

A Year of Hijacking of Budgets by the Elite, Bypassing Public Welfare

End of Year Notes and Reflections by Seknas Fitra on Budget Year 2011

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Glossary of Abbreviations and Terms

AG's	Attorney-General's department (<i>Kajaksaan tinggi</i>)
Aspiration funds	"aspiration funds"—budget allocations for expenditure within DPR constituencies to meet popular hopes and wishes (aspirations)
APBD	<i>Anggaran Pendapatan dan Belanja Daerah</i> —regional (local) government budget
APBN	<i>Anggaran Pendapatan dan Belanja Negara</i> —State budget
APBN-P	<i>Anggaran Pendapatan dan Belanja Negara-Perubahan</i> —revised State budget
Banggar	Badan Anggaran (DPR)—(House of Representatives) Budget Committee
BOS	<i>Bantuan Operasional Sekolah</i> —school operational assistance
BPK	Badan Pemeriksaan Keuangan—national Audit Board
DAK	<i>Dana Alokasi Khusus</i> —Special Allocation Fund, a form of <i>dana perimbangan</i>
DAU	<i>Dana Alokasi Umum</i> —General Allocation Fund, a form of <i>dana perimbangan</i>
dana perimbangan	Fiscal transfers to sub-national (regional, local) governments to reduce fiscal imbalance between the center and regions and among regions
dekonsentrasi	the delegation of responsibility (and funds) from the center to a region for the discharge of a task or function not yet decentralized
DIPA	Daftar Isian Penggunaan Anggaran—budget implementation check list
DPID	<i>Dana Penguatan Infrastruktur Daerah</i> —Fund for the Strengthening of Local Infrastructure
DPPID	<i>Dana Percepatan Pembangunan Infrastruktur Daerah</i> —Fund to Speed up the Development of Regional Infrastructure
DPR	<i>Dewan Perwakilan Rakyat</i> —national House of Representatives
HDI	Human Development Index
Jamkesmas	<i>Jaminan Kesehatan Masyarakat</i> —community health insurance (a system of health coverage of the poor throughout Indonesia)
Jampersal	<i>Jaminan Persalinan</i> —central government childbirth insurance scheme
Kab. (Kabupaten)	regional (local) government area below province and equal in status to a city (<i>kota</i>)
Kecamatan	sub-district: unit of government administration below kabupaten and city
KPK	<i>Komisi Pemberantasan Korupsi</i> —Corruption Eradication Commission
Local government	<i>pemerintah daerah</i> —any sub-national/regional government
MDG	Millennium Development Goals
Pemekaran daerah	the division of an existing region to form two new separate regions
PMK	<i>Peraturan Menteri Keuangan</i> —Minister of Finance regulation
PMT	<i>Pemberian Makanan Tambahan</i> —provision of additional nutrition
PPSDMK	Badan Pengembangan dan Pemberdayaan Sumber Daya Manusia—Center/s for the Development and Empowerment of Health Sector Human Resources

APBN	<i>Rancangan Anggaran Pendapatan dan Belanja Negara</i> —draft State budget
RKA	<i>Rencana Kerja dan Anggaran</i> —budget and work plans
Region	Any area of Indonesia at the sub-national level, including specifically provinces, kabupatens and cities
SME	Small and meduium-sized enterprises
Sub-national govt	Regional or local governments at the provincial, kabupaten and city (kota) level.
Tugas pembantuan	an arrangement by which the central government directs and funds a region to co-administer a not-yet-decentralized activity or function
UU KIP	<i>Undang Undang No. 14 Tahun 2008 tentang Keterbukaan Informasi Publik</i> —Law No. 14/2008 concerning Freedom of Access to Public Information (Indonesia’s freedom of information law)

A Year of Hijacking of Budgets by the Elite, Bypassing Public Welfare

2011 was a year of budget hijacking by Indonesia's political and bureaucratic elite to the detriment of public welfare. An important factor at play in this situation was increasing "budget mafia" activity, evident in corruption cases within the Ministries of Youth & Sport and Labor & Transmigration; and in confirmation of charges against members of the Budget Committee (Banggar) of the House of Representatives (DPR) as accomplices in those cases.

This turn of events confirms that Banggar has become a springboard for budget mafia activity. And, this year, hijacking of budgets has taken place in broad daylight with funds from the public purse being openly squandered on activities of benefit to political and bureaucratic leaders. Proposed construction of a new DPR building has a bad smell about it; purchase of a Presidential aircraft makes no sense; burdens of debt weigh more heavily on citizens; and official travel votes have become like feeding troughs for bureaucrats. All of this has amounted to nothing less than a hijacking of the State budget acted out in full public view.

Hijacking of Indonesia's budgets continues because of Indonesia's weak law enforcement regime and because budget processes remain closed. Thus, in comparison to the amount spent on corruption eradication, the value of embezzled assets returned to the public purse is modest. The overall situation was made worse by the predilection of public institutions—especially ministries, agencies and political parties—not to be open about budgetary information.

This derailing of budgetary funds has had implications for expenditure on education and health—both of which continued to be ineffective. Although government has managed to spend 20% of budgetary resources on education, education budgets have, at the same time, become a dumping ground for all sorts of activities. Moreover, at the central level, education funding is dispersed across 19 ministries and agencies and almost half of it is being appropriated for payment of salaries. Government is also not meeting its legal obligation to spend 5% of budgetary resources on health. It is no surprise, therefore, that Indonesia's Human Development Index (HDI)—which encompasses education and health—declined in 2011.

The elite's hijacking of budgets has also led to neglect of public welfare in regions. A principal cause of this has been distortions of the system for fiscal transfers from the central government to regions (known as *dana perimbangan*). Those distortions have impacted badly on regional budgetary processes. Indeed, it is the fiscal transfers system itself that is acting as a catalyst for increased civil service spending in regions and for promotion of even more fiscal imbalance among regions. Around half of Indonesia's sub-national (regional) governments are appropriating more than 50% of their budgets to fund civil service costs. This situation was made worse by increased levels of misappropriation of regional funds—evident from national Audit Board reports.

FITRA's projections and recommendations for 2012 reflect the assessment that budgets for 2012 are unlikely to be very different to those of 2011. Budget processes

are still on a business-as-usual footing. Hijacking of budgets by the elite and neglect of public welfare will continue unless government completely revamps current pro-“rent-seeking” budgetary processes. And, as the next general election approaches, budget mafias will peddle their wares even more actively as they become players in political contests.

According to FITRA’s projections, State budget funding of civil service costs will continue to blow out in 2012 without any improvement of service provided or any diminution in the level of misappropriated funds. 2012 State funding for education will continue to resemble a dumping ground for sundry activities. The legal requirement to spend 5% of budgetary resources on health will, yet again, not be met. And national Audit Board reporting will continue to be little more than an annual ritual that cannot be counted on to improve the quality of budgetary spending.

To put a stop to budget mafia operations, budget processes need to be totally revamped. Above all else, budgetary processes need to be open. To achieve that, the Law on State Finances needs to be revised to ensure in particular that it contains specific provisions fleshing out the Constitutional mandate that State budgets “shall be implemented in an open and accountable manner in order to best attain the prosperity of the people”.

In addition, corruption eradication efforts should focus on the return of State assets to the public purse by those found guilty of embezzling them. Both the President and the DPR should become agents for change—to make budgets more efficient—and should refrain from deriving personal benefit from State-financed facilities.

Revision of the regional fiscal transfers system must also be a priority. That system should squarely focus on realizing fundamental civic rights by reducing per capita fiscal inequalities among regions. The system’s policy framework should therefore facilitate more efficient spending on regional civil services and promote greater prosperity for the people.

A. Parliamentary Budget Committee: a Springboard for “Budget Mafia” Activities

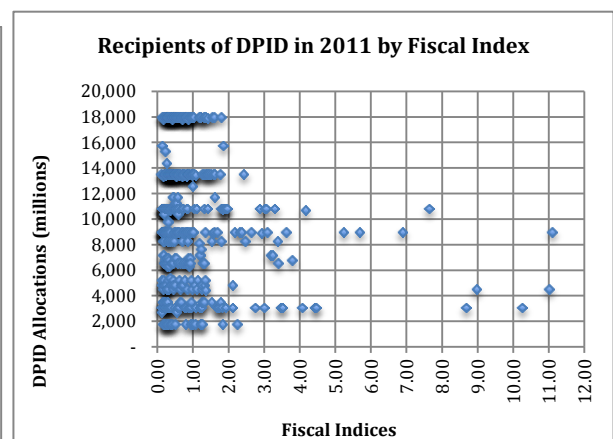
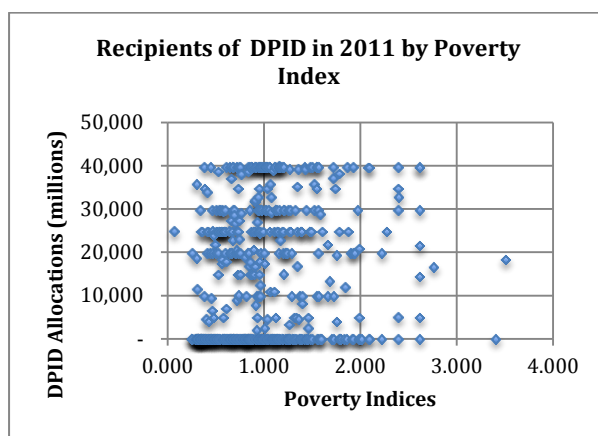
The uncovering of a case of bribery associated with the Fund for Accelerated Development of Local Infrastructure (DPPID) in transmigration areas and confirmation of the involvement in the case of a member of the Budget Committee (Banggar) of the House of Representatives (DPR) show that the “budget mafia” is now systematically at work within Banggar.

Doubling up involved in DPPID funding for transmigration areas: The DPPID was not the only source of funding for transmigration sites where bribery occurred. The Ministry of Labor & Transmigration also provided so called “co-administration” funding (dana pembantuan) to the tune Rp 469.4 billion for the same sorts of programs as those targeted by DPPID. In fact ten regions received funding both from the Ministry and DPPID. And in both cases funding was provided for the same

purposes: development of infrastructure within and between transmigration settlements and development of transmigration-related public facilities. This doubling up transpired because Banggar exceeded the powers entrusted to it by law. Article 107 paragraph 2 of Law No 27/2009 on Indonesia’s parliamentary institutions reads: Banggar shall only discuss allocations already agreed upon by DPR standing committees. But DPR standing Committee IX was unaware of the allocations referred to above and queried them. That showed that Banggar had exceeded its brief by bypassing Committee IX to discuss allocations direct with the Ministry of Labor and Transmigration. Also relevant is that DPR Standing Orders state that distribution of Special Allocation Fund (DAK) funding should be based on suggestions from regions and on technical criteria received from relevant standing committees.

Infrastructure adjustment funding and “aspiration funding” for DPR members are widening the fiscal gap among regions. Neither of these funding sources is mentioned in Law No. 33/2004 on Fiscal Balance between the Center and Regions. Funding levels and recipient for both streams of funding are determined by Banggar without using clear criteria. Accordingly, they both open the door for kickbacks and pork-barreling to the benefit of Banggar members.

Allocations of funds from the two sources mentioned in the preceding paragraph tend to overlap with the Special Allocation Fund (DAK) because they all have the same purposes. Two infrastructure adjustments funds (DPID and DPPID) and the DAK all target the same 10 sectors. The graphics below show that the DPID’s lack of allocation criteria meant that, in 2011, 76 regions with poverty levels above the national average (that is, with poverty indices greater than 1) did not receive any DPID funding, whereas 149 regions with poverty levels below the national average (that is, with poverty indices less than 1) received DPID transfers nonetheless. The graphics also show that DPID funding also served to widen the fiscal gap among regions. Thus, 87 regions with levels of fiscal capacity below the national average (that is, with fiscal indices less than 1) did not receive any DPID funding, whereas 65 with levels of fiscal capacity above the national average (that is with fiscal indices greater than 1) received DPID funding even so.



Like the DPID, the DPPID program also takes no account of local conditions and thus can produce unjust outcomes. As can be seen in the table below, the city of Sabang whose population, number of sub-districts (*kecamatan*) and landmass are all relatively quite small, nonetheless received DPPID funding. But the kabupaten of Southwest

Aceh, which is far bigger than Sabang on all counts (population, number of *kecamatan*s and landmass), received not one rupiah of DPPID funding.

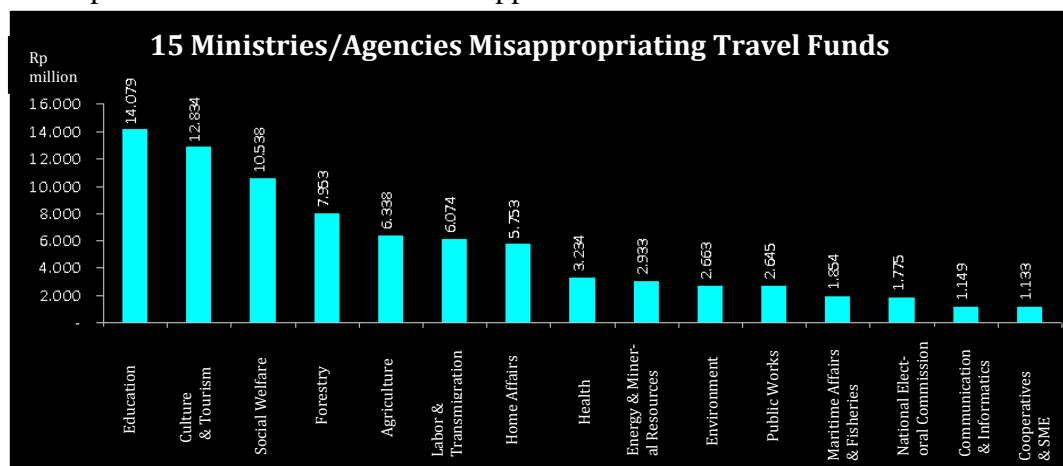
Comparison of DPPID Allocations in Two Areas in the Province of Aceh

No	Area	Population	Kecamatan	Landmass (km ²)	DPPID for Roads (Rp billion)	DPID for Roads (Rp billion)
1	City of Sabang	35 220	2	118	18	34.6
2	Kab. of Southwest Aceh	125 354	9	2 334.01	-	-

B. Official Travel Votes: Feeding Troughs for Bureaucrats

It is now an open secret that official travel votes have become feeding troughs for bureaucrats.

Travel Votes are constantly growing. The 2009 State budget (APBN) set expenditure on official travel at Rp 2.9 trillion, but in the mid-year revised budget (APBN-P) that figure blew out to Rp 12.7 trillion. By the end of 2009, the record showed that Rp 15.2 trillion had actually been spent on official travel in that year. The same happened in 2010: The APBN originally allocated Rp 16.2 trillion for official travel, but the amount jumped to Rp 19.5 trillion in the APBN-P. And, in 2011, travel votes were even higher still: Rp 20.9 trillion in the draft budget (RAPBN) was transformed into Rp 24.5 trillion in the APBN as approved.



Source: Data from national Audit Board reports on government accountability reports, processed by Seknas FITRA

Misappropriation of official travel votes also increased: Findings of audits conducted by the national Audit Board (BPK) for 2010 show that, in 35 ministries and agencies, some Rp 73.5 billion was syphoned off by bogus travel-related expenses such as imaginary trips, counterfeit tickets and multiple payments. In audits for the first 6 months of 2011 that figure rose to Rp 89.5 billion across 44 ministries and agencies. And all of this took place even

though the President has consistently issued annual edicts ordering bureaucrats at all levels to find budget savings on official travel. Despite such calls, the saga continues. One cause of all this has been the President's own inability to lead the way on budget savings. For example, after installing his second United Indonesia Cabinet, he authorized expenditure of Rp 278 billion on the purchase the following official vehicles:

- 79 Toyota Crown Royal Saloons for government officials;
- 9 Presidential VVIP Mercedes Benz S-600s;
- 32 VVIP security escort Mercedes Benz CDIs;
- 2 Presidential VVIP Mercedes Benz G-500s;
- 8 Toyota Innovas for official adjutants; and
- 8 Toyota Avanzas for official female adjutants.

C. Conspiracy to Waste Public Funds on New Parliamentary Complex

In 2011 the DPR again obstinately embraced the idea of developing a new DPR building. Without hesitation it decided to expend Rp 1.8 trillion on development of this new palace for the people's representatives.

The reasons advanced for constructing a new DPR building have been trumped up. From the beginning the narrative around the new DPR building has been full of untruths. Initially a building much like the present one was envisaged but what is now proposed is over the top. It was also said that a new building had been recommended by a performance assessment team and endorsed by the immediately preceding DPR, but that has been found to be inaccurate. The assessment team's report made no such recommendation.

There is something awry with the costing of the new DPR building. Initially the DPR suggested that Rp 1.8 trillion be spent on its new building. In the face of public criticism it reduced that figure to Rp 1.6 trillion, then to Rp 1.3 trillion and finally to Rp 1.1 trillion. But the official document detailing how the 2011 APBN was to be spent (Presidential decision No. 29/2010) allocated Rp 2.5 trillion over 3 years for the new DPR building project (see table below). This allocation of funds above DPR estimated costs is questionable and raises suspicion that members of the elite stand to gain from what can only be termed a grandiose project. On the basis of experience with multiple-year funding for redevelopment of DPR-provided accommodation for DPR members in Kalibata, spending on the new DPR building could also blow out and exceed planned expenditure levels.

Budget for Construction of New DPR Building

Code	Activity/output/ component	Fiscal Year 2011	Fiscal Year 2012	Fiscal Year 2013
1018.01.002	Development of office building	800 015 820 000	842 416 658 000	887 057 541 000

Source: Attachment 4D, Presidential Decision No. 29/2010 detailing central government expenditure in 2011 fiscal year.

A new DPR building would violate the principles and purposes of public spending: Firstly, there is the principle of efficiency. Clearly, the DPR is wasting public money. They already have a parliamentary building. The building is on the small side, so they

“need” a new one. But there is no guarantee that, once in a new building, the DPR will lift its performance. The principle of efficiency requires that optimal outcomes be produced with the smallest possible input. Second, in terms of value for money, a new DPR building will not contribute to economic growth or job creation. Which is more economically beneficial? Is it a DPR building for 560 members of the political elite costing Rp 1.1 trillion or is it 1 100 kms of new roads connecting food distribution networks? Road construction is a priority need. A new DPR building is a “wish”.

D. No Logic in Borrowing to Purchase a Presidential Aircraft

The proposed purchase of a Presidential aircraft has already been funded in the 2011 and agreed to by the DPR. The plan is to purchase a new Boeing Business Jet 2 valued at US\$58 million or Rp 496 billion. The purchase is being financed under budget line items 999.01 and 999.08 of the Cabinet Secretariat using funds from the current portion of Indonesia’s long term debt.

On the premise that purchasing an aircraft is more cost effective than chartering one, the government estimates that, over a 5 year period, the purchase will represent overall budgetary savings of US\$33.5 million. In addition the State will own an aircraft valued at US\$75.64 million (see calculations in table below).

Table: Comparative Cost of Purchase and Charter of Presidential Aircraft

No	Item	Owned Aircraft	Charter Aircraft
1	Purchase of aircraft	US\$85 400 000	
2	Maintenance and Operating costs	US\$36 533 357	
3	Depreciation of Aircraft over 5 years	US\$9 760 000	
4	Charter of Aircraft between 2005-09		US\$81 379 434
5	Estimated increases in chartering costs 10%		US\$8 137 943
Total		US\$131 693 357	US\$89 517 378
Difference between Ownership and Chartering		US\$42 175 978	
Value of Aircraft Asset		US\$75 640 000	
Savings		US\$33 464 021	

Sumber: Response of the Minister of the State Secretariat at a working session with DPR standing Committee II, 31 May 2010, processed by FITRA.

But the argument about savings is based on logic which is misleading for the general public. The cost of chartering depends, of course, on the frequency of presidential trips. At times when presidents keep tight reins on overseas travel chartering aircraft would be by far the cheapest way to go—as a look at average costs of presidential travel between 2001 and 2009 shows. And the 2001-09 average is higher than for overseas presidential trips before 2001.

Allocations for Presidential Overseas Jaunts

No	APBN for fiscal year	Item	Presidents		
			President S B Yudhoyono Rp billion	President A R Wahid Rp billion	President Megawati Rp billion
1	2001	Overseas visits	-	48	-
2	2002	Overseas visits	-	-	48 845
3	2005	Overseas visits	162	-	-
4	2006	Overseas visits	162	-	-
5	2007	Overseas visits	162	-	-
6	2008	Overseas visits	162	-	-
7	2009	Overseas visits	162	-	-
Total			813	48	48.845

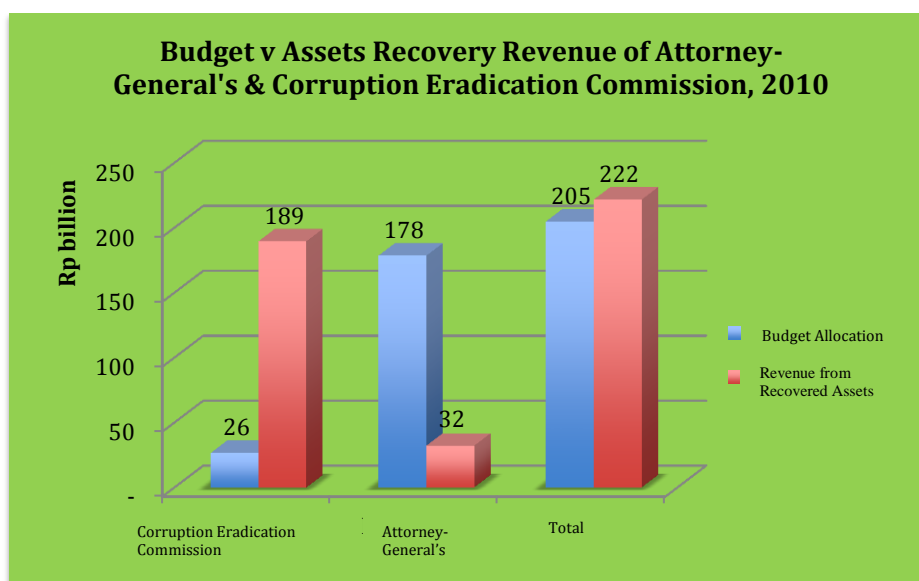
Source: Data from State budgets for 2001-2002 & 2005-2010 and the Budget and Work Plans of the Office of the President for 2011, processed by Seknas FITRA

The government will have to bear the cost of maintaining a purchased aircraft, even when it is not being used. In addition, financing the purchase with borrowed money will be a burden on the Indonesian people who will have to meet capital and interest repayments. By contrast, using chartered aircraft would involve no debt or ongoing maintenance costs.

Corruption Eradication is not Effective; and Keeping Budget Information Secret Benefits Hijackers of Budgets

A. Corruption Eradication Budget: Big Inputs, Measly Outcomes

The ineffectiveness of efforts to eradicate corruption is contributing to hijacking of budgets. One tell-tale sign of this is that the ratio between money spent on corruption eradication and the value of embezzled assets being recovered is still not what it should be. Thus, in APBN 2010 a combined total of Rp 205 billion was allocated to Attorney-General's (AG's) and the Corruption Eradication Commission (KPK) for the eradication of corruption, but the two agencies managed to recoup only Rp 222 billion of embezzled assets. This meant that, in effect, when the amount allocated for corruption eradication is taken into account, a net amount of just Rp 17 billion was returned to State coffers in 2010—way short of the losses sustained by the nation because of corruption.



Source: Data from Budget and Work Plans (RKA) and Financial Reports (LK) of Attorney-General's and the Corruption Eradication Commission, processed by FITRA

This graphic shows that, in terms of inputs v. outcomes, A-G's and the KPK were at opposite ends of the scale. The former had a much bigger budget than the latter but could only manage a low rate of asset recovery compared to the KPK's.

Corruption Eradication: Budget Allocation per Case

No	Institution	Year			
		2011		2012	
		No of Cases	Cost per Case (Rp million)	No of Cases	Cost per Case (Rp million)
1	Attorney-General's Office	100	163	12	469
2	Provincial Attorney-General's offices	268	104	267	115
3	District Prosecutors	1.354	86	1048	99
4	Corruption Eradication Commission	40	336	40	491
5	National Police	30	46	44	48

Source: Data from Budget and Work Plans (RKA) for 2011 and 2012, processed by Seknas FITRA

In 2011 the KPK had a budget of Rp 19 billion to process 40 cases of corruption—an average amount of Rp 335 million per case. In comparison, AG's was allocated a far larger amount (Rp 154 billion) and the average cost per case varied depending on the level of activity: Rp 163 million per case for the national AG's office, Rp 104 million for provincial offices and Rp 84 million for district offices. With a budget so much greater than that of the KPK, AG's should have been able to recoup a much greater amount of embezzled assets than the KPK, but it did not do so.

Budget for Corruption Eradication

(Rp billion)

No	Institution	2012	2011	2010
1	Corruption Eradication Commission	21.8	19.2	26.3
2	Attorney-General's	142.5	154.1	178.3
3	National Police	2,1	1,4	

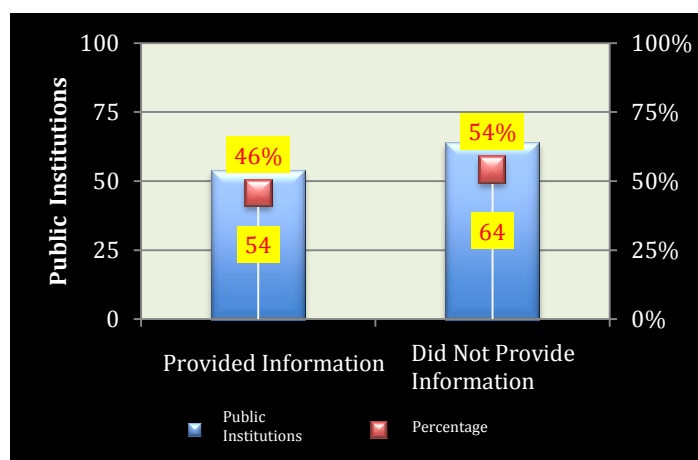
Source: Data from a collection of Ministry/Agency budget and work plans (RKA) for 2010-2012

2012 APBN allocations give one the impression that AG's will have less funding than previously to prosecute corruption cases but in fact the per case funding has risen significantly—to a level almost equal to that enjoyed by the KPK. Accordingly, in 2012, it should be possible for AG's to match the asset recovery performance of the KPK. Certainly, if AG's does not improve its level of asset recovery, widescale pillaging of budgets by the elite can be expected to continue apace.

B. Secretiveness about Budgetary Information Provides Fertile Ground for Hijacking of Budgets by the Elite

In 2011 Seknas FITRA conducted an exploratory test of freedom of information processes by lodging requests for public information with 118 national public institutions. These comprised ministries, non-ministry government agencies, off-line agencies, judicial institutions & law enforcement agencies, the legislature and political parties. The institutions were asked to provide copies of their 2011 Budget and Work Plans (RKA), their 2011 Budget Implementation Check List (DIPA) and their Reports on Budget Outcomes for 2010. The study's findings pointed to continuing secretiveness in public institutions around budgetary information. One cause of this persistent secretiveness is unrestrained, self-interested whittling away of budgets by the political and bureaucratic elite.

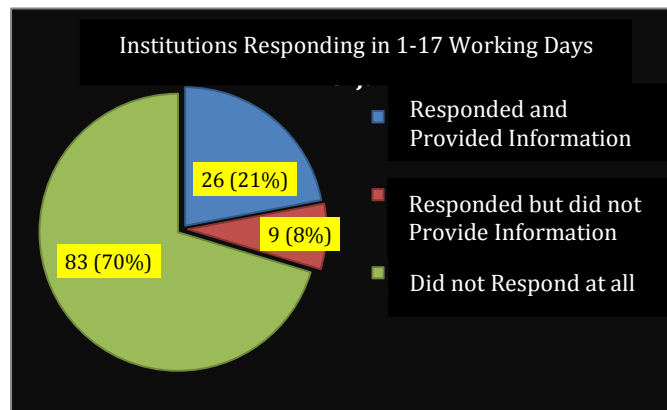
Public institutions remain closed about budgetary information. Of the 118 institutions approached, 54 (or 46%) provided information. Of those 54, 26 provided information within the timeframe of 1-17 working days; 15 provided it after receipt of a letter of complaint; and the other 13 came good only after mediation before the Central Information Commission.



Not one piece of information was obtained in response to an oral, non-written, request.

And this occurred even though Article 22 of Law No. 14/2008 on Freedom of Access to Public Information (known as UU KIP) makes provision for freedom of information requests to be made orally.

Thus the system for provision of freedom of information services is not working. The majority of public institutions contacted did not respond to our requests for information within 17 working days, even though the legal time limit is 10 working days. Only 26 responded and provided information within that timeframe, whereas 9 others responded but did not furnish any information. Indeed, even after FITRA sent letters of complaint to 92 public institutions that did not respond to its original letters of request, only 15 provided the information sought.



This situation came to pass because most public institutions have not yet established Freedom of Information offices to respond to freedom of information requests. Nor do they yet have standard operating procedures for managing such requests. As a result:

- Responses to requests for information follow lengthy bureaucratic procedures that do not accord with the spirit of UU KIP;
- Letters requesting access to information are overlooked or, indeed, disappear without trace;
- Public institutions have differing ways of responding to requests for public information.

Budget Hijackers Ignore Public Welfare

A. Dim Picture of Public Welfare; Achievement of MDGs Threatened

Only 1.94% of the APBN was spent on health in 2011: Given that Law No. 36/2009 on health stipulates that 5% of the State budget—excluding civil service costs—be spent on health, government has once again proved to be incapable of meeting this legal obligation. It is no surprise, therefore, that Indonesia’s Human Development Index—in which health is an element—declined in 2011.

The Ministry of Health’s budget for 2011 was Rp 27.6 trillion. The money was channeled into 8 programs: support for management and implementation of other technical functions (Rp 2.81 trillion); oversight of, and increased accountability within, the Ministry’s institutional structures (Rp 88 billion); nutrition and the health of birthing mothers and babies (Rp 1.87 trillion); health drives (Rp 16.47 trillion); disease control and environmental health (Rp 1.62 trillion); pharmaceuticals and health equipment (Rp 1.45 trillion); health research and development (Rp 540 billion); and development and empowerment of health sector human resources (Rp 2.78 trillion).

Ministry of Health priorities in the 2011 budget were: health insurance for the poor (Jamkesmas) (Rp 5.125 trillion); childbirth insurance (Jampersal) (Rp 1.223 trillion); operational aid (Rp 904 billion); salaries including for non-permanent officials (Rp 3.929 trillion); educational funding (Rp 1.924 trillion); funding for “*dekonsentrasi*” tasks—i.e. not-yet-decentralized tasks delegated to regions (Rp 798 billion) ; funding for tasks jointly administered by the Center and regions (Rp 2.981 billion); medications and vaccines (Rp 1.22 trillion); research into health facilities (Rp 147 billion).

Health Appropriations in 2011 State Budget (APBN)

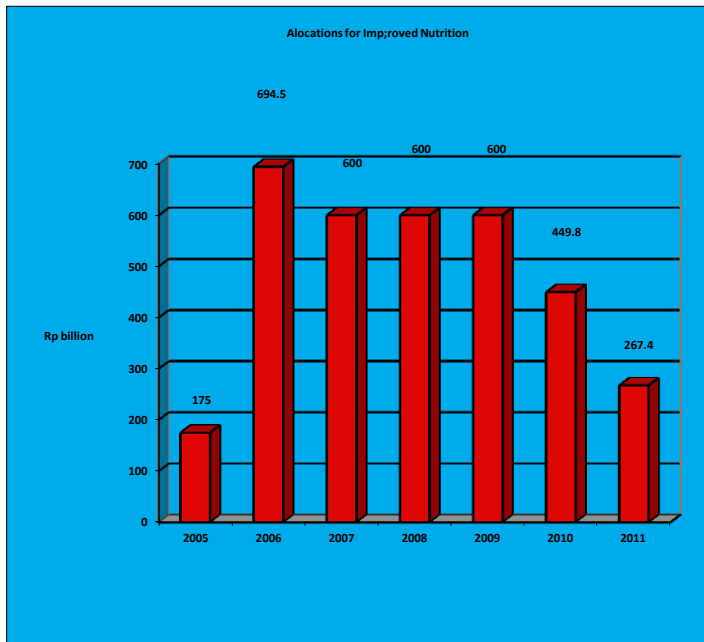
No.	Item	Appropriation Rp billion	Comment
1	Health Functions	13 900	Basic Data on Budget (2006-12)
2	Community health insurance (Jamkesmas)	6 300	Basic Data on Budget (2006-12)
3	Special Allocation Funding (DAK)	3 800	Minister of Finance regulation No.216/PMK 07/2010
4	Funding from Fund for the Strengthening of Local Infrastructure (DPID)	980	Minister of Finance regulation No. 25/PMK 07/2011
5	Funding from Accelerated Development of Local Infrastructure Fund Fund (DPPID)	773.5	PMK No. 40/PMK.07/2011
6	Total Health Appropriations	25 750	---
7	Percentage of APBN 2011 spent on health	1,94 %	Item 5 divided by total State expenditure (Rp 1 320.7 trillion)

Malnourishment, but no political will to overcome it: The Global Hunger Index ranks Indonesia as being in a “very serious” and “very worrying” situation in terms of hunger and malnutrition. Ministry of Health figures indicate that 4.1 million Indonesian children under five suffer from under-nourishment. But that figure includes detected cases only. The corresponding figure for 2008—4.2 million children—was not much different. It is doubtful, therefore, that Indonesia can attain its Millenium Development Goal of reducing malnutrition to 18% by 2015, given that the figure this year is 30% and there is no significant change from year to year.

How can problems of under-nourishment be solved when funding provided by government each year is far short of what is required? The Ministry of Health’s anti-malnutrition budget in 2011 amounted to just Rp 267.42 billion. The money was spent on the Provision of Additional Nutrition (PMT) buffer stocks of multivitamins, biscuits and powdered milk to be used as additional nourishment for expectant mothers and children under five. But just Rp 26.1 billion was spent on distribution of PMT buffer stock to regions. Much of the remainder was used up on activities with little relevance to fighting malnutrition: official travel for “coordination, training, monitoring and evaluation” (Rp 25.9 billion); consultancy services (Rp 10.4 billion); and production of manuals and modules.

It is truly ironic that, if the allocated amount (Rp 209.5 billion) is divided by the number of under-nourished children in Indonesia (4.1 million), the amount of funding for additional nourishment (biscuits, powdered milk and multivitamins) per undernourished child per annum comes to a mere Rp 51 000.

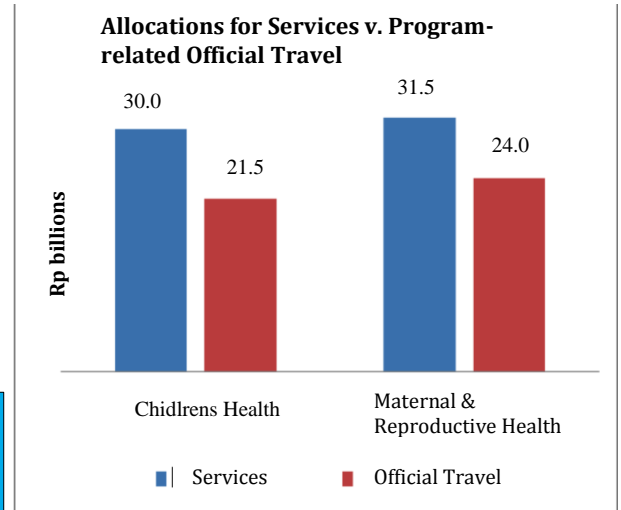
Our assessment is that the PMT program is inefficient and wasteful because its supply chain is over-centralized. The result is high costs—as much as Rp 26.1 in 2011— associated with distribution of the stocks to regions. To reduce distribution costs, the Ministry of Health could devolve the supply of PMT stock items to regions, at the very least to provinces. Such a move would not only cut distribution costs but also reduce the risk of damage to stocks.



more than 1 000/100 000.

Indonesia's children are also not yet enjoying their birthrights and their basic needs are not yet being fully met. Indonesia must still make every effort to improve national health indicators especially in the area of infant deaths which over the past five years have shown no sign of declining. Among ASEAN countries, Indonesia's infant death rate (35/1 000 live births) is five times that of Malaysia, almost double that of Thailand and 30% higher than that of the Philippines. And the irony is that many infant deaths occur among the poor, mostly because of factors associated with access, costs, knowledge and behaviour.

One directorate-general within the Ministry of Health has responsibility for programs associated with nutrition and maternal & child health. In the Ministry's draft budget just Rp 30 billion was earmarked for expenditure on child health services; and only Rp 31.59 billion was allocated for spending on reproductive health services.



It is likely that our Millennium Development Goal (MDG) on the health of mothers and children will not be achieved: For more than three decades now 20 000 birthing mothers have died each year. Indeed in some areas, the ratio of such deaths is way above the national average: the number in Sukabumi is 390/100 000 births; in Lombok around 750/100 000; and in Papua

It is truly ironic that 72% (Rp 21.5 billion) of an already small budget for child health services (Rp 30 billion) is being used up on official travel associated with meetings, coordination, community awareness programs, facilitation, monitoring & evaluation and the like. The same is happening with the reproductive health budget: Rp 24 billion—76% of the total budget of Rp 31.59 billion—is being spent on official travel. In the area of development of child health services, a mere Rp 1 billion was available for expenditure on a Results-based Management (RBM) Center of Excellence, health services for minority and isolated children and surveillance of child health.

In 2011 the Ministry of Health wasted money on the production of reports: 1 496 of them, in fact, recorded as reports under 157 headings and listed as outputs from 62 activities. The total cost of these reports was Rp 613.5 billion or 3.5% of the total health budget. Taking an overall average, each activity report cost Rp 410 million—30% of the average cost of an activity.

FITRA has discovered that the budget for one particular report—on financing of environmental health activities—within the Directorate-General of Disease Control and Environmental Health was as much as Rp 41.7 billion. That amounted to 35% of the amount (Rp 128 billion) allocated for that particular area of activity. We view this a waste of money, given that the health budget generally allocates only between Rp 115 million and Rp 1.5 billion for any given financial report. So, what sort of financial report is being produced on environmental health? We calculate that the amount of money involved, if directed to the *Jampersal* program, could provide coverage for 39 406 expectant mothers.

FITRA's research also found that, in 8 cases, more than 50% of allocated budgets was expended preparing an activity report. Indeed in two cases—management of tertiary level Centers for Development and Empowerment of Health Sector Human Resources (PPSDMK) (ref. No. 4049) and achievement of better management of Indonesia's hospitals (ref. No. 2046)—100% of budgeted funds was expended on preparation of reports.

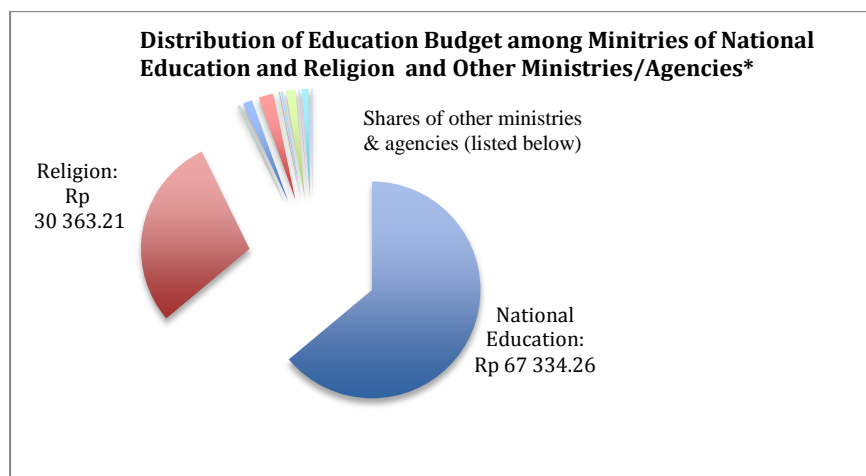
Upon looking in more detailed at these 8 activities, FITRA discovered two anomalies. Firstly, double budgeting occurred in the case of the PPSDMK activity. Two separate work units—the Center for Education & Training of Health Staff and the Center for Certification, Standardization and Sustainable Education—each received funding (with identical code numbers) for the PPSDMK activity. Indeed, in the case of the second work unit just referred to, no performance indicators were specified. Second, FITRA found that 2 of the 8 activities lacked performance indicators: items no. 2095 (mental health services) and No. 2050 (enhancement of correct thinking about health). But, of course, performance indicators are crucial for assessing an activity's effectiveness. These two anomalies were not evident for activities that had less than 50% of their budgets earmarked for report preparation.

B. Education Budget: a Dumping Ground

It was only after the Constitutional Court's decision—in settlement of a judicial review—that the government could include teachers' salaries in the 20% of the total State budget it was legally required to spend on education that the central government

was finally able to meet this constitutionally mandated spending level. The real issue, however, is not the amount spent but the effectiveness of its expenditure. It is no surprise, therefore, that even though the required 20% is now spent on education, Indonesia's Human Development Index—which inter alia is based on education—declined in 2011.

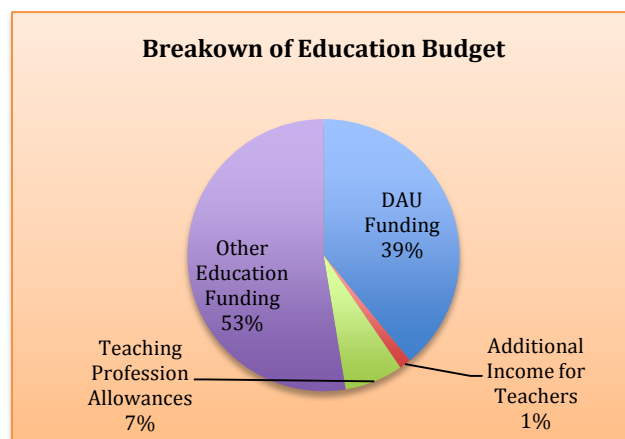
The total education budget for 2011 was Rp 266.9 trillion. Of that amount 39% was allocated for central government expenditure on education, 40% was transferred to regional governments and 1% was earmarked for financing within the Educational Development Fund. The central government's 30% was allocated not only to the Ministries of National Education and Religion, but also to other ministries and agencies of dubious relevance to education. The result was that the education budget resembled a dumping ground encompassing ministries and agencies or programs of no great relevance to the achievement of education budget objectives.



Source: Data from revised 2011 budget (APBNP) processed by FITRA

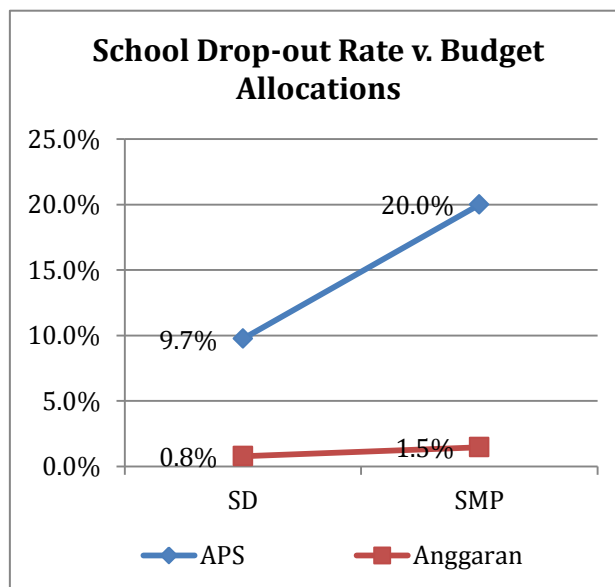
*Ministries and agencies (other than National Education and Religion) receiving a share of education funding were the Ministries of Finance; Agriculture; Industry; Energy & Mineral Resources; Transportation; Health; Forestry; Marine and Fisheries; Culture and Tourism; Youth and Sport; Defense; Labor and Transmigration; and Cooperatives and Small & Medium Enterprises. Also receiving a share were the National Land Agency and the National Bureau of Meteorology and Geophysics;

It is noteworthy that 47% of the education budget was used to pay teachers and officials (apart from officials of the Ministries of National Education and Religion and lecturers at the national level). Of course, it goes without saying that quality education requires teachers who are professionals. But the minimal amount of money left over for direct expenditure on education programs means that many pupils are not reaping the benefits of an education. The fact is that levies imposed at the local school level are still the norm, but they are beyond the means of the poor.



The drop out rate among Indonesian primary school pupils is still high. 2011's drop out rates for primary and junior high school students were as follows: (primary school) 2.7 million (from a pupil population of 27.7 million); and (for junior high school) 2 million (of a total of 10 million students). It is no surprise, therefore, that 12.1% of Indonesian school children do not achieve the mandatory 9 years of education and that 8.5 million Indonesians are still illiterate.

This situation obtains because government continues to accord low priority to education. This is evident in government's failure to spend education's 20% share of the State budget without any evident commitment to giving priority to meeting people's basic education needs. Although the Rp 266.9 trillion appropriated for education in 2011 represents 20% of the State



budget, the decisions around education spending have fallen well short of being in accord with the spirit of Article 31 paragraph (4) of the Constitution. The money, after all, has not been spent in its entirety on delivery of services to the public, but also covered teachers' salaries.

One can imagine that, with a primary school drop out rate as high as 9.7%, government provides education funding for primary schools of just Rp 64 000/pupil/month. The corresponding figure for junior high schools is Rp 162 500/month/student. If Operational Support Aid (BOS) funding is divided by the number of pupils attending primary and junior high school (38.7 million), the level of assistance amounts to just Rp 41 000/month/student.

People have no alternative for the moment but to accept the bitter fact that education costs the nation dearly but government pays scant attention to it. The reality is, however, that people everywhere are confronted with an array of school needs and obligations that can only be met with quite large sums of money. These include school book costs; building levies; re-enrolment fees; cost of annual activities; monthly school levies; money for extra-curricular programs, magazines, computer use and student work sheets; and other payments. For people on a minimum wage, even if they budget their spending, meeting these various payments is very difficult; and more often than not they cannot afford them, especially when they have more than one child at school. If such people find themselves short of money for schooling, we can imagine how much more difficult it is for people living below the poverty line. For them education is an unaffordable dream.

Elimination of illiteracy is also problematic in Indonesia, given that illiterates number 4-5 million and most of them are poor people. 2011's anti-illiteracy budget allocations—just Rp 59 billion (0.02% of the education budget) for 35 125 people

targeted—is clearly not enough. That is particularly so in light of an international agreement that requires countries to spend a minimum of 4% of education budgets to combat illiteracy.

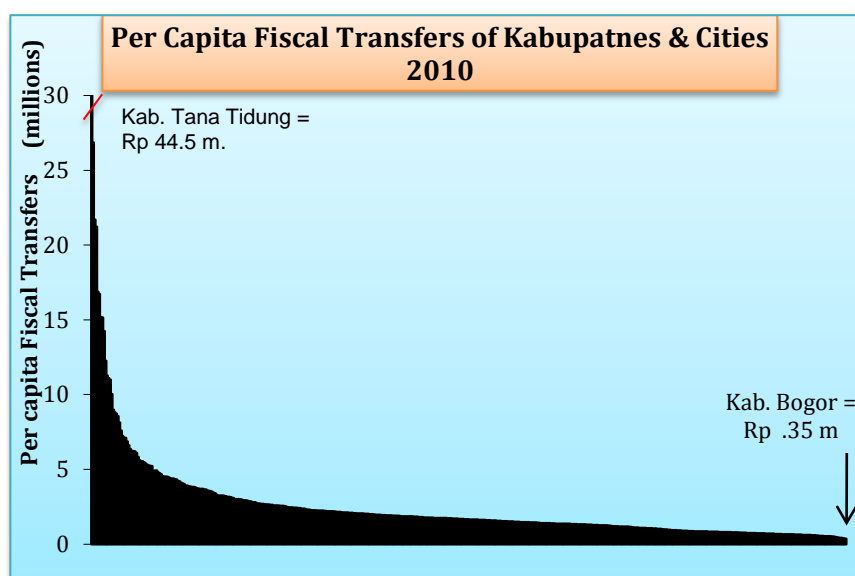
Community Welfare in Regions under Threat

A. Fiscal Transfers to Regions not yet Capable of Enhancing People’s Welfare

The purpose of regional autonomy is to improve people’s welfare by having local governments—which are closest to the people—deliver public services. But, after a decade of such autonomy, outcomes are way below expectations. Although the legal framework for regional autonomy has been revised twice, fiscal imbalances among regions continue to be very marked. It is also undeniable that political elite interference in regional fiscal transfers has contributed to problems the transfer system is currently experiencing.

Current policy on regional fiscal transfers is increasing per capita fiscal gaps among regions.

FITRA’s research has revealed that in 2010 the area receiving the largest per capita transfer of funds



from the central government (Tana Tidung Kabupaten (District)) was allocated 127 times more funding than the area receiving the smallest allocation (Bogor Kabupaten). This sort of thing is happening because the principle that “money follows functions” is not being properly implemented. Another contributing factor has been a lack of effective coordination between policies on sub-national government—the domain of the Minister of Home Affairs—and policies on distribution of funds to regions—the bailiwick of the Minister of Finance. One result of this lack of coordination is that, although 70% of government functions have been decentralized to regions, regions have been receiving just 31-34% of State spending power in the form of fiscal transfers to regions.

The current formula for calculating General Allocation Fund (DAU) allocations encourages regions to waste money on bureaucracies and to split up to form new autonomous regions. An examination of regional budgets (APBDs) for 2011 shows that 297 kabupatens/cities—more than half of Indonesia’s sub-national governments—spent more than 50% of their entire budgets on civil service costs. Thus the DAU which is actually meant to equip regions with funds to spend on delivery of public services is being used up for civil service costs. This is because the “basic funding allocation” in the current DAU formula is for civil service costs, including those resulting from the establishment of new autonomous regions.

Regions are also unfailingly receiving less overall DAU funding than they are legally entitled to because a number of factors are drawing down the level of funds destined for the DAU. Thus, in 2011 sub-national governments received Rp 52.2 trillion less in DAU funding than they should have.

The Special Allocation Fund (DAK) is moving further and further away from its original charter: The DAK's raison d'être is to provide local funding for specific activities undertaken in support of national priorities. In 2005 seven fields of activity received DAK funding. By 2011 the number had jumped to nineteen. DAK funding is based on a complex formula; its guidelines are often published late; and its technical criteria are subject to frequent change. All of this makes the DAK susceptible to political manipulation and reduces its impact.

B. Troubled Budgeting in Regions

Budgets in regions are also being hijacked by local elites. Civil service expenditure is blowing out and fiscal capacity is shrinking. In addition, misappropriation of regional funds is on the increase. Thus it comes as no surprise that funds transferred to regions have been unable to make a difference to public welfare.

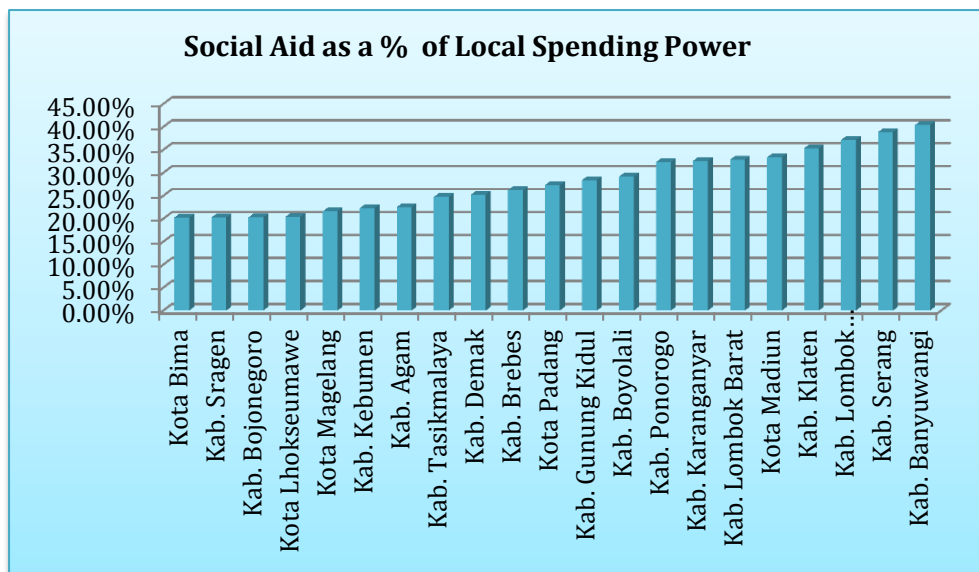
Civil service spending threatens regions with bankruptcy. As indicated above, regional budgets for 2011 show that 297 kabupatens and cities—more than half of Indonesia's sub-national governments—spent more than 50% of their entire budgets on civil service costs; indeed, 11 regions spent 70% of their budgets on their civil services and one (Karanganyar Kabupaten) spent 75.47%. At the same time these governments spent only between 1 and 15% on capital items. If this level of civil service expenditure continues unchecked, regions could conceivably go bankrupt in the next 2 or 3 years. Regional autonomy's goal of bringing service delivery closer to local communities will be hard to achieve as long as "delivery costs" are so high. The central government has imposed a moratorium on civil service recruitment but that move will not be effective unless it is accompanied by more comprehensive changes. For, as pointed out earlier, inflated civil service costs are in part a result of problems with the regional fiscal transfers system—which encourages civil service spending and the creation of new autonomous regions—and lack of clear rules relating to spending on public welfare in regions.

Kabupatens & Cities with Civil Service Expenditure in Excess of 70%

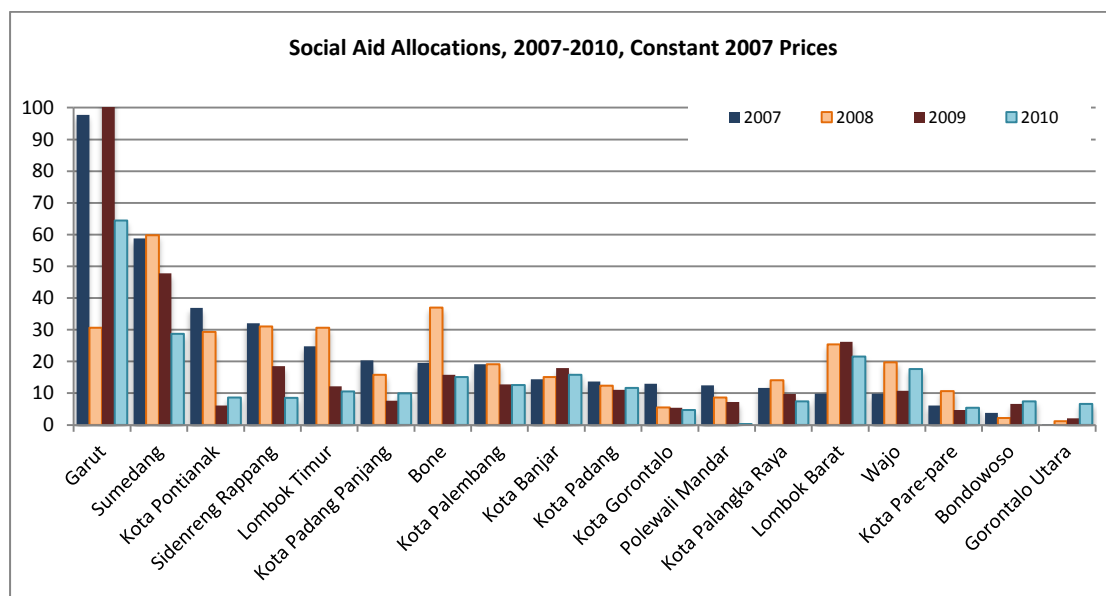
No	Kabupaten/City	% Spent on Civil Service Costs
1	Kab. Purworejo	70.03%
2	Kab. Pemalang	70.18%
3	Kab. Kulon Progo	70.70%
4	Kab. Bantul	70.71%
5	Kab. Kuningan	70.81%
6	Kab. Bireuen	71.08%
7	Kota Palu	71.40%
8	Kab. Simalungun	71.95%
9	Kab. Agam	71.98%
10	Kota Ambon	73.43%
11	Kab. Karanganyar	75.47%

Source: Data from 2011 regional budgets, Ministry of Finance, processed by Seknas FITRA

Social aid funding is also undermining local spending capacity. Regions' fiscal space (spending capacity) has been declining year by year. Ironically, despite such constraints, regional governments have continued to allocate quite high levels of funding to social aid—renowned for its susceptibility to abuse and poor accountability. Data collected from regions shows that 21 of them have been using over 20% of residual spending power on social aid—with the kabupaten of Banyuwangi topping the list with 40.41%. Thus it is undeniable that funding for social aid is derailing local spending, diverting it away from expenditure that accords with local priorities and needs.

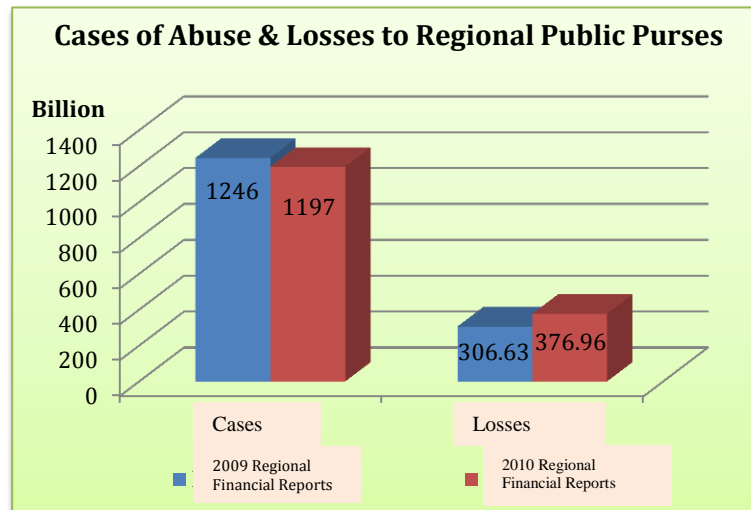


Social aid funding from regional budgets is being diverted into funding for electioneering. Analysis of budgets done by FITRA has shown that, in most of the 18 local government areas that held elections for local heads of government in 2008, funding levels for social aid increased in the election year (2008) and declined thereafter (2009-10) (see graphic below).



The public purse in regions is sustaining increasingly higher levels of losses because of poor budget management. In regional government financial reports for 2009 the national Audit Board (BPK) unearthed 1 246 cases of abuse potentially costing regions Rp 306.63 billion. The number of cases identified by the BPK in the following year (2010) fell, but resulting financial losses increased to to Rp 376.96 billion. These losses resulted from trumped up supplies of goods and services, price mark-ups, double payments for official trips and the like. Repetition of such abuses from one year to the next underlines continued weakness of local government budget

management practices and shows that they are not yet capable of discharging their responsibilities as they should.



Budget Projections and Recommendations for the Future

Projections for 2012 Budget

Policies incorporated in the 2012 budget will make realization of the dream of achieving social justice for all Indonesians recede further from sight. The draft 2012 State budget is the most badly put together budget for five years. Its skewed policy approach is as plain as day in its provision, on one hand, of Rp 215.7 trillion to meet the cost of a 4.7 million strong civil service, while on the other allocating four times less than that—just Rp 50 trillion—to help Indonesia’s 31 million poor. This level of civil service funding will make civil service costs the single biggest line item in the budget in 2012, eclipsing even funding for subsidies that has been the No. one item up to now. Although capital expenditure is slotted to rise to Rp 168 trillion, only Rp 54.6 trillion of that amount is likely to be spent on economic infrastructure.

The 2012 budget has been formulated on a “business as usual” basis. And budgetary practices will not change much in 2012. Thus, we again face the prospect of slow budget absorption rates and audit reports that amount to little more than an annual ritual. The main aim in the education budget seems to be to meet the required 20% expenditure level, with minimal emphasis on effectiveness. Moreover, appropriations for health will continue to fall below the 5% of total budgetary spending required by law.

As the next general election approaches, “budget mafia” activities will become more pronounced. The need for political funding will rise in the lead-up to the 2014 general election and will stir the budget mafia into even greater action as they try to replenish political party coffers. The political elite at the Center—both within Parliament in Senayan and ministries—and in regions will be expected to raise funds by whatever means, even at the expense of the public purse.

Recommendations for the Future

Constitutional mandates should be fleshed out in a revised law on state finances: Law No. 17/2003 on State Finances is currently on the DPR's list of laws to be revised. Relevant to that review is Article 23 of the 1945 Constitution which states that State budgets shall be implemented in an open and accountable manner in order to best attain the prosperity of the people. This constitutional mandate should be a fundamental plank in any revision of legislation on State fiscal systems. Such revision should guarantee that budgets will be managed transparently, thereby precluding budget mafia activities. It also needs to contain guidelines (indicators or parameters) for management of budgets in ways to best attain prosperity for the people.

Political campaign funding should be reined in and limits should be placed on budget mafia activities. A need for money to meet the high cost of politicking combined with a relatively weak budgetary support system led to the appearance of budget mafias. It is important therefore that future revision of electoral legislation places limits on permissible levels of campaign funding and improves the current system of public funding of political parties. The capacity of the House of Representatives (DPR) to critique government budgets also needs to be enhanced. Up to now the DPR has done little more than criticize government projects brought before it as budget proposals. What it should be doing is critiquing more substantive policy aspects of budgets and offering alternatives. To do that the DPR needs a support system in the form of a budget office to support it in critiquing government budgets and acting as a mediator for the public on public access to budgetary information.

Efforts to eradicate corruption should focus on return of embezzled assets. This statement applies especially to the Attorney-General's Department whose expenditure on corruption eradication efforts is out of balance with the value of assets it recoups for the public purse. Return of embezzled assets to State coffers should be a yardstick for measuring the success of budgetary spending on corruption eradication. In this way we would ensure that eradication of corruption does not become the sole focus without any attention to compensating the public purse for embezzled assets.

Regional fiscal transfers need to be fairer. Regional autonomy places greater demands on regions and must therefore be accompanied by a fiscal decentralization system that supports regions. Reform of the regional fiscal transfers system should, as a minimum, promote more efficient policies on civil service funding and discourage the formation of yet more autonomous regional governments. The system should focus squarely on delivering a minimum level of public services and removing per capita fiscal gaps among Indonesians. It follows that revision of the regional fiscal transfers system should be a priority for government in its effort to accelerate achievement of the aims of regional autonomy.

Budgetary information should be available to the public. The enactment of Indonesia's law on freedom information (UU KIP) ushered in a new era for Indonesia's democracy. To abide by this law—as they are required to—public institutions need to adopt new paradigms. In particular, they have to change their thinking on budgetary information which before UU KIP was regarded as confidential but now has to be made available to the public. This applies equally to regional areas: provinces, kabupatens and cities have to immediately give the public access to

information they hold and make it possible for people to participate in local economic planning and budgetary processes.