

THE REORIENTATION OF INDONESIA'S CENTRALIZED BUDGETARY SYSTEM

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INTRODUCTION

THE Soeharto government in Indonesia has been in power for a quarter of a century, and since the retirement of Singapore's Lee Kuan Yew, it has become the longest ruling regime in ASEAN. Under Soeharto's long rule, the unity of the Indonesian state has been greatly strengthened, and political power has become centralized to a degree unknown in the country's history. This process of centralization was carried out during the 1970s and the first half of the 1980s. But since the latter half of the 1980s, the government has introduced a set of policies to deregulate the economy. At the same time a good deal of discussion has been taking place over the need for decentralizing administration and democratizing the political system. Using an array of published statistical data set forth in seventeen tables and three figures, this paper examines the financial underpinnings that supported the government's centralization of power during the 1970s and 1980s. It also looks at the financial conditions that underlie the present discussions about decentralization and democratization. At the same time this paper will look closely at the specific characteristics and problems which can be seen in the financial relations between the central government and local governments.

The analysis of this paper is primarily directed at the latter half of the 1980s. In an earlier study [10], written in Japanese, I examined the state of finances in Indonesia during the 1970s, when the political structure of the country matured under the Soeharto regime, and the rapid increase in oil revenues provided the financial base for the tremendous expansion of central government power. The present work is a revised study incorporating the latest data covering the 1980s.¹

I. A BRIEF DESCRIPTION OF LOCAL GOVERNMENT ADMINISTRATION

As background to the main topic of this study, I would like to first set out a brief description of Indonesian local government. The present Constitution of the

¹ Since the second half of the 1980s, numerous excellent works dealing with Indonesia's national and local finances have appeared. After the first draft of this paper had been written, this author had the chance to directly consult these works, and he found the arguments presented in them not unlike his own. The works particularly pertinent to the subject in this paper are [1] [2] [3] [4] [11].

Republic of Indonesia, enacted in 1945, contains only one article that discusses local administration. This is Article 18 which says: "The division of the area of Indonesian into large and small regional territories together with the structures of their administrations, shall be prescribed by statute, with regard for and in observance of the principle of deliberation (*permusyawaratan*) in the governmental system of the State, and the traditional rights in the regional territories which have a special character." However, the article-by-article explanation at the time the constitution was enacted provided the following somewhat more substantive description.

I. Because the State of Indonesia is a unitary state, Indonesia, therefore, will not have within its jurisdiction areas which have the character of "states."

The area of Indonesia will be divided into provinces, and these provinces will likewise be divided into smaller regional territories. These regional territories will have an autonomous character (*streek- en locale rechtsgemeenschappen*), titles of so-called autonomous areas during the colonial period, or have the character of purely administrative regions, all to be in accord with rules to be laid down by statute.

In those regional territories with an autonomous character, local representative bodies will be set up, because local government also will be founded upon the principle of deliberation.

II. Within the territory of the State of Indonesia there are to be found about 250 *zelfbesturende landschappen* and *volksgemeenschappen*, titles of so-called self-governing localities during the colonial period, such as the *desa* of Java and Bali, the *nagari* of Minangkabau, the *dusun* and *marga*: names of various social-administrative units.

Those localities have their own traditional structures, and for this reason can be considered to have a special character.

The State of the Republic of Indonesia respects the position of the said special regional territories, and all its regulation affecting those areas will bear in mind their traditional rights.²

Three principles can be observed from the above: (1) that Indonesia is not a federal state; (2) that along with the central government, the existence of provinces and other local autonomous governments is recognized; and (3) that along with state and autonomous local authorities, the existence of specific *adat* (customary law) communities in certain areas, such as villages and clans, is also recognized.

In compliance with the second principle regarding governments of local autonomous governments (*daerah otonom*), there is presently the Basic Law of Local Government Administration, enacted in 1974 (Undang-undang Tentang Pokok-pokok Pemerintahan di Daerah, Law No. 5 of 1974). According to this law, autonomous local governments are divided into two levels: (1) first stage autonomous regions (*daerah tingkat I*, DATI I), meaning the provinces,³ and (2) second stage autonomous regions (*daerah tingkat II*, DATI II), meaning the regencies (*kabupaten*) and cities (*kotamadya*). As of 1989 Indonesia had twenty-seven

² Indonesia, Department of Information, *The 1945 Constitution of the Republic of Indonesia* (Jakarta, 1972), pp. 27-28.

³ These included the Special Capital Region of Greater Jakarta (Daerah Khusus Ibukota Jakarta Raya) and the two special regions (*daerah istimewa*) of Aceh and Yogyakarta.

provinces, including East Timor, 241 regencies (82 of these in Java), and fifty-five cities (twenty-four of these in Java). Each of these local autonomous governments has its own representative body (referred to hereafter as "assembly"). The head of a local government (who holds office for five years) is selected in the following manner. The assembly and the leadership of each fraction in that body confer with the minister of interior (in the case of a first stage autonomous region) or with the provincial governor (in the case of a second stage autonomous region) to select three to five candidates; the assembly then votes on these candidates selecting at least two persons who get the largest number of votes; from these final candidates, the president (in the case of a first stage autonomous region) or the minister of interior (in the case of a second stage autonomous region) selects one to head the local government. As with the national assembly, a fixed number of local assembly members are appointed by the central government. Therefore though called autonomous governments, the method for selecting their heads provides a mechanism through which the central government can strongly make its influence felt.

The above two-level autonomous local government organization is composed of the local governments' own offices, called *dinas*, as well as the local-level offices of the central government. The latter offices in first stage autonomous regions are called *kanwil* (*kantor wilayah*, meaning regional offices) while in second stage autonomous regions they are called *kandep* (*kantor departemen*, meaning department offices). The coexistence of these two kinds of offices can be understood as corresponding to the two functions of local government within the framework of the state administration. These two are the executive functions of specific administrative activities entrusted to the local governments themselves (which is called "decentralization"), and the executive functions of local administration carried on by agents of the central government (which is called "deconcentration"). The heads of the first and second stage autonomous regions are at the same time the highest persons in charge of both kinds of local government offices, namely *dinas* and *kanwil/kandep*. This derives from the dual functions (*dwi fungsi*) of the head of a local government who not only has the power as the chief of his region but also has the authority as the representative of the central government offices at the local level. However, in reality the boundaries of authority and responsibility between the two systems is frequently unclear, and it is not unusual for this to be a cause of confusion in the daily operations of local administration. Another characteristic feature of Indonesian local government is that local governments and the central government are not mutually independent of each other with the former subordinate to the latter in the hierarchical order. But even in this hierarchical order the actual division of powers and functions among the different stages of government is complicated and unclear. There are many cases in which the settlement of troubles and confusion caused by such administrative ambiguity is entrusted to the ad hoc decision of the head of a still higher stage of government [4, pp. 4-5].

Below the two stages of local autonomous governments come the *kecamatan* (districts). These do not have the characteristics of the local autonomous governments, having neither representative bodies nor their own financial resources. As

of the end of 1989 there were a total of 3,625 districts in Indonesia (1,655 of them in Java).

Finally below the districts are the legally constituted administrative villages, known as *desa* in rural districts and *kelurahan* in urban districts. The statement in Article 18 of the constitution about "regional territories which have a special character" refers for the most part to the local units at the administrative village level. During the colonial period, the Dutch, in deference to the diverse customary laws in the colony, allowed the different traditional legal and administrative systems in each area at this level to remain in existence. Following independence the Indonesian government, in accordance with Article 18 and its explanatory document, also started off with the principle of indirect administration in recognition of the country's diversity. But in recent years the method of administration that arose in Java has come to be applied to the entire country. There has been a strong tendency to standardize the formal designation for village using the Javanese words *desa* and *kelurahan*, and in Java itself the tendency can be observed of administrative villages becoming part of the state governing apparatus. This standardization of village administration was provided with a legal basis in 1979 with the enactment of the Village Government Administration Law (Undang-undang Pemerintahan Desa, Law No. 5 of 1979). According to this law the *desa* are self-governing units with control over their own internal affairs, while the *kelurahan* function as the lowest-level unit of national government. Each *desa* has its village headman (*kepala desa*) and village assembly (*lembaga musyawarah desa*). The headman is charged with carrying out the business affairs of the village assisted by village officials (*perangkat desa*). The membership of the village assembly is not selected through election but appointed by the headman from the various leaders within the village. The assembly discusses matter affecting the village such as decisions taken by the headman and the village budget. The headman is chosen by election from amongst the village inhabitants and those born in but living outside of the village. The elected candidate is then given formal appointment by the regent (*bupati*). In contrast, the *kelurahan* has no village assembly, and the headman (*kepala kelurahan*) is not elected but appointed directly by the head of the relevant second stage autonomous region, namely the regent (*bupati*) or city mayor (*walikota*). As a national government official under the interior ministry, he is paid by the central government. As of the end of 1989, the combined number of *desa* and *kelurahan* administrative villages in the country totaled 67,033 (24,611 of these in Java).

As can be seen from the brief description set forth above, along with the central government in Indonesia there are also three levels of local government that have control over their own finances: the first stage autonomous regions (the provinces), the second stage autonomous regions (the regencies and cities), and the villages (*desa*). In the remainder of this paper I would like to look at the finances of these three levels of government as well as those of the central government and examine the relationships between each of them.

II. THE FINANCES OF THE CENTRAL GOVERNMENT

During the ten years of the 1970s, the finances of Indonesia's central government expanded enormously. Revenue from routine receipts in particular increased rapidly, greatly exceeding even the rate of increase in national income. This point can be clearly seen from the data in Table I which shows the trend in the proportion of central government finances to gross domestic product (GDP). This expansion in the size of finances was an external precondition that made possible the concentration of power under the Soeharto government. However, with the coming of the 1980s, the growth in GDP caught up with the growth in the scale of finances, even frequently exceeding the latter, and the trend in the ratio of national finances to GDP stabilized for the most part at around the 23 per cent level.

Using the data for the latter half of the 1980s, we will now take a look at the structure of finances for the central government. Looking first at the composition of annual receipts, which is shown in Table II, the first thing to be noted is that the extremely high percentage of receipts previously gained from oil and gas dropped sharply after 1985. During the 1970s at the time of the two oil shocks in 1974 and 1979, oil and gas revenues coming largely from taxes on oil companies expanded sharply, and in 1980 these revenues made up 60 per cent of the central government's gross annual receipts. But during the 1980s, the volume of Indonesia's oil exports experienced a wholesale retreat (Figure 1) as slackening crude oil prices, stagnating growth in oil demand due to energy conservation policies in the advanced oil-importing countries (notably Japan), and Indonesia's own increase in oil consumption all inevitably worked to push exports down. After 1986 revenues from oil and gas dropped to a level where they were providing about 30 per cent of the government's gross annual receipts. This end to the rapid expansion of government finances following the drop in oil and gas revenues is the most prominent feature of Indonesian financial affairs since the 1980s and has had a significant economic and political impact on the country.

The second most important source of revenues for the central government following tax receipts from oil companies is "development receipts," the name the government applies to foreign assistance. During the latter half of the 1970s, when oil and gas revenues shot up, until the start of the 1980s, the percentage of total annual revenue from development receipts followed a gradual downward trend; but since the middle of the 1980s the percentage has risen again and stands at a high of 25-30 per cent. For a time, foreign assistance combined with the sales tax on imports, import duties, and export taxes provided the government with 70-80 per cent of its gross annual receipts, indicating that Indonesia's national finances have come to depend to an extreme degree on receipts from foreign trade and assistance which are connected with external sources. During the latter half of the 1980s, as revenues from oil and gas dropped sharply, there was an increase in tax receipts from income taxes, value added taxes, and taxes on the sale of luxuries. These receipts were increased through the mobilization

TABLE I
THE PROPORTION OF CENTRAL GOVERNMENT FINANCES
TO GROSS DOMESTIC PRODUCT

(Billion Rp.)

Year	Routine Receipts A	Development Receipts B	Gross Annual Receipts C=A+B	GDP D	C/D (%)
1971	428	136	564	3,672	15.36
1972	590	158	748	4,564	16.39
1973	968	204	1,172	6,753	17.36
1974	1,754	232	1,986	10,768	18.44
1975	2,242	492	2,734	12,190	22.43
1976	2,906	784	3,690	15,467	23.86
1977	3,535	773	4,308	19,011	22.66
1978	4,266	1,036	5,302	22,746	23.31
1979	6,697	1,381	8,078	32,025	25.22
1980	10,227	1,494	11,721	45,446	25.79
1981	12,213	1,709	13,922	54,027	25.77
1982	12,418	1,940	14,358	59,633	24.08
1983	14,433	3,882	18,315	73,698	24.85
1984	15,906	3,478	19,384	87,536	22.14
1985	19,253	3,572	22,825	94,721	24.10
1986	16,141	5,751	21,892	95,823	22.85
1987	20,803	6,158	26,961	124,817	21.60
1988	23,004	9,991	32,995	142,020	23.23
1989	28,740	9,429	38,169	166,330	22.95

Source: Calculated from [8, various issues].

of internal sources of revenue.⁴ This has brought revenues derived from external sources down to around 60 per cent of gross receipts. However when compared with advanced countries such as Japan, the EC, or the United States, the heavy dependence of state finances on external sources remains a fundamental feature of Indonesia's financial structure (see Figure 2).

Looking at the change in finances over the longer perspective, data on the make up of tax receipts for the year 1940 during the colonial period, for 1960 during the Sukarno period, and for 1980 and 1989 are presented in Table III. From this table the following characteristics can be inferred about the changes over the past half century.

1. The percentage of receipts from income tax from the time of independence until 1980 dropped markedly, but by the end of the 1980s it had climbed back to 20 per cent.

2. Receipts from corporate taxes rose markedly until 1980, coming entirely from the increase in revenues from taxes on oil companies, but by the end of the 1980s the share of these receipts had fallen back to some 40 per cent of the total

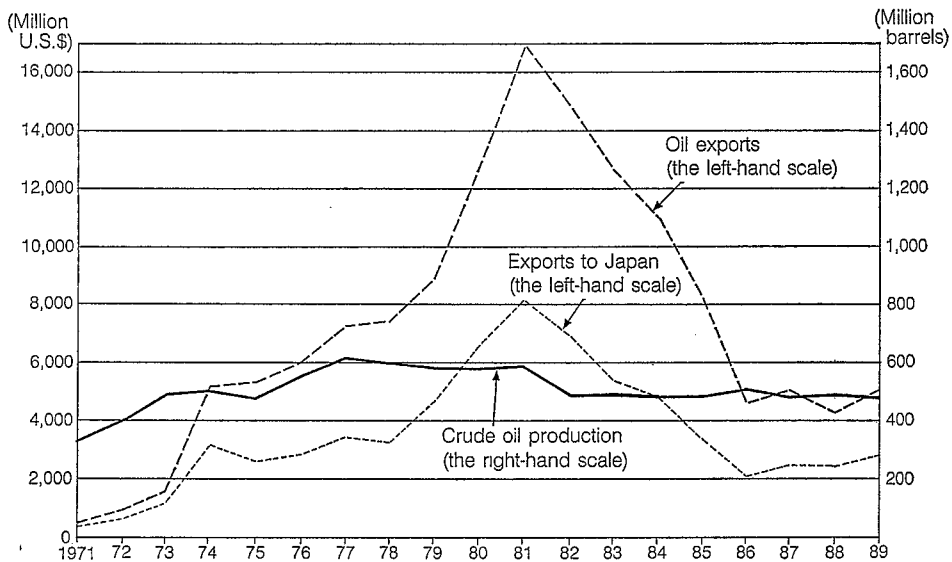
⁴ This was the result of a thoroughgoing reform of the tax system that was carried out from 1984 through 1986. See [11, pp. 42-47], for a summary and an assessment of this tax reform.

TABLE II
TRENDS IN CENTRAL GOVERNMENT ANNUAL RECEIPTS

	(%)					
	1984	1985	1986	1987	1988	1989
Routine receipts	82.1	84.3	73.7	77.2	69.7	75.3
Oil and gas receipts	53.8	48.8	29.0	37.3	28.9	29.5
Non-oil and gas receipts	28.2	35.5	44.8	39.9	40.8	45.7
Income tax	10.9	10.1	10.4	9.9	12.0	14.4
Value added tax & tax on the sales of luxuries	4.5	9.8	13.2	12.6	13.7	15.3
Import duties	2.7	2.7	4.4	3.5	3.6	4.2
Excise tax	4.5	4.1	4.8	4.1	4.2	3.9
Export tax	0.5	0.2	0.4	0.7	0.5	0.5
Other taxes	0.7	0.9	0.9	0.8	0.9	0.7
Taxes on land and buildings	0.8	0.7	0.9	1.0	1.3	1.5
Receipts other than taxes	3.5	6.5	5.2	7.3	4.8	5.4
Other oil receipts	0.0	0.0	4.6	0.0	0.0	0.0
Development receipts	17.9	15.6	26.3	22.8	30.3	24.7
Program aid	0.4	0.3	8.9	2.7	6.2	2.6
Project aid	17.6	15.3	17.3	20.1	24.1	22.1
Total	100.0	100.0	100.0	100.0	100.0	100.0

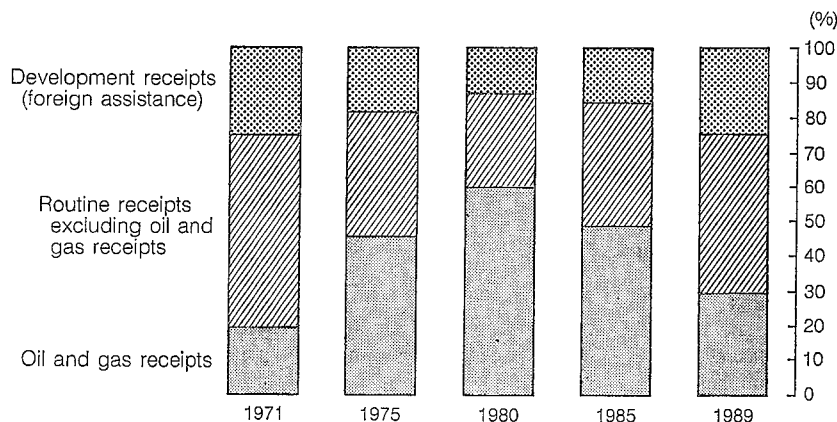
Sources: For 1984 [8, 1987 edition]; for 1985 [8, 1988 edition]; for 1986-89 [8, 1990 edition].

Fig. 1. Trends of Oil Production and Exports, 1971-89



Source: Calculated from [8, various issues].

Fig. 2. Change in the Composition of Central Government Receipts



Source: Calculated from [8, various issues].

TABLE III
LONG-TERM COMPARISON OF CENTRAL GOVERNMENT TAX RECEIPTS

	(%)			
	1940	1960	1980	1989
Income tax	13.33	10.90	1.66	20.13
Corporate tax	14.18	21.71	75.38	41.27
Of which: Tax on oil companies	0.00	0.00	70.89	41.27
Land tax / tax on land & buildings	6.56	0.00	0.83	2.16
Import duties	16.11	11.88	4.49	5.82
Export tax	9.10	6.08	3.08	0.63
Oil sales tax	12.52	2.38	0.00	7.56
Cigarette sales tax	6.32	21.20	0.00	0.00
Turnover sales tax	0.00	13.79	0.00	0.00
Value added tax and tax on the sale of luxuries	0.00	0.00	0.00	21.41
Other taxes	21.89	12.06	14.56	1.01
Total	100.00	100.00	100.00	100.00

Sources: For 1940, Netherlands India, Centraal Kantoor voor de Statistiek, *Statistisch Zakboekje voor Nederlandsch Indië, 1941* [Statistical pocketbook of the Netherlands India, 1941] (Batavia, 1941); for 1960, Indonesia, Central Bureau of Statistics, *Statistical Pocketbook of Indonesia, 1963* (Jakarta, 1963); for 1980, [5, 1980/81 edition]; for 1989, [5, 1989/90 edition].

revenue. Nevertheless these still remain the single largest source of government revenues.

3. The percentage of revenues from the taxation on foreign trade, i.e., the receipts from customs duties which were the most important source of revenues during the colonial period, has gradually declined.

TABLE IV
TRENDS IN CENTRAL GOVERNMENT ANNUAL EXPENDITURES

	(%)					
	1984	1985	1986	1987	1988	1989
Routine expenditures	48.65	52.36	61.94	64.85	62.86	63.75
Personnel expenditures	15.72	17.60	19.69	17.13	15.15	16.25
Material expenditures	6.10	5.99	6.24	4.93	4.52	4.46
Subsidies to local governments	9.72	10.90	12.10	10.45	9.21	9.34
Interest and debt repayment	14.33	14.56	23.11	30.44	33.16	31.28
Other	2.79	3.30	0.79	1.91	0.82	2.42
Development expenditures	51.35	47.64	38.06	35.15	37.14	36.25
Non-project aid	33.76	32.29	20.73	15.01	13.04	14.18
Project aid	17.59	15.35	17.34	20.14	24.10	22.07
Total	100.00	100.00	100.00	100.00	100.00	100.00

Sources: For 1984, [8, 1987 edition]; for 1985, [8, 1988 edition]; for 1986–89, [8, 1990 edition].

4. The percentage of receipts from taxes on the distribution of goods, such as the cigarette sales tax and the turnover sales tax, which were raised to a very high level during Sukarno's time becoming that government's largest source of revenue, was later reduced by the present administration. But at the end of the 1980s with the introduction of the value added tax and tax on the sale of luxuries, these receipts had expanded to more than 20 per cent of total revenue.

On the matter of finances being dependent on external sources, the extent of this dependence was lowest during Sukarno's rule and has risen to its highest point ever, standing even higher than during the colonial period.

Looking next at the changes in the composition of annual government expenditures from 1984 to 1989, these can be seen in Table IV. The percentage of routine expenditures gradually declined during the first half of the 1970s. During the latter half of the 1970s and the first half of the 1980s, development expenditures made up about 50 per cent of total annual expenditures, but since 1986 this has moved down to between 35 and 40 per cent. Conspicuous in routine expenditures since 1986 has been the increase in outlays for interest and debt repayment. This has been due entirely to the increase in the country's accumulated foreign debt. According to the *World Development Report* [12, 1991 edition], at the end of 1989 Indonesia's total accumulated foreign debt had reached U.S.\$53.1 billion (of which U.S.\$40.9 billion was public and publicly guaranteed loans). That was 59.4 per cent of the country's GNP, up from 28 per cent in 1980, and 35.2 per cent of exports of goods and services, an increase from 13.9 per cent in 1980. As a result, the debt service ratio to exports of goods and services rose steadily from 6.5 per cent in 1980 to 14.9 per cent in 1989. Outlays for interest and debt repayment now take up more than 30 per cent of total annual expenditures. When compared even with Japan's debt financing which allots over 20 per cent of general account annual expenditures for servicing the cost of the national debt, it can be

TABLE V
TRENDS IN CENTRAL GOVERNMENT EXPENDITURES FOR DEVELOPMENT

	(%)				
	1985	1986	1987	1988	1989
Agriculture & irrigation	10.46	10.68	20.44	13.17	14.81
Industry	10.94	8.17	2.26	3.65	2.89
Mining & energy	13.31	11.52	12.73	16.92	10.24
Transportation & tourism	13.66	13.59	16.85	16.41	21.73
Trade & cooperatives	0.86	2.23	2.73	2.57	2.99
Manpower & transmigration	6.12	3.50	2.11	2.17	2.03
Local, rural & urban development	7.82	11.27	9.81	9.28	9.90
Religious affairs	0.70	0.47	0.19	0.15	0.18
Education, culture, youth & religious faith	13.00	14.22	12.46	13.11	10.89
Health, family planning & social welfare	3.66	3.91	2.38	2.77	3.40
Housing & water supply	3.07	4.03	4.56	3.93	3.58
Judiciary	0.99	0.30	0.21	0.22	0.18
Defence & security	5.43	6.65	5.42	4.53	5.20
Information & communications	0.66	0.38	0.30	0.22	0.43
Science, technology & development research	2.52	2.17	1.88	5.89	2.41
The government apparatus	2.56	2.28	1.25	1.23	1.19
Investment via banks	2.03	2.53	2.31	1.93	4.52
Natural resources & environment	2.23	2.08	2.11	1.84	3.43
Total	100.00	100.00	100.00	100.00	100.00

Source: Calculated from [5, 1989/90 edition].

seen that Indonesia is facing a serious situation. On the other hand, looking at Table V which shows the trends of expenditures for development, the rise in outlays for transportation and tourism during the second half of the 1980s is particularly noticeable.

We will next make an international comparison of Indonesia's central government expenditures. Immediately helpful here is the data published by the World Bank in its *World Development Report* [12, 1991 edition] on the composition of annual expenditures by national governments. Table VI shows data selected from the World Bank's 1991 report covering four of the ASEAN countries (data was not available for Malaysia or Brunei) and five advanced countries. As can be seen from the table, a general feature of government expenditures for the ASEAN countries is the high rate of spending on education and economic services compared with the advanced countries and the low rate of spending on social welfare. In 1988 in particular, Indonesia's outlays for social welfare were extremely low. That same year outlays for economic services were unknown, and a surprisingly high 78 per cent went into the unclear category marked "other." The statistical categories in Table VI used by the World Bank cannot be readily correlated with those in Tables IV and V provided by the Indonesian government. But it would seem that the interest and debt payments from routine expenditures (33 per cent of total expenditures in 1988) and personnel expenditures (15 per cent of the same) would fall under the "other" category in the World Bank's

TABLE VI
INTERNATIONAL COMPARISON OF ANNUAL EXPENDITURES BY CENTRAL GOVERNMENT

Countries	Financial Year	Defence	Education	Health	Housing, Amenities, Social Security, and Welfare	Economic Services	Other
ASEAN:							
Indonesia	1988	8.3	10.0	1.8	1.7	—	78.2
Philippines	1988	13.0	17.1	4.3	2.0	25.9	37.7
Thailand	1989	17.8	19.3	6.3	5.3	20.4	30.9
Singapore	1988	21.2	19.0	5.2	13.8	16.0	24.8
Advanced countries:							
U.S.A.	1989	24.6	1.8	12.9	29.3	8.0	23.4
Japan	1989	6.0	7.7	0.8	18.0	14.2	53.3
Germany	1988	8.7	0.7	18.8	49.4	7.5	15.4
France	1988	6.1	6.9	21.0	40.7	6.5	18.8
U.K.	1988	12.5	2.9	14.3	34.8	6.7	28.8

Source: [12, 1991 edition].

statistics. Likewise a substantial part of the items under development expenditures has likely been categorized as "other" by the World Bank. In Table V, major outlays under development expenditures, such as "mining and energy," "transportation and tourism," and "agriculture and irrigation," have also most likely been put into the World Bank's "other" category. The total figures for the above three items made up 17.3 per cent of total expenditures in 1988. If we were to add to these "trade and cooperatives" and "information and communications," then annual expenditures for economic services in 1988 would have come to more than 20 per cent of the central government's total expenditures. It therefore can be concluded that in this category too Indonesia is not different from the other ASEAN countries. When compared with the welfare-type states of Europe and the United States, and even when compared with Japan, the "preference given to the economy and postponement of welfare" which characterizes the structure of expenditures in the ASEAN countries becomes readily apparent.

III. THE FINANCES OF THE LOCAL AUTONOMOUS GOVERNMENTS

As pointed out in Section I, below the central government, Indonesia's local government is organized into two levels of local autonomous governments: the first stage autonomous regions (the provinces) and the second stage autonomous regions (the regencies and cities), and both have control over their own finances. In this section, a brief look will be taken at these two levels of stage autonomous regions using data for the financial years of 1987 and 1988. The totals nationwide

TABLE VII
COMPOSITION OF ANNUAL RECEIPTS FOR FIRST STAGE
AUTONOMOUS REGIONS, 1987

	Annual Receipts (Million Rp.)	%
Routine receipts	2,753,093	84.93
Transfer receipts from the central government	1,964,916	60.62
Subsidies & grants (current transfer receipts)	1,718,773	53.02
Other	246,142	7.59
Local taxes	529,312	16.33
Motor vehicle ownership transfer duties	257,361	7.94
Motorized vehicle tax	231,051	7.13
Other	40,900	1.26
Previous year's surplus	114,320	3.53
Local government charges (<i>retribusi daerah</i>)	66,776	2.06
Receipts from official services	34,713	1.07
Other	43,056	1.33
Development receipts	488,479	15.07
Transfer receipts from the central government	427,487	13.19
Development assistance (capital transfer receipts)	279,820	8.63
Other	147,667	4.56
Previous year's surplus	47,804	1.47
Other	19,266	0.59
Total	3,241,572	100.00

Source: [6].

for the first stage autonomous regions are provided in Tables VII to IX while those for the second stage autonomous regions are provided in Tables X and XI. As with the central government, local autonomous government finances also employ the dual system of routine receipts/expenditures and development receipts/expenditures. As can be seen from Tables VII and X, the portion of gross annual receipts composed of revenues from development receipts is smaller at the level of the first stage autonomous regions than at the level of the central government, and is smaller still at the level of the second stage autonomous regions.

Looking first at the finances of the first stage autonomous regions, the figure for gross annual receipts nationwide of 3,241.6 billion rupiah, shown in Table VII, when compared with the 1987 figures for the central government of 26,961 billion rupiah, from Table I, shows that gross annual receipts nationwide for the first stage autonomous regions were only 12 per cent of gross annual receipts for the central government. Moreover, 60 per cent of this total was composed of subsidies and grants transferred from the central government. These figures clearly illustrate the weakness of the financial base for the first stage autonomous regions and their high degree of dependence on the state. Looking back for comparison to the figures for the financial year of 1975, the gross annual receipts of the first stage

TALE VIII
COMPOSITION OF ANNUAL EXPENDITURES FOR FIRST STAGE
AUTONOMOUS REGIONS, 1987

	Annual Expenditures (Million Rp.)	%
Routine expenditures	2,300,897	75.47
Personnel expenditures	1,712,501	56.17
Material expenditures	255,357	8.38
Pensions & relief expenses	61,776	2.03
Expenditures for light repairs and maintenance	53,879	1.77
Subsidies to lower regions	48,758	1.60
Other	168,626	5.20
Development expenditures	747,819	24.53
Construction of buildings, roads, bridges, etc.	146,938	4.82
Expenditures for major repairs and maintenance	95,626	3.14
Development assistance to lower regions	29,907	0.98
Other	475,347	14.66
Total	3,241,570	100.00

Source: [6].

autonomous regions (a total of twenty-two provinces excluding four for which statistics were unavailable and East Timor which had not yet been annexed) came to 434 billion rupiah, 16 per cent of the central government's gross annual receipts of 2,734 billion rupiah [10, pp. 99-100]. This indicates that the finances of the first stage autonomous regions have been contracting relative to those of the central government.⁵ Looking at Table VIII which shows the composition of annual expenditures, it can be seen that nearly 60 per cent of these expenditures for the first stage autonomous regions goes to the cost of personnel. This contrasts with the 15-20 per cent of gross annual expenditures that the central government pays for personnel expenditures. One can perceive the generally limited financial resources that provinces can apply on their own initiative to development purposes. Looking at Table IX, a point to be noted is that for the first stage autonomous regions as well, over 20 per cent of development expenditures goes to the communications-tourism sector, the single largest category of expenditures; and also like the central government, an extremely small percentage is spent on social welfare.

Looking next at the second stage autonomous regions, from Table X it can be seen that gross annual receipts for the financial year 1988 for all second stage autonomous regions nationwide came to 2,501.6 billion rupiah, less than that for the first stage autonomous regions. Seventy per cent of this was made up of grants and subsidies provided by the central government or from first stage autonomous regions. The financial base of the second stage autonomous regions is even weaker than that of the first stage autonomous regions. According to Article 11 of the

⁵ See [1, p. 71].

TABLE IX
DEVELOPMENT EXPENDITURES FOR FIRST STAGE AUTONOMOUS REGIONS BY SECTOR, 1987

	Development Expenditures (Million Rp.)	%
Economic sphere	284,053	37.98
Communications sector (including tourism)	156,061	20.87
Production sector	127,991	17.12
Social sphere	177,684	23.76
Social welfare & education sector	127,233	17.01
Health, housing & water supply sector	50,451	6.75
General	181,447	24.26
Government & public order sector	72,088	9.64
Other	109,359	14.62
Development assistance to lower-level governments	32,999	4.41
Debt repayment	7,490	1.00
Other	64,146	8.58
Total	747,819	100.00

Source: [6].

TABLE X
COMPOSITION OF ANNUAL RECEIPTS FOR SECOND STAGE AUTONOMOUS REGIONS, 1988

	Annual Receipts (Million Rp.)	%
Subsidies & development assistance	1,736,435	69.41
Subsidies	992,032	39.66
Financial subsidies from the central government	929,563	37.16
Other	62,469	2.50
Development assistance	744,403	29.76
Development assistance to second stage autonomous regions	239,903	9.59
Subsidies for infrastructure development	244,730	9.78
Subsidies for primary schools	102,094	4.08
Development assistance to villages	67,173	2.69
Subsidies for public health centers	38,608	1.54
Other	51,894	2.07
Local government original receipts	401,307	16.04
Local government charges (<i>retribusi daerah</i>)	218,021	8.72
Local taxes	110,805	4.43
Other	72,480	2.90
Tax and nontax receipts shared with higher governments	260,428	10.41
Tax receipts shared	216,202	8.64
Tax on land and building	210,071	8.40
Other	6,131	0.25
Nontax receipts shared	44,226	1.77
Previous year's surplus	70,202	2.81
Development receipts	33,271	1.33
Total	2,501,643	100.00

Source: [7].

TABLE XI
COMPOSITION OF ANNUAL EXPENDITURES FOR SECOND STAGE
AUTONOMOUS REGIONS, 1988

	Annual Expenditures (Million Rp.)	%
Routine expenditures	1,399,584	58.56
Personnel expenditures	932,334	39.01
Material expenditures	159,578	6.68
Pensions & relief expenses	55,277	2.31
Repair and maintenance expenditures	50,815	2.13
Other	201,580	8.43
Development expenditures	990,479	41.44
Transportation & tourism	477,904	20.00
Infrastructure (roads)	426,253	17.83
Other	51,651	2.16
Regional development	133,540	5.59
Education, culture & religious faith	115,828	4.85
The government apparatus	84,386	3.53
Health, social welfare, women & family planning	49,855	2.09
Development assistance to lower regions	22,481	0.94
Other	106,485	4.46
Total	2,390,063	100.00

Source: [7].

already mentioned Basic Law of Local Government Administration, the emphasis of local autonomy is placed in the second stage autonomous regions, but the financial statistics suggest that the real situation is just the reverse of the law's provisions. As can be seen from Table XI, even the second stage autonomous regions use 40 per cent of their annual expenditures for personnel costs, and little can be budgeted independently for development purposes. Not shown in Table XI but included under development expenditures were two items concerned with welfare: "health, social welfare, women, and family planning" and "housing and resettlement." But the combined amount of both of these items totaled only 2.8 per cent of total expenditures, again following the same trend shown with the central government and with the first stage autonomous regions of extremely weak financing for welfare matters.

A particular feature of local autonomous governments as pointed out in this section is their very limited financial means and very great dependence on the central government.⁶ This reality has come about because of the firm control which the state exercises over all local administration through the interior ministry.

⁶ Davey provides a clear, easy to understand explanation that divides Indonesia's complicated system for transferring funds to local governments into the following four types: (1) revenues shared between the central and local governments—these are revenues from the property tax (Pajak Bumi dan Bangunan, PBB) and from licenses and royalties of the extraction of timber; (2) grants for routine expenditures or Subsidi Daerah Otonom (SDO) which is the general term for the various types of grants, the greater part of which are allocated for personnel expenditures; (3) Inpres (Instruksi Presiden [presidential instruction]) grants for general development expenditures—these are grants by presidential decree

IV. VILLAGE FINANCES

Unlike the first and second stage autonomous regions, the finances of the administrative villages never came under the direct control or supervision of the central government's interior ministry. For this reason there is no statistical data available for the aggregate annual receipts and expenditures for all the more than sixty thousand villages nationwide. But we can estimate the size and composition of annual receipts and expenditures for village-level finances nationwide from data available in a sample survey (which randomly sampled 10 per cent of the villages in each locality) published by the Central Bureau of Statistics for the 1988 financial year. The original figures multiplied ten times to represent nationwide figures are shown in Tables XII and XIII.

Village-level finances also follow the dual pattern of routine receipts/expenditures and development receipts/expenditures. But unlike at the national level and at the level of the two stage autonomous regions, one does not see a big difference in the amount between routine receipts and expenditures and between development receipts and expenditures. Sixty per cent of annual expenditures go to outlays for development while the ratio of routine expenditures is low. The apparent reason for the latter is because the cost of maintaining the village office and equipment is small which lowers material expenditures, and compensation to village government officials is often in the form of nonmonetary payments; in many villages in Java, for example, a paddy field is provided during an official's term of service.

Looking at Table XII which shows annual receipts for the 1988 financial year, the estimated value of gross annual receipts for villages nationwide was 499 billion rupiah, rather more than those for first and second stage autonomous regions. At the same time the villages received only 20 per cent of their gross annual receipts in the form of subsidies and grants from the central government and the higher autonomous governments. This indicates that village finances are to a reasonable degree less dependent on the central government than are the first and second stage autonomous regions. Of particular note is that over 30 per cent of gross annual receipts is received from the village self-help fund, known as the *swadaya masyarakat*. Another 20 per cent plus is obtained from the use of village property through rental fees and production sharing fees. This suggests, at least in the area of finances, that while the first and second stage autonomous regions function essentially as the local agents of state power, the villages, although they too are under the state's control through the latter's power to dispense subsidies, can

which are provided to the provinces and villages in a uniform amount and to the second stage autonomous regions in amounts proportionate to population; (4) Inpres grants for specific sectors of development—these are grants by presidential decree which are implemented entirely through the second stage autonomous region. Until the beginning of the 1980s, the most important grants had been the Inpres SD which was subsidies provided for building and repairing elementary schools. See Davey [3, pp. 172–76]. However after 1983, the importance of all Inpres grants dropped sharply which more than anything else accounted for the sudden drop in the amount coming through Inpres SD. Also see Mukul and Booth [11, pp. 68–69] and Azis [1, p. 66].

TABLE XII
COMPOSITION OF ANNUAL RECEIPTS FOR ADMINISTRATIVE VILLAGES, 1988

	Urban		Rural		Nationwide	
	Million Rp.	%	Million Rp.	%	Million Rp.	%
Routine receipts	15,377	31.7	180,605	40.1	195,982	39.3
Village compulsory fees	3,706	7.6	30,210	6.7	33,915	6.8
Transfer receipts from higher governments	2,364	4.9	23,932	5.3	26,296	5.3
Net profit from village government enterprises	780	1.6	5,532	1.2	6,312	1.3
Rental receipts	4,006	8.3	52,769	11.7	56,775	11.4
Village government land (<i>tanah kas desa</i>)	737	1.5	8,578	1.9	9,316	1.9
Village government personnel land (<i>tanah bengkok</i>)	3,268	6.7	44,191	9.8	47,459	9.5
Production sharing (<i>bagi hasil</i>)	2,096	4.3	47,051	10.4	49,147	9.8
Village government land (<i>tanah kas desa</i>)	77	0.2	1,149	0.3	1,227	0.2
Village government personnel land (<i>tanah bengkok</i>)	2,019	4.2	45,901	10.2	47,920	9.6
Other	2,425	5.0	21,112	4.7	23,537	4.7
Development receipts	33,116	68.3	269,913	59.9	303,028	60.7
Subsidies from the central government	5,718	11.8	88,227	19.6	93,945	18.8
Transfer receipts from higher governments	1,499	3.1	7,555	1.7	9,054	1.8
Village fund (<i>dana desa</i>)	1,013	2.1	16,346	3.6	17,359	3.5
Mutual assistance (<i>swadaya masyarakat</i>)	23,855	49.2	146,890	32.6	170,745	34.2
Previous year's surplus	144	0.3	973	0.2	1,117	0.2
Other	887	1.8	9,922	2.2	10,809	2.2
Total	48,493	100.0	450,517	100.0	499,010	100.0

Source: [9].

Note: Estimated from 10 per cent sample.

nevertheless also functions as organizations that embody the will of the village citizenry because of the large autonomous sources of revenue available to the villages.

Regarding annual expenditures at the village level, as already mentioned outlays for development are relatively high. These cover such things as the costs for building village government offices, religious facilities, and other non-residential building construction, as well as the construction of roads, water courses, and bridges. If the 12.4 per cent of gross annual expenditures that goes to the con-

TALE XIII
COMPOSITION OF ANNUAL EXPENDITURES FOR ADMINISTRATIVE VILLAGES, 1988

	Urban		Rural		Nationwide	
	Million Rp.	%	Million Rp.	%	Million Rp.	%
Routine expenditures	15,092	31.3	177,623	39.6	192,715	38.8
Wages and salaries	9,779	20.3	138,770	30.9	148,549	29.9
Material expenditures	2,231	4.6	15,201	3.4	17,433	3.5
Other	3,083	6.4	23,651	5.3	26,734	5.4
Development expenditures	33,151	68.7	270,825	60.4	303,976	61.2
Housing construction	70	0.1	3,720	0.8	3,790	0.8
Non-residential building construction	14,433	29.9	100,180	22.3	114,613	23.1
Village government offices & public halls	2,978	6.2	37,502	8.4	40,480	8.1
Mosques, churches & temples	8,265	17.1	53,264	11.9	61,528	12.4
Other	3,191	6.6	9,414	2.1	12,605	2.5
Other construction	10,925	22.6	87,832	19.6	98,757	19.9
Roads & sewers	8,294	17.2	53,798	12.0	62,092	12.5
Bridges	1,087	2.3	17,909	4.0	18,996	3.8
Other	1,544	3.2	16,125	3.6	17,669	3.6
Land improvement & plantation development	1,452	3.0	29,315	6.5	30,767	6.2
Irrigation & flood control	1,037	2.1	9,575	2.1	10,612	2.1
Plantation & orchard development	19	0.0	7,543	1.7	7,562	1.5
Other	396	0.8	12,197	2.7	12,593	2.5
Other	6,271	13.0	49,777	11.1	56,049	11.3
Total	48,244	100.0	448,447	100.0	496,691	100.0

Source: [9].

Note: Estimated from 10 per cent sample.

struction of religious facilities (mosques, churches, and temples) is not included, then it seems evident that expenditures for welfare purposes is again very low.

V. COMPARISON OF LOCAL FINANCES BY PROVINCE

Table XIV shows the twenty-seven first stage autonomous regions (the provinces) along with the figures for the 1985 population intercensal, the annual receipts for the 1987 and 1988 financial years of the first and second stage autonomous regions and villages, and a tentative calculation of their annual receipts per capita. In addition, Figure 3 provides a map showing the financial strength of each province based on the annual receipts and gross regional domestic product (GRDP) of the

TABLE XIV
LOCAL GOVERNMENT ANNUAL RECEIPTS BY PROVINCE OR SPECIAL REGION

No.	Province and Special Region	Population 1985 (1,000) A	First Stage Autonomous Regions, 1987 (Million Rp.) B	Second Stage Autonomous Regions, 1988 (Million Rp.) C	Annual Receipts			
					Administrative Villages, 1988* (Million Rp.) D	E=B/A (1,000 Rp.)	F=C/A (1,000 Rp.)	G=D/A (1,000 Rp.)
1.	Aceh	2,972	75,263	52,690	141,451	25.32	17.73	47.59
2.	North Sumatra	9,422	218,075	189,353	163,499	23.15	20.10	17.35
3.	West Sumatra	3,698	41,098	114,326	167,436	11.11	30.92	45.28
4.	Riau	2,548	53,465	64,895	54,259	20.98	25.47	21.29
5.	Jambi	1,745	25,894	61,409	49,635	14.84	35.19	28.44
6.	South Sumatra	5,370	70,262	132,091	71,869	13.08	24.60	13.38
7.	Bengkulu	943	22,470	28,790	25,561	23.83	30.53	27.11
8.	Lampung	5,905	99,029	50,473	76,332	16.77	8.55	12.93
9.	Jakarta	7,885	454,371	—	83,029	57.62	0.00	10.53
10.	West Java	30,830	445,217	244,512	810,600	14.44	7.93	26.29
11.	Central Java	26,945	444,265	239,298	912,287	16.49	8.88	33.86
12.	Yogyakarta	2,930	84,355	30,661	135,003	28.79	10.46	46.08
13.	East Java	31,262	511,970	426,668	902,590	16.38	13.65	28.87
14.	Bali	2,649	79,961	37,543	77,596	30.19	14.17	29.29
15.	West Nusa Tenggara	2,995	24,729	66,748	43,126	8.26	22.29	14.40
16.	East Nusa Tenggara	3,061	27,089	88,958	81,510	8.85	29.06	26.63

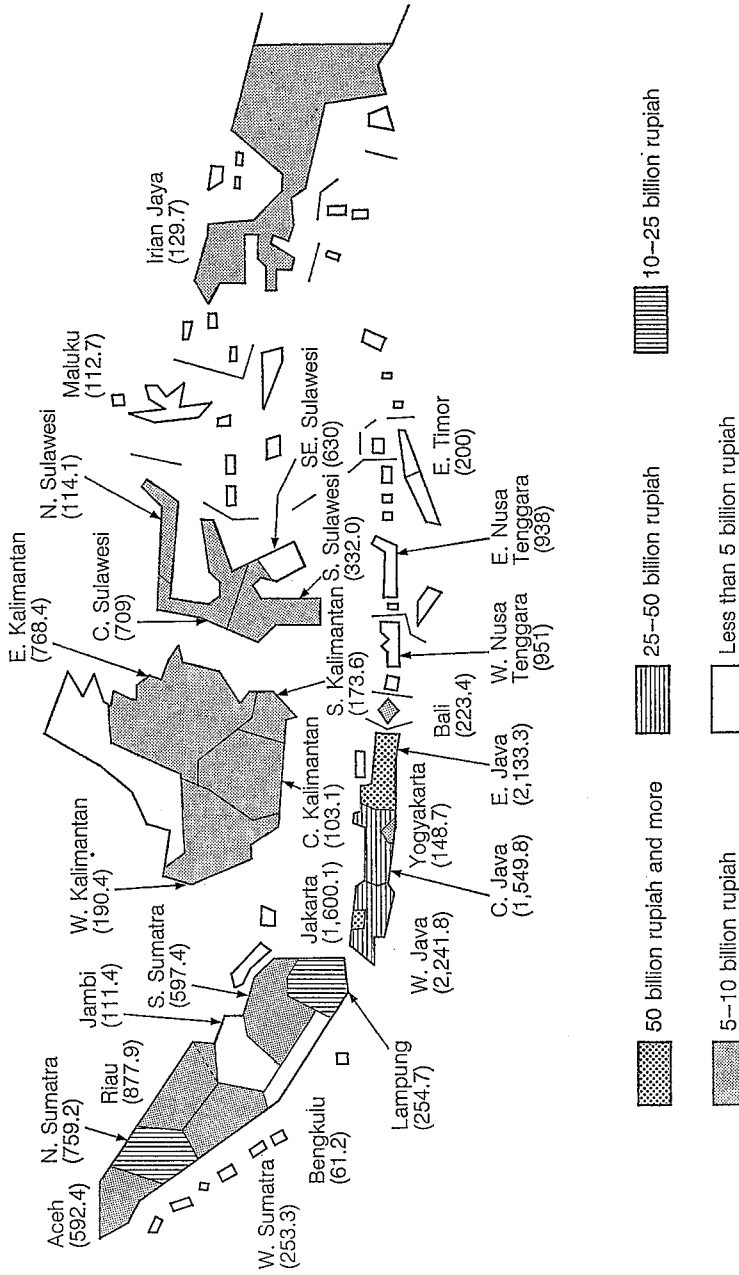
TABLE XIV (Continued)

No.	Province and Special Region	Population 1985 (1,000) A	First Stage Autonomous Regions, 1987 (Million Rp.) B	Second Stage Autonomous Regions, 1988 (Million Rp.) C	Annual Receipts			
					Administrative Villages, 1988* (Million Rp.) D	E=B/A (1,000 Rp.)	F=C/A (1,000 Rp.)	G=D/A (1,000 Rp.)
17.	East Timor	631	67,824	14,481	0	107.49	22.95	0.00
18.	West Kalimantan	2,819	69,296	41,331	117,329	24.58	14.66	41.62
19.	Central Kalimantan	1,118	47,437	27,596	36,484	42.43	24.68	32.63
20.	South Kalimantan	2,273	64,398	34,874	59,256	28.33	15.34	26.07
21.	East Kalimantan	1,512	86,542	53,805	38,206	57.24	35.59	25.27
22.	North Sulawesi	2,313	50,904	32,672	82,626	22.01	14.13	35.72
23.	Central Sulawesi	1,511	21,408	33,510	43,865	14.17	22.18	29.03
24.	South Sulawesi	6,610	52,996	184,554	114,232	8.02	27.92	17.28
25.	Southeast Sulawesi	1,120	26,789	38,782	26,204	23.92	34.63	23.40
26.	Maluku	1,609	50,300	57,514	63,816	31.26	35.75	39.66
27.	Irian Jaya	1,371	26,163	82,378	0	19.08	60.09	0.00
Whole country		164,047	3,241,570	2,429,912	4,377,801	19.76	14.81	26.69

Sources: For population, [8, 1990 edition]; for annual receipts, [6] [7] [9].

* Estimated from 10 per cent sample.

Fig. 3. Comparison of Financial Strength by Province, 1988



- Notes:
1. Value of receipts per first stage autonomous region.
 2. The figure in parentheses below the provincial name shows that province's gross regional domestic product (billion rupiah, 1988).

first stage autonomous regions. As can be seen clearly from this table and figure, there are some big differences in the financial strength and the per capita annual receipts among the provinces.

Looking first at the per capita annual receipts of the first stage autonomous regions, East Timor is the highest followed by Jakarta, East Kalimantan, then Central Kalimantan. However, second stage autonomous regions in Jakarta do not control their own finances, and these are absorbed by the first stage autonomous region, something which must be kept in mind. Looking at the per capita annual receipts of the second stage autonomous regions, Irian Jaya is the highest followed by Maluku, East Kalimantan, Jambi, and Southeast Sulawesi. Many provinces with first and second stage autonomous regions having large per capita receipts are found in Sumatra, Kalimantan, Maluku, and Irian Jaya, while the per capita receipts for those in the provinces of Java and Nusa Tenggara are generally small. It was stated earlier that the revenues transferred from the central government are the largest source of receipts for the first and second stage autonomous regions; therefore the occurrence of these regional differences in receipts can be attributed to the degree of preference that the central government gives to local areas when disbursing funds. One can glimpse behind the figures the workings of a political strategy where state funds concentrated in Jakarta are transferred as subsidies and grants to frontier areas as a means of maintaining security and national unity.⁷

Turning to the villages and their per capita annual receipts, the highest is the Aceh Special Region in Sumatra followed by Yogyakarta, West Sumatra, and West Kalimantan. For East Timor and Irian Jaya where the first and second stage autonomous regions have large per capita annual receipts, there are no annual receipts at all for the villages. This is because the village system providing autonomous financial resources, as set forth in the law for village government administration, has not been implemented in these two provinces. For Jakarta, Lampung, South Sumatra, and West Nusa Tenggara, the value of per capita receipts is low. It would seem that in these areas there have existed particular historical conditions that have made it difficult to establish administrative villages that have well-founded financial strength. Generally speaking, in areas like Java (excluding Jakarta), Aceh and West Sumatra (referred to in the constitution as "regional territories which have a special character"), where administration based on customary law was carried on for a long time under the Dutch, the financial strength of the villages tends to be strong.

From the above data it can be seen that Indonesia's local finances form a dualistic structure. On the one hand there are the finances of the first and second stage autonomous regions which function as channels for disbursing state funds to local areas; on the other hand there are village finances which have fairly strong independent financial base supported by each localities' particular conditions.

⁷ The criteria for distribution grants to local governments is not well defined, and a number of studies have pointed out that this is frequently a cause of discontentment at the local level. See Devas [4, pp. 180-81], Azis [1, p. 63], Mukul and Booth [11, p. 72].

VI. NATIONAL INCOME AND FINANCES AT THE CENTRAL AND LOCAL LEVEL

The above sections have provided a brief look at the finances of the central government and of the several levels of local government. In this section we will try to measure the relative size of Indonesia's combined central and local government finances through a comparison with national income. This means measuring economically the relative importance of the state for the society as a whole.

As already seen in Table I, the ratio of the central government's gross annual receipts to GDP increased rapidly during the 1970s. These figures clearly show Indonesia's growing state power during that period backed by the revenues from oil. In financial terms alone it was this income from oil which continued to grow until the beginning of the 1980s that provided the Suharto regime with its base for centralizing power. But as also shown above, during the latter half of the 1980s, as revenues from oil stagnated, the growth of the central government's finances as a ratio of GDP stopped, and the government became more dependent on foreign assistance and on the taxation of domestic tax payers (through income taxes, value added taxes, and the like). In effect this meant the government faced financial limitations that restricted any further bloating of state power. At the same time it created the possibility for foreign donors and domestic tax payers to increase their political leverage vis-à-vis the Indonesian government. This change in the government's financial situation lent support to the ongoing discussion for further economic liberalization and democratization of the political system.

We can compare the size of Indonesia's national finances to those of other countries using statistical data available from the World Bank showing the ratio of national government expenditures to GNP. From this data the figures for five of the ASEAN countries and five advanced countries have been selected, and these are shown in Table XV. According to these figures, during the 1972-82 period, the size of the national finances of the ASEAN countries, with the exception of the Philippines, followed an upward trend like that of the five advanced countries. The rise for Indonesia, along with Malaysia, was the most striking. Though their more than 20 per cent of GNP did not reach that of the welfare-type states of Western Europe like Britain and France, still they were at about the same level as Japan and the United States. The figures show that the state's role in the economy increased greatly during this period. But here too, as in the advanced countries at the end of the 1980s, this ratio dropped to some extent because of constraints put on financial growth by so-called structural adjustment policies.

Moving next to an estimated calculation of the net amount of annual receipts for the central and local governments (excluding funds transferred from the national and upper-level local governments), these estimates of total government finances at all levels are shown in Table XVI. As can be seen from the figure in table's last row, the estimated ratio of net central and local government receipts to GDP is more than 25 per cent. Comparing this figure with the similar figure for Japan (from the 1990 budget) shown in Table XVII, it can be seen that the

TABLE XV
INTERNATIONAL COMPARISON OF CENTRAL GOVERNMENT
FINANCES TO GNP

	(%)		
	1972	1982	1989
ASEAN:			
Indonesia	15.1	23.5	20.6
Philippines	13.4	12.2	15.7
Thailand	16.7	19.9	15.1
Malaysia	26.5	41.0	30.1
Singapore	16.7	22.6	23.3
Advanced countries:			
U.S.A.	19.1	25.0	23.0
Japan	12.7	18.9	16.5
Germany	24.2	31.5	29.0
France	32.3	42.1	42.6
U.K.	31.8	42.4	34.6

Sources: For 1972 and 1989, [12, 1991 edition]; for 1982, [12, 1985 edition].

TABLE XVI
ESTIMATED SIZE OF GOVERNMENT FINANCES, 1987 FINANCIAL YEAR

(Billion Rp.)						
Gross Central Government Receipts	First Stage Autonomous Regions		Second Stage Autonomous Regions		Villages	
	Gross Receipts B	Transfer Receipts C	Gross Receipts D	Transfer Receipts ^a E	Gross Receipts F	Transfer Receipts ^b G
A						
26,961	3,242	2,392	2,430	1,687	4,378	1,134
I. First and second stage autonomous regions net receipts (B+D-C-E)						1,593
II. Local governments net receipts (B+D+F-C-E-G)						4,837
III. Central and local government net receipts (A+B+D+F-C-E-G)						31,798
IV. GDP						124,539
The size of local government finances to central government finances:						
I/A (%)						5.9
II/A (%)						17.9
The size of total finances to GDP:						
III/IV (%)						25.5

Sources: Calculated from data contained in [8, 1991 edition] [6] [7] [9].

^a Estimated from the percentage (69.4 per cent) of transfer receipts in the 1988 financial year.

^b Estimated from the percentage (25.9 per cent) of transfer receipts in the 1988 financial year.

TABLE XVII
 SIZE OF CENTRAL AND LOCAL GOVERNMENT FINANCES IN JAPAN
 (1990 BUDGET)

		(Billion yen)
General account (annual receipts)	A	66,236.8
Local financial planning (annual receipts)	B	67,140.2
Total	A+B=C	133,377.0
Overlapping account:		
Central government transfers to local governments	D	27,368.3
Local government transfers to the central government	E	1,032.1
Net	C-D-E=F	104,976.6
GNP	G	435,400.0
Size of local finances to central government finances (%)	(B-D)/(A-C)	61.0
Size of total finances to GNP (%)	F/G	24.1

Source: Calculated from data in Takashi Matsukawa, ed., *Zusetsu Nippon no zaisei, heisei 3 nendoban* [Japan's finances in graphs and tables, 1991] (Tokyo: Toyokeizai Shimposha, 1991).

size of Indonesia's finances to national income is about the same as that for Japan. However, the relative size of local government finances to central government finances is very much smaller for Indonesia than for Japan and the dependence of these governments on revenues transferred from the central government is also very much higher. This situation is particularly noticeable with the first and second stage autonomous regions. When viewed from the perspective of finances, administrative power in Indonesia presents an extremely centralized condition even when compared with Japan whose overcentralization of government authorities is widely criticized by the public. And even with the changed financial conditions since the latter half of the 1980s following the decrease in oil revenues, there are still no signs that this extreme centralization is changing.⁸

CONCLUSIONS

From the observations presented in this study, there are five salient features that can be pointed out about Indonesia's finance structure and about the relationship between the central and local governments.

⁸ Davey brings up three problems in the present system of local financial dependence on the central government which cause the misallocation of resources. These are: (1) the incongruence between local needs and circumstances; (2) wastefulness because of the segmentation of similar kinds of expenditure items among the different levels of government and between the different ministries and departments; and (3) the lack of a systematic approach for assuring equity among the local governments. Davey then brings up as possible reforms the increase of revenues from income taxes and the rationalization of the grants system and their distribution to local governments. See Davey [3, pp.180-87]. However, if increased revenue from income taxes is not accompanied by the establishment of clear standards for fair distribution to local governments, then there is the possibility that this will end up simply enriching the finances of a limited number of local governments such as Jakarta and the other rich big cities.

1. The largest sources of income for Indonesia's state finances are oil and gas revenues and foreign assistance making the country highly dependent on external sources. This is very different from the government finances of the advanced countries with their reliance on domestic sources of income, principally personal income taxes and corporate taxes on manufacturing enterprises.

2. Given this first feature however, the relative size of Indonesia's government finances to national income is on a level with that for Japan and the United States, while the role of the state in the economy has become extremely large.

3. The finances of the autonomous governments at the provincial and regency level are extremely dependent on the transfer of revenues from the central government. These local autonomous governments have very few sources under their own control for gaining revenue. This is consistent with the intense centralization of the power structure.

4. The administrative villages which stand at the bottom of the local administrative level have to a significant degree assured independent sources of revenue. Financially speaking, the provincial- and regency-level local autonomous governments are nothing more than the local agencies of the state. For the villages, however, there exists some degree of independence. At the local level a two-tiered financial structure is observable with the state subordinate first and second stage autonomous regions forming one section and the partially self-supporting villages forming the other.

5. The emphasis of government expenditures, from the central government on down to the administrative villages, is on expenditures for economic development. Particular emphasis has been put on building infrastructure, and some degree of importance has been given to education and cultural purposes; but expenditures for social welfare purposes, when compared with the advanced countries, have been kept low. The role of the state in the economy has been large, but its role in welfare has been extremely small. For the society as a whole, it has not been primarily the state, the local autonomous governments, or the villages that have looked after welfare, rather the major role has been played by groups such as the family, neighborhood groups below village level, and noninstitutional credit associations known as *arisan*. There are also the religious organizations with nationwide and even international networks, and the mutual aid groups such as "foundations" (*yayasan*) organized among the working units in government offices and in companies. All of these are in the broad sense nongovernmental groups which play important roles in social welfare activities.

Looking at the situation during the past few years, the most noticeable phenomena have been: (1) the shift of government financial sources toward tax receipts from non-oil sectors which has accompanied the decline in oil and gas revenues and (2) the accelerating pressure of the foreign debt which has come with the increase in foreign assistance. These are signs of important changes, however, there is still no big change visible in the strongly centralized power structure that concentrates political power and financial resources in the central government.

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