

The Grand Design of ***Fiscal Decentralization*** ***in Indonesia***

*Toward an efficient allocation of national resources through
transparent, accountable and fair central-local fiscal relationship*

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Introduction

- One decade of fiscal decentralization in Indonesia: a lot of changes, some progress and some dissapointments yet no turning point.
- What will Indonesia's decentralization be in the future?
- What shall we do to reach it?

Some notes: to be appreciated and maintained/improved

- Increased transparency and accountability
- Better local financial system
- Better information system
- Capacity building

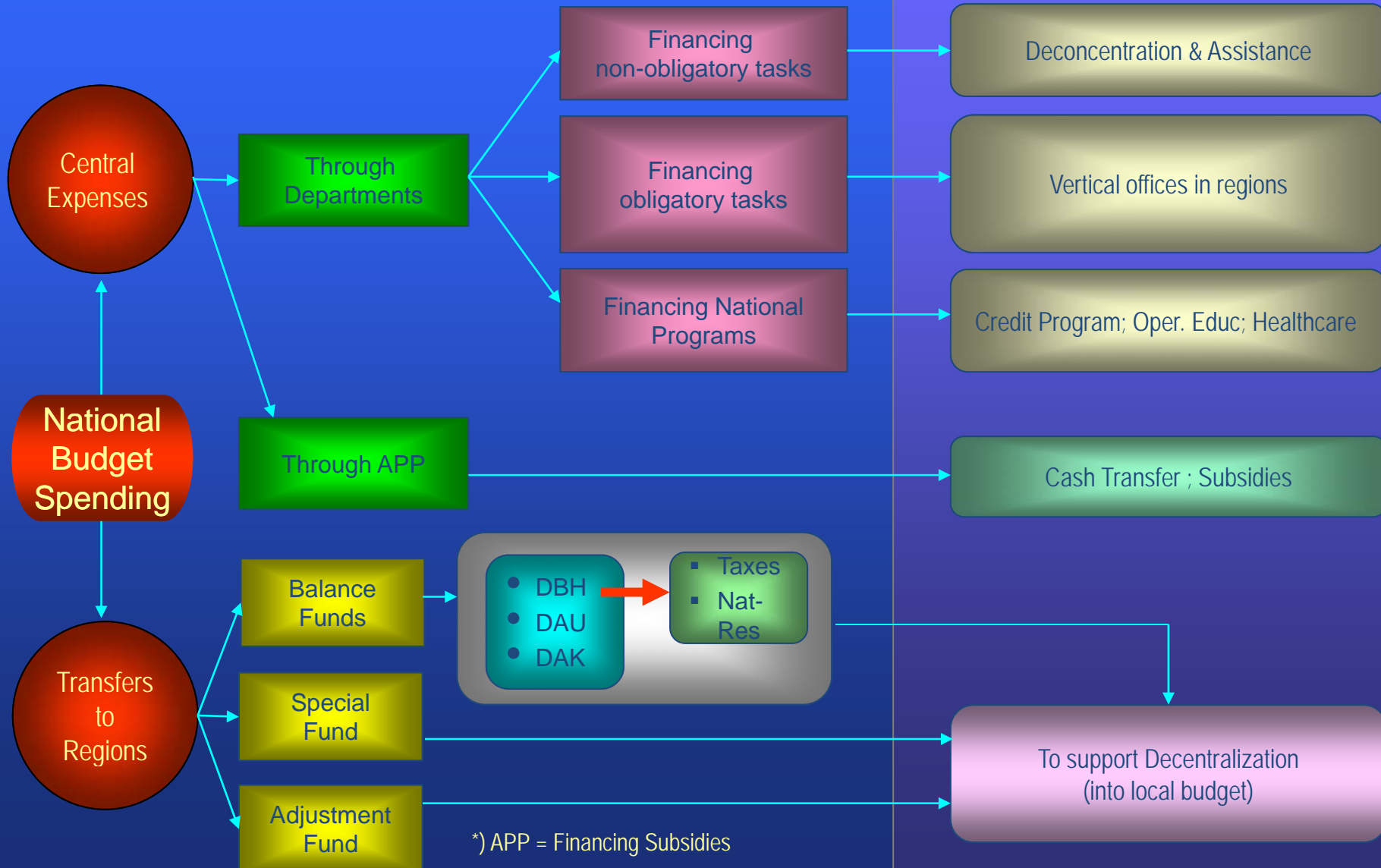
Some notes: to be reviewed and fixed

- Regional Proliferation (26 provinces and 326 regions in 2000 to 33 provinces and 491 regions in 2009)
- Idle funds in the regions (Regions bought Central Bank Certificates: Rp45T in 2007 and Rp51T in 2008) approx. 16% of transfers
- High diversities

Flow of Central Funds to Regions

Central Government

Region



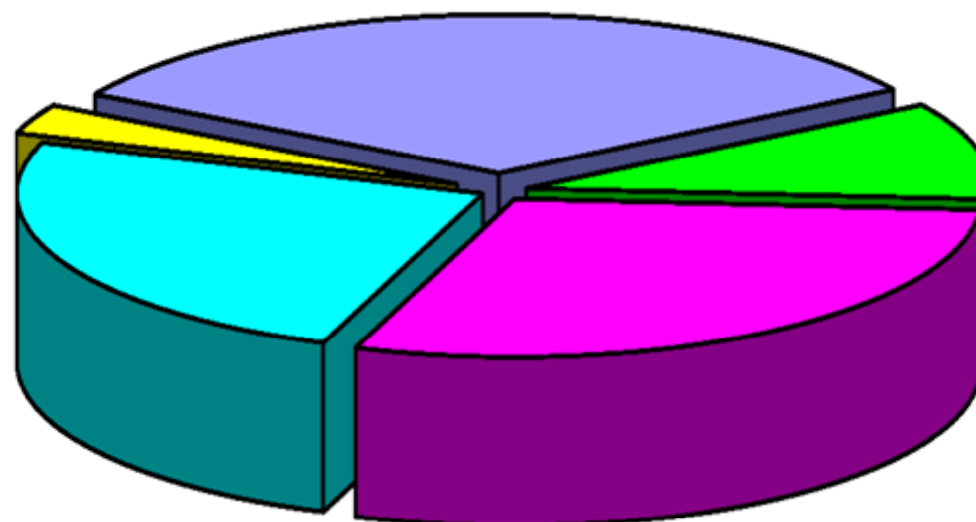
2009 National Budget (Billion Rupiah)

Sumber : APBN-P 2008

Central Spending at
National Level
323,165; 32.7%

➤ Total Belanja = 989.494

Direct Aid to People
30,984; 3.1%



Central Spending at
Regions 99,263; 10%

Subsidies 244,802; 24.7%

Transfer to regions
291,281; 29.4%

Total Flows to Regions = 666,412 (67.3%)

National Programs:

- PNPM = 7,433
- BOS = 12,587
- Jamkes = 3,357
- BLT = 7,607

30,984

Financing Subsidies:

- Fuel = 135,145
- Electricity = 82,321
- Food = 11,622
- Fertilizer = 15,475
- Seeds = 83
- Others = 238

244,885

Transfers to local budget:

- DBH = 76,585
- DAU = 179,507
- DAK = 21,202
- OTSUS = 8,180
- Adjustment = 5,806

291,281

Through Ministries Budget:

- Deconcentration = 14,357
- Assistance = 6,280
- Vertical = 78,626

99,263

*) APP = Anggaran Pembiayaan dan Perhitungan

2009 National Budget (Billion Rupiah)

Sumber : APBN 2009

Central Spending at
National Level 449,557; 43.3%

➤ Total Spending = 1,037,067

Direct Aid to people
35,006; 3.4%

Subsidies 117,727; 11.3%

Transfer to Regions
314,296; 30.3%

Central Spending at Regions
120,588; 11.6%

Total Flows to Regions = 587.617 (56,7%)

National Programs:

- PNPM = 7.493
- BOS = 19.230
- Jamkes = 4.584
- BLT = 3.700

35.006

Financing Subsidies:

- BBM = 44.558
- Listrik = 44.978
- Pangan = 12.987
- Pupuk = 15.098
- Benih = 106
- Lainnya = -

117.727

Transfer to local budget:

- DBH = 79.835
- DAU = 186.414
- DAK = 24.820
- OTSUS = 8.857
- Penyesuaian = 14.371

314.296

Through Ministries Budget:

- Dana Dekonsentrasi = 19.127
- Dana Tgs.Pembant = 7.091
- Dana Vertikal = 94.369

120.588

*) APP = Anggaran Pembiayaan dan Perhitungan

*Fiscal decentralization is a response to
national development challenges
within the regional autonomy framework*

*Eight years of effective regional autonomy,
ad hoc approach in regulatory formulation*

In need:

A Grand Design of Fiscal Decentralization

*Fiscal decentralization is only one of
decentralization pillars in Indonesia's
national development*



*Grand Design of
Fiscal
Decentralization
in Indonesia*



Vision



Mission



Goals



Strategy

*The efficient allocation of national resources
through transparent, accountable and fair
central-local fiscal relationship*

Vision



Mission



Goals



Strategy

1. To establish a central-local fiscal relationship which minimizes the vertical and horizontal inequality
2. To develop a system of regional revenue and financing that supports the nationally efficient resource allocation
3. To develop the responsible discretion in local expenditures to implement the minimum service standards
4. To harmonize the central-local expenditures for optimal public service delivery

Vision



Mission



Goals



Strategy

1. Minimum vertical and horizontal inequality

2. Efficient system of local revenue and development financing

3. Effective local expenditure cycle and process

4. Harmonized central-local expenditures

Goals

1. Minimum vertical and horizontal inequality

Current situation

- Fiscal need nots properly measured
- Non-optimal fiscal balance as salaries in DAU
- Fragmented DAK
- Complicated revenue sharing from natural resources

20 years ahead

- Properly measured fiscal needs
- Strong and optimal fiscal balance
- DAK focused on national priorities
- Simple & transparent system of revenue sharing from natural resources

Goals



Strategy

1. Minimum vertical and horizontal inequality

1. Fair, transparent and accountable system
2. Fiscal balance to allow local governments to implement the minimum service standards
3. DAK to focus on national priorities and decentralized functions
4. DBH to reduce vertical imbalances
5. DAU to reduce horizontal imbalances
6. Properly measured fiscal needs for every level of government
7. Central government's expenditures (through line ministries' budget and deconcentration funds) do not overlap with decentralized functions

Goals

2. Efficient system of local revenue and development financing

Current situation

- Overlaps in national and regional taxes
- Several national taxes are more appropriate at local level
- Overlaps in local taxes and retributions

20 years ahead

- Effective and efficient national and local taxes
- Significant local taxes

Goals



Strategy

2. Efficient system of local revenue and development financing

1. Harmonized central and local taxes
2. Optimal local taxing power
e.g. decentralizing local property tax
3. Non-distortionary local taxes
3. Municipal bonds and borrowing
4. Public Private Partnership

Goals

3. Effective local expenditure cycle and process

Current situation

- No institution has adopted SSA in budget process
- Low expenditure discretion and lack of clarity in determining expenditure allocation

20 years ahead

- All government institutions have applied SSA (Standard Spending Assessment)
- Expenditure based on SSA costing
- High discretion on allocating expenditures

Goals



Strategy

3. Effective local expenditure cycle and process

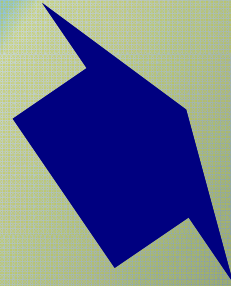
1. Sustainable adoption of SSA by including detail, rationale, and usable SSA in the Law
2. Create and strengthen regulation that link to budget on basic services
3. Implement reward and punishment to encourage the adoption of SSA based MSS
4. Encourage local government to allocate certain minimum portion in its budget for basic services
5. Determine scale of priority that in line with the bottom up and top down planning approach

Goals

4. Harmonized central-local expenditures

Current situation

- Overlapping expenditures across government levels
- Lack of synchronized programs across government levels



20 years ahead

- No overlapping expenditures across tier of governments
- Clear roles across tier of governments
- Synchronized government programs in all levels

Goals



Strategy

4. Harmonized central-local expenditures

1. Increase the quality of local development planning through public participation
2. Regular evaluation on annual planning documents starting from basic service sectors
3. Local governments will develop standardize database for local development planning
4. Strengthen coordination role of central planning institution to harmonize development planning across government levels
5. Regular five-year evaluation on MSS targets

*The grand design of fiscal decentralization
has been translated into a policy matrix*

*It is hoped that the Ministry of Finance
would use the Grand Design as guidance
for subsequent improvement
in regulations on fiscal decentralization*

*As such, it is hoped that this Grand Design
would later take some legal form,
preferably a Law (Undang-undang)*

Avenues to go further (1)

Decentralizing Local property (land & building) tax

- Needs a short and concise analysis on regional implementation
- Steps required, at the centre, to localize the PBB
- Roles that DJPK can play to smoothen the transfer
- Impact on region's budget – case studies

Implementing municipal bonds for local government

- Identifying local governments ready for municipal bonds
- Analysis of amount of bonds local government can issue
- Identifying obstacles & problems, and propose solution
- Case studies in region ready to issue municipal bonds

Avenues to go further (2)

Revitalizing the Information System

Identifying the possible use of existing information system
for local government

Proposing improvement in existing information system to fit
local government needs

Improving region's access & regional analysis

Decentralization policy supporting Fiscal stimulus

Regions to optimize national's fiscal stimulus

Regions to support fiscal stimulus through local budget

Thank you...

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