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Budget and budgetary procedures

The annual process of preparing and discussing the national budget (*Anggaran Pendapatan Dan Belanja Nasional* - APBN) forms a central element in the short-term policy-making and planning process, since the APBN transforms the medium-term objectives of the Repelita and the GBHN into short-term work programmes of the administration. The budget defines not only financial and monetary parameters, but indicates the policy direction of the government for the coming year, clarifies policy priorities of the administration, and as such is an important guideline for decisions of the private sector.

The budget cycle comprises five stages:

1. planning and preparation,
2. authorization,
3. execution,
4. control,
5. budgetary accounting.

For each of these stages different institutions in the system of government and of the public administration are functionally responsible:

- The **planning and preparation** of the budget is done by the Department of Finance based on the presentations from the state institutions and the central government institutions (departments, non-departmental institutions). The national planning agency BAPPENAS shares responsibility with the Department of Finance for the selection of development projects and the preparation of the development budget. The draft budget is then presented by the President to the parliament, the DPR, in January of each year for approval.
- The **authorization** of the budget is the prerogative of the parliament, the DPR, which passes the budget into law (*Undang-Undang APBN*) following the debate in plenary and committee sessions.
- **Execution** of the budget is the responsibility of the administration, which carries out activities based on the allocations of the budget. In the execution of the budget, it is again the Department of Finance which becomes the main

player, although BAPPENAS has also its share of responsibility regarding the development budget.

- **Control** of budget implementation is done by the State Audit Board (the BPK) which informs the parliament (the DPR) about its findings. Only the BPK has the authority to approve the Annual Financial Reports for budgetary accounts before they are submitted to the parliament. In addition to the BPK as "high state institution" (*lembaga tinggi negara*), the Control Agency for Finance and Development (BPKP) exercises auditing functions and controls the proper utilisation of budgetary funds. The BPKP is an independent non-departmental organisation which reports directly to the President.
- **Budgetary accounting** (*Perhitungan Anggaran Negara*) is done by the government. Its report on the use of the budget has to be approved by the parliament.

Although the parliament has the jurisdiction to approve the draft budget and to approve the government's report on the budget accounts, the influence of the DPR in the budgetary process is less profound than in many other countries. During hearings in its committees the DPR can review and discuss the planned activities of the government. However, the draft budget format allocates planned expenditure of the development budget by sectors and sub-sectors only, not by programmes or projects. Therefore the DPR is unable to scrutinise the expenditure details of the development programmes and can only review the general direction of the budget, a situation that has been criticized especially by the two minority parties PPP and PDI. In addition, the existence of non-budgetary funds (like the funds from the reforestation fund) remove substantial resources from the control of the DPR.⁽¹⁾

5.1 The structure of the budget

The national budget is a balanced budget in the sense that the expenditure side must not exceed the revenue side. Both the revenue and the expenditure side of the budget are divided into routine and development budgets.⁽²⁾

1. Revenue

Since 1984/85 the domestic routine revenue is categorised as revenues from oil and gas, and non-oil/non gas revenues. The latter consists of a) tax revenue from direct taxation (like income tax) and indirect taxation (like consumption or value-added taxes), revenue from customs and excise, and others; and b) of non-tax revenue (like education revenues, revenues from sales and services, revenues from the attorney's office and the courts, revenues from reimbursements and special revenues like dividends or profits from state-owned enterprises).

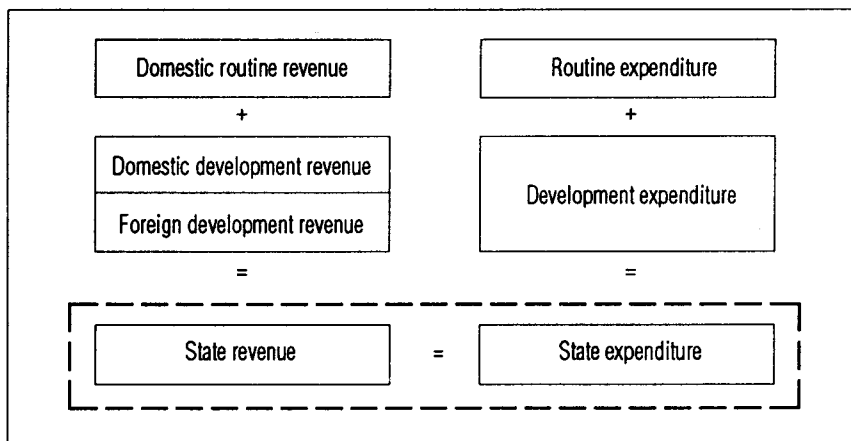
Domestic development revenue is basically the saving between routine expenditure and the domestic routine revenue. Foreign development revenue consists of programme aid (like food and non-food aid, foreign exchange loans), and project aid.

2. Expenditure

The routine expenditure covers five categories of expenditure: personnel cost of the civil service (including pensions), costs for routine operations and maintenance of buildings and equipment, the procurement of material and equipment, official travel, and subsidies and grants. The financing of foreign and domestic debts is also included in the routine budget.

The development budget covers the costs for development projects. It is divided into 18 sectors (which can be further divided into sub-sectors). Expenditure is earmarked according to 10 categories of costs: costs for project preparation (like surveys and planning), salaries and wages, land, material, equipment and machinery, transportation, travel costs, mobilization costs, miscellaneous costs, and import duties and taxes. Although the development budget should cover the costs for new projects, i.e. basically investment costs, it also includes a variety of recurrent expenditure for personnel (like project honoraria, travel costs, per-diem allowances) and for expendable supplies (Bintoro 1991:190).

Figure 20: Basic structure of the state budget



One of the weaknesses of the Indonesian budget structure is the sometimes difficult coordination between the routine budget and the development budget (Bintoro 1991:195), for instance if programmes funded by the development budget later on result in higher routine expenditure requirement.

The budget document classifies routine expenditure according to the type of activity (sector, sub-sector, programme, activity or *kegiatan*), organisational unit (major department/institution or *bagian anggaran*, organisational sub-unit, location), type of expenditure (*jenis pengeluaran*) and detailed type of expenditure (*perincian jenis pengeluaran*). Each individual allocation in the routine budget has a 16-digit classification number. Development expenditure is classified according to sector, sub-sector, programme, project, organisational unit, and location, and carries a 17-digit classification number.

Figure 21: Components of budget revenue and expenditure

State Revenue	State Expenditure
1. Domestic Routine Revenue = - oil and gas revenue + - non-oil/ non-gas revenue (- Taxation revenue: direct taxation, indirect taxation, customs and excise, others - Non-taxation revenue: education revenue, revenue from sales and services, revenues from the attorney's office/ courts, revenue from reimbursement, special revenues)	1. Routine Expenditure - personnel cost of the civil service (including pensions) - costs for routine operations and maintenance - the procurement of material and equipment - official travel - subsidies and grants 2. Financing of foreign and domestic debts (interest rates, principals)
2a. Domestic Development Revenue (= Difference between Domestic Routine Revenue and Domestic Routine Expenditure = Government Savings)	2. Development expenditure
2b. Foreign Development Revenue • programme aid - food aid - non-food aid - foreign exchange loan • project aid	

5.2 Patterns of state revenue and state expenditure

On the revenue side of the budget, one of the most interesting aspects is the declining role of oil and gas revenue (see Table 12). Whereas revenue from oil and gas amounted to nearly two-third of the total domestic revenue of the government in 1983/84, this share declined continuously to around 24 percent in 1993/94, and

is projected to decrease even further until the end of the Repelita VI period. Simultaneously the share of the non-oil/non-gas revenue (especially from taxes) increased from 43.1 percent in 1983/84 to 76.1 percent in 1993/94. The 1994/95 and 1995/96 budgets calculated the total share of the non-oil/ non-gas revenue as 81.8 and 79.9 percent, respectively (see Table XI in the Annex).

This trend clearly reflects the success of the government's policy to diversify revenue sources from the oil sector and to concentrate on the non-oil/ non-gas sources of revenue. In this connection, the efforts of the government to widen and deepen the tax basis of state revenue has been quite successful: the combined share of the income tax and the value tax as percentage of the non-oil/non-gas revenue nearly doubled from 34.8 percent in 1968 to 64.8 percent in 1989/90.

Table 12: Government revenues and expenditure, 1973/74 - 1998/99

	1973/74*	1983/84*	1988/89*	1993/94*	1998/99**
As percentage of total government domestic revenue					
Oil revenue	35.5	65.9	41.4	23.9	15.6
Non-oil revenue	64.5	34.1	58.6	76.1	84.4
Routine expenditure	73.7	58.3	90.2	74.2	69.0
Government savings	26.3	41.7	9.8	25.8	31.0
As percentage of development budget					
Routine expenditure	158.2	85.0	169.3	151.2	150.9
Government savings	65.4	60.8	18.5	52.5	67.7
Foreign aid	45.2	39.2	81.6	40.4	32.3
* actual budget figures ** projection in Repelita IV					

Source: Booth 1994, p.15 (Table 7)

The development revenues consist of government savings (the difference between routine expenditure and routine revenue) and foreign aid. Government savings as a percentage of the total domestic revenue recovered from a record low of less than 10 percent in 1988/89 to around a quarter of the total domestic revenue in 1993/94. As a percentage of the development budget, government savings continues to constitute the biggest component with more than 50 percent in 1993/94. The percentage of foreign aid decreased from around 45 percent of the development budget in 1973/74 to around 40 percent in 1993/94 (the year 1988/89 being the exception), and is projected to decline further. The 1994/95 and 1995/96 budgets calculated the share of foreign aid in the development expenditure below 40 percent.

Table 13 shows the government revenue in absolute figures between 1968 and 1993/94. Again it can be seen that the non-oil/non-gas revenue increased dramatically after 1983/84 (from 4912.5 billion Rupiah in 1983/84 to 39722.1 billion Rupiah in 1993/94). Income tax and value-added tax are the biggest single tax components and the biggest non-oil/non-gas revenue components, while non-tax revenue is the third biggest non-oil/non-gas revenue component.

Table 13: Central government revenue (in billion Rupiah)

	1968	1983/84	1988/89	1993/94
Oil and Gas revenue	33.3	9520.2	9527.0	12507.7
Non-Oil/Non-Gas revenue:				
a) Total	116.4	4912.5	13477.3	39722.1
b) out of which from				
1. Income Tax	25.3	1923.3	3949.4	15273.1
2. Value Added Tax	15.2	830.6	4505.3	12282.3
3. Import Duty	37.3	557.0	1192.0	2888.1
4. Tariffs	16.6	773.2	1389.9	2559.6
5. Export Duty	13.9	104.0	155.6	13.5
6. Miscellaneous Taxes	3.4	64.0	292.1	285.2
7. Land and Building Tax	-	132.4	424.2	1534.3
8. Non-Tax revenue	4.7	519.0	1568.8	4936.0

Source: GOI 1991c, p. 537 (Table 1), p. 545 (Table 3); GOI 1994, p. 205 (Table IV-3)

Table 14 gives an overview of the pattern of central government expenditure in 1983/84 and during the Repelita V period. As can be seen, there is a rather constant 40:60 ratio between development and routine expenditure in this period. Except for the year 1983/84 (i.e. before the collapse of the international oil price), debt servicing is the single biggest component of the routine expenditure with around 45 percent. Personnel expenditure is around 30 percent, and the block grants to the autonomous regional governments (SDO) between 14-18 percent. The share of other routine expenditure (like subsidies for food and oil) decreased sharply to 1.2 percent in 1993/94.

The development budget covers the costs of the development projects. The draft budget presented to the DPR for approval does not specify the detailed projects and programmes but only the allocation to sectors and sub-sectors. The budget allocation to programmes and projects is done later by a presidential decision. Table 15 gives an overview of the sectoral allocation of the development expenditure in 1988/89 and in 1993/94. While the overall development expenditure increased by around 110 percent between 1988/89 and 1993/94, development

expenditure for manpower and transmigration, rural and urban development, religious affairs, health/social welfare/family planning, and information showed above-average growth rates. Expenditures for industry and for science and development showed a negative growth, while expenditure for housing, enterprise development and mining/energy had below-average growth rates.

Table 14: Central government expenditure (in billion Rupiah)

	1983/84	1989/90	1990/91	1991/92	1992/93	1993/94
1. Total Expenditure	18311	38165	49450	51992	58166	64460
2. Development expenditure (% of 1)	9899 (54.1)	13834 (36.3)	19452 (39.4)	21764 (41.8)	24135 (41.5)	25661 (39.8)
3. Routine expenditure (% of 1)	8412 (45.9)	24331 (63.7)	29988 (60.6)	30228 (58.2)	34031 (58.5)	38799 (60.2)
3.1 Personnel Expenditure (% of 3)	2757 (32.8)	6202 (25.5)	7054 (23.5)	8103 (26.8)	9466 (27.8)	11214 (28.9)
3.2 Material expenditure (% of 3)	1057 (12.6)	1702 (7.0)	1830 (6.1)	2373 (7.9)	2870 (8.4)	3042 (7.8)
3.3 Subsidies to Regions (% of 3)	1547 (18.4)	3566 (14.7)	4237 (14.1)	4834 (16.0)	5283 (15.5)	6796 (17.5)
3.4 Debt Service payments (% of 3)	2103 (25)	11939 (49.1)	13395 (44.7)	13434 (44.4)	15217 (44.7)	17288 (44.6)
3.5 Other expenditure (% of 3)	948 (11.3)	923 (3.8)	3483 (11.6)	1484 (4.9)	1195 (3.5)	459 (1.2)

Source: World Bank 1994a, p. 190 (Table 5.3), GOI 1994, p. 211 (Table IV-4)

In line with the general orientation of the Repelita VI, the 1995/96 development budget emphasized five sectors with an allocation of more than 2000 billion Rupiah each: regional development (including the transmigration programme and the various INPRES programmes⁽³⁾, transportation, mining and energy, education, and irrigation systems.

Table 15: Development expenditure 1988/89 and 1993/94 (in billion Rupiah)

	1988/89	1993/94	Change (%)
1. Agriculture and Irrigation	1614.0	2976.9	+ 84.4
2. Industry	446.8	355.3	- 20.5
3. Mining and Energy	2073.4	3449.9	+ 66.4
4. Transport, Communication, Tourism	2010.5	5191.6	+ 158.2
5. Trade and Cooperatives	314.6	719.4	+ 128.7
6. Manpower and Transmigration	265.8	836.5	+ 214.7
7. Rural and Urban Development	1137.4	3632.5	+ 219.4
8. Religious Affairs	17.7	82.2	+ 364.4
9. Education, Youth, Culture	1606.0	3263.9	+ 103.2
10. Health, Social Welfare, Women, Family Planning	339.1	1145.8	+ 237.9
11. Housing	481.3	860.7	+ 78.8
12. Law	27.1	80.0	+ 195.2
13. Defense	555.0	1147.0	+ 106.7
14. Information	27.1	120.6	+ 345.1
15. Science and Technology, Research	720.8	521.6	- 27.6
16. Public Administration	151.2	368.3	+ 143.6
17. Enterprise Development	237.9	363.9	+ 53.0
18. Environment	225.1	545.1	+ 142.2
Total	12550.7	25661.1	+ 104.5

Source: GOI 1994, p. 219f (Table IV-7)

5.3 The budgetary process

The Indonesian budget year (*tahun anggaran*) runs from 1 April to the 31 March. The budgetary process usually starts in June of the preceding year with the Department of Finance announcing a first forecasting of the expected state revenues for the next budget year, and sending a Budget Circular (*Surat Edaran*) to all departments and agencies.⁽⁴⁾ A first sectoral allocation of the expected development funds is done by BAPPENAS in cooperation with the regional development agencies, and departments and agencies prepare proposals for the routine budget (*Daftar Usulan Kegiatan* - DUK) and for the development budget (*Daftar Usulan Proyek* - DUP). Based on these proposals and subsequent consul-

tation meetings on the central government level and between central government and the provinces, the Department of Finance and BAPPENAS prepare the draft budget in November/December, which is then approved by the cabinet and presented by the President to the DPR in early January. The parliament discusses the draft budget in committee sessions and in hearings with the respective departments and government agencies. The Special Committee on the State Revenue and Expenditure Budget plays a leading role in this process. Parallel to the discussion in the DPR, the department and central government agencies prepare detailed implementation plans and cost estimates for both the routine budget (*Daftar Isian Kegiatan* - DIK) and the development budget (*Daftar Isian Proyek* - DIP). Following the approval of the draft budget by the DPR, DIKs and DIPs are examined and approved by the Department of Finance (and BAPPENAS in the cases of DIPs), and form the basic elements for the execution of the budget (i.e. the actual disbursement of funds). For development projects, a more specific description of planned activities and expenditures (*Petunjuk Operasional* - PO) is prepared on the basis of the approved DIP. Although the budget year starts on the 1 April, actual funds are often not available before May or June.

Following the end of the budget year, the government prepares the account of the budget (*Perhitungan Anggaran Negara*), which is being audited by the BPK, and then submitted to the DPR for final approval.

Beside the national budget, the autonomous regional governments prepare their own regional budgets (*Anggaran Pendapatan dan Belanja Daerah* - APBD). The APBD is also divided into development and routine budgets. The revenue side does not include foreign aid revenue and consists of three main components: own resources (*Pendapatan Asli Daerah* - PAD) like local taxes and non-tax revenues,⁽⁵⁾ the regional share of centrally collected taxes (*bagi hasil pajak*) like the Land and Building Tax PBB, and financial transfers from the central government (like the SDO or allocations in the framework of the INPRES programmes). Since the financial transfers from the central government form the biggest single revenue sources for the regional governments, the regional budgets depend to a large extent on the national budgetary process, and on the allocation of funds by central government institutions to the regions.

Figure 22: The budgetary process

Time period	Activities	Lead agency
June - September	Forecasting of state revenues from domestic and foreign sources Sectoral budget allocation	Ministry of Finance (General Directorate for Budget) Bappenas with regional development agencies (National Consultative Forum/Konsultasi Nasional)
November - December	Preparation of draft State Revenue and Expenditure Budget (APBN)	a) development budget: Bappenas, Ministry of Finance (Directorate General of Budget), planning units of government agencies b) routine budget: Ministry of Finance (Directorate General of Budget)
December	Approval of budget proposal	Cabinet
January	Presentation of budget proposal to parliament (DPR)	President
January - March	Preparation of draft DIP's and submission to Bappenas and Ministry of Finance (Directorate General of Budget) Discussion of draft budget in parliament, consultation DPR-government departments and agencies	Departments and agencies DPR (Commissions, Special Commission of the State Revenue and Expenditure Budget)
March	Approval of draft budget	DPR
April	Start of budget year, approval of submitted DIP's according to approved APBN	Bappenas and Ministry of Finance (Directorate General of Budget)
June - July	Evaluation of implementation of previous budget	

Notes

1. Reportedly the government collected US\$ 1.38 billion for the reforestation funds between 1990 and 1995. In February 1995, the Ministry of Forestry transferred US\$ 271 million to the Department of Finance as contingency state budget reserves (*Jakarta Post* 17 February 1995).
2. See AIDAB 1991.
3. See Chapter 3.6.
4. See AIDAB 1991:19ff.
5. See Chapter 3.6 for details.