

**LOCAL DEVELOPMENT PLANNING AND BUDGETING IN DECENTRALIZED INDONESIA:  
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**ABSTRACT:** In any country, there exists a continuous debate over the right balance between central control (centralization, or top-down) and regional autonomy (decentralization, or bottom-up), and the balance shifts from time to time. It is understood that both elements are required to manage a country and to ensure its long-term development of a country as a whole. A key challenge for a responsible government is to find a right balance between centralization and decentralization. This paper analyzes local development planning, budgeting, budget implementation and adjustment in Indonesia based on the first two and a half year's experiences after the 2001 decentralization. Indonesian government needs to make the best strategic use of matching grant allocations to penetrate national priorities and internalize spill over effects into local planning and budgeting. There are some innovative moves with regional governments' initiatives to promote active stakeholder participation. However, it is highly important to build in stakeholder involvements into local government structure through provisions in a law. Although about 60 percent of regional governments has shifted to the new budget format since FY2003, concepts of strategic multi-years planning and performance based budgeting are not necessarily well understood by regional governments, where clear indicative targets have not yet been prepared. Linkages between local development plans remain weak, much less linkages between development plans and budgets. Major contributing factors include: 1) lack of general guidelines for local planning; 2) delayed release of new guidelines for local budgeting and financial managements; 3) vague expenditure assignments; and 4) lack of qualified local planning and budgeting officials. In particular, extreme weakness in capacities of local personnel was found in our case studies. Central and provincial governments' strong initiatives in providing coordinated training supports to local governments are most urgently needed.

**Keywords:** Indonesia, Decentralization, Local Planning and Budgeting

**I. INTRODUCTION**

1. Since January 2001, the Government of Indonesia (the Government) has initiated a drastic decentralization program, whose legal framework was provided by the Regional Governance Law No.22/1999 and the Fiscal Decentralization Law No.25/1999 issued in May 1999. The hierarchical relationship between provincial and local<sup>1</sup> governments called

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*Kota* (municipality or city) and *Kabupaten* (regency or district) was eliminated, and all local governments became fully autonomous and responsible for planning, management, financing, and delivery of public services in some sectors. While provincial governments also act as autonomous regions, they retain a hierarchical relationship with the central government. The election of head of region no longer requires the clearance from higher levels of government, and they are accountable only to their respective local parliaments (DPRD). With the implementation of the 2001 decentralization, Indonesia has started moving from one of the most centralized to one of the most decentralized countries in the world.

2. In discussing and analyzing decentralization in any nation in the world, we need to avoid extremes. Governments also do not need to go extremes in their policy making and implementation. In any country, there is a continuous debate over the balance between central control and regional autonomy, and the balance shifts from time to time. Both elements, i.e., central control and regional autonomy, are required to manage a country and also to ensure long-term development of a country as a whole. A key challenge for a government is how to find a right balance between central control (centralization) and regional autonomy (decentralization). It is also important that the balance is kept under constant reviews to meet changes in political and economic conditions. We come across the issue of the balance between top-down and bottom-up in various contexts: revenue assignments, expenditure responsibilities, development planning, financial management, and human resource development. A responsible government needs to find an appropriate balance in each of these areas.

3. Decentralization has strong rationale for Indonesia which has wide diversity in its geography, culture, natural and human resource endowment, since the diversity implies a large variety in the need for public services and large differences in public service delivery costs from region to region. However, at the same time, we should be reminded that the wide diversities can afford a strong basis for centralization (top-down). If the Government needs to ensure a certain minimum welfare level across regions, centralization can be an effective policy tool, which was actually adopted under the New Order regime. Therefore, a key challenge for Indonesia has been, and still is, how to attain a proper balance between decentralization and centralization. With the 2001 decentralization program, Indonesia has swung the pendulum towards decentralization. However, the balance between central control and regional autonomy remains a key issue for the Government.

4. A key objective of decentralization is to move decisions closer to the people to make public service delivery more responsible to local demands. In any country, decentralization intends to increase the efficiency of provision of public services by matching expenditures with local needs, priorities, and preferences. However, there are some indispensable prerequisites to achieving the expected objective of decentralization. Economic literature earnestly advocate them as two basic implementation principles: 1) *functions* should follow *capacities*; and 2) *revenues* should follow *functions*<sup>2</sup>. The former principle implies that local governments should have enough human resource capacity to fulfill newly devolved functions, while the latter emphasizes the need to guarantee a reasonable balance between expenditure responsibilities and revenue instruments available to local governments. A main message implied in the principles is that the outcomes of decentralization policy depend on its design and on the institutional arrangements governing its implementation.

5. Major areas covered in this paper are local development planning and budgeting. Development planning and budgeting are indispensable instruments to secure the

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<sup>1</sup> In this paper, the term "local government" refers to municipality or city (*Kota*) and regency or district (*Kabupaten*), while "regional government" is applied both to provincial and local levels of government.

<sup>2</sup> In addition, we have to take into account "deficit neutrality" of decentralization policy.

expected impact of decentralization. First, local governments should have clear development strategies which fully respond to people's needs, priorities, and preferences. This can be achieved through active public participations in the planning process. Second, the established priorities should be reflected in actual budget allocations through effective budgeting process. A solid link between planning and budgeting is a key prerequisite for successful decentralization. Without the linkage, public service provisions can not necessarily meet local demands and still worse, can even be seriously impaired. Further, it is strongly required to institutionalize stakeholder involvements in planning and budgeting processes.

6. In parallel with the planning and budgeting linkage within a local government, we need to consider their linkages with those of higher levels of government (vertical linkage) and those of neighboring local governments (horizontal linkage). In Indonesia, there are three levels of autonomous sub-national governments: provinces, local governments (Kabupaten and Kota), and villages (Desa). In addition, there exists sub-district (Kacamatan) between local government and villages. How can these different levels of government coordinate in their planning and budgeting processes? Further, how effectively can higher levels of government promote their priorities at local level under the decentralized system? Even with decentralization, some elements of control are required to ensure discipline and effective service delivery at regions. Of course, the Government needs to avoid unnecessary interferences in regional government affairs. At the same time, there are some areas which require coordination with neighboring local governments. Local governments need to establish an effective network to maximize synergies with their neighbors. Successful decentralization requires both vertical and horizontal integrations of planning and budgeting.

7. This paper aims at assessing the Government's arrangements in local planning and budgeting from this aspect by reviewing the first two and a half years' experiences of decentralization, and clarifying key challenges for the Government to establish workable mechanisms within a decentralized context. As many observers reported, there are some innovative moves at regions and some new guidelines are prepared by the central government, however, at the same time, remaining and emerging challenges can be found at both levels. To the extent possible, we try to provide general pictures of development planning and budgeting in all regions and also all levels of government in Indonesia after the decentralization. However, it is not easy, since there are vast differences across regions and different levels of government in their current planning and budgeting practices. Hence, this paper sheds light on planning and budgeting at local government level based on major findings obtained in our case studies in Kabupaten Bandung and Kabupaten Lombok Tengah<sup>3</sup>.

8. This paper is organized as follows: section 2 discusses local development planning; section 3 analyzes local budgeting, budget implementation and adjustments; and final section presents our major conclusions. In section 3, we briefly refer to issues related with auditing and performance evaluation of local budgets, however, other important topics included in local financial management, such as cash management, investment management, asset management, accounting, and financial reporting are put outside the scope of this paper.

## **II. DEVELOPMENT PLANNING**

### **A. Planning Procedures: Top-Down and Bottom-Up Approaches**

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<sup>3</sup> The authors conducted field surveys with other team members in August 2002, and July to August 2003. Armida Alisjahbana covered the case study in Kabupaten Bandung, and Norio Usui joined the one in Kabupaten Lombok Tengah.

9. Development planning in Indonesia has consisted of a top-down and a bottom-up processes. However, in reality, it has been dominated by heavily top-down approach, in which the central government played decisive roles in allocating its budget resources to regions without paying enough attentions to local priorities. A centrally prepared five year development plan (formerly known as REPELITA and currently known as PROPENAS) provides detailed directions for development strategy at all levels of government, which determines sectoral allocations of development spending both at central and regional levels. Before the decentralization, center funded projects were implemented by central technical ministries and their local branches (Kandep at provincial level and Kanwil at local government level), and project funds were managed outside local government budgets. In many cases, local governments did not have any project ownership even though projects were implemented in their territories. With the implementation of decentralization, all levels of government are required to establish a new development framework to reflect people's demands into their development plans. We start this section with review of the old, but still dominant, planning practices.

10. **Top-Down Process:** The top-down process starts from discussions on GBHN (National Policy Guidelines) at MPR (National Consultative Assembly), following which five year development plan (PROPENAS) is prepared by the central government to provide guideline on national development objectives, policies and programs based on the broad guidelines and priorities set in GBHN. Strategic development plans of central line ministries and agencies (RENSTRA) are produced based on PROPENAS, which follows by annual national development plan (REPETA) defining priorities in the national development budget. The former outlines programs to achieve the stated missions of PROPENAS, while the latter provides more detailed programs and activities to link the Government's development plans with central development budget for the coming year.

11. All regional governments (provincial and local governments) are required to produce a basic strategy statement (POLDA), which has a similar status as GBHN at national level, as a master plan document incorporated political commitment on vision, mission, direction and strategy for long- and medium-term regional development. Based on POLDA, regional governments also prepare their five year development plan (PROPEDA), strategic development plans (RENSTRADA), and annual development plan (REPETADA), which correspond to PROPENAS, RENSTRA, and REPETA at the national level respectively.

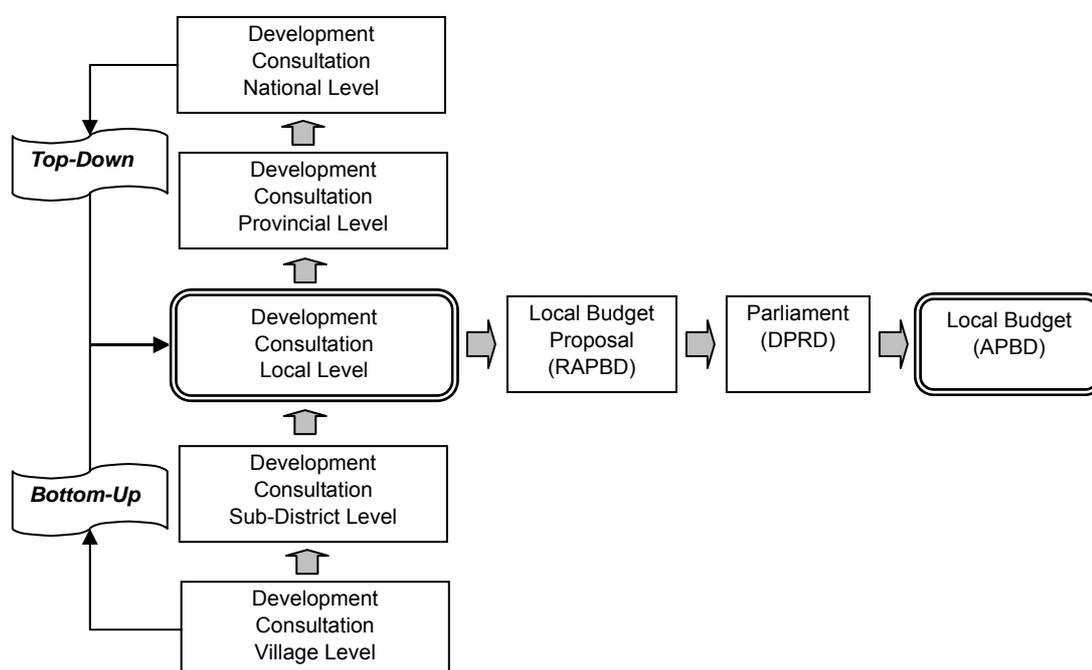
12. It is expected that regional governments take into account national development strategies in their own planning processes. In principle, coordination between different levels of government is secured through consultations at development planning coordination meetings (described in the following part), which are held at various levels of government. The top-down process of annual development planning begins when each level of government gives its guideline and annual budget decisions to the next lower level. The central government initiates this process.

13. **Bottom-Up Process:** The bottom-up process, which is advocated by the procedural framework called P5D regulation, is a consultation process whereby each level of government formulates draft annual development proposals based on proposals submitted from the next lower government level. The process starts with village development meetings (Musbangdes), which are chaired by village head (Kepala Desa) and attended by village assembly (LMD), which was replaced by village representative council (BPD) after the decentralization, village community resilience board (LKMD), NGOs, and a representative of sub-district (Kecamatan). A major objective of the meetings is to formulate project proposal for submission to the next level (Kecamatan). These meetings were held sometimes during May to July before the decentralization. With the circular letter (Surat Edaran) MOHA No. 050/987/SJ, which was released on 5 May 2003, the meetings need to be held in the last two weeks of April (Figure 2 and Annex 1).

14. Proposals from village level are reviewed in a meeting at sub-district level (UDKP),

which was generally held in June or July (April to the first week of May: SE MOHA No.050/987/SJ), with heads of villages and representatives from local government chaired by chief of sub-district (Camat). This meeting filters out ineffective, overlapped, and non-priority projects, and adds proposals from sub-district level officials. In sequence, the proposals are discussed at a development coordination meeting (Rakorbang Kabupaten/Kota) at local government level in a similar manner to select proposals considered to have sufficient justifications (third week of May to second week of June: SE MOHA No. 050/987/SJ). The meeting chaired by head of local government (Walikota in Kota, Bupati in Kabupaten) and is attended by representatives from all concerned local government officials and also representatives from province. Direct proposals from local government's technical bureaus are also added at this stage to finalize the project proposal to province.

**Figure 1 Bottom-Up Planning and Budgeting Processes**



15. The same process is repeated at a development coordination meeting at provincial level (Rakorbang Propinsi), which was held sometimes during July to September<sup>4</sup>. Participants to this meeting include: representatives from the central government, concerned provincial and local government officials. Again, at this stage, direct proposals from provincial technical bureaus can be added. Finally, proposals from all provinces are discussed at national development coordination meeting (Rakorbangnas) chaired by National Development Planning Agency (BAPPENAS) attended by Governors, Walikota/Bupati, heads of local development planning bureau (BAPPEDA) and representatives from Ministry of Home Affairs (MOHA) and central line ministries. The meeting is held in October or November in Jakarta. Based on the discussion at Rakorbangnas, the central government finalizes project proposals to be financed by the national budget (APBN) for the coming fiscal year.

16. **Reality of Development Planning:** Indonesia's traditional development planning system, consisted both of the top-down and bottom-up approaches, seemed to guarantee a delicate balance between central priorities and local demands in local development

<sup>4</sup> In FY2003, Rakorbang Propinsi and Rakorbangnas were both held in July 2003. Although SE MOHA No. 050/987/SJ provides timings of Musbangdes, UDKP, and Rakorbang Kabupaten or Kota, it contains no instruction to timings of Rakorbang Propinsi and Rakorbangnas.

planning. However, in reality it has failed to pick up true local demands. Before the decentralization, there was no separation of powers between the executives and legislatives at village level. Village head is the chairman of village assembly (LMD) and other LMD members were appointed by the village head. Village head was not accountable to LMD, but to higher authorities, i.e., chief of sub-district (Camat). In addition, village community resilience board (LKMD), which was in principle the institution to hears villagers' needs and forwards them upwards, was dominated by village elites who were also appointed by village head.

17. Further, a majority of project proposals from villages were filtered out at a series of coordination meeting, where higher level government's proposals were placed based on their own preferences without paying enough attention to proposals from lower levels. Before the decentralization, government officials from local branches of central line ministries also joined the meetings, and pushed their projects into local proposals. Consequently, final proposals were usually dominated by priority projects of higher levels of government, in particular those of the central government. Although there existed formal coordination mechanism (bottom-up process), however, local development planning was actually in firm control of the central government.

## **B. Key Challenges after Decentralization**

18. As we emphasized, an effective planning practice which can absorb people's demands, priorities, and preferences, is one of indispensable prerequisites for successful decentralization. With the implementation of decentralization, local governments in Indonesia acquired full authority and responsibility to produce more genuine local development plans, instead of centrally inspired local ones. The Government also supports participatory planning at local level by releasing the guideline for consultation process (SE MOHA No.050/987/SJ). There are some innovative moves with local initiatives, and many local governments seem to take this direction set by the new guideline. However, at the same time, there are some remaining and emerging challenges to be resolved to enable effective exercise of this authority by local governments. In this part, we discuss some of the key issues:

19. **Umbrella Planning System:** Although planning authority and responsibility are devolved to local governments, the Government has not yet released a new national planning system, which provides integrated guidelines for national, provincial and local planning processes and procedures. Government Regulation (PP) No.25/2000 stipulates that national and provincial development plans should be based on an agreement with local governments. However, other regulations kept silence on integration of development planning at different levels of government. As a result, many regions are still utilizing the old planning practices whose major components are the top-down and bottom-up processes. It is highly required for the Government, in particular BAPPENAS and MOHA, to produce a new umbrella planning framework through close coordination with each other.

20. **Consistency between Planning Documents:** Under the current system, all regional governments are required to produce POLDA (basic strategy statement), PROPEDA (five year plan), RENSTRADA (strategic development plan), and REPETADA (annual development plan). Although, in principle, all these documents should be prepared in a consistent manner to realize goals revealed in POLDA, they lack mutual consistency. In some regions, local governments only produce RENSTRADA without preparing POLDA and PROPEDA, since RENSTRADA is a political document, i.e., performance of head of regional governments (Governor/Bupati/Walikota) can be evaluated based on RENSTRADA at the end of their term in office. Even in other regions which have complete planning documents, those documents contain so many "cut-and-paste" type descriptions.

21. It is difficult to find the real difference between PROPEDA and RENSTRADA. In principle, RENSTRADA needs to provide a short list of program and project activities for

each sector identified in PROPEDA. However, RENSTRADA generally fails to provide clear priorities, time tables and institutional responsibilities for its implementations. The government regulations (PP No.108/2000 and PP No.106/2000) stipulate that RENSTRADA only covers development activities funded by local budget (APBD), while PROPEDA targets overall activities funded by not only local budget but also non local budget (mainly central line ministries' budget or DIP). This means that, under the current arrangement, key local development plans are fragmented according to funding sources, which makes it difficult to establish a direct link between RENSTRADA and PROPEDA. Further, it is difficult to assess overall performance of head of regional government, since they are only responsible for local budget funded development activities (RENSTRADA). Local government officials raised this issue as a major fault in the current requirements of RENSTRADA in many regions including our case study areas.

22. In addition, a new problem was created by MOHA Ministerial Decree (Kepmen) No.29/2002 on Regional Financial Management and Regional Budgeting. The decree acknowledges RENSTRADA as only one planning document to be referred in annual local budgeting. In theory, RENSTRADA is prepared based on guidelines and strategies revealed in five year development plan (PROPEDA). However, there is no close linkage between RENSTRADA and PROPEDA. Even if it exists, the link is weak. Still worse, as we mentioned before, some local governments have not yet prepared PROPEDA. This may induce shorter horizon in local development planning, which results in ineffective management of development activities by local governments.

23. **Quality of Plans:** Various new elements have been introduced with the decentralization in local planning process and products. One of the key elements is performance based strategic planning approach. To this end, local governments are required to prepare clear indicative targets, detailed costing plans, and also their fiscal perspective for their planning activities. In Kabupaten Bandung, we found that the government prepared RENSTRADA containing indicative targets to be achieved at the end of the medium-term plan for each sector. However, a majority of local governments have not yet produced clear indicative targets, and, even some already have targets, they still remain qualitative, not quantitative ones. This makes it difficult to evaluate performance of development activities at local level.

24. Prior to decentralization, local governments had been discouraged to build their own planning information system under the strong control by the central government. To be exact, there was little need to have it, since local development activities were dominated by central priorities and financial resources were provided from the central budgets. The past centralized system hindered capacity building of local development and budgeting officials. A lack of qualified officials makes it difficult to establish the much needed development information system under the decentralized system. Consequently, local development plans still remain only "wish list" in many regions.

25. **SE MOHA No.050/987/SJ:** The Government prepared a general guideline for participatory planning with the circular letter. Development coordination meeting at local level (Rakorbang Kabupaten or Kota) is divided into three sequent stages: 1) Pre-Rakorbang meeting; 2) Rakorbang meeting; and 3) Post-Rakorbang meeting. In Pre-Rakorbang meeting, where heads of technical bureaus (Kepala Dinas) and Camat are invited, a general guideline of development activities is checked based on local development strategy to facilitate discussion at Rakorbang meeting. Post-Rakorbang is arranged to check consistency between the results of Rakorbang meeting and local budget for the coming year. However, due to the tight planning schedule in FY2003, many local governments faced difficulties to follow the new planning procedure.

26. Another newly introduced system is a scoring sheet for prioritization of local development proposals. The circular letter provides a general idea to set priority ranks (quantitative indicators) for all proposals based on various indicators including decree of



coordination with higher levels of government is a serious problem. Although national and provincial development plans should be based on an agreement with local governments (PP No.25/2000), local development plans do not fully reflect basic ideas and strategies of higher levels of government. Decentralization, in its nature, puts the highest priority to enable local governments to produce their own development plans that can best respond to local demands. However, local development plan needs to be consistent with those of provincial and central governments. As we mentioned, even with decentralization fully in place, some elements of central control is required to ensure national priorities at regions. Key elements of national development plan should be reflected in local plans. It is impossible to put too strong an emphasis upon the importance of vertical integration of development planning.

29. **Coordination with Province:** Many observers reported that decentralization has produced a tenuous relationship between local governments and province. The FY2001 decentralization scheme created direct relationship between the central and local governments, while provincial governments were assigned to conduct coordinating role. Local development plans refer to the national development plan, in particular PROPENAS, however, they rarely mention provincial one. In some cases, it was reported that local government officials do not even participate in meetings arranged by province.

30. A feasible solution to foster the link between provincial development plan (and budget) with local ones is to utilize newly introduced provincial tax sharing scheme in Law No.34/2000. Under the new local tax law, provincial tax revenues from motorized vehicles, and change of title on motorized vehicles (30 percent), the motor vehicle fuel, and use of underground water (70 percent) need to be shared with local governments. A vital point is that provincial governments are authorized to set up sharing arrangements. Provinces can assert their indirect influences over development plans and budgets of local governments by incorporating provincial priority components into the sharing arrangements.

31. **Coordination with Center: Consultation and DIP:** The central government has three instruments to foster the linkage between national and local development plans: 1) consultation at development coordination meetings; 2) development budgets of central line ministries (DIP); which are called deconcentration funds after the decentralization, and 3) specific purpose grant (matching fund) called DAK. The first two instruments are closely inter-related, since it is in the development coordination meeting process that determines allocation of the central development budgets to regions. Prior to decentralization, center funded projects had been managed by central line ministries through their local branches (Kanwil and Kandep). Some observers reported that local governments sometimes did not know anything about the projects even the projects were implemented in the concerned regions. It was nothing strange even if local governments did not have any project ownerships. Some further say that, in the past, the centrally controlled planning and budgeting practices destroyed effective service deliveries at local level. Direct control through central line ministry budgets is no longer appropriate instrument in decentralized Indonesia.

32. **Specific Purpose Grant (DAK):** In theory, there are two basic objectives in specific purpose grant: to finance 1) projects which have large spill over effects across regions; and 2) projects which promote national priorities at regions. Projects to achieve minimum service standards (SPMs) at regions can be included in the second category<sup>6</sup>. DAK can be a powerful tool to foster the linkage between central and local development plans. Central government can promote nationally prioritized projects at regions through DAK allocation. The point is, even after the decentralization, there are some areas where central government needs to control projects at regions. The Government needs to realize that

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<sup>6</sup> Minimum Service Standards (SPMs) themselves are effective tools for central government to control regional development plans and budgets.

DAK is a key instrument for this end. Therefore, matching funds still play a major role in the intergovernmental fiscal relations in many decentralized countries.

33. Based on bitter experiences in the past, many local governments in Indonesia may feel that even DAK projects are centralistic like former projects funded by central development budgets. However, under the new DAK system, the Government can improve local governments' project ownership, since they need to finance part of project costs and also they should take the initiative in proposing the projects to the central government (PP No.104/2000). In this sense, we can say that DAK can be an effective policy instrument to establish close link between central and local development planning activities after the decentralization.

34. However, the Government has been hesitant to utilize DAK mechanism except for reforestation activities. A major reason was the Government's difficult budget situation. However, it must be noted that budgets of central line ministries (DIP) still contain funds for decentralized functions. Some observers pointed out that, in the FY2002 budget, central development budgets still hold as much as Rp. 10 to 20 trillion to finance devolved functions to regions, although the Law No.25/1999 stipulates that all decentralized functions must be financed and managed through local government budgets. This fact implies that the Government still has funds for DAK allocation. One possible justification of the large DIP budget even after the decentralization is to avoid public service delivery disruption at regions, since some local governments do not have enough capacity to carry out newly devolved functions. However, at the same time, it can not be denied the possibility that central line ministries or agencies tend to keep the DIP funds to maintain their power after decentralization. In principle, the Government should gradually phase out the DIP mechanism and shift available funds to DAK channel.

35. In FY2003 budget, the Government allocates Rp. 2.6 trillion for DAK. About Rp. 2.3 trillion are available for non-reforestation projects, especially for education, health, and infrastructure (road and irrigation). The Government will start utilizing DAK mechanism to non-reforestation projects for the first time after the decentralization. Although PP No.104/2000 stipulates that DAK allocation must be based on proposals from local governments (bottom-up), the Government decides to adopt top-down approach at least in FY2003. However, there are some critical issues to be redressed by the Government before allocating DAK to non-reforestation projects. These include: (i) identification of eligible local governments for DAK allocation by sector: and (ii) setting matching rates. We review the basic idea in DAK allocation for FY2003.<sup>7</sup>

36. **Eligibility Test (Screening):** There are two steps in the identification process of eligible local governments for DAK. First, the Government ranks all local governments according to their fiscal capacities<sup>8</sup>. A cut-off line is set at 238 to classify all local governments into eligible ones and non-eligible ones, which means that poorer 238 local governments are eligible for DAK allocation. Second, BAPPENAS in coordination with three line ministries reviewed sectoral indicators for the 238 local governments to check their eligibilities for each proposed sector. However, in reality, sectoral indicators are mainly utilized to determine allocation amounts to each local government, since DAK for education, health, and road sector (except irrigation sector) can be allocated to all eligible governments (Table 1). In the three sectors, minimum allocation (MA), or lump-sum allocation<sup>9</sup>, was distributed to all governments which survived the fiscal capacity screening,

<sup>7</sup> MOF Ministerial Decree No. 544/KMK.07/2002.

<sup>8</sup> The fiscal capacity is measured as total revenues in local budget excluding surplus from previous year (S.A.L.) minus personnel expenditure. Based on the fiscal capacities, fiscal capacity index (FCI) is defined for each region as a ratio of its fiscal capacity to average fiscal capacity of all local governments.

<sup>9</sup> Lump-sum component has also been utilized in the block grant (DAU) allocation, which undermined the

then, the remaining funds can be allocated based on formulas (FA) established by sectoral indicators. Only for irrigation projects, all DAK will be allocated based on a formula (there are some regions which can not receive DAK even they are classified as eligible in their fiscal capacities). Without the least intention, FY2003 DAK allocation makes much account of horizontal fiscal imbalance.

**Table 1 FY2003 DAK Allocation Concept**

<i>Fiscal Capacity/Sectoral Indicators</i>		<i>Education</i>		<i>Health</i>		<i>Road</i>		<i>Irrigation</i>
		MA	FA	MA	FA	MA	FA	FA
1	Local Government A ( <i>poorest</i> )	X	X	X	X	X	X	--
2	Local Government B	X	X	X	X	X	X	--
3	Local Government C	X	X	X	X	X	X	X
4		X	X	X	X	X	X	--
		X	X	X	X	X	X	
		X	X	X	X	X	X	
<b>238</b>		X	X	X	X	X	X	
239		<i>Not eligible (FCI&gt;1)</i>						
370								

X: eligible, --: not eligible.

MA: Minimum Allocation (Lump-sum Allocation), FA: Formula Based Allocation

37. **Matching Rates:** Since DAK is a matching fund, it is required to set matching rate for each project. PP No.104/2000 stipulates that a minimum 10 percent of project cost should be financed by local government. The Government seems to recognize that matching rate should be set based on two key factors: (i) differences in fiscal capacities across local governments; and (ii) differences in financial return of projects, i.e., profitable infrastructure projects or non-profitable social sector projects. However, due mainly to the tight schedule to finalize FY2003 budget, a clear matching rate setting criterion was not prepared. In FY2003, the matching rate of 10 percent, the minimum requirement, would be applied for all (eligible) local governments and also for all projects irrespective of differences in fiscal capacity and financial profitability of projects.

38. Again, we may have to emphasize the important function of DAK to conduct nationally prioritized and spill over projects. One of key challenges for decentralized Indonesia is its lack of effective instruments to promote national priorities at local level. The traditional consultation process at development coordination meetings can not make significant effects on local development plans. As we repeatedly mentioned, DIP is no longer appropriate tool to control local development plans and budgets. The Government needs to reconsider the chief objective of DAK and establish an effective DAK allocation criterion. DAK may be the only available and effective instrument to foster vertical integration of development plans in decentralized Indonesia.

39. In FY2003, the Government has conducted evaluation exercises of non-reforestation DAK by establishing an inter-ministerial team (MOHA, MOF, BAPPENAS and line ministries). The team sent questionnaire to all regional governments to hear their opinions on DAK projects, and conducted field surveys in some selected regions. However, as of the early August 2003, detailed discussion for DAK allocation mechanism has not yet initiated. Our great concern is whether or not the Government can prepare a workable DAK allocation mechanism for FY2004 budget.

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equalization effect of DAU. It is a bit strange why the Government needs to stick to lump-sum allocation in its transfer system. See Usui, N., (2003).

**40. Coordination with Neighboring Local Governments (Horizontal Integrations):**

There are some local initiatives in fostering cooperation with neighboring local governments to internalize spill over effects in local service deliveries. For example, Kabupaten Bandung invites representatives from adjacent local governments to its Rakorbang meeting to secure coordination in local planning and budgeting. This may be followed by SE MOHA No.050/987/SJ, which stipulates that representatives of local government associations (APKASI for Kabupaten, or APEKSI for Kota) need to join the meeting. Further, at each technical bureau level, bureau head proposed a regular meeting with its counterparts of neighboring local governments to elicit inter-regional cooperation (agricultural bureau in Lombok Tengah). However, inviting the counterparts from other local governments needs involvement of provincial technical bureau, which sometimes make this coordination difficult. The Government needs to provide a clear guideline for inter-regional cooperation with close consultation with regional government associations (APPSI for province, APKASI, and APEKSI).

**41. Participatory Planning:** Since the FY2001 decentralization, participation of civil society has been much increased by local governments' own initiative and also through supports by donors including USAID and GTZ. Some local governments are currently creating more genuine local development planning systems, instead of the former centrally inspired one, to pick up true demands and aspirations of local people and to incorporate them into their development plans. In our case studies, some stakeholders expressed strong satisfactions with their deeper involvements into the planning process. This is mainly due to reorganization of village governments. After the decentralization, village head is responsible to village representative council (BPD), whose members are elected by villagers, and also needs to provide accountability report to head of local government (Bupati for Kabupaten/Walikota for Kota). BPD has the rights to draft village legislation, approve village budget, monitor village government, and, further, propose replacement of village head to district head.

**42. Some Innovative Moves:** There are some innovative and creative responses by local governments to promote civil society participation in their planning processes, even though their magnitude and qualities vary from region to region. The followings are some examples:

(i) *Revitalize Traditional Local Community:* Some local governments reorganized their planning process by empowering traditional communities. As we mentioned, the bottom-up planning system starts from Musbangdes at village level. However, some local governments wisely realize that traditional communities are more suitable than village unit to pick up local demands by stimulating voluntary participation of local people. A typical case can be found in "Nagari" system in West Sumatra.

(ii) *Active Consultation with Universities:* Many local governments initiated active consultation with professionals and academicians to utilize community needs assessment tool on a wider scale. Donors, in particular USAID and GTZ, also providing continuous supports in this area.

(iii) *Vertical Reorganization of Local Government:* Many local governments have been, and still are, suffering from over staffing problem arising from the transfer of 2 million former central government officials. We know that many regions tried to resolve this problem by establishing new line bureaus (Dinas) (horizontal reorganization). However, in some regions, local governments established and/or expanded new branches at sub-district level (Cabang Dinas Kecamatan) and allocate more staff there. This enables local governments to absorb people's demands through closer communications with residents. A typical case was found in our case study in Kabupaten Lombok Tengah. According to the explanatory guideline on PP No.8/2003 on regional government organization, KCDs need to be integrated in sub-district (Kacamatan) organization. However, the new system can work only if head of

sub-district (Camat) can acquire more authorities and can take full initiatives.

(iv) *Block Transfer to Kacamatan and Desa*: Some local governments including Kabupaten Lombok Tengah introduced block grant transfers to support bottom-up projects<sup>10</sup>. Kacamatan and Desa can determine the allocation of the block transfers to their priority projects.

43. **Institutionalization**: Despite the positive impacts of the village government reorganization and these innovative moves, it is also true that many local people feel that they are still kept outside the planning process. Even they are invited to coordination meetings, they feel that it is just for a formality and their demands can not be reflected in local development plans. Some local governments, even they realize the need of active stakeholder involvement, are reluctant to increase public participation, since it implies longer processes in planning and budgeting. To resolve the issue, the Government released SE MOHA No.050/987/SJ to provide a general guideline for participatory planning in FY2003, where consultation procedures and participants to the series of coordinating meetings are clearly mentioned (Annex 1). Many regions including our case study areas have apparently taken the direction with their own initiatives.

44. However, a remaining challenge for the Government is how to build in, or institutionalize, the participatory planning system into regional government structure. In many countries, stakeholder participations are institutionalized through establishments of councils and boards in main sectors. For example, in the Philippines, stakeholder participations are built in regional government structure through development council, health board, school board by law. In Indonesia, PROPENAS 2001-2005 mandates establishment of education board (Dewan Pendidikan) and school committee (Komite Sekolah). Although many regions have not yet established them, these new institutions have become proactive in local planning and budgeting processes in some regions<sup>11</sup>. The Government needs to consider disseminating the good practice in education sector into other sectors. The importance of institutionalization of participatory planning can not be overemphasized.

45. **Election System**: In some regions, local legislators openly argue that they are representatives of local people, hence, there is no need to foster public participation. In their logic, all people's demands are already incorporated into local development plans and also budgets through discussions in DPRD. However, complaints are being heard on all sides about current voting system of local legislative election. Many residents in regions feel that local legislators are not necessarily their representatives, since they can vote only for registered political parties, not candidates themselves, under the current election system. This is also the case at the central level. It seems that the proposal for reforming local election system by Minister of Home Affairs in 2002 reflects the same concern. It is well worth reviewing problems involved in the current election system to make local legislators true representatives of the people.

46. **Unclear Roles of Kacamatan or Camat**: In the bottom-up planning process, roles of sub-district (Kacamatan) or head of sub-district (Camat) are not necessarily clear. At all levels of government except Kacamatan, there exists separation of power between the executive and legislative. However, Kacamatan staffs, both Camat and its staffs, are all

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<sup>10</sup> In Lombok Tengah, block transfers to Desa were introduced on the initiative of Camats, who received strong pressures from villages. The government increased the amount from Rp 10 million for each village in FY2001 to Rp. 12 million (FY2002) and Rp. 50 million (FY2003) to improve autonomy at village level. In addition, Lombok Tengah initiated block transfers to Kacamatan of Rp. 250 million since FY2003, which can be allocated to villages to support their development activities.

<sup>11</sup> Annex 3 shows roles and functions of education board and school committee in Kabupaten Bandung.

local government employees, and there is no legislative institution. However, in the planning system, development coordinating meeting (UDKP) is granted the same status with other coordinating meetings at village, local, provincial, and central levels. A role of UDKP seems to filter out proposals from village level before coordinating meeting at local level (Rakorbang Kabupaten or Kota). If the Government needs to maintain UDKP, authority of Camat needs to be strengthened to guarantee that Camat can act independently of its position as a local government employee to consider village needs and aspirations. However, it is not easy since Echelon position of Camat is below that of heads of technical bureaus. Some local governments tries to resolve the problem by holding a regular meeting, where head of local government invites Camats as the same status with heads of technical bureaus (Lombok Tengah).

47. **PP No.8/2003:** Since FY2001, a major concern of the Government has been that regional governments create regional institutions far beyond their needs just to absorb the newly transferred central staffs, which results in larger budget allocations to personnel expenses in local budgets. The Government released PP No.8/2003 on regional government organization to resolve the issue. Organizational positions of regional government units: Dinas, Badan, Kantor etc., need to be determined based on the scoring system which considers general and technical criteria. Units with lower scores can not exist as separate institutions or need to be downgraded to lower organizational positions. However, the new system clearly fails to take into account regional priorities. Even regional development priorities require strengthened organizational capacities in some sectors, regional governments have to merge or downgrade the units concerned, if their scores can not achieve the required scores. Local officials expressed their strong complaint in no uncertain terms in our case study in Lombok Tengah.

48. **Private Sector Participation:** Like many other regions, Kabupaten Lombok Tengah and Kabupaten Bandung have not experienced much private sector participation in their local service deliveries. However, there are many areas local governments can consider inviting private sector both in urban sector (water supply, electricity, solid waste collection, roads, etc.) and social sector (health, education etc.). Some innovate local governments may consider private sector participations in the near future. However, it can not be realized if the Government (central) can not provide a clear national guideline for each sector to enable private sector operations at local level.

### III. LOCAL BUDGETING, IMPLEMENTATION, AND ADJUSTMENT

#### A. Regional Budgets at a Glance

49. Prior to assessment of local budgeting and its implementation processes, we analyze fundamental changes in regional government budgets (APBDs) after the decentralization. The analysis in this section is basically based on aggregated regional budget data, which are available on the website of Directorate General for Central and Local Financial Balance (DJPKPD), Ministry of Finance (MOF). ([www.djpkpd.go.id](http://www.djpkpd.go.id)). Data utilized are *realized* APBD FY2000<sup>12</sup> and APBD FY2001<sup>13</sup>. As for the budget data before the decentralization, we also checked published FY1998/1999 and FY1999/2000 regional budget data by BPS<sup>14</sup> to supplement the FY2000 realized budget. (APBD FY2002 budget

<sup>12</sup> FY2000 consists of nine months due to the change in fiscal year. All figures for FY2000 utilized in this report are proportionally annualized.

<sup>13</sup> FY2001 realization data became available in November 2002.

<sup>14</sup> *Financial Statistics of Provincial Government 1996/1997-1999/2000*, and *Financial Statistics of Regency/Municipality Government 1998/1999-1999/2000*. It would be desirable if we can analyze APBD FY2002 data, however, it has not yet perfectly compiled by DJPKPD, MOF.

data has not yet perfectly compiled by MOF). By comparing APBD data before and after decentralization, we clarify major changes in: 1) revenue structure; 2) expenditure structure; and 3) balances, in regional budgets, to grasp current financial situation at the regions.

### 1. Revenue Structure:

50. Table 2 and Table 3 summarize aggregated regional budgets before and after the decentralization. In FY2001, total revenues of regional governments (provincial and local governments) jumped up by 107 percent from FY2000, which means that, in the aggregate, Indonesia's regional government budgets became about twice bigger than that before the decentralization. Percentage increases in each level of government are: 126 percent, 93 percent, and 141 percent in province, Kabupaten and Kota, respectively.

**Table 2 Regional Budgets: Before and After Decentralization**

FY2001 (Rp. billion)	Prov/Kab/ Kota	Province	Kab/Kota	Kabupaten	Kota
<b>Revenues</b>	108,855	29,396	79,459	65,396	14,063
Previous Year's Surplus	6,218	4,067	2,151	1,746	405
Local Gov. Own Revenues	15,359	10,134	5,225	3,666	1,559
Balanced Funds	82,975	14,159	68,816	57,734	11,082
Tax Sharing	10,008	4,290	5,718	4,126	1,592
Non-Tax Sharing	11,472	3,206	8,266	7,057	1,209
DAU	60,499	6,507	53,992	45,799	8,194
DAK	996	156	839	753	87
Local Gov. Borrowing	495	11	484	300	185
Others	3,807	1,025	2,783	1,949	833
<b>Expenditures</b>	92,716	23,093	69,623	57,298	12,325
Routine Expenditure	62,954	14,699	48,255	39,343	8,912
Personnel Expenditure	41,053	5,763	35,289	29,369	5,920
Non-Personnel Expenditure	21,902	8,936	12,966	9,974	2,992
Development Expenditure	29,762	8,394	21,368	17,954	3,414
<b>Balances</b>	16,139	6,303	9,836	8,098	1,738

FY2000 # (Rp. billion)	Prov/Kab/ Kota	Province	Kab/Kota	Kabupaten	Kota
<b>Revenues</b>	52,638	12,984	39,654	33,827	5,828
Previous Year's Surplus	2,930	1,179	1,752	1,424	327
Local Gov. Own Revenues	7,549	3,953	3,596	2,648	948
Balanced Funds	41,119	7,820	33,299	28,764	4,535
Tax Sharing	4,445	706	3,739	3,083	656
Non-Tax Sharing	1,710	996	714	668	46
SDO & INPRES	34,494	6,114	28,379	24,624	3,756
Others	470	3	467	390	77
Local Gov. Borrowing	1,040	32	1,008	991	17
Others	0	0	0	0	0
<b>Expenditures</b>	49,325	11,635	37,689	32,108	5,254
Routine Expenditure	31,081	5,934	25,147	21,666	3,481
Personnel Expenditure	20,563	2,042	18,521	16,224	2,297
Non-Personnel Expenditure	10,517	3,892	6,626	5,442	1,184
Development Expenditure	18,244	5,701	12,543	10,442	1,773
<b>Balances</b>	3,313	1,349	1,965	1,718	574

Note: # annualized.  
Source: PKPD, MOF.

51. A striking contrast between provinces and local governments is contributing factors to their revenue increases. In provinces, local own revenue (PAD) jumped up by 156 percent, while central transfers increased by 81 percent. On the other hand, in local governments, increased central transfer is the major factor explaining the drastic jump of total revenues. While central transfers increased by 107 percent in local governments, their own revenues increased by 45 percent. This contrast can be explained mainly by two factors: 1) 10:90 percent general purpose grant (DAU) sharing between provinces and local governments; and 2) relatively sufficient local tax assignments to provinces. Although the Government revised the Regional Tax and Levy Law No.18/1997 by Law No.34/2000 to strengthen revenue raising capacities of regions, major substantial local taxes and levies are assigned to provincial governments.

**Table 3 Percentage Compositions of Regional Budgets: Before and After Decentralization**

FY2001 (%)	Prov/Kab/ Kota	Province	Kab/Kota		
				Kabupaten	Kota
<b>Revenues</b>	100.0	100.0	100.0	100.0	100.0
Previous Year's Surplus	5.7	13.8	2.7	2.7	2.9
Local Gov. Own Revenues	<u>14.1</u>	<u>34.5</u>	<u>6.6</u>	<u>5.6</u>	<u>11.1</u>
Balanced Funds	<u>76.2</u>	<u>48.2</u>	<u>86.6</u>	<u>88.3</u>	<u>78.8</u>
Tax Sharing	9.2	14.6	7.2	6.3	11.3
Non-Tax Sharing	10.5	10.9	10.4	10.8	8.6
DAU	55.6	22.1	67.9	70.0	58.3
DAK	0.9	0.5	1.1	1.2	0.6
Local Gov. Borrowing	0.5	0.0	0.6	0.5	1.3
Others	3.5	3.5	3.5	3.0	5.9
<b>Expenditures</b>	100.0	100.0	100.0	100.0	100.0
Routine Expenditure	<u>67.9</u>	<u>63.7</u>	<u>69.3</u>	<u>68.7</u>	<u>72.3</u>
Personnel Expenditure	<u>44.3</u>	<u>25.0</u>	<u>50.7</u>	<u>51.3</u>	<u>48.0</u>
Non-Personnel Expenditure	23.6	38.7	18.6	17.4	24.3
Development Expenditure	<u>32.1</u>	<u>36.3</u>	<u>30.7</u>	<u>31.3</u>	<u>27.7</u>
<b>Balances (% total revenues)</b>	<u>14.8</u>	<u>21.4</u>	<u>12.4</u>	<u>12.4</u>	<u>12.4</u>

FY2000 (%)	Prov/Kab/ Kota	Province	Kab/Kota		
				Kabupaten	Kota
<b>Revenues</b>	100.0	100.0	100.0	100.0	100.0
Previous Year's Surplus	5.6	9.1	4.4	4.2	5.6
Local Gov. Own Revenues	<u>14.3</u>	<u>30.4</u>	<u>9.1</u>	<u>7.8</u>	<u>16.3</u>
Balanced Funds	<u>78.1</u>	<u>60.2</u>	<u>84.0</u>	<u>85.0</u>	<u>77.8</u>
Tax Sharing	8.4	5.4	9.4	9.1	11.3
Non-Tax Sharing	3.2	7.7	1.8	2.0	0.8
SDO & INPRES	65.5	47.1	71.6	72.8	64.4
Others	0.9	0.0	1.2	1.2	1.3
Local Gov. Borrowing	2.0	0.2	2.5	2.9	0.3
Others	0.0	0.0	0.0	0.0	0.0
<b>Expenditures</b>	100.0	100.0	100.0	100.0	100.0
Routine Expenditure	<u>63.0</u>	<u>51.0</u>	<u>66.7</u>	<u>67.5</u>	<u>66.3</u>
Personnel Expenditure	<u>41.7</u>	<u>17.6</u>	<u>49.1</u>	<u>50.5</u>	<u>43.7</u>
Non-Personnel Expenditure	21.3	33.4	17.6	16.9	22.5
Development Expenditure	<u>37.0</u>	<u>49.0</u>	<u>33.3</u>	<u>32.5</u>	<u>33.7</u>
<b>Balances (% total revenues)</b>	<u>6.3</u>	<u>10.4</u>	<u>5.0</u>	<u>5.1</u>	<u>9.9</u>

Source: Table 2.

52. As a result, local own revenues in local governments takes up only 6.6 percent of total revenues in FY2001, while provinces collected about one third of their revenues from their own sources. Local government's dependency on central transfer<sup>15</sup> still as high as 85 percent of the total revenues even after the decentralization. This creates a repeatedly argued concern for financial management by local governments: *so long as local governments are spending what they and their constituents view as "other people's money", they are unlikely to be under much local pressure to spend their money efficiently.*<sup>16</sup> At least judging from the limited revenue mobilizing capacity, this concern mounts at local government level. In this context, the Government needs to consider additional transfers of some of central taxes to regions, in particular to local governments, to improve their revenue raising capacities.

53. Another issue needs to be considered by the Government is the difference in revenue raising capacity between Kabupaten (rural areas) and Kota (urban areas). Kota governments on average collected about twice as much of own revenues than that by Kabupaten. Under the current system, same taxes and levies are assigned to Kabupaten and Kota. However, the local budget data clearly shows that there exists an urban bias, i.e., own revenues in urban areas tend to be larger than those in rural areas, in current system. One possible approach to address this problem is to reflect the urban bias in DAU allocation system, where both Kabupaten and Kota are equally treated in the current arrangement.

54. **Nuisance (Problematic) Taxes:** The Law No.34/2000 sets several categories of tax and levy which belong to provinces and local governments with ceiling rate for each local tax and levy<sup>17</sup>. In addition, the law allows regional governments to create new taxes as long as they do not violate some criteria set by the Government subject to its approval. However, in reality, as some observers have reported, many problematic taxes were introduced by regional governments. Even in our case study in Lombok Tengah, the government has introduced a tax on inter-island commodity trade in coordination with neighboring local governments, which is clearly against the local tax criteria. Local government officials acknowledged that the tax, which was once prohibited by Law No.18/1997, was re-introduced in FY2002. In FY2003, more than one year after the submission of proposal, Lombok Tengah government has received letters from the central government requesting cancellation of the tax. However, local officials mentioned that they still need to negotiate with the central government. The Government needs to strengthen its monitoring, and also consider revising current new local tax approval process, to halt the proliferation of nuisance taxes.

## 2. Expenditure Structure:

55. After decentralization, expenditures have drastically jumped at all levels. A common characteristic among all levels of government is their larger budget allocations to routine (recurrent) expenditures, in particular personnel expenditures. Routine budgets take up more than 60 percent at all levels. Personnel expenditures increased by 182 percent, 81 percent and 158 percent at each level, and makes up 25 percent, 69 percent and 48 percent of total expenditures respectively. As we mentioned, it mainly comes from the transfers of former central government officials. It is regional governments' responsibility to pay salaries of the newly transferred officials. This may be an inevitable result since first

<sup>15</sup> Before FY2001, there existed two central transfers to regions: (i) subsidy to regions (SDO), which was mainly used to finance salaries of local civil servants; and (ii) regional development funds (INPRES) for development expenditures. Since January 2001, both transfers were eliminated and instead combined into general purpose grant (DAU).

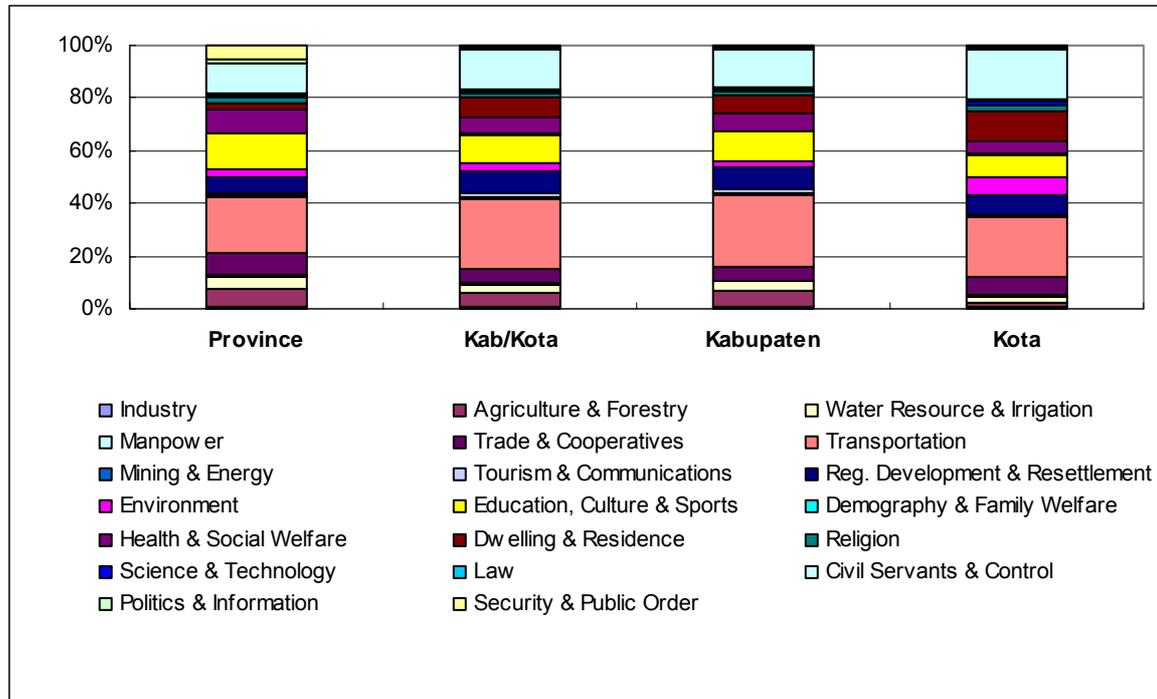
<sup>16</sup> Bird, R.M., and M. Smart, (2001).

<sup>17</sup> Local tax rates are at the discretion of local governments below the ceiling rates set by the central government, while provincial tax rates are set by the central government.

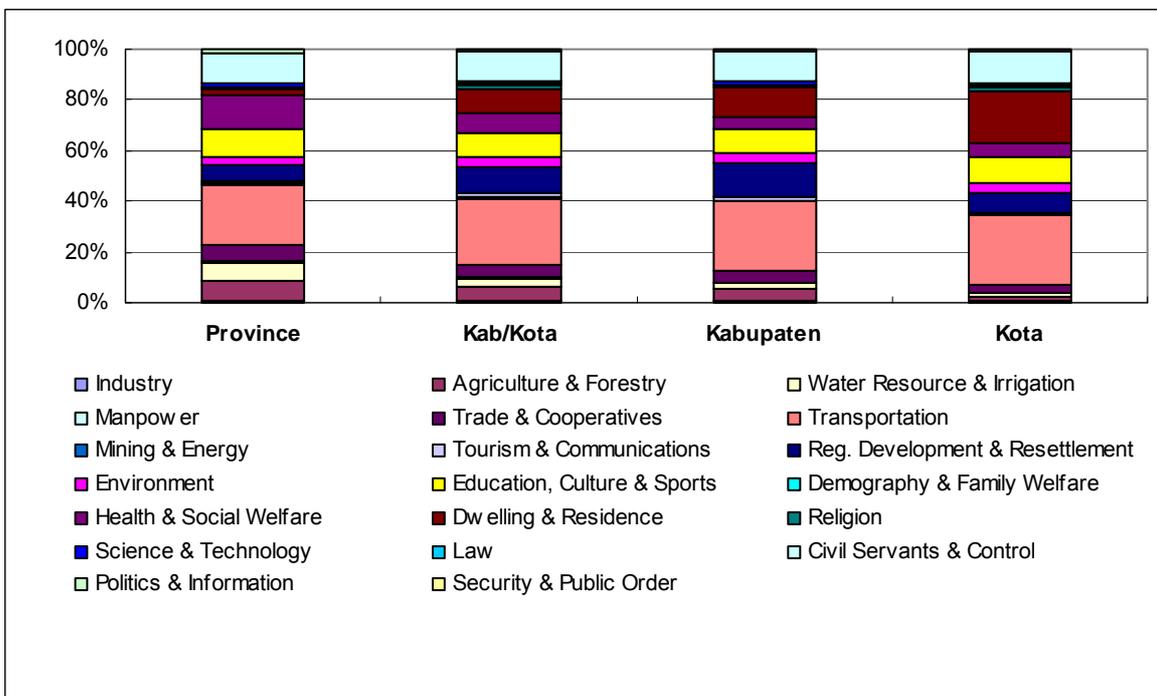
priority of all regional governments were to absorb transferred officials, even though decentralization put complete financial responsibilities for newly devolved functions on them.

**Figure 3 Sectoral Allocations of Development Expenditures: Before and After Decentralization**

**FY2001**



**FY2000**



56. Compared with the drastic increases of routine budgets, budget allocations to development expenditures were limited at all levels. Many observers argue that, even total revenues drastically increased, regional governments could not have enough fiscal

resources to finance their development activities or service provisions to local people. However, we should be more careful in accepting this argument, since development expenditures in FY2001 increased by as much as 47 percent, 72 percent, and 93 percent in each level of government. Further, it is noted that some routine expenditure items, in particular personnel expenditures, contain budget allocations for service deliveries to people. For example, salary payments to school teachers and medical workers are clearly service costs to local people.

57. Another characteristic we can find in expenditure side is no significant change in sectoral allocation of development expenditures. With the implementation of decentralization, regional governments have acquired strengthened authority to allocate their budget resources across sectors based on their own priorities, which respond to local people's demand. This is a key objective of the decentralization. Budgets are the most effective tool to realize people's aspirations set out in development plans. Figure 3 shows that, compared with three preceding years, allocations to education and security & public order (provinces), civil servant & control (Kabupaten/Kota) slightly increased, while those to water resources & irrigation and transportation (provinces), regional development & resettlement and environment (Kabupaten/Kota) dropped in FY2001. However, it is fair to say that there is no significant change in sectoral allocation of development expenditures at all levels of government (at least in the aggregated budget data).

58. There are three possible explanations for this: some regional governments 1) did not have enough fiscal resources to be allocated to their priority sectors to bear the additional cost of the large staff transfer; 2) have not yet set up their priorities in their development plans; and 3) have failed to link their established priorities with actual budget allocations. All these factors may actually contribute to the rigid development fund allocation with a different degree across regions. However, in general, Indonesia's regional governments seem to have a glaring weakness in linking their development priorities and budget allocation due mainly to the long continued heavily centralized regime in the past. The rigidity appeared in the FY2001 budgets needs to be followed up with regional budgets in the following years.

### **3. Budget Balances:**

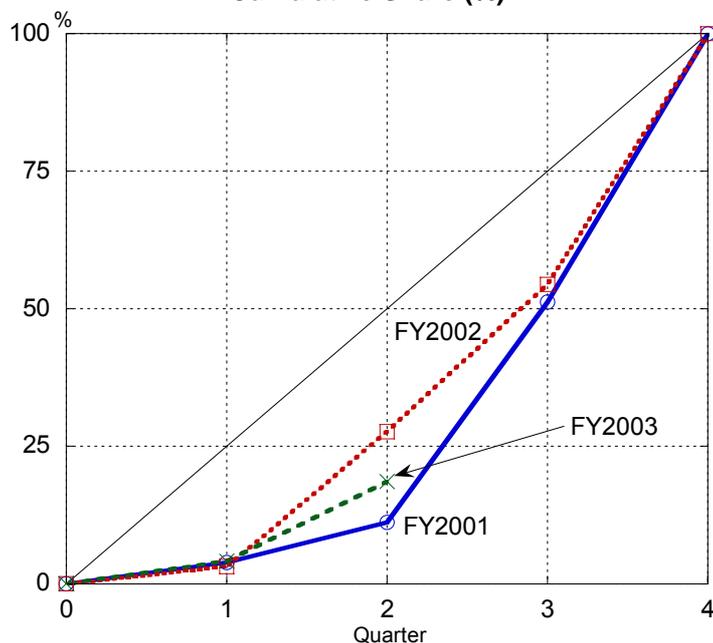
59. In FY2001, regional governments recorded a total of Rp. 16.1 trillion budget surpluses in FY2001, which was drastically increased from Rp. 3.3 trillion in the previous year. Amounts of surpluses at each level are Rp. 6.3 trillion in provinces, Rp. 8.1 trillion in Kabupaten, and Rp. 1.7 trillion in Kota. The amounts correspond to 21.4 percent (provinces), and 12.4 percent (both Kabupaten and Kota) of their total revenues. An interesting fact lies in the budget surplus at provincial level. Many observers have raised a concern for insufficiency of central transfers to provinces, since provincial DAU share is limited only to 10 percent of total pool of DAU. However, FY2001 budget data shows that provincial governments ran up a larger surplus than that of local governments.

60. How can we interpret the relatively large budget surpluses in FY2001? Some may conclude that, after decentralization, regional governments enjoyed more than enough financial resources to finance their newly devolved functions. This can provide justification to revise current revenue assignments to regions, in particular central transfers, to the Government. However, there are some issues we have to consider before accepting the conclusion. Firstly, we have to take into account delayed disbursements to sharing revenues in FY2001. Sharing revenues from natural resources were disbursed to regions at the very last minute of the fiscal year (Figure 4). In particular, those from forestry sector were allocated in early FY2002. A majority of regions carried over a major part of the distributed revenues into the FY2002 budgets.

61. Compared with FY2001, disbursement of sharing revenues was much improved in FY2002. However, about 50 percent of total sharing amounts were allocated to regional

governments in the last quarter in FY2002. The Government still needs to consider establishing more timely disbursements system.

**Figure 4 Quarterly Disbursements of Sharing Revenues: Cumulative Share (%)**



Source: BAF, MOF, Preliminary data.

62. Second possible factor explaining the budget surpluses is a lack of clear definition of obligatory functions and minimum service standards (SPMs). There is a broad consensus that one of the serious problems of Indonesia's FY2001 decentralization is its lack of clear expenditure assignments to regions. To prepare clear definition of obligatory functions and SPMs, the Government is currently conducting pilot tests with supports by donors. In this circumstance, it is nothing strange even if regional governments curtail their expenditures and carry over the remaining funds to the next fiscal year. Without clearer expenditure assignments and regional governments' deeper understanding of their new responsibilities, regional governments may continue building up budget surpluses.

63. We also have to consider the long-continuing tradition of late budget approval by local parliaments (DPRD). This issue was also raised by local government officials in our case studies. The late budget approval slows down bidding process of projects, resulting in less time to finalize them. Consequently, even before the 2001 decentralization, Indonesia's regional governments had been running surpluses of five to 15 percent (of total revenues) every year. Further, the FY2001 decentralization added another factor contributing to the slow disbursement of regional expenditures: an incessant war between regional officials (executives) and legislators. This problem arises from an imperfect definition of decision making power within regional governments.

64. Without working out solutions to these issues, it is not easy for the Government to provide any convincing explanations to review current intergovernmental fiscal relations. Even if it will make clear that the Government can cut allocation amounts to regions (for example, review the current minimum 25 percent rule of total DAU pool in the central budgets), regional governments may resist any cuts by raising these problems. In this context, establishing a transparent and timely disbursement mechanism of sharing revenues, preparing clear definitions of obligatory functions and SPMs, and drawing up guidelines for local budgeting and budget implementation (and also its socialization), need to be recognized as matters of extreme urgency.

## B. Local Budgeting

### 1. Budgeting Process

65. Indonesia's regional government long followed a MOHA produced manual (Regional Financial Administration Manual 1980), which regulates budget preparation, treasury administration, accounting, and reporting. In addition, MOHA annually provided budget guidelines to regional governments for the coming fiscal year. With the onset of decentralization, there had been no clear guideline for local budgeting and financial management, although decentralization laws requested regional governments to adopt performance budgeting, and also to prepare their own financial management system. It was not until July 2002 when MOHA released the Ministerial Decree (Kepmen) No.29/2002 on Regional Financial Management and Regional Budgeting that a new guideline was produced. The decree outlines structure of the regional budget, budget preparation and approval process including budgeting calendar (Annex 4), process of budget revisions, financial management and accounting principles, reporting and accountability issues. A major change introduced is a switch from the traditional budget distinguishing between routine and development budgets into a unified budget with double-entry accounts.

66. However, due to the delayed release of the new guideline, many regional governments still utilize the old budget format and also follow the old budgeting practices. Over the period of July to September, all spending units prepare their budget proposals both for routine and development expenditure to an executive budget team (Komite Anggaran) which generally consists of the secretary of region (Sekwilda), finance bureau (Bagian Keuangan), planning agency (BAPPEDA), revenue office (Dispenda) and chiefs of spending units. Traditionally, Bagian Keuangan (for routine budget) and BAPPEDA (for development budget) dominate this process. Simultaneously, Dispenda prepares forecasts of revenues. In October, the team starts its review of both revenue estimates and expenditure proposals to finalize budget proposal to be submitted to Bupati/Walikota. During the process, a couple of bilateral meetings are also held by the team with spending units to discuss details of their proposals. In theory, local demands are incorporated into the budget proposal based on discussion at development coordination meetings at village, sub-district, and local government levels, which are held in parallel with the budgeting process.

67. According to MOF officials, 14 of 28 provinces (50 percent) and 185 of 309 local governments (60 percent), which have submitted FY2003 budgets to MOF, have shifted to the new budget format<sup>18</sup>. However, others still utilize the old format due mainly to the lack of capacities of local government officials. In our case study in Lombok Tengah, government officials mentioned that they had significant difficulties in preparing budgets based on the new format, since officials in some technical bureaus could not prepare the budgets for their units.

**Table 4 Regional Governments Adopted New Budget Format**

	Total	Reg. Govts submitted APBD FY2003		
		Total	New Format	%
Province	30	28	14	50.0
Kab/Kota	348	309	185	59.9
Total	378	337	199	59.1
Note: as of the end July 2003.				
Source: PKPD, MOF.				

<sup>18</sup> Many local governments in Ache, Maluku, and Papua have not yet reported their FY2003 budgets to MOF. MOF regional financial information system is currently facing difficulties in preparing a consistent budget information, since they receives two different, the new and old format, budgets from regional governments.

68. Once the final budget proposal is approved by Bupati/Walikota, the proposal is submitted to local parliament (DPRD) as annual budget proposal (RAPBD) in October or November. DPRD budget team (Komisi C) leads discussion in DPRD which is authorized to make amendments to the proposal. However, amendments were generally minimal, since, before the decentralization, Komisi C members were involved in discussions at RAPBD preparation stage. This implies that RAPBD prepared by Komite Anggaran already takes into account some wishes of Komisi C members. Therefore, before decentralization DPRD budget discussion was sometimes regarded just as a formality. The FY2001 decentralization introduced a change as DPRD members start imposing their influences over Bupati/Walikota who is a DPRD appointee.

69. The approved budget serves as the ceiling on expenditures for the fiscal year. Based on the budget, Bagian Keuangan and all spending units start preparing budget documents called DIK (for routine budget) and DIP (for development budget) for apportionment of the budget. The budget, then moves to its implementation stage.

## 2. Key Challenges after Decentralization

70. **Weak Linkage with Development Plans:** Budget, in principle, is the most effective tool to realize local needs, priorities, and preferences established in local development plans. Indonesia's regional governments have a complete set of plans consist of PROPEDA (five year plan), RENSTRADA (strategic development plan), and REPETADA (annual development plan). In theory, annual budget should be prepared based on a well prepared REPETADA which reflects key strategies in RENSTRADA (this must further be based on PROPEDA which is produced to realize general goals set in POLDA). However, as we mentioned in the previous section, there is no strong linkage between the plans, which results in another weak linkage between actual budget allocations with development plans, in particular medium-term ones.

71. We can not deny the possibility that present annual consultation exercise may worsen the problem. As we mentioned, the coordination meetings are held annually at all levels of government, and discussions there are dominated by issues for development strategy and budget for the coming fiscal year. This consultation system makes shorter time horizon in local planning and budgeting, even though medium-term strategic planning and performance budgeting become new practices after the decentralization. The selection of projects to be included in budget is largely determined by ad-hoc factors (results of development coordinating meeting and bilateral negotiations within local governments) rather than medium-term strategic plans. As a result, local budgets sometimes fail to take into account impacts of budget year projects on expenditure requirements in the subsequent years. Budget needs to be prepared through a systematic and objective analysis of merits of individual project proposals based on REPETADA (annual development plan), which was produced based on RENSTRADA (strategic development plan). It is worth considering shifting the current annual consultation process towards a more medium-term one.

72. In our case studies, numerous complaints to DPRD interventions were brought by local government officials: they tried to maintain consistency of budget allocation with strategic priorities, however, DPRD members forcibly intervened based on their own interests without paying enough attention to priorities set in REPETADA and RENSTRADA. Some officials (and also local people) openly criticized the current local election system by saying that DPRD members are not true representatives of local residents.

73. **Uncertainty in Central Transfers:** Another problem in revenue side is uncertainty in central transfers, which still form the bulk of local government revenues. In discussing the budget proposal, the budget team (Komite Anggaran) reviews revenue estimates prior to assessment of expenditure proposals. Therefore, information on expected transfer amount

from center is of extreme importance to the local budgeting process. However, in FY2001, local government faced serious difficulties in their budgeting, since announcement of central transfer amounts was delayed due to late approval of the central budget. Even in FY2002, the central budget for FY2003 was approved in December. In addition, delayed announcements of sharing revenues and DAK are still creating unnecessary difficulties in local budgeting. Late budget approval tends to lead to inefficient resource management and to delay in program and project implementation. The Government may need to set up an earlier budgeting calendar to address this issue.

74. **Deconcentration Funds:** Local governments are still facing difficulties in collecting information on central line ministries' development budgets, or deconcentration funds. Since deconcentration funds are allocated from central line ministries to respective local technical bureaus (Dinas) via provincial Dinas, local development planning board (BAPPEDA) can not get information of deconcentration funds, which is highly required for effective planning and budgeting processes. In the case of Lombok Tengah, BAPPEDA contacts with Dinas and also provincial BAPPEDA to get the information. However, due to slow information flow from higher levels of government, BAPPEDA can not receive information even after DPRD approved APBD. As many observers pointed out, the Government needs to consider shifting deconcentration funds to DAK, even though it can create considerable resistance by central line ministries.

75. **Incremental Budgeting:** Local revenue office (Dispenda), which is responsible for all local revenues, needs to submit the local revenue projections for budgeting purpose. Indonesia's local government had long adopted the so called "target system" for all types of local revenue administration, where a certain target was set for each revenue item and Dispenda collected local taxes and levies based on the targets. Even after the decentralization, many local governments still adopt this old practice. However, a serious problem arises in the preparation stage of revenue estimations (targets). The revenue targets prepared by Dispenda are generally based on the previous year's achievements, which have nothing to do with actual revenue potentials. For example, in Lombok Tengah, Dispenda officials unhesitatingly acknowledged that their revenue projections are prepared based on the previous year's achievements (realization amounts) taking into account an inflation factor, usually at 10 percent. The target system also has a negative effect on revenue mobilization efforts by Dispenda officials. There is no incentive for them to do more than meet the targets since larger revenue collections implies higher targets in the next fiscal year. The same problem can be found also in expenditure side. Major routine expenditure items such as utilities, supplies and rents are estimated at current prices by considering the same inflation factor.

76. **Budget Unity:** As a result that local governments still utilize the old budget format, local budgets are segregated into routine and development budgets. The compositions of these two budgets sometimes overlap. One typical example is personnel expenditures included in development budgets. It has been repeatedly pointed out by many observers that local government officials tend to put bigger amount to development budget, since it implies their additional incomes as "honorarium". Although some regions have already taken actions to eliminate this practice<sup>19</sup>, it still remains in local budgets. Further, there is no systematic process of transferring recurrent costs of completed projects to routine budget. Although the Government has introduced strategic medium-term planning and performance budgeting with the implementation of decentralization, however, Indonesia's local budgeting process still inherits the negative legacy from the long continued old practices.

77. **Vague Expenditure Assignments:** Lack of clear expenditure assignments has a negative impact on local budgets. Law No.22/1999 defines expenditure assignments only

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<sup>19</sup> In Kabupaten Lombok Tengah, the government limits involvements in projects to only one for each official.

in general terms: public works, health, education and culture, agriculture, communications, industry and trade, capital investment, environment, land, cooperative and manpower affairs. Government Regulation No.25/2000, which is the core of implementing regulations of Law No.22/1999, stipulates the boundary for the central and provincial functions, but it does not state clearly new functions for local governments. It states that functions by districts and municipalities are simply the “residual” activities of the central and provincial ones, which are different across the sectors. As a result, many local governments have not yet fully recognized their new functions, nor incorporated some of newly devolved expenditure responsibilities into their budgets.

**78. Performance Indicators and Minimum Service Standards:** In order to implement performance budgeting, local governments need to fully recognize what are their obligatory functions and which minimum service standard (SPM) they have to achieve for each obligatory function. Quantitative, not qualitative, indicative targets need to be set based on minimum service standards for performance budgeting. Further, carefully estimated unit cost for each SPM must be utilized to cost up each projects in budgeting process. Although the Government is currently conducting pilot tests, obligatory functions and SPMs for local governments are still not clear. Even if local governments could admit their new responsibilities, it is not easy to reflect them into their budgets in an efficient manner since minimum service standards are still not available, much less unit cost for each expenditure assignment. The practice in Kabupaten Bandung for example, still uses unit costing based on previous year budget adjusted by inflation factor.

**79. MOHA Ministerial Decree No.29/2002:** The decree released in July 2002 provided new guidelines for local financial managements including budgeting approach in the decentralized context. For local budgeting, the decree outlines three key features: 1) change from the traditional routine and development budget approach to a program or activity based approach (unified budgeting); 2) new budget structure consisting of revenue, expenditure, and financing components; and 3) inclusion of clearer budget estimates based on line item budgeting. All these elements are strongly required to redress the problems (described above) in the budgeting practice which is still dominant in regions. However, there is a growing concern for the timetable for implementing the new systems, since the decree stipulates that the new budget systems will be the basis for FY2003 budget preparation. As we mentioned, about 60 percent of regional governments have already adopted the new budget format since FY2003, however, it never means that those governments have shifted to the performance based budgeting. Most governments have not yet established clear quantitative targets which are indispensable requisites for the performance based budgeting. In Lombok Tengah, outputs, or indicative goals, were set for infrastructure projects, however, those for social sectors were not well prepared. Dinas and BAPPEDA utilize logical framework and try to produce performance indicators for social sectors.

## **C. Budget Implementation and Adjustment**

### **1. Budget Implementation**

80. After approval of budget allocation by finance bureau (Bagian Keuangan), each spending unit submits a request for payment (SPP) and its quarterly spending plan to finance bureau with supporting documents such as contract signed, wage bill, and invoices. Approved amounts to each unit are regarded as spending ceilings over the course of a fiscal year. Upon approval, finance bureau transfers funds to the bank account of each spending unit. Each unit has its own treasures, and each head of project (PIMPRO) has a separate bank account. There is internal checking mechanism at work through internal auditors (Bawasda) to check consistency between spending plans and warrants issued by finance bureau.

### **2. Budget Adjustment**

81. Budget flexibility during execution is still quite limited and requires the approvals of Bupati/Walikota and DPRD. All budget adjustments have to be legalized by local law (Perda). Budget adjustment is conducted usually sometime during August to October (September both in Kabupaten Bandung and Kabupaten Lombok Tengah). Each spending unit is not authorized to make any adjustments by its own, even small adjustments need to be approved by DPRD. There is a case for a more flexible budget adjustment, where Bupati/Walikota would be given some authority for budget adjustments without requiring DPRD approval.

82. In FY2001, many regional governments were required to make drastic adjustments to their budgets due to civil servant salary increase (some 15-30 percent increase) announced in July 2001. To mitigate negative impacts of this wage increase on regional budgets, the Government allocated some Rp. 3 trillion of contingency funds. However, many local governments including Kabupaten Bandung and Kabupaten Lombok Tengah were forced to finance part of the unexpected increases in personnel expenses through cuts in development expenditures. Government officials in Kabupaten Lombok Tengah admitted that they conducted intensive discussions with all spending units in specifying projects to be postponed to the next year, while Kabupaten Bandung made an across the board cuts in development expenditures.

### 3. Key Challenges after Decentralization

83. **Delayed Disbursements of Central Transfer:** A serious problem in budget implementation process arises from unpredictability of revenue flows. Approved allocation funds do not come on time. In particular in FY2001, when a majority of budget allocations came close to the end of fiscal year (due mainly to the delayed central transfers), local spending units inevitably hold many non-implemented projects, resulting in relatively large carry over of budget funds to FY2002. This made it difficult for local governments to implement their intended programs and projects in the fiscal year, which also could create another difficulty in development planning and budgeting in the subsequent fiscal years.

84. **UKP (Urusan Kas dan Perhitungan):** It was reported that some spending units requested cash allocations that are more than their actual needs, and deposit the cash in their bank accounts to meet the problem arisen from the delayed disbursements. This may be appeared as relatively big amounts of UKP in local budgets. UKP both is routine and development budgets show the differences between budget items and cash flow in local budgets, which is similar to "statistical discrepancy". Further, it also show difficulties in cash management by the treasury since separate cash accounts are created with no clear accountability by spending units.

## D. Other Issues in Regional Budgets: Auditing and Performance Evaluation

### 1. Auditing

85. Traditionally, authority to audit local government budgets is assigned to State Development Audit Office (BPKP); State Audit Office (BPK); and inspectorate general both of province and MOHA. However, the Government revised the audit arrangement with Presidential Decree (Keppres) No.74/2001, which assigns the authority to three auditors: 1) local internal auditor (Bawasda Kabupaten/Kota); 2) provincial internal auditor (Bawasda Propinsi); and 3) inspectors general of line ministries. Local internal auditors are now authorized to review all local budgets including those for Bupati/Walikota, secretary of region (Sekwilda), and also DPRD. If they find difficulty to audit these highly ranked offices, they can officially request provincial internal auditor to carry out the audits. Further, local governments can mobilize external auditors under the new audit arrangement.

86. Audit reports by local internal auditor are usually submitted only to Bupati/Walikota

(also to DPRD in some regions). However, there is no guarantee that Bupati/Walikota will take the needed actions. Audit reports are still not publicized in many regions. Further, local internal auditors seem to be still reluctant to carry out audit for Bupati/Walikota, secretary of region (Sekwilda), and also DPRD, in many regions including our case study areas.

## 2. Performance Evaluation

87. Cautious and continuous assessment and evaluation of budgets are essential components of performance budgeting. Financial performance in terms of numerical differences between budgeted and actual expenditures must be carefully checked and analyzed by finance bureau and all spending units. However, budget evaluation in local governments still remains weak. As we have discussed, there is few performance indicators established to measure the degree of accomplishment of each spending unit targets. Similarly, no clear sanction is imposed for failures in deliveries of public services. Without performance evaluation and sanction mechanisms, it is virtually impossible for Indonesia's local governments to practice performance budgeting.

## IV. MAJOR CONCLUSIONS

88. This paper analyzes development planning, budgeting, budget implementation and adjustment in local governments in Indonesia based on the first two and a half year's experiences with decentralization. We based our analyses on the view that a key challenge for a responsible government is to find the right balance between control by higher levels of government (top-down) and autonomy at lower levels of government (bottom-up). Both elements of centralization and decentralization are required to manage a country. Decentralization program in any country needs to be assessed based on this view.

89. Outcomes of decentralization greatly depend on its design and institutional arrangement governing its implementation. In this context, we have kept implementation rules of decentralization in our mind in assessing decentralization policy of any country. Established implementation principles are: 1) *functions* should follow *capacities*; and 2) *revenues* should follow *functions*. We conducted assessments of local development planning, budgeting, budget implementation and adjustment based on the principles.

90. The coverage of this paper is selective and inevitably many interesting and important topics were left out. However, we believe that, to some extent, this paper could provide general picture of current practices in local development planning and budgeting, and also could clarify some key issues to be addressed by the Government to achieve the expected objectives of decentralization. Some key findings and recommendations can be summarized as follows:

91. Stakeholder participations become more active in some regions with their own initiatives. However, other regions still remain utilizing the past planning procedures. In general, due to the new guideline for participatory planning, many local governments have started moving to the direction set by the guideline since FY2003. However, it is highly important to institutionalize participatory procedure. Stakeholder participations need to be built in local government structure. The Government needs to consider disseminating the practice in education sector, i.e., education board and school committee, into other sectors.

92. In parallel with supporting more active stakeholder participation, the Government needs to establish a more effective mechanism to penetrate national priorities into local development planning and budgeting. Current consultation based coordination and direct control through central line ministry budgets are no longer effective instruments under the context of decentralization. Specific purpose grant (DAK) is the most suitable tool for this purpose. A major role of DAK, as a matching grant, lies in its capacity to guide local development strategies and budgets towards national priorities without unnecessary

central government interventions. Horizontal fiscal balance should be resolved through effective allocations of general purpose grant (DAU), not by DAK allocations. The Government needs to establish a DAK allocation formula which meets the chief objective of DAK

93. Strategic multi-years planning and performance budgeting is, in principle, inseparably linked with each other. Local needs and preferences can be realized through effective fiscal resource allocations which respond to established priorities formulated based on people's aspirations. Development plans and budgets should be kept under constant reviews to be adjusted to economic and political changes. Although about 60 percent of regional governments have shifted to the new budget format since FY2003, it never implies that those governments have adopted performance based budgeting. Local governments are still facing difficulties in establishing local priorities. Linkages between development plans remain weak, much less linkages between development plans and budgets. Major contributing factors include: 1) lack of general guidelines for local development planning; 2) delayed release of new guidelines for local financial managements; 3) vague expenditure assignments (and also obligatory functions of minimum service standards); and 4) lack of qualified local planning and budgeting officials in local governments. The Government needs to recognize these shortcomings and take appropriate actions to enable effective implementation of strategic planning and performance budgeting in the regions.

94. In particular, we found extreme weakness in the capacities of local development and budgeting personnel in our case studies. They have little, or more accurately no, experience conducting strategic planning and effective budgeting. A majority of local government personnel still remain standing in the long continued center inspired practices in planning and budgeting. However, after decentralization, a limited capacity building support is available for them. For example, BAPPENAS sponsored TMPPD (Course on Technique and Planning Management at Basic Level) for local planning agency staff was discontinued after FY2000. After decentralization, training initiatives need to come from local government themselves. However, strong central and provincial governments' initiatives are urgently needed in providing coordinated supports to local governments. This is especially has become more important with the requirement for local governments to adopt new budgeting and financial management systems. Again, we may need to reconsider that sufficient *capacity* is the stating point of any successful decentralization.

95. We also need to emphasize the importance of coordinated efforts between key ministries and agencies within the central government in their policy making and implementation. The absence of any systematic issuances of laws, regulations, and decrees, and limited socialization has already created considerable confusions in the regions. Systematic and regular consultation with related ministries/agencies must be recognized as a bottom line for all responsible ministries and agencies in preparing any new regulations.

96. Decentralization is a long process, and expected goals of decentralization can be achieved after long try and error process. It is nothing strange even if Indonesia's drastic decentralization program has some shortcomings in this stage. However, it is the role of the responsible government to pursue the decentralization policy with a clear vision and an effective strategy in a consistent manner.

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## Annex 1 Circular Letter (SURAT EDARAN) MOHA No.050/987/SJ on Participatory Planning (5 May, 2003)

Stages	Participatory Planning Activities				
	Objective	Schedule	Agenda	Outputs	Participants
<b>Musbangdus</b> (Kelurahan or sub-village)  <b>Musbangdes</b> (Desa or village)	Identify people needs and aspirations	Last 2 weeks of April	Identify potential problems, Editing activity plan based on priorities, Identify source of funds for each activities	List of activities based on source of funds: APBD Kab, APBD Prov, APBN, loan, and private sector	Social leaders, RT/RW, Kepala Dusun, Kepala Desa, BPD, LPM, PKK, Youth org, NGO, Business org
<b>UDKP</b> (Kacamatan or sub-district)	Merge and consolidating outputs from all Musbangdes within Kecamatan	April – 1 <sup>st</sup> week of May	Identify potential problems from Musbangdes and unit of activity of Dinas Editing activity plans based on priority Identify source of funds for each activity	List of activities at Kecamatan level including source of funds	Dinas, Badan, KCD and other institutions at Kacamatan level: Police and Army Offices, Kecamatan Staffs, Kepala Desa/Kelurahan, Ketua BPD, Ketua LPM. Ketua PKK, other stakeholders including NGO and Business org
<b>Rakorbang Kabupaten</b> (Kabupaten or District)  <ul style="list-style-type: none"> <li>• <u>Pre-Rakorbang</u></li> <li>• <u>Rakorbang</u></li> <li>• <u>Post-Rakorbang</u></li> </ul>	<i>General purpose:</i> Agreement and commitment to programs, activities, and budget based on development planning documents  <i>Special Purpose:</i> Increasing people participation, quality of development planning, and synchronization between	3 <sup>rd</sup> week of May  3 <sup>rd</sup> week of May – 2 <sup>nd</sup> week of June  during the time taken to ratify RAPBD to become APBD	<i>Targets (Sasaran):</i> Ensuring people participation, identified and agreed on: Activities prioritized for next year Policies from Kabupaten and Province and Center Activities needed additional discussion Activities based on policy needs, budget, and resources Procedures, mechanism, and institutions of development coordination forum Integrating participatory planning  <i>Materials:</i> Reports from UDKP Recommendation from Pre-Rakorbang Annual Development Planning (Repetada)	General Guidance and Policies of APBD Repetada based on priority program and source of funds List of activities at Kabupaten, Province, and Central levels List of investment proposals that can be collaborate private sector List of proposed activities need to be discussed	Dinas, Badan, KCD and other institutions at Kacamatan level, DPRD Secretariat, BPD Forum, LPM Association, Kepala Desa Association level Kabupaten/Kota, NGO, Social org, Camat, Representative BAPPEDA Kabupaten/Kota, Representative BAPPEDA Propinsi, Government association representative Kabupate/Kota (Apkasi/Apeksi), Business org,

	<p>long-term plan, strategic plan and annual targets.</p>		<p>Annual Sub-district development plan                  Activities and budget within secretariat and units                  Budget for DPRD and its secretariat                  Proposed activities funded by province and center                  General guidance and policy                  Main ideas from DPRD                  Evaluation of previous year development activities                  Evaluation on current and previous year APBDs                  Local resources: SDM, financial, and natural resources</p>		<p>Universities, Community Leaders, Wartawan/Pers, representative team AKU and REPETADA.</p>
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## Annex 2 General Guideline for Scoring System (SE MOHA No.050/987/SJ)

Three are two criteria to be utilized in prioritizing projects: sectoral criteria and participatory criteria. Priority rank of each project can be determined by total score (sectoral criteria score plus participatory criteria score).

**Sectoral Criteria for the Main Three Sectors:** .In general, criteria can be spelled out from goals and targets stipulated in the strategic and annual development plans. The criteria need to be agreed by participants of coordination forum (Rakorbang Kabupaten or Kota). Criteria can include, for example, sustainable development, good governance, integrity, economic development, etc. Criteria can be weighted to reflect relative importance for local governments. Samples for criteria for the three main sectors, or sub-committees of Rakorbang meeting, are:

Fispra (Infrastructure)	Economic	Sosbud (Social Sector)
1.Adjust with program and RENSTRA activity	1. Adjust with program and RENSTRA activity	1. Adjust with program and RENSTRA activity
2.Supporting RPTK/Repetada	2.Support RPTK/Repetada	2.Support RPTK/Repetada
3.To realize the need of many people	3. Supported by market opportunity	3. Keeping conservation of traditional heritage
4.Support region development	4. Create job opportunity	4. Increasing simple services
5.Make used local resources (SDA/SDM)	5. It has addition economic value/multiplier effect	5. Increasing quality of Human Resources (SDM)
6.There is no negative environment effect	6. Support agribusiness and manufacture	6. Supporting people empowerment
	7. There is no negative environment effect	7. There is no negative environment effect

**Evaluation Format for Sectoral Criteria:** Following table provides an example which can be used to measure quantitatively how well each proposal can fulfill each criteria. Local governments can use scoring scale, for example between 1 to 5, where 1 shows the lowest level and 5 shows the highest level.

Activity or Proposal	Sectoral Criteria					Total Score	Priority Rank
	1	2	3	4	→		

Note: 1: lowest; 2: low; 3: middle; 4: high; and 5: highest.

**Evaluation Format for Participation (Local Aspirations):** As the above table, all proposals are assessed based on degree of local aspirations.

Activity or Proposal	Participation Criteria					Total Score	Priority Rank
	1	2	3	4	→		

Note: 1: lowest; 2: low; 3: middle; 4: high; and 5: highest.

### **Annex 3 Roles and Functions of Education Board and School Committee in Kabupaten Bandung**

In the education sector, participatory planning has been implemented through the avenues of Education Board at the District level (Dewan Pendidikan), and School Committee (Komite Sekolah) at school level, effective in September, 2002.

**A. Education Board:** Is a new set up, which not a local government institution and is an independent body. It is set up through Bupati Decree in September, 2002 and headed by an expert in the education field. Members of the education board are a combination of experts, community leaders and bureaucrats.

#### **Roles:**

1. As an advisory agency in the formulation and implementation of education sector policies.
2. As a supporting agency in the education sector
3. As a controlling agency in the provision of the education services in a transparent and accountable manner.
4. As mediator between executive and legislative, and the community.

#### **Functions:**

1. To encourage the community's attention and commitment for quality education.
2. To cooperate with community (individuals, organization), government and DPRD in the provision of quality education.
3. To register ideas, education needs from the community
4. To give inputs, recommendation to the local government and DPRD on:
  - Education policies and programs
  - Criteria on district education sector performance
  - Criteria on education sector human resources, especially: teachers, tutors, and head of education unit
  - Criteria for education facilities
  - Other relevant aspects of education sector
5. To encourage the participation of parents and community in the education sector to achieve education quality and accessibility in education.
6. To monitor and evaluate education sector program, program implementation, and its outputs.

**B. School Committee:** At Kabupaten Bandung, not all schools have established School Committee. The idea of school committee is based on the enlargement of the old style BP3 (Parents-Teachers association) to encompass a more wide ranging role and to accommodate participation from the parents, and community in achieving quality education.

#### **Objectives:**

1. To accommodate community's aspirations on operational policies and education sector programs at the education unit (school level).
2. To encourage more community roles in the education provision at the school level.
3. To facilitate the establishment of education services provision at the school level in a transparent and accountable manner.

#### **Functions:**

1. To encourage attention and participation of the parents and community in the realization of quality education.
2. To give inputs, recommendation to the schools on:
  - Its education policies
  - RAPBS (the school budget)
  - Criteria for school performance
  - Criteria for teachers
  - Criteria for teaching facilities

- Other relevant aspects at the school level
- 3. To raise funds from the community as a source of school revenues
- 4. To supervise and evaluate the implementation of program and its output at the school level.

**Annex 4 New Local Budgeting Schedule (Kepmen MOHA No.29/2002)**

No	Activities	Responsible Unit	Sources	Documents	Time
1.	Documenting General Direction and Policy of APBD	Pemda & DPRD	Strategic Plan, People Aspirations, DPRD Main Ideas, Financial Policy	Agreement between DPRD and Local Government	May, Jun. Jul.
2.	Documenting Strategy and Priority of APBD	Pemda	General Direction and Policy of APBD	Agreement between DPRD and Local Government	Jul., Aug.
3.	Preparation of Unit Organization Budget	Executive Budget Team	Local Law (Perda) on Financial Management, General Direction and Policy of APBD, Strategy and Priority of APBD, Minimum Standard, Performance Level, Cost Standard	Letter from Head of Local Government (Bupati/Walikota) on Guideline on Unit Organization Budget	Aug. Sep.
4.	Vision and Mission Statement, Main Role and Function, Target and Direction of Unit	Unit Organization	Local Law on Organization Structure and Rule of Conduct	Budget Statement	Sep. Oct.
5.	Planning Unit Organization Program	Unit Organization	Target and Direction of Unit	Budget Statement	Sep. Oct.
6.	Planning Unit Organization Activities	Unit Organization	Unit Organization Program	Budget Statement	Sep. Oct.
7.	Planning Unit Organization Budget	Unit Organization	Unit Organization Activities	Budget Statement	Sep. Oct.
8.	Evaluation on Proposed Budget of Units based on Feasibilities and Costs	Executive Budget Team	General Direction and Policy of APBD, Strategy and Priority of APBD, Letter from Bupati on Guideline, Budget Statement	RAPBD	Sep. Oct.
9.	Documenting RAPBD	Executive Budget Team	General Direction and Policy of APBD, Strategy and Priority of APBD, Budget Statement	Draft Perda on APBD	Oct. Nov.
10.	Sending RAPBD to DPRD	Pemda	RAPBD	Draft Perda on APBD	Nov.
11.	Discussion on RAPBD	Executive Budget Team and Legislative (DPRD)	Draft Perda on APBD	Perda on APBD	Nov. Dec.