



Japan International Cooperation Agency



Directorat General of Regional Development
Ministry of Home Affairs

THE STUDY
ON
CURRENT STATUS AND NEEDS ASSESSMENT
OF
LOCAL GOVERNMENTS
FOR
IMPLEMENTING DECENTRALIZATION
AND
REGIONAL AUTONOMY
IN REPUBLIC OF INDONESIA

DECEMBER 2002

FINAL REPORT



Institute for Economic and Social Research
Faculty of Economics University of Indonesia

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Chapter 1

INTRODUCTION

I. BACKGROUND

After one year implementation of decentralization and regional autonomy, both the central government and local governments begin to identify various problems, existing and potential, that may hinder or disturb the smoothness of the transition from a fully centralized country into a fully decentralized country. There are potential great variety of problems but the most critical issues need to be addressed immediately is the lack of capacity of local governments to manage and implement decentralization and regional autonomy. Therefore, the improvements on their capacity are badly needed and to ensure that the capacity improvement is well targeted, the focus will be on regional development planning process, regional government financial aspects, and human resources development.

The direct effect of fiscal decentralization process is on regional government financial condition in which the local governments have to deal with new paradigm of intergovernmental transfer, namely the general allocation grant (*Dana Alokasi Umum* = DAU), and revenue sharing, especially natural resources revenue sharing. The role of local own revenue (*Pendapatan Asli Daerah* = PAD) will still be relatively minor in the local government budget (*Anggaran Pendapatan dan Belanja Daerah* = APBD). Since the transfer and revenue sharing are not in the control of local governments, then they still have to pay serious attention on how to increase their PAD, especially local taxes and charges, without violating the existing laws and rules, or distorting the local economies.

On the expenditure side, the local governments now have to adopt new paradigm of budgeting called the performance budgeting, replacing the line-item budgeting. In order to implement that, the local governments have to do the standard spending assessment first to justify all of proposed expenses intended to deliver the public services. The amount proposed for each budget item has to be justified based on the standard performance required and not just based on some increments from last year figures.

Since the real output enjoyed by the main customer of local governments, local people, is the public service quality accompanied by the regional development, then it is crucial to monitor how local governments do their regional development planning



process. Instead of top-down approach done in the past, the local governments now have to rely more on their own and make their regional development planning based on bottom-up approach. In other words, they have to prepare their own development planning. The central government only gives guidance in terms of administrative and procedural things, but the contents should be the local government products. As required, the local governments need to produce their basic foundation of development planning (called *Pola Dasar* or Poldas), then their proposed development programs (called Propeda) and followed by strategic plans (called Renstra). To make all of these planning document more operational, the local governments produce the annual regional plan (called Repetada). Although all of those planning procedures and documents are important, the more crucial thing is the level of public participation or whether the all documents already represented the majority of local people interests.

Related to the two previous paragraphs, the local human resources capacity becomes the key factor in ensuring the success of decentralization and regional autonomy implementation. Many are worried that the biggest hurdle of the implementation of regional autonomy and decentralization is the local human resources capacity itself rather than the sophistication of laws, government regulations, presidential decrees and other legal products. Indonesia is known for their ability to create all rules and regulations and their lack of ability to implement them. Since the transition period cannot take very long, then the human resources development has to adopt fast track that requires a well planned strategy and development including the appropriate short and long term trainings, the appropriate higher academic degree, and most importantly, the appropriate job placements for all of trainees. To ensure well targeted training program, there should be efforts to identify the major weaknesses of local government practices and the capability of existing human resources. The solution for these two conditions should lead to a suitable training program on certain topics.

II. OBJECTIVES OF THE STUDY

The objectives of overall study are :

1. To identify problems and issues on the implementation of decentralization and regional autonomy by monitoring and obtaining basic data and information on current status of local governments in the aspects of development planning, local finance, human resources development, institutional restructuring, and local regulations.
2. To identify capacity building needs of local governments for implementing decentralization and regional autonomy.
3. To formulate policy option and measures to assist local governments in implementation of decentralization and regional autonomy.



III. SCOPE OF THE STUDY

For the fiscal year 2002 or six months period of study, the study will cover :

1. The collection, review, and analysis of related data and information about current status of local governments in implementation of decentralization and regional autonomy in regional development planning process, financial situation, transfer of central government personnels, institutional relationship, the relationship between executive and legislative, and the relationship between provincial and local governments. At this stage, the collection, review and analysis will have been based on primary and secondary data/information.
2. Identification of existing problems and issues on regional development planning process, financial situation and budgetary process, institutional structures, and establishment of relevant local government regulations.
3. Identification of capacity building needs of local governments on regional development planning process, financial capacity and budgetary process, organizational and human resource development, and regulations.
4. Formulation of policy options and measures to improve regional development planning process and coordination between kabupaten/kota, province, and central government, for performance budgeting and calculation of unit cost for major services, for expanding own source revenues of local governments, for human resource development with specific training and modalities, and to improve the implementation of decentralization and regional autonomy.

IV. METHODOLOGY OF THE WORK

In general, the methodology of study will be based both on quantitative and qualitative approaches and the final output should reflect the mix between them. However, overall, the study will put more emphasis on the qualitative approach especially dealing with problem identification, part of regional development planning process, and capacity building identification. The quantitative approach will be mainly used for measuring the regional potential and its utilization, the calculation of public services unit cost, and potential local government own revenue (taxes and user-charges). The qualitative approach will consist of interviews with central and local government officers, in-depth interviews (questionnaire guided interview), and focus group discussion (FGD).

Basically the methodology for each aspect of the research is as follow.

IV.1. Development Planning

To cope with regional development planning process, the team will conduct data/information collection and in-depth interviews with regional planning agency (Bappeda) since they are the one who are responsible for issuing poldas, propeda, repetada, and to some extent. RAPBD. To support those interviews, there will be two separate FGDs



conducted by the team. The first one is about the coordination among local government agencies in preparing the planning documents and procedures. The participants are only the selected local government agencies such as Bappeda itself, executing agencies (dinas), technical units (unit pelaksana), and the Sekda. The second one is about the level of involvement of non-governmental parties in the planning process. The participants should cover various stakeholders such as community (non-governmental organizations, community informal leaders etc), legislative members, private sectors (local businessmen, investors), and central government representatives in regions (deconcentration activities).

In the development planning aspect, the team will try to formulate policy options and necessary measures to improve regional development planning process and coordination between kabupaten/kota, province, and central government, including appropriate management information system on development planning, appropriate mechanisms, and necessary measures to promote stakeholders participation, and indicators (or benchmark) on performance of local government's development planning and implementation as well as monitoring and evaluation system.

To support that goal, the team will do three steps: data and information collection, identification and review of existing issues and problems, and identification of capacity building needs. The detail explanation of each step is as follows :

A. Data and Information Collection

This activity will be held right after the commencement of the second stage of this study (fiscal year 2002) and it will take place both in local governments and central government. It is expected that this step will take about one and a half month to finish and there will be some additional activities after the regional workshop to improve the quality of data and information collected.

Since the development planning process is one of study focuses, then the availability of planning documents will be crucial. From each sampled regions, the team will collect all of formal planning documents such as Poldas (*Pola Dasar* or Basic Guideline), Propeda (*Program Perencanaan Daerah* or Regional Planning Programs), Renstrada (*Rencana Strategis Daerah* or Regional Strategic Plan), Repetada (*Rencana Pembangunan Tahunan Daerah* or Regional Annual Development Plan), and RAPBD (*Rencana Anggaran Penerimaan dan Belanja Daerah* or Regional Budget). To support the analysis of those documents, the team will also collect all of basic regional economic data such as Gross Regional Domestic Product (GRDP) by sectors, Human Development Index and its components, personal expenditures (from Susenas/social economic survey), manufacturing detailed data (from manufacturing survey), basic infrastructures (from Podes or *Potensi Desa/Village* basic data), export and import data, population and manpower data, and other relevant secondary data.



Secondary Data

The source of secondary data will be the local governments, especially for planning documents, and the central statistics agency (BPS) for economic data. Some of economic data will be provided by LPEM-FEUI database. Since the planning documents above are relatively new, then the team might only collect for the latest year. For the comparison purpose, the team will also collect planning documents in pre-decentralized era, although the structure and format are different. The other type of secondary data need to collect by the team is the planning information system. For this purpose, the team will conduct a special discussion session with Bappeda and Sekda officers to check all available infrastructure and technology to support the system. The demonstration of the system by local officers to the team is really expected

Primary Data

To complement the secondary data, the team will gather information from primary sources both at the central and local levels. At the central government level, the team will conduct in-depth interviews with various relevant parties such as directorate general (ditjen) of regional development (Bangda), ditjen of regional autonomy (Otda), and National Planning Agency (Bappenas). At the local level, the team will conduct in-depth interview with Regional Government Secretary (Sekda) and his/her assistants for economic development, local planning agency (Bappeda), some influential local units (dinas) depending on each region, and local parliament members especially from the commission that oversees the planning process. Aside from in-depth interviews, the team will conduct a Focus Group Discussion concerning the stakeholders participation in planning process. The FGD should involve the local community representatives (tokoh masyarakat), non governmental organization (local LSM), local parliament representatives, and local government representatives. The short open questionnaires will be distributed to various parties in regions (executive, legislative, and community) to observe the degree of acceptance of the planning documents.

B. Identification and Review

In general, the identification and review of local development planning process will consist of five major topics :

- *Guideline for Planning Documents* : the team will analyze if all local planning documents have followed the basic guideline made by the central government such as Law 4/1999 for Poldas, Law 25/2000 for Propeda, Government Regulation 108/2000 for Renstrada, and the official letter from Bangda to all local governments concerning the repetada. Basically, the team will observe whether the current local planning documents have described what laws and regulations required them to do. Ideally, Poldas should describe about vision, mission, direction, and strategies of regional development. The Propeda should act as a comprehensive development plan and refers to some indicators such as GRDP, political situation, regional welfare index, and mid-term national development plan. The renstrada should have function as a strategic planning document that refers to local needs. The repetada



is basically annual technical plan while RAPBD is the proposed budget for local government operation.

- *Legal Framework* : the team will analyze the legal basis for all planning documents. It is required that all planning documents should have the local regulation (Perda) as the basis for implementation. However, it is not easy for local governments to make the Perda of local planning documents as a result of intensive debate with local legislative. In this case, the team will also analyze the overall process of making planning documents from drafting the documents until the approval by the local parliaments.
- *Consistencies between Documents and Realities* : The planning documents usually describe mostly the ideal things and some "wish list". At the other end, the local governments have responsibility to implement the development process that is visible for local people. Based on current economic and demographic data, the team will analyze the "gap" between the planning documents and real economic structure. How real the local planning documents are is the main target of this analysis.
- *Stakeholders Involvement* : With the increasing demand of democracy, the current planning process should adopt the public participation approach that requires the involvement of not only the local government and legislature but also community representatives, NGO, religious groups, and some other interested parties. It is difficult to shift from one paradigm to another especially from the very centralized and totalitarian government to very decentralized and democratized country. The team will analyze the efforts of local government and legislature in involving other parties while making the documents and also how satisfied those parties to the final version of the documents.
- *Planning Infrastructure*: To enhance the quality of planning documents and planning process itself, the local governments need to have a good planning tools or planning infrastructures. The basic infrastructure will be the basic economic data as mentioned above and basic social and demographic data. The supporting infrastructure will be the planning information system, the planning mechanism, and the competency of local planners. The team will do thorough analysis of all available infrastructure and observe how well the local governments utilize all of those tools.

C. Capacity Building Needs

Based on the identification and review of existing problems and issues in local development planning process, the team will identify the capacity building needs of local governments on that process. There are four criteria for capacity building needs in development planning process :

- *The Quality of Planning Documents* : this criteria will be based on the consistency of documents and realities, consistency among planning documents, legal basis of



the documents, appropriateness with the national planning documents (Propenas), and the process of drafting the documents themselves.

- *The Degree of Stakeholders Involvement* : this criteria will be based on the overall process (political process) of developing the documents from the early discussion until the legislative approval, the number of parties involved in discussion about the documents, how far the documents absorb the community aspiration, how interactive the executive and legislative, and the degree of acceptance of local community.
- *The Quality of Planning Information System* : this criteria will be based on whether the local governments use that kind of system, how adequate the system is, the utilization rate of the system, the input quality of the system (basic data), and the competency of local development planners and their technical assistance team.
- *The Quality of Planning Implementation* : this criteria will be based on how close the planning documents with the economic reality, the competency of local government apparatus, the consistency between local and national development planning document, the timeframe of local planning (short term v long term), and the history of local development planning implementation prior to decentralization era.

IV.2. Local Finance

Dealing with regional financial situation, the team will do extensive data collection and conduct in-depth interview with local revenue collecting agency (dipenda), local government owned company (if exists), other executing agencies that collect charges, and central government tax agency in region (kanwil pajak). Comparing the contribution of local owned revenue (PAD), tax and non-tax revenue sharing, and general allocation grant (DAU) will be the starting point on the basic situation of regional finance. The lower the PAD contribution, the more serious the problems that might arise. At the expenditure side, the team will do close interaction with the financial and accounting agency (biro/badan keuangan) to discuss the concept of performance budgeting. Based on the previous experiences, the team will examine the formation of the standard unit cost of major public services. The costs then have to be compared with services performance to be justified. In other words, the standard spending assessment will be the main theme for the expenditure side.

A. Data and Information Collection

Basic (Secondary) Data

In line with the objectives of the study, the data collected in this research will be related to the analysis of revenue and spending of local governments. Therefore, there are two categories of data that would be collected for the study of local finance : (a) data related to the local revenue, and (b) local expenditures. For the purpose of the study, two secondary basic data are considered important for the analysis of both revenue and expenditure. Those are :



- *Regional Budget Planning data* ("Rencana Anggaran dan Pendapatan Daerah"), abbreviated as RAPBD. It is important to note that RAPBD shows a financial planning of local government. RAPBD by itself is a reconciliation of financial planning data made by local revenue agency ("*Dinas Pendapatan Daerah*"), local financial division ("*bagian keuangan*") and local planning agency ("*Badan Perencanaan Pembangunan Daerah*"). Local revenue agency, or Dispenda, is responsible for estimating local government revenue. Local Financial Division, called as *Bagian Keuangan*, is responsible for preparing data on routine expenditure. Finally, sectoral planning data usually is prepared by local planning agency ("BAPPEDA").
- *Actual APBD data* ("*Perhitungan APBD*"). To support the analysis, the RAPBD itself is not enough. "*Perhitungan APBD*" is data that considered important for analyzing actual financial activities within the local government.

For the purpose of the study, five consecutive year of data will be collected throughout the study. In addition to the *RAPBD* and *Perhitungan APBD*, local government regulations ("*Perda*") related to the items in the *RAPBD* and *Perhitungan APBD* will also be collected from the local government. The collection of supported *Perda* is needed to understand the legal and political consideration of financial planning and implementation.

A summary of local financial data also might be obtained from the Directorate of financial information of the Directorate General of Central-Local Financial Balance (PKPD) at the Ministry of Finance.

Primary Data

In addition to the secondary data, to support the study, a field survey is strongly required. The survey is needed to collect a primary information from the decision makers at local governments in relation with the financial decision process. It is very important to understand the logic behind the decision making at local government. Issues of raising local own revenues are very important to acquire from local decision makers, such as Dispenda. From interviews with decision makers in Dispenda, useful information, such as local revenue collection strategy and administration, can be obtained.

In addition to the meeting with local government financial officers, it is also important to have an audience meeting with central government officers who have responsibilities in the design and implementation of local financing policy. To summarize, the following table describes the survey plan for collecting primary data on local finance issues.



Table 1.
Survey Plan for Primary Data Collection on Local Financial Issues

No.	Respondents	Purpose of Meeting	EXPECTED OUTCOMES
1	<u>Central Government Official</u> Director General PKPD (PKPD = Central-Local Financial Balance), Ministry of Finance	To understand national policy on fiscal decentralization and its relation to local revenue and spending policy.	<ul style="list-style-type: none"> Fiscal Decentralization Policy Possible changes on Law No.25/1999 and its Government Regulations ("Peraturan Pemerintah") Possible changes on Local revenue Law No.34/2000.
2	Director of Local Financial Information, PKPD, Ministry of Finance.	To understand the classification of data on local finance, and data collected so far by the directorate	<ul style="list-style-type: none"> Secondary data on local finance Characteristics of local financial data (revenue and spending)
3	Directorate General of Regional Autonomy, Ministry of Home Affairs.	To understand the implementation strategy of local financial law.	<ul style="list-style-type: none"> The revision of Law No.22/1999 on regional autonomy. The progress of making the regulation on Basic standard services and standard spending assessment at local level. Problems on the issue of Local Revenue Regulations
	<u>Local Government Officials</u>		
4	Local Government Secretary ("Sekda")	To have an overview of local economic development planning, and local financing strategies.	<ul style="list-style-type: none"> Macro-prospects of local development. To get a permit and access to local financial data and policy (Notes: Sekda will organize the meeting with the units, "Dinas", in order to supply a depth information for the survey team)



continued ...

No.	Respondents	Purpose of Meeting	EXPECTED OUTCOMES
5	The Agency of Local Financial Management ("Badan Pengelola Keuangan Daerah"= <i>BPKD</i>). This is a new agency established according to Law No.25/1999	To have a picture on local revenue generating process and also spending policies.	<ul style="list-style-type: none"> The Role of <i>BPKD</i> in the new decentralization era. The strategy of revenue collection The spending strategy. Prospect of Local Finance
6	Head of Financial Division ("Kepala Bagian Keuangan")	To obtain a clear strategy on local routine spending, including spending for wages and salaries of local officials and parliaments	<ul style="list-style-type: none"> Local routine spending strategy The estimated cost per unit on providing services (<i>notes</i>: Particularly wages and salaries). The financial and economic assumptions used to establish local routine spending plan.
7	Head of Local Planning Agency ("Bappeda")	To understand regional economic condition, and strategy on local economic development	<ul style="list-style-type: none"> The sectoral priorities setting for the current and future. The financial allocation for sectoral development. Primary projects conducted within the region.
8	Head Division of Local Services: <ul style="list-style-type: none"> - Education - Health - Infrastructure 	To have a picture on the strategy of providing basic services to local people	<ul style="list-style-type: none"> The standard level of services The standard spending cost of service
9	Head Division of Local Services-revenue related: (Determined based on the top five contributors on local user charge revenues)	To obtain information on revenue collection strategies for several user-charges which play an important role to the local finance.	<ul style="list-style-type: none"> Administration and collection strategy of user charge Service and revenue relation Prospects of user charge

B. Identification of Existing Problems and Issues

Issues on Local Revenue (PAD) Raising Strategies

The role of local owned revenues ("PAD") had been very small for a long period of time. In the past, almost ninety percent of total district's revenue came from central government transfer and subsidies. Moreover, those transfers were mostly for specific purposes, such as Presidential Instruction Fund (INPRES) and salary expenditure fund (SDO). Therefore, there was a little freedom of local governments in their financing policy.

Such a situation is expected to change with the implementation of regional autonomy laws. Both Laws, No.22/1999 and No.25/1999, are supported by other laws and operational regulations. Law No.34/2000 is considered one of the most important laws that support regional autonomy. It is basically a revision of Law No.18/1997, which regulates types, tariff and administration regulation of local taxes and other local revenues (user charges, local state owned revenue and others). Under Law



No.34/2000, there is more flexibility of local government in generating their local revenues.

The study will identify existing problems and issues related to raising local revenue, by performing some analyses pertinent to the local revenue raising strategies as follow:

- *Types of revenue.* The study will analyze whether the implementation of the Law No.34/2000 is in the right manner. There are at least two important concerns related to this issue: (a) to find out whether local taxes as stated in the Law No.34/2000 are considered as buoyant or non-bouyant taxes. It means that the tax base can be elastic or not elastic, (b) to reveal the level of understanding of local government in the implementation of tax collection criteria as mentioned in Law No.34/2000. With many local government regulation (“perda”) on local taxes are considered to be improper, there is an indication that they are not well understood on the current tax criteria set by Law No.34/2000. The study will prove whether such indication exists and persistent at local level.
- *The Optimal Strategies for local revenue generation.* To obtain the optimal strategies on local revenue generation, the study will identify types of actions taken by local government in raising their local revenue. Those actions can be grouped into five categories major of actions; (a) enlarging local revenue base, (b) controlling, (c) Setting tax collection requirements, (d) local revenue administration, (e) local revenue planning.

Standard Spending Assessment (SSA)

The regional autonomy and fiscal decentralization policy should bring the services closer to the local people. At least, the basic services of local people will be improved by decentralization policy. To finance basic services, it is expected that local government should have a guide on standard spending cost, often called as standard spending assessment (SSA). The study will identify problems related to the following areas:

- *The establishment of SSA.* The study attempts to reveal the level of knowledge of local government official in setting up the SSA for basic services, such as education, health and infrastructure.
- *The estimated SSA for certain basic services.* To obtain the estimated SSA, it is averaged from local government SSA found from the survey.

The Estimates of Local Revenue Potential

Based on the data collected (“secondary and primary data”), the study attempts to estimate the potential of local revenue based on some indicators. The study will identify problems related to choosing the indicators to represent the appropriate tax bases for each revenue type.



Intergovernmental Transfers Issues

According to Law No.25/1999, there are three major transfers from central to local governments; (a) General purpose grant ("Dana Alokasi Umum"= DAU), (b) Specific grant ("Dana Alokasi Khusus" = DAK) and (c) Revenue Sharing from natural resources and national taxes. The study will attempt to reveal problems, at national and local level, related to the implementation policy of those transfers. Problems and issues will focus on the following areas:

- (a) the procedures of allocating transfers (allocation formula etc.)
- (b) institutions responsible for the distribution of transfers.
- (c) To identify whether the amount of transfers are in the correct amount and time and useful for local government.

C. Identification of Capacity Building Needs for Local Finance

For the purpose of identifying local capacity building needs for local finance, there are several indicators that can be used :

- *The Quality of RAPBD ("Local Budget")*. To produce the RAPBD requires a sequence of activities, involving many stakeholders within the region. Moreover, the budget should be transparent, for instance, the book of RAPBD should be available to the public for critics. The quality of RAPBD will show to what extend the capacity building is needed for producing a transparent and accountable budget.
- *Degree of Stakeholders involvement*. The production of local financial planning, such as RAPBD, should involve stakeholders from ordinary people to the local leaders. When the process is not implemented correctly, the RAPBD will not useful for certain communities, since they are not involved and not represented in the process. Therefore, the study will reveal what capacity building is needed to involve many stakeholders in local financial planning and strategies.
- *Financial Information System*. The key to the success of local revenue generation is the availability of information, especially, on tax bases and trends over the years, to predict future revenues. The study will attempt to reveal the capacity building of local governments officials in establishing local information system for raising local revenue and also to estimate local spending needs.
- *Administrative Capacity*. Tax collection can be made easy if the tax administration is simple. Improvement in revenue performance are also critically dependent upon the ability of local authorities to minimize the cost of collecting revenues. Local governments officials should have capability to improve their administrative efficiency through some actions, such as:
 - Improving the existing tax administration procedures through administrative simplification.
 - Efforts to calculate collection efficiency for each type of revenue.



- Efforts to reduce cost of collection.
- Efforts to eliminate the identified factors in the field that has contributed to sub-optimal revenue.

The study will reveal whether such capabilities are needed by local government officials.

- Revenue and Spending Capacity Improvement through Better Local Financial Planning

We often observe a situation whereby “Dispenda”, “Bappeda”, and “Bagian Keuangan” do not work together in order to improve the existing revenue and spending system. In fact, in the decentralization era, it is important for them to ensure a good planning strategy. In the absence of coordinated and systematic planning, it is difficult to expect local revenue to increase, and proper spending allocation. Therefore, the study will attempt to reveal whether such capacity building is needed for better local financial planning and coordination.

IV.3. Institutional Restructuring and Human Resource Development Program

For local government institutional restructuring and human resource development, the team will do consistency check between national report on central government employee transfer to region and respective local reports. The financial consequences of transfer will be another point of attention. Other than meeting with local government affair people, local training department, and human resource development, the team will also conduct a FGD involving all of them plus local higher education institutions, human resources development of private sectors, and central government officers from the ministry of education.

A. Data and Information Collection

Data will be collected from both central and local government, community and university. The type of data collected will include primary and secondary data, and the primary data will be collected using in depth interview, questionnaire, and forum group discussions.

Secondary data

From Central Government:

- Ministry of Home Affairs (Menteri Dalam Negeri). The data collected will be local government organization structures, types of trainings and educations provided for the local government, scholarships for further education (number and types) and other programs for local government employee.
- State Employee Bureau (Biro Kepegawaian Negara). The data collected will be characteristics of local employee, regulation of carrier and promotion, requirement



to apply local government employee, number of local employee, transfer of employee.

- Ministry of State Officials (Menteri Aparatur Negara). The data collected will be regulation of career and promotion, types of training provided for local government (especially for promotion : Adum, Adumla, Sespa etc), requirement to participate those trainings.
- Ministry of Finance. The data collected will be employee budget, number of central and local officials before and after decentralizations.

From Local Government :

- Secretary of State Office: Bureau of Organization and Human Resources. Organization structure of local government in Kabupaten/Kota, Number of Employee in each local office, educational background of employees, and requirement for local employee.
- Provincial/City/Kabupaten Training Center : types of training provided, number of employees trained, number of employees sent to further degree, funding for education, regulation on training and education.
- Local Legislatives: local regulations on local organizational structure.
- Bureau of Regional Planning: Funding for education, comparing budget and actual funding.

Primary Data

As complementary for the secondary data, we will also implement primary data collection methods, ie. :

- I. Questionnaires will be performed in some local offices.
- II. Focus Group Discussion (FGD) that will be performed in local government will involve several people from different institutions who concern about the subject. FGD will be held in order to find out participants' perception on the issue.
- III. In depth interview with almost all institutions in order to explore deeper analysis such as:
 1. Human resource characteristics in each institution.
 2. Recruitment process (announcement, selecting, accepting and locating process), merit principle, supervision and evaluation
 3. Institutional change after the implementation of regional autonomy : process, roles and responsibilities, organizations, incentives and legal framework.



	Questioner	In Depth Interview	FGD
Central Government:			
Ministry of Internal Affairs			
• OTDA		X	
• BANGDA		X	
• PUMDA		X	
• Badan Diklat		X	
GTZ		X	
Ministry of Finance: Directorate of Budget		X	
Ministry of State Officials (PAN)		X	
State Employee Bureau (BKN)		X	
Local Government:			
Local Secretary of State (Organization and Procedure)	X		X
DPRD			X
Bureau of State Employee,		X	X
Local office of Education and Health	X		X
Bureau of Finance		X	X
Ex Central Offices that are localized		X	
Provincial Training Center		X	
Kabupaten/Kota Training Center			X
Local Planning Bureau	X	X	X
Alumni of LPEM training and MPKP FEUI		X	X

B. Identification of Existing Problems and Issues

Based on the data and information in point 1, the team will identify existing problems and issues regarding institution restructuring and human resource development by focusing in several issues:

- *Analyze the existing organization structure and compare it to local economic development.* Organization structure should reflect the vision, mission, culture and functions of the organization. Therefore, analyzing the new organization structure after the decentralization will help to understand those values, if exist at all. Another way to analyze those value is simply by comparing the organizational structure to the local economic development program that should be performed and achieved by the local government.
- *Number of employee in the office vs number of employees ideally needed.* This is efficiency issues in institution and human resource development program. Also, several parameter can be used to analyze the right number of employees such as the number of population served, nature of economic activity, complexity of the area etc.
- *Local employee competence vs local needs.* The principle of good corporate government such is choosing the right person in the right place can be used here.
- *Education and position.* The relationship of position and education can be identified as competence and carrier path.



- *Reviewing training programs conducted in the region.* This program includes analyzing types of training, numbers of participants, organizers, impact of training to position of the trainees.
- *Transfer staff problem.* Merger of two offices can create problem since difference in culture, positions that should be combined. Some local governments are successful in merging divisions and transferring the staffs, some are not.
- *Endogenous Employees Issue.* In many areas outside of Java, the issue of endogenous employees (putra daerah) arises in the local administration. This issue can create problem in recruitment process that can bias to the origin of the applicant instead to the competence.

C. Identification of Capacity Building Needs

To identify the capacity building needs in the regions, the following indicators will be reviewed:

- *Information system.* Proper information system allows all employees to access the information without discrimination. Therefore it will create healthy atmosphere for the employees, increase job satisfaction, feel of certainty and fairness in the system.
- *Position, competency analysis and Promotion system (reward and penalty).* Clarity in carrier path is needed by local government to increase its capacity building. Position analysis and promotion system synergies the expectation of employees to the job and their willingness to work. Employees will know exactly the rule of the game, what to do and what not to do.
- *Transparency.* Transparency is important aspect in good governance that should be considered in developing institutional restructuring and human resource development. Institutional restructuring creates uncertainty for several people in the systems that can affect performance of staff. By promoting transparency, fairness and certainty for the employees
- *Competition.* Competition is factor that make some one tries to do his or her best. Fair competition among staff is the requirement for organization to run optimally.
- *Training Needs Analysis.* Training needs analysis can be performed based on gap analysis between needs and existing activities.

IV.4. Regional Regulations

Regarding regional regulations, the focus here will be to understand the enactment process, to analyze their appropriateness especially in relation to interregional trade of goods and services, local economic protectionism, and competitions.

By conducting in-depth interviews with local legislative speakers, some legislative members, the legal bureau of local government, and the sekda, the team should get the overall picture of local regulation procedure from the drafting process until the local



legislative passes the regulation. From here, the team should identify the relationship between the executive and legislative, and the control mechanism to avoid the creation of improper local regulations. At the same time, the team has to deal with one of the current problems of decentralization process, i.e. the relationship between kabupaten/kota and provinces. There will be a FGD involving the representatives of kabupaten/kota that becomes the sample of study and the respective provincial representative. It might be held at the provincial capital. Before FGD, there will be separate questionnaires for both provincial and kabupaten/kota officers regarding the matter.

A. Data and Information Collection

Similar with the other aspects, in this issue we will try to collect secondary and primary data or information as follows.

Secondary Data

Here the basic (secondary) data are the local/regional government regulations themselves which will be collected from the Ministry of Home Affairs and the Ministry of Finance, since both are responsible for reviewing (and thus approving or canceling) all (new) local government regulations produced during the decentralization era. However, an independent institution such as the Committee for Monitoring the Implementation of Regional Autonomy or *Komite Pemantauan Pelaksanaan Otonomi Daerah* (KPPOD) can also be relied upon as a source of information. KPPOD has been involved quite intensively in monitoring the regional autonomy implementation, especially with regard the local regulations. LPEM has quite a close relationship with KPPOD and therefore good access for the data.

Apart from that, the local governments and DPRD of the regions will also be asked for the data, especially the regulations they have enacted. There is a strong indication recently that not all regulations made by local governments have been submitted to the central government for review/evaluation. One source in Ministry of Industry and Trade (Departemen Perindustrian and Perdagangan) observes that in average each local government have produced 8 to 10 regulations. It means for about 400 local governments (province and kabupaten/kota) in total, there should be more than 3,000 regulations produced. Until the end of March 2002, only 1053 local regulations have been submitted and reviewed by the central government. The field survey will hopefully give an answer for this issue.

Primary Data

In order to be able for the team to identify problems and issues around the establishment of local government regulations, as well as identifying capacity building needs on the establishment of local government regulations, some more information and data are necessary. These can be gathered through interviews and/or by using questionnaires to central and local government people/institutions, local community, and



NGO, from the field survey. It is of course to understand the logics and reasons behind any regulation enacted before we can make any suggestion to improve their process.

The following table describes the survey plan for collecting primary data on the issue of local government regulations.

Table 2.
Survey Plan for Primary Data Collection
on Regional Regulations Issues

No.	Respondents	Purpose of Meeting
Central Government Official		
1	Ministry of Home Affairs (Ditjen Otda, Ditjen Bangda, Ditjen Pumdada)	To understand the principles and criteria of "appropriate" local government regulations, especially in the administration, law and political aspects.
2	Ministry of Finance (Ditjen PKPD)	To understand the principles and criteria of "appropriate" local government regulations, especially in the economic and financial aspects
3	Ministry of Industrial and Trade (Ditjen Perdagangan Dalam Negeri).	To understand the draft law of free interregional trade and its relations with the current many "distortive" local government regulations.
4	Ministries of: Energy and Mineral Resources, Environment, and Forestry	To understand the many serious issues raised/ touched by local regulations relating with natural resources and environment
Local Government Official		
1	Head of the Regions (Bupati/Walikota)	To have a clear picture on the reasons and logics behind the regulations they have produced.
2	Head of DPRD	To have a clear picture on the reasons and logics behind the regulations they have produced.
3	Head of Local Planning Agency ("Bappeda")	To understand regional economic condition, and strategy on local economic development in relation with all the regulations they have produced
4	Head Division of Local Services-revenue related: (Determined based on the top five contributors on local user charge revenues)	To obtain information on revenue collection strategies for several user-charges which play an important role to the local finance
	NGOs	To have their opinion about the regulations and to what extent these would affect positively or (more likely) negatively to the local people
	Local Businessmen	To have their opinion about the regulations and to what extent these would affect positively or (more likely) negatively to their businesses
	Local Community	To have their opinion about the regulations and to what extent these would affect positively or (more likely) negatively to their daily life, especially in relation to the services provided by the local governments.

B. Identification of Existing Problems and Issues

Review and identification of the problems/issues concerning local government regulations will be focused on several areas:



Local Government Regulations Establishment Process

There is a widespread perception nowadays that many local governments (and DPRD's) produce regulations just to exercise their power in the autonomy era. In relation with that, most of the regulations are about new local taxes and user charges, which clearly reflect their ambitions to increase local revenues. It is doubtful that in the making process they involved local community, NGO, and local business people. Therefore, people participation are presumably low here, or even non-existence. These are the issues which are going to be identified clearly in the study.

Distorting or "Improper" Regulations

Less than 10% of the 1053 regulations submitted to (and reviewed by) the Ministry of Home Affairs have been recommended to be withdrawn. These regulations are considered to be distorting. However the criteria used by the Ministry of Home Affairs are not really clear, since there are indications that the rest 90% of regulations have still an element(s) of distortion. Many of the regulations are actually can be categorized as having affected competition and trade in the economy such as: create tax barriers in the economy; create local economic protectionism; create price controls; create quantitative restrictions on inter-regional trade; government procurement; requiring in-region processing of exports; and regional allocation of markets (or *rayonisasi*).

There are also issues about "conflicts" between sectors, and between sector and regions regarding these regulations. Therefore there is a need to adopt the criteria of the so called suitable or appropriate local taxation.

C. Identification of Capacity Building Needs

For the purpose of identifying local capacity building needs for local regulations, there are indicators that can be evaluated:

- *The Degree of Stakeholders Involvement* : this criteria will be based on the overall process (political process) of developing the documents from the early discussion until the legislative approval, the number of parties involved in discussion about the documents, how far the documents absorb the community aspiration, how interactive the executive and legislative, and the degree of acceptance of local community. Local community here involve local business people, local universities, and NGO.
- *The "Quality" of the regulations*. Regulations are made basically to create conducive environment for the people. When this is not the case, then there might be something wrong in it.
- *The Information System*. The information system as a whole will of course affect the knowledge of those involved in designing the regulations.
- *The Designing process of the Regulations*. There must be an "appropriate phases" in making a regulation. Here it involves the socialization phase.



V. RESULTS OF FIELD SURVEY

The following chapters will explain about the results of field survey regarding: the identification and review, capacity building needs, and policy formulations, for development planning, local finance, human resource development, institutional restructuring, and local regulations.

As planned the study area team then have gone the regions on May 2002, and together with the local teams, they met various parties. The following is the list of study areas which had been visited in each province :

- *North Sumatra*: Nias (poor), Labuhan Batu (fair), Karo (well progress), Medan (city/well progress).
- *Central Jawa*: Brebes (poor), Grobogan (fair), Semarang (well progress), Surakarta (city/well progress).
- *South Sulawesi*: Janeponto (poor), Sinjai (fair), North Luwu (well progress), Makasar (city/well progress).
- *West Kalimantan*: Sambas (poor), Ketapang (fair), Sanggau (well progress), Pontianak (city/well progress)
- *East Nusatenggara*: Sumba Barat (poor), Sumba Timur (fair), Ngada (well progress), Kupang (well progress).

The study team have identified and reviewed all the issues in the regions visited, and tried to make the preliminary assessment of capacity building needs for all crucial issues by analyzing the current local human resources and the minimum requirement of public service delivery. The capacity building suggestion should fill any discrepancy between the existing and the "minimum" needs. By the end of the third week of July, the regional workshops will be conducted. In these workshops, the study team should present the preliminary results and get feedback from respective local governments to complement or to correct the results. After the regional workshop, the team will revisit the regions and finalize all of problems identification, and capacity building needs.

At the end, the study team has to make formulation of policy and measures to help the local governments implementing smoothly the regional autonomy and decentralization process. The key words in making these policy options are public participation and transparency in local government actions. In other words, introducing good governance practices at the local level. Some of the policy formulation may be a new idea in the local government practices such as the performance budgeting and consequently, the standard unit costs needed to support it. There could be a proposed new training for local government officers, if necessary, if all existing trainings are not suitable to improve the capacity of local governments. Some formulations may just be reiteration of what have been heard for a long time such as public participation in local development planning, and local taxes intensification. In this report, the team try to present preliminary policy formulation for each issues.



Chapter 2

DEVELOPMENT PLANNING

IDENTIFICATION AND REVIEW

Guideline for Planning Documents

1. With relatively short period of time for preparation, most of local governments surveyed have produced some planning documents as required in laws and government regulations. Some of them even produced all type of documents, from Poldas to Repetada. However, there are few extreme cases where few local governments do not feel that they have to make such documents.
2. By observing the characteristics of each document, as listed in the laws and government regulations, Rencana Strategis (Renstra) should be the most needed documents since it will be a political document that involves the direct interaction between local executives and legislatives. It is quite strange that some of local governments that have not produced all types of document, tend to skip Renstra for now. Some of them also have a perception that the collection of Renstra unit (at dinas level) can be utilized as the local government Renstra. Some others feel that since there has not been a new governor or bupati/mayor, Renstra is not urgently needed.
3. When the local governments drafted those planning documents, most of them followed the guideline from central government such as Law 4/99 for Poldas, Law 25/2000 for Propeda, and Government Regulation 108/2000 for Renstrada. Repetada has become routine practices even before the regional autonomy era so the local governments did not feel any difficulty in drafting this document. For other documents, it is relatively new experience for them since in the past they just need to produce Repelitada (Local Five Years Development Plan) that copied the national Five Years Plan.
4. As new experience, it is not too surprising if most of local governments surveyed did not really understand or care about the "soul" or essence of each planning document. Most of them made those documents because they thought that it is a requirement. In other words, those planning documents are just part of administrative requirements, not really a need for local governments. As a result,



- some of local governments did not prepare well the documents and eventually they just listed the "wish list" that sometimes far from reality.
5. In most of documents surveyed, the major weakness is on Propeda that sometimes did not explicitly mention the indicators for economic, political, and social condition. This might relate with the quality of planning information system that will be discussed later in this report. But much more crucial is the non-existence of Renstrada in some local governments that somehow creates uncertainty in the relationship between local executives and legislatives. In most local governments, real practices show that both local executive and legislative pay attention most to the local budget (APBD). If they reach agreement on the APBD issue, then they presume that all planning process is acceptable, regardless the inconsistencies between other planning documents and APBD.

Legal Framework

6. Lack of accurate information might be the reason why not all local planning documents are transformed into local regulations (Perda). According to Bangda circulation, except for Repetada that can be in the form of Bupati/Governor decree, all planning documents should have the legal basis in the local government regulation. Some of local governments still have Bupati decree for documents other than Repetada and on the other hand, some other have issued Perdas for Repetada. Interestingly, some of them mentioned that there are no serious obstacles in bringing the documents to the legislatives and convincing them to produce Perda.
7. The legislative is more interested in APBD and pay less attention to other planning documents. In the local legislative, most of them formed a special committee on planning documents (Pansus Perencanaan). The Pansus will be the one who deals with the local governments and most of local governments feel that there is not much resistance from the Pansus. Whether the Pansus members really understand the planning documents requirement is still questionable. Some of local governments are more dominating in the discussion with the local legislatives.

Consistencies

8. The local governments have tried hard to follow the procedures of making the documents, but most of them are lack of consistencies both between document and reality, and between planning documents themselves. Some of local governments admitted that temptation to put "wish list" is still stronger than to put more realistic plan. They do not want to be blamed as the pessimistic officials who are not willing to work hard to achieve the ideal goal. The local governments become more cautious when they are drafting the Renstrada since they know the consequences of listing too ambitious programs against the thorough evaluation from the parliament.



9. Most of local government surveyed mentioned that they referred to National Plan (Propenas) in making the documents, but very few at kabupaten/kota level referred to Provincial Plan. The regional autonomy scheme that creates direct relationship between central and kabupaten/kota governments might be the reason for that condition. Ministerial Plan (Renstra Departemen), however, is not one of the main reference since its influence is only for Renstra unit (dinas), and indirectly to Renstrada. Among the local planning documents themselves, the local governments try to maintain consistency by following strictly the central government guidance, but some of them failed to do that. Sequentially, they should make Poldas first, followed by Propeda, Renstrada, Repetada, and APBD. In some cases, they started with Propeda or Renstrada, and made adjustment, if necessary, for the documents that should precede them.
10. The discussion about planning documents in the beginning of regional autonomy era seems to understate the role of regional spatial plan (RTRW/ Rencana Tata Ruang Wilayah) that should be made once every 10 years. All planning documents, from Poldas to Repetada, should strictly refer to spatial plan as the plan provides the real picture of regions' capacity limitation. Since the central government still has strong influences in designing the plan, especially in coordinating the plans from many regions, it could be misunderstood as a way of central government in controlling the local governments.
11. One of the main reasons for inconsistency among planning documents is the intervention from the local parliaments in determining APBD. For their own interests, the local parliaments can interfere the structure of APBD without paying attention to Repetada or Renstrada. They can tolerate this obvious inconsistency if they think they can fulfill their interests. The local parliaments, of course, cannot be blamed for this since the local government units (dinas) are doing intensive lobby to ensure that they will have a bigger allocation than previous year or at least the same, regardless their real needs in the coming budget year.

Stakeholders Involvement

12. The real participatory planning is a rare commodity in the Indonesian system. For over 30 years, the government practically ruled everything and most of policies were derived from the top-down approach. Same thing happened on the planning process in which the national five years plan (Repelita) dominated the planning process both at the central and local level. It is no secret that old local five years plan was just straight derivation from the national one, and no one could analyze the strong and weak points of a region.
13. After the centralized system was over, the local governments surveyed have initiated the public participation in the planning process. However, due to the short period of transition and the difficulty of common people in understanding



democratization, the participatory planning process is still minimal and, not surprisingly, people do not complain a lot about this lack of public participation.

14. Most of local governments utilize the existing public participation process such as village development forum (Musyawarah Pembangunan Kelurahan) to start improving the public involvement. In the past, the forum was more for the formality in the planning process, and not really intended for absorbing opinion from local people. Currently, they try to improve the process by letting people to speak up and express their opinions. However, there is a big problem on the participants side. Most of participants are relatively passive during the forum and only few NGOs are quite active. They seem to be confused with their role. Another problem is people representativeness. It is quite difficult for the local governments to pick good representative from the people if they are not used to do that. As a result, the impression of formality sometimes still arises in the forum as local government officials dominate the forum.
15. Local governments also have problems on their own. They are not used to listen to their residents. The forum participants expect the government to listen to their opinion and aspiration. However, in some cases, participants realize that the local governments do not really listen to them and still implement policies or actions that are not really of people interests. People are frustrated with this but they understand that this is just the beginning of democratization and they know that the local governments still treat public participation as a minor part in the overall planning process. Sometimes, the local parliaments worsen the condition by claiming that their opinion represents people opinion regardless the fact that the current local parliament members are not really people representatives by the system.

Planning Information System

16. The strong centralized system in the past had discouraged most of local governments to build a good planning information system. Most of them just produced real political documents, with the lack of economic dimension, in their *Repelitada*. The APBD was also based on the incremental budget system without systematic way on how much the budget should increase in the coming years. The attention on data quality and availability was also poor, and most of them did not even use the data for their plans. This trend, unfortunately, is still going on these days and very few of local governments surveyed has started thinking the importance of the system. The financial constraints are cited as the main reason why the system has very slowly developed.
17. Very few regions that have started thinking about the system, begin by dealing with data accuracy and availability. They cooperate with the local statistics office to improve the data quality. Others start with developing the computerized network in their offices and at the same time, trying the more advanced tools such as



Geographical Information System (GIS). They also realize that the quality of their planning staffs are still very weak to build and implement such kind of system. To hire outsiders and consultants building the system has been in their minds, but the financial constraints hinder the possibility.

CAPACITY BUILDING NEEDS

The Quality of Planning Documents

18. It is clear from the previous part that most of local governments still do not understand the benefits of making planning documents as part of good planning process. They still see the documents making process from administrative point of view. They also do not get the idea that by making the planning documents, they have started building the transparency and accountability of local governments for both the local parliaments and the residents. The understanding of the needs for planning system will be the key for local governments in order to improve their current planning system.
19. It is important, then, to have series of seminars/symposiums/workshops on the issue of local planning not just on how to draft the documents but also on the basic principle of planning process and its sequences. The target of audiences should not be limited to the local government officials and parliament members, but expanded to the groups of local people outside those two. That will help the local people when they have to be involved in the public participation process. The central government has a big responsibility of demonstrating what good planning documents and process look like including providing all necessary regulations.
20. Since it may be too costly or too complicated to tackle all planning documents matter, it is recommended to start the capacity building process from the Renstra formulation procedures. The reason is that Renstra has direct implication on the local political process and empowering this process will put regional autonomy on the right track. The second priority should be on Propeda that clearly is the comprehensive local planning documents that should influence the local economic performance during five years period. From economic development point of view, Propeda might be the most important one so local governments have to be serious in making this document in order to achieve sustainable economic growth without relying too heavily on the local government role. Consistency among planning documents might be the next priority with more emphasis on the transformation from Repetada and Renstrada into APBD. The empowerment process should focus more on the local parliament members who have power to interfere with the process.



The Degree of Stakeholders Involvement

21. First thing to do in this matter is to ensure that all local governments understand the basic principle and usefulness of participatory planning, and know how to develop the planning process with public participation. At the same time, the local communities and local parliaments have to realize that this is part of democratization process. There should be capacity building needs on some groups in the community, together with the local governments, to learn about planning process and why their opinions will be definitely needed. One topic that has to be in the process is how to select the people representatives in the public forum, and it has to be the responsibility of both the local governments and people themselves.
22. The capacity building process should also cover the issue of public acceptance to the planning documents. When local community is involved in the planning process, they have strong expectation that the documents will clearly voice their opinions. To settle this issue, the local governments need to understand the importance of public opinion (bottom line is that local government officials have a willingness to listen) and at the same time, the local community has to realize that their opinion might not be accommodated fully in the documents due to more important goals or heavy constraints. In fact, the issue of public acceptance is very sensitive and the process to empower all parties should be done cautiously. The local parliament, especially, should understand the consequences of not paying attention to planning documents, except APBD. They have to know that they can be blamed of doing inconsistent policies.

The Quality of Planning Information System

23. Among other things, the capacity building for this topic will be the most comprehensive one. The capacity building process should start with the improvement of local planning staffs to ensure that they understand how to make a good plan. It is very important to conduct courses/workshops on the professionalism of local planners. The competency of planners should be there to ensure that the local planning agency (Bappeda) only recruits people with such credential. Once the planner is admitted as one of professional function, then the planners have to understand the importance of data and methodologies. They need to understand that every word and number in any planning document has to be created from deep analysis, and not just wish list.
24. Separately, the local government decision makers need to know the impact of having a good planning information system and as a result, they are willing to allocate part of the local budgets for the system development. A short seminar or guidance from central governments might be enough to convince them, but the form of technical assistance will be much more appealing. The assistance could range from improving data accuracy and availability to developing a sophisticated network such as GIS.



The Quality of Planning Implementation

25. Since monitoring process of planning system is left behind, then the massive capacity building in monitoring development should be in place. The proposed monitoring system could handle the issue such as public opinion v local government decision, wish list v economic reality, short term v long term planning etc. For any monitoring system developed, there has to be mechanism on how the system should react if there is violation in the planning procedures. It means that legal basis at the local level should be clear and firm. The monitoring system itself should include not only the local parliaments but also community representatives.
26. A more specific capacity building will be needed urgently for the local parliament members who have rights to evaluate bupati/walikota performance annually and at the end of their terms. There should be clear rule of the game on how local legislatives could challenge the executives without involving personal and subjective factors. The way the local legislatives read and understand the Renstra document will be very crucial in creating the *constructive debate between legislatives and executives*.

POLICIES FORMULATION

27. There are some policies that can be recommended to be implemented by any party who has interest in improving the local planning process, other than local people and governments themselves :
 - The central government has to be clear and firm in determining the national standard of planning procedures, both from legal point of view and procedural point of views. It is obvious that there is no single policy at the central level about planning procedure agreeable even by parts of central government itself. Bappenas and Ministry of Home Affairs (MOHA) should come up with a standard guidance of planning procedure, especially about the existence of Renstra in planning procedure and the relationship between Propeda and Renstra.
 - The developed planning system should not treat planning of different level of governments separately. All of them have to be in one unified system to ensure there will be consistency among central government, provincial governments, and local governments planning. The existing spatial plan (RTRW) may be utilized to ensure that consistency.
 - Once the clear regulation of planning system is available, then the central government, supported by foreign agencies, should conduct massive capacity building process of the system, from making the document draft to monitoring the plan implementation.



- The central government has to provide immediate technical assistance for building the planning information system at the local level, again supported by foreign agencies. In the autonomy era, the better the quality of local planning documents that are hard to be interfered by central government, the easier the national economic efficiency is achieved.
- The participatory planning approach has to be listed as one necessary requirement of qualified planning system. The local governments can explicitly state that through Perda, but it is much more powerful if it is in the central government regulation (PP). The special capacity building (socialization and workshops) in this matter should then be developed.
- The capacity building process for the planning system should involve not only local governments but also local parliaments and local community representatives. There has to be understanding among them that the planning documents are not just an academic exercise within Bappeda but they should be accessible by local communities.

Human Resources Development is still the key for good planning process. That is why the local planning staff empowerment, both in their skills and competencies, should be on the top list of capacity building process.



Chapter 3

LOCAL FINANCE

IDENTIFICATIONS AND REVIEW

Local Revenue Raising Strategies

The role of local owned revenues had been very small for a long period of time. In the past, almost ninety percent of total district's revenue came from central government transfers and subsidies. Moreover, those transfers were mostly for specific purposes; such as Presidential Instruction Fund (INPRES) and salary expenditure fund (SDO). Therefore, there was a little freedom of local governments in their financing policy. Such a situation is expected to change with the implementation of regional autonomy laws. Both Laws, No.22/1999 and No.25/1999, are supported by other laws and the implementing regulations. Law No.34/2000 is considered one of the most important laws that support regional autonomy. It is basically a revision of Law No.18/1997, which regulates types, tariff and administration regulation of local taxes and other local revenues (retribution, local state owned revenue and others). Under Law No.34/2000, the government expects that local government will have more flexibility in generating their own revenues.

The implementation of Law No.34/2000, however, does not guarantee that local government revenue will increase significantly. Those depend on *types of revenue* permitted to be collected, and *the local government revenue optimizing strategy* Law No.34/2000 still limits local taxes to seven major taxes, which are considered as *non-buoyant* taxes. It means that the tax base is not elastic and relatively small.

Although Law No. 34/2000 has added more rooms for local taxing power, the figures of local revenue in 2001 shows that *no sharp change* in the structure of local government revenue in Indonesia. By the end of 2001, most of local governments still rely on the transfers from central government, mainly from general-purpose grant transfer. On the other hand, the role of local revenue in total is not significantly improved from the condition before the regional autonomy era. It appears that the role of central government in financing the decentralization is still a major theme. Roughly, about 89 percent of local finance is supported by central government through the balancing fund; consisting of tax sharing from tax and natural resources, and general purpose grant and specific transfers. "Dana Alokasi Umum (DAU)", the general-purpose grant, is accounted for 74 percent of total revenue.



Taxes and user charges are the main components of local owned revenues. Based on Law No.34/2000, there are seven categories of taxes belong to the local governments; taxes on hotel, restaurant, entertainment, advertisement, street lightning, "mineral type C", and parking. For the user charges, there are three categories; user charges on general services, business licensing, and special licensing.

In addition to those types of taxes and user charges, local government is allowed to collect other taxes, as long as those are not violating the criteria of tax collection. The criteria, as described by Law No.34/2000 article 2, are as follows:

- (i) It is a tax in nature, and not a user charge.
- (ii) The tax object should be residing in the area of the region, with low mobility, and residential based population.
- (iii) The base and object of the tax should confirm the social justification.
- (iv) Local tax object should not overlapping with those owned by Central and Provincial governments.
- (v) Tax potential is significant.
- (vi) *The tax should not distort the economy.*
- (vii) Equity and the ability to pay tax should be the concerns of the tax policy.
- (viii) Environmental consideration should be in the priority.

Those criteria are considered standard from the perspective of tax theory.

Based on the survey, it shows that Law 34/2000 is welcome by most of regions. However, the implementation of the Law is considered fair. Most regions argue that Law No.34/2000 can be supportive for strengthening local revenue generation. A general criterion of tax collection that is being placed by Law No.34/2000 is clearly a good progress in term of increasing local taxing power. Some regions even argue that Law No.34/2000 is much superior than Law No.18/1997. The regions mention that when Law No.18/1997 was implemented fully in the mid of 1998, most of them had experienced a huge reduction on local own revenue. Some of them that relied on taxes on water transportation (such as private boat or ships) were no longer able to collect taxes derived from those vehicles. With the implementation of Law No.34/2000, such restrictions are automatically eliminated as many of them can collect taxes on private boats and ships, as long as it does not disturb the local economy. The local government can treat them as taxes on motor vehicles.

Some regions on the survey have raised critical elements toward Law No.34/2000. The law is seen to be restrictive on the types of taxes and scope of tax bases. The taxes currently mentioned by the law have a weak tax base for some regions. For example, two types of taxes that are considered important; taxes on hotel and restaurants, are only beneficial for regions with a good attraction of tourism. There are not significant for regions with small tourism activities.

A study conducted by LPEM FEUI and the US Clean Urban Project in 1999 found



that local government had a very limited creativity in revenue collection strategy. The situation has not changed much after three years. The survey conducted by LPEM and the JICA in 2002 also found that regions in the sample still do "classical actions" such as improving object database, speed up the PERDAs to confirm with the Law, and to simplify some administration procedures. Much could be done by local governments, such as improving revenue planning. Unfortunately, such policy is beyond the imagination of local government administrators.

Some local governments in the survey have attempted to do more creative strategy in tax collection. However, PP No.65 and 66 of 2001 have prevented them from the actions. Other local governments have also attempted to increase supervisory on the tax collection, to prevent tax revenue leakages. Unfortunately, those actions are not yet supported by the correct reward and punishment system. At the end, the findings help to explain why most local taxes are not buoyant and cannot function as a built in stabilizer for the regional development.

Performance Budgeting

One of the breakthroughs in Law No.25/1999 and PP No.105/2000 is the implementation of performance budgeting for local governments. It is expected by the Law that local governments will set some indicators (social and economic indicators) to measure the success of the programs that have been financed by RAPBD (local budget). The survey conducted by the LPEM has found that none of the sample of the survey clearly understands about the concept of performance budgeting. Therefore, none of them have applied the system. Some of them know that they have to collect the indicators to reflect the success of the budget implementation. However, they are not sure whether they have chosen the correct indicators for the type of the spending. At the end, there is no much progress on the performance budgeting at local level. The same problems happen when the local governments are asked to provide the standard spending assessment (SSA). Most of them do not know the concept of SSA. They argue that most of their activities are not yet reflecting the clear decentralization process at the regions. For example, local governments provide the education services and the teachers are paid also by them. Unfortunately, local governments do not have authority to set the level of wages and salaries of the teachers. At the end, the cost of teaching cannot be estimated correctly. This makes difficulty in providing the unit cost of primary education at the local level.

Intergovernmental Transfer

There are at least three main components of transfers from central to local governments according to Law No.25/1999; general purpose grant (DAU), revenue sharing from natural resource and taxes, and the specific grant (DAK). Among the three categories, DAU is the most popular one for the local governments. It is not only that DAU is allocated with more flexibility in the spending, but also the amount allocated to regions is the largest among the central transfers to regions.

The allocation of DAU is considered satisfactory for some regions. For the regions



that are satisfied with the allocation of the DAU, they do not have complained both with formula and also with the amount transfers and the channeling (disbursement) system. On the other hand, for the regions that are complaining on the DAU, they have some characteristics; they are located in Java and or the city governments ("kota"). The governments of regencies ("kabupaten") outside Java have relatively no complain on DAU allocation. For those that are complaining, they are not satisfied with the formula. It is said that the formula is not transparent. Moreover, the amount being allocated is considered not enough to finance local government needs on services. Almost 80 percent of DAU are used to pay the salary expenditure. This expenditure is rapidly increasing since there is an employee transfer from the central government. In addition, the echelon for structural position is also expanding, causing for additional salary expenses. Some expect that central government increases total DAU portion in the national budget, from 25% to something about 37.5% of domestic revenues.

On the natural resource revenue sharing, the main problems are the disbursement of the money that is considered late, and creates some uncertainties on local revenue collections. Therefore, the regions with natural resource revenue sharing expect that central government develop a better system of transferring money from central to local regions, and has some schedules. The regions appreciate the system of transferring the DAU, which is 1/12 of total amount is allocated to the region regularly every month. They are expecting that the natural resource revenue sharing can be transferred as what have been done on the DAU mechanism. At the central government level, such a demand is currently being discussed within the Ministry of Finance, to set up a system of allocating the natural resource revenue sharing by quarterly basis. At the end, the question goes to the capability of national budget to support such transferring mechanism. For the information, the revenue from natural resource is one of the most fluctuated revenue in the national budget. The price of oil is no longer stable, and tends to decrease for some periods, which make difficulties in the calculations of sharing for the local governments.

The specific issues related to non-tax revenue sharing from natural resources can be found in some regions, especially in Java. Three cases are emerged: (i) inconsistency in decision about forestry provision (Provisi Sumber Daya Hutan or PSDH) allocation; (ii) incomplete transfer of fishery revenue sharing; (iii) incomplete transfer of exploitation and exploration royalties. Some confusions often happened within the Central Government Agency themselves (Ministry of Forestry and Ministry of Finance) regarding the amount of natural resource sharing distributed to local government. Since Perum Perhutani is owned by the central government, the profit and PSDH were directly sent to the central government. Those part is allocated back to the regions in the form of DAU. Such a practice is considered not conforming with the Law No.25/1999 which states that the PSDH is part of natural resource sharing, instead of the DAU. Some regions are entitled to receive fishery revenue sharing and exploitation/exploration royalties in year 2001. Yet none of the allocations have been realized in some regions of Java.

Finally, on the DAK, it is considered as not really important for some of the regions being surveyed. However, the level of understanding of local governments on the usage of the DAK has been improved dramatically. Some of them even have submitted requests for DAK funding to the central governments. Most of the requests are for the building or improving the infrastructure at the regions. Some of them send a request for DAK for the purpose of emergency, such as funding the refugee. For those that ever submitted the DAK requests to central government, they mentioned that none of them being approved by central government. Therefore, they argue that central government does not have a clear rule and regulation on the DAK funding.

There is an interesting observation regarding the amount available for decentralization funding and for deconcentration (DIP) funding after the decentralization process takes place, which raises a question about the consistency of decentralization policy. On some regions, there are found that deconcentration fund is greater than the decentralization fund, with a proportion of 4 : 1 respectively (for example ; the case of South Sulawesi). The amount and the allocated projects of the deconcentration fund are already determined by the central government, in this case by the technical department. It is paradoxical with the basic nature of the policy. Thus, in line with the fiscal decentralization, it should be the case that regions obtain more decentralization funds rather than deconcentration fund.

Standard Spending Assessment (SSA)

Although it was clearly stated in the PP no.105/2000 to implement the Performance Budgeting, Most of regions in the survey have not established this system yet. One of the main problems is how to measure the indicator. The local revenue unit does not have any knowledge to measure a sectoral minimum service standard (SPM). In addition, only some sectoral indicators that can be quantified by monetary value (by a unit cost measurement). At present, the technical office at the regions is still waiting for further guideline from central government about this matter.

Based on the survey, it seems to be very difficult to set up standard spending assessment (SSA) for the local governments. There are some reasons for this argument:

1. Most of local governments in the survey have a tendency to increase the routine spending allocation such as; increasing salaries of permanent and part-time employee, buying new official cars, increasing expenditures on office supplies. Moreover, some of them even reallocate the amount of money for local development (of services) into routine expenditures.
2. Some local government officials are able to identify basic indicators for SSA on certain services (for example on education and health services). Unfortunately, the data on the indicators are not yet available in the consistent manner at local level. At the end, there is still a problem on data supports for calculating SSA at the local level.



3. Main activities of local governments are not yet fully decentralized. For example, the calculation of salaries and wages of teachers at the primary education level is still done by the central government.

Based on those reasons, there is pessimistic that the SSA estimates can be accomplished in the near future. A recenty Ministerial Regulation issued by the Ministry of Home Affairs (Kepmendagri No.29/2002) has strongly urged the regions to adopt a certain rules of financial reporting procedures to comply with performance budgeting. Local governments raise their concern that the regulation might be difficult for them to follow, given a very limited time to adjust and to understand the content of the regulation.

The Estimate of Local Revenue Potential

Estimating local revenue potential is essential to improve and strengthening local government taxing power. It is expected that the decentralization and regional autonomy era will improve the way of local government estimating local revenue potential. Unfortunately, the survey conducted by LPEM has shown that such improvements are not yet in place. Most of local governments in the survey have lack ability in the calculating and estimating local tax revenue potential. They still use a simple calculation of revenue potential. Only one region in the sample has shown real improvement by implementing a very advanced econometric model to estimate local revenue potential. However, it should be noted that the attempt mentioned above is supported by foreign consultant through a technical assistance program.

CAPACITY BUILDING NEEDS

The Quality of Local Budget ("RAPBD")

The budgeting at local level can show the indication of involvement of local people on the budgeting process. At present, with the implementation of regional autonomy, it is expected that more local people involve in the process of budgeting. Regional autonomy also opens the possibility of better quality of local budget, in terms of the estimates on revenue and spending. The implementation of regional autonomy is expected to improve the priority of local government from routine spending to development spending. The quality of local budget can be seen also from the consistency of priorities given by BAPPEDA (local planning agency), financial division ("bagian keuangan") and agency of local revenue (DISPENDA) toward revenue and spending at local level.

Based on the survey, it seems that such hopes are not yet in place for the time being. The authority of local parliament limits the process of local budgeting, although it has been done by using bottom up planning process. In the past, the budgeting process was basically top down in nature. Although the making of RAPBD was started from the village process, but at the end the central government gave the final word on the RAPBD of a region. In the regional autonomy era, it is true that the role of central government in the RAPBD approval has been diminished drastically. However, there is



a tendency that the function of the central government as the final decision maker on the local budget has been replaced by local parliament.

Financial Information System

Financial information system is the main vehicle of the central government and local government to monitor the quality of financial planning process at the regions. Unfortunately, based on the survey at central and local level, such a system has not been developed at the proper level yet. There are some problems regarding the establishment of financial information system at the central level. At present, the institution that has the responsibility to collect national data is the Central Bureau of Statistics. Unfortunately, the bureau does not give improvements on the basic statistical reports on local finance. The bureau collects data that are not really relevant with the current categories and problems on the local finance in the regional autonomy era. On the other hand, the Ministry of Finance has been developing a better financial information system to capture problems in the local finance. However, there is limitation on the data collection from the regions, because of not much branches can be used by the Ministry of Finance to collect the data. Some data that come from the regions are difficult to be verified by the Ministry of Finance, as most of them are sent by local governments and are not developed by a national statistical agency at the regions.

At the local level itself, an attempt has been made by local government to set up a better financial information system. Unfortunately, there are problems related to the limitation on the funding to set up an advanced system of financial information at the local level. There is also a lack of human resources on the MIS (Management Information System) at local level.

Administrative Capacity

Improvement in revenue performance is also critically dependent upon the ability of local authorities to minimize the cost of collecting revenues. There are four possible actions could be taken by local government to improve their administrative efficiency:

1. Improving the existing tax administration procedures through administrative simplification.
2. Efforts to calculate collection efficiency for each type of revenue.
3. Efforts to reduce cost of collection.
4. Efforts to eliminate the identified factors in the field that has contributed to sub-optimal revenue.

Among the four actions being taken by local governments, they mostly conduct the first, which is administrative simplification. Some regions are doing other efforts that are necessary to be implemented by local government. Others are not doing much on the last three efforts because of lack of ability to do collection in more efficient way, and do not have many human resources to do the tasks.



Revenue and Spending Capacity Improvement through Better Financial Planning

To improve the better financial planning at the region, there should some attempts to be done by local governments. Among others, there are five attempts, such as calculating the revenue target in a more realistic way, better coordination with other government institutions, setting up financial planning system, improving financial information and training of local financial planning officers. Slowly, the improvements toward those items have done by local governments. Only one aspect seems to be difficult to be done at local level; improving local financial information. The improvement of local financial planning officers is also limited through a short-term training. For some reasons, such as funding, there are not many regions send their officers to pursue higher degree for improvement on their knowledge. With such a situation, it is expected that the local financial planning cannot be improved into an advanced way in the short term, because of lack of human resources. At present, there is a planning at the central level to implement a better accounting system toward local government finance. Such advanced improvement for example, replacing the current single entry system into double entry system of accounting, might be difficult to be implement in the short term.

POLICIES FORMULATION

Local finance has been one of the key issues of the regional autonomy and fiscal decentralization in Indonesia. At present, with the revision of Law No.25/1999 is still in progress at the central level, it is expected that the revision of Law No.34/2000 will take place soon. As already mentioned in the introduction of this section, both Laws are highly correlated to each other, and both laws have played a critical influence in determining the success of fiscal decentralization in Indonesia. The problem is, to what extent the law, especially law No.34/2000, is effective to influence the local revenue raising strategy. The reports from the field suggest that the Law has played an important role in increasing local revenue potential, although with a limited way, and also for limited regions only. Some regions, as found by the field survey, feel that the Law should be improved by adding more types of taxes that are common and general for all regions. Therefore, to improve the local financial capability, the following suggestions are important to be notify for this study:

Enlarging local taxing power: This policy can be implemented by transferring some taxes owned by central government to the local governments. In the discussion with central government official, there are ideas to introduce some changes on local taxes:

1. *Making the current property tax and land transfer tax from central to local governments.* To increase local taxing power, two types of current central taxes, property and land transfer taxes, are the most eligible candidates to be decentralized. According to the present allocation of revenues, it is roughly 74 % of total revenue from property taxes have been allocated back to the regions. Additional 25% of revenues (around one trillion rupiahs) are expected to increase local government ('kabupaten') revenues if the property tax is decentralized to them. Moreover, international experiences on property tax have shown that the property tax could become a strategic revenue for local government if the main



regulations on tariff and tax base calculations are given to local government authority.

2. *Surcharges or Piggybacking on Personal Income Tax (PIT).* Radical changes might be needed to reform tax assignments among the levels of government. With improvements in tax administration at local level and improvement in macroeconomic condition, additional tax sharing policies are expected to be done. To implement this policy, more political support, especially from Directorate General of Taxation, are needed to share buoyant national (central) taxes with regional governments. Currently personal income tax is shared between central and regional governments, with the sharing of 80: 20. Although such a tax sharing mechanism has been a significant contribution to local revenue, the scheme is still lack of clarity and certainty in the amount allocated to local government. The sharing from the personal income tax is not directly transferred to local governments, but it is distributed by provincial authority. A report from the field shows that the allocation to the "kabupaten" and "kota" has encountered problems, such as a smaller allocation than expected.

To replace the system of personal income tax sharing, it is proposed to adopt a surcharge on personal income tax (PIT) or applying a piggybacking PIT. The possibility of placing surcharges upon the income tax seems to be broadly accepted (Shah, 1994). It is a good candidate for increasing local revenue, as Indonesia experiences sufficient increases in income tax revenue for the time being. Applying surcharges upon income tax base may offer hope to local governments to improve their local revenue capacity. Due to small revenue generated by personal income tax, when the administration permits, a possibility to place surcharge upon corporate income tax must be on the considerations. To implement such a policy, a proposal can be offered by adjusting the current Indonesian Tax Law to comply with, for example, piggy backing personal income tax. In order to implement such a policy, local government should be allowed to collect taxes on PIT by applying certain tax rates. When using the piggy backing mechanism, taxes paid by household should be at most the same as the rates implemented by the Tax Law 2000. However, the local governments are given taxing power to decide whether they will use the opportunity to increase revenue from PIT directly, or they will not respond to the scheme. The following table illustrates how the mechanism could work within the scope of the Law.

Table 3.
The Scheme for Piggybacking Personal Income Tax

Tax Bracket (Rupiahs)	Current Personal Income Tax Bracket (Percent)	Adjustment on tax brackets	The maximum rates on PIT collected by Local Government
0 - 25 million	5	4	1
25 - 50 million	10	8	2
50 - 100 million	15	12	3
100 - 200 million	25	20	5
Above 200 million	35	28	7

Sources: Draft, Revision of Law No.25/1999, Ministry of Finance.



Maintenance of Local Infrastructure: Several months after the implementation of fiscal decentralization, we can acknowledge some problems related to the public service delivery at local level. Some infrastructures, such as roads, have been badly maintained by local government. The classic answer is that the local government has no longer enough funding for road maintenance. Such an issue gives raise to the possibility of transferring the gasoline tax to the authority of local government. Central Government Budget of 2003 has increased the funding for DAK significantly compared to 2002 budget. At present, an amount of 2.3 trillion rupiahs is allocated for DAK, with about 2 trillion rupiahs of it is available for activities beyond the forest rehabilitation. Such an amount of budget should be used wisely to improve the infrastructure conditions in the regions.

Socialization of Law No.34/2000: The basic principles of taxes written in Law No.34/2000 are considered a new idea for most of local governments. Although they admit that Law No.34/2000 has given more flexibility to raise their own taxes, they are not sure whether such a policy is in a correct direction. The evidences from the regions have shown that problems exist on the implementation of Law No.34/2000. Because of lack of clarity on the contents of the Law, some regions have aggressively used the Law to collect more revenues at the regions, and to some extent create economic distortions, which violate the principles of the law. Therefore, although the Law is principally accepted by local governments, there should be some clarification by central governments, through socialization, to what extend the local government can utilize the Law for local revenue raising strategy.

Increases Training on Local Revenue Raising Strategies, and higher education for local revenue officers: As found from the field, the obstacles on local revenue are coming from the lack of creativity of local officers in local revenue raising strategies. The classical strategy, such as increasing the tax base, is still the common knowledge at the local level. Therefore, a new direction on local financial training should be implemented. Moreover, additional capacity at local level can be built by sending more local officers to pursue higher degree in regional planning.

Socialization of Local Budgeting and Information System: At present, the accounting system for local governments is in the process of change. It is expected that the accounting system currently in the development will be more comply with current performance budgeting requirements that are mentioned in Law No.25/1999. Moreover, such a system requires a very good and advanced management information system at local level. In order to fulfill those objectives, the central government should be more active in the socialization process of those changes. Therefore, this can improve the effectiveness of budgeting process at local level.



Chapter 4

INSTITUTIONAL RESTRUCTURING AND HUMAN RESOURCE DEVELOPMENT PROGRAM

IDENTIFICATION AND REVIEW

Organization Structure

The organization structure in the areas surveyed showed that there are no valid analyses in designing the structure organization of the local government. Ideally, structure organization reflects the mission, culture and functions needed in the organization. In the areas surveyed, many local governments view structure organization was designed to accommodate the number of employees.

There are only few areas that designed the organizational structure based on the needs. Some of them followed the guideline set by central government (PP No. 8/2000). Some of them do not consult with provincial offices.

Several problems faced by those who try to design the organization. One problem is the inability to analyze their structure correctly. The impact of this inability might be the overlapping divisions, too big organization structure or too thin organization. Other problem is the inability to fulfill the positions with the right persons due to the lack of competencies in the regions.

In the restructuring process, some institutions are liquidated, merged, changed in status or even extended. From the surveys, it can be identified that in general, the organizational structure at the local government is expanding. In general, they have too many persons but lack of fund makes lay-off an impossible choice. Other problem identified is unclear job description.

Some institutions in localities are set up due to strong recommendation from central government. One of the purpose of the establishment of institution by government is to funnel funding of APBN.

As the reformation makes the situation changes quickly, the organization becomes



dynamic. Therefore, the effectiveness of the organizations, the performance of the employees should be evaluated on regular basis. None of the local government has done evaluation of the effectiveness of the organization structure

Number of employees

As mentioned in the previous section, in general, the survey shows that the number of employees currently in the structure exceeds the ideal figure needed by the new structure of organization. The government does not know how to measure the ideal number of employees in each institutions including in the planning units. Other finding shows unbalance of staff across units: lack of staffs in some units but too many staffs in some other units.

Interestingly, there are local areas that still need more employees to run the local government administration. To anticipate the problem, the local government adopts three strategies: optimize the employee performance, recruits the contracts employee, and accept the vertical-horizontal employee transfers.

The main concern of local government is to make sure that they must always have sufficient fund for employees every year.

Competence, Education and Local Needs

BAPERJAKAT plays an important role in employee's career path. However, the survey shows the role of Bupati in the career path of local officials. Placement and promotion were made based on 'like and dislike' factor rather than educational background, experience or local needs. There is a tendency for the head of region (Bupati) to act in favor for staffs or people who support a certain political party.

Competencies become a big issue in local government. Because, the numbers of staffs needed by the local government is plenty, however due to the low educational background and quality the needs are unmatched by the supply available. In the recruitment and the position placement, education background has been used as major criteria to enhance professionalism. Nevertheless, due to lack of the employee for certain position, the educational background could not be used as the criteria. Therefore, in some areas, it was found that educational background of employees does not match with the staff placements.

Training Program

Training program is important for human resources development. Some training activities (structural, technical, functional, others) have been done by local offices. Some of them are in coordination with other institutions (e.g. LAN, universities, foreign agency, kabupaten/kota government) and some of them are provided by the local Apparatus and Human Resources Development Agency (BPSDMA, formerly Badan Diklat Propinsi).



Regarding the host of the training, the provincial government feels that Kabupaten/Kota view in-house training as more important than sending people to training conducted by the Provincial or Central Government. On the other side, even though local government view that, local offices conduct only few trainings, due to lack of fund.

The regular training is the structural one (adum, spama, spamen) in coordination with LAN. The training system for structural is changed. The participant should be in the structure first before he/she given training. The policy to make the training become effective. Other than structural training is functional training. One example of functional training is for planner (TMPP) joint with the local universities and with foreign agencies (short courses).

Following the problems found in previous section, technical trainings are needed to increase the competency of staffs, especially in technical levels. Currently, local offices are having problems in finding the appropriate technical training. They provide training in coordination with BPSDMA.

Transfer staff problems

The new system prevents government employee (Pegawai Negeri Sipil or PNS) from moving easily to other Kabupaten/Kota/Province. There is always a rejection from the recipient region because of the limited fund available for paying the salaries of the coming PNS. On the other side, local government tend to hire new employees with their own initiatives (often based on the need to employ bupati's related party). This make the transfer process becomes difficult. One example is the transfer process from province to regency offices.

Other problems come from central government, that do not consistent with echelon or other. Some UU and PP contradict each other and create confusion for the local government. Moreover, the echelon of the employee also expand in line with PP no.84/2000. A combination of these problems have made the competition to fill in the structural position in the province becomes tighter.

This transfer problem becomes more complicated with the fact that local employment agency (BKD) has lost control to the management of employee at kabupaten/kota level. Local government sees BKD as central government office that currently has no authority anymore to them.

Indigenous employees issue

Indigenous employees issue that ever came out in the beginning of decentralization, was not found in this survey. That was probably because the problem arised if employees are hired due to their locality, not due to their capacity.



CAPACITY BUILDING NEEDS

Information System

Proper information system allows all employees to access the information without discrimination. Therefore it will create healthy atmosphere for the employees, increase job satisfaction, feel of certainty and fairness in the system. The design of information system cannot be separated from the design of the organization structure. Therefore, in order to build proper information system, the organization structure should be designed and evaluated continuously.

The information system is not a fractional problem that can be assigned to one division only, but it is an integrated system that should be initiated by top level management. Therefore, the importance to solve overstaff problems should be understood by the bupati. Information system is supporting activities that reflects the maturity of organizations. After top-level management understand the importance of information system, then the employees should be trained how to maximize the use of information system.

By giving training to the employees about the information system, not only teach them the flow of information, but teach them responsibilities of each division. Thus, information system will open the mindset of accountability and responsibility of the job.

One of the tools to increase the information system in the organization is computer. The use of computer in government office will be a must in the near future. As generally accepted principle, data lost, or unavailability of data is common in government offices. The use of proper computer system will not terminate jobs, but will increase the coordination and documentation of data.

Position, competency analysis and Promotion system (reward and penalty).

Clarity in carrier path is needed by local government to increase its capacity building. Position analysis and promotion system synergies the expectation of employees to the job and their willingness to work. Employees will know exactly the rule of the game, what to do and what not to do.

It is obvious that currently the career path for government employees is very unclear. The government should start job analysis that could show the career path of one position. Several advantages can be achieved with this analysis. First, employees know their expectation, and will work accordingly. Secondly, any distortion of behavior, such as like and dislike of bupati, will be able to justified to wrong, and proper action can be taken.

The position should also be filled with the proper credentials: education and experience. The policy ruling the competence and position should be issued so that the lack of competence that happens currently in the offices can be reduced over time.



Transparency.

Transparency is important aspect in good governance that should be considered in developing institutional restructuring and human resource development. Institutional restructuring creates uncertainty for several people in the systems that can affect *performance of staff*. *By promoting transparency, fairness and certainty for the employees.*

Transparency related to regulation and culture. It is obvious that Indonesian's culture is far from transparency, and we also know that many regulations in Indonesia does not reflect the spirit of transparency. Therefore, this should start from management level to initiate transparency.

Competition.

Competition is factor that make some one tries to do his or her best. Fair competition among staff is the requirement for organization to run optimally. Therefore, government should create performance measures in government office and clarity in reward and punishment system (as mentioned in previous section).

Training Needs Analysis.

Training needs analysis can be performed based on gap analysis between needs and existing activities. As mentioned in the identification section, many trainings are needed, especially the ones that are related to technical position. But the survey shows that local government is lack of funding to conduct trainings. They might prefer to allocate their budget to other projects than training. One strategy for improving training is to look for Universities that provide trainings on these technical matters.

POLICIES FORMULATION

There are some policies that can be recommended based on the study that has been done:

- Central government takes over the management of government employees like during the previous system before decentralization took place. Under a central management, the career path of a staff is also open up as staffs would be no longer restricted to serve a region but it would be possible for them to serve any region within the country. Thus a staff who already achieves Sekda position, the highest structural position within a kabupaten/kota, could still have opportunity to be promoted to a higher position at provincial level or even at central government level. Another advantage of a central management is that the system could practically accommodate staffs who need to be transferred to other region, for example those whose spouses work or live in other region and those who are in conflict with the head of region.



- The level system (I, II, III, IV) should be reevaluated since the system are based on education degree only and duration of work. This system does not trigger performance nuance.
- The role and function of BKN and BKD, the work relationship between those two level offices, the criteria to set up BKD should be explained by government. This BKD function should be maximized as an institution that develop the human resources capacity in the localities.
- Government should set up new task force to direct the study of carerr path, including structural and functional positions, both in central and local government.
- Various training programs and seminar should be designed based on the needs of local government activities. This will need coordination between BKN, BKD, LAN and universities and associations.
- Government should reform the salary system of government employees. Salary should reflect responsibility and load of work. As we currently aware, the salary and benefit of government employees are so low to cover basic needs. However, to compensate that, many government projects are marked up. This create economic cost and social cost.



Chapter 5

REGIONAL REGULATIONS

Little information can be gathered from the field surveys so that it is rather difficult for us to draw a comprehensive conclusion about the regional regulations in the autonomy era. However, the following sporadic findings might lead us to some conclusions that could give quite a clear picture about certain issues in regional regulations.

IDENTIFICATION AND REVIEW

Local Government Regulations Establishment Process

1. Most of the local governments visited have followed the similar “standard procedure and process” of making the regional regulations. Most have revealed that the preparation of the drafts have always been done by the local governments (the Bagian Hukum, Bappeda, Bagian Keuangan, Dinas-dinas, etc.), which in turn will be brought to DPRD for discussions. Thus, what DPRD members do have been just to discuss, evaluate, and giving approval or disapproval to the drafts. This would suggest the low level of DPRD’s member capacity.
2. Meanwhile, there are also indications that local governments (and especially DPRD) produce regulations just to exercise their power in the autonomy era. Such an euphoria may be understandable since for many years they had just to follow guidelines and “manuals” from the center.
3. In the regulation making process, there is quite good indication that they have involved local community, NGO, and local business people. Therefore, there has been quite an absorption of stakeholders aspiration here, although in average people participation are still relatively low. Some universities and NGOs people have stated that their involvements in the regulation making process have been in certain issues only. This is not surprising, due to the fact that public participation in the policy making process is practically a new commodity in Indonesia.

Distorting or “Improper” Regulations

4. Many of the regulations issued are about new local taxes and user charges, which clearly reflect the local authorities ambitions to increase local revenues. However, these are not really the strong case in sample areas.



5. As mentioned previously, only less than 10% of the 1053 regulations submitted to (and reviewed by) the Ministry of Home Affairs have been recommended to be corrected or withdrawn. These regulations are considered to be distorting. However the criteria used by the Ministry of Home Affairs are not really clear, since there are indications that some of the rest 90% of regulations have still an element(s) of distortion. The field surveys have found that each Pemda issued at least five regulations in the last two years. If the numbers apply to all local governments (kabupaten/kota), this means that at least 2000 new Perdas should be submitted to the central governments. Unfortunately the field surveys and interviews have not been able to find out where the rest of the regulations are. However, some indications suggest that many local governments tend to apply the regulations directly without waiting for the approval from central government. One information from the Ministry of Finance even suggest that several local authorities did not send their new regulations to the central at all, and directly apply them.

CAPACITY BUILDING NEEDS

The Degree of Stakeholders Involvement :

6. The ideal policy (regulation) making process in a democratic society will involve the participation of the stakeholders. This criteria will be based on the overall process (political process) of developing the documents from the early discussion until the legislative approval, the number of parties involved in discussion about the documents, how far the documents absorb the community aspiration, how interactive the executive and legislative, and the degree of acceptance of local community. Local community here involve local business people, local universities, and NGO. As mentioned above, field surveys suggest relatively low involvement of the stakeholders, either quantitatively or qualitatively, in regional regulations making process. People participations are still considered a minor part in regional regulations making process. This partly due to the fact that the DPRD members sometimes claim that their opinion reflects (or represents) people opinion regardless the fact that the current local parliament members (by the system) are not really people representatives.

The “Quality” of the regulations

7. Regulations are made basically to create conducive environment for the people. When this is not the case, then there might be something wrong in it. Some of the regulations, especially those concerned with local taxes and user charges, tend to create burden to local communities and/or businessmen. The other concerning structure of the organizations, tend to create more posts and positions, which are not in line with the idea of making more efficient and streamline organizations.



The Information System

8. The information system as a whole will of course affect the knowledge of those involved in designing the regulations. As previous discussions suggest, the information system in Indonesian local governments is still relatively poor.

The Designing process of the Regulations

9. There must be an "appropriate phases" in making a regulation. Here it involves the socialization phase. Since making the regional regulation is basically the task of DPRD, they must play a crucial role in absorbing the aspirations, defining the issue, etc., until initiating the drafts. As explained, currently this is not the case in Indonesia.

POLICIES FORMULATION

10. Central government should prepare a number of model regional regulations (perdas) in key areas of finance, organization, and personnel in order to provide guidance to the regions how their regulations could (should?) look like. These model of perdas should have the character of guidance only, and in the dissemination process it should be clarified that regions can modify the examples as long as they don't contradict existing (central government?) laws and regulations. Central government should prepare the appropriate phases of the making of regional government regulation.
11. Until the full scope of decentralization can be implemented in the regions, numerous systems and procedures have to be adjusted. Regional governments have to substitute hitherto binding central government regulations by regional regulations, and central government agencies have to develop a facilitating style of providing guidance and consultancy services to the regions.
12. Once such an appropriate phases of regional regulation making is available, then the central government, supported by foreign agencies, should conduct massive capacity building process of the system. The central government has to provide immediate technical assistance for this, again (perhaps) supported by foreign agencies. In the autonomy era, the better the quality of the making of local regulation, the easier the national economic efficiency is achieved.
13. The participatory approach has to be listed as one necessary requirement of designing local regulation. This could be stated in central government regulation (PP), or even in the Law (UU). The special capacity building in this matter should then be developed. This capacity building process should involve not only local governments but also the local parliament members and local community representatives.



14. As for other aspects, human resources development is the key. That is why the local staff empowerment, both in their skills and competencies, should be on the top list of capacity building process

Some Cases in the Field

The Case of Lawmaking Process

15. The process to create a new Perda is as follows. Initially the related unit prepares for the draft, and then sends them to the law division (Bagian Hukum). Here, they will form a team to discuss the proposal and to make sure that it complies with all of its corresponding higher-level regulations. Afterwards the law division sends the proposals (Raperda) to the DPRD. Thus, the proposal always come from the executive. The process in the "local parliament" could take two weeks until two months depending on the the content of the proposal. For "light" issue such as Perda on user charges (retribusi), the process could take two weeks with the commissions in the DPRD. However, for "hard" issues such as Raperda on APBD or Raperda on spatial plan, the process could take eight weeks. A special committee (panitia khusus), not a commission, is usually in charge for hard cases.
16. The process in DPRD involves many sessions between the legislative and the executive. Bupati/Walikota firstly explains the background, purpose and content of the Raperda in front of Sidang Paripurna DPRD. DPRD then should decide whether a commission or a special committee who will be in charge to evaluate the Raperda. A session is also held to hear general opinion of political party representatives (fraksi). In this session DPRD members can raise all sort of issues, critics, suggestions, and questions regarding the content of the Raperda. Bupati/Walikota together with the law division and other related units/division then prepare for the answer and present them in the next session. The process is then followed with commission or special committee report their conclusions. Fraksi-fraksi once again are given opportunity to make final comments. Finally, in front of Sidang Paripurna, when the process goes smoothly, the head of DPRD announce the approval of Raperda and signs it. After having the approval, the law division make revisions required by the DPRD and pass on the new regulation.
17. In Kota Surakarta there is a case of Perda on the structure of organization (Struktur Organisasi dan Tugas or SOT). Compared to other regions, Surakarta is quite late in having a Perda on SOT. This Perda was effectively implemented in April 2002. Actually the executive had submitted the proposal since the year 2000. It was the process in DPRD that took very long time. People from local government tend to say that DPRD was very busy compromising the structure because it has political implication: who should get the post in certain positions. But the members of DPRD argue that they really worked very hard on that Perda because they wanted the SOT to be realistic. That was why they invited some experts, made a lot of studies and discussions which had taken more than a year. The DPRD was also facing a



- dilemma in arranging the SOT. The central government told them to have an efficient structure, but the government had no fund to facilitate the lay-offs.
18. There is also a case about regional regulation in Kabupaten Luwu Utara. According to letter of Finance Minister (Menkeu) No S-70/MK07/2002, Kabupaten Luwu Utara was given warning for issuing "improper" regulation, i.e. Perda No 39/2001 about *Retribusi Pemakaian dan Perlengkapan Jalan* (charges on the use and the fulfillment of the road), and Perda No 40/2001 about *Pengaturan dan Pengendalian Kendaraan tidak Bermotor* (regulation and controlling of the non-motorized vehicle). In addition, it is also found that Perda about miras or *minuman keras* (alcoholic beverages) was protested by the kecamatan which is given permission for the sale of miras.
 19. In general there is the feeling of uncertainties due to the regulations. The implementation of regional autonomy needs a lot of new regulations from central government that should give local governments legal bases and guidelines. Unfortunately many problems at national level hamper the process of producing new regulations. In many cases the local governments are told to implement certain regulation without technical guidelines. This can creates confusing and sometimes conflicting situation in the regions. Regarding the planning documents, there are practically many interpretations in the regions. It is relatively unclear, what documents should be made. This situation to some extent creates pessimistic feelings among the local government officials. They are questioning the willingness of the central government to implement the regional autonomy.



Chapter 6

CONCLUSIONS

PROBLEMS AND ISSUES

1. Most local governments surveyed did not really understand the importance of every planning documents, even though they have tried hard to follow the procedures of making them. As a consequence, there were inconsistencies between the planning documents, and also between document and reality. Sequentially, the local governments should make Poldas first, followed by Propeda, Renstrada, Repetada, and APBD. In many cases, local governments started with Propeda or Renstrada, and made adjustment, if necessary, for the documents that should precede them. One of the main reasons for inconsistency among planning documents, and this could be the strongest one, is the intervention from the DPRD in determining APBD.
2. One prominent issue in local finance in Indonesia has been the small role of own-source revenues in the budget. In general, therefore, local authorities have relied on transfers from central government, in the form of grants transfers and revenue sharing. The role of own-source revenues have even been decreased during the autonomy era. This is due to the sharp increased of grants from central to local governments. However, the problem of delay in disbursements of the transfers (especially from natural resources sharing) is quite serious, and this has created uncertainties in local governments budgets.
3. Regarding institutional restructuring and human resource development, one prominent issue has been the design of organization structure that aimed to accommodate the number of employees. As we have known, around two million government employee have been transferred to the local authorities during the autonomy era. Therefore, the organization structure which can accommodate the employees is seen to be more important than the needs. In relation to that, competencies become a serious issue for every local governments.
4. In the aspect of regional regulation, the issue has been basically about "improper" regulations, i.e. the regional regulations (mostly about local taxes and user charges) that failed to follow the criteria stated in the Law No 34/2000. These taxes/charges are mostly distorting the economy and would create the so-called high cost

economy. According to the procedures of making local regulations, the local authorities should submit/report the drafts that being approved by DPRD to the central government to be evaluated. However, there is indication that some local governments have directly implemented several Perdas without submitting them to the central government.

CAPACITY BUILDING NEEDS

1. The understanding of the needs for planning system will be the key for local governments in order to improve their current planning system. Therefore, it is important to have series of seminars, symposiums, and workshops on these. It is recommended to start the capacity building process from the Renstra formulation procedures. In the era of decentralization, it must also be understood that the participation of the public is one very important element in the planning process. Finally, the monitoring system must also be developed, not only from DPRD but also from the community.
2. Regarding local finance, improvement in revenue performance is dependent upon the ability of local authorities to minimize collection costs, estimate potential revenues and targets, minimize tax compliance, and improving tax administration. There are still some rooms for improvement under the current local taxation system (Law No 34).
3. Some issues occurred when we talk about capacity building needs from the aspects of institutional restructuring and human resources development. First, the need to develop an information system. In relation to this, the need to develop a clear career path in the organization. That would mean the practice of transparency and, at the same time, fair competition. Last but not least, performing training need analysis, which is based on the gap between existing conditions and the defined needs.
4. Meanwhile, the problems in regional regulations is basically due to lacks of certain guidelines from the central government. There must, of course, be an appropriate phases in making regulations. Here it involves the socialization phase, which, perhaps, is at the moment one of the most crucial ones.

POLICIES FORMULATIONS

1. Some policies can be recommended to improve the local government planning process. But, the key here is human resources development (i.e. the local staff empowerment). Basically the central government has to be clear and firm in determining the national standard of planning procedures, both from legal and procedural point of views. Also, the developed planning system should not treat planning of different level of governments separately. Here, the central government has to provide immediate technical assistance, and the participatory planning



approach has to be considered necessary. It should be noted here that the capacity building process for the planning system should involve not only local governments, but also DPRD's and local community's representatives.

2. To improve the local financial capability, the first and foremost action is to enlarge the local taxing power. This could be done by transferring one or two central government taxes to local governments, such as property taxes (PBB and BPHTB). Applying surcharges on personal income tax is also considered as a feasible option. This means that the amendment on Law No 34/2000 and Law No 25/1999 is necessary. In addition to that, the development of local government staff on the subject of local finance is also necessary. As identified from the field surveys, one obstacle of the local government to increase local own-revenue is due to lack of staff's creativity and relatively low level of skill.
3. The recommendation for institutional restructuring and human resource development is basically for the central government to take over the management employees like in the previous system. Therefore, it is believed that the career path, the promotion system, the remuneration system, etc, could be developed more properly. The government, for instance, could set up a task force to direct the study of career path, including structural and functional positions, both in central and local governments.
4. Meanwhile, to tackle the problems in regional regulations, central government should prepare a number of model for regional regulations in many key areas in order to provide guidance to the regions. Central government should also prepare the appropriate phases of the making of the regional regulation. Once such phases available, the central government has to provide immediate technical assistance. In the autonomy era, the better the quality of the making of local regulation, the easier the national economic efficiency is achieved. Last but not least, participatory approach has to be listed as one necessary requirement of designing local regulation.



Table 4.
Issues of Decentralization in the province of North Sumatra and Four local government.

No	Issue	Nias Regency	Labuhan Batu Regency	Karo Regency	Medan Municipality	North Sumatra Province
I	Development Planning					
	1. Poldas	Still in Progress/draft	Perda	Do not Prepared, because the content already included in Propeda DPRD: they did not recognize Poldas as a Region document	Perda	Perda
	2. Propeda	Idem	Perda	Perda	Perda	Perda
	3. Repetada	Idem	Draft	Do not prepared, because already included in Renstra	Mayor's Decree (SK Walikota)	Perda
	4. Renstra	Perda	Perda	Perda	Perda	Perda
	5. APBD	Still in preparation (june) expected to be enacted in August 2002 Budget 2001 also delayed (enacted July 2001) that left only 3 months of running the project (Oct - Dec) before closing the budget year in Dec.	Perda	Under revision and not yet enacted as Perda. The delay is intentional to accommodate the revisions (it is much more difficult to revise APBD once enacted as Perda)	Perda	Perda
	Consistencies between planning documents	Renstra is the source of all planning documents. They try to fine tune other documents so as the result is a consistence planning documents	Renstra was prepared based on Propeda	There is some confusion between Poldas which have more long time horizon than Propeda which is usually the same as the election period. The result is the blend of the two under Propeda.	In general the consistencies is hold. Repetada was enacted as mayor's decree	They already prepared all document in the right order one follow another as demanded by law.
	Stakeholder involvement in preparing planning documents	All region invite all stakeholder after the draft for the documents has been prepared				



No	Issue	Nias Regency	Labuhan Batu Regency	Karo Regency	Medan Municipality	North Sumatra Province
	Planning Infrastructure	Manual	Manual. They have plan to computerize the process but lack of fund. Expert in computer and programming language is needed	Manual. Preparing a computer based planning process but hampered by lack of fund		
II	LOCAL FINANCE Strategy to increase local revenue	UU 34/2000 is good. No tax and levies had been passed in to local regulation, Local council (DPRD) still working on it. In total there was 33 draft regulation already sent to local council. They try to intensify the revenue from existing tax and levies only very limited success.	UU 34/2000 still put too much restriction to regions. Some of tax they see as a potential source of revenue is prohibited under UU 34, such as tax on plantation (Sawit and Karet) Problem: Intensifying local tax by broadening the definition. So for example Restaurant tax applied to Tukang Bakso Dorong. Retribusi Parkir applied also to Becak.	Six new tax and 17 new levies is created under UU 34/2000, two among them was banned.	UU 34/2000 need a revision, ie. Pajak air bawah tanah should not be in province.	UU 34/2000 is good, but some need revisions ie. tax on fishing is better in the province level because the nature of fish that have no boundary
	Performance Budgeting	<i>None of the region have initiated to implement performance measure in their budgeting process. Some of the officials in all region even do not know that APBD should be prepared in a different way. It seems that they concern more on instruction on preparing APBD (yearly prepared by Depdagri) than reading to the law and prepare what should be done.</i>				
	Intergovernmental transfer	DAU + Bagi hasil: Nias is better with this arrangement	DAU is not sufficient to fund the development project	DAU is not enough	DAU is not enough	DAU is not enough
	Estimation of	Manual	Manual	Manual	Manual	Manual



No	Issue	Nias Regency	Labuhan Batu Regency	Karo Regency	Medan Municipality	North Sumatra Province
	potential revenue					
III	Institutional Restructuring Organizational Structure: 1. Compared to prev. structure 2. Review of the current structure	 Slimmer than previous structure. Some of lower level organization still in old system ie. Bagian kepegawaian still under Sekda, while the advised from depdagri to form a new organization separate from Sekda: Badan Kepegawaian Daerah Underway, probably bigger than existing structure, to accommodate the creation of BKD and the position of Assistant to Sekda	 Bigger than before. Not yet	 Bigger than previous structure, conform to the Depdagri advise Not yet	 Slimmer than previous structure Not yet	 Following the advise of Depdagri Within 2 years from the 2 july 2001, starting point for the new structure each sub level organization should prepare evaluation of the current structure
	Number of employee	Lack of staff especially to fill in the position in the structure	Overstaffing	Understaffing	Overstaffing	Overstaffing
	Competencies	On average they expressed that many of their employee is underqualified. The need more on professional person and specialist like Planner (Planolog), Accountant				
	Transfer	Several person with capabilities has opted to work out of regency.	No information	The personnel transferred do not conform with the qualification needed by regency.	No information	Some demanded to go to regency (There is one new regency created: Toba-Samosir)
	Putra Daerah	Not an Issue	Not an Issue	Yes in practice the issue of Marga is prevalent, This make "outsider" difficult to progress	Not an Issue but in practice the issue of Marga is prevalent	Not an Issue but in practice the issue of Marga is prevalent



No	Issue	Nias Regency	Labuhan Batu Regency	Karo Regency	Medan Municipality	North Sumatra Province
IV	LOCAL REGULATION					
	Creation process	Standard procedure that already work in the past still in use when creating local regulation. The initiative mostly come from Dinas. Other stakeholder, as in the past, is barely included in this process.				
	Problematic Perda	No	No	Yes, two has been banned by central government 1. pajak air bawah tanah 2. Ijin pemanfaatan kayu pada lahan hak milik.	No	No



Table 5.
Issues of Decentralization in the province of Central Java and Four local government.

Aspects	Province Of Central Java	Kabupaten Semarang	Kabupaten Brebes	Kabupaten Grobogan	KOTA SURAKARTA
1. Planning Process					
- Guidelines	Propeda, Repetada	All	Propeda, RUPTD	All	Propeda, Renstrada
- Legal framework	Perda for Propeda and Repetada		Perda for Propeda, Bupati Decree (Kep. Bupati) for RUPTD	Perda for Poldas and Renstrada, Bupati Decree for Propeda and Repetada	Still in draft-stage
- Consistencies	Weak	Weak	Weak	Weak	To be improved
- Stakeholders involvement	Similar process, there exists public participation though of minor role				Public participation is improved
- Planning Infrastructure	Set up a computerized network	Common problems: data accuracy and staff qualification	Common problems: data accuracy and staff qualification	Common problems: data accuracy and staff qualification	Common problems: data accuracy and staff qualification
2. Local Finance					
- Strategy to increase PAD	Law 34/2000 is fair	Law 34/2000 is fair	Law 34/2000 is fair	Law 34/2000 is fair	Law 34/2000 is fair
- Performance Budgeting	Not yet applied: difficult to find an appropriate indicator, lack of clear central government guides and directives				
- Intergovernmental transfer	DAU allocation should be clarified The formula should be adjusted	DAU formula to be disposed clearly	DAU formula is not adequate DAU allocation is not yet transparent	DAU formula to be disposed clearly Natural resource revenue sharing problem	DAU is not fairly distributed The proportion of DAU in APBD should be increased
- Estimates the potential revenue	Simple calculation	Simple calculation	Simple calculation	Simple calculation	Simple calculation
3. Local Regulation					
- Process	Similar procedure				
- Problematic perda	-	-	-	2 cases	No
4. Institutional Restructuring					
- Review the current structure	Still inefficient, overlapped jobs, unclear job description, unnecessary post				
5. Human Resource Dev't					
- Number of employee	Too much	Too much	Too much	Too much	Too much
- Competencies	Fair enough	Gap between competency and need	Gap between competency and need	Gap between competency and need	Gap between competency and need
- Education and position	Fair enough	-	Not match in some cases	Not match in some cases	Not match in some cases



Aspects	Province Of Central Java	Kabupaten Semarang	Kabupaten Brebes	Kabupaten Grobogan	KOTA SURAKARTA
- Training	Provincial Training House	Training House	Training House (under BKD)	Training House (under BKD)	Training House (under BKD)
- Transfer staff	Some were transferred to Kota/Kabupaten	Receive all	Receive all Central government should take over PNS	Receive all Central government should take over PNS	Receive all Central government should take over PNS
- Indigenous employee	No such issue				



Table 6.
Issues of Decentralization in the province of East Nusa Tenggara and Four local government.

Aspects	Province of NTT	Kabupaten Ngada	Kodya Kupang	Kabupaten Sumba Timur	Kabupaten Sumba Barat
1. Planning Process					
- Guidelines	All planning documents are available.	Poldas, Propeda and Renstra are still in the draft stage. While the Repetada is in the discussion stage.	Not on time, except for Repetada. Waiting the new Walikota legal appointment.	All planning documents are available, except for Renstra due to financial reason.	Only Propeda, Propetada and APBD. Renstra is constructed on the unit (dinas) level.
- Legal framework			Not all is included in Perdas.	Not all is included in Perdas (some in SK Bupati).	n.a.
- Consistencies	Seem to be done in a proper sequence.	The sequencing of the planning documents is not done in an orderly manner.	Claim that their planning documents is consistent with Propenas	Seem to be done in a proper sequence.	Refer to Propenas and Province's Propeda.
- Stakeholders involvement	Using standard procedure + a public seminar.		Using standard procedure (Musbangkel, etc.)	Using standard procedure (Musbangkel, etc.)	Using standard procedure (Musbangkel, etc.)
- Planning Infrastructure	Seem to have relatively good planning system, cooperate with BPS.	The planning information system seems to be weak.	No information system mechanism.	No information system mechanism.	No information system mechanism.
2. Local Finance					
- Strategy to increase PAD	Few, the reason is the weak base for PAD.	Dispenda is trying to re-identify the tax basis for intensification. Some efforts is being done to attract investment.	Has some ideas, but it is not allowed by PP 65/66 2001.	Increasing tax and levy's rate. Stronger control to prevent leakages.	Increasing tax and levy's rate. Stronger control to prevent leakages.
- Performance Budgeting	Not yet.	Not yet.	Not yet.	Not yet.	Not yet.
- Intergovernmental transfer	No complain.	The usage of DAK is hoped to be a breakthrough in obtaining funds for building infrastructures.	Received some transfers from the Province.	No complain.	No complain.
- Estimates the potential revenue	No.	Work in Progress.	No.	No.	No.
3. Local Regulation					
- Process	Standard Procedure	Standard Procedure	Standard Procedure	Standard Procedure	Standard Procedure
- Problematic perda	Relatively few	Relatively few	Some	Relatively few	Relatively few



Aspects	Province of NTT	Kabupaten Ngada	Kodya Kupang	Kabupaten Sumba Timur	Kabupaten Sumba Barat
4. Institutional Restructuring					
- Review the current structure	After the beginning of regional autonomy an institutional analysis is being carried out by the Bureau of Organization.	From around 750 structural posting available almost 400 positions are left vacant due to the echelon problems.	The current structure is not yet final. The shortage of budget happening across the agencies seem to have forced some of the agencies to do their own efficient restructuring to fit the available budget (the case Education Agency).	The current structure has more working units, offices and agencies in Pemda	Revisions would be conducted in the year 2003 after a thorough job analysis is conducted for each position.
5. Human Resource Dev't					
- Number of employee	Fit the budget but seems to be overstaffs	Understaff	Overstaff	Understaff	Overstaff
- Competencies	Lack of skills in certain areas (finance)	Lack of skills in certain areas (agriculture, plantation and development project planning)	Lack of skills in certain areas (tax and finance)	The lack of officers is mostly felt in the level of implementers and planners.	The lack of officers is mostly felt in the level of implementers and planners.
- Education and position	Concern more on echelon requirement	Concern more on echelon requirement	Concern more on echelon requirement	Concern more on echelon requirement	Concern more on echelon requirement
- Training	Sufficient funds	The trainings available locally is limited to structural trainings, whereas functional trainings still depends on the central or provincial government.	Concern on costs due to geographical nature	Concern on costs due to geographical nature	Concern on costs due to geographical nature
- Transfer staff	No problem.	Mostly teachers are transferred.	Some miscalculation on the numbers of teachers' transferred => the DAU is not sufficient	Mostly teachers are transferred.	Mostly teachers are transferred.
- Indigenous employee	Relatively no problem	Relatively no problem	the reason for Kodya Kupang for not accepting transferred officers from other regions is because they have difficulties in transferring the salary of the transferred employee from their location of origin.	Relatively no problem	Relatively no problem



Table 7.
Issues of Decentralization in the province of South Sulawesi and Four local government.

Aspects	Province of South Sulawesi	North Luwu kabupaten	Sinjai kabupaten	City of Makassar
1. Planning Process				
- Guidelines	All	All	Incomplete, hidden Renstrada	All
- Legal framework	All perda, except for Reperetada	All perda	All perda	All perda
- Consistencies	Yes	Yes	Yes	Yes
- Stakeholders involvement	Similar procedure			
- Planning Infrastructure	Set up computerized network	data accuracy problem, try to implement GIS	data accuracy problem, try to implement GIS	Manual
2. Local Finance				
- Strategy to increase PAD	UU 34/200 is limited	UU 34/200 is fair enough	UU 34/200 is fair enough	UU 34/200 is limited
- Performance Budgeting	None, difficult to find an appropriate indicator			
- Intergovernmental transfer	DAU is not sufficient, revise the DAU formula	DAU is sufficient, DAU should consider new kabupaten	DAU is sufficient	DAU is not sufficient, revise the DAU formula
- Estimates the potential revenue	Econometric model	Rational estimation	-	-
3. Local Regulation				
- Process	Similar procedure			
- Problematic perda	No	Yes, but not implemented	No	No
4. Institutional Restructuring				
- Review the current structure	Expanded, will be evaluated next year	Has been twice restructured	No restructuring	Expanded
5. Human Resource Dev't				
- Number of employee	overstaffing	lack of staff	No recruitment	overstaffing
- Competencies	Mostly low at the implementation/technical level			
- Education and position	Currently evaluating job analysis	mismatch	mismatch	Creating job mapping
- Training	BPSDMA + other institution	Badan Diklat under BKD	Badan Diklat under BKD	Badan Diklat
- Transfer staff	Small number to be transferred to ther kab/city	Accepted the transfer, and hire contractual base employee	-	Some are relocated to other kabupaten
- Indigenous employee	No	No	No	No