PUBLIC BUDGETING IN THE FISCAL DECENTRALIZATION POLICY IN INDONESIA

by Dyah Mutiarin

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ABSTRACT

Public budgeting in the context of fiscal decentralization has many problems in Indonesia. The problems can be traced from its contributions to the development such as budget effectiveness, budget impact, budget efficiency, facing big corruption, and also on poverty reduction becomes a serious problem that must be resolved by the Government of Indonesia.

In the area of implementation, public hope that the National and Local budget can improve the welfare of society as a whole. In terms of spending, national spending quality has declined. The budget itself absorbs big portions budget for the personnel expenditure, while capital expenditure is very much limited. Personnel expenditure, capital expenditure, and Social expenditure reflect the Government understanding on the needs of the public at large.

From the perspective of budget policy, public expenditure in Indonesia has still weak in reflected the public needs. There are many interests to intervene budget process and configuration both politically and bureaucratically. Budget policy was not in line with democratic principles that public policy must be based on public consent. When it comes to public consent then should the public budget to accommodate the public interest-oriented public service for the welfare of the public.

Key words: Budgeting, Decentralization, Poverty,Democratic

I. Background

Among the success stories of public budgets that have been achievedsuch as economic growth, improving public services, on the other hand it turns out that there are also many problems in public budget. Both the State Budget (APBN) at the Central Government and LocalBudget (APBD) at the local level are both experiencing a lot of problems. Thelow budget effectiveness and corruption, becomes a serious problem that must be resolved by the Government.

Public hope that the budget is implemented to improve the welfare of society as a whole. In terms of spending, state spending quality has declined. The portion for personnel expenditure is bigger rather than capital expenditure. Personnel expenditures, capital expenditures, and subsidies reflectthe Government's understandingon the public needs. Data from proposed APBN 2013 has shown that personnel expenditure absorbed 21.2 percent of the total Central Government Expenditure amounted 1139.0 trillion, and ranks second only to the subsidy amounted to 316,097.5 trillion rupiah.

Other data are budget allocations for functions of education, health, social services and economic services is only 3.9% of GDP for 2010. This value is below the survey results UNPAN to other developing countries that allocate 14.5% and in developed countries is equal to 25.1%.

The role of the state budget in effort to improve the prosperity of the people has also declined lately. This is shown from the economic growth of 6.5% in the 2011 budget and 2012 it was followed by the Gini index rising to 0.41. Ministry of Finance recoeded that the Gini index in 2010 was 0.38 and in March 2011 rose to 0.41, this was the highest in the history of the independence of Indonesia. In the past eight years, the lowest index reached in 2004, namely 0.33 (http://www.analisadaily.com). Amartya Sen (1997) states that the Gini index is a tool to measure the distribution of wealth in a country using the numbers from 0 to 1. Number 1 refers to the extreme inequality while 0 indicates otherwise. In terms of welfare, quality assessed economic growth if followed by a decrease Gini index for gross domestic product.

Although the current budgeting system relatively open and the government since 2002 has promoted the development of performance-based budgeting, the substance of the budget actually has not touched the most basic development needs of the people, namely education, health, social services and increased prosperity evenly. Budget still not able to solve the classic problem of poverty, which is still going on in Indonesia.

Indonesia's RPJMN 2010-2014 noted that poverty and improving the welfare of the people is one among the priorities of the Government. The government seeks to reduce poverty by support job creation for the poor. This policy is strongly linked to macroeconomic policies and has goals that address the principal challenges faced such as promoting economic growth, economic stability and accelerate the reduction of unemployment and poverty. But in March 2010 the poverty rate was recorded at 13.33% and 12.49% in March 2011. The number of poor people decreased 1 million people a year, ie from 31.02 million in March 2010 to 30.02 million in March 2011.The poverty rate in Maluku and Papua are amounting to 25.95% of the total population of the two islands. Most poor people are in Java (16.73 million), while the smallest number of poor people in Kalimantan (0.97 million) (Source: Tinjauan Ekonomi Keuangan, July 2011 edition).

Other data from the ICW report revealed that there are three major sectors that detrimental to the country from corruption. First, government investment sector, with the potential state losses of Rp 439 billion. Second, the local financial sector with potential state losses of Rp 417.4 billion. Third, the social sector, the corruption case related to the funds are intended for the community, which is estimated to reach Rp 299 billion. Looking through existing problems of the public budget, it is necessary to understand the public budget policy within the implementation of fiscal decentralization.

II. Theoritical Framework

2.1. Public Budget

The budget is the financial core of the State or public finance. Public Finance defined by Aronson (1985) as:" the Financial activities of government and public authorities, and it describes and analyzes the expenditures of government and the techniques used by Governments to finance this expenditures ". In general, the common goal of public finance is to provide information about the financial plan to be achieved through the budget.

Mardiasmo (2005:62-63) mention the reasons for the importance of public sector budgets are:

a. A budget is a tool for the government to generate the socio-economic development, ensure continuity, and improve the quality of life.
b. The budget required for the needs and desires of the infinite and growing, while resources are limited. The budget is needed because the problem of limited resources (scarcity of resources), choice (choice), and trade offs.
c. The budget is required to ensure that the government accountable to the people. In this case the implementation of the public budget is an instrument of public accountability by public institutions that exist.

Budgeting is the process of planning, adopting, executing, monitoring, and auditing the fiscal program for the government for one or more future years. The local budget process is the core of the system of fiscal administration, because that is where the broad financial policies and programs of the government are developed and the size of government is established, with the other functions contributory to its operation (Mikesell in Shah, 2007).

There are certain fundamental principles for the design of a modern local budget system:

a. The budget process is comprehensive, including all fiscal entities associated with or connected to the government, and there are no extra-budgetaryfunds to interfere with fiscal discipline, transparency, accountability, and the struggle against corruption.
b. The budget minimizes the use of earmarked funds that reduce thecapacity to allocate resources to areas of highest priority.
c. The budget is intended to be an operations guide and to be executed as itwas enacted.
d. The budget process is an annual one, to maintain control, but is adoptedin a multiyear financial framework to facilitate planning.
e. The budget is based on a realistic forecast of revenues and of the operatingenvironment.
f. The budget serves as a statement of local policy.
g. Expenditures in the budget are classified according to the administrativeunit that is legally responsible for the funds and according to the basicpurpose (or program) of the spending.
h. The budget is provided in an intelligible format as a communicationdevice with the public, both while it is considered and after it has beenadopted.
i. The budget process is focused on performance results, not only on inputspurchased by the government.
j. The budget process incorporates incentives for lawmakers to respond tocitizen demands for services and for agencies to economize on use of resources (Mikesell in Shah, 2007).

The adopted budget is expected to provide hard constraints on agency resources while giving them flexibility in exactly how they use the resources for service delivery. It is particularly critical that planning efforts be linked to the budget to keep both efforts realistically on track, sometimes working through a formal medium-term budget framework to put everything together. The link makes planning more meaningful and the budget better informed (Mikesell in Shah, 2007).The budget process itself is a recurring cycle in which (a) the chief executive of the government, with the operating agencies, develops a service plan to respond to the conditions anticipated in the upcoming year; (b) the appropriate legislative body reviews that plan and adopts a program response based on that plan; (c) the administration puts the adopted program into effect; and (d) an external review body audits and evaluates the executed program and reports its findings to the legislative body and the citizenry (Mikesell in Shah, 2007).

Thus, the budget can be used as an instrument for understanding the dynamics of public policy. Budgeting system and development funding priorities contained in the public budget reflects how committed the government to the people. In theory, Jones (1984) explains that budgeting is one of the strategic points in the process of policy formulation. Rubin (2000) said that the budget reflects policy choices and priorities as well as public organizations, "budgets reflect choices and priorities". In the contemporary literature on public policy, many also described that the allocation of public funds in the budget is an important way to look at the substance of policy formulation in the country (Sabatier, 2007).

2.2. Fiscal Decentralization

Normatively, the configuration is largely determined by the design budget fiscal policy adopted by the government. Musgrave and Musgrave (1989:6) says there are three basic fiscal functions as follows:

a. Allocation functions; include the provision of public goods, a process to split the use of all its resources into private goods and social goods. Policy settings are not included here because such policies are not included in the budgetary policy.
b. Distribution function; adjusting income distribution and wealth to ensure that the community's desire for justice or equality can be fulfilled.
c. Stabilization function, namely the use of budgetary policy as a means to ensure exertion-work optimally, adequate price stability and good economic growth, which will take effect.

Decentralization may be defined in many ways, but typically involves increased autonomy and responsibilities for lower-level entities in one dimension or another. For a country, as for a firm or any other organization, autonomy for a member entity raises the potential for oppor- tunistic behavior, possibly with undesirable as well as desirable effects. (Rodden, Eskeland, and Litvack, 2003:5). The classic theory of fiscal decentralization holds that public goods and services can be provided with a greater efficiency and accountability under decentralized environment, because:

a. local governments can be better tailored to the geographical benefit areas of the public goods,
b. local governments are better positioned to recognize local preferences and needs, and

c. pressure from interjurisdictional competition may motivate local governments to be innovative and accountable to their residents (Oates, 1972). While these arguments may remain valid and applicable for developed countries, the facts in developing countries showed that there are mixed results.

The spirit of decentralising financial responsibility was accommodated in Law No.25/1999 by the elimination of the subsidy system under *Subsidi Daerah Otonom* (SDO) for paying salaries of sub-national government employees. Rather than the system of centrally-mandated staffing structures with salaries paid with SDO, sub-national governments could make their own staffing decisions to achieve administrative efficiency. The law introduced general allocation funds (*DanaAlokasi Umum, DAU*), based on transparent transfer formulas, to be used with full local discretion. At the same time, special allocation funds (*Dana Alokasi Khusus, DAK*) could be made from the central budget to selected regions, based on their special developmental needs. The DAU should amount to at least 25% of central government domestic revenues as stated in the annual budget (APBN). The provinces should retain 10% of this allocation and the remaining 90% should go to the districts or cities. Law No.25/1999 was revised with the enactment of Law 33/2004 with limited changes in terms of subsidy formulas (Kumorotomo, 2011).

Fiscal decentralization is the delegation of fiscal authority from the national/ central government to the sub-national/local governments. Fiscal decentralization is seen as part of a reform package to improve efficiency in the public sector, to increase competition among sub-national governments in delivering public services and to stimulate economic growth(Nugrahanto and Muhyiddin, 2008).

Oates (1993) proposed that fiscal decentralization will increase economic efficiency because local governments have better position than the central government in providing public services. They will be much closer to local people and will be more responsive to the local needs and preferences as a result of information advantage and better knowledge about local preferences and local cost. This efficiency would be enhanced by mobility of residents who could move to live in the region and community that satisfy their preferences for a particular menu of local public goods, as first discussed by Tiebout (1956). Regions would also have incentives to compete among themselves for providing public services by attracting new residents, making more efficient use of their resources and increasing economic welfare (Nugrahanto and Muhyiddin, 2008).

As fiscal decentralization policies give greater fiscal authority and responsibility to local governments in developing countries, the need for improved budgeting and financial planning will increase. The forecasting techniques discussed in the chapter should, therefore, become increasingly relevant (Schroeder in Shah, 2007).Local governments in developing countries are facing increasing fiscal strain as cities and their infrastructure requirements expand and revenue growth lags behind. The avenues of response open to local governments are a function of the national environment within which they operate and of their local capacity and institutional arrangements (Fölscher in Shah, 2007). Fiscal decentralization—the transfer of expenditure responsibilities, together with some revenue-raising capability to lower levels of government— poses new challenges to the institutions through which governments manage macroeconomic stability and growth. The destabilization potential of local government fiscal operations is much higher when local governments have access to credit. When no borrowing is possible, local governments are forced to take difficult decisions sooner rather than later. However, options for financing their crucial development needs are fewer (Fölscher in Shah, 2007).

Many institutional tools are available to facilitate and enforce general government fiscal discipline in fiscally decentralized contexts. The design of any grant system is important. Intergovernmental fiscal relations should be based on stable, transparent, nonarbitrary, universal, and nonnegotiable rules, and the level of resources assigned to local governments should be sufficient to match expenditure responsibilities. When continuing expenditure responsibilities are assigned to local government, they should be matched by stable revenue sources. At the same time, local government budgets should have flexibility to meet local circumstances and needs (Fölscher in Shah, 2007).

The fiscal transfer arrangements are composed of three key elements (Blöndal, Hawkesworth and Hyun, 2009):

a. Revenue Sharing;
b. General Allocation Grants;
c. Specific Allocation Grants.

1. Revenue sharing involves the national government sharing property tax, personal income tax and natural resources revenue (oil, gas, forestry and mining) with the regions. The rates of revenue sharing for natural resources vary, with the producing regions receiving a disproportionately higher rate of revenue sharing. Revenue sharing accounts for over one- fourth of all transfers from the national government (Blöndal, Hawkesworth and Hyun, 2009).
2. The general allocation grants require the transfer of 26% of all central government revenue (after revenue sharing). There are two components (Blöndal, Hawkesworth and Hyun, 2009).
   a. First, grants are distributed on a derivative basis to cover the wages of officials previously employed in deconcentrated units and now transferred to the regions. This distribution guarantees their salaries and greatly facilitates decentralisation.
   b. Second, the grant includes an amount based on a formula that takes into account the difference between a region's fiscal needs (which depends on indicators such as population, human development index, and land area) and its fiscal capacity (defined as the sum of own revenues and shared revenues). In practice, the grant is overwhelmingly focused on covering salary costs, with only a minor component dedicated to equalisation. General allocation grants amount to two-thirds of all transfers from the national government (Blöndal, Hawkesworth and Hyun, 2009).
3. Specific allocation grants are used for special needs of individual regions – including funding for natural disasters and other emergencies – and for financing central priorities at the regional level. Regions apply to the central government for the grant and must provide 10% matching funds from their own resources. Such grants account for less than one-tenth of all transfers from the national government. (Blöndal, Hawkesworth and Hyun, 2009).

There are three key dimensions of relations between governments in the fiscal decentralization.

a. First, it categorizes the central government as fiscally strong or weak.
b. Second, it asks whether the central government can credibly lock up its discretionary power to provide bailouts.
c. Third, it examines the strength of the central government to regulate the activities of lower-tier government (Rodden and Eskelland, 2003).

Figure 1. Dimensions of intergovernmental relations

		Has the center credibly locked away its discretion?	The central government's ability to **regulate** subnational government is:	
			Weak	Strong
Central government is **fiscally**:	Strong	No	Bailouts and soft budget constraints	Hierarchical mechanisms
		Yes	Unconstrained decentralization	
	Weak	Not relevant	Sovereignty	

Source : Dimensions of intergovernmental relations, Rodden and Eskelland, 2003

Decentralization in practice often means that a country moves toward the left in the table as the freedoms and powers of subnational entities increase. Under such increased freedoms, the center's fiscal strength, combined with a variety of other factors described above, makes it vulnerable to manipulation by subnational governments. A danger is that central governments will lose hierarchical instruments without giving up or credibly locking away their fiscal powers (Rodden and Eskelland, 2003).

III. Discussion
3.1. National Budget

In line with the theme of national development specified in the Government Work Plan (GWP) 2011, namely "The Accelerated Equitable Economic Growth Shall Be Supported by Consolidating The Central - Regional Governance and Synergy ", the policy of budgetary allocation within 2011 is aimed at being able to support the national economic activities in order to push economic growth, to stabilize the national financial management, as well to support regional autonomy. In addition, the said policy is also aimed at giving a boost to the Indonesian economy by keeping on maintaining both fiscal sustainability and economic stability, and enhancing the effectiveness and efficiency of budget enforcement and fiscal decentralization.

Indonesia has historically maintained a responsible and conservative fiscal policy, focused on sustaining aggregate fiscal discipline. In the years prior to the Asian financial crisis, the budget had a moderate surplus (1-3% of GDP) and public debt was relatively low (25% of GDP). The country enjoyed a high rate of economic growth – and thus expanding public resources – and development policies were at the forefront (Blöndal, Hawkesworth and Hyun, 2009).

A series of successive laws were adopted in the early 2000s following extensive consultations involving a multitude of stakeholders. The major laws are:

a. The State Finances Law 17/2003.
b. The State Treasury Law 1/2004.

c. The State Planning Law 25/2004.
d. The Regional Governance Law 32/2004 (which replaced an earlier law from 1999).
e. The Fiscal Balance Law 33/2004 (which replaced an earlier law from 1999).
f. The State Audit Law 15/2004.

In this section, the researcher will focus on APBN 2011. From the description of Financial Note 2011, the budgetary allocation in 2011 shall be focused on giving supports to :

1. the achievement of a qualified economic growth by constructing infrastructures,
2. social protection by expanding accesses to educational services (school's operational aids / BOS) and health services (Social Medical Insurance / Jamkesmas),
3. people empowerment, including through the Autonomous National Program For People Empowerment (ANPFPE) and Hopeful Family Program, (4) consolidation to implement bureaucratic reformation,
4. improvement of warfare for state apparatus and retirees,
5. the better-targeted subsidized budget allocation, and
6. the fulfillment of obligation in paying debt interest promptly .

Under the direction and strategy of fiscal policy mentioned above, the posture of the National Budget 2011 shall comprise the following principles of amount :

a. State revenues and grants amount to IDR. 1.104, 9 trillion (15.7 percent of PDB), or have a surplus/increase of IDR.112, 5 trillion (11.2 percent) of the target of APBN-P 2010. The said increase in state revenues was supported by the increase in tax revenue target.
b. Total state expenditure amounts to IDR.1.229, 6 trillion (17.5 percent of PDB). This amount means indicating an increase of IDR.103, 4 trillion or 9.2 percent of the state expenditure ceiling in the APBN-P (Central Government Budget) 2010. The Central Government Expenditure in 2011 amounts to IDR.836, 6 trillion, it means indicating an increase of IDR.55, 0 trillion or 7.0 percent of the ceiling of APBN-P 2010. Meanwhile, the budget of transfers to regions in 2011 amounts to IDR.393, 0 trillion, it means an increase of IDR.48, 4 trillion or 14.0 percent of the ceiling of APBN-P 2010.
c. Budget deficit amounts to IDR.124, 7 trillion (1.8 percent of PDB).
d. Financing deficit of APBN (National Budget) 2011 comes from domestic financing sources amounting to 125, 3 trillion, and foreign financing (net) in a negative amount of IDR.0, 6 trillion.

Table 3.1.
Summary of National Budget and Revise National Budget 2011
(trillion rupiah)

Description	APBN	APBN-P	Difference to APBN
A. State Revenues and Grant Revenue	1.104,9	1.169,9	65,0
I. Domestic Revenues	1.101,2	1.165,3	64,1
1. Tax Revenues	850,3	878,7	28,4
2. Non-Taxable State	250,9	286,6	35,7
Revenues			
II. Grant Revenue	3,7	4,7	0,9
B. State expenditures	1.229,6	1.320,8	91,2
I. Central Government	836,6	908,2	71,7
Expenditures	432,8	461,5	28,7
A. M / A Expenditure	403,8	446,7	42,9
B. Non M / A Expenditure	393,0	412,5	19,5
II. Transfers to Regions	(9,4)	(44,3)	(34,8)
C. Primary Balance	(124,7)	(150,8)	(26,2)
D. Budgetary Surplus / Deficit (A-B)	(1,8)	(2,1)	(0,3)
% t Deficit of PDB			
E. Financing (I + II)	124,7	150,8	26,2
I. Domestic Financing	125,3	153,6	28,3
II. Foreign Financing (Net)	(0,6)	(2,8)	(2,2)

Source: Ministry of Finance

In the APBN-P 2011, state revenues and grants revenues are expected to be changed from IDR.1.104, 9 trillion in the National Budget of 2011 to IDR.1.169, 9 trillion, or having an increase of IDR.65, 0 billion (5.9 percent). The said increase in the estimated revenues and grants in the National Budget of 2011 was sourced either from tax revenues or from non-taxable state revenue (NTSR). The planned tax revenues have an increase of IDR.28, 4 trillion (3.3 percent) from the original target of IDR.850, 3 trillion in the National Budget of 2011 to IDR.878, 7 trillion. Meanwhile, the non-taxable state revenues are expected to have an increase of IDR.35, 7 trillion (14.2 percent) from the original target of IDR.250, 9 trillion in the National Budget of 2011 to IDR.286, 6 trillion. Similarly, the revenue of grants was also changed, from IDR.3, 7 trillion in the National Budget of 2011 to IDR. 4, 7trillion, or having an increase of IDR.922, 6 billion (24.7 percent).

Fiscal policy developments in Indonesia can be learned from the Financial Note of RAPBN 2011. It described the fiscal policy has three main functions, namely the function of the budget allocation for development purposes, the distribution function of income and subsidies in an effort to improve the welfare of the people, as well as macroeconomic stabilization function in the efforts to increase economic growth.The role of central government expenditure related with allocations for various programs and productive investment activities, such for the provision of infrastructure, as well as to finance spending or expenditure on goods and services (consumption) of government in stimulating aggregate demand.

The figure of state expenditure 2011 are:

1. In the National Budget 2011, the budgetary allocation for personnel expenditure is provided in amount of IDR.180, 8 trillion or 2.6 percent of PDB.
2. Budgetary allocation for goods in the APBN (National Budget) 2011 is provided in amount of IDR.137, 8 trillion or 2.0 percent of PDB.
3. budgetary allocation for capital in the National Budget 2011 is provided in amount of IDR.135, 9 trillion or 1.9 percent of PDB.
4. Debt interest payments in the National Budget 2011 is provided in amount of IDR.115, 2 trillion, or 1.6 percent of PDB.
5. The budgetary allocation for subsidies in the APBN (National Budget) of 2011 is provided in amount of IDR.187, 6 trillion (2.7 percent of PDB).
6. the budgetary allocation for grants is provided in amount of IDR.771, 3 billion, which means there is an increase amounting to IDR.528, 1 billion if it is compared with the grant budget ceiling specified in the APBN-P of 2010 amounting to IDR.243, 2 billion.
7. The budgetary allocation for social aids in the APBN (National Budget) 2011 is provided in amount of IDR. 63, 2 trillion or 0.9 percent of PDB.
8. The budgetary allocations for other purposes in the National Budget 2011 is provided in amount of IDR.15, 3 trillion or 0.2 percent of PDB. (The Indonesian Budget In Brief 2011.

Table 3.2.

STATE EXPENDITURE, 2011

(trillion rupiah)

Description	APBN		APBN-P	
	Total	% of PDB	Total	% of PDB
Central Government Expenditures	836,6	11,9	908,2	12,6
Employee Expenditures	180,8	2,6	182,9	2,5
Goods Expenditures	137,8	2,0	142,8	2,0
Capital Expenditures	135,9	1,9	141,0	2,0
Debt Interest Payments	115,2	1,6	106,6	1,5
Subsidies	187,6	2,7	237,2	3,3
Grant Expenditures	0,8	0,0	0,4	0,0
Social Aids	63,2	0,9	81,8	1,1
Other Expenditure	15,3	0,2	15,6	0,2
Transfers to Regions	393,0	5,6	412,5	5,7
Balancing Funds	334,3	4,8	347,5	0,0
Special Autonomy and Adjustment Funds	58,7	0,8	65,0	0,0
TOTAL	1.229,6	17,5	1.320,8	18,3

Source: Ministry of Finance

Under various developments as mentioned above, the central government expenditures in APBN-P 2011 has been provided amounting to IDR.908,2 trillion or 12,6 percent of the PDB. It means IDR.71,7 trillion or 8,6 percent higher than the ceiling of central government’s budgetary allocation as specified in the APBN 2011 amounting to IDR.836,6 trillion (The Indonesian Budget Overview 2011).Furthermore, the role of distribution is done through the related functions to support the empowerment of the various communities of low-income, economically disadvantaged or limited capability. Support is given in various forms of transfer payments in the form of direct assistance such as Family Hope Program (PKH), the budget allocation for programs and activities that support the fight against poverty, equal opportunity employment, and business opportunities, such as the national program of community empowerment (PNPM), as well as a variety of program expansion opportunities to obtain basic services such as health education and school operational assistance (BOS) and health insurance (Assurance).

Table 3.3.

TRANSFER TO REGIONS, 2010-2011

(trillion rupiah)

Description	2010		2011	
	APBN-P	% of PDB	APBN	% of PDB
BALANCING FUND	314,4	5,0	334,3	4,8
REVENUE SHARING FUND	89,6	0,0	83,6	0,0
GENERAL ALLOCATION FUND	203,6	3,3	225,5	3,2
SPECIAL ALLOCATION FUND	21,1	0,3	25,2	0,4
SPECIAL AUTONOMY AND ADJUSTMENT FUNDS	30,2	0,5	58,7	0,8
SPECIAL AUTONOMY FUND	9,1	0,1	10,4	0,1
Special Autonomy Fund	7,7	0,1	9,0	0,1
Additional Special Autonomy fund for	1,4	0,0	1,4	0,0
Infrastructures in Papua Province	21,2	0,3	48,2	0,7
ADJUSTMENT FUND				
TOTAL	**344,6**	**5,5**	**393,0**	**5,6**

Source: Ministry of Finance

The budgetary policy of transfer to regions in 2011 will be aimed at (1) increasing the local fiscal capacity and reducing the fiscal gap between the Central Government and the Regional Government (vertical fiscal imbalance) and among regions (horizontal fiscal imbalance), (2) synchronizing the funding needs in the regions in line with the division of government affairs among central, provincial, and district / municipal governments , (3) enhancing the quality of local public services and reducing imbalances of inter-regions' public services, (4) supporting the national fiscal sustainability in framework of macroeconomic policy, (5) enhancing the competitive ability of the regions, (6) improving the regional capability in discovering the regional economic potencies, (7) improving the efficiency of utilization of national resources, and (8) enhancing synchronization between national development plans and regional development plans (The Indonesian Budget Overview 2011).

In order to support the policy direction of the Transfers to Regions in the APBN-P 2011, the budgetary allocation for Transfers to Regions is provided in amount of IDR.412,5 trillion or 5,7 percent of the PDB. Nominally, this amount means an increase amounting to IDR.19,5 trillion or 5,0 percent of the budget ceiling of the Transfers to Regions in the APBN 2011 amounting to IDR.393,0 trillion. Similarly, if it is compared with its realization in 2010 amounting toIDR.344,7 trillion, the budgetary allocation for Transfer to Regions in the APBN-P2011 has an increase of IDR.67,8 trillion or 19,7 percent.The needs of budget financing in the APBN-P 2011 is predicted to reach IDR.150,8 trillion. Such amount means an increase of IDR.26,2 trillion (21,0 percent) if compared to the budget financing specified in the APBN amounting to IDR.124,7 trillion (The Indonesian Budget Overview 2011).

3.2. Regional Budget

Local budget (regional budget) in Indonesia is part of national budget. In compliance with the mandate of the constitution, local budget have been drawn up as a manifestation of the management of state finances which has been carried out with transparency and accountability for the greatest possible benefit of the people's prosperity. As mandated also by Law Number 17 of 2003 on State Finances, local budget is drafted on the basis of the Regional Macro Economic Framework. Regional Basic Fiscal Policies and regional Government Working Plan (*RKPD*) of its fiscal year.

Instead of funded by its Regional Own Revenue (PAD), the local budget also funded by the national budget. The national budget carried out through transfer to the region. The funding through transfer to the region is intended to sustain the consistency and continuity of the implementation of fiscal decentralization, in the support of the operation of extensive, concrete and accountable regional autonomy.Therefore, local budget implemented in the framework for regional autonomy and fiscal decentralization is formulated to provide a clearer guidance to the area within the administration and services, and financial management based on the principles of transparency, participation and accountability. The government apparatus, particularly at the regions, need to manage the Regional State Budget *(APBD)* through transparent and accountable manner. As far as revenues are concerned, it should has the ability to increase, discover and develop the source of state and genuine regional revenue resources, with a view to bolstering fiscal capacity. In terms of expenditures, the need to improve expenditure quality and productivity of the Regional Budget (*APBD)* expenditures. The local government should be able to use the expenditure in a more qualified, effective, and efficient fashion, not being trapped in budgetary leakages. The budget should only used for truly productive activities and programs and capable of generating the highest possible value-added for the people's welfare.

The implementation of regional autonomy has changed the pattern of administration and fiscal management in Indonesia, which was originally to be centralized to decentralized. Direct implication of this policy is the regional government given power to manage their spending needs and priorities of each area. Source of funds in the budget to be allocated to perform all programs and activities related to the improvement of public services, job creation, poverty alleviation, improved environmental quality, and regional economic growth.As a consequence of the policy, the need for funds to finance the implementation of functions which have a regional authority, also increased. For that, the central government implement fiscal decentralization policy through the financial balance between the center and regions in accordance with the principles of money follows function. in an effort to support a variety of business and finance authority has been delegated to the regions. The main purpose of these financial balance is to reduce the fiscal imbalance between central and local governments, as well as reduce fiscal disparities among regions. in addition, funding policies to the regions in order to run the affairs of the authority that has been delegated and is followed by the granting authority in the area of taxation.

Table 3.4. Actual Receipt Of Provincial Government Troughout Indonesia By Receipt Items 2005-2011 (Thousand Rupiahs)

Receipt Items		2006	2007	2008	2009	2010	2011*)
A.	LOCAL GOVERNMENT REVENUE	69,376,713,186	77,935,427,880	96,698,251,715	98,900,034,461	116,802,488,665	119,036,826,118
1	Original Local Government Revenue	30,556,135,053	35,107,948,811	44,486,733,562	45,406,418,865	56,726,589,730	59,547,376,401
1.1.	Local Taxes	25,719,347,146	29,464,063,064	38,042,637,125	37,668,301,884	47,300,841,241	50,201,809,287
1.2.	Retributions	1,601,546,853	1,852,446,348	1,894,314,643	1,571,581,697	1,454,694,720	1,235,989,077
1.3.	Income of Regional Gov. Corporate and	852,500,283	1,101,338,485	1,300,646,754	1,608,096,150	1,933,195,176	2,244,162,453
	Management of Separated Reg. Gov. Wealth						
1.4.	Other Original Local Gov. Revenue	2,382,740,771	2,690,100,914	3,249,135,040	4,558,439,134	6,037,858,593	5,865,415,584
2	Balanced Budget	33,654,398,517	36,513,742,961	42,992,798,385	42,598,264,441	47,519,927,639	46,774,214,602
2.1.	Tax Share	10,280,860,925	12,721,504,646	14,824,628,954	15,410,020,005	17,556,536,325	15,355,654,258
2.2.	Non Tax Share/Natural Resources	8,782,163,818	6,538,440,791	9,510,681,776	7,177,595,470	9,896,470,197	8,329,362,038
2.3.	General Alocation Funds	14,571,373,774	16,478,797,524	17,951,467,919	18,650,182,966	19,247,315,618	21,894,897,913
2.4.	Special Alocation Funds	20,000,000	775,000,000	706,019,736	1,360,466,000	819,605,499	1,194,300,393
3	Other Legal Revenue	5,166,179,616	6,313,736,108	9,218,719,768	10,895,351,155	12,555,971,296	12,715,235,115
B.	LOCAL GOVERNMENT FINANCING	14,680,277,690	17,287,901,278	16,638,848,508	22,992,773,028	16,670,537,821	11,602,428,906
	TOTAL	84,056,990,876	95,223,329,158	113,337,100,223	121,892,807,489	133,473,026,486	130,639,255,024

*APBD Data (source BPS, 2011)

Data from Indonesian Forum for Budget Transparency (FITRA) estimates that 124 regions in Indonesia have employees spending greater than the capital expenditure. The 124 regions in Indonesia remark their personnel expenditures by more than 60 percent of its budget. This personnel expenditures put the regional autonomy difficult to achieve public services. If this financial condition will allowed to drag on, bankruptcies expected to immediately threaten the region in the next 2-3 years. This condition occurs because the budget is used to finance employee or personnel expenditures only. In FITRA records, as many as 124 local governments have the budget of over 60 per cent for the personnel expenditures, while the capital expenditure is only 1-15 percent from their budget. Of these, a total of 16 regions even have a budget expenditure above 70 percent (FITRA, http://www.budget-info.com).

The case of Lumajang government annual budget, for example, shown how the budget is mostly absorbed for personnel expenditure. Lumajang government's budget of 2011 allocated to 83 percent for personnel expenditure and only 1 percent of capital expenditure. The cause of the budget expenditure is also from regular salary increases from 2007 to 2011 in the range of 5-10 percent. The government should also increase the expenditure budget for the 13th salary. Other factor is the recruitment of civil servants (PNS) were performed not on budget constraints (FITRA, http://www.budget-info.com).

The problem in local budgeting shown from the quality of regional expenditure in the management of Regional Budget in various regions, which has not been effective yet. This is demonstrated by, among others, the continuing allocation increases of personnel expenditure, while, on the contrary, the portion of capital expenditure has declined. The increase of personnel expenditure in the Regional Budget is closely linked to the addition and appointment of new regional civil servants every year who, in most cases, are not up to their competence. What is most alarming, however, some of the capital expenditure is also used for the construction of official houses, the procurement of office cars, and so on. In fact, the capital expenditure used to build infrastructures, such as roads and bridges, should have actually been intensified.

Table 3.5. Actual Expenditure Of Regency/Municipality Government Throughout Indonesia 2006-2011

(Thousand Rupiahs)

	Kind of Expenditure	2006	2007	2008	2009	2010	2011*)
A.	INDIRECT EXPENDITURE	87,405,357,099	108,548,513,241	134,527,570,742	156,617,007,328	188,322,077,646	210,075,528,828
1	Personnel Expenditure	71,843,768,814	86,901,788,463	109,212,737,156	127,058,590,735	156,352,821,239	178,257,112,625
2	Interest Expenditure	121,338,185	208,030,295	169,580,736	215,743,045	164,197,047	164,307,698
3	Subsidies Expenditure	0	410,602,127	627,320,014	634,487,470	587,280,314	601,534,603
4	Grand Expenditure	1,700,669,389	3,102,522,701	5,474,101,710	8,830,464,762	10,541,163,749	10,064,053,310
5	Social Aids Expenditure	7,312,926,617	9,925,219,001	10,065,140,261	9,186,451,104	9,143,264,394	8,479,318,375
6	Sharing fund Expenditure	1,783,306,568	932,224,462	1,062,806,336	1,002,275,469	1,200,547,934	1,139,249,526
7	Financial Aids Expenditure	3,498,991,881	6,125,023,524	7,245,003,738	8,937,831,068	9,445,917,745	10,220,520,409
8	Unpredicted Expenditure	1,144,355,645	943,102,668	670,880,791	751,163,675	886,885,224	1,149,432,282
B.	DIRECT EXPENDITURE	99,652,408,963	133,045,900,061	143,692,431,250	146,926,567,973	142,008,916,727	179,743,658,963
1	Personnel Expenditure	7,941,074,175	15,994,675,112	16,999,368,067	16,896,159,077	17,304,075,959	20,670,188,617

	2		Goods and Services Expenditure	31,301,980,428	42,551,876,837	47,719,856,868	51,588,671,928	54,541,514,385	70,639,414,475
	3		Capital Expenditure	60,409,354,360	74,499,348,112	78,973,206,315	78,441,736,968	70,163,326,383	88,434,055,871
	C.		LOCAL GOVERNMENT FINANCING	46,440,025,449	48,713,395,030	50,858,936,220	41,564,239,682	42,184,283,533	7,217,568,337
			TOTAL	233,497,791,511	290,307,808,332	329,078,938,212	345,107,814,983	372,515,277,906	397,036,756,128

*APBD Data (source BPS, 2011)

The budget profile is closely related with its process in budget decision making process. From the budget process, as quoted from study on Report Local Budget Index (LBS-INDEKS KIPAD) that budgets (both the State Budget (APBN) and local government budgets (APBD)) are an important instrument for governments to carry out their programs, which are to some extent influenced by how the budget is managed. The government budget is a reflection of political decisions between the executive and the legislature, which reflect what the government does each year. These political decisions have a broad impact on the public's standard of living, particularly in the effort to provide better basic services to residents, specifically women and the poor. It is assumed that how the budget is managed – from planning through accountability - will influence how effectively the budget can stimulate economic growth and provide better basic services (http://www.budget-info.com).

IV. Conclusion

1. Regarding the allocation of expenditure within the existing budget, it can be seen that the budget allocation for capital expenditure and social assistance is still minimal. Central Government Expenditure in the period 2011, was dominated by the Personnel Expenditures and Subsidies. Large allocation of funds is not addressed on Capital Expenditures and Social Assistance, which actually should be the priority of the government. From this, the budget showed that the priorities to the public interest is still weak.
2. In the public budget, budget policy configuration can be seen from three important aspects of the budget, those are State Revenue, Expenditure and Financing Budget. The linkage between the State Revenue, Expenditure and Financing Budget with fiscal function has a strong correlation with the increase in welfare. Quality of budget policy and budget allocation of the Central Government, occupies a very strategic position to support the achievement of national goals. Therefore, in fiscal policy, the political process of budget planning, need to adopt and implemented through a transparent process and should include all parties. The key to success lies in the fiscal policy budget planning, effective implementation, and accountability of fiscal policy.
3. The complexity of the budget problems mentioned above, shown that the public budget has a high complexity problem. The budget has a systemic problem in the proportion of public budget allocation, it influences the social welfare. Furthermore, the proportion of expenditure of government bureaucracy absorb almost 70 percent, while for capital expenditures is still in a small portion. The low capital expenditure shows that the public budget still oriented towards the interests of the bureaucracy, not the public service. On the other hand, state budget corruption is still rampant.
4. From the policy of public budgeting, public expenditure in Indonesia still can not reflect the public interest. There are many interests to intervene budget process and configuration

both politically and bureaucratically. Public budget policy was still opposed with democratic principles that "public policy must be based on public consent". When speaking public consent then should the public budget to accommodate the public interest-oriented public service for the welfare of the public. In fact, public expenditure policy in Indonesia did not reflect "budgets reflect choices and priorities". Namely, that the budget should indicate policy options and priorities as well as the government. For that controls the aspirations of the people in the budget, tapping the potential of corruption since the budget planning, and integrity of both planners, implementers and other stakeholders are absolutely necessary.

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