

Does Indonesian Decentralized System Lead to a Better Rural Development?

Case of Budgeting Policy in Purbalingga District, Central Java

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1. Background

- ❖ About 65% of Indonesian population live in rural areas, thus rural development is an important part of the whole national development policy. Many progresses on rural development were achieved during 1968-1997, when **centralized system** was adopted by Suharto's administration. At the time, central government directly planned and executed rural development programs
- ❖ Due to political movement/reform in 1998, the government in 2001 decentralized the tasks and budget for rural development to district. Thus, rural development since then relied on district government programs.
- ❖ Studies by Balisacan, Pernia and Asra [2003] and Mahi [2010] show huge variation of local economic growth after decentralized system. Similarly, World Bank [2003] finds no clear trend resulted from the system on public service quality. Above all, Indonesian decentralized system is mostly analyzed through national lens that could not deeply explain the local socio-political realities.
- ❖ This study aims to analyze the impact of decentralized system on rural development more deeply at district level. The objective of this study is to analyze how the budgeting policy is formulated, how the socio political realities behind budget formulation, and how so far the performance of district government in rural development

- ❖ The impact of Indonesian decentralized system is ambiguous. Studies by Balisacan, Pernia and Asra [2003] and Mahi [2010] show huge variation of local economic growth after decentralized system. Similarly, World Bank [2003] finds no clear trend resulted from the system on public service quality.
- ❖ So far, Indonesian decentralized system is mostly analyzed through national lens or comparative studies across the regions that could not deeply explain the local socio-political realities.
- ❖ This study aims to analyze the impact of decentralized system on rural development more deeply at district level. The objective of this study is to analyze how the budgeting policy is formulated, how the socio political realities behind budget formulation, and how so far the performance of district government in rural development

Table 1. Socio economic condition of Purbalingga district

No	Condition	Number/Explanation
1	Geography	
	❖ Area coverage	777.6 km ²
	❖ Land utilization	29% wet paddy area, 25% settlement, 21% dry land farming, 15% forest, 19% other
2	Demography	
	❖ Population	851,963 people / 264,747 households
	❖ Percentage of poor people	22%
3	People occupation by sector	
	❖ Agriculture	43%
	❖ Trading, restaurant and hotel	20%
	❖ Industry	17%
	❖ Service	10%
	❖ Construction	6%
	❖ Other	6%
4	Politics and administration	
	❖ Local executives	District head and deputy
	❖ Number of local parliament	45 members
	❖ Number of civil servant	10,384 persons
	❖ Number of district agencies	27 agencies
	❖ Number of villages	239 villages

Source: Purbalingga District Government (2011)

3. The context and scope of the study

- ❖ Decentralization is applied by shifting the tasks to provide public service from central to district governments. Fiscal transfer from centre is increased and given in the form of block grant that the utilization is locally formulated.
- ❖ Thus, rural development is now relying on district programs. As it is often argued that budget is the most effective tools to realize programs, analyzing district expenditure will show the general picture of the programs.
- ❖ This study will classify the expenditure into recurrent expenditure (spending for activities not directly related to development) and development expenditure (spending for development programs)
- ❖ As Purbalingga rural areas are dominated by agriculture, characterized with low infrastructure and Human Development Index, **agriculture, rural infrastructure, education and health** are deemed as the main sectors of rural development.
- ❖ Data are collected through documentary study and participant observations in development planning meeting.

4. Expenditure analysis

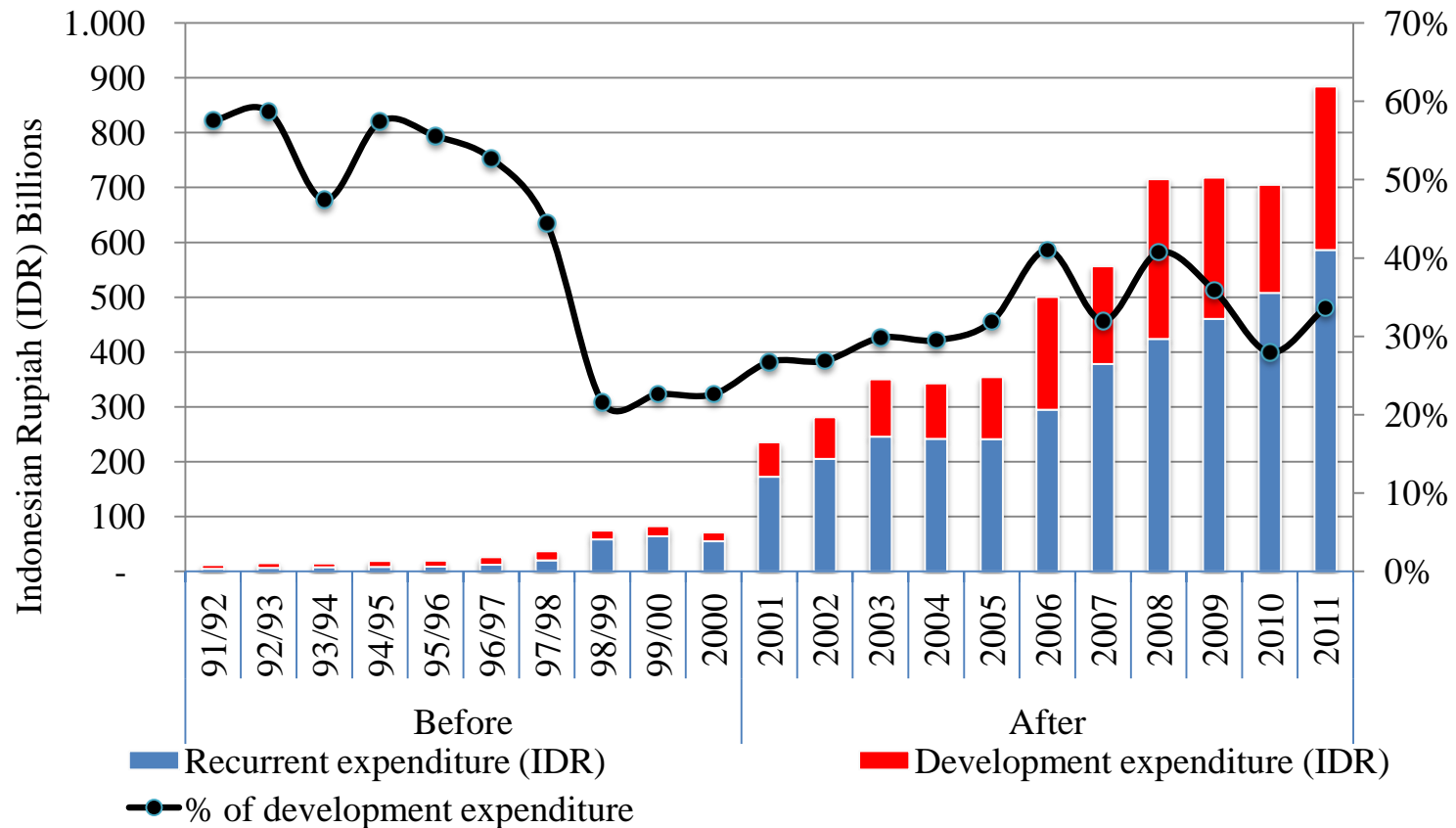


Figure 3. Purbalingga District expenditure, 1991-2011

Source: Purbalingga CSA (1991-2002), Purbalingga District Government (2011)

Notes:

- Before 2000, fiscal year is started from April to March while after 2000, fiscal year is started from January to December
- Before 1998, the exchange rate was about IDR 2,500 per US\$ 1 while after 1998 is about IDR 9,000 per US\$ 1

Table 2. Average budget portion before and after decentralized system

No	Expenditure	1991-2000	2001-2011
1	Recurrent expenditure	56%	68%
	❖ Salary	40%	54%
	❖ Office maintenance and other operational cost	16%	14%
2	Development expenditure	44%	32%
	❖ Agriculture	1%	3%
	❖ Infrastructure	12%	7%
	❖ Health	2%	4%
	❖ Education	11%	6%
	❖ Block grant for village	0%	3%
	❖ Other sectors	18%	13%

Source: Purbalingga CSA (1991-2002), Purbalingga District Government (2011)

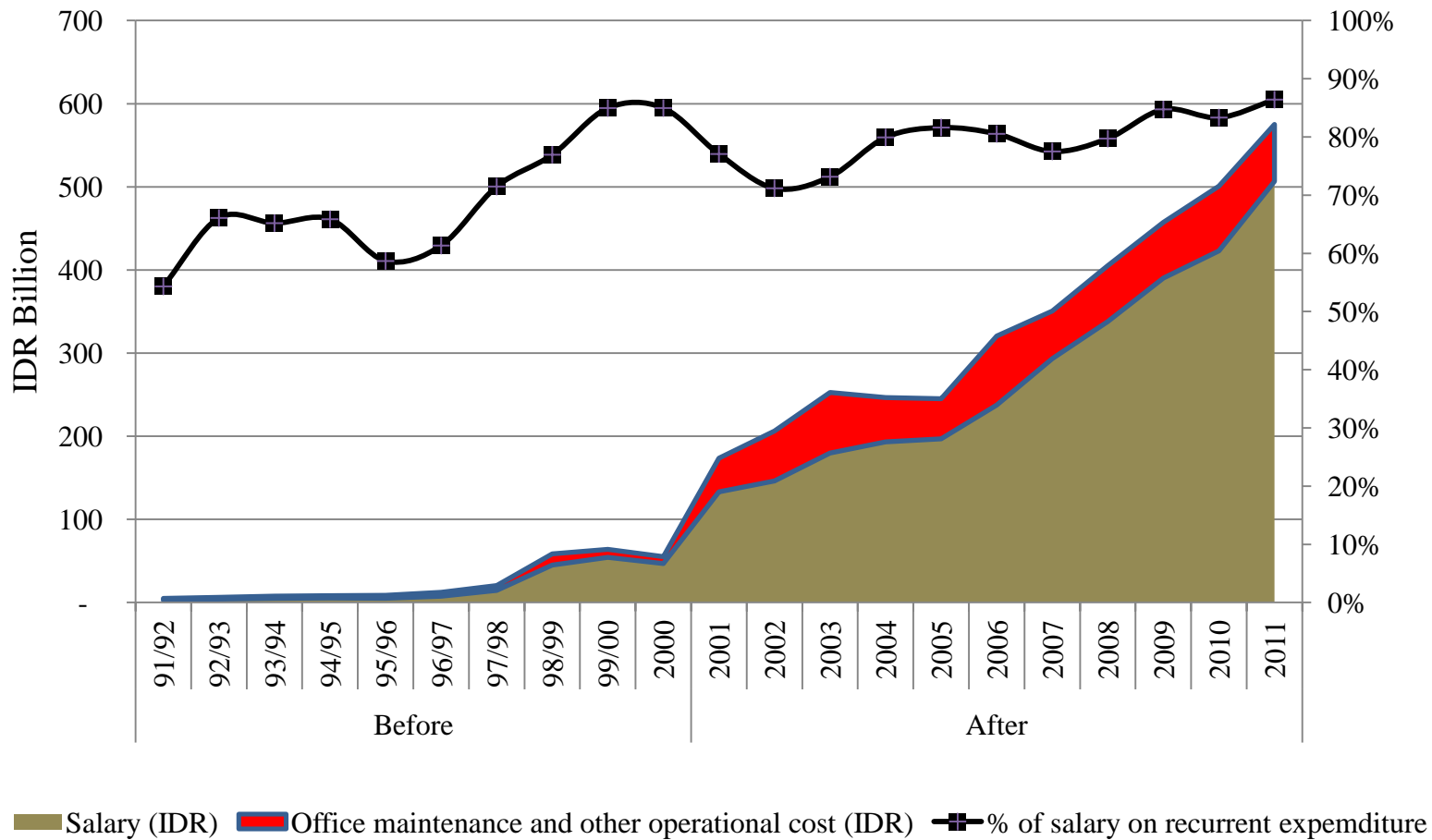


Figure 4. Spending for recurrent expenditure, 1991-2011

Source: Purbalingga CSA (1991-2002), Purbalingga District Government (2011)

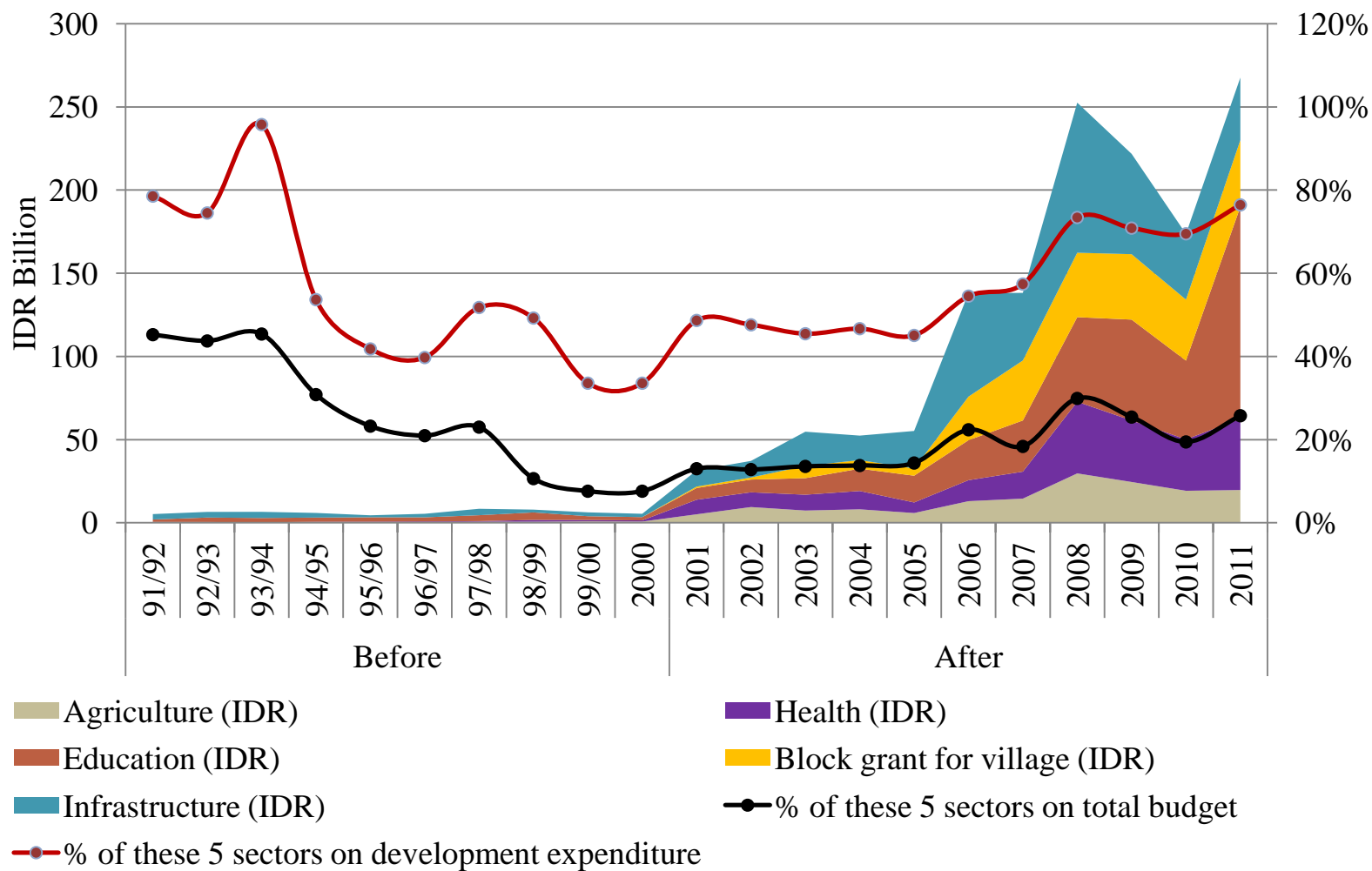


Figure 5. Spending for agriculture, infrastructure, health, education and block grant for village in Purbalingga, 1991-2011

Source: Purbalingga CSA (1991-2002), Purbalingga District Government (2011)

Recurrent Expenditure

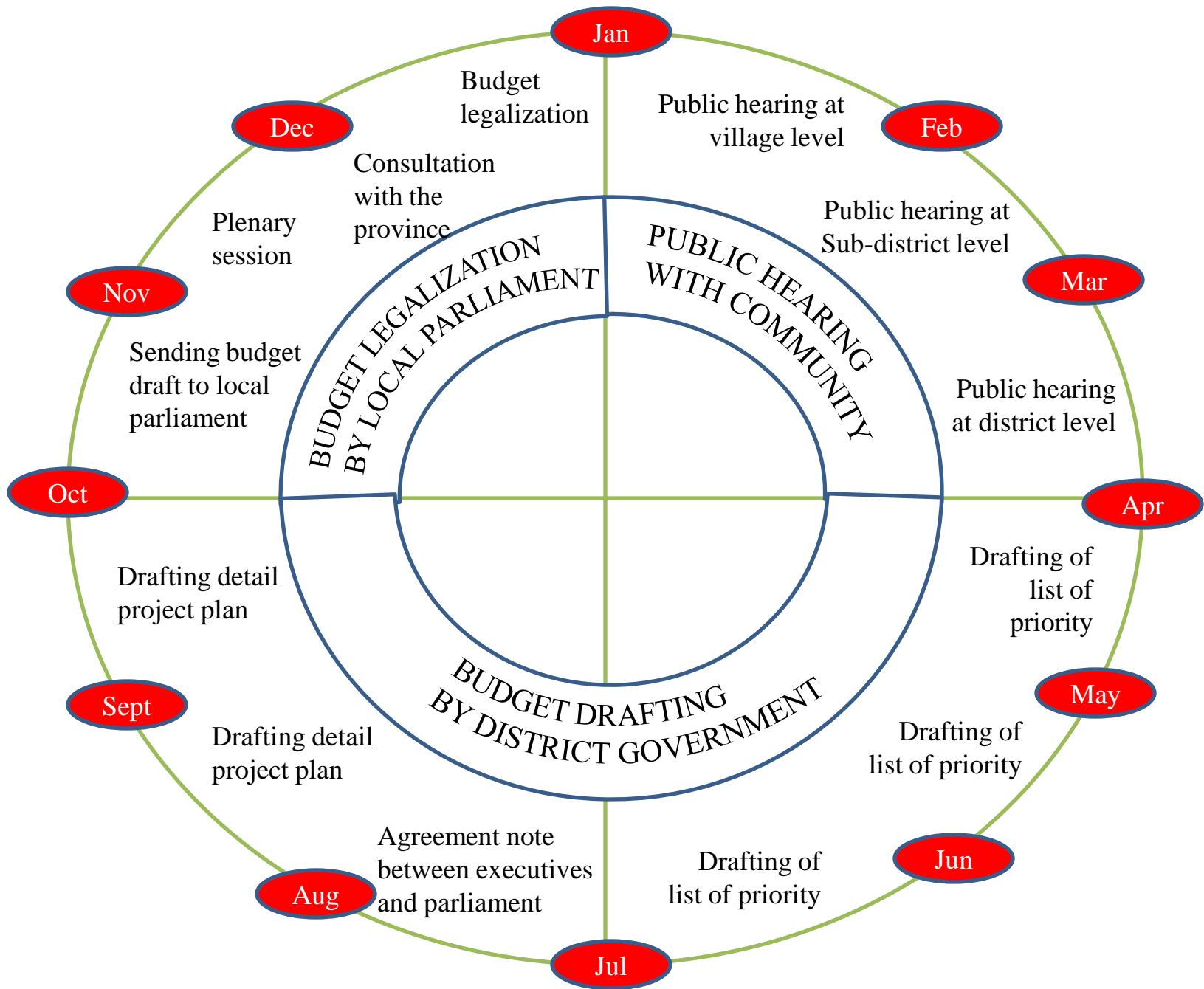
- ❖ Most of budget after decentralized system is utilized for recurrent expenditure, especially for salary.
- ❖ The enlargement of civil servants and district agencies are the main causes of the increase in recurrent expenditure. The number of civil servant grew from only 2,625 persons in 1999 to 8,907 persons in 2001, and finally 10,217 persons by 2010. Similarly, district agencies enlarged from 17 offices in 2001 to 27 offices in 2010 with about 23 quasi government organizations (Purbalingga District Government, 2011).
- ❖ Even though the increase in the number of civil servant is needed for executing the decentralized tasks, the uncontrolled recruitment has placed the current number as the financial burden.
- ❖ So far, there is no specific study conducted to identify how many the number and what qualifications of civil servant are needed. Thus, the recruitment of civil servant is not well planed.

Development expenditure

- ❖ Figure 3 shows that development expenditure increased in 2006. Furthermore, education and health spending shows significant and consistent increase. After decentralized system, there is also a new system of transfer to village, which is block grant for village.
- ❖ What the causes of the increases? This study finds that most of the increases are not initiated by district government, but a result of intervention of national regulations. The revision of laws on decentralization in 2004 has strengthen the role of province to supervise district budget draft. Law 20/2003 on National Education System and Law 36/2009 on Health ask district government to allocate more funds for the two sectors. Similarly, Government Regulation 75/2005 on Village ask district government to allocate block grant to village.
- ❖ Agriculture spending, which has no related national regulation, does not show significant increase. Similarly, infrastructure spending seems fluctuating.

5. Socio-political realities of budget formulation

- ❖ Because the expenditure is locally formulated, active involvement of rural community in budget formulation is crucial to ensure that their needs are well accommodated.
- ❖ After decentralization, the government established a mechanism to involve rural people in budget formulation. *Musrenbang*, which is a meeting to identify the proposals from rural people, is conducted through a step-by-step meeting from village, sub district to district level, by involving rural people or their delegation.
- ❖ All the stages is designed to create participatory budgeting in order to result a “pro rural development budget”, or a budget that can accommodate the needs of rural people optimally.



Analysis on 2011 budget formulation

- ❖ In February 2010, the *Musrenbang* was started. It was predicted that 2011 revenues would be IDR 860 billions.
- ❖ During the district meeting, village delegation raised about 1,540 project proposals needing IDR 488 billion. These were the most priority proposals from the grass root.
- ❖ Yet, not all proposals could be financed since before delivered to the floor, the budget (IDR 860 billions) had been reduced by recurrent expenditure as much as IDR 570 billions. Only about 320 village proposal (21%) could get funding.



VILLAGE MEETING



SUB-DISTRICT MEETING



DISTRICT MEETING

- ❖ *Musrenbang* strongly needs the commitment to disseminate information freely and to place the voices of community as the main inputs. Otherwise, rural people will be not able to influence decision making and their attendance in the meeting just becomes formality.
- ❖ During *Musrenbang*, information about recurrent expenditure was not openly disseminated. Public could not criticize whether it was important or not.
- ❖ This study accessed the documents and found that many are not truly necessary. For example, there would be a transfer of operational cost as much IDR 4 Billions for some organizations (including sport committee/local soccer group and local political parties that each would receive 0.9 Billions).
- ❖ Local parliament was not optimal in evaluating the draft. Not only because they are lack of capacity to evaluate the draft, but also lack of sensitivity to the needs of rural people, thus not many revisions were given. Even, this institution would spend IDR 7.5 Billions for salary, and 5 Billions for training, study tour and work visit. Their spending was higher than the budget of irrigation that was only IDR 7.5 Billions.

6. Performance in Rural Development

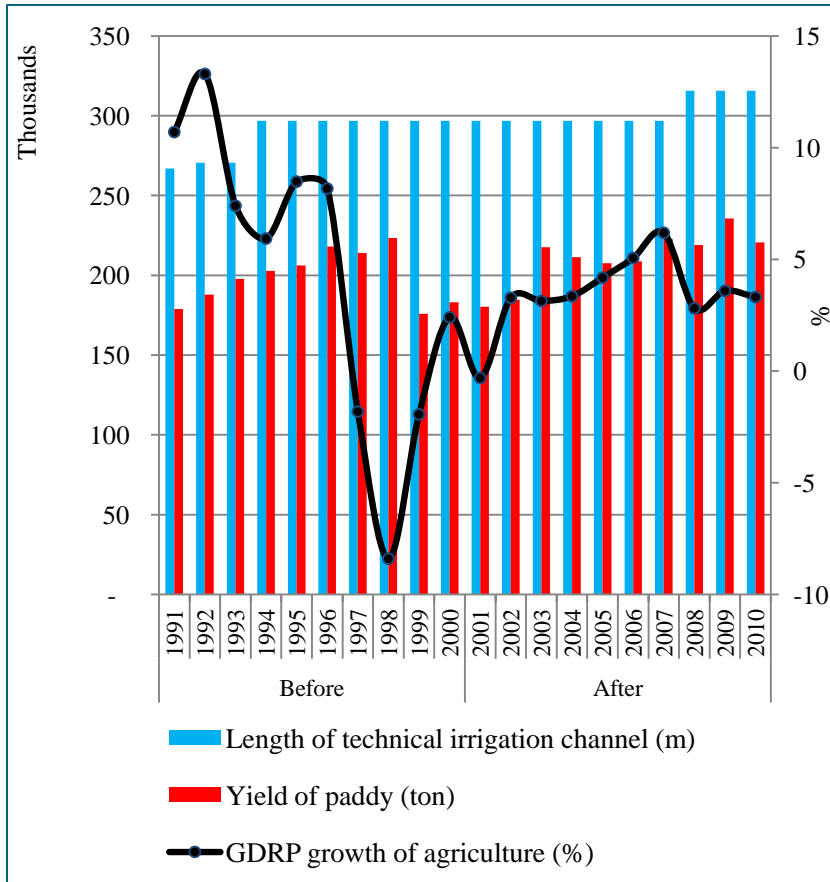


Figure 7. Irrigation network, production of paddy and the growth of GRDP of agriculture sector in Purbalingga district, 1991-2010

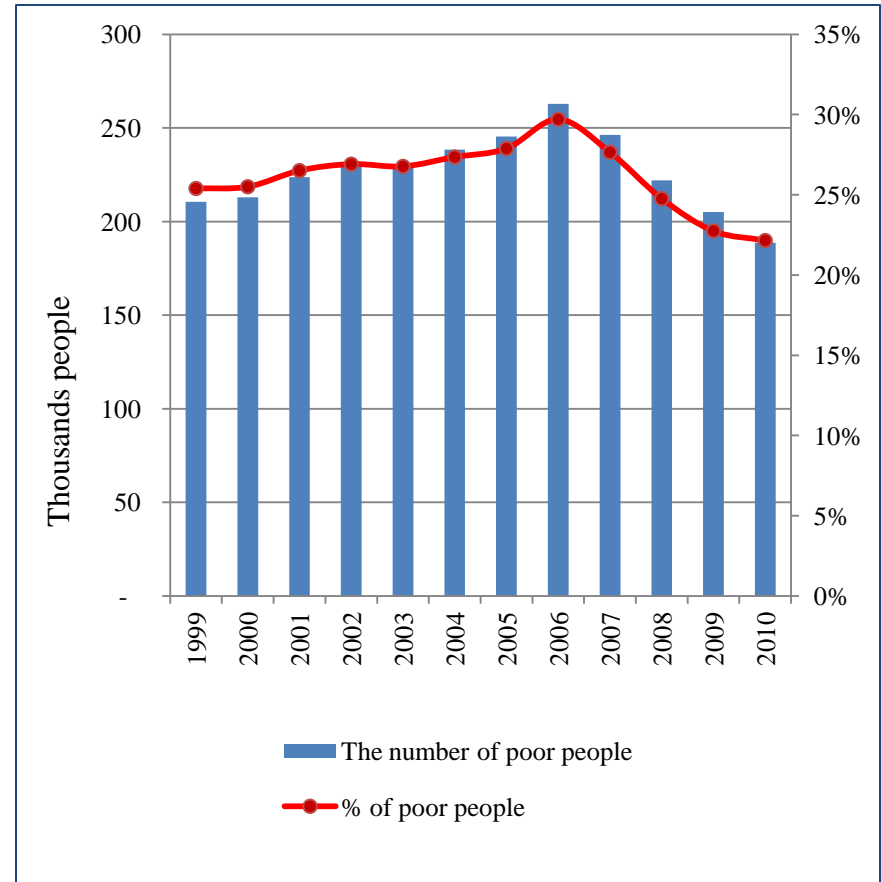


Figure 8. Poor people in Purbalingga district, 1999-2010

Source: Purbalingga CSA (1991-2002), Purbalingga District Government (2011)

- ❖ Lack of budget in agriculture sector made less investment for irrigation network. The yield of rice was stagnant.
- ❖ It should be noted that the 97/98 monetary crisis might lowering the growth of GRDP thereafter. Yet, in general, the current growth is lower. While the growth during centralized system was 8% per year in average, the current growth is only 5% in average.
- ❖ If agriculture, the main occupation of rural people, grow slowly, rural poverty alleviation will be hampered. Even, it increased up to 2006.

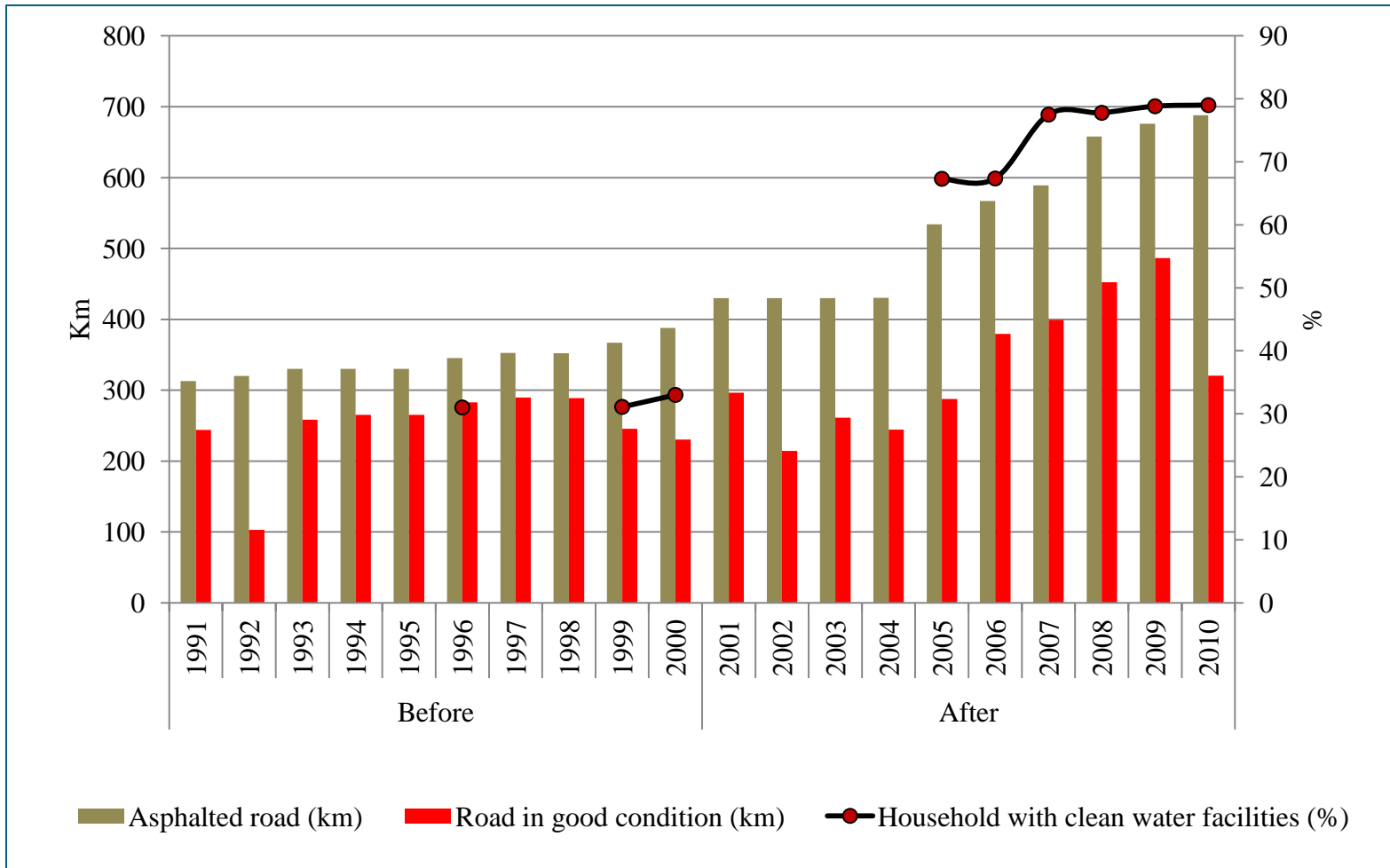


Figure 9. Rural road and household with clean water development in Purbalingga district, 1991-2010

Source: Purbalingga CSA (1991-2002), Purbalingga District Government (2011)

- ❖ Annually, about two third of infrastructure budget is disbursed for rural road development. Currently, 95% of rural main road have been asphalted, compared to only 52% in 2000. Yet, by 2010, 65% of the road was badly deteriorating due to limited budget for maintenance.
- ❖ In the rural clean water facilities, up to 2010, about 79% of households had access to clean water, compared to that of 31% in 2000. Yet, it does not mean that they all have direct access to District Waterworks/private pipeline. The portion of household having access to District Waterworks is only about 8% of total households, and most of the increase are due to small public clean water facilities in the village, which was financed by block grant for village.

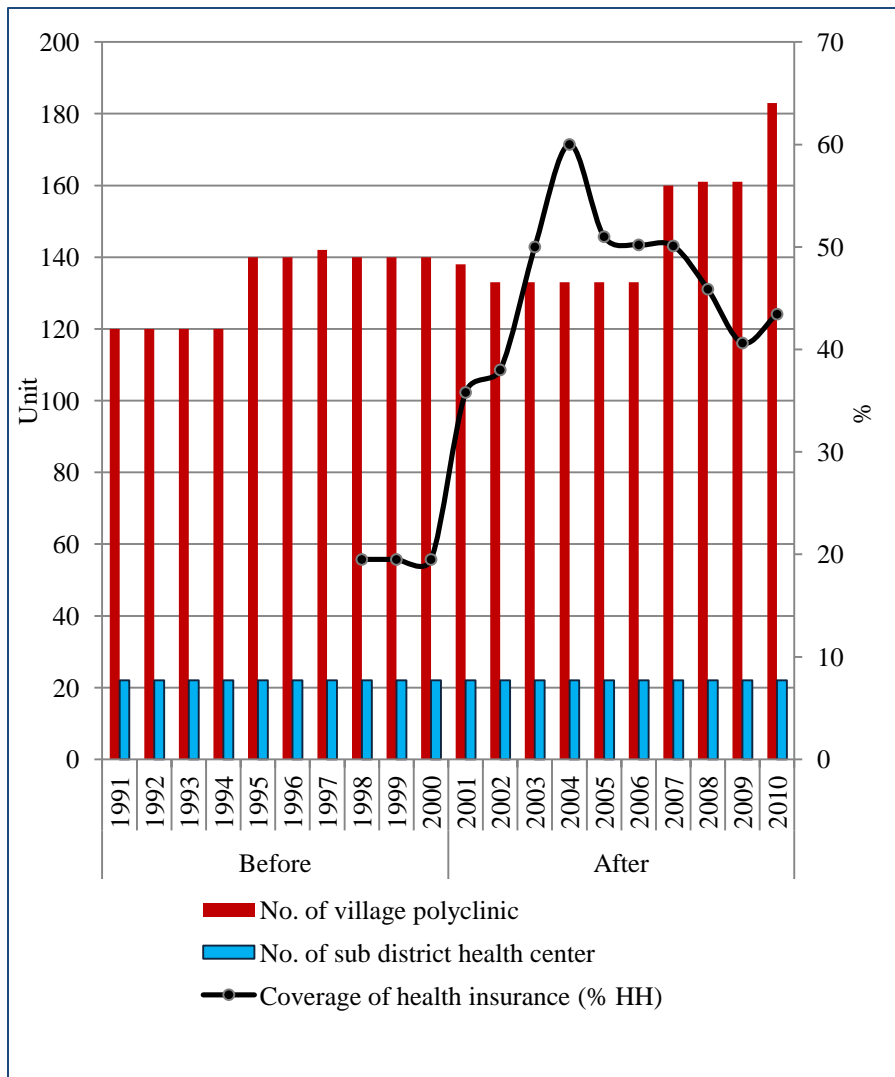


Figure 10. Rural health facilities and coverage of health insurance in Purbalingga, 1991-2010

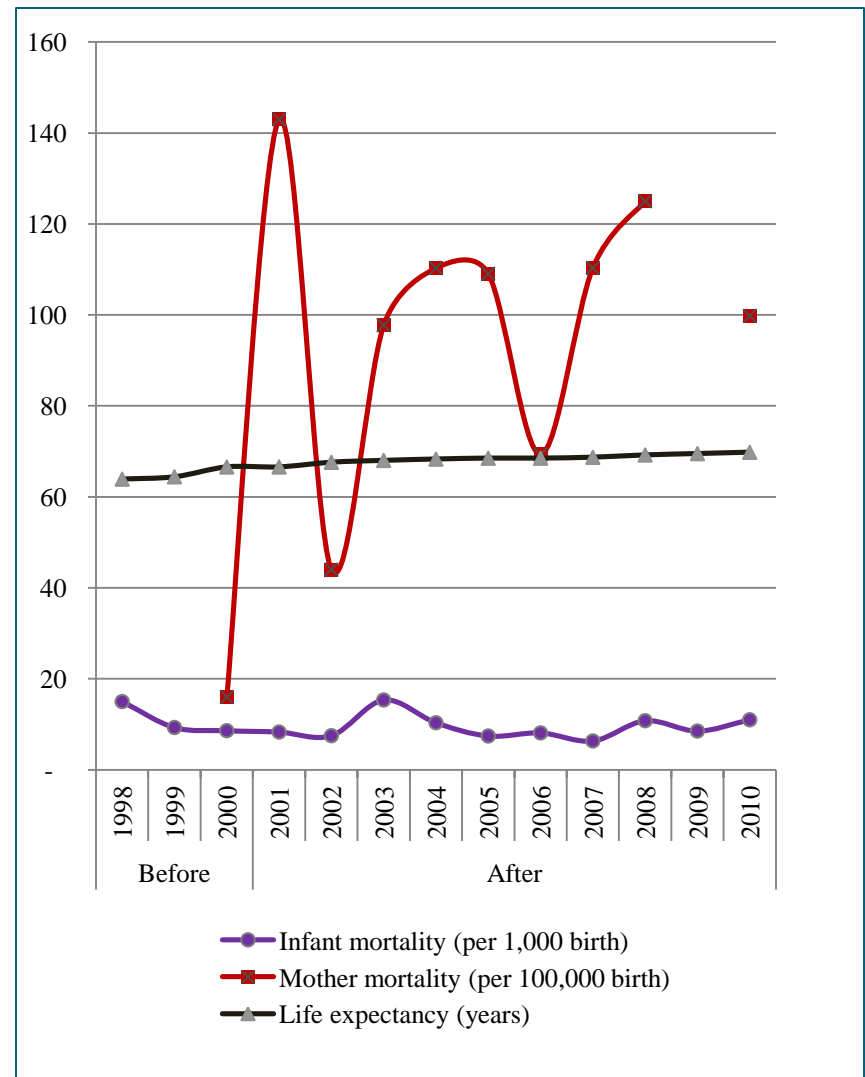


Figure 11. Life expectancy and Infant and mother mortality rate in Purbalingga, 1998-2010

Source: Purbalingga CSA (1991-2002), Purbalingga District Government (2011)

- ❖ Health spending is utilized mainly for providing rural health facilities (village polyclinic). Up to 2010, the district government has built 21 new village polyclinics.
- ❖ Even though rural health facilities is increasing, the coverage social health insurance is still low, thus most rural people still face problems on cost for health service.
- ❖ The indicator of Infant and Mother mortality rate seems fluctuating, indicating that no consistent performance in health improvement.

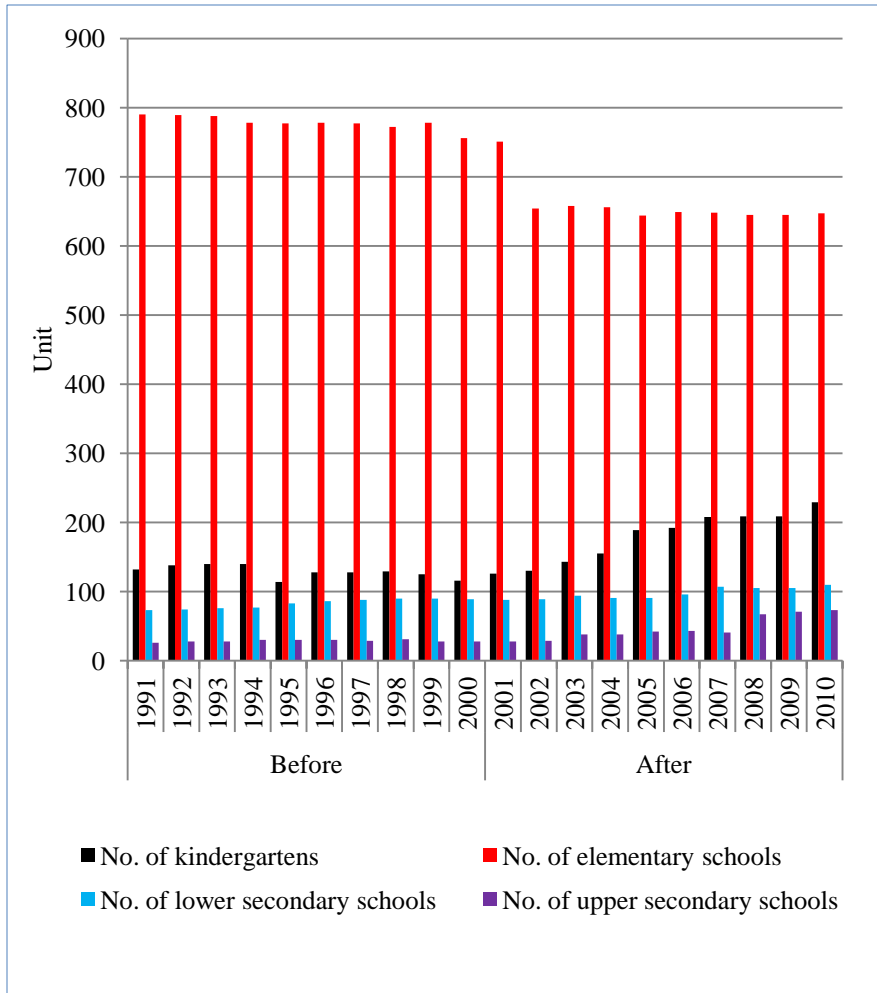


Figure 12. Number of rural educational facilities in Purbalingga, 1991-2010

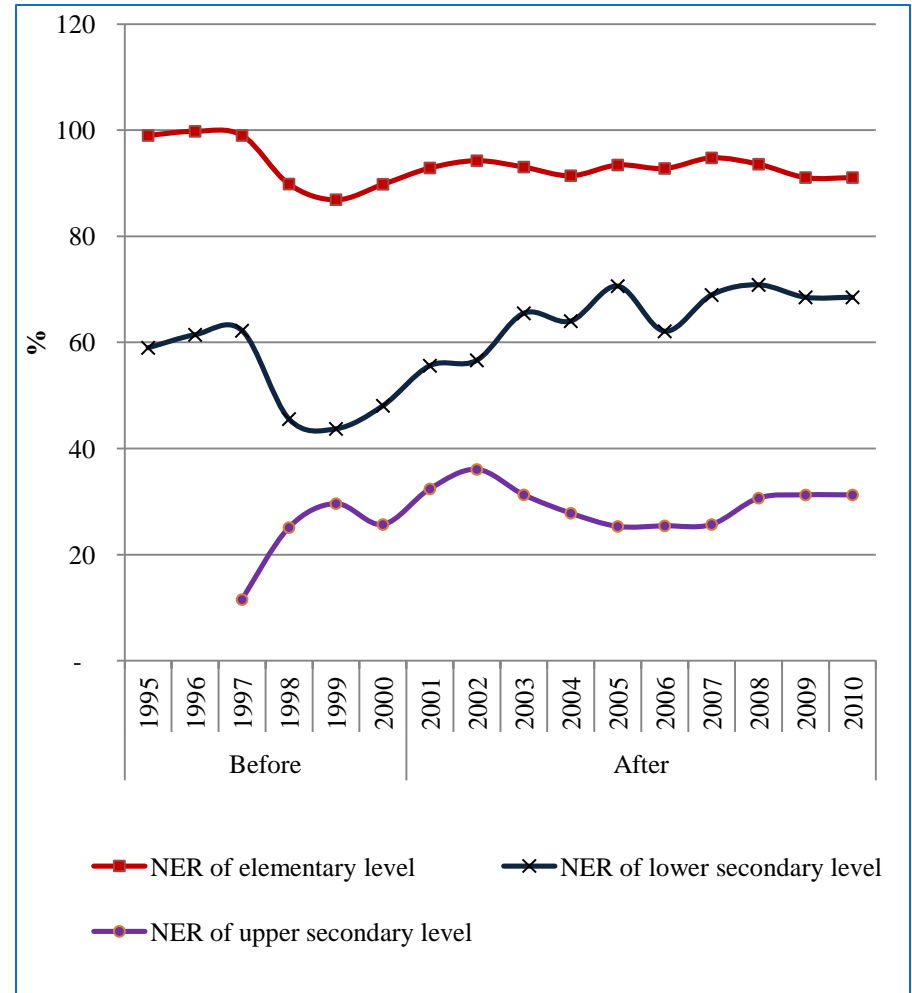


Figure 13. Net Enrollment Rate (NER) in Purbalingga, 1995-2010

- ❖ With the consistent increase in educational budget, the district government built 113 new kindergartens, 21 lower and 45 upper secondary schools in rural areas. On the other side, the number of elementary schools was decreased due to regrouping policy.
- ❖ NER of lower and upper secondary school increased. Badly, the current NER of elementary school is lower than before monetary crisis.

7. Conclusion and Recommendation

Indonesian decentralized system does not completely result in a better rural development.

- ❖ District government has not shown pro rural development budgeting.
- ❖ The mechanism for participatory budgeting is not effective to result in high allocation for rural development.
- ❖ The performance of district government in rural development is mixed. Decentralized system does not result in significant improvement in agriculture sector while some indicators of infrastructure, education and health improved by various degree.

Recommendation

- ❖ To restrain recurrent expenditure, the government should seriously consider to stop the recruitment of new staff, unless it is strongly needed.
- ❖ For a better rural development, central government is supposed to play decisive role in rural development budgeting. The experience shows that the regulations related to education, health and village block grant could raise budget allocation for each sector. In this connection, similar policies for agriculture and infrastructure are needed.

8. References

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Thank you