

**POLITICS OF LOCAL BUDGETING:  
THE MAIN HURDLE FOR STIMULUS EFFICACY \***

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**1. BACKGROUND**

In order to cushion the impact of global economic crisis, the Indonesian government has pledged an amount of Rp 73.3 trillion of readily allocated funds to stimulate the economy. There are pressing reasons for the government to immediately take measures to tamper the global crisis as the economy has shown symptoms of slowing down. The last quarterly evaluation of 2008 indicated an economic growth of only 5.2 percent, significantly less than 6.1 percent of the previous quarter. It also turned out that the reduced domestic fuel price was not strong enough to raise consumers expectation in all potential sectors. The wave of massive lay off is looming, especially in companies that are depended on exports. The rate of unemployment is currently staggering at 8.39 percent and it is expected that in 2009 about three millions would loose jobs. If the government is unable to act quickly with effective measures, the economy might fall into a deep recession that has been experienced in other countries in Europe and East Asia.

Although central government officials are optimistic with the stimulus funds, many are still doubtful about its efficacy to tackle local economic problems for various reasons. Aside from the fact that the policy design for the economic stimulus is inherently problematic, there are also serious problems related to the process of local budgeting, fiscal decentralization, and the political context in general. It should be noted that about 80 percent of the stimulus package is designed as tax cut or tax holiday instead of fresh funds that are ready to disburse. It remains to be seen whether the tax cut would be effective to stimulate demands for goods and services in the country. Then, there are many variables that also determine the effect of stimulus package to local economy. This paper is aimed at explaining issues in local budgeting that determine the effectiveness of the stimulus policy. It also explains political variables that significantly influence the process of local budgeting in Indonesia. To help better understanding on the politics of public budgeting at the local level, cases from three districts are presented and analyzed.

**2. CURRENT ISSUES IN LOCAL BUDGETING**

**a. The budget cycles**

The stimulus funds are allocated to all the sectors of development that would create more jobs, such as infrastructure projects, small and medium

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enterprises, agriculture, education, and health. At the *kecamatan* (sub-district) and village levels, the stimulus are also targeted to the current programs on poverty education under the PNPM (*Program Nasional Pemberdayaan Masyarakat*, National Program for People Empowerment). If the funds are allocated appropriately and responsibly, there is no question of priority. On the SMEs, for example, it is the high call for the government to give more attention to these enterprises as the main outlets for most people who suddenly face hardship after massive layoffs. Although SMEs do not contribute significantly to real GDP, they contribute to create 96 percent of new jobs. There is also great potential for infrastructure projects. The government is therefore targeting stimulus package to rehabilitate roads, airports, harbours, railways, apartments, market places, and others. All forms of human resource intensive projects are very important during the economic downturn.

Unfortunately, the process of allocating budget at the local level is not efficient enough to ensure that all the funds are there when it is needed. The Indonesian fiscal year starts and ends according to yearly calendar, from 1st of January to 31st of December. In reality, however, the funds are actually able to be allocated on May or later. There are various factors why this becomes a pattern. Firstly, when the Ministry of Finance ratifies the national budget (APBN), very limited fund is actually ready to be allocated. Most are based on predicted revenue by the Directorate General of Tax. Therefore, in the first months of the year, even at the central government there is not much fund to be allocated. Secondly, Indonesia is a diverse country in terms of regions and geographical areas. It always takes time when the central government has decided to disburse funds from the Ministry of Finance to local KPN (*Kantor Perbendaharaan Negara*) in 33 provinces, 389 districts, and 96 cities. Thirdly, there are a lot of procedure for controls and audits that slow down the process of disbursement. Many local governments do not have enough capacity to undertake financial reports. Meanwhile, local government agencies have to satisfy the Bawasda (*Local Supervisory Body*), BPKP and other auditing institutions before they can actually disburse funds.

#### **b. Reserves and unspent expenditures**

The fact that many local governments in Indonesia have so much reserve and unspent expenditures substantiate reasons to worry. Table 1 describes this problem very clearly. The number of local governments with budget surpluses has increased steadily. A number of explanations have been put forward, with the delay of disbursement and bad planning frequently mentioned. Whatever the explanation, this is a serious matter that requires much attention from the central government as well as the local governments. It is ironic that while the central government seeks standby loans to finance the APBN deficit of about Rp 61.9 trillion, the local government have a combined APBD surplus of over Rp 43 trillion.

**Table 1. Numbers of Local Governments with Surplus or Deficit Budget: 2004-2007**

	2004		2005		2006		2007*	
	Surplus	Deficit	Surplus	Deficit	Surplus	Deficit	Surplus	Deficit
<b>Number of Kab/ Kota (Rp trillion)</b>	206 (4.5)	112 (1.2)	282 (11.2)	49 (0.4)	341 (22.0)	34 (0.9)	373 (34.0)	44 (1.0)
<b>Number of Provinces (Rp trillion)</b>	24 (2.8)	3 (0.2)	29 (7.7)	2 (0.0)	21 (5.0)	5 (1.4)	26 (9.0)	5 (1.7)
<b>Total LGs (Rp trillion)</b>	230 (7.3)	115 (1.4)	311 (18.9)	51 (0.0)	362 (27.0)	39 (2.3)	399 (43.0)	49 (2.7)
<b>National: APBN (Rp trillion)</b>		(23.8)		(17.8)		(30.4)		(61.9)

Note : - not all regions included due to data availability

\* from budget plan

Source: Financial Note and RAPBN 2007, 2008, 2009.

Therefore, unless the problems of increasing reserve and unspent expenditure are addressed, the stimulus package would not give a significant impact to the economy. While many possible explanations can be put forward regarding this phenomena, one thing is certain, that decentralization policy in Indonesia has not been supported by improvement of local capacity in budgeting.

### c. Budget administration

The success of stimulus package allocations is very much depended on direct finance of the local investments (*sektor riil*). The problem is that current local expenditures for investment (the so-called *belanja langsung* or direct expenditure) is still fall short. On average, the national budget (APBN) only allocates 10.4 percent while the local budget (APBD) only allocates less than 18 percent for expenditures on investment.

Then, the dilemma is that efforts to accelerate disbursements are frequently hindered by procedures of control and accountability. With currently more active KPK (Commission of Anti-Corruption), BPKP (Financial and Development Supervisory Body), and BPK (National Audit Board), many local officials are worried that they would be convicted for corruption if they cannot comply with Presidential Decree No.80/2003 on public procurements. This decree stipulates that any public procurements for goods and services have to follow tight procedures for auctions, open tender, and public accountability. Moreover, procurements can only be carried out by certified officials. As the procedures according to Presidential Decree No.80/2003 are complex, many local officials cannot pass the certifications as required. Therefore, there is a

serious lack of human resources who are qualified to carry out tenders and public procurements among the local governments. Much of the budgeted funds simply cannot be allocated because there is not enough officials to plan and carry out projects.

At the same time, fearing that creating more project would increase risk of possible malfeasance and corruption, many local regents are resorted to a general policy of using banking system to save money and expect the interest out of it. In a district of Central Java, I found a bupati (regent) who spoke frankly that he would rather invest some money from the APBD in the form time deposits at the local bank of Bank Pembangunan Daerah, of PT Danareksa, or purchase government bonds (SBI, *Sertifikat Bank Indonesia*). He said that an interest of 8 percent would be enough to create additional value of the "genuine local revenues" (PAD, *Pendapatan Asli Daerah*) rather than risking his career for being convicted corruption. Certainly, he dismissed the importance of APBD in supporting local investment.

Under such circumstances, how can the local government absorb an amount of Rp 327,08 triliun (37,72%) of the APBN, which is now added by the stimulus package? To ensure that stimulus funds are allocated appropriately, there is urgent need to improve local financial management. This is the question that still hanging around the fiscal policy in Indonesia.

On the one hand, control and supervision should not be applied to the extent that it hinder the absorption and disbursement of stimulus funds. All the decision makers at the national as well as local levels have to understand that stimulus is badly needed to create more jobs and to reduce unemployments. If the programs is critical and its possibility of corruption is small, tight procedures for tender that is stipulated in Presidential Decree No.80/2003 should be lessened. This is important for local officials who are capable of undertaking projects but do not have a certificate of PPK (*Pejabat Pembuat Komitmen*, project leader) to be assigned to plan and carry out projects.

Meanwhile, there is an urgent need to reform the whole process for allocating funds more effectively and efficiently. In infrastructure projects, for example, the process for tender and its implementation has been too long, starting from land clearance, auction and tender for contractors, supervision for the progress, etc. In order to make stimulus package fund more effective, these procedures can actually be shortened without neglecting its accountability. In the case of local government budget, many predicted that the funds would only be disbursed around October 2009. If this is the case, the efficacy of the stimulus would be greatly questioned.

### 3. DICTATING POLITICAL INTERESTS

As the stimulus fund is formulated along the event of general elections in Indonesia, it is inevitably influenced by various political interests. Irene S. Rubin in her book titled *The Politics of Public Budgeting* (2000) says that the amount and pattern of allocation of the public budget are always be influenced by political interests of the decision makers. She concludes that "*budgets*

*reflect relative proportions of decisions made for local and constituency purposes”.*

There are some regulations which make possible for political elites to use public budget. Government Regulation No.5/2009 on Financial Support for Political Parties (*Bantuan Keuangan kepada Parpol*) gives possibilities for allocating funds from the APBN/APBD according to the proportion of seats acquired by particular political parties. The political parties must make accountability reports on the use of funds, which then also being audited by the BPK. Nevertheless, the penalties for possible misuse of funds are only administrative. The fund allocation should be stopped but there is no other form of penalty. This loophole would certainly give rooms for politicians and local government elites to use public funds for their own political interests.

For the stimulus funds to be allocated through the APBD appropriately, there is an urgent extra effort on the part of the legal and financial authorities. One of the main goals is to ensure that the fund would not be diverted into money politics and all kinds of unproductive activities. Unfortunately, the current trends of Indonesian politics do not lead to more responsible political process.

#### **a. The DPRD and The Budget Maximizer Attitudes**

There have been political reforms to revive the DPRD (*Dewan Perwakilan Rakyat Daerah*, Provincial/Local People Representative Council). While in the past DPRD constituted only as minor elements of the state institutions and the New Order was mostly used the councils as the “rubber stamp” of the government policies, there was a strong swing toward reviving DPRD as the people representatives with all its power for electing and controlling heads of regions (governors, bupati and mayors). In effect, before Law No.22/1999 on regional administration was revised, it was the DPRD members who would select a pair of candidates for the heads of regions. Critics had asserted that the new DPRD composition and the arrangement for local executive-legislative relations put a high risk for “money politics”.<sup>1</sup> Elsewhere, even some legislators at the national level criticized the exaggeration of the oversight function of Indonesian parliaments, which prone to “money politics” and put obstacles on public policy process (Ziegenhain, 2008:145).

Law No.32/2004 revised Law No.22/1999 and removed the DPRD rights to select heads of the regions. Under the new law, the LPJ (*Laporan Pertanggungjawaban*, accountability reports), which previously often misused by DPRD to sack heads of regions, was now considered only as a progress report to the legislatures. As heads of regions are directly elected by the people, the position of executives and legislatures has become more balanced. Nevertheless, the gap between DPRD member as political appointees and their constituencies remain unresolved.

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<sup>1</sup> “Mencermati Politik Uang di Tingkat DPRD”, *Kompas*, 15 March 1999.

There are some new formats in the Indonesian 2009 elections. For example, the Supreme Court for Constitution (MK, Mahkamah Konstitusi) has ruled that the legislative elections would be held according to majority of votes. Therefore, although Indonesian election is still using apportionment system, the parliamentary seats are determined according to the votes instead of the great influence of the party elites as what had been in the past. This provision would certainly force the candidates for legislative members to move more actively to appeal their constituents. They have to work harder, to go down to the people, to prepare campaign with posters, balihs, brochures and other means. While some of the campaigns can be considered as "ethical", there are also some dubious methods such as distribution of *sembako* (basic needs), vote buying, black campaigns, etc. Although all the candidates for legislative members have declared that they would not use dirty campaigns, there always possibilities for money politics.

For the new candidates who have never contested, political funds must be obtained from personal savings, sponsors, and donors. However, for the incumbents, there always possibilities to use funds from the APBN and APBD because of his or her close relations with the local government executives. It should be noted that up to early 2009, there are only one third of the total local governments that could ratify APBD on time. From the 33 provinces and 491 districts, only 156 APBD could be ratified according to the schedule while the other 162 were still being debated with the DPRD and even some were still in the form of KUA (*Kebijakan Umum Anggaran*, Budget General Policies) and PPAS (*Plafon dan Prioritas Anggaran Sementara*, Tentative Ceilings and Priorities for Budget). It means that when the legislative election was started, there is enough time for the local executives and politicians to get benefits from the APBD so that the stimulus funds were diverted for their political objectives. There are various ways of inserting projects in the local APBD. They could add on the so-called tactical funds (*dana taktis*), emergency funds (*dana tidak terduga*), operational cost for the DPRD secretariat, and other additional posts.

### **b. Political investment, money politics and corruption**

Law No.32/2004 stipulates that there should be "joint tickets" of candidates for the *kepala daerah* (heads of regions) and the *wakil kepala daerah* (vice heads of regions) positions, and that the local people will directly votes for them. Many academics, NGOs and political activists were disappointed with the fact that the law did not accommodate independent candidates to compete.<sup>2</sup> Although the stipulation was revoked by the Indonesian *Mahkamah Konstitusi* (Constitutional Court), in practice the role of

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<sup>2</sup> According to the law, candidates must be nominated by political parties or coalitions of political parties, which have at least 15 percent of the seats in the DPRD or 15 percent popular votes in the general elections.

political parties remains crucial because independent candidates would in effect need some kind of endorsement from the parties.<sup>3</sup>

The disturbing fact is that most of the political parties are engaged in “money politics” during the event of elections. As a young democracy, issues on political finance are yet to be regulated appropriately. Unlike in most developed democracies, in Indonesia nearly all of political parties are depended on government budget. This is to say that formally and informally the state gives subsidy to political parties. For the 2004 elections, the Ministry of Home Affairs provided that all registered parties is entitled to a subsidy of Rp 1 billion from the government. For the 2009 elections, Government Regulation No.5/2009 on Financial Subsidy for Political Parties stipulates that political parties that gain seats in the parliament shall be subsidized from the government budget. In addition, there are many ways for the incumbent party to make use of government budget for various purposes that indirectly give benefit for the party.

Data from the Indonesian Corruption Watch revealed that there are various forms of money politics since the direct Pilkada was held in all cities and municipalities in 2005. The direct money politics could take the form of cash payment by the “success team” of candidates to certain constituents, cash donation from the candidates to supporting political parties, and “obligatory donation” required by political parties to their functional members and candidates who would run for bupati and mayors. The indirect money politics could take the form of distribution of gifts and door-prizes, distribution of *sembako* (*sembilan bahan pokok*, nine basic needs) to potential constituents, distribution of cements by the candidates in certain electoral areas, etc.

It is difficult to get reliable data on the amount of money being circulated during the Pilkada. Yet, everybody knows that cases of money politics are common in the Pilkada after *reformasi*. Although all the candidates would always be ready to declare that they would not engage in money politics, the constituents would immediately be able to point out how these candidates use money for “buying votes” in their electoral areas. The candidates themselves might not be able to calculate precisely how much they have spent for various forms of donation, gifts, and banners aside from official fees for registration to party memberships, payments for witnesses, and other administrative requirements. However, some field notes from an observer stated that the amount of money to be spent for bupati and mayor candidates is ranged from Rp 1.8 billion to Rp 16 billion and for governor candidates is about Rp 100 billion. From this amount, about 20% goes to political parties that give support to their candidature.<sup>4</sup>

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<sup>3</sup> With the assistance of experts, the Ministry of Home Affairs is currently drafting a law to revise Law No.32/2004. The draft would apparently give emphasis on clarifying inter-governmental functional assignments. However, issues on independent candidates for heads of regions are still unclear.

<sup>4</sup> Sukardi Rinakit, “Indonesian Regional Elections in Praxis”, *IDSS Commentaries*, No.65, mimeo.

Among local businessmen, it is also important to give donation to the political parties because through these “political investments” they would be able to take returns from the local government in the form of business opportunities, contractual favors, or at least access to information on public projects. Therefore, it is not overstatement to say that that the influence of particular businessman to the performance of local government might be part of the return cost of his “political investment” planted during the Pilkada.<sup>5</sup> This certainly relates to the general impression that the performance of local governments could not be improved or in fact getting worse after the implementation of decentralization policy.

The similar can be said on the performance of political parties. Although democratization has made possible for any political activists to organize a political party that would presumably serve their constituents based on certain platform and ideology, at the end it is mostly the interests of the politicians rather than the constituents that are being accommodated. A survey on the progress of democratization in Indonesia revealed that 81 percent of informants consider the performance of political parties are poor with regard to their task to “reflect vital issues and interests of the people”. Majority of the informants also perceive that political parties are vulnerable to money politics and having a tendency to abuse ethnic and religious loyalty to earn public support (Priyono et al, 2007:68).

Under such circumstances, therefore, it is not surprising that public policy process at the local level does not response to the demands of the people at large. When a pair of candidates are elected and run the government, they would always carry the burden at the back because they have to serve political party elites who have helped them to get on their positions. At the same time, businessmen and the political elites who have “invested” their donation to the elected bupati or mayor would always ask for returns during his or her incumbency. The interests of the public are inevitably neglected. Therefore, there are many studies in Indonesian local governance that are titled with the appalling reality that “the people are betrayed” (Collins, 2007). The issue at point is not only concerning with corrupt elites, but also with poor political representation. It should be noted, however, that poor political representation is not exclusively a characteristic of Indonesian politics and democracy. The so-called new democracies around the world seem to be experiencing serious common problem of political representation. This is partly because democracy has been understood only by its ceremonial process instead of the public policy process that reflects day-to-day performance of politics. In order to understand the nature of public budgeting process in at the local level, three cases shall be presented.

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<sup>5</sup> It is a common practice that businessmen’ interests are “invested” to many political parties to ensure that whichever the winner they would get the returns. ”Pengusaha Penopang Pilar Dana Politik”, *Gatra*, 19 February 2009.



#### 4. CASE 1: MALUKU TENGGARA BARAT

The district of Maluku Tenggara Barat (MTB) is located in the province of Maluku and was only established as a new administrative unit in 1999 according to Law No.46/1999. As a typical district of *pemekaran* (newly created autonomous district) after the implementation of decentralization in Indonesia, the government of MTB has to deal with various new challenges aside from the basic rooted challenges in terms of geographic conditions, infrastructures, human resources, etc. The current *bupati* Betziel Sylverster Temmar and vice *bupati* Lukas Uwuratuw, however, seem to be optimistic about the future of development in MTB.

MTB is a relatively isolated district and can be considered as "forgotten islands of Indonesia"<sup>6</sup> in the province of Maluku. It covers an area of 125,442.4 square kilometers in which mostly (88.4 percent) is water, i.e. Banda, Timor and Arafura seas. Therefore, it can be understood that the philosophy of development in the district is based on coastal and marine resources. In 2003, the registered population of MTB is 152,732 and mostly work as fishermen, farmers, and traders. Many of MTB inhabitants are circular migrants from Java who seek a better living in the islands. The traditional structure of local economy is reflected in the regional GDP, amounted of only Rp 152,9 billion and is dominated by sectors of agriculture and trade with some less significant contribution from hotel and restaurant and services.

From the document of Medium-Term Development Planning (RPJMD 2003-2008), there are five strategic goals to be attained, namely: 1) to improve people's welfare, 2) to upgrade human resource qualities, 3) to create local government that is clean, decisive (*berwibawa*), productive, innovative and free from corruption, 4) to provide infrastructure for administration, socio-economic and cultural activities while narrowing down span of control and strengthening local autonomy, and 5) to maintain security and nationality vision. This strategic plan is designed to be financed by the annual APBD amounted Rp 185.3 billion on average while its genuine revenue (PAD) is only Rp 8.9 billion. All the strategic goals seem to be suitable to develop district of MTB and the process to formulate the RPJMD has involved the DPRD quite intensively. The local development plan was also detailed by the bupati with poverty alleviation, improvement of IPM (*Indeks Pembangunan Manusia*, Human Development Index), the increase of genuine local revenue (PAD) and other measurable indicators<sup>7</sup>.

Nevertheless, the MTB government seems to give the top priority of providing infrastructure for local administration activities. This is very common in all the *pemekaran* provinces and districts in Indonesia. It only last 2007 that the Pemda (local government) building complex was established and started

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<sup>6</sup> Nico De Jonge & Toos Van Dijk, "Forgotten Islands of Indonesia" in Marwadi Djoened Pusponogoro and Nugroho Notosusanto, *Sejarah Nasional Indonesia*, Departemen Pendidikan Nasional, Jakarta, 1993.

<sup>7</sup> Tanggapan dan Arahan Bupati MTB atas KUA dan PPAS tahun 2009.

to operate in the capital of Saumlaki. The former bupati, S.J. Oratmangun, initiated the construction of Pemda complex and spent about Rp 52 billion and now the current bupati, B.S. Temmar, insists that all the Pemda offices must be used appropriately. As Mr. Temmar also wants to build town parks along the access road to the Pemda complex, the cost for construction in the last five years has been absorbing the public budget very significantly. In the 2009 fiscal year, for example, it was calculated that local government had to run a deficit of Rp 29 billion. The central government DAU block grant for MTB was not enough to finance its ambitious projects and the DAK specific grant had to be used to compensate the deficit.

One would be concerned, moreover, with the fact that much of the government fund from the budget is siphoned off by the local elites and politicians. As a poor district in which the economy is depended on the public sector, government projects are badly needed to stimulate economic activities of the local people. Unfortunately, malfeasance and leakages are rampant so that many of the planned projects are not implemented properly. No one would not be able to tell how much the public fund is leaked, but cases of alleged corruption are numerous.

For example, in 2004 the KPK grilled vice bupati Lukas Uruwatuw for alleged corruption in the procurement of passenger ship with about Rp 20 billion total lost of public fund. The government had allocated Rp 5 billion bank guarantee from the APBD to procure the Terun Narnitu ship as a down payment. However, it turned out that the ship was a used one formerly ordered by the local government of Samarinda. It was found that the MTB government used a fake document for procurement. To make it worse, after six months in operation, the ship main engine was broken down and it was stranded in Arafura ocean. Contrary to previously planned that the MTB government would gain Rp 800 million from the Terun Nairu ship, the government has to bear more costs for repairing its engine.<sup>8</sup> The Kejaksaan Negeri investigation in 2008 indicated that the case might have also implicated former bupati S.J. Oratmangun. Until recently, however, no one was charged for corruption.

In 2007, the local DPRD members including chairman Forner Sanamase, vice chairman Apan Batfutu and secretary A. Untayana were interrogated by the Kejaksaan Negeri for alleged involvement in financial malfeasance of the APBD about Rp 30 billion.<sup>9</sup> Money politics and corruption involving DPRD members is still shrouded into secrecy because insofar the case has not solved and nobody was convicted. Another case of corruption was allegedly involved the local committee of elections (KPUD) in early 2008. Having been working for only 12 months, the KPUD members and secretariat personnel were paid Rp 2.6 billion from the APBD. It was then found out that the pay was against the Ministry of Home Affairs regulation (Permendagri

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<sup>8</sup> "Dugaan Korupsi Pembelian Kapal: KPK Akan Panggil Bupati Maluku Tenggara Barat", *Suara Pembaruan*, 3 August 2004.

<sup>9</sup> "Pimpinan DPRD Maluku Tenggara Barat Dipanggil Kejaksaan", *Tempo Interaktif*, 21 April 2007.

No.21/2005) on the budget for local elections. The lost of public fund is estimated about Rp 843 million.<sup>10</sup>

Since much of public fund is diverted into political dealings and obscured corruption, many of the necessary projects for improving people's welfare are either ineffective or simply neglected. As a district with abundant marine resources, MTB has a great potentials to get benefit from coastal tourism and fishing industries. It is identified that the Banda, Timor and Arafura seas are endowed with more than 780 species of fish, including tuna, penaid, lobster, cuttle fish, and seaweds. Sustainable fishing might be able to support a production of annual 1.35 million of tons fishing industries. Unfortunately, as most of the people uses traditional means and low level technology,<sup>11</sup> only about 450,000 ton per year is produced.

At the same time, most farmers are also depended on traditional methods of farming. Aside from the "slash and burn" method, they also use nomad systems that are degrading environment very quickly. As a result, the yield of farming activities in MTB district has never been able to sufficiently supply foods for its population. In fact, in the period between 1999 to 2006 the total production of farms, forest industries, cattles and poultry continued to decrease at about 30.9 percent and only recently it can be slightly increased. The basic commodities have to be imported from Surabaya which, again, very costly due to limited transport and infrastructures.

The fact that MTB is heavily depended on external resources while its potentials remained under-utilized can be exemplified by various basic supplies. The electricity in the town of Saumlaki is frequently down because all are supplied by diesel generators (PLTD, *Pusat Listrik Tenaga Diesel*). There have been initiatives to find alternatives for electricity generator such as solar cells, windmill, and coastal streams. But no investor is interested to start the project because of limited economies of scale.

The lack of economic resources that can be explored while the public fund is not properly allocated to improve necessary infrastructures have left the common people in poverty and prone to natural calamity. In early 2007, for example, farmers in MTB was struck by terrible drought due to the changing climate and unusual insect attack. Most of the farmers could not yield anything from their lands. The total lost of MTB economy was estimated at Rp 5.2 billion. The crisis of food forced the local government to acquire emergency solicit of 50 tons of rice. Although no life casualty of famine was reported, the case proved just how vulnerable people's life in MTB.<sup>12</sup> In 2008, an outbreak of diarrhea struck the inhabitants of Kecamatan Selaru. More

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<sup>10</sup> *Koresponden*, 11 July 2008.

<sup>11</sup> According to Dinas Kelautan and Perikanan (Local Government Agency for Marine and Fishing), most of the fishermen use traditional boats. There are 3,220 non motorized boats, 230 attached motor boats, and only 93 mid-size motor boats operate in the 110,834 km square marine areas in MTB. *Kompas*, 8 July 2003.

<sup>12</sup> "Maluku Tenggara Barat Krisis Pangan", *Tempo*, 22 February 2007.

than 32 people was severely ill and four toddlers died. The catastrophe was caused by the low quality of clean water while the public health facility is limited.<sup>13</sup>

MTB local government was promised to get a stimulus fund for infrastructure of about Rp 12 million to be allocated through the additional DAK scheme. Although the Ministry of Finance has stated that the fund must be allocated to the regions starting from March, the promised fund has not reach district of MTB. According to an official, as a remote and isolated district, it is normal that the disbursement of central government fund needs at least four months lag in MTB.<sup>14</sup> Therefore, it is difficult to ensure that emergency stimulus fund is allocated and disbursed timely to tackle pressing local development needs.

In any case, as long as the pattern of budget malfeasance and leakages remain unabated, it is hard to link the public budget with the improvement of public life qualities in the district of MTB. Although everyone would understand that public budget is the only hope to accelerate development in the town of Saumlaki and people in other islands of the district, it is unfortunate that the interests of local elites and politicians remain heavily influencing the budgeting process. The deliberation in the TAPD (*Tim Anggaran Pemerintah Daerah*, Local Government Budgeting Task Force), for example, is frequently dominated by political bargains rather than serious discussions on the people's needs.

For example, a deliberation in the TAPD on infrastructure funds in 2008 was initially impose a budget ceiling of Rp 22 billion for the Pemda complex project to be allocated by Dinas Pekerjaan Umum (Local Agency for Public Works). However, as Mr. David Manuputty of the agency declared that around Rp 36 billion of the fund had been promised to a contractor through a pre-financing system, all the TAPD members were forced to reconsider the ceiling. As the officials did not want to see their Pemda would be highly disreputable for having much unpaid liabilities, the ceiling had to be readjust to the head of Dinas PU proposal. Similar cases can be found in various public projects. Therefore, it is not surprising that many projects are not directly related to the people's need in MTB.

## 5. CASE 2: GUNUNGKIDUL

Located in the province of Jogjakarta, the district of Gunungkidul is relatively left behind compared to other disticts in the province. The total area is 1,486.36 square kilometer with mostly arid land in the southern part of the province. Most of its 340,635 population (2006) are depended on dry farming, cattle breeding, and fishing. That is why the main contributor of Gunungkidul

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<sup>13</sup> "Muntaber Serang Maluku Tenggara Barat", *Tempo*, 1 February 2008.

<sup>14</sup> Interview with Holmes Matrutti, head of Bappeda, 9 June 2009.

economy is agriculture (35.71 percent) and small industries and trades (14.02 percent). The total per capita regional GDP in 2007 is Rp 4.39 million.

The availability of water during a dry season is one of the main issues in Gunungkidul, especially in the sub-districts in the southern areas and along the coastal line of Tepus, Saptosari, Girisubo, Panggang, Tanjungsari and Semanu. In these drought-prone sub-districts, the people depend on some 260 natural water reservoirs (*telaga*) that are quickly dried up when the rainfall gets thinner. Therefore, the local government has to distribute clean water for people in these sub-districts with 15 tank trucks. The Gunungkidul district government has to allocate about Rp 450 million from the APBD to ensure that people's need for water is properly supplied. As sometimes the water-tank trucks do not operate regularly, people has to purchase water on their own. There was a case of a villager who had to sell his goat for Rp 120 thousand for a 5,000 litre of water worth Rp 80 thousand.<sup>15</sup> In other remote and dry sub-districts, the price could have been higher.

Overall, there are 11 out of 18 sub-districts in Gunungkidul that always have to deal with recurring problem of water during the dry season. Some of the 58,601 inhabitants in these sub-districts are considered as trapped in a vicious circle of poverty. This fact is very much ironic because actually there are six water springs in other areas of the district. Studies also indicate that under the mountaneous terrain of the district, there are plenty of under ground caves and water tunnels with more than enough debits. Also, some of the water springs have abundant reserves, such as Baron with 1,080 litre per second, Bribin cave with 1,000 litre per second, Seropan with 800 litre per second, and Ngobaran with 135 liter per second of debits. Unfortunately, it needs a huge investment to drill the water tunnels and to distribute the water from the springs.

In 2004, there was an initiative to make a deep drilling in Bribin cave to solve the problem of water in Gunungkidul. It was a cooperative venture among the Jogjakarta provincial government, the national nuclear institute (BATAN), the national Ministry of Research and Technology, and the technical and financial assistance of German government. Having invested with Rp 70 billion of fund, the project was ended with limited avail.

With almost half of the population are in either chronic and extreme poverty, however, the local government policy remains irresponsible. Even after decentralization was implemented with the hope of making public services closer to the local people, many irresponsible policy are still taken by local elites. In 2005, people of Gunungkidul were shocked with the news that Yoetikno, the former bupati, was convicted for corruption. When Yoetikno was in service for the period of 2000-2005, he initiated a procurement project for five units of trawl ships with a public fund of Rp 1.4 billion in total. The project was marked up and the scandal has resulted in a lost of Rp 705 million public fund. Many local government officials were involved in the scandal, including Supriyatmo (project leader), Sudyarso (treasurer), Deni Chandra Rahman

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<sup>15</sup> "Warga Gunungkidul Jual Ternak Untuk Beli Air", *Tempo Interaktif*, 2 August 2004.

and Faisal Hidayatullah (private partners). Yoetikno was disqualified from running for the next local elections and was put in jail for years.<sup>16</sup>

The DPRD members of the 1999-2004 period were also involved in a case of public fund misappropriation. As many as 45 DPRD members were reported to acquire dubious allowances for themselves between Rp 60 to Rp 80 million. A total of Rp 2.4 billion was allocated from the APBD for these allowances. The National Auditor Board (BPK, *Badan Pemeriksa Keuangan*) found out that the allowances were illegal and ordered all the DPRD members to return the money back. Although the case could be categorized as corruption, no member of the DPRD was tried in the court as they returned back the money to the public coffer.<sup>17</sup>

Another case showed that local politicians are insensitive to the people's need. While many of the people in Gunungkidul stay in their poverty and hard living, these politicians gave priorities to their own interests. In 2007, the DPRD members were almost unanimously agreed to allocate public funds for buying computer laptops worth about Rp 10 million for each of the members. They argued that the computer laptops were needed to support their daily activities as representatives of the people. Although several members of DPRD admitted that it was a lavish expenditure from the APBD, most did not really care. While it is questionable as to whether the computers would be used appropriately and all the 45 members of the local parliaments have enough skill on computers, the project was approved and the media criticism was not heed.<sup>18</sup>

The general picture at the national level that most of the DAU block grant is allocated for the wage bill of the public servants is clearly illustrated in the district of Gunungkidul. In late 2008, the local government had to allocate additional expenditures that became routines, i.e. for the increase of all local public servant (PNS) salaries and for the Sekdes (village secretaries) who were now given salaries as public servants. The new wage bills was estimated of resulting in local budget deficit of about Rp 50 billion.<sup>19</sup> Although the deficit was finally compensated by the central government by allocating more DAU grants to Gunungkidul, the schedule for APBD ratification had to be extended for three months.

The tendency that all the local decision makers have to deal with much politicking along the budgeting process while most units under the government are budget maximizers has left people aspiration unaccommodated. Many of the villagers need a breakthrough policy to help them out of the hardship during the dry seasons. Small scale industries badly need subsidies or credits to help them invest in more profitable businesses.

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<sup>16</sup> "Sidang Kasus Korupsi Rp 705 juta", *Kedaulatan Rakyat*, 23 August 2005.

<sup>17</sup> "Anggota Dewan Kaget Jadi Temuan BPK", *Kompas*, 4 June 2009.

<sup>18</sup> "Anggota DPRD Gunungkidul Dapat Laptop", 17 February 2008, available at [www.okezone.com](http://www.okezone.com).

<sup>19</sup> "APBD Gunungkidul Terancam Kolaps", *Kompas*, 5 December 2008.

About 49 percent of pre-elementary children in Gunungkidul have not exposed to early education (PAUD, *Pendidikan Anak Usia Dini*).<sup>20</sup> All these issues might be partly addressed if the stimulus package was used properly and the local politicians give more apprehension to the people's quality of life. It is unfortunate, however, that the local political setting is hard to change in the near future while the Rp 34 billion stimulus package has not come as promised.

## 6. CASE 3: PEKANBARU

The city of Pekanbaru is located in the province of Riau, Sumatra, and is considered as one of the fastest growing district in this region. The area covers 446.5 square kilometer, with the total population of 779,899 in 2006. As a relatively urbanized area compared to other districts, the economy of Pekanbaru is supported by modern sectors. It should be noted that Riau is a rich-resource province with oil mining, palmoil, and petrochemical industries, although there industrial sites are not all located in the city of Pekanbaru. The total per capita regional income is Rp 23.4 million with an impressive growth rate of 7.97 percent. The economy is mostly generated by manufacture industry (30.01 percent), trade, hotel and restaurant (24.43 percent), finance and services (12.33 percent).

According to the city's strategic development plan (RPJMD) of 2004-2009, there are eight issues of development to be addressed for the medium term, namely: the implementation of local autonomy, infrastructures, improvement of the RUTRK (*Rencana Umum Tata-Ruang Kota*, City Spatial Plans), improvement of education quality, improvement of health service, housing facility, construction of inter-regional transport terminal (AKAP, Antar-Kota Antar-Provinsi), and industrial site land clearance. In 2004 Mr. Herman Abdullah, the mayor of Pekanbaru, presented the LPJ (Laporan Pertanggungjawaban, accountability report) and emphasized the vision for developing the city with a good infrastructure, viable local economic structure, capable human resources, and sustainable Malay culture.

Although the mayor's LPJ was endorsed by the local DPRD, many of the good elements in the document of local government plan was not actually responded to the actual need of people in Pekanbaru. The Musrenbangda (local development planning deliberation) in 2004, for example, raised the issue of human development and proposed a local government budget (APBD) with the total of Rp 522 billion. Nevertheless, the real APBD of the city was ratified with the total of Rp 222 billion while many of the programs for human resources were slashed.<sup>21</sup> The case proved that many proposals during the Musrenbangda sometimes are not based on actual needs and are

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<sup>20</sup> "Baru Separuh Jumlah Anak Terlayani PAUD", *Kedaulatan Rakyat*, 26 February 2009.

<sup>21</sup> "Musrenbangda Usulkan Proyek Rp 522 miliar", *Riau Pos*, 5 June 2004.

not supported by appropriate resources. It also showed that as the arena for articulating public participation, Musrenbangda does not work well.

As a city that should have been benefited from the decentralization policy, Pekanbaru could not utilize all the privilege of getting the DBH (*dana bagi hasil*, revenue sharing) funds. Since decentralization in 2001, the budget of Pekanbaru city have been poured by DBH funds, mainly from the oil mining. After almost eight years, however, Pekanbaru government is still depended on the subsidy from the central government. Instead of being more independent and being able to explore more local financial resources, the city government is becoming more dependent on the DBH and the APBD is projected based on the DBH volume. When the DBH is decreased, the APBD is also decreased accordingly.<sup>22</sup> For example, in 2008 a plan to revitalize 11 schools and to construct two new schools with 10 new classrooms under a budgeted Rp 27 billion from DAK was almost cancelled when the central government decided to cut 10 percent of DAK for Pekanbaru. While the DAU was mainly absorbed by public servant wage-bills, and many projects were planned according to the DAK allocation, the local genuine revenues (PAD) was only increased slightly from Rp 154 billion to Rp 157.5 billion (2.26 percent increase).<sup>23</sup>

With a total APBD of more than Rp 1.2 trillion, the city government of Pekanbaru is relatively rich compared to other districts in the country. Nevertheless, the fund has not been utilized to tackle unequal development in its jurisdiction. This occurs despite the fact that budget apportionment for infrastructures and basic utilities are quite big. In 2009, it is planned that Rp 358 billion is allocated for local agency for infrastructure (Dinas PU), Rp 284 billion for education (*Dinas Pendidikan*), Rp 132.3 billion for local government secretary (*Sekretariat Daerah*), Rp 53 billion is for transport and communication (*Dinas Perhubungan dan Kominfo*), and the rest is for other sectors. Although a big portion is allocated for infrastructure, some sub-districts are still left behind. The vice mayor Erizal Muluk, for example, has to try hard to appease authorities of the sub-district of Senapelan who complained about the inadequate funds for infrastructures.<sup>24</sup> In other case, people from the flood-vulnerable areas have repeatedly complained to the mayor that the local government does not take disaster management seriously.<sup>25</sup>

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<sup>22</sup> "APBD Perubahan Pekanbaru Rp 1,1 T", [www.pekanbaru.go.id](http://www.pekanbaru.go.id), posted on 10 June 2008.

<sup>23</sup> "Pemko Pekanbaru Ajukan Ranperda APBD P 2008", [www.pekanbaru.go.id](http://www.pekanbaru.go.id), posted 29 August 2008.

<sup>24</sup> "Jatah Anggaran Pembangunan Untuk Kecamatan Senapelan Terkecil", [www.pekanbaru.go.id](http://www.pekanbaru.go.id). Posted on 5 March 2009.

<sup>25</sup> Out of the 16 flood-vulnerable areas, only 9 areas that have been tackled with the construction of Culvert Box, dikes, and other mitigation facilities. Interview with Rahmat Rachim and Irfan HM of Bappeda, 28 March 2009.



As commonly faced by budgeting team (TAPD) in the districts, too much fund has to be allocated for salaries. The city of Pekanbaru frequently stated that the DAU fund is not enough to support public official salaries while at the national level it has been announced that the salaries would be increased by 15%. Although it is estimated in 2008 that the amount for investment (*Belanja Langsung*) of Rp 771.2 billion is definitely larger than that for salaries and supplies (*Belanja Tak Langsung*) of Rp 536.2 billion, it is clear that the budget allocation for non-development activities are still burdensome. Unfortunately, local officials frequently took lightly on this unproductive tendency. Chairman of Bappeda Mr. Yusman Amin, for example, has quoted as saying that "It is impossible to consider only the investment expenditures (*belanja langsung*). We have to rationalize the proposal of the units (SKPD) and to cut them substantially".<sup>26</sup>

At the same time, there are also "political budget" that have to be accommodated by the budgeting team. First, there is a requirement to allocate funds for subsidizing political parties. In 2009, it is estimated that about Rp 900 million must be allocated to all political parties that gained seats in the DPRD. Second, the team has to allocate about Rp 429.6 million for the DPRD member pensions (*dana purnabhakti*). All the DPRD members are entitled for the pensions although there are 15 members who are not retiring as they are re-elected for the 2009-2014 term.<sup>27</sup>

It must be admitted, however, that there are community programs that reflects local government concern on the people's quality of life. The Gentakin program is one of the example that has been implemented since 2006. Gentakin (*Gerakan Cinta Orang Miskin*, Poor People Loving Movement), was initiated in line with other programs directed to the poor people, i.e. micro finance under the UEK (*Usaha Ekonomi Kerakyatan*), *Bantuan Rumah-tangga Miskin* (subsidies for the poor), and the national PNPM (*Program Nasional untuk Pemberdayaan Masyarakat*). It is reported that the rate of absolute poverty in Pekanbaru has decreased from 8.9 percent in 2005 to 7.7 percent in 2008 and mayor Herman Abdullah claimed that this was thanked to the Gentakin program. From the reports on Gentakin program, however, one would find it difficult to substantiate the claim for two reasons: 1) there are many variables that influence the decreasing number of absolute poverty, including the economic recovery after 1997 crisis and the new employment opportunities in Pekanbaru, and 2) that Gentakin is actually a "self-financing" mechanism in which communities generate their own trust-fund to support poor families in their vicinity.

The city government of Pekanbaru acquired stimulus fund of about Rp 23 billion. The fund is used to finance 42 projects that are mostly directed to renovate and rehabilitate infrastructures. Although the fund is being allocated in various forms of projects, as this paper is written, there is no formal report

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<sup>26</sup> "Musrenbangda 2010 Ditutup, SKPD Ajukan Rp 1.1 triliun Untuk Biaya Langsung", [www.pekanbaru.go.id](http://www.pekanbaru.go.id). Posted 19 March 2009.

<sup>27</sup> "Pemko Siapkan Rp 429,6 juta Dana Purnabhakti", [www.pekanbaru.go.id](http://www.pekanbaru.go.id). Posted 29 April 2009.

regarding the implementation of the projects. It is very likely, however, that the fund is used to speed up the construction of AKAP terminal and rehabilitate roads in sub-districts. Given the fact of ineffective use of DAK funds, the stimulus fund efficacy might be also hindered by political process involving the executives in the bureaucracy and the politicians in the DPRD.

## 7. CONCLUSIONS

It is unfortunate that the political constellation in Indonesia is not favourable for accountable public budgeting. Apart from the inherent weaknesses in the budget administration due to lack of capacities and systematic procedures for budget cycles, there are political factors that might hinder the efficacy of stimulus funds to create jobs at the local level. The problems are not only related to the central government systems but also to the local systems of budgeting after the implementation of fiscal decentralization policy. The characteristics of budgeting process in the three districts can be summarized in Table 2.

Table 2. Characteristics of Public Budgeting in the Three Districts

No.	Variables	District		
		MTB	Gunungkidul	Pekanbaru
1.	Political setting	Executive dominating	Active legislatures	Business-oriented
2.	Stimulus allocation	Non-existence	Predicted	Being allocated (Rp 23 b), no monitoring report
3.	Public participation (Musrenbang)	Very low	Moderate	Moderate
4.	Human resources	Low	Relatively high	Moderate
5.	Accountability standards	Low	Moderate	Moderate
6.	Local government priority	Government building complex	Infrastructures (roads, water)	Infrastructures (roads, terminal)
7.	Budget misuse	Probably high (limited exposure)	High	Moderate

As a new district that is resulted from the *pemekaran*, MTB is still preoccupied by all the provision of infrastructure for administrative functions. Therefore, the local public budget is substantially absorbed to finance the construction of Pemda complex and its necessary supports, including road access, electricity, city parks, etc. At the same time, the budget is also used for political purpose by the executive dominating regime to gain popularity and for personal advantages. Given the fact that government human resource and public control on APBD are considerably low, the possibility for budget misuse

in this district is very high. The stimulus package has not reached MTB. This proved the tendency that remote areas in Indonesia are frequently lagged behind with regards to centralistic system of budgeting. In any case, if the pattern of local budget allocation remains the same, people in MTB would not be able to get the benefit of the stimulus.

The government of Gunungkidul is trying to gain a public trust because its former *bupati* had tarnished its image due to his corrupt behavior. Unfortunately, this effort would not be easy since the misuse of local budget is also pushed by irresponsible attitude in the part of the legislatures (DPRD). Although local government in Gunungkidul is staffed with relatively capable personnel in budgeting, political interests are still dictating the budget in such a way that the basic issue in the district, e.g. water facilities, is not appropriately addressed. The stimulus package is only one of the predicted element to be added to the APBD. It remains to be seen whether the stimulus would be used effectively in this district.

In the city of Pekanbaru more funds from the central government, especially the DBH, has been poured since decentralization. However, as the local government has too much burden to pay salaries and allowances for its public servants, it is much ironical that Pekanbaru is still depended on the central government subsidy. The stimulus package of Rp 23 billion might even considered as too little for the total Pekanbaru budget, which amounted Rp 1.2 trillion. The common tendency of "self-financing" among the DPRD members also occurs in Pekanbaru while funds for more popular program of mitigation infrastructures and Gentakin are either under-financed or left to the community funds. It is urgently need in Pekanbaru that the government should not only focused on developing the business-friendly environment but also the grass-root programs which would address issues of inequality and poverty among the common people.

Although the three cases do not reflect all the 493 districts in Indonesia, it represents the general tendency that budget mechanisms among local governments are heavily influenced by political variables. While political process is the logical consequence of the newly fledgling democracy, it also turned out that the effectiveness of local government budget is deteriorated. In the near future, it is urgent that reforms must be targeted on the political process of local budgeting beside the more long-term efforts of local capacity building in public finance.

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