

RESEARCH REPORT

The Specific Allocation Fund (DAK): Mechanisms and Uses

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ABSTRACT

The Specific Allocation Fund (DAK): Mechanism and Uses

This study aims to analyze the management of the Specific Allocation Fund (DAK). The three largest DAK-recipient sectors are the focus of the study: education, health, and roads infrastructure. The study sample areas are four districts. This paper was compiled based on the results of in-depth interviews and focus group discussions with various stakeholders as well as analysis of DAK policy and secondary data.

The main objective of DAK is to reduce interregional inequalities in public services. We came across policies in dire need of national uniformity but that still allow variation on some aspects. Conversely, we found some enforced national uniformity in policies that should have provided rooms for variations to accommodate regional specific conditions. In practice, regional governments have become passive recipients of DAK grants. The attitudes of regional government towards the DAK allocation process indicate a general feeling that the central government is not transparent. Furthermore, it is evident that coordination and communication surrounding DAK management between agencies are still limited.

Based on the above findings, we recommend a new paradigm where the central government is suggested to decentralize the authority for the allocation, coordination, and monitoring of district/city use of DAK to provincial governments.

Keywords: specific allocation fund, education, health, roads infrastructure, new paradigm

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ABBREVIATIONS AND GLOSSARY

| | | |
|-------------------|---|---|
| APBD | <i>anggaran pendapatan dan belanja daerah</i> | regional budget |
| APBN | <i>anggaran pendapatan dan belanja negara</i> | national budget |
| APBD-P | <i>APBD-Perubahan</i> | regional budget-revision |
| Bappeda | <i>Badan Perencanaan Pembangunan Daerah</i> | Regional Development Planning Board |
| Bappenas | <i>Badan Perencanaan Pembangunan Nasional</i> | National Development Planning Board |
| Bawasda | <i>Badan Pengawas Daerah</i> | Regional Supervision Board |
| BD | <i>bobot daerah</i> | regional weighting |
| BPHTB | <i>Bea Perolehan Hak atas Tanah dan Bangunan</i> | Land and building transfer fees |
| BT | <i>bobot teknis</i> | technical weighting |
| DAK | <i>dana alokasi khusus</i> | Specific Allocation Fund |
| DASK | <i>Dokumen Anggaran Satuan Kerja</i> | Work Unit Budget Document |
| DAU | <i>dana alokasi umum</i> | General Allocation Fund |
| DBH | <i>dana bagi hasil</i> | Shared Revenue Fund |
| Depdagri | <i>Departemen Dalam Negeri</i> | Ministry of Home Affairs |
| Depdiknas | <i>Departemen Pendidikan Nasional</i> | Ministry of National Education |
| Depkes | <i>Departemen Kesehatan</i> | Ministry of Health |
| Depkeu | <i>Departemen Keuangan</i> | Ministry of Finance |
| Deppu | <i>Departemen Pekerjaan Umum</i> | Ministry of Public Works |
| DIPA | <i>Daftar Isian Pelaksanaan Anggaran</i> | Budget Implementation List |
| DJP | <i>Direktorat Jenderal Perbendaharaan</i> | Directorate-General of Treasury |
| DPA | <i>Dokumen Pelaksanaan Anggaran</i> | Budget Implementation Document |
| DPR | <i>Dewan Perwakilan Rakyat</i> | House of Representatives (national legislature) |
| DPRD | <i>Dewan Perwakilan Rakyat Daerah</i> | Regional House of Representatives (regional legislature) |
| FY | | Fiscal Year |
| Gapensi | <i>Gabungan Pelaksana Konstruksi Nasional Indonesia</i> | Indonesian Association of Construction Contractors |
| GDP | | gross domestic product |
| GRDP | | gross regional domestic product |
| HDI | | human development index |
| IFW | <i>indeks fiskal dan wilayah</i> | fiscal and regional index |
| IKK | <i>indeks kemahalan konstruksi</i> | construction price index |
| IKW | <i>indeks karakteristik wilayah</i> | regional characteristic index |
| IPM | <i>indeks pembangunan manusia</i> | human development index |
| Kanwil | <i>kantor wilayah</i> | provincial office |
| KPPOD | <i>Komite Pemantauan Pelaksanaan Otonomi Daerah</i> | Regional Autonomy Watch |
| <i>musrenbang</i> | <i>musyawarah perencanaan pembangunan</i> | consultation on development planning |
| NAD | <i>Nanggroe Aceh Darussalam</i> | Aceh Province |

| | | |
|------------------|--|---|
| NFI | | Net Fiscal Index |
| NTT | <i>Nusa Tenggara Timur</i> | East Nusa Tenggara |
| P2JJ | <i>Perencanaan dan Pengawasan Jalan dan Jembatan</i> | Planning and Monitoring of Roads and Bridges |
| PAD | <i>pendapatan asli daerah</i> | locally-derived revenue |
| PBB | <i>pajak bumi dan bangunan</i> | land and property tax |
| <i>pemda</i> | <i>pemerintah daerah</i> | regional government |
| PMK | <i>Peraturan Menteri Keuangan</i> | Ministry of Finance Regulation |
| PPh | <i>pajak penghasilan</i> | income tax |
| PPN | <i>Perencanaan Pembangunan Nasional</i> | National Development Planning |
| <i>puskesmas</i> | <i>pusat kesehatan masyarakat</i> | community healthcare center |
| <i>pusling</i> | <i>puskesmas keliling</i> | mobile <i>puskesmas</i> |
| <i>pustu</i> | <i>puskesmas pembantu</i> | secondary <i>puskesmas</i> |
| RD | <i>rencana definitif</i> | definitive plan |
| RKA-KL | <i>rencana kerja anggaran-departemen dan lembaga</i> | budget work plan for ministerial and nonministerial offices |
| RKP | <i>rencana kerja pemerintah</i> | government work plan |
| SDO | <i>subsidi daerah otonom</i> | autonomous region subsidy |
| SK | <i>surat keputusan</i> | decree |
| SKPD | <i>satuan kerja perangkat daerah</i> | regional-level work unit |
| SP-DIPA | <i>surat pengesahan DIPA</i> | budget implementation statement authorization |
| SPM | <i>standar pelayanan minimum</i> | minimum service standard |
| SRAA | <i>surat rincian alokasi anggaran</i> | budget allocation document |
| UU | <i>undang-undang</i> | Law |

EXECUTIVE SUMMARY

This study, which was conducted from April 2007 to January 2008, aims to analyze the management mechanisms of the Specific Allocation Fund (DAK) from its regulation and allocation processes down to responsibility for its use. The three largest DAK-recipient sectors are the focus of the study: education, health, and road infrastructure. Three districts (*kabupaten*) and one city (*kota*) were purposively selected as the study sample regions: Kabupaten Kupang, Kabupaten Wonogiri, Kabupaten Gorontalo, and Kota Banda Aceh. This report was compiled based on the results of in-depth interviews and focus group discussions (FGDs) with various stakeholders as well as research on DAK policy and an analysis of secondary data.

Generally, DAK is similar to the Presidential Instruction (Inpres) Fund, which were developed under the New Order administration. DAK is allocated in the national budget (APBN) to fund various specific development activities implemented in and by the regions. It aims to reduce interregional inequalities in public services and increase regional government responsibility for the mobilization of their resources. Although DAK is a part of the regional budget (APBD), regional governments must abide by various central regulations governing its use, such as laws, government regulations, presidential decrees, ministerial regulations and decrees, and circulars from director-generals in each ministry that receives a DAK allocation. Under the weight of so many central regulations, very few regional governments have made their own regulations to detail policies covering DAK management.

The research into legislative regulation found that as yet there are no government regulations that specifically regulate DAK as is mandated by the law.¹ To date, no government regulation has been issued regarding the staged transfer of deconcentration and co-administration (*tugas pembantuan*) funds to DAK. In addition, various centralistic regulations regarding the organization as well as tasks and functions of ministries and nonministerial institutions have not been adjusted to conform with the decentralization and regional autonomy legislation. Consequently, DAK management policies differ between departments and regions. SMERU also came across policies in dire need of national uniformity but that still allow variation on some aspects. Conversely, SMERU found some enforced national uniformity in policies that should have provided room for variation to accommodate regional, local, or other specific conditions.

Many parties in the regions consider that the central government is often late releasing regulations concerning DAK, clashing with regional planning timetables. When the content of late-issued central decisions differs from the estimations a region has used when preparing their APBD, the APBD must be revised and later reassessed by the regional house of representatives (DPRD). Apart from wasting the time of government apparatus, this process wastes a significant amount of funds, stretching the regions' already limited fiscal capacity.

¹The government regulation that regulates DAK is bundled with the government regulation generally dealing with balance funds (*dana perimbangan*). DAK is one component of balance funds.

In practice, regional governments have become passive recipients of DAK grants, notwithstanding the legislation that actually enables the regions to actively submit proposals. Thus far, regional governments are only tasked to send data concerning regional conditions of facilities and infrastructure in the sectors that receive DAK allocations. The central government (specifically the Ministry of Finance) then uses that data as a determinant for the allocation of DAK by sector and region. Aside from that, the determination of the sectors that are to receive a DAK allocation follows the development priorities laid out in the government work plan (RKP). In 2007, DAK was allocated to seven administrative service sectors: education, health, infrastructure, regional governance infrastructure, maritime affairs and fisheries, agriculture, and the environment. General, specific, and technical criteria are used to determine DAK allocation. After a region's DAK value has been calculated, the regional government distributes the allocations to various projects and activities in accordance with central government policy.

Until 2005, the proportion of DAK allocation to the total APBN expenditure was still below 1%. In 2006, the proportion increased almost two-fold to 1.7%, or Rp11.6 trillion, while the General Allocation Fund (DAU) accounted for almost 22% of the total APBN expenditure. In the same year, deconcentration and co-administration funds totaled more than Rp30 trillion, or 4.4% of the total APBN expenditure. If a portion of deconcentration and co-administration funds is transferred to DAK as has been regulated in Law No. 33/2004 Article 108, over the next few years, the proportion of DAK to the total APBN expenditure could reach 5%. Since 2003, the three administrative services sectors that have received the largest proportion of DAK have been education, health, and infrastructure, specifically road infrastructure.

The attitudes of regional governments towards the DAK allocation process indicate a general feeling that the central government is not transparent, to the point where regions need to “lobby Jakarta” in order to receive larger allocations. News of the existence of “calo anggaran”, or budget brokers, in recent times has strengthened the indications of opaque DAK allocation practices. The bupati (district heads) and heads of DAK-receiving regional offices conduct lobbying efforts, and in fact one regional government handed the assignment over to a private company. Analysis results of the accuracy of DAK allocations for regions show that the correlation signs of DAK allocation by province on the condition of public service infrastructure in the basic education and road infrastructure are in line with the DAK objectives; however, the correlation values are low. In the health sector, the correlation sign is even contrary to the DAK objectives. This indicates that in allocating DAK to regions, the central government has given some consideration to factors that are not directly related with the infrastructure conditions of the sectors in question.

It is evident that coordination and communication surrounding DAK management between agencies at the central level and the regional level, including both provincial and district/city levels, are still limited. Thus far, very few regional governments have fulfilled their obligations to report their use of DAK quarterly. There are four possible causes for this: (i) while the regulations provide sanctions for not reporting, the central government has not applied the sanctions; (ii) several regional governments that have submitted reports have not received any response from the central government, and consequently, the regional governments are no longer concerned about their reporting obligations; (iii) the sanctions for failing to report would be applied to the region, not the negligent official, and correspondingly, officials do not feel obliged to compile the report; and/or (iv) regional governments do not have the sufficient capacity to manage public finances.

Based on the above findings, SMERU recommend the following recommendations to improve the policies and implementation of the use of DAK.

- (1) Various regulations must be reformed in order to support the proper implementation of decentralization and regional autonomy in general and DAK management specifically. This would optimize efforts to balance the quality and quantity of public services throughout Indonesia.
- (2) A number of new paradigms are required for the management of DAK. These would decentralize the authority for the allocation, coordination, and monitoring of district/city use of DAK to provincial governments. This authority requires safeguarding regulations to guarantee the implementation of transparency and participation mechanisms, accountability procedures, and a reward and punishment system. Such a policy would have three benefits: (i) the simplification of DAK management at the central level, (ii) the strengthening of governors' authority as representatives of the central government in the regions, and (iii) the empowerment of provinces as autonomous regions through fiscal discretion.
- (3) Sanctions should be devised for bureaucrats, not regions or the populace as a whole, for bureaucratic failures in the management of DAK in particular and of regional fiscal matters in general.

I. INTRODUCTION

1.1 Background

Entering the era of decentralization, otherwise known as “big-bang decentralization” from 2001, the central government has played an important role in supporting the implementation of administrative affairs which have been decentralized to regional government (*pemda*). Particularly in matters of finance, the central government has the responsibility to maintain balance in interregional funds allocation. In order to succeed in this task, the central government transfers funds to the regions via several mechanisms, such as General Allocation Fund (DAU), Specific Allocation Fund (DAK), and Shared Revenue Fund (DBH). These three balance funds have differing aims and natures.² They are all channeled into the regional budget (APBD), and hence, regional governments must justify their management of the funds to the Regional House of Representatives (DPRD). Besides that, the central government also provides loans and assistance to regional governments. The aim of the funds transfer, just like the purpose of the central government’s fiscal policy in the framework of the implementation of regional autonomy, includes to reduce financial discrepancies between the center and the regions as well as between regions and to reduce interregional discrepancies in public services provision. To date, balanced funds are still the largest source of regional revenue. In 2006, total transfers to the regions nominally increased by 47% compared to the previous year.³

DAU is a block grant; hence, regional governments are free to make use of the funds without interference from the central government. Funds for the DBH are sourced from APBN income which is reallocated to the (producer) regions in shares as regulated by Law (UU) No. 33/2004. DBH is distributed as taxation DBH (DBH Pajak) and natural resources DBH (DBH Sumber Daya Alam). Taxation DBH consists of land and building tax (PBB), land and building transfer fees (BPHTB), and personal income tax (PPh). Natural resources DBH is comprised of forestry, mining, fisheries, oil, natural gas, and geothermal revenues.

In contrast to DAU and DBH, the acquisition and use of DAK must follow the guidelines determined by the central government. DAK is allocated to specific regions in the national budget to fund specific activities that are of regional affairs and reflect national priorities. Regions can receive DAK on fulfillment of three criteria: (1) general criteria based on the Net Fiscal Index (NFI); (2) specific criteria based on legislative regulation and regional characteristics; and (3) technical criteria based on technical indexes in the relevant industry (Law No. 32/2004 and Law No. 33/2004).

Approximately 80% of regionally managed DAU is used for routine expenditure, mainly the wages of regional government public servants. Because of this, DAK is the main regional source for infrastructure construction. If well managed, DAK, which is specifically used for building and revitalizing physical infrastructure, can improve the quality of education, increase health services, and at the very least reduce infrastructural damage. These efforts are of paramount importance for overcoming poverty and building a more competitive national economy.

²Pelaksanaan Kegiatan Analisis dan Pengolahan Data Pelaksanaan Dana Alokasi Khusus (DAK) [The Implementation of Analysis and Data Management Activities in the Implementation of the Specific Allocation Fund (DAK)], Directorate of Regional Economy, Bappenas, 2006

³*Nota Keuangan 2007* [2007 Financial Statement], Ministry of Finance, 2007

DAK recipient regions are obliged to provide co-funding (*dana pendamping*) from the APBD amounting to a minimum of 10% of the total DAK they receive. Exceptions can be granted to regions with low fiscal capacity. Regions are also obliged to provide 3% of the total value of the received DAK for general costs taken from other sources of income. DAK is used to close interregional gaps in public services provision, with priority given to education, health, infrastructure, maritime affairs and fisheries, agriculture, regional administrative infrastructure, and the environment. In 2006 the central government allocated as much as Rp11.6 trillion to DAK and in 2007 the figure rose sharply to Rp17.094 trillion.⁴ Starting from 2007, deconcentration funds and co-administration (*tugas pembantuan*) funds used in the regions will be disbursed to regions via the DAK mechanism in stages; deconcentration funds will be allocated to provinces while co-administration funds may be allocated to provinces, districts (*kabupaten*), or cities (*kota*) as representatives of the central government in the regions. In contrast to DAU, DBH, deconcentration funds, and co-administration funds, DAK is specifically given to districts or cities.

To date, the focus of study has often been efforts to optimize revenue sources, while studies on the optimization of expenditure focuses are rarely conducted. Studies of the implementation and impact of DAK, for example, are rare. Linked to this, questions that frequently emerge are concerning simple things like how the distribution mechanisms and management of DAK are proceeding. Although there are several criteria for the allocation of DAK, the accountability processes at the national and regional levels have not yet been widely publicized.

1.2 Aim and Scope

This research, which was conducted from April 2007 to January 2008, aims to study various policies related to the management of DAK and their implementation in the field, including

- (1) studying the mechanisms and formulation/criteria of DAK at the central government level in relation to
 - (a) regulations connected with DAK which have become guidelines for implementers (planning, allocation determination procedures, fund disbursement mechanisms, implementation, monitoring and evaluation, and coordination between agencies);
 - (b) the allocation of other funds which have the same or similar aims to DAK;
 - (c) the role of various agencies (the National Development Planning Board (Bappenas), Ministry of Finance (Depkeu), Ministry of Home Affairs (Depdagri), the Technical Ministry of the Ministry of National Education (Depdiknas), Ministry of Health (Depkes), Ministry of Public Works (Deppu) in the management of DAK (involving bottom-up planning versus top-down planning, allocation determination, disbursement and use of funds, and responsibilities);
 - (d) how much and to where funds are allocated (sectoral, regional, type of project, project implementation methods, and conformity to legislative regulations); and
 - (e) problems and suggestions for moving forward;

⁴Minister for Finance Regulation (PMK) No. 124/PMK.02/2005 and PMK No. 128/PMK.07/2006

- (2) studying the regional government's capacity in the use of DAK in relation to
 - (a) methods and efforts to obtain funds;
 - (b) regional regulations and policies involving the administration of DAK;
 - (c) the regional government's experiences in making use of other funds having aims that are the same as or similar to those of DAK;
 - (d) the role of various regional agencies (Regional Development Planning Board (Bappeda), Provincial House of Representatives (DPRD), Finance Division, Technical Agency, and regional offices of the Directorate-General for Treasury (Kanwil DJP) in the management of DAK (involving planning, use, monitoring, responsibilities, and conformity to regulations and policies);
 - (e) the disbursement procedures and processes (from the APBN to APBD, co-funding, distribution to projects, and conformity to regulations and policies);
 - (f) the amount of funds received for what project (basis for the choice, allocation, and location for each project, project management: contractor versus self-managed, and conformity to regulations and policies);
 - (g) project quality; and
 - (h) obstacles and suggestions for moving forward.

1.3 Methodology

This study qualitatively analyzed the current DAK funding, various problems that have emerged in its distribution, and regulation of the use of DAK both at the central and regional levels. It is focused on the three sectors that receive the greatest amount of DAK funding: education, health, and road infrastructure. Information regarding stakeholder perceptions was gathered at both the central and regional levels, concentrating on efforts to increase the management accountability of DAK. A qualitative approach was also used to uncover DAK's regulatory and implementational framework, information transparency, receipt and use of funds, and various obstacles and their possible solutions. The study also used a quantitative approach to see the proportion of DAK in both the APBN and APBD, the proportion of DAK compared to other balance funds, and DAK trends in the APBN and APBD, particularly in the span of the last five years. A quantitative analysis was also done to correlate DAK allocation with the condition of public service infrastructure in each province.

The research sample areas covered one district or city in each of four provinces. Sample areas were selected based on criteria such as

- (1) representativeness of all regions in Indonesia: Sumatra, Java-Bali, Kalimantan-Sulawesi, and Nusa Tenggara-Maluku-Papua;
- (2) the sample provinces being DAK recipients and being the provinces that receive the largest DAK allocations among the provinces in their respective areas;
- (3) variations in the regional economic growth figures and gross regional domestic product (GRDP);
- (4) covering districts and cities, that is, three districts and one city; and

- (5) sample districts/city being DAK recipients for all priority sectors and being the districts/city receiving the largest DAK allocations among all the districts/cities in their respective provinces.

Table 1.1 DAK Study Sample Areas, 2007

| Area | Province | District/City |
|-----------------------------|--------------------------------|--------------------|
| Sumatra | Nanggroe Aceh Darussalam (NAD) | Banda Aceh City |
| Java–Bali | Central Java | Wonogiri District |
| Kalimantan–Sulawesi | Gorontalo | Gorontalo District |
| Nusa Tenggara–Maluku–Papua* | East Nusa Tenggara (NTT) | Kupang District |

*As a province that has a special autonomy, Papua has different characteristics from other provinces in this area. However, since the research's funding is limited, this area is only represented by NTT.

Data and information were collected in a document review covering all legislative regulations issued by the central government and regional governments at the provincial and district/city levels. National and regional budgets since the beginning of the decentralization period were also compiled. In-depth interviews were conducted with national-level officials from the Ministry of Home Affairs, Ministry of Finance, Bappenas, and the House of Representatives (DPR), as well as several officials from technical ministries in DAK priority sectors, specifically the Ministry of National Education, Ministry of Finance, and Ministry of Public Works. In-depth interviews were also conducted with provincial and district/city officials, as well as with stakeholders in the use of development projects funded by DAK.



Figure 1.1 Map of Indonesia and Research Locations

Regional stakeholders interviewed include officials from Bappeda, education offices, health offices, public works offices, finance and economy divisions of regional secretariates, regional offices of the Directorate-General for Treasury under the Ministry of Finance,⁵ DPRD representatives, principals of DAK-recipient schools, contractors (Indonesian Association of Construction Contractors/Gapensi), boards of education, nongovernment organizations, community health centre (*puskesmas*) heads, the mass media, and users. Information was also gathered via focus group discussions (FGDs) attended by officials from all regional governments and other connected agencies responsible for policies and the implementation of DAK's use.

1.4 Report Structure

Chapter I is an introductory chapter outlining the background, aims and scope of the study, methodology, and report structure. Chapter II will explain the regulations related to DAK, covering from planning to accountability. Chapter III will explain DAK allocations in the APBN and APBD, DAK allocations according to priority sectors, and DAK allocations in the sample areas. Chapter IV looks at transparency, accountability, and participation in the use of DAK, mainly by the regions. Finally, Chapter V will emphasize several important notes about the research, provide a summary, and present several recommendations.

⁵The only prospective respondent that refused to be interviewed was the head of Regional Office of the Directorate-General of Treasury, Region I, Banda Aceh.

II. REGULATIONS: FROM PLANNING TO ACCOUNTABILITY

In more than half a century after independence, Indonesia's system of governance has tended to be managed centrally. In this system, everything related to administrative matters was planned and regulated by the central government. Regional governments had the task of implementing everything that was decided and ordered by the central government. An argument that often emerged on the back of the centralistic system was to achieve national unity for the Republic of Indonesia. However, for a country as large as Indonesia with tens of thousands of islands, containing hundreds of ethnicities, and a population of more than 220 million people, a centralized administrative system cannot effectively regulate and implement all administrative matters by itself. The centralistic system will dominate if monitoring mechanisms by the public and accountability to the public are weak and not open. This system is inclined to create an increasingly large and complex bureaucracy. A bureaucracy that continues to grow, at a certain point, will no longer be able to service and settle governance matters. Instead, it will become the source of problems.

As one member of the DPR stated, “*Negara dibangun dengan tujuan demi kesejahteraan penduduknya. NKRI bukan tujuan, melainkan sarana untuk mencapai tujuan tersebut*” [A nation is built for the sake of the welfare of its people. National unity of the Republic of Indonesia is not the aim, but rather it is a tool to achieve this aim].⁶ Because of this, when the monetary crisis occurred and was prolonged by political uncertainty, several community groups demanded democratization in various aspects of national life, including opposing the centralized governance which had been hiding behind the justification of maintaining national unity. These efforts included a push for the decentralization of authority and fiscal matters. The decentralization system gave regions the authority to manage their own household with regional autonomy status. An early result from the push for these changes came with the founding of Law No. 22/1999 on Regional Governance and Law No. 25/1999 on Fiscal Balance between the Central Government and Regional Administrations which came into effect on 1 January 2001. In 2004, these two laws were revised with Law No. 32/2004 and Law No. 33/2004 respectively.

Based on these two laws, district/city governments are authorized and have the responsibility to provide wide ranging public services in almost all sectors of community life.⁷ These legislative regulations have made the framework for fiscal management relationships which were previously dominated by the center through Regional Autonomy Subsidies (SDO) and Presidential Instruction (Inpres) Funds more flexible under DAU and DAK. Generally, DAU replaces SDO for civil servant wages and governance activities, while DAK replaces the Inpres Fund by funding various specific activities in and by the regions. This chapter focuses on highlighting the dynamics of policy regulations (legislative regulations), mainly covering the allocation, distribution, and use of DAK.

⁶Interview on 17 April 2007

⁷This system is not actually a new policy. Indonesia has had Government Regulation No. 45/1992 on the Implementation of Regional Autonomy Focussing on Level II Regions and was trialled via Government Regulation No. 8/1995 on the Granting of Several Governmental Affairs to 26 Sample Level II Regions. The implementation of these government regulations did not eventuate as the delegation of administrative matters to regional governments was not fully supported by the distribution of funding, while various large sources of national income were controlled by the central government (Usman et al. 1996).

2.1 Observation of Funds with Similar Purposes (Presidential Instruction Fund)

The New Order government, aside from being known as having a high-growth economic strategy, also had a poverty reduction strategy. In the New Order era, the central government generally transferred funds to regional governments in two types of grants: firstly, general grants, in the form of SDO, which were allocated to fulfill regional needs and were only to be used in accordance with central government directives; and secondly, specific grants, in the form of the Inpres Fund, which were allocated to fulfill specific regional needs and were implemented and monitored by the center.⁸ Both of these types of grants were intended to reduce interregional inequality and raise regional government responsibility for the mobilization of regional resources (World Bank 2003).

The specific grants were channeled to regional development in various forms, such as through specific Inpres on primary schools, health, reforestation, villages, left-behind villages, level II regions (districts/cities), and level I regions (provinces). These various Inpres show that the government used a regional approach as well as a sectoral approach in the allocation of funds. The Inpres program had a key role in providing and widening community access to goods and services for basic human needs. As a result, while at the beginning of the New Order the poverty rate was no less than 60%, after three decades of the government, based on the 1996 national socioeconomic survey (Susenas), the rate had fallen to only around 11% (Suara Pembaruan 1997).

Before the decentralization era, Indonesia submitted to a national financial system that enabled the center to control large and productive income sources without returning anything to the producer region. This system pushed the large-scale, wide-open access to the allocation of funds to ministries and nondepartmental institutions (Simanjuntak 2005), while the regions mostly only managed income sources with a value approaching their collection costs. The high extent of centralized harvesting of these productive income sources became one of the causes for regional governments' inability to fund their budgetary requirements.

Governance with a financial system as illustrated has a tendency to rupture, even more so when the center's use of funds is self-controlled and self-administered by each provincial office and district office. Although the allocation of funds that were channeled to the regions in the era prior to decentralization continued to increase, it was evident that the center was still controlling the funds by allocating the majority via the deconcentration mechanisms (as a means to soften the centralized system) rather than decentralization (World Bank 2003). As a result, these conditions further weakened the authority of regional governments. Consequently, besides being inclined to nurture the practice of corruption, collusion, and nepotism (KKN), a centralized financial system such as this also killed off any spirit of innovation and creation within regional governments and regional communities. This, among other reasons, was the cause of the monetary and political crises at the end of the 1990s that forced the New Order administration to step down.

⁸The involvement of the center in the management of regional funds occurs not only for grants, but also for funds sourced from the region's own income. This reality is shown by the statement of several governors that they still must ask for the center's "blessing" to use funds from locally-derived revenues (PAD) (Usman et al. 1996). This demonstrates the high level of centralization in the New Order era.

Table 2.1 gives a picture of the regional government income and expenditure before decentralization. Around 85% of the regional income was sourced from central financial transfers to the regions in the form of both subsidies and shared tax revenues. The regional government's expenditure had been split into two groups: routine expenditure and development expenditure. Routine expenditure was used to pay civil servant wages as well as goods and services required to run the administration, while development expenditure was used to fund the development of new activities and projects in efforts toward regional progress.

Table 2.1 Regional Government Income and Expenditure

| Details | Total Income (% based on nominal figures) | |
|--------------------------------|--|---------|
| | 1997/98 | 1998/99 |
| Previous year's budget surplus | 3.0 | 2.8 |
| Locally-derived revenue (PAD) | 13.0 | 11.0 |
| Tax revenue | 15.1 | 13.1 |
| SDO and Inpres Fund | 68.0 | 71.9 |
| Other income | 0.9 | 1.0 |
| | Total Expenditure (%) | |
| Routine expenditure | 56.0 | 68.0 |
| Development expenditure | 44.0 | 32.0 |

Source: World Bank (2003)

Note: SDO = regional autonomy subsidies; Inpres = Presidential Instruction

Planning. At the policy level, mechanisms for the management of the Inpres Fund started with development planning from below in accordance with the Minister of Home Affairs Regulation No. 9/1982 on Guidelines for Preparing and Managing Development in the Regions (P5D). Plans for activities and projects to be funded by Inpres funds all fell under the development activities and projects funded by the APBD.

The preparation of project plans was preceded by a community consultation meeting (*musyawarah*) on development at the village level, then further discussed at the subdistrict (*kecamatan*) level, and then adapted to fit the general planning framework prepared by all the government offices or agencies of autonomous regions. The outcomes from the offices or agencies were outlined in a development coordination meeting (*rapat koordinasi pembangunan/rakorbang*). A criticism that often arose from this process was that more and more outcomes of the *musyawarah* at the lower level were lost when the motions were proposed in the higher-level meeting.

Allocation. Based on estimations of central allocation of Inpres funds, regional heads, through Bappeda and in conjunction with the relevant offices or agencies of autonomous regions, would fine-tune the program design in order to adapt the activities and projects requiring funding to the available allocation limit. At this level, it was often the case that several project suggestions that had already been agreed upon were not granted funding or were left off the list of activities and projects for the relevant year, but were instead added to the agenda for the following year's development coordination meeting.

Distribution and Flows. Inpres funds were distributed by the center via the publishing of Authorization for Development Assistance Budget (SPABP) which contained the funding allocations for regional governments. Funds were distributed through the National Treasury and Cash Office (KPKN) to regional cash accounts. From these accounts, Inpres funds were distributed to individual development activities and projects via the APBD.

2.2 DAK Regulation at the National Level

Two legislative regulations on decentralization and regional autonomy, Law No. 32/2004 and Law No. 33/2004, form the new basis for the application of political structure and governance administration, especially fiscal policy, in Indonesia. However, in practice, these regulations are often disrupted by legislative regulations concerning the tasks and function of ministries and nonministerial institutions that have not yet been brought into line with the new regulations on decentralization. These legislative regulations were formed under the centralistic system with a high level of authority to regulate and make various decisions in all corners of the country. As a result, while a large share of governmental authority has already been decentralized, the structure of ministries and nonministerial institutions has not really changed. On the budgeting side, they still control a relatively large share of the budget, including deconcentration and co-administration (*dana pembantuan*) funds for matters that have actually already been decentralized.

Another obstacle to the implementation of decentralization is the late preparation of follow-on government regulations forming the basis for the creation and enforcement of relevant legislative regulations. In other words, the implementation of specific articles in laws is not supported by regulations that have been agreed to at the national level. An implication of this is that their implementation in the field can differ between ministries and also between regions. The late preparation of government regulations mandated by such legislation also occurred for laws in the previous era. For example, the directive of Law No. 5/1974 on Administrative Principles in the Regions to prepare a Government Regulation on the Implementation of Regional Autonomy Emphasizing District Regions was fulfilled 18 years after the law was approved (Usman et al. 1996).

Law No. 32/2004 regulates that the authority for the coordination of a large share of administrative matters is to be delegated to the regions, while Law No. 33/2004 regulates fiscal balancing policy as a consequence of the division of authority between the central government and regional governments. The implementation of administrative matters that now fall under the authority of regional governments are funded from the APBD. Currently, a large number of regions are unable to collect any more than 15% of the total value of the APBD through locally-derived revenues (PAD). As a result, the central government must cover any shortfalls through balance funds consisting of DBH, DAU, and DAK which complement each other. Moreover, this observation is only focused on regulations that regulate the use of DAK.

Article 162 of Law No. 32/2004 states that DAK is allocated in the APBN for specific regions in the framework of decentralization funding for (1) funding specific activities determined by the central government based on national priorities and (2) funding specific activities as suggested by the recipient region. A more thorough regulation of DAK is mandated in Article 162 Subsection 4, which states that DAK is to be regulated in a government regulation, but to date the intended regulation does not exist. Consequently, so far in practice DAK has only been allocated for the first purpose, while the second purpose has not been put into practice (Bappenas 2006). Bappenas gathered suggestions from the regions when DAK was first implemented. The value of the activities and projects proposed by the regions totaled in the hundreds of trillions of rupiah, far above the funds that the APBN can provide. One staff member from the Ministry of Education stated that he often receives letters of suggestion from the regions. However, they cannot all be considered for DAK allocation because the mechanisms are not yet in place. While not fully using the second approach, some regions have proposed to modify the use of DAK

that has already been allocated for specific sectors in their area for specific reasons, for example the improvement of education infrastructure in an area that has been hit by a natural disaster. Modifications such as these must be agreed to by the authorized official at the central level.

Law No. 33/2004 regulates that the allocation of DAK is determined according to three criteria, which involve general criteria, specific criteria, and technical criteria.

- (i) General criteria are based on consideration of a regional government's fiscal capacity, with priority given to regions whose discrepancy between general income and civil servant expenditure is zero or negative or below the national average based on the net fiscal index.
- (ii) Specific criteria are prepared with attention given to legislative regulation, such as special regional autonomy and regional characteristics, for example coastal, island, or border regions.
- (iii) Technical criteria are based on considerations determined by technical departments or national ministries using indicators that illustrate infrastructural characteristics in each sector.

Furthermore, Article 42 of Law No. 33/2004 orders the composition of a government regulation to especially regulate the management of DAK. However, to date the government has made no effort to issue such a regulation. Several cases have developed recently, such as the late ratification of the APBD and the holding of balance funds in the Bank Indonesia Certificate (SBI), which highlight the urgency for the immediate issue of a government regulation on the management of DAK. DAK cannot be distributed to regions before their APBD is ratified as it must be included in the APBD and the region is obliged to allocate co-funding (*dana pendamping*) to a minimum of 10% of the total DAK they receive. Holding funds as Bank Indonesia Certificates (SBI) impedes the APBD's function as an activator of regional real sector economies (see Box 2.1).

In addition, Article 108 of Law No. 33/2004 states that deconcentration and co-administration funds forming a part of ministerial or state institution budgets used to implement matters that according to legislative regulations have become regional matters are to be transferred to DAK in stages. The law orders the central government to issue a government regulation to implement the transfer of these funds. Four years after the introduction of this legislation, there are no visible signs that the government will issue such a regulation. To date, not one district/city government official has paid attention to this issue. However, one provincial government staffer has conveyed their objection to regulations transferring deconcentration and co-administration funds to DAK, giving the reason that these balance funds are intended to help regional governments before they have sufficient fiscal capabilities, and hence balance funds, including DAK, should not be expected to keep growing; on the contrary, they should actually be reduced. The problem with that is that while various large sources of income are controlled by the central government, the majority of regional governments have not been able to obtain sufficient revenue to fund their activities. Several district staff consider that the provincial official's objection is based on the fact that deconcentration and co-administration funds are managed by provincial governments, while DAK is managed by district/city governments.

Box 2.1 APBD Management: Information Obstacles and Sanctions

Fostering economic growth is one of the important functions of the national budget (APBN) and regional budgets (APBD). This function can be enabled if the government is able to efficiently and effectively manage the budget for real sector development. In connection with this, three large issues have recently arisen: (1) holding regional funds in Bank Indonesia Certificates (SBI); (2) issuing regional regulations on tax and *retribusi* (service fees) which are not reported to the Ministry of Finance; and (3) the late ratification of APBD.

Bank Indonesia (BI) has reported that as of April 2007, regional government funds being held in the bank reached Rp90 trillion. “This is a very large total,” said the governor of BI (Kompas 2007). Earlier in the year, on the same topic, the Minister for Finance stated that his ministry would enact tighter control mechanisms for DAK flows so that regional budget funds channeled from the APBN can be put to maximum use in the real sector (Kompas 2007).

Regional governments have not reported at least 1,366 regional regulations on regional tax and *retribusi* to the Ministry of Finance (Kompas 2007). There are rules requiring regional governments to submit their regional regulations to the central government; however, there are no penalties for failing to do so. Regional governments may intentionally fail to report their regulations to the center to avoid their invalidation by the central government. The regional regulations that are not reported are usually the sources of high fees or charges resulting in weakened competition in the business world.

The head of Regional Autonomy Watch (KPPOD) has stated, “During the year 2006 many regions ratified their APBD in the middle of the year; in fact, some only ratified their budgets in the month of September. Clearly no development programs in the real sector can be done in that time frame” (Kompas 2007). Silalahi (2007) stated that if regions had not ratified their APBD by April 2007, it is certain that development activities would be delayed. A further consequence is that activities funded by the regional budget will be done in a hurry, with regional officials tending to procure goods and services by direct appointment, breaching Presidential Decree No. 80/2003.

Many parties are demanding that clear sanctions be handed down to regions conducting actions such as those mentioned above. Both the executive and legislative officials suggested handing down sanctions such as the deferment of the distribution of balance funds. The Ministry of Finance had deferred the distribution of DAU for five districts that had been unable to finalize their APBD by 11 May 2007 (Kompas 2007). Law No. 33/2004 indeed gives the Ministry of Finance the authority to postpone the distribution of balance funds to regions which do not submit regional fiscal information.

It is well known that delays in the distribution of balance funds can impede economic activities. In other words, such sanctions are borne by the people through the disruption of economic activities; it is unjust when sanctions for official negligence in regional fiscal management flow down to all the people. The penalties for such negligence should be borne by officials and decision makers—governors/*bupati*/mayors, the heads of regional government work units (SKPD), and members of regional legislature (DPRD). Hence, the formulation of sanctions for officials who are negligent in carrying out their duties must be considered, for example through salary cuts.

Government Regulation No. 55/2005 on Balance Funds is the only government regulation that regulates DAK, as DAK is a part of balance funds. DAK is specifically directed to the development, procurement, increasing, and/or improvement of physical infrastructure for basic community services with a long economic time span. To state their commitment and responsibilities, the regions have the authority to allocate co-funding from their APBD reaching a minimum of 10% of the total DAK they received. The Minister for National Development Planning, together with the Technical Ministers, have conducted monitoring and evaluation on the use and technical implementation of several DAK-funded activities, while the Ministry of Finance has conducted monitoring and evaluation of its fiscal management.

DAK is allocated in the APBN according to the legislation on APBD and this allocation is in accordance with programs declared a national priority in the Presidential Decree on Government Work Plan (RKP) for the current year. Bappenas (2006) has made a comparison of the conformity of DAK-funded sectors with national development priorities based on the 2006 RKP. Table 2.2 shows that two sectors do not reflect the 2006 RKP: the environment and regional governance infrastructure. The other sectors only conform with the RKP in terms of their titles; there is no conformity between sectoral activities and the activity aims within each national development priority, with the exception of the infrastructure sector in the framework of supporting the increase of employment opportunities, investment, and exports (Bappenas 2006).

Starting in 2007, DAK sectors better conform to the development priorities and main activities set forth in the 2007 RKP (Table 2.3). For example, the Nine Years of Compulsory Basic Education program was included in RKP activities to rehabilitate school buildings at the primary level (57% are damaged) and junior secondary level (27% are damaged). In terms of education quality, the RKP stipulates activities for text book provision and the development of supporting facilities. On community health programs, among other efforts, the RKP formulated activities to increase the physical condition of *puskesmas* and the public health network, primarily in isolated, disadvantaged islands and border areas. On a different note, the RKP on road infrastructure as far as officially noted for roads and bridges rehabilitation/maintenance programs does not include activities that are appropriate for DAK funding. RKP generally contain activities covering stretches of national roads, while DAK is set aside for stretches of district/city roads (Bappenas 2006a).

Table 2.2 Conformity of DAK Sectors with Development Priorities, 2006

| 2006 Government Work Plan (RKP) Development Priorities | 2006 DAK Sectors |
|--|--|
| <ol style="list-style-type: none"> 1. Poverty and inequality reduction 2. Increasing employment, investment, and export opportunities 3. Revitalization of agriculture, fisheries, forestry, and rural areas 4. Increasing education and health accessibility and quality 5. Law enforcement, eradication of corruption, and bureaucracy reforms 6. Strengthening defense capabilities, security and law and order stabilization, and conflict resolution 7. Rehabilitation and reconstruction of Nanggroe Aceh Darussalam and Nias (North Sumatra) | <ol style="list-style-type: none"> 1. Education sector 2. Health sector 3. Public works sector <ul style="list-style-type: none"> • Road infrastructure • Irrigation infrastructure • Clean water infrastructure 4. Regional governance infrastructure 5. Maritime affairs and fisheries sector 6. Agriculture sector 7. The environment sector |

Source: Bappenas (2006)

Table 2.3 Conformity of DAK Sectors with Development Priorities, 2007

| 2007 Government Work Plan (RKP) Development Priorities | 2007 DAK Sectors |
|---|---|
| 1. Increasing access of the community to education services of a higher quality | 1. Education sector |
| 2. Increasing access of the community to health services of a higher quality | 2. Health sector |
| 3. Acceleration infrastructure development | 3. Public works sector <ul style="list-style-type: none"> • Road infrastructure • Irrigation infrastructure • Clean water infrastructure |
| 4. Revitalization of decentralization and regional autonomy processes | 4. Regional governance infrastructure |
| 5. Revitalization of agriculture, fisheries, and forestry | 5. Maritime affairs and fisheries sector |
| 6. Improvement of natural resource management and environment conservation | 6. Agriculture sector |
| | 7. The environment sector |

Source: Adapted from Bappenas (2006a)

Apart from considering general and specific criteria, the Ministry of Finance's calculation of DAK allocation considers technical criteria for specific activities upon the suggestion of the technical ministries. The specific activities are determined based on technical indexes for each sector after the relevant technical ministry coordinates with the Ministry of Home Affairs, the Ministry of Finance, and the Ministry of National Development Planning. The following are the technical criteria for the three sectors that are samples in the study.⁹ Technical criteria for the education sector consist of (1) the number of classrooms in poor condition, (2) the number of primary schools and equivalent schools, and (3) construction cost index. The technical criteria for the health sector are (1) community poverty index, (2) regional area, (3) population, (4) the number of *puskesmas*, secondary *puskesmas*, village maternity posts, mobile *puskesmas*, and health office posts, and (5) construction cost index. Technical criteria for the road infrastructure sector consist of (1) the length of the district/city road, (2) the length of the damaged stretch of road, (2) district/city road performance, and (4) construction cost index.

The outcome of DAK allocation calculations are molded in the Minister for Finance Regulation (PMK) on DAK Allocations and Management Guidelines by Region. According to Government Regulation No. 55/2005, the Ministry of Finance must issue the PMK within 2 weeks from the ratification of the APBN legislation. Law No. 18/2006 on the 2007 APBN was ratified on 17 October 2006, while the PMK on DAK 2007 was only issued on 15 December 2006, or 2 months later.

So far, DAK allocation is still quite low; up to 2005, its proportion of the total APBN expenditure was below 1% (Table 2.4). In an effort to increase the effectiveness of use of the limited funds, regional governments can form a DAK Activities Coordination Team, which coordinates the planning, implementation, reporting, and monitoring of DAK activities. This team is usually coordinated by a Bappeda official with members from each regional-level work unit to manage DAK. The coordination is intended to synchronize and create synergy for DAK's use so that it does not overlap with the use of DAK for other development activities. The coordination is also intended to create transparency, participation, and accountability for each DAK-funded activity.

⁹General observations of the three technical guidelines issued by each technical ministry are outlined at the end of this section.

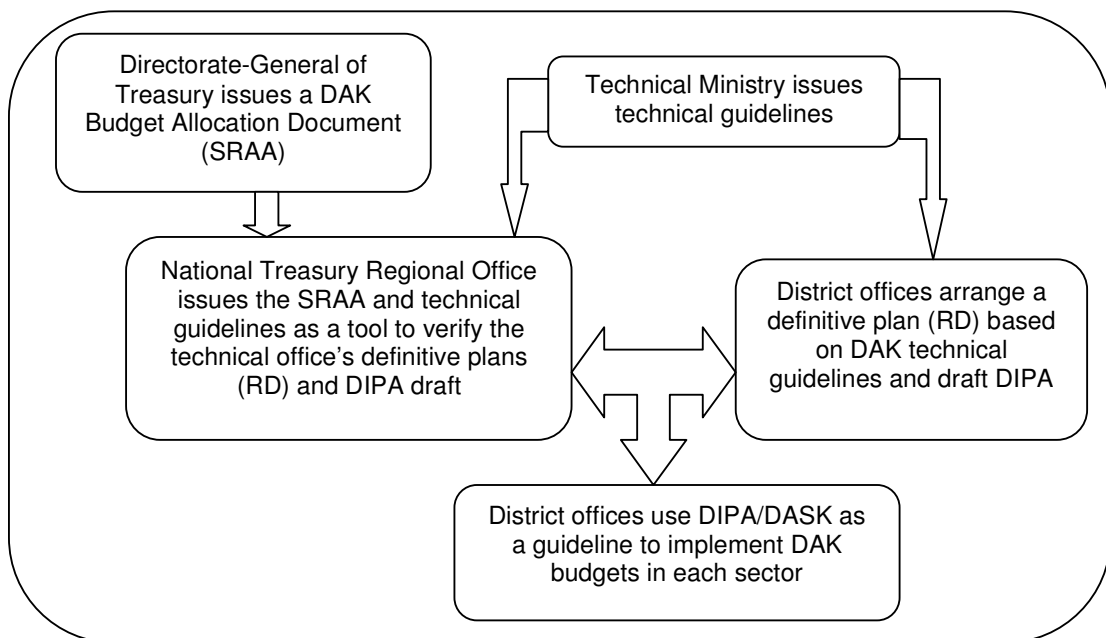
Table 2.4 Developments in DAK Allocation, 2003–2007

| Details | 2003 | 2004 | 2005 | 2006 | 2007 |
|----------------------------------|-----------|-----------|-----------|------------|------------|
| Number of sectors | 4 | 5 | 6 | 7 | 7 |
| DAK in the APBN (million rupiah) | 2,269,000 | 2,835,500 | 4,014,000 | 11,569,800 | 17,094,100 |
| DAK/TB as % of APBN | 0.70 | 0.84 | 0.85 | 1.73 | 2.24 |

Source: Adapted from APBN and Ministry of Finance Regulations for the respective years
 Note: TB = Total expenditure in the APBN; 2007 figures are still estimations.

After receiving a DAK budget allocation document (SRAA), the regional head should arrange for a DAK utilization plan as set forth in the definitive plan (RD) and budget implementation statement (DIPA). The head of the relevant regional office of the DJP is consulted with concerning the three documents, and issues a DAK budget implementation statement authorization (SP-DIPA) once all three have been confirmed. On the basis of the DIPA, the regional head issues a budget implementation document (DPA)/DIPA for the regional level work unit containing budget activities and allocations for each sector that receives funding. Figure 2.1 explains the verification process for the definitive plan which then becomes a DIPA.

Regional governments are required to follow technical guidelines issued by technical ministries in the management of DAK-funded activities. According to Government Regulation No. 55/2005, the technical ministry must determine the technical guidelines for the use of DAK at most 2 weeks after the Ministry of Finance determines DAK allocation. Below is a general picture of the three technical guidelines on the use of DAK in study samples (education, health, and road works).



Note: Figure compiled from the results of interviews with relevant groups and several technical guidelines for the implementation of DAK.

Figure 2.1 Mechanisms for Verifying Definitive Plans to Create Budget Implementation Lists (DIPA)/Work Unit Budget Lists

Ministry of National Education Regulation No. 4/2007 on Technical Guidelines for DAK's Implementation in the Education Sector Year 2007 was determined on 29 January 2007, or six weeks after the PMK on the 2007 DAK Allocation Determination was issued. Education sector DAK was allocated to support the implementation of the quality Nine Years of Compulsory Basic Education program. The activities were directed at (1) the rehabilitation of buildings/class rooms of primary schools and the equivalent—public, religious, state, or private schools, and (2) increasing the quality of basic education.

The aims of DAK in the education sector are to realize transparent, professional, and accountable educational management, to actively involve the community, to push communities to become directly involved in the monitoring of educational activities, and to activate the economy in poor communities. The policy aims, among other things, to avoid overlapping with activities funded by the ministerial budget and the staged transfer of funding for activities that have become the regional matters from deconcentration and co-administration funds to DAK.

In the process of DAK utilization, the Office of Education and the Office of the Ministry of Religion, together with district/city education boards, form the technical team assigned to select recipient schools, socialize the activities, and monitor its implementation. Besides this, the school principal, assisted by the school committee or madrasa council, is responsible for implementing activities at the school level. The implementation of activities at the school level is self-managed involving the school's local community.¹⁰ Funds are distributed to schools in entirety/in tact without deductions for tax from the regions to school bank accounts. Tax obligations are arranged by the school based on the valid regulations (see Appendix 7 for distribution, distribution mechanisms, and reporting of the use of DAK to the education sector).

As a follow-up to these technical guidelines, on 15 February 2007, the Directorate-General of Primary and Secondary Education issued Circular No. 643/C/KU/2007 on DAK Implementation Guidelines in the Education Sector for the 2007 Fiscal Year (FY). Then, on 16 February 2007, the director of Kindergarten and Primary School also issued Circular No. 0123/C2/LL/2007 on Technical Specifications for Furniture, Educational Aids, Reference/Enrichment Books for Libraries, Multimedia Equipment and Library Facilities, and Preparation of DAK Activities Reports in the Education Sector for the 2007 Fiscal Year.

The contents of both circulars are clear and detailed. If only regional DAK managers had carefully read them both, there would not be uniform measurements for student tables and chairs, only those appropriate for grade 1 students. If grade 3 and 4 students, let alone grade 5 and 6 students, use these chairs and tables, they would be forced to hunch. The physical consequences for these students after using such tables and chairs for years are easily imagined. Uniformity such as this is also found in the number of tables and chairs, which is set at 40 sets in each class, whereas many schools only have around 20 students per class; consequently, the surplus tables and chairs are simply stored in the back of the classroom.¹¹ Other bungles involve the procurement of books to enrich student knowledge

¹⁰Several groups, especially contractors, consider that this self-management of implementation activities contravenes Presidential Decree No. 80/2003 on Government Procurement Guidelines for Goods and Services.

¹¹Uniformity indeed lightens the duties of project managers, but looking for easy methods such as this is irresponsible because they do not consider the limited national fiscal condition.

for the school library. There are schools that buy 100 sets of one title, whereas it would be better to provide ten sets of ten different titles and therefore give students the opportunity to broaden their knowledge on a range of topics.

Minister for Health Decree No. 7/Menkes/SK/I/2007 on Technical Guidelines for the Use of DAK in the 2007 Fiscal Year was issued on 8 January 2007, 3 weeks after the issuance of the PMK on the 2007 DAK Allocation Determination. Health sector DAK was allocated for efforts to increase access to and the quality of health services. These activities were aimed at upgrading, rehabilitating, expanding, supplying, and developing various kinds of health service units and the procurement of medical equipment to increase basic health services.

The distribution of DAK allocation in the health sector to *puskesmas* and the health network is determined by district heads (*bupati*) and mayors at the suggestion of the district/city Health Office. The funds are not distributed on an even basis; rather, priority is given to the fulfillment of user needs. Each district is required to prioritize village health posts (*poskesdes*) to best support the Alert Village Program.¹² *Bupati*/mayors appoint health sector regional government work units to oversee DAK-funded health activities.

Each quarter (in March, June, September, and December), *bupati*/mayors must submit a report on activities, physical and fiscal realizations, and any problems to the secretary-general of the Ministry of Finance. In March, districts/cities are also asked to send inventory data regarding all medical and health equipment in their region, including their condition, which will be used to gauge health sector DAK allocation for the following year (see the Appendix 10 for reporting mechanisms for the use of DAK).

Minister for Public Works Regulation No. 39/PRT/M/2006 on Technical Guidelines for the Use of DAK in the Infrastructure Sector for Year 2007 was issued on 29 December 2006. The Minister for Public Works adhered to Government Regulation No. 55/2005 by issuing the technical guidelines within 2 weeks after the PMK on the 2007 DAK Allocation Determination was issued. National priorities for DAK-funded road infrastructure activities are upgrading the integration of the road network, upgrading access to regions with economic potential (*daerah potensial*), opening up isolated and remote areas, and supporting the development of border areas. A minimum of 70% of the total road infrastructure DAK is allocated for periodic road maintenance (repairs to the body of the road and its foundations), and a maximum of 30% is set aside for upgrading roads. Routine maintenance and construction of new roads cannot be funded by DAK. Road infrastructure DAK is mainly allocated for periodic road maintenance and upgrading road and bridge infrastructure on stretches of road officially marked as district/city roads.

The minister formed a coordination team and technical team at the ministry level to oversee the use of DAK, with the ministry providing special funding to cover their operational costs.¹³ At the provincial level, governors also form a coordinating team comprised of staff from Bappeda, relevant technical offices, and the central work unit in the region (Roads and Bridges Planning and Monitoring, P2JJ). *Bupati*/mayors also form a

¹²Villages and resources that are prepared for, willing, and able to prevent and overcome health crises caused by both natural disaster or disease outbreaks (Supari 2006)

¹³Not all departments provide operational funds for the coordination team at the department level. For this, DAK management staff in the Ministry of National Education, for example, have proposed that the central government provide DAK monitoring and evaluation funds.

coordinating team including Bappeda staff and other relevant offices to implement DAK-funded activities at the district/city level. The head of the regional government work unit responsible for road matters is given the physical and financial responsibility for the implementation of DAK-funded activities. An article in the Minister of Public Works regulation above contains sanctions for the implementation of DAK activities which are not carried out in accordance with the regulation in the form of performance evaluations to be issued in the ministerial report to the Ministry of Finance, the Ministry of National Development Planning, the Ministry of Home Affairs, and the House of Representatives. In order to give such an evaluation, the minister requires reports on the implementation of DAK activities in each recipient region. Reporting is done at different levels by the regional-level work unit (SKPD) head, the regional head, and the minister. With respect to this, Article 102 of Law No. 33/2004 gives the Ministry of Finance authority to hand out sanctions in the form of deferred distribution of balance funds, including DAK, to regions that fail to fulfill the reporting requirements. Each deferment of funds distribution to the regions has a negative effect on the economic activities of the local people. Hence, this article ensures that the general populace bears the burden of sanctions for the wrongdoings of officials (see also Box 2.1).

2.3 DAK Regulations at the Regional-level

It can be said that regional fiscal dependence on central government grants through balance funds has not changed even though decentralization and regional autonomy legislation has been reformed. As long as potentially large sources of national revenue are controlled by the central government, regional governments will continue to be dependent on the center.

Although the amount of DAK is relatively small compared to the amount of DAU, most regions rely on DAK for expenditure capital (previously development expenditure), while a large proportion of DAU is used for civil servant and goods expenditure (previously routine expenditure). The regions usually manage DAK according to central government regulations; only several regions have issued regulations regarding the use of DAK adding to the details in the central regulations. Kabupaten Gorontalo is one of these regions, but the regulation is limited to the education sector. Each year, the *bupati* of Gorontalo issues *Bupati Regulation on Technical Guidelines for the Implementation of DAK*, which is aimed at regulating the self-management of DAK in the education sector regardless of the project value. The self-management of projects of an unlimited value breaches Presidential Decree No. 80/2003, which imposes a value limit of Rp50 million for self-managed projects.¹⁴ The *bupati* has not issued technical guidelines for other sectors as Gorontalo manages DAK in all the other sectors in full accordance with the same presidential decree, whereby activities with a value more than Rp50 million are subject to open tender.

The Regional Government of Kabupaten Kupang gives the community wider opportunities to participate in the procurement of goods and services. Under the Community Empowerment Program (PPM), each year the district issues PPM implementation guidelines via a *bupati* decree. The PPM gives the community room to work on APBD-funded projects up to the value of Rp250 million in a self-managed manner without being subject to tender (*Bupati* of Kupang Decree No.

¹⁴This *bupati* regulation is based on the Minister for National Education Regulation on Technical Guidelines for the Implementation of DAK.

134/SKEP/HK/2007). This decree therefore also fundamentally breaches the Rp50 million project value limit stipulated in the presidential decree.

As DAK is a part of the APBD, regional governments must manage it in conjunction with the legislative elements (DPRD) in addition to complying with central government regulations on DAK. Box 2.1 provides an illustration of problems associated with obstacles for the use of DAK. The region is not the only source of obstacles; in many ways, the regional decision-making process depends on various decisions made at the central level, causing delays at the regional end.

At the district/city level, budget priorities and limits for each SKPD are determined by general APBD policies that must have been prepared in the July of the previous year (Article 35 of Government Regulation No. 58/2005). However, the 2007 APBN, for example, was only confirmed in October 2006, while DAK allocations were only determined in December 2006 before the Technical Ministry could adjust the allocation to come into line with the technical guidelines for the use of DAK. Time clashes in the issuance of several interrelated decrees have caused repeated stalling in the preparation of regional budgets (see Table 2.5). When the content of late-issued central decisions are different to regional estimations used in the formation of the APBD, many items in the budget plan must be reorganized or reevaluated and run past the DPRD again. Apart from wasting the time of regional officials, such a process wastes a significant amount of funds for regions with limited fiscal capacity.

Table 2.5 Timetable of the Issuance of Regulations concerning the Management of DAK, 2007

| Regulation | Issue Date | Notes |
|--|------------------|--|
| Law No. 18/2006 on the APBN for the 2007 Fiscal Year | 17 October 2006 | Needed earlier as APBD preparation had started |
| Minister for Finance Regulation No. 128/PMK.07/2006 on the Determination of Allocations and General Management Guidelines for DAK in the 2007 Fiscal Year | 15 December 2006 | Six weeks late; should have been issued early November |
| Minister for National Education Regulation No. 4/2007 on Technical Guidelines for the Implementation of DAK in the Education Sector for the 2007 Fiscal Year | 29 January 2007 | Four weeks late; should have been issued late December |
| Minister for Health Decree No. 7/Menkes/SK/I/2007 on Technical Guidelines for the Use of DAK for the 2007 Fiscal Year | 8 January 2007 | One week late, should have been issued late December |
| Minister for Public Works Regulation No. 39/PRT/M/2006 on Technical Guidelines for the Use of DAK in the Infrastructure Sector for the 2007 Fiscal Year | 29 December 2006 | On time |

Generally speaking, regional governments are not in a position to suggest activities to be funded by DAK to the central government even though Article 162 of Law No. 32/2004 makes it possible for regions to submit proposals. Regional governments only have the authority to submit and send data on the state of infrastructure and facilities in administrative sectors that obtain DAK allocation nationally. This data then becomes the basis upon which the central government (through the Ministry of Finance) allocates DAK to each region. Apart from using data from the regions, DAK allocation

calculations also use data sourced from Statistics Indonesia (BPS). Only after the regions are informed of their DAK allocation can regional governments plan its distribution to various activities in accordance with the central government stipulations. A criticism always emerged in focus group discussions (FGDs) regarding the weak database of data concerning various administrative sectors in the regions.¹⁵ This evaluation is usually based on the inappropriate selection of locations for DAK-funded activities. However, the assumption that the inappropriate selection of locations is solely caused by weak database is uncertain: for example, it may be caused by lobbying from specific interest groups. As another example, although DAK is not evenly distributed, several regions are forced to use an equality approach in order to avoid interregional social jealousies. When regional governments consider such an approach, the needs-based principle behind the concept of DAK tends to be ignored.

¹⁵If this criticism is correct, the data sent to the center certainly should be questioned.

III. ALLOCATION OF THE SPECIFIC ALLOCATION FUND

One of the aims of DAK allocation is to increase the supply of physical infrastructure and facilities that fall under national priorities and to increase economic growth to harmonize interregional growth as well as intersectoral services. Since 2006, seven administrative services sectors have received DAK: education, health, infrastructure (including roads, irrigation, and clean water), government infrastructure, agriculture, maritime affairs and fisheries, and the environment. Among those seven sectors, education, health, and road infrastructure always receive the greatest share of DAK. The total DAK allocation for these sectors reaches around three quarters of the total DAK. As explained in Chapter 2, DAK is a modification of the Inpres Fund of the New Order era. Differences include that the Inpres Fund used two approaches: sectoral and regional. Sectoral Inpres funds comprised Inpres funds for primary schools, health, greening and reforestation, road upgrading, and markets. Regional Inpres funds comprised of provincial (Dati I) and district/city (Dati II) Inpres funds. Differing from the Inpres Fund, DAK is only allocated to districts and cities¹⁶ for specific sectors depending on national priorities as set forth in the RKP.

At the beginning of fiscal decentralization, all DAK was sourced from reforestation funds (*dana reboisasi* or DR), totaling as much as 40% of the forestry sector revenue. Since 2003, in addition to using DAK to fund the development of the forestry sector, the government also uses DAK in other sectors to fulfill minimum service standards (SPM). In 2006, the government transferred the reforestation funds component of DAK to the Shared Revenue Fund (DBH) because it had similar characteristics to the “according to its origin” DBH concept and reforestation fund DAK.¹⁷ Initially, Non-reforestation fund DAK was only allocated to four sectors: education, health, infrastructure, and government infrastructure. But in 2004, the government added the maritime affairs and fisheries sector, and in 2005, the agriculture sector was added. Since 2006, DAK funding has covered a total of seven sectors with the addition of the environment sector. DAK-funded sectors are added in accordance with developments in the RKP and form a reference for the national development plan.

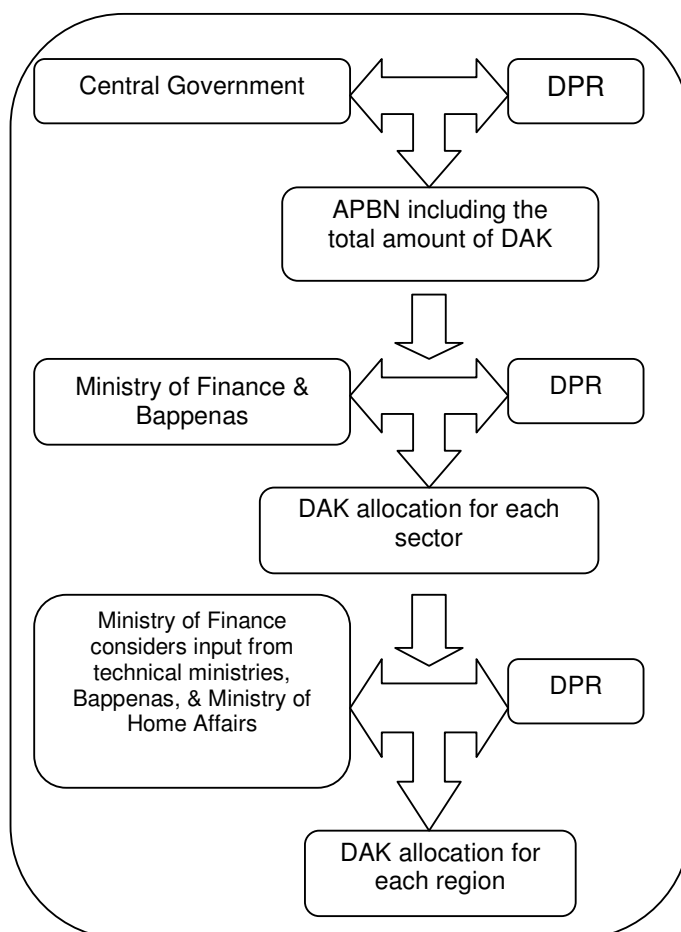
In this setting, the development of the total nominal of DAK in the APBN depends on national fiscal capacity. During 2001–2007, the total nominal and the proportion of DAK to gross domestic product (GDP) have increased in line with the GDP. The determination of the total amount of DAK and its allocation to the regions is based on the decision made between the DPR Budget Committee and the central government, including the Ministry of Finance, Ministry of Home Affairs, Bappenas, and technical ministries within sectors receiving DAK allocations (Figure 3.1).

While the mechanism for the determination of DAK involves several institutions, the final decision regarding the total amount of DAK and its allocation per sector and per region rests with the Minister for Finance after consultations with the DPR. The other institutions only have a facilitating role. The role of the technical ministries, for example, is to provide

¹⁶Nevertheless, the understanding of DAK in Law No. 32/2004, Law No. 33/2004, and even Government Regulation No. 55/2005 does not explicitly state that DAK is only intended for district/city regions.

¹⁷RI 2007 Financial Statement, Ministry of Finance

technical data for each region in their respective sectors. According to a respondent in the Ministry of Finance, technical data for various sectors is not up-to-date; this becomes a constraint for efforts to accurately and appropriately calculate the allocation of DAK to the regions. A number of respondents stated that one of the factors causing the lack of available comprehensive data is the lack of accommodation of the results of *musrenbang* at the village and district/city levels.



Note: Figure is compiled based on an analysis of several regulations related to DAK and interviews with relevant ministries.

Figure 3.1 DAK Allocation Mechanisms at the Central Level

Chapter II notes that regions must fulfill general, specific, and technical criteria in order to be eligible to receive DAK. According to several respondents, the process and formula used for calculating DAK are relatively complex (see Box 3.1). The details of the calculation process are not transparent and are difficult for the public to access. Many groups want the formula used for calculating DAK to be improved. In addition to reasons of transparency, an improved formula would be useful for the regions as they could apply it to estimate their DAK entitlements, hence easing the task of preparing their APBD.

Box 3.1 Determination Process for DAK Allocation to Districts/Cities

- Step 1. The determination of which districts/cities can rightfully receive DAK is based on the net fiscal index (NFI) or the fiscal capacity of a specific region (NFI<1 automatically gives a region the right to DAK). This step is included in the general criteria.
- Step 2. Where a district/city does not fulfill the general criteria but fulfills one of the specific criteria as set forth in legislation such as special autonomy and disadvantaged areas, such as Aceh and Papua provinces (only Papua for 2007), the region is automatically entitled to receive DAK.
- Step 3. If the region is not in Aceh or Papua provinces, it must undergo the determination process based on the specific criteria as per step 2, which include coastal regions, regions bordering international neighbors, isolated regions, regions struck by floods or landslides, regions with food insecurity, and since 2007, tourist areas. These regional characteristics must be included on the regional characteristics index (IKW).
- Step 4. This step combines NFI (after being converted into having the same direction as IKW) and IKW to obtain a fiscal and regional index (IFW).
- Step 5. If a district or city's IFW value is more than 1, the district/city is automatically entitled to receive DAK (although if based on the general criteria, it may not be). If the IFW value is less than 1, the region is not entitled to receive DAK.
- Step 6. Regions entitled to receive by this step include those that fulfill step 1 (NFI<1), step 2 (districts/cities located in Aceh or Papua provinces even though they may have a NFI>1), or step 5 (IFW>1).
- Step 7. A regional weighting (BD) is calculated by multiplying the fiscal and regional index (IFW) by the construction price index (IKK).
- Step 8. For all districts/cities, the technical ministry calculates a technical index for each sector that will receive DAK.
- Step 9. A technical weighting (BT) is calculated by multiplying the technical index (BT) by the construction cost index (IKK).
- Step 10. A DAK weighting is calculated based on the results of the merging of the regional weighting (BD) and technical weighting (BT).
- Step 11. After the DAK weighting has been obtained, the Ministry of Finance determines the total amount of DAK that each district/city receives.

Note: This box was compiled based on the results of analysis of several regulations related to DAK and interviews with relevant ministries.

3.1 DAK in the National Budget: Comparison of DAU, DAK, DBH, and Deconcentration and Co-administration Funds

As the smallest component of balance funds, DAK makes a smaller contribution than DAU and DBH. Apart from this, the regulations regarding DAK are not as detailed as those regulating DAU and DBH. Under Law No. 33/2004, the share of DAU has been determined at a minimum of 26% of the net domestic income. The law also details the formula used for the distribution of DBH between the central government and regional governments. In contrast to the detailed regulation of DAU and DBH, the same law only states that the amount of DAK will be determined annually in the APBN. The absence of articles and also government regulations specifically regulating DAK makes it a flexible component of balance funds. While on the one hand, this flexibility can be used as an

instrument for harmonizing interregional balance funds, on the other hand, it causes uncertainty for regional governments as to the amount of DAK funding they will receive. In addition, the inexistence of a rule that arranges the amounts, proportions, or percentages of DAK in APBN also generates an impression that DAK in APBN is merely a residual budget.

Table 3.1 shows that DAK has experienced significant increases from year to year, both in terms of nominal value and in terms of its relative value against DAU and DBH. During 2001–2007, its nominal value increased more than 24-fold, or 390% per year on average. When compared against the amount of DAU and DBH, DAK's relative value also experienced a significant increase. Against DAU, DAK increased from 1.2% in 2001 to 10.4% in 2007, whilst against DBH, it increased from 3.5% in 2001 to 25% in 2007. Apart from being caused by budget increases in each DAK-funded sector, the increase was a result of the expanding scope of DAK-funded sectors and an increase in the number of recipient districts/cities. In 2007, for example, there should have been 87 districts/cities that did not receive DAK; however, in a compromise between the central government and the DPR, all 87 regions ended up receiving it.¹⁸

Despite the nominal increases from year to year, the total value of DAK is still very low when compared to the entire APBN. During 2001–2007, the highest percentage of DAK against the total APBN expenditure was 2.2% in 2007 and 2.4% of the total APBN revenue, also in 2007.

Table 3.1 Comparison of DAK, DAU, DBH, Deconcentration and Co-administration Funds, APBN, and GNP, 2001–2007 (billion rupiah)

| | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 |
|-------------|---------|---------|---------|---------|---------|---------|---------|
| DAK | 701 | 658 | 2,617 | 3,650 | 4,323 | 11,570 | 17,094 |
| DAU | 60,345 | 69,114 | 76,978 | 82,130 | 88,765 | 145,664 | 164,787 |
| DBH | 20,007 | 24,266 | 27,896 | 37,368 | 31,218 | 59,564 | 68,461 |
| D&C | n.a. | n.a. | n.a. | n.a. | 9,906 | 30,046 | n.a. |
| TI | 301,077 | 298,527 | 341,100 | 407,800 | 495,444 | 637,800 | 723,057 |
| TE | 341,562 | 315,600 | 374,800 | 436,400 | 509,418 | 669,900 | 763,570 |
| DAK/TI (%) | 0.23 | 0.22 | 0.77 | 0.90 | 0.87 | 1.81 | 2.36 |
| DAK/TE (%) | 0.21 | 0.21 | 0.70 | 0.84 | 0.85 | 1.73 | 2.24 |
| DAK/GDP (%) | 0.05 | 0.04 | 0.13 | 0.20 | 0.20 | 0.40 | 0.50 |
| DAU/TI (%) | 20.04 | 23.15 | 22.57 | 20.14 | 17.92 | 22.84 | 22.79 |
| DAU/TE (%) | 17.67 | 21.90 | 20.54 | 18.82 | 17.42 | 21.74 | 21.58 |
| DAU/GDP (%) | 4.30 | 4.20 | 3.82 | 4.50 | 4.11 | 5.04 | 4.82 |
| DBH/TI (%) | 6.65 | 8.13 | 8.18 | 9.16 | 6.30 | 9.34 | 9.47 |
| DBH/TE (%) | 5.86 | 7.69 | 7.44 | 8.56 | 6.13 | 8.89 | 8.97 |
| DBH/GDP (%) | 1.43 | 1.47 | 1.39 | 2.05 | 1.44 | 2.06 | 2.00 |
| D&C/TI (%) | n.a. | n.a. | n.a. | n.a. | 2.00 | 4.71 | n.a. |
| D&C/TE (%) | n.a. | n.a. | n.a. | n.a. | 1.94 | 4.49 | n.a. |
| D&C/GDP (%) | n.a. | n.a. | n.a. | n.a. | 0.46 | 1.04 | n.a. |

Source: Data adapted from the SIKD (Regional Fiscal Information System) of the Ministry of Finance (2007)

Note: D&C = Deconcentration and Co-administration funds; TI = total income (national revenue & grants); TE = total national expenditure; n.a. = data not available; using APBN realization figures for 2001–2006 and draft APBN figures for 2007

¹⁸Based on an interview with a Ministry of National Education staffer.

Apart from the balance funds in the form of DAU, DBH, and DAK, the central government also currently allocates deconcentration and co-administration funds to the regions. Both deconcentration and co-administration funds come from the APBN, but they are not part of the balance funds. Deconcentration funds are sourced from ministerial/institutional funds handed out to governors as representatives of the central government in the regions. Technically, the allocation of these funds to the regions is handled by provincial government offices (*dinas*). As an example, in 2007, the Directorate-General of Primary and Secondary Education handled deconcentration funds to the value of Rp19.85 trillion, Rp16.379 trillion of which was transferred to provincial education offices for activities under the Nine Years of Compulsory Basic Education program. Co-administration funds are disbursed to regional governments or village administrations and are the direct responsibility of the central government. The combined total of deconcentration and co-administration funds is far greater than the total of DAK. In March 2006, for example, the total of these funds for all provinces reached Rp30.5 trillion, or around three times as much as the total DAK (see Appendix 1 and Appendix 2). This figure was a sharp increase from the previous year's figure of only Rp9.9 trillion: Rp4 trillion for deconcentration funds and Rp5.9 trillion for co-administration funds.

In a link between these two fund sources and DAK, Article 108 of Law No. 33/2004 states that deconcentration and co-administration funds are to be transferred in stages to DAK. Following from this, it is estimated that the total amount of DAK is set to increase in the future. If it is assumed that the 2007 totals for deconcentration and co-administration funds will be the same as the 2006 totals, and that they will all be transferred to DAK, the total DAK figure for 2007 will grow to Rp47.1 trillion, or equivalent to 6.2% of the APBN expenditure.

There are strong reasons for the transfer of deconcentration and co-administration funds to DAK as both funds share the same fundamental objective as DAK. All three funds are intended to fund various activities in administrative services that are now regional matters, but that are not yet sufficient, at least according to minimum service standards. The similar aims of the funds can be seen by the high correlation figures between the two. Table 3.2 shows that the allocation per province of the two groups of funds has a correlation of 0.7387, indicating that it is highly likely that similar parameters are used in the basic consideration of the allocations of DAK and the deconcentration and co-administration funds.

Table 3.2 Correlation between Values of DAK and Deconcentration and Co-administration Funds at the Provincial Level

| Variables | Correlation Coefficient |
|--|-------------------------|
| Total 2007 DAK as a proportion of total 2006 deconcentration & co-administration funds | 0.7387 ** |
| Per capita 2007 DAK 2007 by 2006 per capita deconcentration & co-administration funds | 0.8364 ** |
| Total 2005 DAK by 2004 provincial HDI | -0.2494 |
| Per capita 2005 DAK by 2004 provincial HDI | -0.2872 |
| Total 2006 deconcentration & co-administration funds by 2004 provincial HDI | -0.0527 |
| Per capita 2006 deconcentration & co-administration funds by 2004 provincial HDI | -0.2872 |
| Total 2005 DAK as a proportion of 2006 DAK | 0.8806 ** |
| Total 2005 DAK as a proportion of 2007 DAK | 0.9009 ** |
| Total 2006 DAK as a proportion of 2007 DAK | 0.9853 ** |

Note: ** significant at the level of 1%
HDI = Human Development Index

The correlation figures for both the per capita allocation of DAK and deconcentration and co-administration funds with the Human Development Index (HDI) for each province are low, -0.3364 and -0.3228 respectively. If HDI figures can be considered as a picture of, or to be as related to, the condition of public services in a particular region, the allocation policies for both types of funds go against the objective of ironing out interregional discrepancies in public service conditions; in other words, the allocation practices for both types of funds will not reduce the large gaps in public service provision between the regions. Table 3.2 also shows the high correlation figures for the allocation of DAK from 2005 to 2007, indicating that the policies and basis of consideration for DAK's allocation do not change from year to year.

3.2 DAK Allocation by Priority Sector

Consistent with DAK's flexibility, the central government appoints DAK recipient sectors in accordance with their priorities as set out in the government work plan for the particular year. Changes to development priorities as noted in the RKP will be reflected in changes to the sectors and activities to which DAK is channeled. To demonstrate, in 2007, the government placed a high priority on development in the education sector, and as a result, this sector received the greatest DAK allocation. In 2005 and 2006, in accordance with the development priorities for those years, infrastructure development received the largest share of DAK (Table 3.3). Furthermore, since 2005, the government has divided the infrastructure sector into three subsectors—road infrastructure, irrigation infrastructure, and clean water infrastructure—with road infrastructure receiving a greater allocation than the other subsectors.

Table 3.3 Trends in National Nonreforestation DAK Allocation by Priority Sector, 2003–2007 (million rupiah)

| No. | Sector | 2003 | 2004 | 2005 | 2006 | 2007 |
|------------------|------------------------------------|------------------|------------------|------------------|-------------------|-------------------|
| 1 | Education | 625,000 | 652,600 | 1,221,000 | 2,919,525 | 5,195,290 |
| 2 | Health | 375,000 | 456,180 | 629,000 | 2,406,795 | 3,381,270 |
| 3 | Infrastructure | 1,181,000 | 1,196,250 | 1,533,000 | 3,811,380 | 5,034,340 |
| | 3.1 Roads | 0 | 839,050 | 945,000 | 2,575,705 | 3,113,060 |
| | 3.2 Irrigation | 0 | 357,200 | 384,500 | 627,675 | 858,910 |
| | 3.3 Clean water | 0 | 0 | 203,500 | 608,000 | 1,062,370 |
| 4 | Regional Government infrastructure | 88,000 | 228,000 | 148,000 | 448,675 | 539,060 |
| 5 | Maritime affairs and fisheries | 0 | 305,470 | 322,000 | 775,675 | 1,100,360 |
| 6 | Agriculture | 0 | 0 | 170,000 | 1,094,875 | 1,492,170 |
| 7 | The environment | 0 | 0 | 0 | 112,875 | 351,610 |
| Total DAK | | 2,269,000 | 2,838,500 | 4,014,000 | 11,569,800 | 17,094,100 |

Source: Ministry of Finance (2007)

Based on RKPs, the seven sectors that receive DAK allocations have a direct impact on the attainment of national development priorities, which among others involve poverty and inequality reduction, an increase in employment opportunities, investment and exports support, an increase in the accessibility and quality of education and health facilities, and bureaucratic reform. In the future, depending on changes or additions to the national development priorities, it is possible that new sectors may receive DAK allocations.

Over the span of 2003–2007, the highest increase of total DAK occurred during 2005–2006 (188%), as a result of a significant increase in DAK allocations across all sectors (Table 3.4). Sectors giving the highest contribution to this increase, with individual increases of over 200%, are agriculture (544%), health (288%), and government infrastructure (203%). It is highly likely that the increase in the agriculture sector is linked to the central government’s current policy of revitalization of the sector. Over the period 2006–2007, the environment sector received the greatest increase, at 216%. The increasing level of environmental destruction has resulted in various disasters such as flooding and landslides, evidently the primary reason for the increase in DAK allocation for that sector.

Table 3.4 Increases in DAK Allocation by Sector, 2003–2007 (%)

| No. | Sector | 2003–2004 | 2004–2005 | 2005–2006 | 2006–2007 |
|-----|------------------------------------|--------------|--------------|------------|-----------|
| 1 | Education | 4.42 | 87.10 | 139 | 78 |
| 2 | Health | 21.65 | 37.88 | 288 | 40 |
| 3 | Infrastructure | 1.29 | 28.15 | 149 | 32 |
| | 3.1 Roads | 0 | 12.62 | 173 | 21 |
| | 3.2 Irrigation | 0 | 7.64 | 63 | 37 |
| | 3.3 Clean water | 0 | 0 | 199 | 75 |
| 4 | Regional Government infrastructure | 159.09 | -35.09 | 203 | 20 |
| 5 | Maritime affairs and fisheries | 0 | 5.41 | 141 | 42 |
| 6 | Agriculture | 0 | 0 | 544 | 36 |
| 7 | The environment | 0 | 0 | - | 216 |
| | % of Total DAK | 25.10 | 41.41 | 188 | 48 |

Source: Data adapted from the Ministry of Finance (2007)

In the cases of the education, health, and infrastructure sectors, earlier in the report it is stated that these sectors have absorbed the dominant share of DAK funding. On the one side, this indicates that the government is placing a greater emphasis on the development of those three sectors; however, it also suggests that the physical infrastructure of these sectors is in such a poor state that the sectors require large amounts of funding before any improvements can be made. In line with DAK’s objective to reduce interregional service inequalities (by reducing interregional fiscal inequality), the worse the condition of service infrastructure in a region, the more DAK the region should receive. The reverse also follows; regions with a better state of service infrastructure should receive relatively smaller share of DAK. While this simple principle cannot entirely reveal the effectiveness of DAK allocation, at least it gives an initial indication of the efficiency of the DAK allocation for a particular region.

To find out the accuracy of DAK allocation for a particular region, Table 3.5 presents calculation results of correlations between DAK allocations per province and the levels of indicators of physical infrastructure condition in the three sectors that this study focuses on. In the basic education sector, the indicator is the number of classrooms with heavy damage. The health sector uses the population ratio per *puskesmas*/secondary *puskesmas*, and the indicator for road infrastructure is the presence of roads that can be accessed by vehicles with four or more wheels. The results of the correlation calculations between per capita DAK allocations and the indicators in the basic education and road infrastructure indicate that the correlation value is in line with the DAK objectives, but not in the health sector. In the education sector, the correlation figure is positive, which means that the higher the number of damaged classrooms in a particular province, the higher the total

DAK allocation for the education sector in the relevant province. In the road infrastructure sector, the correlation figures are negative, indicating that the lower the ratio of roads accessible by vehicles with four or more wheels, the higher the DAK allocation is for this sector. Although generally DAK allocations for basic education and road infrastructure have been on target, Table 3.5 shows that the correlation is still quite low, at around 0.5. In the education sector, the correlation figure between both variables reaches as high as +0.4649. This means that the decision to allocate DAK in education sector to a region is based half on the number of classrooms with major damage and half on other factors. The same thing happens in the road infrastructure sector, which has the correlation value of -0.5122. This figure indicates that some consideration is given to factors other than the road conditions in the relevant regions. The correlation value in the health sector is -0.6360. This figure means that the DAK allocation in the health sector is not based on the consideration of the number of population that has to be served by each *puskesmas* or secondary *puskesmas*.

Table 3.5 Correlation of DAK Amounts with Indicators of the Condition of Education, Health, and Road Infrastructure at the Provincial Level

| Variables | Correlation Coefficient |
|---|-------------------------|
| Per capita 2005 education DAK with total number of classrooms with minor damage 2005/06 | -0.4340 * |
| Per capita 2005 education DAK with total number of classrooms with major damage 2005/06 | 0.4649 ** |
| Per capita 2005 education DAK with total number of classrooms with minor and major damage in 2005/06 | 0.0982 |
| Per capita 2005 health DAK with ratio of population per <i>puskesmas</i> /secondary <i>puskesmas</i> in 2005 | -0.6360 ** |
| Per capita 2005 roads DAK with availability of road facilities accessible by vehicles with 4 or more wheels in 2005 | -0.5122 ** |
| Total 2006 DAK with 2005 DAK | 0.8806 ** |
| Total 2007 DAK with 2005 DAK | 0.9009 ** |
| Total 2007 DAK with 2006 DAK | 0.9853 ** |

Notes: ** significant at 1%
* significant at 5%

3.3 DAK Allocations in the Sample Districts/City

The sample districts and city in this study have differing levels of socioeconomic development. In 2005, the per capita gross regional domestic product (GRDP) figure for Kota Banda Aceh, for example, reached Rp11.5 million, while the figure for Kabupaten Gorontalo was Rp1.8 million. The poverty levels in the four regions also show fairly significant differences. Data for 2004 shows that the poverty figures in Kota Banda Aceh and Kabupaten Wonogiri were 21.2% and 24.4% respectively, lower than the figures in Kabupaten Gorontalo and Kabupaten Kupang, which reached 33.5% and 32.7%. In line with these poverty figures, for the same year, the HDI¹⁹ for Kota Banda Aceh was the highest (74.7) and the lowest figure (62) was for Kabupaten Kupang. The KPPOD

¹⁹The HDI is composed of life expectancy at birth, adult literacy, educational attainment, and real expenditure per capita.

evaluation (2005)²⁰ of the four districts/city also shows differences in the character of their administrative institutions. Kabupaten Gorontalo received a value of A for aspects of local leadership and regional regulations, while in Wonogiri both aspects were only given a value of C (Table 3.6).

Table 3.6 Summary of Several Economic, Poverty, and Institutional Indicators and DAK Allocations in the Four Sample Areas

| | Banda Aceh | Wonogiri | Gorontalo | Kupang |
|--------------------------------|------------|-----------|----------------|-----------|
| GRDP/capita (2005-constant) | 11,541,000 | 2,482,000 | 1,827,000 | 2,762,000 |
| Poverty % (2004) | 21.2 | 24.43 | 33.5 | 32.68 |
| HDI (2005) | 74.7 | 69.0 | 66.8 | 62.0 |
| Institutionalism (KPPOD, 2005) | n.a. | C | B | B |
| (a) Law enforcement | n.a. | C | B | B |
| (b) Apparatus and services | n.a. | C | B | B |
| (c) Regional regulations | n.a. | C | A | B |
| (d) Local leadership | n.a. | C | A | C |
| 2003 DAK (Rp million) | 8,400 | 7,200 | 9,300 | 10,300 |
| 2004 DAK (Rp million) | 11,432,26 | 9,350 | 13,070 | 9,240 |
| 2005 DAK (Rp million) | 7,730 | 13,030 | 14,220 | 18,660 |
| 2006 DAK (Rp million) | 22,630 | 32,410 | 31,830 | 33,070 |
| 2007 DAK (Rp million) | 34,098 | 54,306 | 55,544 | 58,295 |
| Largest recipient sector 2007 | Education | Education | Infrastructure | Education |

Sources: BPS, UNDP, KPPOD, SIKD of Ministry of Finance (2007); adapted data

Note: For the factor of institutionalism, Kabupaten Wonogiri's figure was taken from the average value of districts in the former Surakarta Residency and the value for Kabupaten Kupang was taken from the average value for districts/cities in the West Timor region; n.a. = data not available

Based on differing regional conditions such as those above, the size of DAK allocation for each sample region is also different. During 2003–2007, the total DAK received by Kota Banda Aceh, Kabupaten Wonogiri, Kabupaten Gorontalo, and Kabupaten Kupang respectively reached Rp84.3 billion, Rp116.3 billion, 124.0 billion, and Rp129.6 billion (Table 3.6). Reflecting the national increase in total DAK, DAK gains for the sample districts and city also experienced a significant increase. In 2003–2007, DAK gains for Kabupaten Wonogiri, Kabupaten Gorontalo, Kabupaten Kupang, and Kota Banda Aceh respectively increased by 164%, 124%, 116%, and 76%. With the exception of Kabupaten Wonogiri, the proportionate increases in the sample areas are still lower than the national increase in total DAK of 163% per year.

For all sample regions, DAK has played an increasingly important role as a source of regional revenue from year to year, exceeding that of locally-derived revenues (PAD). In 2003, the average total of DAK for the four sample districts and city had reached 66% of their total PAD allocation. In 2006, the figure increased to 212%, meaning that the growth in DAK allocation far exceeded the growth of PAD. These conditions gave DAK an increasingly important role in the APBD. In 2003, the average contribution of DAK to the APBD of the sample districts and city was 3.2%, but by 2006, it had increased to 7.2% (Table 3.7).

²⁰Due to security problems, the KPPOD did not conduct the survey in Kota Banda Aceh or other districts in NAD Province.

Table 3.7 DAK as a Percentage of Income and Expenditure for Sample Districts/City (2003–2006) (%)

| | Wonogiri | Kupang | Banda Aceh | Gorontalo |
|--------------------------------------|----------|--------|------------|-----------|
| Total APBD Revenue | | | | |
| 2003 | 1.78 | 4.19 | 3.60 | 3.16 |
| 2004 | 2.23 | 3.53 | 4.95 | 5.92 |
| 2005 | 3.15 | 6.77 | 3.25 | 5.92 |
| 2006 | 5.23 | 8.85 | 6.13 | 8.57 |
| Average | 3.10 | 5.84 | 4.48 | 5.89 |
| Locally-derived Revenue (PAD) | | | | |
| 2003 | 28 | 50 | 134 | 51 |
| 2004 | 37 | 40 | 121 | 108 |
| 2005 | 37 | 128 | 150 | 73 |
| 2006 | 96 | 253 | 250 | 248 |
| Average | 50 | 118 | 164 | 120 |
| Total Balance Funds | | | | |
| 2003 | 2.15 | 4.84 | 4.71 | 3.71 |
| 2004 | 2.63 | 3.95 | 5.81 | 6.71 |
| 2005 | 3.56 | 7.54 | 3.68 | 6.82 |
| 2006 | 5.67 | 9.24 | 6.77 | 9.00 |
| Average | 3.50 | 6.39 | 5.24 | 6.56 |
| Capital Expenditure | | | | |
| 2003 | 8.11 | 28.31 | 23.93 | 11.95 |
| 2004 | 13.32 | 46.41 | 37.64 | 28.95 |
| 2005 | 18.80 | 68.04 | 22.46 | 38.05 |
| 2006 | 25.11 | 38.69 | 25.85 | 61.30 |
| Average | 16.33 | 45.36 | 27.47 | 35.06 |

Source: APBD documents of the sample districts/city, 2003–2006

Apart from its role in supporting regional income, DAK plays an important role in increasing the capital expenditure capacity of regional governments, which tends to continually increase from year to year (Table 3.7). In 2003, DAK's average contribution to the capital expenditure capacity of the sample districts/city was 18.1%. The figure continued to increase in the following years and in 2006, the figure had reached 36.8%. In 2006, in Kabupaten Gorontalo, it even reached 61.3%. This development illustrates how regional development has become ever more dependent on DAK. If this tendency continues, there is the possibility that the substance of regional autonomy, which provides regions with the independence to form development policies appropriate for regional needs and priorities, will be lost.

The use of a large share of the DAK allocated to the sample districts and city follows the national priorities for DAK: the education, health, and road infrastructure sectors. During 2005–2007, the total proportions for DAK in all sample districts/city for the three sectors were 68.5%, 71.3%, and 71.8% in the respective years (Table 3.8). Nevertheless, several differences appear when it is looked at from the priorities in the different districts/city. Kabupaten Kupang and Kabupaten Gorontalo had increases in their allocation to DAK for the three sectors, from 50.1% and 64.1% respectively in 2005 to 66.5% and 73.6% in 2007. In Kota Banda Aceh, however, the proportion of DAK for the sectors fell from 88.5% in 2005 to 76.3% in 2007, and in Kabupaten Wonogiri, the figures were relatively stable at around 72% (Table 3.8). The decline in the proportion of DAK used in the three

sectors in Kota Banda Aceh does not indicate that the city shifted its priorities for the use of DAK; rather, the city received a significant amount of additional DAK for the agriculture sector, thereby reducing the total proportion for the other sectors. In 2005, Kota Banda Aceh was not allocated the DAK for the agricultural sector, but in 2006 and 2007 respectively, the sector was allocated Rp2.54 billion and Rp3.03 billion (Appendix 3).

Table 3.8 Percentages of DAK Allocation by Sector in Sample Districts/City, 2005–2007 (%)

| Sector | Banda Aceh | Wonogiri | Gorontalo | Kupang |
|---------------------|------------|----------|-----------|--------|
| Education | | | | |
| 2005 | 41.4 | 33.8 | 29.5 | 22.6 |
| 2006 | 31.2 | 31.9 | 22.8 | 25.2 |
| 2007 | 37.6 | 37.2 | 26.0 | 27.4 |
| Health | | | | |
| 2005 | 20.2 | 15.3 | 16.0 | 11.7 |
| 2006 | 21.1 | 20.3 | 21.4 | 21.7 |
| 2007 | 18.5 | 19.6 | 18.9 | 20.7 |
| Road Infrastructure | | | | |
| 2005 | 26.9 | 22.3 | 18.6 | 15.8 |
| 2006 | 22.3 | 19.7 | 26.8 | 20.9 |
| 2007 | 20.2 | 14.4 | 28.7 | 18.4 |
| Other Sectors | | | | |
| 2005 | 11.5 | 28.5 | 35.9 | 50.0 |
| 2006 | 25.4 | 28.1 | 29.0 | 32.2 |
| 2007 | 23.8 | 28.8 | 26.4 | 33.6 |

Source: SIKD of Ministry of Finance (2007); processed

IV. USE OF THE SPECIFIC ALLOCATION FUND: TRANSPARENCY, ACCOUNTABILITY, AND PARTICIPATION

In the efforts to balance finances between the centre and the regions, while DAK really only acts as an additional type of balance funds, it has become increasingly important to the regions for their development. As DAU, the main component of balance funds, is generally only enough to fulfill the needs for bureaucratic expenditure, the use of DAK in the regions has become a key factor supporting regional development in particular and national development in general.

Apart from DAK, deconcentration and co-administration funds are also sources of funding for development projects in specific districts and cities. However, in contrast to DAK, these funds are not part of the balance funds and therefore they do not form part of the district/city APBD; provincial governments have the authority to manage the funds' use. On the one hand, for district/city governments, DAK is more transparent and offers more certainty for development funding than deconcentration and co-administration funds, due in part to the criteria that the central government developed for the allocation of DAK to the regions. On the other hand, open selection criteria are not used in fund allocation for projects that use deconcentration and co-administration funds, meaning that regional governments cannot estimate the possibility that they will receive these funds. Whether or not a region will receive these funds is highly dependent on the policies of the technical ministry that holds the funds.

As part of the APBD, DAK falls under the authority of regional governments. Nevertheless, giving the reason that regional governments are to use DAK in accordance with national priorities, the central government regulated the use of DAK in several regulations, such as the technical guidelines issued in several regulations from the minister for finance and technical ministries. Since decentralization and regional autonomy in 2001, the number of DAK-funded sectors has risen. While initially DAK was limited to funding reforestation, over the following years, the government widened DAK's scope to other sectors²¹ in accordance with the national priorities as stated in the RKP. As it has previously been noted, as of 2007, seven sectors of governance services are covered.

Based on the background, scope, and definition of DAK as stated in the introductory chapter, the government's decision to increase the scope of DAK-funded sectors has been interpreted in various ways, including those that follow.

- (i) The DAU and DBH formulas have failed to fulfill their function as the main components of the balance funds. It has often come to the attention of regional government circles that the sense of the word "*kehusus*" (specific) that has stuck to DAK will be increasingly lost as more sectors receive DAK funding.
- (ii) Regional government development performance in at least the seven DAK-funded sectors is still low. This forces the central government to become involved with the development of those sectors. The sample districts and city generally stated that their "powerlessness" in the development of the DAK-funded sectors is not because they do not care; rather, it is due to nothing other than funding constraints.

²¹Reforestation funds were transferred from DAK to DBH in 2003.

The fact that the majority of the balance funds in the form of DAU and DBH is only sufficient for fulfilling routine bureaucratic expenses, as previously stated, means that only a limited amount of funding remains for development.

- (iii) The central government's priorities have expanded. When viewed from the aspect of development in general, their role in developing the various sectors is positive. Nevertheless, when viewed from the perspective of decentralization and regional autonomy, the government's growing intervention in regional government affairs has negative implications. Efforts to place regional governments as important entities in regional development have become blurred. The broadened scope of activities and the increase in the total DAK for regions are accompanied by the limitation of "what is allowed and what is not allowed"; this limits the authority of regional governments. Conversely, central government authority is becoming stronger. If the number of sectors that use DAK mechanisms for their development continues to increase, intentionally or not, centralization politics will slowly take over from decentralization policy. Therefore, the various regional government circles are not entirely wrong to claim that any remaining regional autonomy only exists in the words of legislation. In practice, the extent of regional government authority is narrowing. Furthermore, the following section analyzes regional government practices in the use of DAK in the three sectors that this study focuses on: health, education, and road infrastructure.

4.1 Development Planning and Examination of DAK

4.1.1 Development Planning

In 2004, the government ratified Law No. 25/2004 on National Development Planning Systems. To implement this legislation, on 20 January 2005 Bappenas and the Ministry of Home Affairs issued Joint Circular No. 0259/M.PPN/I/2005.050/166/SJ on Technical Guidelines on the Organization of Development Planning Community Consultative Meetings (*musrenbang*). Normatively, the existence of this law as well as the rules for its implementation reconfirms the need for a more participative development planning process. The *musrenbang* model is not in fact a new mechanism as regional governments have been using it since the time of the New Order administration.

In all sample regions, with the exception of Kota Banda Aceh, regional governments hold a *musrenbang* each year and it has become the sole mechanism for capturing community aspirations in the process of development planning preparation. Every year, the *musrenbang* series usually starts in January (at the village level) and ends around April or May (at the district level). In Kota Banda Aceh, *musrenbang* are only held once in 5 years when the city government is preparing its strategic plan. The community no longer participates in the spelling out of the strategic plans in annual work plans or the APBD with the reason that community aspirations are accommodated in the strategic plan. According to a Bappeda Kota Banda Aceh staff, the process of drafting the APBD and/or implementing annual development plans is technical and accordingly, the community does not need to be involved.

The *musrenbang* conducted in preparation for district/city development planning are basically a form for gathering community suggestions. In district-level *musrenbang*, Bappeda then merges the suggestions with sectoral planning for each SKPD. The result of this amalgamation becomes the

district or city's development planning document. During this stage, regional governments start to map out possible sources of funding for the various activities, that is, via DAU, PAD, DAK, or deconcentration and co-administration funds. The document is then taken to the provincial-level *musrenbang*. The provincial development planning document resulting from the provincial *musrenbang* is then used as the provincial government's reference for the national *musrenbang*.

Although the *musrenbang* model has been used since the New Order administration, some groups in the regions—mainly nongovernment groups—still question its effectiveness in the birth of a participatory development planning process. They consider that the *musrenbang* process is more inclined to put forward representative mechanisms that do not truly reflect community aspirations with a significant risk of elite capture. It is actually quite possible that suggestions are put forward in the name of community interests, whereas they actually represent the interests of elite groups.

The analysis above shows that the receipt of DAK in a particular region is not linked to the regional development planning process, particularly *musrenbang*. In this context, regional governments really only have a passive role in the allocation of DAK. It is therefore understandable if regional government circles state their dissatisfaction with the entire DAK allocation process.

The results of FGDs in four districts/city all reflect the dissatisfaction of the aforementioned regional government official. On the aspect of DAK management planning, FGD participants placed the planning stage at the sixth (lowest) ranking compared to other stages of the DAK management process (Table 4.1 and Appendix 5).

Table 4.1 FGD Participants' Satisfaction Rankings for the Different Stages of DAK Management in Sample Districts/City

| Stage | Component | | | Overall Ranking |
|-------------------------------------|--------------|----------------|---------------|-----------------|
| | Transparency | Accountability | Participation | |
| Planning | 6 | 6 | 6 | 6 |
| Determination of Project Allocation | 3 | 3 | 3 | 3 |
| Funds disbursement | 2 | 1 | 1 | 1 |
| Implementation | 1 | 2 | 2 | 2 |
| Monitoring and Evaluation | 4 | 4 | 5 | 4 |
| Coordination | 5 | 5 | 4 | 5 |

Source: FGDs in the four sample districts/city

Note: 1 = The highest satisfaction; 6 = Dissatisfied/the lowest satisfaction

The FGD participants' rather low evaluations of the planning aspect of DAK were generally based on the following reasons.

- (i) The database on the condition of infrastructure in the regions was not up-to-date, particularly in the health and education sectors.
- (ii) The discussion of the results of village- and subdistrict-level *musrenbang* at the SKPD level is closed.
- (iii) The regional government does not have a significant role in the planning of the use of DAK as its use has been limited by central government stipulations.

In contrast to what the other sample districts' FGD participants saw, FGD participants in Kabupaten Gorontalo saw the development planning process in general, not only with regard to the DAK planning. They considered that the *musrenbang* process right up to the preparation of the development planning document reflects a participatory, accountable, and transparent mechanism. The district government has also made an effort to explain to various communities that their suggestions are not yet accommodated in development planning. Based on this evaluation, FGD participants gave the development planning process in Kabupaten Gorontalo a fairly high evaluation.

4.1.2 Problems Surrounding the Allocation of DAK to Regions

There is actually no direct relationship between the development planning practices in districts/cities and the pattern of the central government's determination of DAK. There are several reasons for this. Firstly, district/city development plans that also encompass planned funding sources from DAK will come to rest at the provincial level. Secondly, the provincial-level development planning document taken to the national *musrenbang* is a synthesis of district/city development planning, not a compilation of the plans of each respective district/city. Thirdly, the central government uses its own guidelines (based on the three criteria previously mentioned) when allocating DAK to the districts/cities.

It is interesting to note that although the central government possesses the criteria and basic formula for the allocation of DAK to the regions, some regional government officials are of the opinion that there is room to lobby the central government. In other words, regional governments can influence the central government in matters of DAK allocation to specific regions. In Kabupaten Kupang and Kabupaten Gorontalo, for example, several respondents claimed that the *bupati* played “a big role” in the increase in DAK funding to their districts, which suggests that strong lobbying from a *bupati* can influence additions to the DAK allocation for regions. Apart from “direct intervention” from the *bupati*, several respondents also stated that their respective SKPD took their activities plan straight to Jakarta to obtain DAK. They referred to this step as “escorting the proposal to the center”.

Central government officials offer different explanations for the above phenomenon. In one group, a respondent in a technical ministry stated that their ministry indeed summons the relevant SKPD, both at the district/city and provincial levels, every year for the purpose of obtaining explanations regarding the relevant office's entire development plan. Keeping in mind that such meetings are usually held before DAK allocations are determined, the impression that emerges is that central government and regional government officials come to some form of an “agreement”. In another group, a central government official respondent in fact admitted that regional governments lobby to obtain DAK. According to the respondent, this occurs due to the lack of transparency surrounding the management of DAK. The determination of allocations is inclined to be bias to the point where the possibility of “*dagang sapi*” (cow-trading), or bargaining between shady central government and regional government officials by lobbying the technical ministries or Ministry of Finance, has emerged. The emergence of the term “*duta daerah di Jakarta*” (regional ambassador in Jakarta) is perhaps a direct indication of the aforementioned deal making. On another aspect, DPR members fighting to represent the interests of their electorates also intensify the DAK “*percaloan*” (brokering). As an example of the lack of transparency, Kota Banda Aceh received far more DAK (Rp3.027 billion) for the agriculture sector than for the maritime affairs and fisheries sector, whereas the city's agricultural potential is smaller than its maritime and fisheries potential (see Ministry of

Finance Regulation No. 128/PMK.07/2006). Such peculiarities add to the proof of how difficult it is to coordinate technical ministries even though there is a coordinating minister.

Aside from this phenomenon, some regional government officials also stated that there is not really a direct relationship between district/city development planning and the allocation of DAK funds, which is the sole responsibility of the central government based on the specific criteria. In addition, the role of the SKPD is only to provide data to the relevant technical ministry. As such, if a particular district/city SKPD goes to Jakarta before the DAK allocation has been determined, it is only doing so to distribute data to the relevant ministry. Regional governments only have a passive role in DAK allocation. In fact, one respondent in Kabupaten Kupang stated, “While regional governments do not take any measures, the central government will still give DAK to the region.” Thus far, the Kabupaten Kupang Health Office, for example, has not taken any special measures to make a DAK planning strategy or proposal to fund their activities plan. The allocation of funds and its sources depends on Kabupaten Kupang's government policies.

An examination of Law No. 32/2004 and Law No. 33/2004 seems to confirm the various perceptions on DAK that emerged from regional government circles as noted above. Under Law No. 32/2004, DAK allocation demands a bottom-up approach based on regional government proposals. According to respondents from the Ministry of Finance and Bappenas, at the beginning of the regional autonomy, the central government had tried to apply bottom-up mechanisms. However, as the proposals from the regions tended to be irrational in terms of the exorbitant total cost of the proposals,²² the central government did not continue with that approach. Instead, they chose the top-down approach reflected in Law No. 33/2004, under which the division of DAK fundamentally follows top-down mechanisms.

Normatively, although the allocation of DAK uses a top-down approach, the process uses objective mechanisms. The technical ministries, Ministry of Finance, Ministry of Home Affairs, Bappenas, and the DPR all have intensive roles in DAK's allocation in accordance with their respective functions. However, in practice, according to a Bappenas respondent, the allocation of DAK is the domain of the Ministry of Finance and the relevant technical departments, while the Ministry of Home Affairs and Bappenas are not actively involved. The respondent also suggested that a particular consequence of this process for regional governments is that they do not know how much DAK that they will be receiving when they are preparing the APBD, complicating the budget preparation process in the regions.

Another respondent from a technical ministry offered a different explanation. Since decentralization, their ministry had not been involved in the determination of DAK allocation. According to the respondent, the technical ministry's role is no more than providing requested technical data to the Ministry of Finance; the Ministry of Finance together with Bappenas fully determine DAK allocation for both individual sectors and regions.

Information regarding DAK allocation practices becomes even more blurred when the response of a Ministry of Finance respondent is added to the mix. He stated that the DAK allocation determination is truly the product of input from various groups in accordance with their respective authorities. According to this respondent, to determine the total

²²The value of the combined DAK proposals in the regions reached figures in the hundreds of trillions of rupiah.

budget in each sector, the Ministry of Finance obtains input from Bappenas and technical departments so that the outcome is in accordance with the RKP. The draft allocation determination is then reviewed by the DPR Budget Committee. After the DPR agrees to the total DAK and its allocation, the Ministry of Finance coordinates with the technical department and keeps Bappenas and the Ministry of Home Affairs informed. Then, in accordance with Government Regulation No. 55/2005, the final decision for the sectoral determination as well as the determination of DAK for each region falls under the authority of the Ministry of Finance.

The above analysis indicates that in practice, there is no consensus surrounding DAK allocation mechanisms within either central or regional governments. Such circumstances allow for differing perceptions on both the constraints of discourse and the “lobbying efforts” to receive DAK, which itself requires a fair amount of funds. If it is indeed true that lobbying efforts can influence DAK gains, perhaps it can still be understood from the cost benefit aspect. However, if in fact the DAK allocation process truly follows the prevailing game rules and hence cannot be influenced by lobbying from regions, those efforts are merely the arena of deception of people who claim they are able to influence DAK gains. The intense issue of “*percaloan anggaran*” (“budget brokering”) in the past is the phenomena behind the chaotic allocation practices for DAK and the other types of balance funds.

In the regions, the issue of budget brokering is not only noted in the discourse, but rather, it has become a matter of fact. One nongovernment organization (NGO) respondent in Kota Banda Aceh, for example, pointed out a copy of an official document from Kabupaten X (signed by the *bupati*) which contained details of “cooperation” between Kabupaten X and company Y based in Jakarta. The document stated that Kabupaten X had assigned PT. Y in Jakarta to take care of DAK allocation for maritime affairs and fisheries. When the assignment was achieved, PT. Y would be compensated in the form of a fee of 10% of the total DAK that Kabupaten X received.

4.2 Determination of Allocations and Project Types

Several central government officials stated that while the central government has the authority to determine DAK allocations, regional governments still have some freedom to use the funds in accordance with their autonomy. In the education sector, for example, regional governments have full authority to determine which schools will receive DAK allocations. Nevertheless, this does not mean that regional governments can use DAK entirely as they wish as they must follow the technical guidelines stipulated by the center (see Section 2.2). For example, as also previously noted in Chapter 2, the Ministry of Public Works has determined that in FY 2006, a minimum of 70% of the total DAK for road infrastructure may be used for periodic road maintenance and a maximum of 30% is to be used for road upgrading. The Ministry of Education has also outlined that in 2007, 60% of DAK must be used for the restoration of primary-level school buildings and the remaining 40% should be used to upgrade education quality.

4.2.1 Determination of Project Location

Each sample district and city stated that they use a participatory approach within the *musrenbang* forum to determine the location of DAK-funded projects based on a scale of priorities. Not all development activities proposed by the community can be realized. Apart from the obvious funding limitations, several regional government officials stated that this

is because community suggestions are often not appropriate for the overall regional development framework. However, whatever the reason, the emerging impression is that the *musrenbang* process is not an effective mechanism for participatory development planning.

In practice, regional governments decide on DAK project locations according to SKPD plans rather than proposals from the community. Within certain limits, nepotism and personal ties between government bureaucrats and project recipients, such as school principals or *puskesmas* heads, can sway project determinations. Consequently, it is not unusual for the process to become polemic within the community. In Kabupaten Wonogiri, for example, in 2006 the DPRD conducted an audit and they came across five primary schools that should not have received DAK; the schools had used the funds to build new classrooms, not to rehabilitate existing buildings. In 2007, even more plans for primary school restoration are not appropriate. The DPRD decided to cancel 29 of the 88 restoration plans submitted by the Education Office as they did not fulfill the conditions and instead the projects were relocated to other primary schools. According to one DPRD member, the determination of recipient primary schools can be inappropriate partly due to the existence of personal ties between school groups (principals or school committees) and bureaucrats in the subdistrict or district/city branches of the Education Office.

Possibly related to the problem of personal ties, one primary school that received DAK in Kota Banda Aceh in 2006 was bold enough to exceed the DAK spending limit by almost double to renovate and build several classrooms. To cover the shortfall in funds, the school committee obtained credit from a building materials supplier. The school committee was convinced that they would obtain DAK again in 2007 in order to pay off their debt.

Kabupaten Gorontalo and Kabupaten Kupang also experienced problems surrounding the determination of DAK project locations. One NGO active in the education sector in Kabupaten Gorontalo stated that among all the management aspects of DAK, project location determination is the most troubled by collusion. As an example, one primary school had submitted a proposal for building restoration for five years running, but they had not yet obtained DAK. On the other hand, one school had received DAK in two successive years. Apart from that, one school received DAK assistance as well as deconcentration funds assistance. One NGO in Kupang also expressed that the determination of DAK project locations was a site of collusion. In this case,²³ one school had definitively obtained a DAK allocation based on a *bupati* decree; however, that decision was overturned by another *bupati* decree. According to one respondent, this occurred because one party had tried to persuade the school principle to employ a specific contractor to carry out the project. However, because the school principle did not agree, the school's DAK allocation was transferred to another school.

Notwithstanding the fact that the DAK project location determination process is not completely objective or transparent, FGD participants gave it a relatively good evaluation, ranking the participation in the process in the third position compared to the other stages (see Table 4.1 and Appendix 5). This evaluation is perhaps more of an indication of the greater role that the SKPD plays in project allocation determination rather than an a reflection of the participants' satisfaction regarding the role that the community plays via the *musrenbang* process.

²³This case occurred in Kabupaten Timor Tengah Selatan or South Central Timor District (not a sample area).

4.2.2 Problems Surrounding the Technical Guidelines

Sample district/city governments stated that the uniformity and rigidity of the technical guidelines to the point that conditions in specific regions are ignored are among the main problems surrounding the use of DAK. As a consequence, the regions cannot use DAK to maximum efficiency in accordance with their interests; in fact, counterproductive conditions can emerge. The strict technical guidelines accompanying the DAK allocation are an indication that the central government does not really aspire to full regional autonomy. To comment on views such as this, central government circles generally stated that the strict regulation on the use of DAK is one of the central government's controls over regional governments, apart from being based on theory and legality. If regional governments had full discretion over the use of DAK, the central government would be afraid that many regions would spend DAK on bureaucratic interests as it has happened with DAU.

Aside from the different opinions concerning the DAK technical guidelines, the following section provides several regional government problems in putting the technical guidelines into effect.

(i) Technical guidelines that are inappropriate for regional conditions

Sectorally, technical guidelines are often inappropriate for regional conditions. In Kabupaten Kupang, for instance, the majority of road surfaces are still earth or have not been asphalted. However, the technical guidelines direct that 70% of the DAK for road infrastructure must be used for maintenance and only 30% may be used to upgrade road conditions. This certainly is not fitting for the requirements in Kabupaten Kupang, which is more in need of funds for road upgrading activities. In Kota Banda Aceh, a different issue arises. DAK allocation in the education sector may only be used to fund the restoration of existing primary school buildings, whereas almost all primary school buildings in the city that were destroyed as a result of the tsunami have been rebuilt by the Rehabilitation and Construction Body (BRR) and other various domestic and international aid institutions. As a result, DAK is being used to renovate primary school buildings that are still technically in good condition.

Another problem uncovered is the determination of standard cost units. In 2006, the central government determined a standard package of Rp150 million to restore three classrooms, whereas the level of damage in each school is different; some schools may only require one classroom to be repaired whilst another may have six classrooms with major damage. In this context, regional governments suggested that the primary school building restoration funding packages as far as possible be adapted to reflect the needs of each school. While schools that only require one classroom to be renovated do not require sufficient funding for three classrooms, schools with six classrooms in need of renovation do need to be given a sufficient level of funding to renovate all of those classrooms. Under the current system, if a school is given the standard package for three classrooms, it is difficult for them to obtain another package in the following year even if they still have classrooms in need of repair. Apart from that, the uniform package amount of Rp50 million per classroom does not reflect the true conditions in the field; in Kabupaten Kupang alone, there are three zones for the construction materials price index.

Uniformity in the technical guidelines for the procurement of supplementary equipment to increase education quality as well as medical equipment also causes the ineffective use of DAK funds. One example of this has already been detailed in Section 2.2, regarding the procurement of classroom furniture. Several more cases illustrating this point are noted below.

- Typewriter procurement

As part of the package to improve education quality, the central government requires all schools (cases from Kabupaten Wonogiri and Kabupaten Gorontalo) to receive a package of Rp1.55 million for a typewriter. According to one respondent in the region, the central government has stipulated that the typewriter must have the letter *beta* (β). In both Kabupaten Wonogiri and Kabupaten Gorontalo, the typewriter fulfilling those requirements is the “Royal–Special School Edition”. Several respondents questioned the effectiveness of using a typewriter for school administration. Schools in urban regions are more in need of a computer than a typewriter. In one primary school in Kabupaten Wonogiri, the typewriter is only stored in the corner (Appendix 12). The teachers have never used it as the school has a computer.

- Book procurement

The package for supporting books that schools receive does not reflect school needs. One primary school in Kabupaten Wonogiri with only 92 students has 200 copies of one book title. In connection with this, the school committee questioned why the Education Office entrusted the school to carry out school building improvements while the task of procuring supporting materials for education quality had been given to a third party.

- Vaccine refrigerator procurement

A similar story is found in the health sector. For the procurement of vaccine refrigerators, for instance, according to the technical guidelines, a *puskesmas* must buy a refrigerator with certain specifications priced up to Rp30 million per unit, whereas according to the *puskesmas* doctor, vaccines can be stored in an ordinary refrigerator costing far less. Ironically, the specifications for the rehabilitation of *puskesmas* buildings do not include the provision of electricity installations or medical waste disposal facilities.

- (ii) Staged funds disbursement

The staged DAK funds disbursement process is not appropriate for the conditions in several regions. In the case of Kota Banda Aceh, the majority of offices or technical agencies using the DAK budget had not submitted requests that the funds be paid in stages according to project progress; instead, they generally only submit the payment request once the project or activity has been completed. This is usually the case as contractors do not submit invoices according to the project’s progress. To date, a large share of contractors choose to finish the job or project entirely before submitting their invoice. According to several respondents within the Kota Banda Aceh government, contractors choose this approach to avoid the administrative bureaucracy of repeated funds disbursements. Commenting on this issue, one FGD participant stated, “Contractors do not want to disburse funds a number of times as each disbursement requires a fee.”

In Kabupaten Kupang and Kabupaten Gorontalo, which cover wide regions, regional government officials also highlighted the staged funds disbursement mechanism as an inefficient policy, mainly for isolated regions with poor road infrastructure. Such conditions frequently cause delays in administrative procedures which culminate the late completion of projects. For the self-managed construction of primary school buildings, as an example, each funds disbursement process requires signatures from the school committee, the subdistrict public works officer, and the education office branch head. If one of these people does not sign the invoice, for instance, because they are not available, the disbursement process is held up. Although several respondents criticized the DAK disbursement mechanisms, FGD participants actually rated it the highest of all other aspects of the DAK management (see Table 4.1 and Appendix 5).

(iii) Delays in the issue of the technical guidelines

All the sample regional governments protested the central government's delays in issuing the technical guidelines for DAK utilization, which resulted in at least two issues: Firstly, regional governments cannot immediately begin DAK-funded development activities, and secondly, there is the possibility that planned development activities to be funded by DAK and already allocated in the APBD are not in accordance with the technical guidelines. If the second issue arises, regional governments are forced to submit a request for exception to the relevant technical ministry or readjust their APBD. A readjustment can waste a significant amount of funds and time as the executive must prepare the revisions and then reconsult them with the DPRD. Under such conditions, regional governments are inclined to conduct the adjustments when they are working on the Revised APBD (APBD-P) usually in August. As a consequence, the implementation time for DAK-funded projects is diminished and this affects the quality of the activities.

4.3 Project Implementation

In all the sample regions, DAK-funded construction projects are usually either self-managed (*swakelola*) or put out to tender. In the education sector, the Ministry of National Education has stipulated that all primary school rehabilitation projects are to be self-managed. The principal and/or the school committee are the program implementers. The self-management system is the same as direct appointment. One respondent in the Ministry of National Education suggested that the self-manage construction system is part of the philosophy of the national education management, that is, that education is the responsibility of the government and the community. By adopting this approach, the ministry hopes that the community can contribute to the development of the physical education infrastructure. Contrasting that policy, the Ministry of Finance and Ministry of Public Works have stipulated that DAK projects are to adopt the tender process. In the sample districts and city, both the self-managed and tender systems are working well for construction activities. Visually, the construction quality in primary schools, *puskesmas*, and roads seems to be good. Hence, FGD participants rated the implementation of DAK projects as second after funds disbursement (see Table 4.1 and Appendix 5).

Notes on the implementation of self-managed projects (proyek swakelola)

From one perspective, the self-managed system has been able to reduce the cost of primary school building restoration, allowing the project implementers to increase the volume of work. In one primary school receiving the Presidential Instruction (Inpres) Fund in

Kabupaten Kupang, DAK funds to the value of Rp108 million that should have only funded the restoration of three classrooms were enough to fund repairs for five rooms: three classrooms, one library, and one teachers' office. If using market prices as a measure, the value of the work reaches Rp400 million, or 270% of the total value of the DAK budget. In line with this, a staff at the Kabupaten Wonogiri Education Office stated that based on empirical experience, the self-managed system has several benefits, such as better building quality, a greater volume of work being completed, economic empowerment translating into an increase in local community income, as well as the empowerment of school committees.

Another positive outcome from the self-managed system stems from the significant contributions from students' parents, both in the form of labor and contribution of building materials. In Kabupaten Kupang, all workers only ask for a wage of Rp15,000 per day, lower than the normal rate which can reach Rp25,000–Rp35,000 per day. This is also the case with the procurement of building materials. For example, the market price of teak can reach Rp3.2 million per cubic meter, while students' parents may sell it to the school building committee for Rp1.5 million per cubic meter.

It is not really a problem when the government asks the community to contribute to education sector building projects. However, for regions where the majority of the population is poor, such as Kabupaten Kupang and Kabupaten Wonogiri, such requests are inappropriate. One NGO in Kupang stated that requesting poor communities to contribute to education development is ironic. The government should not use the philosophy of education responsibility as a cover-up for their failure to build education infrastructure. From the point of view of poor communities, it is their government that should help them, not the reverse. In this context, the system of self-managed has failed to reach its objective of economically empowering local communities.

Another criticism of the self-managed system comes from contractors. They stated that the self-managed method of project works is fundamentally in a breach of Presidential Decree No. 80/2003 on the Government Implementation Guidelines for the Procurement of Goods and Services as well as Law No. 18/1999 on Construction Services. For example, technically, the quality of self-managed projects is in doubt because the implementers do not possess a certificate of competency as required under Law No. 18/1999. If undesired outcomes arise, such as the building collapsing as a result of construction error, no-one can be held responsible. Another criticism is that the self-managed system opens up the high possibility of collusion. This is because not many tradespeople have the appropriate skills to implement building works for public facilities, and hence, principals or school committees award the job to a third party, either an individual or a contractor. One contractor in Kabupaten Kupang stated that in the past, in order to obtain a project, the contractor had to follow the regional government's tender process, while now they only need to go to the principal or the school committee.

4.4 Monitoring and Evaluation of DAK Projects

Monitoring and evaluation (M&E) activities for development projects are still highly inadequate. Especially for DAK projects, among the problems is that both the central government and regional governments do not allocate any budget for M&E activities. FGD participants gave this aspect a relatively low evaluation, as the fourth out of the six aspects of DAK management (see Table 4.1). In Kabupaten Kupang and Kabupaten Wonogiri, FGD participants gave it the lowest rating (Appendix 5).

FGD participants in Kota Banda Aceh gave M&E activities a fairly high rating. One reason for this is that the Kota Banda Aceh Government has formed the DAK Implementation Monitoring and Evaluation Team, consisting of elements from Bappeda, the Finance Division, and the Development Division. The team is assigned to directly monitor DAK project implementation. In addition, as part of the city government internal auditing function, the Kota Banda Aceh Regional Supervision Board (Baswada) also routinely inspects DAK projects. FGD participants were of the opinion that the intensity of M&E activities in the city was quite high as the city is an urban area and so the team can easily visit project locations. While that is the case, Kota Banda Aceh Bappeda stated that M&E activities are still not optimal. The main problem lies with the very low operational funding. In 2006, the city's APBD only provided around Rp8 million for M&E activities for DAK projects, while in 2007, no funds at all have been provided.

As a consequence of the lack of provision for a special M&E funding component for DAK projects, M&E activities in the other three sample districts have only been administrative and passive. Each district office tends to wait for reports from the project coordinators or implementers, and rarely visit project locations. If in fact they do visit a project, it is usually an incidental visit made in the context of a different activity.

The weak and superficial nature of M&E activities for DAK projects may well be connected to the absence of any form of follow-up on such activities. Staff from DAK recipient offices stated that they had not received any feedback from their report to the technical ministry. The Kabupaten Kupang Health Office, for example, routinely sends activities progress report to the Ministry of Finance every three months. However, the region has never received any response or feedback from the central government. As a result, the region is unsure of whether or not their reports have actually reached their intended recipient.

According to the legislation, as outlined in Government Regulation No. 55/2005 and various technical guidelines from technical ministries, each region must submit quarterly progress reports for their DAK activities to the central government and the regional representative of the central government in the region (provincial governor). In 2006, the national number of regions that submitted reports that were received by technical ministries was extremely low, at less than half of all the regions (see Table 4.2). In the agriculture sector, the figure was as low as 10%. This shows the level of regional compliance with legislative demands as well as the technical ministries' lack of commitment to monitoring and evaluating the regions' use of DAK. One explanation from a technical ministry on these conditions was the absence of M&E funds.

Table 4.2 Percentages of District/City Governments that fulfill their DAK Reporting Requirements

| No. | Sector | % |
|-----|--------------------------------|--------|
| 1 | Roads | 45% |
| 2 | Irrigation | 45% |
| 3 | Clean water | 45% |
| 4 | The environment | 65% |
| 5 | Agriculture | < 10% |
| 6 | Maritime affairs and fisheries | 45–60% |
| 7 | Education | < 50% |
| 8 | Health | n.a. |

Source: Bappenas (2006)

Note: n.a. = data not available

A startlingly low level of DAK reporting was also found in the four sample provinces. In 2005, out of 77 districts/cities, not one had submitted a status report for activities in the road infrastructure subsector. The stipulations currently in effect set out sanctions for neglecting to submit reports, but they have not been enforced. If the sanctions were to be implemented, they have been evaluated as being unjust for the populace. Each deferment in funds disbursement leads to delays in the people receiving any benefit, whereas it is the bureaucrats who have failed to do as required (see also Box 2.1).

Table 4.3 Numbers of Districts/Cities in Sample Provinces that have Submitted a Report for Road Infrastructure, 2005

| No. | Province | Number of Districts/Cities | |
|-------|--------------|----------------------------|-----------------------------------|
| | | DAK recipients | Those that have submitted reports |
| 1 | NAD | 21 | 0 |
| 2 | Central Java | 35 | 0 |
| 3 | NTT | 16 | 0 |
| 4 | Gorontalo | 5 | 0 |
| TOTAL | | 77 (434) | 0 (195) |

Source: Bappenas (2006)

Note: National figures in parentheses

4.5 Coordination

Coordination is one of the weak points in the management of DAK. This can be seen from the low evaluations it was given by FGD participants, at the fifth of the six phases of DAK management. In Kota Banda Aceh, for example, Bappeda admitted that they are not directly involved in the initial planning stage for DAK-funded programs and activities. Each SKPD using DAK funds devises its own plans and only submits their activities plan to the mayor via the Development Division. After the mayor has signed off on the plans, Bappeda receives the reports. Bappeda, as the leading actor in the executive budget committee, then incorporates the plans into the APBD. This process shows that Bappeda really only has an administrative role in DAK utilization. As such, interagency coordination of DAK budget users is not evident. This lack of coordination results in the ineffective and off-target use of DAK funds. One member of the Kota Banda Aceh DPRD gave the example of a primary school that was recently rehabilitated using the DAK fund and was subsequently torn down because they received a larger amount of funding from a donor/NGO to build the school.

In another sample district, Bappeda consistently stated that all the SKPD always coordinate with Bappeda both before and after they receive their allocation of DAK funds. Nevertheless, the FGD participants generally said that the aspect of coordination, both inter-SKPD coordination and coordination with agencies at the provincial level, is weak. Generally, respondents stated that each SKPD is inclined to put forward their own tasks and functions without wanting to see the tasks and functions of other related SKPD. This is in part because each SKPD has to adhere to technical guidelines, so in practice, there is no room to make adjustments according to the joint needs in the region.

Particularly relevant to the weak coordination between district/city governments and provincial governments is the case of a primary school that received both DAK and deconcentration funds at the same time. In this case, the district government generally blames the provincial government because they determine project locations “as they

please”, without first coordinating with the district government. In Kabupaten Kupang, for example, in 2007, the regional government had selected primary school X as a DAK recipient. However, the provincial government also selected the same school as a recipient of deconcentration funds. One NGO in Kabupaten Gorontalo reported a similar case, where a school received deconcentration funds after already receiving DAK. The staff from Kabupaten Gorontalo Education Office responded that this case occurred because the DAK fund was insufficient to repair all the damage to the particular primary school.

V. CONCLUSION AND RECOMMENDATIONS

The APBN allocates DAK to fund specific public services provided by district/city governments. The aim is to reduce inequalities in public services between the regions. Although DAK forms part of the APBD, regional governments must conform to various central regulations for its use. In addition, DAK, which is developed for the purpose of assisting regional finance, to some extent has altered to becoming an obstacle in the regional budgeting process.

The research on the various regulations found four points with the potential to impede the DAK management.

- (i) As yet, there is no government regulation that specifically regulates DAK²⁴ (such as a government regulation on DAK as mandated by Law No. 32/2004 Article 162 (4) and Law No. 33/2004 Article 42) and the government regulation on the transfer of deconcentration and co-administration funds to DAK (as mandated by Law No. 33/2004 Article 108).
- (ii) The timetable for the central government's release of allocation decisions and issuance of DAK regulations conflicts with that for APBD preparation. Consequently, apart from regional governments having to make adjustments to their budgets, the project implementation time becomes limited.
- (iii) Several policies are in dire need of national uniformity but should still allow for variation on some aspects. Conversely, other policies that do not currently allow for any flexibility lead to the ineffective use of funds, and as such require revision in order to provide room for regional, local, or other specific variations, while still retaining some level of national uniformity.
- (iv) Various laws on organizations and ministerial/institutional tasks with centralistic nuances have not yet been adapted to decentralization law. As a result, DAK management policies are different both between ministries and between regions. The absence of synchronization between DAK, deconcentration, and co-administration funds has made the use of the funds not optimum.

These four obstacles lead us to the conclusion that various regulations must be reformed in order to support the proper implementation of decentralization and regional autonomy in general and DAK management specifically, thereby optimizing efforts to balance the quality and quantity of public services throughout Indonesia.

In theory, regulation provides room for regional governments to actively submit proposals for the use of DAK. However, in practice, they have become passive recipients, when actually, they heavily rely on DAK for their regional capital expenditure. To date, regional governments are only asked to send data on the condition of regional infrastructure in various sectors, which the central government uses to determine DAK allocations. The attitudes of regional governments to the central government's handling of DAK allocation indicate a view that the central government is not transparent, to the point where regional officials need to "lobby Jakarta" to obtain a larger DAK allocation. A quantitative analysis of DAK allocation by province indeed shows a low correlation with poor public service

²⁴Government regulations that regulate DAK are bundled with government regulations broadly dealing with balance funds. DAK is one component of balance funds.

infrastructure conditions in the basic education and road infrastructure sectors, and in the health sector, the correlation sign even has an opposite direction with the objectives of DAK.

It is evident that coordination and communication surrounding DAK management between agencies at the central level and the regional level, including both provincial and district/city levels, are still limited. In addition, there are still few regional governments that fulfill their obligations to report developments in the use of DAK every 3 months, as mandated by legislation. There are four reasons for this:

- (i) while the regulations provide sanctions for not reporting, the central government has not applied the sanctions;
- (ii) several regional governments that have submitted reports have not received any response from the central government, and consequently, the regional governments are no longer concerned about their reporting obligations;
- (iii) the sanctions for failing to report would be applied to the region, not the negligent official, and correspondingly, officials do not feel obliged to compile the report; and/or
- (iv) regional governments do not have sufficient capacity to manage public finances.

Based on the various findings above, it can be generalized that the management of DAK is centralistic, while the central government does not have the capacity to monitor its use in more than 400 districts and cities. As such, SMERU recommend the following measures.

- (i) The central government should build a number of new paradigms in the management of DAK by decentralizing it to the provincial governments. This would authorize provincial governments to implement DAK allocation, coordinate DAK management, and monitor district/city government use of DAK. This authority should be equipped with safeguarding regulations to guarantee the implementation of transparency and participation mechanisms, accountability procedures, and a reward and punishment system. Such a policy would have three benefits:
 - the simplification of DAK management at the central level;
 - the strengthening of governors' authority as representatives of the central government in the regions; and
 - the empowerment of provinces as autonomous regions through fiscal discretion.²⁵
- (ii) Sanctions for failing to submit regional fiscal management reports, including those required for DAK, as set out in Law No. 33/2004 Article 102, should not be borne by the region or populace as a whole. Instead, the penalty should be imposed upon bureaucrats, who must share the responsibility for their negligence amongst themselves.

²⁵If part of the deconcentration and co-administration funds are transferred to DAK, as is mandated by law, the proportion of DAK to total APBD expenditure can reach around 4%, while in 2006 alone the proportion of DAU to APBD expenditure reached 22%.

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APPENDICES

Appendix 1. Recapitulation of Total Allocations of Deconcentration and Co-administration Funds based on Budget Work Plans for Ministerial and Nonministerial Offices (RKL-KL) FY 2006 (million rupiah)

| No. | Agency | Deconcentration | Co-administration | Total |
|------------|--|------------------------|--------------------------|-------------------|
| 1 | Home Affairs | 106,824 | 244,970 | 351,794 |
| 2 | Agriculture | 1,104,028 | 1,931,964 | 3,035,992 |
| 3 | Industry | 72,094 | 0 | 72,094 |
| 4 | Energy and Mineral Resources | 150,244 | 0 | 150,244 |
| 5 | National Education | 17,719,711 | 0 | 17,719,711 |
| 6 | Health | 2,703,504 | 1,841,073 | 4,544,577 |
| 7 | Religion | 45,445 | 0 | 45,445 |
| 8 | Labor and Transmigration | 473,832 | 563,943 | 1,037,775 |
| 9 | Social Affairs | 966,406 | 0 | 966,406 |
| 10 | Forestry | 136,636 | 0 | 136,636 |
| 11 | Maritime Affairs and Fisheries | 646,031 | 258,496 | 904,527 |
| 12 | Public Works | 87,261 | 437,034 | 524,295 |
| 13 | National Ministry of the Environment | 2,300 | 0 | 2,300 |
| 14 | State Ministry of Cooperatives and SMEs | 210,000 | 0 | 210,000 |
| 15 | Indonesian National Library | 9,625 | 3,500 | 13,125 |
| 16 | Coordinating Agency for Investment | 5,000 | 0 | 5,000 |
| 17 | Indonesian National Archives | 3,650 | 0 | 3,650 |
| 18 | Trade | 76,315 | 0 | 76,315 |
| 19 | National Ministry for the Youth and Sport | 112,000 | 0 | 112,000 |
| 20 | Aceh-Nias Rehabilitation and Reconstruction Body | 113,361 | 21,019 | 134,380 |
| | Total | 24,744,267 | 5,301,999 | 30,046,266 |

Source: SIKD of Ministry of Finance (2006)

Note: Data are preliminary figures sourced from Budget Work Plans for Ministerial and Nonministerial Offices (RKL-KL) for March 2006.

Appendix 2. Recapitulation of Total Allocations of Deconcentration and Co-administration Funds by Province, based on Budget Work Plans for Ministerial and Nonministerial Offices (RKL-KL) FY 2006 (million rupiah)

| No. | Province | Deconcentration | Co-administration | Total |
|--------------|--------------------|-------------------|-------------------|-------------------|
| 1 | NAD (Aceh) | 987,052 | 190,485 | 1,177,537 |
| 2 | North Sumatra | 1,477,193 | 216,043 | 1,693,236 |
| 3 | West Sumatra | 632,351 | 128,165 | 760,516 |
| 4 | Riau | 567,083 | 115,255 | 682,338 |
| 5 | Riau Islands | 204,111 | 32,255 | 236,366 |
| 6 | Jambi | 443,771 | 121,649 | 565,420 |
| 7 | South Sumatra | 760,094 | 194,421 | 954,515 |
| 8 | Bangka Belitung | 263,286 | 52,577 | 315,863 |
| 9 | Bengkulu | 370,330 | 138,769 | 509,099 |
| 10 | Lampung | 980,842 | 107,351 | 1,088,193 |
| 11 | Jakarta | 638,321 | 10,732 | 649,053 |
| 12 | West Java | 2,707,889 | 232,042 | 2,939,931 |
| 13 | Banten | 815,305 | 85,110 | 900,415 |
| 14 | East Java | 2,374,032 | 384,830 | 2,758,862 |
| 15 | Yogyakarta | 439,188 | 68,419 | 507,607 |
| 16 | East Java | 2,669,019 | 408,626 | 3,077,645 |
| 17 | West Kalimantan | 652,125 | 180,133 | 832,258 |
| 18 | Central Kalimantan | 446,108 | 186,462 | 632,570 |
| 19 | South Kalimantan | 453,749 | 163,741 | 617,490 |
| 20 | East Kalimantan | 475,791 | 227,477 | 703,268 |
| 21 | North Sulawesi | 436,291 | 114,116 | 550,407 |
| 22 | Gorontalo | 237,718 | 85,664 | 323,382 |
| 23 | Central Sulawesi | 500,749 | 155,084 | 655,833 |
| 24 | South Sulawesi | 890,926 | 312,362 | 1,203,288 |
| 25 | West Sulawesi | 172,390 | 92,960 | 265,350 |
| 26 | Southeast Sulawesi | 390,648 | 219,548 | 610,196 |
| 27 | Bali | 455,985 | 82,157 | 538,142 |
| 28 | West Nusa Tenggara | 659,903 | 185,378 | 845,281 |
| 29 | East Nusa Tenggara | 773,674 | 250,868 | 1,024,542 |
| 30 | Maluku | 628,103 | 153,969 | 782,072 |
| 31 | North Maluku | 479,150 | 175,708 | 654,858 |
| 32 | Papua | 540,367 | 121,788 | 662,155 |
| 33 | West Irian Jaya | 221,120 | 107,855 | 328,975 |
| Total | | 24,744,667 | 5,301,999 | 30,046,666 |

Source: SIKD of Ministry of Finance (2006)

Note: Data are preliminary figures sourced from RKA-KL for March 2006.

Appendix 3. DAK Allocation by Sector in Kota Banda Aceh and Kabupaten Wonogiri, 2005–2007 (million rupiah)

| Sector | Kota Banda Aceh | | | Kabupaten Wonogiri | | |
|------------------------------------|-----------------|-------|--------|--------------------|--------|--------|
| | 2005 | 2006 | 2007 | 2005 | 2006 | 2007 |
| Education | 3,200 | 7,050 | 12,804 | 4,410 | 10,340 | 20,205 |
| Health | 1,560 | 4,780 | 6,293 | 2,000 | 6,580 | 10,660 |
| Infrastructure | 2,080 | 6,270 | 9,070 | 4,930 | 10,090 | 14,594 |
| (a) Roads | 2,080 | 5,050 | 6,873 | 2,910 | 6,380 | 7,798 |
| (b) Irrigation | 0 | 0 | 0 | 1,360 | 2,200 | 4,140 |
| (c) Clean water | 0 | 1,220 | 2,197 | 660 | 1,510 | 2,656 |
| Maritime Affairs and Fisheries | 890 | 1,690 | 2,176 | 900 | 1,700 | 2,489 |
| Agriculture | 0 | 2,540 | 3,027 | 790 | 3,400 | 5,598 |
| Regional Government infrastructure | 0 | 0 | 0 | 0 | 0 | 0 |
| The Environment | 0 | 300 | 728 | n.a. | 300 | 760 |

Source: SIKD of Ministry of Finance (2007)

Note: n.a. = data not available

Appendix 4. DAK Allocation per Sector in Kabupaten Gorontalo and Kabupaten Kupang, 2005–2007 (million rupiah)

| Sector | Kabupaten Gorontalo | | | Kabupaten Kupang | | |
|------------------------------------|---------------------|--------|--------|------------------|-------|--------|
| | 2005 | 2006 | 2007 | 2005 | 2006 | 2007 |
| Education | 4,190 | 7,270 | 14,415 | 4,210 | 7,310 | 15,950 |
| Health | 2,280 | 6,810 | 10,519 | 2,180 | 6,300 | 12,054 |
| Infrastructure | 5,590 | 11,710 | 21,727 | 5,750 | 9,280 | 17,152 |
| (a) Roads | 2,650 | 8,530 | 15,930 | 2,940 | 6,070 | 10,727 |
| (b) Irrigation | 2,260 | 1,370 | 2,667 | 2,050 | 1,560 | 3,108 |
| (c) Clean water | 680 | 1,810 | 3,130 | 760 | 1,650 | 3,317 |
| Maritime Affairs and Fisheries | 1,040 | 2,340 | 3,922 | 1,390 | 2,780 | 3,772 |
| Agriculture | 1,120 | 3,390 | 4,127 | 1,130 | 4,090 | 5,825 |
| Regional Government infrastructure | 0 | 0 | 0 | 4,000 | 3,000 | 2,680 |
| The Environment | n.a. | 310 | 834 | n.a. | 310 | 862 |

Source: SIKD of Ministry of Finance (2007)

Note: n.a. = data not available

Appendix 5. Rankings from Results of FGD Participants Evaluation of the Stages in the Use of DAK

Note: 1 = The highest satisfaction; 6 = Dissatisfied/the lowest satisfaction

A. Kabupaten Kupang

| No. | Stage | Ranking | | | Overall Ranking |
|-----|-----------------------------------|--------------|----------------|---------------|-----------------|
| | | Transparency | Accountability | Participation | |
| 1 | Planning | 4 | 3 | 1 | 3 |
| 2 | Determination of project location | 3 | 2 | 3 | 2 |
| 3 | Funds disbursement | 1 | 1 | 4 | 1 |
| 4 | Project implementation | 2 | 4 | 2 | 4 |
| 5 | Monitoring and evaluation | 6 | 6 | 6 | 6 |
| 6 | Coordination | 5 | 5 | 5 | 5 |

B. Kabupaten Wonogiri

| No. | Stage | Ranking | | | Overall Ranking |
|-----|-----------------------------------|--------------|----------------|---------------|-----------------|
| | | Transparency | Accountability | Participation | |
| 1 | Planning | 4 | 5 | 3 | 4 |
| 2 | Determination of project location | 2 | 2 | 1 | 2 |
| 3 | Funds disbursement | 5 | 3 | 5 | 5 |
| 4 | Project implementation | 1 | 1 | 2 | 1 |
| 5 | Monitoring and evaluation | 6 | 6 | 6 | 6 |
| 6 | Coordination | 3 | 4 | 3 | 3 |

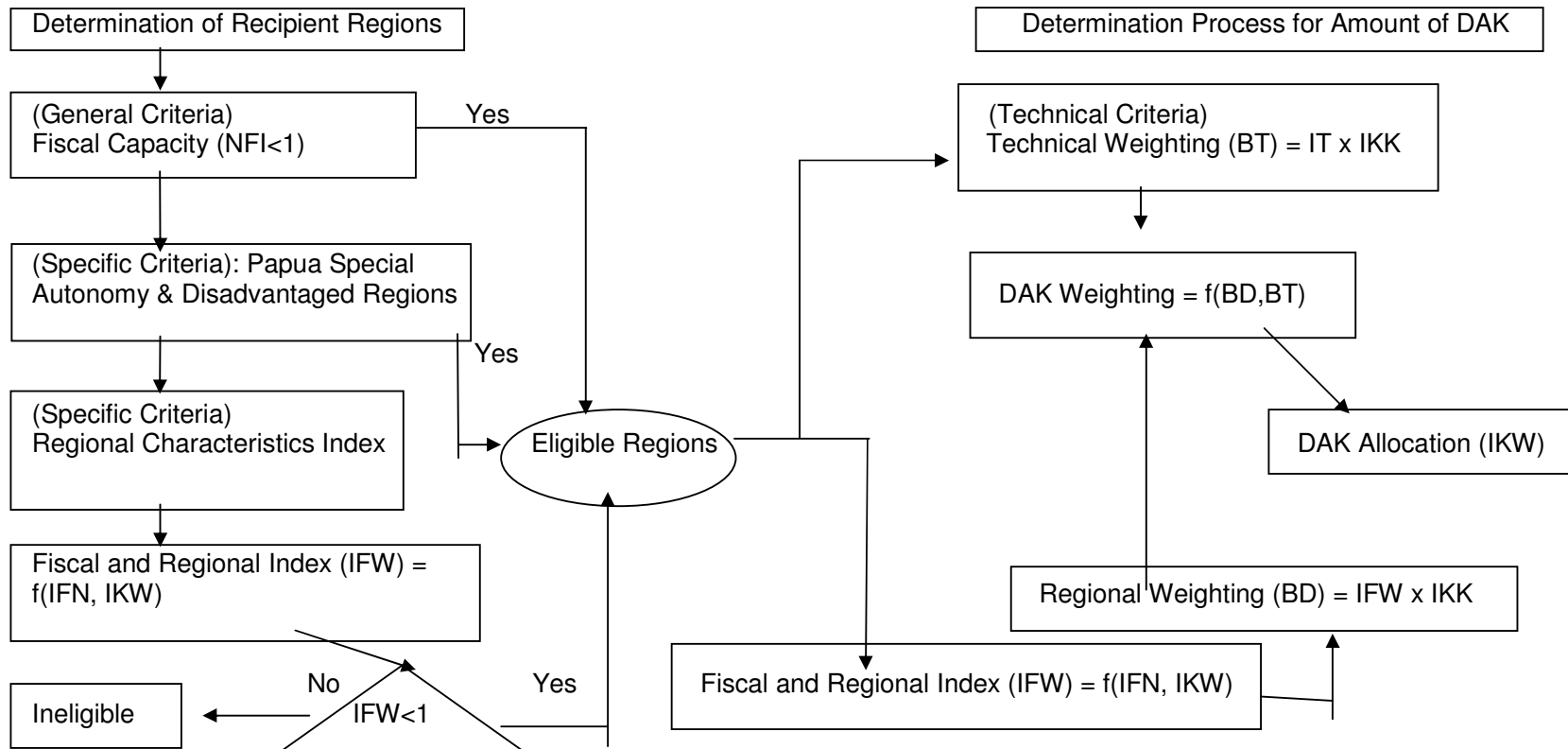
C. Kabupaten Gorontalo

| No. | Stage | Ranking | | | Overall Ranking |
|-----|-----------------------------------|--------------|----------------|---------------|-----------------|
| | | Transparency | Accountability | Participation | |
| 1 | Planning | 5 | 4 | 3 | 5 |
| 2 | Determination of project location | 3 | 3 | 5 | 3 |
| 3 | Funds disbursement | 1 | 1 | 1 | 1 |
| 4 | Project implementation | 2 | 2 | 2 | 2 |
| 5 | Monitoring and evaluation | 4 | 5 | 4 | 4 |
| 6 | Coordination | 6 | 6 | 6 | 6 |

D. Kota Banda Aceh

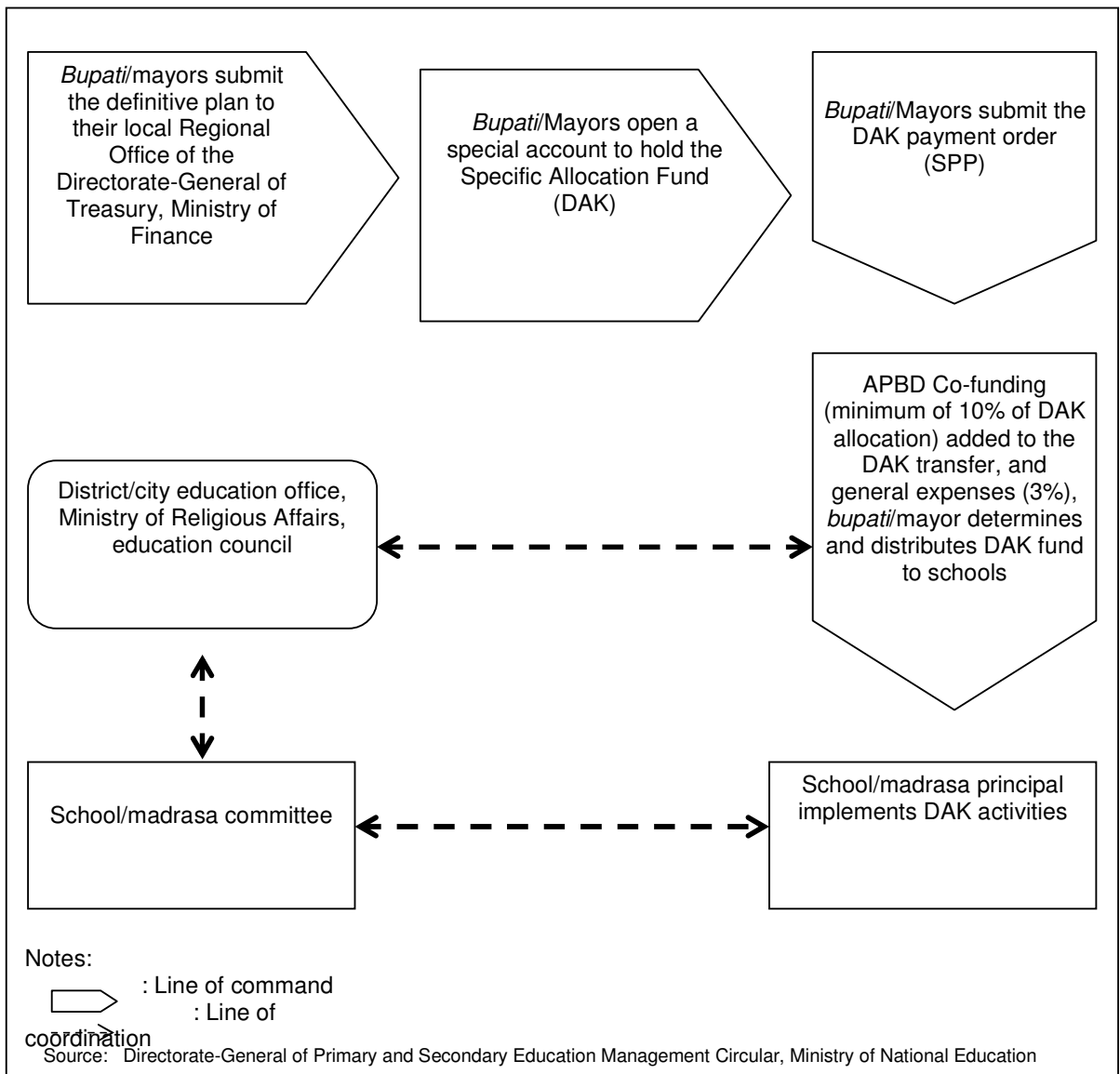
| No. | Stage | Ranking | | | Overall Ranking |
|-----|-----------------------------------|--------------|----------------|---------------|-----------------|
| | | Transparency | Accountability | Participation | |
| 1 | Planning | 6 | 6 | 6 | 6 |
| 2 | Determination of project location | 3 | 5 | 5 | 5 |
| 3 | Funds disbursement | 2 | 2 | 1 | 2 |
| 4 | Project implementation | 1 | 1 | 2 | 1 |
| 5 | Monitoring and evaluation | 5 | 3 | 4 | 3 |
| 6 | Coordination | 4 | 4 | 3 | 4 |

Appendix 6. Allocation of the Specific Allocation Fund (Article 54 of Government Regulation No. 55/2005)

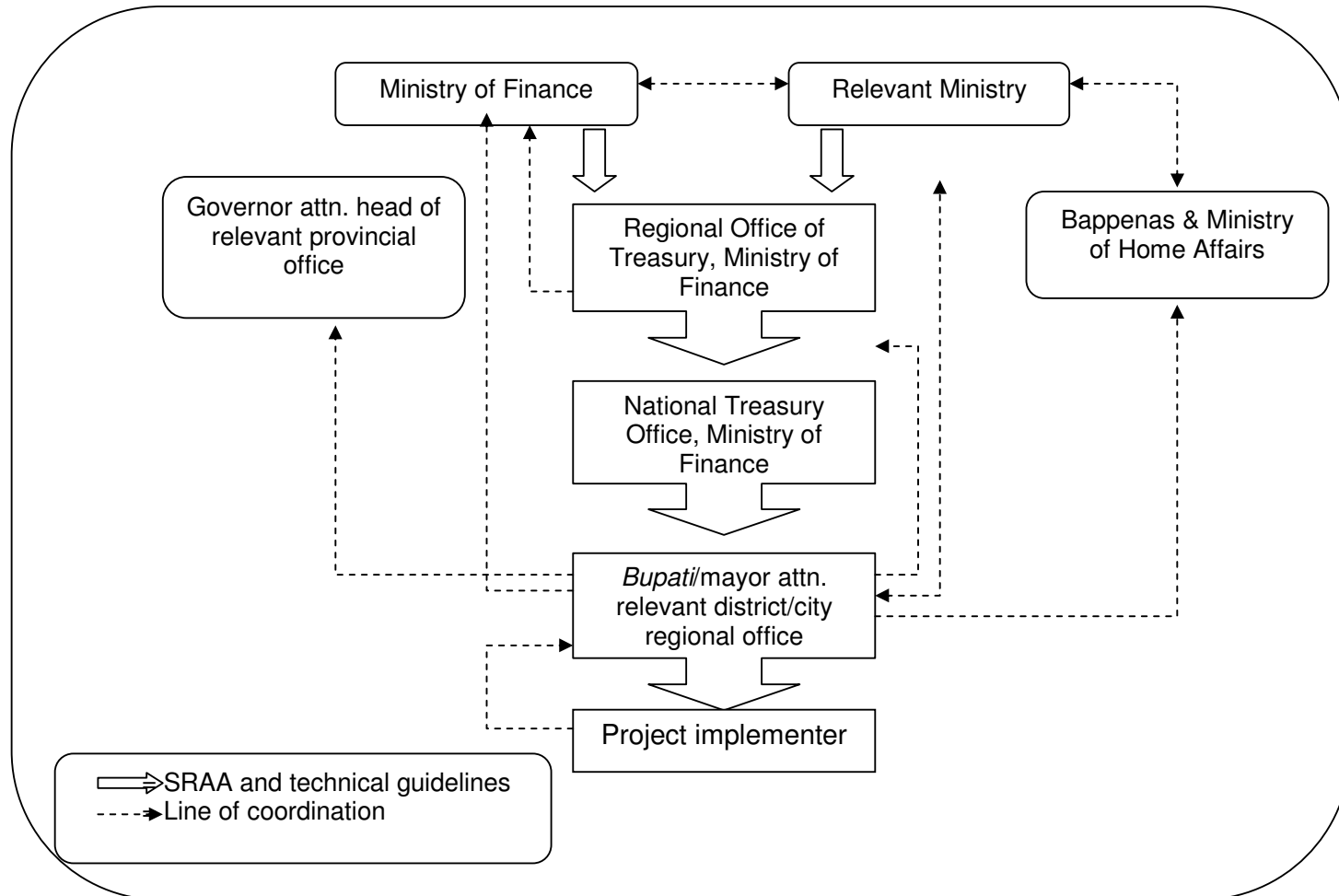


Source: Technical Guidelines for DAK in the Education Sector 2007 (Ministry of National Education Regulation No. 4/2007)

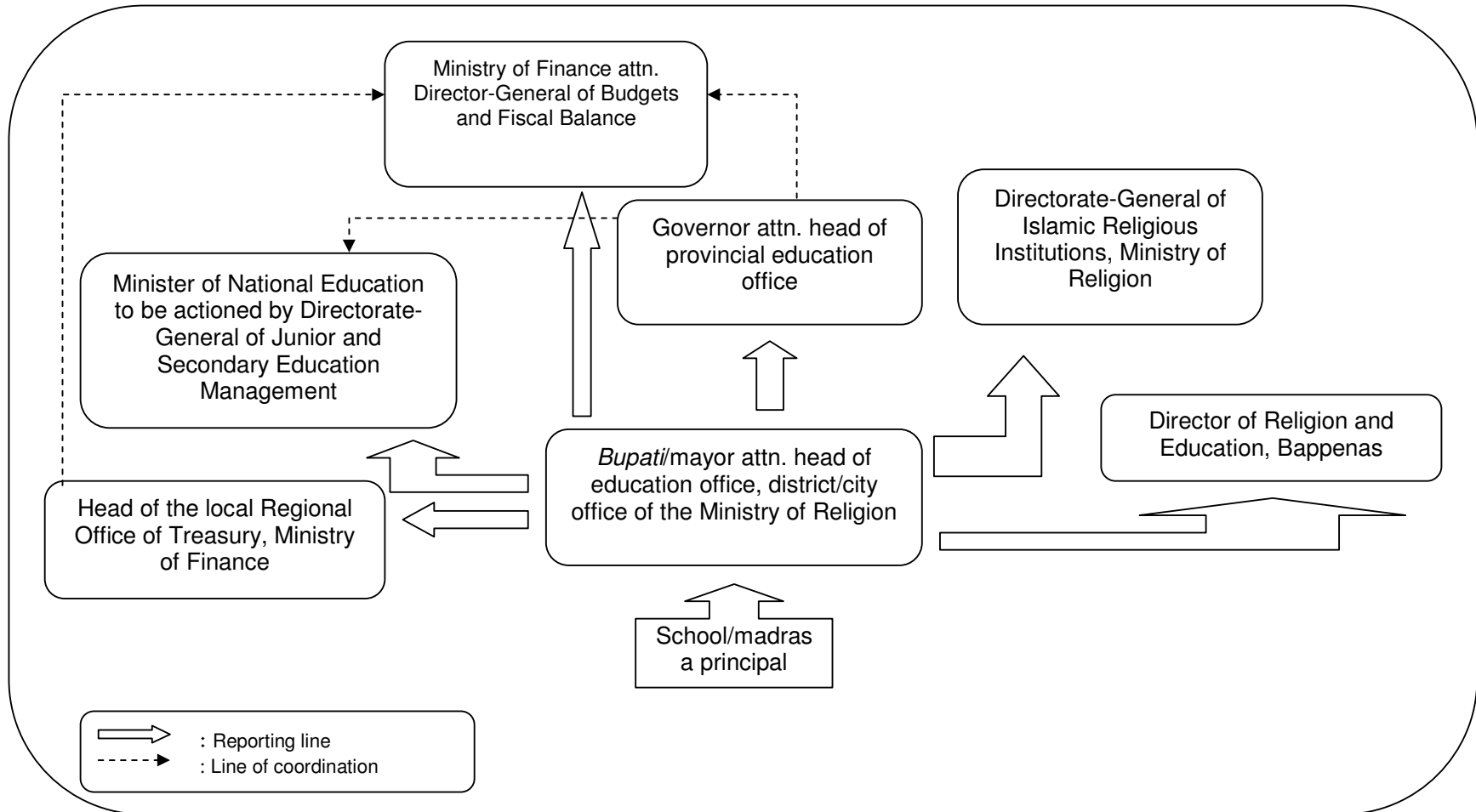
Appendix 7. Distribution Mechanisms for DAK in the Education Sector, 2007



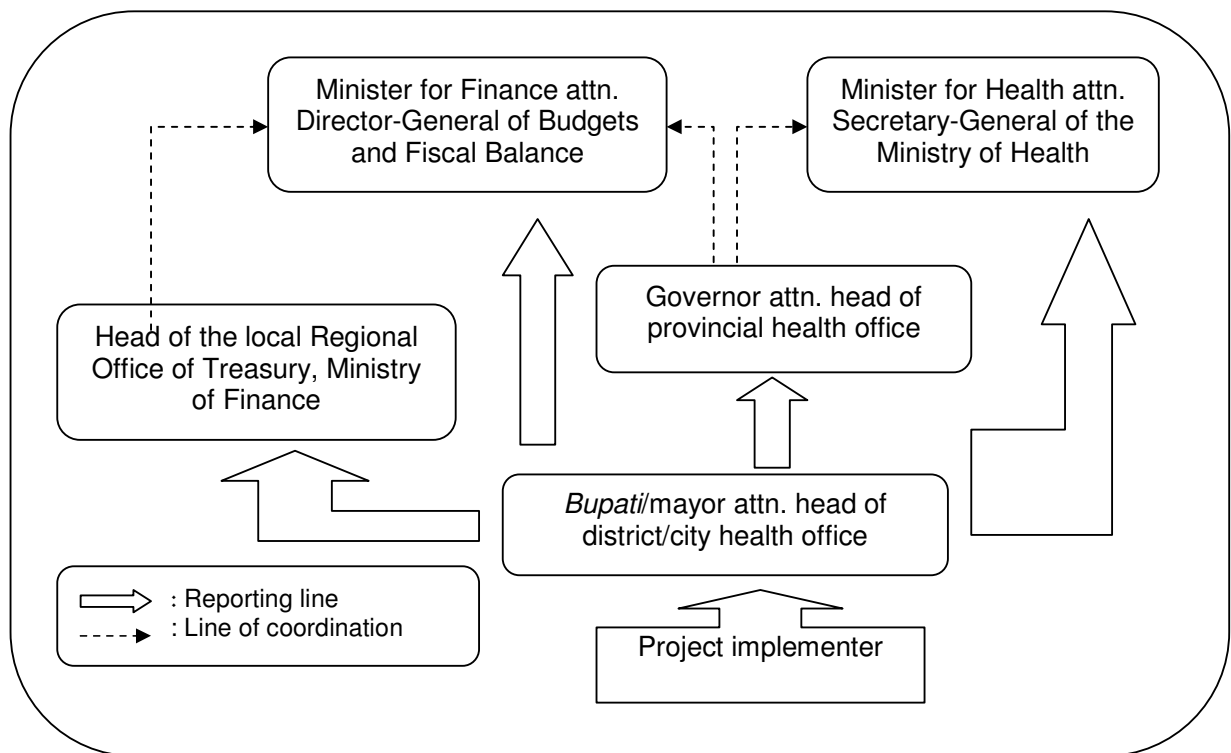
Appendix 8. Mechanisms for the Use and Implementation of DAK



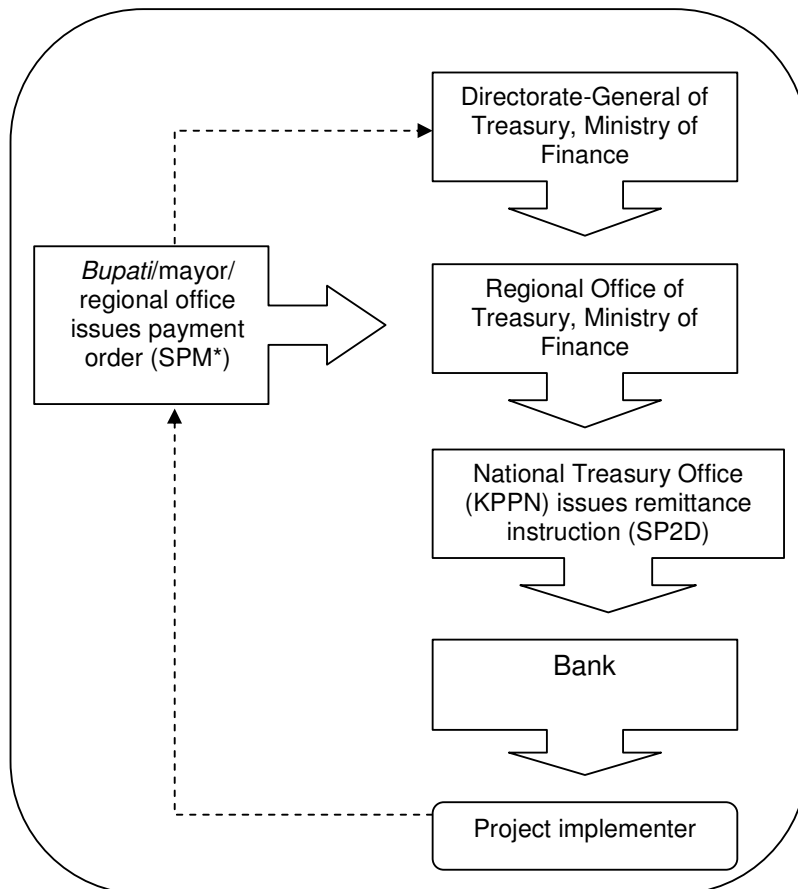
Appendix 9. Reporting Mechanisms for DAK in the Education Sector



Appendix 10. Reporting Mechanisms for DAK in the Health Sector



Appendix 11. Mechanisms for the Distribution of DAK from the Center to the Regions



*surat perintah membayar

**Appendix 12. Photo of a “Royal: Special School Edition”
Typewriter, as Part of the 2006 DAK Package**

