

EAST NUSA TENGGARA PUBLIC EXPENDITURE ANALYSIS



Spending for People's Welfare



INTERIM REPORT SEPTEMBER 2008



BANK DUNIA | THE WORLD BANK



Australian Indonesia Partnership
Kemitraan Australia Indonesia



Decentralization Support Facility
SOFEI
Eastern Indonesia

EAST NUSA TENGGARA
PUBLIC EXPENDITURE ANALYSIS



**Spending for
People's Welfare**

INTERIM REPORT SEPTEMBER 2008

Acknowledgements

This report was prepared by a team from the World Bank led by Bastian Zaini and Diane Zhang together with Adrianus Hendrawan, Muhammad Ryan Sanjaya, John Theodore Weohau and Sukmawah Yuningsih.

This report is from the initial findings of a larger study conducted in collaboration between the NTT provincial government, NTT's leading research institutes, the World Bank and the AusAID-funded Australia-Nusa Tenggara Assistance for Regional Autonomy Program (ANTARA). The World Bank's effort was led by Ahkmad Bayhaqi and Bastian Zaini. Yohanes Eripto Marviandi and the ANTARA team provided valuable operational, liaison and facilitation support to the study. The NTT research team was led by Fritz Faggidae and a core team consisting of Frankie J. Salean and Melkianus Ndaomanu from Universitas Kristen Artawacana and Thomas Ola from Katolik Widiemandira University who are writing the NTT Overview Report. The following researchers also contributed to the study through district level case studies:

Cendana University : Jeny Eoh, Dian Nastiti, Jacob Wadu, William Djani, Piet de Rosari, Markus Bunga, Dominikus Fernandez, Agustinus Mahur, Alo Liliweri, Melkianus Tiro, Hironimus Jati.

Katolik Widiemandira University : Sabinus Hatul, Veronica Arief Mulyani, Rere Paulina Bibiana, Vincentius Repu, Heny A. Manafe, Antonius Ugak, Yolinda Yanti Sonbay.

Kristen Artawacana University : Jusuf Aboladaka, Nitaniel Hendrik, Liven E. Rofael, Damarias Yvetto Koli, Oktovianus Nawa Pau.

Yayasan PIKUL : Juliana S. Ndolu, Desti Murdijana, Martha D. Pengko;

Yayasan Mitra Kita : Darmanto F Kisse, Richardus Adven Dhada (Manggarai)

STIE KRISWINA : Stepanus Makambombu, Muana Nanga;

Timor University : Sirilus Seran;

Nusa Lontar University : C. Selfina, Roliviyanti .

A full report of the detailed findings of this study will be published in late 2008.

Special thanks to Ichsan Djunaed, Victoria Ngantung, Mila Shwaiko and Robert Brink of the Bakti team and John Schottler of ANTARA for their production support (layout and publication). During the review process, valuable comments were received from Cut Dian Agustina, Enrique Blanco Armas, David Elmaleh, and Peter Milne of the World Bank.

Gratitude is also expressed to the staff of all the technical agencies (Dinas) involved in the data collection and analysis. Finally, special appreciation goes to members of the Program Management Committee (PMC), Jamin Habid (chair), Partini Hardjokusomo, Beny Ndoenboey, Jan Ch. Benyamin, Paula Radja Haba, Andreas W. Koreh, Nikolaus Hayong, Ruth Lodo, Tarsisius Kopong Pira, Julius Muhu, John Pama, Yaan Tanaem, Yakobus Taek, Frans Salesman and Jefri C. Adoe.

Wolfgang Fengler, Petrarca Karetji and Richard Manning provided oversight of the overall process.

Foreword



It gives me great pleasure to announce the launch of the Nusa Tenggara Timur Public Expenditure Analysis – a comprehensive report addressing public financial management issues in the context of regional autonomy.

There are many lessons to learn from this report, which will help us deliver better services for our people, especially in the areas of health and education that we have committed to improving in our medium term development plan. We are determined to improve our people's access to these basic services. We have big challenges ahead, with high levels of poverty spread across a large geographical area made up of many different islands. But we are ready to face these challenges and what we learn from this report will help us do so.

There are three main elements that we need to have in place to improve our performance. Firstly, we need a strong and shared vision that responds to the people's needs. We need to agree what needs to be done and agree realistic targets that we need to achieve each year. Our vision needs to be performance-based and we need to develop systems to enable us to manage for results.

Secondly, we need to build the capacity of our bureaucracy so they have the right skills and tools to achieve these results. We will develop a capacity building program that addresses issues identified in this report.

And thirdly, we need to have the financial resources in place to enable us to achieve our targets. That means we need to be smarter at planning, budgeting and monitoring our work. This report is one tool that will help us more effectively allocate available resources.

This report is a tool that allows us to look at previous regional plans and budgets and take appropriate actions to achieve "Anggaran Untuk Rakyat Menuju Sejahtera (Anggur Merah)", or a budget for the people's welfare, in accordance with the vision, mission, and development agenda of the next five years.

Provincial government spending from 2003 to 2007 significantly increased, with the exception of the period 2003-2004, where we saw a reduction. The period 2003-2007 saw an increase of 66.03%, especially in the health, education and infrastructure sectors. This increase can be attributed to increased financial resources from central government through de-concentration funds and other funding streams (DAU and DAK) with significant annual increases.

The provincial government is committed to enhancing transparency and accountability according to the principles of good governance and this report is an important milestone on that road. But it is important to note that the report does not symbolize the end of a process, but rather serves as a starting point to navigate a path to overcome our challenges for the promise of a brighter future for Nusa Tenggara Timur.

This report was made possible by the hard work of many people. I would like to thank AusAID and the ANTARA team and the World Bank and the Decentralization Support Facility for Eastern Indonesia for their support and cooperation. I would also like to express my appreciation to researchers from universities in the province and for the facilitation of planning agencies both at the province and district levels, without whose dedicated support this report would not have been possible.

Based on the recommendations of this report, I invite all interested parties to participate in various follow up activities so that Nusa Tenggara Timur can become an example to other regions in Indonesia for its effective, efficient, transparent and accountable management of public funds.

Kupang, September 2008

A handwritten signature in black ink, appearing to read 'Frans Lebu Raya', written over a white background.

Drs. Frans Lebu Raya
Governor
Nusa Tenggara Timur

Foreword



Australian Embassy Indonesia

In the middle of last year, the Nusa Tenggara Timur provincial government requested support from Australia, through AusAID and the World Bank to carry out a public expenditure analysis for the province and selected districts. This report is the culmination of some very hard work since that request.

This expenditure analysis is an excellent example of efforts to better serve the community by finding ways to improve public financial management and bring services to the poor and disadvantaged. It is no small thing for an administration to expose its finances to close scrutiny in order to increase efficiencies and ensure that funds are spent in the most effective way. It is also heartening to see the provincial and district governments' enthusiasm and commitment to this exercise, demonstrated by the real contribution to the initiative through budget and staff time. I congratulate the Governor of Nusa Tenggara Timur (NTT) and his staff for their strong and unwavering support to the process.

I commend the universities in NTT for their hard work in collecting and analysing data. This project really demonstrates how collaboration between provincial and local governments and universities can bring results. This is an example of a partnership that works and provides a model for the rest of the region and the country. This report has drawn heavily on lessons from other provinces, including Papua, Gorontalo, Aceh and Nias, and has used these lessons to improve on the final product. Not least, the Nusa Tenggara Timur expenditure analysis has a gender focus highlighting the importance of gender-disaggregated data for effective planning and budgeting.

The strong collaboration between institutions as varied as provincial and local governments, academic institutions, the World Bank, and AusAID is a great example of effective partnership. With good will we can work together for a brighter future for the people of Nusa Tenggara Timur.

I wish all levels of government well in their future steps using information in this report to guide their planning and budgeting process. I also state Australia's willingness to continue engaging (through the Australia Nusa Tenggara Assistance for Regional Autonomy Program) with NTT governments to support increased capacity for improved planning and budgeting.

Finally, I thank the authors for their collaborative effort and outstanding work in facilitating the process and producing a report in such a timely manner.

September 2008

A handwritten signature in black ink, appearing to read 'Bill Farmer', with a horizontal line underneath it.

Bill Farmer
Australian Ambassador to Indonesia



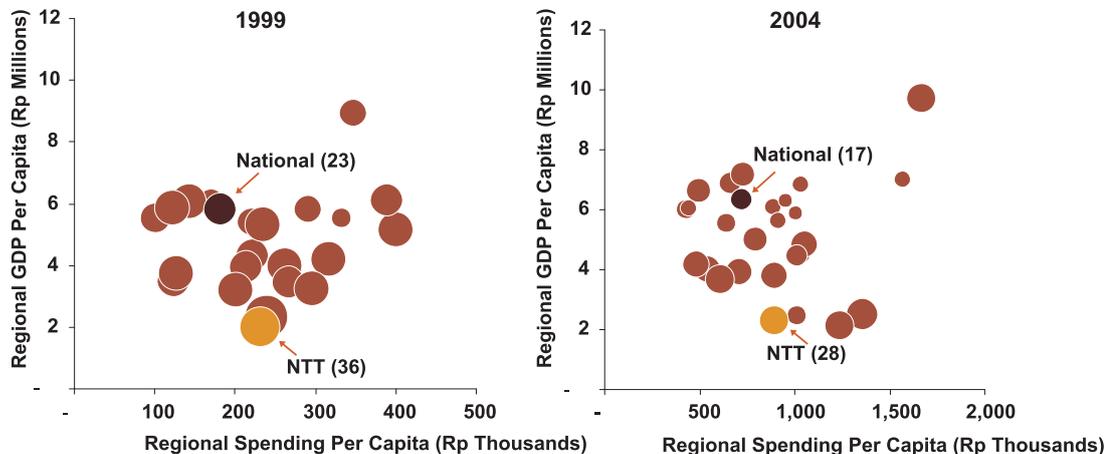
1

Introduction

Background

Prior to decentralization, more than one-third of East Nusa Tenggara's (NTT) population was classified as poor, making the province (along with Papua and Maluku) one of the poorest in Indonesia. Another challenge facing the province was NTT's low fiscal capacity. Although per capita regional spending (consisting of spending by provincial, district and central governments) was in the mid range compared with other provinces in Indonesia, per capita regional Gross Domestic Product (GDP) was the lowest in Indonesia (Figure 1).

Figure 1 NTT has been a lagging province, pre-and post-decentralization

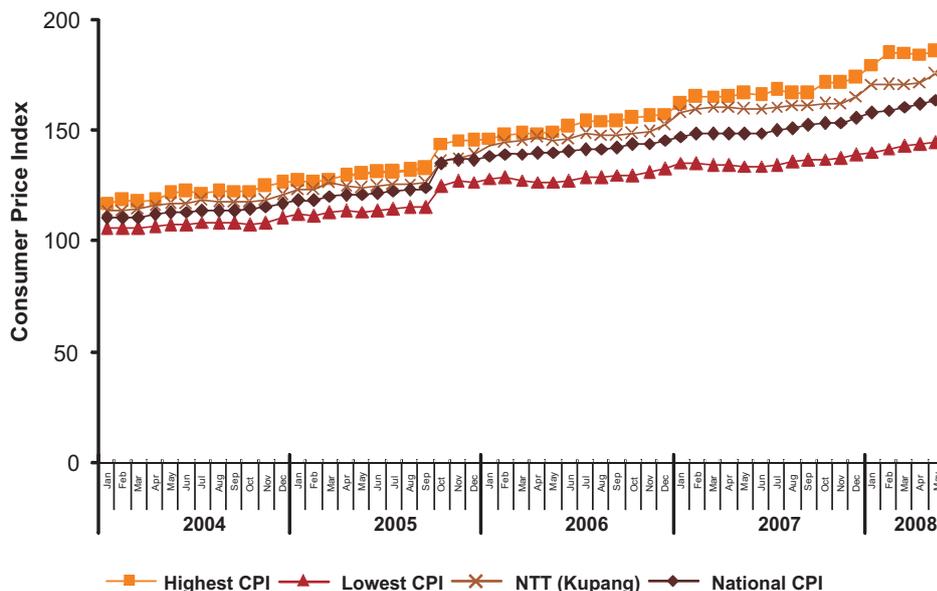


Source : World Bank Staff estimate based on SIKD, MoF, and BPS

Note : The size of the bubble and the numbers in brackets are the poverty headcount (%).
Riau, DKI Jakarta, East Kalimantan, and Papua are excluded for presentation purposes.

After decentralization, although per capita regional spending had tripled and poverty decreased, NTT has remained one of the least economically developed provinces in Indonesia. In 2004, per capita regional GDP was one of the lowest in Indonesia (Figure 1). Despite an eight-percentage point reduction in the poverty rate between 1999 and 2004, it was still approximately 10 percentage points higher than the national average.

Overall, NTT faces a multitude of economic challenges. In addition to high poverty and a small regional economy with only moderate government spending, NTT also has high unemployment and high prices. Ever since fuel subsidies were reduced in 2005, NTT's prices have been higher than the national average. The combination of increasing commodity prices and transportation costs has contributed to NTT's inflation (Figure 2).

Figure 2 Prices in NTT are higher than the national average

Source : NTT PEACH team estimate based on BPS (2008)

Note : The CPI is based on BPS's 44 cities CPI. Banda Aceh's CPI is excluded because of the high CPI due to reconstruction efforts.

NTT's significant economic development challenges are partly due to its geographic isolation and semi-arid climate. Together with West Nusa Tenggara (NTB) and Maluku provinces, NTT is classified as a semi-arid region because of its low rainfalls and intermediates between desert climate and humid climate. As a province consisting of many islands, access and transportation are significant issues. The combination of climate and isolation means that NTT has limited access to natural resources.

NTT is highly dependent on an under-developed agricultural sector. In 2006, agriculture contributed to approximately 40 percent of the regional GDP and together with quarrying and mining (the extractive sectors) employed 72 percent and 68 percent of male and female workers in NTT, respectively. The sector, however, is under-developed as most local farmers rely on subsistence farming and have limited access to modern farming methods and technology. NTT's semi-arid climate means farmers often experience difficulties in planting and cultivating crops, especially for those who depend on traditional methods.

The combination of a weak regional economy, high poverty, and geographical and climatic challenges means that it is more important than ever for NTT's governments to maximize the usage of their fiscal resources. Therefore, it is extremely important to understand, from a sub-national perspective, how NTT's government resources have been utilized and whether they have resulted in improved outcomes for the population.

The Public Expenditure Analysis Summary Report

This summary Public Expenditure Analysis examines the sub-national fiscal situation in NTT (the province and its 16 districts). This report surveys the different sources of revenue and which level of government manages those revenue sources. From an expenditure perspective, this analysis considers which level of government sets the expenditure priorities and which sectors and what type of expenditure dominates government spending. At the sectoral level, this report examines in more detail three service sectors – health, education and infrastructure – and highlights key issues facing each sector. Other issues covered in this report include assessing the different expenditure patterns between the districts, NTT's compliance with government public financial management regulations and legislation, the efficiency of NTT's bureaucracy and gender-related budgeting and planning issues.

The purpose of this report is to advise local governments on how they may be able to better utilize their fiscal resources in NTT and which priority areas need attention. This summary report is part of a larger study that is still underway that examines the revenue, expenditure, planning and budgeting issues in a more detailed manner. This study is a collaboration between NTT's provincial and district governments, NTT's leading universities and the World Bank. The final report is expected to be released in late 2008.

Key Findings

Revenue and Financing:

- **NTT's small economy and lack of natural resources mean that the province's capacity to generate income is weak.** This is reflected by the increasing dependence on transfers from the central government in the form of the general allocation (dana alokasi umum – DAU) and the special allocation (dana alokasi khusus – DAK). In 2003, 78 percent of NTT's total revenue was from DAU and DAK and this increased to 86 percent in 2007. NTT derives negligible revenue from natural resources and shared revenue from taxes has remained constant since 2003.
- **Since 2003, PAD or own-source revenue has been growing steadily and keeping pace with the overall government revenue growth in NTT.** In 2007, PAD represented 7 percent of total sub-national revenue, which was much lower than the Indonesian sub-national average (20 percent). There are many reasons why PAD could be low, including lack of small businesses, low collection of taxes from activities such as entertainment (hotels and restaurants), a relatively small number of motor vehicle registrations and lack of service provision (to generate user-fees). Further analysis on the composition of the PAD is required to assess the potential to increase PAD in NTT.

Expenditure:

- **Despite its modest resources, between 2003 and 2007, NTT improved its spending mix.** The share of public expenditure spent on salaries has decreased, but more importantly, the share of public spending on the government apparatus has also decreased. At the same time, the proportion of spending on the key service delivery areas – education, health and infrastructure – has either been maintained or increased. It is important that NTT's governments continue to allocate more funds for service delivery sectors and less on government administration.

Education:

- **The increase in regional education spending has resulted in better access to schools and teachers as reflected in both the student-school ratio and the student-teacher ratio but has not translated into stronger education outcomes.** NTT has the second-highest proportion of the population that has never completed any form of formal education. This is consistent with the fact that, although the net enrolment rate (NER) at the elementary school level has almost caught up with the national average, the NER at the middle- school and high- school levels are still significantly lower than the national average. Therefore, the focus of the NTT governments should be on ensuring that children remain in school and finish their formal education.

Health:

- **The increased public expenditure allocation for the health sector has improved access to public health service.** Compared with both the national average, and its neighbouring provinces of NTB and Maluku, NTT has a lower proportion of sick people seeking self-treatment (for example, purchasing themselves medicine rather than seeking medical care), a higher public health service utilization rate and a higher proportion of households that receive free public health care.
- **However, the improvement in access to public health service has not yet had a significant impact on the health outcomes.** The proportion of the population with health problems is still significantly higher than the national average. Malnutrition continues to be a problem in NTT and may contribute to some of the health problems in the province. Achieving stronger health indicators such as a lower morbidity rate takes time and continued support from the government to improve not only access to public health care services but also to improve their quality.

Infrastructure:

- **NTT's infrastructure sector has achieved a mixed performance.** While the province suffers from low access to safe water and electricity, the access to sanitation is relatively high. Sub-national governments have managed to increase the level and share of infrastructure sub-national spending. Most of the expenditure is spent on capital in order to provide new facilities to improve access.

Regulations and Institutions:

- **Similar to other provinces, NTT's governments face difficulties in keeping abreast with changes in government regulations and legislation relating to public financial management.** This is caused not only by the lack of legal drafting capacity at the sub-national level, but also because of the pace at which changes are made at the national level.
- **NTT has made some progress in improving the efficiency of its bureaucracy.** Overall, NTT has reduced the proportion of expenditure spent on government apparatus. At the district level, Timor Tengah Selatan district reduced its salary expenditure in 2007 through the implementation of Government Regulation No. 41/2007.

Gender:

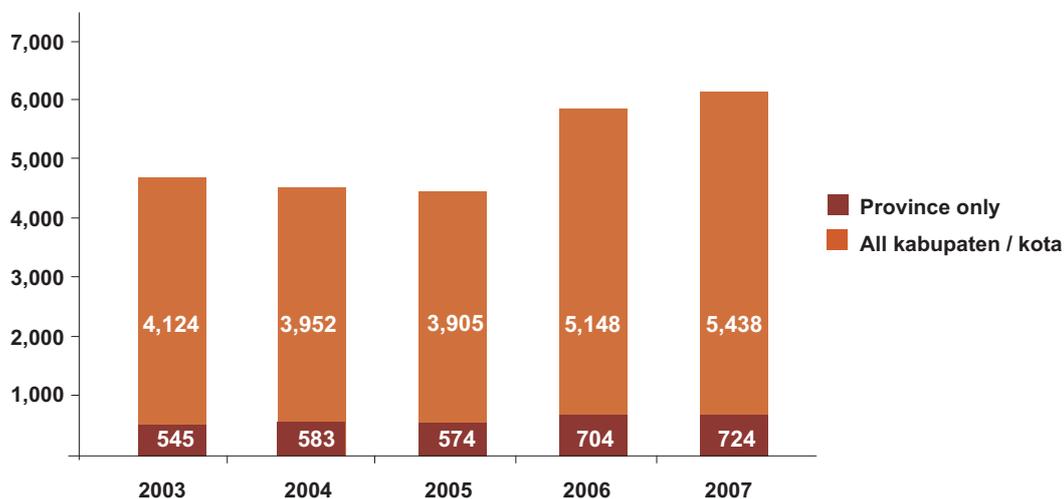
- **In order to determine whether a budget is gender sensitive, it is important to collect, where possible, gender disaggregated data that assesses the different impact government programs has on men and women.** Consistent with the rest of Indonesia, this is challenging in NTT, which makes calculating what proportion of the budget has been beneficial to men and women, respectively, difficult. Having this gender disaggregated data will also assist in developing programs that target the more marginalized gender. Similar to targeting the poor, programs that target women may improve overall human development indicators, rather than simply producing specific benefits for women.
- **Targeting female literacy is potentially a good strategy to improve overall literacy rate in NTT.** Although the education levels of men and women are fairly similar, because the proportion of women who have never been to school is higher than men, illiteracy is more prevalent amongst women. Since women are the more marginalized group in this education indicator, targeting female literacy may have higher marginal returns on investment.
- **Further study is required to explain why women's participation in the workforce is significantly lower than men, despite similar education levels.** Potential reasons may include social expectations, employment structure, economic conditions, discrimination against women in the workplace and women's choice to stay at home.

2

Revenue and Financing

Between 2003 and 2007, total sub-national revenue in NTT increased by 36 percent (Figure 3). Total sub-national revenue experienced a small decrease in 2004 and 2005. This trend, however, reversed in 2006 and 2007 due to a large increase in the general allocation from the central government (dana alokasi umum – DAU). The provincial government manages approximately 13% of NTT's total revenue with the remaining 87 percent managed by the 16 district governments. This ratio has remained constant between 2003 and 2007.

Figure 3 NTT's revenue increased due to larger DAU and DAK allocations (IDR billion)

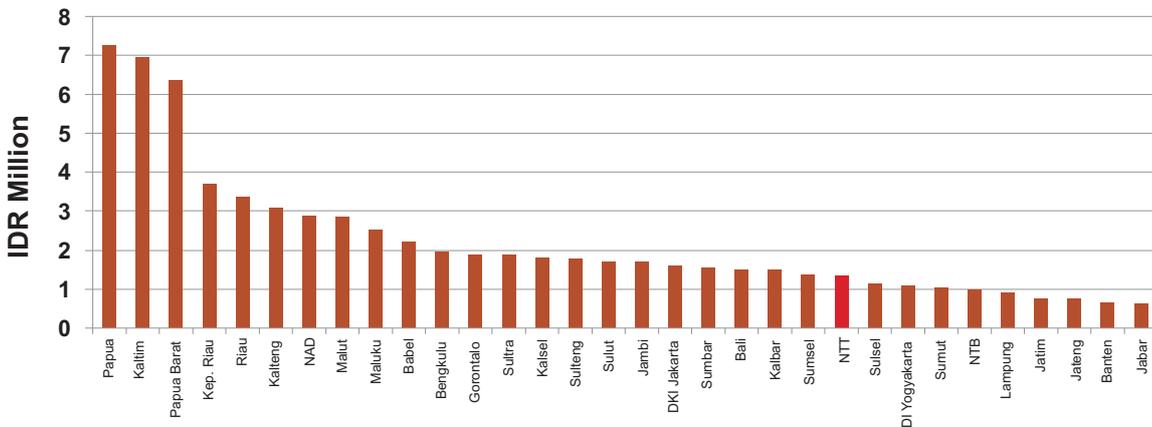


Source : NTT PEA database, NTT PEACH team (2008)
 Note : 2007 figures are estimate

Out of 32 provinces, NTT's per capita revenue of IDR 1.3 million is the 10th lowest in Indonesia (Figure 4).

There is a significant difference in per capita revenue between provinces in Indonesia. Papua province, with the highest per capita revenue in Indonesia, has over five times more than NTT. Conversely, West Java province's per capita revenue is less than half of NTT. High per capita revenue can be because of additional central government transfers in the form of special autonomy funds (Papua, Aceh) or post conflict assistance (Maluku and North Maluku) or from significant natural resources (Kalimantan and Riau, Papua and Aceh). Low per capita revenue is more prevalent in areas with a relatively higher population density such as Java and Sumatra.

Figure 4 Compared to other Indonesian provinces, NTT has moderate level of per capita revenue (2006)



Source : World Bank staff estimate based on BPS/SIKD data (2006)

Box 1 | Types of sub-national revenue

Similar to other provinces in Indonesia, NTT has four main sources of revenue:

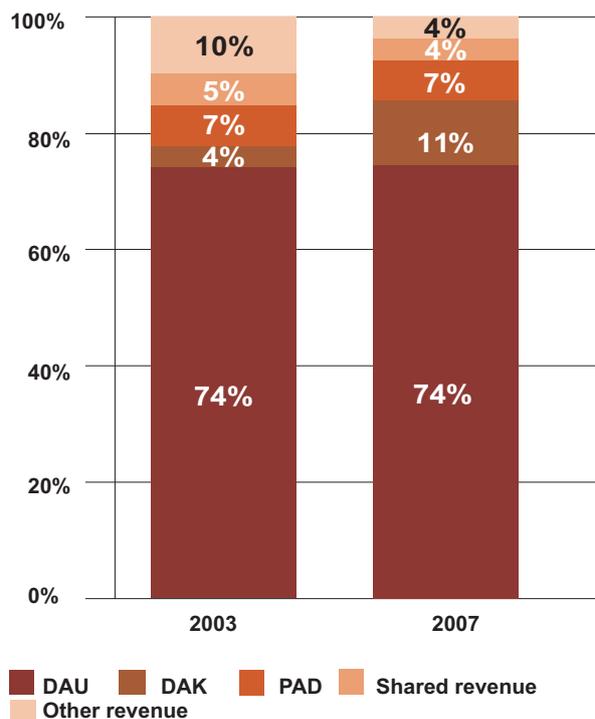
- 1) **Dana Alokasi Umum (DAU)** or general allocation is a discretionary block grant transferred from the central government to all sub-national governments to achieve fiscal equality. DAU is allocated using a national formula which calculates entitlements based on factors such as population, regional area, regional gross domestic product (RGDP) per capita, human development index, civil servant salary budget and spending, and level of own-source revenue and shared revenue.
- 2) **Dana Alokasi Khusus (DAK)** or special allocation is an earmarked cash grant transferred from the central government to sub-national governments to finance specific needs of the regions.
- 3) **Shared Revenue (from tax and natural resources)** is revenue generated from taxes (national level) and natural resources that are shared between the central government and the sub-national governments based in an agreed ratio found in legislation.
- 4) **Pendapatan Asli Daerah (PAD)** or own-source revenue is revenue collected by sub-national governments and may include local taxes, fees and investment income.

The first three sources of revenue are inter-government transfers and are all used by the central government to balance the fiscal capacities of the regional governments.

NTT's dependency on the DAU and the DAK is increasing.

In 2003, 78 percent of NTT's total revenue was from DAU and DAK and this increased to 86 percent in 2007 (Figure 5). NTT's high dependency on grants from the central government reflects that it has few sources of revenue based on the local economy (such as natural resources) or generated by the local government (such as local taxes or user fees).

Figure 5 NTT dependency on central government's grants is increasing in 2003-2007

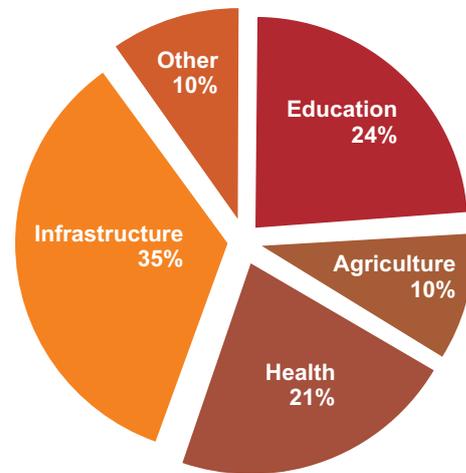


Source: NTT PEA database, NTT PEACH team (2008)
 Note : 2007 figures are estimate

Between 2003 and 2007, DAU increased by 33 percent from IDR 3.47 trillion to IDR 4.6 trillion (75 percent of NTT's total revenue), while DAK more than tripled from IDR 165 billion to IDR 682 billion. Based on 2006 data, the majority of the DAK (80 percent) is allocated to health, education and infrastructure sectors (Figure 6).

Shared revenue, on the other hand, has remained constant from IDR 239 billion in 2003 (5% of total revenue) to IDR 240 billion in 2007 (4 percent of total revenue). All shared revenue is from taxes, as NTT shared revenue from natural resources is insignificant.¹

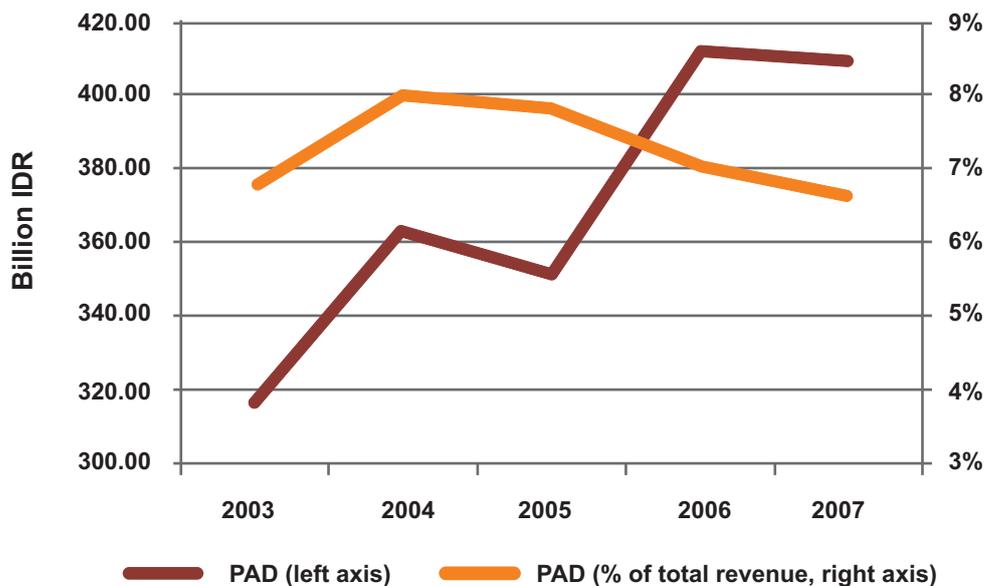
Figure 6 The majority of DAK was allocated to three strategic sectors (education, health, infrastructure) in 2006



Source: NTT PEA database, NTT PEACH team (2008)

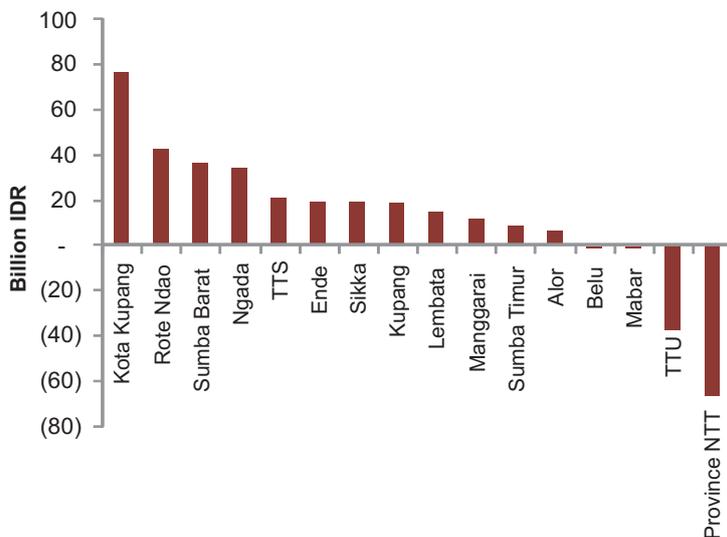
Although in 2003-2007, NTT's PAD or own-source revenue increased by 29%, its contribution to total revenue has remained steady at 7 percent of total revenue (Figure 7). Approximately 40% percent of total PAD in NTT is generated by the provincial government and represents 25% of the provincial government's total revenue. The significance of the PAD is diluted at the district level, representing only 4 percent of its total revenue. Approximately one-third of NTT's PAD comes from local taxes such as hotel and restaurant tax, advertisement tax, and motor vehicle tax.

Figure 7 Total PAD has increased but share of total revenue has remained constant in 2003-2007



Source: NTT PEA database, NTT PEACH team (2008)
 Note : 2007 figures are estimate

¹In 2003-04, NTT derived approximately IDR 400 million from shared revenue from natural resources.

Figure 8 The majority of districts had budget surplus in 2006

Source : NTT PEA database, NTT PEACH team (2008)

The majority of districts in NTT are carrying budget surpluses (Figure 7). However, the recording of the carryover funds (SILPA) is inconsistent.

Conclusions:

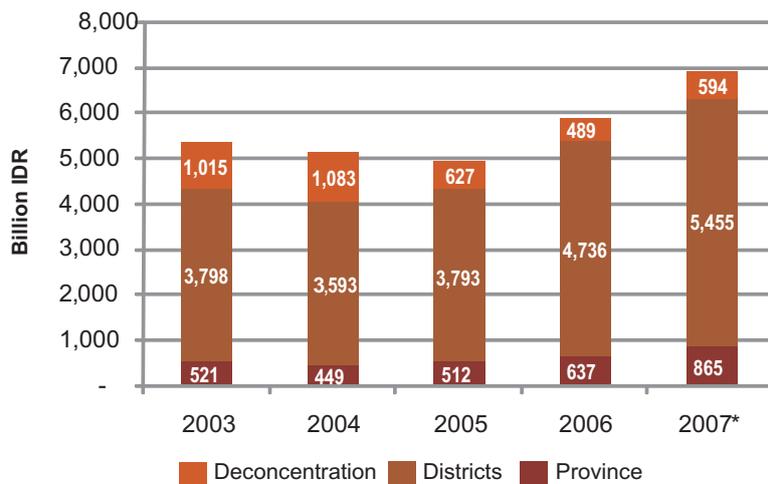
- NTT's small economy and lack of natural resources means that the province's capacity to generate income is weak. This is reflected by the increasing dependence on DAU and DAK allocations. NTT derives negligible shared revenue from natural resources and shared revenue from taxes has remained constant since 2003.
- Since 2003, PAD or own-source revenue has been growing steadily and keeping pace with the overall government revenue growth in NTT. In 2007, PAD represented 7 percent of total sub-national revenue, which was much lower than the Indonesian sub-national average (20 percent). There are many reasons why PAD could be low, including lack of small businesses, low collection of taxes from activities such as entertainment (hotels and restaurants), relatively smaller number of motor vehicle registrations and lack of service provision (to generate user-fees). Further analysis on the composition of the PAD is required to assess the potential to increase PAD in NTT.

3

Expenditure

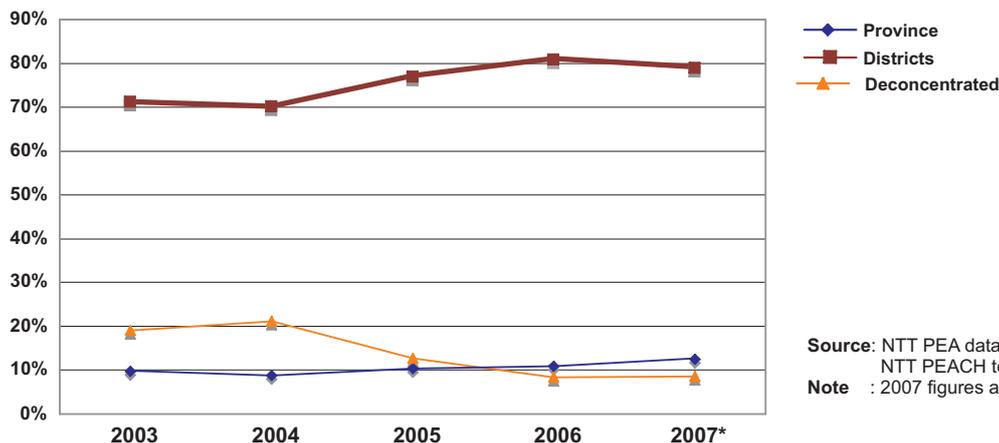
In 2003-2007, NTT's total regional expenditure (central, provincial and district governments) increased by 30 percent (Figure 9). This is driven by the corresponding increase in revenue, especially the additional DAU and DAK transfers from the central government. Spending by central government (through deconcentrated spending) has gradually decreased since 2003.

Figure 9 NTT real spending increase in 2006-07 mainly driven by significant increase in DAU and DAK



NTT's district governments continue to be responsible for the majority of public spending (Figure 10). In 2007, district governments incurred 79 percent of NTT's regional expenditure (increased from 71 percent in 2003). At the same time, the share of deconcentrated spending reduced from 19 percent of total regional expenditure in 2003 to only 9 percent in 2007. DAK (special allocation), however, tripled during this period, which suggests that the central government's role in public spending in NTT remains important, but that the central government now uses a different mechanism to play that role.

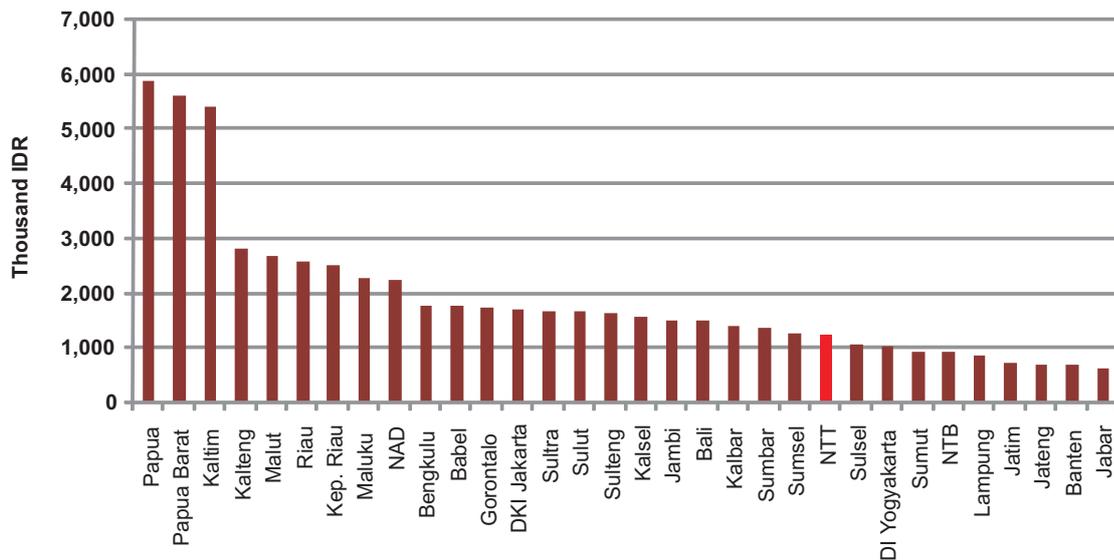
Figure 10 Share of central (deconcentrated), provincial and local government spending in NTT



Source: NTT PEA database, NTT PEACH team (2008)
 Note : 2007 figures are estimate

NTT's per capita sub-national (province and district only) expenditure of IDR 1.23 million is the 10th lowest in Indonesia (Figure 11). Similar to per capita revenue, there is significant variation between provinces' per capita spending. Papua province's expenditure of IDR 5.9 million per person is the highest in Indonesia and is almost five times higher than NTT. Conversely, Banten's per capita expenditure is about 55% of that in NTT. The variation between provinces is driven by their respective per capita revenue, which is in turn influenced by various factors such as population density and availability of natural resources.

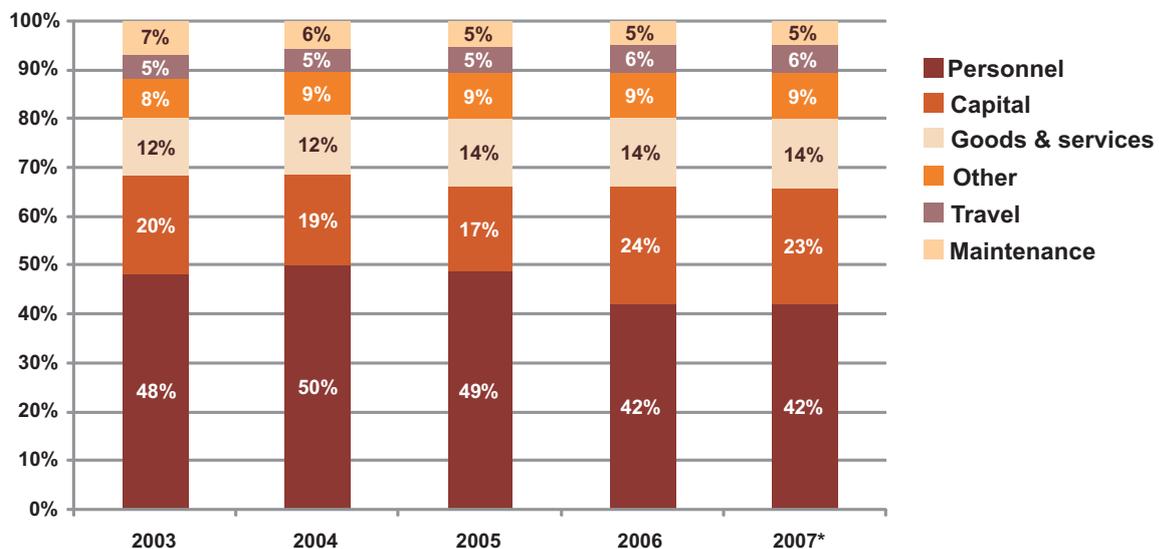
Figure 11 NTT's per capita expenditure is 10th lowest in Indonesia in 2006



Source: NTT PEA database, NTT PEACH team (2008)

In 2003-2005, approximately half of NTT's sub-national expenditure (province and district) was spent on salaries. This proportion decreased slightly to 42 percent in 2006 and 2007 (Figure 11). During the same period, the proportion of total spending allocated to capital expenditure increased slightly from 20 percent to 23 percent. Similar to other provinces, maintenance expenditure in NTT is low, representing only 5 percent of the 2007 total spending. As a comparison, in 2007, travel spending was slightly higher than maintenance spending.

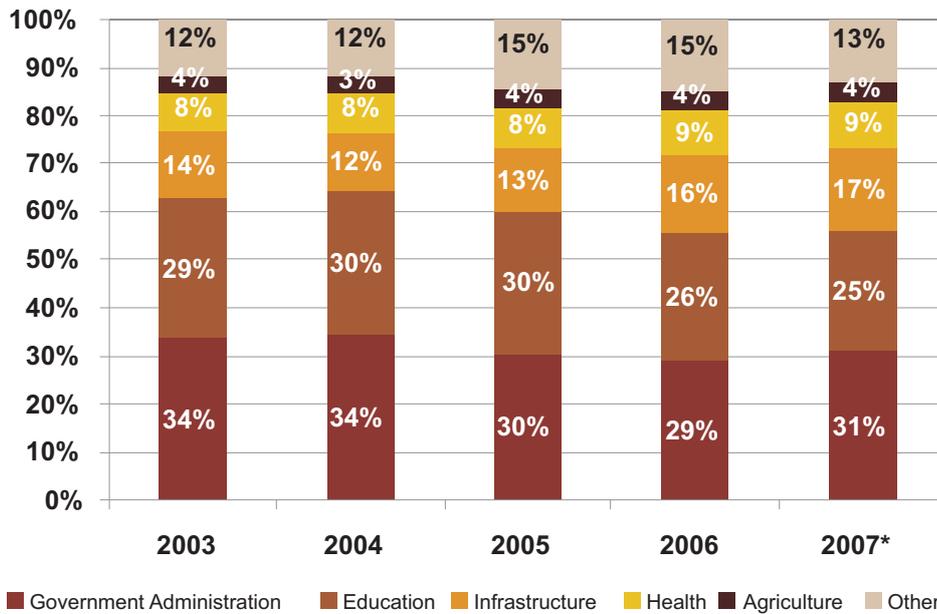
Figure 12 Salaries took almost half of total sub-national expenditure in NTT



Source : NTT PEA database, NTT PEACH team (2008)
 Note : 2007 figures are estimates

Approximately one-third of total sub-national expenditure (provincial and district) is spent on government administration, representing the largest sectoral allocation in NTT. The second largest sector is education representing 25 percent of the total budget in 2007. Other significant sectors are infrastructure (15 percent of total spending in 2007) and health (9 percent of total budget). The share of sub-national expenditure spent on government apparatus and education has decreased slightly since 2003, while infrastructure and health have experienced a slight increase.

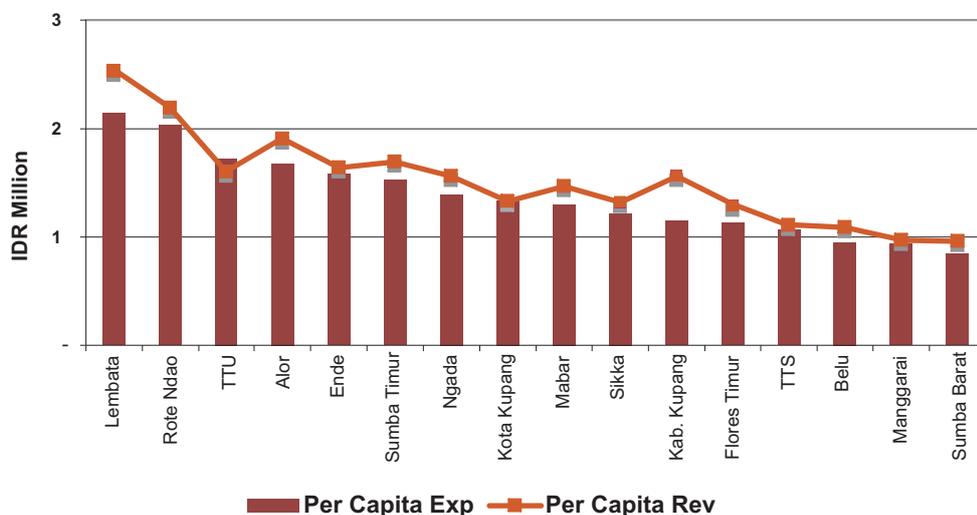
Figure 13 About 30% of total expenditure went to government administration



Source : NTT PEA database, NTT PEACH team (2008)
 Note : 2007 figures are estimates

The level of spending by district governments varies significantly. Lembata district has the highest per capita spending with IDR 2.1 million, which is 253 percent higher than Sumba Barat's figure of IDR 847,478. Predictably, high per capita expenditure is driven by per capita revenue (Figure 14). Since DAU represents approximately three quarters of total district revenue, spending at district level is driven by factors that drive DAU allocation (see section 3).

Figure 14 There are large variances in per capita spending between NTT's districts.



Source : NTT PEA database, NTT PEACH team (2008)
 Note : 2007 figures are estimates

NTT's total sub-national budget realization rate is consistently high, suggesting that the sub-national governments do not experience problems absorbing all of the allocated funds (Table 1). Further analysis needs to be conducted to evaluate when the spending happened, as there is often a tendency for the majority of the spending to take place during the last three months of the year.

Table 1 Realization Rate

Economic Classification	2003	2004	2005	2006
Personnel (%)	92.43	96.11	90.16	95.56
Goods and Services (%)	88.00	98.09	96.51	105.17
Travel (%)	90.20	97.26	103.66	111.93
Maintenance (%)	93.11	106.41	103.05	96.87
Capital (%)	78.76	104.42	94.92	102.22
Other (%)	88.95	100.69	104.61	106.90
Total Expenditure (%)	93.99	98.81	107.20	100.32

Source: NTT PEA database, NTT PEACH team (2008)

Conclusion :

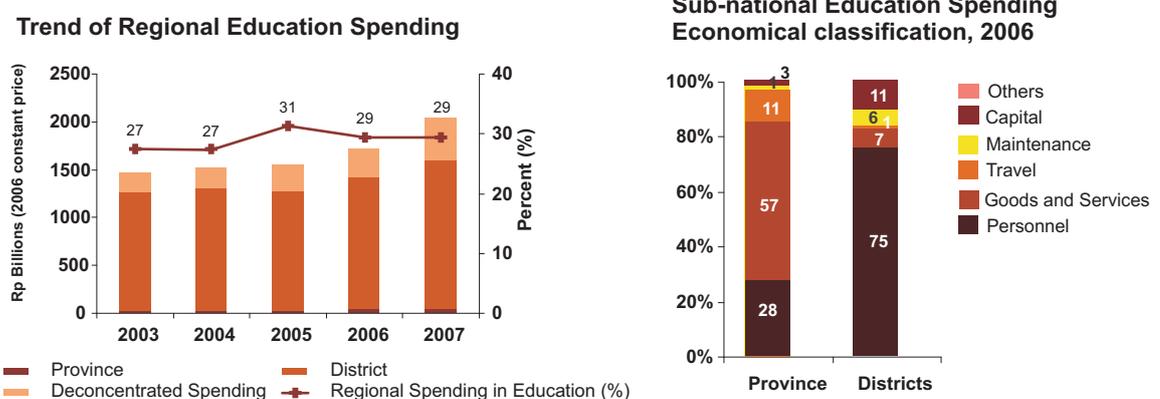
Despite its modest resources, between 2003-2007, NTT improved its spending mix. Salary expenditure decreased, but more importantly, share of spending on the government apparatus also decreased. At the same time, the share of spending on the key service delivery areas – education, health and infrastructure – were either maintained or increased. It is important that NTT's governments continue to allocate more funds for service delivery sectors and less on government administration.

4

Education

NTT's total regional education spending (province, districts and deconcentrated) increased by 39 percent from IDR 1.46 billion in 2003 to IDR 2.04 billion in 2007 (Figure 15). The proportion of total regional expenditure spent on education remained relatively stable at around 29 percent (Figure 15) – except for a slight increase in 2005 - showing NTT governments' continued focus on education as a priority sector. The district governments contributed more than 75 percent of regional education spending and the rest was shared between the provincial government and through deconcentrated spending.

Figure 15 Trend and Spending Mix of Education Expenditure in NTT



Source: NTT PEA Database, NTT PEACH team (2008)

Over 80 percent of sub-national education spending (province and districts) is used for personnel and service provision (on goods and services). At the provincial level, more attention is given to providing services, with 57 percent of the education spending going towards goods and services. Districts, however, pay more attention to education providers, with 75 percent of district-level education spending being used to pay personnel, the majority of which goes towards teachers' salaries. Maintenance spending is very small, representing only 1 percent at the provincial level and 6 percent at the district level (Figure 15). In Indonesia, the condition of classrooms is often poor, largely due to low allocation for the maintenance of assets.

The continued focus on education in NTT has improved access to schools and teachers. Between 2003 and 2005, the student-school ratio declined for all levels of public education and is consistently lower than the national average (Table 2). This was due to the large number of schools built during 2000-2005. During this period, the number of schools increased by 6 percent for elementary schools, 20 percent for middle schools and 12 percent for high schools. The low student-school ratio suggests that a large number of schools serve a small population due to geographic isolation or that the enrolment rates are lower with less children attending school.

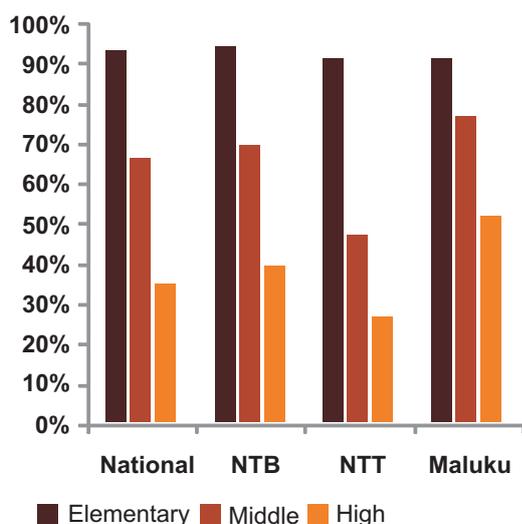
Table 2 Student-school ratio is decreasing while student-teacher ratio is almost at the national's average

Province		Student - School Ratio			Student - Teacher Ratio		
		2003	2004	2005	2003	2004	2005
NTT	Elementary School	161	152	150	21	20	23
	Middle School	242	234	238	15	15	14
	High School	342	318	325	12	13	14
NTB	Elementary School	157	156	161	20	21	21
	Middle School	466	393	418	17	14	15
	High School	442	424	393	15	15	13
Maluku	Elementary School	134	129	120	18	21	21
	Middle School	205	202	189	10	9	9
	High School	362	360	382	15	17	17
Indonesia Average	Elementary School	178	176	175	21	22	22
	Middle School	354	339	366	16	15	15
	High School	395	382	375	14	14	14

Source : BPS, Statistik Kesejahteraan Rakyat (2006)

Although access to schools and teachers seems adequate, this has not translated into a more educated population. NTT has the second- highest proportion of the population who have not finished any form of formal education (Papua has the highest level). More than 74 percent of the population over 10 years old did not finish their education and, of those that did, most only completed elementary school. This is consistent with NTT's net enrolment rates (NER) at primary, middle and secondary schools. The net enrolment rate for elementary school in NTT is just 2 percentage points below the national average. However, for middle and high schools, the gaps are striking. The net enrolment rate for middle school in NTT is 47 percent while the national average is 66 percent. At the high- school level, NTT's net enrolment rate is 8 percentage points below the national rate of 27 percent (Figure 16). Some common reasons for discontinuing schooling include helping the family to earn income and unaffordable school expenses.

Figure 16 Elementary school net enrolment rate is almost the same as Indonesia's average but middle and high schools are lagging behind



Source : World Bank staff estimate based on Susenas (2006)

Conclusion:

The increase in regional education spending has resulted in better access to schools and teachers in terms of both the student-school ratio and the student-teacher ratio but has not translated into stronger education outcomes. NTT has the second-highest proportion of the population that has never completed any form of formal education. This is consistent with the fact that although the net enrolment rate (NER) at the elementary school level has almost caught up to the national average, the NER at the middle-school and high-school levels is still significantly lower than the national average. Therefore, the focus of the NTT governments should be on ensuring that children remain in school and finish their formal education.

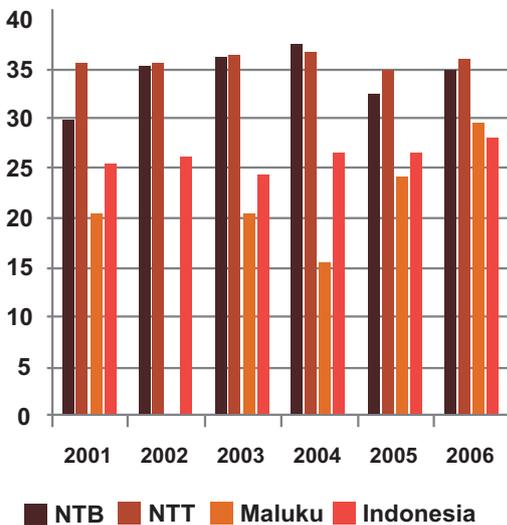
5

Health

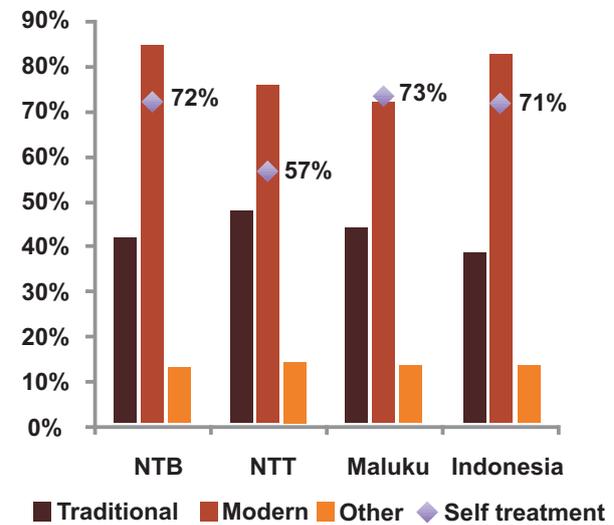
NTT faces some significant health and nutrition problems including malnutrition and high morbidity rate. Starvation and malnutrition still arise in NTT, especially during the dry season when crop yields are low. Malnutrition can, in turn, lead to other health-related problems. In 2006, one in three people experienced a health problem in the last month. This is significantly higher than the national rate of one in four people experiencing a health problem. The proportion of people experiencing health problems in NTT is also higher than the neighboring provinces of NTB and Maluku (Figure 17).

Figure 17 NTT's people experience more health problems than the national average but are less likely to administer self treatment

Share of people experiencing health problems (%)



Types of self-medication used (%)

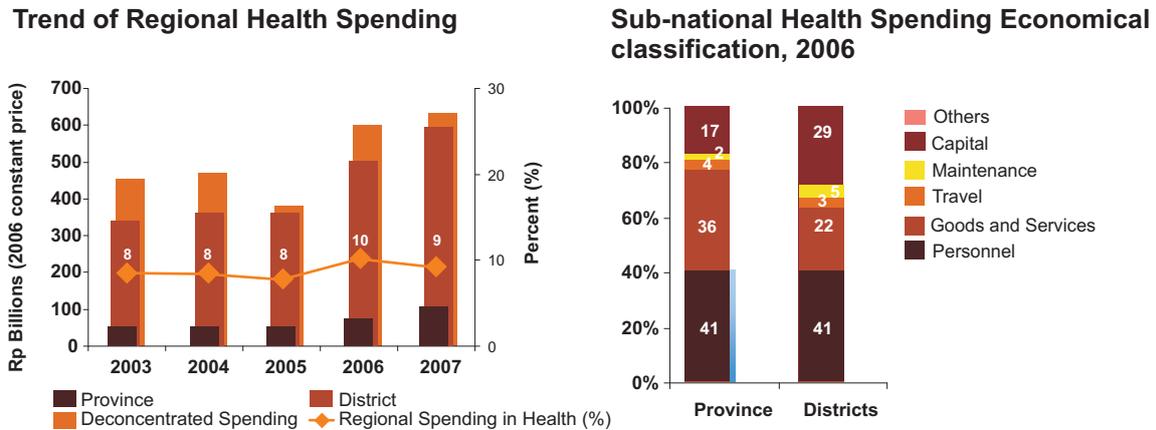


Source : World Bank staff estimate based on BPS and Susenas (2006)

Although the number of people experiencing health problems is high, fewer people in NTT use self-treatment methods, such as purchasing their own medicine. NTT's self-treatment rate of 57 percent is significantly lower than the national level (71 percent) and neighboring provinces (Figure 17). One possible reason for low self-treatment is the relatively higher access to public health services in NTT.

Between 2003 and 2007, total regional health spending (province, district and deconcentrated) increased by 40 percent (Figure 18). Approximately 9 percent of total regional expenditure is spent in the health sector, a proportion that remained relatively stable during the period. In per capita terms, regional health spending increased by 87 percent in this period, from IDR 84,000 in 2003 to IDR 157,000 in 2007.

Figure 18 Trend and spending mix of health expenditure in NTT



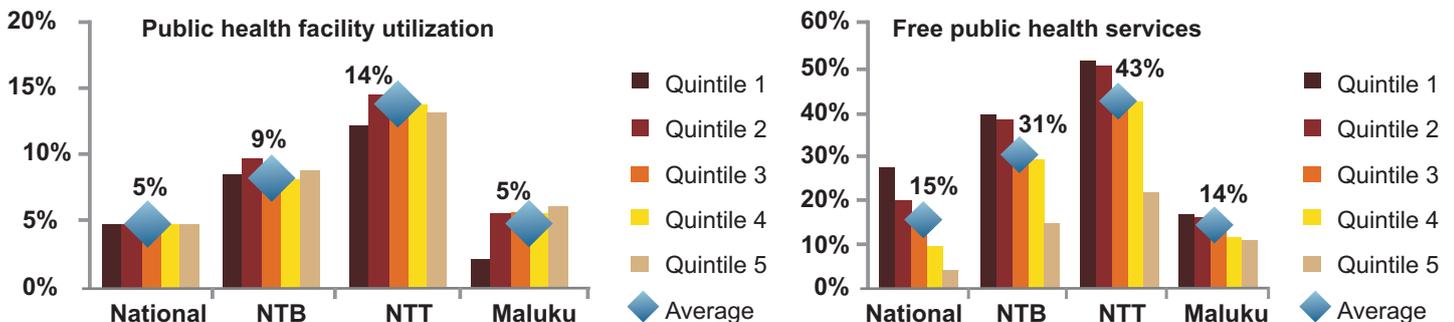
Source : NTT PEA Database, NTT PEACH team (2008)

The largest portion of sub-national health expenditure (province and districts) – 40 percent - is spent on personnel, while less than 5 percent is spent on maintenance (Figure 18). Goods and services is the second- largest category. Provincial governments spend 36 percent of their health budget on goods and services, while district governments spend 22 percent of total district health expenditures. Capital expenditure, which finances most of the infrastructure in the health sector, accounts for 17 and 29 percent of provincial and district governments' health spending, respectively. Low maintenance spending (only 2 percent of provincial health expenditures and 5 percent of the districts' health budget), however, will make it difficult to maintain NTT's health infrastructure.

The increase in health spending has resulted in improved access to health services in the people of NTT. In 2006, 14 percent of people who were sick utilized a public health facility either as an outpatient or an inpatient (Figure 19). These public health facilities are public hospitals, public health centers (*Puskesmas*), or supporting public health centers (*Pustu*). This utilization rate is higher than the national rate (5 percent) and that of the neighboring provinces of NTB (9 percent) and Maluku (5 percent).

More people in NTT have access to free public health services than the national average. These services are also pro-poor. On average, 43 percent of NTT's households have received a form of free public health service. This is almost three times higher than the national rate of 15 percent and higher than its neighbouring provinces of NTB (31 percent) and Maluku (14 percent). These free services can take the form of free basic health services in public health facilities, providing insurance to the poor (*Askeskin*), Health Cards (*Kartu Miskin*), or other health privileges for the poor. Access to these free services is also pro-poor because approximately half of the lowest income group utilizes free services and the level of utilization rate decreases as income levels increase (Figure 19).

Figure 19 Increasing health spending has driven higher access to health services.



Source : World Bank staff estimate based on Susenas (2006)

Conclusion:

Increasing public expenditure allocations to the health sector have improved access to public health services. Compared with both the national average and its neighboring provinces of NTB and Maluku, NTT has a lower proportion of sick people seeking self-treatment (for example, prescribing themselves medicine rather than seeking medical care), higher public health service utilization rate and a higher proportion of households that have received free public health care.

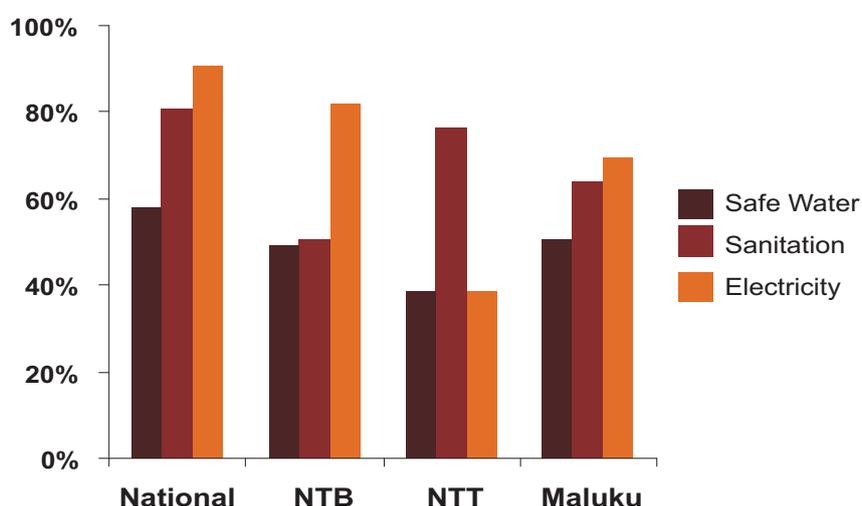
However, the improvement in access to public health service has not yet had a significant impact on the health outcomes. The proportion of the population experiencing health problems is still significantly higher than the national average. Malnutrition continues to be a problem in NTT and may contribute to some of the health problems in the province. Achieving stronger health indicators takes time and continued support from the government to improve not only access to public health care facilities but also improve their quality.

6

Infrastructure

Approximately 76 percent of NTT households have access to some form of sanitation facility. This is only 5 percent lower than the national average, and well ahead of the neighboring provinces of NTB and Maluku (Figure 20). Furthermore, more than 60 percent of NTT's households have access to private sanitation. This is 2 percentage points higher than the national average and approximately 20 percent and 10 percent higher than NTB and Maluku in 2006, respectively. Most of these private sanitation facilities are, however, very basic and often semi-permanent.

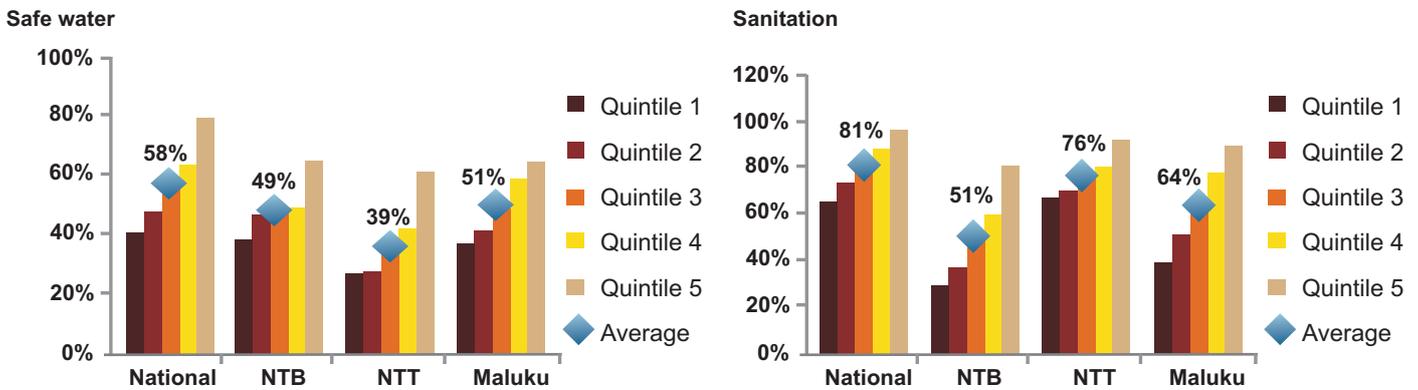
Figure 20 NTT is performing well in term of providing access for sanitation but not safe water and electricity



Source : World Bank staff estimate based on BPS (2006)

While access to sanitation is relatively high, access to safe water is low, especially compared with the national average (Figure 20). In 2006, more than 39 percent of households did not have access to safe water. This is almost 20 percentage points lower than the national average and also lower than Maluku and NTB. Low rainfall contributes to NTT's water access issues and there are many cases of residents needing to travel long distances to retrieve water for daily usage. Lack of access to safe water has a disproportionate impact on the poor as less than 30 percent of the lowest income group in NTT has access to safe water compared with over 60 percent of the highest income group (Figure 21). NTT's high incidence of diarrhoea may be caused by the lack of safe water facilities.

Figure 21 NTT is experiencing difficulty in getting access to safe water, but doing very well in sanitation compared with its neighbors.



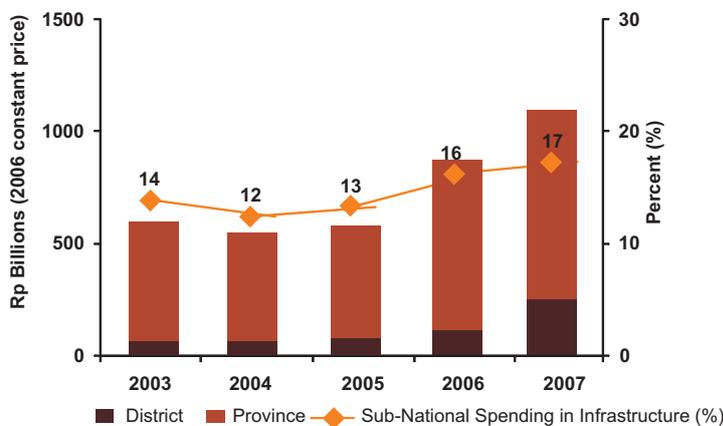
Source : World Bank staff estimate based on Susenas (2006)

Access to electricity is another challenge in NTT, as only 36 percent of households had access to public electricity (PLN) in 2006. This is significantly below the national average and the access rates of its neighbors, NTB and Maluku (Figure 20). Electricity is, however, mostly funded by the central government.

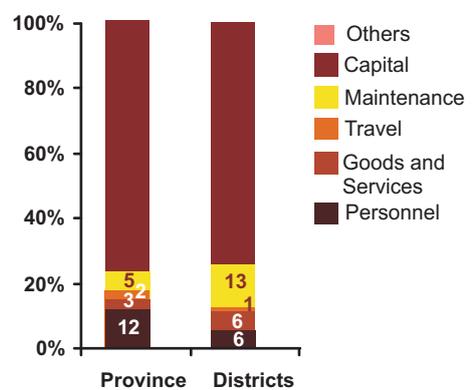
Both the total value and the share of sub-national (province and districts) infrastructure spending² is increasing. After a drop in 2004, the share of sub-national expenditure allocated for infrastructure bounced back to 17 percent in 2007 from 14 percent in 2003. In terms of total value, there was a 60 percent increase from 2003 to 2007 with an annual growth average of 14 percent. In 2007, districts spent 77 percent of sub-national infrastructure expenditure, but the province's share has been gradually increasing since 2003 (Figure 22).

Figure 22 Trend and spending mix of infrastructure expenditure in NTT

Trend of Sub-National Infrastructure Spending



Sub-national Infrastructure Spending Economic classification, 2006



Source : NTT PEA Database, NTT PEACH team (2008)

²Sub-national infrastructure spending includes water supply, sanitation, irrigation, and transportation, while electricity is mostly funded by central government spending. The fiscal data include all of the above. However, due to limitations in breaking down the data, only water supply, sanitation, and electricity have been analyzed.

The majority of infrastructure expenditure is used to build new infrastructure and for maintenance. At the sub-national level, NTT spends approximately 75 percent of its infrastructure budget on capital expenditure, which is generally used for building new infrastructure. Capital expenditure accounts for 77 percent of provincial infrastructure spending and 75 percent of district infrastructure spending. Maintenance spending is the second-largest expense and incurs 12 percent of the total district infrastructure spending and 5 percent at the provincial level (Figure 22).

Conclusion:

NTT's infrastructure sector has achieved a mixed performance. While the province suffers from low access to safe water and electricity, access to sanitation is relatively high. Sub-national governments have managed to increase the level and share of infrastructure sub-national spending. Most of the expenditure goes towards capital in order to provide new facilities to improve access.

7

Sub-National Public Financial Management Regulations and Institutions

Sub-national public financial management (PFM)-related regulations have undergone relatively frequent changes in recent years. During the past five years, the government has issued laws on state finance (No. 17/2003), state treasury (No. 1/2004), development planning (No. 25/2004), regional autonomy (No. 32/2004), and fiscal balance (No. 33/2004). These laws, and their derivative government regulations and ministerial decrees, reformed all aspects of PFM – such as planning and budgeting, cash management, procurement, and asset management – at the sub-national levels.

In NTT, all assessed sub-national governments have experienced difficulties in responding to the changes in PFM-related regulations. For example, as of mid-2008, only Timor Tengah Selatan district and NTT province had issued a new local regulation on finance management that complied with Government Regulation No. 58/2005 on local financial management.

In general, sub-national governments in NTT have managed to reduce the share of total sub-national expenditure (province and districts) spent on personnel during the last five years. As discussed in section 3 on expenditure, the share dropped from 48 percent in 2003 to 42 percent in 2007.

The implementation of Government Regulation No. 41/2007 on the Organizational Structures of Sub-National Government can enhance the efficiency of bureaucracy and further reduce the share of government expenditure. GR 41/2007 regulates the maximum numbers of working units (SKPDs) in a sub-national government based on the size of population, area, and the annual local government budget. The impact of this government regulation has so far been positive. In 2007, Timor Tengah Selatan district, the only local government in NTT that has adopted the GR so far, experienced a decrease of about IDR 2 billion (representing 0.4 percent of total expenditure) in expenditures for officials' allowance after implementing this government regulation (Table 3).

Table 3 Expenditures on Officials' Allowance in Kabupaten Timor Tengah Selatan

Before the Implementation of GR 41/2007				After the Implementation of GR 41/2007			
Echelon	#	Allowance rate (Monthly)	Total Allowance (Annual)	Echelon	#	Allowance rate (Monthly)	Total Allowance (Annual)
II a	1	3,250,000	39,000,000	II a	1	3,250,000	39,000,000
II b	31	2,025,000	753,300,000	II b	28	2,025,000	680,400,000
III a	175	1,260,000	2,646,000,000	III a	66	1,260,000	997,920,000
III b	24	980,000	282,240,000	III b	125	980,000	1,470,000,000
VI a	798	540,000	5,171,040,000	VI a	619	540,000	4,011,120,000
VI b	77	480,000	443,520,000	VI b	48	480,000	276,480,000
Total	1106		9,335,100,000		887		7,474,920,000

Conclusions:

- **Similar to other provinces, NTT's governments face difficulties in keeping abreast of changes in government regulations and legislation relating to public financial management.** This is partly caused by the lack of legal drafting capacity at sub-national level, but also because of the pace at which changes are made at the national level.
- **NTT has made some progress towards improving the efficiency of the bureaucracy.** Overall, NTT has reduced the proportion of expenditure spent on government apparatus. At the district level, Timor Tengah Selatan district reduced its salary expenditure through the implementation of GR No. 41/2007.

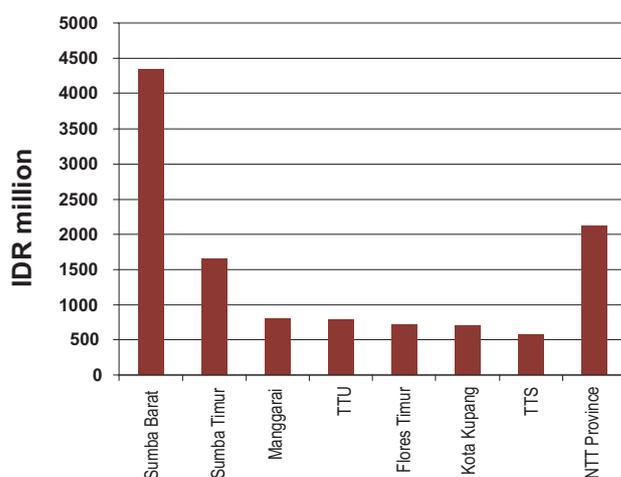
8

Gender

Although the provincial government and seven surveyed districts all included gender-related programs, only Sumba Barat's planning documents contained explicit references to gender in their vision and goals. Another challenge to gender mainstreaming is that most government programs do not measure the different impact on men and women, which makes it difficult to assess who are beneficiaries of non-targeted spending (the majority of expenditure). While all surveyed governments have allocated funding to targeted gender programs, there are large variations between districts in the allocated amount. Sumba Barat has the highest level of spending at IDR 4.3 billion from the capital expenditure (belanja modal), while TTS has the lowest at IDR 568 million (Figure 23). The large amount from Sumba Barat is consistent with their explicit commitment to gender in their medium term plan (RJPMD).

Figure 23

In 2006, the level of funding allocated to targeted gender programs varies between sub-national governments.



In NTT, men have slightly better access to education than women, but the education levels of men and women are similar. The percentage of women who have never been to school (12.55 percent) is higher than men (8.27 percent). This may explain why a larger proportion of women are illiterate (14.34 percent) than men (10.09 percent). On average, men also stay in school longer (6.6 years), than women (6 years). The education levels of men and women are fairly similar during elementary school and middle school levels, but women fall slightly behind the men during high school and tertiary level (Table 4).

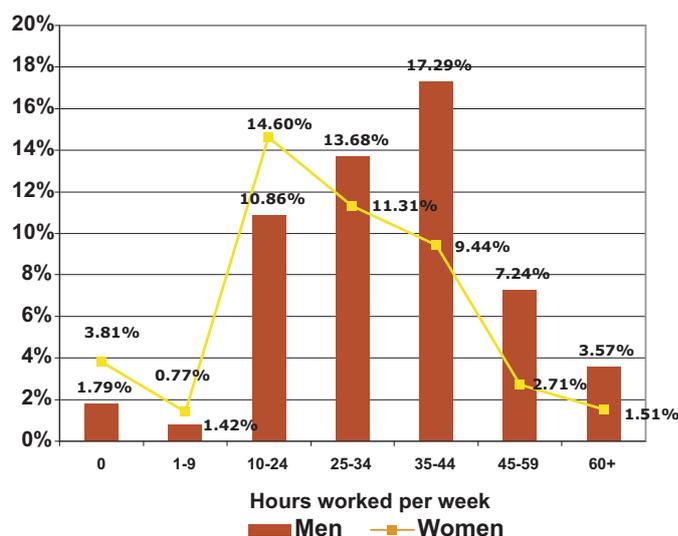
Table 4 Disaggregated education indicators (2006)

	Men	Women
Never been to school (%)	8.27	12.55
Highest education: elementary school (%)	15.10	17.10
Highest education: middle school (%)	5.80	5.79
Highest education: high school (%)	6.03	5.25
Highest education: tertiary (%)	1.79	1.10
Illiteracy Rate (%)	10.09	14.34
Average number of years in school	6.6 years	6 years

¹Programs were identified as targeted gender programs based on the name found in the 2006 APBD.

Although education levels are similar between men and women, the proportion of women in the work force is significantly lower than men. In NTT, approximately 65 percent of women are in the workforce, which is significantly lower than the proportion of men (85 percent). Women are also much more likely to work less hours in a week than men, suggesting that much of their employment may be on a part-time or on an ad hoc basis. Figure 24 shows that a larger proportion of women over 15 years old are likely to work up to 24 hours per week than men. As the number of hours increase, however, the proportion of men also increases.

Figure 24 Women (over the age of 15 years old) work less hours per week than men.



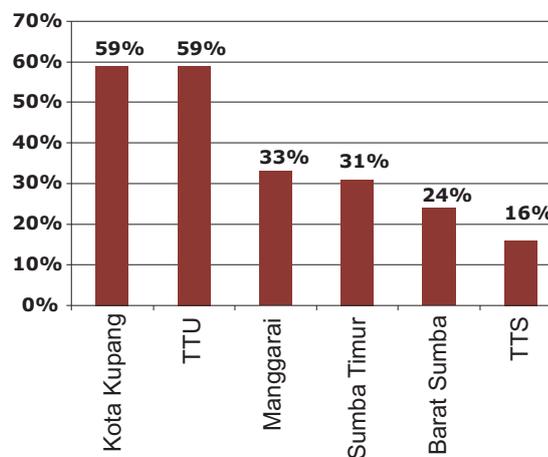
Source: BPS, NTT Provincial Statistics Report 2007 (NTT Dalam Angka, 2007)

Table 5 The higher the echelon, the higher the proportion positions occupied by men

The inequality between men and women in the workforce is reflected in the NTT bureaucracy. In 2007, women occupied only 26 percent of the echelon positions in the NTT bureaucracy. Table 5 also shows that the higher the echelon, the lower the proportion of positions occupied by women.

	Men	Men (%)	Women	Women (%)
Echelon 1	1	100	0	0
Echelon 2	43	88	6	12
Echelon 3	192	85	35	15
Echelon 4	476	70	205	30
Total	712	74	246	26

One health issue for women is that only 43 percent of NTT childbirths in 2006 were attended by a health worker. This is significantly lower than the national average of 72 percent and also lower than its neighbouring provinces, NTB (62 percent) and Maluku (46 percent). Furthermore, there are wide variations between districts. For example, the proportion of births attended by a health worker in Kota Kupang (60 percent) is almost four times higher than TTS (16 percent) (Figure 25). This is consistent with trends found in other provinces where health workers tend to be concentrated in urban areas. The World Bank's Health Public Expenditure Analysis (2008) found that this is partly because government health workers derive the majority of their income from private sources. The ability to generate private income is better in urban areas where demand for private health care is higher.

Figure 24 The proportion of childbirths attended by a health worker varies significantly between districts.

Source: BPS, NTT Social and Population Statistics Report (2006)

Conclusion:

In order to determine whether a budget is gender sensitive, it is important to collect, where possible, gender disaggregated data that assesses the different impact government programs has on men and women. Consistent with the rest of Indonesia, this rarely happens in NTT, which makes calculating what proportion of the budget has been beneficial to men and women, respectively, difficult. Having this gender disaggregated data will also assist in developing programs that target the more marginalized gender. Similar to targeting the poor, programs that target women may improve overall human development indicators, rather than simply producing specific benefits for women.

Targeting female literacy is potentially a good strategy to improve overall literacy rate in NTT. Although the education levels of men and women are fairly similar, because the proportion of women who have never been to school is higher than men, illiteracy is more prevalent amongst women. Since women are the more marginalized group in this education indicator, targeting female literacy may have higher marginal returns on investment.

Further study is required to explain why women's participation in the workforce is significantly lower than men, despite similar education levels. Potential reasons may include social expectations, employment structure, economic conditions, discrimination against women in the workplace and women's choice to stay at home.



ANTARA

Australia - Nusa Tenggara Assistance
for Regional Autonomy Program
Jl. Polisi Militer No. 2 Oeipoi
Kupang 85111
East Nusa Tenggara
Indonesia
Phone : 0380 83 3199
Email : info@antarantt.or.id

BaKTI

Bursa Pengetahuan Kawasan Timur Indonesia
Jl. Dr. Sutomo No. 26
Makassar 90113
South Sulawesi
Indonesia
Phone : 62-411-3650320-22
Fax : 62-411-3650323
Email : info@bakti.org

For more information on
this report please contact :

Bastian Zaini
Email : bzaini@worldbank.org