

Public Revenues and Expenditure Analysis of West Sumatera Province

By:
Nendi Rohaendi
Trainer

1.1 Regional Overview

West Sumatra lies in the middle of the western coast of Sumatera, and has an area of 42,130.82 km². Geographic features include plains, mountainous volcanic highlands formed by the Barisan mountain range that runs from north-west to south-east, and an offshore island archipelago called the Mentawai Islands. The West Sumatran coastline faces the Indian Ocean and stretches 375 km from North Sumatra province in the north-west to Bengkulu in the south-east. The lakes of West Sumatra include: Maninjau (99.5 km²), Singkarak (130.1 km²), Diatas (31.5 km²), Dibawah (14.0 km²), Talang (5.0 km²). The rivers of West Sumatra include: Kuranji, Anai, Ombilin, Suliki, Agam, Sinamar, Arau. The mountains & volcanoes of West Sumatra include: Marapi (2,891 m), Sago (2,271 m), Singgalang (2,877 m), Talakmau (2,912 m), Talang (2,572 m), Tandikat (2,438 m).

The population of West Sumatra was 2.8 million in 1971, 1980 3 million, 1990 3.5 million, and 2000 4.2 million. In the 2010 Census, the population is 4.846 million with 2.404.472 males. The Minangkabau people inhabit the area of West Sumatra province on the island Sumatra. They are predominantly Muslim, and they have a reputation throughout Indonesia as traders. Mentawaians live on the Mentawai Islands, off the western coast of Sumatra, that are also part of the province. They

speak Mentawai languages, which are not intelligible with either Indonesian nor Minangkabau. Most of the Mentawais are Christians nowadays.

The province is served by Minangkabau International Airport, opened in July 2005, 23 km north-west of Padang in Ketaping, Padang Pariaman regency. The airport as hub and direct flined services to Kuala Lumpur, Singapore, and many cities in Indonesia. Significant roads include the Trans-Sumatran Highway which runs through the province and heads north-west towards Medan and south-east towards Jakarta, the road between Padang and Bukittinggi, and the road between Bukittinggi and Pekanbaru. The provincial government plans to upgrade the later two roads over the next few years to improve traffic flows. Regular bus services run between Padang and Bukittinggi, and other major cities of Sumatera. Other public transport options within the province include oplet, taxi and horse cart (bendi). The Teluk Bayur port in Padang is the largest and busiest on the western coast of Sumatera. It is used for exporting goods from West Sumatra as well as from some areas of the neighboring provinces. Railway services run between Padang and Pariaman.

West Sumatra consists of the following cities and regencies are: Bukittinggi, Padang, Padang Panjang, Pariaman, Payakumbuh, Sawahlunto, Solok, Agam, Dharmasraya, Mentawai Islands, Limapuluh Koto, Padang Pariaman, Pasaman, West Pasaman (Pasaman Barat), South Pesisir (Pesisir Selatan), Sijunjung, Solok, South Solok and Tanah Datar.

1.2 Vision and Mission

The vision of local development of West Sumatera Province 2006-2010 are:

To build West Sumatera Province to be strong, clean in togetherness spirit.

There are three aspect of development in 2010, they are:

1. To build religious society in term of technology and culture.
2. To build governance who keep law, equity and democratic.
3. To build economic sector which provide work and sustainable live.

The mission of local development of West Sumatera 2006 – 2010 are:

1. To build the quality of human resources who have responsibility
2. To build good governance
3. To build welfare and justice society.

Theme of development 2006 – 2010 are to rise personality and dignity of Minangkabau Society.



Area	42297 KM ²
Length of Beach	375 KM ²
Population	4,528,000
Poor People	22,07%
Density	100/ KM ²
Real GRDP Per Capita (2007)	7,006,098

1.3 Regional Economy

The government of West Sumatera Province has Medium Term Development Plan from 2006 to 2010 and there are seven agendas of development, they are:

1. to accelerate reducing level of poverty
2. to improve quality of religion and socio-culture living
3. to force nagary as a basic of development
4. to build good quality of human resources
5. to build strong justice economic
6. to develop infrastructure as a power to accelerate development
7. to apply good governance

Table 1
Gross Regional Domestic Product 2008 - 2009

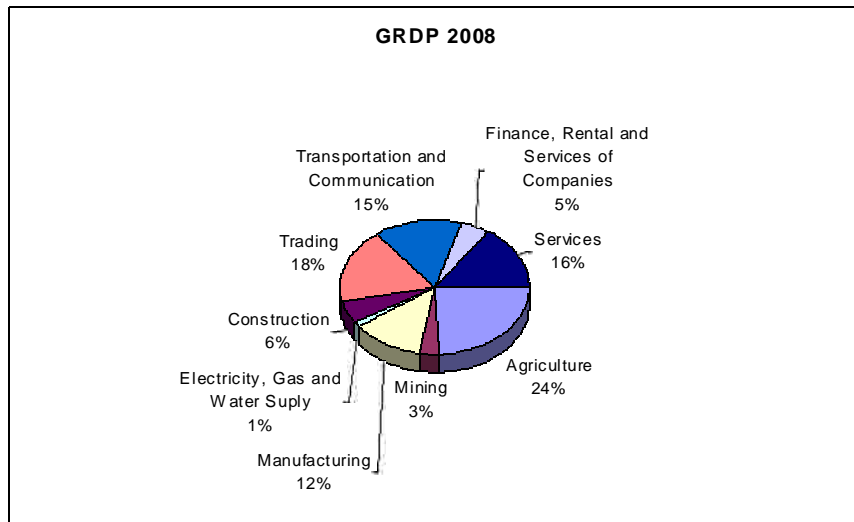
No	Description	2008	2009
1	Agriculture	17.272.739,30	18.119.934,96
a	Tanaman Bahan Makanan	8.860.632,28	9.430.420,58
b	Tanaman Perkebunan	3.846.951,74	3.835.226,83
c	Peternakan dan Hasil-hasilnya	1.388.729,80	1.504.216,99
d	Kehutanan	1.098.987,41	1.143.848,65
e	Perikanan	2.077.438,06	2.206.221,92
2	Mining & Quarry	2.351.407,34	2.544.861,54
a	Minyak dan Gas Bumi	0	0,00
b	Pertambangan tanpa Migas	308.764,43	325.118,69
c	Penggalian	2.042.642,90	2.219.742,85
3	Manufacturing	8.553.816,92	9.195.195,11
a	Industri Migas	0	0,00
1	Pengilangan Minyak Bumi	0	0,00
2	Gas Alam Cair	0	0,00
b	Industri Tanpa Migas	8.553.816,92	9.195.195,11
1	Makanan, Minuman dan Tembakau	2.158.882,16	2.355.420,35
2	Tekstil, Brg. Kulit & Alas kaki	3.424.707,34	3.672.901,96
3	Brg. Kayu & Hasil Hutan lainnya	285.061,14	301.874,64
4	Kertas dan Barang Cetakan	21.706,60	22.508,06
5	Pupuk, Kimia & Brg. dari Karet	508.273,66	539.567,66
6	Semen & Brg. Galian bukan logam	1.985.302,62	2.127.734,03
7	Logam Dasar Besi & Baja	0,00	0,00
8	Alat Angk., Mesin & Peralatannya	167.128,27	172.311,63
9	Barang lainnya	2.755,13	2.876,78
4	Electricity, Gas & Water Supply	863.207,12	898.671,93

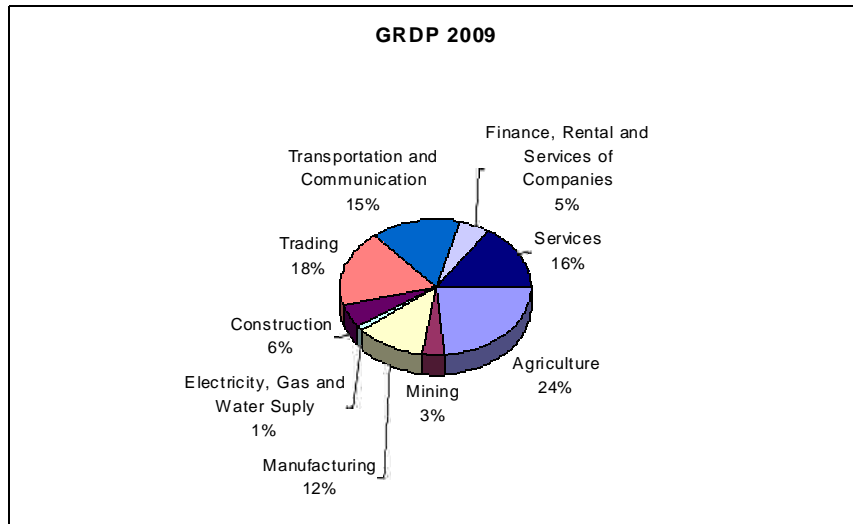
1	Listrik	789.428,64	816.888,55
b	Gas	0,00	0,00
c	Air Bersih	73.778,47	81.783,38
5	Construction	3.904.656,99	4.313.529,12
6	Trading	12.529.351,36	13.726.557,06
a	Perdagangan Besar & Eceran	12.128.765,52	13.291.244,83
b	Hotel	108.003,22	117.406,58
c	Restoran	292.582,63	317.905,65
7	Transportation & Communication	10.603.054,63	11.542.617,68
a	Pengangkutan	8.697.860,69	9.481.670,59
1	Angkutan Rel	51.906,34	55.566,22
2	Angkutan Jalan Raya	6.083.926,22	6.649.418,52
3	Angkutan Laut	584.335,22	600.985,02
4	Angk. Sungai, Danau & Penyebr	242.681,81	261.209,78
5	Angkutan Udara	971.155,16	1.085.638,86
6	Jasa Penunjang Angkutan	763.855,93	828.852,19
b	Komunikasi	1.905.193,94	2.060.947,09
1	Pos dan Telekomunikasi	0,00	0,00
2	Jasa Penunjang Komunikasi	0,00	0,00
8	Finances, Rental and Services of Companies	3.462.672,60	3.783.103,04
a	Bank	1.079.687,49	1.179.058,35
b	Lembaga Keuangan tanpa Bank	850.031,27	929.238,38
c	Jasa Penunjang Keuangan	0,00	0,00
d	Sewa Bangunan	1.437.073,57	1.569.686,92
e	Jasa Perusahaan	95.880,26	105.119,39
9	Services	11.073.303,78	12.170.959,82
a	Pemerintahan Umum	7.636.538,27	8.339.281,95
1	Adm. Pemerintahan & Pertahanan	4.770.743,03	5.228.217,66
2	Jasa Pemerintah lainnya	2.865.795,23	3.111.064,28
b	Swasta	3.436.765,51	3.831.677,88
1	Sosial Masyarakat	1.319.760,05	1.479.171,20
2	Hiburan & Rekreasi	329.044,25	369.142,15
3	Perorangan & Rumah tangga	1.787.961,21	1.983.364,53
	TOTAL	70.614.210,04	76.295.430,26

The overall condition of economy in West Sumatera can be described through some economic indicators. Gross Domestic Regional Product in 2008 and 2009 was still mainly contributed by Agriculture sector at 24 percent. It is followed by Trading at 18 per cent. For service sectors are 16 per cent but still dominated by government sector. The least contribution are from mining sector and electricity, gas and water supply sector, with only 3 per cent and 1 percent respectively. Agriculture also provided almost 50 per cent of job opportunity. Economic growth

was 6.34 per cent in 2007 and also dominated by agriculture sector. Per capita GDRP was Rp 7.006.098. Rate of inflation in Padang reached 12.68 per cent. The highest inflation in June reached 4.09 per cent.

The description of economic indicator above, the economic condition of West Sumatera Province still heavy rely on primary sectors, such as agriculture. The economic structures change slowly, manufacturing industries and tourism are undeveloped, investment relatively low only 780 billion rupiah of domestic investment and 58 million dollar of foreign investment in 2007, the rate of employment is high, big private companies are under developed, the limitation of infrastructure is an obstacle for development. And the level of poverty still high (22.07 per cent). The micro economic still under developed, and job opportunity still rely on agriculture.





Chapter 2

Local Government Annual Budget of West Sumatera Province

2.1 Summary of Local Government Annual Budget Revenues

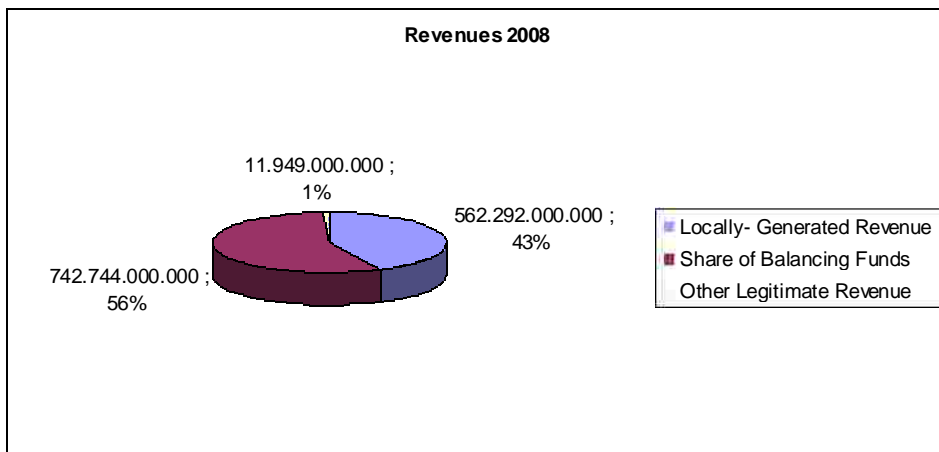
Table 2.1
Summary of Local Government Annual Budget Revenues of West Sumatera in 2008 - 2009

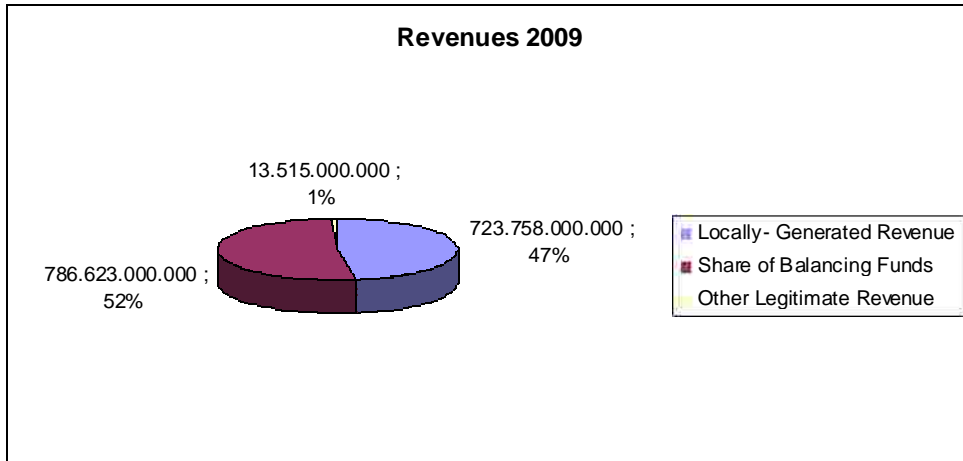
No	Description	2008	%	2009	%
		Costing		Costing	
1	2	3	4	5	6
1	Revenue	1,316,985,000,000		1,523,896,000,000	
a.	Locally- Generated Revenue	562,292,000,000	43%	723,758,000,000	47%
	1. Local government Taxes	465,472,000,000	35%	617,070,000,000	40%
	2. Local Government Service fee	37,545,000,000	3%	26,668,000,000	2%
	3. Proceed from Local Government Owned Companies and Separated Proceeds From Management of Regional Asset	34,750,000,000	3%	37,120,000,000	2%
	4. Other legitimate locally-generated revenue	24,525,000,000	2%	42,900,000,000	3%
b.	Share of Balancing Funds	742,744,000,000	56%	786,623,000,000	52%
	1. Tax/Non Tax Revenue Sharing	86,501,000,000	7%	90,501,000,000	6%
	2. Block Grant	631,676,000,000	48%	648,943,000,000	43%
	3. Special Grant	24,567,000,000	2%	47,179,000,000	3%

	4. Others				
c.	Other Legitimate Revenue	11,949,000,000	1%	13,515,000,000	1%
	1. Grants	11,949,000,000	1%	13,515,000,000	1%
	2. Emergency Fund				
	3. Fund for special autonomy				
	4. Others				
	TOTAL	1,316,985,000,000	100%	1,523,896,000,000	100%

2.2 Analyzing of Local Government Annual Budget Revenues

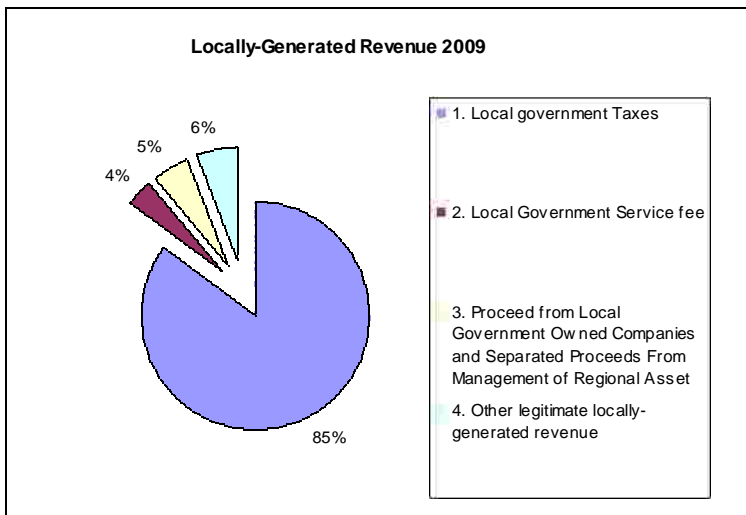
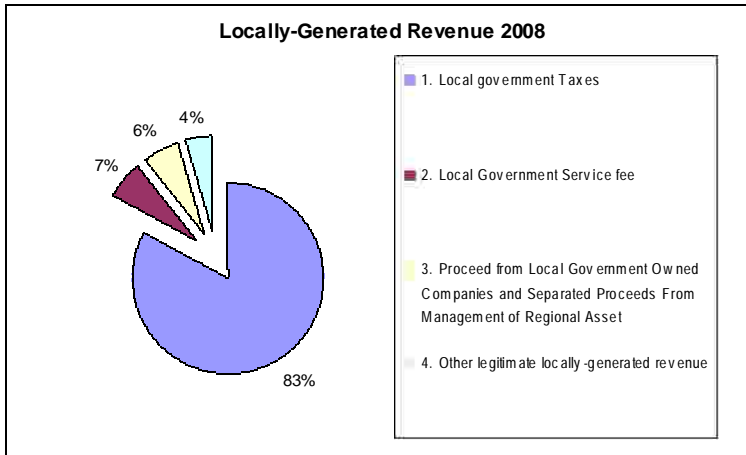
As we can see from the table, the total revenues of West Sumatera Province are increased from 1,316.985 Billion in 2008 to 1,523.896 billion in 2009, but still dominated by balancing fund from the national government, which account for 56 per cent from the total revenues in 2008 and 52 per cent of the total revenues in 2009 and the biggest proportion of balancing funds is block grant at 48 per cent in 2008 and decreased to 43 per cent in 2009. This means that the government of the West Sumatera Province still rely on the national government to funded their expenditures.





2.3 Analyzing of Locally-Generated Revenues

The main source of Locally-Generated Revenues is taxes with 83 per cent of the locally-generated revenues in 2008 and increased to 85 per cent in 2009. Profits from local government services fee is very low only 7 per cent of the revenue in 2008 and decreased to 4 per cent in 2009. Similarly, profits from local government owned companies and separated proceeds from local government assets make small contribution to locally-generated revenues only 6 per cent in 2008 and 5 per cent in 2009 and other legitimate locally-generated revenue as the least contribution to locally-generated revenues with only 4 per cent of the total in 2008 and 6 per cent of the total in 2009.

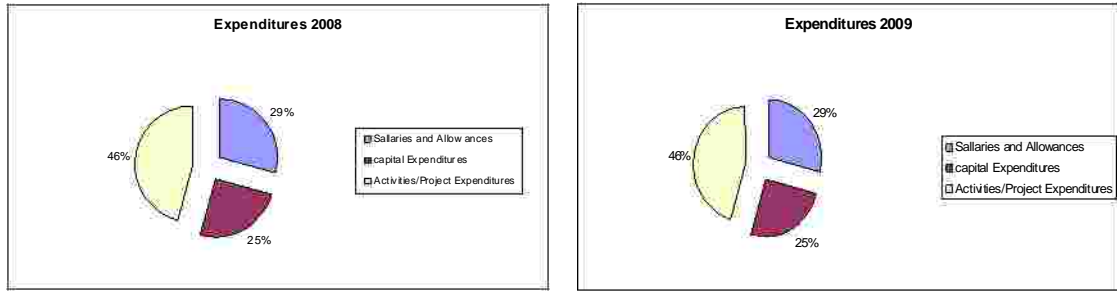


2.4 Summary of Local Government Annual Budget Expenditures

No	Description	2008	%	2009	%
		Costing		Costing	
1	2	3	4	5	6
1	Expenditure	1,485,860,000,000		1,707,693,000,000	
	Local Government Apparatus Expenditure	703,757,000,000	47%	784,227,000,000	46%
	Personnel Expenditure	373,137,000,000	25%	429,627,000,000	25%
	Interest Expenditure				
	Subsidize Expenditure				
	Grant Expenditure	21,615,000,000	1%	13,670,000,000	1%
	Social Assistance Expenditure	30,521,000,000	2%	25,324,000,000	1%
	Profit Sharing Expenditure (Regency/Municipality)	185,860,000,000	13%	254,152,000,000	15%
	Profit Sharing Expenditure (Regency/Municipality)	88,135,000,000	6%	57,104,000,000	3%
	Unexpected Expenditure	4,489,000,000	0%	4,349,000,000	0%

b.	Public Service Expenditure	782,103,000,000	53%	923,466,000,000	54%
	Personnel Expenditures	65,110,000,000	4%	67,368,000,000	4%
	Good and services Expenditure	351,662,000,000	24%	424,774,000,000	25%
	Capital Expenditure	365,331,000,000	25%	431,324,000,000	25%
SURPLUS/(DEFISIT)		(168,875,000,000)		(183,797,000,000)	
2	Financing	168,874,000,000		218,770,000,000	
a.	Local government revenue	179,374,000,000	106%	225,949,000,000	103%
	1. Balance remaining from previous years budget	179,374,000,000	106%	225,949,000,000	103%
	2. Transfer from reserve fund				
	3. Income from bond				
	4. Proceeds from sales of separate government assets				
	5. Revenue from payment for loan				
b.	Local government Expenditure	10,500,000,000	6%	7,179,000,000	3%
	1. Transfer to reserve fund				
	2. Equity participation	10,500,000,000	6%	7,000,000,000	3%
	3. Payment of debts that fall due		0%	179,000,000	0%
	4. Local debt				
	TOTAL	189,874,000,000		233,218,000,000	

From the two fiscal years, the expenditure of local government is increased from 1,458,860 billion rupiah in 2008 to 1,707.693 billion rupiah in 2009. In general, this expenditure can be divided into three elements: salaries and allowances (personnel expenses), capital expenditures and activities. As we can see from the graph, the proportion of the expenditure in 2008 exactly same with the proportion of expenditure in 2009. Activities have the biggest proportion with 46 per cent of the total expenditures. It is followed by salaries and allowances with 29 per cent of the total expenditures and the least proportion is capital expenditures with 25 per cent. Its mean the local government annual budget of West Sumatera in 2008 and 2009 still logically acceptable and the biggest proportion is project itself.



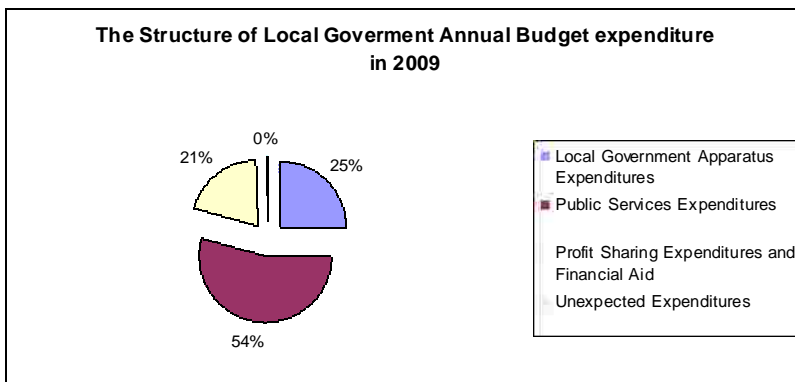
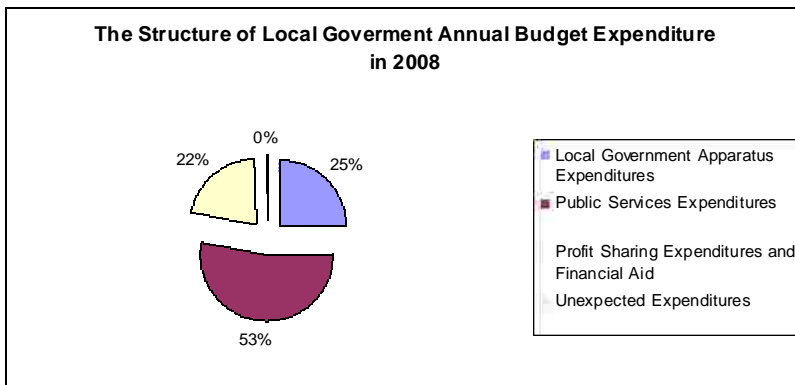
In 2008 and 2009 fiscal years, the local government of West Sumatera experienced deficit as much 168.874 billion rupiah and 218.770 billion rupiah respectively, because the government expenditure exceed the government revenue. Therefore, the government use financing component intended to cover these deficit, they use balance remaining from previous years budget as much 179.374 billion rupiah in 2008 and 225,949 billion rupiah in 2009, and they also use equity participation as much 10.5 billion rupiah in 2008 and 7.179 billion rupiah in 2009.

2.5 The Structure of Local Government Annual Budget Expenditures

There are four elements of expenditures according to Minister of Interior Decree No. 29 of 2002, they are:

1. Local government apparatus expenditures: this expenditure consist of personnel expenditure and capital expenditure, that occupied 25 per cent of total budget or 374 billion in 2008 and also 25 per cent of total budget or 429 billion in 2009.
2. Public services expenditure consist of personnel expenditure, good and services, and capital expenditures are allocated 53 per cent of total annual budget in 2008 and increased to 54 per cent in 2009.

3. Profit sharing expenditure; this expenditures consist of profit sharing expenditure (regency/municipality), Social Assistance Expenditure, and Grant Expenditure. This expenditure occupied 22 percent of the total annual budget 2008 and decreased to 21 per cent in 2009.
4. Unexpected expenditure occupied less than 1 per cent of the total annual budget.

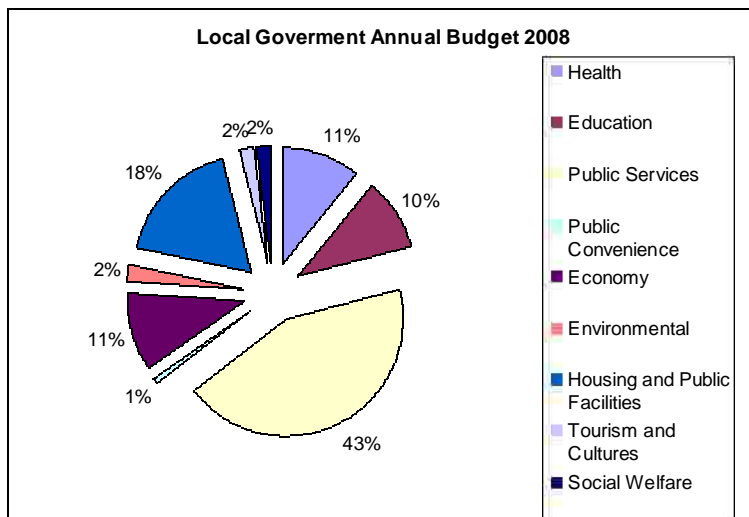


It is clearly seen, if the structure of local government annual budget expenditures is relatively same between 2008 and 2009. The largest expenditures actually on general administration (salaries), operations and maintenance, and capital expenditures whose results, benefits, and impact are not enjoyed directly by the public. Furthermore, since we know that West Sumatera is prone to natural

disaster Unexpected Expenditures should have more budget or more than 1 per cent of the total annual budget.

2.6 Analyzing of Local Government Annual Budget Expenditures

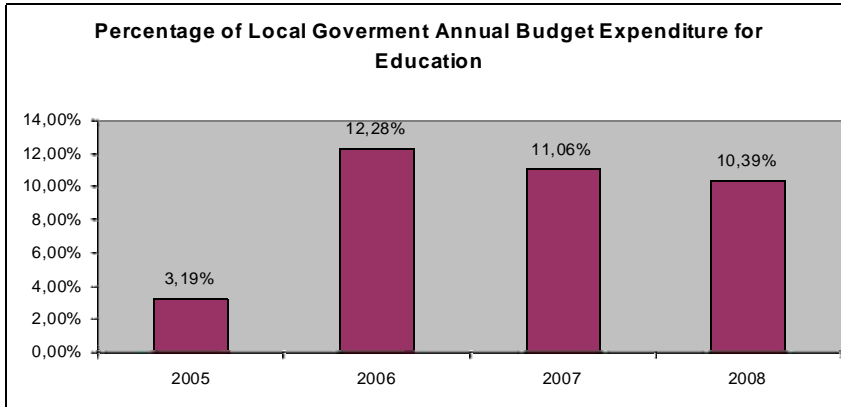
From the graph, we can see that government allocated the biggest of annual budget on public services with 43 per cent of the total annual budget. It is followed by housing and public services with 18 per cent of the total annual budget. Health and Economy have same allocated budget at 11 per cent, and education with only 10 per cent. The rest, Public Convenience, Environmentally, Tourism and Cultures, and Social Protection only have budget around 2 per cent.



Source: www.budget-info.com

Policy aspect

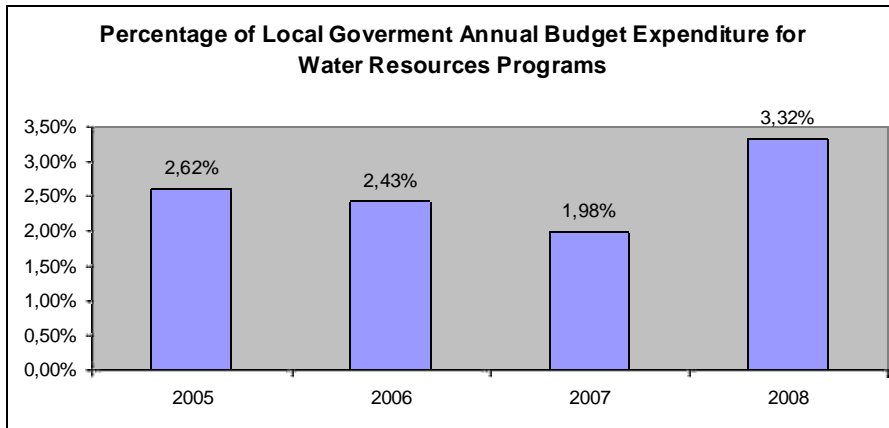
According to the vision and mission, to build good quality of human resources, the government try to increase budget on education sector as we can see from the table below, but unfortunately administration budget still occupy more budget about 9 per cent of total local government budget. An also, actually capital expenditures should occupy more budget than salaries and allowances because the government need more facilities to achieve the goals of developments.



Economic/financial aspect

Since 2005, unemployment rate still high more than 10 per cent and government want to reduce to be 5,1 per cent in 2009 but the budget to develop economic sector relatively small, expenditure on economic sector only 11 per cent. From GRDP table in 2008 and 2009, agriculture make the biggest contribution on GRDP and provide almost a half of job opportunity, so its better if the government allocate more budget on this sector.

To accelerate economic development and to maintenance stability economy, the government allocated 18 per cent of total annual budget on Infrastructure development (Housing and Public Facilities), now mostly dominated by road development, bridges at 14.75 per cent of total annual budget and only 4 per cent of total annual budget for housing. And the government allocated 3.32 per cent of total annual budget to water resources program to provide water supply for all communities



Administrative aspect

The government of West Sumatera Province followed regulation and policy such as Law No. 17 of 2003 about Government Finance, Law No. 32 of 2004 about Local Government and Law No. 33 of 2004 about Financial Balance Between National Government and Local Government when they stipulate their annual budget and publish to public according to Government Regulation No. 56 of 2005. As result, the national government awarded the local government as one of the best government on finance accountability report in 2008.

Social aspect (Justice and propriety)

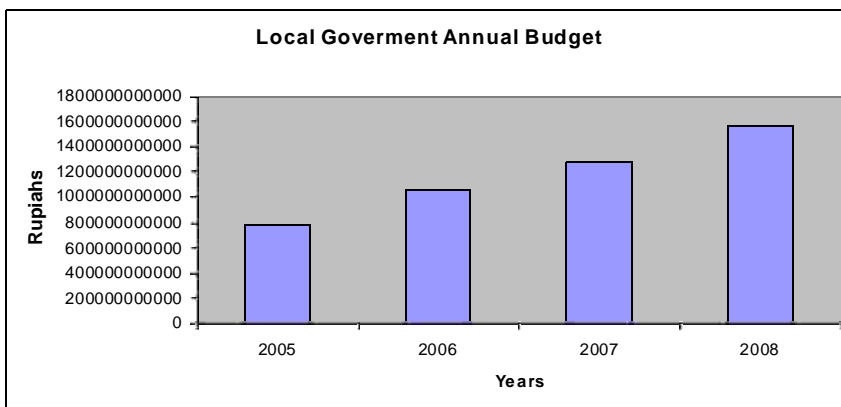
The number of poor people are 22 per cent of the population in 2008 and the government want to reduce to be 8,2 per cent in 2009, but as we can see from the graph, social welfare has less attention from the government, budget for this sector only 2 per cent of the local government budget. And also from the structure of local government annual budget expenditures reflected that salaries component still have big proportion in annual budget. The salaries have more benefit to government official than positive impact for the poor people.

Beneficiary/Gender Analysis

Women and children have good priority on the local government programs. It is reflected on the local government annual budget from 2005 to 2008. The government of West Sumatera Province try to increase budget for health programs, from 10.90 per cent to 14.65 per cent of the local government annual budget. Simultaneously, the program also increased from 10 programs in 2005 to 16 program in 2008 or 3.678 billion rupiah per program. As the result, a spark of live is increased to 68.9 year, rate of mortality in mothers and babies are decreased slowly and the availability of drugs are increased. Meanwhile, for baby nutrient and nagari siaga activities, the programs has the least impact.

Chronological analysis

The trend of local government annual budget is projected to increase from year to year. In 2005, the local government annual budget is 780.024.636.159 rupiah. It is increased significantly to reach 1.571.039.398.362 rupiah in 2008.



Chapter 3

Recommendations and Strategic

Recommendations on Revenues and Expenditures

1. The government of West Sumatera Province can bolster their finance by intensive revenue mobilization. Since, taxes and user charges are more effective in terms of strengthening accountability between service providers and service users than are "other" own-source revenues. Therefore, "other" own-source revenues should be minimized as much as possible, so that all significant sources of Locally-Generated Revenues can be monitored.
2. For the next future local government annual budget, expenditures on local government apparatus should be minimized and allocating higher shares to activities or project expenditures and try to create programs to elevate poverty, also pro-gender and children, increasing the rate of women participation in development. In developed economies, spending on government administration is usually less than 5 percent (World Bank, 2007a). To strengthen micro and macro economy, as we realize that the agriculture make greater contribution on GRDP, in this sector, the expenditure should be increased more than 10 per cent per year.
3. Local government annual budget expenditures can eliminating unnecessary spending through the application of the engineered efficiency improvement models, for example, use high technology on agriculture industry, since the number of population relatively low, its mean lack of the provision of labors. And also use technology on providing public goods and services.

Strategic expenditure on crucial project and revenue sources

West Sumatera has many economic potencies. Seashore along west beach and Mentawai Island have potential economic to explore in the future. Fisherman can catch many kind of fish in near seashore. Finally, since the geography area of West Sumatera has wide range from mountainous area to lowland in the beach, so when propose a project should consider deeply on the geographic condition.

There are three economic sectors that the government should pay more attention because these sectors relatively easy to develop in short time and can absorb many people to reduce the number of unemployment. They are mining, industries and tourism. To finance the project, they can choose one of the three alternatives: public private partnership, private sector participation and privatization.

Mining

West Sumatera has natural resources, divided into three classes; they are A Class, B Class, and C Class. For energy resources, coal occurred in Sijunjung regency and Sawahlunto Municipality. B Class, such as mercury, sulfur, iron sand, copper. It is located in Sijunjung Regency, Solok, lima puluh kota, Pasaman and Tanah Datar. C Class such as sandstone almost in every city in West Sumatera and Limestone. The government can attract investor to invest in this sector and use public private partnerships or privatization systems.

Industries

The industries of West Sumatera province are dominated by small scale industries and household. The number of industries 47,819 units, consist of small industries

and middle – big industries, with ratio 203 : 1. In 2001, investment in large middle – big Industries reach 3,052 billion rupiah or 95.60% of the total investment, in the investment for small scale industries only 1,412 billion rupiah or just 4.4% of the total investment. Production value of big industries reach 1,623 billion or 60% of the total production. And the production of small scale industries just 1,090 or 40 per cent from the total production. In developed countries that these sector have greater contribution almost reach 80% of the total production.

West Sumatera has abundant water resources. Unfortunately, these resources still underdeveloped and only Singkarak and Maninjau Lake that developed to be electricity generator. And the government can use public private partnerships or even privatization systems.

Tourism

West Sumatera Province is famous for their beautiful nature and Minangkabau Culture. Commonly, every regency and municipality in West Sumatera Province has at least one undeveloped tourism object and has prospect to develop in the future. The categories can be natural view, mountains, fountains, etc.

Culture tourism has high prospect to develop in West Sumatera. Minangkabau Culture and Mentawai Culture are one of unique cultures in Indonesia and will be an interesting tourism destination for domestic or foreign tourist. And also, there are many tourism destination in West Sumatera such as: Lake (Singkarak, Maninjau, Diatas and Dibawah), ngarai sihanouk, lembah harau, lembah anai or cubadak Island. The best system to finance the project is privatization system.

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