the city of Banda Aceh spent most on its civil service (as much as two thirds of its entire budget). On the more economical side were three regions in West Kalimantan—Bengkayang, Melawi and Sekadau: they expended less than 42% of their budgets on civil service costs; and the lowest spender of all was Sekadau (just 30-31% between 2008 and 2010, rising to 38% in 2011).



Source: APBD-Rs 2008-2010 and APBD-Ms 2011, processed by Seknas FITRA and TAF

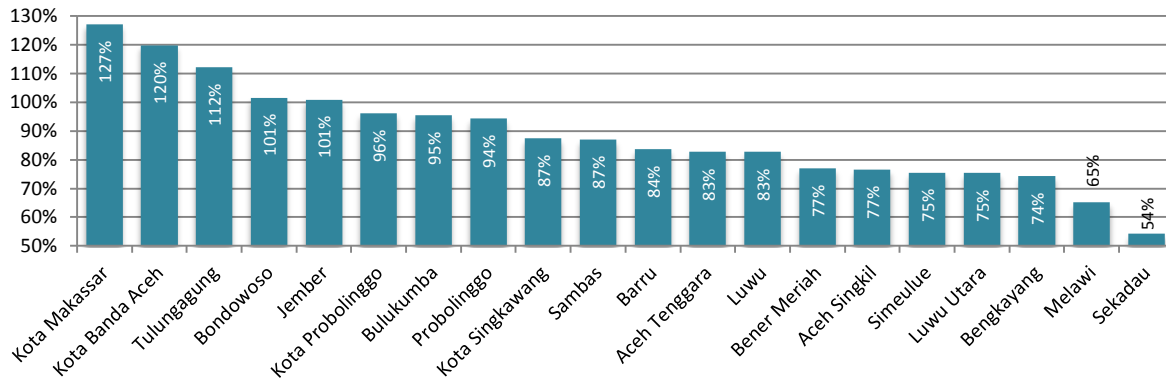
**With the exception of just three kabupatens in West Kalimantan, spending on goods & services and on capital items—counted on to stimulate local economies and deliver public services—trended downwards in regions studied.** The exceptions—Bengkayang, Melawi and Sekadau—appropriated, on average, more than half of their budget for goods & services and capital items over the four years surveyed; indeed, in Sekadau, capital expenditure did not drop below 50% of budget expenditure in any of the years studied. By contrast, in the city of Banda Aceh and in the kabupatens of Tulungagung and Bondowoso, expenditure on goods & services and capital items was less than 30% of budget expenditure; indeed, in 2011 they each only allocated ¼ of their budgets for those purposes.

### 3.3 Analysis of Public Service Expenditure

**Some Kinerja regions studied spent more on their civil services that they received for that purpose via the General Allocation Fund (DAU).** Overall, regions spend “just” 69% of their DAU allocations on civil service costs in 2008; the proportion rose to 76% in 2009 and 87%-88% in 2010 and 2011. But our study found that, on the basis of 2010 realized budget figures, five regions—two relatively large cities (Makassar and Banda Aceh) and three kabupatens in East Java (Tulungagung, Bondowoso and Jember)—spent more on civil service costs than their total DAU receipts. By contrast, Melawi and Sekadau expended less than two thirds of their DAU transfers on civil services costs.

<sup>4</sup> In this report “other expenditure” encompasses social aid (*bansos*), grants, subsidies, interest, financial aid, expenditure shared with provinces/kabupatens and unanticipated expenditure.

Graph 3.5 Proportion of DAU Spent on Civil Service Costs in 20 Kinerja Regions Studied, 2010

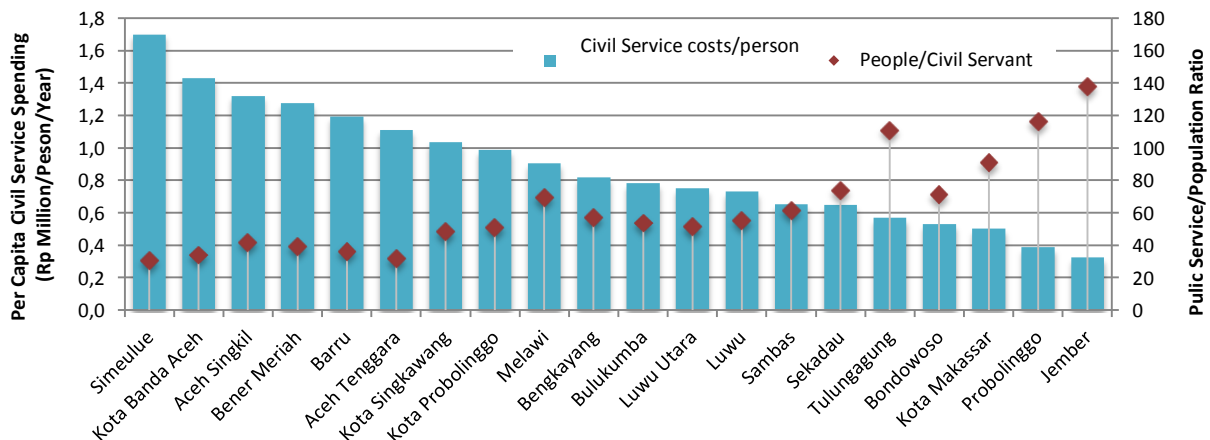


Source: APBD-Rs for 2010, processed by Seknas FITRA and TAF

*In several regions studied—particularly in East Java—there was a high ratio between the number of civil servants and total population.* Nationwide it is estimated that there is one local government civil servant per every 63 people<sup>5</sup>. Based on that figure, seven regions studied—the four kabupatens surveyed in East Java, the city of Makassar and the kabupatens of Melawi and Sekadau—did better than the national average by having more than 63 people per civil servant. Six of the seven—Melawi being the exception—appropriated relatively low levels of civil service spending per local inhabitant: on average, less than Rp 650 000/person/year; for its part, Melawi appropriated quite a substantial amount (Rp 900 000/person/year).

*On the other hand, governments studied in Aceh and some governments in other provinces had low civil service to population ratios and spent sizeable amounts per local inhabitant on civil service costs.* In Aceh, the five regions studied all had very high levels of civil service expenditure per local inhabitant: Rp 1.1 million/person/year, and a relatively low public servant to population ratio (below 1:42)—a sign of inefficient government). Other regions in a similar situation—low civil servant/population ratios and sizeable civil service expenditure/local inhabitant—were Barru, Singkawang and the city of Probolinggo.

Graph 3.6 Average Civil Service Expenditure per Local Inhabitant (2008-2011, Constant 2008 Prices) and Civil Servant/Population Ratios in the 20 Kinerja Regions Studied



Source: APBD-Rs for 2008-2010, APBD-Ms 2011, Population Census for 2010 (BPS) and Civil Service Numbers 2009 (MoF), processed by Seknas FITRA and TAF

Remarks: Data on number of civil servants in Aceh Tenggara was taken from "Aceh Tenggara Dalam Angka" and for Sambas from a statement by the head of Sambas' Regional Civil Service Agency quoted in [www.equator-news.com](http://www.equator-news.com) (7 October 2011).

<sup>5</sup> According to the Ministry of Administrative Efficiency and Bureaucratic Reform, as of May 2011 there were 3.79 million local government civil servants in Indonesia; and according to the 2010 Census Indonesia's population totaled 237.56 million people.

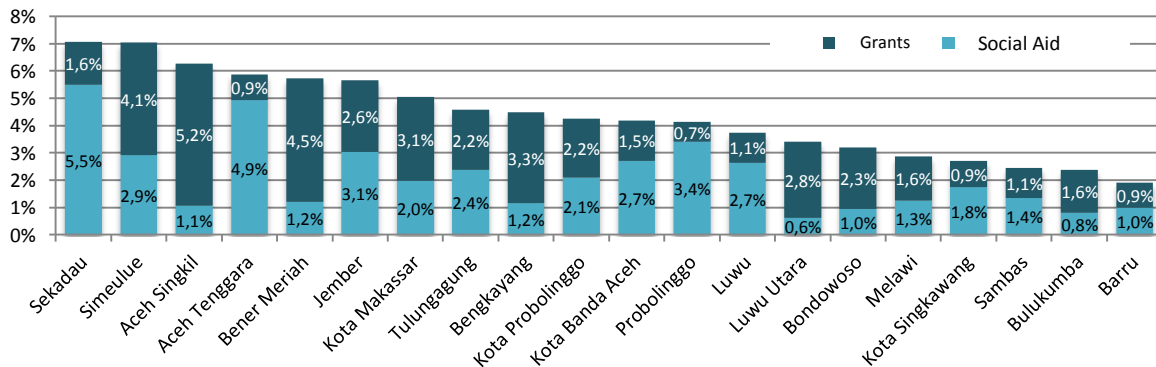


### 3.4 Analysis of Expenditure on Social Aid and Grants

**Overall expenditure on social aid (*bansos*) and grants<sup>6</sup> over the period in the *Kinerja* regions studied rose between 2008 and 2010.** These line items are often not drafted with the benefit of public participation and are not well accounted for. Nevertheless, in regions studied, spending on them rose, on average, from 4.3% of total local expenditure to 4.9% in 2010; but it declined to 3.7% in 2011.

**Some regions—particularly in Aceh—allocated substantial amounts for spending on social aid (*bansos*) and grants.** Examples of this were the four kabupatens in Aceh: they spent between 5.7% and 7.1% of their budgets on these two line items between 2008 and 2011 and averaged between Rp 17.5 and Rp 22.9 million p.a. (constant 2008 prices). Other regions allocating more than 5% of their total expenditure for *bansos* and grants were Sekadau, Jember and the city of Makassar. In fact, the last two named spent quite substantial amounts: an average of Rp 74.4 billion pa (Jember) and Rp 59.7 pa (Makassar) over the four years studied. By contrast, Barru allocated just 2% of its annual spending on these two types of expenditure.

**Graph 3.7 Average % of Total Local Budgets of *Kinerja* Regions Studied Spent on Social Aid and Grants (2008-2011)**



Source: APBD-Rs for 2008-2010 and APBD-Ms 2011, processed by Seknas FITRA and TAF

**Findings of the national Audit Board (BPK) have exposed a number of issues around expenditure on social aid and grants in regions studied.** For example, it found that in 2009 in Sekadau Rp 376 million of social aid had not been distributed to beneficiaries and of that an amount Rp 300 million had been accounted for in a “pro forma” way. Also, in 2008 in Simeulue, as much as Rp 1.18 billion worth of social aid earmarked for community organizations was found to have been dispersed to parent departments in the central government; and supporting evidence was incomplete in the case of a further Rp 6.5 billion. In Aceh Singkil as well, in 2009, Rp 7.05 billion earmarked for social aid and “unforeseen items” was found to have not been properly accounted for.

<sup>6</sup> Home Affairs Minister regulation No. 32/2012 specifies “grants” (*hibah*) as being assistance in cash or kind paid by a local government to the central government, other local governments, a local company, the community or community organizations for purposes that have been clearly specified. For its part, “social aid” (*bansos*) can take the form of payments in cash or kind to individuals, families groups or the community. Neither form of payment is obligatory or binding, or paid on a continuing basis.

## 4. Local Budget Financing

***An analysis of budget financing is necessary to establish how local governments finance their deficits and make use of budget surpluses.*** Local government expenditure budgets are generally framed to have deficits—expenditure exceeding income—made up for by various streams of financing. Some, however, manage to have budget surpluses which they carry forward into the next budget year.

***Budget financing consists of two components: inflows and outflows.*** The difference between these two is called “net financing”; and the difference between net financing and a deficit/surplus—the difference between budget income and expenditure—is either a “budget surplus” if positive (called SiLPA in Indonesian) or a “budget deficit” if negative (SiKPA in Indonesian).

- (i) The inflows side of the financing ledger encompasses budget surpluses carried forward from the previous fiscal year (SiLPA), liquidation of reserves, revenue from the sale of locally-owned assets, funds realized from local government borrowings and bonds, repayment of local government loans, funds obtained via local government borrowing and bonds, payment of local government accounts receivable and “other” items;
- (ii) The outflows side of the financing ledger includes establishment of fiscal reserves, investment in local ventures, repayments of principle of monies borrowed, disbursement of local government loans and “other” outgoings.

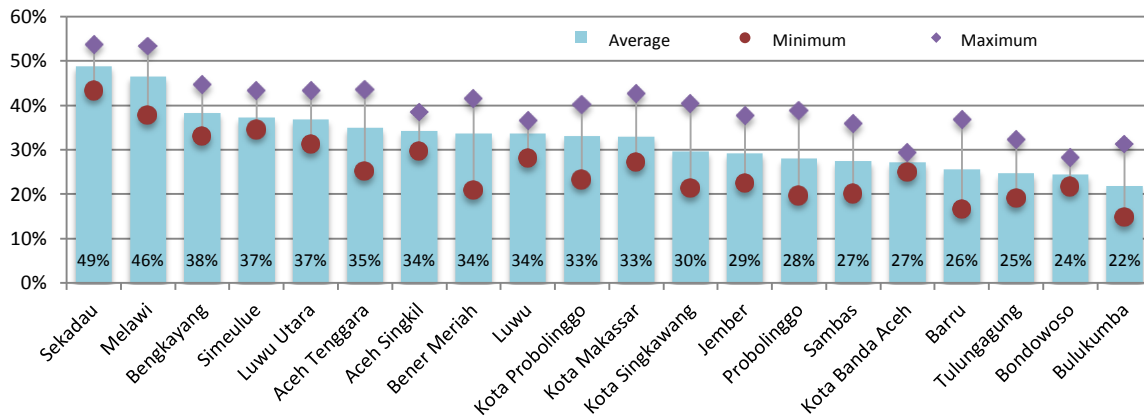
### 4.1 Fiscal Space

***Fiscal space (discretion) goes to a government’s degree of flexibility in setting priorities in program financing.*** It is calculated by subtracting the following from total budget revenue: earmarked funding—DAK transfers, grants, emergency funding, “adjustment” and special autonomy transfers—and non-discretionary spending (civil service costs and interest payable on borrowings).

***Overall, fiscal space in the 20 Kinerja regions studied declined between 2008 and 2011.*** In 2008 the average was 39% but it declined to 35% in 2009; it went down more markedly in 2010—except in the city of Banda Aceh— to 29%; and fell again in 2011 to just 27%.

***Regions studied outside East Java had higher levels of fiscal space.*** Leaving aside the city of Probolinggo, the other four regions (kabupatens) studied in East Java all had fiscal space of less than 30% for the period 2008-10. By contrast average fiscal space in Sekadau and Melawi was very high (more than 45%): in the former it remained above 40% for the entire period studied, while in Melawi it fell below 40% only in 2011. The conclusion is clear enough: Sekadau and Melawi had greater scope to allocate budgetary funds to meet the basic needs of local people.

**Graph 4.1 Average Fiscal Space in 20 Kinerja Regions, 2008-2011**



Source: APBD-Rs for 2008-2010 and APBD-Ms 2011, processed by Seknas FITRA and TAF

## 4.2 Budget Surpluses/Deficits

**The Ministry of Finance sets annual ceilings for local government deficits (expenditure in excess of income).** Law No.17/2003 concerning *State Finances* stipulates that national and local government deficits should not exceed 3% of Gross Domestic (or Regional) Product. In implementing this law, the Minister of Finance places ceilings on local government deficits to ensure that they do not violate the law: the 2009 ceiling was 3.5% of local budget income and 4.5% in both 2010 and 2011.<sup>7</sup>

**Quite a few of the regions studied had original budgets (APBD-Ms) incorporating deficits in excess of set ceilings.** Table 4.2 shows that twelve regions infringed the 3.5% ceiling set for 2008 and 2009; and, in 2010, ten regions studied exceeded the ceiling even though it had been increased to 4.5%. This situation was evidence of carelessness about balancing the budget on the part of regions concerned; it also highlighted the need for provincial governments to take a closer interest, given their role of checking kabupaten/city budgets before their adoption. That said, four kabupatens in Aceh and the kabupatens of Jember and Luwu did not once exceed set deficit ceilings. By contrast, Bengkayang consistently had annual budget deficits in excess of 20% between 2008 and 2010.

**Control over deficits at the budget formulation stage (APBD-Ms) was not always reflected in end-of-year realized budgets (APBD-Rs).** In 2008-09, twelve regions built a deficit of more than 3.5% into their APBD-Ms, but by end year their situation was different: only three of them in 2008 and five in 2009 had end-of-year (APBD-R) budget deficits; and in 2010 just one of ten regions with APBD-M deficits in excess of 4.5% had an APBD-R in the red. But several regions projecting low deficits in their APBD-Ms ended up with very sizeable end-of-year deficits: Simeulue (in 2009), Sekadau (in 2008) and Barru (in 2009). This finding indicates that local governments need to keep deficits in control throughout the whole fiscal year, not just at the budget planning/formulation stage.

<sup>7</sup> See following Minister of Finance regulations (PMK): PMK No.123/PMK.07/2008 (for fiscal year 2009); PMK No.138/PMK.07/2009 (for 2010); and PMK No.149/PMK.07/2010 (for 2011).

**Table 4.1 Surpluses/Deficits as a Proportion of Local Budget Income, 2008-2010**

Kabupaten/ City	2008		2009		2010	
	APBD-M	APBD-R	APBD-M	APBD-R	APBD-M	APBD-R
Aceh Singkil	-2.5%	-3.0%	0.9%	2.8%	-4.1%	0.9%
Aceh Tenggara	1.0%	4.4%	0.0%	0.3%	-0.9%	-1.7%
Bener Meriah	0.0%	-1.6%	0.0%	1.9%	-0.1%	-0.9%
Simeulue	7.5%	8.5%	-0.8%	-11.2%	1.6%	-0.1%
Kota Banda Aceh	-6.5%	-1.7%	-4.0%	-3.2%	-0.1%	0.4%
Tulungagung	1.3%	2.4%	-1.2%	3.3%	-5.3%	0.3%
Jember	-0.7%	1.3%	-3.3%	0.1%	-1.8%	2.4%
Bondowoso	-7.1%	-2.4%	-10.9%	-4.0%	-5.2%	6.5%
Probolinggo	-3.6%	-0.3%	-7.1%	-1.3%	-4.0%	4.7%
Kota Probolinggo	-5.9%	-2.4%	-5.6%	3.6%	-5.6%	3.4%
Bengkayang	-20.5%	0.5%	-30.0%	-13.9%	-23.1%	-11.0%
Sambas	-6.0%	-7.3%	-4.6%	-0.1%	-2.6%	-1.4%
Sekadau	-0.6%	-5.9%	-8.6%	-10.2%	-1.7%	-1.0%
Melawi	-3.9%	2.5%	-4.3%	1.7%	-5.3%	0.6%
Kota Singkawang	-12.7%	2.1%	-17.0%	-10.1%	-13.2%	-2.1%
Bulukumba	-10.4%	-4.4%	-7.0%	-2.5%	-5.2%	1.6%
Barro	-4.9%	-16.3%	-3.5%	-15.6%	-6.7%	12.7%
Luwu	-2.9%	-0.5%	-2.9%	1.7%	-1.2%	2.0%
Luwu Utara	-5.4%	-1.9%	-9.2%	-4.0%	-4.8%	0.2%
Kota Makassar	-4.2%	0.1%	-9.4%	-2.1%	-6.5%	4.9%

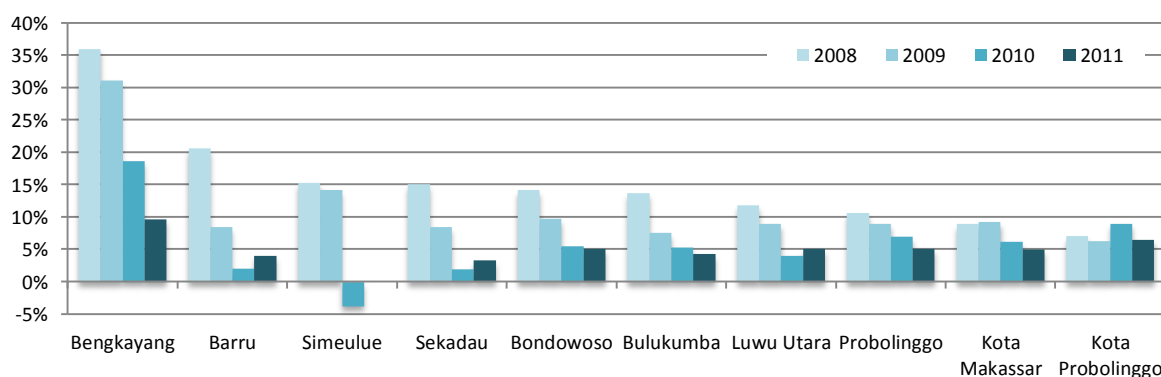
Source: APBD-Rs for 2008-2010 and APBD-Ms 2011, processed by Seknas FITRA and TAF

Remarks: Shading indicates cases of deficits in excess of limits set by the Minister of Finance;

### 4.3 Budget Financing

*Budget deficits were made up for by budget financing mainly from budget surpluses carried forward (SiLPA) from the preceding year.* But the proportion of budget financing coming from SiLPA declined steadily over the period from 11% in 2008 to just 3% in 2011. Even so, five regions—Bengkayang, Bondowoso and Probolinggo and cities of Makassar and Probolinggo—consistently used SiLPA to finance more than 5% of their total budgetary expenditure. Indeed Bengkayang, although using progressively less SiLPA over the period, nonetheless used it to finance more than 30% of its budget spending in 2008-09. This was the result of local government failure to spend budgets effectively, resulting in carry-overs (SiLPA) from one year to the next.

**Graph 4.2 SiLPA as a Proportion of Budget Expenditure in 9 Kinerja Regions Studied, 2008-2011 (%)**



Source: APBD-Rs for 2008-2010 and APBD-Ms 2011, processed by Seknas FITRA and TAF.

***In addition to SiLPA, five governments used borrowing to finance sizeable amounts of expenditure.*** Barru borrowed heavily between 2008 and 11—as much as Rp 113.3 billion; but over the same period paid back only Rp 32.3 billion (a sign that its loans were long term). Several other regions used short term borrowing to finance their budgets; Simeulue, Sambas and Sekadau were clear cases in point, fully repaying in one year money they had borrowed the year before.

**Table 4.2 Borrowing Inflows and Outflows in Five *Kinerja* Regions Studied, 2008-2011 (Rp Million)**

Year	Budget Line	Simeulue	Sambas	Sekadau	City of Singkawang	Barru
2008	Receipt of Funds Borrowed	-	318	-	-	13 135
	Repayment of Capital Borrowed	-	256	-	1 656	102
2009	Receipt of Funds Borrowed	-	22 286	15 000	8 500	45 040
	Repayment of Capital Borrowed	-	-	-	4 083	11 866
2010	Receipt of Funds Borrowed	13 000	20 000	35 000	30 000	7 747
	Repayment of Capital Borrowed	-	22 271	15 000	10 085	102
2011	Receipt of Funds Borrowed	47 898	51 510	18 500	21 879	47 383
	Repayment of Capital Borrowed	13 000	20 000	35 000	31 585	20 253

Source: APBD-Rs for 2008-2010 and APBD-Ms 2011, processed by Seknas FITRA and TAF.

***Several regions studied were unable to finance spending deficits and thus at end year had unfunded budget deficits (SiKPA).*** Ideally, a surplus or deficit should be identified either during budget planning/formulation (APBD-M) or revision (APBD-P) and should be fully made good with “net financing” (the difference between inflows and outflows in the financing ledger)—effectively keeping SiLPA for the year at zero. But several kabupatens studied—Barru, Bulukumba, Bengkayang and Probolinggo—failed to do that, even though they knew that both in their original budgets (APBD-Ms) and their revised APBD-Ps income was insufficient to fund proposed expenditure; and that, accordingly, a budget deficit was looming. In the event, however, all four regions ended up having budget surpluses. Not so lucky were Simeulue and South East Aceh: these governments did not manage to finance deficits in their realized budgets (APBD-Rs) and had to carry forward deficits to be financed in the ensuing year.

**Table 4.3 Regions with Overall Budget Deficits Carried Forward (SiKPA)**

No	Region	Year	Total (Rp Million)
1	Barru	APBD-M 2008	1 496
		APBD-P 2010	62 599
2	Bulukumba	APBD-P 2008	1 944
3	Bengkayang	APBD-M 2009	7 099
4	Simeulue	APBD-R 2009	11 585
		APBD-R 2010	17 577
5	Probolinggo	APBD-M 2010	1 000
6	Aceh Tenggara	APBD-R 2010	15 707

Source: APBD-Rs for 2008-2010 and APBD-Ms 2011, processed by Seknas FITRA and TAF.

***In Simeulue, local government investment in local enterprises undermined the health of the kabupaten’s budget.*** The investments cost Simeulue dearly: around Rp 18.5 billion in 2010 and as much as Rp 58.7 billion in 2011. Reports of the national Audit Board (BPK) on fiscal years 2008 and 2009 (the 2010 report was not available) indicate that more than 90% of local government investment was directed into a local government company (called PDKS), while the remainder was channeled into the Regional

Development Bank (BPD) of Aceh and the Regional Water Supply Authority. Up to 2007, Simeulue had invested Rp 125.5 billion in PDKS and Rp 11.6 billion in BPD Aceh. But own-source revenue (PAD) data under “income from local assets” indicates that revenue from these three local ventures only amounted to around Rp 4.9 billion in 2009 and Rp 2.2 billion in 2010. Furthermore, these investments resulted in unfinanced budget deficits (SiKPA) to the tune of Rp 11.6 billion in 2009 and Rp 17.6 billion in 2010. Indeed, in 2010, Simeulue had to borrow Rp 13 billion, repaying it in full the following year. All this is evidence enough of high costs piling up from local investments that yielded little concrete return.

**Table 4.4 Summary of Local Budgets of Simeulue, 2008-2011 (Rp Million)**

	2008	2009	2010	2011
Income	317 675	314 099	307 381	373 865
Revenue from Locally Owned Assets	4 522	4 918	2 247	3 000
Expenditure	290 690	349 409	307 810	321 766
<b>Surplus/Deficit (-)</b>	<b>26 985</b>	<b>(35 310)</b>	<b>(429)</b>	<b>52 099</b>
SiLPA from Preceding Year	44 533	49 519	(11 585)	-
Local Government Borrowing			13 000	47 898
<b>Financing Inflows</b>	<b>44 533</b>	<b>49 519</b>	<b>1 415</b>	<b>47 898</b>
Investment of Capital	22 000	25 794	18 500	58 658
Repayment of Principal Borrowed				13 000
Disbursement of Local Government Loans			63	
<b>Financing Outflows</b>	<b>22 000</b>	<b>25 794</b>	<b>18 563</b>	<b>71 658</b>
<b>Net Financing</b>	<b>22 533</b>	<b>23 725</b>	<b>(17 148)</b>	<b>(23 760)</b>
<b>Surplus for Current Budget Year</b>	<b>49 519</b>	<b>(11 585)</b>	<b>(17 577)</b>	<b>28 339</b>

Source: APBD-Rs for 2008-2010 and APBD-Ms 2011, processed by Seknas FITRA and TAF.

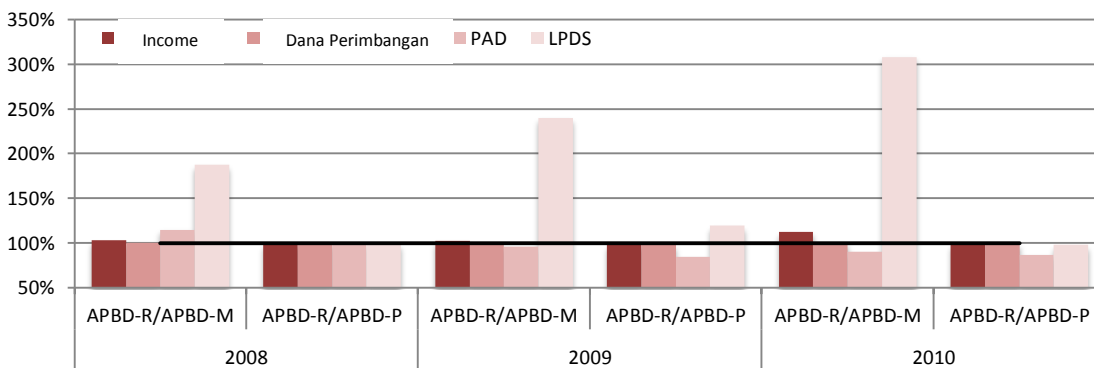
## 5. Analysis of Local Budget Planning, Revision and Realization

It is important to compare and contrast original budgets (APBD-Ms), mid-year revised budgets (APBD-Ps) and realized budgets (APBD-Rs) to assess the quality of budgetary processes and to identify the most strategic point for advocacy interventions. APBD-Ms are drawn up on the basis of relatively participative planning and discussion processed over a whole year before the start of the fiscal year in question. Nonetheless Seknas FITRA's *Local Budgets Study for 2010* (published in 2011) found that local governments studied often did not plan their budgets well. The blame for this situation cannot be ascribed to local governments alone; it is also caused by unpredictable additional fiscal transfers from the central government. Mid-year budget revision processes—theoretically completed in August–September—are important: it often involves significant changes leading to wide gaps between revised budget proposals and end-of-year budget outcomes (APBD-Rs). Another issue is the usually non-transparent and non-participative nature of budget revision processes. This chapter examines the extent to which budget outcomes reflect the content of original and revised budgets in 20 *Kinerja* regions studied.

### 5.1 Analysis of Planning and Revision of Budget Income

**Overall, budget income planning processes in the 20 *Kinerja* regions studied were reasonably good, except in 2010.** Average actual end-of-year budget income (APBD-R figures) in the 20 regions over three fiscal years surveyed (2008-10) was around 100%—more precisely between 99% and 103%—of original budget (APBD-M) projections and revised budget (APBD-P) targets. The only exception was 2010 when realized income in APBD-Rs was 113% of APBD-M targets.

**Graph 5.1 Comparison of Income Targets in APBD-Ms and APBD-Ps with Realized Income in APBD-Rs in 20 *Kinerja* Regions Studied (Averaged), 2008-2010**



Source: APBD-Ms, APBD-Ps and APBD-Rs for 2008-2010 in 20 *Kinerja* Regions, processed by Seknas FITRA and TAF.

Remarks: APBD-Ps for 2010 for Aceh Tenggara, Simeulue, Bengkayang and Sekadai were not available and are excluded from these calculations.

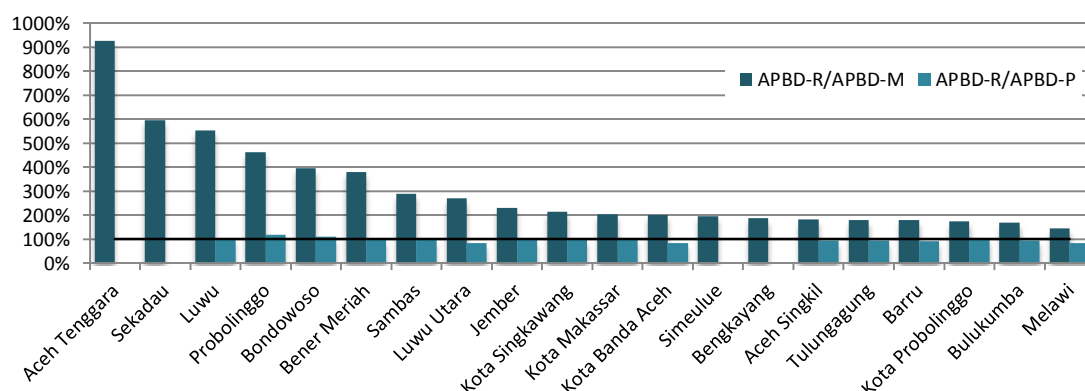
**These relatively accurate budget planning and revision processes were attributable to the regional fiscal balance transfer (*dana perimbangan*) system that contributed more than 75% of budget income in regions studied.** In the four fiscal years studied, realized budgets (APBD-Rs) showed that actual income from *dana perimbangan* was, on average, between 98% and 100% of amounts projected in original budgets (APBD-Ms); that showed that local governments had reliable information on income from *dana perimbangan* at both the budget planning and revision stages. Aceh Tenggara was alone among governments studied in significantly miscalculating its likely level of *dana perimbangan* receipts: in 2008 its realized income from this source was 89% of its mid-year revised budget (APBD-P) targets; in 2009, it was 84% of both APBD-M and APBD-P estimates; while in 2010 its estimating was quite good because it achieved 102% of its APBD-M projection.



**Estimation of levels of “other lawful local revenue” (LPDS) was quite a different story: clearly local governments studied were incapable of accurately estimating LPDS at the budget planning/ formulation stage—with unfortunate consequences, especially in 2010.** Graph 5.1 illustrates the problem: in 2008, on average across the 20 governments studied, realized (APBD-R) LPDS was 88% more than that projected in APBD-Ms, but 100% of revised budget (APBD-P) targets; in 2009-10, the situation was even worse: with realized LPDS being 240% (2009) and 308% (2010) higher than APBD-M targets. It must be said, however, that because LPDS contributed an average of just 8% of total local income in 2008 in regions studied, the ill-effects of this poor planning were not really felt until 2010 (when LPDS, on average, represented 23% of local income).

**In 2010, in twelve Kinerja regions studied, realized LPDS was more than double APBD-M projections; indeed in Aceh Tenggara it was nine times greater (Graph 5.2).** Melawi was closest to achieving 100% of APBD-M targets for LPDS, but even in its case end-of-year revenue was almost 50% more than original estimates. When compared to revised budget (APBD-P) projections, however, realized LPDS was closer to what was targeted: in most regions studied actual LPDS was approximately 10% of APBD-P targets; the exceptions were Luwu Utara and Melawi and the city of Banda Aceh—which realized less than 90% of APBD-P targets for LPDS—and Probolinggo and Bondowoso (which exceeded APBD-P targets). These findings indicate that local governments can make accurate estimates of LPDS only during mid-year budget revision processes.

**Graph 5.2 Actual End-of-Year LPDS Compared to Original Budget (APBD-M) and Mid-Year Revised Budget (APBD-P) Targets in 20 Kinerja Regions Studied, 2010**



Source: APBD-Ms, APBD-Ps and APBD-Rs for 2010 in 20 Kinerja Regions, processed by Seknas FITRA and TAF.

Remarks: APBD-Ps for 2010 for Aceh Tenggara, Simeulue, Bengkayang and Sekadau were not available (and thus APBD-R/APBD-P is not zero).

**The cause of this poor estimation of LPDS in original 2010 budgets (APBD-Ms) was the existence of “adjustment” funding for regional infrastructure development and its allocation only during mid-year budget revision processes.** In 2010, there were two adjustment funds in play in regions studied: the Fund to Strengthen Fiscal Decentralization to Speed up Regional Development (DPD-FPPD for short) and the Adjustment Fund for Regional Infrastructure (DPID). Funding under these two schemes—the outcome of “budget optimization” discussions within the House of Representatives and distributed for inclusion in mid-year revised budgets (APBD-Ps)—do not form part of *dana perimbangan* but are subsumed under LPDS. Thus, although these “adjustment” funds are helpful to regional infrastructure development, their allocation mid-year, at budget revision time, undermines local government budget planning processes.

**As for own-source revenue (PAD), it was evident that local governments studied grew more optimistic each year about their capacity to increase levels of PAD.** Although PAD contributed only modest amounts to budget income of regions studied—on average, less than 10% in 2010—it is important,

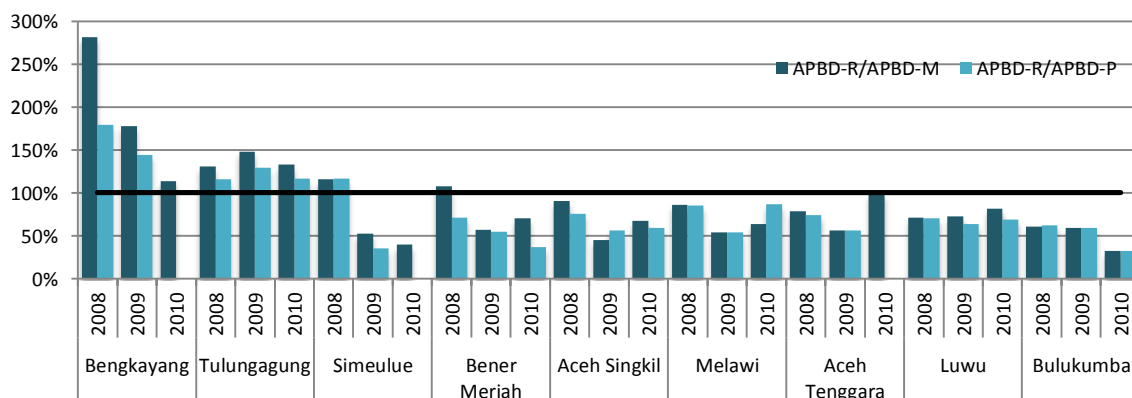


representing a source of funds 100% available for discretionary spending. Graph 5.1 paints the picture of their optimism: in 2008 average end-of-year (APBD-R) revenue from PAD across regions studied was 15% more than originally planned for in APBD-Ms; but the percentage declined steadily after that to just 90% in 2010. The same trend was apparent from a comparison between realized income (in APBD-Rs) and revised budget (APBD-P) targets: in 2008, on average, actual end-of-year PAD was exactly what was planned for in APBD-Ps—although huge variations occurred among regions: eight regions achieved PAD revenue of 10% above target, while eight others achieved less than 90% of revised targets—but declined after that to around 87% of revised budget targets in 2010.

**Two regions—Bengkayang and Tulungagung—tended to underestimate PAD, but by 2010 their estimates were almost exactly spot on.** But being spot on did not of itself demonstrate improvement. Thus the value of Bengkayang’s realized PAD (in APBD-Rs) declined from Rp 19.7 billion in 2008 to just Rp 11.7 billion in 2010 (current 2010 prices); during the same period its estimates of likely PAD revenue (in its APBD-Ms) only rose from Rp 7 billion (2008) to Rp 10.3 billion (2010). These figures throw up two issues for further study: why Bengkayang’s capacity to collect PAD declined over the period; and why it did not use actual PAD revenue for one year as a basis for estimating the following year’s likely level of PAD and modifying its budget accordingly. In Tulungagung, although the government consistently underestimated PAD revenue over the three years studied, it did in fact increase the nominal value of its estimated PAD receipts (in APBD-Ms) from Rp 45.2 billion in 2008 to Rp 71 billion in 2010; nonetheless, its realized PAD revenue exceeded projections by 15% over the period studied.

**By contrast, seven regions studied—none of them located in East Java—so overestimated their PAD that realized end-of-year PAD was less than 80% of both original (APBD-M) and revised (APBD-P) targets.** Among the seven were the four *Kinerja* kabupatens studied in Aceh, of which Simeulue was the worst performer: in 2009-10 it realized less than 60% of the PAD revenue targets set in its APBD-Ms and revised in its APBD-Ps. It estimated—one could say “consistently”—PAD revenue to be Rp 20 billion in both 2008 and 2009, even though actual PAD revenue in 2008 was just Rp 8.1 billion. Outside Aceh, Bulukumba was worst at estimating PAD: even though in 2008 and 2009 it only brought in Rp 20-21 billion worth of PAD, it persisted in setting a high target for PAD in 2010 (Rp 52.6 billion), but realized only Rp 17 billion of that target.

**Graph 5.3 Actual End-of-Year Local Own Source Revenue (PAD) Compared to Original Budget (APBD-M) and Revised Budget (APBD-P) Targets in Nine *Kinerja* Regions Studied, 2008-2010**



Source: APBD-Ms, APBD-Ps and APBD-Rs for 2008-2010 in 20 Kinerja Regions, processed by Seknas FITRA and TAF.

Remarks: APBD-Ps for 2010 for Aceh Tenggara, Simeulue and Bengkayang were not available (and thus APBD-R/APBD-P is not zero).

## 5.2 Analysis of Planning and Revision of Budget Expenditure

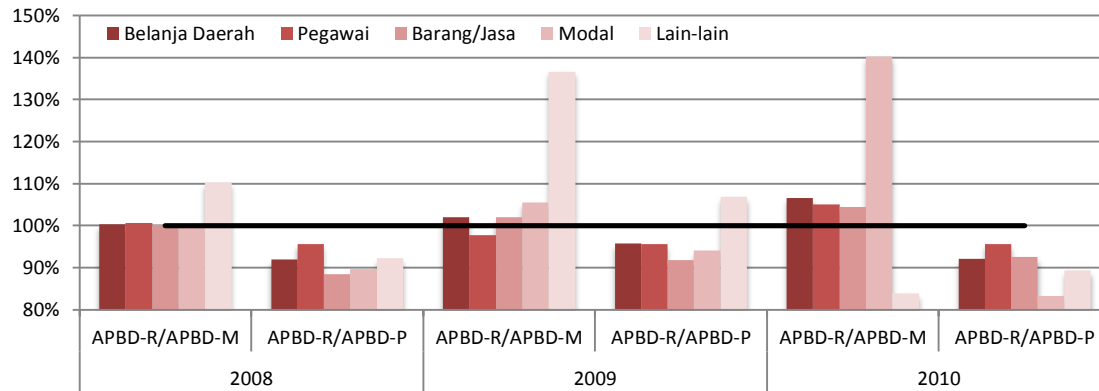
**Overall, the quality of processes around planning and revision of budget expenditure declined over the period studied.** Graph 5.4 tells the story: in 2008, the 20 *Kinerja* regions surveyed managed, on average, to spend 100% of the expenditure they included in their original budgets (APBD-Ms), but by 2010 they were spending 7% more than APBD-M targets. Comparison between budget outcomes (APBD-Rs) and revised budget (APBD-P) targets reveals an expenditure realization rate of between 92% (2008 and 2010) and 96% in 2009.

**If we look at particular areas of expenditure, we find that overall actual spending on civil service costs approximated 100% of both original (APBD-M) and revised (APBD-P) targets.** To be more precise, average civil service expenditure by each of the 20 *Kinerja* regions studied was between 95% and 105% of APBD-M and APBD-P targets over the three years studied. Just one region—Bengkayang—was a stand-out: in 2008, it spent just 80% of its original and revised civil service expenditure targets, though by 2010 it had managed to spend 96% of APBD-M targets.

**Governments' planning for expenditure on goods & services produced good results:** although the 20 governments studied, on average, only achieved 88% of revised budget (APBD-P) targets for spending on goods & services in 2008, in 2009-10 they spent between 95% and 105% of targeted amounts (both APBD-M and APBD-P). Barru was the worst performer in this area: in 2008 it spent 93% of its original (APBD-M) goods & services budget, but its performance deteriorated in 2010 when it spent just 67% of its original budget; its performance in terms of revised budget (APBD-P) targets was equally mixed: in 2008 and 2010 it met just 74% of its revised targets and in 2009 did rather better (82% of revised targets achieved).

**Only a small proportion of local government budgets were left over for "other expenditure"—social aid, grants, interest payments, subsidies and financial aid to villages—after deduction of public service costs, capital expenditure and spending on goods & services. Even so, planning for this "other expenditure" tended to be poor.** Graph 5.4 shows that, in 2008 and 2009, "other" expenditure significantly exceeded original (APBD-M) spending targets; but in 2010 it fell well short of both APBD-M and APBD-P targets. The explanation seems to be that in 2008 and 2009 additional funding for social aid and grants was injected into local budgets during mid-year budget revision (APBD-P) processes. As a result, at year's end in 2008 and 2009, no less than 12 regions studied spent 10% more on "other items" than they had budgeted for in original budgets (APBD-Ms); as for revised budget (APBD-P) targets, only one region overspent its revised budget target by 10% or more in 2008, and three did so in 2009. So indications are that significant extra funding for social aid and grants was injected into regional budgets in 2008-09.

**Graph 5.4 Actual End-of-Year (APBD-R) Local Government Expenditure Compared to Original Budget (APBD-M) and Revised Budget (APBD-P) Expenditure Targets in 20 Kinerja Regions, 2008-2010**



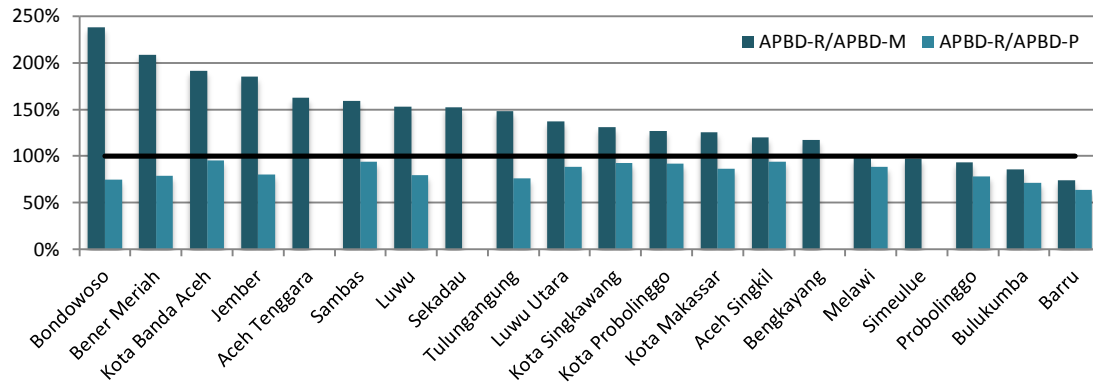
Source: APBD-Ms, APBD-Ps and APBD-Rs for 2008-2010 in 20 Kinerja Regions, processed by Seknas FITRA and TAF.

Remarks: APBD-Ps for 2010 for Aceh Tenggara, Simeulue, Bengkayang and Sekadau were not available and are excluded from this calculation. "Belanja Daerah"=local budget expenditure; "Pegawai"=civil servants; "Barang/Jasa"=goods & services; "Modal"=capital items; "Lain-lain"=other items

**The quality of planning for capital expenditure declined year by year.** On average, in 2008, regions studied met 100% exactly of their original (APBD-M) capital expenditure targets—although actual expenditure in eleven regions fell outside the “good” range of 90%-110%; in the next two years average budget outcomes were 140% of APBD-M targets—but once again seventeen regions fell outside the “good” range. In terms of achievement of revised budget (APBD-P) targets, average end-of-year outcomes were 90% in 2008, 94% in 2009, but only 83% in 2010; in 2008 the performance of only nine regions was outside the “good” range, but in 2010 eleven performed outside that range—the performance of four other governments was unknown because their APBD-Ps were not available.

**In 2010, most regions studied underestimated capital expenditure in their original budgets (APBD-M) and then increased revised budget (APBD-P) allocations to unattainable levels.** Thus in fifteen regions average realization of 2010 APBD-M capital expenditure targets was 115%; but those same governments could only manage to achieve 95% of revised (APBD-P) expenditure levels. Bondowoso and Bener Meriah were extreme examples of what happened: the former allocated Rp 47.6 billion for capital expenditure in its 2010 APBD-M and then proceeded to increase its APBD-P spending target by more than 250% to Rp 151.8; the corresponding figures for Bener Meriah, also in 2010, were Rp 50.6 billion (APBD-M allocation), increased (again by more than 250%) to Rp 134.6 billion in its APBD-P. But both governments managed to spend only 80% of their hiked up APBD-P allocations. It is probable that the extra funding injected into these revised budgets came from “other lawful local income” (LPDS).

**Graph 5.5 Actual End-of-Year (APBD-R) Capital Expenditure Compared to Original Budget (APBD-M) and Revised Budget (APBD-P) Expenditure Targets in 20 Kinerja Regions, 2010**



Source: APBD-Ms, APBD-Ps and APBD-Rs for 2008-2010 in 20 Kinerja Regions, processed by Seknas FITRA and TAF.

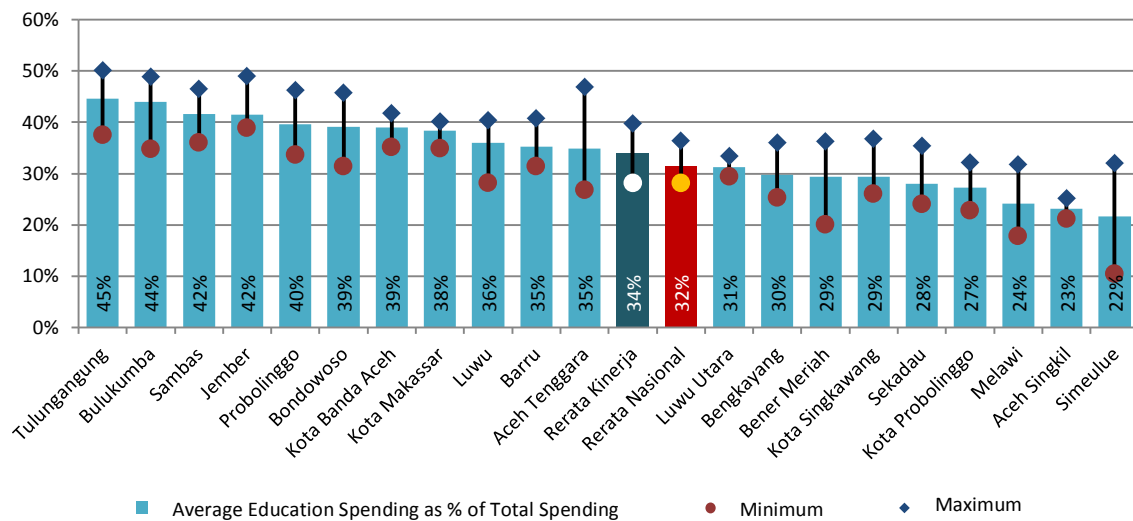
Remarks: APBD-Ps for 2010 for Aceh Tenggara, Simeulue, Bengkayang and Sekadau were not available (and thus APBD-R/APBD-P is not zero).

## 6. Analysis of Education-Related Budgets

### 6.1 General Analysis of Expenditure on Education

*All Kinerja governments studied met the constitutional requirement that 20% of a region's total expenditure budget be spent on education.* In fact, the average allocation for education in the local budgets studied was 34%—higher than the national average of 32%. Over the four years studied the proportion of local budget expenditure dedicated to education increased from 28% in 2008 to 39% in 2011; indeed, the four kabupatens studied in East Java dedicated between 40% and 45% of their total budgetary expenditure to education. Kabupatens with lower levels of allocations for education—on average 25%—were Simeulue, and Aceh Singkil (both in Aceh) and Melawi (West Kalimantan). Two governments—Melawi and Simeulue—allocated less than the 20% minimum in 2008, but both exceeded it in the three succeeding years.

**Graph 6.1 Spending on Education as a Proportion of Local Expenditure, 2008-2011**

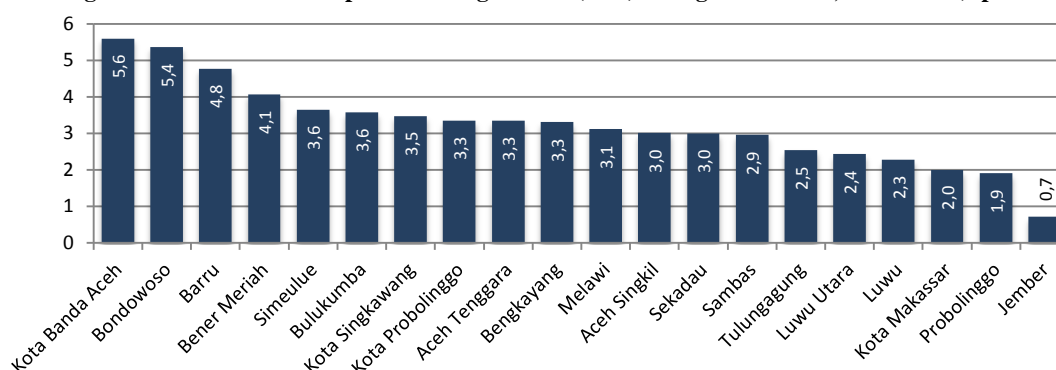


Source: APBD data base of D-G for Regional Fiscal Balance (DJPK) MoF, processed by Seknas FITRA and TAF.

Remarks: Based on APBD-MS for all regions studied.

*Dividing total education expenditure in the Kinerja regions studied by the number of children at school (aged between 7 and 18) reveals that average education spending across regions for the period studied was Rp 3.2 million/child/year.* Nonetheless, there were significant differences among regions: Bondowoso and the city of Banda Aceh averaged allocations of Rp 5 million/child/year, while Jember managed only Rp 0.7 million/child/year. Allocations for education were quite high in the provinces of Aceh and West Kalimantan: not one of the ten regions studied there allocated less than Rp 2.9 million/child/year.

**Graph 6.2 Average Education Allocations per School Aged child (7-18) in Regions Studied, 2008-2011 (Rp Million/Child)**

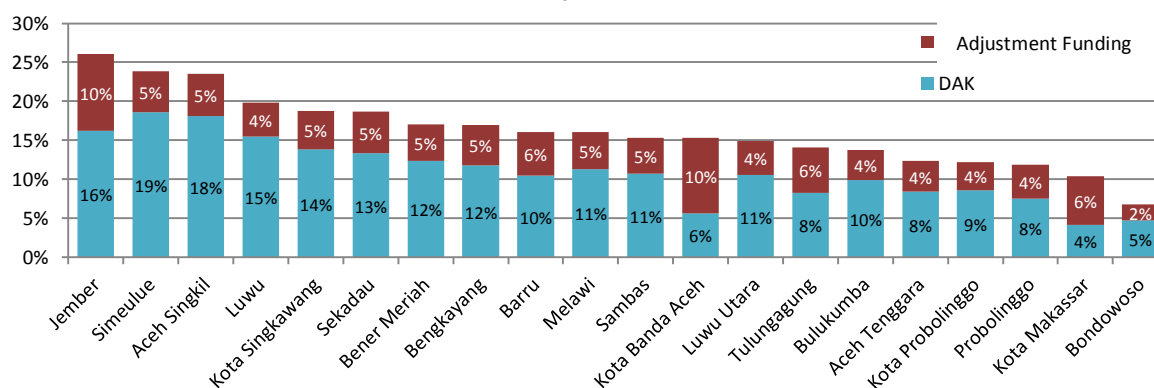


Source: APBD data base of D-G for Regional Fiscal Balance (DJPK) MoF and 2010 Population Census (BPS), processed by Seknas FITRA and TAF.

**Contributions made to local education budgets by the Special Allocation Fund (DAK) and “adjustment” fund programs<sup>8</sup> were quite considerable in Kinerja regions studied.** In 2008 the DAK’s education component amounted to an average of 15% of education expenditure in regions studies, but declined to just 8% in 2010. But “adjustment” funding helped compensate for that decline: in 2008 only three of the *Kinerja* regions surveyed received such funding—Bengkayang (Rp 21.16 billion), Sambas (Rp 1.99 billion) and Barru (Rp 4.22 billion). “Adjustment” funding is normally transferred to regions during mid-year budget revision processes: on that basis, based on 2011 APBD-M figures, six regions under study recorded meaningful levels of “adjustment” funding.

**In 2009 and 2010 all Kinerja regions studied received quite significant amounts of “adjustment” funding.** Graph 6.3 provides the details: an average contribution of 5% of local education budgets across regions studied; indeed, in Jember and the city of Banda Aceh the contribution was as high as 10% over the two years. By contrast, Bondowoso which also received DAK funding—albeit at a minimal level (an average of 5% of the education funding needs)—received just 2% of budget support from “adjustment” funding.

**Graph 6.3 Average Contributions of DAK and “Adjustment” Funding to Educational Expenditure, 2009-2010**



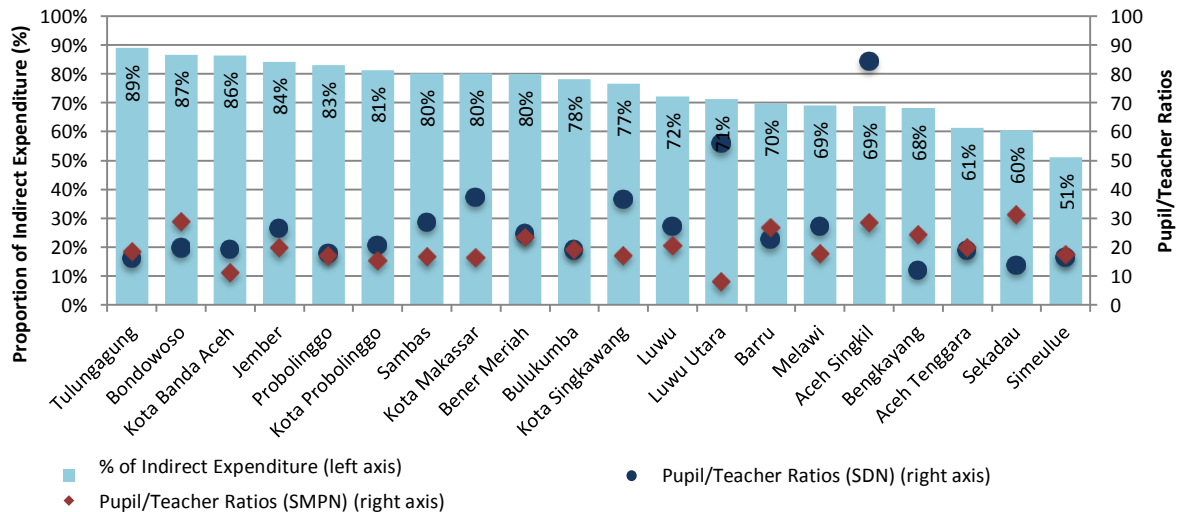
Source: APBDs for 2008-2011, Directorate-General of Regional Fiscal Balance MoF and Technical Team Coordinating DAK Implementation (TKP2E-DAK) (Bappenas), process by Seknas-FITRA.

<sup>8</sup> “Adjustment” funds include Fund for Infrastructure and Public Facilities (2008) (PMK No. 81/PMK.07/2008); Fund to Strengthen Fiscal Decentralization to Speed up Regional Development (2009 and 2010) (PMK No. 42/PMK.07/2009 and PMK No. 118/PMK.07/2010); Additional Income for Teachers (2009 and 2010) (PMK No. 223/PMK.07/2009 and PMK No. 119/PMK.07/2010); Regional Incentives Fund (2010 and 2011) (PMK No. 198/PMK.07/2009 and PMK No. 61/PMK.07/2011); Fund to Strengthen Local Infrastructure and Public Facilities (2010), Fund to Accelerate Development of Local Infrastructure (2011) (PMK No. 140/PMK.07/2011); and Local Infrastructure Adjustment Fund (2011) (PMK No. 25/PMK.07/2011).

## 6.2 Analysis of Components of Education Expenditure and Pupil/Teacher Ratios

**All *Kinerja* governments studied allocated more than half of their education budgets for “indirect expenditure” on costs associated with the education sector’s civil service.** Indeed, over the four years studied, an average of 75% of education budgets of governments studied was spent in that way. In the case of the five governments surveyed in East Java, indirect expenditure topped 80% of total education budgets; while the percentage in six kabupatens in Aceh and West Kalimantan was below 70%.

**Graph 6.4 Indirect Expenditure as a Proportion of Total Education Budget (2008-11) and Pupil/Teacher (Permanent) Ratios in State Elementary Schools (SDN) and State Junior secondary schools (SMPN) (2008-2009)**



Source: APBD data base of D-G for Regional Fiscal Balance (DJPB) MoF and Basic Education Statistics for 2008/09, processed by Seknas FITRA and TAF.

**High levels of indirect expenditure did not always result in low pupil/(permanent)teacher ratios.** The average pupil/teacher ratio across *Kinerja* regions studied was 32:1 in State primary schools (SDNs) and 26:1 in State junior high schools (SMPNs). All five governments surveyed in East Java maintained a good pupil/teacher ratio of less than 30:1; in Simeulue—with relatively low levels of indirect expenditure—the ratio was 16:1 (SDNs) and 17:1 (SMPNs). The cities of Makassar and Singkawang and the kabupatens of Luwu Utara and Aceh Singkil had the highest pupil/teacher ratios of the areas studied and at the same time spent 70% and 80% of their education budgets on indirect expenditure.

**Not all indirect expenditure was used to pay teachers: quite large amounts were also expended on permanent administrative staff.** The ratio between permanent teachers and permanent administrative support staff varied widely across regions studied. The average teacher/administrator ratio in *Kinerja* regions studied was 22:1 (SDNs) and 9:1 (SMPNs). But five regions in South Sulawesi as well as Sambas and the city of Probolinggo had SDN teacher/administrator ratios of less than 15:1. As for SMPNs, the ratio was kept below 15:1 in Aceh Singkil, Aceh Tenggara, Probolinggo, Bulukumba and Barru, and the city of Probolinggo.

**The unevenness of pupil/teacher ratios points to a problem in the distribution of teachers rather than a teacher shortage.** Within the same province—Aceh, for example—there was an overall pupil/(permanent)teacher ratio of 37:1 in SMPNs and 98:1 in SDNs; but in the city of Banda Aceh the corresponding ratios are 12:1 (SMPNs) and 20:1 (SDNs). Although the cause of this imbalance was not researched in this study, it is quite possible that in both kabupaten and city regions teachers are unevenly distributed between capital city areas and more remote areas. In addition, there were cases of skewed distribution of teachers between levels of schooling; Luwu Utara was an extreme example of this: it had a ratio of just 8:1 in SMPNs (i.e. a surplus of teachers) but 74:1 in SDNs (a clear shortage of teachers).

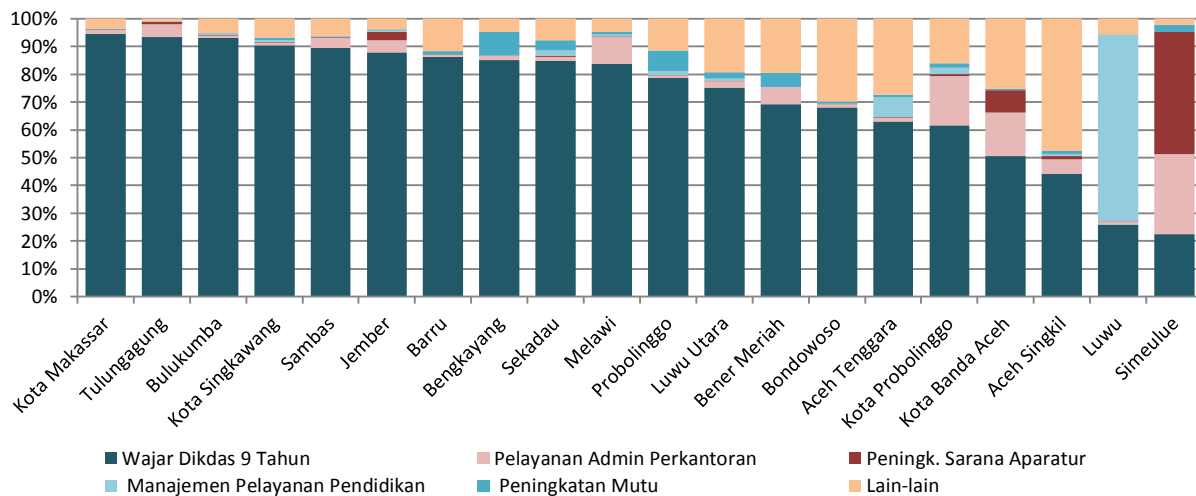


### 6.3 Analysis of Expenditure on Educational Programs

***With the sole exception of Luwu, Kinerja local governments studied channeled over half of their “direct expenditure” on education into support for the national 9 Years of Obligatory Education Program.*** Most of the money—deriving mainly from DAK and “adjustment” funds—was directed into development or rehabilitation of educational infrastructure. School Operational Assistance (BOS)—included among fiscal balance transfers (*dana perimbangan*) as of 2011—were an additional source of money to be spent on the 9 Years of Obligatory Education Program. The proportion of direct expenditure by regions covered in our study in support of this program did not depend on their location (province-wise) or local characteristics. Thus in 2011 the city of Makassar—hardly in need any longer of large amounts of funding for educational infrastructure—allocated 95% of its direct education budget to support the 9 Years of Obligatory Education Program; while in the same year Aceh Singkil, Luwu and Simeulue—all relatively isolated regions—allocated less than 50% of their direct education expenditure budget for that purpose.

***Two national programs—the National Education Quality Improvement Program and the Management of Educational Services Program—received significant levels of funding from several regions studied.*** The former—a priority national development program—only attracted funding support of a little over 5% of direct education expenditure in Bengkayang (8%) and Probolinggo (7%); and in support of the other program (management of education service) Luwu allocated 67% of its direct expenditure budget and Aceh Tenggara 7%.

**Graph 6.5 Components of Expenditure on Education Programs, 2011**



Source: APBD data base (for 2008-11) of D-G for Regional Fiscal Balance (DJPK) MoF, processed by Seknas FITRA and TAF.

Remarks: **Wajar Dikdas 9 Tahun**=9 Years of Obligatory Education Program; **Manajemen Pelayanan Pendidikan**= Management of Educational Services Program; **Pelayanan Admin Perkantoran**=Office Administration Services; **Peningkatan Mutu**=Education Quality Improvement Program; **Peningk. Sarana Aparatur**=Enhancement of government facilities; **Lain-lain**= Other

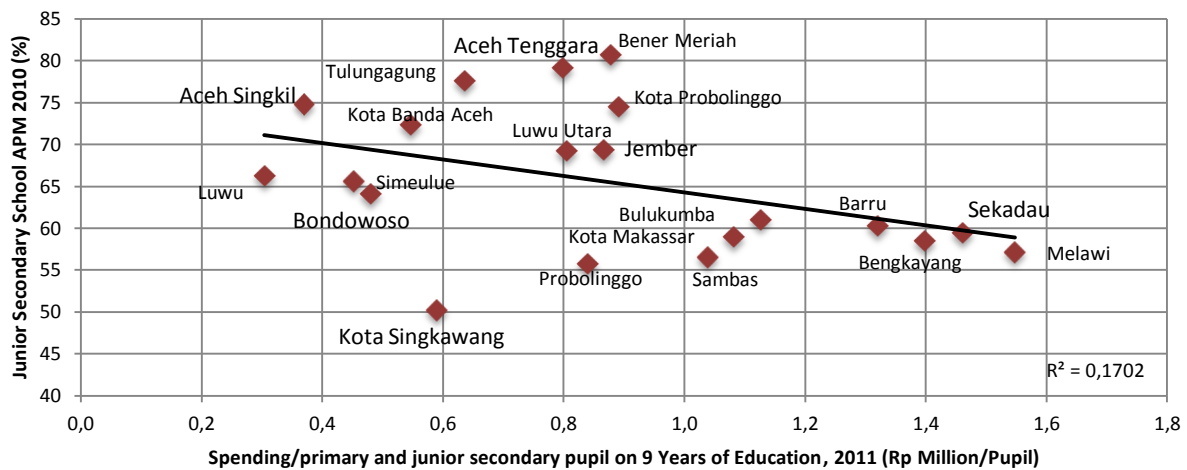
***Quite a few regions studied allocated their direct expenditure budget for programs making no direct contribution to enhancing the accessibility or quality of education.*** Programs like “office administration services” and “enhancement of government facilities” are certainly needed to guarantee that educational services are better managed. But, given that direct expenditure funds represent, on average, just 25% of total education budgets, it is appropriate to ask how much of that 25% should be spent in such programs. Some regions studied allocated sizeable amounts for these two programs, in particular, Simeulue (73%) and the cities of Banda Aceh (24%) and Probolinggo (18%).



## 6.4 Analysis of Expenditure on the 9 Years of Obligatory Education Program

***Increases in local government expenditure per pupil on the 9 Years of Obligatory Education Program had no effect on net school participation rates (termed APM in Indonesia).*** Indeed, there was a tendency—albeit statistically insignificant—for regions allocating large amounts per pupil to the 9 Years of Obligatory Education Program to have a low APM in their junior secondary schools (SMPNs). Several regions studied in Aceh and East Java—Bondowoso, Simeulue and Probolinggo were exceptions—that allocated less than Rp 1 million/pupil to of the 9 Years of Obligatory Education Program had relatively high SMPN AMPs (70% or more). At the same time, three kabupatens in West Kalimantan—Bengkayang, Sekadau and Melawi—that allocated large amounts to the program (more than Rp 1.2 million/pupil), only had SMPN APMs of between 55% and 60%.

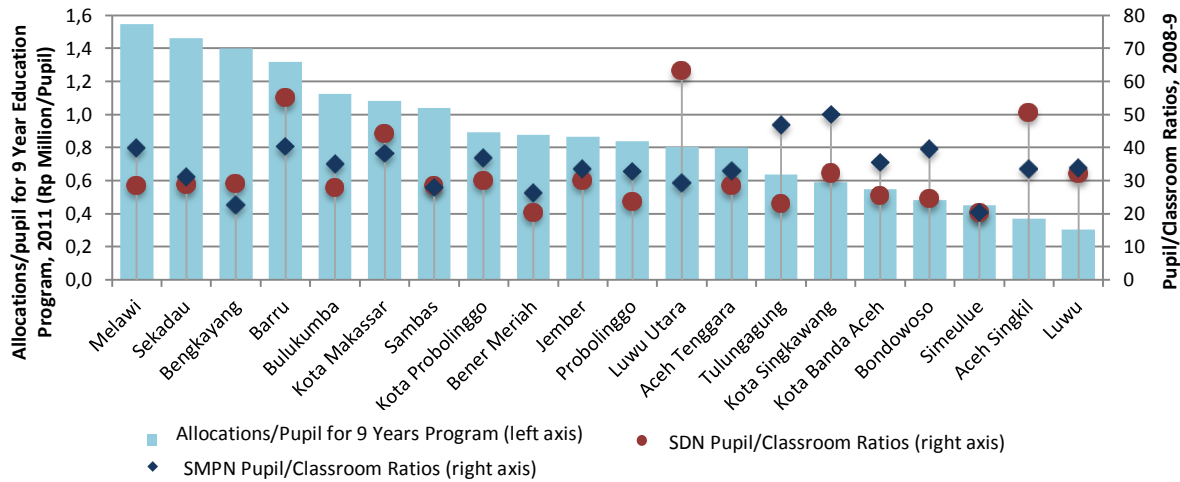
**Graph 6.6 Expenditure per Pupil on 9 Years of Obligatory Education Program Compared to Net Junior State Secondary School (SMPN) Participation Rates (2010)**



Source: in 2008-11 APBD data base of D-G for Regional Fiscal Balance (DJPK) MoF, Basic Education Statistics for 2008/09 (Ministry of National Education) and National Socioeconomic Surveys (Susenas) (BPS) for 2008-11, processed by Seknas FITRA and TAF.

***Nor did high levels of support for the 9 Years of Obligatory Education Program have the effect of lowering the ratio between pupils and classroom space.*** According to data for 2010, *Kinerja* regions studied had an average ratio of 32/classroom (primary schools (SDNs)) and 34/classroom (junior secondary schools (SMPNs)). Of the regions with high pupil/classroom ratios—namely, Barru (in both its SDNs and SMPNs); Luwu Utara, Aceh Singkil and the city of Makassar (in SDNs specifically) ; and Tulungagung and the city of Singkawang (in their SMPNs)—Barru contributed significantly (topping Rp 1.3 million/pupil/year) to the 9 Years of Obligatory Education Program; while Aceh Singkil was one of the smallest contributions (just Rp 0.4 million/pupil/year).

**Graph 6.7 Budget Allocations (in 2011) the 9 Years of Obligatory Education Program per State Primary School (SDN) and State Junior Secondary (SMPN) pupil to Compared to Pupil/Classroom in SDNs and SMPNs (in 2008-09)**



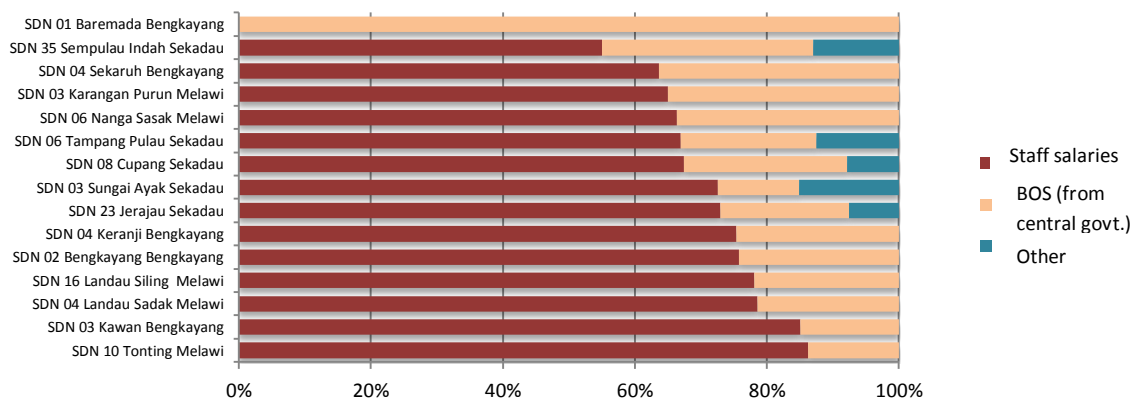
Source: in 2008-11 APBD data base of D-G for Regional Fiscal Balance (DJPK) MoF and Basic Education Statistics for 2008/09 (Ministry of National Education), processed by Seknas FITRA and TAF.

## 6.5 Analysis of Original Budgets and Realized Budget Expenditure for Schools

*This analysis covers fifteen State primary schools (SDN) in three of the four kabupatens studied in West Kalimantan. Five were selected in each kabupaten—Melawi, Bengkayang and Sekadai—with data for 2011 being analyzed.*

*Civil service costs represented the major portion of both income and spending in almost all the schools studied. Leaving aside State Primary School (SDN) 01 in Bengkayang—where civil service costs were not included in the school budget—72% of total income in the other 14 schools was, on average, earmarked for salaries of civil servants; indeed, in two—SDN 03 Kawan (Bengkayang) and SDN 10 Tonting (Melawi)—the percentage was between 85% and 86%.*

**Graph 6.8 Components of Income of 15 Primary Schools (SND) in Three Kabupatens in West Kalimantan, 2011 (%)**



Source: Original Budget and Actual Expenditure of Funding in 2011 for 15 schools in three kabupatens in West Kalimantan, processed by Seknas FITRA dan TAF  
Remarks: BOS=School Operational Assistance

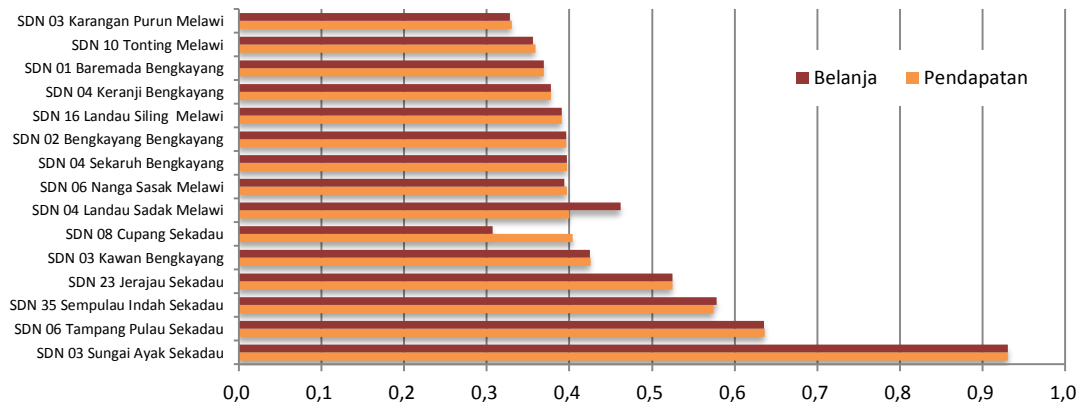
*Except for five schools surveyed in Sekadai, central government-provided School Operational Assistance (BOS for short) was the only source of income not earmarked for staff salaries. BOS was*

introduced in 2005 to speed up implementation of the 9 Years of Obligatory Education; in 2009 its orientation moved away from enhancing access to schooling to providing better quality education.<sup>9</sup> As for the schools in Sekadau, they had quite significant sources of income—ranging from 8% to 15% of total income—in addition to BOS and staff salaries funding; the kabupaten spent this extra income on a local version of the BOS scheme, as well as on staff welfare, certification and other items.

**Not counting staff salaries, most schools studied had income of between Rp 33 000/pupil and Rp 66 000/pupil.** Overall, the five schools in Sekadau had a higher level of income than the ten schools surveyed in the other two kabupatens. One of Sekadau's schools—SDN 03 Sungai Ayak—had a much higher level of income (Rp 93 000/pupil) than all the others.

**All but two schools had expenditure levels almost equivalent to their income.** One school in Melawi (SDN Landak Sadau) spent less than its income to the tune of Rp 7.1 million, leaving a surplus of Rp 61 500/pupil. By contrast, another school (SDN 08 Cupang Sekadau) underspent its income by Rp 24 million—a surplus of Rp 97 200/pupil. As for the rest, six schools managed to run overall budgets in surplus or deficit by less than Rp 3 400/pupil; seven others had balanced budgets.

**Graph 6.9 School Income and Expenditure (excl. Civil Service Salaries) in 15 Schools in 3 Kabupatens in West Kalimantan, 2011 (Rp Million/Pupil; Current Prices)**

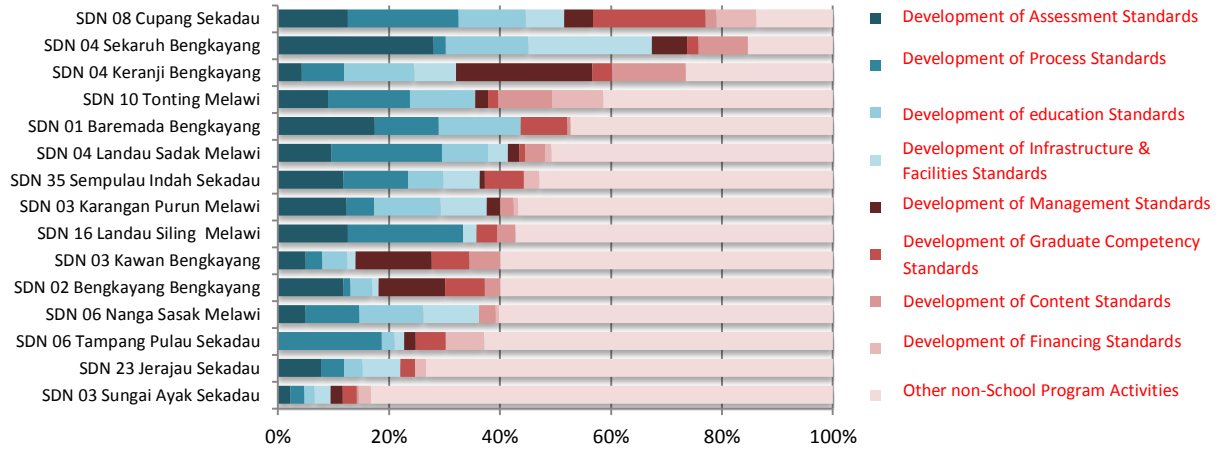


Source: Original Budget and Actual Expenditure of Funding in 2011 for 15 schools in three kabupatens in West Kalimantan, processed by Seknas FITRA dan TAF  
Remarks: Belanja=expenditure; Pendapatan=income

**Except for the five schools in Melawi, the schools surveyed did not have uniform programs for expenditure of non-salary income.** Melawi's five schools all allocated such money to identical fields of activity: development of standards for content, process, competency of graduates, management, education, financing, infrastructure and facilities, and other non-school programs; each program was spelt out in terms of activities to be funded. By contrast, schools in the other two kabupatens had dissimilar programs: some categorized activities to be funded under economic headings (civil servants, goods/services, capital items and other), while others compiled their program by activity only. This situation indicates that good accounting standards are absent in school budgeting; and that makes it difficult to compile budget reports and to assess how effectively school budgets are being spent.

<sup>9</sup> See <http://bos.kenendikbud.go.id/home/about>, accessed on 1 May 2012

**Graph 6.10 Components of Non-Salary School Income in 15 Schools in 3 Kabupatens in West Kalimantan, 2011, Current Prices (%)**



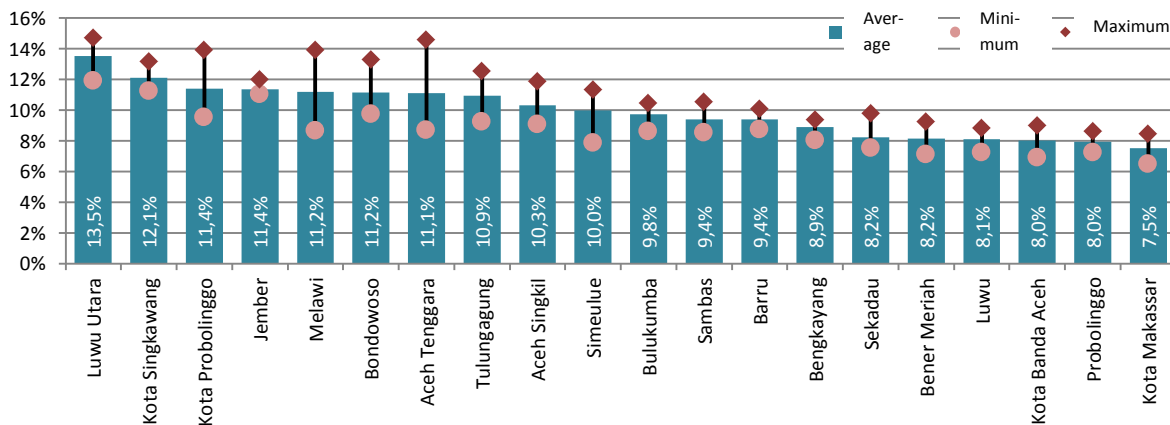
Source: Original Budget and Actual Expenditure of Funding in 2011 for 15 schools in three kabupatens in West Kalimantan, processed by Seknas FITRA dan TAF

## 7. Analysis of Health Budgets

### 7.1 Analysis of Expenditure on Health

*Analysis of original budgets (APBD-Ms) for 2008-11 revealed that more than half of the twenty Kinerja regions studied allocated less than 10% to health over the period.* And that was despite provisions of Law No. 36/2009 concerning *Health* that require local governments to allocate no less than 10% of their budget expenditure to health programs (over and above civil service costs). Indeed, even with civil service costs added in, eleven regions studied did not manage to reach an average 10% pa over the period (graph 7.1); worse than that, six of the eleven—Bengkayang, Bener Meriah, Luwu, Probolinggo and the cities of Banda Aceh and Makassar— did not once reach 10%. Consistently good performers were Luwu Utara, Jember and the city of Singkawang: they consistently surpassed the 10% minimum over the entire period studied.

**Graph 7.1 Proportion of Proposed Expenditure in Original Budgets (APBD-Ms) Earmarked for Health Programs, 2008-11 (%)**



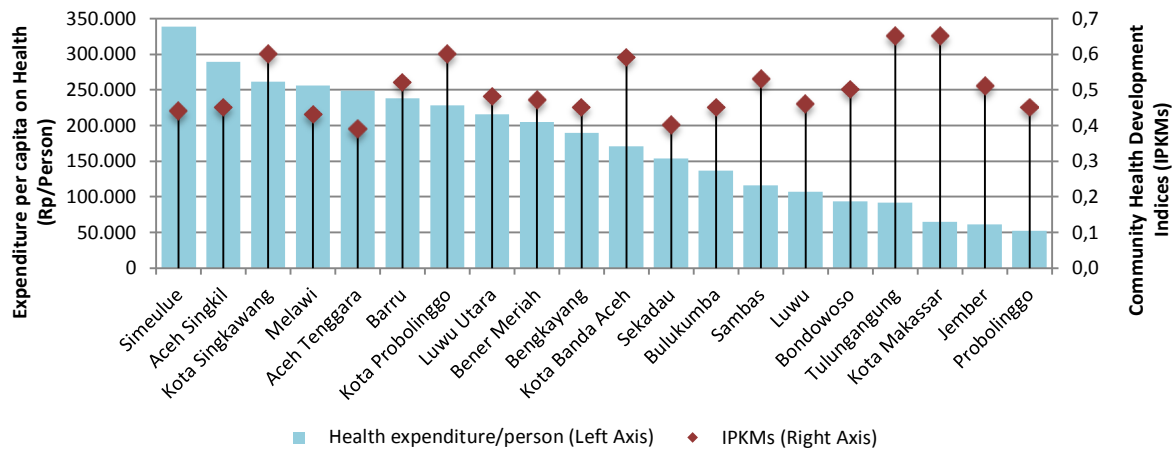
Source: in 2008-11 APBD data base of D-G for Regional Fiscal Balance (DJPK) MoF, processed by Seknas FITRA

*Overall, health expenditure stagnated over the period studied (2008-11); indeed in 2011 there were still eleven regions that had not managed to reach the 10% minimum health spending threshold.* The overall average level of expenditure on health in regions studied rose slightly from 9.3% 2008 to 10.2% in 2009; it did not vary much over the next two years (2010-11), hovering around 10.1%. Nevertheless, in 2011, eleven regions studied—four kabupatens in West Kalimantan; Aceh Singkil, Bener Meriah and the city of Banda Aceh in Aceh; Luwu and the city of Makassar in South Sulawesi; and Probolinggo in East Java—unfailingly allocated less than the prescribed minimum of 10% for health programs.

*When regions' populations were taken into account, we found that expenditure on health per local inhabitant varied widely across regions.* The four kabupatens studied in East Java—Tulungagung, Bondowoso, Jember and Probolinggo—and the city of Makassar had particularly low levels of health expenditure per person: an average of just Rp 100 000 over 2008-11. Of those regions, Probolinggo and the city of Makassar had very low health allocation levels (graph 7.1) and thus it is very important that they both increase the proportion of their budgets spent on health. By contrast, Simeulue and Aceh Singkil (in Aceh)—both with smaller populations—managed to spend Rp 280 000/person/year on health.

**Several regions studied had both low Community Health Development Indices (IPKM for short)<sup>10</sup> and low levels of expenditure on health programs.** These included Sekadau, Bulukumba, Luwu and Probolinggo: they all had IPKMs below 0.5% but, despite that, their governments showed no real commitment to increasing levels of expenditure per person on health—averaging less than Rp 200 000/person/year (below the prescribed minimum level of 10%). By contrast four other kabupatens, also with IPKMs below 0.5%—Simeulue, Aceh Singkil, Melawi and Aceh Tenggara—spent relatively large amounts per capita on health (a minimum of around Rp 250 000/person/year).

**Graph 7.2 Average Expenditure/Person on Health (2008-2011) Compared to 2009 Community Health Development Indices**



Source: APBD data base of D-G for Regional Fiscal Balance (DJPK) MoF, 2010 Population Census (BPS) and Community Health Development Indices (IPKMs) for 2009 (National Team for Accelerating Poverty Reduction (TNP2K)), processed by Seknas FITRA

**In contrast to spending on education, the ratio between “direct expenditure” and “indirect expenditure” on health was more balanced in regions studied.** Data for 2008-11 shows that average direct expenditure on health across regions surveyed was 54%, with the remainder being spent “indirectly” on salaries of health sector staff (including medical staff). In this sense, not one of the *Kinerja* regions studied fully met the legal requirement of Law No. 36/2009 that regions allocate at least 10% of their budget for *direct* expenditure on health. The four regions allocating more than 50% of their health budgets to pay salaries of health sector workers—the city of Banda Aceh, Luwu, Bener Meriah and the city of Makassar—spent a relatively small proportion of their overall budget expenditure on health programs (graph 7.1).

<sup>10</sup> An IPKM is a composite indicator formulated on the basis of 24 health indicators based on the following community-based health data: Basic Health Research (Riskesdas for short in Indonesian), National Socio-Economic Survey (Susenas) and Village Potency Survey (Podes for short). IPKMs are used to measure developmental progress in health and to help make health sector interventions more effective.

**Graph 7.3 Average Proportion of Direct and Indirect Expenditure, Original Budgets (APBD-Ms) 2008-2011**



Source: APBD data base of D-G for Regional Fiscal Balance (DJPK) MoF, processed by Seknas FITRA

**The coverage of local government health services—in terms of both medical staff per person and doctors per km<sup>2</sup>—varied greatly across regions studied.** Thus, in Bangkayang, Sambas, Sekadau, Luwu and Luwu Utara each doctor (whether generalist or specialist) had, on average, to cover 10 000 people and an area of 120 km<sup>2</sup>. Sekadau was most hard pressed in terms of these numbers, with just three doctors (no specialists) in 2009 each of whom had to cover 60 000 people and 1 800 km<sup>2</sup>. In Probolinggo, each doctor notionally covered a quite small area, but had to “look after” 15 000. The best off regions in our study were the cities of Banda Aceh and Makassar where one doctor notionally covered less than 2 000 people and less than 0.5 km<sup>2</sup>.

**Analysis of the data for three of the provinces studied—South Sulawesi, East Java and Aceh, but not West Kalimantan—revealed that South Sulawesi was best off in terms of numbers of nurses/midwives per person and per km<sup>2</sup>.** In general, there tended to be similar coverage by nurses/midwives across regions studied in the same province. In South Sulawesi—except for the city of Makassar—the average nurse/midwife to patient ratio was 1:1 800 and nurse/midwife per geographical area was 1:13 km<sup>2</sup>; in Aceh the ratio was 1:1 000, albeit across a relatively extensive geographical area; in East Java the notional area covered by each nurse/midwife was small, but their notional clientele was relatively high.

**Table 7.1 Ratios between Doctors/Nurses/Midwives and Population and Geographical Area in Select Regions**

Kabupaten/City	No. of People per Medical Practitioner	No. of People per Nurse/Midwife	Area Covered by Each Medical Practitioner (km <sup>2</sup> )	Area Covered by Each Nurse/Midwife (km <sup>2</sup> )
Aceh Singkil	3 525	402	75.41	8.61
Aceh Tenggara	3 726	380	88.15	8.98
Bener Meriah	5 540	495	85.85	7.68
Simeulue	2 361	326	62.50	8.64
Kota Banda Aceh	1 568	971	0.43	0.27
Tulungagung	4 669	1 183	5.34	1.35
Jember	6 001	1 564	8.42	2.20
Bondowoso	7 593	1 085	16.08	2.30
Probolinggo	15 428	1 853	23.90	2.87
Kota Probolinggo	2 893	611	0.69	0.15
Bengkayang	21 479	No Data Available	539.63	No Data Available
Sambas	12 100	No Data Available	155.99	No Data Available
Sekadau	60 459	No Data Available	1 814.77	No Data Available



Kabupaten/City	No. of People per Medical Practitioner	No. of People per Nurse/Midwife	Area Covered by Each Medical Practitioner (km <sup>2</sup> )	Area Covered by Each Nurse/Midwife (km <sup>2</sup> )
Melawi	8 163	No Data Available	483.67	No Data Available
Kota Singkawang	5 646	No Data Available	15.27	No Data Available
Bulukumba	9 399	4,486	27.49	13.12
Barru	7 900	1,864	55.94	13.20
Luwu	13 315	2,219	120.01	20.00
Luwu Utara	10 272	2,591	267.95	67.59
Kota Makassar	1 815	3,600	0.24	0.47

Source: Data Bank of Ministry of Health (2007-08), 2010 Population Census (BPS) and West Kalimantan in Figures

Remarks: Numbers of nurses and midwives in West Kalimantan were not available;

Shaded sections indicate regions with high ratios

**Most Kinerja regions with overburdened doctors, nurses and midwives allocated quite small amounts for expenditure on health.** When we compare the proportion of overall budget expenditure directed at health (graph 7.1) with the eight regions with overburdened health sector workers (shaded in table 7.1), we find that only Luwu Utara met its obligation to spend at least 10% of its total budget expenditure on health. The same applied to expenditure on health per local inhabitant (graph 7.2): six regions had poor averages for 2008-11, but only Bengkayang and Luwu Utara spent reasonable amounts on health. And, in regard to “direct” and “indirect” expenditure (graph 7.3), Probolinggo, Luwu and the city of Makassar allocated quite high levels of funding for indirect expenditure, whereas Sekadau and Luwu Utara did not. That points to the possible need for the latter two regions to increase indirect spending on additional health sector workers.

## 7.2 Analysis of Allocations for Maternal, Newborn and Child Healthcare

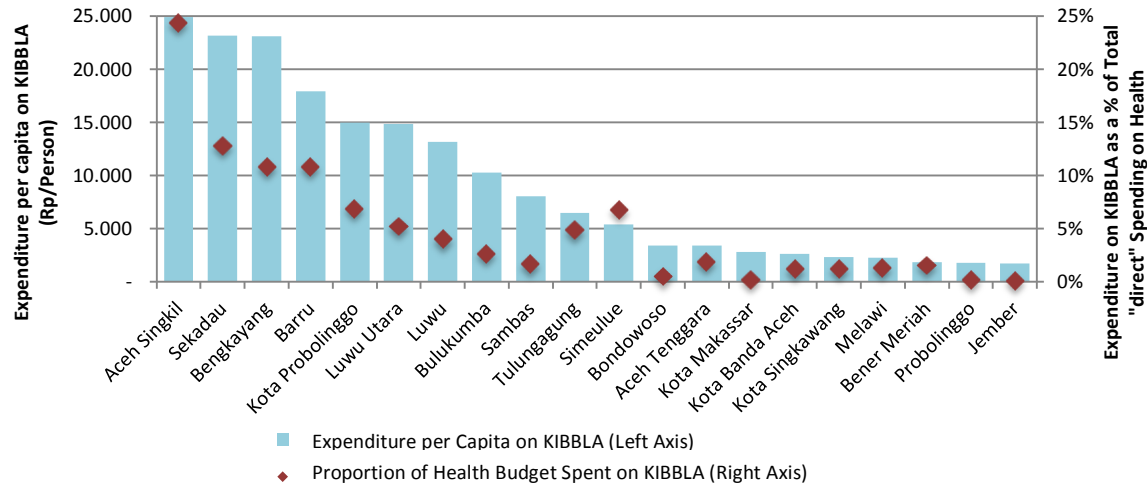
**Health of mothers, newborns and children (covered by the acronym KIBBLA in Indonesian) is the top priority of developmental activity in the health sector.** Two of eight Millennium Development Goals (MDGs) targeted for achievement by 2015 relate to reduction of death rates among mothers and newborns. In its 2010 progress report on Indonesia’s MDG activities, the National Development Planning Agency (BAPPENAS) said that the goal of lowering the death rate of mothers “required special attention” if it were to be achieved by 2015. Accordingly, local government KIBBLA programs are very much needed to help Indonesia to accelerate reduction of maternal death rates.

**Analysis of original 2011 budgets (APBD-Ms) in Kinerja regions studied revealed that expenditure on KIBBLA-related activities was not a priority for the governments concerned.** The 20 governments studied allocated an average of just 4.5% of their health expenditure for such programs; indeed, for half of them the percentage was less than 2%. Only four governments—Aceh Singkil, Sekadau, Bengkayang and Barro—spent more than 10% of their health budgets on KIBBLA activities; one of the four (Aceh Singkil) spent 24%.

**Not one of the regions studied allocated funding for KIBBLA activities that matched national standards set for per capita expenditure on such programs.** Findings of research conducted by BAPPENAS in 2009 indicated that an appropriate level of per capita expenditure on KIBBLA would be Rp 65 000/person/year (Rp74 000 at current 2011 prices). But in regions covered by this study the average level of expenditure was just Rp 9 000. Aceh Singkil, Sekadau and Bengkayang spent more than the others, but even they managed only one third of BAPPENAS’ suggested standard; all the others allocated less than 10% of that standard.



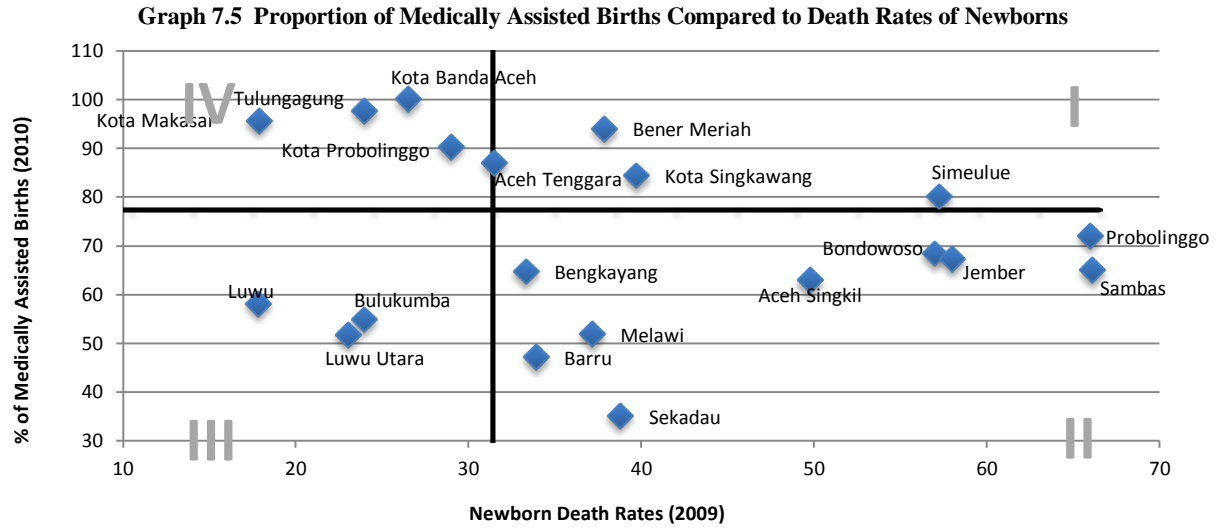
**Graph 7.4 Expenditure per Capita on KIBBLA and KIBBLA Expenditure as Proportion of Total Spending on Health, 2011 (current 2011 prices)**



Source: APBD-Ms for 2011 and 2010 Population Census (BPS), processed by Seknas FITRA

**Almost half the regions studied had maternal death rates above the national average (31.4) and percentages for medically assisted births below the national average (77.3%).** The expectation is that, as a general rule, medically assisted births reduce birthing mother death rates. But any tendency in that direction in the regions studied was not statistically significant. Nine *Kinerja* regions surveyed—including four in West Kalimantan and three in East Java—had low percentages of medically assisted births and relatively high birthing mother death rates (quadrant II of graph 7.5); among the nine, Barro, Bengkayang, Sekadau and Probolinggo figured among regions not dedicating 10% of budget expenditure to health programs (graph 7.1). In terms of per capita expenditure on KIBBLA activities, regions spending least were Melawi, Bondowoso, Jember and Probolinggo (graph 7.4).

**Four *Kinerja* regions studied—Aceh Tenggara, Bener Meriah and Simeulue (all in Aceh) and the city of Singkawang in West Kalimantan—had high percentages of medically assisted births but nonetheless had high rates of newborn deaths.** The regions concerned need to re-asses the causes of these deaths, while at the same time increasing further the number of medically assisted births. Two of them—Simeulue and Bener Meriah—allocated less than 10% of their 2008-11 budget expenditure for health programs (graph 7.1); and all four had low per capita expenditure levels on KIBBLA (just Rp 6 000/person) (graph 7.4).



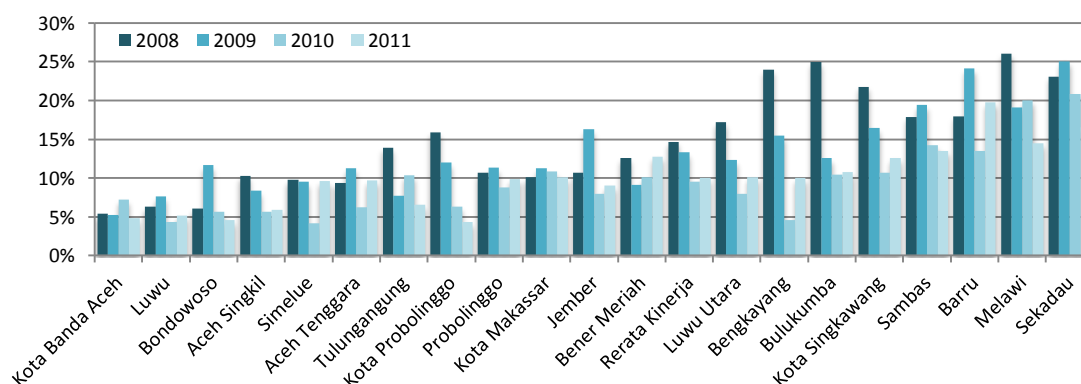
Source: Regional Health Indicators for 2011 (National Team for Accelerating Poverty Reduction (TNP2K)), processed by Seknas FITRA

## 8. Analysis of Budgets for Public Works

### 8.1 Analysis of Expenditure on Public Works

*Expenditure on public works over the four years studied tended to decline as a percentage of budgetary spending of governments studied.* The 20 regions studied spent progressively less on public works: 14.7% of total expenditure in 2008, declining to 13.3% in 2009 and just 10% in 2010 and 2011. This may have been due to pressure from civil service costs that increased throughout the period studied. Given that unit costs of infrastructure development are much higher than those of non-infrastructure programs, declines in spending on infrastructure can impact negatively on local economies and on people's access to social services, particularly education and health.

**Graph 8.1 Budget Allocations on Public Works as a Proportion of Total Local Government Expenditure, 2008-2011**



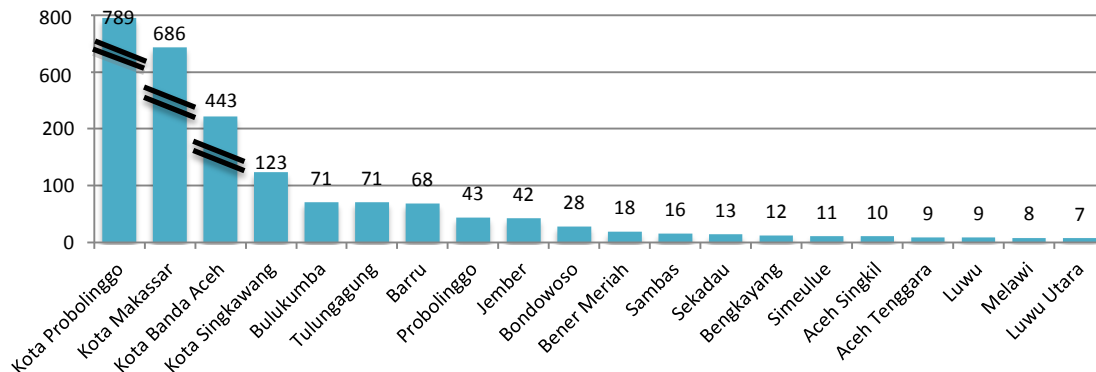
Source: APBD data base of D-G for Regional Fiscal Balance (DJPK) MoF, processed by Seknas FITRA  
Remarks: APBD-Ms used as basis for analysis in each year studied

*Overall, regions studied in West Kalimantan allocated most funding for public works activities.* Over the four years studied the five regions surveyed in West Kalimantan each spent an average of 13% of their total budgetary spending on public works. But none of them managed to avoid declines in levels of appropriations for public works: for example, during the first three years studied (2008-10), Sekadau's level of expenditure on public works did not once fall below 20%, but in 2011 it fell to just 16.6%.

*By contrast, Kinerja regions studied in Aceh and East Java spent a smaller proportion of their budgets on public works.* In four of the five regions in Aceh, average expenditure was 10% of total spending throughout the entire four years (2008-11); the other one (Bener Meriah) allocated less for public works than the average of all regions studied. In East Java average public works expenditure by each region studied was 11% of total expenditure in 2008; Probolinggo's actual funding level for 2008 was 15.9%, but it fell to just 4.4% in 2011.

*An analysis of public works allocations per specific geographical area (one approach to needs analysis in this sector) reveals that appropriations for public works were much higher in cities studied than in kabupatens.* Mostly notably, in the cities of Probolinggo, Makassar and Banda Aceh, funding for public works was allocated at an average rate of Rp 400 million/km<sup>2</sup>. By contrast, all *Kinerja* kabupatens outside Java—with the exception of Bulukumba and Barru—allocated less than Rp 20 million/km<sup>2</sup>. Although the four *Kinerja* kabupatens studied in West Kalimantan allocated relatively high proportions of their expenditure budget for public works, nonetheless their size—7 000 km<sup>2</sup> per kabupaten compared to just 2 000 km<sup>2</sup> per kabupaten in East Java—demands that they make ever higher allocations.

**Graph 8.2 Average Public Works Allocations per Geographic Area (Rp/Km<sup>2</sup>), 2008-2011 (Constant 2008 Prices)**



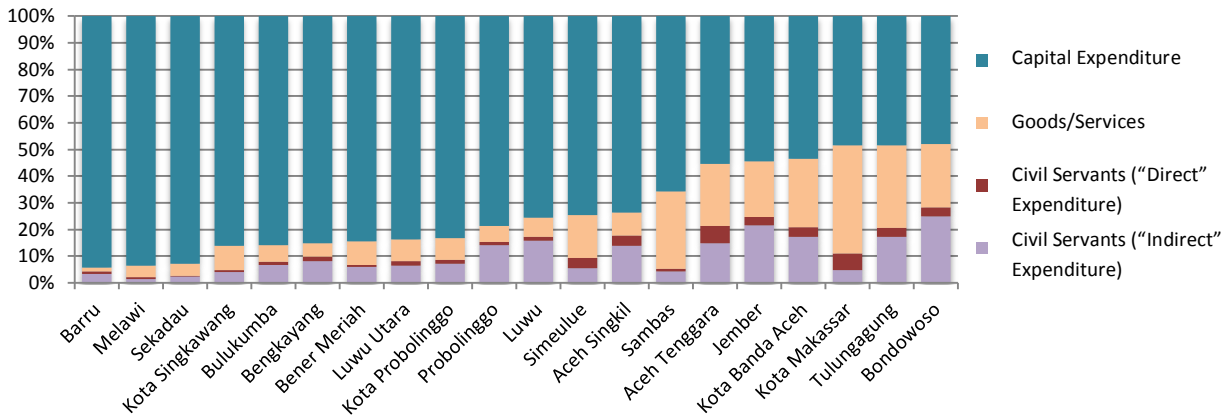
Source: APBD data base of D-G for Regional Fiscal Balance (DJPK) MoF, processed by Seknas FITRA  
Remarks: APBD-Ms used as basis for analysis in each year studied

## 8.2 Analysis of Public Works Expenditure by Economic Classification

***In contrast to education and health, “indirect expenditure” on public works was relatively low.*** On average over the period studied (2008-11) *Kinerja* regions surveyed only earmarked 10% of their public works budgets for indirect expenditure (on civil servants). But interestingly the four kabupatens studied in East Java appropriated between 14% and 25% of their public works budgets for indirect expenditure on civil service costs. By contrast, four of the five regions studied in West Kalimantan spent less than 5% on such costs; the other region, Bengkayang, spent 8%. But graph 8.1 shows that the average proportion of budgetary spending spent on public works in each of these five regions—Bengkayang, Sambas, Sekadau, Melawi and the city of Singkawang—was nonetheless quite high.

***Low levels of indirect expenditure provided opportunities for more substantial appropriations for capital works, although in some regions studied expenditure on goods and services remained quite high.*** No less than 73% of public works spending in *Kinerja* regions surveyed was capital expenditure. Four of the five regions in West Kalimantan—the exception being Sambas—earmarked 85% of their public works spending for capital expenditure. Nevertheless, seven regions studied allocated less than two thirds of their public works budgets for capital expenditure and earmarked 20% of their budgets for goods and services. This finding indicates that many activities are not being outsourced to contractors but are rather being carried out in-house by government public works civil servants.

**Graph 8.3 Public Works Expenditure by Category of Activity, 2008-2011**

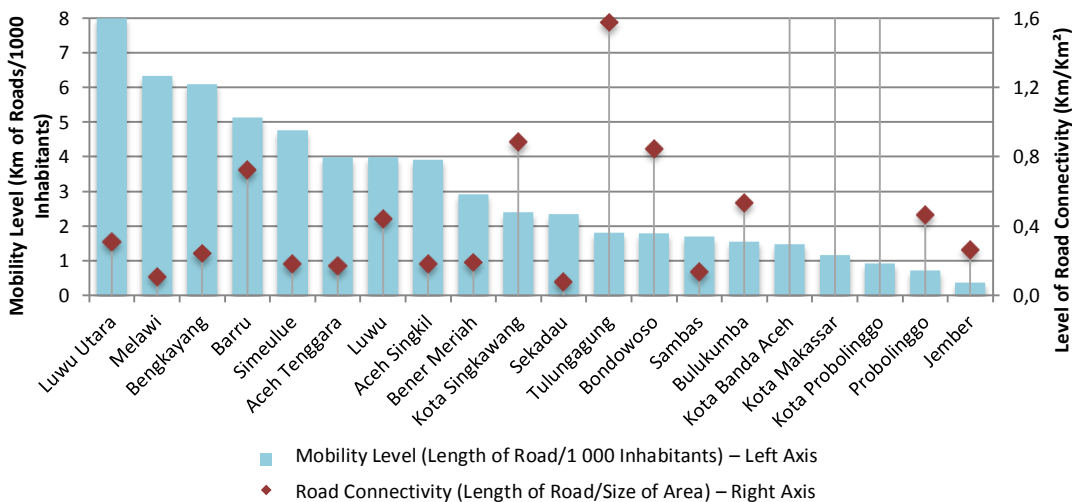


Source: APBD data base of D-G for Regional Fiscal Balance (DJPK) MoF, processed by Seknas FITRA  
Remarks: APBD-Ms used as basis for analysis in each year studied

**Over the four years studied public works capital expenditure tended to decrease and spending on goods/services tended to increase.** In 2008 the 20 *Kinerja* regions studied allocated an average of 78% of their public works budgets for capital expenditure; but that proportion steadily declined to 74% in 2009 and 68% in 2010. Although it went up again, slightly, in 2011 (to 70%), it was still well below the 2008 (and even 2009) figure. The decline seems to have been mainly due to increasing civil service costs in the public works sector. In 2008 *Kinerja* regions had spent just 6% of their public works budgets on civil service salaries; in both 2009 ns 2010 that percentage more than doubled to 15%; and the 2011 figure (13%), although a little lower, was still more than twice what it had been three years before.

### 8.3 Analysis of Expenditure on Roads and Bridges

**Graph 8.4 Level of Mobility and Road Connectivity**

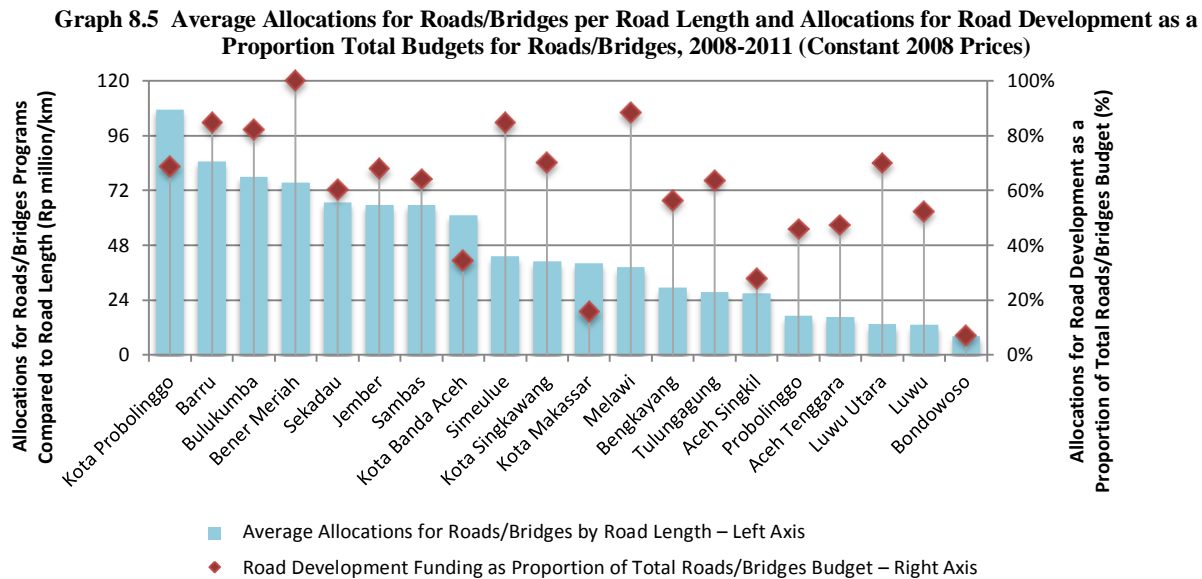


Source: 2010 Population Census (BPS), Aceh in Figures (2011) (BPS Office, Aceh), West Kalimantan in Figures (2010) (BPS Office, West Kalimantan) and various kabupaten/city documents covering South Sulawesi and East Java, processed by Seknas FITRA

**There were widely varying degrees of “mobility” (road length per 1 000 inhabitants) and “road density” (road length per km<sup>2</sup>) among regions studied (graph 8.4).** Road density in the cities of Banda

Aceh, Makassar and Probolinggo was 5.4 km/km<sup>2</sup>, 8.8 km/km<sup>2</sup> and 3.8 km/km<sup>2</sup> respectively. These ratios were far higher than the average of the other seventeen *Kinerja* regions studied (just 0.4 km/km<sup>2</sup>). But graph 8.4 also shows that all kabupatens surveyed in Aceh and West Kalimantan—together with Luwu Utara—had road densities of less than 2 km/km<sup>2</sup>. Nonetheless, if population is factored in and contrasted to road length, all five regions in East Java and the three cities just referred to—all with high levels of road density—have low levels of “mobility”: less than 2 km/1 000 inhabitants.

***The ratio between expenditure (in 2008-11) on development and maintenance of roads and bridges on one hand and length of roads on the other (i.e. spending/km) in regions studied did not produce a clear pattern.*** The three cities referred to above with much higher road densities than other regions studied—that is, Banda Aceh, Makassar and Probolinggo—allocated very different amounts/km for roads and bridges: Probolinggo spent most (Rp 107 million/km—the highest spending level among the 20 regions studied), Banda Aceh Rp 61 million/km, and Makassar Rp 40 million/km. The same lack of pattern emerges from a province-by-province comparison: For example, in South Sulawesi Barru and Bulukumba allocated around Rp 80 million/km, but Luwu and Luwu Utara allocated just Rp 13 million/km.



Source: APBD-Rs for 2008-10, APBD-Ms for 2011, 2010 Population Census (BPS), Aceh in Figures (2011) (BPS Office, Aceh), West Kalimantan in Figures (2010) (BPS Office, West Kalimantan) and various kabupaten/city documents covering South Sulawesi and East Java, processed by Seknas FITRA  
 Remarks: Budget data for 2011 was incomplete; ditto for previous years: in 2008 data was available for 15 regions only; 16 regions only in 2009; and just 10 in 2010

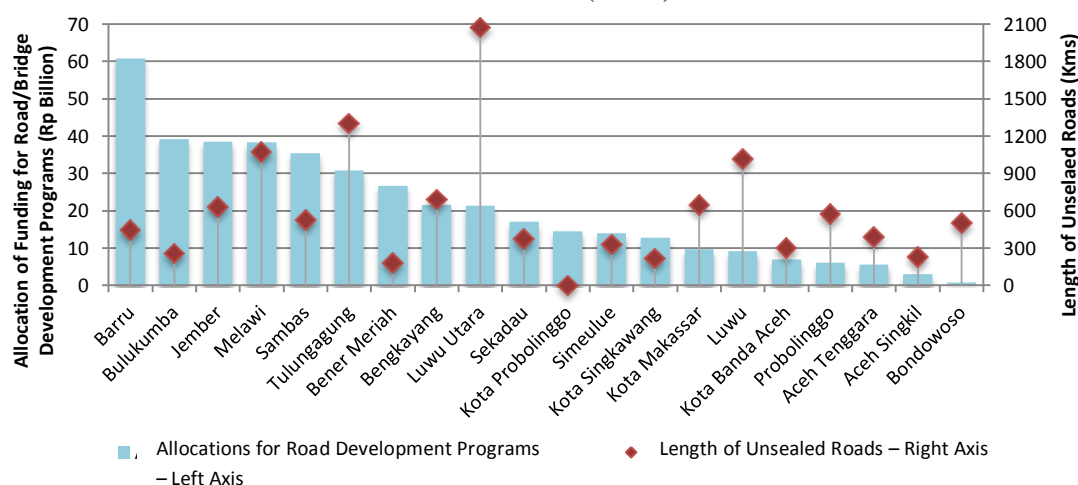
***Most Kinerja regions studied allocated more funding for new roads and bridges than for maintenance/rehabilitation of existing ones.*** Exceptions were major cities: Graph 8.6 shows that such cities with relatively favorable “road density”—Makassar and Banda Aceh— allocated more funding for maintenance/rehabilitation of existing roads/bridges than for new ones. But smaller cities —Probolinggo and Singkawang—did the reverse, allocating more for new roads/bridges. Kabupatens generally mirrored the latter approach: indeed, in its 2010 budget (APBD-M) Bener Meriah allocated not a single rupiah for road/bridge maintenance/rehabilitation; and Bulukumba, Barru, Simeulue and Melawi allocated more than 80% of their roads/bridges budget for new development. But there were exceptions among kabupatens as well: Aceh Singkil, Probolinggo, Aceh Tenggara and Bondowoso allocated over half their roads/bridges budget for maintenance/rehabilitation.

***From the point of view of need, allocations of funding for new roads in most Kinerja regions studied were far from adequate.*** Bondowoso, for example, allocated just Rp 2.3 billion in 2008 and then nothing at all in 2009 and 2010 for development of roads/bridges. Maybe it could be argued that, given

its “road density” of 0.8 km/km<sup>2</sup> (graph 8.4), Bondowoso was not in great need of such funding; but the fact remained that more than 500 km of its roads were still to be sealed. Aceh Tenggara and Aceh Singkil allocated less than Rp 6 billion (annual average over four years studied) for road/bridge development; but they clearly needed more funding for new roads, given their relatively low “road density” ratios of 0.2 km/km<sup>2</sup>. So too with Luwu Utara: its road density was just 0.3 km/km<sup>2</sup> and it had 2 000 km of unsealed roads; so it clearly needs more for roads/bridges than its average allocation of Rp 21 billion pa over the period studied. Even Barru—the region with the highest allocations for road/bridge development among regions we studied (an annual average of Rp 60 billion)—still has 400 km of unsealed roads and thus clearly needs even more funding in this area.

**By contrast, the city of Probolinggo—despite its limited needs—continuously allocated sizeable amounts of funding for new road development.** “The City of Probolinggo in Figures, 2011” indicates that the city’s almost 200 km of roads are already sealed; it also has a relatively high “road density” rate of 3.8 km/km<sup>2</sup>. That suggests Probolinggo has no pressing need to upgrade existing roads or develop new ones. Nevertheless, the city spent Rp 12 billion on roads/bridges in 2008, Rp 29.4 billion in 2009 and Rp 6.4 billion in 2011.

**Graph 8.6 Average Allocation of Funding for Road/Bridge Development (2008-11, Constant 2008 Prices), and Length of Unsealed Roads (in kms)**



Source: APBD-Rs for 2008-10, APBD-Ms for 2011, 2010 Population Census (BPS), Aceh in Figures (2011) (BPS Office, Aceh), West Kalimantan in Figures (2010) (BPS Office, West Kalimantan) and various kabupaten/city documents covering South Sulawesi and East Java, processed by Seknas FITRA  
Remarks: Budget data for 2011 was incomplete; ditto for previous years: data on road/bridge budgets were available from 15 regions only in 2008, 16 regions in 2009 and 10 regions in 2010

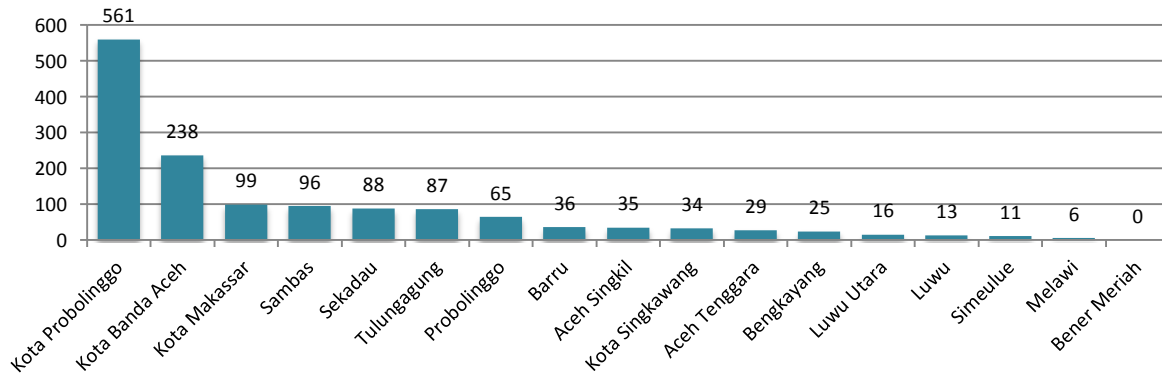
**In most Kinerja regions studied budgets for road maintenance were insufficient.** Ministry of Public Works guidelines specify that Rp 1 billion/km (in addition to “routine maintenance” funding) is required for periodic road maintenance every 3 -5 years: that amounts to Rp 200-250 million/km of road/year. On the basis of data available to us—information on estimated length of damaged roads was not identifiable for Jember, Bondowoso and Bulukumba—we established that, over the years studied (2008-11), fifteen regions surveyed, on average, allocated less than Rp 100 million/year/km of damaged road. Notably, Bener Meriah made no appropriations at all for repair/maintenance of roads in its 2011 budget (APBD-M), even though, according to the publication *Aceh in Figures 2011*, 120 kms of its roads are “damaged”. The estimated length of damaged roads in Luwu Utara, Luwu, Bengkayang and Melawi was more than 500 km in each case; but, given strictures on funding for road rehabilitation and repair, local governments had less than Rp 25 million/km/year to repair them.

**If the cities of Probolinggo and Banda Aceh only had to fund repair of damaged roads, their budget allocations for roadwork would have been enough; but their funding would have been insufficient to**



**do any maintenance work on roads classified in 2010 as “not damaged”.** Given that Probolinggo had just 12 km of damaged roads and Banda Aceh 56 kms, and given that their average allocations for road/bridge rehabilitation and maintenance between 2008 and 2011 were Rp 6.6 billion (Probolinggo) and Rp 13.3 billion (Banda Aceh), their levels of funding for roads exceeded the conservative standard of Rp 200 million/km of damaged road/year. But both cities had considerable numbers of roads not classed as “damaged”—188 km in Probolinggo and 275 kms in Aceh. So, in that broader context, funding allocated by them for roadwork amounted to just Rp 90 million/km/year in Probolinggo and Rp 40 million/km/year in Banda Aceh—way below the conservative standard referred to above.

**Graph 8.7 Average Allocations for Road Rehabilitation and Maintenance per Unit of Damaged Road, 2008-11**  
(Rp million/Km, Constant 2008 Prices)



Source: APBD-Rs for 2008-10, APBD-Ms for 2011, 2010 Population Census (BPS), Aceh in Figures (2011) (BPS Office, Aceh), West Kalimantan in Figures (2010) (BPS Office, West Kalimantan) and various kabupaten/city documents covering South Sulawesi and East Java, processed by Seknas FITRA  
Remarks: Budget data for 2011 was incomplete; ditto for previous years: data on road/bridge budgets were available from 15 regions only in 2008, 16 regions in 2009 and 10 regions in 2010. Data on length of damaged roads was not identifiable in Jember, Bondowoso and Bulukumba.



## 9. CONCLUSIONS AND RECOMMENDATIONS

**Overall, funding for education was relatively high, but still low for health and public works.** Our analysis of local government expenditure revealed that, on average, the 20 *Kinerja* kabupatens and cities studied dedicated 34% of their total budgetary expenditure to education; and that, between 2009 and 2011, not one of them allocated less than the constitutionally-mandated 20% minimum. At the same time, their average expenditure on health and public works between 2008 and 2011 was, for each sector, just 10% of their total budgetary expenditure; indeed in 2011 eleven regions allocated less than 10% of total budget expenditure for health programs and ten also failed to appropriate 10% for public works.

**It has to be said, however, that when we compared budget allocations with development indicators for sectors surveyed, we discovered that varying amounts of funding for education, health and public works (be they high or low) do not transfer into meaningful differences in outcomes—an indication that use made of budgets continues to be poor.** Take education: local governments that allocated sizeable amounts to support the 9 Years of Obligatory Education Program nonetheless tended to have poor net school participation rates. Furthermore—though there is no comparative data on this point—very few local governments allocated meaningful amounts of funding to improve the quality of education. In the health sector too, newborn death rates in six regions studied were not affected by the size (be it small or large) of their budgets for KIBBLA-related programs (on the health of mothers, newborns and children). It was a similar story with public works: none of the regions studied allocated enough funding to maintain existing roads.

**There is a clear need for funding to be redistributed among sectors to increase funding for health and public works, although local government budget income does not vary much and comes predominantly from central government transfers.** In all but two of the regions studied real income did not vary significantly over the four years surveyed; and most governments studied depended on central transfers—via regional fiscal balance funding (*dana perimbangan*) and “other lawful local income” (LPDS)—for 93%-95% (on average) of their budget income.

**In light of this, it is important for local government budget income that careful consideration be given to streamlining processes for transfer of funds from the Center to regions.** The findings of this study suggest several ways in which such streamlining could help improve local government budget management:

- Increase levels of allocations under the Special Allocation Fund (DAK) and reduce the number of sectors funded by it. In real terms, overall DAK funding for the governments studied did not increase significantly over the period, but the number of sectors funded by it grew from eleven to twenty two in 2011 (if we include village services, referrals and pharmaceuticals). At the same time, quite a number of issues for which local governments are supposedly responsible are still being attended to by the central government by way of delegation to, or co-administration with, regions (under procedures known as *dekonsentrasi* and *tugas pembantuan*—see Glossary).
- Ensure that “adjustment” and special autonomy funding is no longer used to “duplicate” the DAK. Over the four years studied (2008-11) various new mechanisms for effecting fiscal transfers to regions appeared with the aim of speeding up development of local infrastructure; but criteria for allocation of these funds were even less clear than those of the DAK, even though their objectives were similar to the DAK’s. In 2010, “adjustment” and special autonomy funding contributed around 9% of income for *Kinerja* governments studied and in nineteen regions became a more important funding source than the DAK. There is no provision for such

infrastructure acceleration funds in the 2012 State budget, and the hope is that they will be abolished altogether.

- Reform the *dana perimbangan* transfer system to include incentives for local governments who streamline their budgets and better deliver public services. Although the central government has been using a regional incentive scheme since 2010, its beneficiaries are still relatively few. At the same time, the General Allocation Fund (DAU) does nothing to encourage local governments to streamline their bureaucracies or to reduce poverty. A more structured incentive scheme is required: one that will encourage local governments to implement reforms aimed at lifting the quality of public service delivery, energizing local economies and reducing poverty. Consideration should also be given to allocating *dana perimbangan* on a multi-year basis to make it easier for local governments to do effective medium term budget planning.
- Abolish the practice of transferring “earmarked” funding to local governments mid-year when budgets are being revised. This applies particularly to the increasing number of infrastructure “adjustment” funds that appeared between 2008 and 2011 and which regions only learnt about during budget revision processes. Even if local governments complete budget revision processes on time (i.e. during August-September of the budget year in train), precious little time is left for setting up and implementing projects funded by this extra money. Our analysis clearly shows that only 83% of projected local government capital expenditure in 2010 could be disbursed by year’s end.

***Local governments also need to become more efficient managers of expenditure and financing. That would allow them to channel more funding into health and public works.*** Given limitations on income within local government budgets, regions should place particular focus on how they manage budget expenditure and financing, taking account of the following recommendations:

- Encourage bureaucratic reform and significantly reduce spending on civil servants. Average expenditure on civil service costs rose steadily over the period studied from 47% of local government spending in 2008 to 56% (2011). As a consequence, expenditure on capital items and on goods & services—so important to local economic growth—shrunk from 46% of total spending in 2008 to just 37% in 2011. A close watch needs to be kept on methods used to impose freezes on civil service recruitment in advance of genuine bureaucratic reform; the danger here is that permanent civil servants (paid with “indirect” expenditure) could be moved to non-permanent positions and continued to be funded by “direct” expenditure; in short, civil service reform must, above all, be substantive.
- Reduce spending on grants and social aid (*bansos*). These two forms of expenditure steadily increased as a proportion of total local government spending, reaching 5% in 2010. Given that both lack clear purposes and allocation criteria, they are liable to be used for political purposes with no clear relevance to the purposes of regional autonomy. Furthermore, quite a number of national Audit Board reports have found that expenditure on grants and *bansos* often lacks clear purpose and is not well accounted for.
- Improve budget absorption rates and budget financing. The rate of disbursement of capital expenditure declined from between 90% and 94% of revised budget (APBD-P) expenditure targets in 2008-09 to just 83% in 2010. This led to a situation where under-expenditure (SiLPA) in one year contributed significantly to budget funding in the next. Some regions were also over-ambitious in the area of budget financing: they either had to enter into loans (generally short-term ones)—borrowed one year, repaid the next—or were simply unable to fund deficits with net financing and thus had end-of-year overall budget deficits (SiKPA).

***Sectoral budgeting can be improved by streamlining processes around decisions on what allocations go to which sector.*** In regard to the education sector, we have the following recommendations, especially for local government and local communities:

- High levels of “indirect” expenditure need to be reviewed across regions. Such expenditure is undoubtedly needed to fund teaching staff, particularly in primary (SD) and junior secondary schools (SMP). Nevertheless, with some exceptions, *Kinerja* regions studied had relatively low pupil/teacher ratios—even without factoring in non-permanent teachers; and several regions continued to have quite large administrative support structures. What is needed, therefore, is not so much more teachers, but rather better distribution of existing teachers between and within kabupatens and cities, and between SDs and SMPs.
- Review the effectiveness of the 9 Years of Obligatory Education Program that continues to receive high levels of funding. Our analysis revealed that regions dedicating sizeable amounts of funding to support this program nonetheless tended to have low net school participation rates; it thus highlighted the need to look more deeply at this program to enhance its effectiveness. Furthermore, the incidence of average pupil/classroom ratios of 30:1 indicated that in some regions no particular need existed for extra classroom space.
- Other educational programs need to be more focused so that the quality of education, in particular, can be enhanced. Leaving aside high levels of “indirect” expenditure (discussed above), there are issues around “direct” expenditure as well: amounts of such funds dedicated to programs to provide administrative support and to improve facilities for administrators are still quite high; but those sorts of programs do not contribute directly to making education more accessible or to improving the quality of education provided. By contrast, funding for programs to improve educational standards was still at a minimum in regions studied.
- Given that schools are receiving more and more funding, they need help to improve their in-house financial management systems. Our study of fifteen schools in West Kalimantan revealed that internal school budgets (called RAPBS for short in Indonesian) have not yet been standardized and do not allow for any aggregating of school budgets within the same kabupaten or beyond. Government should standardize school budgeting and accounting processes.

***With regard to health and public works, leaving aside the need to increase their overall share of local budgets (discussed above), we recommend the following as ways in which expenditure in these sectors can be more effective:***

- In the health sector, there is a need to both increase levels of funding for KIBBLA-related programs and enhance the quality of the programs themselves. The fact that average allocations for KIBBLA activities in regions studied was just one third of what was notionally required shows that funding levels need to be increased. Thus our findings on numbers of medically assisted births indicated that quite a few regions studied were performing below the national average and had continuing quite high rates of newborn deaths. Our analysis of numbers of doctors and nurses/midwives per local inhabitant also revealed quite high levels of need in *Kinerja* regions surveyed, especially in West Kalimantan and South Sulawesi.
- As for public works, the focus of attention needs to be on maintenance of existing roads rather than construction of new ones. Throughout the *Kinerja* regions studied, total funding for roads/bridges—covering both new work and rehabilitation/maintenance of existing roads/bridges—was, on average, less than half what was needed simply to maintain existing roads. Our study, therefore, pointed to a real need to increase funding for road maintenance. Up to now, most regions surveyed have been using money earmarked for roads to construct new roads rather than to maintain existing ones. A re-ordering of priorities could better serve the interests of the general public both in terms of increased local economic growth and better access to education and health facilities.