

## Budget Brief

# *Vitamin*

# **A** **NGGARAN**

*Contains Special Supplements  
For People's Representatives  
With Concerns for Welfare*

Attention

Important to be read before  
Financial Note Plenary Session

## FITRA'S VIEW ON 2011 BUDGET DRAFT "Initiate State Budget for People's Welfare"

- **2011 State Budget Draft (RAPBN) is one of many realization of current elected government's commitment** as written on National Mid-Term Development Plan (RPJMN) for the year 2010-2014 as described in Government's Workplan (RKP) for the year 2011.
- **The Drafting of RAPBN should be directed in order to achieve state goals for fulfilling mandates of constitution.** The government should have described 2011 RAPBN Financial Note based on state's obligation to fulfill Citizen's Rights just how it is mandated in the constitution, that State Budget (APBN) is meant to maximize people's welfare.
- **But budget politics are still dominated by budget bureaucracy which can be seen from incremental budget policies.** With no reward and punishment mechanism for ministries with bad audit track record.
- **Therefore, the direction of policies and budget politics still not showing any link and synchronization between national and regional,** and between sectors and ministries.

### A. Macroeconomics framework and Fiscal Policy Direction for 2011 (in billion rupiah)

No.	Assumptions	Government's Policy	Government and Budget Board Deal
1	Economic Growth (%)	6.2 – 6.4	6.1 – 6.4
2	Inflation (%)	4.9 – 5.3	4.9 – 5.3
3	Exchange Rate (Rp/US\$)	9,100.0 – 9,400.0	9,100.0 – 9,400.0
4	Bank Indonesia Certificate's Interest rate for 3 months (%)	6.3 – 6.7	6.2 – 6.5
5	Oil Price (US\$/barrel)	80.0 – 85.0	75.0 – 90.0
6	Oil Lifting	960.0 – 980.0	960.0 – 975.0

- **Macroeconomics assumptions used are still not reflecting social reality within the society.** Macroeconomics indicator assumptions should also include target indicator to decrease poverty, unemployment rate, and GINI ratios.
- **Assumptions for economic growth proposed by the government do not reflect reality of gaps in regions.** Government has claimed that for every one percent of economic growth, it will absorb 400,000 workforces. Therefore, it is assumed that there would be 2% new workfields each year. In Economic Growth for 2008, for example, there were 22 regions below the average of National Economic Growth. Approximately, 14 regions were below unemployment average of 2008 which amounted to 8.4%. In fact, unemployment rate in Banten was twice the National unemployment rate.
- **Government should describe macroeconomics growth contribution for each region,** so that growth for national economics also reveals economic growth between regions and also their gaps.
- **The economic growth numbers also have no relation with poverty rate and Human Development Index.** Government can claim that economic growth keeps increasing, but it does not make poverty rate drops significantly. Moreover, our Human Development Index keeps on dropping. In 2006, Indonesia was rated at position 107, and then drops to position 109 on 2007-2008, and dropping again to 111 at 2009. It was even worse than Palestine (110) and Sri Lanka (102), two countries in the middle of conflicts.
- **Annual state poverty reduction should be a reflection of annual regional poverty reduction.** The central government can set its own poverty reduction target for each year, but if it's not reflected in regional poverty reduction, than they're just mere numbers.
- **Inflation rate of 4.9 – 5.3% assumed by the government is an optimistic number but also unrealistic.** In practice, every year the government always revised its inflation number higher as budget policy was being modified. In 2010, before electricity tariff increases, price for nine basic foods was shooting the roof in the market. Therefore, optimistic inflation numbers should be backed by government fiscal policies that touches the root problems of inflation, such as infrastructure improvement for nine basic foods distribution line, logistic warehouse, and comprehensive market control. Fiscal policy also needs to pay attention to its implication towards inflation, subsidy revocation without some kind of safety guard policy could contribute to a higher inflation rate.
- **Oil lifting related to revenues from Oil & Gas Sector should be tightly supervised,** considering the Cepu Block have started its production but Natural Resources Revenues decreases.

## B. Structure and Direction of Revenue Policies in 2011 APBN

APBN for 2008-2010, Revised APBN (APBN-P) of 2010, and RAPBN of 2011  
(In Trillion Rupiah)

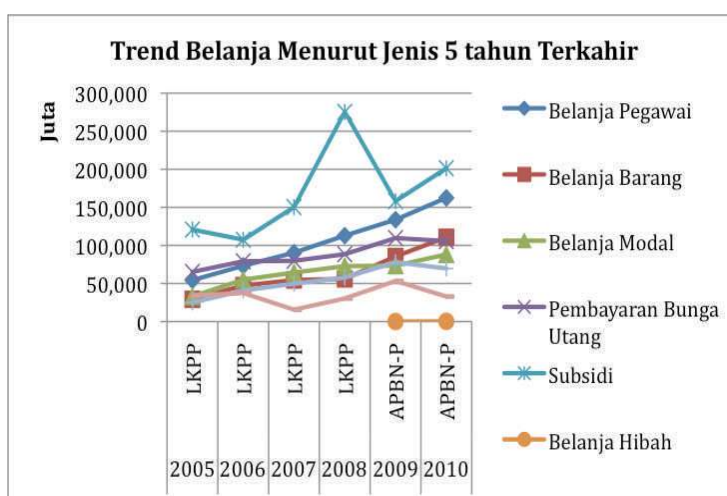
	2008	2009	2010	2010	2011
			APBN	APBN-P	RAPBN
<b>A. State Revenue and Grant</b>	981.6	869.6	949.7	992.4	1,086.7
<b>I. Domestic Revenue</b>	979.3	868.5	948.1	990.5	1,083.4
<b>1. Tax Revenue</b>	658.7	641.4	742.7	743.3	839.9
<b>2. Non-Tax Revenue</b>	320.6	227.1	205.4	247.2	243.5
<b>II. Grant</b>	2.3	1.1	1.5	1.9	3.2
<b>B. State Expenditure</b>	985.8	957.5	1,047.7	1,126.1	1,204.9
<b>I. Central Government Expenditure</b>	693.4	648.9	725.2	781.5	840.9
<b>II. Regional Transfer Fund</b>	292.4	308.6	322.4	344.5	364.1
<b>C. Surplus/Deficit</b>	-4.1	-87.8	-98.0	-133.7	-118.3
<b>Percentage towards GDP</b>	-0.1	-1.6	-106	-2.1	-1.7
<b>D. Financing</b>	84.3	111.3	98.0	133.7	118.3
<b>I. Domestic</b>	102.5	128.1	107.9	133.9	
<b>II. Foreign</b>	-18.4	-16.8	-9.9	-0.2	

Source: Ministry of Finance

- **Tax Revenue is estimated to increase Rp839.9 Trillion or 13% than 2010.** Without comparing tax revenue from other countries similar to Indonesia with a tax ratio of 16-19%, by ratio alone, tax income for 2011 is still far from 2008 tax ratio at 13.5%. This tax revenue estimation is still far from taxing potential that could be achieved by the government. This also reflects that tax reformation hasn't brought any change for State Revenue in tax Sector.
- **To widen personal tax bases, government also need to consider ear marked tax to attract Taxpayers.** Government can develop social security system from tax cut, so personal taxpayers can feel the benefit of paying their taxes. However, the conditions for Single Identity Number (SIN) database must be fulfilled first.
- **Though overall State Revenue increases, Natural Resources revenue is decreasing, especially because of oil lifting.** This is a suspicious considering Cepu Block has started its production. Government Regulation No.26/2010 related to State Revenue and Regional Revenue from Extractive Industry is still a 'stated' policy and not fully implemented yet in extractive revenue sector.

### C. Structure and Direction of Expenditure Policy in RAPBN 2011

- In order to achieve development target in 2011, **state expenditure allocation is planned for Rp1,204.9 Trillion or up 7.0% compared with state expenditure budget In 2010.**
- **Central Government expenditure in 2011 will reach Rp840.9 Trillion or up 7.6% than 2010.**
- In line with the rise of 2011 state expenditure, regional transfer fund budget also planned to increase Rp364.1 trillion or a 5.6% increase than 2010. This increase for regional transfer fund is due to increase regional fiscal ability and support regional development as a part of national development priority.
- In every budget proposition, government always claimed that regional Transfer Fund keeps increasing. Even in 2011, the government claimed to have doubled the regional Transfer Fund from Rp150.4 trillion in 2005 to Rp364.1 trillion as written in 2011 RAPBN. But in reality, compared to the constant increase of state expenditure, the portion of the regional Transfer Fund is unchanged at around 30% from the total state expenditure, whereas regional takes a much larger role than central with over 500 governments. This is something the House of Representatives (DPR) should fight for, instead proposing for an aspiration fund that will not affecting the regional expenses portion. ***If the portion for regional budget still small, then it would be no surprise that no matter how much increase in APBN, it will not increase the welfare of people in regional areas.***
- **Though dominated by Subsidy Expenditure, central government's expenditure pictures a worrying situation in the last five years.** From the chart below, generally, personnel expenditure has a tendency to keep increasing, while of the personnel's tasks (Goods and Services Expenditure) shows no significant increase. Personnel cost rising up, while their jobs aren't added up. It should also be noted, from the total of Rp107 Trillion of Goods Expenditure, Rp19,5 trillion of it was for business travel expenses (*See main data for 2010 APBN on our website*).
- **At 2010 APBN-P, the most significant change in regional Transfer Fund's increase is the adjustment fund, which rises Rp13.8 Trillion to Rp21.1 Trillion or equal to the Specific Allocation Fund (DAK).** Adjustment fund used to be allocated to accommodate underpayment in Balanced Fund, but since 2008, Adjustment Fund was also allocated to accommodate non hold harmless fund, and ad hoc programs. But since 2008, adjustment fund is also known as Infrastructure Fund (DISP), in 2009, it is known as Fiscal Decentralization Strengthening for Regional Development Acceleration (DPDF PPD), and in 2010, another component was added, Regional Infrastructure Fund (DPIP) and Education Infrastructure Acceleration Fund (DPIP). These added regional infrastructures have violated the law No.33 year 2004 about Fiscal Balance between Central Government and Regional



Government, because the only component recognized in this law was only General Allocation Fund (DAU), Profit Sharing Fund (DBH), DAK, Special Autonomy Fund, and Deconcentration and Assistance Tasks. The obscurity of the formula to decide which regional to receive DPDF-PPD and DPIP fund will become a new field for budget pandering at DPR and the Government, to sell their authority to regions who demand these funds. ***This shows that political lobbying becomes the determinant on which region to receive funds, instead prioritizing the region's needs.***

**Tabel 1. Added Adjustment Fund on 2010 State Revised Budget, Prone to Budget Pandering**  
(billion)

No	Adjustment Fund	APBN	APBN-P	Margin
1	Added Income for Regional Government Civil Servant (PNSD) Teachers	-	-	-
2	Regional Incentive Fund	1,387.8	-	-
3	DAK Underpayment	80.2	-	-
4	DISP underpayment	32.6	-	-
5	DPDF PPD	-	7,100	7,100
6	DPIP	-	5,500	5,500
7	DPIP	-	1,250	1,250
<b>TOTAL</b>		<b>7,300</b>	<b>13,850</b>	<b>21,150</b>

*Source: FITRA National Secretary, comprised from Working committee for Budget Council (Panja Banggar) Regional Transfer Fund (April 28, 2010).*

For example, a region with high fiscal capacity index but also with low poverty index below national average, such as the regency of Berau and the regency of Penajam Paser Utara in East Kalimantan, were instead received higher DPIP allocation, compared with regions with low fiscal index and high poverty index above national average, such as the regency of Timor Tengah Selatan and Kupang in East Nusa Tenggara. The allocation for DPDF PPD is also equally distributed to all regions, just as described in table 1 below. It's no surprise that regional autonomy wouldn't be able to elevate welfare for regional people with such budgeting pattern.

**Tabel 2. Comparing Wealthier Regions and Poorer Regions who received Adjustment Fund**

No	Region	Fiscal Index	Poverty Index	DPIP	DPF PPD
1	Berau Regency	2.999	0.886	17,335,000,000	4,931,137,019
2	Penajam Paser Utara Regency	2.935	0.698	24,175,000,000	0
3	Timor Tengah Selatan Regency	0.243	1.857	12,000,000,000	4,931,137,019
4	Kupang Regency	0.271	1.46	4,835,000,000	0

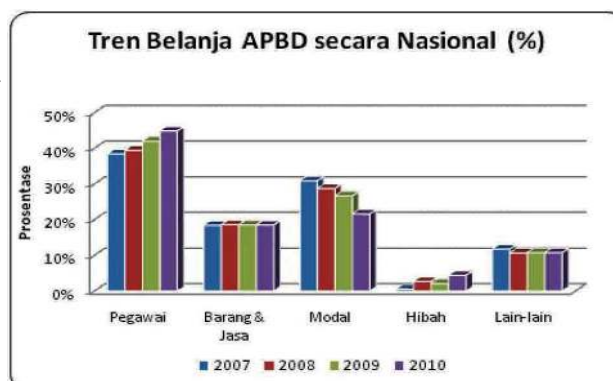
FITRA view that in 2011 APBN, government should correct regional transfer fund on adjustment budget nomenclature based on a formula which considers regional gaps including fiscal and other indicators. This should be done so regional transfer fund can achieve its purpose as an instrument to reduce gaps between regions in increasing welfare.

### D. Expenditure Policy in RAPBN 2011

Government set a new expenditure policy in 2011 with a theme: "Fair Economic development acceleration supported by Central-Regional good governance and synergy" with these priorities:

#### Priority 1 Bureaucracy and Governance Reform

- **FITRA views that government have not design an obvious design and bureaucracy reform direction.** Bureaucracy reform with remuneration was proven unable to extinguish a corrupted bureaucracy culture. Bureaucracy reform was not able to produce a slimmer structure, functional, and budget-saving, which should have been the spirit of bureaucracy reform. On the contrary, bureaucracy reform generates a bloated and inefficient bureaucracy paradox which devours many budgets. As described in the above chart, personnel expenses keep increasing while work expenses (goods/services and capital) shows no significant increase. The same thing happens in regions where personnel expenses dominate the budget, so it's no surprise that APBN and APBD do not significantly contribute to economic growth.
- **Presidential department as the locomotive for bureaucracy reform is not providing good examples to other ministries/departments.** The presidential cabinet was formed at its best based on law No.29/2008 concerning ministries/departments by forming a cabinet with 34 members, to accommodate all coalition party members. Not just that, the president even adds another 10 vice ministries with an unclear division of tasks with the ministry and echelon I officials. Presidential department is also getting bigger in structure. Other departments were formed outside of the palace such as, special staff, private staff, spokesperson, task unit, Presidential Advisory Council, law mafia taskforce and team eight which has ended their job. Ironically, the establishments of these institutions were never evaluated for its effectiveness. Then even tend to add more to the state budget. It was recorded on 2010 APBN; currently Presidential Task Unit has its own nomenclature with Rp17.1 billion budget and Presidential Advisory Council with Rp34.5 billion budget.
- **Bureaucracy reform should include authority refinement between central and regional followed by an adequate fiscal discretion.** Even though the region was given their own domain tasks because of fiscal decentralization, but in reality, the tasks given to the regional government are blurry tasks. Because in practice, regional fiscal decentralization have a fixed budget allocation by the government. From a study made by Seknas FITRA, in average, regions spend 80% of their general Allocation Fund to



finance personnel's salaries. Fiscal limit movement in regions can also be seen from the significant increase in personnel expenditure, while capital expenditure keeps declining to its lowest point for the past 4 years in 2010. Aside from that, the regions are obligated to give 10% of General Allocation Fund's Sharing Cost that also has fixed allocation. The regions are also obligated to allocate 20% of budget for education, and 10% of budget for health service, while there are some regions that are unable to meet the obligated profit sharing term, except for urban regions and producers of natural resources. **Practically, regions do not have any authority in deciding their own budget allocation policy and only becoming a note taker for their own Regional Budget.**

- **DPR should also push the government to convert deconcentration fund and assistance fund in 2011, to be Special Allocated Fund as mandated by law No.33/2004.** Government has just released a Government Regulation No.7/2008 concerning Deconcentration and Task Assistance. In this regulation, conversion of deconcentration fund and task assistance was implemented gradually. This shows their low level of commitment in decentralization with only task diversion and no budget authority.

### Priority 2 Education

- The year 2011 is the third year for government to fulfill their 20% education budget. The fulfillment of this education budget just recently happened after Constitutional Court ruled for the third time to grant Teachers' Association of Republic of Indonesia in judicial review for 2008 APBN law. Constitutional Court ruled that the 20% education budget should be filled by the government. With that being said, the decision which was approaching the state address, significantly change the structure for 2009 RAPBN. The fulfillment of 20% education budget is not an encouraging achievement to the world of education. Because 20% of education budget includes educators salary after National Education System law put into Judicial Review. Aside from that, fulfillment of the law still thick with political intentions approaching the previous 2009 General Election. Also the controversy surrounding 20% education budget which includes transfer fund such as General Allocation Fund (DAU), Special Allocation Fund (DAK), and Profit Sharing Fund (DBH), claimed by regional government **as part of the 20% education fund from APBD. This raises a big question, where does the 20% come from, is it 20% from APBD or 20% from APBN? Or is it 20% from APBD+APBN?**
- Fulfillment of a large sum of 20% education budget should result in wide and quality education access. Unfortunately, after 2 years from the fulfillment of the law, there's still no sign of satisfying result. School buildings still damaged, many children dropped out from school, and National Test quality is beginning to raise doubts. Those conditions describe the chaotic education system in this country. **Bigger education fund does not guarantee the expansion of quality education access.**
- FITRA argues that the large education budget has no significant result towards education quality because:
  - ⇒ **Finance Auditing Board (BPK) audit result shows the two largest ministries, which are National Education Department and Religious Affairs Department calls for a disclaimer**



**in the past 3 years.** Based on BPK audit during first semester of 2009, for example, there are 24 cases of disobedience to the law system worth Rp2.2 Trillion while Religious Department has 39 cases worth Rp2.2 trillion. This indicates that the two ministries are not ready with the amount of budget they manage. Large amount of education budget in regional correlated with the increasing number of misappropriation of education budget in regional. Based on BPK during second semester of 2009 towards 189 Regional Government Financial Report (LKPD), in 42% or 80 regions were discovered misappropriation of education budget worth Rp900.7 billion or closing to Rp1 trillion. Beginning from agency heads to principals of schools. This is a worrying situation, large amount of education budget with unaccountable scheme increases corrupted officials to school level.

- ⇒ **Government is also not ready with the grand design of with quality, less expensive education.** In 2010 RAPBN-P, government offered Rp11.7 Trillion more education budget to the point totaled Rp221.4 Trillion. Ironically, the reason for this added budget was because the increase in state expenditure, it wasn't based on assessing education needs. So it's no surprise that this added budget was spread to Ministry of Education for Rp6.3 Trillion, Ministry of Religious Affairs for Rp2 Trillion, Ministry of Transportation for Rp600 billion, and Health Ministry for Rp300 billion for health personnel's scholarship.
- ⇒ **Education budget allocation policies were ineffective.** Based on FITRA analysis on 41 District/Municipal, generally regional have filled the mandates of constitution. The problem is, 20% of education budget was allocated heavily on indirect expenses.
- **For those reasons, DPR should push government to draft a road map for 20% education budget,** the draft shouldn't be driven by the numbers on budgeting, but more to the needs of educations in Indonesia. It's important to note, it's not the large sum of education budget that could increase the country's education quality. If the budget usage is inefficient and ineffective, then it would be predicted that seeds of corruption in education service will spread.

### Priority 3 Health

- **Passing of a law No. 36/2009 regarding Health should be government's foundation in realizing their commitment concerning health budget.** Article 171 verse (1) written: "Government's health budget to be allocated by a minimum of 5% (five percent) of state budget apart from salaries" However, just like the new education budget was realized

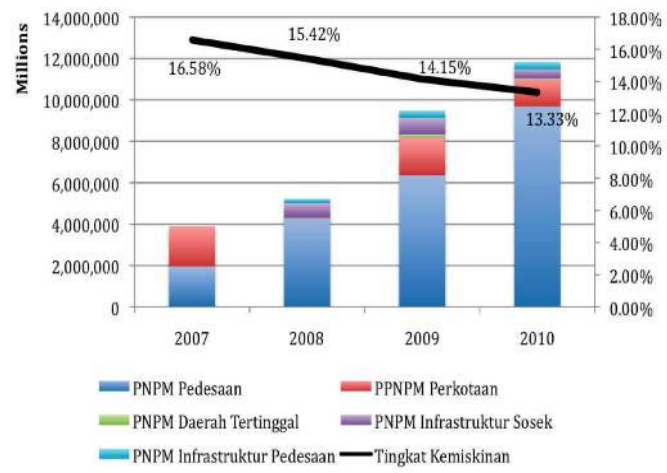


5 years after it was supposed to be mandated by constitution, government still not paying serious attention to health sector. The chart shows that although APBN increases 5 fold since 2005, but the proportion of health budget number still doesn't show any significant increase.

- **From calculating health expenditure on 2010 APBN-P by adding personnel salaries as mandated by Article 171 laws No.36/2009.** Health expenditure portion in 2010 APBN-P as shown in table 1 was only amounted 2.2% from the total 2010 APBN-P. Other than that, health expenditure portion in 2010 APBN-P is still far from sufficient, only 1% of GDP. Compared with the Philippines with lower income per capita than Indonesia, they allocate their health expenditure on 3% of PDB. Whereas, in health sector, there are 5 (five) indicators of MDGs: Malnutrition, maternal mortality, HIV/AIDS and communicable disease, and water sanitation.
- **Beginning from 2010, government implement Health Operational Cost (BOK) program given directly to health center.** This is a good initiative to cut the chain of bureaucracy, but standardizing allocation of Rp100 million for trial health center and Rp18 million to Rp22 million for non-trial health center, shows that that the government is not ready for this kind of expenditure. This means, this expenditure is just a populist demand. FITRA argues that DPR need to push the government to formulate BOK expenditure for every health station based on related health station indicators such as maternal mortality, malnutrition, health disease, etc.
- **FITRA view that this problem with health budget is an insufficient allocation of budget and effectiveness.** Therefore, 2011 APBN should realize the 5% health budget, if government plan for MDGs targets in health sector to be reached in 5 (five) more years.

### Priority 4 Reducing Poverty

- Government believes that PNPM program is the cure for poverty. With no hesitation, government boost PNPM fund from Rp3,9 trillion in 2007 to Rp11,8 Trillion in 2010. The government even dared to ask for US\$744 million loans (Rp7.4 Trillion) to World Bank just for this program. Ironically, **PNPM's effectiveness in tackling poverty is questionable.** Budgets increases by multifold but poverty level doesn't significantly decrease. In election year of 2009,



PNPM budget increased rapidly for Rp4.2 trillion compared to 2008, with only Rp1.3 trillion increases. While during 2008, it takes budget allocation of Rp543 thousand to reduce one person of poverty, in 2009, it takes budget allocation of Rp2.8 million to reduce one person o

poverty. Regions also forced to allocate Regional Joint Affairs Fund (DDUB) as a companion or PNPM which amounted to 10-20% from received PNPM fund. PNPM, however, is not a form of a balanced fund, Deconcentration of even Assistance Tasks. That means, PNPM have also violated principle of a balanced budget in law No.33/2004.

- **FITRA believe that DPR should evaluate the effectiveness of PNPM including stopping PNPM financing from debts.** DPR should push for the government to formulate unit cost or Standard Cost Analysis for how much money required to decrease 1 point of poverty.

### E. CLOSING

It's time for the people's representatives to build a new tradition in discussing RAPBN 2011 as mandated by law No. 10/2004 article 53, public have the right to give inputs verbally or written in preparation or discussing law drafts. Therefore, for 2011 State Budget Draft discussion, DPR should do a Public Opinion Hearing (RDPU) either with commissions, budget commission, working committee or even fractions in DPR. RDPU can be an instrument for DPR to perform its function to realize the Maximize State Budget for People's Welfare, as mandated by the constitution.

"IT'S TIME FOR THE HOUSE OF REPRESENTATIVE TO BUILD NEW TRADITIONS BY DOING A PUBLIC OPINION HEARING (RDPU) WITH THE PUBLIC IN DISCUSSING STATE BUDGET OF 2011"

**This Budget Vitamin is Compounded by:**



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**Seknas FITRA is open for invitation in Public Opinion Hearing (RDPU)  
at House of Representative (DPR) to give inputs in discussing State  
Budget Draft 2011**