

Managing Resources to Build Back and Create a Better Future for Nias



Nias Public Expenditure Analysis 2007



Badan Rehabilitasi & Rekonstruksi

NPEA



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Managing Resources to Build Back and Create a Better Future for Nias

Nias Public Expenditure Analysis 2007

Foreword

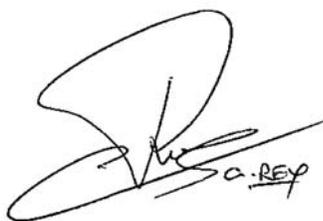
Already one of the poorest regions in Indonesia, the island of Nias was badly affected by the twin disasters of the 26 December 2004 tsunami and a devastating earthquake that struck three months later, on 28 March 2005. Almost 1,000 lives were lost in the two disasters and buildings and infrastructure were destroyed in coastal areas and across the island. The Government of Indonesia and the international community responded generously following the earthquake, with nearly US\$500 million being allocated for reconstruction by December 2006 — slightly higher than the estimated value of the damage and losses caused by the two disasters.

Now, more than two years after the disasters, and despite the significant progress that has undoubtedly been made, some troubling trends are starting to emerge, of which this report takes stock. In particular, funds are not being disbursed at the desired pace as the reconstruction effort faces enormous implementation challenges. Although there seem to be sufficient funds for the reconstruction of the island, there are still worrying geographical and sectoral gaps in the reconstruction process, creating unnecessary imbalances. Also, despite the involvement of the two district governments in the reconstruction process, their budget allocations for operations and maintenance are very small. This jeopardizes the longer-term sustainability of the reconstruction work that is being undertaken.

The two district governments should be playing a key role in the current reconstruction effort and, more importantly, in the future development of the island. In view of this, this report also analyzes the district governments' use of public finances since 2001, when decentralization was implemented in Indonesia. The island of Nias, as with the rest of Indonesia, experienced an increase in district government revenues and responsibilities after 2001. However, both districts in the island — Nias and Nias Selatan — have not benefited as much from decentralization as other poor regions, particularly until 2005. As a result, overall spending on social and infrastructure services is lower than in most other parts of Sumatra and Indonesia, despite a record 50 percent spending on education. The Nias Public Expenditure Analysis offers recommendations on how to increase the amount of public resources going to the island, as well as how to improve the effectiveness of public spending — critical in the face of low per capita revenues and the developmental needs of the island.

This report is the result of close collaboration between the World Bank, the Demographic Institute at the Faculty of Economics, University of Indonesia, and the BRR-Nias office, as well as the two district governments on the island of Nias.

The allocation of significant resources for reconstruction, as well as the decentralization process, entails both opportunities and challenges for the development of Nias. We hope that this report assists in making use of those opportunities and overcoming the challenges by informing the planning and budgeting process of the two district governments in Nias, and analyzing constraints in public financial management in both districts, as well as identifying key gaps in the reconstruction process.



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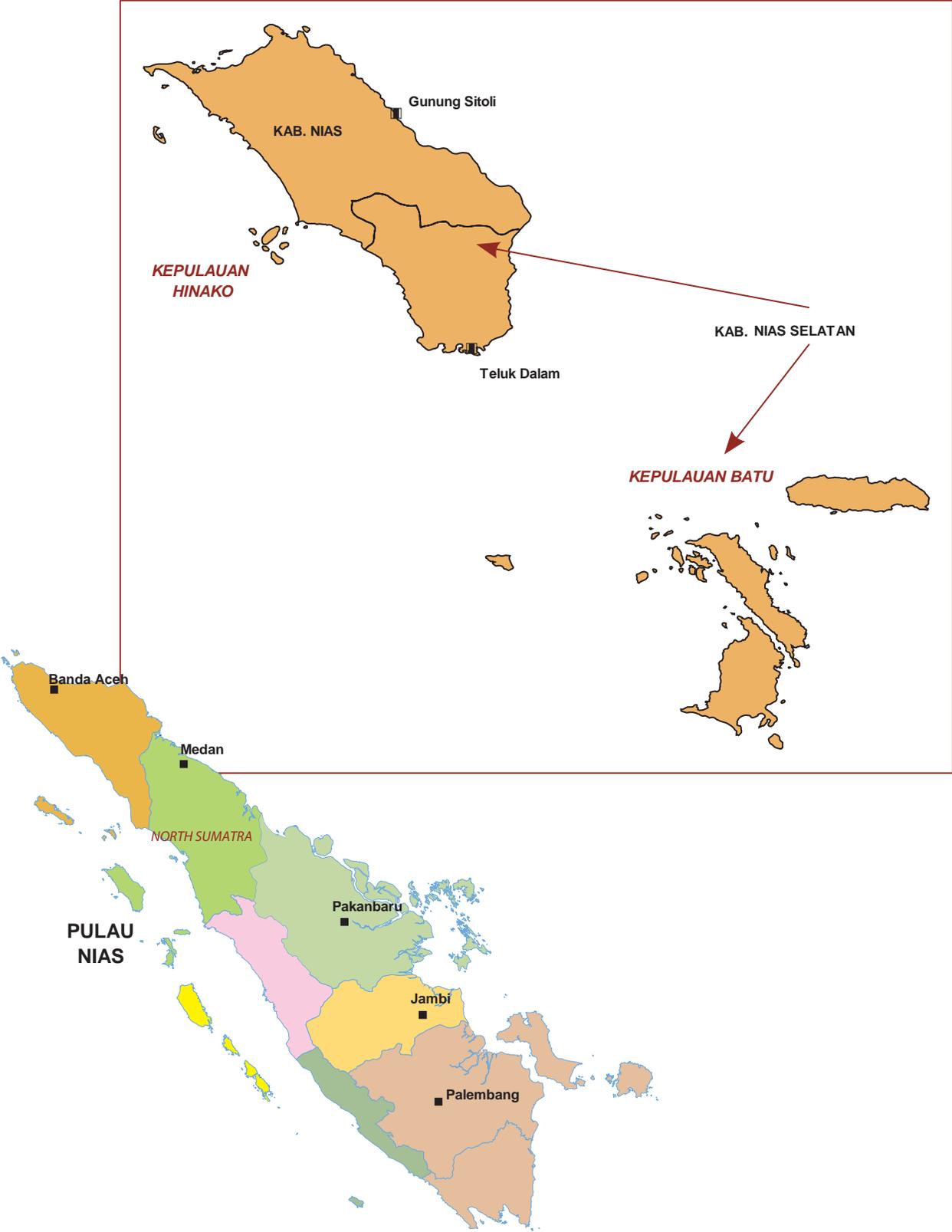
Enrique Blanco Armas and Wolfgang Fengler coordinated and oversaw the overall process. Arnold Lopulalan provided outreach and facilitation to the two district governments and donors in Nias. The team received guidance throughout the process from Victor Bottini (Resident Representative of the World Bank in Aceh) and Joel Hellman (Chief Governance Advisor and Aceh Coordinator, World Bank).

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Thanks go the British, Dutch and Singaporean government, who provided substantial financial support.

Map of Nias



Glossary of Terms

APBD	Regional Government Budget (Anggaran Pendapatan dan Belanja Daerah)
APBN	State Budget (Anggaran Pendapatan dan Belanja Negara)
Bappeda	Regional Development Planning Agency (Badan Perencanaan Pembangunan Daerah)
Bappenas	National Development Planning Agency (Badan Perencanaan Pembangunan Nasional)
BCG	Bacillus of Calmette and Guerin
BKD	Regional Civil Service Board (Badan Kepegawaian Daerah)
BPHTB	Land and building transfer fee (Bea Perolehan Hak atas Tanah dan Bangunan)
BPS	Central Bureau of Statistics (Badan Pusat Statistik)
BPS-SK	Financial statistics from Central Bureau of Statistics (Statistik Keuangan Badan Pusat Statistik)
BRR	Rehabilitation and Reconstruction Agency (Badan Rehabilitasi dan Rekonstruksi)
<i>Bupati</i>	District Head
DAK	Special Allocation Fund (Dana Alokasi Khusus)
D&L	Damage and Loss
DAU	General Allocation Fund (Dana Alokasi Umum)
Decon	Deconcentration Funds
<i>Desa</i>	Village
<i>Dinas</i>	Local Technical Agency Office
DPRD	Provincial House of Representatives (regional parliament) (Dewan Perwakilan Rakyat Daerah)
DPT	Combined vaccination against diphtheria, pertussis, whooping cough and tetanus
FGD	Focus Group Discussions
GDP	Gross Domestic Product
GER	Gross Enrollment Rate
Gol	Government of Indonesia
GRDP	Gross Regional Domestic Product
HDI	Human Development Index
IDP	Internally Displaced Person
IOM	International Organization for Migration
<i>Kabupaten</i>	District (regency)
<i>Kecamatan</i>	Subdistrict
<i>Kelurahan</i>	Urban village
Kepmen	Ministerial Decree (Keputusan Menteri)
Keppres	Presidential Decision (Keputusan Presiden)
Km	Kilometer
<i>Kota</i>	City (urban district)
LG	Local Government
MDF	Multi-Donor Fund
MDG	Millennium Development Goal
MoF	Ministry of Finance
MoHA	Ministry of Home Affairs
MoNE	Ministry of National Education
NGO	Non-Governmental Organization
O&M	Operations and Maintenance
PAD	Own-Source Revenue (Pendapatan Asli Daerah)
PBB	Land and Building Tax (Pajak Bumi dan Bangunan)
PDAM	Local Water Supply Utility (Perusahaan Daerah Air Minum)
Perpu	Regulation in Lieu of Law (Peraturan Pemerintah Pengganti Undang-Undang)
Perda	Regional Regulation (Peraturan Daerah)
PFM	Public Financial Management
PLN	National Electricity Company (Perusahaan Listrik Negara)
Podes	BPS Village Potential Survey (Potensi Desa)
Polindes	Village Maternity Center (Pos Persalinan Desa)
Puskesmas	Community Health Center at Subdistrict Level (Pusat Kesehatan Masyarakat)

Posyandu	Integrated Health Service Unit (Pusat Pelayanan Terpadu)
Pustu	Subcommunity Health Center (Puskesmas Pembantu)
RGDP	Regional GDP
SD	Primary School (Sekolah Dasar)
SDO	Subsidy for Autonomous Region (Subsidi untuk Daerah Otonom)
SIKD	Regional Finance Information System (Sistem Informasi Keuangan Daerah)
SME	Small/Medium Enterprise
SMP	Junior High School (Sekolah Menengah Pertama)
STR	Student Teacher Ratio
Sumut	Province of North Sumatra (Sumatra Utara)
Susenas	BPS National Socio-Economic Survey (Survei Sosial Ekonomi Nasional)
UNDP	United Nations Development Program
Unicef	United Nations Children's Fund
Unesco	United Nations Educational, Scientific and Cultural Organization
WB	World Bank
WHO	World Health Organization

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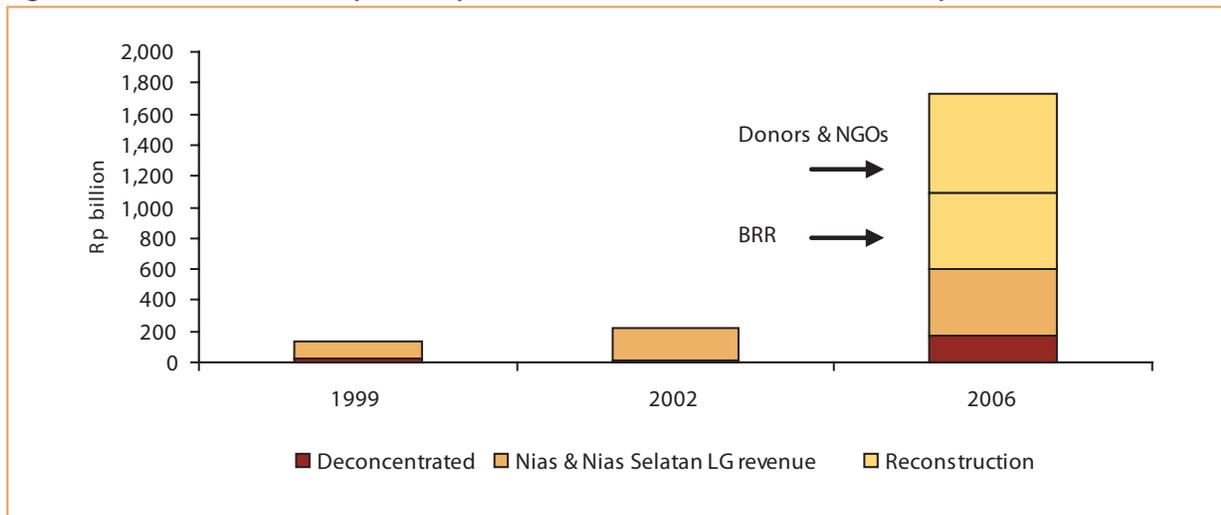
EXECUTIVE SUMMARY

Nias Public Expenditure Analysis 2007

Fiscal Conditions on the Island of Nias

Already a very poor region before the disaster hit, the 28 March 2005 earthquake devastated the island of Nias. The March earthquake — coming less than three months after the December 2004 tsunami that also affected Nias — killed almost 1,000 people and left about 10 percent of the population homeless. Infrastructure and public buildings suffered widespread damage and destruction, with the total repair bill estimated at US\$392 million, an amount larger than the total GDP of the entire island. Not surprisingly, the island's under-developed economy was severely disrupted by the double disasters, contracting by 3.4 percent in 2005. As in Aceh, in the wake of the disasters Nias received an unprecedented amount of financial resources from the Government of Indonesia, donors and NGOs to finance the reconstruction of the island. The reconstruction budget for 2006 is estimated at about Rp 1.1 trillion, four times the size of the normal district government budget (Figure 1).

Figure 1 Nias island's revenue pre- and post-decentralization, and after the earthquake

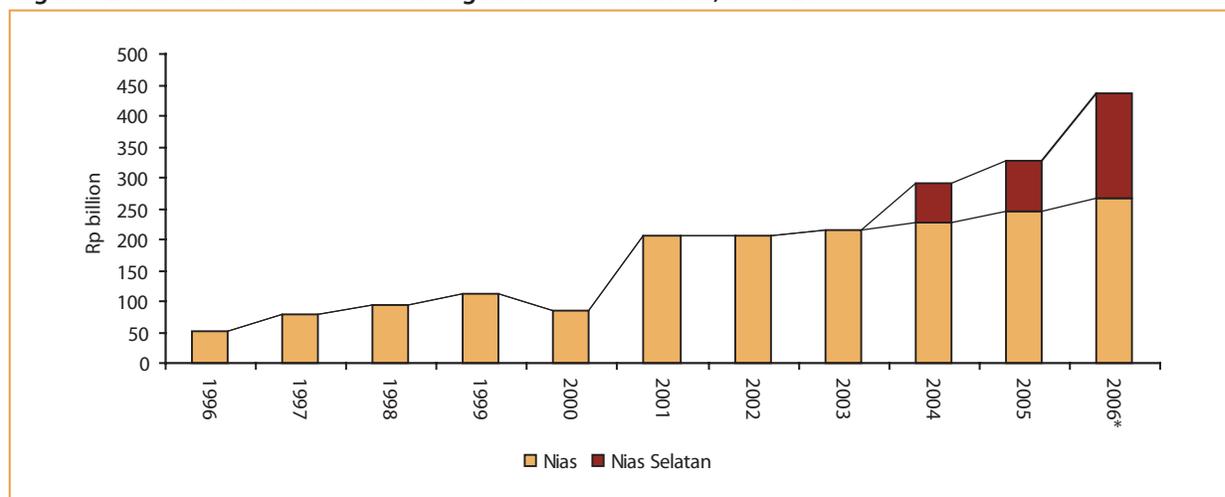


Source: World Bank staff estimates based on data from APBD, SIKD/MoF, BPS-SK, and BRR. Data are in real terms (constant 2000 prices).

The remoteness of Nias island is the main reason for the slow progress of reconstruction. Building materials needed for the post-earthquake reconstruction are very difficult to obtain in sufficient quantities and at affordable prices. Irregular shipping schedules have exacerbated the scarcity of supply. Sporadic fuel supplies at inflated prices, coupled with greater distances to markets, have also slowed the reconstruction effort. Although reconstruction progress picked up by end of 2006, only 35 percent of allocated funds had been spent by December 2006, and many needs have still not been met. Of particular concern is the lack of progress in Nias Selatan district, both in terms of the allocation of resources and the slow progress of existing projects. A proportion of the remaining funds should be used to address this regional imbalance.

In addition to the resources received for reconstruction, district government revenues in Nias have also increased significantly following decentralization. The combined district government revenues for both districts that form the island, Nias district and Nias Selatan district, increased almost fourfold, from Rp 111 billion in 1999 to Rp 435 billion in 2006 (Figure 2).

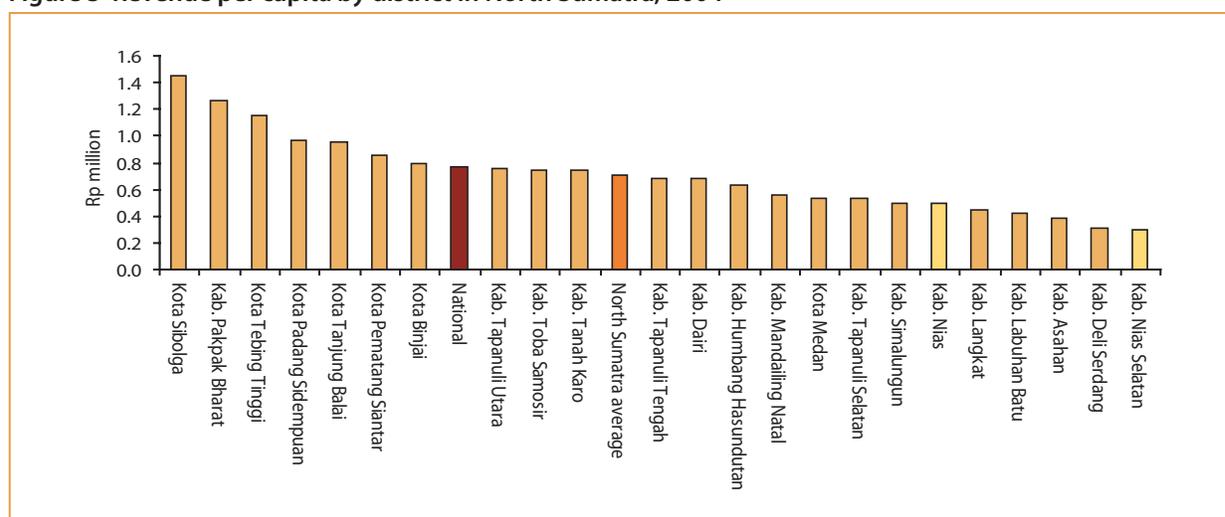
Figure 2 Nias and Nias Selatan district government revenues, 1996-2006



Source: World Bank staff estimates based on data from APBD, SIKD/MoF, BPS-SK. Data are in real terms (constant 2000 prices).
 Note: *Planned budget.

Despite a significant increase in transfers from the central government in 2006, Nias and Nias Selatan continue to receive among the lowest per capita revenues of all districts in North Sumatra. Unlike many other districts in Indonesia, transfers from the central government have failed to address disparities in income levels for these two districts. Nias and Nias Selatan, despite being the two poorest districts in North Sumatra, continue to receive some of the lowest allocations in the province in terms of revenue per capita. Nias Selatan district has the lowest per capita revenue of only Rp 295,000, while Nias district has per capita revenue of Rp 497,000. Revenue per capita of both districts is still far below the national average of Rp 772,000, as well as below the provincial average of Rp 702,000 (Figure 3). The fiscal situation is very different from that encountered in Aceh, where average per capita public revenue was about Rp 1.3 million in 2004, more than five times Nias Selatan district’s per capita public revenue. In Aceh the fiscal situation is expected to improve still further, as the Special Autonomy Fund (2 percent of national DAU allocation) related to Aceh’s special autonomy status will start flowing in 2008.

Figure 3 Revenue per capita by district in North Sumatra, 2004



Source: World Bank staff estimates based on data from APBD, SIKD/MoF, BPS.

Low per capita public revenue is related to relatively low General Allocation Fund (DAU) allocations from the central government to Nias and Nias Selatan. The DAU is the main source of revenue for both districts, accounting for about 82 percent of total revenue in 2006. In real terms, the DAU allocation for Nias and Nias Selatan remained stable from 2001 until a disproportionate increase in 2006. The criteria used for DAU allocations are not favorable

for the two districts on Nias. Fifty percent of the DAU allocation goes to cover the salaries of civil servants. However, because of the relatively lower number of civil servants per capita in both districts, Nias and Nias Selatan receive low per capita DAU allocations despite their low human development indicators and GDP per capita. Nias island has very few alternative sources of revenue to the DAU, while Aceh, in addition to larger per capita DAU allocations, benefits from the special allocation of oil and gas revenues through revenue-sharing, significantly increasing total revenues. The Special Allocation Fund (DAK) could be used by the central government to finance development expenditures on the island. Indeed, the DAK has increased significantly over the past few years, and accounted for 10 percent of total revenues in 2006. The two district governments in Nias, however, have expressed their concerns over the difficulties of complying with the DAK's general, specific and technical criteria, which resulted in Nias Selatan district failing to receive any DAK allocation in 2004.

Improving local capacity is crucial given greater authority and responsibilities following decentralization and the low capacity of the two district governments in Nias. Before decentralization, district governments in Indonesia were simply representatives of the central government expected to execute the center's policies and programs. Decentralization has since awarded far greater control to district governments in managing their budgets and civil services. As a result, district governments have assumed a much more crucial role in development, with greater authority over budget allocations and responsibilities. For public service provision, where responsibilities have been largely decentralized, district governments now control and spend a large percentage of the funds. Increased roles and responsibilities have created pressure on limited district government capacity. The World Bank and LGSP-USAID implemented a Public Financial Management (PFM) survey on the island, which found very low capacity levels in the management of local public finances. Nias district scored 38 percent overall (*poor*), while Nias Selatan district's average score was only 14 percent (*very poor*). Comparison of the survey results for the two districts in Nias with those of the same survey in Aceh (World Bank, 2007b) indicates that most districts in Aceh scored higher than Nias district, while no district in Aceh scored lower than Nias Selatan district. This low capacity is exacerbated by difficulties in attracting and maintaining qualified staff to the island due to its remoteness and the lack of incentive mechanisms. One indicator of this is that the majority of civil servants on the island have only completed senior secondary school.

Spending patterns of the two district governments in Nias have improved in some respects but there remain areas of serious concern. Spending on education absorbs the bulk of expenditure in the two districts. However, it has been decreasing in recent years, while expenditure on government apparatus now absorbs a disproportionate share of funds. Similarly, infrastructure, a key area for the development of the island given the remoteness of many of its villages and the distance from Sumatra, has seen a sharp decrease in the allocation of funds since decentralization. Routine expenditure, primarily for paying civil servants' salaries, commands an increasing share of funds, leaving limited funds for maintaining existing assets or investing in improved public services. Another worrying trend is the large allocation of funds for official travel. In 2005, the two district governments' allocations for travel doubled the allocation for operation and maintenance of public assets. Many of these trends are common in Aceh and other regions in Indonesia. After decentralization, district governments' routine spending has experienced disproportionate increases, while development spending increases seem to favor government apparatus to the detriment of sectors more likely to have a beneficial impact on poverty, such as education, health or infrastructure.

Public Service Delivery

Education

Nias and Nias Selatan districts have some of the lowest education outcomes in North Sumatra. Adult literacy rates on Nias island increased in recent years to 85.8 percent in 2005, but the two districts still have the two lowest adult literacy rates of North Sumatra. A relatively large percentage of the adult population of the island has never attended school. Low adult literacy and enrollment rates on the island are somewhat surprising giving the relatively large number of education facilities available. The average distance to school is lower and the number of schools per child is significantly higher than the provincial and national averages. However, these averages mask inequalities between sub-districts, resulting in unmet needs in an otherwise sufficient network of education facilities. On the other hand, the student teacher ratio is relatively high, particularly in Nias Selatan district, indicating the need for better teacher distribution towards areas where needs are highest. Inequalities between sub-districts are even starker, with some sub-districts having student teacher ratios as high as 70, far higher than the average for the island as a whole. Classroom conditions are another major issue on the island, with over 80 percent of classrooms in bad condition.

Given the high spending levels in education — over 40 percent in both districts — it is unlikely that education spending can increase its share of district budgets. A large share of total spending on education on the island does not translate into high per capita education spending. In fact, both districts have significantly lower per capita public spending on education than the provincial average, with Nias Selatan district having the lowest per capita education spending in the province. A more efficient use of existing resources is therefore the only way to improve the delivery of public education. Spending in both districts should be geared towards filling gaps in teacher distribution, as well as improving the maintenance of classrooms. Current spending patterns do not allocate sufficient resources for the maintenance of existing classrooms, with most routine expenditure financing teachers' salaries.

Health

Despite improvements in recent years, health outcomes in Nias island still lag behind provincial and national averages. Nias island has a much higher infant mortality rate than North Sumatra and Indonesia as a whole. The percentage of children under five with poor nutrition is far higher than provincial and national averages, and immunization coverage is significantly lower on the island. Health facilities do not seem to be the main problem: while Nias district has more health facilities per capita than the provincial average, Nias Selatan district has slightly fewer than the provincial average. However, the availability of health personnel is more of a problem, with very low personnel-to-population ratios in both districts. In Nias Selatan district, for example, there are only seven doctors serving a population of almost 290,000. This lack of health personnel is exacerbated by the unequal distribution of health workers among sub-districts across the island, creating significant gaps in under-developed areas.

In per capita terms, public spending on health is significantly lower on the island compared with North Sumatra or Indonesia as a whole. Nias Selatan district has the lowest per capita spending among districts in North Sumatra, while per capita spending in Nias district, although somewhat higher, is still far below both the average for North Sumatra and for Indonesia as a whole. The share of health spending in total expenditure increased from 5 percent in 2001 to 8 percent in 2005, in line with the national average of 7 percent. Therefore, the scope for further increases in the total level of health spending is now limited. But increases in health spending have gone mostly to routine functions, primarily to pay for the salaries of health personnel. Spending should go towards filling the gaps in health personnel distribution in more remote areas, as well as for the operation and maintenance of existing health facilities.

Infrastructure

Access to basic infrastructure, such as clean water, sanitation and electricity on the island, consistently lags behind the averages for North Sumatra and Indonesia as a whole. Both districts, but particularly Nias Selatan, have some of the lowest access levels to basic infrastructure in North Sumatra. The road network is extremely limited in rural areas and both the construction of new roads and the maintenance of existing roads are very expensive and time-consuming due to the lack of machinery and the need to ship in most materials. The road network, despite being clearly insufficient to serve the needs of the population, has not been expanded since the beginning of the decade. Only 20 percent of the road network on the island is asphalted, with a large proportion comprising earth roads that are unusable in the rainy season. The road network has been deteriorating steadily since the beginning of the decade, and the March 2005 earthquake only worsened an already critical situation. This situation explains why about 44 percent of villages on the island — 42 percent and 50 percent for Nias district and Nias Selatan district, respectively — are only accessible by four-wheel drive vehicles.

Despite the identified needs in the infrastructure sector, in real terms overall spending on infrastructure in both districts declined significantly from Rp 58 billion in 2001 to Rp 25 billion in 2005. As a share of total expenditure, spending declined from 29 percent in 2001 to 11 percent in 2005. The low priority given to this leading sector in recent years has hindered the development effort to open access to more isolated villages in Nias and Nias Selatan districts. The continuing trend of declining district expenditure on infrastructure in 2006 can be partly explained by the large contributions for infrastructure coming from the central government and the reconstruction funds. The distribution of local funds for infrastructure is mostly directed to public works for transport, water supplies and irrigation, with 82 percent of all development spending going into roads, water and irrigation development. The operation and maintenance of existing infrastructure has received relatively little attention, with personnel costs accounting for the largest share of routine spending in both districts. Meanwhile, official travel is absorbing an increasing share of funds in both districts.

Agenda for Implementation

- **Central government should increase its allocation of resources primarily through the DAK to Nias and Nias Selatan.** Both districts have relatively low per capita revenues, due to low DAU allocations and the absence of significant alternative revenue sources. The new DAU allocation criteria that earmark 50 percent of the DAU for complete coverage of civil service salaries have not benefited either district, but especially disadvantage Nias Selatan, given the small relative number of civil servants in this district. Although in the long term the island should aim at increasing own-source revenue to limit its dependency on central government transfers, in the short to medium term a larger volume of resources will be necessary to improve public service provision, particularly given that the two districts have the highest poverty rates in North Sumatra. The DAU formula should be more sensitive to poverty and fiscal gaps, as opposed to benefiting districts with the largest wage bills. Alternatively, increasing the DAK allocation appears to be another option for the two districts, since it is a discretionary central government budget earmarked for under-developed regions.
- **District governments need to improve public spending patterns while simultaneously improving their fiscal positions.** Current budgets are not fully spent (which makes calling for increased resources questionable) and spending patterns have room for improvement: the trend towards increasing spending on government apparatus should be corrected in favor of increased spending in other areas with greater potential for improving the well-being of the population, such as health or infrastructure.
- **Both districts need to improve their public financial management capacity in order to improve spending patterns.** The current large volume of funds available to assist the two district governments in the recovery of the island, and the international presence, as well as the reconstruction needs, should be seen as an opportunity to increase district government capacity in managing public funds.
- **District governments need to improve the allocation of resources within each sector, particularly since further expenditure increases in some sectors are unlikely.** The key constraint in the delivery of quality education and healthcare does not seem to be the availability of facilities, although the condition of facilities is an issue given that the tsunami and the March earthquake damaged a large number of facilities. The focus should be on rehabilitating existing facilities, as well as allocating enough funds for the operation and maintenance of those facilities, while also improving the quality of services delivered. The number of teachers and health personnel is insufficient and large inequalities exist between the two main cities on the island and the more remote areas. Coverage gaps should be filled by transferring personnel to more remote areas.
- **District governments need to be more involved in the reconstruction of the island.** The impressive response to the disasters in Aceh and Nias represents an opportunity to build both places back better. However, the lack of progress in reconstruction on Nias island needs to be addressed before it is too late. Both district governments should take a more active role, collaborating with BRR and other partners on the island, particularly in light of the phasing out of the BRR towards the end of 2008. Of particular concern, given that major public infrastructure such as roads and bridges, schools, and health facilities have been rebuilt or repaired, is that all these assets will impose additional operational and maintenance costs on the two district governments going forward.



CHAPTER 1 **Economic and Social Conditions on** **Nias Island**

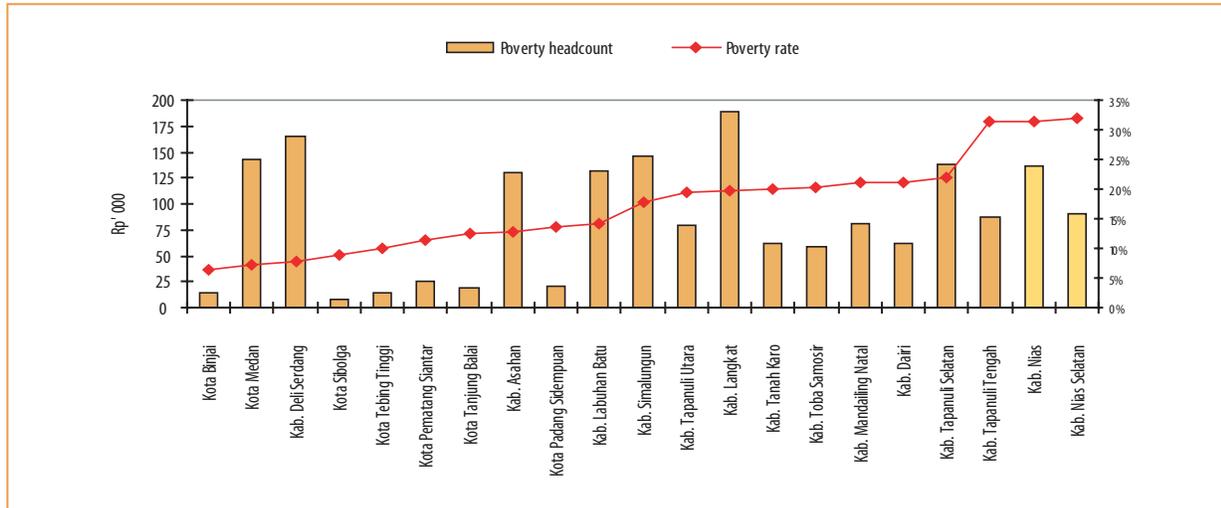
Nias Public Expenditure Analysis 2007

Poverty and Social Conditions

The Nias group of islands, comprising one main island and 130 far smaller islands, form the largest island group on the west coast of Sumatra. The Nias island group is part of North Sumatra province and divided into two administrative districts, Nias and Nias Selatan. Nias district was originally created in 1946 by the Government of Indonesia. This district was officially divided into the two administrative units in 2003 with the formation of Nias Selatan district in addition to Nias district. Nias district has a population of 442,019, consisting of 14 *kecamatan* (sub-districts), four *kelurahan* (urban villages) and 439 *desa* (rural villages). Nias Selatan district, which includes most of the smaller islands, has a population of 271,026, comprising eight sub-districts, two urban villages and 212 rural villages. Gunung Sitoli, located on the northeast coast, is the capital of Nias district, while the capital of Nias Selatan district is Teluk Dalam, situated on the southern coast.

Nias and Nias Selatan districts have the two highest poverty levels in North Sumatra, well above the Indonesian average (about 16.7 percent in 2004). Out of 370 districts in Indonesia for which data were available in 2004, Nias and Nias Selatan were among the top 10 percent of districts with the highest poverty rates. An estimated 226,000 people on Nias island were living below the poverty line in 2004 (Figure 1.1). While poverty rates in Indonesia decreased significantly after 2000 as the country started to recover from the financial crisis, poverty levels have remained high on the island, at about 31 percent since 2002, and almost certainly worsened after the 2005 earthquake.

Figure 1.1 Poverty rates by district in North Sumatra, 2004



Source: BPS.

Both districts, but particularly Nias Selatan, lag behind the national averages for most social outcomes (Table 1.1). The score on the Human Development Index in Nias district improved from 61.8 in 2002 to 66.1 in 2005,¹ but remains under the North Sumatra province and national averages of 72 and 69.6, respectively, in 2005. Similarly, the infant mortality rate also improved from 40.9 in 2002 to 36.1 per 1,000 live births in 2005, while the provincial and national averages were 33.5 and 32.8 per 1,000 live births, respectively, in 2005. In the education sector, the gross enrollment rate at the junior and senior secondary level is still low, at around 74 and 42 percent, respectively, compared with 92 and 70 percent in North Sumatra. The proportion of adults who have never attended school is relatively high, at 23 percent for those aged 15 and above.

¹ The HDI data for 2002 was based on the whole island, while the data for 2005 was based on only Nias district, and did not cover Nias Selatan.

Table 1.1 Economic and social indicators for Nias and Nias Selatan

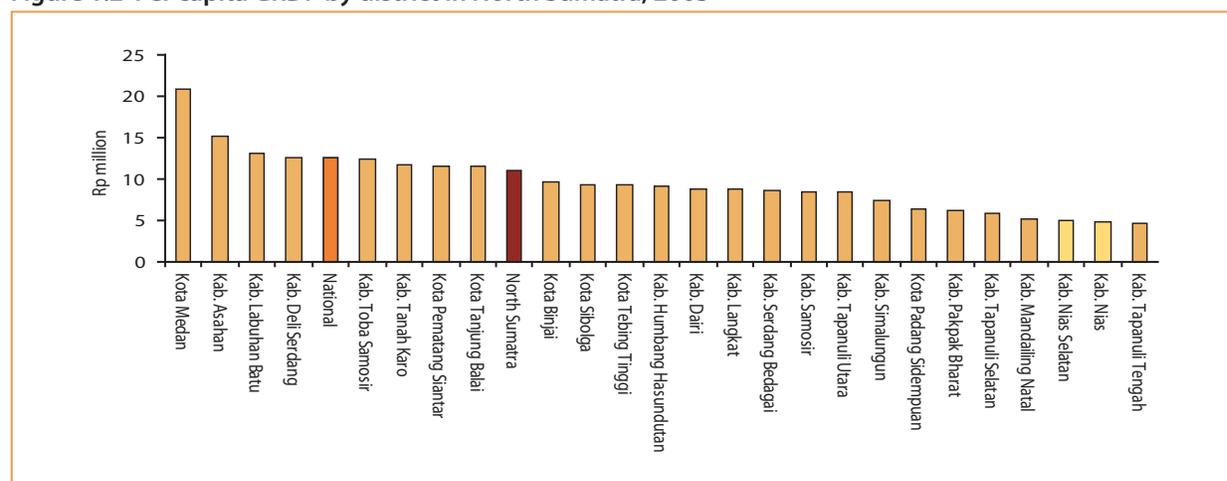
	Nias	Nias Selatan	North Sumatra	Indonesia
GDP per capita 2005 (Rp)	4,888,905	5,060,626	11,106,258	12,627,167
Poverty rate 2004 (%)	31.6	32.2	14.9	16.7
Adult literacy rate, 2005 (% of people aged 15 and above)	85.8	62.5	95.6	91.7
GER junior secondary 2005 (%)	76.0	70.0	91.5	82.4
Human Development Index 2005	66.1	63.9	72.0	69.6
Life expectancy 2005 (years)	68.7	67.9	68.7	68.1

Source: BPS Indonesia, BPS Nias and Nias Selatan, Susenas.

Economic Structure and Growth

In terms of per capita GRDP, both districts are well below the provincial average (Figure 1.2). In 2005, per capita GRDP in Nias district was Rp 5.1 million and Rp 4.9 million in Nias Selatan district, or less than half the provincial average of Rp 11.1 million. The economy of the island grew relatively rapidly after 2000, at an average of 6.6 percent annually compared with less than 5 percent for North Sumatra or Indonesia as a whole, narrowing the income gap with the rest of the province. However, the economy contracted by 3.4 percent in 2005 as a result of the tsunami and earthquake, interrupting, if only temporarily, the previous growth trend. Low per capita GRDP and high poverty rates are reflected in relatively low human development indicators, as discussed in detail later in this report.

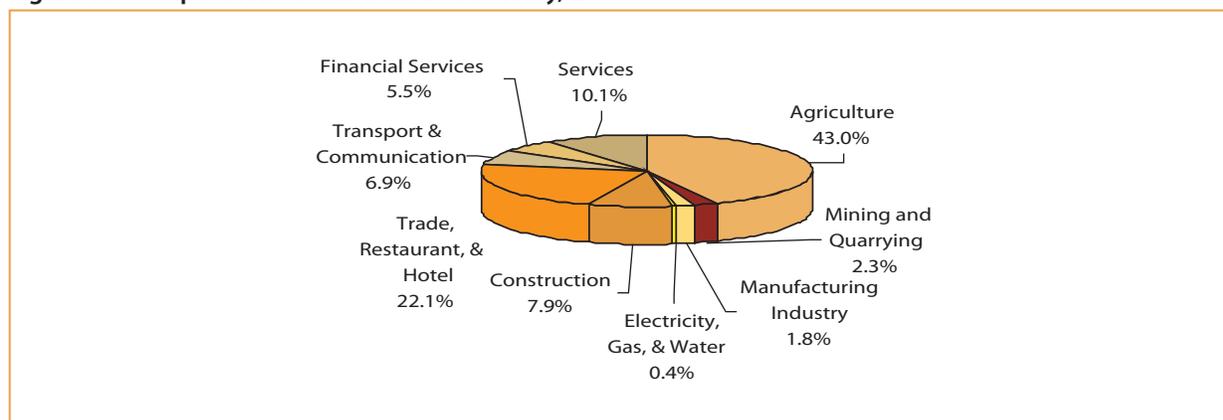
Figure 1.2 Per capita GRDP by district in North Sumatra, 2005



Source: BPS.

The island’s economy is predominantly agricultural, accounting for 42 percent of GRDP (Figure 1.3). The industrial and manufacturing sector on Nias island is very small, accounting for about 2 percent of GRDP, compared with 27 percent for North Sumatra as a whole. Trade services account for a large share of the economy, most of these supplied by small-scale businesses in the trade and hospitality sectors (market stalls, petty traders, restaurants, and rickshaw drivers).

The agriculture sector employs the largest share of the workforce in both districts. In 2005, about 87 percent of the workforce in Nias district was absorbed in the agriculture sector, followed by the fishery and social service sectors, at 4.7 percent and 4.4 percent of total workforce, respectively. In Nias Selatan, agriculture absorbed 88 percent of the workforce, followed by the manufacturing and fishery sectors, at 7.7 percent and 1.4 percent of total workers, respectively.

Figure 1.3 Composition of Nias island's economy, 2005

Source: BPS.

The two districts are economically similar. There are no major differences in the sectoral breakdowns of GRDP between the two districts. The only noticeable differences can be found in agriculture where Nias Selatan district has a larger share (45.3 percent of GRDP compared with 40.6 percent in Nias district) and in the trade services sector, which carries significantly more weight in the economy of Nias district. The structure of the island's economy hardly changed from 2000 to 2005, with the share of agriculture decreasing slightly, particularly in Nias Selatan district, with a corresponding increase in the importance of services in the economy.

Impact of the Tsunami and Earthquake²

The December 2004 tsunami and the March 2005 earthquake caused severe damage and destruction to the island's infrastructure and economy, both of which were already weak prior to the disasters. The tsunami hit several villages on the north coast killing over 100 people. The earthquake on 28 March 2005, measuring 8.7 on the Richter scale, killed about 850 people, while an estimated 71,000 people, or about 10 percent of the population of the island, lost their homes. The housing sector was the worst hit, with 13,000 houses destroyed and 24,000 badly damaged. Transportation infrastructure was also badly damaged: 12 large and small ports were destroyed, and more than 1,000km of roads were rendered impassable. Most of the casualties were in urban areas as a consequence of Gunung Sitoli's proximity to the epicenter. Total damage was estimated at US\$392 million, equivalent to 108 percent of the island's GDP (Table 1.2).

² This section derived largely from (BRR and World Bank, 2006b) and (BRR and Partners, 2006).

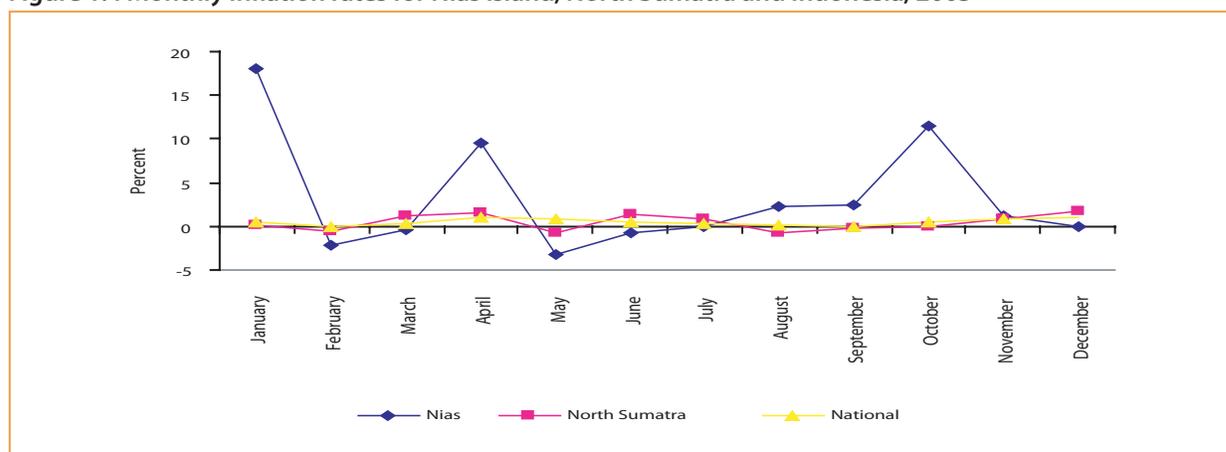
Table 1.2 Estimated damage and loss assessment for Nias island³

Sector	Estimated damage (US\$ million)
Social sectors	56
Education	23
Health	23
Community, culture, and religion	10
Infrastructure	306
Housing	160
Transport	70
Electricity, water & sanitation, and communication	76
Productive Sectors	1
Cross-sectoral (governance and environment)	29
Total	392

Source: BRR Aceh-Nias.

The widespread damage has had an inflationary impact leading to higher costs of living on the island. Higher inflation is particularly the result of increases in the prices of basic food staples and transportation. For example, the price of rice increased by 23 percent following the earthquake. The already limited transportation system worsened the situation as this constrained the supply of goods and materials. The monthly inflation rate on the island rose to 9.5 percent in April 2005 and 11.5 percent in October 2005, compared with 1.5 percent inflation and 0.12 percent monthly deflation in North Sumatra as a whole at similar points of time (Figure 1.4).

Figure 1.4 Monthly inflation rates for Nias island, North Sumatra and Indonesia, 2005



Source: BPS Nias.

The remoteness of Nias island has slowed the progress of reconstruction. Building materials are difficult to obtain in sufficient quantities and at affordable prices. Irregular shipping schedules have exacerbated the scarcity of supply. Sporadic fuel supplies exacerbated inflation and together with the long distances to markets prevented the rapid implementation of the reconstruction effort. By the end of 2006, however, reconstruction had started to pick up speed. Almost 5,400 new and 350 non-permanent houses had been built and more than 300km of roads built or repaired. One hospital in Gunung Sitoli, 19 health facilities, and 124 permanent schools had been rebuilt or repaired with the aim of restoring health and education service provision (Annexes Table 1.2.). These efforts were made collectively by a multitude of domestic and international partners comprising 42 international NGOs, 24 national NGOs, 13 United Nations agencies, and eight government agencies.

³ The Nias damage and loss assessment was carried out by IOM (IOM, June 2005). Using the IOM damage and loss data, the aggregate sectoral and financial impact was calculated by applying data international standard ECLAC-methodology, which had also been used to estimate the damage and losses from the tsunami.

However, many needs are still not being met. According to the Ministry of Social Welfare, as of March 2007 more than 5,000 houses still need to be built for IDPs. As for schools, less than half of the damaged schools have been rebuilt or repaired. With the current level of reconstruction, the local economy is expected to revive as reconstruction spending brings a boost to a variety of sectors, such as transportation, construction and food processing. The district governments are also expected to develop stronger capacity given their growing participation in reconstruction planning and financing, helped by support from donors and NGOs.



CHAPTER 2 **Revenue and Financing**

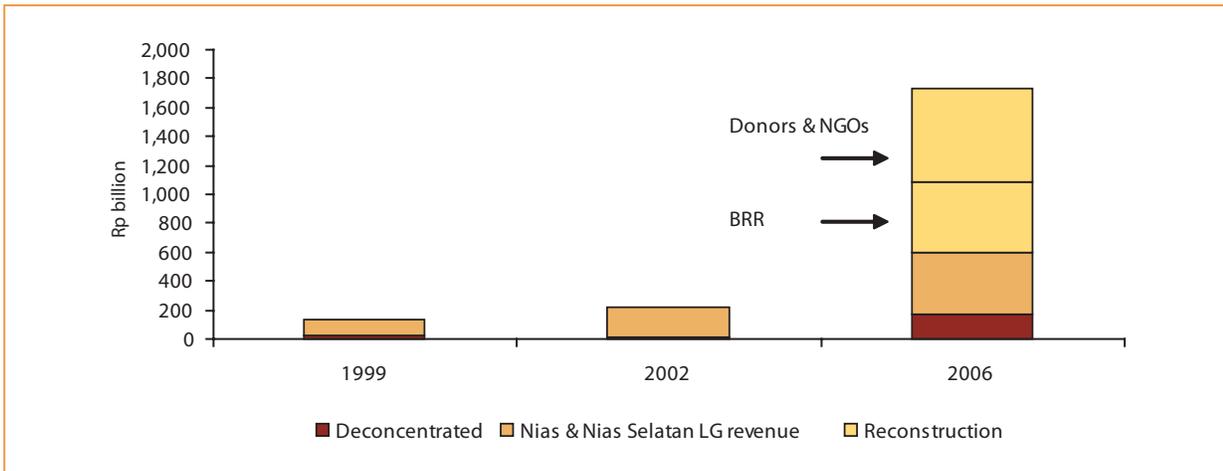
Nias Public Expenditure Analysis 2007

Revenue

Overall Revenue Picture in Nias

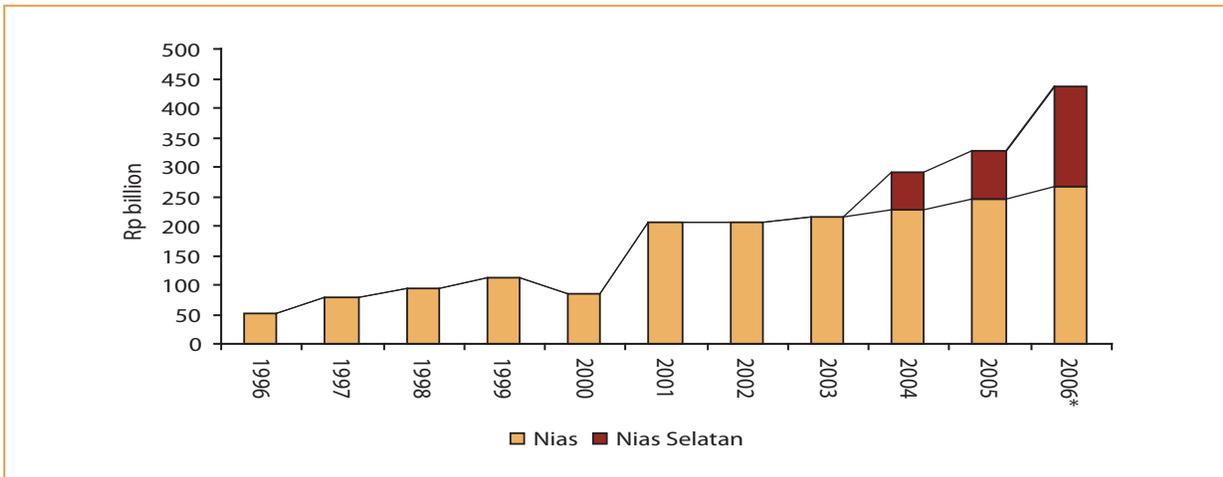
Nias and Nias Selatan districts received an unprecedented amount of financial resources from the reconstruction budget in 2006, surpassing district government budgets by almost four times. Following the earthquake in March 2005, Nias received additional resources from the central government, as well as from international and domestic donors. In 2006, Nias island is estimated to have received about Rp 1.1 trillion in reconstruction funds, of which Rp 488 billion came from BRR and about Rp 644 billion came from donors and NGOs (Figure 2.1). Similar to other districts in Indonesia, Nias island benefited from decentralization before reconstruction funds started to flow into the region. Decentralization increased district revenues almost fourfold, from Rp 111 billion in 1999 to Rp 435 billion in 2006 in total.

Figure 2.1 Revenue of Nias pre- and post-decentralization, and after the earthquake



Source: World Bank staff estimates based on data from APBD, SIKD/MoF, BPS-SK, and BRR. Data are in real terms (constant 2000 prices).

Figure 2.2 District government revenues in Nias and Nias Selatan, 1996-2006



Source: World Bank staff estimates based on data from APBD, SIKD/MoF, BPS-SK. Data are in real terms (constant 2000 prices).
 Note: *Planned budget.

The aggregate revenue of Nias and Nias Selatan districts increased significantly in 2006 mainly due to a sharp increase in the DAU transfer. The DAU is the main source of revenue going to Nias and Nias Selatan districts. The DAU on average accounts for 82 percent of total revenue for the two districts, significantly more than the district average in Indonesia, which is 62 percent of total revenue (World Bank, 2007a). Transfers made up an average of 98 percent of revenues in Nias island before decentralization and remained high after decentralization, at 93 percent. In absolute terms, transfers increased almost fourfold, from Rp 108 billion in 1999 to Rp 423 billion in 2006 (Table 2.1).

Table 2.1 Composition of Nias and Nias Selatan district revenues

Rp million at constant 2000 prices

			2004			2006 planned		
	1999	2002	Nias	Nias Selatan	Total	Nias*	Nias Selatan*	Total*
Own-Source Revenue	2,319	5,319	5,701	718	6,419	3,591	1,698	5,290
Tax Revenue-Sharing	8,461	15,950	9,690	7,438	17,127	6,064	4,734	10,798
Non-tax Revenue-Sharing	669	1,127	917	-	917	582	-	582
SDO	40,522	-	-	-	-	-	-	-
Inpres	58,986	-	-	-	-	-	-	-
DAU	-	180,448	118,296	52,500	170,796	222,780	136,944	359,724
DAK	-	616	7,085	-	7,085	22,781	22,132	44,913
Others	152	2,473	21,789	2,708	24,497	9,648	4,902	14,550
Total	111,110	205,932	163,477	63,364	226,841	265,446	170,410	435,856

Source: World Bank staff estimates based on data from APBD, SIKD/MoF, BPS-SK.

Note: * Planned budget.

The DAK has also gained in importance and contributed to the increase in total revenue following decentralization. The DAK, starting from a very low base, increased more than 30 times from Rp 616 million in 2002 to Rp 7.1 billion in 2004, and then to Rp 20 billion in 2005 (Annexes Table B.8.6). The increase in other revenues was largely the result of financial assistance from the provincial government. Revenues from the province increased from Rp 115 million in 2001 to Rp 15 billion in 2005.

Decentralization has not significantly changed the shares of own-source revenue and revenue-sharing to overall revenue. The contribution of own-source revenue and revenue-sharing to total revenue only increased from an average of 2 percent and 7 percent, respectively, before decentralization, to 3 percent and 8 percent after decentralization (Table 2.2). Revenue-sharing is largely comprised of tax sharing rather than non-tax sharing. As a resource-poor region, the island relies to a great extent on the redistribution of oil and gas non-tax revenue sharing from North Sumatra and its own limited forestry and fishery sectors for non-tax revenue-sharing. However, since the island was divided into two districts in 2003, Nias Selatan district has received no non-tax revenue-sharing revenue.⁴

⁴ The forestry activities in Nias Selatan conducted by PT. Geruti and PT. Teluk Nauli have been halted since 2004. As the result, Nias Selatan does not receive any revenue from forestry land rent or royalties. For fisheries and oil and gas distribution revenue-sharing from North Sumatra, it is possible that this revenue still belongs to Nias district.

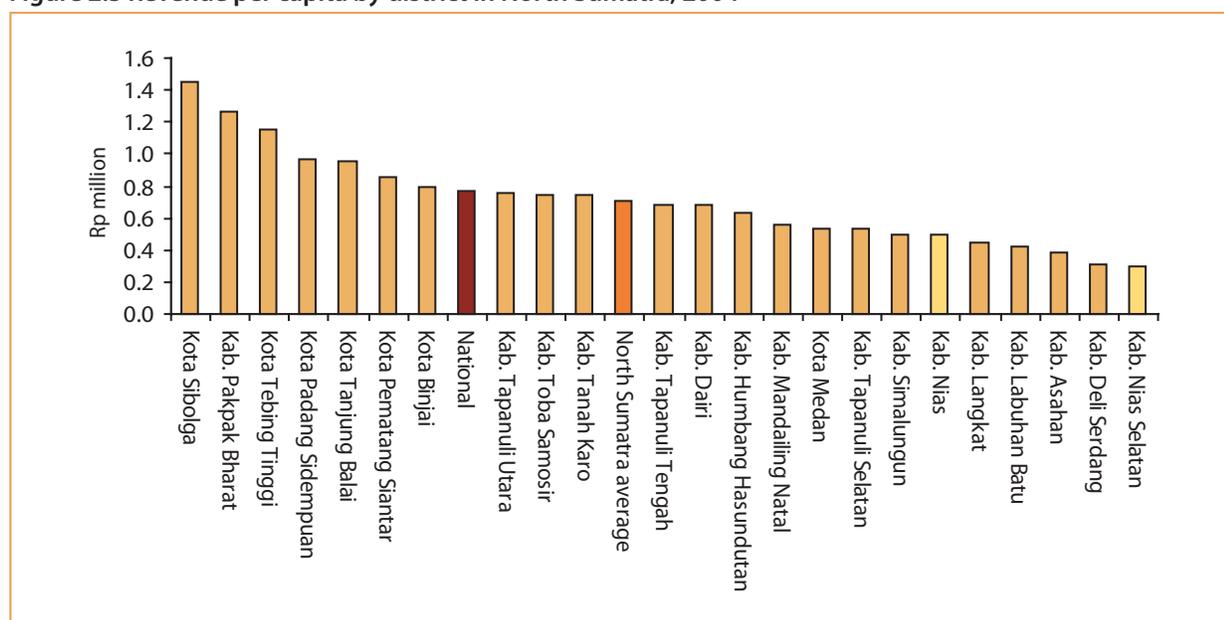
Table 2.2 Share of revenue components to total revenue in Nias and Nias Selatan

Percent

	1997	1998	1999	2000	% avrg pre-Dec	2001	2002	2003	2004	2005	% avrg post-Dec
Own source revenue	3	1	2	2	2	2	3	4	3	2	3
Revenue sharing	10	6	8	7	7	7	8	7	8	8	8
SDO	20	47	36	53	39	-	-	-	-	-	-
Inpres	68	46	53	39	51	-	-	-	-	-	-
DAU	-	-	-	-	-	88	88	88	75	74	82
DAK	-	-	-	-	-	0	0.30	1	3	8	2
Others	0.2	0.1	0.1	0	0	2	1	0.5	11	8	5
Total transfer	97	99	98	98	98	95	96	95	86	89	93
Total revenue	100	100	100	100	100	100	100	100	100	100	100

Source: World Bank staff estimates based on data from APBD, SIKD/MoF, BPS-SK.

The two districts have among the lowest per capita revenues in North Sumatra. Nias Selatan district has Indonesia's lowest per capita revenue at only Rp 295,000, while Nias district has per capita revenue of Rp 497,000. Revenue per capita for both districts is far below the national average of Rp 772,000 and the provincial average of Rp 702,000. Nias Selatan district received only one-fifth of the revenue per capita of the richest district in North Sumatra (Figure 2.3)

Figure 2.3 Revenue per capita by district in North Sumatra, 2004

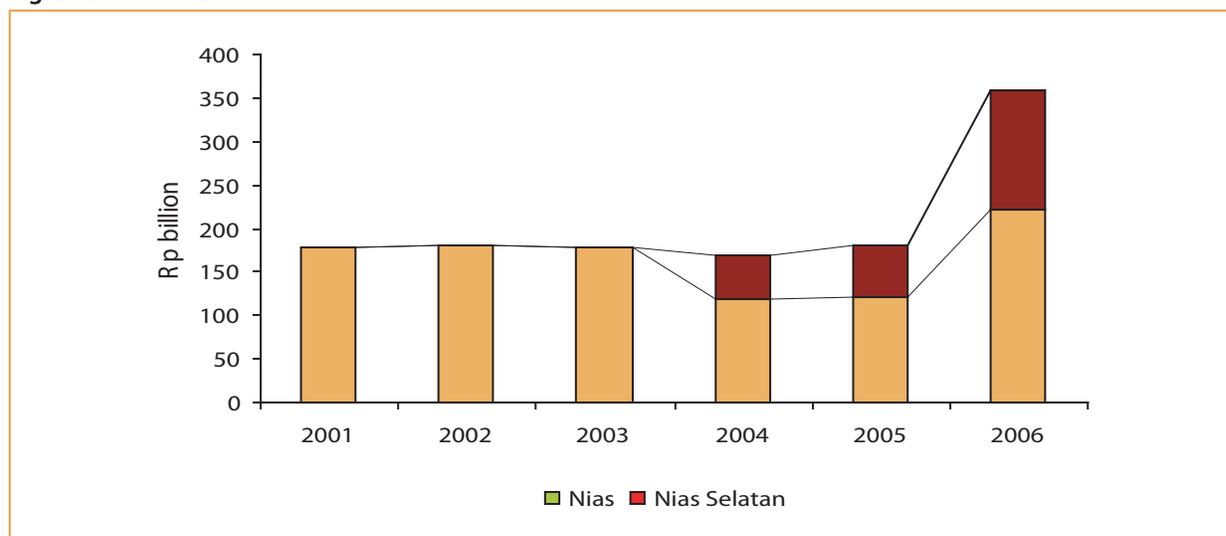
Source: World Bank staff estimates based on data from APBD, SIKD/MoF, BPS.

Transfers from central government still fail to address the disparities between districts. Nias and Nias Selatan districts have the highest poverty rates and the lowest Human Development Index (HDI) ratings in North Sumatra. Despite this, they do not receive higher allocations of DAU than other districts with lower poverty rates and higher HDIs (Annexes Figure B.8.6) in terms of the DAU and revenue-sharing per capita. In 2005, the two districts still did not receive larger per capita allocations than other districts in North Sumatra. Both districts receive similar allocations to districts with lower poverty rates, such as Simalungun (Annexes Figure B.8.5). Despite the large increase in the DAU in 2006 this issue has still not been addressed.

General Allocation Fund (DAU)

Similar to other district governments in Indonesia, the DAU is the main source of revenue for Nias and Nias Selatan districts. The DAU is a discretionary block grant that is intended to address fiscal disparities between provinces and *kabupaten/kota*. The size of the grant varies widely based on a specific formula that attempts to align fiscal capacity and the fiscal needs of district governments. In real terms, the DAU allocation for Nias district (and Nias Selatan district from 2004) was stable from 2001 until a disproportionate increase in 2006. In total, the DAU increased by more than 100 percent in 2006. In Nias district, the DAU increased from an average of Rp 155 billion in 2001-05 to Rp 223 billion in 2006. Nias Selatan district experienced an increase from an average Rp 54 billion in 2004-05 to Rp 137 billion in 2006 (Figure 2.4).

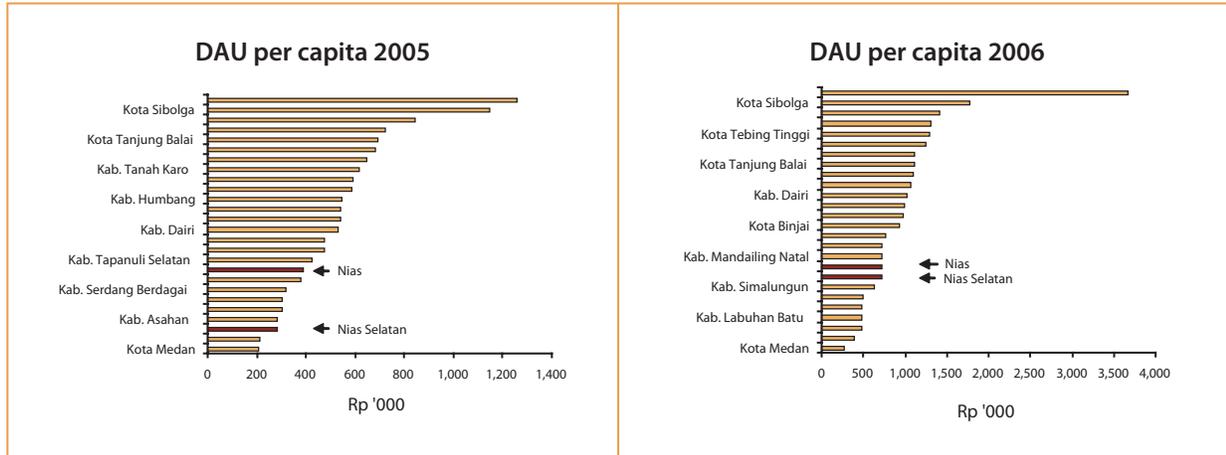
Figure 2.4 DAU allocations for Nias and Nias Selatan



Source: World Bank staff estimates based on data from MoF. Data are in real terms (constant 2000 prices).

The significant increase in the DAU nationwide has also increased the DAU per capita in Nias and Nias Selatan.

In 2005, Nias Selatan district was the third lowest per capita recipient in North Sumatra with per capita allocation of Rp 285,000. The situation significantly changed in 2006, when the district’s per capita DAU increased to Rp 716,000. As for Nias district, per capita DAU increased from Rp 391,000 in 2005 to Rp 714,000 in 2006 (Figure 2.5). The re-estimation of land area as one of main components of the DAU allocation formula has also benefited Nias and Nias Selatan. In 2005, the area of Nias Selatan district, which includes many smaller islands, was seriously under-estimated, at 1,825 km². The estimation of area was significantly increased to 3,090 km² in 2006. The DAU allocation for Nias Selatan district increased further from Rp 194 billion in 2006 to Rp 231 billion in 2007.

Figure 2.5 DAU per capita by district in North Sumatra, 2005-06

Source: World Bank staff estimates based on data from MoF.

Despite the increase, Nias Selatan district still receives a relatively low DAU allocation. Although Nias Selatan district sits at the bottom of most of the fiscal needs indicators compared with other districts in North Sumatra, this is not reflected in its DAU allocation. In 2005, the district had the lowest Human Development Index rating, the highest cost index, and the second-lowest GRDP per capita, and yet in terms of DAU allocations it is one of the districts with the lowest per capita allocations. The reason for this is that both Nias and Nias Selatan districts (but particularly Nias Selatan) have relatively small numbers of civil servants, which results in lower DAU allocations to cover personnel expenses.

Both Nias and Nias Selatan districts managed to have their budgets approved before April 2007 and therefore avoided being penalized by having their DAU transfers cut. A recent decree by the Ministry of Finance states that district governments will be sanctioned by having their DAU allocations cut by up to 25 percent if their budgets are not approved by the end of March — in the current financial year this means by the end of March 2007. The threat of sanctions by the Ministry of Finance has greatly improved the budget approval time, and the districts of Nias and Nias Selatan are no exception. In 2006, prior to the decree, Nias district approved its budget in August 2006, while Nias Selatan district only approved its 2006 budget in December 2006.

Own-Source Revenue (PAD)⁵

Own-source revenue has historically played an insignificant role in district government revenues in Indonesia, and even less of a role in Nias and Nias Selatan. The major potential taxes continue to be administered and collected by the central government. In 2004, PAD on average contributed slightly more than 8 percent of total district government revenue nationwide (World Bank, 2007a). The contribution of PAD — which broadly consists of four categories: local taxes, retributions, profits from locally-owned enterprises, and other eligible own-source revenues — to total revenue is even smaller in Nias and Nias Selatan districts. Overall, PAD in the two districts only represents 3 percent of total revenue after decentralization, a slight increase from 2 percent pre-decentralization.

Despite its low contribution to total revenue, PAD increased significantly on Nias island following decentralization, but then experienced a sharp decline in 2004 and 2005. From 1999 to 2003 PAD increased almost fourfold (Table 2.3). This increase was partly due to an expansion of the local tax base and a large increase of other eligible own-source revenue.⁶ The declining of PAD in 2004 and 2005 was due to low revenue gained from

⁵ Local taxes and retributions are regulated by Law No. 34/2000 and government regulations (PP No. 65/2001 and PP No. 66/2001). Local government is given some autonomy to expand local tax (should meet “good tax criteria” and be approved by the MoF) and retributions. Law No. 34/2000 stipulates seven types of local taxes (hotel tax, restaurant tax, entertainment tax, advertisement tax, street lighting tax, mining resource type C tax, and parking tax) and three type of retributions (general services, business services, and special licensing).

⁶ Other own-source revenue among others includes: selling local assets, giro services, deposit interest, third party donation, and revenue from tax and retribution debts.

local tax collection and other eligible own-sources revenue. In 2005, the sharp decrease was probably caused by the March earthquake, which severely damaged local property and businesses, thus reducing the local tax base. The implementation of decentralization has also altered the composition of PAD on the island. Local retribution was the main source of PAD, contributing more than 60 percent of Nias island's PAD prior to decentralization. After decentralization, this fell to around 46 percent, on average, in 2001-05. The contributions of other eligible PAD have increased significantly following decentralization.

Table 2.3 Composition of Nias island PAD, 1999-2005

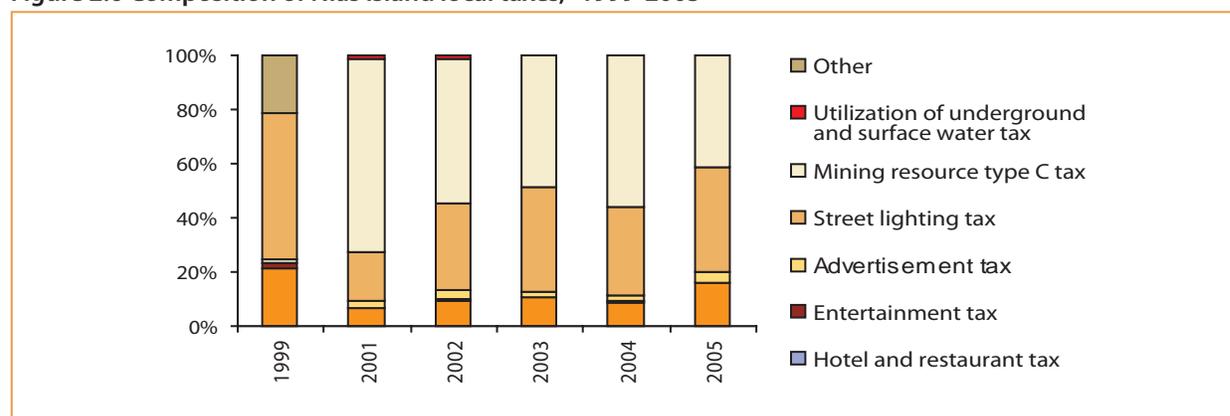
Rp million at constant 2000 prices

Own-Source Revenue	1999		2001		2002		2003		2004		2005	
		%		%		%		%		%		%
Local Taxes	845	36.4	1,996	39.1	1,655	31.1	1,884	21.0	1,724	26.9	1,450	28.4
Retributions	1,474	63.6	768	15.0	1,375	25.9	2,693	30.0	3,405	53.0	2,330	45.6
Profit from Reg. Owned Enterp.	0	0.0	0	0.0	159	3.0	0	0.0	0	0.0	0	0.0
Other Own-Source Revenues	0	0.0	2,347	45.9	2,129	40.0	4,392	49.0	1,291	20.1	1,328	26.0
Total	2,319	100.0	5,111	100.0	5,319	100.0	8,969	100.0	6,419	100.0	5,108	100.0

Source: World Bank staff calculations based on data from SIKD/MoF and World Bank Decentralization database. Data are in real terms.

Since decentralization the extracting and processing of mining resource type C tax has become the main source of local taxes.⁷ Before decentralization, street lighting tax was the major contributor to local taxes. From 2001 to 2005, mining resource type C tax contributed, on average, 53 percent of district tax revenues, followed by street lighting tax with a 32 percent share (Figure 2.6).

Figure 2.6 Composition of Nias island local taxes,⁸ 1999-2005



Source: World Bank staff calculations based on data from SIKD/MoF and World Bank Decentralization database. Data are in real terms (constant 2000 prices).

A provincial comparison indicates that Nias and Nias Selatan districts have among the lowest per capita PAD in North Sumatra. Nias Selatan district is ranked the lowest and Nias district is the fifth lowest in terms of PAD per capita. Of note, all district governments in North Sumatra have per capita PAD below the national average. The

7 Type C mining includes base mineral such as bentonit, andesit, pumice, zeolit and limestone.

8 Tax on utilization of underground and surface water principally belongs to the provincial government but is shared with district governments as stipulated by Law No. 34/2000. However, the two district governments on Nias recorded this tax as local tax in 2001 and 2002 local budget. Hotel tax and restaurant tax were separated after decentralization. However, the two district governments are still recording them as single account. In addition, parking tax, which is local tax, was not recorded in the district budgets. Most likely the district governments classified parking tax as user charges.

variation among districts ranges from Rp 128,310 in Medan to only Rp 3,343 in Nias Selatan. The data also suggest that the current local tax and retribution structures favor urban areas (*kota*) with their increased economic activity and thus larger tax bases compared with rural areas (*kabupaten*) (Annexes Figure B.8.1).

After decentralization, there has been an attempt to maximize PAD on Nias island. Today, similar to other district governments, the two district governments on Nias are considering creating new local taxes and retributions, such as levying a warehouse license charge and charges on coastal commodities. These intentions stem from the perception that local autonomy allows districts to impose levies to fund district budgets after decentralization. However, any attempts to create new local taxes and retributions should be carefully planned and evaluated. Over-extending PAD may harm the local economy, as it risks increasing the cost of doing business.

Tax-Sharing Revenue

Tax-sharing revenue comprises primarily land and building tax (PBB), land and building transfer fees (BPHTB), and personal income tax (PPH). According to the sharing arrangements as stipulated in Law No. 33/2004, district governments receive allocations of 81 percent, 80 percent, and 20 percent as shares of PBB, BPHTB, and PPH, respectively. Although PBB and BPHTB are administered by the central government, the responsibility for tax billing and collection is divided between the central and district governments. The central government's deconcentrated tax office is in charge of printing and sending notifications of the due amount and date, while district governments are responsible for following up on tax collection after billings have been sent. The central government's share of PBB and BPHTB is directly transferred back to district governments, with an allocation of 65 percent distributed equally to all *kabupaten/kota* in Indonesia and 35 percent allocated as an incentive for *kabupaten/kota* that achieve their targets. In addition to the tax-sharing from central government, district governments are also entitled to receive tax-sharing from provincial governments from vehicle and water taxes.

The revenue from tax-sharing rose by 88 percent between 1999 and 2002. With the exception of 2003, it continued to increase from 1999 to 2005. The increase after decentralization is largely the result of new sharing arrangements for personal income tax. In the past, income tax was fully retained by the central government.

Despite increases in real terms, the share of tax-sharing to total revenue has fluctuated and is projected to decline sharply in 2006. The contribution of tax-sharing to total revenue ranged between 6.4 percent and 7.7 percent in 2001-05 and is estimated to fall to only 2.5 percent in 2006. This decline is caused by the large increase in the DAU and DAK allocations to both districts in 2006 (Table 2.4).

Table 2.4 Nias and Nias Selatan tax-sharing revenue

Rp million at constant 2000 prices

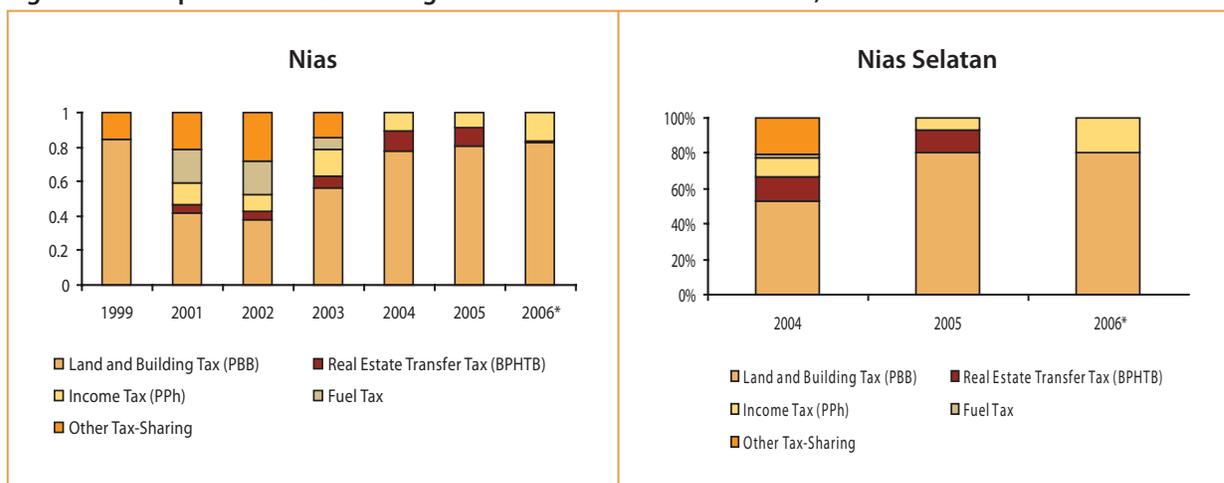
Year	Nias			Nias Selatan			Nias Aggregate		
	Tax Sharing	Total Revenue	% Tax-Sharing to Total Revenue	Tax Sharing	Total Revenue	% Tax-Sharing to Total Revenue	Tax Sharing	Total Revenue	% Tax-Sharing to Total Revenue
1999	8,461	111,110	7.6				8,461	111,110	7.6
2001	13,472	206,597	6.5				13,472	206,597	6.5
2002	15,950	205,932	7.7				15,950	205,932	7.7
2003	13,733	216,101	6.4				13,733	216,101	6.4
2004	9,690	163,477	5.9	7,438	63,364	11.7	17,127	226,841	7.6
2005	10,373	162,069	6.4	7,755	82,721	9.4	18,128	244,790	7.4
2006*	6,064	265,446	2.3	4,734	170,410	2.8	10,798	435,856	2.5

Source: World Bank staff estimates based on data from APBD, SIKD/MoF, BPS-SK.

Note: *Planned budget.

Land and building tax is the major source of the tax-sharing revenue for both Nias and Nias Selatan districts and contributed up to 81 percent of total tax-sharing in 2005. This was followed by income tax and transfer fees on land and buildings, with an average share of 12 percent and 8 percent of tax-sharing revenue, respectively (Figure 2.7). The large share of land and building tax is evident nationwide, accounting for almost half of all tax-sharing revenue in 2004. This points to the importance of land and building tax for developing regions where the expansion in the use of land is relatively rapid. For income tax, although its role has increased in recent years, its relatively small share reflects the continuing limited income tax base in Nias and Nias Selatan districts.

Figure 2.7 Composition of tax-sharing revenue in Nias and Nias Selatan, 1999-2006



Source: World Bank staff estimates based on data from APBD, SIKD/MoF, BPS-SK.

Note: *Planned budget.

Nias and Nias Selatan districts recorded the lowest tax-sharing revenue per capita compared with other districts in North Sumatra in 2005. All district governments in North Sumatra, except Pakpak Bharat, have per capita tax-sharing revenues below the national average. As a recently separated district, Nias Selatan has been left behind by other newly formed districts in North Sumatra, such as Pakpak Bharat, Humbang Hasundutan, and Samosir. These three new districts achieved tax-sharing per capita revenues above the provincial average of Rp 79,794. Pakpak Bharat district has the highest tax-sharing per capita revenue at almost Rp 350,000, about 10 times higher than Nias and Nias Selatan’s per capita tax-sharing revenues (Annexes Figure B.8.4).

Natural Resources (Non-Tax) Revenue-Sharing

Law No.33/2004 expands the coverage of non-tax revenue-sharing to include the forestry, general mining, fisheries, oil, gas, and geothermal sectors. Prior to decentralization, non-tax sharing covered only the forestry and mining sectors. The sharing arrangements differ across types of natural resources and levels of government (central, provincial, producing and non-producing district governments).⁹ Except for oil and gas revenue-sharing, regional governments retain 80 percent of all revenue from shared natural resources. A distinction is made between producing and non-producing districts. From this 80 percent of total revenue transferred to regional governments, 80 percent (or 64 percent of the original total revenue) is transferred to districts governments. Of this, half is earmarked for producing districts and the other half is distributed equally between the non-producing districts (including cities). This ensures that in general producing districts receive a greater share given that there are more non-producing districts in a province.

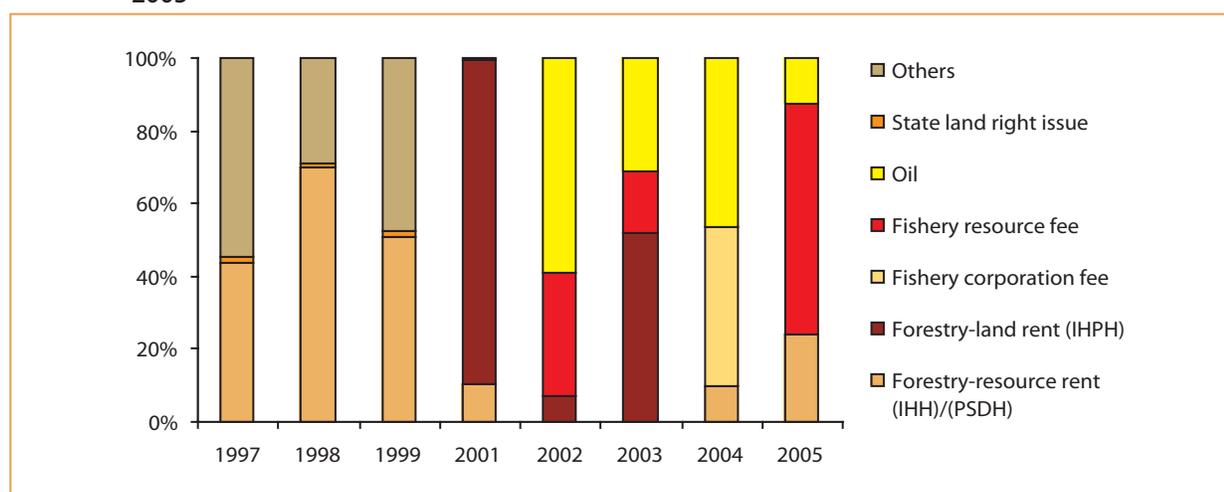
The contribution of non-tax revenue-sharing towards total revenue is very small. Its contribution to total revenue, on average, is only less than 1 percent, even lower than PAD contributions. Nonetheless, this form of revenue showed a steady increase after decentralization, although it then experienced a sharp decline in 2004 and 2005.

9 For details of the sharing arrangements between central, provincial, and district governments, see Law No. 33/2004.

The initial increase was partly driven by an expansion in the types of natural resources included in revenue-sharing. The decline in 2004 was caused by a sharp drop in revenue from the forestry sector. In 2005, revenue from forestry continued to decline along with a contraction in revenues from fisheries and oil sharing (Annexes Figure B.8.4).

The composition of non-tax revenue-sharing changed before and after decentralization. The introduction of decentralization, which expanded the types of natural resources to be shared with district governments, is behind this transformation. Forestry and “others” categories were the main sources before decentralization. Following decentralization, oil and fisheries gained in importance. While fishery revenues come largely from the locally-owned fishery industry, oil revenues come from revenue-sharing with other oil producing districts in North Sumatra (Figure 2.8). However, despite being stipulated in the law, Nias and Nias Selatan districts receive no revenue-sharing from mining, gas, or geothermal, as North Sumatra has no districts that are active in these sectors.

Figure 2.8 Composition of non-tax revenues in Nias and Nias Selatan pre- and post-decentralization, 1997-2005



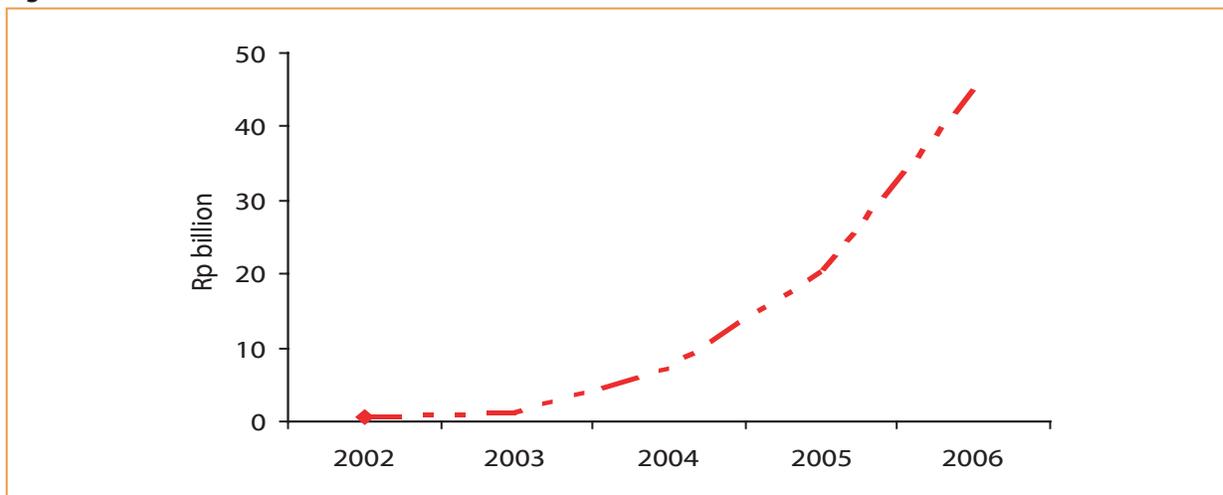
Source: World Bank staff calculations based on data from SIKD/MoF and World Bank Decentralization database. Data are in real terms (constant 2000 prices).

Special Allocation Fund (DAK)

The Special Allocation Fund (DAK) is an earmarked or conditional transfer aimed at financing specific needs in the regions or programs that are national priorities and not covered by the DAU. The DAK is financed from the national budget (APBN) and is transferred quarterly directly to district governments based on project progress. Unlike the DAU, the district is required to provide a matching fund from its own district budget (APBD) at a minimum of 10 percent of the project budget, the only exception being district governments with limited fiscal capacity. This ensures that district governments make provision for operational costs. The DAK is allocated based on three criteria: (i) general criteria (related to the net fiscal position of a district by subtracting civil servants' salaries from total revenue and dividing the total by the national average), (ii) special criteria (provinces that are eligible based on the size of coastal areas, conflict and under-development), and (iii) technical criteria (set by sectoral departments in the central government in consultation with the MoF and MoHA).

Despite their small contribution to overall revenues, DAK allocations for Nias and Nias Selatan have risen markedly every year. DAK allocations increased by a factor of 15 in real terms from Rp 1.3 billion in 2003 to more than Rp 20 billion in 2005, and more than doubled in 2006 to Rp 44 billion (Figure 2.9). This large increase is partly due to the expansion of the sectors covered by the DAK allocation. Along with this steady increase, the DAK's share of total revenue increased to 8 percent in 2005, from less than 1 percent on average in 2001-04. This is relatively higher than the national average of 2.2 percent of total revenue in 2004. The two districts receive almost equal shares of DAK.

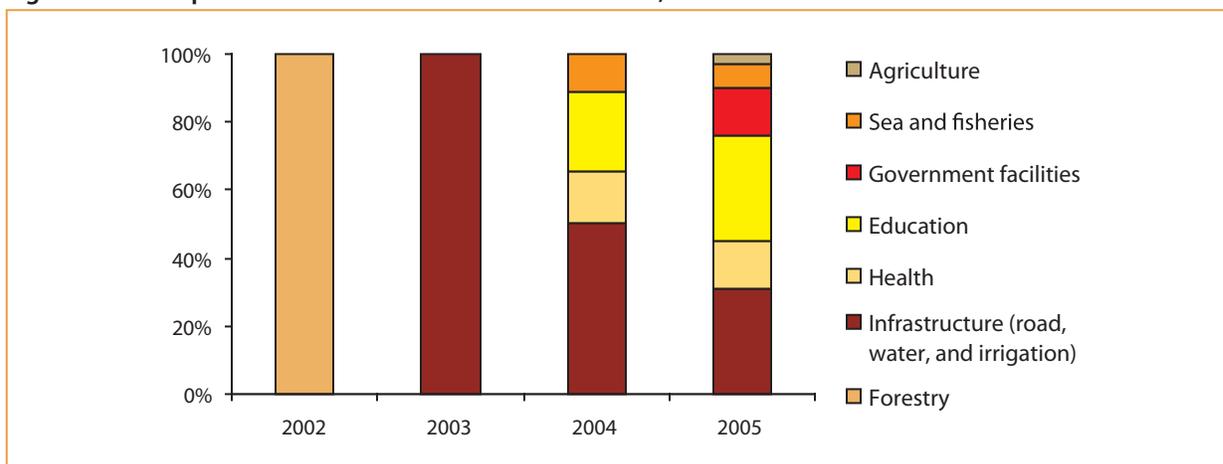
Figure 2.9 Trend of DAK allocations for Nias and Nias Selatan



Source: World Bank staff calculations based on data from SIKD/MoF and World Bank Decentralization database. Data are in real terms (constant 2000 prices).

Since 2003, the coverage of the DAK has been expanded to cover several additional sectors, such as infrastructure, education, health, government facilities, agriculture, fisheries, and the environment. In 2002, the DAK was used only to finance reforestation. In 2003, the DAK allocated for Nias island was mainly to finance infrastructure projects. Starting in 2004, the DAK was expanded to cover sectors such as education, health, fisheries, and agriculture. In 2005, the DAK was allocated to two main sectors: infrastructure (31 percent) and education (31 percent) (Figure 2.10).

Figure 2.10 Composition of DAK allocations to Nias island, 2002-05



Source: World Bank staff calculations based on data from SIKD/MoF and World Bank Decentralization database.

Although Nias Selatan district was newly established and relatively poor, it did not receive any DAK transfer in 2004. According to the local government secretary of Nias district, the requirement to fulfill the general, specific and technical criteria makes it difficult for the two districts in Nias to qualify for DAK transfers. Even if the criteria are met, the additional requirement to provide matching funding and to meet nationally set development objectives further reduces the scale of DAK transfers.

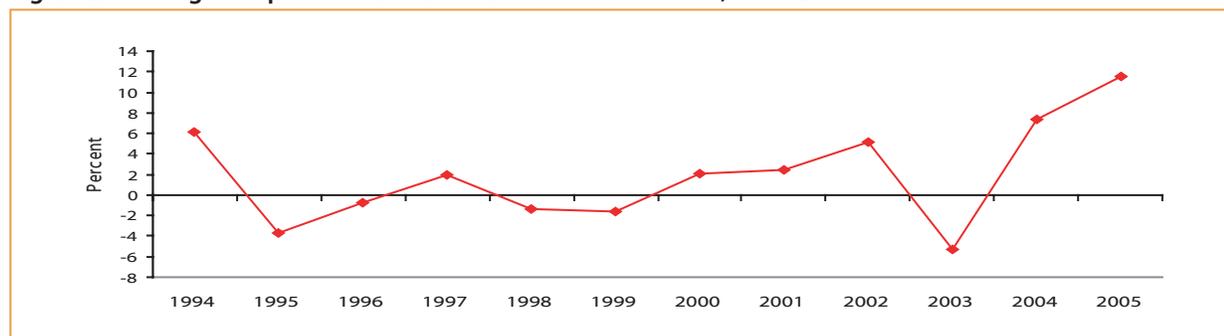
In terms of per capita DAK transfers, prior to 2005 the two districts on Nias were not a priority despite their relative poverty and isolation. In 2005, this situation started to improve somewhat as DAK contributions increased.

In 2006, Nias received per capita DAK transfers of Rp 73,000 (a 141 percent increase on the previous year), while Nias Selatan district received Rp 115,000 per capita (a 119 percent increase on the previous year) (Annexes Figure B.8.8). Nonetheless, given the challenging circumstances of the two districts it is surprising that they have not been prioritized for higher DAK allocations.

Financing and Borrowing

Budget balance has fluctuated after decentralization.¹⁰ Nias island generated a surplus after 2000, which accounted of 2 percent of the total budget, but then went into a deficit of 5 percent in 2003. In 2005, the district governments of Nias and Nias Selatan generated a substantial unspent balance of 11 percent of the total budget, indicating the low capacity of the district governments in implementing their programs (Figure 2.11).

Figure 2.11 Budget surplus and deficit in Nias and Nias Selatan, 1994-2005



Source: World Bank staff calculations based on data from SIKD/MoF and World Bank Decentralization database. Data are in real terms (constant 2000 prices).

Nias and Nias Selatan have no record of borrowing transactions in their budgets and had both accumulated significant reserves by the end of 2005. Nias district's reserves have increased by 7 percent from Rp 13 billion in 2001 to Rp 108 billion in 2005. Even as a newly created district, Nias Selatan was still able to accumulate a reserve of Rp 42.5 billion in 2005, an increase of almost five times on the previous year (Table 2.5).

Table 2.5 Accumulated reserves in Nias and Nias Selatan, 2001-05

Rp million at constant 2000 prices

	2001	2002	2003	2004	2005
Nias					
Budget balance (surplus/deficit)	4,963	10,080	(12,128)	69,918	86,774
Carry over	8,046	12,204	23,049	13,082	21,252
Reserves end of period	13,009	22,284	10,921	82,999	108,026
Nias Selatan					
Budget balance (surplus/deficit)				9,041	21,235
Carry over				365	21,252
Reserves end of period				9,406	42,486

Source: World Bank staff calculations based on data from SIKD/MoF and World Bank Decentralization database. Data are in real terms.

¹⁰ The calculation of net budget surplus and deficit does not take into account loan, repayment, and carry over from previous years as well as into following years.

The accumulation of reserves is often caused by delays in budget approval and delays in the transfer of revenue-sharing funds from the central government. These delays slow project implementation. The amounts not disbursed then appear as surpluses in district governments' budgets and are carried forward to the next fiscal year. To support timely disbursement, the budget approval process needs to be streamlined and transfers of shared revenues from the central government must occur on a quarterly basis (World Bank, 2007a). Most of the unspent budget funds sit in deposit accounts with commercial banks, but are nonetheless recorded by Bank Indonesia.

Recommendations

Improve and clarify the allocation mechanism of non-tax revenue-sharing for Nias Selatan district. Nias Selatan has received no revenue from natural resources revenue-sharing since 2004, although it is entitled to receive revenue-sharing allocations from oil and gas revenues generated in North Sumatra.

Conduct analysis to determine why Nias Selatan does not receive shared revenue from the fisheries sector. As a district that is part of an island group, the lack of shared revenue from fisheries is perplexing. It is possible that this revenue is still being captured by Nias district, thus denying resources to the budget of Nias Selatan district.

The two district governments should focus on stimulating economic activities rather than seeking to maximize own-source revenue in the short term. Seeking to maximize PAD by taxing additional activities could act as a disincentive to economic activity. A plethora of new local tax regulations may also be confusing and difficult to administer. District governments need to carefully consider the cost of collection implied in new PAD regulations to ensure that each levy is economically viable.

The central government needs to improve the fiscal position of the two districts by continuing the policy of allocating the DAK to lagging regions. Although the DAU has increased significantly in Nias and Nias Selatan the transfer does not take into sufficient account indicators such as poverty level, cost index, and Human Development Index ratings. The failure of the DAU to address the fiscal imbalances that affect the two districts is a cause of concern and should be carefully and jointly analyzed by both the central and the two district governments.

Maintain the timely approval of budgets going forward and allocate unspent resources effectively. To support timely disbursement, the budget approval process needs to be streamlined and transfers of shared revenues from the central government must occur on a quarterly basis. This requires timely production estimates from the sectoral ministries.





CHAPTER 3 **Expenditure**

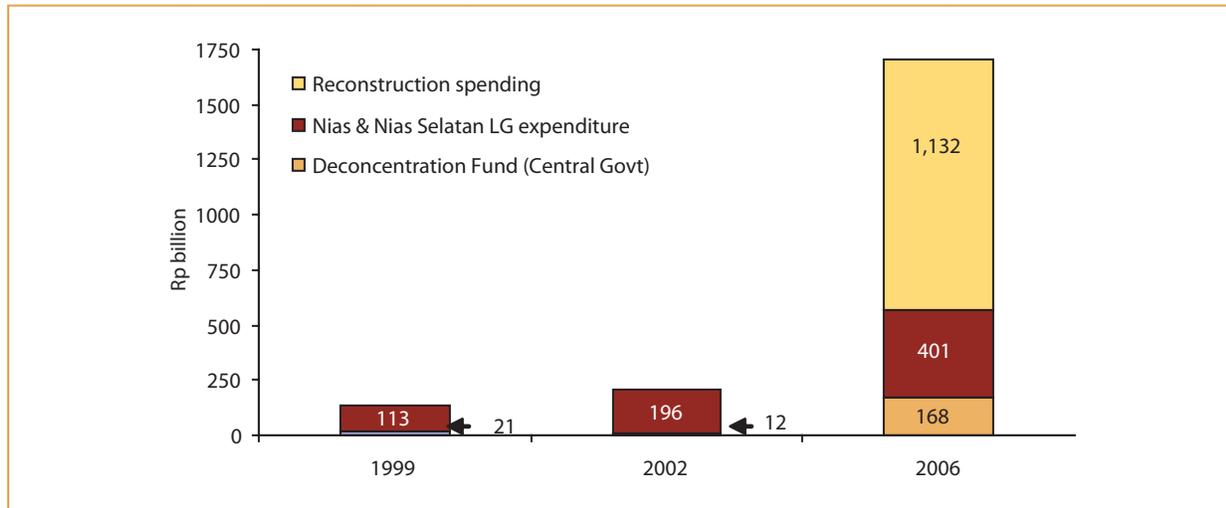
Nias Public Expenditure Analysis 2007

Overall Expenditure in Nias and Nias Selatan

The implementation of decentralization in 2001 has significantly changed the expenditure pattern between the central and regional (provincial and district) governments. Regional governments assumed a greater role after decentralization, with greater authority over budget allocations and regional spending. The share of regional spending in total government expenditure in Indonesia rose from 17 percent pre-decentralization to more than 30 percent after decentralization (World Bank, 2002). District governments are now responsible for most service delivery functions in many sectors, including health and education. In addition, civil servants in the regions previously under the authority of the central government were transferred to regional governments and financed from regional government budgets.

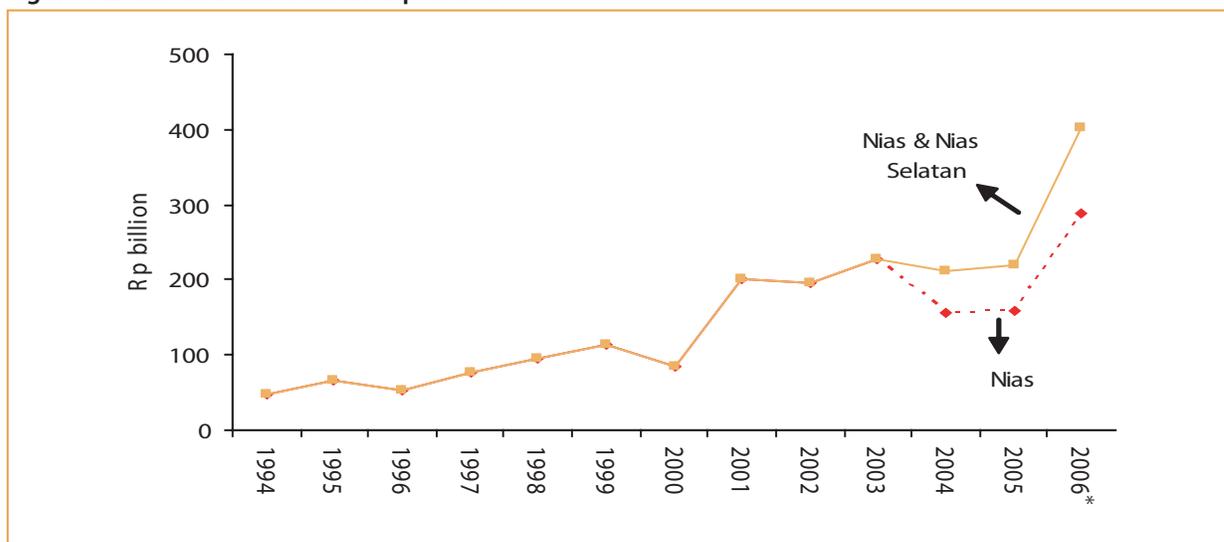
Total public expenditure in Nias and Nias Selatan districts has risen markedly since decentralization and the March 2005 earthquake. Taking district governments' budgets, deconcentration funds and the reconstruction budget together, total public resources spent in Nias and Nias Selatan districts have increased by more than 12 times their pre-decentralization level in real terms. Total public expenditure increased from Rp 113 billion in 1999 to Rp 1.7 trillion in 2006 (Figure 3.1). This increase was driven by large increases in all revenue sources. In 2006, regular district government spending alone increased by more than three times compared with the 1999 spending level. At the same time, the central government also spent substantial resources. On top of regular government spending, the two districts also received significant resources from donors, NGOs, and the central government to build back improved public infrastructure and services after the March 2005 earthquake.

Figure 3.1 Nias public spending pre and post decentralization, and after the earthquake



Source: World Bank staff estimates based on data from APBD, SIKD/MoF, BPS-SK, and BRR. Data are in real terms (constant 2000 prices).

In real terms, regular district government spending increased by a factor of 3.6 between 1999 and 2006 (Figure 3.2). In nominal terms, expenditure rose from Rp 101 billion in 1999 to Rp 569 billion in 2006. In 2001-03, district government spending increased steadily. Although expenditure actually increased in nominal terms, it declined slightly in 2004 and 2005 in real terms. The large increase in inter-governmental transfers from central to district governments after decentralization accounts for the largest share of the expenditure increase. In 2006, both Nias and Nias Selatan also benefited greatly from a substantial increase in the DAU allocation nationwide, almost doubling the two district governments' spending.

Figure 3.2 Nias and Nias Selatan expenditure

Source: World Bank staff estimates based on data from APBD, SIKD/MoF, BPS-SK, and BRR. Data are in real terms (constant 2000 prices).

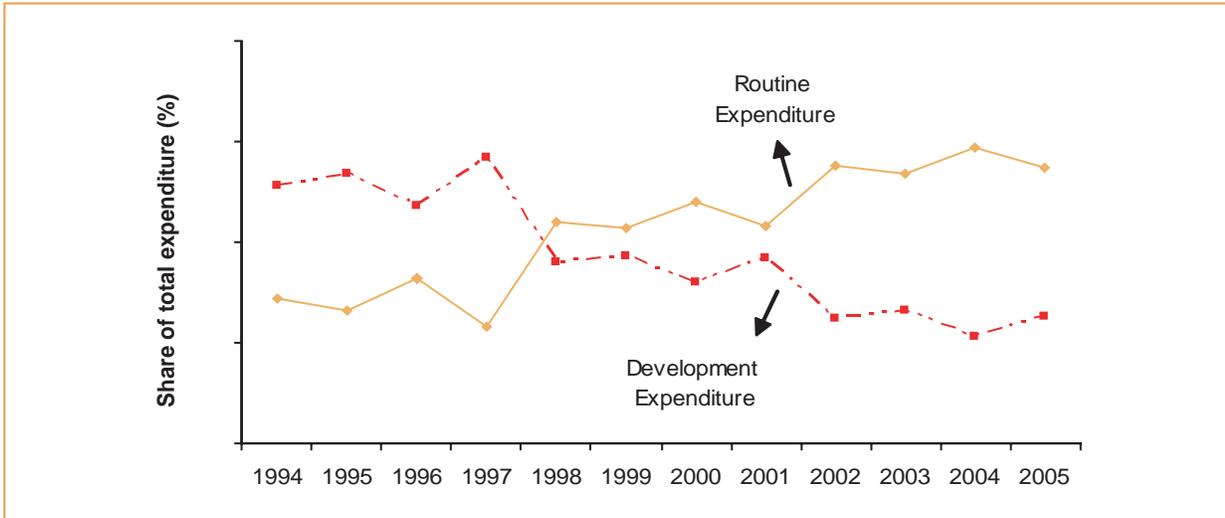
Note: *Planned budget.

Routine vs Development Expenditure¹¹

Since the implementation of decentralization, Nias and Nias Selatan districts have consistently spent the majority of their resources on routine expenditure, leaving limited resources for development. Prior to decentralization, the composition of spending was more balanced. Before 1998, an average of 65 percent of spending on the island went towards development functions. Since then, spending has become increasingly dominated by routine expenditure. Over 2001-05, routine spending on average made up 66 percent of total Nias and Nias Selatan expenditures (Figure 3.3) The transfer of responsibility for the payment of most regionally based civil servants' salaries from the central to district governments contributed substantially to the high share of routine spending in 2002. In addition, the splitting of Nias Selatan district from Nias district in 2003 further drove the increase in routine spending in 2004. In contrast, development spending has continuously declined since decentralization, with an average share of 34 percent of total expenditure in 2005.

¹¹ The Ministerial Decree (Kepmendagri No. 29/2002) has changed the local government budget format from a distinction between routine and development expenditures to apparatus and public expenditures. However, the expenditure analysis in this section is based on the old format classification of routine and development expenditure to enable a comparison of budget data over time. Expenditure items in the pre-2003 budgets cannot be converted into the new format, but post-2003 budgets can be converted to the old format (Figure B.6).

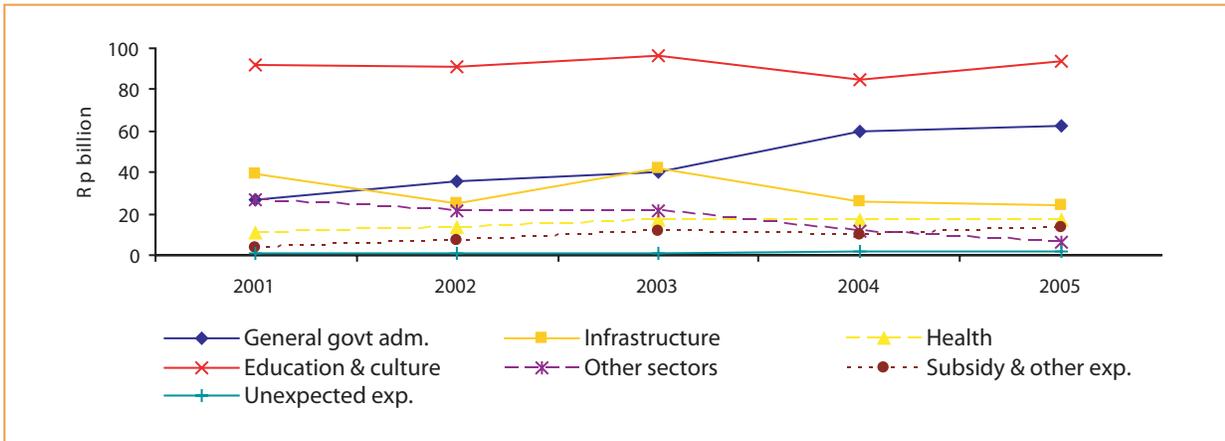
Figure 3.3 Shares of district government expenditure in Nias and Nias Selatan



Source: World Bank staff estimates based on data from APBD, SIKD/MoF, BPS-SK.

Sectoral spending is dominated by the education sector, averaging 43.5 percent of total spending over 2001-05 (Figure 3.4). Government administration received the second-largest share of total spending, at an average 21 percent. This share rose throughout the period, crowding out spending on infrastructure, which has been declining since 2003.

Figure 3.4 Overall sectoral expenditure in Nias and Nias Selatan, 2001-05



Source: World Bank staff estimates based on data from APBD, SIKD/MoF, BPS-SK. Data are in real terms (constant 2000 prices).

Routine Expenditure

By 2005, routine expenditure had more than doubled on pre-decentralization levels. The largest share of routine spending was allocated for personnel costs. Over 2001-05, on average personnel expenses accounted for 75 percent of total routine expenditure. Spending on goods and services accounted for on average 9 percent of total routine spending. Financial assistance to sub-districts and villages gained in importance, making up 9 percent of routine expenditure in 2005. Nias and Nias Selatan, similar to other districts in Indonesia, have not paid sufficient attention to operations and maintenance. The allocation for operations and maintenance was relatively small, accounting for only 1.5 percent of routine spending on average. In 2005, official travel expenses also increased by a factor of five in real terms on their 1999 levels, and the two district governments currently spend more than twice as much on travel as they spend on operations and maintenance. The other categories — which are ambiguously defined (e.g., miscellaneous expenses, expenses not included in miscellaneous expenses, and unexpected expenses)— increased

almost threefold in 2003, but have subsequently decreased. Despite their function as fungible funds, these categories should be carefully scrutinized since they have the potential for misuse (Table 3.1). In per capita terms, the two districts spent less than provincial and national averages. However, as a percentage share of total expenditure, both districts allocated more than the national and provincial averages (Annexes Figure B.8.9)

Table 3.1 Routine expenditure by economic classification in Nias and Nias Selatan

Rp billion at constant 2000 prices

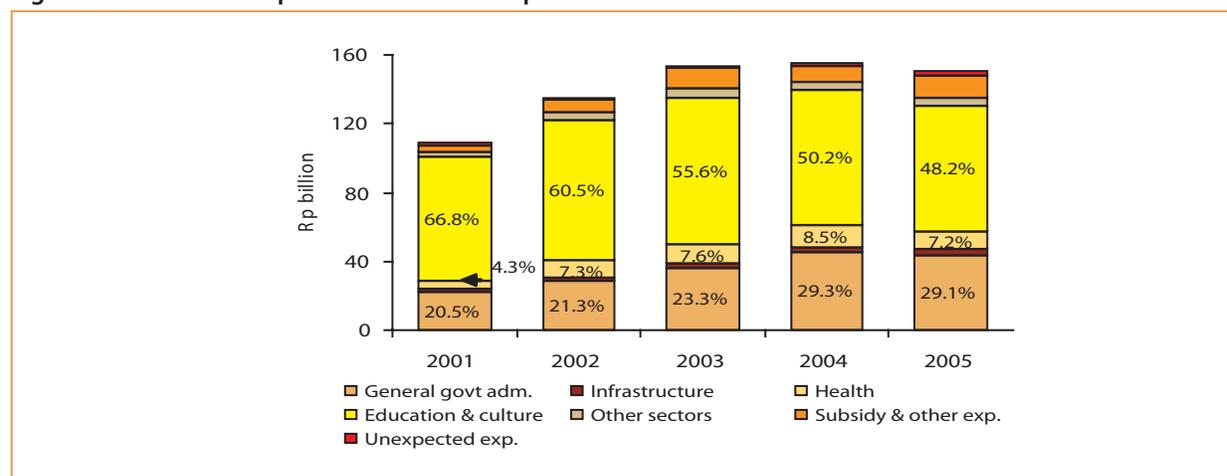
Routine Expenditure	1999*		2001		2002		2003		2004		2005	
		%		%		%		%		%		%
Personnel Exp.	41.8	68.9	88.3	81.2	102.2	75.8	106.3	69.4	118.5	76.1	114.5	76.1
Goods Exp.	10.4	17.1	9.2	8.5	11.6	8.6	17.7	11.5	16.7	10.7	12.1	8.1
Operational/Maintenance Exp.	0.6	0.9	1.4	1.3	2.5	1.9	2.2	1.4	1.6	1.0	2.5	1.7
Travel Exp.	1.0	1.7	1.1	1.0	2.9	2.1	3.9	2.5	5.0	3.2	5.5	3.7
Miscellaneous Exp.	3.3	5.4	3.7	3.4	7.4	5.5	10.8	7.1	2.4	1.5	0.0	0.0
Financial Assistance to the Lower Level Govt			1.5	1.4	1.6	1.2	2.9	1.9	8.7	5.6	13.7	9.1
Exp. not included in Misc. Exp.	3.6	6.0	2.5	2.3	5.8	4.3	8.7	5.7	0.9	0.6	0.0	0.0
Unexpected Exp.			1.1	1.0	0.7	0.5	0.7	0.5	1.9	1.2	2.1	1.4
Total	60.6	100.0	108.7	100.0	134.8	100.0	153.3	100.0	155.7	100.0	150.5	100.0

Source: World Bank staff estimates based on data from APBD, SIKD/MoF, BPS-SK. Data are in real terms.

Note: * Disaggregate data for financial assistance to the lower level of government. Expenses that are not included in miscellaneous expenses and unexpected expenses categories were not available for 1999.

The largest proportion of routine expenditure was in the education sector, mostly to cover teachers’ salaries paid by districts governments since decentralization in 2001. On average, routine education expenditure accounted for 56 percent of total routine spending over the period 2001-05. Although in absolute terms this stayed stable at about Rp 78 billion, its share declined over time from 67 percent in 2001 to 48 percent in 2005 (Figure 3.5). The declining share of spending on education has been replaced by increased spending on government apparatus, which represents the second-largest share of routine expenditure. Over 2001-05, this increased substantially, both in absolute terms (more than doubling) and as a share of routine expenditure (rising from 21 percent to 30 percent). This trend should be analyzed further by the two district governments. Routine spending on health workers and health administration remains relatively small, averaging 7 percent of total routine expenditure in 2001-05.

Figure 3.5 Sectoral composition of routine expenditure in Nias and Nias Selatan



Source: World Bank staff estimates based on data from APBD, SIKD/MoF, BPS-SK. Data are in real terms (constant 2000 prices).

Development Expenditure

District government development expenditure in Nias and Nias Selatan more than doubled after decentralization, but has declined subsequently. Development spending increased from Rp 47 billion in 1999 to almost Rp 100 billion in 2001. However, it decreased sharply in 2002 and has fluctuated since then (Table 3.2). Following a 100 percent increase in the DAU allocation in 2006, it is expected that development spending will increase significantly again. Decentralization has also altered the sectoral composition of development spending. In the past, regional development and the road and transport sector largely dominated development spending. While infrastructure remained the main sector after decentralization, its share has declined and has been substituted by increasing shares for the government apparatus and education sectors. This transformation reflects the impact of decentralization whereby budget allocations are now decided at the local level. Compared with provincial and national averages, Nias and Nias Selatan districts have the lowest per capita level of spending on development functions, well below both national and provincial averages. In terms of share of total development expenditure, Nias district allocates less than the provincial and national averages, while Nias Selatan district is almost on a par with the provincial average of 30 percent (Annexes Figure B.8.10).

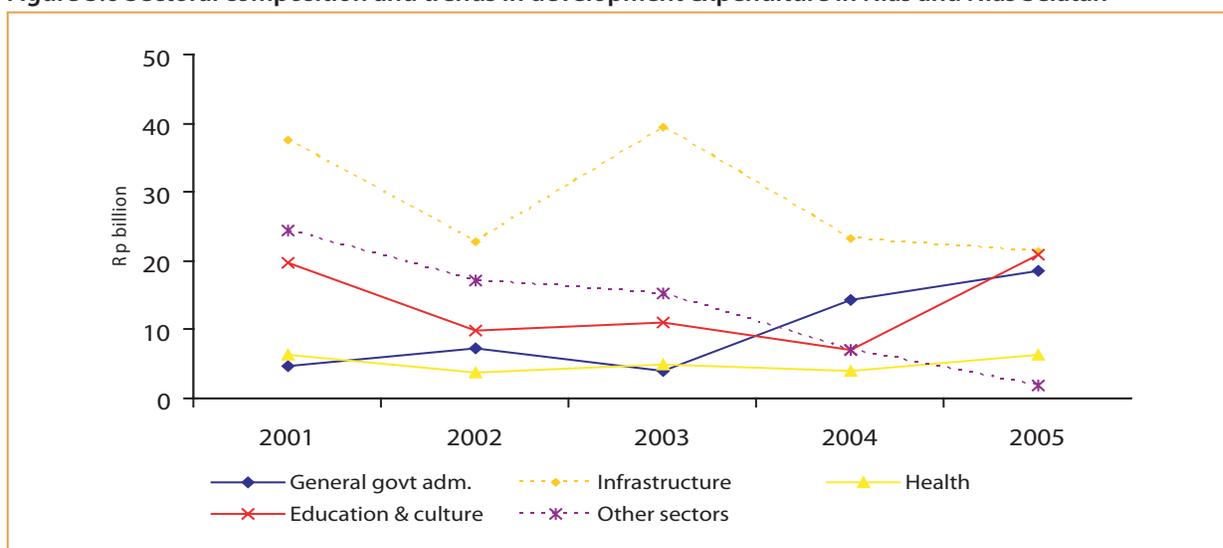
Table 3.2 Sectoral composition of development expenditure in Nias and Nias Selatan

Rp billion at constant 2000 prices

Sector	1999		2001		2002		2003		2004		2005	
		%		%		%		%		%		%
Government apparatus	2.0	3.9	3.6	3.9	6.9	11.2	3.9	5.2	12.6	22.6	16.5	24.0
Agriculture	1.2	2.3	4.3	4.7	4.5	7.4	1.8	2.4	3.5	6.2	1.5	2.2
Industry and trade	0.8	1.5	2.6	2.8	0.9	1.5	2.4	3.2	1.2	2.1	0.3	0.4
Labor force	0.05	0.1	0.05	0.1	0.65	1.1	0.93	1.2	0.00	0.0	0.0	0.0
Health, social welfare	2.5	4.8	6.5	7.0	3.9	6.4	5.2	7.0	3.9	7.1	6.4	9.3
Education and culture	6.3	12.1	19.6	21.1	9.9	16.2	11.1	14.8	6.9	12.5	20.8	30.2
Environment and spatial planning	0.4	0.7	0.0	0.0	0.0	0.0	0.1	0.1	0.3	0.6	0.5	0.8
Family planning and demography	0.00	0.0	0.00	0.0	0.10	0.2	0.71	1.0	2.74	4.9	0.9	1.3
Infrastructure	39.0	74.7	56.1	60.4	34.2	56.0	48.8	65.1	24.4	43.9	22.1	32.0
Mineral and energy	0.1	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Transport, water & irrigation	16.3	31.2	37.7	40.6	22.9	37.5	39.4	52.5	23.4	42.0	21.4	31.0
Tourism and telecommunication	0.2	0.4	1.0	1.1	0.4	0.7	0.1	0.2	0.7	1.3	0.6	0.9
Regional dev., housing and settlement	22.4	42.9	17.4	18.7	10.8	17.7	9.3	12.4	0.3	0.6	0.0	0.0
Total	52.2	100.0	92.9	100.0	61.0	100.0	75.0	100.0	55.6	100.0	69.0	100.0

Source: World Bank staff estimates based on data from APBD, SIKD/MoF, BPS-SK. Data are in real terms.

Most development expenditure is allocated for infrastructure (mainly to the road, water and irrigation sub-sectors) and education. Both in real terms and as a share of total development expenditure, infrastructure spending declined significantly after decentralization, from Rp 39 billion (75 percent) in 1999 to Rp 32 billion (32 percent) in 2005. Education increased in importance after decentralization and represented 30 percent of development spending in 2005. In real terms, the allocation for education tripled by 2005 from pre-decentralization levels. Spending on government apparatus increased more than eightfold from 1999 to 2005. Its share of total development spending increased continuously from less than 4 percent in 1999 to 24 percent in 2005. The substantial increase in 2004 was probably due to the additional support needed for the new district government facilities and infrastructure in Nias Selatan district (Figure 3.6).

Figure 3.6 Sectoral composition and trends in development expenditure in Nias and Nias Selatan

Source: World Bank staff estimates based on data from APBD, SIKD/MoF, BPS-SK. Data are in real terms (constant 2000 prices).

Apparatus vs Public Expenditure

The introduction of Ministerial Decree No. 29/2002 (Kepmen No. 29/2002) has changed the district government budget format from a routine and development classification to an apparatus and public expenditure category. The new budget format has markedly changed the structure of expenditure, while the revenue structure has remained largely the same. The new format of expenditure affects mainly the structure of district budgets, as it focuses on beneficiaries rather than programs and projects. Under the new structure, spending on activities and programs that benefit the general public are reported under public expenditure, while spending on programs earmarked for the government apparatus are reported under apparatus expenditure. The new revenue format excludes carry-over and borrowing accounts, and follows the unified budget structure that classifies expenditure into government apparatus and public expenditure. In addition, the new budget format has a separate financing account, which includes all borrowing transactions, reserves, and other financing flows. Among the revenue items now considered financing inflows are loans and carry-overs from the previous year. Among expenditures or financing outflows are the carry-overs into the following year and payments of loan principal. In addition, the new budget format also includes items such as transfers from/into reserve funds and sales/acquisitions of financial assets into financing accounts.

Based on the new budget format, Nias and Nias Selatan districts have mixed budget allocations. Nias district started using the new budget format in 2004, while Nias Selatan district only started using the new format in 2005, regardless of the fact that the regulation became active in 2003. Looking at allocations for 2005, in Nias district almost three quarters of the budget was allocated to apparatus expenditure, while the public expenditure category accounted for only 24 percent of total expenditure. In contrast, Nias Selatan district spent its budget to a greater extent on projects that benefited the public (52 percent), while apparatus expenses only accounted for 32 percent. Both district governments allocated relatively small shares of their budgets for capital expenditure: 11 percent of Nias district's budget and only 5 percent of Nias Selatan district's budget (Table 3.3).

Table 3.3 Apparatus and public expenditures in Nias and Nias Selatan, 2005*Rp billion*

Expenditure	Nias		Nias Selatan		Total	
		%		%		%
Apparatus Expense	159.2	71	31.5	36	190.7	61
General Administration	141.3	63	25.4	29	166.7	54
Operational & Maintenance	12.4	6	4.1	5	16.4	5
Capital	5.6	2	2.0	2	7.5	2
Public Expense	52.8	24	45.0	52	97.9	31
General Administration	2.0	1	22.2	26	24.2	8
Operational & Maintenance	31.6	14	20.2	23	51.8	17
Capital	19.3	9	2.6	3	21.9	7
Unexpected Expenses	2.1	1	0.9	1	3.0	1
Financial Assistance & Sharing Exp	9.8	4	9.6	11	19.4	6
Total	224.0	100	87.0	100	311.0	100

Source: World Bank staff estimates based on data from APBD, SIKD-MoF.

Planned vs Realized Expenditure

Nias and Nias Selatan district governments have under-spent their planned expenditures, especially on development programs. In 2004, the two district governments were only able to spend 79 percent of planned expenditure for development programs. This level of realization failed to improve in 2005, when the two district governments were only able to spend 64 percent of their development budgets. Routine expenditure showed a higher realization rate of 98 percent in 2004 and 92 percent in 2005 (Table 3.4). The better realization performance of routine expenditure is because most routine spending is used to finance the operations and salaries of district government officials and do not require complex project preparation. Low absorptive capacity of district governments, together with delays in budget approval processes leaving limited time for project implementation, explain the low realization rate of development spending. Furthermore, the very low realization rate seen in 2005 was also a result of the earthquake, which unsurprisingly disrupted work on the budget approval processes.

Table 3.4 Planned vs realized expenditure in Nias and Nias Selatan*Rp billion*

Expenditures	2004			2005		
	Planned	Realized	% realization	Planned	Realized	% realization
Personnel	157	156	99	169	162	96
Goods & services	24	22	91	19	17	92
Operation & maintenance	2	2	87	4	4	95
Official travel	7	7	93	9	8	92
Other	4	3	83	-	-	0
Financial assistance & unexpected expenses	16	15	97	31	22	73
Total Routine	210	205	98	233	215	92
Total Development	93	73	79	154	98	64

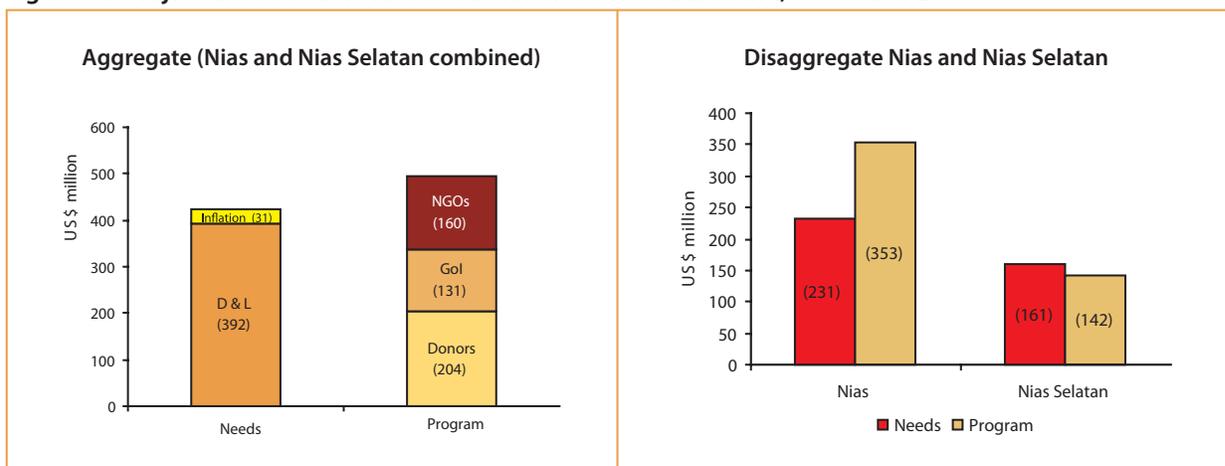
Source: World Bank staff estimates based on data from APBD, SIKD/MoF, BPS-SK.

Reconstruction Spending in Nias

US\$495 million had been allocated for the recovery and reconstruction process on Nias island by end of December 2006 (Figure 3.7). This amount slightly exceeded the estimated needs, at US\$423 million, and is expected to increase in coming years, especially from the government budget (via BRR) until 2009. These additional funds provide an opportunity for the two districts on Nias island to improve their public services and infrastructure. In order

to upgrade public services and infrastructure on the island, which were already inadequate before the earthquake, BRR estimates that an additional US\$1 billion is needed (BRR, 2006). Donors play an important role on the island and have contributed US\$200 million, or 40 percent of total allocated funds, followed by the central government (BRR) and NGOs, with contributions of US\$131 million and US\$159 million, respectively. Although in aggregate the financing needs have been met, Nias Selatan district remains underfunded and as much as US\$19 million is still needed to meet the identified needs of that district.

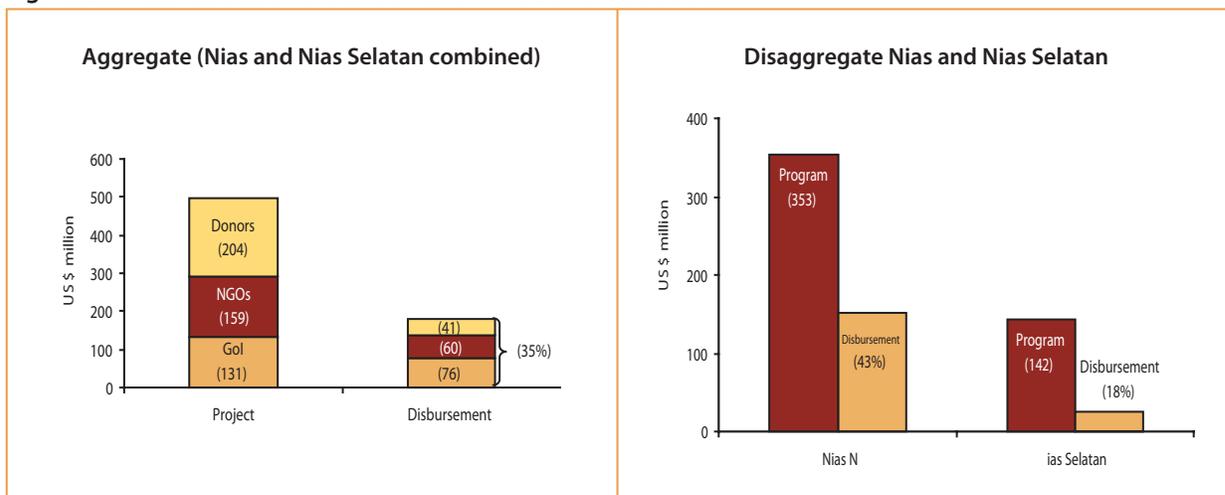
Figure 3.7 Project allocations vs reconstruction needs for Nias island, December 2006



Source: World Bank staff estimates, BRR, and IOM Post Disaster Damage Assessment.

Disbursement is relatively slow in Nias and Nias Selatan. By the end of December 2006 only 35 percent of allocated funds had been realized. The remoteness of the islands, high transportation costs in ferrying materials from Sumatra, poor transportation networks within the island group, a lack of skilled labor, and a lack of construction materials are key challenges in Nias and Nias Selatan. Nias district’s disbursement rates are lower than those in Aceh, where half of all allocated funds had been spent by the end of December 2006. While Nias district has made relatively better progress, with 43 percent of its allocated funds disbursed by the end of December 2006, the lack of progress in Nias Selatan district is alarming: by the end of December 2006 only 18 percent of funds had been spent (Figure 3.8).

Figure 3.8 Reconstruction disbursement in Nias and Nias Selatan



Source: World Bank staff estimates/BRR.

BRR Reconstruction Progress

BRR's budget allocation for Nias and Nias Selatan increased by eight times from US\$13 million in 2005 to US\$118 in 2006. In total, BRR's accumulative allocation reached US\$131 million in 2006. This vast increase in BRR's allocation in 2006 seems to have been unequally divided between the two districts. Nias district received ten times more in 2006, up from US\$11 million in 2005 to US\$115 million in 2006. Meanwhile, the overall financial needs in Nias Selatan district remain unmet: BRR only allocated a US\$2.7 million in 2006, a slight increase on US\$1.5 million in 2005. The future allocation should take into account geographical needs and aim at closing this regional gap.

Overall, housing and infrastructure sectors received the largest allocation from the BRR budget. In total, BRR has allocated US\$100 million, or 76 percent of total budget, for this sector (Annexes Figure B.8.12.). This priority is in line with the level of sectoral damage resulting from the earthquake. Housing and infrastructure sectors were severely damaged, accounting for 77 percent of total damage, valued at US\$305 million. Health and education received the second-largest allocation.

Despite facing many challenges in the field, BRR recorded relatively high disbursement rates compared with other reconstruction players on the island. As of December 2006, BRR had disbursed about 60 percent of its 2005 and 2006 budgets, equivalent to US\$75 million. Disbursement ratios vary across sectors, with health and education having relatively prompt disbursement rates compared with other sectors. By the end of December 2006, 75 percent of allocated budget for these two sectors combined had been spent. Institutional development and housing/infrastructure made least progress, with only 46 percent and 56 percent of their budgets disbursed, respectively, by the end of 2006.

Recommendations

The two district governments on Nias island need to restrain expenditures on routine functions and restrain spending on government apparatus. Routine expenditure more than doubled between 1999 and 2005. More worrying, its share of total expenditure increased to 66 percent on average in 2001-05, two thirds of which went towards paying salaries. Special attention should also be given to the increases in travel expenses and the "others" category of routine expenditure. Spending on operations and maintenance should be increased, especially given the growing need to maintain infrastructure built during the reconstruction process. There is obviously a need to ensure that demands to raise routine expenditure items are balanced against the need to invest in key sectors for the future long-term development of the island.

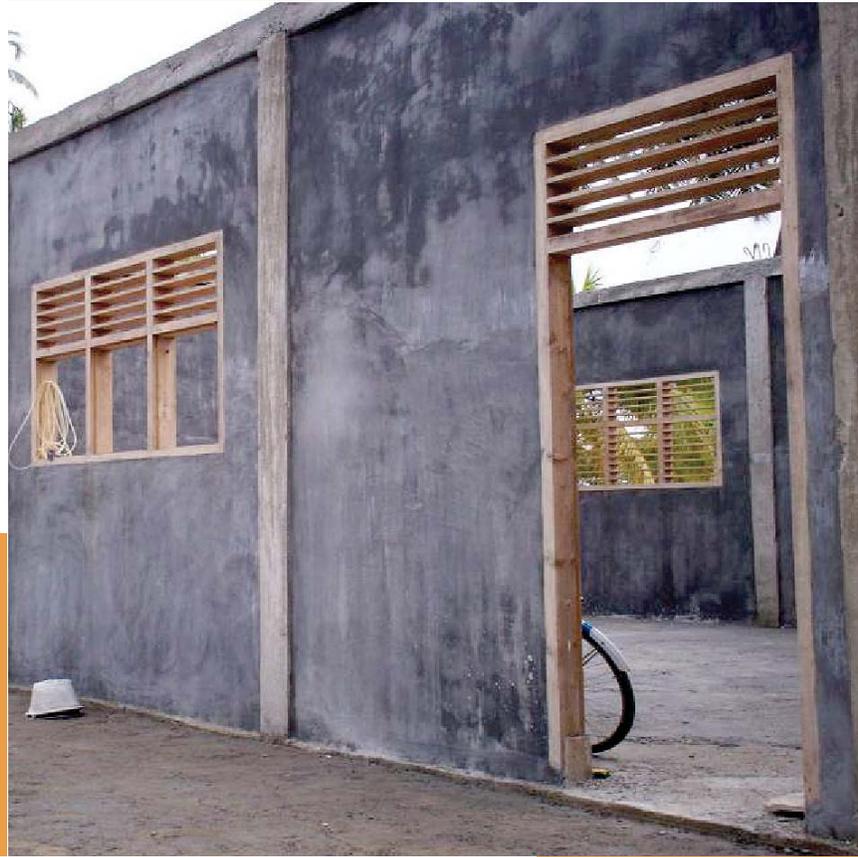
Public services and infrastructure should be the priorities of development expenditure. Consequently, the allocation of development expenditure for government apparatus should be scrutinized. Sectoral development spending on infrastructure has gradually declined, replaced by an increase in spending on government apparatus. The relatively higher allocation on education in recent years should be maintained. The larger transfers from the central government should be proportionately allocated to development expenditure, which should translate into improved public services and infrastructure.

The gap between planned and realized expenditure should be closed. There is evidence that the two district governments are not able to realize their budgets as planned, particularly with regard to development expenditure. The two district governments should improve their budget approval processes and their capacities to implement projects. With a sharp increase in revenue and expenditure in recent years it is critical to ensure that district government capacity also improves.

The two district governments need to ensure that reconstruction and rehabilitation efforts are sustainable beyond the end of BRR's mandate in 2009. Total expenditure is likely to fall and the district governments will need to secure financial resources to maintain and develop infrastructure and also improve their capacity to take over BRR's functions. BRR and the two district governments on the island must ensure that realization of reconstruction budgets is increased as much as possible. Strict budget cycles may not be in the best interests of the reconstruction effort.

The regional gap between Nias and Nias Selatan districts on the allocation of reconstruction funds should be closed. A re-evaluation of planned budgets and programs needs to be conducted in order to achieve a proportional balance between the two districts. Future budget allocations and project implementation should seek to close this gap. Nias Selatan district is still under-funded given its needs, and progress is extremely slow. It lags far behind Nias district. Nias Selatan district is entitled to receive more funds given the widespread damage and extremely small budget allocation from BRR compared with Nias district. Better coordination between the district governments and central government, donors, and NGOs is needed to address this funding gap.





CHAPTER 4 **Education**

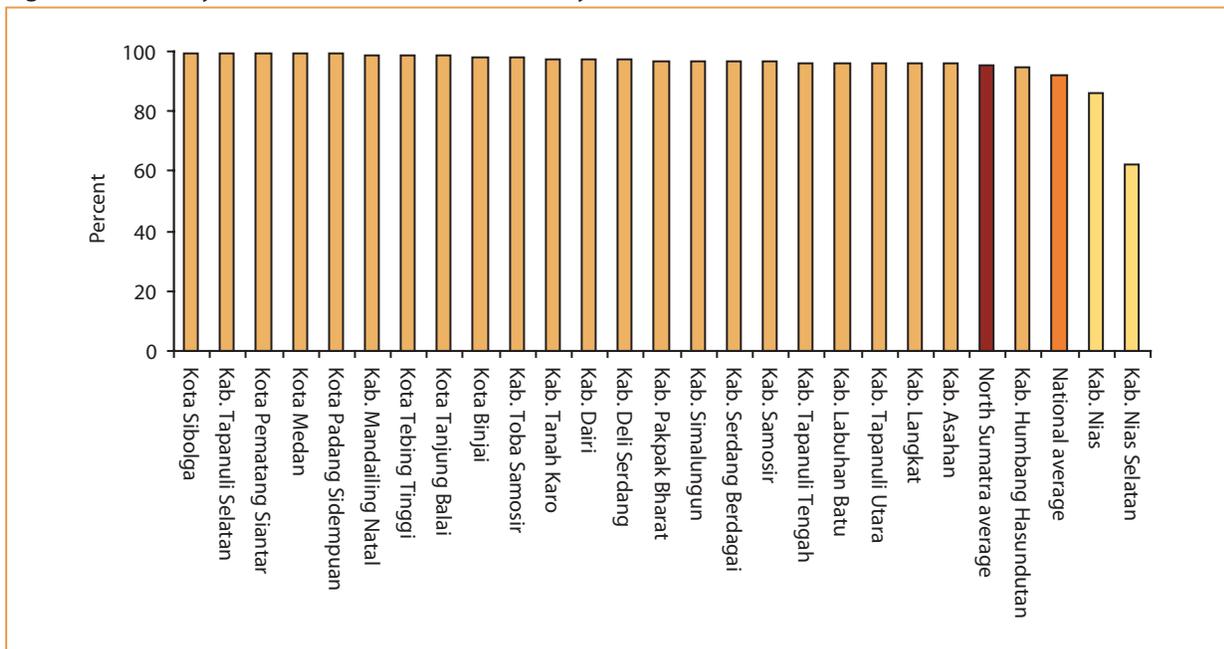
Nias Public Expenditure Analysis 2007

Education Outcomes and Facilities

Nias and Nias Selatan districts have registered some improvements across a range of indicators in recent years. However, many indicators still lag behind those of other districts, particularly in the case of Nias Selatan. Of particular concern are the lower literacy rates and the rates of enrollment for junior and senior secondary levels, as well as the unequal distribution of schools and teachers across sub-districts in the two districts.

Nias and Nias Selatan have the two lowest literacy rates in North Sumatra. The adult literacy rate in Nias district increased from 82.9 percent in 2002 to 85.8 percent in 2005, but is still below the national average. Nias Selatan district had the lowest literacy rate of all districts in North Sumatra in 2005 at only 62.5 percent (Figure 4.1). The relatively low literacy rates in the two districts are partly explained by the high percentage of the population aged 15 and over who have never attended school. In 2005, 13.5 percent of the population aged 15 and over had never attended school in Nias district, while the figure for Nias Selatan district is 39.2 percent. Of the total school-age population (age \geq 5) 14.5 percent has never attended school in Nias district and 33.5 percent in Nias Selatan district.

Figure 4.1 Literacy rates of Nias and Nias Selatan by district in North Sumatra, 2005

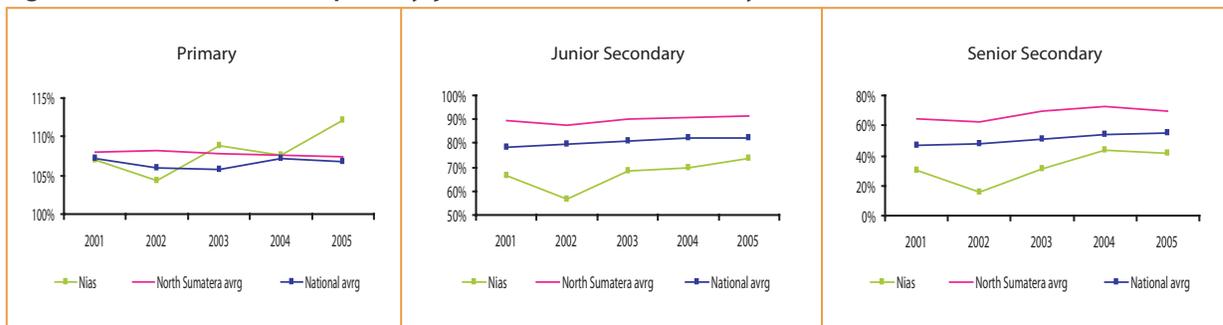


Source: World Bank staff estimates based on data from BPS (Susenas, 2005).

The gross enrollment rates (GER) for junior and senior secondary levels in Nias and Nias Selatan are consistently lower than the North Sumatra and national averages. Gross enrollment rates for the primary level increased from 107 percent in 2001 to 109 percent in 2005 (Figure 4.2). Gross enrollment rates for junior and senior secondary levels have been stable since 2003 — in the range of 67 to 76 percent for junior secondary, and 30 to 42 percent for senior secondary. An increase in 2005 enrollment rates for primary schools was partly due to the growing number of kindergarten students, of whom about half continue to the next level.¹² There was an increase of 20 percent in the number of kindergarten students, from 1,234 students in 2003 to 1,483 students in 2004. The slight increase in the enrollment rates of junior secondary in 2005 could be due to the higher percentage of primary students that passed the final year exams, from 87 percent in 2003 to 99 percent in 2004.

¹² Based on data from Education Bureau in Nias island the number of kindergarten students in Nias who continued to the primary level in 2004 was 53 percent.

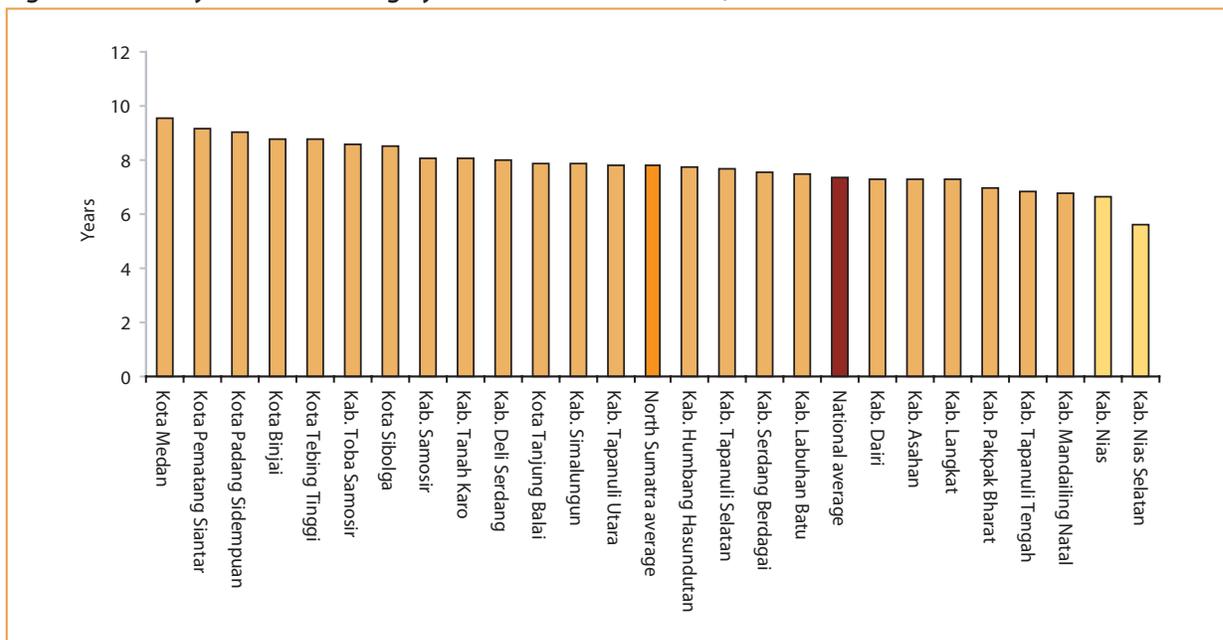
Figure 4.2 Nias island GER at primary, junior, and senior secondary levels, 2001-05¹³



Source: World Bank staff estimates based on data from BPS (Susenas, 2001-05).

In line with their low enrollment rates, Nias and Nias Selatan have the lowest mean years of schooling among districts in North Sumatra. Nias and Nias Selatan districts have mean years of schooling of 5.6 and 6.6, respectively, while the national average is 7.4 (Figure 4.3). The figure is not entirely unexpected since, according to a World Bank report (World Bank, 2006a), less than 60 percent of children born in Indonesia in 1980 have completed lower secondary school and around 40 percent have completed upper secondary school.

Figure 4.3 Mean years of schooling by district in North Sumatra, 2005



Source: World Bank staff estimates based on data from Susenas, 2005.

However, the low enrollment rates do not necessarily indicate a lack of access to school in Nias and Nias Selatan.¹⁴ In 2005, Nias district had 419 elementary schools, 78 junior secondary schools and 35 senior secondary schools, while in Nias Selatan district there were 298 elementary schools, 68 junior secondary schools, and 42 senior secondary schools. Access to schools varies at each education level. In Nias district the average service area for elementary, junior, and senior secondary schools is 8km², 43km², and 95km², respectively, and in Nias Selatan the areas are 6 km², 23 km², and 43 km², respectively. These figures are better than the national averages of 23km², 115km², and 292km², respectively, suggesting adequate access to schools at all levels (Table 4.1).

¹³ The figure includes Nias and Nias Selatan districts. Data for Nias Selatan in Susenas is available only for 2005.

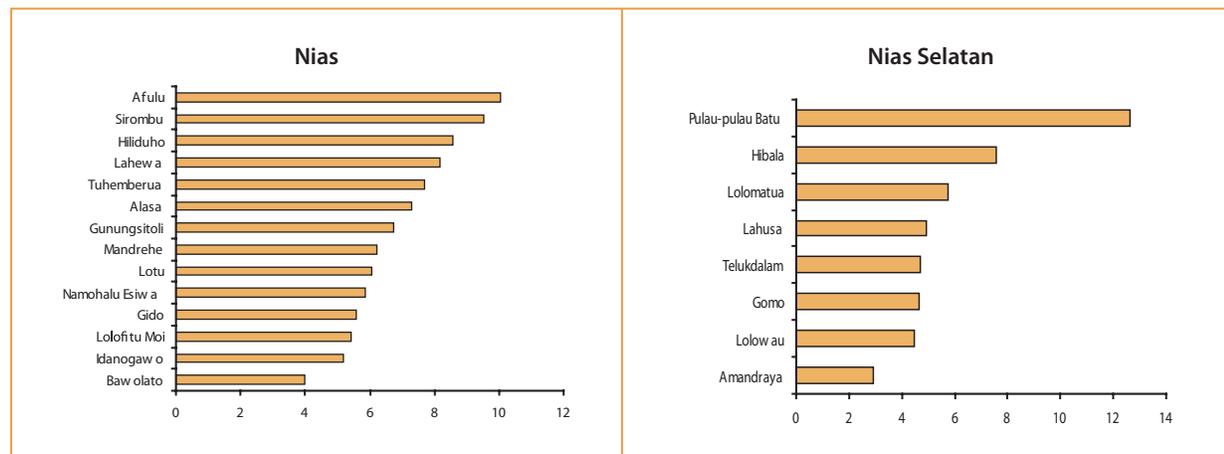
¹⁴ According to Unesco Institute for Statistics, "Education Indicators" 2003, a GER exceeding 90 percent for a particular level of education suggests that the aggregate number of places for students approaches the number required for universal access of the official age group.

Table 4.1 Service area for school for Nias and Nias Selatan, 2005Kilometer²

	Nias	Nias Selatan	North Sumatra	National average
Primary school	8.0	6.1	7.7	23.2
Junior secondary school	42.7	26.8	73.2	115.0
Senior secondary school	95.2	43.5	146.6	291.8

Source: World Bank staff estimates based on data from BPS (Podes, 2005) and MoNE.

In both Nias and Nias Selatan the ratio of primary schools per 1,000 primary school aged children is above the national average. Nias and Nias Selatan districts both have six primary schools per 1,000 primary school aged children, while Indonesia has five primary schools per 1,000 primary school aged children. The distribution of schools, however, is unequal among sub-districts in Nias and Nias Selatan. Afulu sub-district in Nias district has a ratio of more than twice that of Bawolatu sub-district, while the sub-district of Amandraya in Nias Selatan district has a ratio four times lower than that of Pulau-pulau Batu sub-district (Figure 4.4).

Figure 4.4 Primary schools per 1,000 primary school-aged children by sub-district in Nias/ Nias Selatan, 2005

Source: World Bank staff estimates based on data from BPS (Podes, 2005 and SPAN, 2005).

Student teacher ratios (STR) in Nias and Nias Selatan districts are above average for Indonesia and North Sumatra, particularly at the primary and junior secondary levels. In 2005, both North Sumatra and Indonesia had student teacher ratios of 19 for the primary level, while Nias and Nias Selatan districts had STRs of 20 and 50, respectively (Table 4.2). The World Development Indicators (WDI) 2005 have calculated the primary level STR for a sample of countries and found that low-income countries on average had STRs of 42, whereas medium- and high-income countries had STRs of 21 and 14, respectively. Based on WDI, the Nias district STR is far below the average for low-income countries, while Nias Selatan district is higher, indicating a need for more teachers in Nias Selatan, or an unequal distribution of teachers in favor of Nias district.

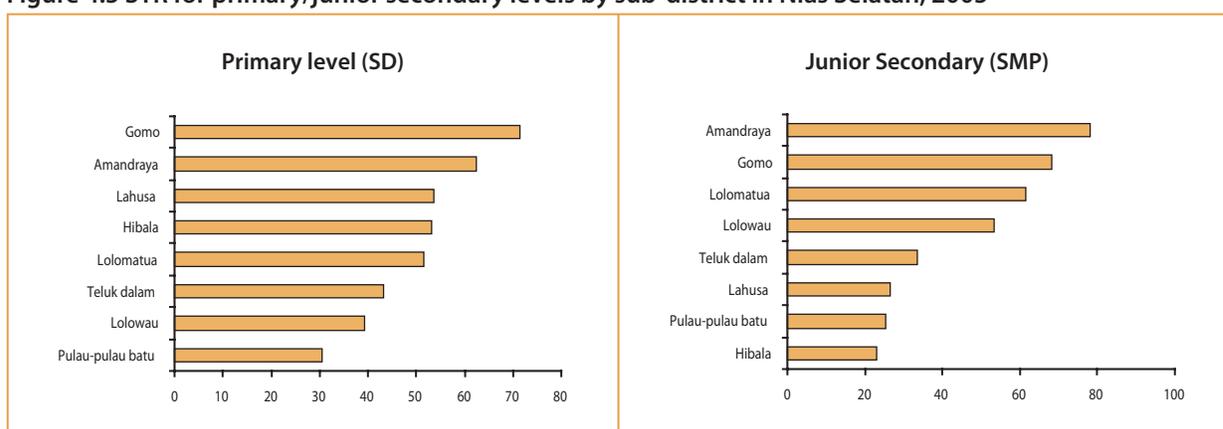
Table 4.2 Student teacher ratios in Nias and Nias Selatan, 2005

	Nias	Nias Selatan	North Sumatra	National average
Primary school	20.0	49.8	19.7	19.5
Junior secondary school	15.4	40.3	15.0	13.9
Senior secondary school	14.8	12.8	13.7	12.8

Source: World Bank staff estimates based on data from BPS and MoNE.

Insufficient numbers of teachers, or unequal distribution of teachers across sub-districts is more pronounced in Nias Selatan district. Two sub-districts in Nias Selatan, Gomo and Amandraya, have the highest STRs for both primary and junior secondary levels. Gomo has an STR of 71 for the primary and 68 for the junior secondary level, while Amandraya has an STR of 62 for the primary and 78 for the junior secondary level (Figure 4.5). The shortage of teachers is also a problem in the sub-district of Hibala, which is a separate small island, with an STR of 53 in the primary level. Given the geographical characteristics of Nias Selatan district, with its higher number of small islands and its more remote location, the provision of incentives for teachers to teach in remote and isolated areas should be encouraged. In 2006, almost 20 percent of teachers were non-civil servants and were not covered by the DAU salary formula. Enabling those teachers to become civil servants could become one possible incentive to attract teachers to the island, as well as an incentive for the two district governments themselves to gain more resources from the DAU transfer.

Figure 4.5 STR for primary/junior secondary levels by sub-district in Nias Selatan, 2005



Source: World Bank staff estimates based on data from BPS Nias and Nias Selatan.

Despite sufficient numbers of schools and teachers in Nias district, large numbers of classrooms are in very poor condition, particularly at the elementary level. In 2005, based on an assessment of 421 elementary school buildings in Nias district, 1,567 classrooms were totally destroyed, 501 heavily damaged, and 393 had medium levels of damage. This means that 80 percent of all classrooms in Nias district were in bad condition.¹⁵ The damage also affected equipment, including chairs, desks, and cabinets. In junior secondary schools, almost 50 percent of classrooms were totally destroyed or heavily damaged, while in senior secondary schools 36 percent of classrooms were in a similar condition. The condition of classrooms directly limits the ability of students to study in a conducive environment. The rehabilitation of classrooms is an immediate priority, particularly in order to anticipate the higher enrollment rates expected in the coming years.

Spending on Education

The quality of education at all levels needs to be improved given the low learning outcomes in both districts. Programs could be designed by providing better facilities and equipment, and by enhancing the capacity and quality of teachers. To fund such programs, an additional allocation from the development budget will be required. In 2006, the Nias Selatan district government planned to allocate 20 percent of the development budget towards education.¹⁶

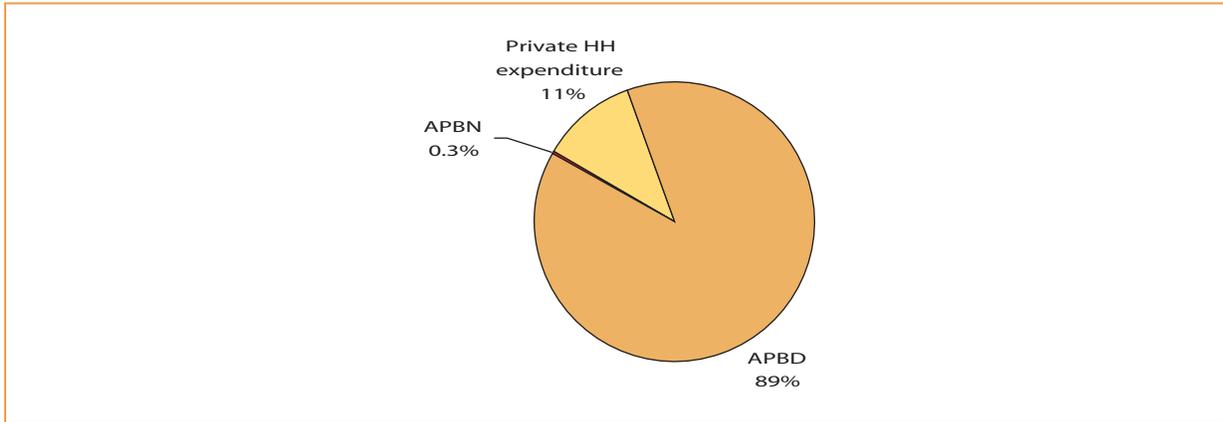
Total spending on education in Nias and Nias Selatan from a combination of district government budgets, decentralization funds, and private out-of-pocket expenditure reached Rp 150 billion in 2005. The two district governments of Nias and Nias Selatan spent the largest share of total education expenditure in 2005, accounting for 89 percent of total sector expenditure at about Rp 133 billion. Out-of-pocket expenditure followed, at Rp 17 billion or

¹⁵ Data on the number of classrooms damaged are based on Education Bureau of Nias 2005.

¹⁶ See strategic document on general policy for APBD Nias Selatan 2006.

11 percent of total education spending, lower than the national figure, whereas out-of-pocket accounts for 21 percent of total education expenditure. Education has been largely decentralized, and the central government through deconcentration funds now spends relatively very small sums on education, with less than 1 percent of total sector spending. The deconcentration funds for education declined significantly from Rp 3.9 billion in 2004 to only Rp 502 million in 2005 (Figure 4.6). In 2006, both Nias and Nias Selatan received no deconcentration funds for education.

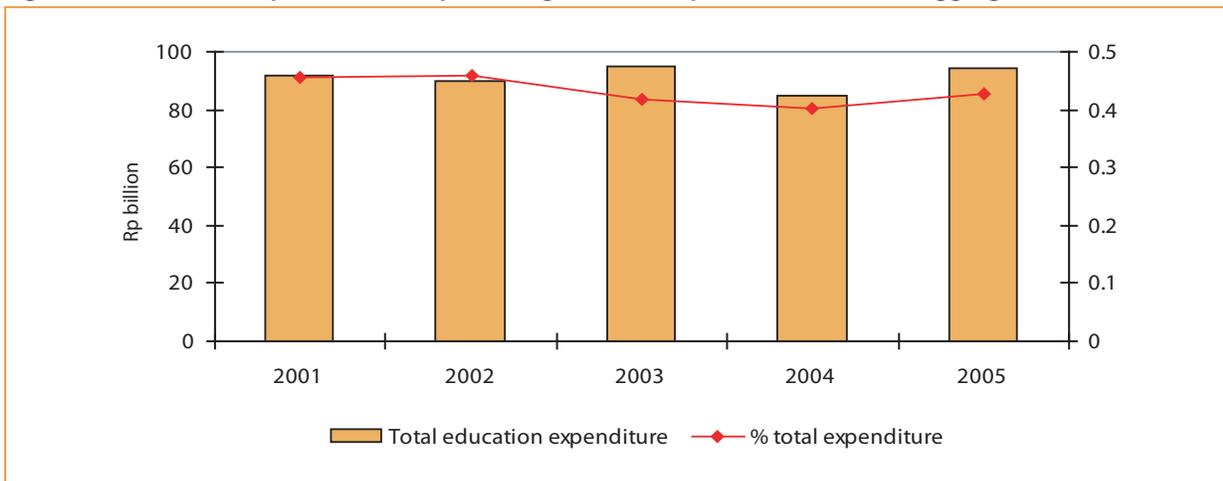
Figure 4.6 Sources of education expenditure in Nias and Nias Selatan, 2005



Source: World Bank staff calculation based on data from MoF/SIKD, BPS (Susenas, 2005).

Unlike the national level, Nias and Nias Selatan allocate a large share of their budgets to education. Education spending in Nias and Nias Selatan districts accounts for an average of 43 and 45 percent of total expenditure, respectively, compared with a national average of 28 percent. The share of education spending to total expenditure declined after 2002, but increased again in 2005. In real terms, total expenditure on education declined by 7 percent from Rp 91.8 billion in 2001 to Rp 85.1 billion in 2004, and increased to Rp 94 billion in 2005 (Figure 4.7). The decline was particularly evident after the division of the island into two districts and could be due to the smaller budget size of Nias Selatan district.

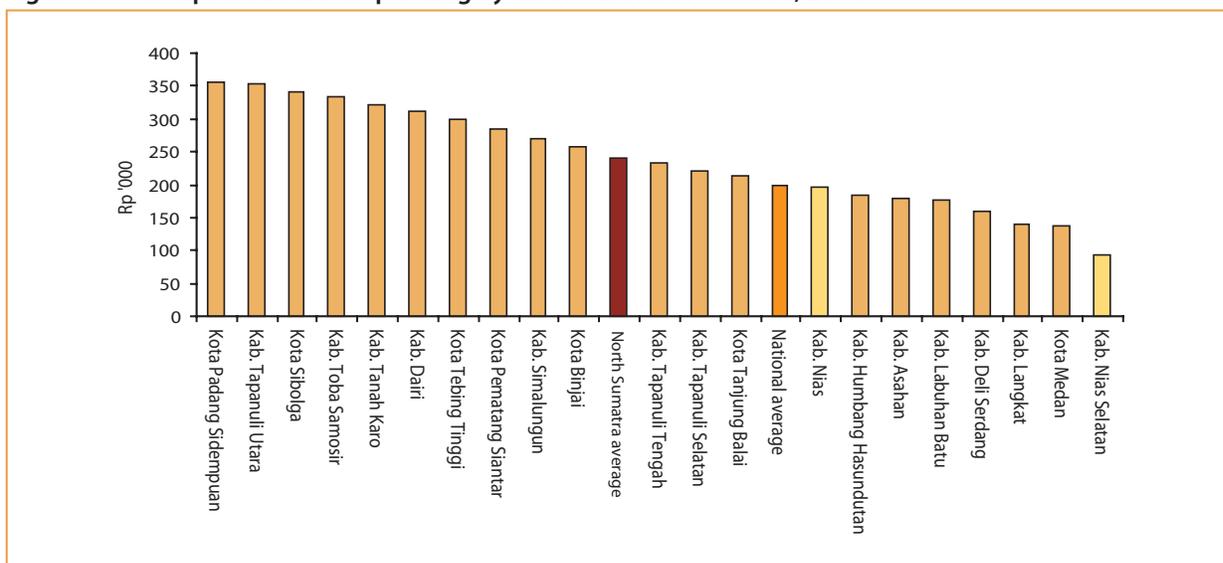
Figure 4.7 Education expenditure and percentage of total expenditure of Nias in aggregate, 2001-05



Source: World Bank staff calculations based on data from MoF/SIKD (constant 2000 prices).

Although the share of education to total expenditure is high, per capita expenditures on education in Nias and Nias Selatan were below the averages for North Sumatra and Indonesia in 2004. Nias Selatan district had the lowest per capita spending on education among districts in North Sumatra, at Rp 93,888, while Nias district spent Rp 197,397 per capita (Figure 4.8). Nias Selatan district spends three times less than Padang Sidempuan district, which has the highest per capita education spending in North Sumatra. The small per capita education spending in both Nias and Nias Selatan is primarily the result of very small budgets.

Figure 4.8 Per capita education spending by district in North Sumatra, 2004



Source: World Bank staff calculations based on data from MoF/SIKD (constant 2000 prices).

The vast majority of education spending went towards routine functions, which averaged 85 percent of total education expenditure in 2001-05. The share of development expenditure increased in 2005, particularly in Nias Selatan district. In 2005, Nias Selatan district allocated 41 percent of total education expenditure to development functions. Of the total development expenditure, Nias Selatan district allocated 21 percent to education in 2006 as part of its attempt to meet the policy planning program, while Nias district allocated 15 percent on average in 2001-05 of total development expenditure to education (Table 4.3).

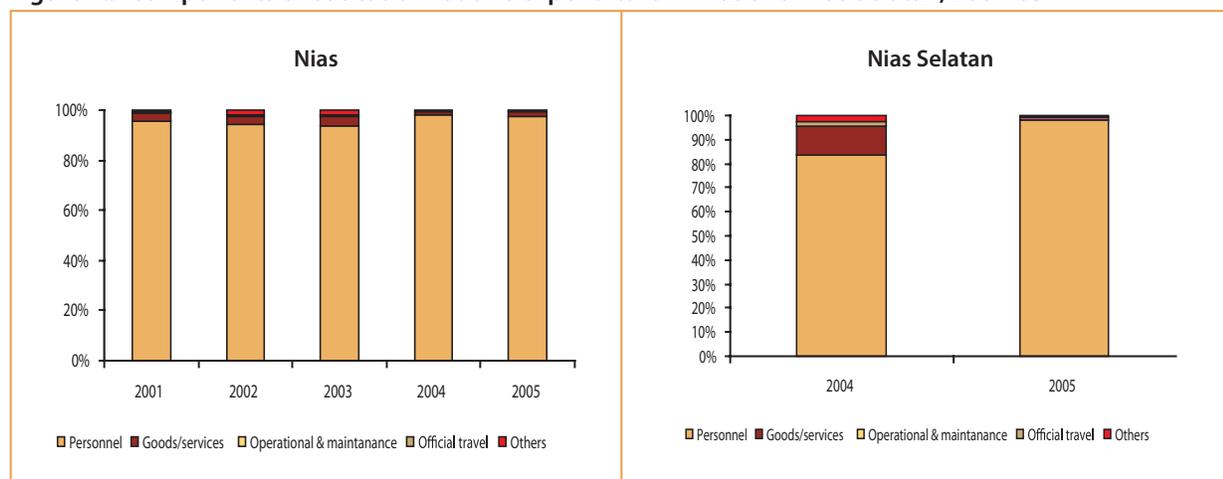
Table 4.3 Routine and development education expenditure for Nias island, 2001-05

Rp million at constant 2000 prices

	2001		2002		2003		2004		2005	
		%		%		%		%		%
Routine	72,598	77.36	81,603	88.73	85,221	87.78	78,165	89.72	73,215	76.23
Development	19,251	22.64	8,358	11.27	9,860	12.22	6,948	10.28	20,819	23.77
Total	93,851	100.00	91,963	100.00	97,084	100.00	87,117	100.00	96,039	100.00

Source: World Bank staff calculations based on data from MoF/SIKD.

Spending on personnel (payment of teachers’ salaries) accounts for the bulk of routine expenditure, leaving little else for other routine components (Figure 4.9). This even applies to Nias Selatan, which despite being a new district allocates a small portion of its routine expenditure to new office buildings and equipment, and far more on personnel. In 2004, expenses on goods and services accounted for only 12 percent of routine expenditure in Nias Selatan district. In Nias district, the allocation for personnel averaged 96 percent of routine expenditure and only 3 percent was spent on goods and services. Less than 0.5 percent of total routine expenditure was allocated for operations and maintenance in both districts — far from sufficient if education infrastructure and facilities are to see any improvement.

Figure 4.9 Components of education routine expenditure in Nias and Nias Selatan, 2001-05

Source: World Bank staff calculations based on data from MoF/SIKD (constant 2000 prices).

Development expenditure projects focus on capacity-building for teachers and the rehabilitation and construction of school buildings. Capacity-building for teachers also includes providing support for teachers who choose to upgrade their education level to bachelor degree (S1). Activities for school-building rehabilitation and construction have focused particularly on primary school (SD) buildings. Earmarked DAK grants have given significant support to the education development programs of the two district governments.

Impact of Earthquake and Reconstruction Spending on Education

The earthquake in March 2005 damaged and destroyed more than 700 schools. Most of the school buildings damaged were primary schools. In all, 581 primary schools, 85 junior secondary schools and 31 senior secondary schools were damaged by the earthquake. As of December 2006, 124 permanent schools had been rebuilt or repaired, along with 214 temporary schools. However, the progress in school reconstruction is still far from meeting identified needs.

About US\$9 million had been allocated by BRR for the education sector in Nias and Nias Selatan by December 2006. Although insufficient to cover all the damage to education facilities (estimated at US\$23 million), BRR funding has financed the repair of more than 100 schools. Similar to BRR experience with reconstruction progress in Aceh, the education sector has a relatively higher disbursement rate than other sectors, at 64 percent and totaling US\$6.8 million.

Recommendations

An increase in the flow of funds, particularly from reconstruction, should be used to provide greater access to secondary education. Access to secondary education, especially at the junior secondary level, could be improved by providing scholarships to eligible students. Greater access to secondary education would help to meet the government regulation of nine years of compulsory education and would also give a better rate of return to the people of Nias island than simply allowing their children to complete primary education.

Allocate development expenditures to rebuild destroyed schools and restrain the construction of additional schools until sufficient teachers and adequate funding to maintain schools is provided. Access to schools is sufficient, but there remains a lack or unequal distribution of teachers. Unless this under-supply is addressed, adding more schools will not lead to better outcomes.

Teacher staffing policy to ensure there is adequate teacher distribution in districts and sub-districts. A high student teacher ratio suggests that more teachers are needed for primary and junior secondary schools in Nias Selatan district. An incentive mechanism is needed to attract qualified teachers to teach in remote areas. Shifting the status of non-civil servant teachers to civil servant status could be one alternative to attract teachers to the island, as well as an incentive for the two district governments to receive more DAU revenue. An assessment of staffing needs could also help in addressing the unequal distribution of teachers among sub-districts in Nias and Nias Selatan.

Additional funding for education from earmarked grants is needed to raise low per capita expenditure on education. Although both districts have allocated higher portions of their budgets to education than the national average, their small budget sizes mean that they still have lower per capita expenditure levels. DAK allocations could help in addressing low per capita spending and bringing education outcomes up to the national average.

Accelerate classroom and school rehabilitation with the timely disbursement of financial resources by the district governments, BRR and other reconstruction players. Delays in district governments' budget approvals disturb cashflow that is targeted towards school rehabilitation. A more rapid disbursement rate by BRR and other players contributing to the education sector would significantly contribute towards improving the learning environment. This would lead to higher outcomes in the years to come.

Improve the budget allocation for operations and maintenance. Sufficient budget for maintenance is vital given the ongoing rehabilitation and reconstruction program. The share of maintenance from total routine spending is insignificant compared with the share of spending on personnel, goods and services.





CHAPTER 5 Health

Nias Public Expenditure Analysis 2007

Health Systems and Outcomes

Despite improvements in recent years, health outcomes on Nias island still lag behind provincial and national averages. Nias island has a much higher infant mortality rate than North Sumatra and Indonesia. The percentage of children below five years of age with poor nutrition is far higher at 51.8 and 45.8 percent for Nias and Nias Selatan districts, respectively, compared with the provincial and national averages of below 29 percent. Life expectancy at birth in Nias district is similar to North Sumatra, but slightly lower in Nias Selatan district (Table 5.1).

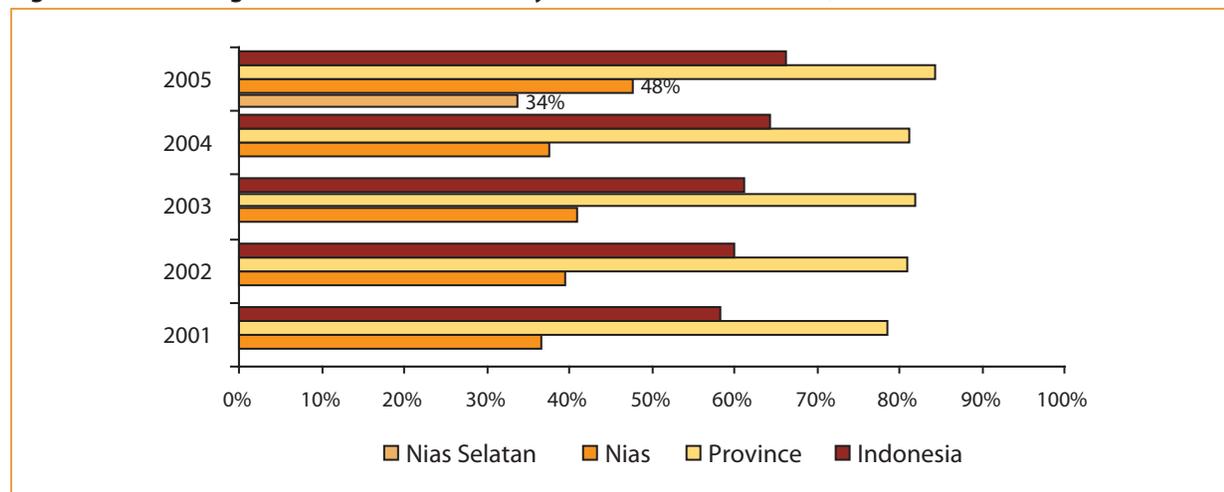
Table 5.1 Health indicators in Nias and Nias Selatan

Indicators	Nias island		Nias district	Nias Selatan district	North Sumatra	Indonesia
	1998	1999	2002			2005
Life expectancy (years)	64.1	66.4	66.8	68.7	67.9	68.1
Infant mortality child < 5 year (per 1,000 population)		44	40.9	36.1	33.5	32.8
Child age < 5 with poor nutrition (%)		59.0	57.7	51.8	45.8	28.2

Source: (BPS and Nias, 2006, and BPS and Nias Selatan, 2006), Unicef Nutritional Survey 2005, BPS Sumut, MDG database.

A large number of deliveries are attended by traditional midwives (*dukun*). In 2005, the number of deliveries assisted by trained medical workers (doctor, midwife or paramedic) was only 48 percent in Nias district and 34 percent in Nias Selatan district. Nias and Nias Selatan districts have the third-lowest and the lowest percentage of deliveries attended by trained medical workers, respectively, far below the provincial and national averages. Prior to the formation of Nias Selatan, in 2001-04 there was almost no improvement in this indicator, which fluctuated in a range between 37 percent and 41 percent (Figure 5.1).

Figure 5.1 Percentage of deliveries attended by trained medical workers, 2001-05



Source: BPS (Susenas, 2001-05).

Immunization coverage is relatively low across Nias island compared with provincial and national coverage. With the exception of polio, all types of immunization show a lower coverage in Nias and Nias Selatan district. Overall immunization coverage (the percentage of children who have been vaccinated by all types of immunization) is only 33 percent in Nias district and even lower in Nias Selatan district, at about 16 percent. Both levels are far below the provincial and national averages (Table 5.2). In comparison with other districts, Nias Selatan registered the lowest coverage, while Nias district registered the fifth-lowest coverage in North Sumatra.

Table 5.2 Immunization coverage on Nias island, 2005

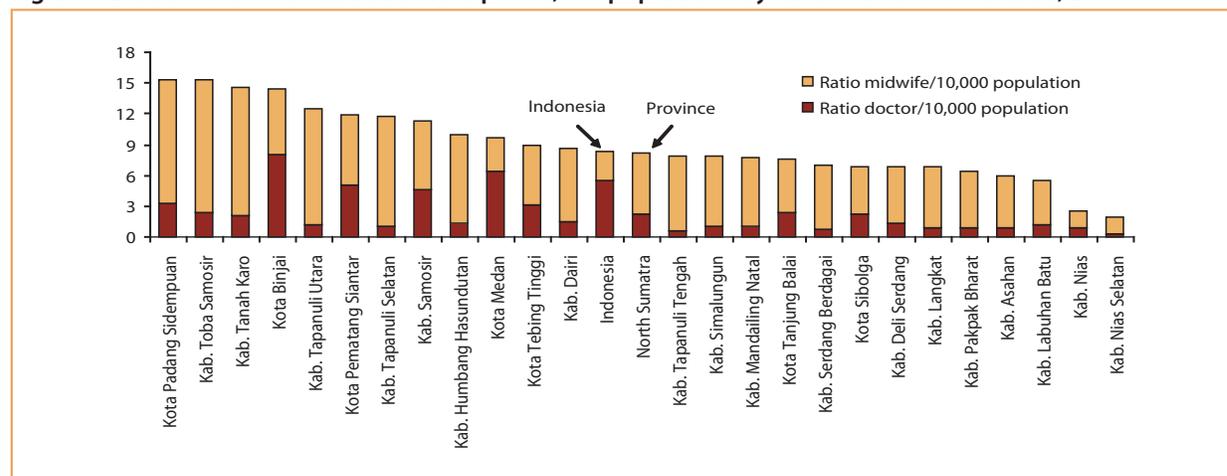
Percent

	Nias	Nias Selatan	North Sumatra	National
BCG	66.6	48.5	74.8	86.9
DPT	68.5	38.1	71.2	84.2
Polio	83.6	78.2	76.9	89.1
Measles	58.1	37.6	59.7	72.2
Hepatitis B	42.4	21.2	58.0	74.4
All immunizations (at least once)	33.3	15.8	49.9	64.3

Source: BPS (Susenas, 2005).

Note: BCG (Bacillus of Calmette and Guerin), DPT (combined vaccination against diphtheria, pertussis, whooping cough, tetanus). The category 'all immunizations' is the percentage of children who have been vaccinated with all types of vaccines at least once.

The shortage of doctors and health workers has been a key problem of the health system on Nias island, contributing to a lack of health service provision and poor health outcomes. The remoteness of the island and the lack of an appropriate incentive mechanisms have made Nias island unattractive for qualified medical specialists and doctors. Both Nias Selatan and Nias districts have the two lowest ratios of health workers (doctors and midwives) per 10,000 population in North Sumatra. Nias Selatan district has only seven doctors to serve its entire population of almost 290,000, while Nias district has 40 doctors providing healthcare services to more than 440,000 people. The ratios of midwives per 10,000 population are 1.6 in Nias district and 1.7 in Nias Selatan district, almost four times below the provincial average (Figure 5.2).

Figure 5.2 Ratio of doctors and midwives per 10,000 population by district in North Sumatra, 2005

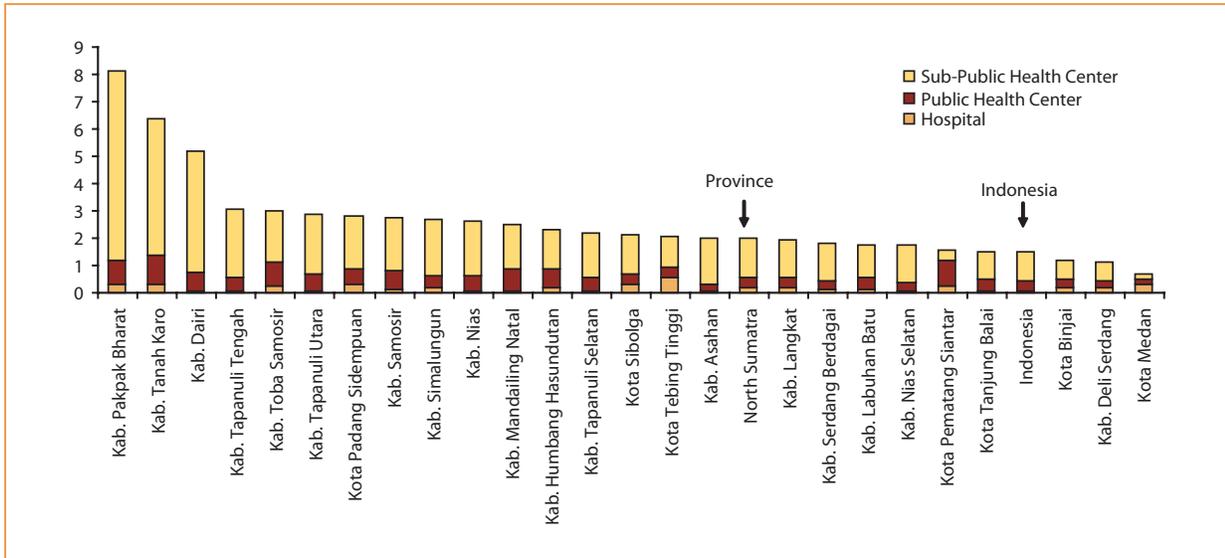
Source: World Bank staff estimates based on data from BPS (Podes, 2005, BPS and Nias, 2006, and BPS and Nias Selatan, 2006).

The shortage of health personnel on Nias island is exacerbated by the unequal distribution of health workers among sub-districts across the island, creating significant gaps in under-developed areas. The distribution of health personnel among sub-districts is biased towards areas closer to the two district capitals, Gunung Sitoli and Teluk Dalam. Although every sub-district in Nias district has at least one doctor, there are three sub-districts that have only one midwife, and one sub-district, Namohalu Esiwa, that has no midwife at all. The situation is worse in Nias Selatan district, with five out of the seven doctors located in Teluk Dalam, with the result that five sub-districts have no doctor and two sub-districts have no midwife. Poor access to sub-districts and villages on Nias island and the lack of appropriate incentives are the main reasons for the unwillingness of health personnel to be posted to remote areas.

Prior to the earthquake, the availability of public health facilities in Nias district was above the provincial average, while health facilities were insufficient to provide basic health services in Nias Selatan district (Figure 5.3). Nias Selatan district had less than two health facilities per 10,000 population before the earthquake. In contrast,

Nias district had a higher ratio of health facilities to population than the provincial average. According to district-based BPS (Podes, 2005), before the earthquake Nias district had one hospital, 25 health centers, 88 sub-health centers, six midwife practices, 89 mother and child health centers (Posyandu), 263 village health clinics (Polindes), while Nias Selatan district had one hospital, eight health centers, 40 sub-health centers, 11 midwife practices, 75 Posyandu, 68 Polindes. This mixed situation deteriorated significantly after the earthquake. Based on data from the Dinas Kesehatan, in the wake of the earthquake about 44 percent of health centers and 63 percent of sub-health centers in Nias district were in a severely damaged condition. Meanwhile, in Nias Selatan district 38 percent of health centers and 78 percent of sub-health centers were in a severely damaged condition.

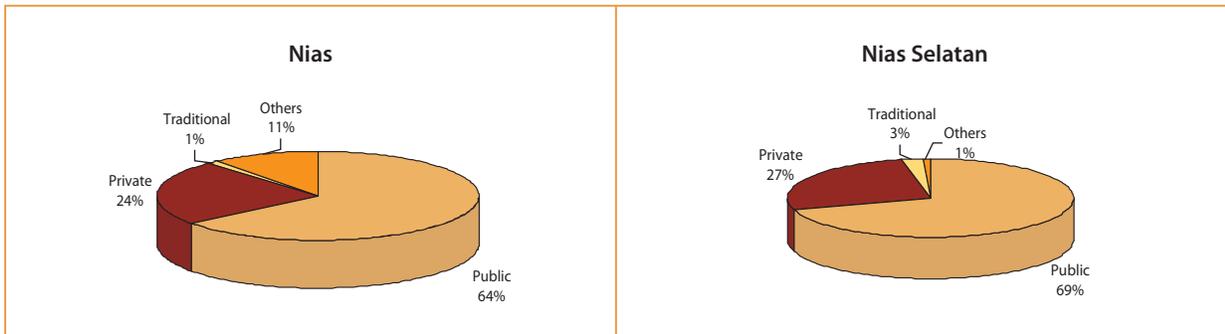
Figure 5.3 Ratio of public health facilities per 10,000 population



Source: World Bank staff estimated based on data from BPS (Podes, 2005).

The utilization rate of health services on Nias island is relatively low. The usage rate of health facilities (both public and private) is 23 per 1,000 population in Nias district and 39 per 1,000 population in Nias Selatan district, lower than the provincial and national averages of 60 and 97 per 1,000 population, respectively (Figure 5.4). The majority of people seek medical services from public health facilities, predominantly from community health centers (Puskesmas) and health sub-centers (Pustu), while about a quarter of the population make use of private healthcare facilities. This is in contrast to the use of health facilities seen at the provincial and national levels, where on average 62 percent and 52 percent of the population, respectively, seek medical services from private healthcare facilities.

Figure 5.4 The distribution of usage of health service facilities,¹⁷ 2005



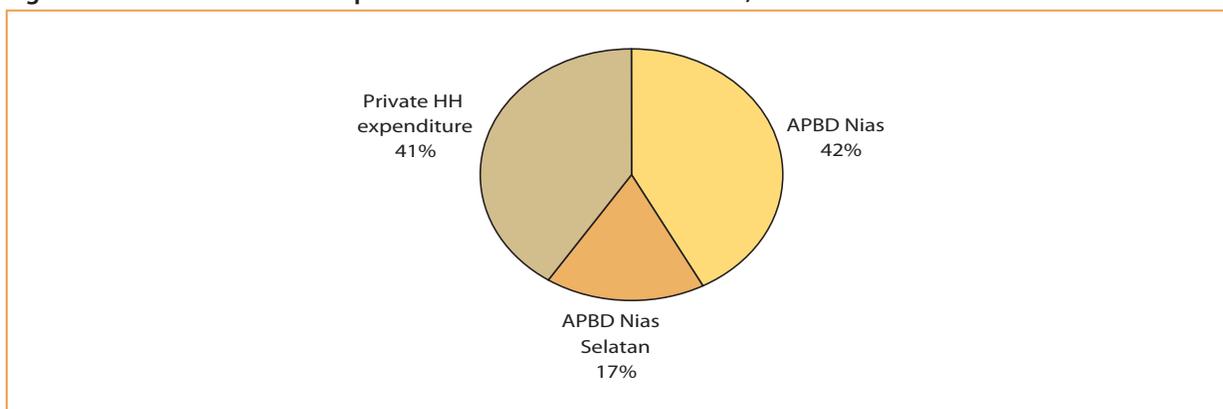
Source: BPS (Susenas, 2005).

¹⁷ Public health facilities include: public hospital, public health center (Puskesmas), public health sub-center (Pustu). Private health facilities include: private hospital, doctor practices, polyclinic, health personnel practices. Traditional health facilities include health services provided by traditional medication and traditional practitioner (dukun). Others include village clinic posts (Polindes) and mother and child health centers (Posyandu).

Spending on Health

More than half of total health spending in Nias and Nias Selatan districts is financed from district government budgets. Total expenditure on health in Nias and Nias Selatan districts was Rp 41 billion in 2005 in current terms, coming from a combination of district government budgets and out-of-pocket private spending. The central government provided no funds from the national budget for healthcare in the two districts in 2005, although it had allocated almost Rp 2.5 billion in 2004. Out-of-pocket spending from private households amounted to about Rp 17 billion in 2005, or about 41 percent of total sector spending (Figure 5.5). This share of private out-of-pocket in the two districts is lower than the national average of 55 percent.

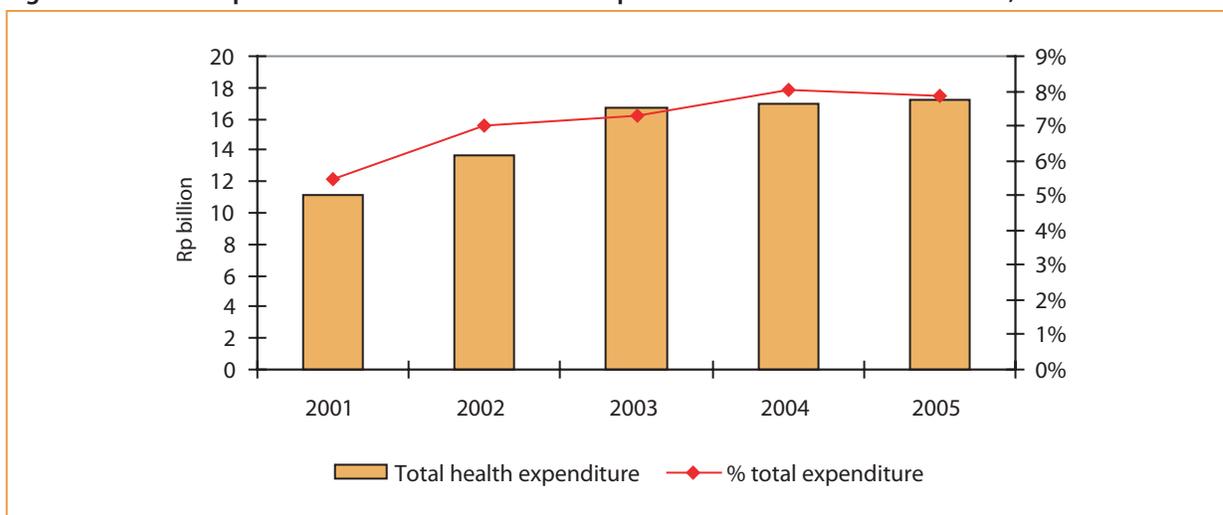
Figure 5.5 Sources of health expenditure in Nias and Nias Selatan, 2005



Source: World Bank staff calculations based on data from MoF/SIKD, BPS (Susenas, 2005).

Both district governments have allocated a rising share of their budgets to the health sector. In real terms, overall expenditure by the two districts rose from Rp 11 billion in 2001 to more than Rp 17 billion in 2005. The share of health spending to total expenditure increased from 5 percent in 2001 to 8 percent in 2005 (Figure 5.6). On average in 2001-05, Nias and Nias Selatan districts spent about 7 percent and 8 percent, respectively, of their total expenditure on the health sector, similar to the national average of 7 percent.

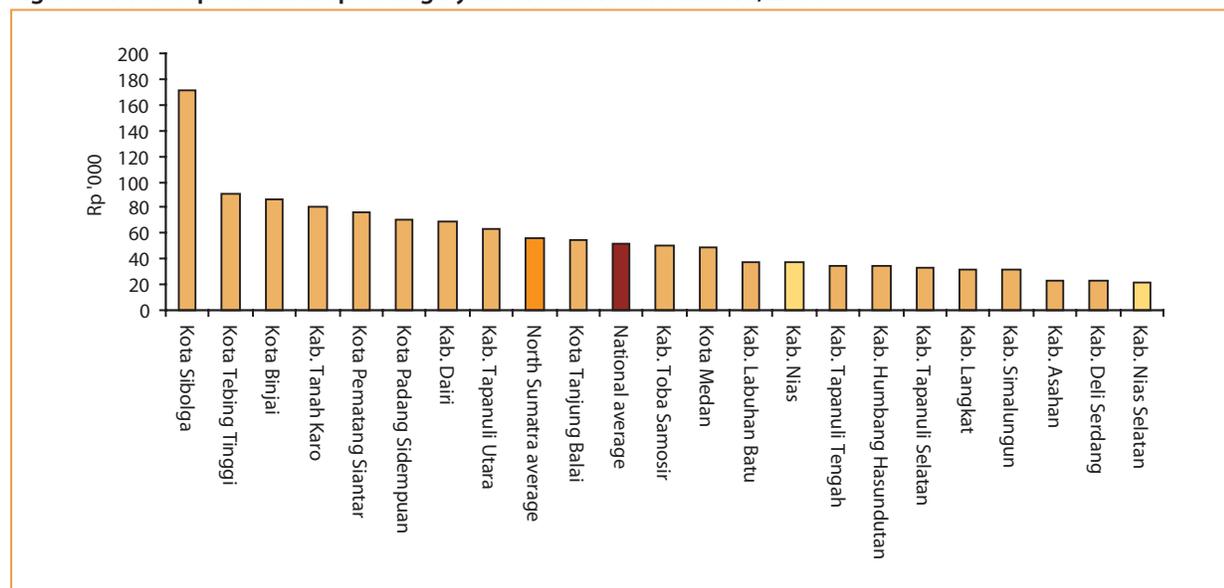
Figure 5.6 Health expenditure and its share of total expenditure in Nias and Nias Selatan, 2001-05



Source: World Bank staff calculations based on data from MoF/SIKD (constant 2000 prices).

However, in per capita terms in 2004, spending in both districts was lower than the district average for North Sumatra, as well as the national average. Nias Selatan district has the lowest per capita expenditure among districts in North Sumatra, at only Rp 21,655 in 2004. Meanwhile, in Nias district per capita spending was Rp 37,309 in 2004, still far below the average per capita health spending in North Sumatra and Indonesia, at Rp 55,753 and Rp 51,286, respectively (Figure 5.7). This very low per capita allocation resulted in high private household expenditure on health.

Figure 5.7 Per capita health spending by district in North Sumatra, 2004



Source: World Bank staff calculations based on data from MoF/SIKD.

An increasing majority of health spending has been going towards routine expenditure since 2002, averaging about 65 percent of total health expenditure in 2001-05. Routine expenditure more than doubled from Rp 4.6 billion in 2001 to Rp 10.8 billion in 2005. The share of development expenditure has declined since 2001, from 58 percent of total expenditure in 2001 to only 22 percent in 2004. Unsurprisingly, Nias Selatan district spent a larger share of its health spending on routine functions in order to set up the administration needed to support a newly established district in 2004. However, a greater allocation shifted towards development expenditure since then, rising to 53 percent in 2005. The larger allocation for development expenditure by Nias Selatan district had the effect of increasing the overall allocation of both districts for development expenditure (Table 5.3) as a consequence.

Table 5.3 Health expenditure in Nias and Nias Selatan by routine and development, 2001-05

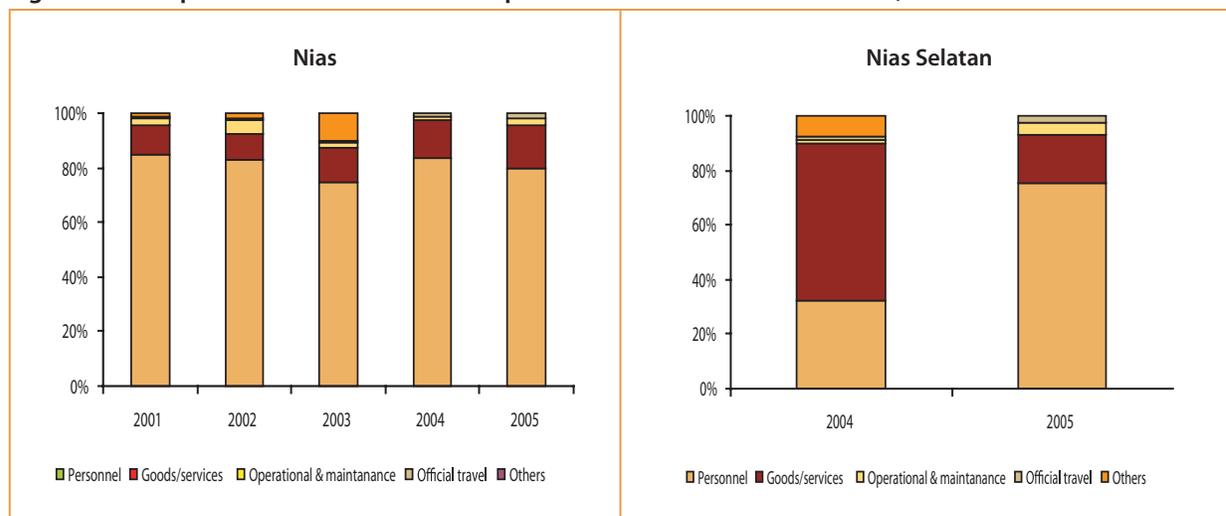
Rp million at constant 2000 prices

	2001		2002		2003		2004		2005	
		%		%		%		%		%
Routine	4,651	42	9,898	72	11,633	70	13,191	78	10,806	63
Development	6,428	58	3,792	28	5,045	30	3,738	22	6,398	37
Total	11,079	100	13,690	100	16,678	100	16,928	100	17,203	100

Source: World Bank staff calculations based on data from MoF/SIKD.

Nias district allocates a large share of its routine expenditure to cover salaries, while Nias Selatan district allocates more for goods and services. As a newly formed district, Nias Selatan invested heavily on new buildings and equipment in 2004. However, spending on goods and services slowed down in 2005, replaced by increased spending on personnel. Both districts allocated a very small portion of their budgets to operations and maintenance, at only about 3 percent of total routine expenditure (Figure 5.8). A larger allocation for operations and maintenance will be vital in the coming years after the completion of rehabilitation and reconstruction of health facilities and infrastructure.

Figure 5.8 Components of health routine expenditure in Nias and Nias Selatan, 2001-05



Source: World Bank staff calculations based on data from MoF/SIKD (constant 2000 prices).

Most development spending in Nias and Nias Selatan in 2005 was directed towards the rehabilitation and reconstruction of Puskesmas and Pustu buildings. Most funding for rehabilitation by district governments has come from DAK grants and the matching grants these require from the district governments’ budgets. Rehabilitation and reconstruction projects are also being conducted by BRR and other donors and NGOs. Apart from health service buildings, development spending has also been allocated to provide health services, such as preventative care and treating patients with tuberculosis and malaria, as well as for medical supplies.

Impact of the Tsunami and Earthquake on Health Facilities

The earthquake caused widespread damage and destruction to an already weak health system on Nias island. The earthquake severely damaged the only two hospitals on the island, and the majority of healthcare facilities, such as Puskesmas, Pustu, and Polindes — the most frequently used health facilities — were badly damaged and inoperable (Table 5.4). Overall, 41 percent of health facilities were badly damaged and 34 percent partially damaged. These dire conditions were exacerbated by the departure of medical workers from the island immediately after the disaster. Although the number of doctors increased slightly in 2005, the total number of medical workers (nurses and midwives) significantly decreased after the earthquake, from 704 in 2004 to 471 in 2005 (Annexes Table B.8.3).

Table 5.4 Impact of earthquake on health facilities in Nias and Nias Selatan, 2005

Facilities	Nias			Nias Selatan		
	Pre-Disaster	Heavy Damage	Medium Damage	Pre-Disaster	Heavy Damage	Medium Damage
Hospital	1	1	0	1	1	0
Delivery house	3	2	0	0	0	0
Medical clinic	4	1	2	2	2	0
Puskesmas	25	11	12	8	1	6
Pustu	88	45	38	40	14	19
Doctor practice	9	5	2	4	0	1
Midwife practice	6	3	1	11	1	0
Posyandu	89	34	26	75	11	8
Polindes	263	125	100	68	30	23
Pharmacy	9	5	4	1	0	0
Drug store	7	3	2	8	0	0
Total	505	236	187	219	60	58

Source: BPS (Podes, 2005).

Serious efforts have been made to restore and support the provision of healthcare services on the island following the earthquake (BRR, 2006). By the end of 2006, one hospital and 19 health facilities on the island had been rebuilt or repaired. BRR, together with WHO, Unicef, and Mercy Malaysia, is jointly undertaking a US\$6 million program to reconstruct and repair health facility buildings, to provide medicine and medical equipment, and to build up a skilled medical workforce. By December 2006, BRR had allocated US\$5 million for health projects. However, disbursement has been slow and out of the allocated funds only 35 percent or US\$3.7 million has been spent. Donors and NGOs have been working collectively to provide medicine, medical equipment, and other assistance to Gunung Sitoli Hospital. To expand the limited access of healthcare services in remote areas, BRR has provided scholarships for health personnel in both districts. In 2006, scholarships were provided for the education of 16 general practitioners, 14 specialists and nine masters of health, in collaboration with Gadjah Mada University, Yogyakarta.

Recommendations

Increase the budget allocations for the health sector to improve the provision of healthcare on Nias island.

The urgent priority is to ensure that existing health facilities are well-staffed by skilled health workers. In addition, with such limited resources available, allocations should be more closely determined by expected returns in terms of improved health outcomes. The district governments must ensure that they can build on this foundation to bring health outcomes, at the very least, up to provincial standards.

Increase health expenditure on operations and maintenance in order to effectively maintain medical equipment and health facilities. The district governments have not paid sufficient attention to maintenance in the past. Existing facilities need to be properly maintained and this is all the more important now, given BRR's building and reconstruction program.

Provide appropriate incentive mechanisms to increase the number of doctors and medical workers on Nias island. Special attention should be given to improving the distribution of health personnel to remote and isolated areas and to providing additional qualified midwives in rural areas. The impact of the under-supply of healthcare personnel is obvious: a low rate of deliveries attended by trained medical workers and a significantly higher infant mortality rate compared with provincial and national averages. The district governments should develop a proper incentive mechanism to attract medical workers to serve in remote areas, for example, by providing housing for staff, special compensation and vehicles. In addition, in the longer term the district governments have to improve local capacity by encouraging students on the island to pursue higher education in the medical field through the provision of scholarships. This effort has been initiated by BRR, but the district governments need to ensure the sustainability of this program after BRR's term ends in 2009.

Given the scale of BRR's expenditure on health on the island, it is essential that the district governments are fully engaged in determining how these resources are spent. Better coordination and joint decision-making now will result in far better outcomes in the future. In particular, the district governments and BRR need to ensure that the investments made by BRR in training health personnel are focused on meeting well-defined health outcome targets and the returns on these investments will continue well beyond BRR's term.



CHAPTER 6 **Infrastructure**

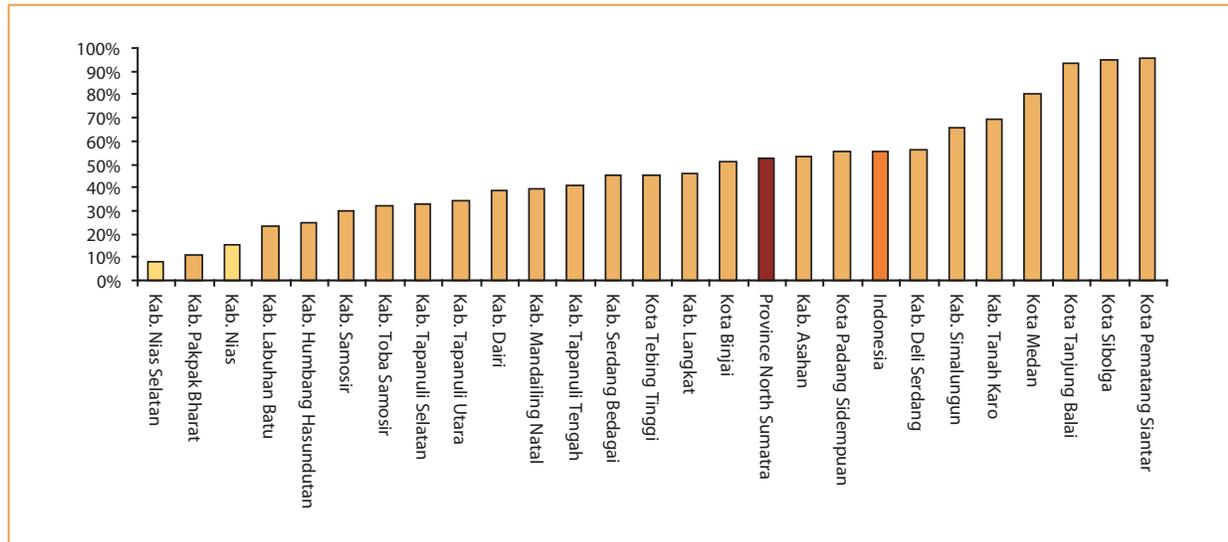
Nias Public Expenditure Analysis 2007

Infrastructure Conditions on Nias Island

Access to basic infrastructure in the two districts on Nias, such as clean water, sanitation and electricity, consistently lags behind average access in North Sumatra and Indonesia. In most cases, Nias and Nias Selatan are the districts with the lowest access to basic infrastructure in North Sumatra, with Nias Selatan invariably the district with the lowest access.

Nias and Nias Selatan have the third-lowest and lowest access to clean water, respectively, well below the averages for North Sumatra and Indonesia (Figure 6.1). The poor access of most households to basic infrastructure in Nias is both a cause as well as a result of its low development levels. The island's distance from Sumatra, as well as the remoteness of many of its rural communities (especially in Nias Selatan district), makes access to these basic services more problematic than elsewhere in the province.

Figure 6.1 Percentage of households with access to clean water by district in North Sumatra, 2005



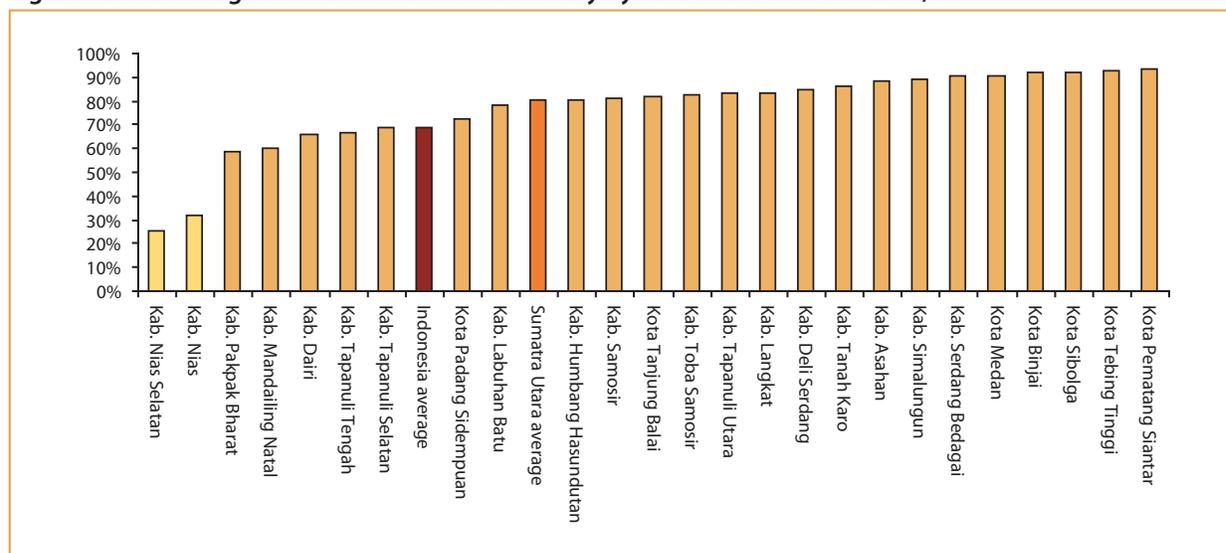
Source: BPS (Susenas, 2005).

Access to clean water on Nias island has worsened significantly since the beginning of the decade. While in 2002 over 40 percent of all households on the island had access to clean water, this figure dropped to 15 percent in Nias district and less than 8 percent in Nias Selatan district in 2005, partly as a result of the earthquake, although the worsening trend was already apparent before the earthquake. In addition, the share of households with access to piped or pumped water is very small and decreasing (about 2.5 percent in Nias district and less than 2 percent in Nias Selatan district in 2005). This is partly a result of the earthquake, which caused almost total dislocation of the piped water supply. Other sources of clean water (wells and springs) provide access for a majority of the population, unlike most other districts in the province, where access to piped and pumped water is much higher.

Nias and Nias Selatan have the second-lowest and lowest levels of access to electricity in North Sumatra, respectively (Figure 6.2).¹⁸ In 2005, electricity was only available to about one-third and one-fourth of households in Nias and Nias Selatan districts, respectively. In most cases, electricity was provided by the state electricity company (PLN), although in Nias Selatan district about one-third of households with access to electricity used alternatives to PLN, such as generators. However, these alternative sources of electricity are usually more costly than PLN. The reconstruction effort that followed the 2005 earthquake has increased demand for electricity on the island and power-cuts have become frequent in the capital cities of Gunung Sitoli and Teluk Dalam.

¹⁸ Podes 2000 and 2003 data also showed that Nias had the lowest access to electricity in North Sumatra.

Figure 6.2 Percentage of households with electricity by district in North Sumatra, 2005



Source: BPS (Susenas, 2005).

The road network is extremely limited in rural areas, while the construction of new roads and the maintenance of existing roads are very expensive and time-consuming. This is due to the lack of machinery available on the island and the need to import most materials. Nias has a total road length of over 2,500km. The road network, despite being clearly insufficient to serve the needs of the population, has not been expanded since the beginning of the decade. Only 20 percent of the road network on the island is asphalted. While the majority of roads (63 percent) in Nias Selatan district are made from gravel, 64 percent of roads in Nias district are earth roads, which become unusable during the rainy season. The road network has been deteriorating steadily since the beginning of the decade, and the 2005 earthquake only worsened an already critical situation (Figure 6.1). This abysmal road condition could explain why only about 44 percent villages in on the island — 42 percent and 50 percent for Nias district and Nias Selatan district, respectively — is accessible by 4-wheel drive vehicles.¹⁹

Table 6.1 Road condition in Nias and Nias Selatan, 2001-05

Percent

	2001	2002	2003	2004	2005
Nias					
Good	19	26	11	12	6
Moderate	12	22	10	10	5
Damage	32	22	8	7	9
Badly damaged	38	31	71	71	81
Nias Selatan					
Good			59	60	9
Moderate				7	0
Damage			27	24	13
Badly damaged			14	9	78

Source: BPS.

Irrigation is another area where the island lags behind the rest of North Sumatra and Indonesia as a whole. While 50 percent of rice fields in North Sumatra and 60 percent of those in Indonesia are irrigated, only 22 percent of the rice fields on Nias island are irrigated. Only one district, Labuhan Batu, and several cities in Sumatra have lower shares of irrigated rice fields.

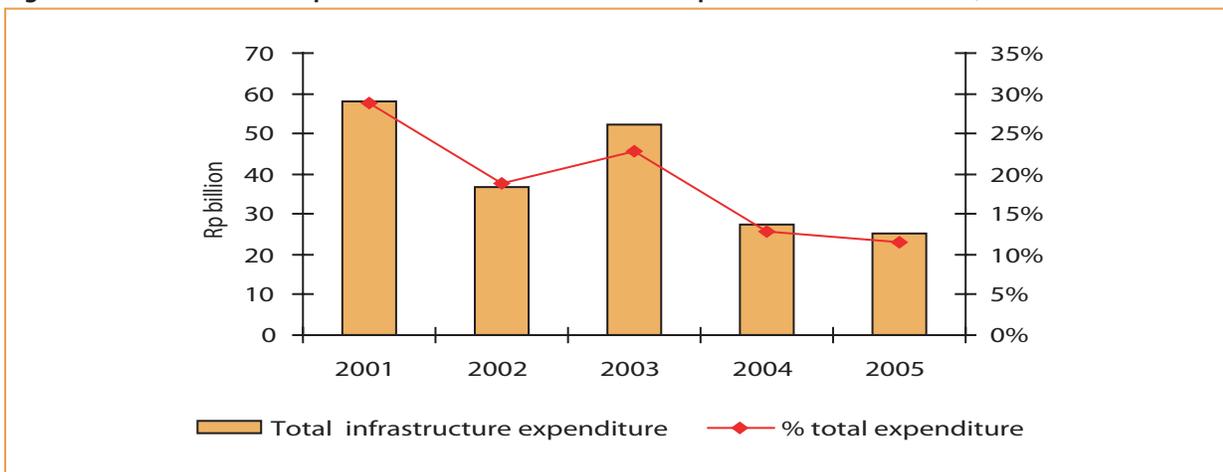
¹⁹ Villages that are only accessible by water transportation are excluded.

Infrastructure Spending

In real terms, overall spending on infrastructure in Nias and Nias Selatan declined significantly from Rp 58 billion in 2001 to Rp 25 billion in 2005.²⁰ As a share of total expenditure, infrastructure spending also declined from 29 percent in 2001 to 11 percent in 2005 (Figure 6.3). The low priority given to this important sector in recent years has hindered the development effort to open up access to the more isolated villages in Nias and Nias Selatan districts. The decreasing trend needs to be reversed to meet the 2006 district government policy program, which is to improve road and transportation conditions, particularly after the 2005 earthquake.

The central government spent significant amounts on infrastructure in 2006 through deconcentration funds in Nias and Nias Selatan. By May 2006, the central government had disbursed about Rp 19.3 billion to the two districts, with the breakdown of Rp 10.9 billion for Nias district and Rp 8.3 billion for Nias Selatan district. Most of the 2006 budget was allocated for regional development and housing, sectors that were most severely affected by the earthquake.

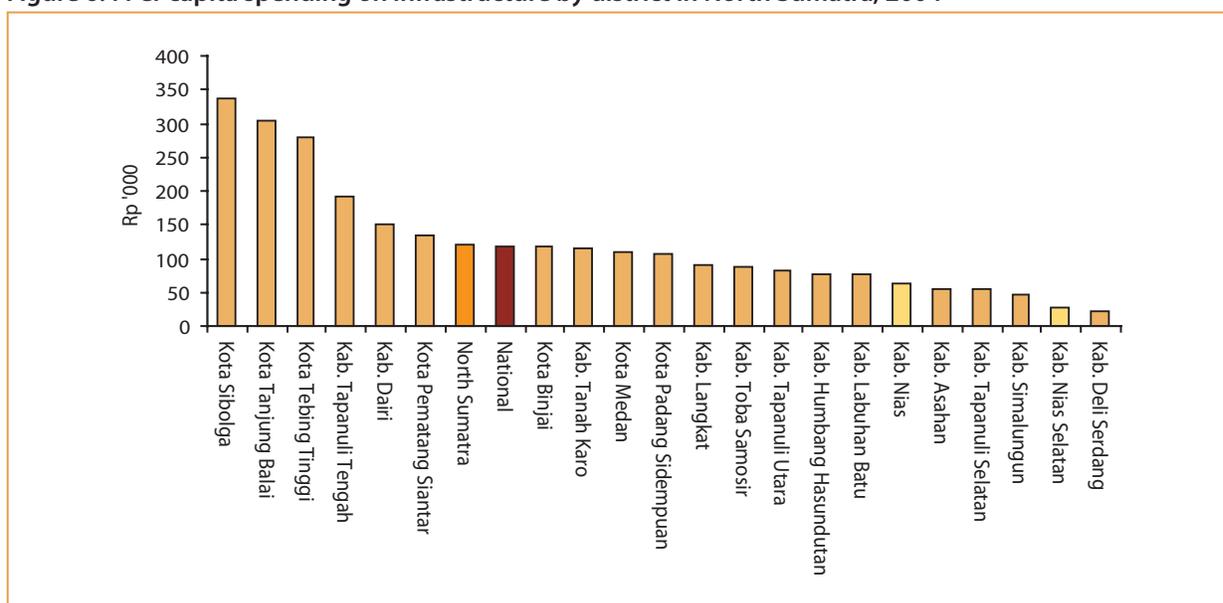
Figure 6.3 Infrastructure expenditure and its share of total expenditure on Nias island, 2001-05



Source: World Bank staff estimates based on data from APBD, SIKD/MoF. Data are in real terms (constant 2000 prices).

Compared with other districts in North Sumatra, Nias and Nias Selatan have some of the lowest per capita levels of spending on infrastructure. Per capita spending on infrastructure in Nias and Nias Selatan was Rp 64,096 and Rp 28,676, respectively, in 2004. Both levels are far below provincial and national averages (Figure 6.4).

²⁰ Infrastructure expenditure includes public works, transportation, settlement and regional development, telecommunication and energy

Figure 6.4 Per capita spending on infrastructure by district in North Sumatra, 2004

Source: World Bank staff estimates based on data from APBD, SIKD/MoF. Data are in real terms (constant 2000 prices).

Infrastructure still accounted for more than 30 percent of development expenditure on Nias island in 2005, although its proportion in development expenditure has declined over the years.

Infrastructure accounts for a relatively small share of total expenditure, at 11 percent in 2005, slightly down from 13 percent in 2004. Unlike the education and health sectors, the majority of spending in infrastructure is directed towards development expenditure (Table 6.2). Development expenditure accounted for 93 percent on average in 2001-05, partly due to the large investments required to rebuild poorly maintained infrastructure.

Table 6.2 Infrastructure routine and development expenditure 2001-05

Rp million

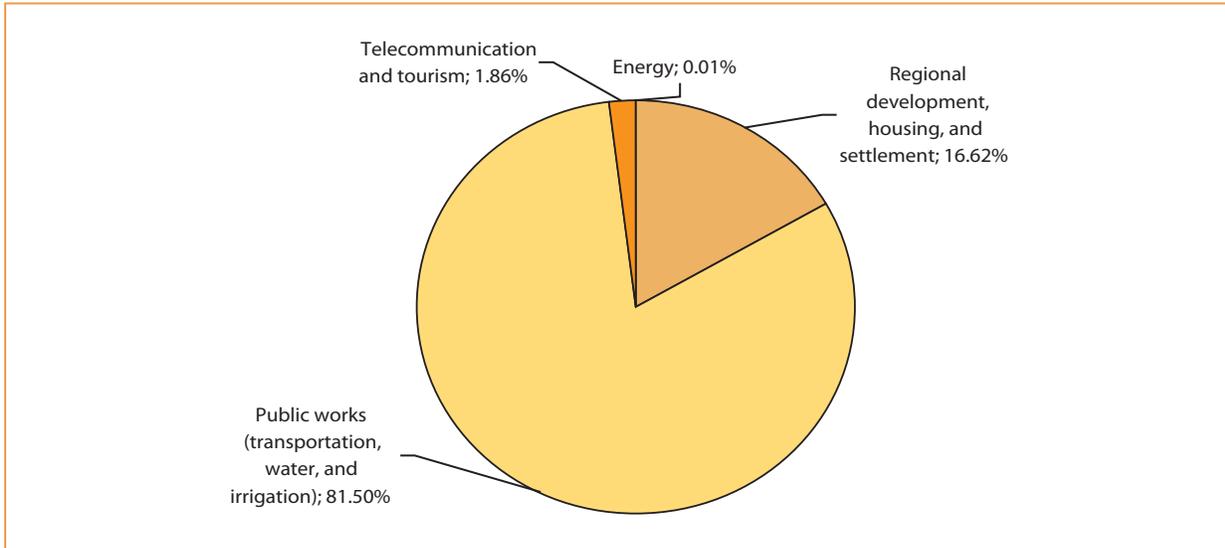
	2001		2002		2003		2004		2005	
		%		%		%		%		%
Routine	1,983	3	2,636	7	3,246	6	2,819	10	3,078	12
Development	56,080	97	34,161	93	48,843	94	24,429	90	22,052	88
Total	58,064	100	36,797	100	52,089	100	27,248	100	25,130	100

Source: World Bank staff estimates based on data from APBD, SIKD/MoF. Data are in real terms (constant 2000 prices).

Development spending on infrastructure in Nias and Nias Selatan is particularly focused on public works in the transportation, road, water, and irrigation sub-sectors.

Public works accounted for, on average, 81.5 percent of infrastructure development spending in 2001-05. However, despite its large share, in real terms public works development spending declined from Rp 37.7 billion in 2001 to Rp 21.4 billion in 2005. Housing and regional development accounted for 17 percent of total infrastructure development spending on average in 2001-05. This allocation has been declining since decentralization and there was no allocation for this sub-sector in 2005. This decline is probably the result of both district governments expecting BRR to carry out the necessary rehabilitation and reconstruction work (Figure 6.5). The two district governments need to reevaluate their lack of focus on housing and regional development, particularly given the insufficient housing on the island.

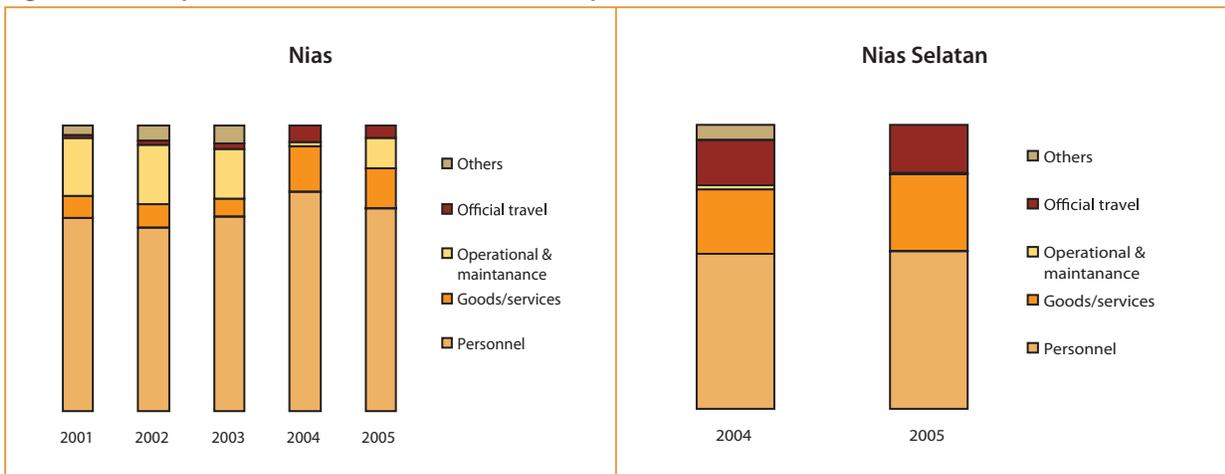
Figure 6.5 Average development spending in sub-sectors, 2001-05



Source: World Bank staff estimates based on data from APBD, SIKD/MoF. Data are in real terms (constant 2000 prices).

Nias and Nias Selatan have paid very little attention to operations and maintenance spending on infrastructure assets. Spending on personnel accounts for the largest share of routine expenditure in Nias district: 68 percent of total routine infrastructure spending on average in 2001-05 (Figure 6.6). In 2005, 18 percent of routine spending went on goods and services, while operations and maintenance received a share of 10 percent of routine infrastructure spending in Nias district, while in Nias Selatan district the figure was only 1 percent. This is lower-than-average spending at the national level, at about 11 percent of total routine spending. Spending on official travel accounted for a large share of infrastructure routine spending in 2005, particularly in Nias Selatan district (17 percent). Spending on official travel needs to be reduced and shifted to operations and maintenance spending in order to maintain and sustain public infrastructure and facilities, particularly after BRR starts transferring assets prior to its exit in 2009.

Figure 6.6 Components of infrastructure routine expenditure in Nias and Nias Selatan, 2001-05



Source: World Bank staff estimates based on data from APBD, SIKD/MoF. Data are in real terms (constant 2000 prices).

Impact of Earthquake and Reconstruction Spending on Infrastructure

The poor condition of most infrastructure, even before the March 2005 earthquake, has slowed down the reconstruction process in Nias and Nias Selatan. The earthquake damaged about 800km of district roads, 200km of provincial roads, and destroyed 12 large and small piers (Table 6.3). The inadequate length and poor state of the road network, together with the lack of access to many villages, present one of the greatest challenges faced by the reconstruction effort, not to mention the lack of fuel stations and limited trucking capacity, which have both contributed to supply shortages of construction materials.

Table 6.3 Damage to, and reconstruction progress in, infrastructure

Sectors	Damage/Needs	Progress by March 2006	Progress by December 2006
Infrastructure	<ul style="list-style-type: none"> - 3 bridges. - 800km district roads damaged - 266km provincial roads damaged - 12 large and small ports/jetties destroyed 	<ul style="list-style-type: none"> - Upgrading 130km provincial road and 126km district roads - Preparation 12 ports 	<ul style="list-style-type: none"> - 37 bridges built - 309km road built, 250km under repaired - 3 ports/jetties and 2 airports under development

Source: BRR.

Despite the slow start, as of December 2006 there had been encouraging progress in rebuilding infrastructure on Nias island. In total, 309km of roads and 37 new bridges have been repaired or rebuilt, while three seaports and two airports are under construction. BRR increased allocations to infrastructure in its 2006 budget, to the value of US\$38 million or about 31 percent of the total portfolio for 2005-06. Given the importance of good infrastructure to the success of the reconstruction effort, both BRR and other players should allocate larger shares of their budgets to this sector. As of December 2006, BRR had disbursed US\$24 million, or 63 percent of the budget allocated, to infrastructure.

By December 2006, 5,440 units of housing out of the 13,500 units needed had been built or repaired. In total, US\$52 million, or 45 percent of BRR's total budget, is allocated for housing. However, housing did not receive a separate budget allocation in 2005, as it was aggregated together with other infrastructure sub-sectors, such as road and transportation. BRR had already disbursed about US\$23 million, or about 46 percent of its total allocated budget, by December 2006. This means that housing reconstruction is likely to reach a peak in 2007. In addition to accelerating the speed of housing reconstruction, BRR and other players will need to provide housing-related infrastructure such as electricity, water and sanitation.

Recommendations

The two district governments and BRR need to increase their allocations for infrastructure. Nias and Nias Selatan district governments should reverse the trend of declining expenditure on infrastructure, and BRR needs to improve its disbursement rate. Together, BRR and the two district governments should develop a long-term and coherent infrastructure development plan and program. BRR could take the lead in the short term, while the district governments concentrate more on the medium to long term.

The two district governments should invest in improving technical skills of those staff responsible for monitoring and evaluating infrastructure projects. The involvement of donors and NGOs in the reconstruction process and their cooperation with the two district governments should be used as an opportunity to upgrade technical skills through knowledge transfer. In addition, the district governments could negotiate with BRR and other players to allocate some of their funds towards technical capacity-building, particularly on monitoring and evaluating projects. These skills will be particularly useful as BRR phases out and district governments take over project implementation and supervision.

The two district governments should focus on increasing access to electricity. BRR should plan and budget investments in basic electricity infrastructure. Particular attention should be given to additional costs incurred by the island's isolated nature and its large rural population. District governments need to ensure the sustainability of such a program by allocating an appropriate budget for operations and maintenance required for an adequate electricity network.

The two district governments need to increase budget allocations for operations and maintenance. Maintenance will be vital in ensuring the sustainability of both existing infrastructure and infrastructure currently under construction. This will require better balancing of allocations between routine and development expenditure, as well as between the routine expenditure categories, such as personnel, goods and services, and operations and maintenance. Meanwhile, district governments need to restrain spending on official travel. Current spending levels on official travel should be scrutinized and lowered, with the funds freed up being used to increase spending on operations and maintenance.



CHAPTER 7

District Government Capacity in Fiscal Management

Nias Public Expenditure Analysis 2007

Decentralization and the Proliferation of Districts and Sub-Districts

Decentralization has increased both the responsibilities and resources of district governments. Decentralization has not only awarded greater control to district governments in managing their local budgets, organizational structures and civil servants, but has also increased pressure on their capacities. Before decentralization, district governments were simply representatives of the central government, expected to execute the center's policies and programs. Now, district governments are the decision-makers.

Decentralization has resulted in a surge in the creation of new districts and district government personnel.

Two obvious effects of decentralization on Nias island have been the increase in the number of districts and sub-districts, and the significant increase in the number of civil servants working under district government authority. The decentralization laws enabled the creation of new districts and sub-districts. From 1999 to 2003, five additional sub-districts were created in Nias district (which then covered the whole island). Then, in 2003, Nias district itself was split into two separate districts with the formation of Nias Selatan district. The creation of a further five new sub-districts in Nias district as proposed by the Bupati Decree No. 136/1180/K/2004 has yet to be implemented. At present, the total number of sub-districts is 32 in Nias district and eight in Nias Selatan district (Nias Dalam Angka, 2006 and Nias Selatan Dalam Angka, 2006). There is a proposal to further split Nias district into two new districts and one city jurisdiction: Kabupaten Nias Utara, Kabupaten Nias Barat and Kota Gunung Sitoli. While geographical factors and particular local characteristics may, in certain cases, justify the creation of further districts or sub-districts, this trend raises serious concerns. Smaller administrative jurisdictions may lead to reduced efficiency and economies of scale in public service delivery, with a concurrent rise in routine expenditures needed to run district government functions. The trend towards splitting should be driven by a motivation to improve local public service delivery rather than by local elites interested in gaining positions and financial resources.

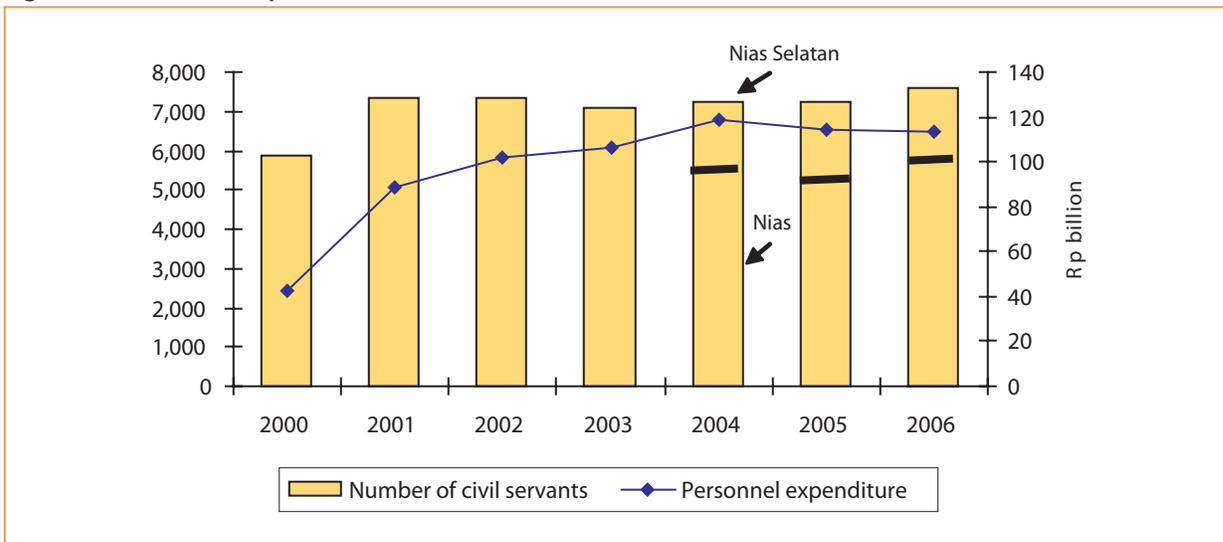
The total number of civil servants on Nias island increased after the implementation of decentralization.

Civil servant numbers rose from 5,872 in 2000 to 7,337 in 2001 due to the transfer of civil servants from the central government. After the formation of Nias Selatan district in 2003, the number of civil servants in Nias district fell by 24 percent from 2003 to 2005, less than the 38 percent fall in population in the newly down-sized district. In 2006, the two district governments opened a civil servant recruitment drive, resulting in a slight increase of 338 civil servants on the island.

Aligned with the increase in the number of civil servants, personnel costs have also risen disproportionately.

While the number of civil servants only grew by 0.7 percent on average annually, personnel costs increased by 5 percent in 2001-05 on Nias island. The continuous increase in personnel costs could be due to the multiple adjustments to civil servant salaries and the additional benefits for retiring personnel. Personnel costs comprising salaries, benefits and additional payments constitute the bulk of routine expenditures. The proportion of personnel expenditure to total routine expenditure increased from an average of 61 percent prior to decentralization to an average of 76 percent for both districts after decentralization. In Nias district the proportion of personnel expenditure to total routine expenditure has surged to 80 percent in 2005, while in Nias Selatan district the share increased from 59 percent in 2004 to 67 percent in 2005 (Figure 7.1).

Figure 7.1 Personnel expenditure and civil servant numbers in Nias and Nias Selatan, 2000-06

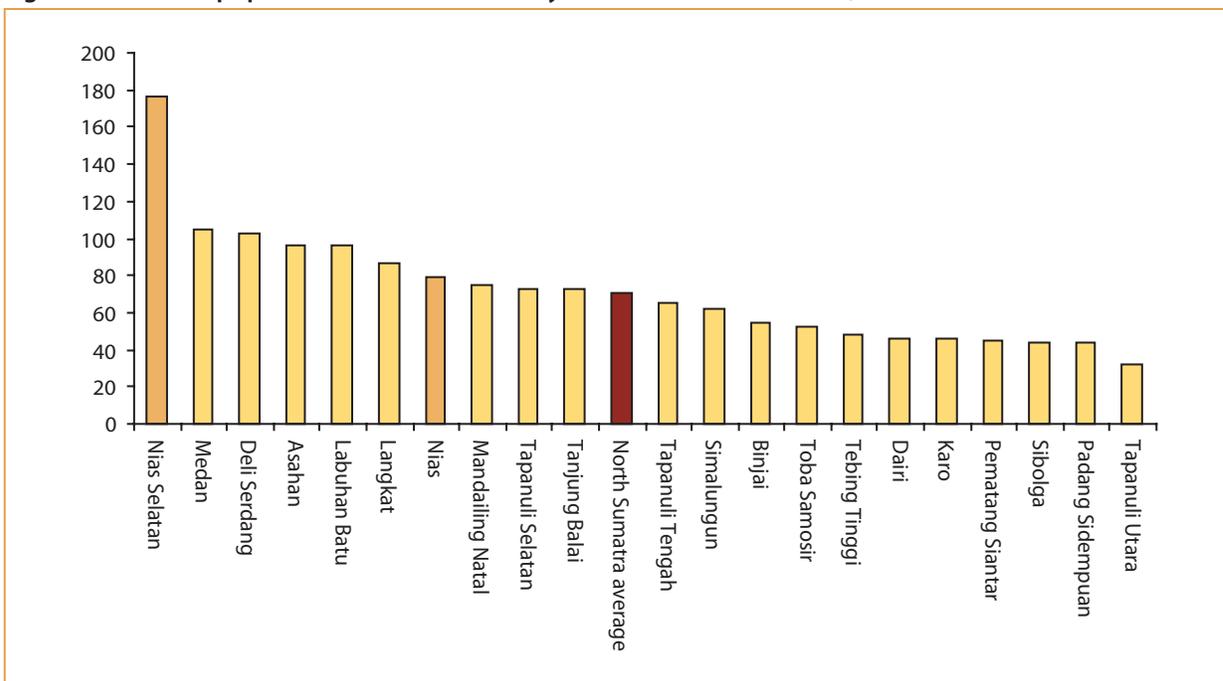


Source: World Bank staff estimates based on data from APBD, SIKD/MoF. Data are in real terms (constant 2000 prices) and BKD Province North Sumatra.

Note: The data for personnel expenditure in 2006 is projected.

Compared with other districts in North Sumatra, numbers of civil servants in Nias and Nias Selatan are still lower than average. In 2004, the ratio of civil servants to population in Nias district was about 1 to 80, while in Nias Selatan district it was 1 to 176. The average district in North Sumatra has ratio of 1 to 70 people (Figure 7.2).

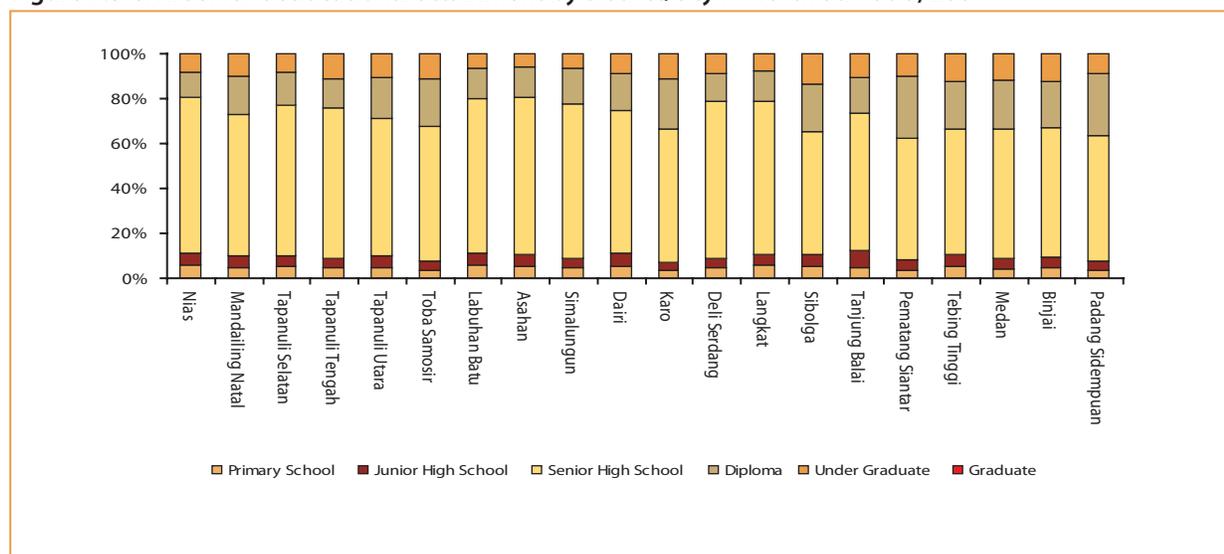
Figure 7.2 Ratio of population to civil servants by district in North Sumatra, 2004



Source: BPS, 2004.

Similar to other districts in North Sumatra, the educational level of attainment of most civil servants on Nias island is only senior high school level. About 70 percent of civil servants on Nias island have completed senior secondary level. This is followed by those who have completed diploma level, at 11 percent, and university graduates, at 8 percent (Figure 7.3). Districts that have the highest percentage of university graduate civil servants in North Sumatra are mostly found in the major urban vicinities, such as Medan, Tebing Tinggi, and Sibolga.

Figure 7.3 Civil servant educational attainment by district/city in North Sumatra, 2004



Source: BPS, 2004.

Financial Management

The budget process starts with the formulation of the districts' work plan programs in January of the preceding year. The budget draft is submitted to the district parliament in the form of a local draft regulation mutually agreed by the executive and legislative in the first week of October. The provincial authority (the governor) then has to approve the draft before the budget is signed as a regional regulation by the district authority (the district head) (World Bank, 2007a).²¹

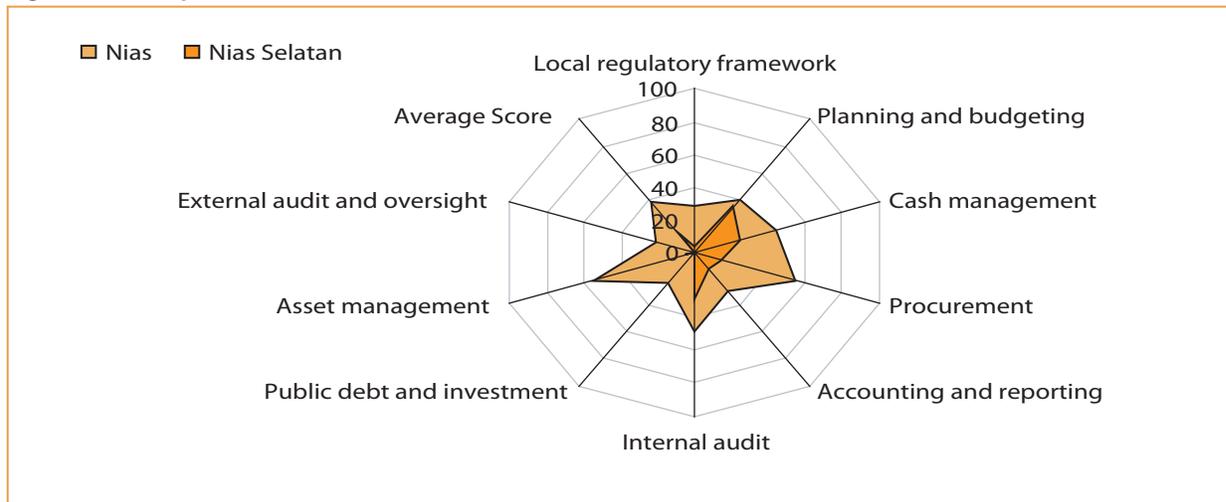
Although the APBD should be approved at the beginning of fiscal year in January, in the recent past this has normally not occurred in Nias and Nias Selatan. In 2006, the budget for Nias district was only ratified in August 2006, while that for Nias Selatan district was only approved in December 2006. There are several factors that contributed to these delays: (i) the March 2005 earthquake delayed 2005 budget approval process and led to the late submission of the 2006 draft budgets to their respective district parliaments; (ii) the election of district heads, who only took office in May 2006, and (iii) a series of disagreements between the district-level executive and legislative branches, based primarily on different political interests and differing perceptions of the draft budget contents. All three factors served to slow down the budget ratification process.

The capacity of the district governments in Nias district to manage local public finances effectively is considered poor, and in Nias Selatan district very poor. The World Bank carried out a Public Finance Management (PFM) survey covering nine strategic areas from 22 May to 2 June 2006, to assess local government capacities. Nias district scored 38 percent overall (*poor*) and Nias Selatan district's average score was 14 percent (*very poor*). The scores are also very low when compared with the average score of district governments in Aceh, at 41 percent (Annexes Table B.8.2).

²¹ See Law No. 32/2004.

Performance across different PFM strategic areas varies widely, but is still classified as *very poor* and *poor*. Nias Selatan district scored *very poor* in six areas and *poor* in the other three, while Nias district scored *moderate* in four areas and *poor* in the remaining five areas (Figure 7.4).

Figure 7.4 PFM performance in Nias and Nias Selatan



Source: World Bank, USAID PFM Survey Result, 2006.

Recommendations

Both district governments need to develop their public financial management capacity. In view of its *'very poor'* level, Nias Selatan district should focus on this issue as a matter of urgency. The local regulatory framework needs to be improved substantially in both districts. Planning and budgeting systems need to be improved, and accounting and reporting practices overhauled. District parliaments should also play a key role in providing checks and balances for district governments. Neither adequate external nor internal auditing systems are in place, resulting in a severe lack of effective oversight of district government public financial management.

Both district governments need to design a strategy for developing human resources within government structures. In order to optimize development outcomes a better-qualified more professional civil service is needed, not an over-staffed and under-trained government bureaucracy. While additional training may be useful, it is more important to ensure that there is an improvement in the civil service selection process so that the right candidates start to fill vacant positions.

Proposals to sub-divide Nias and Nias Selatan into more districts, cities and sub-districts should be considered far more carefully given the impact of the formation of Nias Selatan district in 2003. Public financial management outcomes in Nias Selatan district illustrate the risks. The provincial government should scrutinize calls for any further creation of districts on the island. If and when the creation of a new district is approved, both provincial and district governments must ensure that adequate preparation is made and physical infrastructure and civil servants are in place to manage the new administration. Equally, the formation of new sub-districts entails additional government apparatus costs that may not be justified in terms of improvements in service delivery or outcomes.



ANNEXES

Nias Public Expenditure Analysis 2007

Annex A: Key Issues and Recommendations

Chapter	Key issues	Recommendations	Relevant institution
Revenue	New local tax/retribution regulations have little impact on already small own-source revenue (PAD).	District governments should focus on stimulating economic activities rather than seeking to maximize short-term own source revenue. More careful consideration and planning when creating new local tax regulations needs to be taken to ensure each charge is economically viable for the district administration itself.	District governments.
	Nias Selatan district does not receive allocation of non-tax revenue-sharing to which it is entitled.	District governments should seek clarification from the central government and provincial authorities to ensure that each district receives its correct share of revenue-sharing. The central government also needs to evaluate and scrutinize districts that do not receive their correct revenue-sharing revenue allocations.	District governments, central government.
	Relatively low DAU allocation due to low civil servants per capita and fiscal imbalances between the two districts have not been addressed by intergovernmental transfers.	Improve transfer allocations among districts by taking into account poverty and other social indicators. The DAU allocations formula should be more sensitive to poverty and fiscal gaps, as opposed to benefiting districts with large civil servant salary bills.	Central government.
	Delay in budget approval disturbs the planning and cashflow of the related fiscal year.	Improve budget planning and accounting and provide sanctions to districts that are significantly behind schedule in their budget approval process. The budget approval process needs to be streamlined and transfers of share revenues from central government must occur on a quarterly basis.	District governments, central government.
Expenditure	Routine expenditure has taken a disproportionately large share of total expenditure. Government apparatus has been increasing under development expenditure.	Set limit on routine spending and restrain spending that is categorized into "other spending" to avoid a misuse of budget. Routine spending on official travel should also be restrained. Allocation of development expenditure on government apparatus should be scrutinized, public services and infrastructure should be priority of development expenditure.	District governments.
	Low absorption of budget both by district governments and BRR.	District governments have to ensure that their budgets are well-planned and well-executed. Improve budget approval process and district governments' capacity. BRR has to identify bottlenecks in the channeling of funds. Strict budget cycles may not be suitable for the reconstruction effort.	District governments, BRR.

	The sustainability of the reconstruction and rehabilitation effort is worrying given the small allocations for maintenance.	Improve allocations for maintenance and set an appropriate share from current expenditure.	District governments.
	Significant regional gap between Nias and Nias Selatan districts on the allocation of reconstruction funds.	Re-evaluation of budget planning and programs to have a proportional balance between the two districts. Better coordination among governments, donors, and NGOs on projects and program allocation is needed to address the financial gap.	BRR, donors, and NGOs.
Education			
	Literacy and enrollment rates are low and well below the national average.	Use the current momentum and allocate the massive flow of fund from reconstruction to improve education outcomes, i.e. with scholarships. Continue the allocation of the DAK to support the improvement in outcomes.	District governments, BRR, donors/NGOs, central government.
	Lack of teachers and unequal distribution of teachers among sub-districts in Nias and Nias Selatan.	Assess teacher staffing policy to ensure the adequacy and the equal distribution of teachers in both districts and sub-districts. Provision of incentives for qualified teacher to teach in remote area is encouraged, for example by shifting the status of non-civil servant teachers to civil servants.	District governments, central government.
	Severe damage in many classrooms in primary and junior secondary schools.	Accelerate and improve disbursement for rehabilitation projects by district governments, BRR, and other reconstruction players. Restrain the construction of additional schools until there are sufficient numbers of teachers and adequate funding to maintain current stock of school buildings.	District governments, BRR, donors/NGOs.
Health			
	Small share of expenditure on health.	Increase budget allocation on health sector by focusing more closely on quality of health personnel and the expected returns in terms of improved health outcomes.	District governments.
	Lack of qualified health personnel and unequal distribution of health personnel.	Provide appropriate incentive mechanisms to improve the number of doctors and medical workers on Nias island, such as providing housing for staff, special compensation, and transport vehicles. Increase capacity by providing scholarships to medical students from Nias and Nias Selatan districts.	District governments, provincial government.
	Coordination between district governments and BRR in determining how resources will be spent is still weak.	Improve coordination and joint-decision making for better outcomes in the future. Ensure that the investments made by BRR in training health personnel are focused on meeting well-defined health outcome targets and the returns on these investments will be reaped beyond BRR's term.	District governments, BRR.

Infrastructure			
Declining share of expenditure on infrastructure despite very poor infrastructure conditions.	Re-evaluate development budget priorities. An involvement of district governments in infrastructure reconstruction should be strengthened to develop a sense of ownership of the projects by the district governments. District government involvement in the reconstruction will support their skills and capacity in future planning.	District governments, BRR.	
Limited access of electricity for the people of Nias island.	Accelerate the installation of basic electricity infrastructure by BRR. Establish medium-term plan to ensure the sustainability of electricity supplies in the future.	BRR, district governments.	
Unavailability of long-term and coherent infrastructure development plan.	Develop a joint short-term and long-term infrastructure development program. BRR could take the lead in the short term, while district governments should concentrate on the medium and longer term. District governments could begin the medium- and long-term planning by making a simulation and budget ceiling of capital and routine spending for each infrastructure component based on the revenue projections.	District governments, BRR.	
Lack of technical skill and capacity of district governments in carrying projects monitoring and evaluation.	District governments should be more involved in the reconstruction process and use the opportunity to upgrade skills and capacity through knowledge transfer. Negotiate with BRR and other reconstruction players to allocate part of their reconstruction funds towards technical capacity-building, particularly on monitoring and evaluating projects.	District governments, BRR, donors/NGOs.	
Low allocation on operational and maintenance will exacerbate the already poor condition of infrastructure.	Improve budget allocation on maintenance. Establish a proper balance between routine and development expenses, as well as among those under routine expenditure.	District governments	
District government capacity			
District government capacity to manage public resources is still very weak. Capacity is urgently needed given the increase in flow of funds from reconstruction.	Improve district government financial management capacity. Establish cooperation with BRR, donors/NGOs to have a joint funded training and other capacity buildings, particularly related with PFM.	District government, BRR, donors/NGOs.	
Possibility of having further proliferation of districts puts pressure on district governments' budgets.	Slow down the creation of new districts/sub-districts and ensure that adequate preparation is made and that physical infrastructure and human resources are in place to manage a new administration before permission is granted. The formation of new sub-districts entails additional apparatus costs that may not be fully justified.	District governments.	

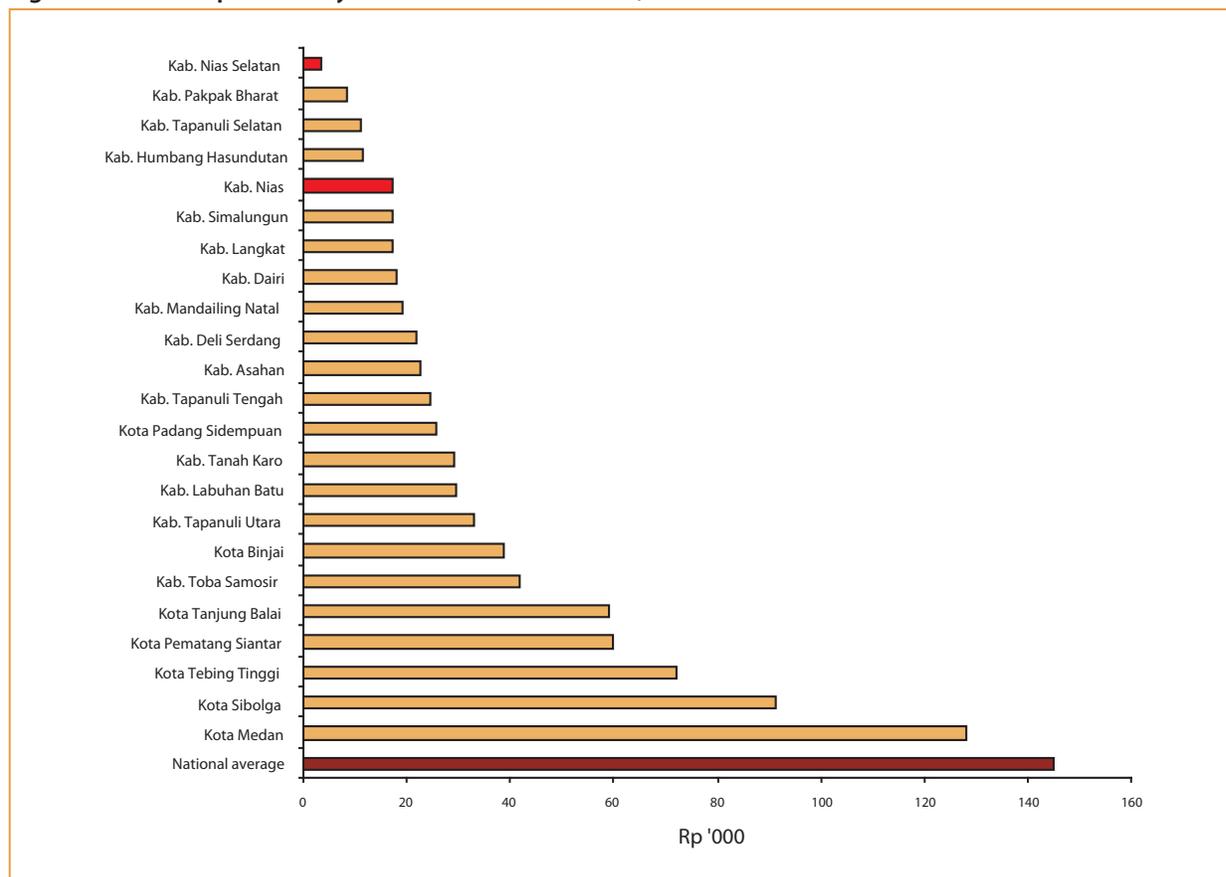
Annex B: Figures and Tables

Table B.8.1 Nias island's reconstruction progress

Sectors	Damage/Needs	Progress by March 2006	Progress by December 2006
Housing	<ul style="list-style-type: none"> 13,500 unit houses 	<ul style="list-style-type: none"> 1,448 permanent house 	<ul style="list-style-type: none"> 5,440 permanent houses built/ repaired 350 non-permanent houses/ transitional house
Education	<ul style="list-style-type: none"> 755 out of 879 schools damaged/destroyed 	<ul style="list-style-type: none"> 12 new schools built, 98 under construction 200 schools tents 	<ul style="list-style-type: none"> 124 permanent schools built/ repaired 214 temporary schools
Health	<ul style="list-style-type: none"> 2 hospitals 170 health facilities required repair 	<ul style="list-style-type: none"> Revitalization of Gunung Sitoli hospital 16,000 children immunized against measles 	<ul style="list-style-type: none"> 1 hospital rebuilt 19 health facilities repaired
Infrastructure	<ul style="list-style-type: none"> 3 bridges. 800km district roads damaged 266km provincial roads damaged 12 large and small ports/ jetties destroyed 	<ul style="list-style-type: none"> Upgrading 130km provincial road and 126km district roads Preparation 12 ports 	<ul style="list-style-type: none"> 37 bridges built 309km road built, 250km under repaired 3 ports/jetties and 2 airports under development

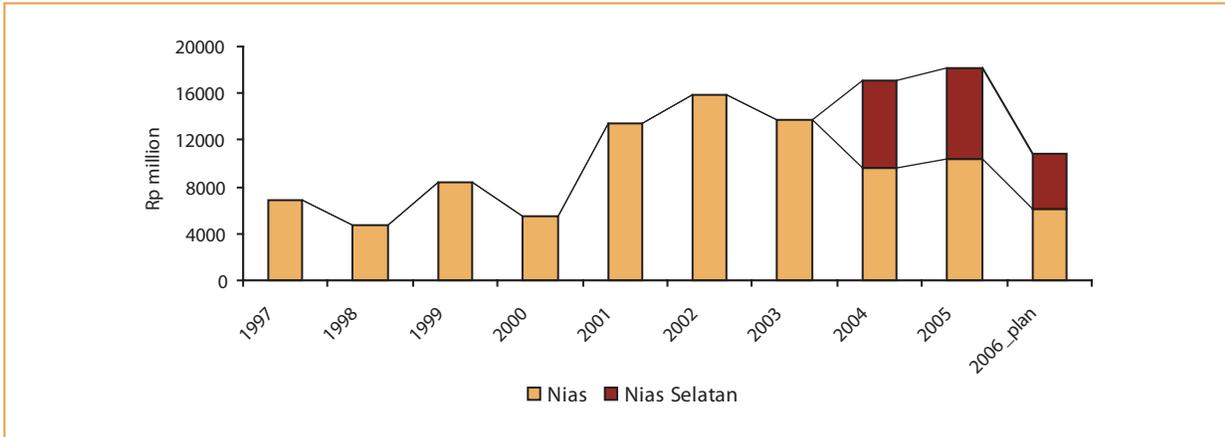
Source: BRR Aceh-Nias.

Figure B.8.1 Per capita PAD by district in North Sumatra, 2004



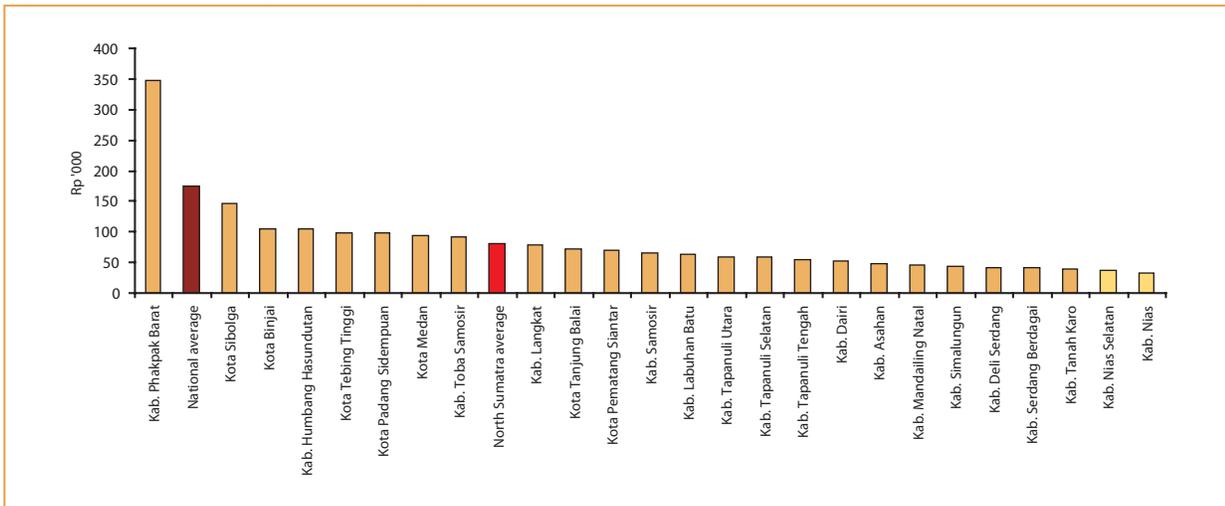
Source: World Bank staff calculations based on data from SIKD/MoF and World Bank Decentralization database. Data are in real terms (constant 2000 prices).

Figure B.8.2 Nias and Nias Selatan's tax-sharing revenue, 1997-2006



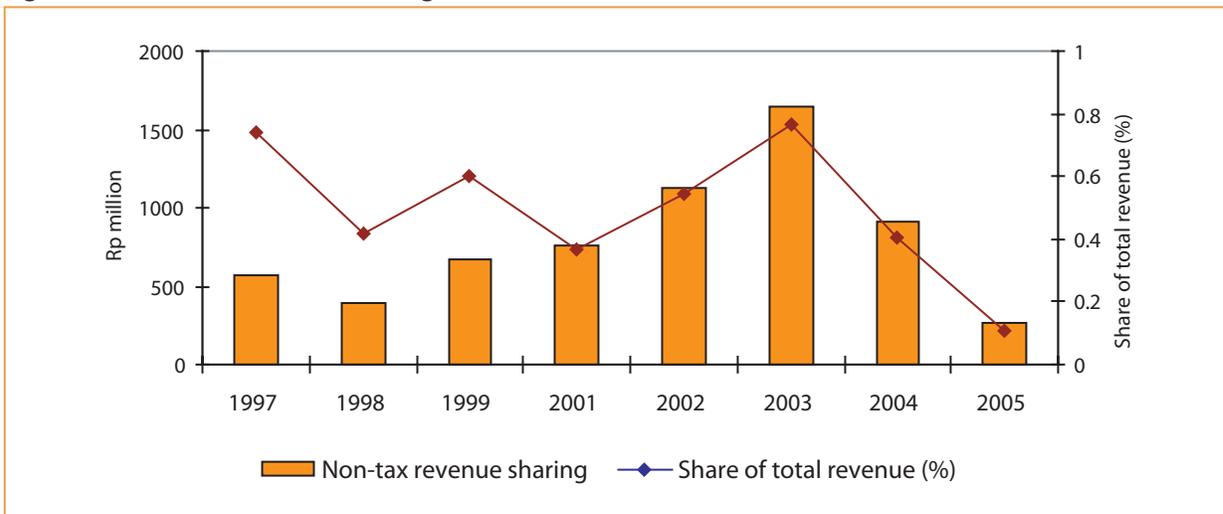
Source: World Bank staff estimates based on data from APBD, SIKD/MoF, BPS-SK. Data are in real terms (constant 2000 prices).
 Note: *Planned budget

Figure B.8.3 Tax-sharing per capita by district in North Sumatra, 2005



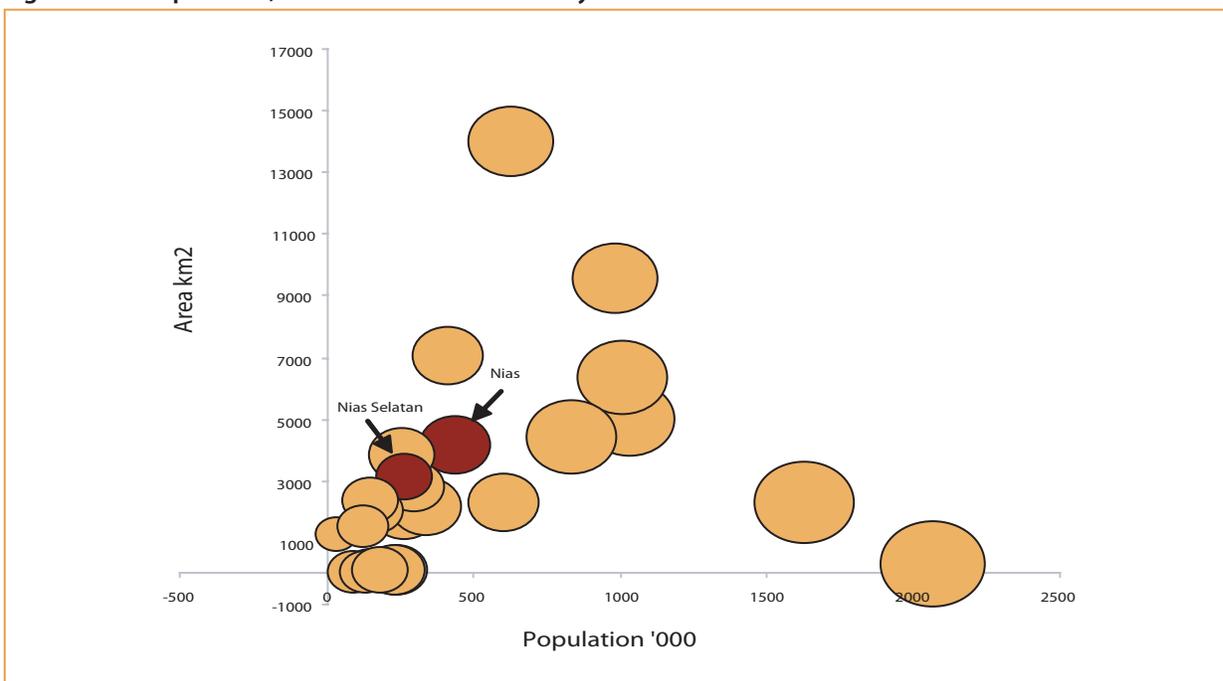
Source: World Bank staff estimates based on data from SIKD/MoF.

Figure B.8.4 Non-tax revenue-sharing and its share of total revenue in Nias and Nias Selatan²²



Source: World Bank Staff calculations based on data from SIKD/MoF and World Bank Decentralization database. Data are in real terms (constant 2000 prices).

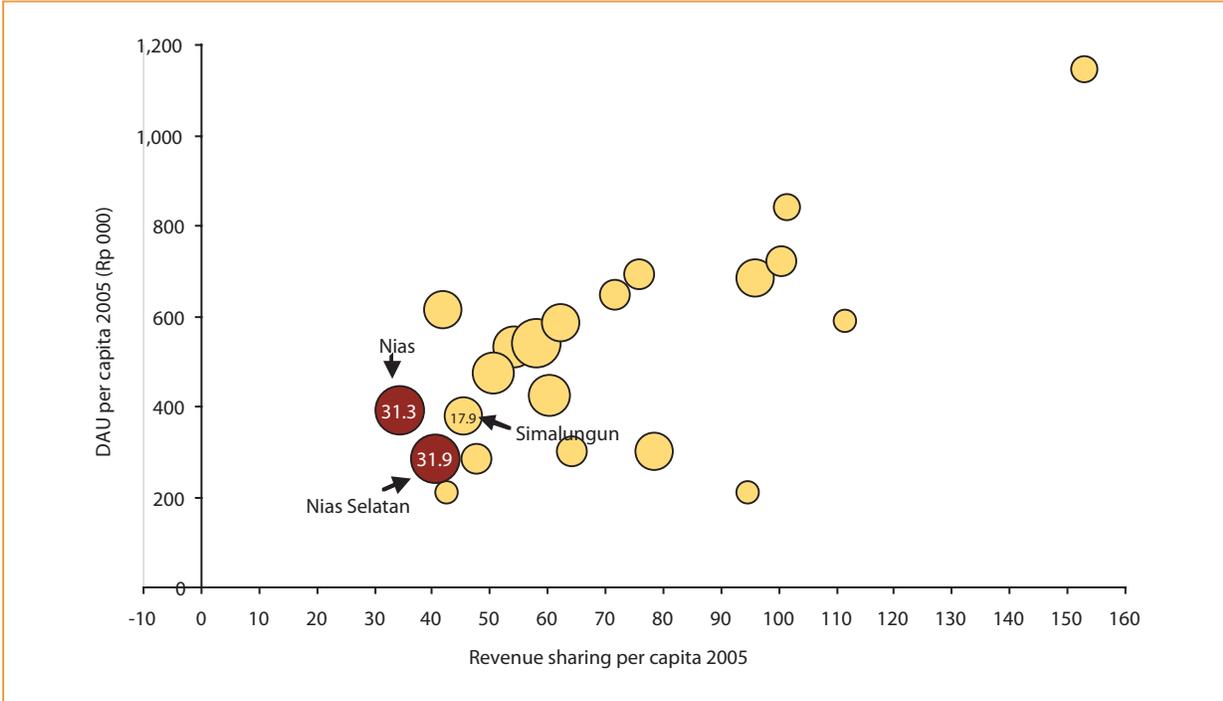
Figure B.8.5 Population, area and DAU allocation by district in North Sumatra



Source: World Bank staff estimates based on data from MoF.

22 The aggregate figures are for Nias district only, as Nias Selatan district does not record these in its budget. The forestry activities in Nias Selatan district conducted by PT. Geruti and PT. Teluk Nauli have been halted since 2004. As the result, Nias Selatan receives no revenue from forestry land rent or from royalties. For fishery and oil and gas revenues from North Sumatra, there is the possibility that these are being captured by Nias district.

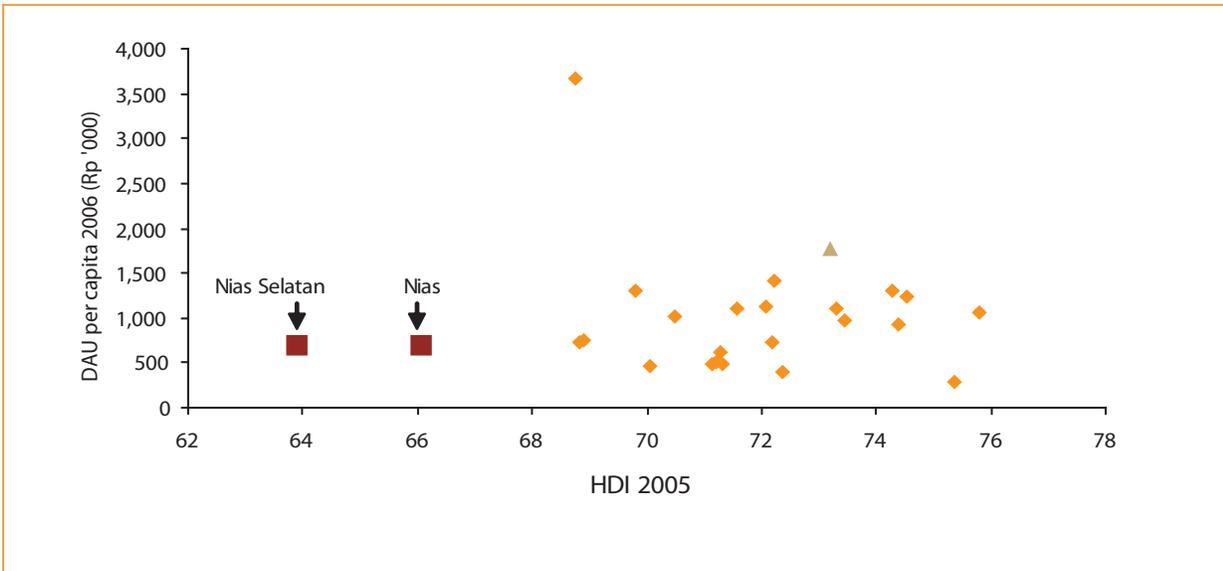
Figure B.8.6 Per capita DAU and revenue-sharing (2005) and poverty rate (2004) by district in North Sumatra



Source: World Bank staff estimates based on data from APBD, SIKD/MoF, BPS.

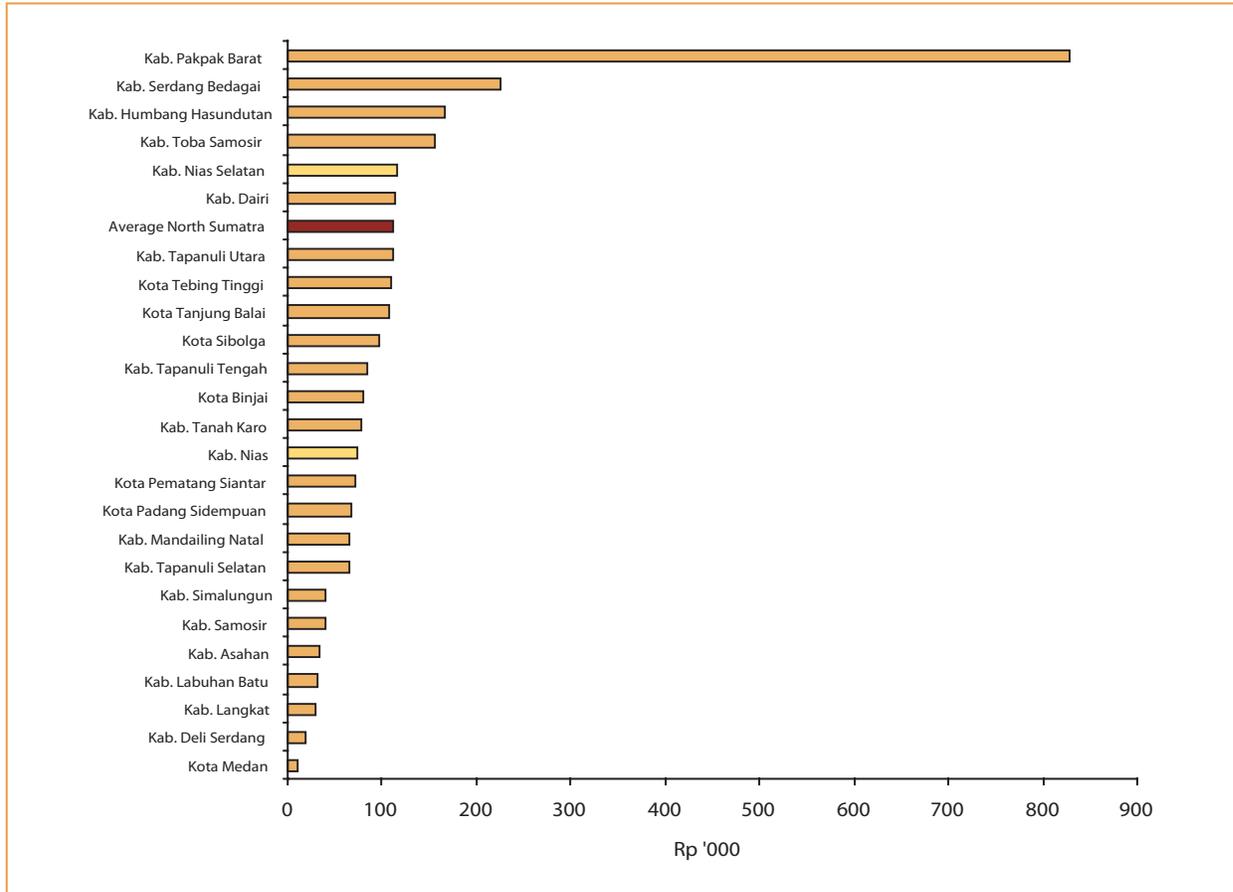
Note: The size of the bubble represents poverty headcount rates.

Figure B.8.7 Per capita DAU 2006 and Human Development Index, 2005



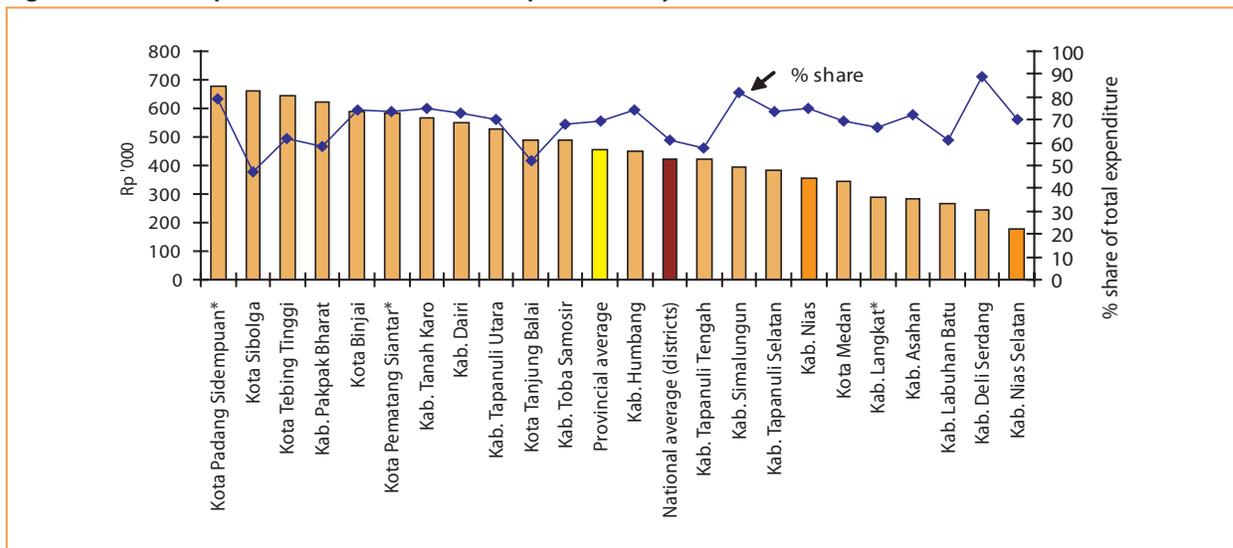
Source: World Bank staff estimates based on data from SIKD/MoF and UNDP Human Development Index report.

Figure B.8.8 Per capita DAK allocations by district in North Sumatra, 2006



Source: World Bank staff estimates based on data from SIKD/MoF.

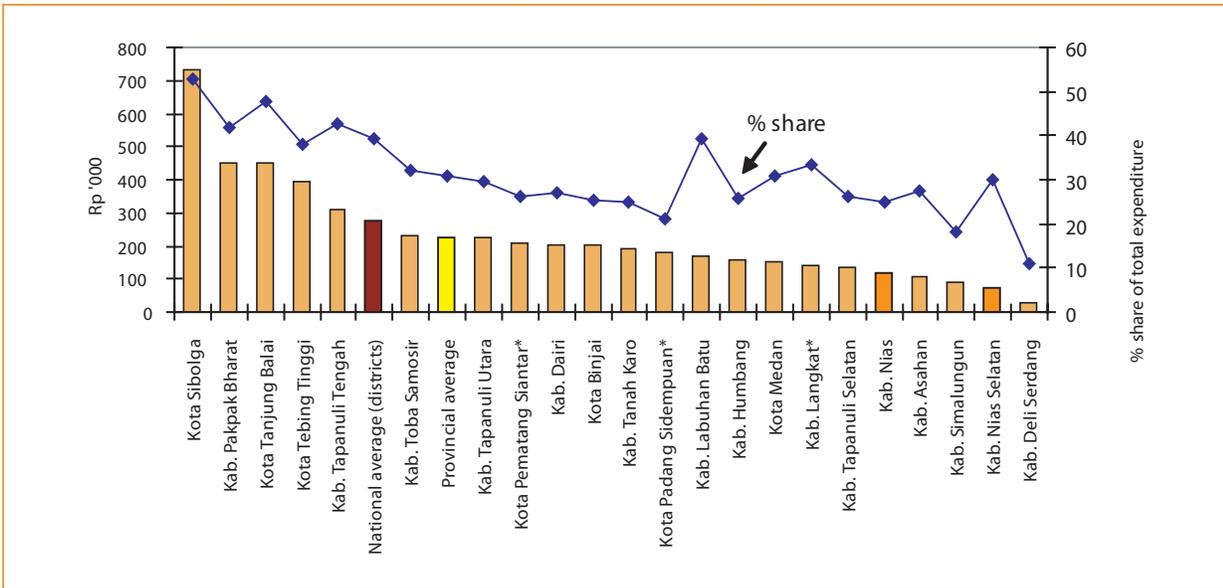
Figure B.8.9 Per capita and share of routine expenditure by district in North Sumatra, 2004



Source: World Bank staff estimates based on data from SIKD/MoF.

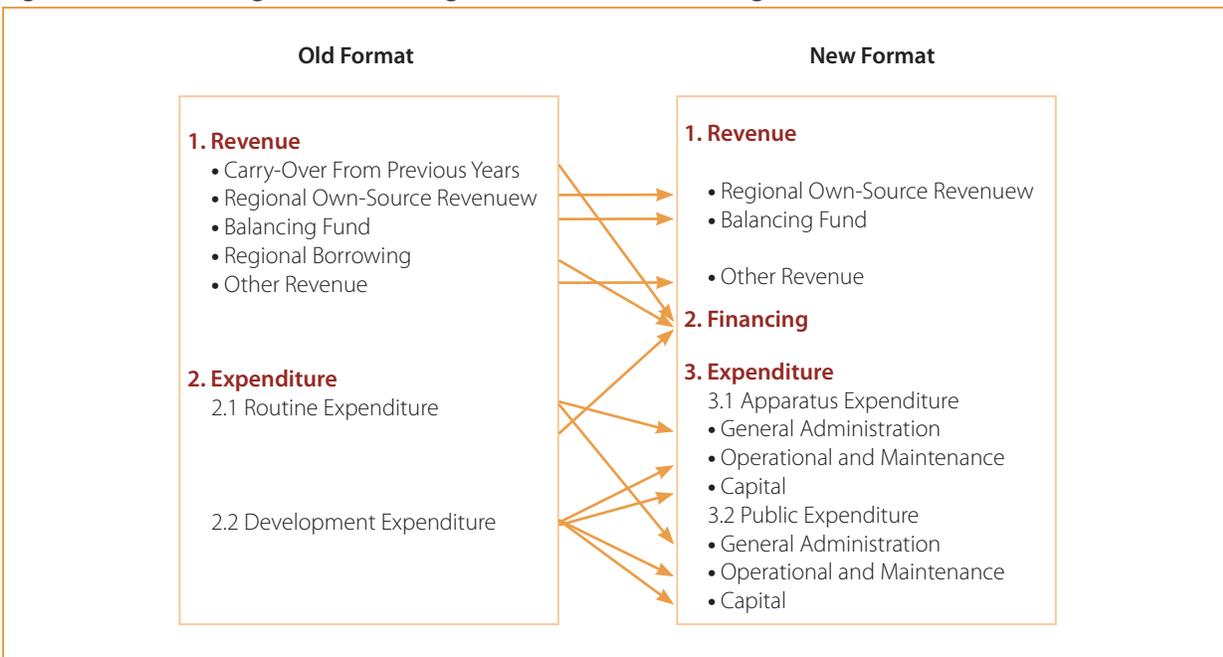
Note: * Langkat district uses 2003 data.

Figure B.8.10 Per capita and share of development expenditure by district in North Sumatra, 2004



Source: World Bank staff estimates based on data from SIKD/MoF.
 Note: * Langkat district uses 2003 data.

Figure B.8.11. District government budget format: old vs new budget format



Source: Papua Public Expenditure Analysis, Pemerintah Daerah Papua, and World Bank 2005.

Table B.8.2 Results of the PFM survey in Nias and Nias Selatan*Percent*

Strategic Area	Nias	Nias Selatan	Average Aceh's Local Governments
1 Local regulatory framework	29	4	37
2 Planning and budgeting	39	34	43
3 Cash management	44	25	35
4 Procurement	54	15	60
5 Accounting and reporting	29	12	38
6 Internal audit	48	28	52
7 Public debt and investment	22	0	28
8 Asset management	54	5	37
9 External audit and oversight	21	0	37
Average Score	38	14	41

Source: PFM Survey Results 2006.**Table B.8.3 Health personnel on Nias island, 2000-05***Number of personnel*

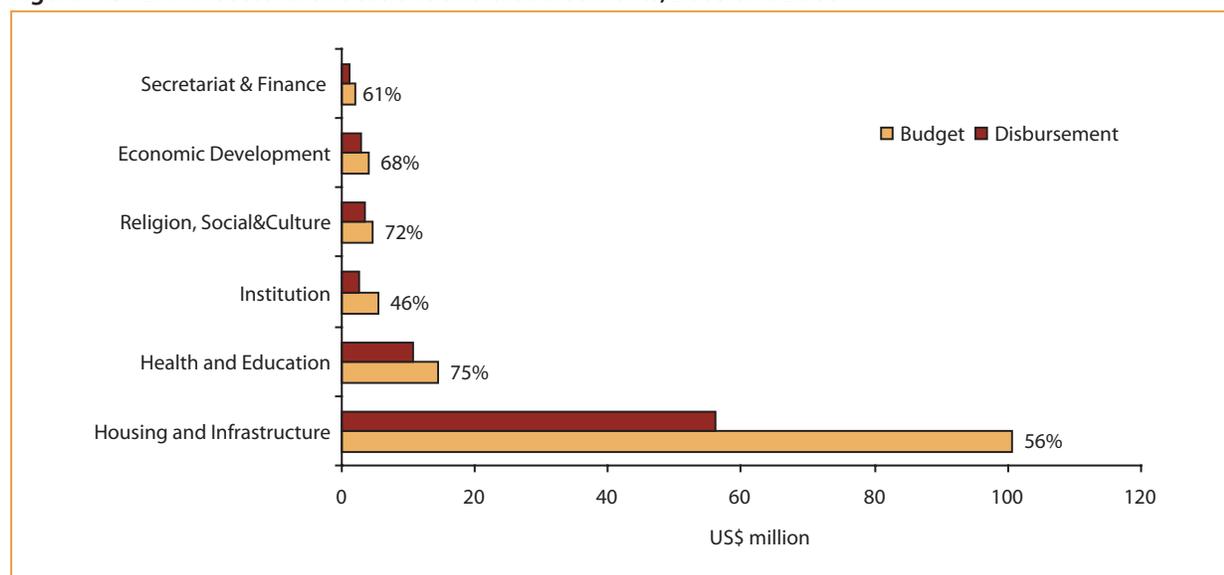
Heath personnel	2000	2001	2002	2003	2004	2005		
						Total	Nias	Nias Selatan
General physicians	30	15	15	36	38	47	40	7
Dentist	6	2	2	6	7	3	1	2
Specialist	3	1	1	2	2	n.a	n.a	n.a
Nurses	442	390	390	293	375	351	221	130
Midwives	171	321	321	102	329	120	70	50
Total	652	729	729	439	751	521	332	189

Source: BPS, (Nias in Figures, various years).

Table B.8.4 The distribution of health personnel in Nias and Nias Selatan, 2005

District/ Sub-districts	Population	# of doctors	# of midwives	# of nurse	# of dentist
Nias	441,832	40	70	221	1
Idanogawo	32,820	2	4	10	0
Bawolato	22,728	1	2	13	0
Gido	49,593	4	12	21	0
Lolofitu Moi	32,516	2	1	8	0
Sirombu	16,620	2	3	10	0
Mandrehe	45,812	4	3	21	0
Hiliduho	28,901	5	4	20	0
Gunung Sitoli	76,017	5	28	37	0
Tuhemberua	41,290	2	6	22	0
Lotu	11,643	2	1	10	0
Alasa	30,576	4	2	16	0
Namohalu Esiwa	13,937	1	0	11	0
Lahewa	29,908	3	3	14	1
Afulu	9,471	3	1	8	0
Nias Selatan	288,233	7	50	130	2
Pulau-pulau Batu	18,671	1	9	13	-
Hibala	8,771	-	-	7	-
Teluk Dalam	79,284	5	29	56	2
Amandraya	36,182	-	1	5	-
Lahusa	32,204	1	3	16	-
Gomo	52,686	-	2	14	-
Lolowau	33,736	-	6	9	-
Lolomatua	26,699	-	-	10	-

Source: BPS and Nias, 2006, BPS and Nias Selatan, 2006.

Figure B.8.12 BRR sectoral allocations and disbursements, 2005 and 2006

Source: World Bank staff estimates/BRR.

Table B.8.5 Estimated budget allocation and disbursement of reconstruction funds in Aceh and Nias, December 2006*US\$ million*

District	Gol		NGO		Donors		Total	
	Allocated	Disbursed	Allocated	Disbursed	Allocated	Disbursed	Allocated	Disbursed
PROV. NAD	372.0	230.5	51.9	32.1	115.6	22.8	539.6	285.4
KAB. ACEH BARAT	66.9	45.1	175.2	137.1	224.6	93.1	466.7	275.3
KAB. ACEH BARAT DAYA	1.3	0.3	17.2	7.3	22.1	5.0	40.6	12.6
KAB. ACEH BESAR	14.0	10.9	415.1	257.8	531.9	175.1	961.0	443.8
KAB. ACEH JAYA	4.2	2.1	297.6	151.6	381.4	102.9	683.2	256.7
KAB. ACEH SELATAN	1.3	0.4	8.4	5.5	10.8	3.7	20.5	9.6
KAB. ACEH SINGKIL	2.8	1.6	10.8	9.2	13.9	6.3	27.5	17.1
KAB. ACEH TAMIANG	0.9	0.4	5.3	3.8	6.8	2.6	13.0	6.8
KAB. ACEH TENGAH	2.9	0.8	12.4	5.7	15.9	3.9	31.2	10.4
KAB. ACEH TENGGARA	0.9	0.8	5.3	3.6	6.8	2.5	13.0	6.9
KAB. ACEH TIMUR	4.0	2.2	10.2	5.7	13.1	3.9	27.3	11.9
KAB. ACEH UTARA	3.7	2.0	73.6	54.9	94.3	37.3	171.5	94.2
KAB. BENER MERIAH	0.9	0.2	10.3	5.2	13.1	3.5	24.3	8.9
KAB. BIREUN	5.0	4.2	68.6	55.1	87.9	37.4	161.5	96.7
KAB. GAYO LUES	0.9	0.6	5.3	3.6	6.8	2.4	13.1	6.6
KAB. NAGAN RAYA	2.6	1.2	44.3	30.0	56.8	20.4	103.7	51.5
KAB. PIDIE	7.5	3.8	102.2	85.9	130.9	58.3	240.5	148.0
KAB. SIMEULUE	8.0	5.6	89.3	74.0	114.4	50.3	211.7	129.9
KOTA BANDA ACEH	639.0	376.1	26.0	16.1	33.3	10.9	698.2	403.1
KOTA LANGSA	3.6	2.5	0.6	0.4	0.8	0.3	5.1	3.2
KOTA SABANG	1.4	0.3	13.0	8.0	16.6	5.5	31.1	13.8
KOTA LHOKSUMAWE	5.2	3.9	0.0	0.0	0.0	0.0	5.2	3.9
KOTA MEULABOH			38.3	1.5	0.0	0.0	38.3	1.5
TOTAL NAD	1,149.2	695.5	1,480.9	954.1	1,897.8	648.0	4,527.9	2,297.5
PROV. SUMATRA UTARA	32.6	19.2	0.0	0.0	0.0	0.0	32.6	19.2
KAB. NIAS	127.0	75.4	99.2	45.7	127.2	31.1	353.4	152.2
KAB. NIAS SELATAN	4.3	1.5	60.5	14.7	77.6	10.0	142.4	26.2
TOTAL NORTH SUMATRA	163.8	96.0	159.8	60.4	204.8	41.0	528.4	197.5
Total	1,313.1	791.5	1,640.7	1,014.5	2,102.6	689.0	5,056.3	2,495.0

Source: BRR, World Bank.

Table B.8.6 The composition of district government revenues in Nias and Nias Selatan
Rupiah million

	1999		2000		2001		2002		2003		2004		2005		2006 planned				
	Nias	Nias Selatan	Total	Nias	Nias Selatan	Total	Nias	Nias Selatan	Total	Nias	Nias Selatan	Total	Nias	Nias Selatan	Total	Nias Selatan			
Own Source Revenue	2,319	-	2,319	1,556	-	1,556	5,111	5,319	-	8,969	5,701	718	6,419	4,371	1,056	5,427	3,591	1,698	5,290
Tax Revenue Sharing	8,461	-	8,461	5,444	-	5,444	13,472	15,950	-	13,733	9,690	7,438	17,127	10,373	7,755	18,128	6,064	4,734	10,798
Non-tax Revenue Sharing	669	-	669	147	-	147	758	1,127	-	1,650	917	-	917	268	-	268	582	-	582
SDO	40,522	-	40,522	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
INPRES	58,986	-	58,986	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
DAU	-	-	-	45,421	-	45,421	182,584	180,448	-	189,456	118,296	52,500	170,796	122,033	57,891	179,924	222,780	136,944	359,724
DAK	-	-	-	33,208	-	33,208	-	616	-	1,292	7,085	-	7,085	10,515	9,772	20,287	22,781	22,132	44,913
Others	152	-	152	-	-	-	4,671	2,473	-	2,473	21,789	2,708	24,497	14,508	6,247	20,755	9,648	4,902	14,550
Total	111,110	-	111,110	85,777	-	85,777	206,597	205,932	-	216,101	163,477	63,364	226,841	162,069	82,721	244,790	265,446	170,410	435,856

Source: SIKD/MoF, APBD Nias and Nias Selatan.

Table B.8.7 The composition of district government revenues in North Sumatra, 2004
Rupiah per capita and percentage share of revenue

No.	Districts	PAD		Tax-sharing		Non tax-sharing		DAU		DAK		Other		Total
		%		%		%		%		%		%		
1	Kab. Asahan	22,653	6.0	39,065	10.3	1,080	0.3	271,767	71.5	11,745	3.1	33,777	8.9	380,086
2	Kab. Dairi	17,938	2.6	44,814	6.5	8,532	1.2	507,385	74.1	32,875	4.8	72,814	10.6	684,359
3	Kab. Deli Serdang	21,913	7.1	23,817	7.8	1,096	0.4	230,388	75.2	n.a	n.a	29,273	9.6	306,487
4	Kab. Labuhan Batu	29,448	7.1	51,102	12.2	1,346	0.3	287,114	68.8	9,648	2.3	38,715	9.3	417,372
5	Kab. Langkat*	17,345	3.9	49,187	11.1	15,451	3.5	286,369	64.9	11,933	2.7	60,993	13.8	441,278
6	Kab. Mandailing Natal*	19,127	3.4	31,394	5.6	5,144	0.9	443,593	79.0	26,557	4.7	35,880	6.4	561,695
7	Kab. Nias	17,326	3.5	29,446	5.9	2,786	0.6	359,492	72.4	21,530	4.3	40,671	8.2	496,794
8	Kab. Simalungun	17,344	3.5	47,825	9.5	1,472	0.3	366,273	73.0	15,764	3.1	53,310	10.6	501,987
9	Kab. Tanah Karo	29,305	3.9	69,524	9.3	3,630	0.5	615,998	82.6	27,474	3.7	n.a	n.a	745,931
10	Kab. Tapanuli Selatan	11,291	2.1	49,449	9.3	2,824	0.5	401,303	75.1	17,501	3.3	52,128	9.8	534,496
11	Kab. Tapanuli Tengah	24,483	3.6	61,176	8.9	3,058	0.4	484,135	70.4	43,847	6.4	71,429	10.4	688,128
12	Kab. Tapanuli Utara	32,818	4.3	84,394	11.1	6,365	0.8	545,325	71.6	37,823	5.0	54,574	7.2	761,298
13	Kab. Toba Samosir	41,767	5.6	42,809	5.7	4,895	0.7	556,070	74.2	31,309	4.2	72,286	9.6	749,135
14	Kota Binjai	38,604	4.8	75,167	9.4	5,326	0.7	568,593	71.2	40,906	5.1	69,492	8.7	798,088
15	Kota Medan	128,310	24.0	94,321	17.6	542	0.1	201,419	37.7	3,233	0.6	106,916	20.0	534,742
16	Kota Pematang Siantar*	59,783	7.0	56,624	6.6	2,453	0.3	616,256	71.8	39,214	4.6	83,891	9.8	858,220
17	Kota Sibolga	91,368	6.3	149,822	10.3	12,493	0.9	1,067,167	73.6	73,573	5.1	55,109	3.8	1,449,533
18	Kota Tanjung Balai	59,235	6.2	73,821	7.8	6,590	0.7	695,926	73.2	36,987	3.9	78,145	8.2	950,704
19	Kota Tebing Tinggi	72,197	6.3	100,422	8.7	8,113	0.7	859,154	74.6	47,998	4.2	63,854	5.5	1,151,738
20	Kota Padang Sidempuan*	25,749	2.7	47,615	4.9	6,305	0.7	723,584	75.2	86,477	9.0	72,274	7.5	962,003
21	Kab. Pakpak Bharat	8,271	0.7	309,699	24.5	n.a	n.a	757,210	60.0	116,754	9.2	70,647	5.6	1,262,581
22	Kab. Nias Selatan	3,343	1.1	34,645	11.7	n.a	n.a	244,546	82.9	n.a	n.a	11,113	3.8	295,150
23	Kab. Humbang Hasundutan	11,593	1.8	79,513	12.6	1,183	0.2	467,926	74.4	26,226	4.2	42,897	6.8	629,336
	Average (districts)	34,835	5.1	71,550	9.9	4,794	0.6	502,478	71.6	36,161	4.4	57,736	8.8	701,548
	Minimum (districts)	3,343	0.7	23,817	4.9	542	0.1	201,419	37.7	3,233	0.6	11,113	3.8	295,150
	Maximum (districts)	128,310	24.0	309,699	24.5	15,451	3.5	1,067,167	82.9	116,754	9.2	106,916	20.0	1,449,533

Source: SIKD/MoF. APBD Nias and Nias Selatan.

Note: * This kabupaten/kota make use of 2003 data.

Table B.8.8 Routine and development expenditures by district in North Sumatra, 2004*Rupiah per capita and percentage share of total expenditure*

No	Districts	Routine		Development		Total
			%		%	
1	Kab. Asahan	285,875	72.6	108,105	27.4	393,980
2	Kab. Dairi	551,366	73.2	202,202	26.8	753,568
3	Kab. Deli Serdang	246,109	89.0	30,315	11.0	276,424
4	Kab. Labuhan Batu	264,011	60.8	169,968	39.2	433,979
5	Kab. Langkat*	289,105	66.8	143,592	33.2	432,697
6	Kab. Mandailing Natal	n.a	n.a	n.a	n.a	n.a
7	Kab. Nias	357,512	75.0	119,366	25.0	476,878
8	Kab. Simalungun	392,288	81.8	87,475	18.2	479,763
9	Kab. Tanah Karo	569,225	75.0	189,672	25.0	758,896
10	Kab. Tapanuli Selatan	385,733	73.7	137,665	26.3	523,398
11	Kab. Tapanuli Tengah	422,000	57.5	311,568	42.5	733,568
12	Kab. Tapanuli Utara	528,145	70.2	223,836	29.8	751,981
13	Kab. Toba Samosir	487,470	67.7	232,406	32.3	719,876
14	Kota Binjai	586,665	74.5	200,575	25.5	787,240
15	Kota Medan	346,602	69.4	153,107	30.6	499,709
16	Kota Pematang Siantar*	584,286	73.8	207,829	26.2	792,115
17	Kota Sibolga	658,387	47.3	733,753	52.7	1,392,140
18	Kota Tanjung Balai	488,186	52.1	448,388	47.9	936,574
19	Kota Tebing Tinggi	642,218	62.1	392,573	37.9	1,034,791
20	Kota Padang Sidempuan*	676,251	78.9	181,259	21.1	857,510
21	Kab. Pakpak Bharat	624,576	58.1	450,745	41.9	1,075,320
22	Kab. Nias Selatan	177,080	70.0	75,958	30.0	253,037
23	Kab. Humbang Hasundutan	450,972	74.2	156,541	25.8	607,513
	Average (districts)	455,185	69.3	225,314	30.7	680,498
	Minimum (districts)	177,080	47.3	30,315	11.0	253,037
	Maximum (districts)	676,251	89.0	733,753	52.7	1,392,140

Source: SIKD/MoF. APBD Nias and Nias Selatan.

Note:* These *kabupaten/kota* make use of 2003 data.

Table B.8.9 Routine expenditure by economic classification and district in North Sumatra, 2004
Rupiah per capita and percentage share of total routine expenditure

No	Districts	Personnel		Goods and services		Operational and maintenance		Official travel		Others		Subsidy and financial assistance		Unexpected Expenses		Total
		%		%		%		%		%		%		%		
1	Kab. Asahan	235,551	82.4	23,673	8.3	1,552	0.5	2,244	0.8	-	-	22,654	7.9	202	0.1	285,875
2	Kab. Dairi*	374,346	67.9	44,654	8.1	14,632	2.7	12,494	2.3	75,547	13.7	-	0.0	29,692	5.4	551,366
3	Kab. Deli Serdang	207,225	84.2	21,762	8.8	2,582	1.0	1,676	0.7	-	-	11,445	4.7	1,420	0.6	246,109
4	Kab. Labuhan Batu	221,432	83.9	9,602	3.6	3,905	1.5	2,327	0.9	-	-	24,119	9.1	2,625	1.0	264,011
5	Kab. Langkat*	211,060	73.0	41,180	14.2	6,454	2.2	2,284	0.8	9,233	3.2	4,033	1.4	14,861	5.1	289,105
6	Kab. Mandailing Natal	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a
7	Kab. Nias	292,307	81.8	20,819	5.8	3,942	1.1	10,720	3.0	-	-	26,477	7.4	3,246	0.9	357,512
8	Kab. Simalungun	354,204	90.3	16,716	4.3	1,411	0.4	5,207	1.3	-	-	14,296	3.6	454	0.1	392,288
9	Kab. Tanah Karo	458,171	80.5	75,987	13.3	19,788	3.5	15,151	2.7	-	-	-	0.0	128	0.0	569,225
10	Kab. Tapanuli Selatan	300,472	77.9	32,904	8.5	7,692	2.0	13,917	3.6	-	-	22,579	5.9	8,169	2.1	385,733
11	Kab. Tapanuli Tengah	298,865	70.8	57,342	13.6	10,059	2.4	8,174	1.9	-	-	46,867	11.1	693	0.2	422,000
12	Kab. Tapanuli Utara	456,612	86.5	31,092	5.9	6,476	1.2	11,111	2.1	-	-	21,851	4.1	1,003	0.2	528,145
13	Kab. Toba Samosir	393,614	80.7	34,348	7.0	4,086	0.8	13,801	2.8	-	-	38,141	7.8	3,480	0.7	487,470
14	Kota Binjai	441,451	75.2	80,590	13.7	31,162	5.3	14,911	2.5	-	-	18,336	3.1	215	0.0	586,665
15	Kota Medan	223,244	64.4	53,404	15.4	1,089	0.3	4,926	1.4	-	-	61,339	17.7	2,601	0.8	346,602
16	Kota Pematang Siantar*	439,601	75.2	61,209	10.5	12,822	2.2	4,357	0.7	27,309	4.7	316	0.1	38,672	6.6	584,286
17	Kota Sibolga	518,996	78.8	59,183	9.0	-	0.0	12,114	1.8	-	-	63,310	9.6	4,784	0.7	658,387
18	Kota Tanjung Balai	353,191	72.3	54,001	11.1	14,289	2.9	17,713	3.6	-	-	44,558	9.1	4,434	0.9	488,186
19	Kota Tebing Tinggi	465,740	72.5	90,041	14.0	18,123	2.8	9,712	1.5	-	-	58,439	9.1	162	0.0	642,218
20	Kota Padang Sidempuan*	441,411	65.3	95,301	14.1	15,964	2.4	10,682	1.6	56,556	8.4	-	0.0	56,336	8.3	676,251
21	Kab. Pakpak Bharat	419,120	67.1	85,084	13.6	12,532	2.0	37,492	6.0	-	-	67,428	10.8	2,919	0.5	624,576
22	Kab. Nias Selatan	103,869	58.7	45,906	25.9	1,401	0.8	7,022	4.0	11,050	6.2	-	0.0	7,831	4.4	177,080
23	Kab. Humbang Hasundutan	358,687	79.5	25,536	5.7	5,429	1.2	9,719	2.2	-	-	49,379	10.9	2,223	0.5	450,972
	Average (districts)	344,053	75.9	48,197	10.7	8,881	1.8	10,353	2.2	8,168	1.6	27,071	6.1	8,461	1.8	455,185
	Minimum (districts)	103,869	58.7	9,602	3.6	0	0.0	1,676	0.7	0	0.0	0	0.0	128	0.0	177,080
	Maximum (districts)	518,996	90.3	95,301	25.9	31,162	5.3	37,492	6.0	75,547	13.7	67,428	17.7	56,336	8.3	676,251

Source: SIKD/MoF, APBD Nias and Nias Selatan.

Note:* These kabupaten/kota make use of 2003 data.

Table B.8.10 Development expenditure by sector and district in North Sumatra, 2004
Rupiah per capita and percentage share of total development expenditure

Districts	Government apparatus	Agriculture and forestry	Mining and energy	Trade and business development	Manpower	Health and social welfare	Education and culture	Environment and spatial planning	Regional development and housing	Transport, water, and irrigation	Demography and family planning	Telecommunication and tourism														
	%	%	%	%	%	%	%	%	%	%	%	%														
1 Kab. Asahan	37,205	34.4	2.8	293	0.3	1,263	1.2	352	0.3	3,553	3.3	12,328	11.4	295	0.3	-	-	49,128	45.4	659	0.6	-	-			
2 Kab. Dairi*	28,162	11.7	11,004	4.6	1,351	0.6	7,885	3.3	678	0.3	19,280	8.0	32,847	13.7	1,443	0.6	33,054	13.8	99,553	41.5	-	-	4,895	2.0		
3 Kab. Deli Serdang	10,077	33.2	1,160	3.8	-	291	1.0	-	-	1,660	5.5	604	2.0	627	2.1	2,582	8.5	12,817	42.3	408	1.3	90	0.3			
4 Kab. Labuhan Batu	36,732	21.6	5,827	3.4	-	501	0.3	361	0.2	17,036	10.0	22,149	13.0	13,791	8.1	-	-	73,279	43.1	291	0.2	-	-			
5 Kab. Langkat*	24,733	17.2	5,720	4.0	1,337	0.9	4,372	3.0	666	0.5	5,672	4.0	16,826	11.7	1,584	1.1	18,165	12.7	62,403	43.5	1,250	0.9	864	0.6		
6 Kab. Mandailing Natal	na	na	na	na	na	na	na	na	na	na	na	na	na	na	na	na	na	na	na	na	na	na	na	na	na	
7 Kab. Nias	27,140	22.7	8,769	7.3	-	1,022	0.9	-	-	9,141	7.7	14,171	11.9	-	-	-	-	56,621	47.4	1,994	1.7	509	0.4	-	-	
8 Kab. Simalungun	29,873	34.2	7,870	9.0	335	0.4	492	0.6	-	6,461	7.4	6,773	7.7	111	0.1	8,618	9.9	26,244	30.0	339	0.4	359	0.4	-	-	
9 Kab. Tanah Karo	46,214	24.4	19,148	10.1	-	791	0.4	-	-	8,796	4.6	8,956	4.7	2,353	1.2	-	-	101,421	53.5	328	0.2	1,664	0.9	-	-	
10 Kab. Tapanuli Selatan	51,476	37.4	15,347	11.1	-	1,569	1.1	708	0.5	9,328	6.8	11,362	8.3	3,386	2.5	41,311	30.0	2,687	2.0	490	0.4	-	-	-	-	
11 Kab. Tapanuli Tengah	68,490	22.0	22,737	7.3	883	0.3	1,841	0.6	521	0.2	11,152	3.6	19,125	6.1	6,234	2.0	-	-	180,175	57.8	411	0.1	-	-	-	-
12 Kab. Tapanuli Utara	73,067	32.6	14,668	6.6	-	1,247	0.6	-	-	20,740	9.3	36,129	16.1	4,870	2.2	13,352	6.0	58,277	26.0	1,486	0.7	-	-	-	-	
13 Kab. Toba Samosir	75,871	32.6	12,786	5.5	-	4,143	1.8	5,052	2.2	14,767	6.4	32,223	13.9	4,847	2.1	-	-	74,470	32.0	2,504	1.1	5,744	2.5	-	-	
14 Kota Binjai	61,024	30.4	1,880	0.9	-	2,567	1.3	357	0.2	17,276	8.6	23,070	11.5	3,713	1.9	7,167	3.6	81,953	40.9	1,383	0.7	185	0.1	-	-	
15 Kota Medan	25,826	16.9	1,124	0.7	-	885	0.6	63	0.0	9,741	6.4	1,529	1.0	19,451	12.7	6,092	4.0	88,352	57.7	44	0.0	-	-	-	-	
16 Kota Pematang Siantar*	47,601	22.9	3,103	1.5	4,673	2.2	10,893	5.2	200	0.1	12,960	6.2	29,506	14.2	7,464	3.6	50,762	24.4	38,706	18.6	111	0.1	1,849	0.9	-	-
17 Kota Sibolga	190,577	26.0	3,458	0.5	-	5,530	0.8	297	0.0	106,750	14.5	58,925	8.0	48,648	6.6	301,988	41.2	10,995	1.5	2,916	0.4	3,667	0.5	-	-	
18 Kota Tanjung Balai	85,139	19.0	11,968	2.7	-	2,470	0.6	939	0.2	6,303	1.4	43,500	9.7	9,829	2.2	-	-	285,725	63.7	2,515	0.6	-	-	-	-	
19 Kota Tebing Tinggi	59,611	15.2	8,803	2.2	-	861	0.2	-	-	27,636	7.0	40,486	10.3	-	-	253,760	64.6	1,415	0.4	-	-	-	-	-	-	
20 Kota Padang Sidempuan*	46,294	25.5	5,343	2.9	-	2,728	1.5	529	0.3	16,831	9.3	27,000	14.9	9,481	5.2	6,911	3.8	63,430	35.0	709	0.4	2,001	1.1	-	-	
21 Kab. Pakpak Bharat	450,745	100.0	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
22 Kab. Nias Selatan	16,940	22.3	2,717	3.6	-	3,848	5.1	-	-	4,290	5.6	10,643	14.0	1,578	2.1	1,600	2.1	21,990	29.0	9,720	12.8	2,632	3.5	-	-	
23 Kab. Humbang Hasundutan	56,042	35.8	10,042	6.4	-	1,256	0.8	-	-	10,959	7.0	3,396	2.2	1,073	0.7	-	-	73,300	46.8	473	0.3	-	-	-	-	
Average (districts)	70,402	29.0	8,023	4.4	403	0.2	2,566	1.4	487	0.2	15,470	6.5	20,525	9.4	6,399	2.6	33,880	10.2	66,497	34.5	1,274	1.0	1,112	0.6	-	-
Minimum (districts)	10,077	11.7	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0.0	0	0.0	0	0.0	0	0.0	0	0	0.0	0	0.0
Maximum (districts)	450,745	100.0	22,737	11.1	4,673	2.2	10,893	5.2	5,052	2.2	106,750	14.5	58,925	16.1	48,648	12.7	301,988	64.6	285,725	63.7	9,720	12.8	5,744	3.5	-	-

Source: SIKD/MoF, APBD Nias and Nias Selatan.

Note*: These kabupaten/kota make use of 2003 data.

Table B.8.11 Education, health, and infrastructure expenditures by routine, and development and by district in North Sumatra, 2004
Rupiah per capita, percentage share of total sector, and percentage share of sector of total expenditure

Districts	Education			Health			Infrastructure			Total Exp	
	Routine	Development	Total	Routine	Development	Total	Routine	Development	Total		% Infrastructure of Total Exp
	%	%	%	%	%	%	%	%	%		%
Kab. Asahan	166,940	12,328	179,268	19,750	3,553	23,303	6,183	49,421	55,604	14.1	393,980
Kab. Dairi*	282,187	29,237	311,423	51,461	18,308	69,769	12,964	138,853	151,817	20.1	753,568
Kab. Deli Serdang	158,577	604	159,182	21,604	1,660	23,264	5,290	15,489	20,779	7.5	276,424
Kab. Labuhan Batu	155,653	22,149	177,803	20,439	17,036	37,475	3,624	73,279	76,904	17.7	433,979
Kab. Langkat*	125,524	11,524	137,047	25,835	5,184	31,019	7,915	82,770	90,685	21.0	432,697
Kab. Mandailing Natal	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a
Kab. Nias	183,227	14,171	197,397	28,168	9,141	37,309	6,966	57,130	64,096	13.4	476,878
Kab. Simalungun	262,783	6,773	269,556	24,647	6,461	31,107	11,890	35,556	47,446	9.9	479,763
Kab. Tanah Karo	311,643	8,956	320,599	72,169	8,460	80,629	11,306	103,085	114,391	15.1	758,896
Kab. Tapanuli Selatan	208,838	11,362	220,200	24,265	9,328	33,594	10,089	43,998	54,087	10.3	523,398
Kab. Tapanuli Tengah	213,188	19,125	232,313	23,166	11,152	34,318	9,483	181,058	190,541	26.0	733,568
Kab. Tapanuli Utara	316,454	36,129	352,583	42,044	20,740	62,784	11,818	71,629	83,446	11.1	751,981
Kab. Toba Samosir	302,237	32,223	334,460	35,717	14,767	50,483	8,744	80,214	88,958	12.4	719,876
Kota Binjai	235,493	23,070	258,563	72,202	14,757	86,958	27,621	89,306	116,926	14.9	787,240
Kota Medan	136,193	1,492	137,685	38,995	9,725	48,720	14,663	94,444	109,107	21.8	499,709
Kota Pematang Siantar*	267,038	14,199	281,237	65,451	9,663	75,114	39,386	95,990	135,376	17.1	792,115
Kota Sibolga	283,065	58,925	341,991	65,098	106,750	171,848	19,595	316,650	336,245	24.2	1,392,140
Kota Tanjung Balai	170,017	43,500	213,517	48,301	6,303	54,605	18,499	285,725	304,224	32.5	936,574
Kota Tebing Tinggi	258,990	40,486	299,476	62,888	27,636	90,524	24,517	255,176	279,693	27.0	1,034,791
Kota Padang Sidempuan*	326,971	23,465	350,436	55,773	13,833	69,606	34,430	72,342	106,773	12.5	857,510
Kab. Pakpak Bharat	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a
Kab. Nias Selatan	83,245	10,643	93,888	18,266	3,399	21,665	2,454	26,223	28,676	11.3	253,037
Kab. Humbang Hasundutan	180,521	3,396	183,917	23,012	10,959	33,971	4,203	73,300	77,503	12.8	607,513
Average	220,418	20,179	240,597	39,964	15,658	55,622	13,888	106,745	120,632	16.8	680,498
Minimum	83,245	604	93,888	18,266	1,660	21,665	2,454	15,489	20,779	7.5	253,037
Maximum	326,971	58,925	352,583	72,202	93	171,848	39,386	316,650	336,245	32.5	1,392,140

Source: SIKD/MoF, APBD Nias and Nias Selatan.

Note: * These kabupaten/kota make use of 2003 data.

Annex C: Methodological Note

A. Provincial and District Government Budget (APBD)

The provincial and district government budget (Anggaran Pendapatan dan Belanja Daerah, or APBD) is the yearly budget allocated and/or spent by provincial and district governments. The budget consists of two categories: planned (proposal for parliament approval) and realization (actual spending or accountability report of the head of the region). Data span from 1994 to 2006 from several sources. For 1994–99, data was provided by BPS. For 2000–03, data were derived from MoF's Regional Financial Information System (Sistem Informasi Keuangan Daerah, or SIKD). Data for 2004 and 2006 were obtained from district governments in Nias and Nias Selatan. A projection is made for some components of Nias 2006 budget numbers.

B. Reconstruction Finance Estimates Needs

Needs

The estimated reconstruction needs were calculated based on data from *Post Disaster Damage Assessment on Nias and Simeulu Island*, carried out by IOM, 2005. This assessment covers mainly damage to infrastructure and buildings, and does not take into account potential losses in the economic and social sectors. With the help of the IOM damage data, the aggregate sectoral and financial impact has been calculated in applying data international standard ECLAC-methodology that had also been used to estimate the damage and losses of the tsunami.

Reconstruction financing

The financing sources have been categorized into three main sources: GoI, NGOs and donors. The data have been compiled from BRR's concept note approval mechanism for each NGOs or donor projects, as well as direct confirmation from donors, NGOs, and BRR for budget allocations and disbursements. Allocated fund referred to the fund that has been assigned into particular project, whereas disbursement is the fund that already transferred from the source of fund to the implementers (e.g. from donors to NGOs).

Geographical allocation

The estimated project allocation data by districts come from the Concept Note Approval mechanism of BRR, which also provided information about the sector and targeted districts for projects. However, in some cases detail information on sector definition and project area coverage is limited or assigned into several sectors and covered more than one district (except BRR), thus the estimation for geographical split using the weights of damage and loss assessment was applied.

Double-counting

The financing figures for reconstruction are vulnerable to double-counting, whereby funds can be channeled from more than one organization to multiple implementers (e.g., one donor to other donors and NGOs, or one NGO to other NGOs). Efforts have to be made to avoid this double-counting from occurring. Since the figures were captured based on the field project implementers (mostly NGOs), the donors (mostly bilateral) figures presented might be underestimated while overestimated the NGOs.

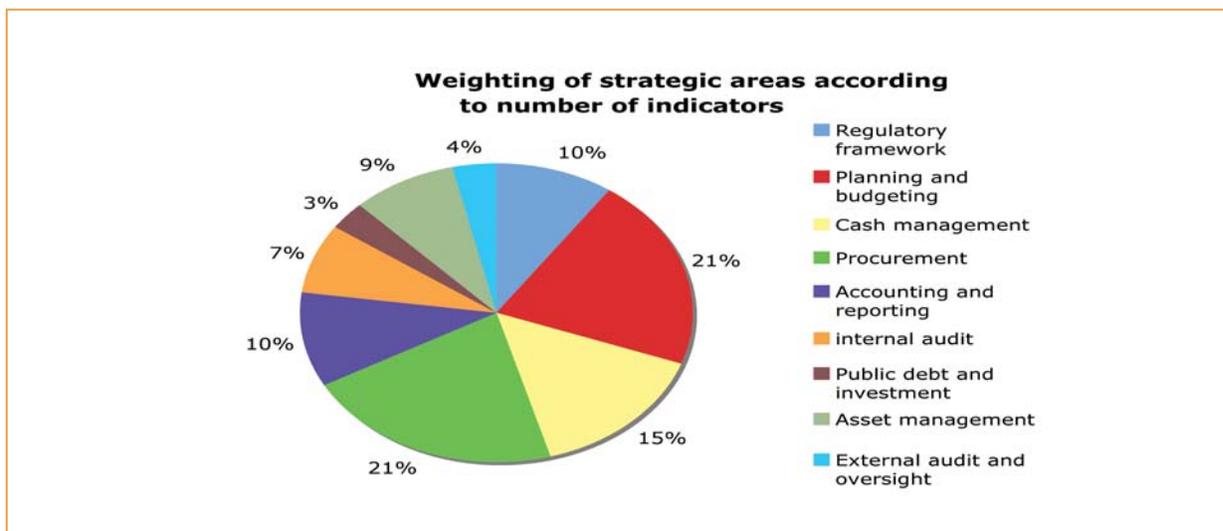
C. PFM Framework: Strategic Areas, Outcomes, and Indicators

The PFM framework was developed by the World Bank and Government of Indonesia's Ministry of Home Affairs to assess district governments' financial management capacity. The framework is divided in nine strategic areas key to effective management of public finances by district governments: (1) Regulatory Framework, (2) Planning and Budgeting, (3) Cash Management, (4) Procurement, (5) Accounting and Reporting, (6) Internal Audit, (7) Public Debt and Investment, (8) Asset Management, and (9) External Audit and Oversight.

Each strategic area is divided into between 1 and 5 outcomes, and lists of indicators are provided for each outcome.

The outcomes represent a desired achievement within each strategic area, and indicators are used to assess how district governments are performing in that area. It should be noted that international best practices have not been used to form the basis of the outcomes because, in practice, the gulf between them and the present reality is too great to generate viable results.

Respondents are required to answer “yes” or “no” to each statement represented by each indicator. Affirmative responses are added for each outcome, and a score is calculated according to the percentage of “yes” responses. Some strategic areas have more indicators than others; hence, they have more weight in the overall results. For example, planning and budgeting covers 49 indicators, yet debt and public investment covers only 8. Other more heavily weighted strategic indicators include procurement (41 indicators) and cash management (31 indicators).



Source: Pengelolaan Keuangan Publik WB and MoHA 2005.

Survey sites

The PFM framework in Nias island was implemented in both Nias district and Nias Selatan district. Both districts in Nias were heavily affected by the March 2005 earthquake. Researchers involved come from well-regarded university with strong backgrounds in accounting and local finances. The University of North Sumatra provided researchers for Nias island. The PFM Survey in Nias was funded by LGSP-USAID and World Bank organized.

Methodology

Results were obtained through interviews and FGDs (focus group discussions) with local government representatives in the relevant departments. These include Bappeda, the finance department; DPRD, the local revenue department; the local treasury office; public works agency; and local supervision agency. To ensure data accuracy, “yes” responses are required to be supported by either relevant documentation and/or cross-checked with additional respondents.

Interpretation of results

A score is given for each strategic area and survey site, and an overall score is given for each survey site. For comparison and evaluation, strategic area scores can be graded according to the categories shown below.

Overall score (%)	
80–100	Excellent/fully acceptable
60–79	Very good/substantially acceptable
40–59	Good/fairly acceptable
20–39	Moderate/partially acceptable
0–19	Poor/not acceptable

Annex D: The Nias Public Expenditure Analysis (NPEA) Program

Introduction

The local fiscal policy, especially which is related with budget making process, in Nias has been become more complicated and cumbersome because of the increasing challenges associated to the several conditions below:

- (i) **The implementation of two decentralization law: Law No. 22/1999 on Regional Government and Law No. 25/1999 on the Fiscal Balance between the Central Government and the Regions and the realization of Law No. 9/2002 on the formation of Nias Selatan district.** Decentralization policy and the separation of the original Nias district into two districts, Nias and Nias Selatan, have not only granted a greater autonomy and freedom to the district government in managing the budget making process, but also brought up the problem of harmonization the fiscal policies in intergovernmental setting and the doubtful upon local government capacity in managing an efficient and effective budget making process. Although to certain extent the fiscal decentralization might have increase the local fiscal revenue capacity caused by the increasing in district own-source revenue (PAD) or the rising of revenue transfer from central government in the form of the General Allocation Fund (DAU) and the Special Allocation Fund (DAK), the optimal utilization of available revenue as well as creation of district own-sustainable revenue sources and efficient expenditure allocation mechanism is becoming essential to produce an equitable growth in long term.
- (ii) **The implementation of one of problematic and complicated reconstruction and redevelopment process in one of backward region in North Sumatra after the earthquake that hit Nias island on 28 March 2005.** The tectonic activity measuring 8.7 on the Richter scale brought widespread misery and suffering to the people on Nias island and has further extended the social and economic problems in this underdeveloped region, which is mainly reliant on agriculture or fishery, mostly rural, and lack of infrastructure and public services. This tragedy has increased the poverty more than 50 percent in the short term. As a result of the earthquake, the island's economy was predicted to contract by 20 percent in 2005. Although the central government, as well as donors and private NGOs have made several efforts and programs for Nias restoration and relief process, the progress has been very slow. Geographical conditions, lack of natural resources, and poor infrastructure and public services delivery, as well as inadequate attention to Nias island, compare with Aceh, have all restricted the capacity of the local economy to develop and to raise its own funds. This is trun has limited the ability to carry out adequate reconstruction programs that offered quick and positive outcomes. Up until now, above two-third of reparation and relief fund and the reconstruction management have depended on the central government's reconstruction funds, directed through BRR. In the medium and longer term, however, district governments will be expected to play an increasing role in the reconstruction process and beyond. The hope is that by enlarging the role of district governments this will help to accelerate the reconstruction and redevelopment process on Nias island.
- (iii) **The capacity of the two district governments to manage fiscal policy efficiently and the capacity of local people and other stakeholders to monitor the budget making process are very limited.** Limited resources, especially related with the human resources as well as low revenue sources, and undeveloped democratic systems have limited the ability of the district governments to manage their budget-making processes in a responsive and transparent manner. Furthermore, the earthquake that has destroyed economic and political institution, both physically and institutionally, has also exaggerated the low fiscal capacity in Nias. Greater involvement by district governments and the people they represent in the post-earthquake reconstruction and redevelopment of the island is urgently needed to achieve a swift and adequate reconstruction outcome in the short term, as well as a sustainable and equitable growth in the long term.

To ensure the most effective and transparent utilization of public resources and the accomplishment of Nias island's long-term development objectives, these recent challenges have raised the importance of participatory budget-making processes that involve both the governments (local and national) and other stakeholders in the reconstruction and redevelopment of Nias. In this respect, it is urgent to have a comprehensive understanding of the budget process, as well as to develop the well-functioning system of local fiscal management that is created and strengthened by the encouragement of local capacity to manage and monitor the fiscal management process.

1. Objectives

The Nias Public Expenditure Analysis (NPEA) is intended to achieve two major objectives, each having its sub-components:

(i) To obtain a better understanding of the Nias island's fiscal policy, budget making process, and its budget structure, including Nias revenues, expenditures, and developing policy recommendations. Special emphasis will also be given to the Nias reconstruction and rehabilitation programs.

- Analyzing Nias districts' revenues and expenditures, in particular with regard to management of revenues from its own-sources revenue, central government fiscal transfer, and natural resources. The emphasis will be given to the enhancement of the districts capacity to create their own potential own-source revenue and the optimality of its expenditure allocation leading to sustainable fiscal condition.
- Evaluating the effect of fiscal decentralization policy and the division of the original Nias district into Nias and Nias Selatan on district government capacity in public service delivery and the geographical distribution of fiscal resources vs. development outcomes;
- Giving a comprehensive investigation on the resources allocation vs. outcomes for the key sectors of public service delivery, such as health, education, and infrastructure, and its impacts on the general economic activities in Nias.
- Assisting the BRR and the two district governments to carry out a participatory public expenditure review that helps Nias island stakeholders understand the sum total of financial commitments made to Nias island reconstruction and how they have been allocated.
- Helping the two district governments to find the strategies for improving its fiscal management on public revenue and expenditure.
- Supplying recommendations that would support the BRR in planning and managing reconstruction funds;
- Providing general recommendations for more efficient and effective resources allocation, and specific suggestion for the expenditure allocation of 2007 budget.

(ii) To develop and to leave a better system for the two districts to analyze and monitor district budgets:

- Setting up a network among local government and other Nias stakeholders, including local universities, NGOs, private-sector links, that will conduct the APEA. This network will, not only build up capacity to conduct public expenditure analysis in the future, but also strengthened democratization and civil society involvement in Nias.
- Granting technical assistance/capacity improvement to this network to carry out similar analysis in the future.
- Facilitating the creation of an institutional environment (with civil society, provincial and local governments, BRR, NGOs, international agencies, etc.) that is conducive to dissemination and absorption of this and future public expenditure analysis.

The expected results of NPEA are:

- Achieving a better budget resources allocation leading to an enhanced quantity and quality of local public services provision that is matched to local preferences and needs.
- Attaining a greater civil society involvement in local decision making process in identification of public expenditure priorities and the management of fiscal affairs that lead to a more transparent and improve local budget management.
- Enhancing local capability to autonomously conduct similar budget analysis in the future.
- Encouraging a public debate on the budget process in Nias (through media reports and regular conferences/seminars).

2. Participatory nature of the NPEA

The final accomplishment of the APEA will depend on its ability to: (i) be support and driven by local government and other Nias stakeholders; (ii) develop the local capacity to conduct public expenditure review. **The local support and capacity building will be attained through the following means:**

- (i) The NPEA initiative is supported by the Governor of North Sumatra province, as well as the district heads (*bupati*) of Nias and Nias Selatan districts, the Provincial and District (*kabupaten/kota*) Development Planning Agency (Bappeda), the Rehabilitation and Reconstruction Agency (BRR), members of the parliament, local universities, NGOs, and informal leaders (civil society, community or religious leaders).
- (ii) The team that will perform the technical analysis for the NPEA will also involve the experts from local scholars and universities.
- (iii) To achieve a greater attention and participation on Nias reconstruction and redevelopment activities, a series of public hearing, technical workshop, and seminar may be not only conducted in Nias but also in Jakarta and Medan. These activities will be attended by the representatives of government officers from Central Government (Ministry of Finance (MoF), Ministry of Home Affairs), the Provincial and District Governments, the Provincial and District (*kabupaten/kota*) Development Planning Agency (Bappeda), local scholars and universities and international aid agencies (UNDP, USAID, EC and the World Bank).
- (iv) Training and participation of the representatives from local universities and research institutes (TARI) in the field work related to NPEA to build their capacity in conducting the survey work.

Annex E: Minutes of NPEA Seminar and Focus Group Discussion

Hotel Soliga, 4 September 2006

Participants:

Local government officials from Nias and Nias Selatan districts, district legislature members, non-governmental organizations in Nias and Nias Selatan districts, the head of BRR Nias and other BRR representatives, community leaders, local academics, reporters from "Analisa", "Bar-Bar", "RRI", and Nias district Vice-Bupati and Nias district Regional Secretary.

SEMINAR PRESENTATION SESSION

Dr. Suahasil Nazara (Demographic Institute) "NIAS PUBLIC EXPENDITURE ANALYSIS: PRELIMINARY STUDY"

Overall picture of revenue

The implementation of decentralization in Nias island has resulted in both good and bad outcomes in the short run. From 1999 to 2003, both total revenue and intergovernmental transfers increased by more 50 percent. The share of intergovernmental transfers, on average, accounted for around 95 percent of total revenue before decentralization and around 90 percent after decentralization. The small share of own-source revenue to the total revenue has raised concerns over dependency and sustainability of Nias fiscal capacity, although the total amount of money from own-source revenue increased after decentralization

Nias and Nias Selatan district, have among the lowest total revenue in North Sumatra. Uncertainty over sources of revenue is also another challenge in Nias districts' budget-making process.

District own-source revenue

District own-source revenue has slightly increased. After decentralization, local tax contributions decreased to around 25 percent, on average, from 2001 to 2004 and have been largely replaced by local charges. Street lighting tax and the extracting and processing of mining resources type C tax were the main contributors to local tax in 2004. Low district own-sources revenue has also been caused by limited power to impose taxes. The important taxes are still controlled by the central government. PAD sources mostly come from particular sub-districts. In 2004, Kecamatan Lahewa was the highest contributor of PAD in Nias district.

Revenue-sharing

The share of tax sharing of total local government revenue has also increased after decentralization, even after the separation of Nias district. Historically, land and building tax (PBB) has been the major contributor of tax-sharing, while income tax has played a minor role in tax sharing revenue in Nias island due to the large informal sector in the local economy, particularly agriculture and fishery. The share of non-tax to total revenue has also increased after decentralization. Oil and gas resource revenue and fishery revenue have dominated the composition of non-tax revenue-sharing in Nias district.

DAU and DAK

The DAU has been the main source of district government revenue after decentralization. However, Nias and Nias Selatan districts are below the provincial average in terms of DAU per capita. Nias Selatan district did not receive any DAK in its budget planned (2004). Nias district received Rp 21,000 per capita.

Overall expenditure

Decentralization has altered the expenditure pattern in Nias district. Routine expenditure has risen dramatically and development spending has only climbed slightly. Due to limited fiscal revenue capacity and large routine needs (especially for local government salaries) only funds are available for development purposes.

Routine and development expenditure

Spending on personnel and good and services are the biggest expenditure items of routine expenditure, before and after decentralization. Personnel expenditure has declined gradually while goods and services expenditures have increased gradually. Expenses for infrastructure, education and culture, as well as health, are still the top three among development expenditures.

The revenue and spending of reconstruction and rehabilitation in Nias (BRR)

The allocation of reconstruction and rehabilitation spending has been more focused on the development and rehabilitation of infrastructure, housing, and health and education facilities. To ensure the continuity of reconstruction and rehabilitation and to fulfill the island's long-term development objectives, economic empowerment should be enhanced. The sustainability of reconstruction and rehabilitation in Nias depends on the fulfillment of donors and central government's pledges to provide the funds for reconstruction and rehabilitation programs.

Education

The share of education expenditure to total expenditure has decreased in recent years. Despite this, some indicators show an improvement in education. The net-enrollment ratio has increased at all educational levels, though the 90 percent level net-enrollment for elementary school is still below the national average of 97 percent. The literacy rate is the lowest in North Sumatra.

Infrastructure

Infrastructure facilities are very poor. The reconstruction and rehabilitation activities carried by BRR should be able to improve infrastructure. Most roads are still earth and most of them are damaged. Most electricity is used for household needs. It is essential to increase electricity capacity to attract private investors.

Health

The share of health expenditure to total expenditure has decreased in recent years. There has been a slight increase in the number of health facilities. Public health public centers are fairly evenly distributed among sub-districts. Health outcomes remain very low.

Binahati Baeha, SH. (Bupati of Nias district)

We have to agree that the contribution of local revenue sources has been very low. After the implementation of decentralization, we targeted three revenue sources. The first is decentralization funds (DAU and DAK). The second is deconcentration funds, which has been a problem and may be abolished. The third is the fund to assist duties (*dana tugas perbantuan*). Historically, it has been difficult to receive this fund.

In the decentralization era, we are encouraged to increase local autonomy. However, it has been difficult to attain that objective because decentralization has also transferred government officials from central and provincial government. Thus, most spending has been allocated to finance government salaries. Around 80 percent of DAU, the biggest revenue in the local budget, has been allocated for government salaries, while PAD has been very low. In addition, the splitting of Nias has also decreased the potential PAD revenue of Nias district and it has resulted in decreasing expenditures in some sectors.

The utilization of local natural resources has been suboptimal, and thus its contribution to local revenue has also been low. DAU allocation from central government has not been transparent and is inconsistent. Up until now, there is still no opportunity for local government to raise revenue from borrowing. The APBD is always approved late and this has made it difficult to raise PAD.

Drs. Nehemia Harefa, MM. (Bappeda Nias district)**“SECTORAL ANALYSIS OF GOVERNMENT EXPENDITURES: PAST AND PRESENT”****General Condition**

The utilization of government expenditures in the past was dominated by routine expenditure while the proportion of public expenditures has been very low, although it has increased over times.

Local revenue sources have been very limited and most revenue has been from intergovernmental transfers. The complexity of development problems in Nias has blocked the district governments' efforts to increase their own local revenues.

The tsunami and earthquake have deepened the economic and social problems in Nias.

Problems

Local revenue sources are limited.

Revenue sources have not matched the expenditure burden; meaning most district government expenditure is allocated to routine expenditures.

The allocation of intergovernmental transfers, through revenue sharing, is not fairly distributed considering Nias's geographical location and status as one of the backward regions.

Lack of equipment to manage local finances.

The rules or laws on regional finance often change without sufficient time for district governments to implement it optimally.

Sectoral Analysis of government expenditure**2002 Budget**

Out of Rp 226 billion of total expenditure, 68.85 percent was allocated for routine expenditure and 31.15 percent was allocated for development expenditure.

Out of Rp 155 billion of routine expenditure, 75.3 percent was allocated for personnel expenditure and 24.7 percent for non-personnel expenditure.

Out of Rp 70 billion of development expenditure, the largest shares were allocated to the transportation sector (35.41 percent), education sector (14.60 percent), and government official and monitoring sector (9.88 percent).

2003 Budget

Out of Rp 272 billion of total expenditure, 66.47 percent was allocated to routine expenditure and 33.53 percent was allocated to development expenditure

Out of Rp 181 billion of routine expenditure, 71.64 percent was allocated for personnel expenditure and 28.36 percent for non-personnel expenditure.

Out of Rp 91 billion of development expenditure, large of share was allocated to transportation sector (48.6 percent), education sector (13.83 percent), and regional development sector (13.83 percent).

From 2002 to 2003, total expenditure increased by 20.27 percent, while routine expenditure increased by 16.1 percent and development expenditure rose by 29.48 percent.

2004 Budget

Out of Rp 207 billion of total expenditure, personnel expenditure (74.27 percent), public expenditure (25.51 percent), and capital expenditure (0.22 percent)

Out of Rp 153 billion of personnel expenditure, 91.36 percent was allocated for general administration expenditure while 7.18 percent was allocated for operational and maintenance expenditure and 1.47 percent for capital expenditure.

Out of Rp 52 billion of public expenditure, 2.87 percent was allocated for general administration expenditure while 63.76 percent and were allocated for operational and maintenance expenditure and 9 percent for capital expenditure. Financial assistance and expenditure sharing accounted for 21.72 percent.

2005 Budget

Out of Rp 224 billion of total expenditure, the expenditures consist of personnel expenditure (70.97 percent), public expenditure (28.89 percent), and capital expenditure (0.14 percent)

Out of Rp 159 billion of personnel expenditure, 88.75 percent was allocated for general administration expenditure while 7.76 percent was allocated to operational and maintenance expenditure and 3.49 percent for capital expenditure.

Out of Rp 64 billion of public expenditure, 3.07 percent was allocated for general administration expenditure, while 48.76 percent was allocated to operational and maintenance expenditure and 29.74 percent for capital expenditure. Financial assistance and expenditure sharing accounted for 15.18 percent.

From 2004 to 2005, total expenditure increased by 8.29 percent, while personnel expenditure, public expenditure, and capital expenditure increased by 3.48 percent, 22.64 percent and 30.52 percent, respectively.

Recommendations

Collective effort and commitment is needed to decrease the routine expenditure burden and increase development expenditure.

The allocation of public expenditure in some sectors should be changed to be based on needs.

In order to attain an effective, efficient and transparent utilization of government expenditure, it is important to involve the participation of all stakeholders in the planning, implementation and evaluation process of government expenditure. Develop a local fiscal policy management system based on information technology.

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