

## Budget Brief

# *Budget*

# SUPPLEMENTS

*Special supplements  
for representatives  
who care about the people*

**Attention**

To be read before the Financial Memorandum

## FITRA's VIEW ON RAPBN 2011:

### “Dissecting APBN for the benefit of the people”

- **RAPBN 2011 is a manifestation of the elected government's commitments to the people**, as stated in the 2010-2014 National Mid-Term Development Plan which details the 2011 Government Work Plan.
- **RAPBN is rightly geared towards achieving the state's purpose; the fulfilment of the constitutional mandate.** The government should further elaborate on the RAPBN 2011 Financial Memorandum, which is built upon the state's obligation to fulfil the rights of its citizens as mandated in the constitution. Namely, that as much of the APBN as possible should be designated for the people's welfare (Article 23, Paragraph 1, 1945 Constitution).
- **However, budget politics are still dominated by the bureaucracy and characterised by incremental budget policies.** Currently, no 'reward and punishment' mechanism exists for ministries/institutions that receive poor audit outcomes.
- **As a result, there hasn't been any inter-connection or coherence between the national government and regional government's budget policies and politics**, nor between ministries/institutions or cross-sectoral.

#### A. Macroeconomic Framework & the Direction of 2011 Fiscal Policies

| No. | Assumptions                            | KEM and PPKF      | Agreement between the Government and the Budget Agency |
|-----|--|-------------------|--|
| 1   | Economic growth (%)                    | 6.2 - 6.4         | 6.1 – 6.4  |
| 2   | Inflation (%)                          | 4.9 – 5.3         | 4.9 – 5.3  |
| 3   | Exchange rate (Rp/US\$)                | 9.100.0 – 9.400.0 | 9.100.0 – 9.400.0                                      |
| 4   | SBI 3 month interest rate (%)          | 6.3 – 6.7         | 6.2 – 6.5  |
| 5   | Price of oil (US\$/per barrel)         | 80.0 – 85.0       | 75.0 – 90.0  |
| 6   | Oil lifting (per thousand barrels/day) | 960.0 – 980.0     | 960.0 – 975.0  |

- ***The macroeconomic assumptions outlined above don't reflect the social realities of communities.*** Macroeconomic indicators should also include targets relating to poverty reduction, unemployment rates and the Gini index.
- ***The economic growth assumptions proposed by the government don't speak to the realities of inequality on the ground.*** The government has claimed that economic growth of 1% will provide employment for 400,000 people, assuming there'll be a 2% increase in employment opportunities every year. For example in 2008, as many as 22 regions registered as below the national economic growth rate, whilst 14 regions were below the average unemployment rate of 8.4%. In Banten, the unemployment rate almost reached two times the national unemployment rate.
- ***The government should clarify the contributions of macroeconomic growth to each region,*** so that national economic growth accurately reflects regional economic growth as well as any inequalities.
- ***Rates of economic growth don't correlate with poverty rates and the Human Development Index.*** The government can claim that it's increasing economic growth rates; however, it doesn't seem to have the ability to significantly decrease rates of poverty. Indonesia's Human Development Index rating has even declined. In 2006, Indonesia was rated 107 but slipped to 109 in 2007-2008, and by 2009 it had fallen to 111. Indonesia's rating is even worse than Palestine's (110) and Sri Lanka's (102), which is currently being hit by conflict.
- ***Poverty reduction targets should reflect the contributions made by regions to poverty reduction.*** The central government can establish poverty reduction targets at 3% per year; however, if the targets don't reflect an actual decrease in poverty, then the target only really represents a figure on a page.
- ***The inflation rates of 4.9-5.3% assumed by the government are very optimistic but hardly realistic.*** Practically, from year to year, the government revises inflation rates to be higher than any other policy changes in the budget. In 2010, before budget policies increased electricity tariffs (TDL), the price of groceries skyrocketed. Hence, optimistic inflation rates should always be supported by government fiscal policies that address the root of inflation problems i.e. improvements in grocery distribution lines, logistic depots and comprehensive market control. Government fiscal policies should also pay attention to the impacts of inflation, as the repealing of subsidies without any safety mechanisms can cause high rates of inflation.
- ***Oil lifting and income from the oil and gas sector needs to be closely monitored,*** remembering that blocks have already started to be produced but that income from natural resources is in fact decreasing.

## B. The Structure and Direction of Income Policies in APBN 2011

APBN 2008-2010, APBN-P 2010 and RAPBN 2011  
Rp. Trillion

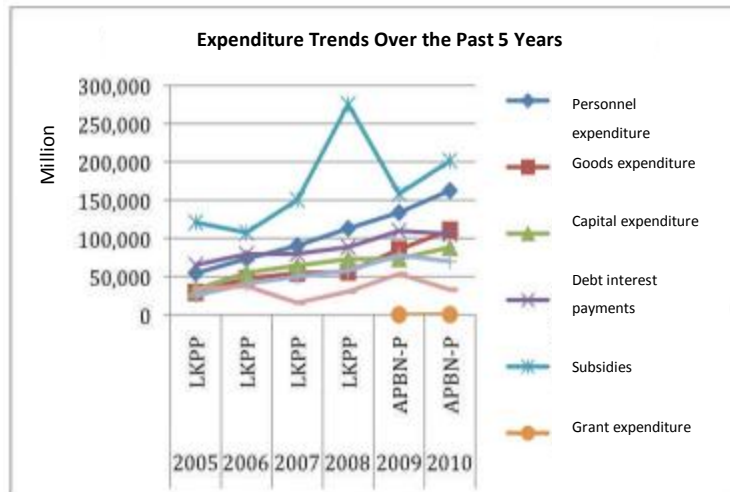
|                                   | 2008  | 2009  | 2010    | 2010    | 2011    |
|-----------------------------------|-------|-------|---------|---------|---------|
|                                   |       |       | APBN    | APBN-P  | RAPBN   |
| <b>A. State income and grants</b> | 981.6 | 869.6 | 949.7   | 992.4   | 1.086.7 |
| I. State income                   | 979.3 | 868.5 | 948.1   | 990.5   | 1.083.4 |
| 1. Tax revenue                    | 658.7 | 641.4 | 742.7   | 743.3   | 839.9   |
| 2. Non-tax revenue                | 320.6 | 227.1 | 205.4   | 247.2   | 243.5   |
| II. Grants                        | 2.3   | 1.1   | 1.5     | 1.9     | 3.2     |
| <b>B. State expenditure</b>       | 985.8 | 957.5 | 1.047.7 | 1.126.1 | 1.204.9 |
| I. Central government expenditure | 693.4 | 648.9 | 725.2   | 781.5   | 840.9   |
| II. Transfers to the regions      | 292.4 | 308.6 | 322.4   | 344.5   | 364.1   |
| <b>C. Surplus/deficit</b>         | -4.1  | -87.8 | -98.0   | -133.7  | -118.3  |
| I. Percentage of GDP              | -0.1  | -1.6  | -106    | -2.1    | -1.7    |
| <b>D. Financing</b>               | 84.3  | 111.3 | 98.0    | 133.7   | 118.3   |
| I. Domestic                       | 102.5 | 128.1 | 107.9   | 133.9   | -       |
| II. Overseas                      | -18.4 | -16.8 | -9.9    | -0.2    | -       |

Source: Ministry of Finance

- **Tax revenue is estimated to increase by Rp839.9 trillion or 13% by 2010.** Without even comparing the tax revenue of other countries that have similar economies to Indonesia with tax ratios of 16-19%, it could be said that the tax revenue ratio in 2011 was far from the ratio in 2008, which almost reached 13.5%. In actual fact, tax revenue targets still fall quite short of the government's potential income, demonstrating that tax reform is yet to bring any changes to state revenue.
- **In order to expand personal tax bases, the government should consider using tax earmarked for attracting the interest of taxpayers.** The government could develop a social insurance system based on tax cuts, so that there are direct benefits for paying personal taxes. Firstly though, the government needs to ensure that the database can handle the concept of single identity numbers (SIN).
- **Although total state revenue has increased, revenue from natural resources has declined,** caused especially by oil lifting. The decline is quite dubious however, considering that blocks have already started being produced. Presidential Regulation No. 26/2010 on Transparency of National and Local Revenues from Extractive Industry remains policy-oriented and yet to be mainstreamed throughout the extractive industries sector.

### C. The Structure and Direction of RAPBN 2011 Expenditure

- In an effort to achieve the state's development targets of 2011, **budget allocations for state expenditure are planned for Rp1.204.9 trillion, an increase of 7% compared to 2010.**
- **Central government expenditure in 2011 will reach Rp840.9 trillion, an increase of 7.6% compared to 2010.**
- In line with the increase in state expenditure in 2011, **budget transfers to the regions have been planned for Rp364.1 trillion, an increase of 5.6% compared to 2010.** An increase in budget transfers to the regions aims to improve local fiscal capabilities and support local development initiatives in line with national development priorities.
- Every national budget submission always claims that regional budgets will continue to increase. In fact in 2011, the government claimed that they had already increased budget transfers to the regions by two-fold, from Rp150.4 trillion in 2005 to Rp364.1 trillion in RAPBN 2011. **However, when compared to state expenditure which has only continued to increase, budget transfers to the regions have stagnated at 30% of total state expenditure,** in spite of the fact that the regions manage much larger affairs than the centre and have a total of more than 500 governments. Budget transfers to the regions should be fought for by the DPR, rather than suggesting that high amounts of funding have no effect on local expenditure. **If budget transfers to the regions remain minimal, regardless of how large the increases in the APBN are, it won't be able to help increase the people's welfare.**
- **Although it's still dominated by subsidies, a snapshot of the central government's expenditure over the last 5 years reveals some very worrying facts.** According to the graph below, personnel expenditure has continued to increase whilst capital and goods expenditure hasn't increased significantly. Indeed, of the Rp 107 trillion allocated for goods expenditure, Rp 19.5 trillion was used for travel purposes (sourced from APBN 2010 data).



- In APBN-P 2010, budget transfers to the regions experienced an increase in adjustment funds of Rp 13.8 trillion, totalling Rp 21.1 trillion or the equivalent of a Special Allocation Fund (DAK).*** In the beginning, adjustment funds were used to accommodate for the lack of funds needed to pay balanced funds. However, since 2008, adjustment funds have also been used to accommodate hold harmless funds and ad-hoc programs. In 2008, it was known as the Facilities and Infrastructure Fund (DISP), which in 2009 became the Strengthening Fiscal Decentralisation for the Acceleration of Local Development Fund (DPDF PPD), and in 2010, the Strengthening Local Facilities and Infrastructure Fund (DPIPD) and the Acceleration of Educational Infrastructure Fund (DPIP) were added. However, infrastructure funding for the regions has violated Law No. 33/2004 on Fiscal Balancing between the Centre and Regions. The obscurity of DPDF PPD and DPIPD formulas will be new territory for budget brokers in the DPR and government, who sell off their authority to those regions that wish to disburse the funds. ***These arrangements show that the strength of political lobbies is a key determinant as to which regions obtain fund disbursements, instead of being based on the needs of priority areas.***

**Table 1**  
**Additional Adjustment Funds in APBN-P 2010**  
**Rp. Billion**

| No | Adjustment Fund                  | APBN           | APBN-P        | Difference    |
|----|----------------------------------|----------------|---------------|---------------|
| 1  | Additional teacher salaries PNSD | 5.800,0        | -             | -             |
| 2  | Regional incentive funds         | 1.387,8        | -             | -             |
| 3  | Underpayment of DAK              | 80,2           | -             | -             |
| 4  | Underpayment of DISP             | 32,0           | -             | -             |
| 5  | DPDF-PPD                         | -              | 7.100,0       | 7.100,0       |
| 6  | DPIPD                            | -              | 5.500,0       | 5.500,0       |
| 7  | DPIP                             | -              | 1.250         | 1.250         |
|    | <b>Total</b>                     | <b>7.300,0</b> | <b>13.850</b> | <b>21.150</b> |

Source: Seknas FITRA, sourced from the Working Committee Report on Transfers to Regions (28 April 2010)

For example, regions that have a high fiscal index but a poverty index below the national average - such as *Kabupaten Berau* and *Penajam Paser Utara* in East Kalimantan - actually receive a higher DPIPD budget allocation compared to those regions that have a low fiscal index but a poverty index above the national average, such as *Kabupaten Timor Tengah Selatan* and *Kupang* in East Nusa Tenggara. Likewise with DPF PPD allocations, as illustrated in the following table. It's hardly surprising that autonomous regions aren't able to booster the people's welfare with such budgeting practices.

**Table 2**  
**A Comparison of the Rich and Poor Regions that Receive Adjustment Funds**

| No | Region                                | Fiscal Index | Poverty Index | DPIPD          | DPF PPD       |
|----|---------------------------------------|--------------|---------------|----------------|---------------|
| 1  | <i>Kabupaten Berau</i>                | 2.999        | 0.886         | 17,335,000,000 | 4,931,137,019 |
| 2  | <i>Kabupaten Panajam Paser Utara</i>  | 2.935        | 0.698         | 24,175,000,000 | 0             |
| 3  | <i>Kabupaten Timor Tengah Selatan</i> | 0.243        | 1.857         | 12,000,000,000 | 4,931,137,019 |
| 4  | <i>Kabupaten Kupang</i>               | 0.271        | 1.46          | 4,835,000,000  | 0             |

- FITRA holds that ***the government should publish the details of budget transfers to the regions and the nomenclature of adjustment funds*** in APBN 2011, based on a view that considers local forms of inequality and fiscal indicators. These details need to be published so that budget transfers can effectively achieve their goal of overcoming inequality between regions and increasing the prosperity of local communities.

### D. RAPBN 2011 Expenditure Policies

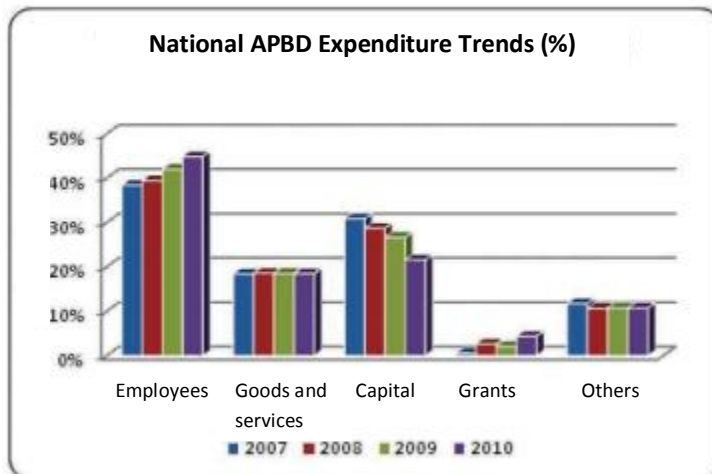
The government has applied the following theme to 2011 expenditure policies; ***“Accelerating Equitable Economic Growth By Strengthening The Governance Of and Synergy Between the Centre and Regions”***, in line with the following priorities:

#### **Priority 1: Bureaucratic and Governance Reform**

- ***FITRA is of the view that the government is yet to establish a clear design or direction for carrying out bureaucratic reform.*** Bureaucratic reform with proven remuneration isn't necessarily able to eliminate the culture of bureaucratic corruption. Neither does it necessarily produce a sleek bureaucratic structure rich in functionality and budget savings, features which should ultimately be an important part of bureaucratic reform. Otherwise, bureaucratic reform just gives rise to a large and inefficient bureaucracy, and ends up swallowing much of the budget. As illustrated in the table above, personnel expenditure has continued to increase whilst goods and capital expenditure hasn't, and it's a similar situation in the regions where officials have continued to dominate the budget. It's not surprising therefore that the APBN and APBD are yet to contribute significantly towards economic growth.
- ***The Presidency, as a potential vehicle for bureaucratic reform isn't even able to lead by example for other ministries/institutions.*** The Cabinet has been formed based on Law No. 39/2008 on Ministries/Institutions with 34 representatives, accommodating all members of the coalition. The President has added 10 further Vice Ministerial positions - whose work up until now hasn't been clearly divided – widening the structure of the Presidency. If it's further reformed, certain institutions in the Presidential Palace such as special staff, personal staff, spokesmen, work units, the Presidential Advisory Council and the Judicial Mafia Task Force, indeed up to 8 teams in total will have to end their term of office. Ironically, these institutions are yet to be evaluated for their effectiveness. Furthermore, there's been a tendency for the Presidency to add to the burden of the state budget. In APBN 2010, it was recorded that the Presidential Working Unit had a budget of Rp 17.1 billion, whilst the Presidential Advisory Council's budget was Rp 34.5 billion.
- ***Bureaucratic reform should also focus on improving authority between the centre and the regions, as well as fiscal discretion.*** Although the regions are charged with matters such as fiscal decentralisation, it's often pseudo; being largely determined by the central government's budget allocations. Based on a study by Seknas FITRA, regions spend on average 80% of their DAU to pay employee's salaries. Fiscal limitations in the regions can also be seen from the significant increase in the percentage of personnel expenditure, meanwhile capital expenditure continued to decrease to its lowest within the last four years in 2010. Moreover, regions are required to give 10% of their DAK designated funds, and 20% of their budget to education and 10% to healthcare.



Although, not many regions have support from DBH, except for those that are urban and those that are resource-rich. **Practically, regions just don't have the authority to determine budget allocations or advise on what should be included in the APBN.**



- **DPR must immediately support the government to divert non-concentrated and administration funds to Special Allocation Funds in 2011, as mandated in Law No. 33/2004.**

The government recently established a Government Regulation based on another established four years earlier; Presidential Regulation No. 7/2008 on Non-Concentrated and Administration Funds, which mandates that non-concentrated and administration funds should be gradually transferred to the regions. The regulation demonstrates, however, the government's poor commitment to decentralisation by handing over matters without budget authority.

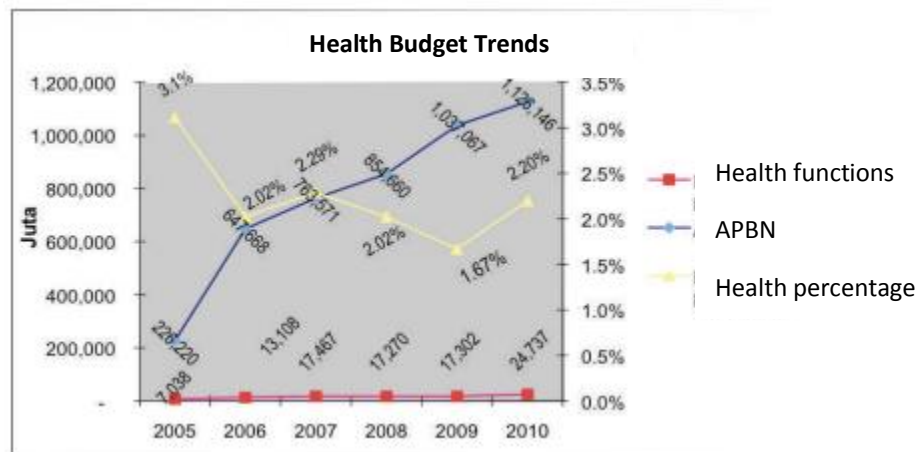
### **Priority 2: Education**

In 2011, the government fulfilled the 20% education budget. Fulfilment of the education budget only occurred however, after the Constitutional Court agreed to the Indonesian Teacher's Association testing of APBN 2008. The Constitutional Court finally decided that the 20% education budget would be met in APBN 2009, which no doubt changed the structure of RAPBN 2009 significantly. Policies aimed at fulfilling the 20% education budget - 5 years after the constitutional mandate was introduced - aren't very encouraging in terms of the government's attitudes toward education. In the mandate, the 20% education budget should include teacher's salaries, after the Law on National Education was submitted for a judicial review. Furthermore, policy compliance was thick with political motives as the 2009 election drew near. The 20% education budget formula was also controversial, in that it was uncertain as to whether or not it also included budget transfers to the regions such as DAU, DAK and DBH, which incidentally were claimed by local governments as part of their 20% education budget in APBD. **Thus, the 20% education budget still generates pertinent questions, is it 20% of APBN and 20% of APBD? Or 20% of APBN and APBD combined?**

- The unfulfilment of the 20% education budget should have already revealed the results of wider access to quality education. Unfortunately, however, after 2 years of being unfulfilled no further light has been shed on the reasons why. School buildings have been left to be destroyed, many children still aren't in school and the quality of national examinations is becoming increasingly dubious. ***These conditions illustrate the appalling nature of education in Indonesia. Indeed, even if the education budget is large enough, it doesn't guarantee of the widening of access to education.***
- FITRA argues that much of the education budget doesn't have a significant impact on the quality of education for the following reasons:
  - ***The results of the BPK Audit show that the departments that received the largest portion of the education budget were the Ministry for Education and the Ministry for Religious Affairs, despite not issuing a disclaimer in the last 3 years.*** Based on the results of the BPK Audit in Semester 1 2009 for example, 24 cases were found to not be appropriately using the Rp 2.2 trillion budget according to legislation, whilst the Department of Religious Affairs had as many as 39 cases. It illustrates the ill-preparedness of the two departments to manage large budgets. Moreover, there are increasing irregularities in regional education budgets. Based on the results of the BPK Audit in Semester 2 2009, which examined 189 Local Government Financial Reports (LKPD), it was found that 42% of the 80 regions had irregularities in their education budgets of Rp 900.7 billion. These irregularities began with the head of the education department and trickled through to the heads of schools, which is quite worrying as it means that much of the education budget isn't accountable, leading to an increase in the number of corrupt actors.
  - ***The government isn't ready; its grand education design isn't of sufficient quality.*** In RAPBN-P 2010, the government allocated additional funds to the education budget of Rp 11.7 trillion, reaching a total of Rp 221.4 trillion. The reason for the addition was due to an increase in total state expenditure, but wasn't based on a mapping of the country's educational needs. So that the addition didn't come as too much of a surprise, it was spread across the Ministry for Education (Rp 6.3 trillion), the Ministry for Religious Affairs (Rp 2 trillion), the Ministry for Transportation (Rp 600 billion) and the Ministry for Health (Rp 300 billion for scholarships for health professionals).
  - ***Budget allocation policies for local education initiatives aren't effective.*** Based on FITRA's analysis of 41 *kabupaten/cities*, regions generally fulfil the constitutional mandate. The problem is that the 20% education budget is often allocated more for indirect than direct expenditure.
- ***To counteract the above issues, the DPR should immediately urge the government to prepare a road map for the usage of the 20% education budget.*** The road map shouldn't be budget-driven, but rather based on Indonesia's education needs. We need to realise that there's no guarantee that a large education budget can boost the quality of the nation's education system. All throughout Indonesia, the utilisation of the education budget hasn't been efficient or effective, and will continue not to be whilst the seeds of corruption prevent education services from blossoming.

## Priority 3: Health

- The enactment of Law No. 36/2009 on Health should be the cornerstone of the government's commitment to the healthcare budget.** Article 171, Paragraph 1 mandates that "the government's healthcare budget should be allocated a minimum of 5% of state revenue and state expenditure excluding salaries". However, like the education budget that was only realised 5 years after the constitutional mandate, the government is yet to pay serious attention to the healthcare sector. The graph below demonstrates that although APBN has increased five-fold since 2005, the proportion of the health budget hasn't increased.

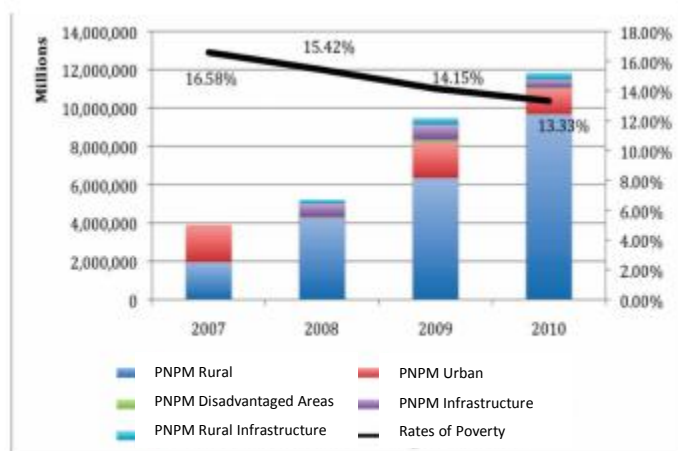


- Based on calculations of healthcare expenditure in APBN-P 2010, by including employee's salaries as expenditure, the healthcare budget is still far from the conditions stipulated in Article 171 of Law No. 36/2009.** As explained in the table above, the portion of healthcare expenditure in APBN-P 2010 is still 2.2% of the total APBN-P 2010, in other words far from adequate (less than 1% of GDP). When compared with the Philippines which has a lower per capita GDP than Indonesia, its allocated 3% of its GDP to healthcare expenditure. Healthcare expenditure should function to fulfil the following five MDG indicators; malnutrition, maternal mortality, child mortality, HIV AIDS and infectious diseases, as well as clean water and sanitation.

- Starting from 2010, the government's Operational Costs of Healthcare program has been provided directly through community health centres (Puskesmas).** The initiative is reasonably good at cutting through the bureaucratic chain, however, the trialled allocation of Rp 100 million for community health centres has demonstrated *Puskesmas* aren't ready for the disbursement of expenditure as they're still quite populist. FITRA recommends that the DPR urges the government to create a set *Puskesmas* Operational Assistance scheme for every community health centre, based on relevant healthcare issues such as maternal and child mortality, malnutrition and infectious diseases.
- FITRA considers the health budget to be an insufficient and ineffective budget allocation.** If Indonesia wants to achieve the MDG health targets, of which there are only five more years remaining, then APBN 2011 must immediately allocate 5% of APBN to healthcare.

### Priority 4: Poverty Reduction

- The National Community Empowerment Program (PNPM) is believed by the government to be a sure cure for poverty. Indeed, the government has ramped up PNPM funds from Rp 3.9 trillion in 2007 to Rp 11.8 trillion in 2010. It's even been brave enough to borrow US\$744 million (Rp 7.4 trillion) from the World Bank for the program. ***Ironically, the effectiveness of the PNPM program in reducing poverty is still questionable.*** Even though the budget has increased a number of times, poverty rates haven't reduced significantly. In the 2009 election year, the PNPM budget increased by Rp 4.2 trillion compared to 2008, when it only increased by Rp 1.3 trillion. In 2008, a budget of only Rp 534,000 was required to bring one person out of poverty, whilst in 2009, it required a budget of Rp 2.8 million. The discrepancy demonstrates the increasingly high costs of reducing poverty one person at a time when poverty rates are declining. Regions are also forced to allocate 20-40% of their Local Funding for Joint Activities (DDUB) to PNPM. However, PNPM isn't a type of balanced fund, or a non-concentrated and administration fund, which means that such allocations violate the principle of fiscal balancing outlined in Law No. 33/2004.



- ***FITRA is of the view that the DPR should immediately undertake an investigation of the effectiveness of PNPM and discontinue the sources of PNPM funds, which mostly originate from debt.*** The DPR should also urge the government to create a cost unit or an Analysis of Standard Costing (ASB) on how much money is needed to lower poverty rates.

### **Conclusion**

It's time for the people's representatives to build a new tradition in RAPBN 2011 discussions as mandated in Article 53 of Law No. 10/2004, whereby the people have the right to provide verbal and written feedback in the preparation and discussion of draft bills. With the view to doing so for APBN 2011, the DPR needs to host a public hearing (RDPU) with people who work in commissions, budget agencies, working committees or fractions. Public hearings can be used to help the DPR effectively implement budget functions and to realise an APBN that exists, as much as possible, for the prosperity of the people.

**“It's time that the DPR built a new tradition of carrying out RDPU with community groups in APBN 2011 discussions.”**

**“Budget Supplements” produced by**



**National Secretariat**  
**Indonesian Forum for Budget Transparency**

**Jl. Guru Alif No. 34 Rt 04 Rw 06 Kel. Duren Tiga, Pancoran Jakarta Selatan 12760**  
**PO Box 7244**

**Telephone: 021-7940133 | Fax: 021-7947608**  
**Email: [seknasfitra@yahoo.com](mailto:seknasfitra@yahoo.com), [secretariat@seknasfitra.org](mailto:secretariat@seknasfitra.org)**  
**Website: [www.seknasfitra.org](http://www.seknasfitra.org) | [www.budget-info.com](http://www.budget-info.com)**

**Seknas FITRA is open to DPR RDPU invitations to  
provide input in RAPBN 2011 discussions**