



Spending for Reconstruction and Poverty Reduction

Aceh Public Expenditure Analysis

Banda Aceh, September 12, 2006

APEA Team



APEA: OBJECTIVES & PROCESS

- OBJECTIVES:

- Gaining a better understanding of Aceh's revenues, expenditures, and financing management;
- Developing policy recommendations to support local budget implementation and processes;
- Leaving behind a better system for the Acehnese to analyze and monitor local budgets.

- PROCESS:

- Participatory Public Expenditure Review with strong participation from Aceh's Universities: UNSYIAH, UNIMA, IAIN, and Politeknik Lhokseumawe
- Joint analytical work by joint team of World Bank and Aceh universities, with USAID, supported by Provincial Government and BRR



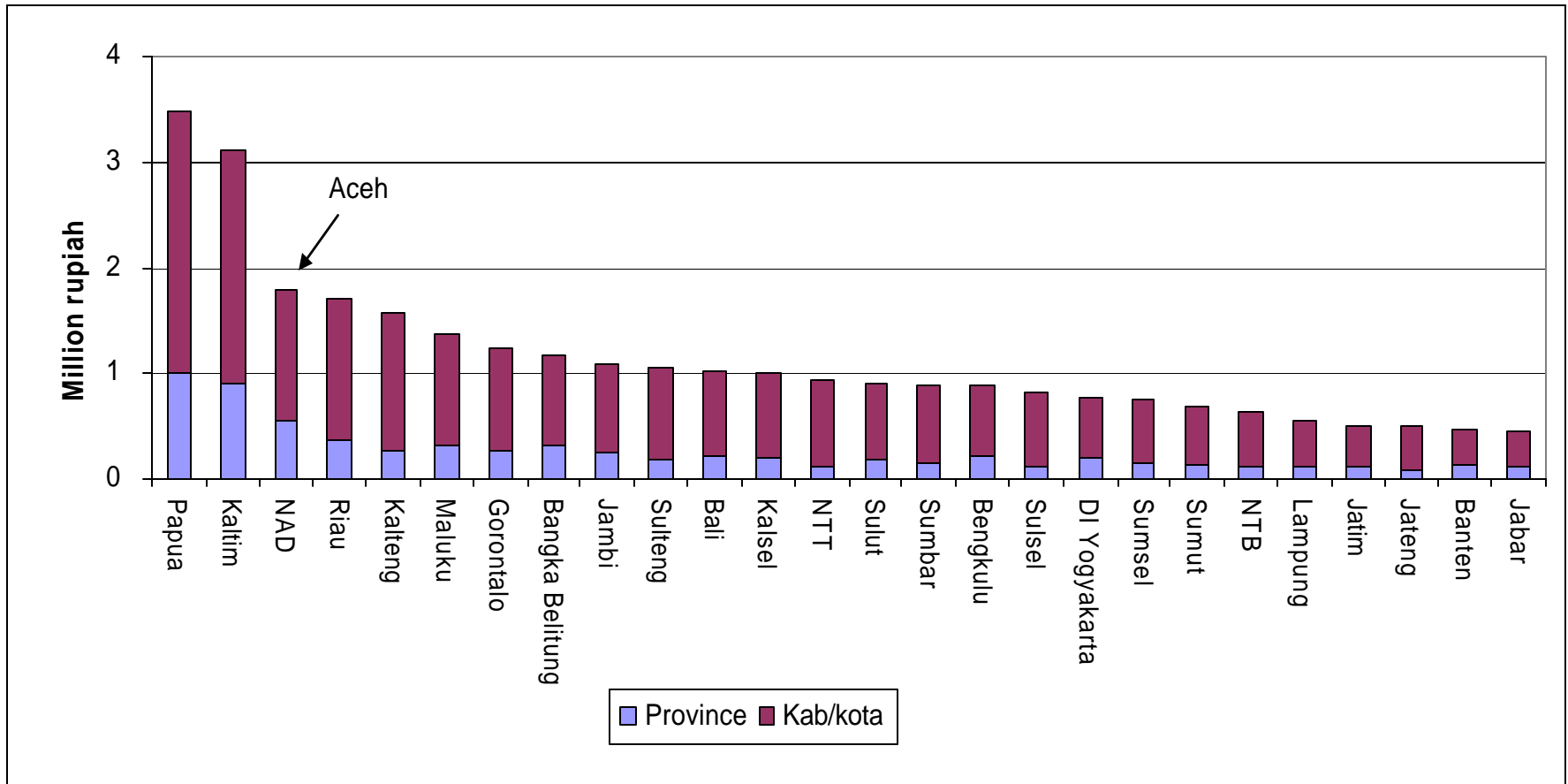
Key messages

- **Aceh has seen an extreme increase in its fiscal resources.** These resources can be used to boost economic development and improve the quality of public services.
- **Aceh's fiscal position will only get stronger.** Decreasing revenues from oil and gas will be more than compensated by new Dana Otsus (Law 11/2006).
- **Province and Local governments** have spent low shares of their budgets in core sectors (health, education and infrastructure); most of the spending was on routine and government apparatus.
- **Public service provisions still needs major improvements.** The quality of schooling is poor; the health sector has an insufficient number of staff.
- **Local government capacity in budget planning and implementation needs substantial upgrading.** Timely budget process, integration of development and strategic plans in budget process, filling regional and sectoral reconstruction gaps.



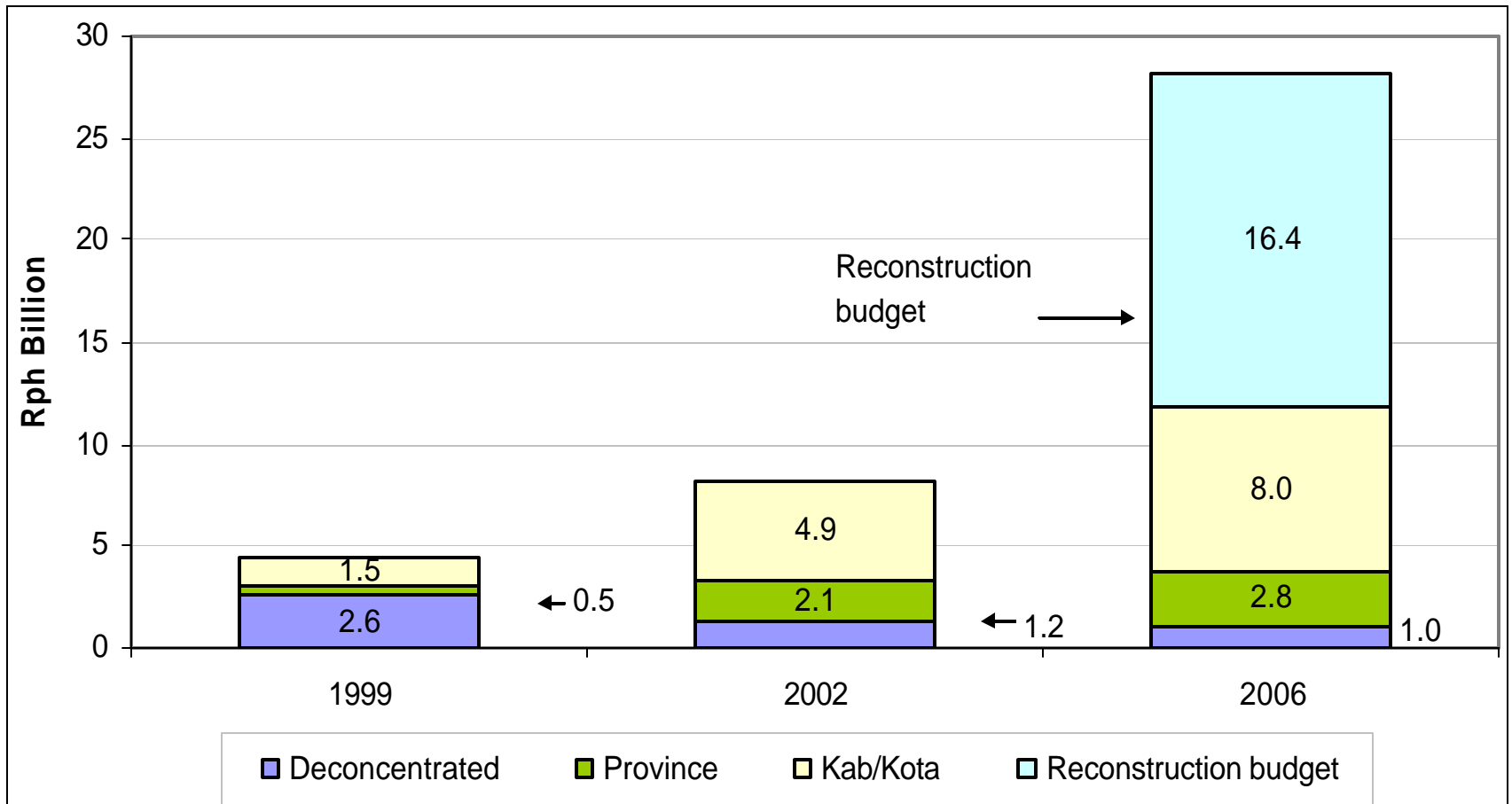
**ACEH WILL HAVE SUFFICIENT
RESOURCES TO SPEND**

Even before reconstruction funds started to flow, Aceh had the 3rd largest budget (Per capita regional revenue, 2004)

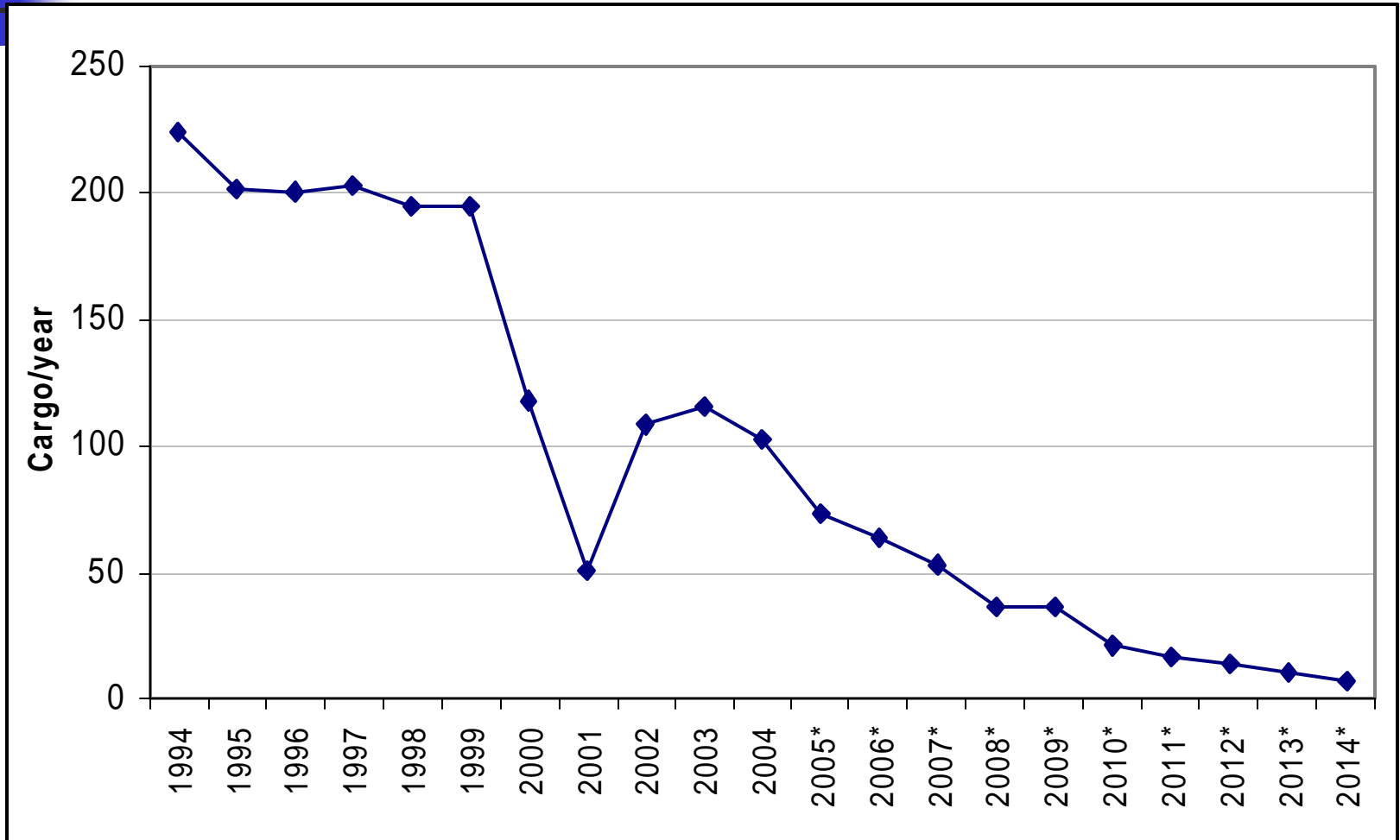


Source: WB/SIKD (MOF), 2004

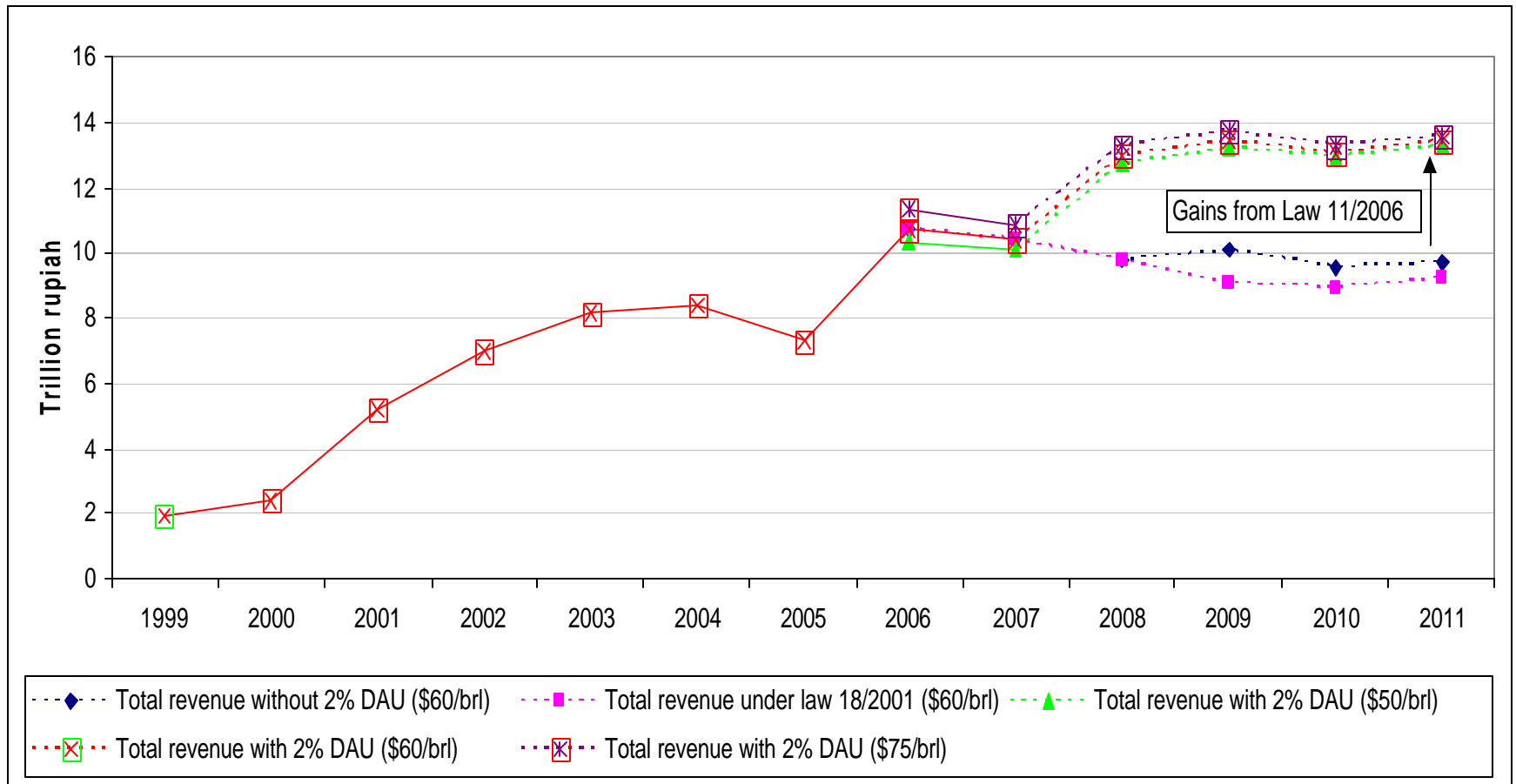
In 2006, Aceh has 6 times more resources than in 1999



Gas production and revenue will declining significantly...

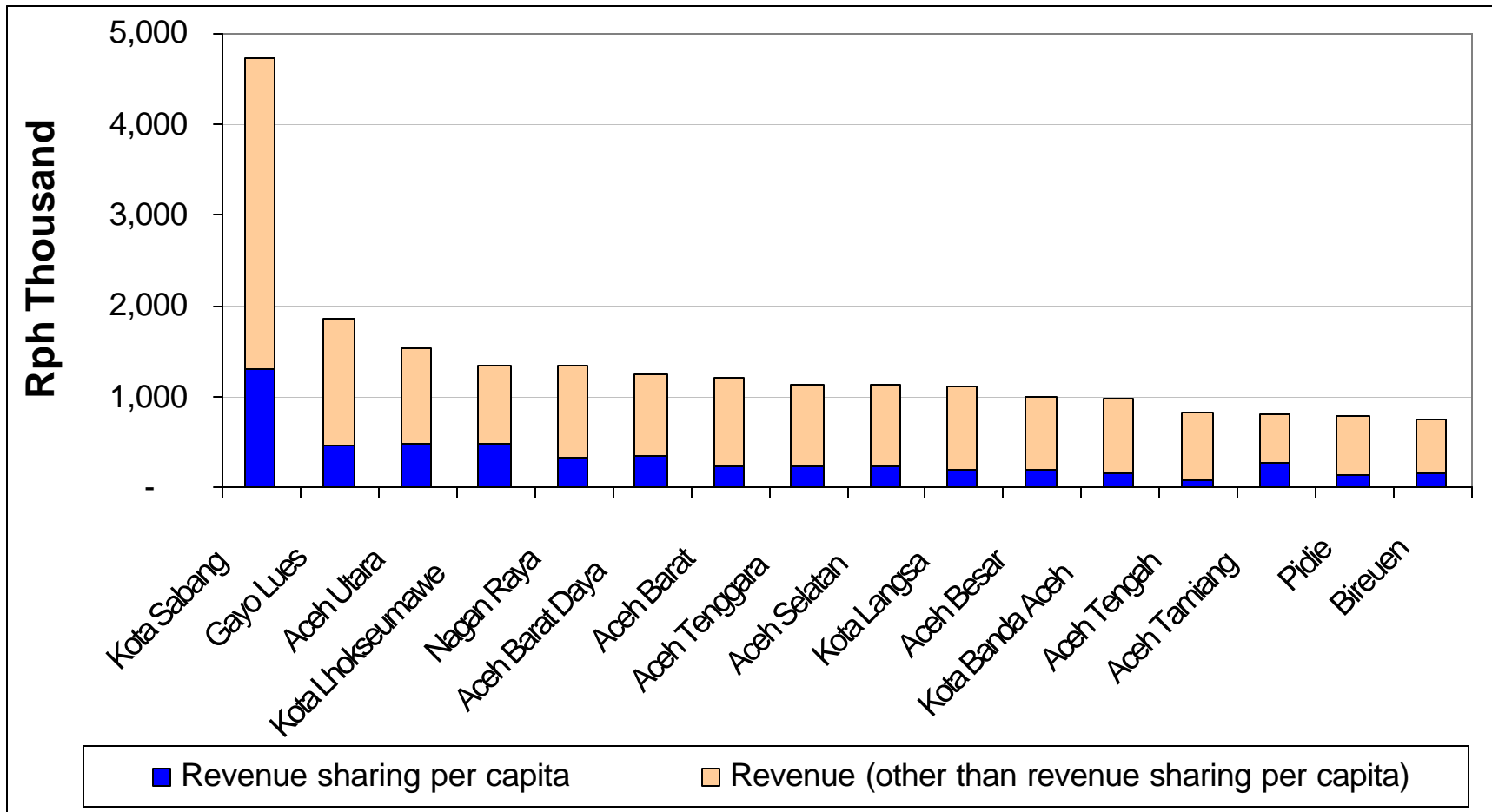


...but will be compensated by 2% of DAU allocation after implementation of Aceh's new law (Law 11/2006)

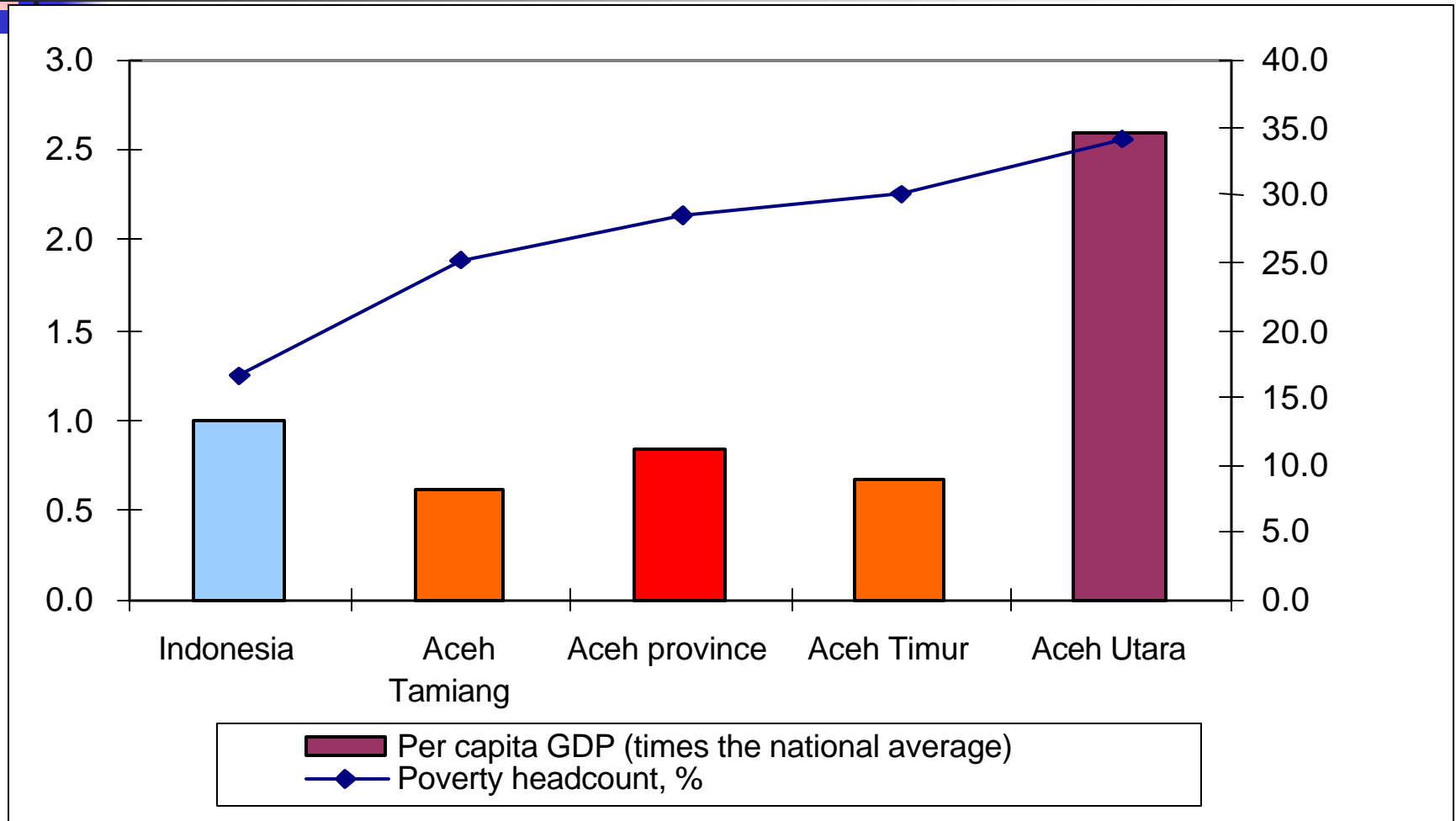


However, fiscal disparity among local governments remains

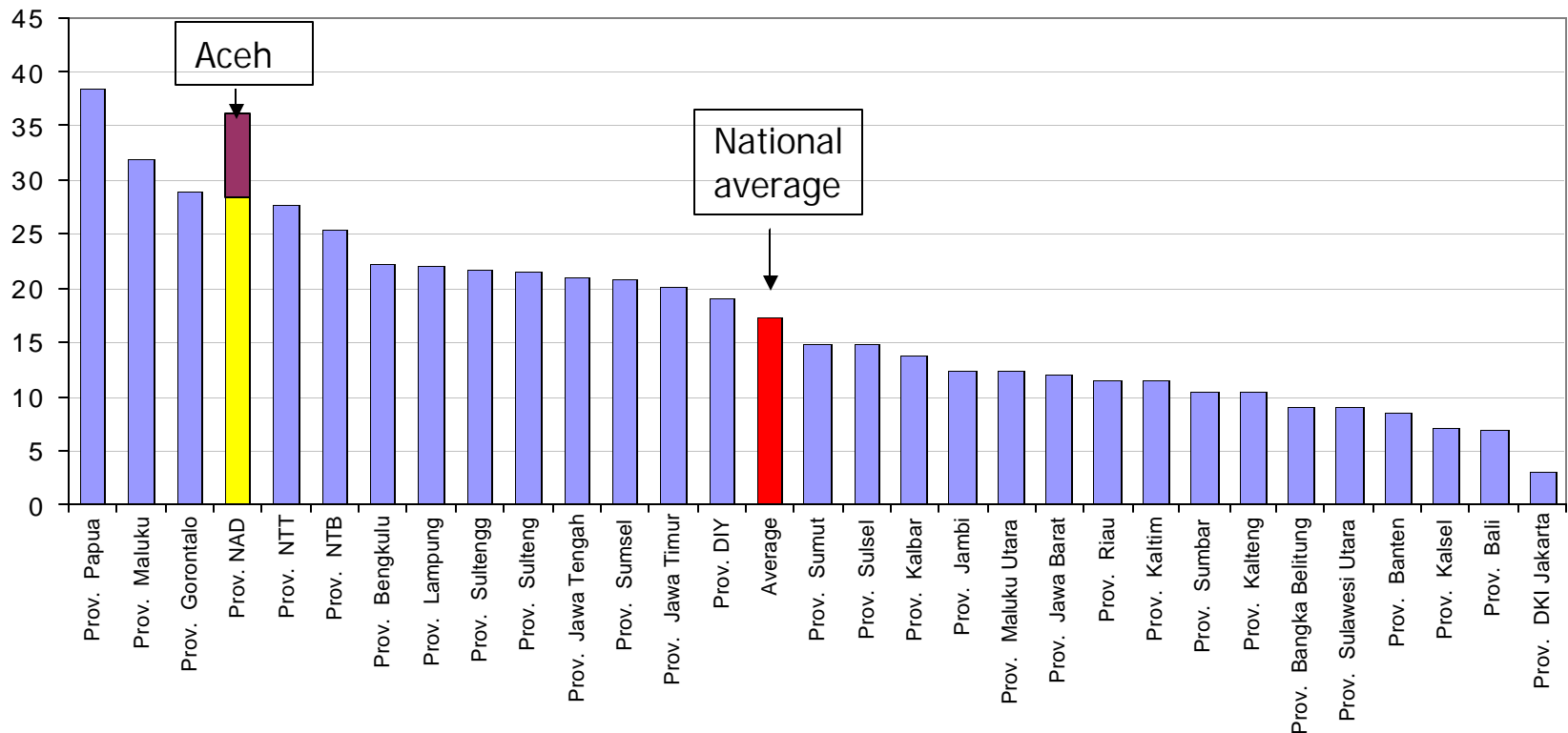
(revenue per capita, 2004)



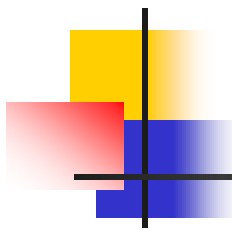
Oil and gas do not seem to have had a positive impact on poverty reduction



Aceh is the 4th poorest province in the country

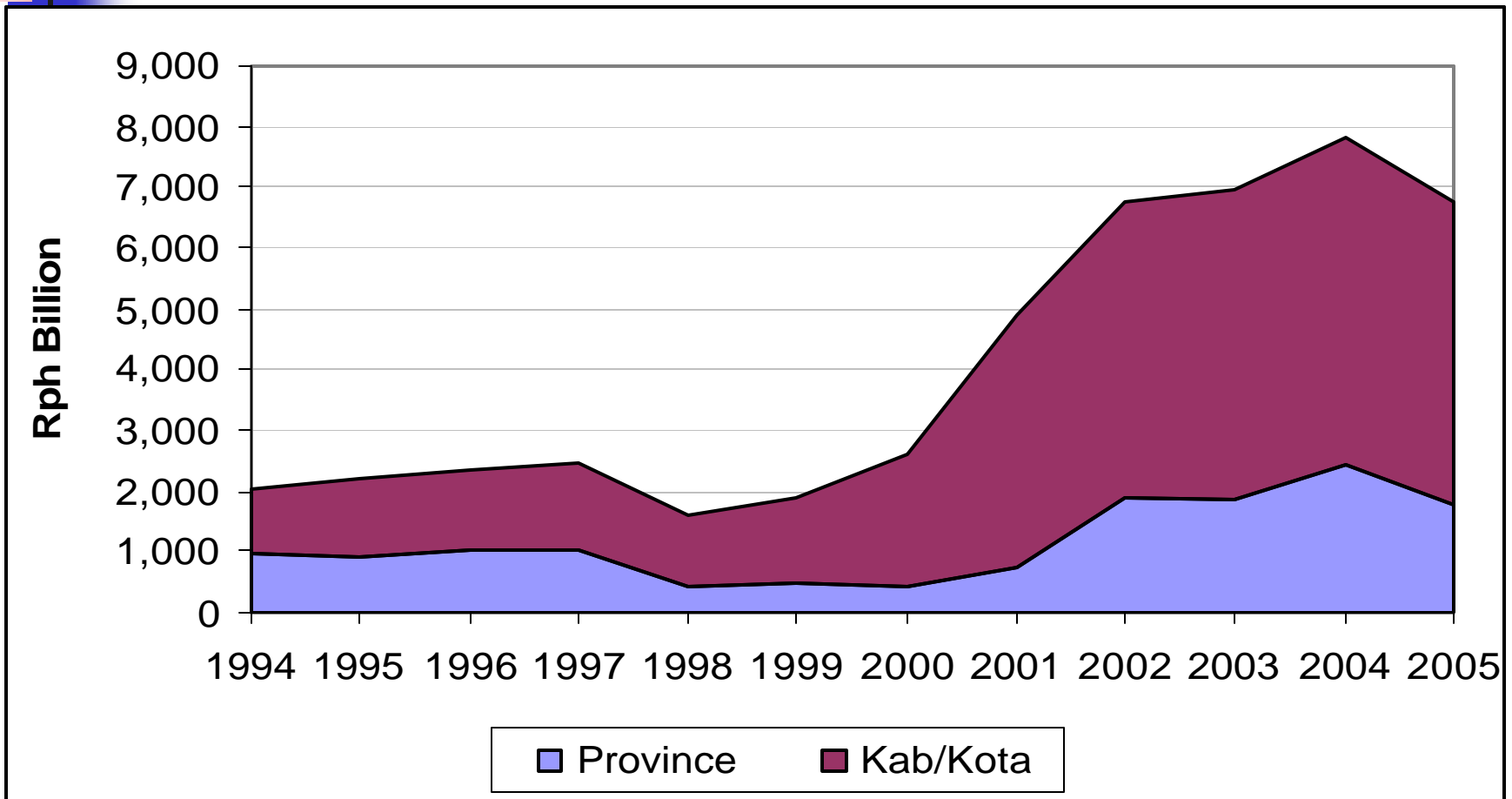


- Tsunami has potentially increased the poverty rate by 7 percent, making Aceh the 2nd poorest in the country



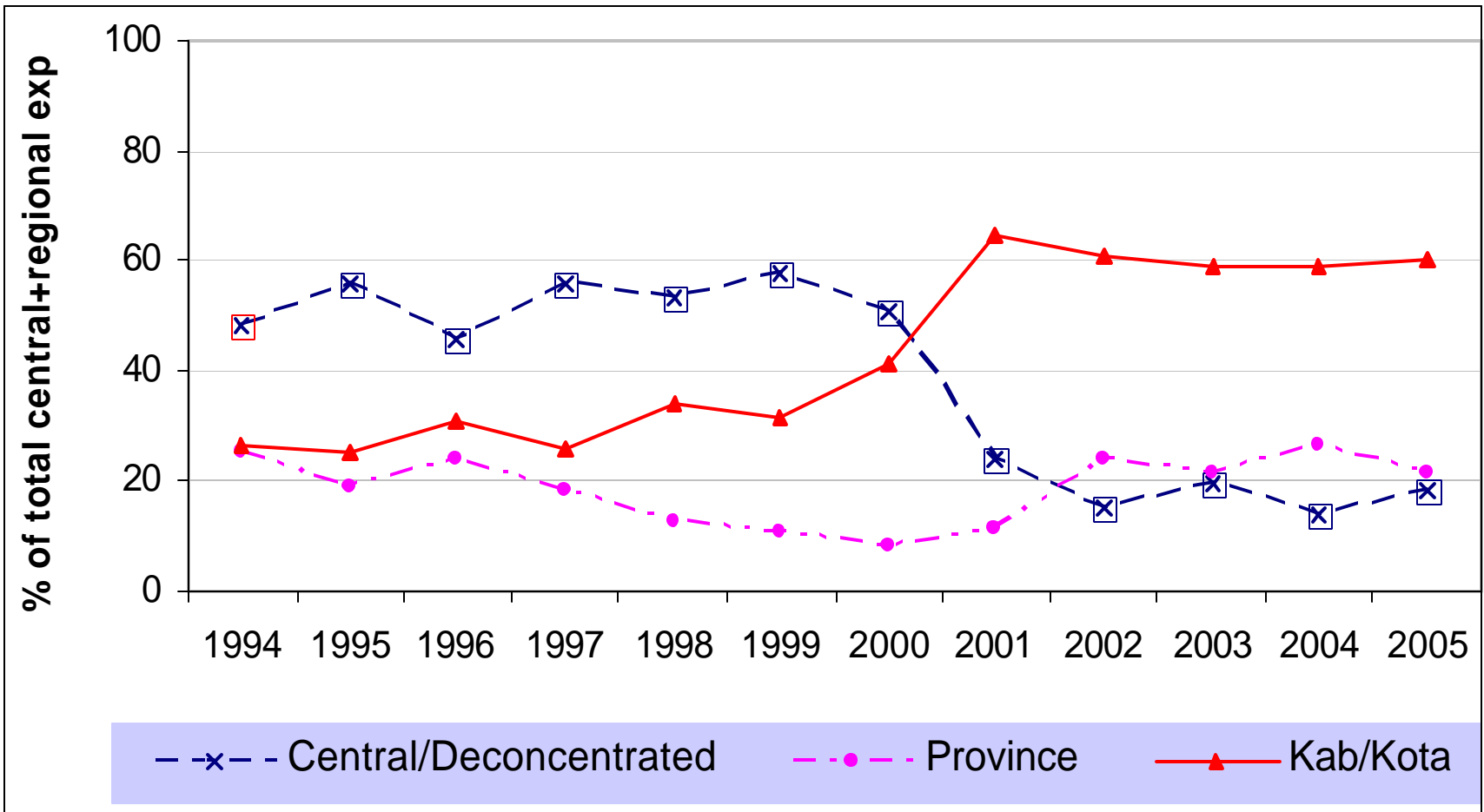
**THE KEY TO REDUCE POVERTY IS
MANAGING ACEH'S FISCAL
RESOURCES WELL**

Regional spending has tripled since decentralization



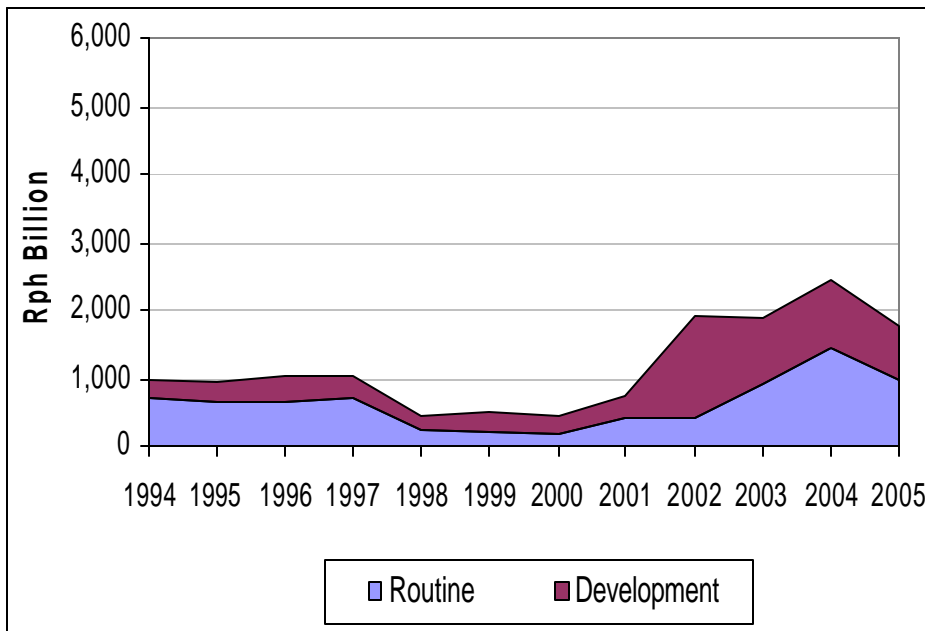
Source: SIKD/MOF & BPS-SK (constant 2005 prices)

Local governments are responsible for the majority of spending in the region after decentralization

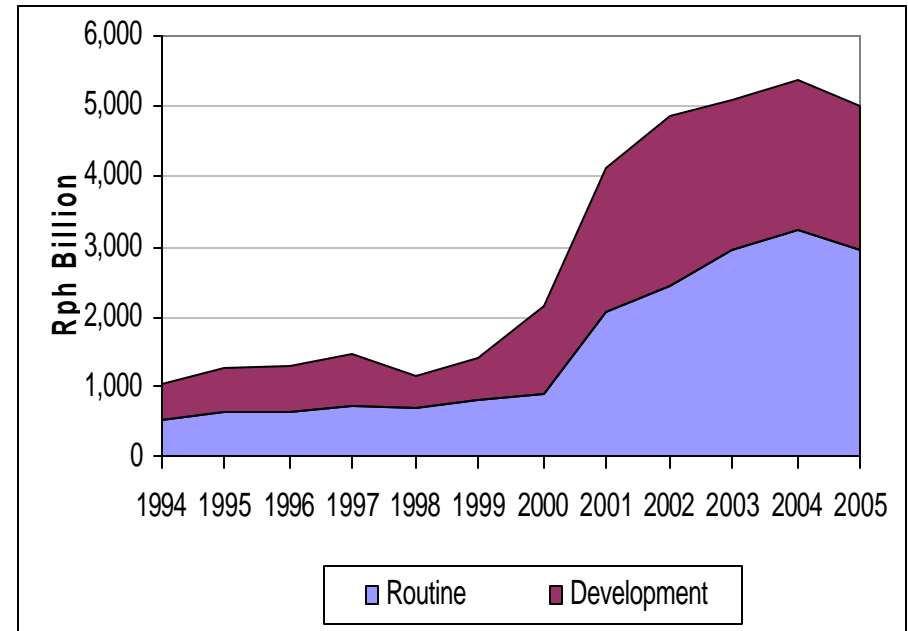


Routine expenditure has an increasing share in district and provincial spending

Province

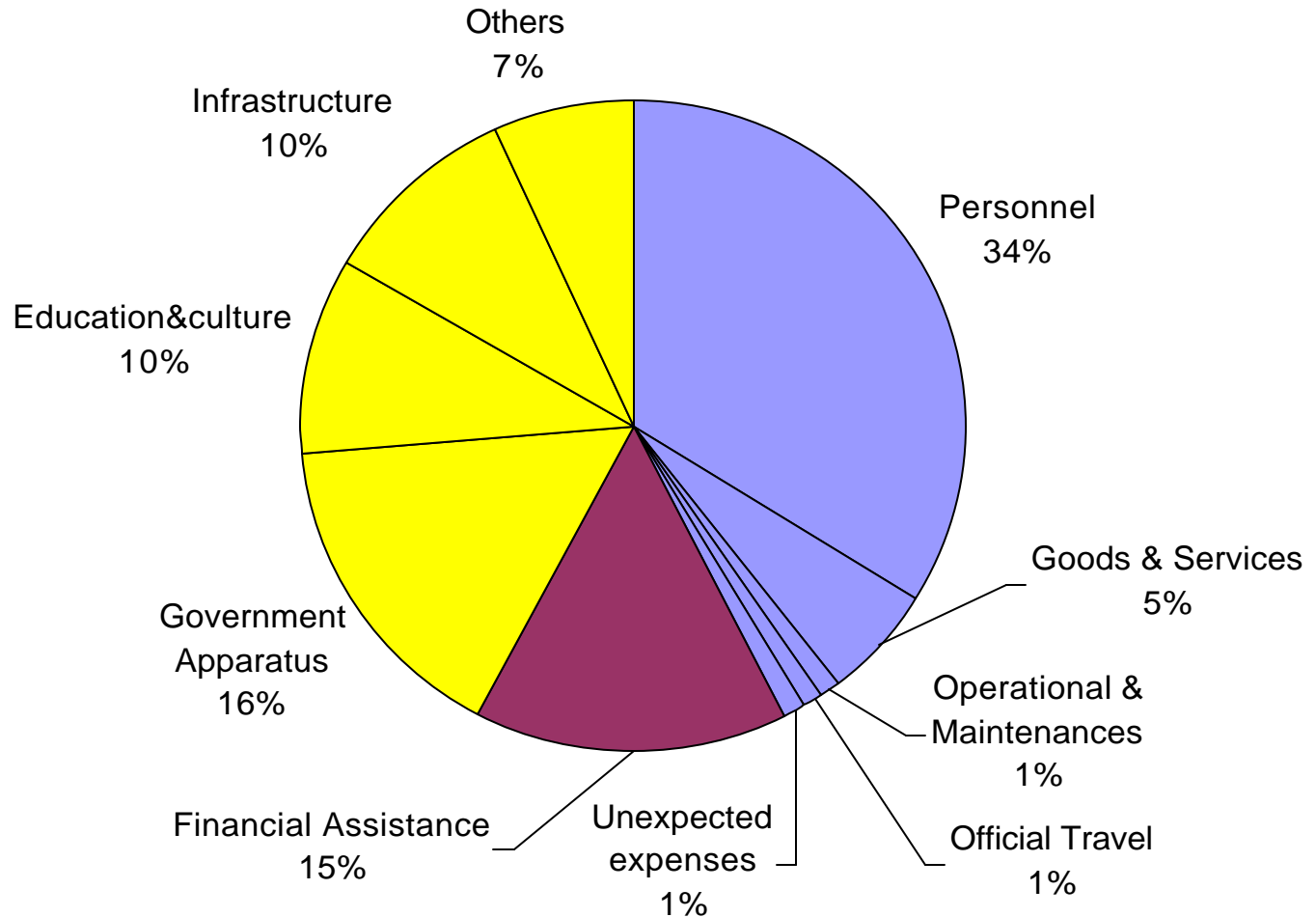


Kabupaten/Kota



Investment in key sectors is extremely low

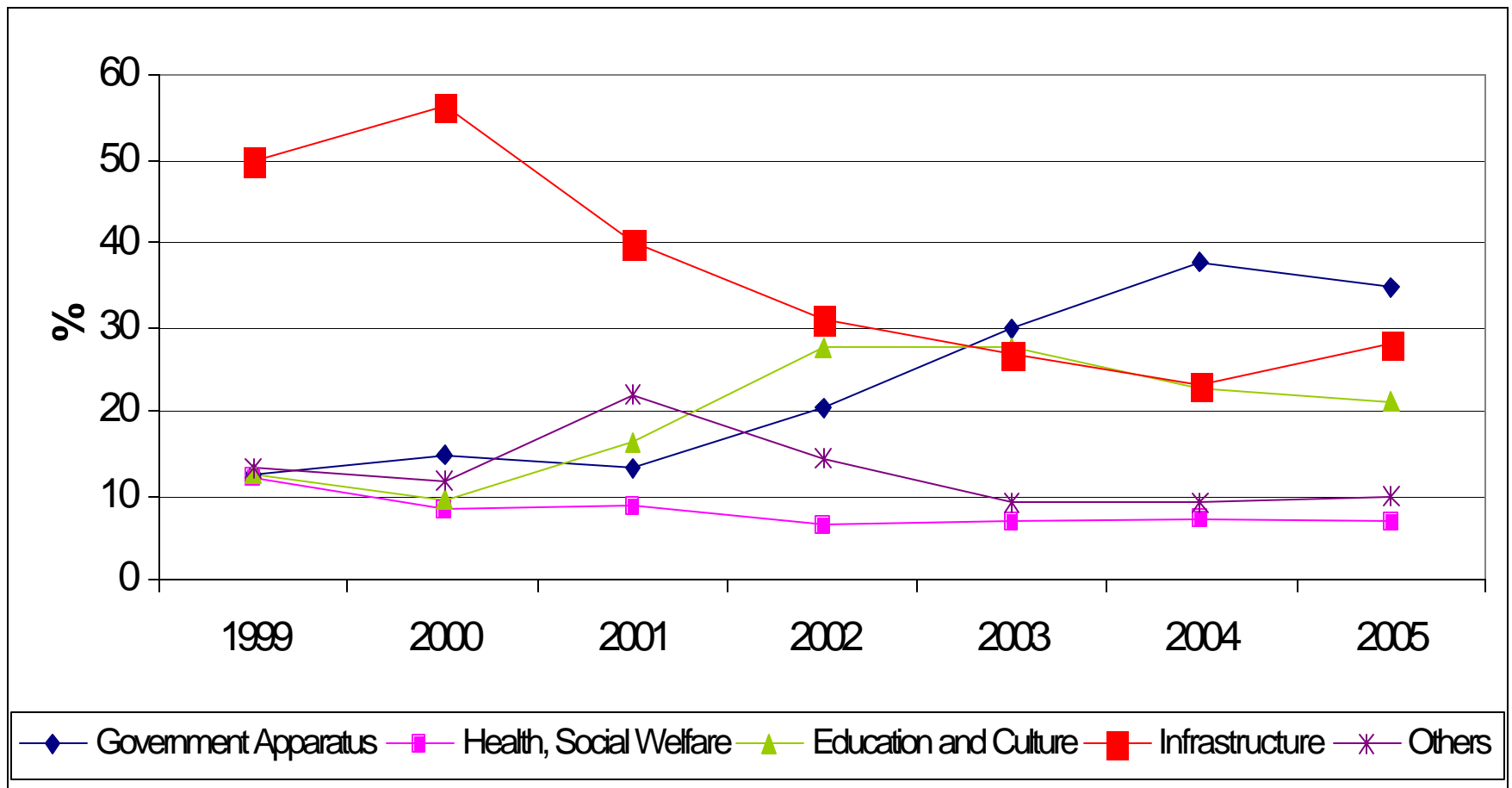
(Total regional expenditures, 2004)

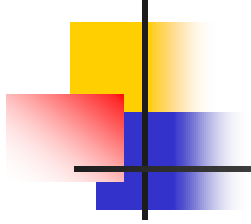


■ Routine ■ Financial Assistance ■ Development

Source: WB/SIKD(MOF), 2004

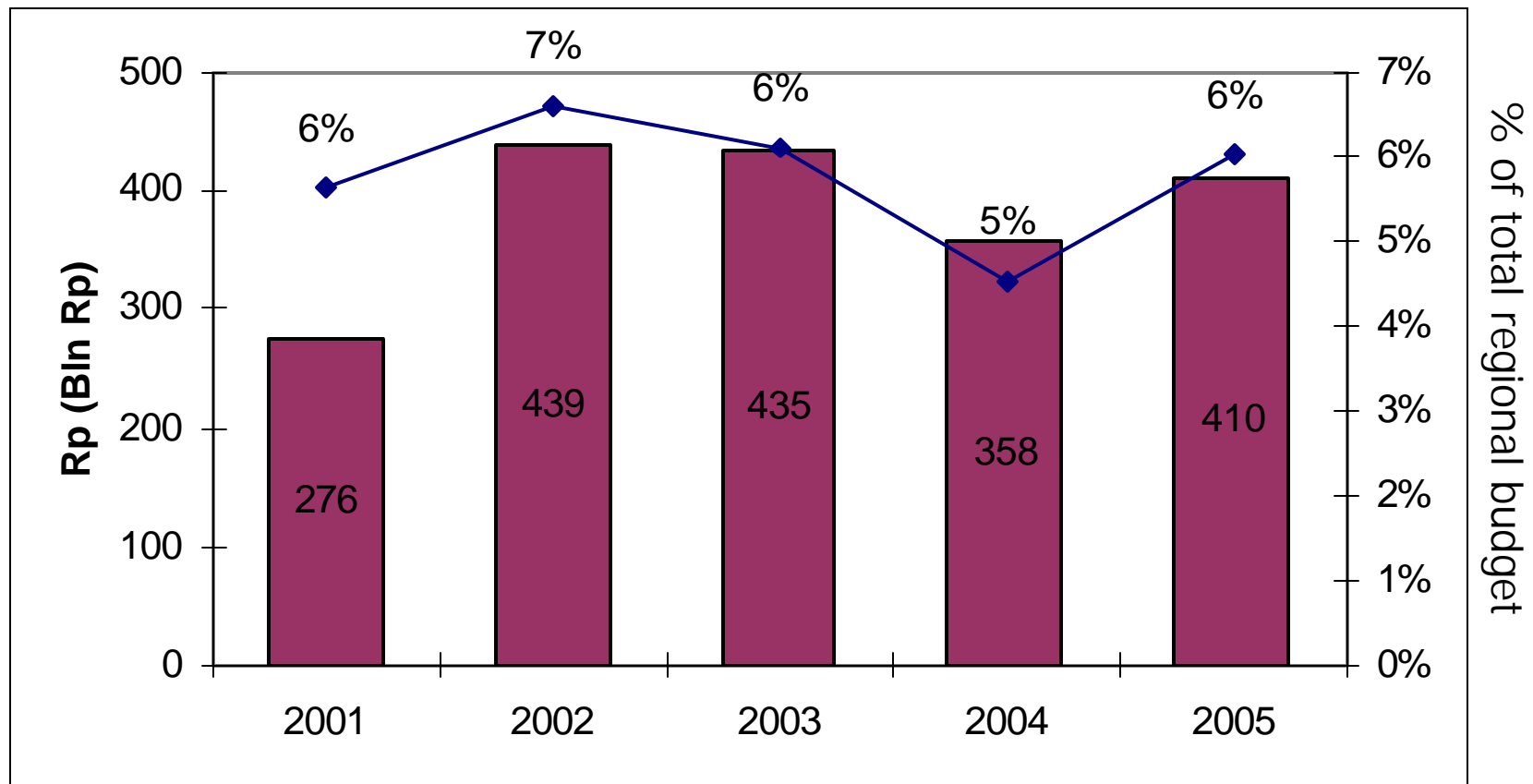
Development spending: government apparatus is getting priority – infrastructure is declining





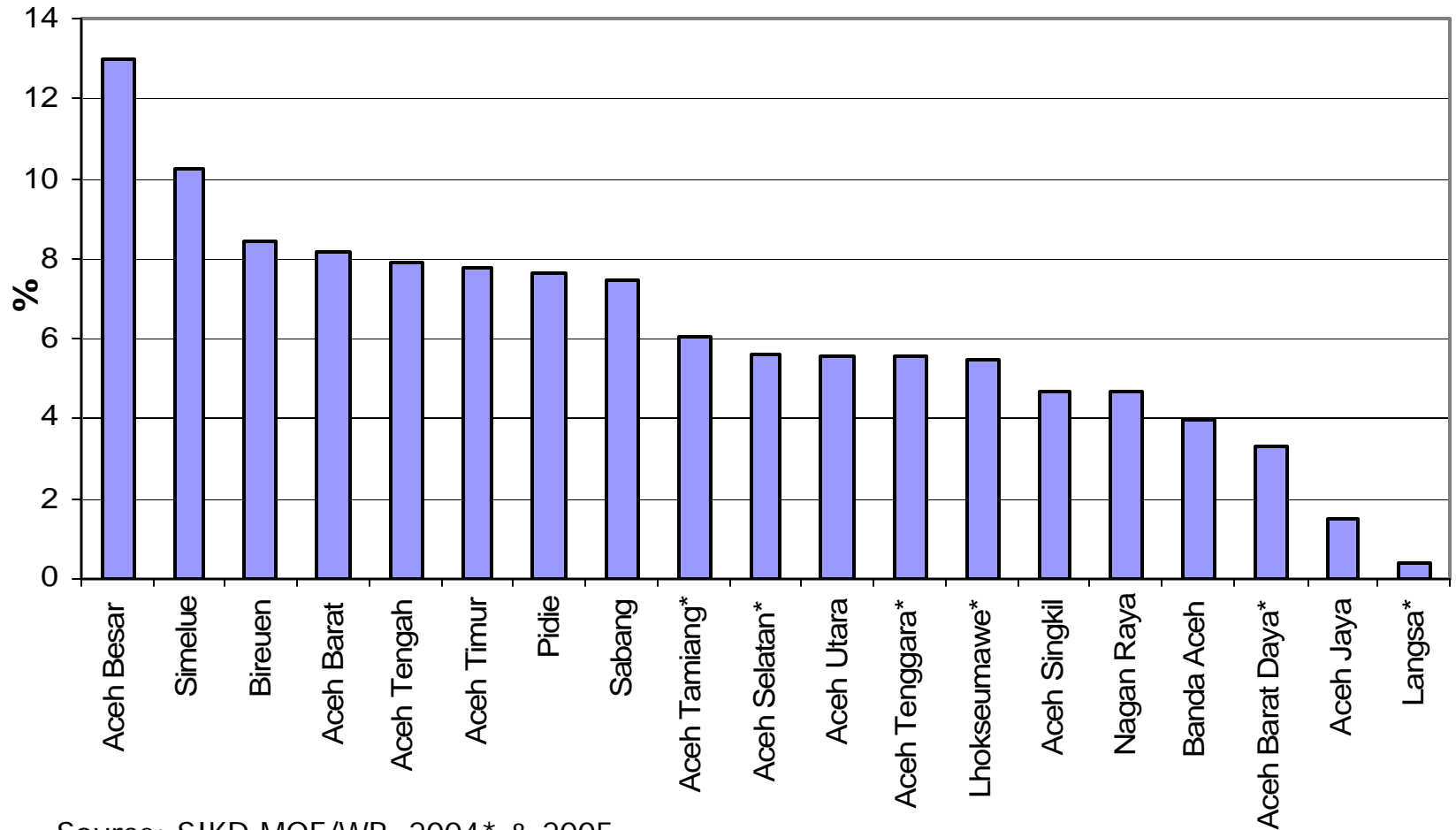
HEALTH SECTOR

Health spending has not increased after special autonomy



Some districts have extremely low budgets for health spending

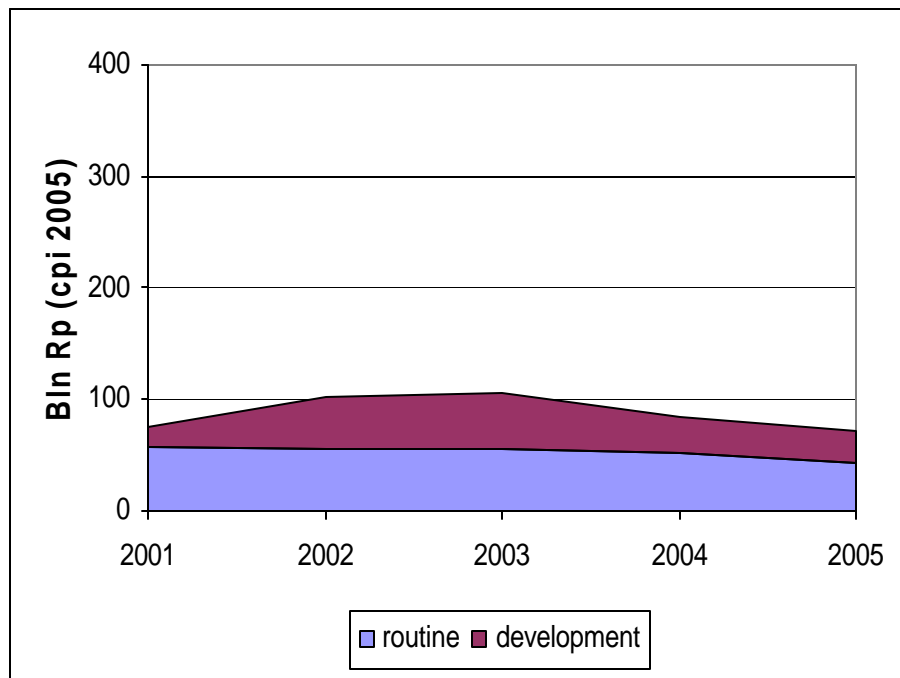
% of health spending in 2004 Kab/kota budget



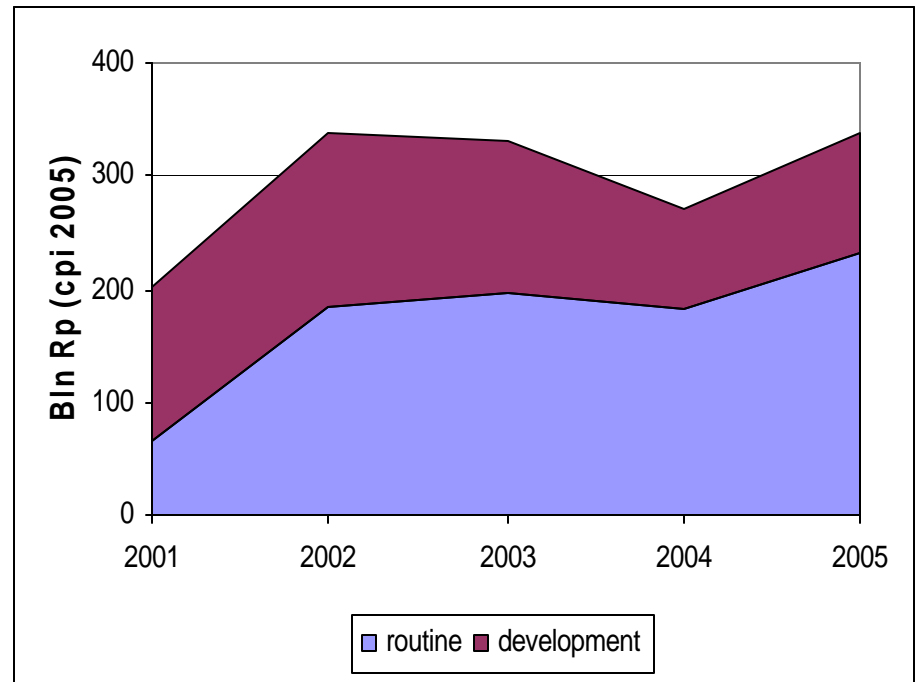
Source: SIKD MOF/WB, 2004* & 2005

Routine expenditure is dominant in the health sector

Province



Kabupaten/Kota





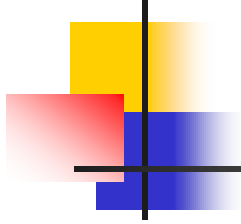
Resources are not optimally allocated, contributing to poor outcomes

- Aceh has higher population without access to on-site (within village) health facilities (38%) than national average (23%) (HDI-2002).
- Aceh has higher share of undernourished children (under age five) (35.2%) than national average (25.8%) (HDI-2002).
- But life expectancy is still better than national average: 67.7 years in Aceh vs 66.2 years average in Indonesia.



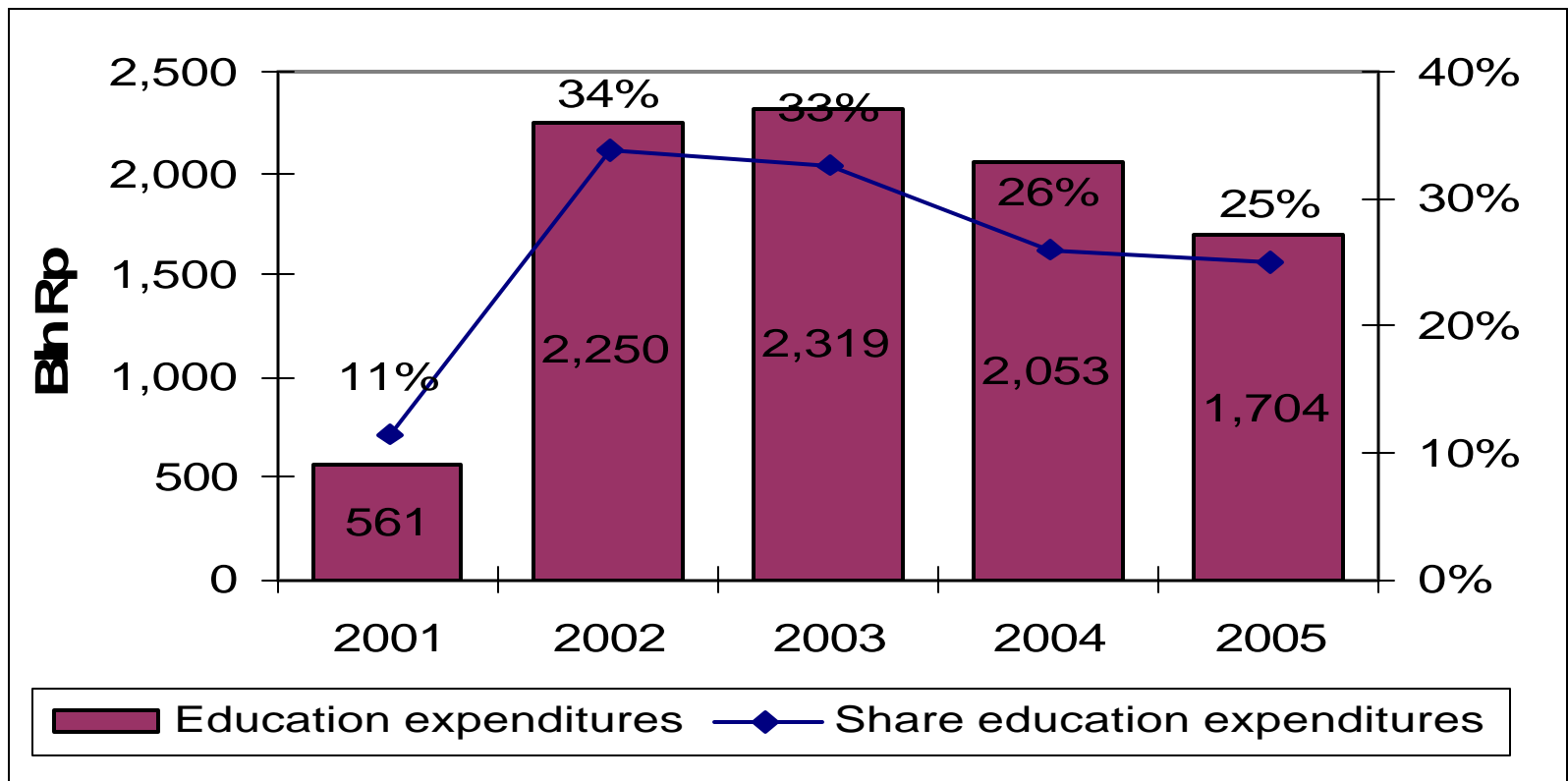
Key Issues in Health Sector

- **The conflict and tsunami worsened an already bad situation**
- **A large number of health facilities is not functioning** due to lack of maintenance and insufficient and absence of staff
- **There is an urgent need to improve health information systems**, so that the monitoring of health needs and coverage can be improved



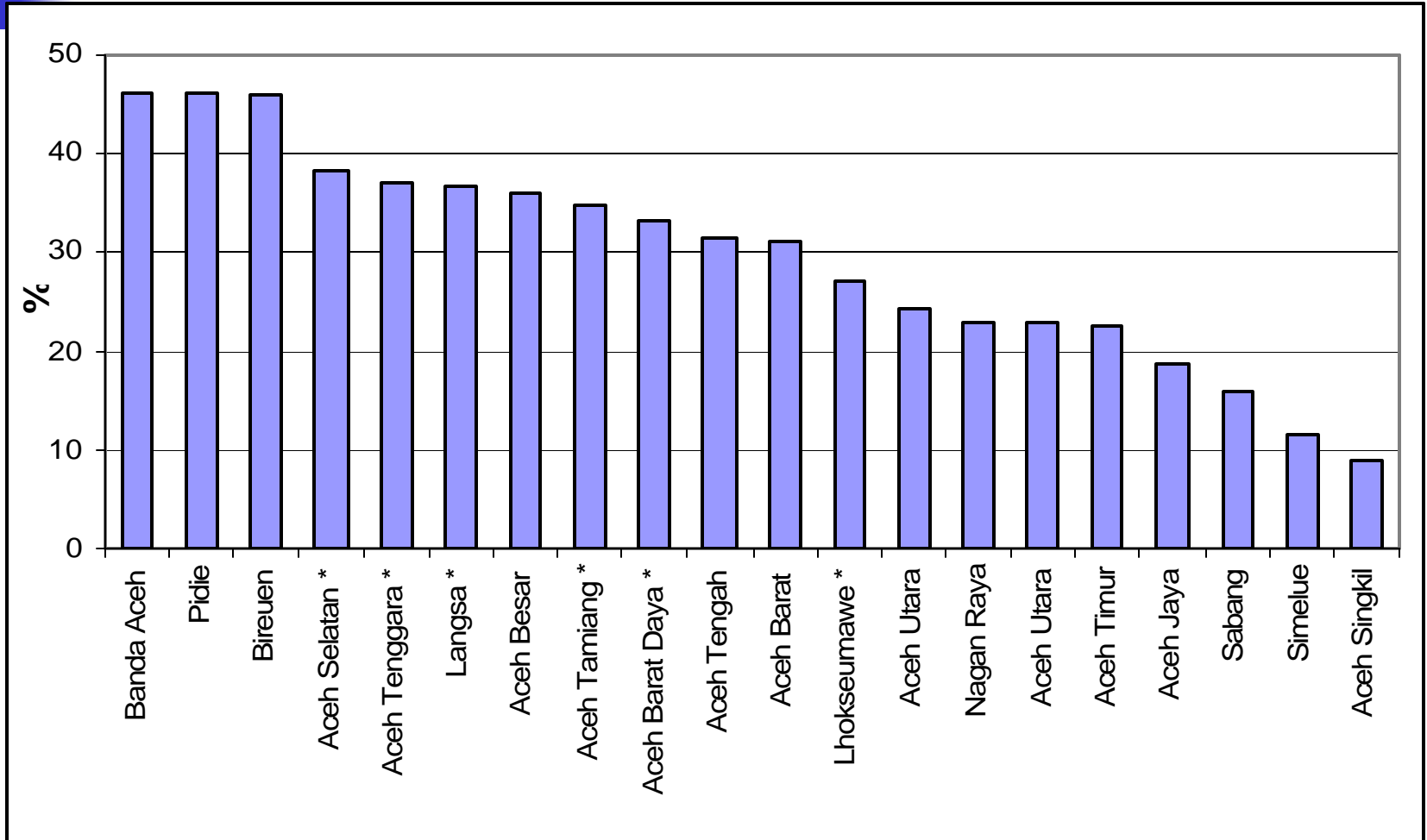
EDUCATION SECTOR

Regional expenditure on education increased after special autonomy, but has been decreasing since then.



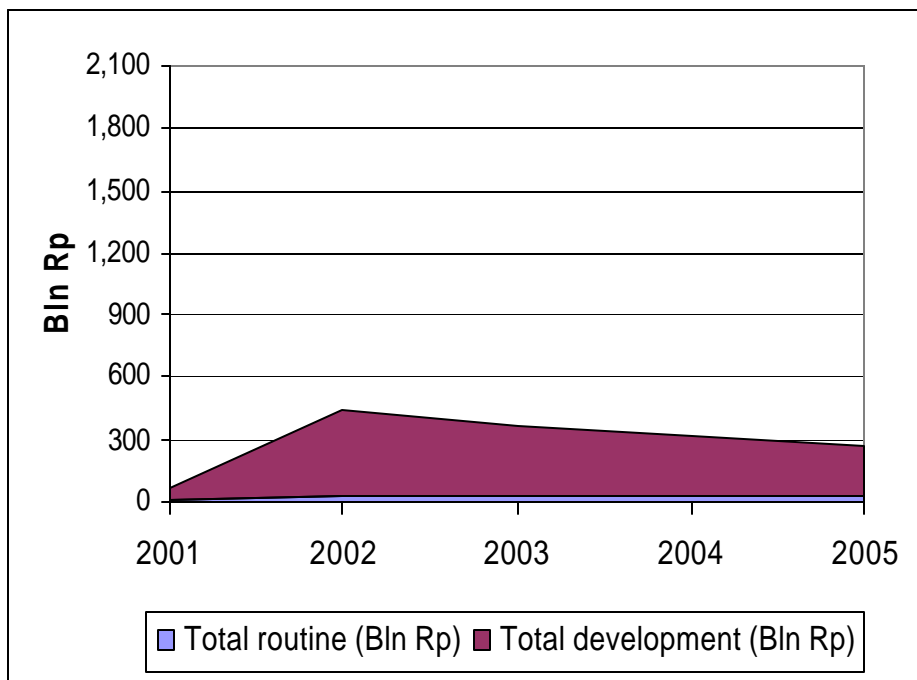
Some districts have very low education budgets

% of education spending in 2004 kab/kota budget

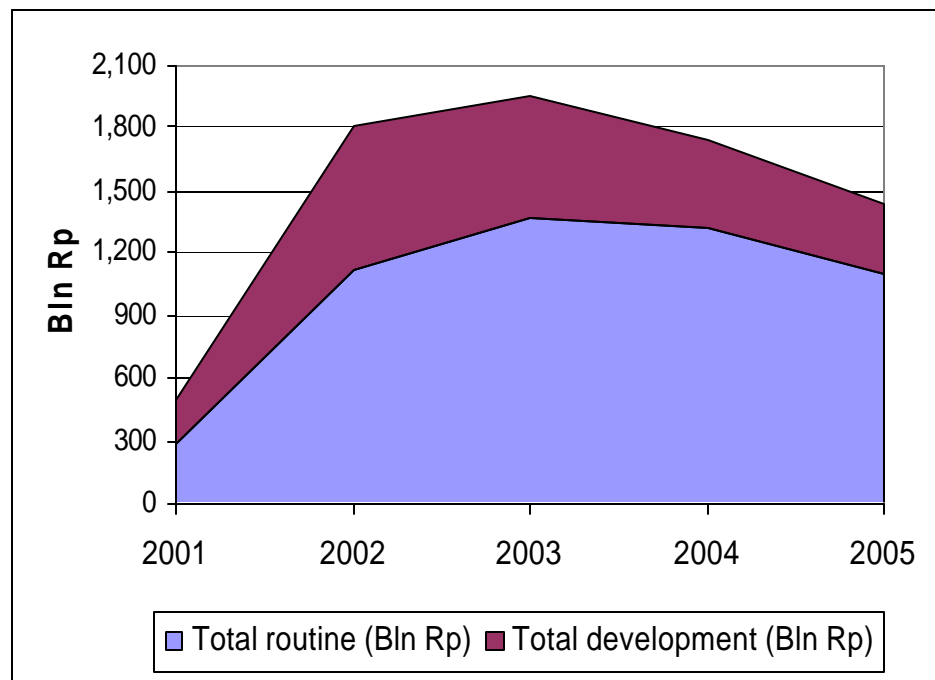


Routine education expenditure is taking an increasing share, leaving little room for development.

Province



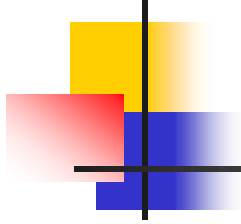
Kabupaten/Kota





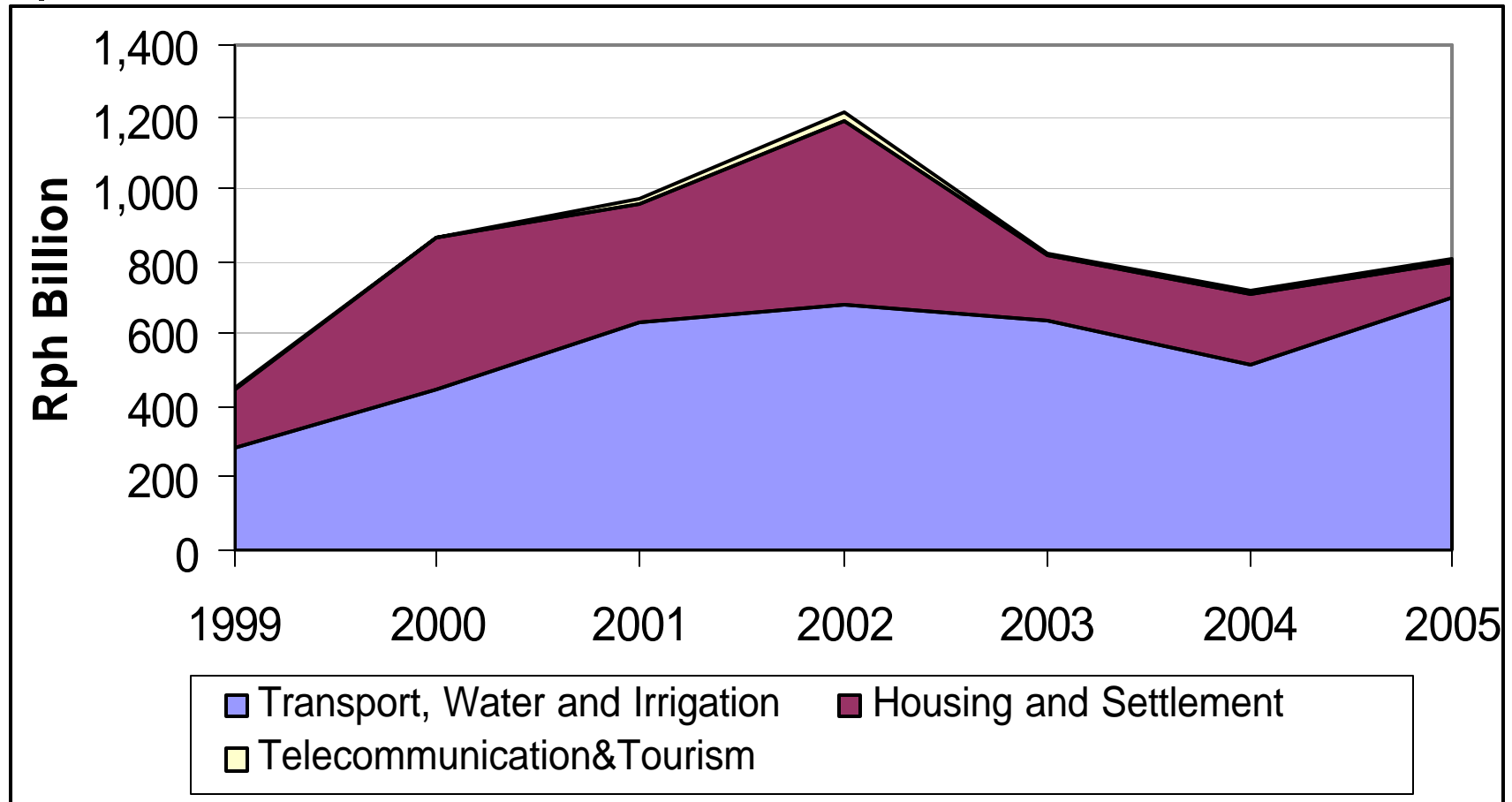
Key Issues in Education

- **Net and gross primary school enrollment rates of 4 districts fall below national average** (Aceh Barat Daya, Nagan Raya, Aceh Barat, and Aceh Jaya);
- **Higher trained teachers are selected for government apparatus position**, thus left less trained teacher to teach
- **The conflict and tsunami had a severe impact on education**; poor condition of school building (esp. primary school) further decreases the quality of education (only 44 percent of classroom is in good condition)
- **Distribution of an otherwise relatively sufficient number of teachers has been inefficient**; urban areas have more teachers than rural areas, there is no incentive structure to encourage teachers to move to rural/ isolated areas.

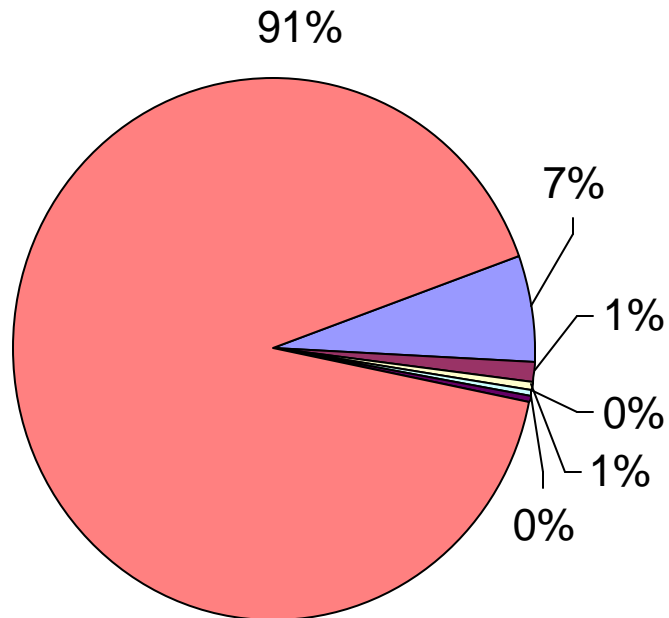


INFRASTRUCTURE SECTOR

Regional government spending on infrastructure increased substantially following decentralization and special autonomy, but has declined since 2003



Regional budget allocation on operational and maintenance for infrastructure is extremely low (average 2001-2004)



- | | |
|---------------------------|---------------|
| ■ Personnel | ■ Goods |
| ■ Operational&Maintenance | ■ Travel |
| ■ Others | ■ Development |



Infrastructure indicators

- About 23 percent of road network is qualified as being in poor condition.
- Aceh irrigated land as a percentage of arable land is lower (57%) than Indonesian average (71%).
- Percentage of households connected to piped water in Aceh is lower (9%) than the national average (17%).
- Percentage of households with access to electricity is higher (74%) than national average (57%).



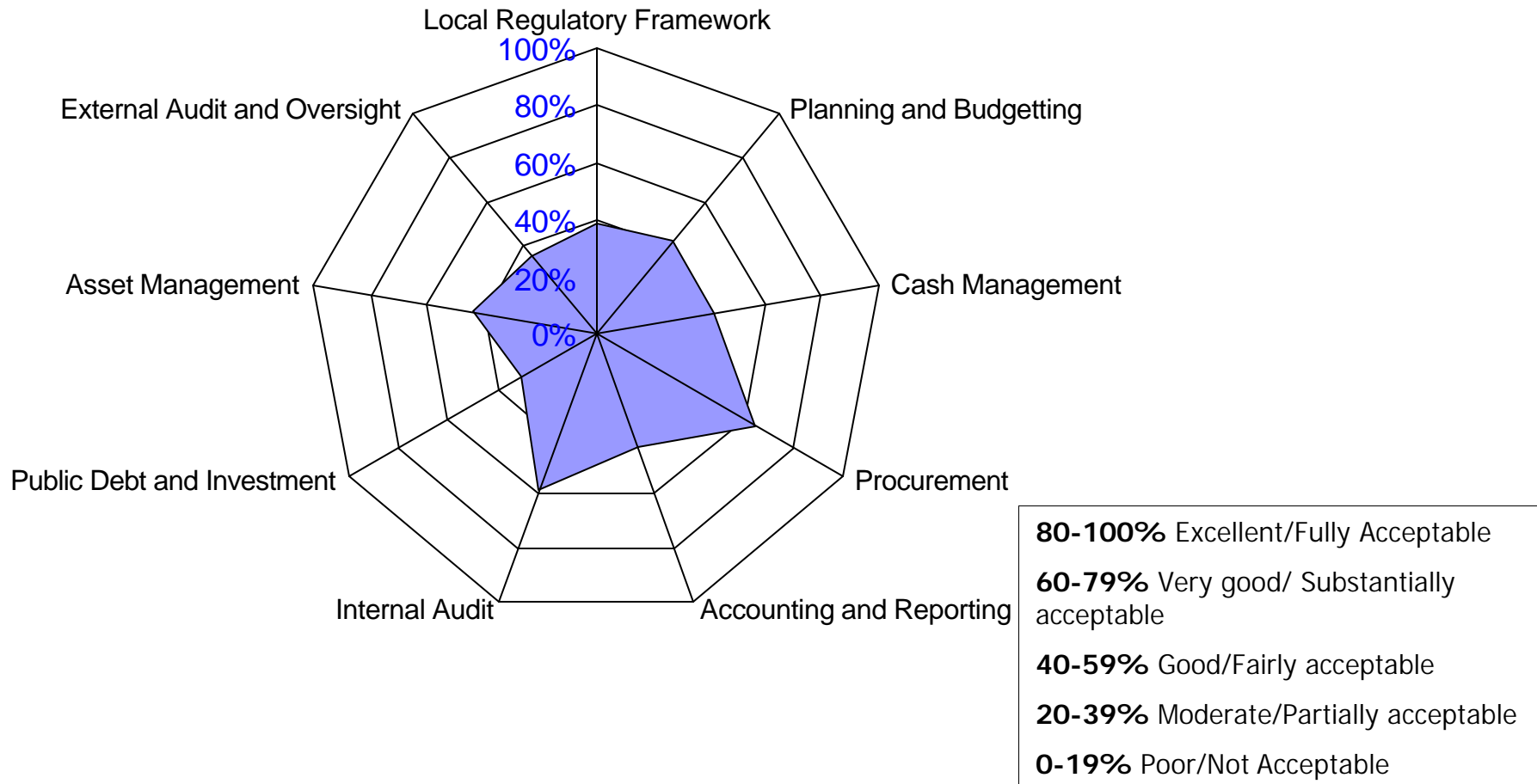
Key Issues

- Provincial and local government lack prioritization of infrastructure spending
- Capacity varies between local government units; lack of skills and technical expertise
- Monitoring and evaluation systems should be strengthened

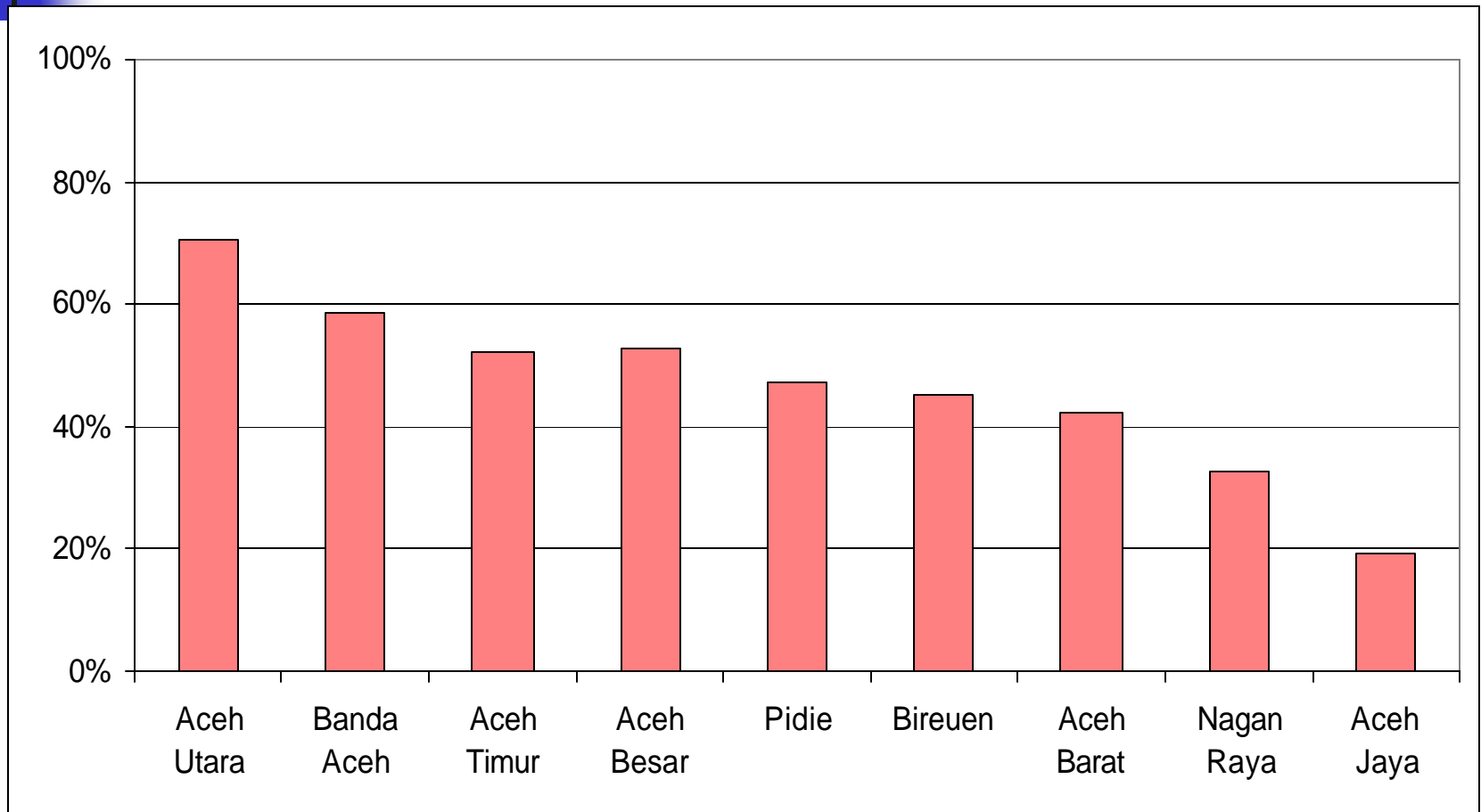


**LOCAL GOVERNMENT
LEADERSHIP WILL BE ESSENTIAL
IN IMPROVING PUBLIC SERVICE
DELIVERY**

The capacity of local governments to manage increasing fiscal flows remains weak (Average score of 9 kabupaten/kota)



The capacity of local governments to manage increasing fiscal flows remains weak (average score of 9 PFM Framework Modules)





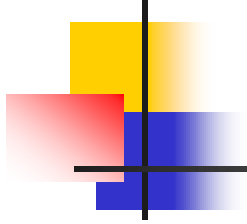
Key Issues

- Allocation of budget on capacity building is very low; a large share of the budget goes to buildings and equipment.
- Proliferation of districts is costly; newly created district there are high setting-up costs for new districts, diverting investment from public services.
- The capacity of local government in public financial management is low, on average LGs scored partially acceptable.



RECOMMENDATIONS

- Better allocation of resources; spending on the government apparatus needs to be kept on a leash and increase spending on development
- The issue of weak local government capacity to manage public funds needs to be urgently adressed
- Improve data analysis and information system for better policy making, planning and budget allocation
- Develop a better coordination between province, local government, BRR, and BRA in managing reconstruction, reintegration, and long-term development.



THANK YOU