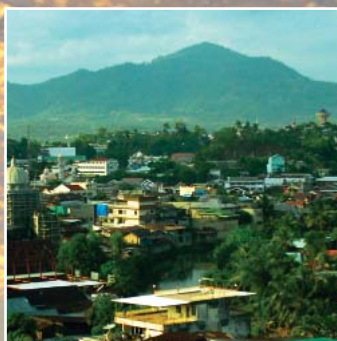


## 2011 North Sulawesi Public Expenditure Analysis

# Sub-National Public Financial Management and Development in Bumi Nyiur Melambai\*



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For further questions about this report, please contact Bastian Zaini ([bzaini@worldbank.org](mailto:bzaini@worldbank.org)).

\* "Bumi Niyur Melambai" refers to North Sulawesi Province. It means "The Land of the Swaying Coconut Palms".

2011 North Sulawesi Public Expenditure Analysis

# Sub-National Public Financial Management and Development in Bumi Nyiur Melambai\*

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# Foreword

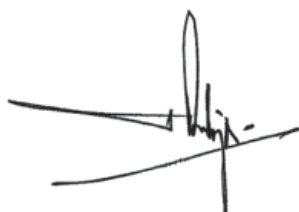
North Sulawesi province is one of the most developed provinces in eastern Indonesia. Far-reaching development has taken place over the past ten years. Presently, North Sulawesi province has the second highest Human Development Index score in Indonesia, and its poverty rate is low in comparison with other provinces. Over the past decade, per capita gross regional domestic product (GRDP) has doubled and sub-national government spending has increased significantly.

Nevertheless, there remain various development challenges to address as well as various potential resources and opportunities to pursue. North Sulawesi's performance in regional financial management has been relatively good, but discrepancies remain in the performance and capacity of different work units within each regional government and also between different regional governments in the province. As available fiscal resources constantly increase, regional governments in North Sulawesi must ensure that their planning, implementation and supervision – as well as budget evaluation – accord with local developmental characteristics, needs and orientations.

To address challenges, take opportunities, and increase development performance, sub-national governments in North Sulawesi, particularly the provincial government, need to better utilize their fiscal resources. Clearer vision, mission, indicators and development targets must be accompanied by greater efforts to prepare a more directed budget, and to formulate higher quality programs and activities more consistent with planning targets.

This report is an effort to assist North Sulawesi's sub-national governments to improve their regional financial management performance, to improve the quality of planning and budgeting, and finally to contribute to local development performance. The report results from strong cooperation between sub-national governments in North Sulawesi province, the Economics Faculty of Sam Ratulangi University, which was supported by CIDA, the Australian Agency for International Development (AusAID) and the World Bank. North Sulawesi Province BAPPEDA played an important role in facilitating the preparation of this report.

It is expected that this report will benefit North Sulawesi's sub-national governments, sub-national governments elsewhere in Indonesia and the central government by serving as a reference for efforts to improve sub-national financial management performance and the regional development process. Finally, we hope that this report can contribute to better and more effective sub-national financial management and governance.



**S.H. Sarundajang**  
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# Glossary

APBD	Sub-national Budget ( <i>Anggaran Pendapatan dan Belanja Daerah</i> )
APEC	Asia-Pacific Economic Cooperation
APM	Nett Enrollment Rate ( <i>Angka Partisipasi Murni</i> )
ASB	Analysis of Spending Standards ( <i>Analisis Standar Belanja</i> )
ASEAN	Association of South East Asian Nations
Bawasda	Regional Supervisory Agency ( <i>Badan Pengawas Daerah</i> )
BIMP-EAGA	Brunei Darussalam-Indonesia-Malaysia-Philippines East ASEAN Growth Area
BKPRS	Regional Development Cooperation Agency of Sulawesi ( <i>Badan Kerja Sama Pembangunan Regional Sulawesi</i> )
BLUD	Regional Public Service Agency ( <i>Badan Layanan Umum Daerah</i> )
Bolaang Mongondow Timur	East Bolaang Mongondow (district)
Bolaang Mongondow Utara	North Bolaang Mongondow (district)
Bolaang Mongondow Selatan	South Bolaang Mongondow (district)
BPK	State Audit Board ( <i>Badan Pemeriksa Keuangan</i> )
BP Kapet	Integrated Economic Zone Managing Agency ( <i>Badan Pengelola Kawasan Ekonomi Terpadu</i> )
BUMD	Sub-national Government-Owned Enterprises ( <i>Badan Usaha Milik Daerah</i> )
CTI	Coral Triangle Initiative
DAK	Special Allocation Funds ( <i>Dana Alokasi Khusus</i> )
DAU	General Allocation Grant ( <i>Dana Alokasi Umum</i> )
DBH	Revenue Sharing ( <i>Dana Bagi Hasil</i> )
DPA	Budget Entry Form ( <i>Daftar Pengisian Anggaran</i> )
DPPKAD	Local Revenue and Financial and Asset Management Service Office ( <i>Dinas Pendapatan dan Pengelolaan Keuangan dan Aset Daerah</i> )
IHP	International Hub Port
IDG	Gender Empowerment Index ( <i>Indeks Pemberdayaan Gender</i> )
IPG	Gender Development Index ( <i>Indeks Pembangunan Gender</i> )
IPM	Human Development Index ( <i>Indeks Pembangunan Manusia</i> )
KEK	Special Economic Zone ( <i>Kawasan Ekonomi Khusus</i> )
KUA/PPA	Budgeting General Policy/Budget Ceiling and Priority ( <i>Kebijakan Umum Anggaran/Prioritas dan Plafon Anggaran</i> )
MICE	Meeting Incentives Convention Event

Minahasa Utara	North Minahasa (district)
Minahasa Selatan	South Minahasa (district)
Minahasa Tenggara	Southeast Minahasa (district)
MLO	Main Lane Operator
Musrenbang	Development Planning Meeting ( <i>Musyawarah Perencanaan Pembangunan</i> )
PBJ	Procurement of Goods and Services ( <i>Pengadaan Barang dan Jasa</i> )
PDB	Gross Domestic Product ( <i>Produk Domestik Bruto</i> )
PDRB	Gross Regional Domestic Product ( <i>Produk Domestik Regional Bruto</i> )
Perda	Regional Regulations ( <i>Peraturan Daerah</i> )
Perkada	Regional Head Regulation ( <i>Peraturan Kepala Daerah</i> )
Pengelolaan Keuangan Daerah (PKD)	Subnational Public Financial Management ( <i>Subnational PFM</i> )
PLTP	Geothermal Power Plant ( <i>Pembangkit Listrik Tenaga Panas Bumi</i> )
Posyandu	Integrated health services outlet ( <i>Pusat Pelayanan Terpadu</i> )
PUG	Gender Mainstreaming ( <i>Pengarusutamaan Gender</i> )
Puskesmas	Community health center at sub-district level ( <i>Pusat Kesehatan Masyarakat</i> )
Renja	Working Plan ( <i>Rencana Kerja</i> )
Renstra	Strategic Plan ( <i>Rencana Kerja</i> )
RKPD	Sub-national Government Work Plan ( <i>Rencana Kerja Pemerintah Daerah</i> )
RPJMD	Regional Medium-Term Development Plan ( <i>Rencana Pembangunan Jangka Menengah Daerah</i> )
SB	Cost Standard ( <i>Standar Biaya</i> )
SDKI	Indonesian Demography and Financial Survey ( <i>Survei Demografi dan Keuangan Indonesia</i> )
SiKPA	Budget Utilization Deficit ( <i>Selisih Kurang Penggunaan Anggaran</i> )
SiLPA	Budget Utilization Surplus ( <i>Selisih Lebih Penggunaan Anggaran</i> )
Sitaro	Siau Tagulandang Biaro (district)
SKPD	Sub-national Government Task Force ( <i>Satuan Kerja Pemerintah Daerah</i> )
Susenas	National Socioeconomic Survey ( <i>Survei Sosial Ekonomi Nasional</i> )
UMP	Provincial Minimum Wage ( <i>Upah Minimum Provinsi</i> )
WDP	Qualified ( <i>Wajar Dengan Pengecualian</i> )
WOC	World Ocean Conference
WTP	Unqualified ( <i>Wajar Tanpa Pengecualian</i> )

# Executive Summary

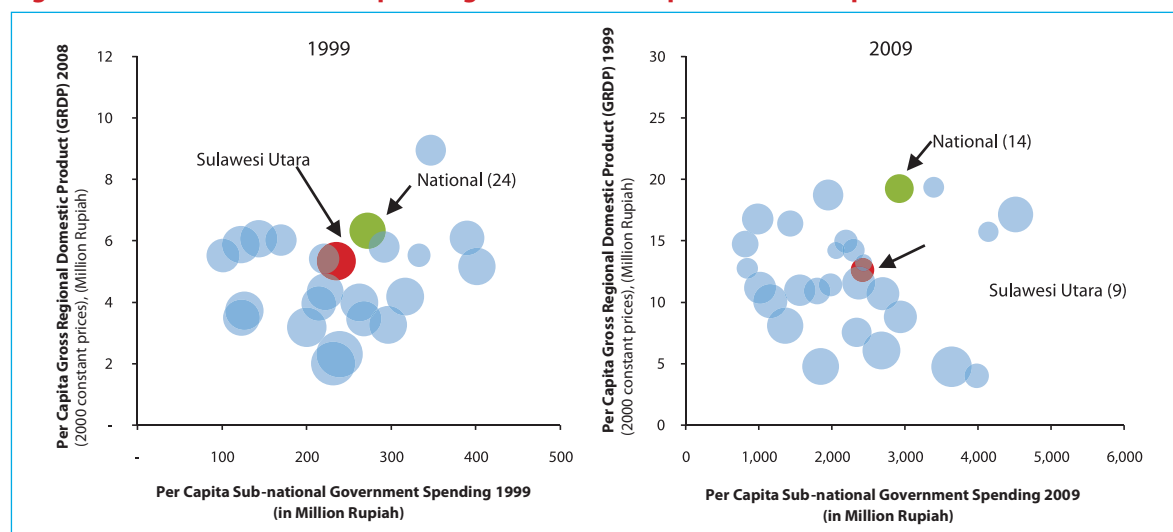




**North Sulawesi is one of the most developed provinces in eastern Indonesia.** As a border province, North Sulawesi has a strategic location as a link to East Asia and to the Moluccas and Papua. The province is endowed with natural resources, particularly maritime natural resources. Its population of 2.2 million people is divided between mainland Sulawesi and archipelagic regions to the island's north. The province also has better human resource capacity than other eastern Indonesian provinces.

**North Sulawesi has undergone rapid development in the past ten years.** North Sulawesi's economy has doubled in size over the past decade and sub-national government spending in the province has increased almost tenfold. This increase in sub-national government expenditure is a feature of the fiscal decentralization process. In 2009, although per capita income in North Sulawesi was lower than the national average, North Sulawesi's poverty rate was below the national figure. These trends have been influenced not only by the proliferation of Gorontalo province – formerly a part of North Sulawesi as Gorontalo district – but also by advances made by the province itself.

**Figure 1 North Sulawesi develops along with the development of other provinces**



Source: North Sulawesi Public Expenditure Analysis Database

Note: Poverty rate (BPS, 2009); Per capita GRDP (BPS, 2008); Consolidated Per capita spending by province (Ministry of Finance, 2008)

**Human capital is one of North Sulawesi's advantages.** North Sulawesi has the highest Human Development Index (HDI) score in eastern Indonesia and ranks second nation-wide after Jakarta. The province's HDI score has consistently increased in recent years, reaching 75.7 in 2009. North Sulawesi's poverty rate is below the average provincial rate in Indonesia and is the lowest in eastern Indonesia. Its HDI score and low poverty rate indicate North Sulawesi's greater human capital than other parts of eastern Indonesia.

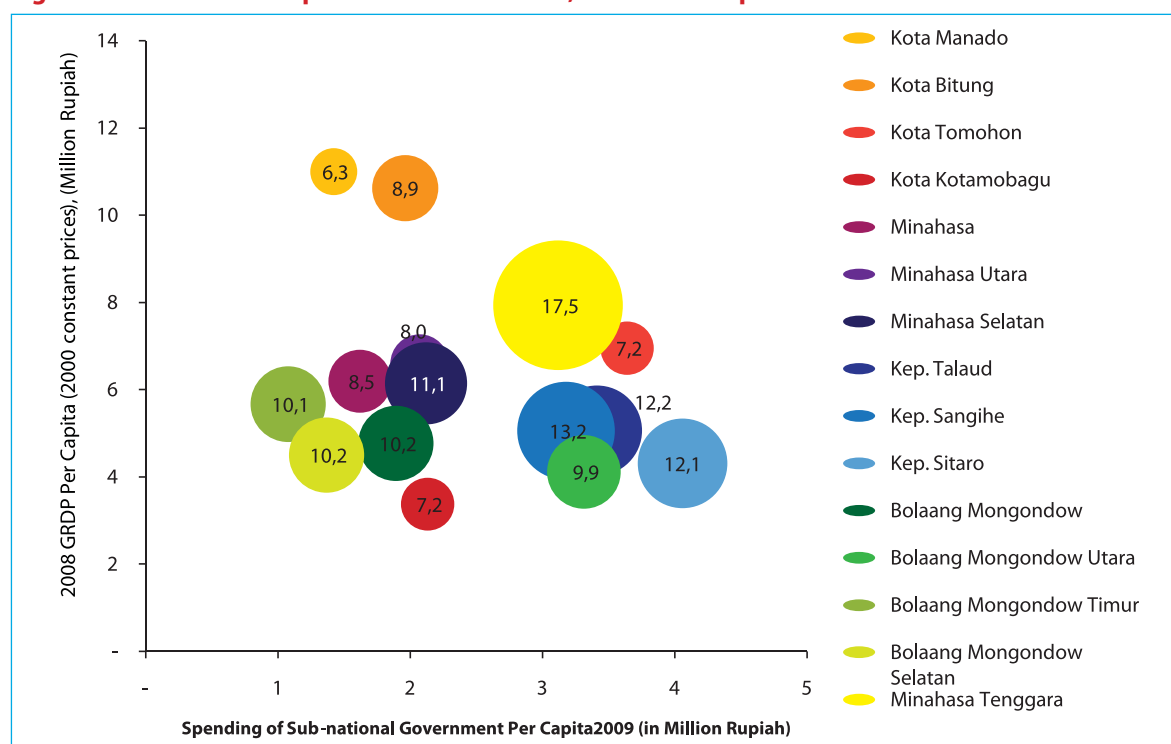
**North Sulawesi is undergoing an economic transition.** On the one hand, economic growth in the province has increased steadily over the past eight years, increasing on average by 5.1 percent annually to a 2009 growth rate of 7.9 percent. The main contributors to this growth were the trade, hotel and restaurant sector as well as the communication and transportation services sector. On the other hand, the agricultural sector, which is the largest contributor to the economy and employs the most people, grew only modestly and employed less of the workforce.

**Uneven development remains a challenge for North Sulawesi.** Similar to other provinces in Indonesia, development inequalities are evident between different districts/municipalities in North Sulawesi. Regions



with better access to economic activities are developing much faster than other regions with limited access. In general, districts/municipalities in North Sulawesi can be classified as having either high or low per capita sub-national government expenditure. High per capita spending does not equate to better development conditions, however. The poverty rate is higher in districts/municipalities with high per capita spending than in regions with low per capita spending.

**Figure 2 Similar to other provinces in Indonesia, there are inequalities in North Sulawesi**



Source: North Sulawesi PEA Database

Note: The size of the circles and the numbers within them represent the poverty rates of districts/municipalities.

**North Sulawesi performs well overall in sub-national public financial management, but many disparities in performance and capacity remain.** North Sulawesi's public financial management performance is above average. Various aspects require improvement or enhancement, however, such as the regional regulatory framework, asset management and reporting. Comparison between different sub-national governments also reveals significant disparities in planning and budgeting capacity.

**Sub-national governments have varying amounts of revenue, and remain dependent on the central government.** Sub-national governments' revenue continues to increase in North Sulawesi, both in terms of nominal value and per capita amount. Most revenue derives from central government fund transfers. These central government fund transfers continue to increase, making the dependency of sub-national governments increasingly evident. As a region undergoing a transition from an agriculture-dominated economy to an orientation to trade and services, many potential sources of revenue are yet to be optimally utilized. In addition, disparities persist in the per capita revenue of each sub-national government in North Sulawesi. Archipelagic districts tend to have higher per capita revenue than southern regions on mainland Sulawesi, particularly newly established southern districts.

**Much remains to be done to improve the quality of sub-national government expenditure.** The spending mix is improving overall, with capital expenditure continuing to increase as a proportion of overall expenditure, but personnel expenditure remains the largest area of spending. A relatively small proportion of expenditure is allocated to strategic sectors. Sub-national governments allocate less than 5 percent of expenditure to the agriculture, maritime and fisheries, and tourism sectors, even though most of the population draw their livelihood from these sectors, especially those living in rural areas.

## Performance of strategic sectors

**Overall, North Sulawesi's strategic sectors (health, education, infrastructure and agriculture) are performing better than in other provinces in eastern Indonesia.** Health and education have been performing well for some time. Increased sub-national government spending is yet to yield optimal results although performance is improving, particularly with respect to sectoral outcomes.

### Health

**Health indicators in North Sulawesi are good in broad terms.** Various health indicators demonstrate that circumstances in North Sulawesi are better both than in neighboring provinces in Sulawesi and than the national average. The challenge for the sector is to address differing service distribution between districts/municipalities. Outputs and outcomes are relatively consistent in urban areas. In larger districts and especially in archipelagic districts, however, outcomes are varied. Transportation and geographical problems often hamper access to health workers in archipelagic districts.

**Sub-national government spending for health has increased, but remains a low proportion of overall expenditure.** Health spending increased twofold from 2005 to 2009, but remained below 10 percent as a proportion of overall spending (province and district/municipality). The provincial government allocates most health spending to personnel expenditure. At district/municipality level, personnel spending and capital expenditure dominate in equal proportion (49 percent). Per capita health spending in archipelagic districts is higher than in other regions in North Sulawesi province.

### Education

**North Sulawesi's educational outcomes are the best in Indonesia,** as evident in education indicators such as school net enrollment rate and literacy rate. Nor are these results concentrated in urban areas or the provincial capital. Their distribution is relatively even in each district/municipality in North Sulawesi. Ongoing improvements in education outcome now tend to be modest because of the relatively high base. Moreover, disparities in education indicators in North Sulawesi are relatively slight, whether between different districts/municipalities, different age groups or by gender. These consistent educational outcomes have long been a feature of North Sulawesi.

**Education sector expenditure in North Sulawesi has increased more than twofold in the last five years, and is consistently above 20 percent as a proportion of overall spending.** At the same time as education expenditure has more than doubled, personnel spending has also doubled, however. Almost all districts/municipalities spend more than 20 percent of expenditure on education, with two districts spending as much as 40 percent. It should be noted that North Sulawesi's dependence on the central government for education spending is increasing, however, as evident in the increasing allocation of deconcentration funds to the education sector each year.

## Infrastructure

**The availability of clean water is North Sulawesi's main infrastructure problem.** Of the three areas of basic infrastructure, clean water coverage remains below access to sanitation or electricity coverage. Discrepancies remain between districts/municipalities and between income groups. Such discrepancies are evident in several newly established districts such as Minahasa Tenggara, Bolaang Mongondow Utara and Kepulauan Sitaro.

**The availability of transportation facilities for archipelagic regions is another infrastructure challenge.** North Sulawesi's three archipelagos, which are among the outermost territories of Indonesia, are highly dependent on sea transportation, especially on scant and weather-sensitive pioneer shipping. Passenger numbers have decreased as air transportation begins to displace sea transportation, but sea transportation will remain crucial to communities in archipelagic regions.

**Sub-national governments realize that infrastructure is a crucial requirement for development in North Sulawesi.** Their awareness is evident in a fourfold increase in infrastructure spending over the past five years. The proportion of central government spending in North Sulawesi allocated to infrastructure has also increased from year to year.

## Agriculture

**The performance of commodities in the agriculture sector varies.** Rice production in North Sulawesi increased by almost 100,000 tons (24 percent) during the past five years, although productivity remained relatively unchanged at 4.9 tons per hectare. Maize production increased more rapidly, growing by 161 percent over the same period, during which time the productivity of maize fields increased by almost 50 percent. There were also increases in production of nutmeg and cacao between 2005 and 2008, each of which have high potential as plantation commodities. Clove production fluctuated, because the major clove harvest cycle takes longer than a year. Coconut production in 2008 exceeded the 2005 figure, but its trend since 2006 has been to decrease.

**Optimal use is yet to be made of increased agriculture spending.** Agriculture spending in North Sulawesi more than doubled between 2005 and 2009, although almost half of this spending originated from central government deconcentration funds. Overall, agriculture spending accounts for 6 percent of total sub-national government spending. Half of agriculture expenditure is allocated to personnel spending, although personnel spending is decreasing while capital expenditure is increasing. The majority of capital expenditure is allocated to construct government buildings, however.

## Gender and Regional Development

**North Sulawesi's high gender outcome scores do not provide the whole picture of gender in the province.** North Sulawesi's Gender-related Development Index and Gender Empowerment Index scores exceed those of other provinces in Sulawesi, as well as the national average. This result accords with the better state of human resources in North Sulawesi as compared to other provinces in Sulawesi. Stakeholder interviews revealed trafficking of women and children to be a problem, however. Data on the number of cases remains difficult to obtain, because few cases are detected or reported.

**The gender-responsive budget in North Sulawesi remains relatively small.** There are relatively few gender-related problems in North Sulawesi, but the province faces the issue of trafficking. The provincial

government has allocated only limited funds to address trafficking and other gender-related problems. A greater spending allocation is required to promote women's empowerment in North Sulawesi's economic development so as to improve the standard of living of women.

## Regional Development

**North Sulawesi has the opportunity to lead development in eastern Indonesia**, for three reasons: (i) North Sulawesi is strategically located as a link both to the Asia-Pacific region as well as between the Maluku and Papua regions with the rest of Indonesia; (ii) the province's economy is currently making the transition from agriculture to be oriented to trade and service sectors; (iii) the quality of North Sulawesi's human resources is more competitive than in other regions in eastern Indonesia.

**However, North Sulawesi is yet to make optimal use of this opportunity.** Limited resources and capacity are not the only causes; regional development planning needs to reflect provincial characteristics and capabilities. With its strategic location, North Sulawesi must also consider whether its comparative advantage lies in acting as a growth center or as a hub. The switch of economic activities from agriculture to trade and services will also require different types of supporting infrastructure.

## Development Agenda

**North Sulawesi has several advantages and opportunities that policy makers can utilize to address various existing challenges.** These advantages include human resources potential, geographic position, and the economy, which has started to shift towards trade and services. Meanwhile, North Sulawesi's sub-national governments face three key development challenges: (i) improving the quality of sub-national public financial management with a focus on capacity, problematic areas and more effective planning and budgeting processes; (ii) improving the quality of the budget and public services by shifting focus towards improving the quality, access and distribution of services; and (iii) establishing a regional development strategy that reflects the strengths and characteristics of the province.

### Improving the quality of sub-national public financial management

**The provincial government needs to facilitate a capacity building process for sub-national financial management in North Sulawesi.** The provincial government along with Sangihe, Minahasa and Kotamobagu district governments each have superior performance in one field or another of public financial management. Such performance provides base capital to promote mutual learning to reduce capacity disparities between regions in various aspects of sub-national public financial management.

**Bottom-up participatory planning and budgeting mechanisms at district/municipality level require improvement.** Development Planning Forums (*Musrenbang*) at village, sub-district and district/municipality level are the available mechanism to encourage public participation in planning and budgeting. The quality and effectiveness of the *Musrenbang* mechanism requires further improvement.

### Improving the quality of public expenditures and services

**The spending mix of sub-national governments in North Sulawesi requires enhancement.** The large proportion of spending allocated to personnel expenditure signals the need for a staged rationalization of the number of regional government employees. Steps to achieve this rationalization could include (1) a

reduction of the number of personnel through natural attrition, namely by recruiting fewer new personnel than the number of personnel retiring; (2) recruiting qualified personnel and providing appropriate training to enhance productivity; and (3) reallocating personnel from over-staffed to under-staffed divisions to avoid unnecessary recruitment.

**Improvements are required to the quality of and access to services in the education and health sectors.** Development outcomes in health and education in North Sulawesi have been relatively good, but several policies require prioritization, such as: (i) increasing the number of health workers to enhance access to health for people in archipelagic and hinterland areas in North Sulawesi; (ii) improving the quality of education outcomes or graduates in accordance with North Sulawesi's characteristics and development needs (for example, by revitalizing vocational education or training in the agriculture, tourism, trade and service sectors).

**Better access for the poor to sanitation and the provision of transportation facilities for archipelagic areas should be established as key infrastructure expenditure priorities.** Sub-national governments' commitment to infrastructure development is reflected in the fourfold increase in expenditure during the last five years. Moving forward, the following areas should be prioritized: (i) improving basic infrastructure access for low-income earners, in particular the provision of clean water and access to sanitation; (iv) supporting pioneer shipping services, since such routes are not attractive to private shipping lines.

**Priorities for agriculture expenditure require enhancement and improvement.** A crucial issue in the agriculture sector is the high risk of harvest failure for agricultural commodities, such as rice and secondary food crops, which are vulnerable to climate change. Sub-national governments in North Sulawesi must prepare facilitation and awareness programs to assist farmers to adapt to such climate change. Sub-national governments should reduce capital expenditure on the construction of government buildings to allow a greater portion of expenditure to be allocated to agricultural facilitation and extension programs, which may have direct impacts on sectoral performance.

**Improvements to recording and reporting systems are required, as well as improvements in the system for the collection of data on victims of violence.** Violence against women has received a very high level of public attention in North Sulawesi, but recording and data collection systems for victims of violence are not in place. These could be sited at the Women's Empowerment and Child Protection Bureau (in cooperation with the police and public prosecutor's office). More serious efforts are required to improve the reporting, recording and data collection systems to facilitate fast, accurate and periodic access for data and information users to feed into formulation of policies, programs and activities for the protection of women and children.

## **A regional development strategy that reflects North Sulawesi's characteristics and strengths**

**An increase is required in sub-national government spending that relates directly to regional economy development.** There is little sub-national government spending in the sectors in which North Sulawesi enjoys an advantage. Only 3 percent of overall expenditure is allocated to agriculture, 0.5 percent to tourism, and 1 percent to the fisheries and maritime sector. Appropriate efficient programs are required, including developing the skills and work ethics of workers in those sectors, and providing adequate finance to enable these advantageous sectors to accelerate the achievement of community welfare. An agro-industry policy should be pursued in tandem with these measures to add greater value to North Sulawesi's plantation products.

**The regional development strategy must reflect North Sulawesi's comparative advantages.** In view of North Sulawesi's strategic location, the regional development strategy should focus on the province's role as a hub, acting as a point of entry and exit for flows of goods and services to and from eastern Indonesia, especially the Maluku and Papua regions, and to the Asia-Pacific.

**An in-depth review is required of North Sulawesi's natural resource potential and the potential to generate tax and charges revenue.** Such a review must consider connectivity, namely the regional relationships between North Sulawesi as a province; North Sulawesi as a part of Sulawesi; and between North Sulawesi as a part of eastern Indonesia with other regions in Indonesia.



# Chapter 1

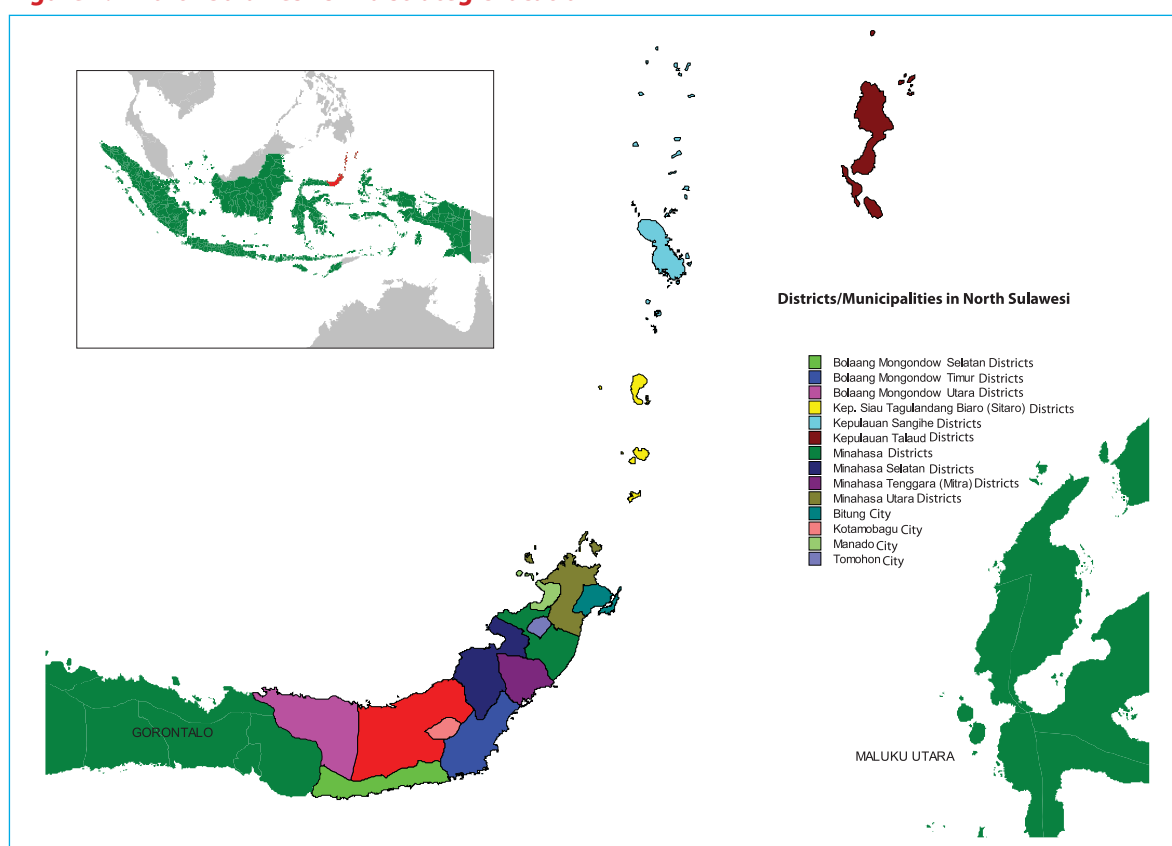
## Introduction



## 1.1 North Sulawesi Province at a Glance

**North Sulawesi was one of the first provinces to undergo Proliferation.** North Sulawesi province was established through Law no. 13/ 1964 with Manado as its capital city. Until early 2000, North Sulawesi comprised five districts and three municipalities. In 2000, North Sulawesi proliferated under Law no. 38/2000 to become two provinces, namely North Sulawesi province and Gorontalo province with Manado municipality and Gorontalo municipality as their respective capital cities. Since this division, several of North Sulawesi's remaining districts and municipalities have also proliferated. As of 2010, North Sulawesi comprised four municipalities - Manado, Bitung, Tomohon and Kotamobagu – and eleven districts, namely Minahasa, Minahasa Utara, Talaud, Sitaro, Minahasa Selatan, Minahasa Tenggara, Sangihe, Bolaang Mongondow, Bolaang Mongondow Utara, Bolaang Mongondow Selatan and Bolaang Mongondow Timur.

**Figure 1.1 North Sulawesi is in a strategic location**



**Districts/Municipalities in North Sulawesi**  
 Bolaang Mongondow Selatan District  
 Bolaang Mongondow Timur District  
 Bolaang Mongondow Utara District  
 Kepulauan Siau Tagulandang Biaro (Sitaro) District  
 Kepulauan Sangihe District  
 Kepulauan Talaud District  
 Minahasa District

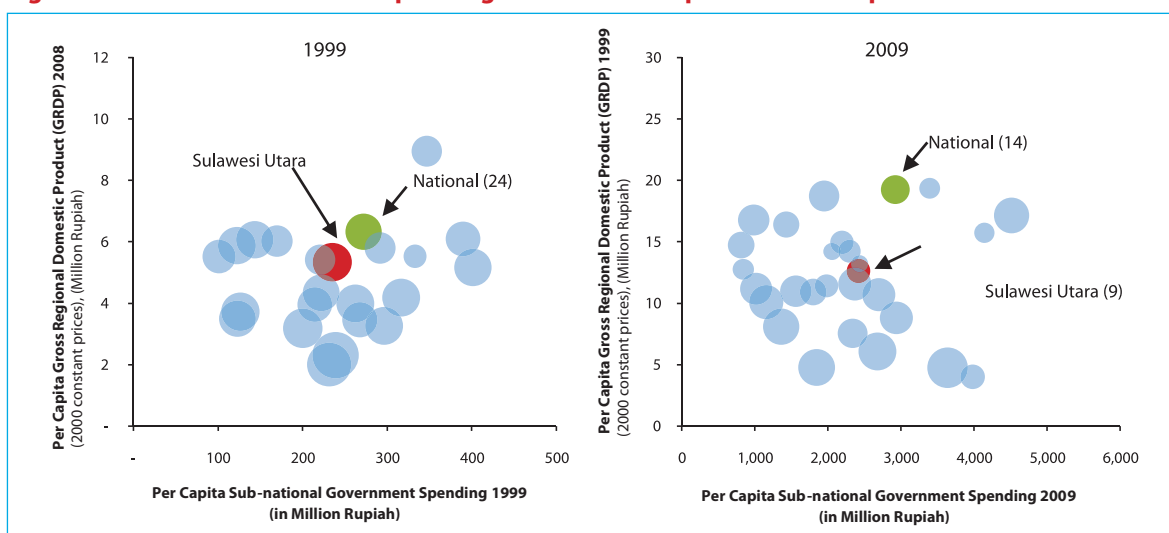
**Minahasa Selatan District**  
**Minahasa Tenggara District**  
**Minahasa Utara District**  
**Bitung municipality**  
**Kotamobagu municipality**  
**Manado municipality**  
**Tomohon municipality**



Territorial Area	15,359 km <sup>2</sup> (BPS, 2009)
Population	2,228,856 (BPS, 2009)
Poverty rate	9.79 percent (BPS, 2009)
Per capita PDRB (basic year constant 2000)	Rp6,987,000 (BPS, 2009)
The number of Districts/Municipalities	11 districts/ 4 municipalities

**North Sulawesi Province is a border province.** The province is located at 0°15' - 5°34' N latitude and 123°07' - 127°10' E longitude. To the north, it borders the Sulawesi Sea, Philippines Sea and the Pacific Ocean; to the south it abuts the Gulf of Tomini. The Maluku Sea lies to its east, whereas Gorontalo province adjoins its western border. North Sulawesi's overall territory spans 15,271 km<sup>2</sup>. Bolaang Mongondow is the largest district at 3,547km<sup>2</sup>, or 23 percent of North Sulawesi's overall territory, whereas Manado municipality has the smallest area at only 1 percent of the province. As a border province, North Sulawesi is strategically located as a link to the Asia-Pacific and to the Maluku and Papua regions.

**Figure 1.2 North Sulawesi develops along with the development of other provinces**



rth Sulawesi Public Expenditure Analysis Database

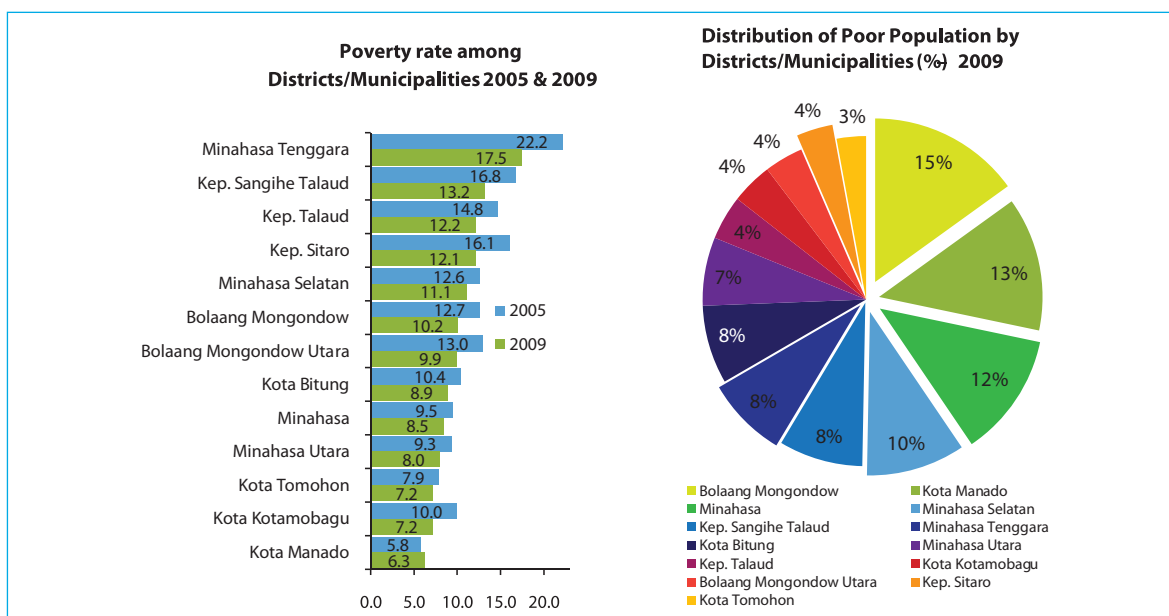
Note: Poverty rate (BPS, 2009); Per capita GRDP (BPS, 2008); Consolidated Per capita spending by province (Ministry of Finance, 2008)

**Following decentralization, North Sulawesi has developed over the past decade along with other provinces.** During this period, North Sulawesi's economy has doubled in size and sub-national government spending has increased almost tenfold. This increase in sub-national government expenditure is a feature of the fiscal decentralization process. In 2009, although per capita income in North Sulawesi was lower than the national average, North Sulawesi's poverty rate was below the national figure. These trends have been influenced by the separation of Gorontalo province – formerly a part of North Sulawesi as Gorontalo district – but North Sulawesi's improved performance also reflects advances made by the province itself. Consequently, North Sulawesi is often referred to as one of the most developed provinces in eastern Indonesia.

**Excluding Manado, the poverty rate in various districts/municipalities in North Sulawesi has decreased in the past five years.** Although Minahasa Tenggara has the highest poverty rate of all districts/municipalities in North Sulawesi, it has also succeeded in lowering its poverty rate more rapidly than in other regions (a decrease of almost five percentage points in the past five years). Manado municipality is

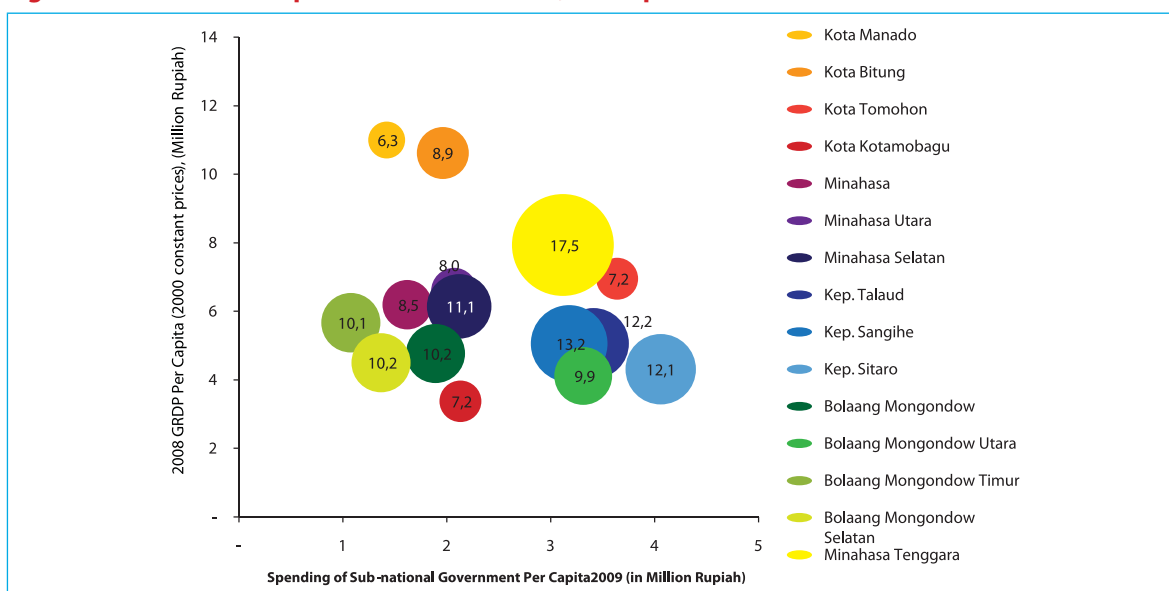
the only district/municipality in which the poverty rate has increased over the past five years. Most poor people live in districts/municipalities with mid to low poverty rates, where the poverty rate had decreased only modestly (or increased), such as Bolaang Mongondow, Manado municipality, Minahasa and Minahasa Selatan. Such a distribution illustrates the importance of affording attention not only to regions with high poverty rate, but also to regions with high number of poor people.

**Figure 1.3 The poverty rate decreased in almost all of North Sulawesi's districts/municipalities between 2005 and 2009**



Source: Central Bureau of Statistics

**Figure 1.4 As with other provinces in Indonesia, discrepancies remain in North Sulawesi**



Source: North Sulawesi PEA Database

Note: The sizes of circles and the numbers inside them represent district/municipality poverty rates.

**The development challenge for North Sulawesi is its unequal distribution of development.** As with other provinces in Indonesia, disparities in development are evident between different districts/municipalities in North Sulawesi. Regions with better access to economic activities are developing much faster than other regions with limited access. Manado and Bitung are the two most developed municipalities in North Sulawesi with their economic activities and ports. Manado municipality's per capita GRDP is more than triple that of Kotamobagu municipality, although the poverty rates in these two municipalities were the lowest in 2009. Beyond Manado and Bitung, districts/municipalities in North Sulawesi can in general be classified as having either high or low per capita sub-national government expenditure. Where per capita spending is high, the reason is generally because the district/municipality in question has a relatively high poverty rate.

## 1.2 Demography, Manpower and Poverty

**North Sulawesi's population growth is low.** In 2009, the population of North Sulawesi province was 2.2 million people. Population growth has been approximately 0.7 percent per annum since 2004, below the national population growth rate of 1.3 percent.

**North Sulawesi's population is concentrated in Manado municipality.** Twenty percent of North Sulawesi's population or 435,000 people live in Manado municipality, making it the district/municipality with the highest population in the province. By contrast, Bolaang Mongondow Selatan has the lowest population at only 2 percent of North Sulawesi's overall figure (Table 1.1). Population density is uneven in North Sulawesi. In Manado municipality, 20 percent of the provincial population occupy 1 percent of North Sulawesi's territory, whereas in Bolaang Mongondow Selatan district just 2 percent of the provincial population occupy 12 percent of the province's territory.

**Table 1.1 North Sulawesi's population is concentrated in urban areas**

No.	Name of District/Municipality	Year					
		2004	2005	2006	2007	2008	2009
01.	Bolaang Mongondow	463,145	474,908	485,222	298,271	302,393	196,263
02.	Minahasa	83,464	288,539	293,081	296,142	298,179	300,226
03.	Kepulauan Sangihe	19,311	191,102	191,631	130,129	130,290	130,449
04.	Kepulauan Talaud	78,944	74,512	74,660	74,786	74,892	74,997
05.	Minahasa Selatan	n.a	275,997	276,928	182,017	182,292	182,818
06.	Minahasa Utara	n.a	165,758	170,340	172,690	174,455	176,480
07.	Bolaang Mongondow Utara	n.a	n.a	n.a	79,042	80,134	80,508
08.	Kepulauan Sitaro	n.a	n.a	n.a	61,576	61,652	61,781
09.	Minahasa Tenggara	n.a	n.a	n.a	95,002	95,145	95,525
10.	Bolaang Mongondow Selatan	n.a	n.a	n.a	n.a	n.a	52,122
11.	Bolaang Mongondow Timur	n.a	n.a	n.a	n.a	n.a	59,401
71	Manado	416,771	405,715	417,654	424,111	429,149	434,845
72	Bitung	167,625	163,837	169,243	174,003	178,266	180,618
73	Tomohon	n.a	80,649	81,882	82,684	83,200	83,718
74	Kotamobagu	n.a	n.a	n.a	116,357	117,965	119,105
	<b>North Sulawesi</b>	<b>2,154,234</b>	<b>2,121,017</b>	<b>2,160,641</b>	<b>2,186,810</b>	<b>2,208,012</b>	<b>2,228,856</b>

Source: North Sulawesi Central Bureau of Statistics

**North Sulawesi's productive-aged population continues to increase.** North Sulawesi's workforce has increased from year to year. Across all economic sectors, the province's manpower increased from approximately 855,000 people in February 2006 to 962,000 in February 2010, an increase of approximately 1.5 percent per semester (Table 1.2). This increase is supported by North Sulawesi's pyramid-shaped age structure. The largest age group is 5-9 year-olds, and there are more females than males in the province.

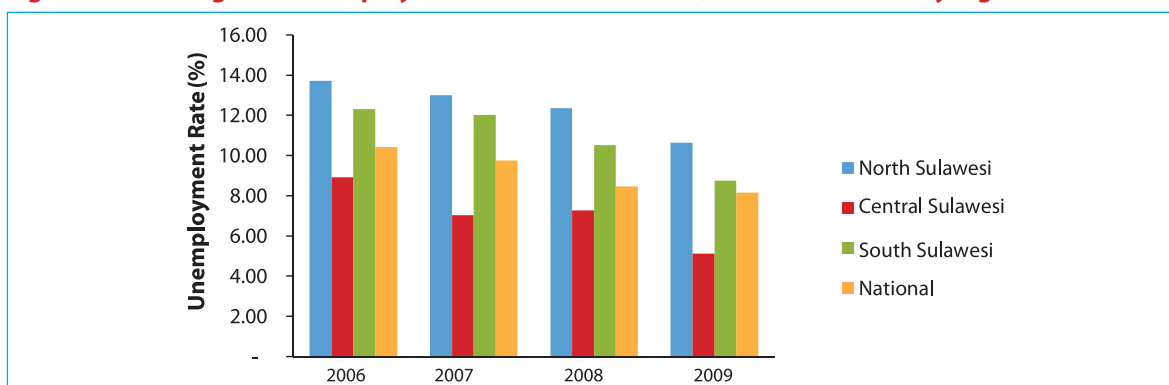
**The agricultural sector absorbs the most manpower, although the agricultural workforce has decreased over the past few years.**<sup>1</sup> Most manpower is employed in the agriculture (farming), plantation, forestry, livestock and fisheries sub-sectors. In February 2006, 47 percent of manpower worked in these sub-sectors. Overall manpower in the agriculture sector has decreased on average by 2 percent per semester, however, to a February 2010 figure of 37 percent. The decrease in the proportion of manpower employed in the agriculture sector has spurred an increase in other sectors. The greatest increase, of 26 percent per semester, was in the mining and quarrying sector (Table 1.2).

**Table 1.2 Manpower by Main Employment Sectors, February 2006 – February 2010**

Economic Sector	2006		2007		2008		2009		2010
	Feb	Aug	Feb	Aug	Feb	Aug	Feb	Aug	Feb
Agriculture, Plantation, Forestry, Livestock and Fisheries	403,179	341,347	378,631	373,329	363,771	362,615	386,873	345,595	332,981
Mining and Quarrying	4,756	10,402	18,229	8,703	14,806	12,804	19,048	18,301	31,052
Processing Industry	49,813	42,273	65,290	44,497	61,270	43,846	57,094	57,520	57,452
Electricity, Gas and Drinking Water	3,123	3,888	2,872	1,338	3,223	3,915	4,312	4,048	4,747
Construction	40,168	65,268	54,819	61,209	56,406	67,121	53,091	68,843	57,296
Trading, Hotel and Restaurant	154,952	131,614	174,127	164,718	144,155	163,693	175,012	173,432	178,341
Transportation, Warehousing and Communication	73,350	111,385	89,220	86,287	136,047	90,561	102,115	93,012	97,458
Financial Institution, Real Estate, Leasing Business and Company Services	12,254	12,021	12,900	15,627	10,127	13,850	14,496	16,546	19,300
Community Services, Social and Individual	113,705	110,352	148,547	152,795	127,558	153,757	150,586	162,876	183,021
<b>Total</b>	<b>855,300</b>	<b>828,550</b>	<b>944,635</b>	<b>908,503</b>	<b>917,363</b>	<b>912,198</b>	<b>962,627</b>	<b>940,173</b>	<b>961,648</b>

Source: North Sulawesi Central Bureau of Statistics

<sup>1</sup> The agriculture sector includes the agriculture (farming), plantation, forestry, livestock and fisheries sub-sectors.

**Figure 1.5 Although the unemployment rate has decreased, it remains relatively high**

Source: North Sulawesi Central Bureau of Statistics

**North Sulawesi's residents show no strong preference for self-employment or becoming an employee.** Thirty-one percent of North Sulawesi's population run their own businesses, whereas 30 percent work as employees. More of the urban population are employees (45 percent) than run their own business (31 percent). By contrast, more of the rural population run their own business (30 percent) than work as employees (21 percent). In gender terms, males show no preference for running a business (31 percent) as compared to working as an employee (29 percent). Women are more likely to work as an employee (35 percent) than run their own business (29 percent), however. Two perspectives may be relevant to this difference. First, in cultural terms women have limited opportunities to run their own business because they are expected to take responsibility for caring for the family. Second, women have limited access to necessary sources of financing to run their own business.

**North Sulawesi's unemployment rate has decreased, but remains high.** The unemployment rate in North Sulawesi decreased between 2006 and 2009. Open unemployment in North Sulawesi decreased from 13.7 percent in 2006 to 10.6 percent in 2009. Such an unemployment rate exceeds the rates in Central Sulawesi, South Sulawesi, and the national average (Figure 1.3).

**Table 1.3 Manado municipality has the highest unemployment rate**

No.	District/Municipality	2007	2008	2009
1	Bolaang Mongondow District	8.06	5.16	6.95
2	Minahasa District	11.46	10.49	9.45
3	Sangihe District	12.16	13.32	10.68
4	Talaud District	9.17	9.71	9.64
5	Minahasa Selatan District	9.34	9.54	9.30
6	Minahasa Utara District	13.68	13.20	11.95
7	Bolaang Mongondow Utara District	-	7.47	7.77
8	Sitaro District	-	8.46	6.20
9	Minahasa Tenggara District	-	7.26	7.08
10	Manado Municipality	16.68	14.97	15.38
12	Bitung Municipality	13.85	12.91	11.86
12	Tomohon Municipality	9.84	8.45	10.29
13	Kotamobagu Municipality	-	9.13	9.42

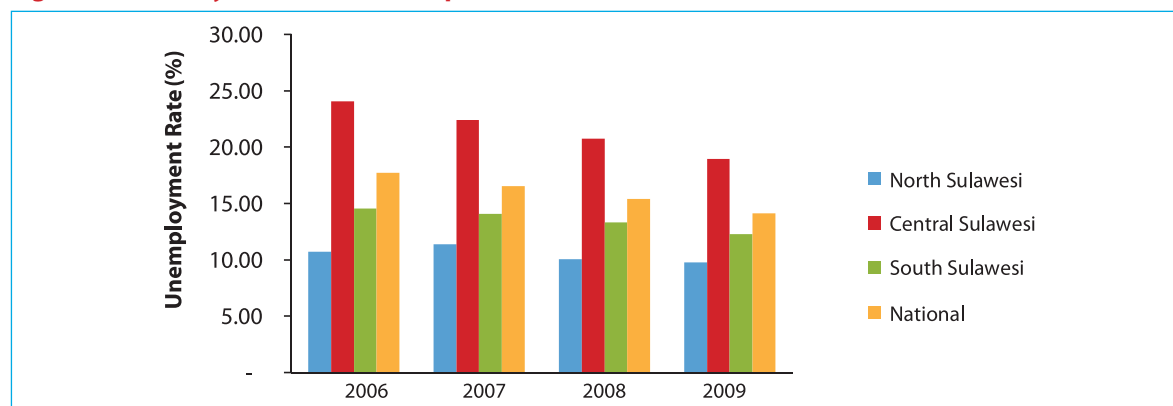
Source: North Sulawesi Central Bureau of Statistics

**The high unemployment rate is also affected by other factors apart from limited employment opportunities.** At the district/municipality level, Manado municipality has the highest unemployment rate at 15 percent in 2009. This figure resulted from a shift in employment opportunities from agriculture to other sectors, along with a decrease in the agricultural sector's manpower absorption. Relatively high unemployment is a feature of structural change in the economy in which manpower switches from the agriculture sector to the manufacturing or production sector. In addition, the Manado municipality's high unemployment rate was also affected by increasing urbanization and by flows of migrants from other provinces who have been attracted by the economic development reflected in the relatively high provincial minimum wage (UMP) and welfare standards.

**North Sulawesi's high unemployment rate is not influenced by poverty levels.** Various studies demonstrate a positive relation between unemployment rates and poverty rates, in that poor regions tend to have high unemployment rates. This trend does not apply to North Sulawesi province. Although the unemployment rate in North Sulawesi is higher than in other provinces, its poverty rate is the lowest (Figure 1.6). North Sulawesi's poverty rate decreased from 10.8 percent in 2006 to 9.8 percent in 2009, lower than in Central Sulawesi or South Sulawesi and below the national rate. By contrast, North Sulawesi's unemployment rate is higher than in these two provinces and than the national figure.

**The pattern of poverty and unemployment in North Sulawesi results from the province's low dependence on agriculture.** A lower proportion of manpower is employed in the agriculture, plantation, livestock, forestry and fisheries sub-sectors in North Sulawesi than in South Sulawesi or Central Sulawesi. Generally, these sub-sectors have a high hidden unemployment rate.<sup>2</sup> Central Bureau of Statistics data reveals that in February 2009, 35 percent of manpower in North Sulawesi was employed in these sub-sectors, as compared to 51 percent in South Sulawesi and 68 percent in Central Sulawesi.

**Figure 1.6 Poverty in North Sulawesi province is the lowest in Indonesia**



Source: Central Bureau of Statistics

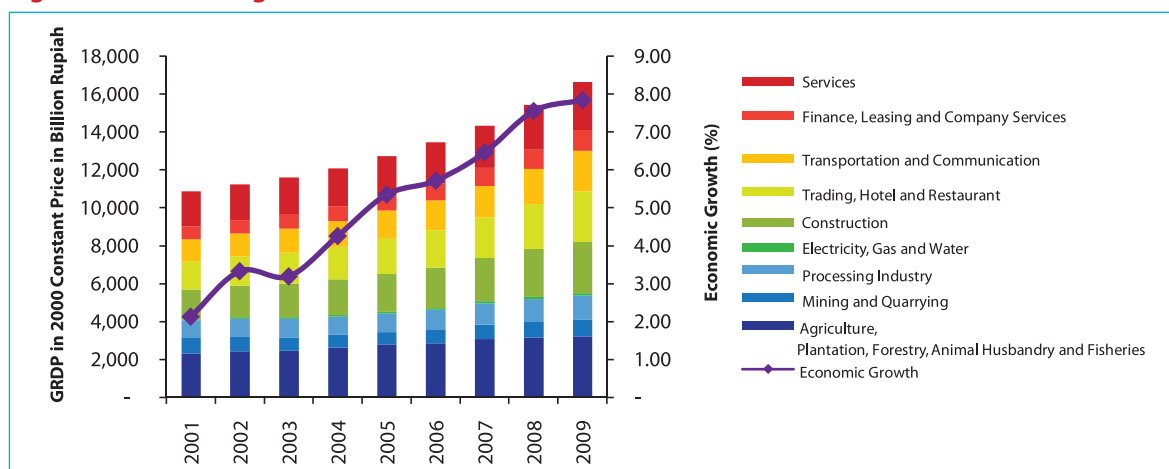
<sup>2</sup> Manpower considered to be employed actually fail to utilize working hours optimally, resulting in a very limited revenues obtained.

## 1.3 North Sulawesi's Economy

**North Sulawesi's GRDP has undergone a stable increase.** Over the past eight years, North Sulawesi's GRDP grew 53 percent in real terms or 5.1 percent per annum. North Sulawesi's economic growth has also accelerated from about 4 percent in 2002 to almost 7.9 percent in 2009. The main contributors to this improvement in economic growth were the trade, hotel and restaurant sector, which grew by 7.4 percent on average from 2001-2009; the construction sector, which grew by 7 percent on average; and the transportation and communication sector, which grew 7.7 percent on average.

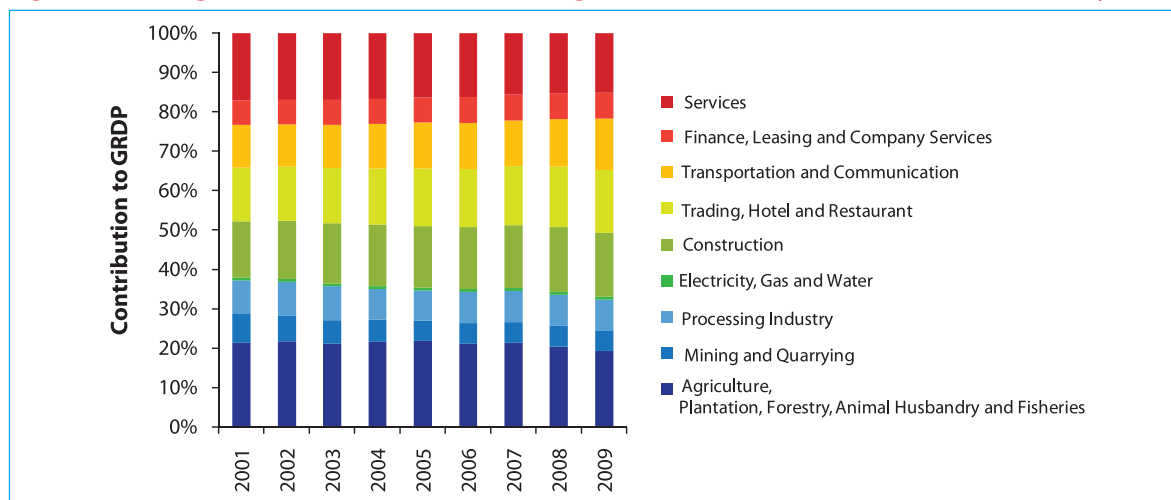
**Agriculture is the largest contributor to North Sulawesi's GRDP, but growth of the sector is low.** Agriculture grew on average by 4.1 percent per year between 2001 and 2009. Agriculture sector growth is associated with sectoral productivity increases deriving from agricultural extensification or intensification. The provincial and district/municipality governments face the challenge of devising a strategy for the slow-growing agriculture sector to make a greater contribution to North Sulawesi's economy, for example by increasing the added value of agriculture sector commodities. Efforts to develop the agriculture sector should cover marketing and not just production increases. Strategies are needed to stimulate demand to absorb production outputs, and thereby encourage farmers and fishermen to increase production. Tourism, inter-island trade and exports are among the triggers of increased demand for agriculture sector products.

**Figure 1.7 Economic growth in North Sulawesi continues to increase**



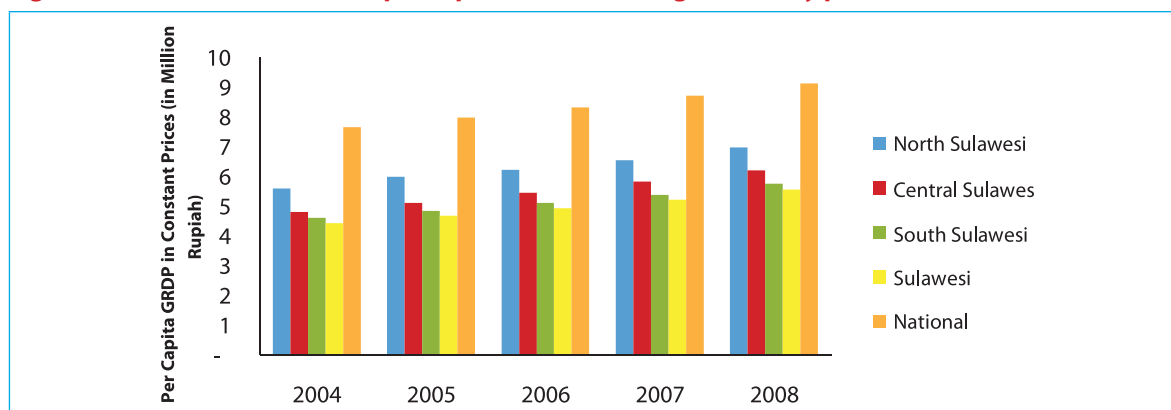
Source: North Sulawesi Central Bureau of Statistics

**The low growth of the agriculture, plantation, forestry, livestock and fisheries sub-sectors has caused their workforce to shift to other economic sectors.** Low growth has also led to a decreased contribution by these sub-sectors to GRDP, from 21.3 percent in 2001 to 19.3 percent in 2009, or 1.2 percent annually (Figure 1.8). This decreased contribution to GRDP, low growth and workforce migration to other sectors indicate the need for appropriate strategies and revitalization programs. That a third of North Sulawesi's manpower remains in these sub-sectors underline the need for such initiatives.

**Figure 1.8 The agriculture sector remains the largest contributor to North Sulawesi's economy**

Source: Central Bureau of Statistics

**North Sulawesi is one of eastern Indonesia's strongest economies.** North Sulawesi's real per capita GRDP is higher than that of Central Sulawesi and South Sulawesi and exceeds the average for all provinces in Sulawesi. Nevertheless, the province's per capita GRDP is lower than the national figure, indicating that North Sulawesi's economic performance remains below the national average. In 2009, North Sulawesi's real per capita GRDP was Rp. 7.0 million, compared to the national per capita figure of Rp. 9.1 million.

**Figure 1.9 North Sulawesi's real per capita GRDP is the highest of any province in Sulawesi**

Source: Central Bureau of Statistics

**Construction, trade and transportation are high-performing sub-sectors.** To map North Sulawesi's sub-sectoral economic potential, each economic sub-sector's average growth and contribution to overall real GRDP were measured for the 2005-2009 period. This mapping exercise revealed construction, wholesale and retail trading, and transportation to be "star" sub-sectors in quadrant II making the greatest contribution to North Sulawesi's real GRDP. On the other hand, the sub-sectors that encompass most people in North Sulawesi, namely food crops, plantation and fisheries, remain in quadrant III, which indicates a relatively large contribution to the GRDP but modest growth. To encourage faster economic growth in North Sulawesi, integration with agro-industry is needed to energize these sub-sectors.



**Figure 1.10 The construction, large and small-scale trade, and transportation sub-sectors contribute significantly to GRDP and growth**

	Contribution to Total GRDP (%)			
Economic Growth (%)		Low	High	6.86
	High	Quadrant I	Quadrant II	
		Quarrying (3.78:7.74)	Building (15.98:7.29)	
		Electricity (0.60:10.80)	Whole & Retail trading (12.22:8.46)	
		Hotel (1.52:16.47)	Transportation (10.62:9.23)	
		Restaurant (1.44:6.86)		
		Communication (1.40:13.64)		
		Bank (3.33:7.55)		
		Financial institution non bank (0.34:8.77)		
		Company Services (0.86:8.87)		
	Low	Quadrant IV	Quadrant III	
		Livestock and Its Products (2.06:6.67)	Fisheries (4.50:4.60)	
		Forestry (0.32:-0.59)	Industry non Oil and Gas (7.82:6.18)	
		Mining Other than Oil and Gas (1.3:-0.28)	Food Crops (6.36:4.99)	
		Clean Water (0.16:4.52)	Plantation Plant (7.61:2.85)	
		Building Leasing (2.04:6.09)	Public Governance (10.02:3.49)	
			Private Sector (4.71:6.79)	
			4.50	

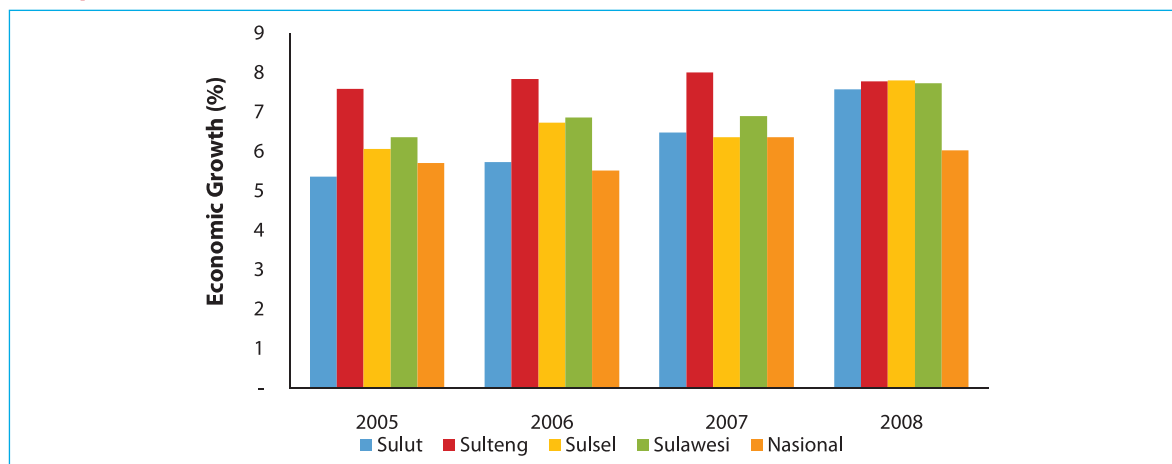
Source: Processed from North Sulawesi Central Bureau of Statistics data

Remark: The first number in brackets is contribution to GRDP (%), The second number is economic growth (%).

**North Sulawesi's economic growth exceeds the national average.** In 2006, North Sulawesi's growth remained below the national average and that of other provinces in Sulawesi. In subsequent years, North Sulawesi attempted to address this slower growth. In 2009, North Sulawesi's economic growth increased to 7.9 percent. The main triggers for the high economic growth in recent years have been improvements in the quality of basic infrastructure on the part of the government and in trading infrastructure on the part of the private sector. Such improvements in infrastructure quality have resulted from administrative redistricting and the May 2009 World Ocean Conference (WOC) and Coral Triangle Initiative (CTI), each held in North Sulawesi.

**Other infrastructure challenges remain to maintain growth, however.** Quality improvements in trade and basic infrastructure are core capital for North Sulawesi's economic development because they can attract future investments to North Sulawesi. Nevertheless, the greatest infrastructure challenge is to establish adequate electricity supply to anticipate increased future investment. Another challenge that results from North Sulawesi's status as an archipelagic province is the development of infrastructure on remote islands that struggle to achieve the desired economic scale.

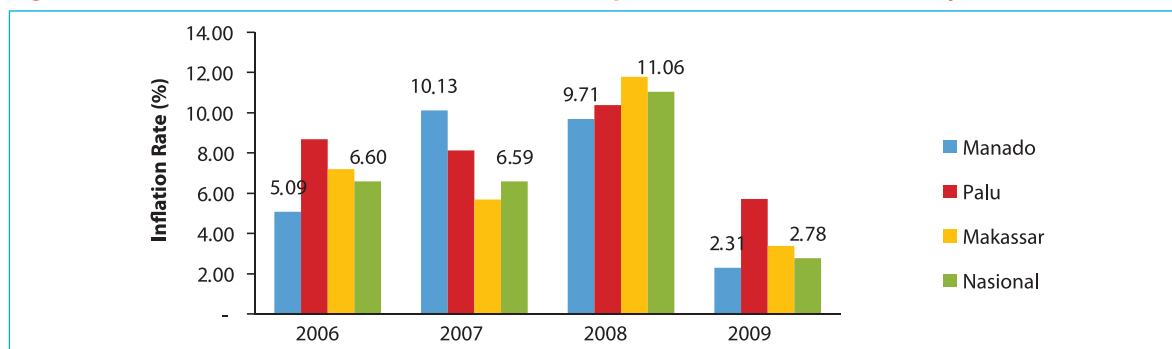
**Figure 1.11 Since 2005, North Sulawesi has attempted to address its lower growth rate compared to other provinces in Sulawesi**



Source: Central Bureau of Statistics

**North Sulawesi's economic growth is relatively high, but inflation remains relatively controlled.** From 2006-2009, North Sulawesi's inflation rate was below that of Central Sulawesi, South Sulawesi and the national rate, except in 2007. North Sulawesi's average inflation over this four-year period was 6.8 percent, compared to 8.2 percent in Central Sulawesi, 7.0 percent in South Sulawesi and the national average rate of 6.8 percent (Figure 1.12). Manado's relatively low inflation indicates better price stability than in the capital cities of Central Sulawesi and South Sulawesi and compared to the nation overall. The price stability of the past few years derives particularly from price competition between the growing number of trade sector business actors in North Sulawesi, which has kept prices low. Price stability has also been aided by improvements and additions to transportation infrastructure, which have expedited goods and services distribution. North Sulawesi's low inflation rate has meant that inflation has not significantly affected the local community's purchasing power. A future challenge for North Sulawesi will be to suppress goods and services prices in archipelagic regions, however, given transportation infrastructure problems in these remote areas.

**Figure 1.12 Prices in Manado tend to be lower than prices in Sulawesi's other major cities**



Source: North Sulawesi Central Bureau of Statistics

## 1.4 North Sulawesi's Competitive Advantages in Eastern Indonesia

North Sulawesi's competitive advantages have spurred the province's rapid development:

1. North Sulawesi has the highest Human Development Index (HDI) score of all provinces in eastern Indonesia (Table 1.4) and nationally ranks second behind only DKI Jakarta. The provincial HDI score has continued to increase over the past few years, with the 2008 score being 75.2. North Sulawesi's high HDI score reflects its advantageous human resources to support development activities in the province.

**Table 1.4 North Sulawesi has the highest HDI score in eastern Indonesia**

Province	2004	2005	2006	2007	2008
North Sulawesi	73.40	74.21	74.37	74.68	75.16
Southeast Sulawesi	66.70	67.52	67.80	68.32	69.00
Central Sulawesi	67.30	68.47	68.85	69.34	70.09
South Sulawesi	67.80	68.06	68.81	69.62	70.22
West Sulawesi	64.40	65.72	67.06	67.72	68.55
Papua	60.90	62.08	62.75	63.41	64.00
North Maluku	66.40	66.95	67.51	67.82	68.18
Maluku	69.00	69.24	69.69	69.96	70.38
West Irian Jaya	63.70	64.83	66.08	67.28	67.95
Gorontalo	65.40	67.46	68.01	68.83	69.29
Indonesia	68.70	69.57	70.10	70.59	71.17

Source: Central Bureau of Statistics

2. North Sulawesi's geographic position is very strategic: (a) it lies in the center of Indonesia, Australia and other states in the Pacific region; (b) it is Indonesia's outermost border province with respect to other nations in the Asia-Pacific. With this strategic position, North Sulawesi can become: (a) a transport hub between Indonesia and Australia to the south with developed Asia-Pacific nations to the north; and (b) "Indonesia's Gateway to the Asia-Pacific".
3. North Sulawesi has a natural deep-water harbor which can be further developed to become an International Hub Port (IHP) to support the economies of the eastern Indonesia region and Indonesia overall.
4. North Sulawesi's community and organizational life does not feature gender discrimination, because a spirit of equality dominates the local culture. The heads of several sub-national governments in North Sulawesi are women. In addition, North Sulawesi is the first province in Indonesia to have enacted a Regional Regulation against the Trafficking of Woman.





## Chapter 2

# Public Financial Management in North Sulawesi

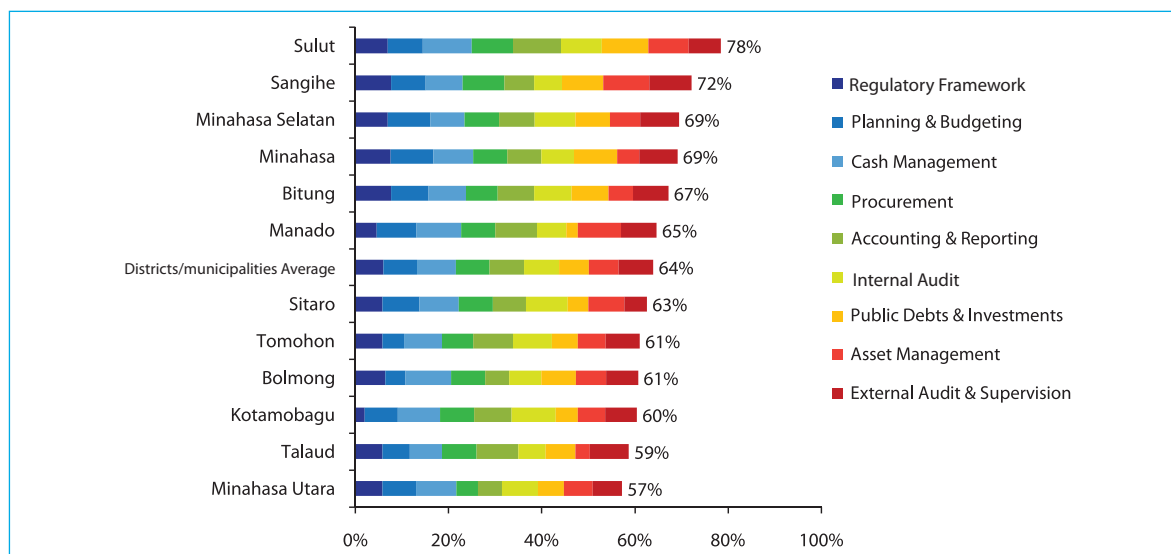


## 2.1 Introduction

**A sub-national public financial management capacity assessment survey was conducted as the basis for this chapter's analysis.** Sub-national public financial management encompasses a set of processes starting from planning, budgeting, budget implementation up to budget evaluation and accountability. The public financial management capacity assessment aimed to measure regulatory framework compliance and orientation to best practices in North Sulawesi's sub-national governments' public financial management practices. The North Sulawesi capacity assessment was conducted in June-July 2010, covering the provincial government and eleven district/municipality governments. The assessment employed the balanced scorecard assessment tool developed by the Ministry of Home Affairs and the World Bank, covering nine strategic areas of public financial management: regulatory framework; planning and budgeting; cash management; procurement; accounting and reporting; internal audit; public debts and investments; asset management; as well as external audit and supervision.

**In general, North Sulawesi's sub-national governments have good public financial management capacity, although improvements remain necessary.** Most sub-national governments have sufficient public financial management capacity (higher than 60 percent). The Government of North Sulawesi Province and Sangihe District Government registered the best performance, whereas Minahasa Utara and Talaud Districts achieved the lowest performance. Although public financial management performance was relatively good, the scores for each area revealed variations. On average, district/municipality governments still need to improve their performance, particularly in the areas of regulatory framework, asset management, and the management of public debts and investments.

**Figure 2.1 Public Financial Management Score of Sub-national Governments in North Sulawesi Province**



Source: 2010 North Sulawesi Public Expenditure Analysis (PEA) Database, Sam Ratulangi University

Note: The length of bars in the diagram of each area is for illustrative purposes only (not indicating the actual score); the percentage value at the end of the bar is the total score for sub-national public financial management capacity.

**The provincial government score exceeded the average district/municipality government score in almost all areas of public financial management.** The only area in which the provincial government scored below the district/municipality government average was external audit and supervision (Table

2.1). Although it did not meet several indicators, the provincial government achieved a score of very good capacity ( $\geq 80$  percent) in the areas of cash management, accounting and reporting as well as debt and investment management. The challenge for the provincial government in capacity building is to reduce public financial management performance disparities between districts/municipalities.

**Several districts/municipalities can serve as models of good practice in certain sectors for other regions.** Sangihe district achieved the highest score of the twelve sub-national governments surveyed in the areas of regulatory framework, procurement, asset management, as well as external audit and supervision. Minahasa district achieved the highest planning and budgeting performance score and Kotamobagu municipality performed best in the area of internal audit. Although they too did not meet several indicators, these three districts/municipalities (along with the provincial government) can serve as a model for other sub-national governments in certain sectors of sub-national public financial management.

**Table 2.1 Public Financial Management (PFM) Score of Sub-national Governments in North Sulawesi Province by Strategic Area, 2010**

Sub-national government	Code of PFM Strategic Areas (%)									PFM Score
	1	2	3	4	5	6	7	8	9	
Bitung	70	72	72	61	71	72	71	47	69	67
Bolaang Mongondow	58	39	88	66	46	63	67	58	61	61
Kotamobagu	18	64	81	66	73	84	43	53	61	60
Manado	42	76	87	66	81	56	22	83	69	65
Minahasa Utara	53	65	78	42	46	69	50	56	56	57
Sangihe	70	66	71	81	58	53	80	89	81	72
Talaud	53	53	62	67	81	53	57	28	75	59
Minahasa	68	83	77	66	65	63	83	43	74	69
Minahasa Selatan	63	82	65	67	69	78	67	59	75	69
Tomohon	53	41	73	61	77	75	50	53	66	61
Sitaro	53	71	76	66	63	81	40	69	44	63
<b>Average of Districts/Municipalities</b>	<b>55</b>	<b>65</b>	<b>75</b>	<b>64</b>	<b>66</b>	<b>68</b>	<b>57</b>	<b>58</b>	<b>66</b>	<b>64</b>
<b>North Sulawesi Province</b>	<b>63</b>	<b>68</b>	<b>94</b>	<b>80</b>	<b>92</b>	<b>78</b>	<b>90</b>	<b>78</b>	<b>63</b>	<b>78</b>

**Notes on the Codes of PFM Strategic Sectors:**

<b>1</b>	Regulatory Framework	<b>4</b>	Procurement	<b>7</b>	Public Debts & Investments
<b>2</b>	Planning & Budgeting	<b>5</b>	Accounting & Reporting	<b>8</b>	Asset Management
<b>3</b>	Cash Management	<b>6</b>	Internal Audit	<b>9</b>	External Audit & Supervision

Source: 2010 North Sulawesi PEA Database, Sam Ratulangi University

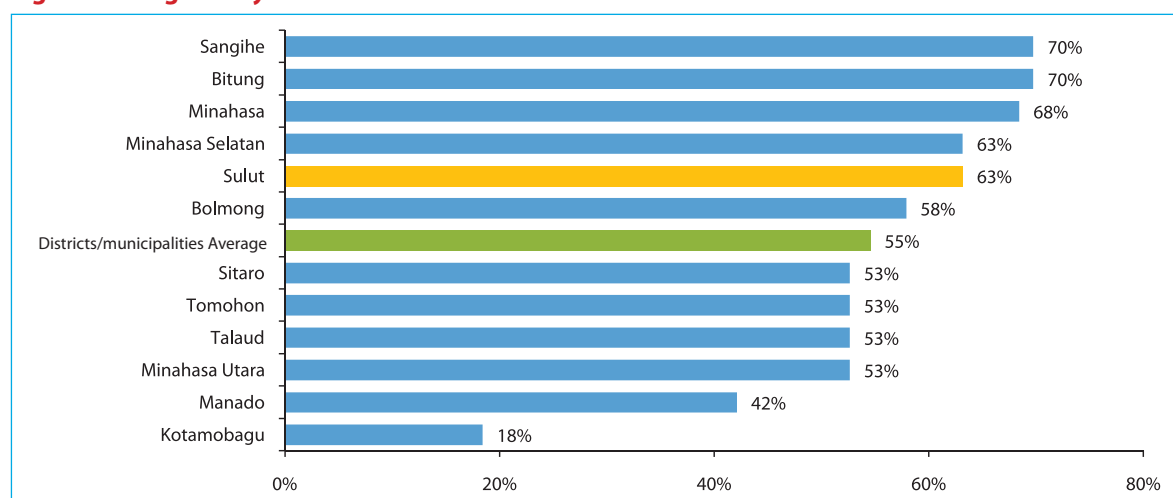
## 2.2 Regional Regulatory Framework

**Regional autonomy requires sub-national governments to establish a sufficient legal framework to underpin their public financial management.** The assessment measured sub-national government regulatory frameworks against three targets: (i) compliance with national laws and regulations; (ii) effective organization; and (iii) presence of regulatory framework for implementation of transparency and participation principles.

**The regulatory framework area registered the lowest scores.** Both at provincial and district/municipality levels, the regional regulatory framework score ranked the lowest, and saw the greatest capacity gap (70 percent vs. 18 percent). The causes of low performance in this area included the fact that most sub-national governments did not meet several indicators, such as: enactment of a regional regulation on regional capital investment; enactment of a regional regulation on the Regional Public Service Agency (BLUD); enactment of a head of sub-national government regulation on cost standards and unit cost analysis (ASB); as well as presence of a regulatory framework related to transparency and participation.

**Despite poor performance in the regulatory framework area, there were several quite positive developments,** including: (i) all surveyed sub-national governments had enacted a Regional Medium-Term Development Plan (RPJMD); (ii) more than 90 percent of surveyed sub-national governments had also developed a general budget policy (KUA) and budget priority and ceilings (PPA), and enacted the local budget in a timely manner every year; and (iii) 80 percent of surveyed sub-national governments had also enacted a regional regulation on regional finance principles. In addition, seven out of twelve of sub-national governments had combined all public financial management-related organizations into one integrated organization (consisting of units responsible for revenue mobilization, budgeting, accounting and reporting, and asset and cash management). Two sub-national governments had undertaken only partial integration and three sub-national governments (Manado, Minahasa Selatan and North Sulawesi province) have not undertaken any integration measures.

**Figure 2.2 Regulatory Framework Performance of Sub-national Governments in North Sulawesi**



Source: 2010 North Sulawesi PEA Database. Sam Ratulangi University

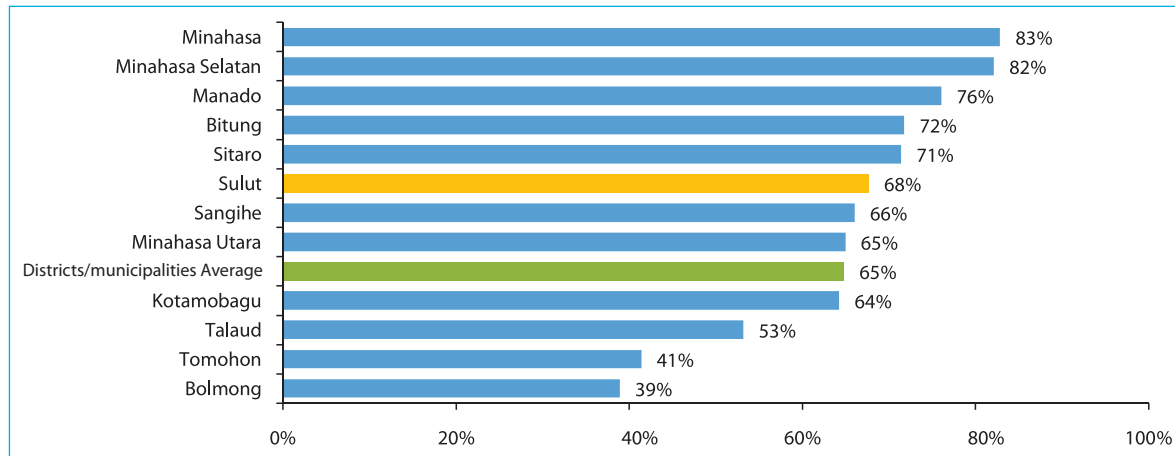
## 2.3 Planning and Budgeting

**Broad capacity gaps remain between sub-national governments in planning and budgeting.** Planning and budgeting was measured against three issues: (i) the availability of multiyear planning and budget; (ii) availability of feasible budget targets derived from a realistic budget preparation process; and (iii) a participatory monitoring and evaluation system as a part of the planning and budgeting process. Minahasa and Minahasa Selatan ranked the highest in this area with very good performance scores. By contrast, Tomohon and Bolaang Mongondow scored very lowly, illustrating that broad capacity gaps remain between regions in this particular area.



**The quality of planning and budgeting documents requires improvement.** Most sub-national governments already possess planning documents such as the regional medium-term development plan, strategic plan, and work unit annual plans. These documents contain specific programs/activities and their indicative ceiling, and take account of budget constraints. Nevertheless, most sub-national governments established standards for annual spending analysis (ASB). As a result, the ceiling set has not been based on efficiency, effectiveness and value for money to achieve performance targets.

**Figure 2.3 Planning and Budgeting Performance of Sub-national Governments in North Sulawesi**



Source: 2010 North Sulawesi PEA Database, Sam Ratulangi University

**In addition to the public financial management capacity survey, a survey of *Musrenbang* implementation quality was also conducted to assess planning and budgeting.** The Development Planning Forum (*Musrenbang*) is a community stakeholder forum involving representatives from village to central-level held to agree upon a regional annual work plan (RKPD) for the next fiscal year. For the *Musrenbang* implementation survey, three respondents were interviewed at each of the three *Musrenbang* stages (village, sub-district and district/municipality) in each district/municipality. Each respondent was asked to give a score on a scale of 0 to 100 for fourteen indicators. At village level, the lack of involvement of all parts of the community in the *Musrenbang* stood out. At sub-district level; the main problems were insufficient duration of *Musrenbang* implementation and weak representativeness for various elements of the community. At district/municipality level, the insufficient duration of *Musrenbang* implementation was also a problem.

**Most respondents felt that local parliamentarians should attend the *Musrenbang*.** Although planning and budgeting was perceived to be the domain of the executive, 80 percent of respondents felt that representatives from the local legislatures should be present during the *Musrenbang* process. Respondents felt parliamentarians needed to be present so that they could function as the community's representatives to monitor the accommodation in budget deliberations and enactment of community aspirations voiced during the *Musrenbang*. Only 20 percent of respondents stated that local parliamentarians had actually attended their village *Musrenbang*, whereas 30 percent said parliamentarians had attended their sub-district *Musrenbang*.

**Table 2.2 Respondent Perception Scores for Various Musrenbang Indicators, by Stage**

Indicator	Village/ Ward Musrenbang	Sub-district Musrenbang	District/ Municipality Musrenbang
Understanding of the Development Planning Process	72.73	74.12	81.25
Understanding of Subject Matter	77.05	75.29	77.50
Sense of Being Involved in <i>Musrenbang</i>	71.59	77.35	79.30
Involving All Elements of the Community	65.00	66.36	71.10
Proactively Involved and Participated in	68.64	72.21	76.10
All Elements of the Community are Proactively Involved and Participated in	53.86	59.71	66.40
Representing All Elements	72.27	67.35	69.60
Capacity/Ability of the <i>Musrenbang</i> Participants	63.41	64.41	65.70
Existence of Transparency (accessible by many people)	77.27	75.00	77.50
Freedom of Presenting Opinions	77.73	78.24	77.50
All Brainstorming are Accommodated	62.05	71.97	61.40
Agree with the Results of <i>Musrenbang</i>	77.05	67.35	77.50
Agreement of All Participants	68.64	58.94	62.30
The availability of Time for the Implementation of <i>Musrenbang</i>	54.55	56.03	57.90
<b>Average</b>	68.70	68.88	71.50

Source: Data processed from Direct Interview/Survey Results with Musrenbang Participants

**The bottom-up planning process is not functioning in optimal fashion;** its implementation remains subject to the following constrains, amongst others: (i) some villages do not hold a Musrenbang because they do not have operational funds to do so; (ii) communities have only a weak understanding of government development priorities as set out in various planning documents; (iii) community aspirations voiced during the Musrenbang process are rarely accommodated in the budget; (iv) no clarification is provided when Musrenbang results are not accommodated in the budget; and (v) the duration of the Musrenbang process is insufficient.<sup>3</sup>

## 2.4 Cash Management, Procurement, Asset Management and Regional Debts and Investments

**Cash management registered the highest scores of any area in the capacity survey.** Cash management is a set of processes starting from budgeting of the amount of cash to be allocated, followed by realization of the cash budget, and concluding with accountability for cash usage. The average sub-national performance scores for cash management were the highest of the nine areas of sub-national public financial management. Four sub-national governments exhibited very good capacity in this area, namely North Sulawesi province, Bolaang Mongondow, Manado and Kotamobagu. Sub-national governments score relatively highly in cash management because they have generally established proper cash management policies, procedures and management controls.

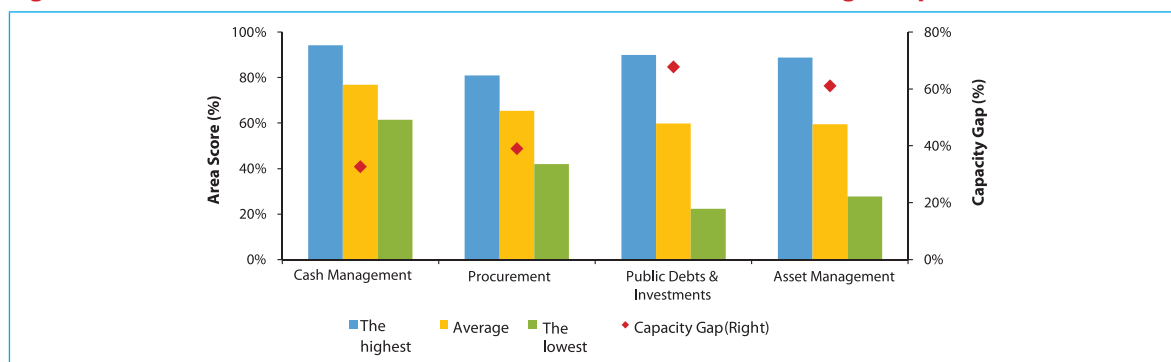
<sup>3</sup> interviews with planning and budgeting stakeholders

**Except for Minahasa Utara, sub-national governments generally perform relatively well in procurement.** Presidential Decree no. 80/2003 (amended by Presidential Regulation no. 54/2010) regulates procurement. The guidelines established in these regulations require the government procurement process to be carried out in an efficient, effective, open, competitive, transparent, fair and accountable manner, free from discrimination. With the exception of Minahasa Utara, surveyed sub-national governments were able to meet more than 60 percent of procurement indicators. These scores do not necessarily mean that the procurement process comprehensively applies all of these principles. The survey covered only compliance with formal procedures, and did not involve comprehensive investigations to identify the presence of inefficient practices in procurement such as corruption, collusion and nepotism.

**Broad capacity gaps remain between sub-national governments in asset management.** Sub-national government asset management covers the entire asset management cycle, including: planning of needs, budgeting; procurement; utilization; maintenance; assessment; write off; assignment; administration; as well as supervision/control. Only four of the twelve surveyed sub-national governments scored over 60 percent for asset management in the survey. Sub-national governments only infrequently met the following requirements: (i) a head of sub-national government regulation/decreed on the status of utilization of goods; (ii) strict regulations to impose sanctions for any action inflicting financial loss upon a region on the part of asset managers, assistant managers, users, or users' proxies; and (iii) location and goods codes for each regional asset.

**District/municipality governments need to complete various regulations related to debts, grants and public investments.** The survey results showed the provincial government to have a much more complete regulatory framework on public debts and investments than the average district/municipality. The following illustrates regional performance in North Sulawesi related to public debts and investments management:

1. **Regional Borrowing (Debt).** Regional debt is an alternative source of APBD financing or can be used to cover cash shortfalls. To take out a loan, a sub-national government requires a debt management policy, as mandated by Government Regulation no. 54/2005. Of the six surveyed sub-national governments that had ever taken out a loan, only four had complied with this requirement to establish a policy.
2. **Grants.** If it is to receive a grant, a sub-national government must establish policies and procedures to manage grant revenues. Of the ten sub-national governments that received a grant in 2010, six had established a regulation on grant receipt, recording, management and reporting, whereas four did not comply with this requirement (Manado, Talaud, Tomohon and Sitaro). The grant management requirement least frequently met by sub-national governments was to include grant counterpart funding in the budget implementation document (DPA) of each regional government work unit (SKPD)
3. **Regional Investments.** To make an investment, a sub-national government must obtain approval from the local legislature and formulate regional investment policies, procedures and controls including risk calculations. The survey results revealed that Kotamobagu, Manado, Sitaro and Bitung need to strengthen their investment management policies in compliance with the national policy framework, incorporate investments in regional state-owned enterprises (BUMD) in their financial reports; and obtain the local legislatures' approval for long-term investment transactions.

**Figure 2.4 Sub-national Government Performance in Four Areas of Budget Implementation**

Source: 2010 North Sulawesi PEA Database, Sam Ratulangi University

## 2.5 Accounting and Reporting, Internal Audit, and External Audit and Supervision

**Accounting and reporting performance scores are good, but this area faces human resources constraints.** The provincial government has the best accounting and reporting performance score of all surveyed sub-national governments. The provincial government achieved a score of very good (above 90 percent), whereas Sangihe, Bolaang Mongondow and Minahasa Utara districts scored below 60 percent. Adequate human resources, its integrated accounting information system, and documentation of all transactions and fiscal balances each contributed to the provincial government's high accounting and financial reporting performance score. By contrast, districts/municipalities on average have weak human resources, as they lack staff with an accounting background to occupy important positions such as section heads in the Regional Revenue and Financial and Asset Management Office (DPPKAD), or to serve as financial administrator officer (PKK) for each government work unit.

**Qualified staff and resources are required to support the internal audit function.** Most sub-national governments met internal audit indicators related to compliance with procedures and follow-up of internal audit results. Nevertheless, most regions encountered problems with operational support resources. Most sub-national governments allocate less than 1 percent of the APBD for the internal audit function, and also lack qualified staff in this area. In only one third of the twelve surveyed sub-national governments did more than 50 percent of staff at agencies such as regional internal audit board (BAWASDA) have functional audit capabilities of an accounting background.

**External auditors issued qualified opinions for the financial statements of most surveyed sub-national governments.** Government external audit and supervision performance derives from their performance in their financial statement audit conducted by the State Audit Board (BPK); dissemination and follow-up of audit results; and the role of the regional legislatures in monitoring budget implementation. The survey found that in 2009, only the provincial government received an unqualified opinion for its financial statement, whereas eight other sub-national governments received qualified opinions, two regions received

adverse opinions, and one region received a disclaimer of opinion. In addition to their weak performance in the BPK audit, most sub-national governments also needed to take greater steps to enhance the regional legislature's role in budget monitoring.

**Table 2.3 Results of BPK Audit of Sub-national Governments Financial Statements in North Sulawesi, 2007-2009**

No.	Sub-national governments	2007	2008	2009
1	North Sulawesi Province	Qualified (WDP)	Qualified	Unqualified (WTP)
2	Bolaang Mongondow District	Qualified	Qualified	Qualified
3	Bolaang Mongondow Selatan District			Qualified
4	Bolaang Mongondow Utara District		Qualified	Qualified
5	Minahasa District	Qualified	Qualified	Qualified
6	Minahasa Selatan District	Disclaimer (TMP)	Adverse (TW)	
7	Minahasa Tenggara District		Disclaimer	
8	Minahasa Utara District	Disclaimer	Qualified	Qualified
9	Kepulauan Sangihe District	Disclaimer	Qualified	Adverse
10	Kepulauan Siau Tagulandang Biaro District		Qualified	Qualified
11	Kepulauan Talaud District		Disclaimer	Disclaimer
12	Bitung Municipality	Qualified	Qualified	Qualified
13	Kotamobagu Municipality		Qualified	Qualified
14	Manado Municipality	Disclaimer	Qualified	Adverse
15	Tomohon Municipality	Qualified	Adverse	

Source: Summary of the State Audit Board's First-Semester Audit Results, 2010

## 2.6 Recommendations

**The provincial government needs to facilitate a public financial management capacity building process for districts/municipalities in North Sulawesi.** The provincial government and Sangihe, Minahasa and Kotamobagu district/municipality governments each exhibited superior performance in one area or another of public financial management. Their performance in these areas constitutes basic capital to encourage mutual learning to narrow the capacity gap between sub-national governments in various areas of public financial management. The following table summarizes elements of the required capacity building agenda:

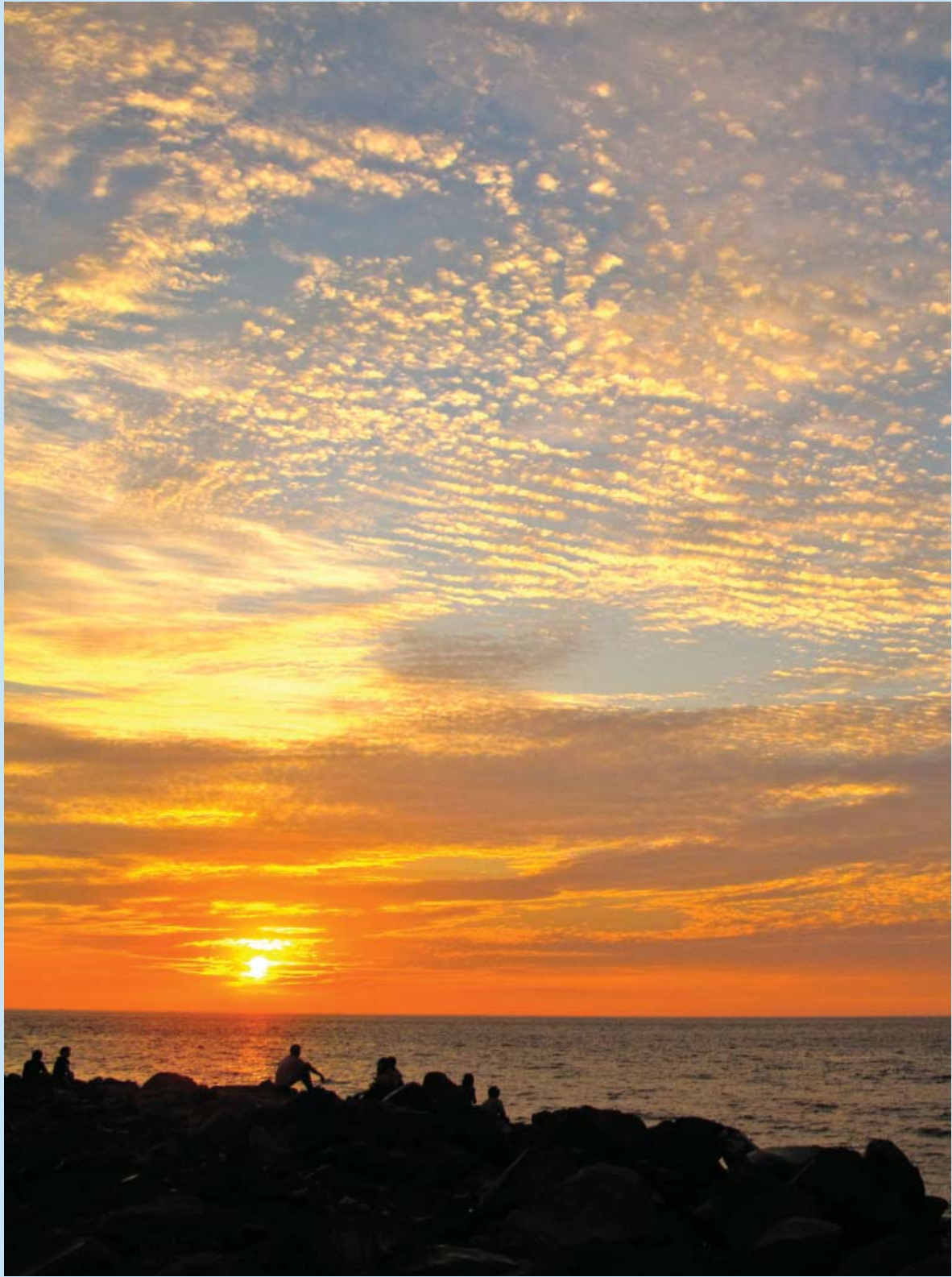
### Agenda and Proposals for the Sub-National Public Financial Management Capacity Building Programs in North Sulawesi Province

Area	Recommendations	Program Proposal
Regional Laws and Regulations	<ul style="list-style-type: none"> <li>Complete various regulations to underpin proper public financial management practices in compliance the central government's national regulatory framework, including, (i) Regional Regulation on Capital Investment and Regional Public Service Agency; (ii) Head of Regional Government Regulation on Cost Standards and Analysis of Expenditure Standards in order to support performance-based budgeting; and (iii) other more technical regulations for sub-national public financial management</li> <li>Prepare regional regulations to encourage the implementation of transparency and participatory principles</li> </ul>	<ul style="list-style-type: none"> <li>(i) Training on a comprehensive sub-national public financial management regulatory framework</li> <li>(ii) Technical assistance to ensure completion and enactment of required regional regulations</li> </ul>
Planning & Budgeting	<ul style="list-style-type: none"> <li>Improving the capacity and involvement of the local legislatures in planning and budgeting process</li> <li>Formulation of measurable and target-achievement oriented planning and budgeting documents, as well as enhancing the consistency of among them</li> <li>Preparing regulations on Cost Standards and Analysis of Expenditure Standards</li> </ul>	<ul style="list-style-type: none"> <li>(i) Training for the local legislatures on Planning and Budgeting</li> <li>(ii) Training and TA on formulation of Cost Standards (SHBJ) and Analysis of Expenditure Standards (ASB)</li> <li>(iii) Training and TA on formulation of measurable indicators and targets for various planning and budgeting documents</li> </ul>
Cash, asset and procurement management	<ul style="list-style-type: none"> <li>Improving the capacity in revenue management and mobilization</li> <li>Maintaining good performance on revenue management, cash management and control, and temporary cash surplus</li> <li>Maintaining and improving the performance in the area procurement</li> </ul>	<ul style="list-style-type: none"> <li>(i) Training and TA on revenue administration and collection system</li> <li>(ii) Completing the regulations on procurement of SNGs in compliance with the new regulatory framework set by the central government</li> </ul>
Accounting & Reporting	<ul style="list-style-type: none"> <li>Improving the capacity of human resource with accounting background in PFM related strategic positions</li> <li>Maintaining the integrated accounting information system in some regions, and encouraging the implementation of similar system in Bolaang Mongondow districts</li> </ul>	<ul style="list-style-type: none"> <li>(i) Training and TA on accounting area</li> <li>(ii) Training and TA for integrated accounting information system</li> <li>(iii) Increasing the number of human resources with accounting background</li> </ul>

Area	Recommendations	Program Proposal
Internal Audit as well as External Audit and Supervision	<ul style="list-style-type: none"> <li>Improving the role of internal audit in Subnational PFM by increasing budgeting resources as well as qualified human resource for functional auditors</li> <li>Improving communication in order to support external audit as well as to follow-up the findings of external audit</li> </ul>	(iv) Training and TA to strengthen the internal audit function and increasing the number of staff with functional auditor capability

**The bottom-up participatory planning and budgeting process at district/municipality level requires improvement.** Village, sub-district and district/municipality Musrenbang are the available mechanism to encourage community participation in planning and budgeting. Musrenbang implementation requires the following improvements: (i) empowering the community to participate in Musrenbang (for example through information campaigns on the importance of Musrenbang and its advantages for district/sub-district/village development); (ii) improving the certainty of budget ceilings to be used as a reference in village/sub-district planning before the Village/Sub-district Musrenbang is held (for example through an agreement between the district head/mayor and regional legislature on an indicative ceiling for the sub-district/village so that the amount of fund available for planning through Village and Sub-district Musrenbang is known beforehand); (iii) increasing the quantity and improving the quality of involvement of parliamentarians in Musrenbang in their electorate; (iv) establishing a mechanism to provide clarification to communities on proposed programs/activities that cannot be accommodated in sub-national government's budget, as a form of transparency in policy.





## Chapter 3

# Revenue and Financing

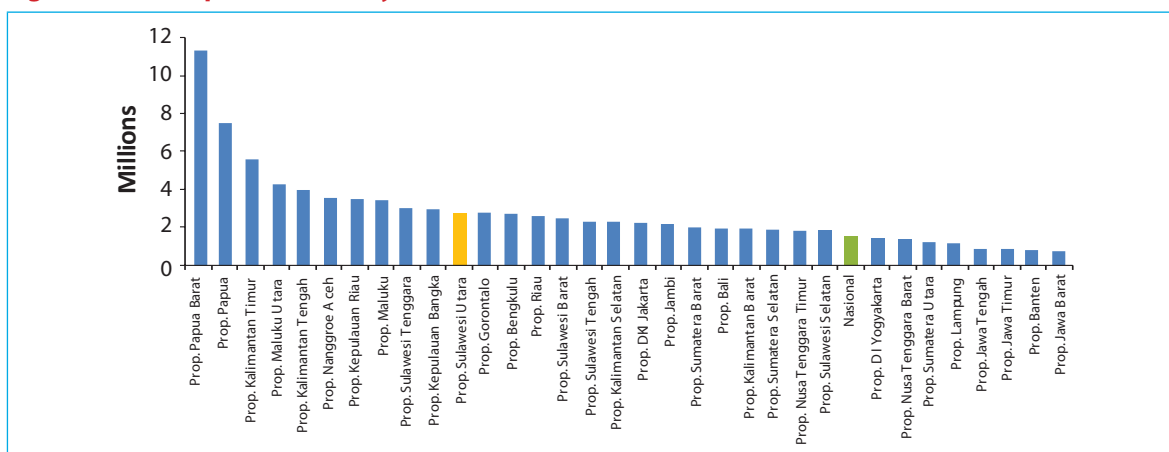


## 3.1 North Sulawesi's Revenue

### 3.1.1 Overview of Revenue in North Sulawesi

**North Sulawesi's per capita revenue exceeds the national average, reaching Rp. 2.8 million in 2009.** Nevertheless, North Sulawesi's per capita revenue is lower than the majority of other eastern Indonesian provinces such as Papua, West Papua, Maluku, North Maluku and Southeast Sulawesi. The 2009 national average for provincial per capita revenue was Rp. 1.5 million.

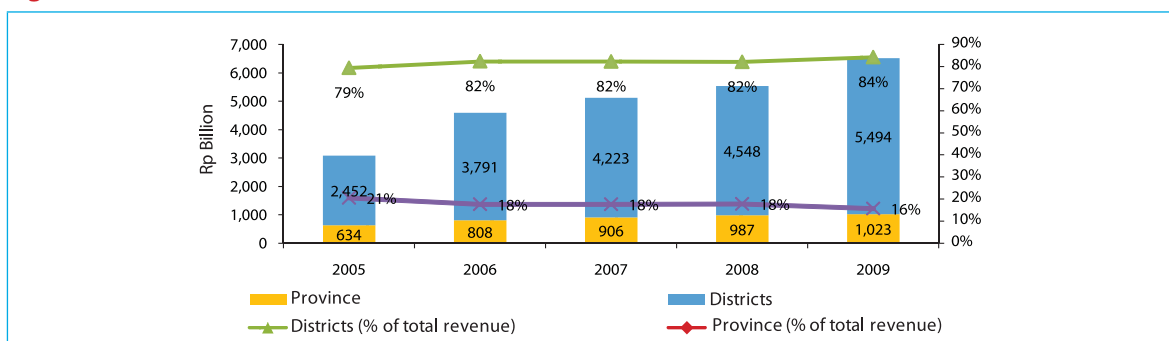
**Figure 3.1 Per Capita Revenue by Province, 2009**



Source: Directorate General of Fiscal Balance Data on Regional Budgets (APBD), 2009

**North Sulawesi's overall sub-national revenue has experienced stable growth over the past five years, with district/municipality governments managing most of this revenue.** North Sulawesi total sub-national revenue increased from Rp. 3 trillion in 2005 to approximately Rp. 6.5 trillion in 2009, with average growth of 28 percent per annum. District/municipality governments manage most of this revenue, constituting 84 percent of North Sulawesi's total sub-national revenue in 2009. Provincial revenue increased from Rp. 634 billion in 2005 to Rp. 1.02 trillion in 2009, with an average growth rate of 15.4 percent per annum, whereas district/municipality revenue increased from Rp. 2.45 trillion in 2005 to Rp. 5.5 trillion in 2009 (average growth of 31 percent per annum).

**Figure 3.2 Real Sub-National Revenue in North Sulawesi, 2005-2009**



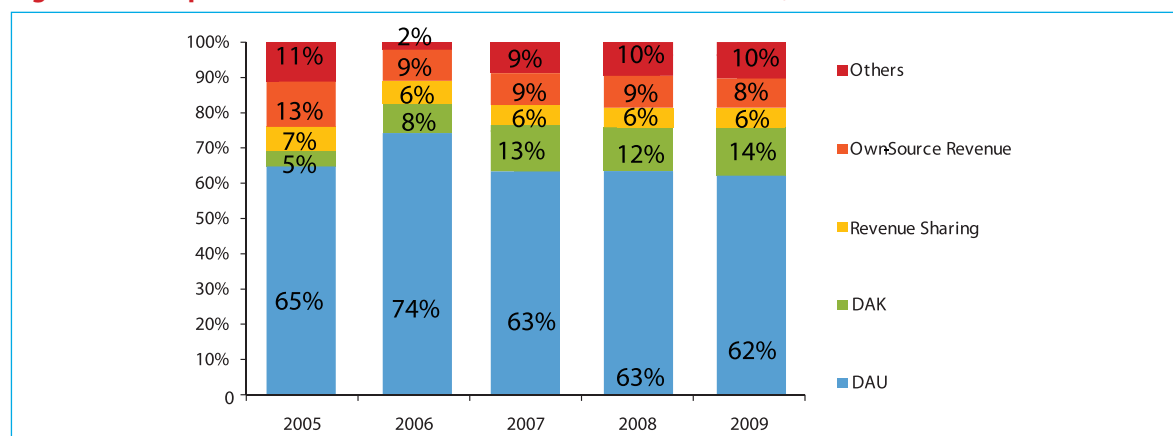
Source: Calculated from Provincial and District/Municipality APBD (realized) in North Sulawesi, 2005-2009

Note: Calculations Employ Revised Regional Budget (APBD-P) for Tomohon in 2009



**General allocation funds (DAU) are North Sulawesi's main source of sub-national revenue, both at provincial and district/municipality government level.** In 2009, general allocation funds contributed 55 percent of provincial level revenue and 64 percent of district/municipality level revenue. Beyond this similarity, the composition of provincial and district/municipality level revenue differs significantly. Own-source revenue (PAD) is the second largest contributor to provincial level revenue at 32 percent, whereas special allocation funds (DAK) are second largest source of district/municipality level revenue, contributing 15 percent.

**Figure 3.3 Composition of North Sulawesi's Sub-national Revenue, 2005-2009**

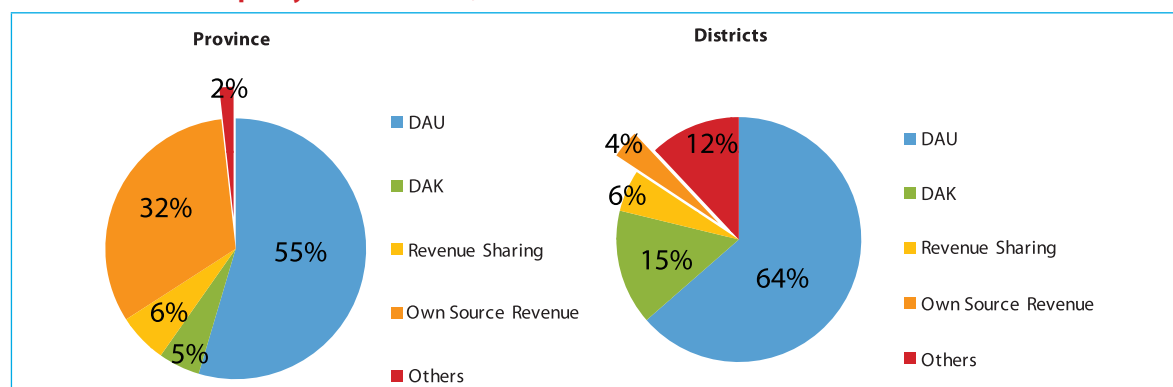


Source: Calculated from Provincial and District/Municipality APBD (realized) in North Sulawesi, 2005-2010

Note: Calculations Employ Revised Regional Budget (APBD-P) for Tomohon in 2009

**Central government transfers have dominated North Sulawesi's sub-national revenue over the past five years.** General allocation funds are the main source of these transfers, contributing an average portion of 65 percent of overall revenue. Special allocation funds have also increased from 5 percent of revenue in 2005 to 14 percent in 2009. Special allocation funds are used to facilitate improvements of public services in sectors including education, health, transportation, basic infrastructure facilities, and family planning.

**Figure 3.4 Difference in the Composition of Sub-national Revenues between North Sulawesi Provincial and District/Municipality Governments, 2008**



Source: Calculated from Provincial and District/Municipality APBD (realized) in North Sulawesi, 2009

**At provincial level, own-source revenues have decreased significantly, whereas general allocations funds have increased to now contribute more than 50 percent of North Sulawesi's provincial revenue.**

The share of provincial revenue derived from general allocation funds has increased from 51 percent (Rp. 322 billion) in 2005 to 55 percent (Rp. 558.6 billion) in 2009. Over the same period, the contribution of own-source revenue decreased from 41 percent to 32 percent. North Sulawesi first received special allocation funds in 2008, and the contribution of these funds has been stable, similar to revenue sharing (DBH).

**Transfers also dominate district/municipality revenue, with their contribution increasing between 2005 and 2009.** The contribution of special allocation funds to district/municipality revenue increased from 6 percent in 2005 to 15 percent in 2009. As at provincial level, the contribution of own-source revenue decreased from 5.5 percent in 2005 to 4 percent in 2009. Revenues derived from general allocation funds and revenue sharing decreased, although not by the same proportion as did the contribution of general allocation funds.

**Table 3.1 Composition of North Sulawesi's Fiscal Revenue, 2005-2009**

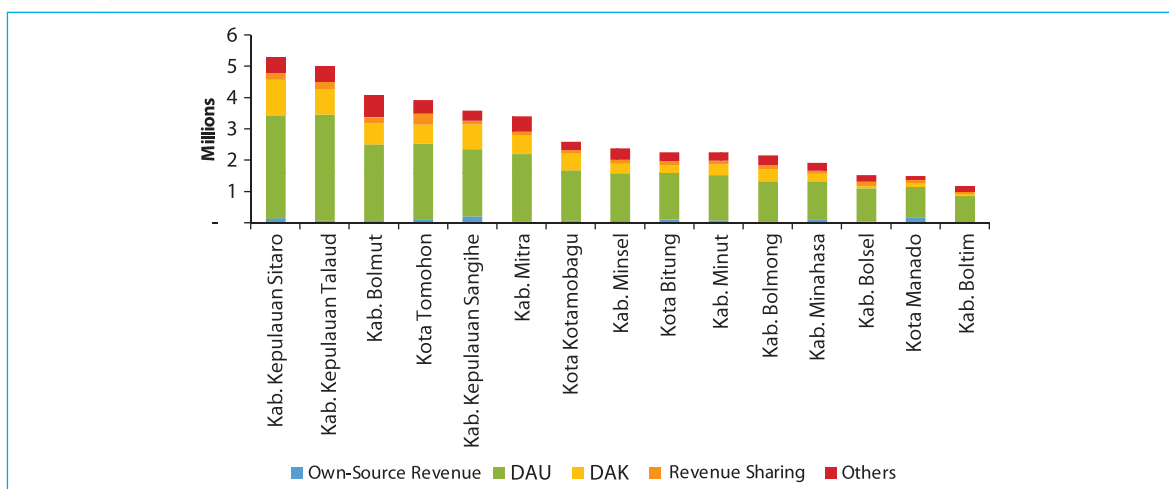
	2005		2006		2007		2008		2009	
Province	Billion Rupiah	%	Billion Rupiah	%	Billion Rupiah	%	Billion Rupiah	%	Billion Rupiah	%
DAU	322.0	50.8	499.8	61.9	501.8	55.4	545.2	55.2	558.6	54.6
DAK	0.0	0.0	0.0	0.0	0.0	0.0	28.7	2.9	52.9	5.2
Revenue sharing	34.7	5.5	46.9	5.8	55.5	6.1	53.8	5.4	62.8	6.1
PAD	258.7	40.8	261.2	32.3	283.2	31.3	330.0	33.4	331.1	32.4
Others	18.6	2.9	0.0	0.0	65.7	7.2	29.7	3.0	18.0	1.8
Total	634.0	100	807.9	100	906.2	100	987.4	100	1,023.3	100

	2005		2006		2007		2008		2009	
District	Billion Rupiah	%	Billion Rupiah	%	Billion Rupiah	%	Billion Rupiah	%	Billion Rupiah	%
DAU	1,675.6	68.3	2,911.0	76.8	2,746.2	65.0	2,964.0	65.2	3,492.6	63.6
DAK	142.8	5.8	388.8	10.3	677.8	16.1	659.1	14.5	836.4	15.2
Revenue sharing	170.2	6.9	245.8	6.5	233.0	5.5	252.1	5.5	302.6	5.5
PAD	135.8	5.5	146.0	3.9	178.1	4.2	173.7	3.8	203.0	3.7
Others	328.1	13.4	99.7	2.6	387.6	9.2	499.1	11.0	659.2	12.0
Total	2,452.4	100	3,791.3	100	4,222.7	100	4,548.0	100	5,493.8	100

**The fiscal capacity of North Sulawesi's districts/municipalities varies markedly.** Kepulauan Sitaro district had the largest fiscal capacity of Rp. 5.2 million per capita by 2009 regional budget data, whereas Bolaang Mongondow Timur district had the smallest fiscal capacity of only Rp. 1.1 million per capita. Most of this district's revenue derives from central government transfers of general allocation funds.

**Figure 3.5 Composition of Per Capita Sub-national Revenue, by District/Municipality in North Sulawesi, 2009**



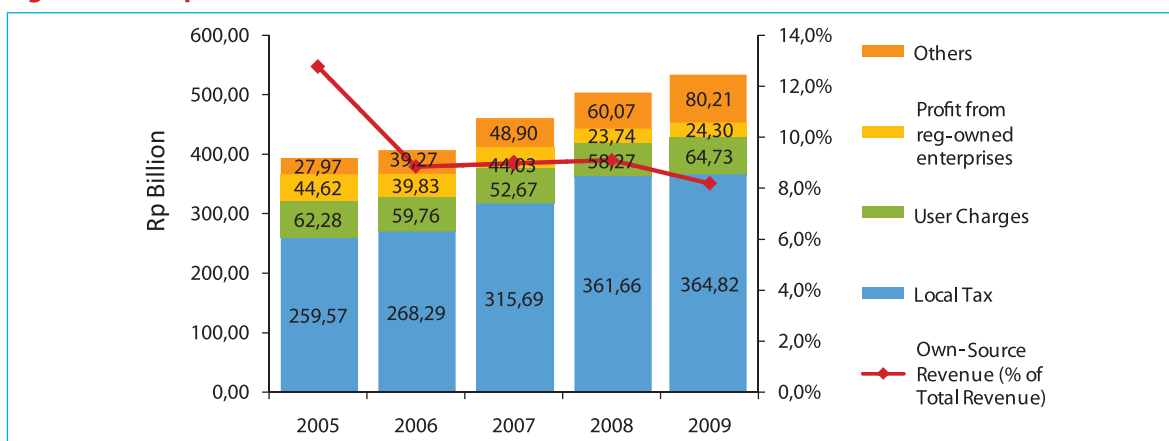
Source: Calculated from Provincial and District/Municipality APBD (realized) in North Sulawesi, 2009

Note: Calculations Employ Revised Regional Budget (APBD-P) for Tomohon in 2009

### 3.1.2 Own-Source Revenue

**North Sulawesi's own-source revenue increased in absolute terms between 2005 and 2009, but decreased as a proportion of North Sulawesi's overall revenue.** North Sulawesi's own-source revenue increased from Rp. 394.4 billion in 2005 to Rp. 534.1 billion in 2009. Regional taxes are the main source of this own-source revenue; they increased from Rp. 259.5 billion in 2005 to Rp. 364.8 billion in 2009.

**Figure 3.6 Composition of North Sulawesi's Own-Source Revenue, 2005-2009**



Source: Calculated from North Sulawesi APBD (realized), 2005-2009

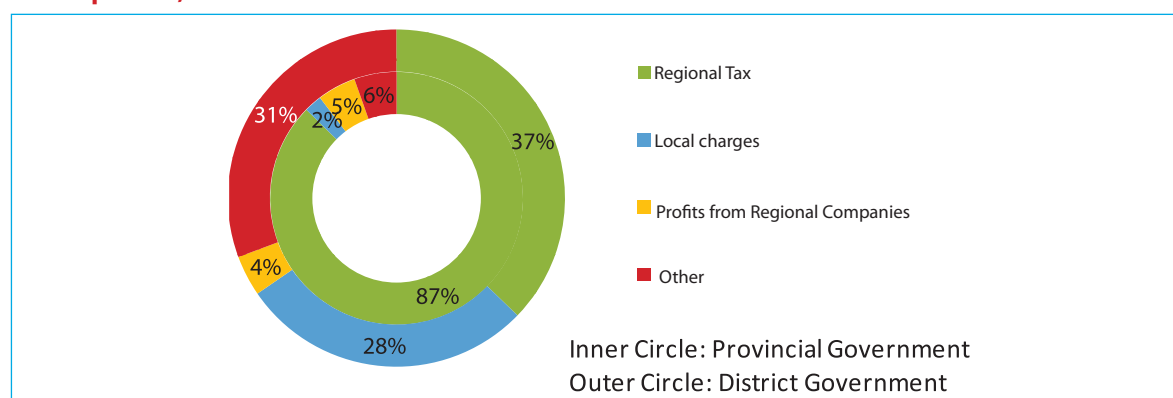
Note: Calculations Employ the Revised Regional Budget (APBD-P) for Tomohon in 2009

The Revenue Composition Data for the Province and Districts/Municipalities is 2009 data.

**Own-source revenue decreased significantly as a proportion of overall revenue, particularly from 2005 to 2006.** Own-source revenue decreased from 13 percent of sub-national revenue in 2005 to 9 percent in 2006. Thereafter, own-source revenue remained stable at 9 percent through to 2008, after which it fell to 8 percent in 2009. The significant decrease in the contribution of own-source revenue reflected a sharp increase in the amount of general allocation funds and special allocation funds received by North Sulawesi that year, whereas the amount of own source revenue increased by only 3 percent.

**Tax is the largest component of North Sulawesi's own-source revenue.** Tax contributed 66 percent of own-source revenue in 2005, 68 percent in 2009 and reached as high as 72 percent in 2008. Regional charges were the second largest contributor to own-source revenue, followed by profits from regional companies, but the contribution of each of these revenue sources decreased as a proportion of overall own-source revenue between 2005 and 2009. Motor vehicle tax is the largest tax source in North Sulawesi.

**Figure 3.7 Comparison of Own-Source Revenue Composition of North Sulawesi Province and Districts/Municipalities, 2009**



Source: Calculated from North Sulawesi Provincial and District/Municipality APBD (realized)

Note: Calculations Employ the Revised Regional Budget (APBD-P) for Tomohon in 2009

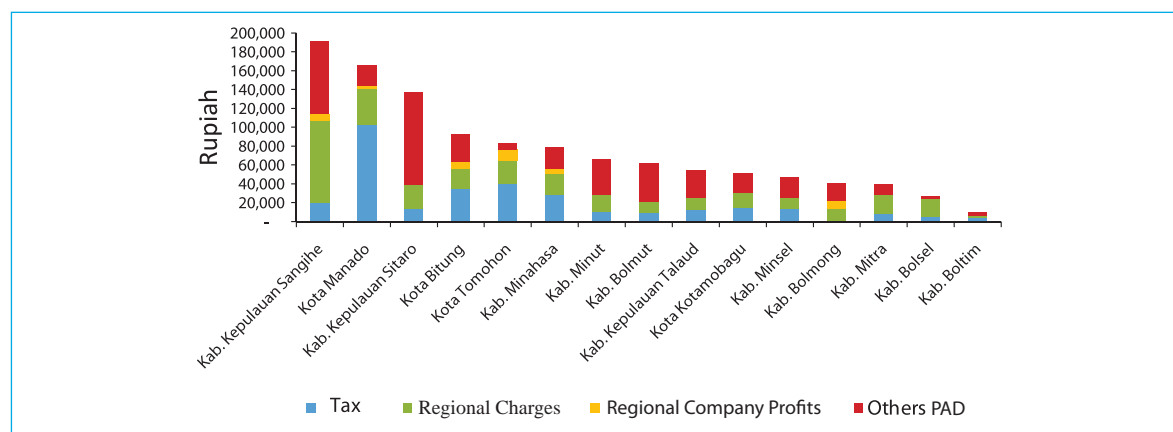
The Revenue Composition Data for the Province and Districts/Municipalities is 2009 data.

**Most tax revenue comes from the provincial government.** Tax is the main contributor own-source revenue at both provincial and district/municipality government level, but the overall composition of own-source revenue differs significantly at these two levels. At provincial level, tax contributes almost all own-source revenue (approximately 87 percent). Tax remains the largest contributor to district/municipality own-source revenue too, but its contribution is similar to that of regional charges and other sources of own-source revenue. 'Other' own-source revenue in fact constitutes the second largest share of own-source revenue at district/municipality level. In accordance with Law no. 3/2004, other own-source revenue includes the sale of assets controlled by the sub-national government, revenue from interest and from management of goods and services.

**Kepulauan Sangihe district had the highest per capita own-source revenue of any district/municipality in North Sulawesi in 2009.** Its per capita own-source revenue was Rp. 190,000, followed by Manado municipality with Rp. 166,000 and Kepulauan Sitaro with Rp. 137,000. There are significant disparities in per capita own-source revenue between districts/municipalities. One of the districts newly formed via administrative re-division in the last five years, Bolaang Mongondow Timur, had the lowest per capita own-source revenue of Rp. 10,000.



**Figure 3.8 Comparison of Per Capita Own-Source Revenue, by District/Municipality in North Sulawesi, 2009**



Source: Calculated from North Sulawesi Provincial and District/Municipality APBD (realized)

Note: Calculations Employ the Revised Regional Budget (APBD-P) for Tomohon in 2009

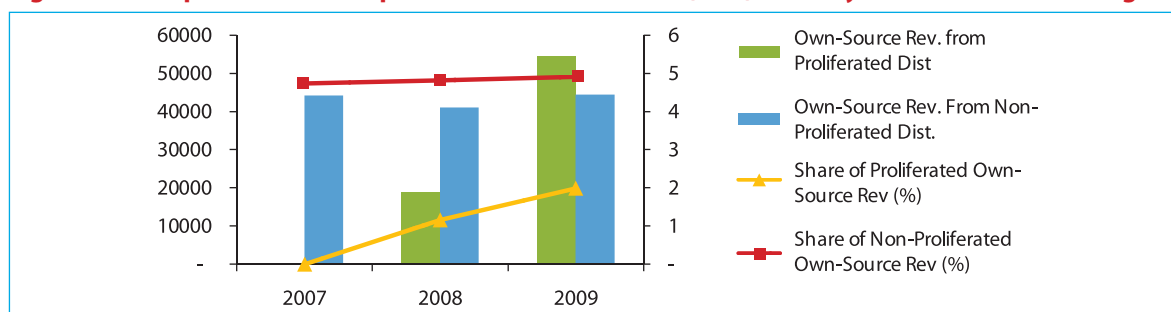
The Revenue Composition Data for the Province and Districts/Municipalities is 2009 data.

**Regional charges play a greater role than tax at district/municipality level as a source of own-source revenue.** Specifically for Kepulauan Sangihe and Kepulauan Sitaro districts, 'other' revenue also contributes more to own-source revenue. In these two districts in 2009, most own-source revenue originated from bank interest and funds returned in response to State Audit Board (BPK) findings.

#### Comparison of Own-Source Revenue in Parent Districts and Newly Formed Districts

**Per capita own-source revenue is increasing more rapidly in newly formed districts/municipalities than in parent districts/municipalities.** Regions were classified as 'newly formed' if they separated from their parent districts during the past five years. Newly formed districts/municipalities include Kotamobagu municipality, Bolaang Mongondow Timur district, Bolaang Mongondow Selatan district, Minahasa Tenggara district and Kepulauan Sitaro district.

**Per capita own-source revenue of newly formed districts/municipalities has increased rapidly and in 2009 surpassed that of parent districts/municipalities.** Per capita own-source revenue of newly formed districts/municipalities increased from Rp. 19,000 in 2008 to Rp. 54,000 in 2009, compared to Rp. 41,000 in 2008 and Rp. 44,000 in 2009 for parent regions. Interestingly, 'other' sources dominated own-source revenue in newly formed districts. As with the overall pattern of revenues, other own-source revenue in newly formed regions derived from the sale of regional assets and bank interest.

**Figure 3.9 Comparison of Per Capita Own-Source Revenue (PAD) in Newly Formed and Parent Regions**

Source: Calculated from North Sulawesi Provincial and District/Municipality APBD (realized)

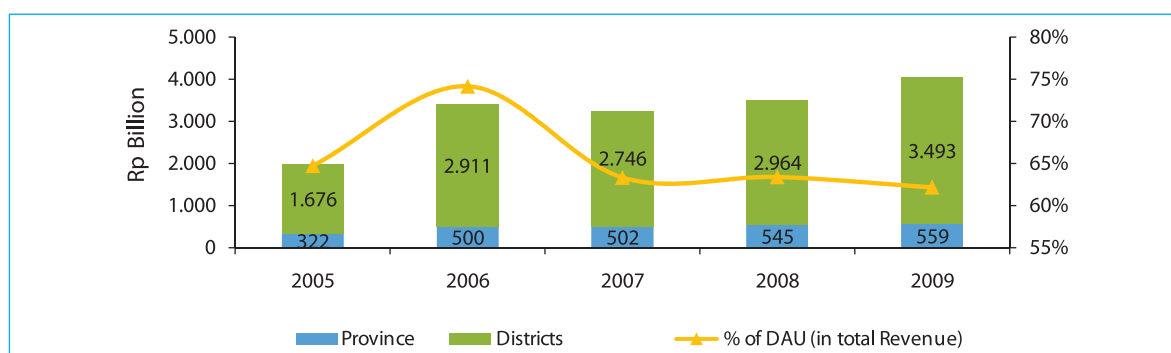
Note: Calculations Employ the Revised Regional Budget (APBD-P) for Tomohon in 2009

The Revenue Composition Data for the Province and Districts/Municipalities is 2009 data.

### 3.1.3 General Allocation Funds (DAU)

**North Sulawesi's dependence on general allocation funds increased during 2005-2009, especially in 2006.** General allocation funds decreased as a proportion of overall revenue in 2007, however, before stabilizing at approximately 63 percent of overall sub-national revenue. General allocation funds more than doubled from Rp. 1.9 trillion in 2005 to Rp. 4 trillion in 2009. A significant increase occurred in 2006, matching the general trend in other parts of Indonesia, due to the reduction of petroleum fuel subsidies in 2005. Average general allocation fund transfers to sub-national government increased by 65 percent throughout Indonesia in 2006 (World Bank, 2008)

**It is clearly evident that in North Sulawesi, general allocation funds are targeted more towards governments at district/municipality level.** The proportion of general allocation funds allocated to district/municipality governments increased every year from more than 80 percent in 2005 to 86 percent in 2009. General allocation funds increased from Rp. 322 billion (province) and Rp. 1.7 trillion (district/municipality) in 2005 to Rp. 559 billion (province) and Rp. 3.5 trillion (district/municipality). From 2005-2009, general allocation funds increased by 18 percent on average per year at provincial level and by 27 percent on average annual at district/municipality level.

**Figure 3.10 General Allocation Fund (DAU) Transfers to North Sulawesi, 2005-2010, by Level of Government**

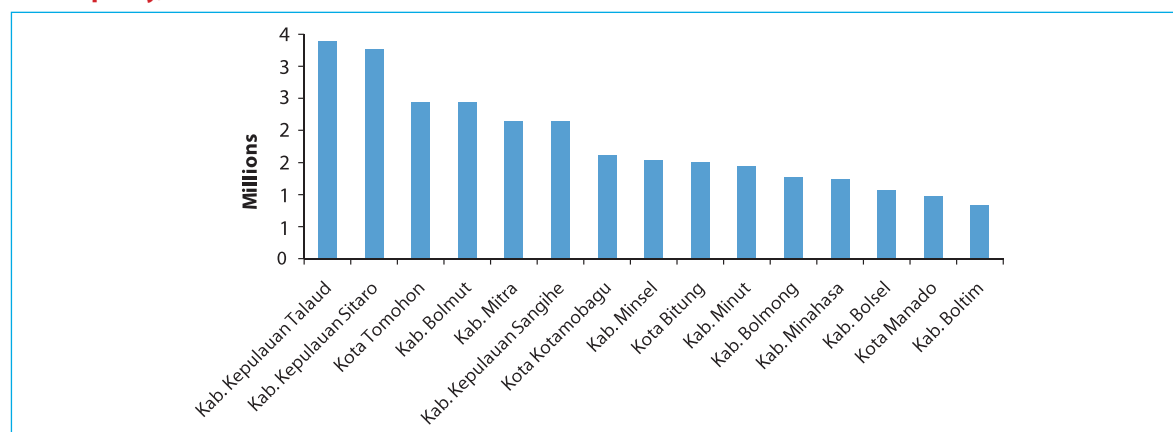
Source: Calculated from North Sulawesi Provincial and District/Municipality APBD (realized)

Note: Calculations Employ the Revised Regional Budget (APBD-P) for Tomohon in 2009

The Revenue Composition Data for the Province and Districts/Municipalities is 2009 data.

**General allocation funds transfers to each district/municipality in North Sulawesi varied considerably, with Kepulauan Talaud district receiving the highest average per capita transfers.** Kepulauan Talaud's per capita general allocation funds reached Rp. 3.5 million in 2009, a significant contrast to the 835,000 per capita received by Bolaang Mongondow Timur. Central government transfers appear not to have entirely overcome revenue disparities between districts/municipalities in North Sulawesi.

**Figure 3.11 Per Capita General Allocation Fund (DAU) Transfers in North Sulawesi, by District/Municipality, 2009.**



Source: Calculated from North Sulawesi Provincial and District/Municipality APBD (realized)

Note: Calculations Employ the Revised Regional Budget (APBD-P) for Tomohon in 2009

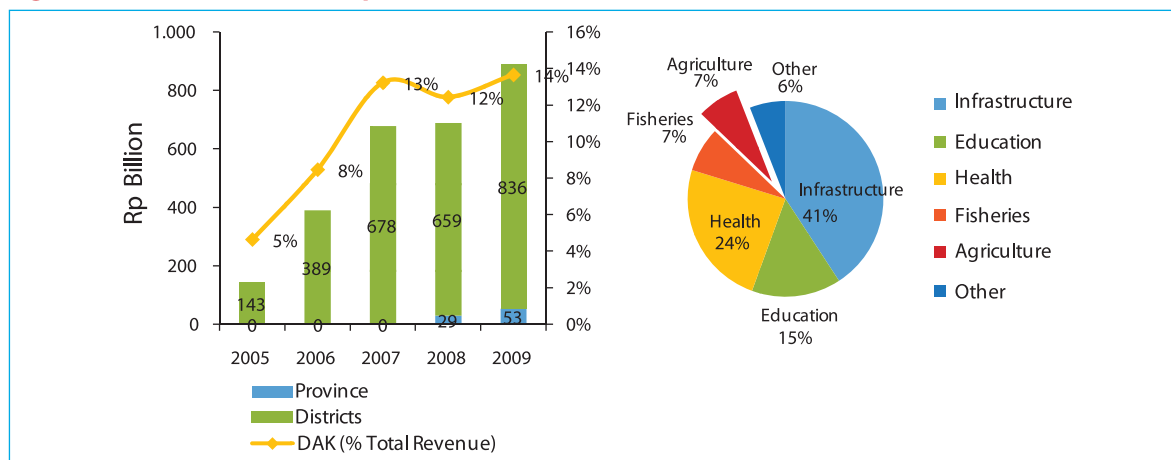
The Revenue Composition Data for the Province and Districts/Municipalities is 2009 data.

### 3.1.4 Special Allocation Funds (DAK)

**Special allocation fund transfers in North Sulawesi increased rapidly from 2005-2009, with some deceleration in 2008.** Overall special allocation fund transfers increased from Rp. 143 billion in 2005 to Rp. 889 billion in 2009. The provincial government first received special allocation fund transfers in 2008. Meanwhile, the real levels of special allocation fund transfers to districts/municipalities increased significantly, from Rp. 143 billion in 2005 to Rp. 836 billion in 2009.

**Special allocation fund transfers are targeted more towards governments at district/municipality level, mirroring the pattern of general allocation fund transfers.** In 2009, the provincial government received 6 percent of total special allocation fund transfers to North Sulawesi, whereas districts/municipalities received 94 percent. The five districts and municipalities to receive the largest special allocation fund transfers in 2009 were Kepulauan Sangihe district (Rp. 104.8 billion), Minahasa district (Rp. 76 billion), Bolaang Mongondow district (Rp. 74.8 billion); Kepulauan Sitaro district (Rp. 72 billion) and Kotamobagu municipality (Rp. 63.4 billion).

**The largest single usage of special allocation funds in North Sulawesi is to fund infrastructure development.** This infrastructure development covers road network improvements, irrigation as well as access to clean water. Road construction to link districts/municipalities or to connect different villages in the same district/municipality received the single largest allocation, amounting to Rp. 112 billion or approximately 26 percent of total special allocation funds in 2008.

**Figure 3.12 North Sulawesi's Special Allocation Funds (DAK), 2005-2009**

Source: Calculated from North Sulawesi Provincial and District/Municipality APBD (realized)

Note: Calculations Employ the Revised Regional Budget (APBD-P) for Tomohon in 2009

**Bolaang Mongondow Timur also received the lowest per capita special allocation fund transfer of any the district/municipality in North Sulawesi in 2009.** Per capita special allocation fund transfers varied between different districts/municipalities. Kepulauan Sitaro district received the highest per capita transfer, at Rp. 1.2 million, whereas Bolaang Mongondow Timur received the lowest at Rp. 63 thousand. Two newly created districts (Bolaang Mongondow Timur and Bolaang Mongondow Selatan) received extremely low per capita transfers.

### 3.1.5 Revenue Sharing (DBH)

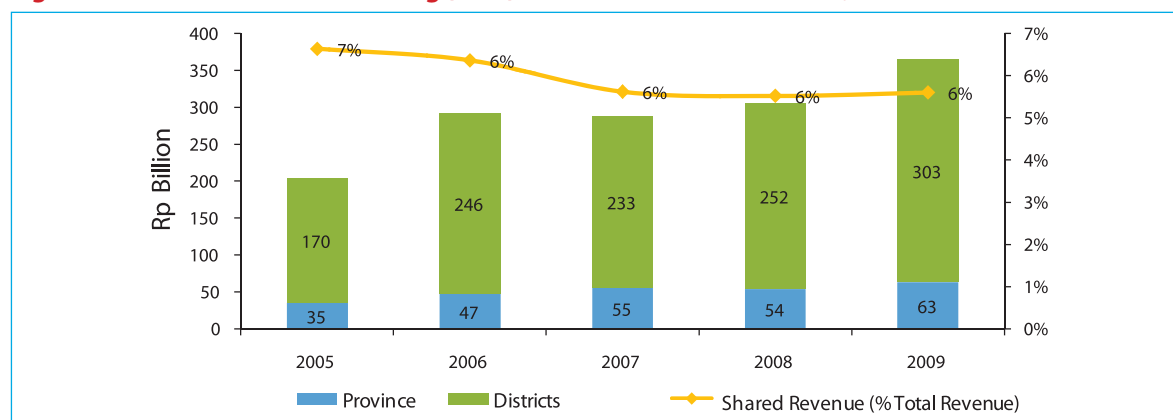
**Revenue sharing (DBH) transfers increased in absolute terms from 2005-2009, particularly in 2006.**

North Sulawesi's overall revenue increased more rapidly over this time period, however, meaning that the share contributed by revenue sharing decreased, particularly in 2007. Revenue sharing transfers increased from the Rp. 205 billion in 2005 to Rp. 366 billion in 2009, or 79 percent overall.

**As with other balancing funds, most revenue-sharing transfers are allocated to districts and municipalities.** In 2009, the provincial government received 17 percent of overall revenue sharing transfers, with district/municipality governments receiving the remaining 83 percent. There are two categories of revenue sharing transfers: tax and non-tax (natural resources). In 2009, these two categories were combined. From 2005-2008, almost all revenue sharing transfers were from the tax category (more than 99 percent), whereas non-tax revenue sharing (natural resources) constituted less than one percent

**Revenue sharing transfers also vary in per capita terms from region to region in North Sulawesi.**

Tomohon municipality received the highest per capita revenue sharing transfers in 2009 at Rp. 352,000 considerably receiving the Rp. 76,000 allocated to Bolaang Mongondow Timur district as the recipient of the lowest per capita amount. Overall, Bolaang Mongondow Timur district has the lowest per capita regional revenue of all districts/municipalities in North Sulawesi.

**Figure 3.13 Overall Revenue Sharing (DBH) Transfers to North Sulawesi, 2005-2009**

Source: Calculated from North Sulawesi Provincial and District/Municipality APBD (realized), 2005-2010

Note: Calculations Employ the Revised Regional Budget (APBD-P) for Tomohon in 2009

## 3.2 Financing

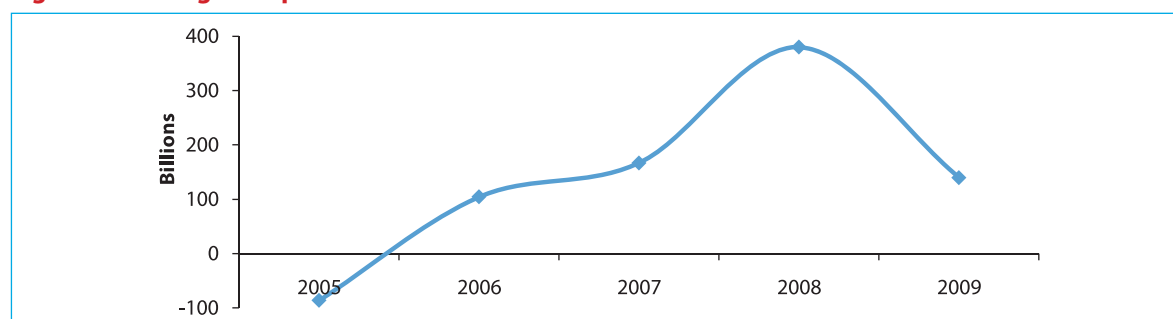
**North Sulawesi experienced a surplus in regional revenue each year from 2005-2009, except in 2005.**

In 2005, there was a Rp. 85.8 billion deficit in regional revenue, followed by a surplus for the following four years. The highest surplus of Rp. 380 billion or 6.8 percent was in 2008, indicating that the government was unable to absorb the available budget.

**Most of the 2009 sub-national budget (APBD) surplus was used for short-term investment expenditure.**

This utilization complies with Law no. 32/2004, which stipulates that APBD surplus may be used to pay principal installments due for payment; regional investment; or transfers to reserve funds accounts.

**The 2005 budget deficit was mainly financed using the unspent budget balance (SiLPA) from the previous year.** Law no. 32/2004 stipulates that financing for a deficit may originate from the previous year's unspent budget balance; transfers from reserve funds; income from the separated proceeds of regional assets sales; and sub-national government borrowing. Article 28(5) of Government Regulation no. 58/2005 states that the total net financing must be able to cover the budget deficit.

**Figure 3.14 Budget Surplus and Deficit in North Sulawesi Province**

Source: Calculated from North Sulawesi Provincial and District/Municipality APBD (realized), 2005-2010

Note: Calculations Employ the Revised Regional Budget (APBD-P) for Tomohon in 2009

**In 2009, the provincial government experienced a deficit, whereas the district/municipality governments experienced a surplus of regional revenue.** The provincial government was able to finance its deficit using unspent budget balance. Overall, district/municipality governments experienced a surplus and positive net financing, with the result that their unspent budget balance exceeded the surplus. Minahasa Utara had the highest unspent budget balance of any region in North Sulawesi, whereas Kepulauan Talaud experienced the largest planned budget deficit (SiKPA), owing to settlement of a debt payment with a third party.

### 3.3 Conclusion and Recommendations

**North Sulawesi's district/municipality governments have relatively low own-source revenue and their dependency on central government transfers is increasing.** This situation is not in line with the objectives of regional autonomy. Further study is needed to identify the potential for taxes with an extensive tax base; improved supervision is required to minimize leakage of tax revenues and regional charges; improved human resource capacity in the taxation field is also required. Nevertheless, it should be noted that excessive tax imposition might become a disincentive to economic activities, so attention must be paid in levying taxes not to impede the region's economic growth.

**Non-tax (natural resources) revenue sharing remains extremely small compared to revenue sharing from tax, raising the question of whether North Sulawesi has utilized its natural resource potential to the maximum possible extent.** Further research is required on North Sulawesi's natural resource potential, which may provide a source of regional revenue.

**The imbalance in per capita regional revenues between districts/municipalities remains high.** Several newly formed districts have very low revenue (particularly Bolaang Mongondow Timur). Government support is required, for instance through central government transfers, to initiate the development of these newly formed districts/municipalities by improving their fiscal position.

**The provincial and most district/municipality governments in North Sulawesi have large unspent budget balances.** These sub-national governments cannot absorb the available budget and yet are able to undertake important programs and activities to provide services to the community. Once their service provision reaches the maximum possible level, these sub-national governments could make additional investments to utilize available funds. On the other hand, several regions have planned budget deficits (SiKPA). To deal with these planned budget deficits, the governments in question need to be more careful in managing their finances the following year, when they must face both inherent risks and the planned budget deficit carried over from the previous year.



## Chapter 4

# Expenditure



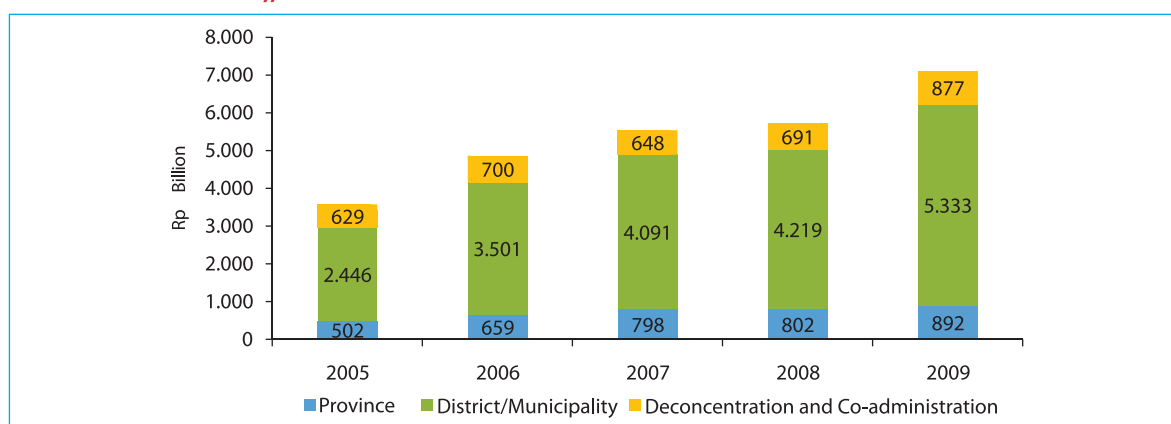


## 4.1 Overview of Sub-national Expenditure

**North Sulawesi's total sub-national expenditure increased during 2005-2009.** North Sulawesi's total expenditure (including deconcentration and co-administration funds) increased by Rp. 3.4 trillion over four years from Rp. 3.7 trillion in 2005 to Rp. 7.1 trillion in 2009. The average annual increase in North Sulawesi's total expenditure over this period was 23.5 percent.

**District/municipality governments manage most of North Sulawesi's sub-national expenditure.** The share of expenditure managed by district/municipality governments has also increased, from 69 percent in 2005 to 75 percent in 2009. The provincial government managed 13 percent of North Sulawesi's total expenditure in 2009, with the remaining 12 percent being central government spending in the regions. Most district/municipality level expenditure is allocated to personnel spending, particularly for general government affairs. This expenditure covers salary and allowance spending, namely: basic salary for personnel (the largest expenditure item), family allowance, position allowance, functional allowance, general allowance, special allowance, as well as additional performance-based payments to personnel.

**Figure 4.1 North Sulawesi's Sub-national Expenditure (including Deconcentration and Co-administration Funds), 2005-2009**

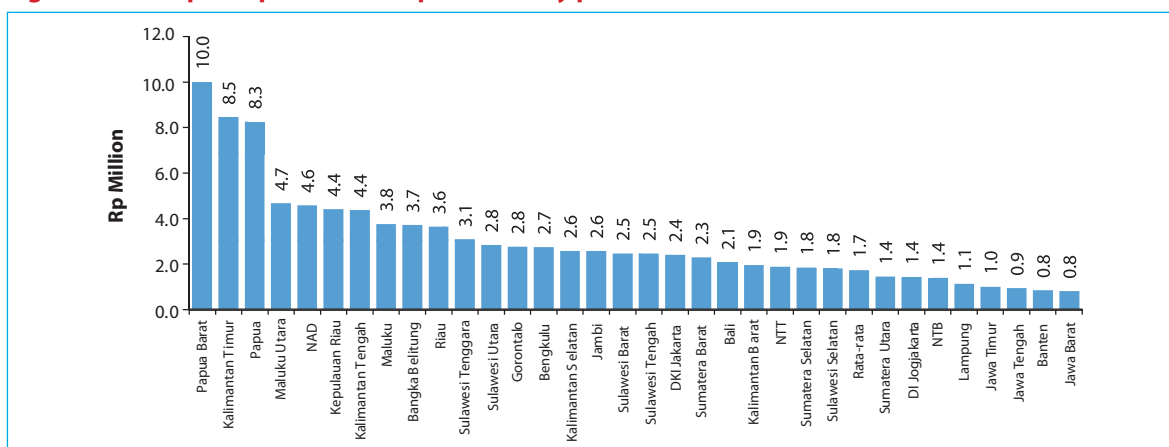


Source: Calculated from North Sulawesi Provincial and District/Municipality APBD (realized), 2005-2009

Note: Calculations employ the Revised Regional Budget (APBD-P) for Tomohon in 2009

World Bank staff calculated data on the deconcentration and co-administration expenditure based on Ministry of Finance data.

**North Sulawesi's total sub-national per capita expenditure exceeded the national average in 2009.** Ministry of Finance budget data indicates North Sulawesi's 2009 per capita expenditure to have been Rp. 2.8 million, significantly higher than national per capita expenditure of Rp. 1.7 million. North Sulawesi's 2009 per capita expenditure was relatively high compared to other provinces in Sulawesi, although it was lower than Southeast Sulawesi's expenditure of Rp. 3.1 million per capita. West Papua Province had the highest per capita spending in 2009 of Rp. 10 million.

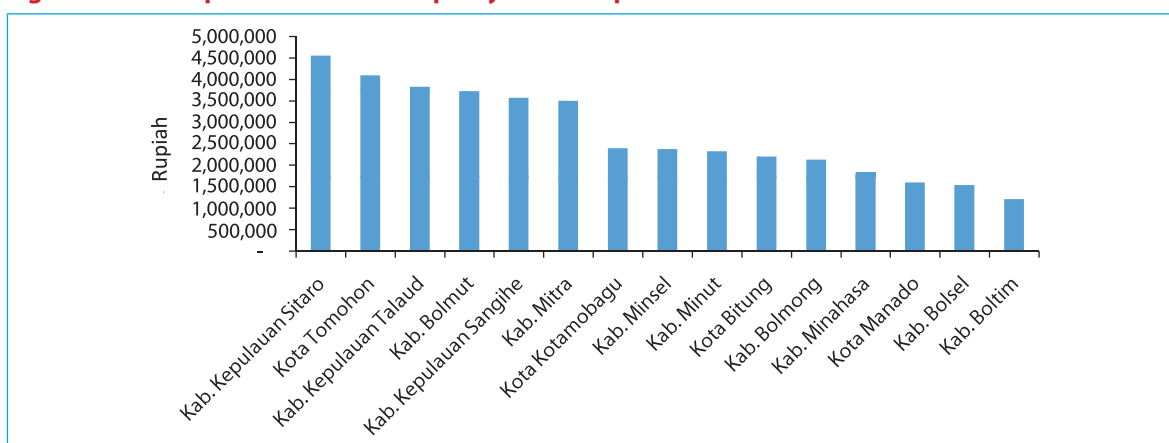
**Figure 4.2 Real per capita Public expenditure by province, 2009**

Source: The data was obtained from the Directorate General of Fiscal Balance at the Ministry of Finance.

The data is data on budget.

Population data is from BPS, 2009.

**Mirroring the pattern of per capita revenue in North Sulawesi, newly proliferated Bolaang Mongondow Timur district also has the lowest per capita expenditure.** Per capita district/municipality expenditure in North Sulawesi is quite varied and imbalanced. Kepulauan Sitaro has the highest per capita expenditure (and also the highest per capita revenue) at Rp. 4.5 million, much higher than Bolaang Mongondow Timur's per capita expenditure of Rp. 1.2 million. Bolaang Mongondow Timur and Bolaang Mongondow Selatan are the most recently formed districts in North Sulawesi; each was established in 2009. Their recent formation is one of the reasons why these districts have the lowest per capita revenue and expenditure. Those two districts have just started to organize their administration and the transition to become new governments. They also have minimal infrastructure facilities, impeding economic activities somewhat.

**Figure 4.3 Per Capita District/Municipality Public Expenditure in North Sulawesi in 2009**

Source: Calculated from North Sulawesi Provincial and District/Municipality APBD (realized), 2009

Note: Calculations employ the Revised Regional Budget (APBD-P) for Tomohon in 2009

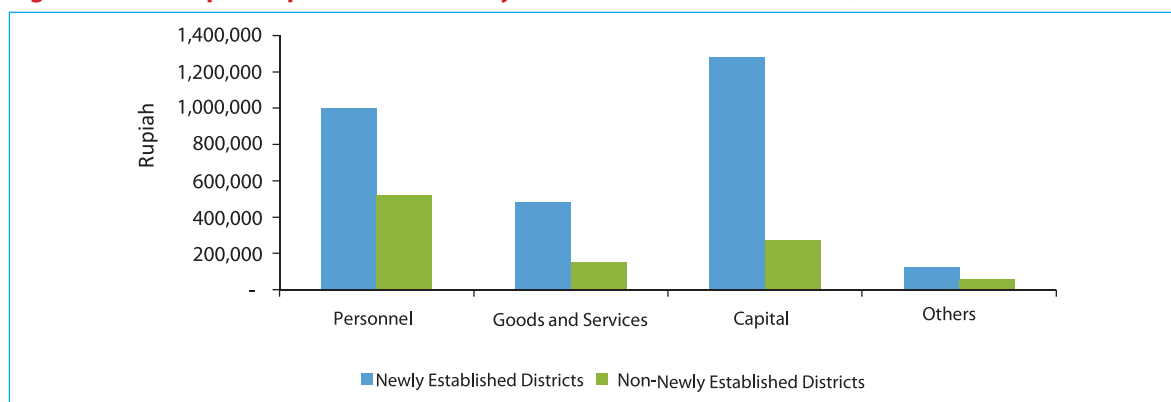
### Per Capita Expenditure of Newly Proliferated and Parent Districts/Municipalities

**Unlike the pattern of per capita revenue, newly formed districts/municipalities have significantly higher per capita expenditure than parent regions, particularly in per capita capital expenditure.**

The per capita expenditure of newly formed districts was Rp. 2.8 million in 2009, almost triple the per capita expenditure of parent districts at Rp. 1 million.

**Per capita capital expenditure registered the largest difference in expenditure levels between newly formed and parent districts.** Per capita capital expenditure in newly formed districts was Rp. 1.2 million in 2009, whereas the equivalent figure in parent districts was Rp. 273,000. In the same year, capital expenditure was the largest expenditure item for newly formed districts, whereas parent districts spent the most on personnel expenditure. Newly formed districts appear to allocate more of their expenditure to construction of district infrastructure, such as building new schools and government offices, which are categorized as capital expenditure.

**Figure 4.4 Per Capita Expenditure of Newly Formed and Parent Districts, 2009**



Source: Calculated from North Sulawesi Provincial and District/Municipality APBD (realized), 2009

Note: Calculations employ the Revised Regional Budget (APBD-P) for Tomohon in 2009

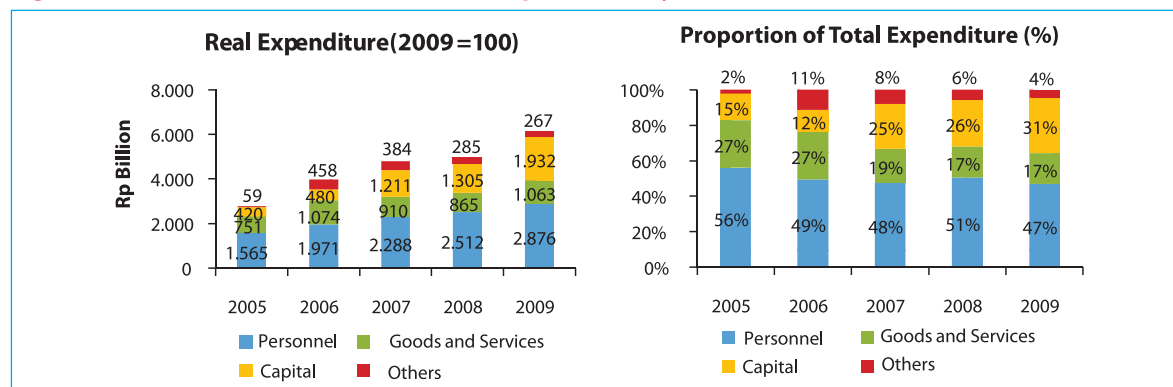
## 4.2 Expenditure by Economic Classification

**Personnel expenditure was the largest expenditure for North Sulawesi's sub-national governments during 2005-2009.** Although the proportion spent on personnel expenditure decreased between 2005 and 2009, it remained the largest expenditure item for sub-national governments in North Sulawesi. The share of personnel expenditure decreased from Rp. 1.5 trillion or 56 percent of total expenditure in 2005 to Rp. 2.8 trillion of 47 percent in 2009.

**Capital expenditure increased quite significantly over the same period as a proportion of North Sulawesi's total expenditure, however.** North Sulawesi's capital expenditure increased 3.5 times in absolute terms between 2005 and 2009, from Rp. 420 billion in 2005 to Rp. 1.9 trillion in 2009. The share of spending allocated to capital expenditure also significantly increased, rising from the lowest share in 2005 relative to other economic expenditure (goods and services; and personnel) at 14 percent, to be the second largest economic expenditure in 2009 at 31 percent. North Sulawesi hosted the World Ocean Conference (WOC) In 2009, impacting positively upon the province's infrastructure development. Infrastructure upgrades include a new terminal and runway extension for Sam Ratulangi International Airport, widening of the road linking Manado municipality to the airport, improvement on crossing facilities and infrastructure to Bunaken

Island, construction of an outer ring road, as well as the construction of facilities and improvement of access to tourist attractions<sup>4</sup>.

**Figure 4.5 North Sulawesi's Sub-national Expenditure by Economic Classification, 2005-2009**

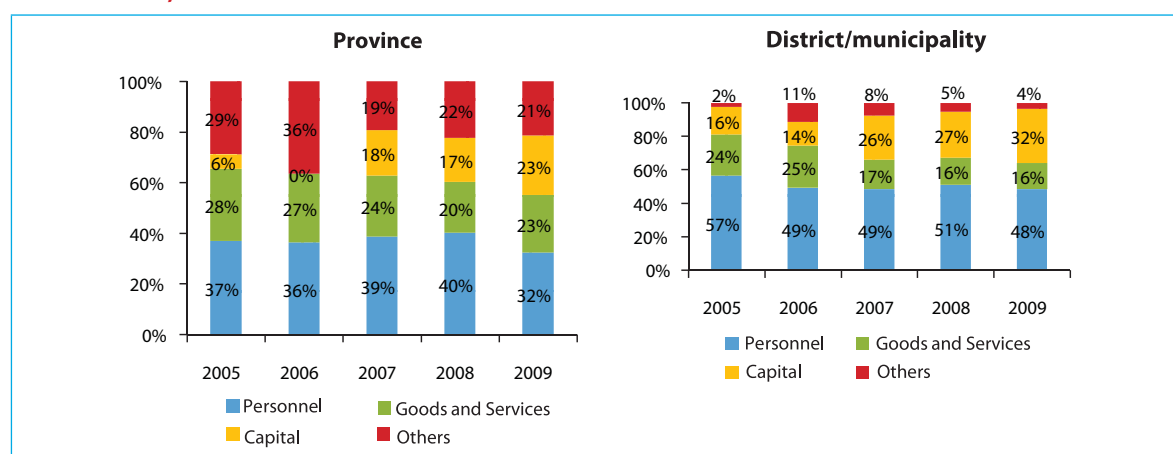


Source: Calculated from North Sulawesi Provincial and District/Municipality APBD (realized), 2005-2010

Note: Calculations employ the Revised Regional Budget (APBD-P) for Tomohon in 2009

The proportion of spending allocated to personnel expenditure was relatively stable, as changes were smaller than those to the proportional allocations to capital expenditure and goods and services expenditure. The proportion of spending allocated to personnel expenditure fluctuated only modestly between 2005 and 2009, ranging from 47-56 percent. The proportional allocation to goods and services expenditure declined sharply over the same period, from 27 percent in 2005 to 17 percent in 2009. Comparison of changes in allocations to these three types of expenditure demonstrates the increased proportional allocation to capital expenditure to be a shift from goods and services expenditure, not from personnel expenditure.

**Figure 4.6 Share of North Sulawesi Province and District/Municipality Expenditure by Economic Classification, 2005-2009**



Source: Calculated from North Sulawesi Provincial and District/Municipality APBD (realized), 2005-2010

Note: Calculations employ the Revised Regional Budget (APBD-P) for Tomohon in 2009

4 Badan Kerja Sama Pembangunan Regional Sulawesi, Dampak WOC bagi Pengembangan Sulawesi Utara, 24 Maret 2009, (The Coordination Agency for Sulawesi Regional Development, WOC Impact on North Sulawesi Development, 24 March 2009) [http://www.bkprs-news.com/index.php?option=com\\_content&task=view&id=190&Itemid=117](http://www.bkprs-news.com/index.php?option=com_content&task=view&id=190&Itemid=117)

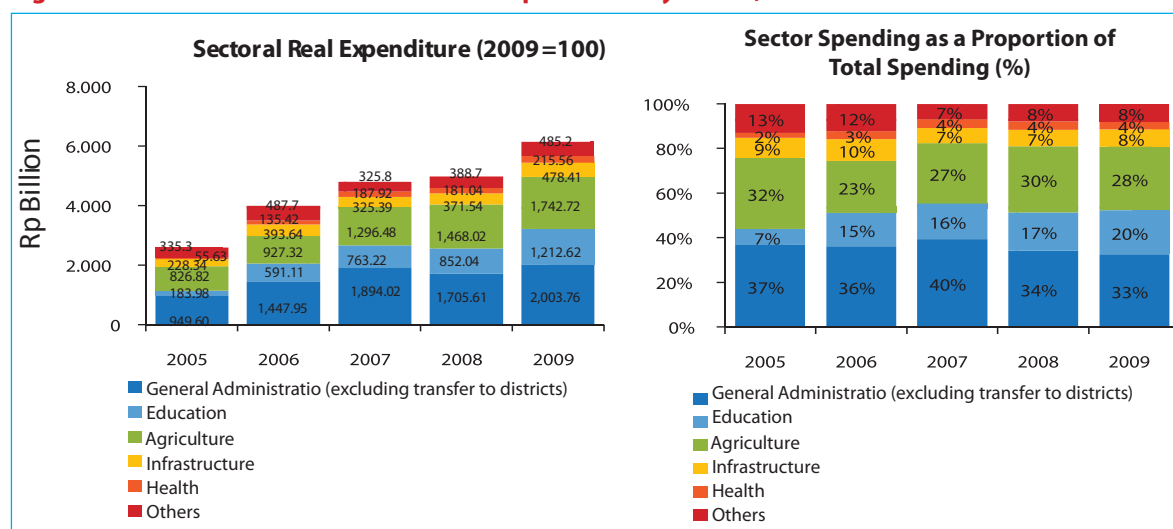
**At provincial government level, personnel expenditure was also the largest economic expenditure item in North Sulawesi.** Personnel expenditure received the largest allocation each year. Its share fluctuated from 37 percent in 2005 to 32 percent in 2009, but remained consistently above 30 percent (Figure 4.5). Capital expenditure received the lowest allocation of any type of expenditure in 2005, at just 6 percent. Capital expenditure has increased each year, however, with a significant increase since 2007 to a 2009 level of 23 percent of total expenditure, similar to goods and services expenditure.

**District/municipality governments' expenditure pattern is similar to that of the provincial government, with personnel expenditure constituting the largest share.** Capital expenditure received the second largest allocation of expenditure with a share of 32 percent. The share of capital expenditure has increased significantly, particularly in 2007, when it increased from 14 percent to 26 percent of total expenditure. In a similar trend to North Sulawesi's overall expenditure pattern, this increase in capital expenditure appeared to be concurrent with a decline in goods and services expenditure, whereas personnel expenditure continued to receive the largest share, at almost half of total district/municipality expenditure in North Sulawesi in 2009.

### 4.3 Sectoral Expenditure

**North Sulawesi's sub-national governments (provincial and district/municipality combined) continue to spend the most on general administration expenditure, although its share is declining.** The real combined expenditure of the provincial and district/municipality governments in the general administration sector increased consistently during 2005-2009, from Rp. 950 billion in 2005 to Rp. 2 trillion in 2009. Consequently, the dominance of general administration expenditure in sub-national spending continued, although its share declined from 37 percent in 2005 to 33 percent in 2009. Infrastructure expenditure increased rapidly over this period, but did not reach the levels of the education sector, which received the second largest allocation. Health and agriculture expenditure fluctuated, while marine and fishery expenditure remained very low with an average share of 1 percent.

**Figure 4.7 North Sulawesi's Sub-national Expenditure by Sector, 2005-2009**



Source: Calculated from North Sulawesi Provincial and District/Municipality APBD (realized), 2005-2010

Note: Calculations employ the Revised Regional Budget (APBD-P) for Tomohon in 2009

**General administration sector expenditure exceeds 50 percent of overall provincial-level spending.**

Provincial government general administration expenditure increased from Rp. 418 billion in 2005 to Rp. 566 billion in 2009, equivalent to 9 percent average annual growth. Consequently, the sector continued to dominate provincial expenditure (above 50 percent), even as proportional allocations to infrastructure and education almost doubled between 2005 and 2009. Health sector expenditure increased in real terms, but its share remained at 5 percent.

**Table 4.1 Provincial Government Expenditure by Sector (Billion Rp. and Proportion of Total Expenditure), 2005-2009**

	2005		2006		2007		2008		2009	
Province	Billion Rupiah	%	Billion Rupiah	%	Billion Rupiah	%	Billion Rupiah	%	Billion Rupiah	%
General Administration	418	69.2	507	63.1	474	54.5	546	58.4	566	54.7
Infrastructure	65	10.8	98	12.2	167	19.2	150	16.1	198	19.1
Education	18	3.1	49	6.0	56	6.5	52	5.6	54	5.2
Health	30	4.9	39	4.8	47	5.5	46	4.9	54	5.2
Agriculture	17	2.8	29	3.6	51	5.9	50	5.3	58	5.7
Marine and Fishery	5	0.9	9	1.1	9	1.1	10	1.1	13	1.2
Forestry	12	2.1	16	2.0	8	0.9	9	1.0	10	1.0
Social and Gender Empowerment	4	0.7	6	0.8	6	0.7	8	0.9	11	1.1
Industry and Trade	5	0.8	7	0.9	7	0.8	8	0.9	8	0.8
Labor	8	1.3	10	1.3	11	1.3	12	1.2	14	1.4
Demography and Transmigration	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0
Cooperative and Small and Medium Enterprises	4	0.6	6	0.7	7	0.8	7	0.7	9	0.9
Tourism	10	1.6	14	1.7	8	0.9	8	0.8	14	1.4
Energy and Mineral Resources	4	0.6	6	0.7	7	0.8	6	0.7	6	0.6
Environment	2	0.3	3	0.4	3	0.4	3	0.3	4	0.4
Investment	2	0.3	5	0.6	6	0.7	5	0.6	5	0.5
Housing	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0
Youth and Sports	0	0.0	0	0.0	1	0.1	13	1.4	9	0.8
Spatial Planning	0	0.0	0	0.0	0	0.0	1	0.1	0	0.0
Defense	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0
<b>Total</b>	<b>605</b>	<b>100</b>	<b>803</b>	<b>100</b>	<b>870</b>	<b>100</b>	<b>935</b>	<b>100</b>	<b>1,034</b>	<b>100</b>

Source: Calculated from North Sulawesi Provincial and District/Municipality APBD (realized), 2005-2010

**The greatest contributor to continuing high general administration expenditure at provincial level has been increased revenue sharing transfer expenditure.** Unlike other sectoral expenditure, in addition to personnel expenditure, goods and services expenditure, and capital expenditure, general administration sector expenditure also includes transfer expenditure.<sup>5</sup> Transfer expenditure contributed an average of 42

<sup>5</sup> Transfer expenditure includes grants, subsidies, social assistance, financial assistance to districts/municipalities, and contingency spending. By contrast with the previous regulation in which every government work unit was permitted to budget and administer

percent of provincial general administration sector expenditure between 2007 and 2009, most of which was allocated to revenue sharing expenditure, followed by expenditure on grants to districts/municipalities. Even excluding transfer expenditure, however, other general administration expenditure received the largest share of expenditure, exceeding allocations to infrastructure, education, and health. There has not been a significant shift in expenditure priorities from general administration to strategic sectors such as education, health, and infrastructure.

**As at provincial level, the general administration sector dominates district/municipality government expenditure.** District/municipality government general administration expenditure grew considerably from Rp. 704 billion in 2005 to Rp. 1.5 trillion in 2009. Education also received a significant expenditure allocation (above 30 percent on average), followed by infrastructure and health. Allocations to infrastructure increased significantly as a proportion of overall expenditure between 2005 and 2009, from 5 percent (2005) to 19 percent (2009).

**Table 4.2 District/Municipality Government Expenditure by Sector (Billion Rp. and Proportion of Total Expenditure), 2005-2009**

District/Municipality	2005		2006		2007		2008		2009	
	Rupiah Billion	%	Milyar Rupiah	%	Milyar Rupiah	%	Milyar Rupiah	%	Milyar Rupiah	%
Public Administration	704	29.8	1,162	34.2	1,511	37.6	1,300	31.2	1,580	30.1
Infrastructure	119	5	493	14.5	596	14.9	702	16.8	1,015	19.3
Education	808	34.2	879	25.8	1,240	30.9	1,416	33.9	1,689	32.2
Health	199	8.4	355	10.4	278	6.9	325	7.8	424	8.1
Agriculture	39	1.6	107	3.1	137	3.4	131	3.1	157	3
Marine and Fishery	19	0.8	37	1.1	48	1.2	50	1.2	73	1.4
Forestry	14	0.6	22	0.6	18	0.4	21	0.5	28	0.5
Social and Women's empowerment	32	1.4	33	1	14	0.3	19	0.5	28	0.5
Industry and Trade	16	0.7	22	0.6	26	0.7	32	0.8	50	1
Labour	7	0.3	55	1.6	11	0.3	13	0.3	14	0.3
Demography and Transmigration	17	0.7	22	0.7	17	0.4	23	0.6	23	0.4
Cooperative and Small and Medium Enterprises	5	0.2	8	0.2	13	0.3	13	0.3	13	0.2
Tourism	7	0.3	15	0.4	11	0.3	12	0.3	18	0.3
Energy and Mineral Resources	6	0.3	9	0.3	11	0.3	12	0.3	14	0.3
Environment	12	0.5	19	0.5	40	1	49	1.2	53	1
Investment	2	0.1	5	0.1	6	0.1	11	0.3	8	0.2
Housing	104	4.4	161	4.7	13	0.3	7	0.2	19	0.4
Youth and Sports	1	0	0	0	14	0.3	23	0.6	11	0.2
Spatial Layout	38	1.6	0	0	10	0.3	13	0.3	28	0.5
Defense	0	0	0	0	0	0	1	0	2	0
Total	2,362	100	3,400	100	4,014	100	4,172	100	5,246	100

Source: Calculated from North Sulawesi Provincial and District/Municipality APBD (realized), 2005-2010

Note: Calculations employ the Revised Regional Budget (APBD-P) for Tomohon in 2009

transfer spending, Minister of Home Affairs Regulation no. 13/2006 stipulates that all such spending is to be allocated to the Regional Financial Management Officer (PPKD), which is the general administration sector work unit.



## 4.4 Relationship between Expenditure and Gender

### Gender Responsive Budgeting

**Gender mainstreaming in central and sub-national government institutions derives from Presidential Instruction no. 9/2000 concerning Gender Mainstreaming in National Development.** This presidential instruction requires government institutions to integrate men's and women's experiences, aspirations, needs, and issues in planning, implementing, monitoring, and evaluating all policies, programs, and activities in various aspects of life and development.

**The 2010-2014 National Medium-Term Development Plan (RPJMN) refers to Presidential Instruction no. 9/2000 in establishing a policy of cross-sectoral gender mainstreaming as a principle and operational basis for overall development implementation (2010-2014 RPJMN).** Gender mainstreaming in development is a strategy to reduce/remove inequalities between males and females in Indonesia in accessing and obtaining development benefits, as well as increasing participation of each group in decision-making and control over development resources, such as knowledge, skills, information and credit.

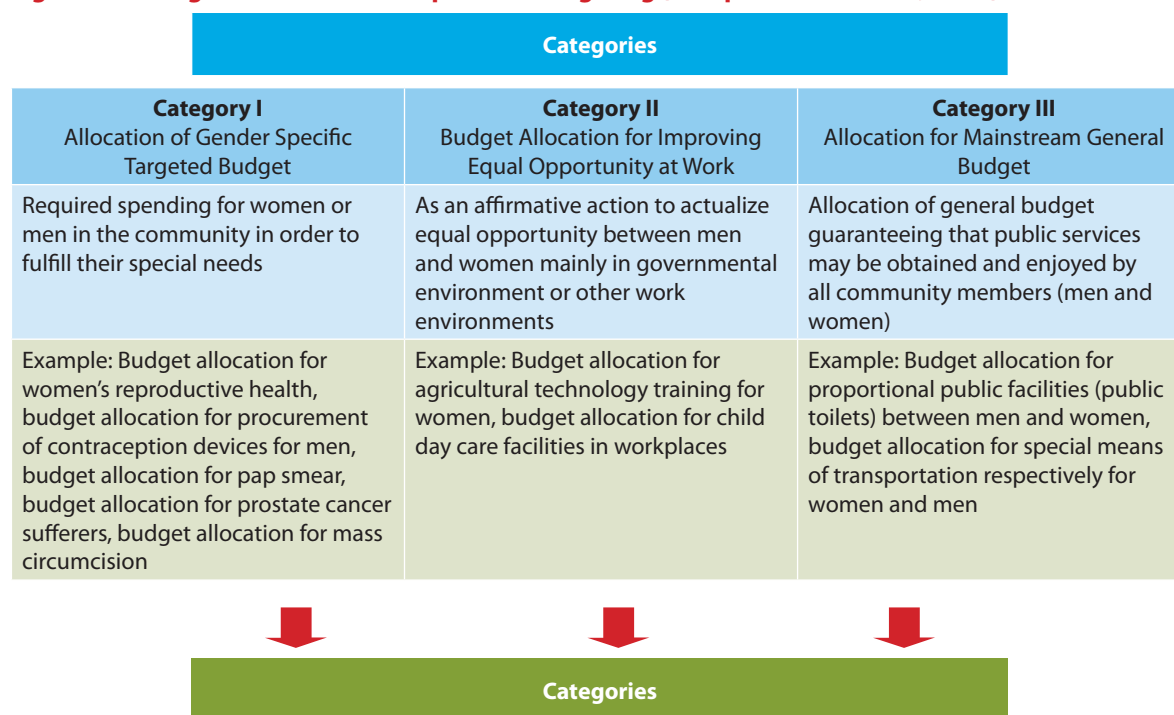
### Gender Responsive Budgeting in North Sulawesi Province

In North Sulawesi, gender responsive budgeting comprises:

**A special budget category for women and children,** namely: budget for the fulfillment of women's priority needs in public services (health, education, and community welfare); budget for health, education, and protection for girls and/or boys; budget for improvement in economic conditions of poor women; as well as funds for children disbursed to finance childcare in poor families.

**A budget allocation category for affirmative action for marginal groups,** namely: budget for marginal groups (such as: the poor, minority ethnicities, isolated ethnic groups, etc.); budget for government training programs prioritizing gender balance; budget for actualization of gender balance in public staffing sectors; budget for providing a legal umbrella to implement affirmative action or measures to actualize equal opportunity for men and women in public sectors.

**A gender mainstreaming budget allocation category,** namely: budget for gender mainstreaming programs; budget for gender analysis needs including generating disaggregated data; budget for gender training implementation and provision of modules on gender mainstreaming in each sector; budget for research and evaluation of program or project impacts on men and women.

**Figure 4.8 Categories of Gender Responsive Budgeting (Sharp and Budlender, 1985)**

**North Sulawesi allocated Rp. 19.3 billion or 2.2 percent of the total provincial budget to gender responsive budgeting in 2009.** This allocation constitutes a decrease from 2008, when Rp. 29.2 billion was made available. It is not known why the gender budget decreased in 2009, whether because of re-allocation or because the budget had been incorporated into other programs that were not detailed. Table 4.3 presents details of women's empowerment spending.

**Most of the women's empowerment budget is allocated to spending on women and children, in the amount of Rp. 17,548 million (91 percent).** Affirmative action for marginal groups and mainstreaming received budget allocations of Rp. 1,346 million (7 percent) and Rp. 416 million (2 percent) respectively. As a proportion of the total 2009 North Sulawesi provincial APBD, these allocations were very small. The special budget allocation for women and children was only 2 percent, affirmative action for marginal groups received 0.15 percent and 0.05 percent was allocated to gender mainstreaming.

**Table 4.3 Allocations Related to Women's Empowerment in North Sulawesi Provincial APBD, 2008-2009**

Program	Budget (Million Rp)	
	2008	2009
Women's empowerment	1,196	
Family Planning and Welfare	322	205
Harmonization of Policies on Children and Women Quality Improvement	40	95
Early Childhood Education	165	608
Enhancement of Institutional	707	347
Gender and Children Mainstreaming	1,188	68
Nine-year Compulsory Elementary Education	968	705
Guidance for Neglected Children	111	113
Improvement in the Quality of Life and Women Protection	359	115
Non-formal education	1,111	
Improvement in Participation and Gender Equality in Development	449	210
Guidance for Former Social Ills Sufferers (ex-prisoners, ex-prostitutes, ex-drug users, and other social ill)	373	334
- Provision of Counseling on the Dangers of Illegal Drugs for the Community		
Improvement in Handling Drug Use and Sexually Transmitted Diseases (STD) including HIV/AIDS	322	111
Education Service Management	3,262	
Education Quality Improvement	13,746	
Health Service Standardization	45	
Health Service for the Poor	455	
Development of Drinking Water and Waste Processing Performance	1,730	1,727
Secondary Education	1,345	5,896
Public Health Measures	83	4,386
Women's Empowerment Bureau	811	
Harmonization of Policies on Children and Women Quality Improvement	40	
Guidance for Neglected Children	111	
Guidance for Former Social Ills Sufferers (ex-prisoners, ex-Prostitutes, ex-drug users, and other social ill).	373	231
Women's Empowerment and Child Protection		1,214
Improvement in Youth Participation – Counseling for the Prevention of Drug Use among the Young Generation		213
Measures for the Prevention of Drug Abuse		651
Guidance for Orphanages/Senior Citizens' Homes		740
Improvement in Women's Roles in Rural Areas		47
Health Promotion and Community Empowerment		319
People's Nutrition Improvement		44

Program	Budget (Million Rp)	
	2008	2009
Development of Information Materials on Nurturing Children and Guidance on Children's Growth and Development		94
Twelve-year Compulsory Education		1,333
Fostering Art Skills, Talents, Creativity, and Achievement of Students		2,350
Children and Adolescent Support Center		200
<b>Total</b>	<b>29,213</b>	<b>19,309</b>

Source: Calculated from North Sulawesi Provincial and District/Municipality APBD (realized), 2008-2009

## 4.5 Conclusion and Recommendations

**Personnel expenditure continues to be very dominant.** Therefore, in the future it is necessary to perform: (1) reduction of the number of personnel through attrition, namely by recruiting fewer new personnel than the number of retiring personnel; (2) recruitment of highly-qualified personnel as well as the provision of proper training to improve productivity; and (3) personnel reallocation from areas with excessive number of personnel to the areas experiencing personnel shortage to prevent unnecessary recruitment.

**Sub-national governments allocate very little expenditure sectors in which North Sulawesi enjoys an advantage.** Only around 3 percent of funds are allocated to agriculture, 0.5 percent to tourism, and approximately 1 percent to the maritime and fisheries sector. Appropriate efficient programs are required, including developing the skills and work ethics of workers in those sectors, and providing adequate finance to enable these advantageous sectors to accelerate the achievement of community welfare. Measures are also required to promote a balance in expenditure trends between personnel spending and infrastructure spending. Health spending of only 8 percent needs to be increased, as health care costs increase and in accordance with the relatively high poverty and unemployment rates.

**The gender responsive budget in North Sulawesi remains very small.** A higher expenditure allocation is required to promote women's empowerment in North Sulawesi's economic development. Steps are needed to increase women's access to economic sectors to facilitate improvement to women's standard of living. Budget may be allocated to women's and children's empowerment as necessary. Adequate budget allocations are required to finance programs for victims of trafficking, rape victims, unwanted pregnancies and neglected children, including provision of legal aid. Budget allocations for the welfare of senior citizens need to be increased.

# Chapter 5

## Strategic Sector Analysis



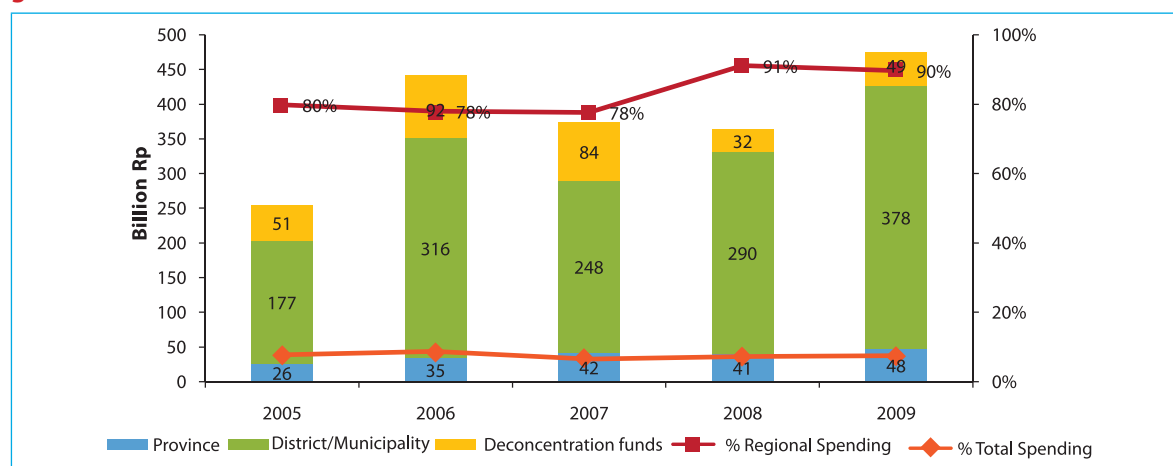
## 5.1 Health Sector

**North Sulawesi province aims to resolve a number of health problems, as set out in the 2005-2010 Regional Medium-Term Development Plan (RPJMD) of North Sulawesi Province.** These problems include: the degree of the disparity in health status between different societal groups; the low number, quality, utilization, and affordability of health facilities, infrastructure and services for poor/isolated community groups; the limited number of health workers; uneven distribution; community behavior to develop a culture of clean and healthy living based on local resources and sanitary conditions in residential and work environments.

### 5.1.1 Analysis of Health Sector Spending

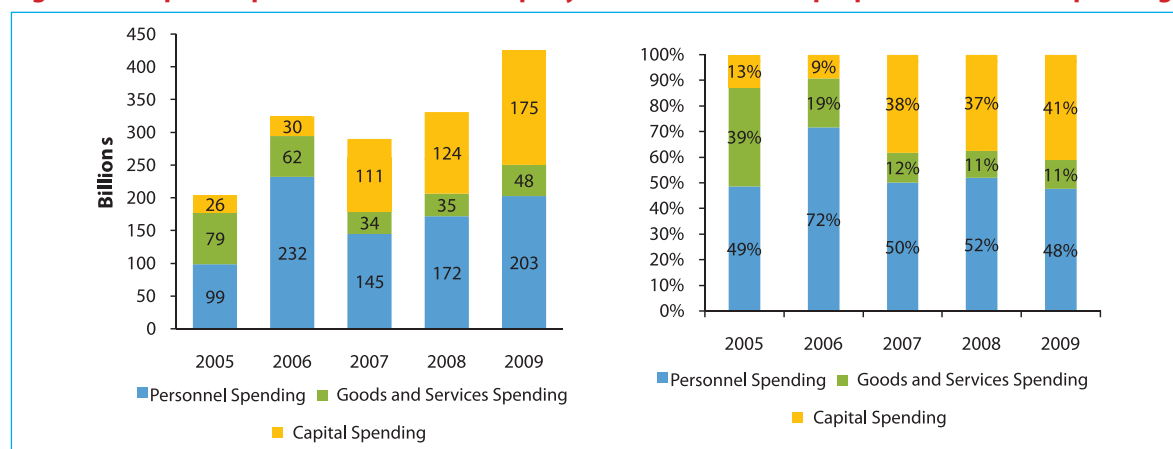
**North Sulawesi province's dependence on central government transfers for health expenditure is decreasing.** North Sulawesi's health expenditure has more than doubled from Rp. 203 billion in 2005 to Rp. 426 billion in 2009. The proportion of health expenditure derived from the sub-national budget (APBD) has increased rapidly to constitute 90 percent of total health spending in 2009. North Sulawesi's health expenditure has fluctuated, increasing by 60 percent in 2006 but then decreasing for the next three years before increasing again in 2009.

**Figure 5.1 North Sulawesi's health spending has increased while its dependence on central government transfers has decreased**



Source: North Sulawesi PEA Database, Sam Ratulangi University

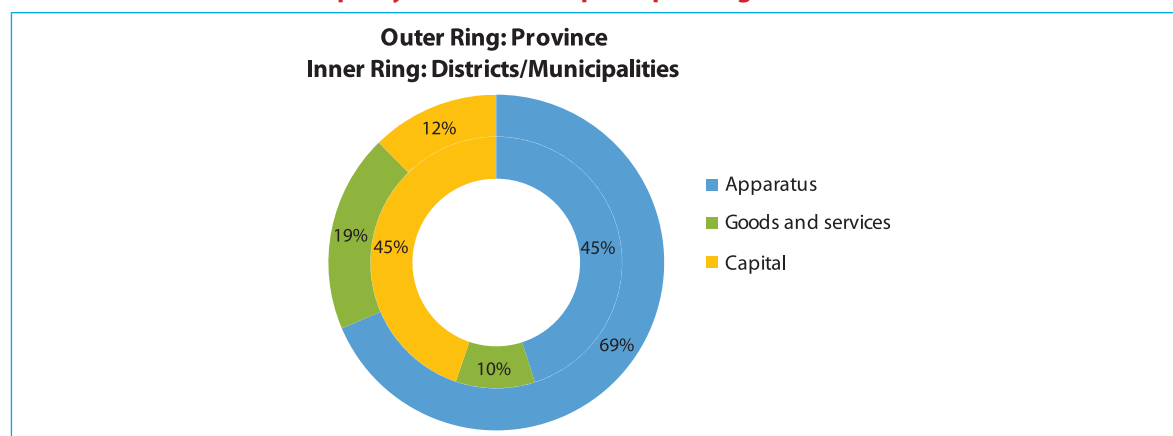
**A large degree of increased health expenditure derives from increases in personnel and capital expenditures.** Personnel spending increased in nominal terms from Rp. 99 billion in 2005 to Rp. 203 billion in 2009 (Figure 5.2). As a proportion of overall health expenditure, it remained relatively constant during this five-year period, however (48 percent). Over the same period, capital expenditure increased significantly from Rp. 26 billion to Rp. 175 billion, rising from 13 percent to 41 percent of health spending.

**Figure 5.2 Capital expenditure increased rapidly in amount and as a proportion of health spending**

Source: North Sulawesi PEA Database, Sam Ratulangi University

**The provincial government allocated the majority of its health spending to personnel spending, whereas district/municipality governments allocated a balanced proportion to personnel and capital expenditure.** The provincial government allocated almost 70 percent of spending to personnel, whereas allocations to goods and services and to capital expenditure were only 19 percent and 12 percent respectively. To provide a comparative example from a recent PEA study of another province, the composition of provincial health spending in Maluku was more balanced, with goods and services expenditure receiving the highest allocation of 44 percent.

At district/municipality level, capital expenditure and personnel spending were balanced. This pattern arises because districts and municipalities do indeed have greater responsibility to provide health facilities and infrastructures than does the provincial government. At this level, the expenditure composition of the comparative case in Maluku was similar case, with the PEA study in that province showing capital expenditure to receive a moderately high allocation (36 percent).

**Figure 5.3 The majority of provincial spending was allocated to personnel, whereas the highest allocation at district/municipality level was to capital spending**

Source: North Sulawesi PEA Database, Sam Ratulangi University



## 5.1.2 Health Sector Outputs and Outcomes

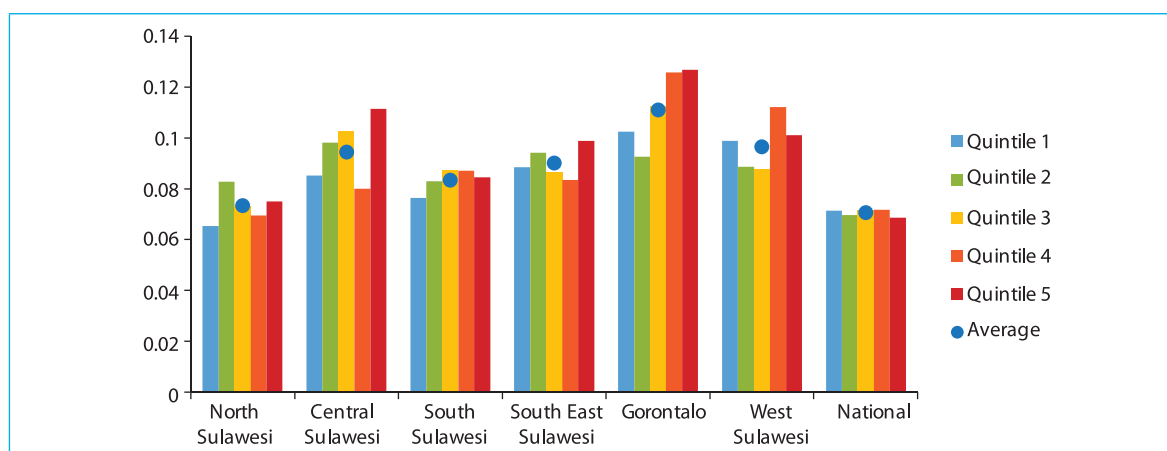
**Health quality in North Sulawesi province is better both than in other provinces in Sulawesi and the national average.** There are large disparities in the rate of childbirths assisted by medical practitioners between Sulawesi's various provinces. Professional medical workers handled 76 percent of births in North Sulawesi, whereas the lowest rate of 29 percent was observed in West Sulawesi. The North Sulawesi figure is also higher than in South Sulawesi and exceeds the national average. North Sulawesi's immunization coverage is also the highest in Sulawesi and better than the national average.

**Table 5.1 Basic Health Outcomes in Sulawesi**

Province	Infant Immunization Coverage (%)	Birth assisted by professional medical personnel (%)	Morbidity (%)
North Sulawesi	79	76	36
Central Sulawesi	73	46	38
South Sulawesi	76	59	32
South East Sulawesi	77	36	36
Gorontalo	75	37	48
West Sulawesi	68	29	38
Indonesia	77	65	34

**Public access to public health facilities in North Sulawesi is the lowest in Sulawesi.** In spite of the better health indicators, access to public health facilities in North Sulawesi was relatively low, only 7 percent or equal to the national average. Gorontalo on the other hand had the highest average in Sulawesi of 11 percent. This figure could indicate that many people in North Sulawesi choose to use private health facilities. Based on user numbers, low-income earners in North Sulawesi had the greatest access to public health facilities.

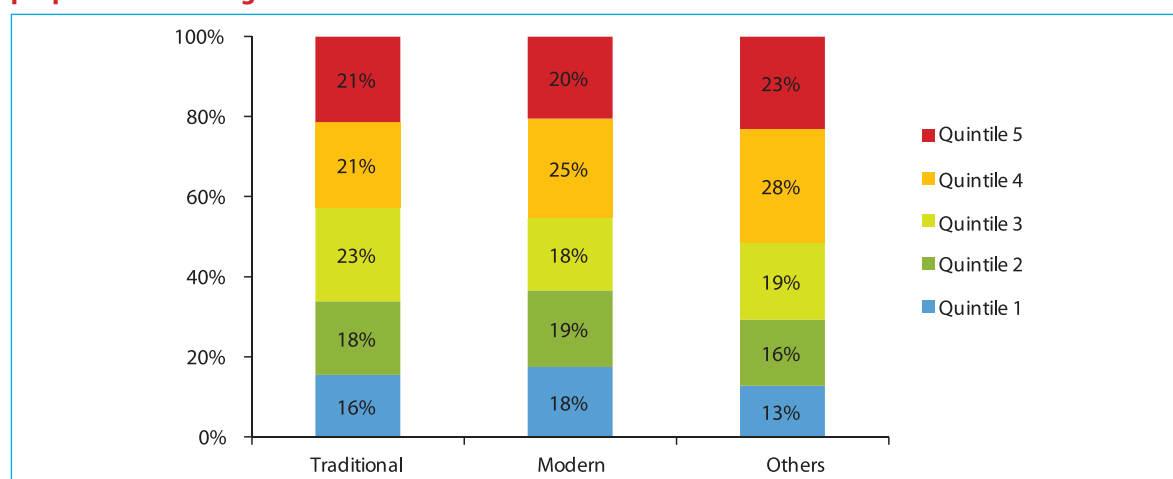
**Figure 5.4 The number of people in North Sulawesi using public health facilities was the lowest in Sulawesi**



Source: World Bank Estimation from National Socioeconomic Survey 2009

**Low-income earners in North Sulawesi preferred modern medical methods to other methods.** Among low-income earners (quintile 1 and quintile 2), 37 percent chose modern medical treatments, 34 percent chose traditional medication and 29 percent chose other treatments. Higher-income earners (quintile 4 and quintile 5) made up the majority of those choosing other treatments, at 51 percent.

**Figure 5.5 The proportion of low-income earners choosing modern medication exceeded the proportion choosing other treatments**

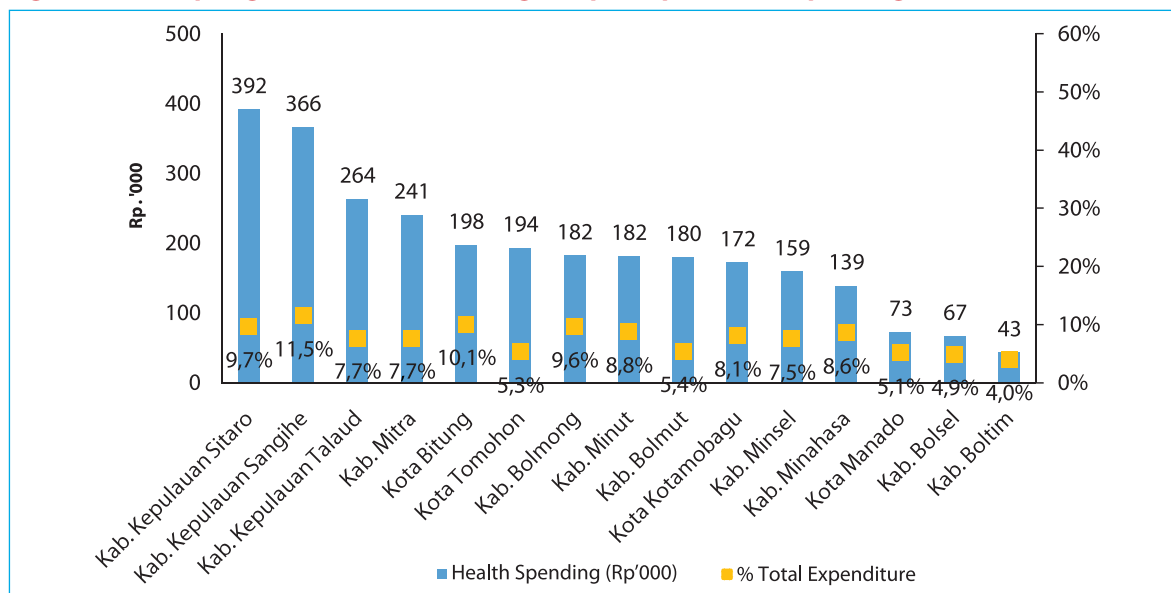


Source: World Bank Estimation from National Socioeconomic Survey 2009

### 5.1.3 District/Municipality Analysis in North Sulawesi

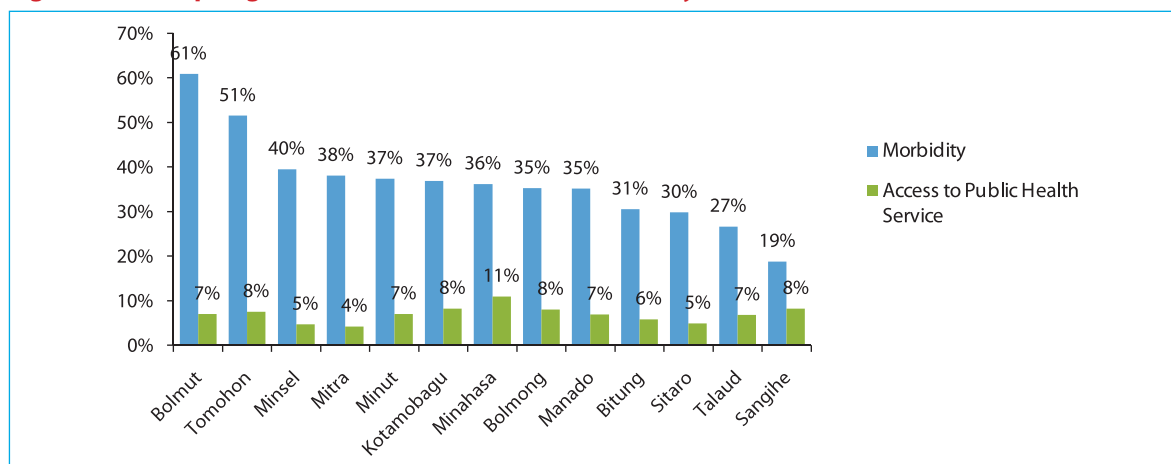
**Archipelagic districts dominate the list of largest health spenders in North Sulawesi.** In 2009, Sitaro district had the highest per capita health spending of Rp. 392,000, followed by Sangihe district. Nevertheless, Sangihe District spent the highest proportion on health at of 11.5 percent of total expenditure. Manado municipality, Bolaang Mongondow Selatan and Bolaang Mongondow Timur districts had the lowest per capita health spending in North Sulawesi.

**Districts with the highest health spending have the lowest morbidity.** Archipelagic districts such as Sangihe, Talaud and Sitaro with the highest per capita health spending have the lowest morbidity in North Sulawesi. Access to health facilities in Sangihe District is also the highest (8 percent). North Sulawesi Provincial Health Office data suggests that the highest mother mortality rate in North Sulawesi in 2009 was in Bolaang Mongondow District with 16 deaths/1000 live births, whereas in several districts the figure was below 5 deaths/1000 live births.

**Figure 5.6 Archipelagic districts have the highest per capita health spending**

Source: North Sulawesi PEA Database, Sam Ratulangi University

**Newly formed districts tend to have low per capita health spending.** The four most recently formed districts were divided from Bolaang Mongondow district – Bolaang Mongondow Utara, Selatan, and Timur – along with Minahasa Tenggara. Minahasa Tenggara is the exception to this trend, since its health spending was the fourth largest in North Sulawesi. Newly formed districts tended to spend much of their budget on governmental administration or on capital expenditure to construct government offices or buildings.

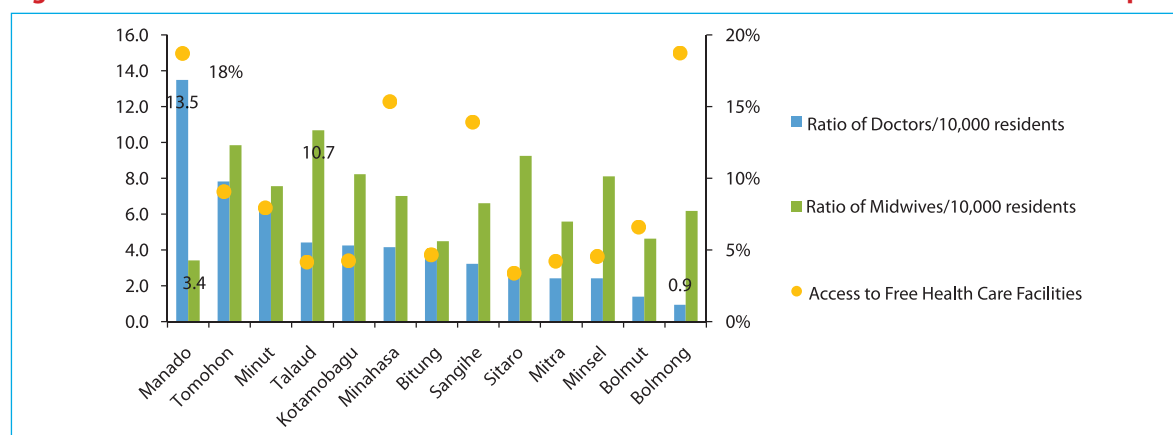
**Figure 5.7 Archipelagic districts have the lowest morbidity in North Sulawesi**

Source: World Bank Estimation from National Socioeconomic Survey 2009

**Inequalities remain in the availability of health workers in North Sulawesi province, with availability generally better in urban areas.** These inequalities were most evident in the ratio of doctors per 10,000 residents, for which disparities were larger than for the ratio of midwives per 10,000 residents. Manado municipality (13.5) and Tomohon municipality (7.8) registered the highest ratio of doctors. Tomohon also had a relatively high ratio of midwives for North Sulawesi, at 9.9 per 10,000 residents. Kepulauan Talaud district performed best for availability of midwives in North Sulawesi (10.7 per 10,000 residents), whereas its ratio of doctors was the fourth highest (4.4 per 10,000 residents). Talaud also performed well in having the third highest per capita health spending and the second lowest morbidity in North Sulawesi.

**The availability of health workers does not correlate directly with access to free health care, however.** Manado municipality and Bolaang Mongondow district had the highest access to free health care (18 percent), although Bolaang Mongondow had the lowest ratio of doctors in North Sulawesi. Access to free health care was influenced more by the availability of facilities such as community health centers (*Puskesmas*) and Integrated Health Service Outlets (*Posyandu*). Bolaang Mongondow district had the largest number of community health centers (21 units) and integrated health service outlets (251 units) in North Sulawesi.

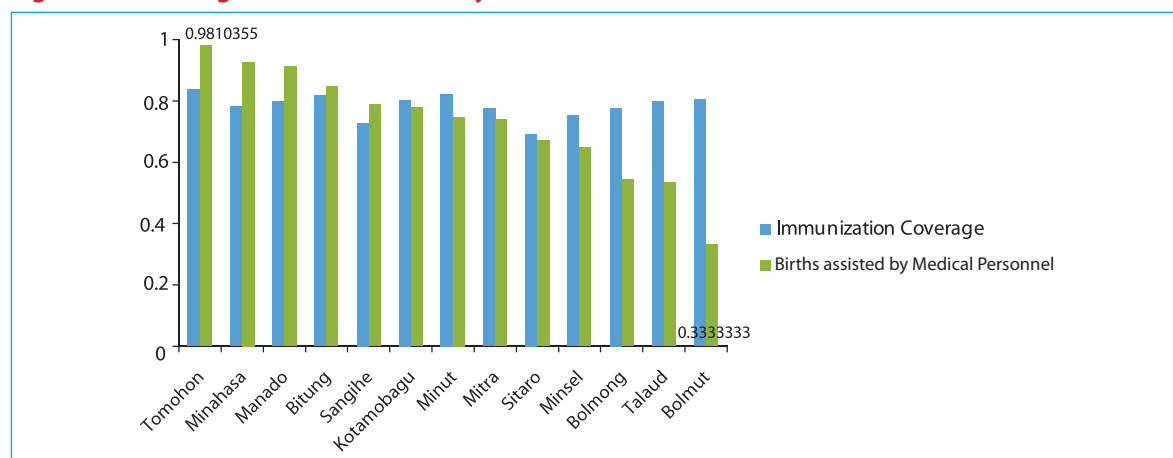
**Figure 5.8 Patterns of access to free health care facilities and ratio of health workers do not correspond**



Source: World Bank and North Sulawesi PEA team Estimation from 2008 Village Potential Statistics

**Immunization coverage in North Sulawesi is relatively even, whereas there are disparities in the proportion of childbirths assisted by professional medical workers.** Bolaang Mongondow Utara district had the lowest rate of childbirths assisted by medical workers (33 percent). Bolaang Mongondow Utara district also had the highest morbidity, while its ratio of health workers and access to free health care facilities were the lowest in North Sulawesi (Figure 5.7 and 5.8 above).

**The relation between outputs (ratio of doctors and midwives per 10,000 residents) and outcomes (immunization coverage and births assisted by medical workers) varies.** In urban areas, outputs and outcomes were relatively even, but in districts with larger territory such as the archipelagic districts, health sector outcomes varied. Sitaro district had a high ratio of midwives and a very low ratio of doctors, resulting in low immunization coverage but better results for births assisted by medical workers. Talaud had the lowest rate of births assisted by medical workers, even though it had the highest ratio of midwives in North Sulawesi. These variations arise because limited transportation and geographical location impede even distribution of and access to medical personnel in archipelagic districts.

**Figure 5.9 Coverage of births assisted by medical workers is better in urban areas**

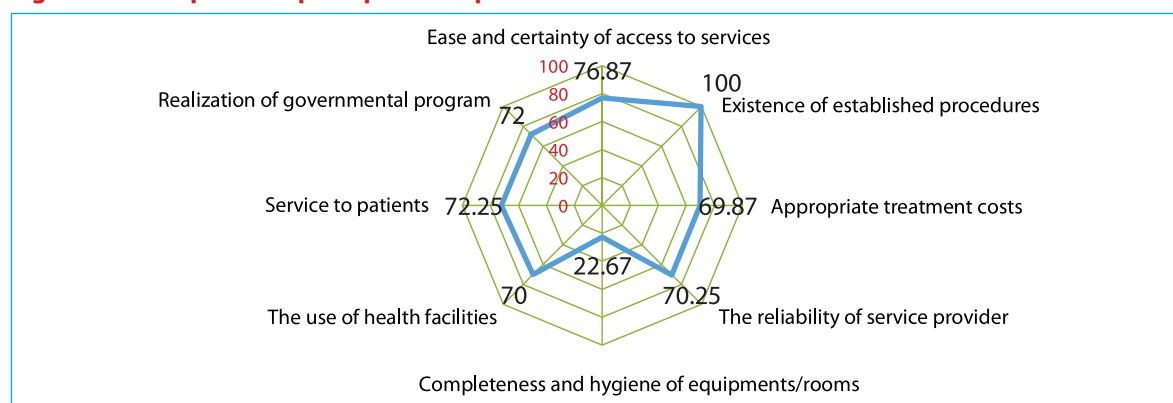
Source: World Bank Estimation from National Socioeconomic Survey 2009

### 5.1.4 Public Response to Health Services

The North Sulawesi PEA research team conducted a survey to assess public perceptions of public services in certain sectors. This survey was conducted by interviewing respondents from all districts/municipalities in North Sulawesi.

Eight health service indicators were employed to evaluate the response to public services in the health sector: ease and certainty of access to services, established service procedures, appropriate costs for treatment, reliability and professionalism, hygiene and completeness of instruments/rooms, health facility utilization, service to patients, and an evaluation of the delivery of government programs.

Of these eight indicators, the service procedures indicator obtained the best public perception score. By contrast, the public judged the hygiene and completeness of health instruments and rooms to be an area of health service provision requiring improvement.

**Figure 5.10 Respondent perceptions of public health services in North Sulawesi**

Source: North Sulawesi PEA Database, Sam Ratulangi University

### 5.1.5 Conclusion and Recommendations

**Health indicators in North Sulawesi are generally better than in its neighboring provinces in Sulawesi and than the national average.** The distribution of health services and outcomes between districts/municipalities requires attention, however. All districts require sufficient medical personnel who are able to access and be accessed by the community.

**Health expenditure mostly accounts for less than 10 percent of total expenditure (both provincial and district/municipality level).** Most provincial level health spending is allocated to personnel spending. At district/municipality level, personnel spending and capital expenditure dominate in equal measure (49 percent). Archipelagic districts have higher per capita health spending than other areas in North Sulawesi province. Both the provincial and district/municipality governments need to increase the proportion of total expenditure that they allocate to health expenditure. This is important to increase the allocation of community-oriented public expenditure.

**The correlation between outputs (ratio of doctors and midwives per 10,000 residents) and outcomes (immunization coverage and birth assisted by medical workers) varies.** In urban areas, outputs and outcomes were relatively even, but in districts with larger territory such as the archipelagic districts, health sector outcomes varied. These variations arise because limited transportation and geographical location impede even distribution of and access to medical personnel in archipelagic districts. Archipelagic districts merit special attention in terms of access and mobility of health workers. Public perceptions of public health service in North Sulawesi are relatively positive, but providers need to improve the standard and hygiene of their equipment and facilities.

## 5.2 Education Sector

**The Government of North Sulawesi Province guarantees that all children will have the same access to quality education.** The 2005-2010 North Sulawesi National Education Service Office strategic plan provides guidelines to accelerate the achievement of development targets, namely: expansion and even distribution of quality education to guarantee that by 2015, all children will have equal access and can complete free, quality, compulsory primary education, including girls, disadvantaged children, and ethnic minorities (Framework of basic actions to achieve education for all).

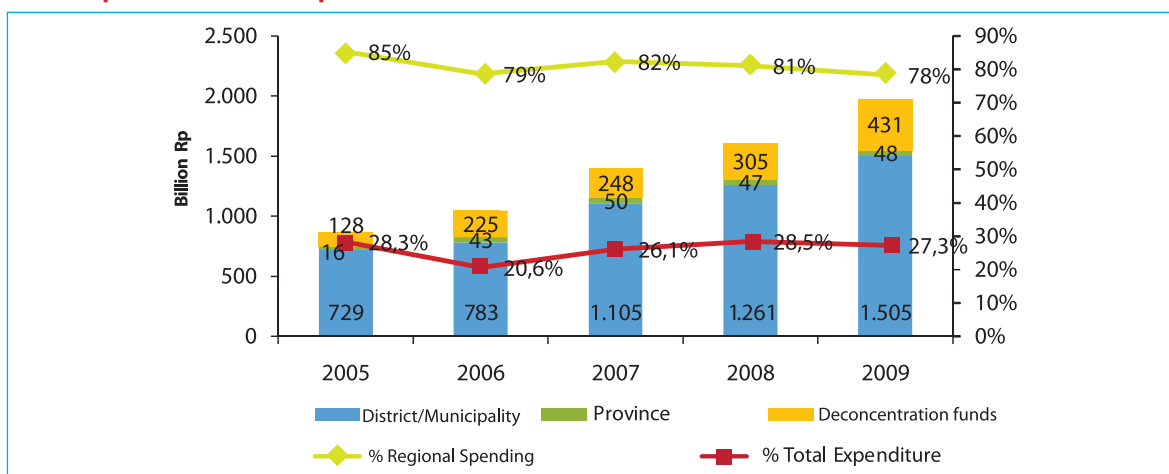
### 5.2.1 Education Expenditure

**Education spending in North Sulawesi exceeded 20 percent each year, and has more than doubled in five years.** Unlike health expenditure, which fluctuated, education expenditure continually increased. 2007 saw the highest growth of 40 percent from the previous year.

**The proportion of education spending derived from central government transfers has increased.** This trend is evident in the almost fourfold increase in deconcentration funds for education from Rp. 128 billion in 2005 to Rp. 431 billion in 2009. Over the same period, the proportion of education spending derived from the sub-national budget (APBD) declined from 85 percent to 78 percent. Sub-national governments are responsible for primary and secondary education, whereas the central government is responsible for higher education, which it finances through deconcentration funds. The increase in deconcentration funds could also be interpreted as a sign of the increasing role of the central government in providing higher education services in North Sulawesi.



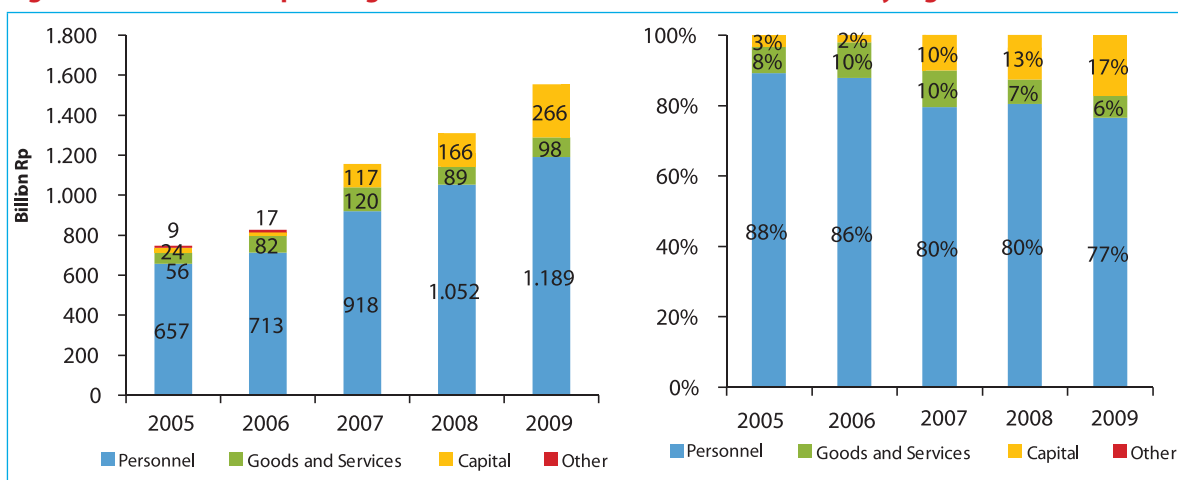
**Figure 5.11 Education spending in North Sulawesi has constantly increased, and constitutes more than 20 percent of total expenditure**



Source: North Sulawesi PEA Database, Sam Ratulangi University

**Personnel spending in the education sector is very high.** Personnel spending almost doubled between 2005 and 2009 from Rp. 657 billion to Rp. 1.2 trillion, although it decreased as proportion of total expenditure from 88 percent to 77 percent over the same period. This figure remains high. As a comparison, the Maluku PEA study found the proportion spent on personnel in that province in 2009 to be 69 percent. The decrease in the proportion of expenditure allocated to personnel was balanced out by an increased allocation to capital expenditure, which rose sharply from 3 percent to 17 percent of overall expenditure.

**Figure 5.12 Personnel spending in North Sulawesi's education sector is very high**

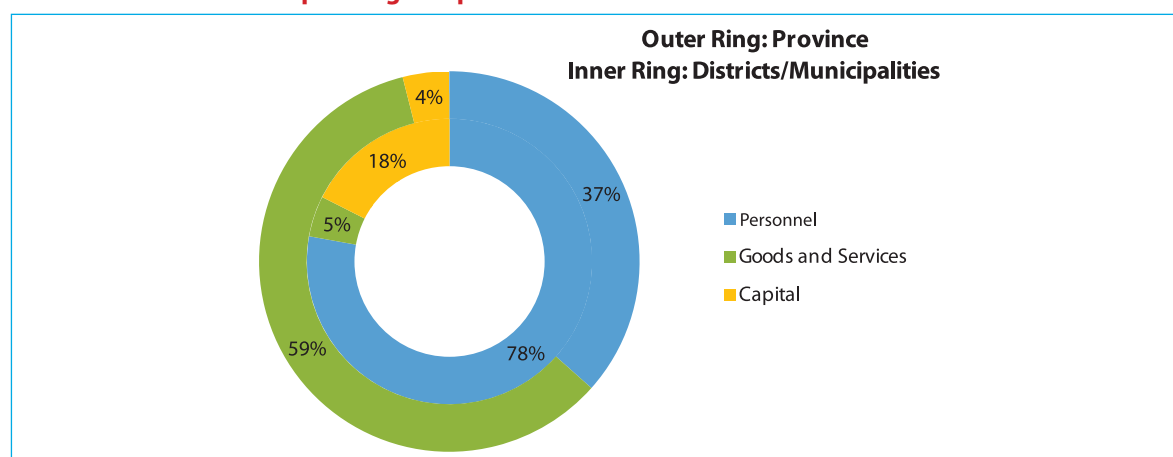


Source: North Sulawesi PEA Database, Sam Ratulangi University

**The provincial government allocates the largest share of education spending to goods and services, whereas district/municipality governments allocate the greatest amount of education spending to personnel expenditure.** The large allocation to personnel spending arises because of the need to pay the salaries of elementary school and junior high school teachers in each district/municipality. There were significant differences in goods and services spending between the provincial government and district/municipality governments. The provincial government allocated 59 percent of education spending to good and services, whereas districts/municipalities altogether allocated 5 percent. Personnel spending also differed, with the provincial government allocating 37 percent and district/municipality governments 78 percent.

PEA studies in other provinces have revealed a similar pattern, for instance in Maluku, Nusa Tenggara Barat and Gorontalo.

**Figure 5.13 The role distribution between the province and districts/municipalities in education is reflected in each level's spending composition**

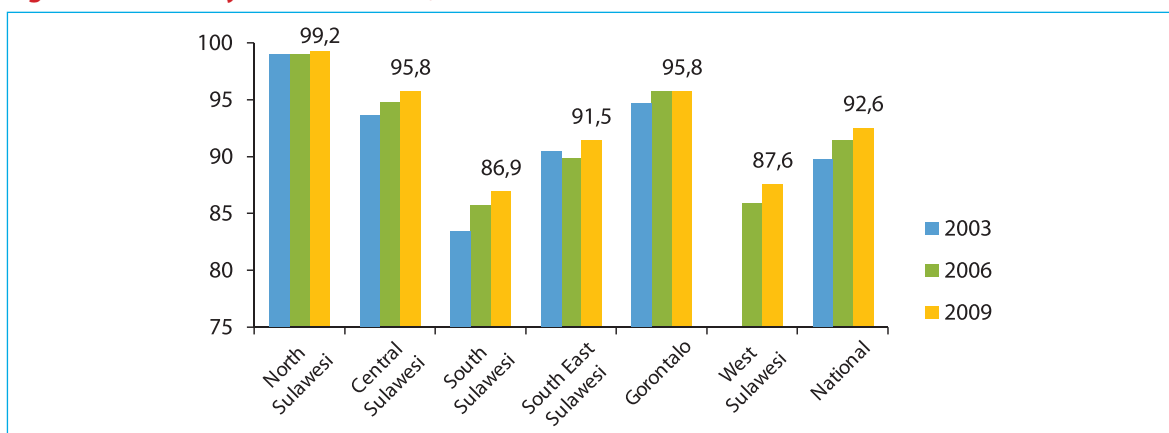


Source: North Sulawesi PEA Database, Sam Ratulangi University

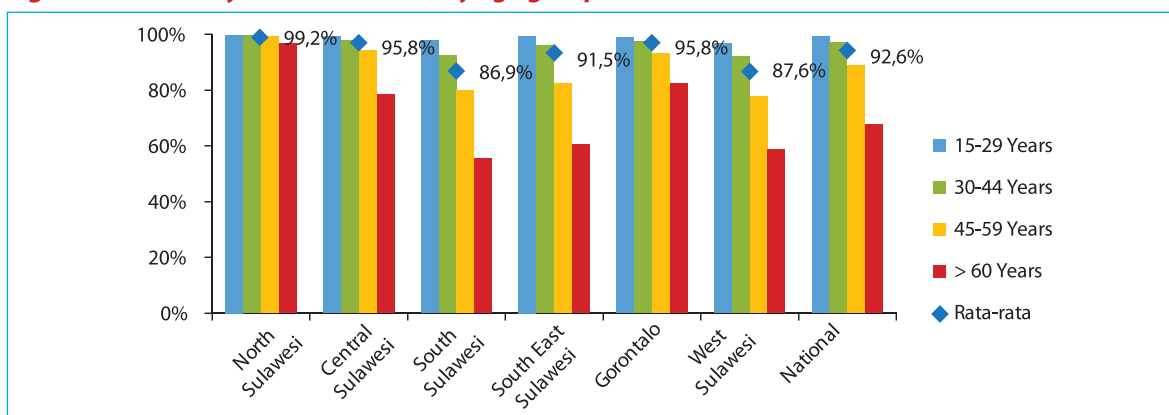
## 5.2.2 Education Sector Outputs and Outcomes

**North Sulawesi has excellent education achievements in Indonesia.** North Sulawesi's literacy rate is generally always the highest in Indonesia, well above that of neighboring provinces and the national average. Maluku and the Jakarta Special Capital City Region are other Indonesian provinces to have relatively high literacy rates, of 97.4 percent and 98.9 percent respectively in 2009 compared to 99.2 in North Sulawesi.

**Literacy in North Sulawesi is also more evenly distributed between age groups.** There is relatively little difference between productive age (15-60 years old) residents and non-productive age (over the age of 60) residents (Figure 5.15). In other provinces, the literacy rate for over 60 year-olds is much lower, for instance in South Sulawesi (55.6 percent) and West Sulawesi (58.6 percent). South Sulawesi province also has the largest disparity between productive age and non-productive age literacy of any province in Sulawesi.

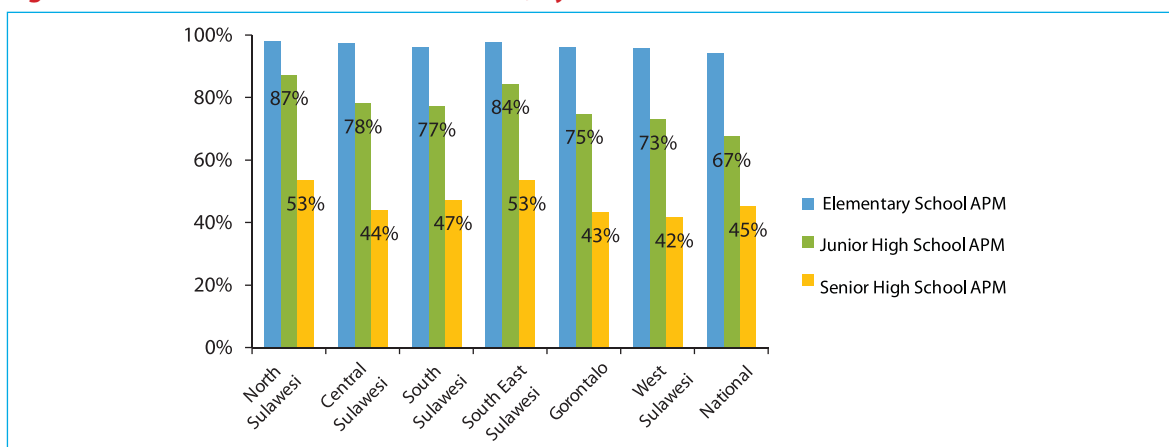
**Figure 5.14 Literacy rate in Sulawesi, 2003-2009**

Source: World Bank and North Sulawesi PEA Team Estimation from National Socioeconomic Survey 2009

**Figure 5.15 Literacy rate in Sulawesi, by age group**

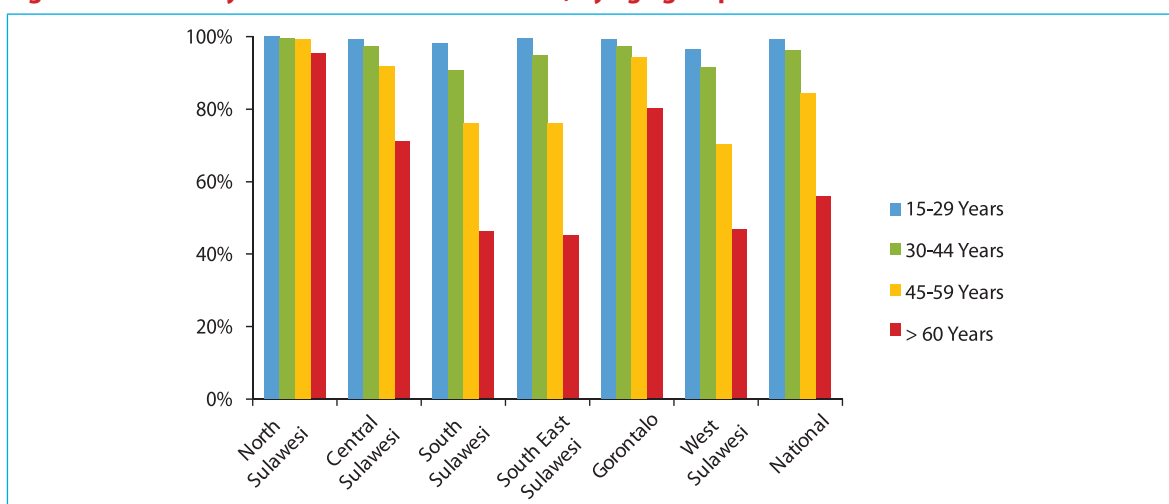
Source: World Bank Estimation from National Socioeconomic Survey 2009

**North Sulawesi's net enrollment rate for each education level exceeds the national average as well as the rate in other provinces in Sulawesi.** The primary education level net enrollment rate in Sulawesi is relatively even across provinces, but North Sulawesi has the highest rate at secondary level. These figures indicate more equally access to education in North Sulawesi at every level. Enrollment rates at primary level (97.9 percent) and junior high level (87.2 percent) are not dissimilar, showing that government efforts in North Sulawesi to implement nine-year compulsory education are close to on target.

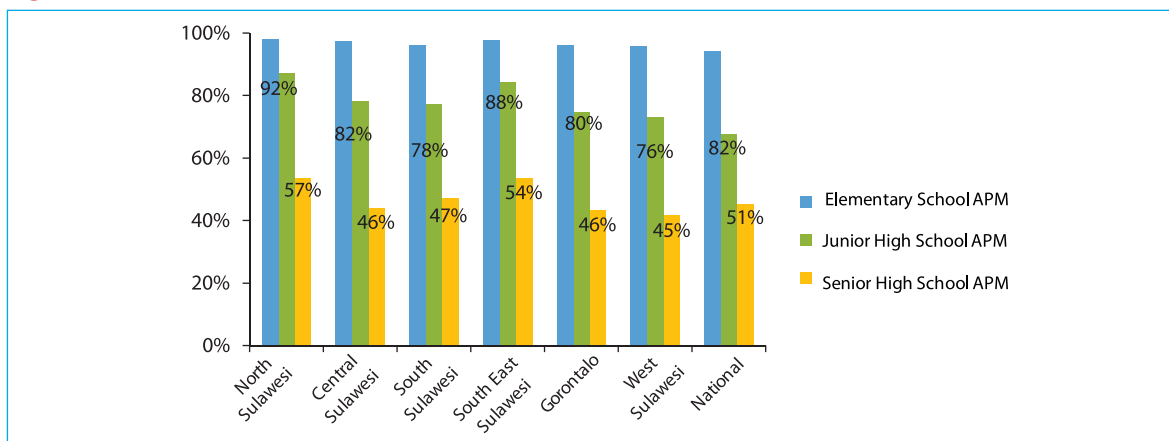
**Figure 5.16 Net enrollment rates in Sulawesi, by education level**

Source: World Bank and North Sulawesi PEA Team Estimation of National Socioeconomic Survey 2009

**Women in North Sulawesi have better education on average than women in neighboring provinces.** There is no literacy rate gap for different age groups of women in North Sulawesi. Net enrollment rates for all education levels in North Sulawesi are also the highest in Sulawesi.

**Figure 5.17 Literacy rates of women in Sulawesi, by age group**

Source: World Bank Estimation from National Socioeconomic Survey 2009

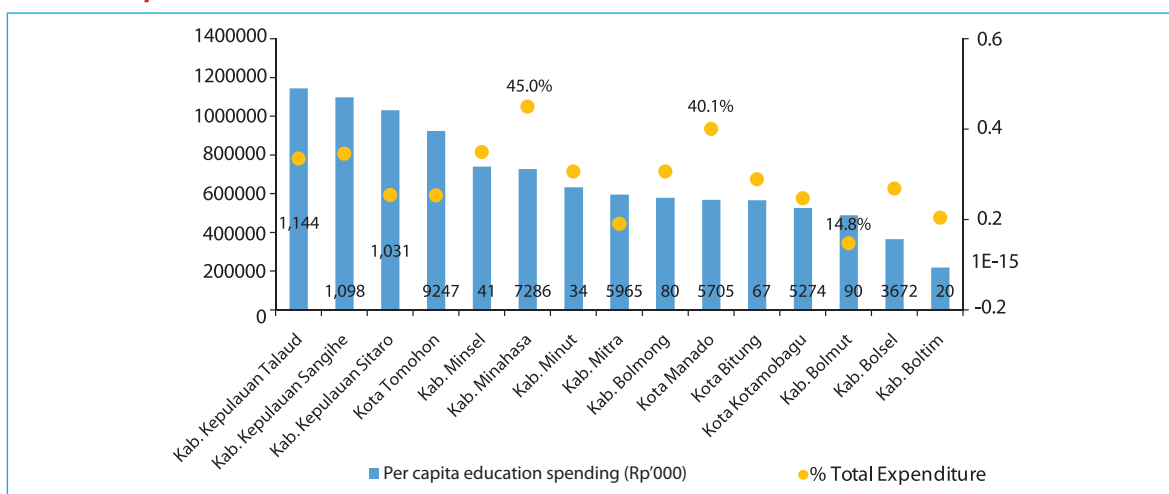
**Figure 5.18 Net enrollment rates of women in Sulawesi**

Source: World Bank Estimation from National Socioeconomic Survey 2009

### 5.2.3 District/Municipality Analysis in North Sulawesi

**As with health spending, archipelagic districts dominate the list of high per capita education spenders in North Sulawesi.** The same districts as for health also have the lowest per capita education spending, namely Bolaang Mongondow Utara, Bolaang Mongondow Selatan and Bolaang Mongondow Timur. The three districts were newly established in 2008. Each district newly divided from Bolaang Mongondow District has low education and health spending, although Minahasa Tenggara is another district formed around the same time that does not conform to this trend.

**District/municipality governments in North Sulawesi allocate a high proportion of expenditure to education.** In most districts/municipalities in North Sulawesi, allocations to education exceeded 30 percent of total expenditure in 2009. Minahasa allocated the highest proportion at 45 percent, whereas Bolaang Mongondow Utara allocated the lowest proportion at only 15 percent. New districts usually allocate their spending to construction of new government offices and buildings, resulting in lower allocations of spending for basic services.

**Figure 5.19 As with health expenditure, archipelagic districts dominate the list of the largest education spenders in North Sulawesi**

Source: North Sulawesi PEA Database, Sam Ratulangi University

Compared to other provinces, districts/municipalities in North Sulawesi allocate a high proportion of expenditure to education. In Maluku province, for example, which also has excellent education indicators among Indonesian provinces, Ambon municipality spends 40 percent on education and Maluku Tengah District spends 38 percent, but most other districts allocate less than 20 percent. These figures suggest that improved education achievements in North Sulawesi are evenly distributed, whereas Maluku's overall scores are likely boosted by outcomes in Ambon municipality. North Sulawesi's even education outcomes are evident in the literacy rates of different age groups (Table 5.2). A small difference is evident only for over 60 year-olds, which is understandable given that previous generation did not necessarily have the access to education available today.

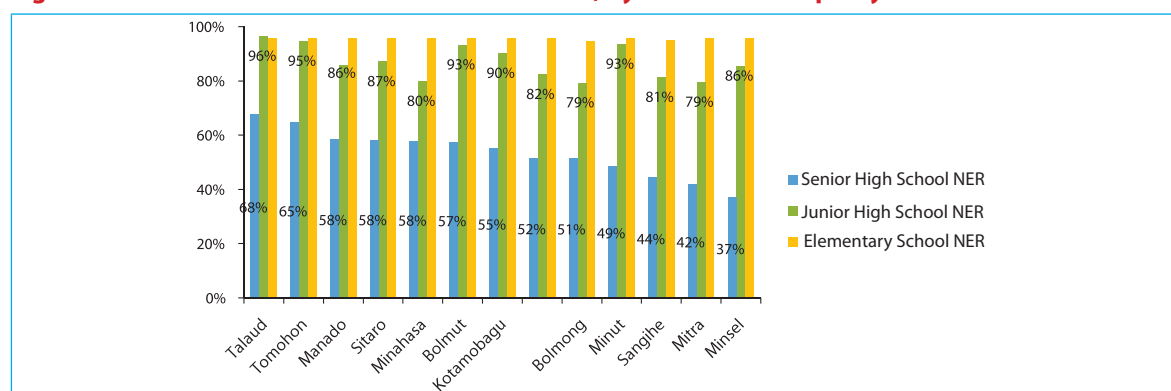
**Table 5.2 Literacy rate in North Sulawesi, by district/municipality and age group**

Age	15-29 years		30-44 years		45-59 years		60 years ke atas	
	Male	Female	Male	Female	Male	Female	Male	Female
Bolmong	99.4%	99.6%	99.3%	99.3%	99.6%	97.2%	93.9%	82.9%
Minahasa	100.0%	100.0%	99.5%	99.7%	100.0%	100.0%	100.0%	97.9%
Sangihe	100.0%	100.0%	99.7%	100.0%	98.7%	98.4%	93.8%	90.9%
Talaud	100.0%	100.0%	99.3%	100.0%	98.5%	98.3%	99.0%	98.4%
Minsel	99.6%	100.0%	99.7%	100.0%	99.1%	99.5%	97.3%	97.6%
Minut	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	97.6%	95.8%
Bolmut	98.3%	100.0%	99.0%	98.5%	98.1%	95.4%	93.8%	91.2%
Sitaro	100.0%	100.0%	100.0%	100.0%	100.0%	99.4%	96.5%	95.3%
Mitra	100.0%	100.0%	100.0%	99.5%	98.7%	100.0%	100.0%	98.4%
Manado	100.0%	100.0%	100.0%	99.6%	99.0%	99.5%	100.0%	96.7%
Bitung	99.5%	100.0%	99.9%	98.1%	100.0%	99.9%	100.0%	97.6%
Tomohon	99.0%	99.8%	99.2%	99.3%	99.4%	99.5%	100.0%	99.1%
Kotamobagu	98.7%	100.0%	100.0%	99.6%	100.0%	99.5%	100.0%	98.6%

Source: World Bank Estimation from National Socioeconomic Survey 2009

**Net enrollment rates for primary education in North Sulawesi are evenly distributed, but inequalities remain for upper secondary education.** Kepulauan Talaud has the highest net enrollment rate at senior high school level in North Sulawesi (67.5 percent), followed by Tomohon municipality (64.7 percent). This figure reflects Talaud's commitment to education, evident in its budget allocation. The small difference in Talaud between primary and junior high school enrollment rates shows that the district has more or less fulfilled the nine-year compulsory education target.

**Figure 5.20 Net enrollment rate in North Sulawesi, by district/municipality**



Source: World Bank Estimation from National Socioeconomic Survey 2009



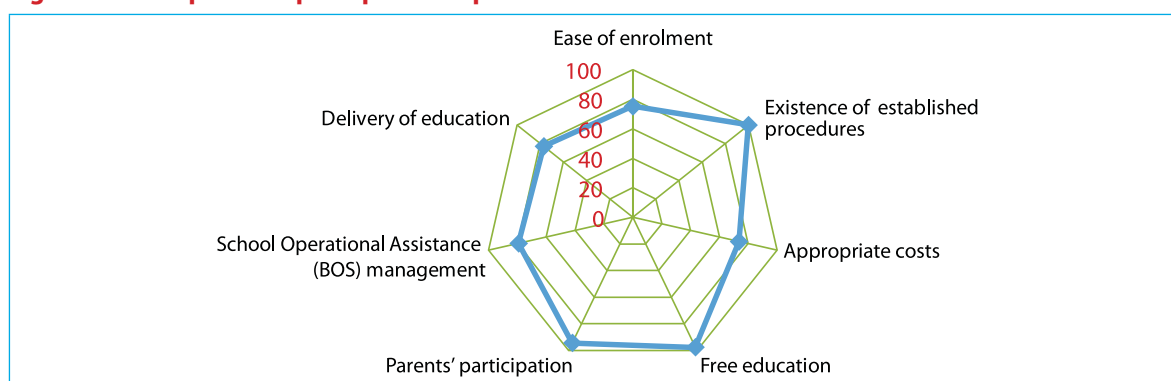
### 5.2.4 Public Response to Education Services

The North Sulawesi PEA research team conducted a survey to assess public perceptions of public services in certain sectors. This survey was conducted by interviewing respondents from all districts/municipalities in North Sulawesi.

Seven education service indicators were employed to evaluate the response to public services provided by North Sulawesi's district/municipality governments in the education sector: ease of enrollment, established service procedures, appropriate costs, free-of-cost education, parents' participation, School Operational Assistance (BOS) management, and delivery of education.

**Community perceptions of education services in North Sulawesi are relatively positive.** The survey showed people in North Sulawesi to be relatively satisfied with the free education provided by the government. Respondents also observed parents' participation and established procedures for education services to be relatively good.

**Figure 5.21 Respondent perceptions of public education services in North Sulawesi**



Source: North Sulawesi PEA Database, Sam Ratulangi University

### 5.2.5 Conclusion and Recommendations

**The quality of education outcomes in North Sulawesi is the highest in Indonesia,** as shown by education indicators such as net enrollment rate and literacy rate. Education outcomes are also relatively even across every district/municipality in North Sulawesi. Further recommended steps are to improve the quality of education or graduates to support job creation and reduce unemployment.

**Disparities in education indicators in North Sulawesi are relatively small, both between districts/municipalities, age groups, and sexes.** The equal distribution of access to education in archipelagic districts, in terms of getting students to school and mobilizing teachers, requires attention.

**Education sector spending in North Sulawesi increased more than twofold in five years and its proportional allocation is generally always above 20 percent.** This overall increase was matched by an increase of personnel spending, which also doubled. Almost all districts and municipalities spend more than 20 percent on education, and two districts spend 40 percent. The proportion of education expenditure spent on personnel is higher than several other regions where PEA studies have been conducted, and requires reduction.

**Education expenditure in North Sulawesi is increasingly dependent on central government transfers, as evident in increasing educational sector deconcentration funds each year.** This increase of education deconcentration funds means the central government is playing an increasingly strong role in providing higher education in North Sulawesi. A recommendation is for universities in North Sulawesi to improve their quality and self-reliance to reduce central government transfers, for instance through producing academic outputs such as research and training.

## 5.3 Infrastructure Expenditure

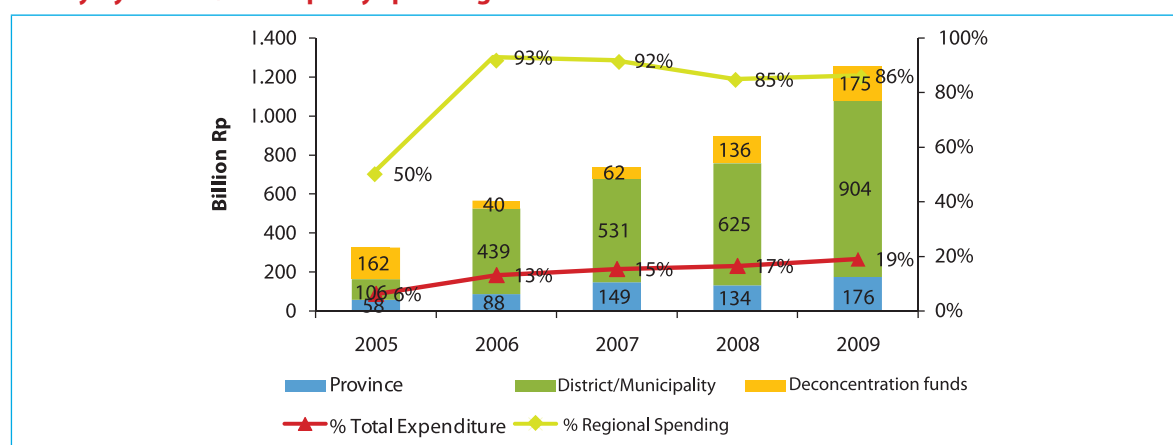
The strategic location of North Sulawesi Province at the edge of the Pacific should be utilized to support its role in trade and distribution of goods and services. One of the essential requirements to achieve those goals is the provision of quality infrastructure.

### 5.3.1 Infrastructure Spending

**Infrastructure spending increased fourfold between 2005 and 2009.** District/municipality spending increased quite significantly in 2006 and 2009 due to the formation of new districts in those years. The formation of new districts also encouraged the allocation of an increased proportion of expenditure to infrastructure in North Sulawesi, from 6 percent in 2005 to 19 percent in 2009. If the formation of new districts did cause the increase in infrastructure spending, however, it should be noted that this high infrastructure spending was probably allocated mostly to build government offices and facilities.

As district/municipality level spending has increased, dependence on central government transfers has decreased. Half of infrastructure spending in 2005 derived from central government transfers of deconcentration funds. By 2009, this proportion had declined markedly to only 14 percent.

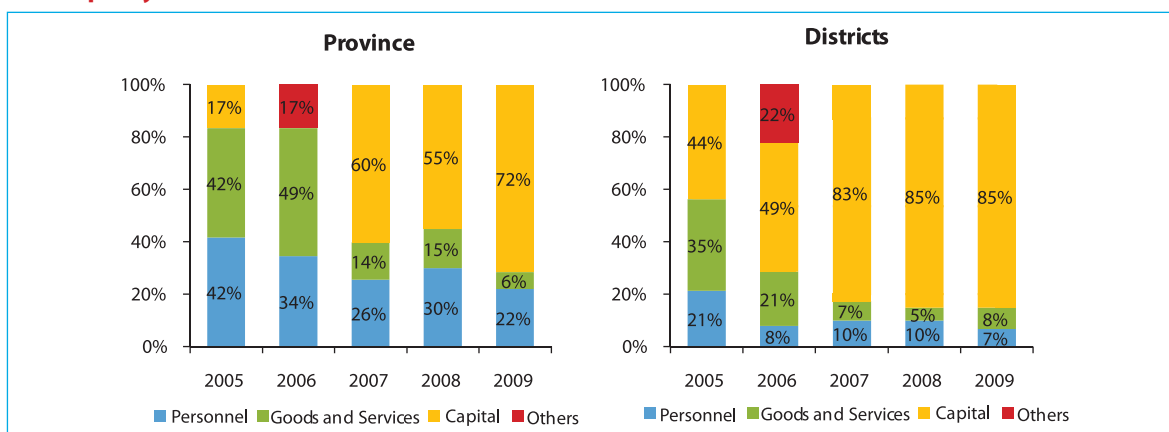
**Figure 5.22 Infrastructure spending in North Sulawesi has increased fourfold in five years, driven mainly by district/municipality spending**



Source: North Sulawesi PEA Database, Sam Ratulangi University

**Personnel spending is decreasing as a proportion of infrastructure expenditure.** At provincial level, the proportion of spending on personnel decreased from 42 percent to 22 percent between 2005 and 2009, whereas at district level it decreased from 21 percent to only 7 percent. On the other hand, there was a very large increase in the proportion of capital spending especially after 2007. This increase resulted from a spike in infrastructure projects to prepare for the 2009 World Ocean Conference.

**Figure 5.23 The share of spending on personnel has decreased at both provincial and district/ municipality level**

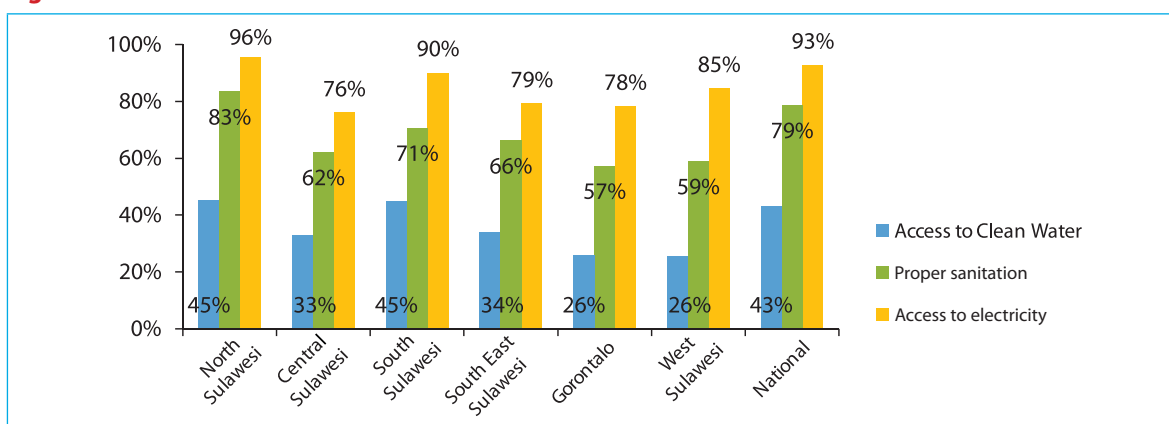


Source: North Sulawesi PEA Database, Sam Ratulangi University

### 5.3.2 Infrastructure Sector Outputs and Outcomes

**Access to basic infrastructure in North Sulawesi is generally the best in Sulawesi.** The 2009 National Socio-Economic Survey reveals coverage of the three categories of basic infrastructure in North Sulawesi to be higher than in other provinces in Sulawesi. The two most-recently formed provinces in Sulawesi – West Sulawesi and Gorontalo - had lower levels of access to sanitation and clean water, as they had previously been relatively underdeveloped areas. The coverage of electricity supply and distribution is determined predominantly by central government policy.

**Figure 5.24 Basic Infrastructure Outcomes in Sulawesi**

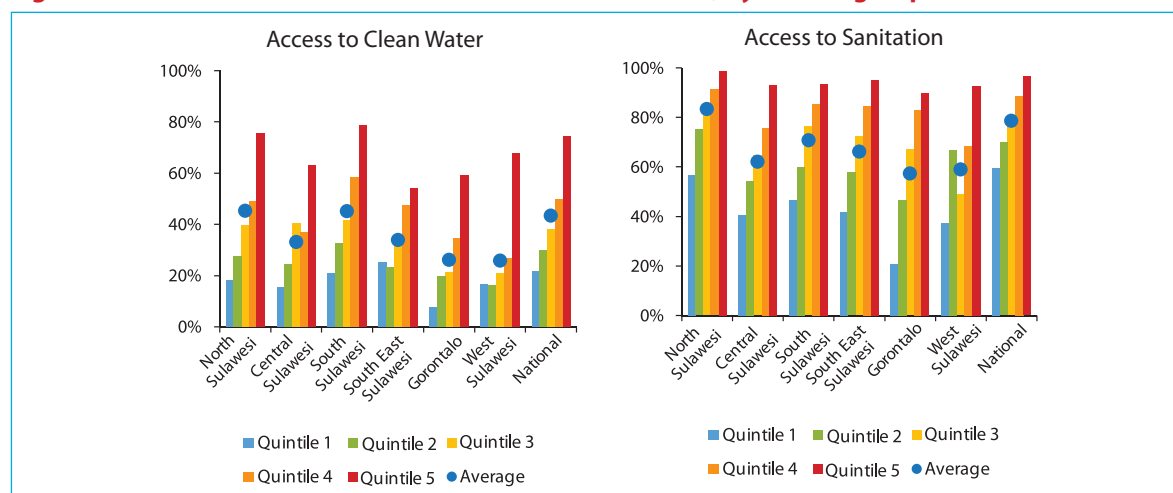


Source: World Bank Estimation from National Socio-Economic Survey 2009

**Gaps remain between income groups in access to basic infrastructure in Sulawesi and North Sulawesi.** Only 18 percent of the lowest income group quintile in North Sulawesi have access to clean water, whereas 51 percent have access to proper sanitation. Access to clean water exceeds 50 percent only for the highest income group quintile. These figures demonstrate that regardless of prosperity level, half of North Sulawesi's residents do not have proper access to clean water. In the highest quintile, 76 percent have access to clean water and most (99 percent) have access to sanitation.

Such gaps are also evident in other provinces, and for access to sanitation, are in fact wider in Gorontalo than in North Sulawesi, for instance. Only 20 percent of lowest income earners in Gorontalo have access to sanitation, compared to 90 percent of highest income earners. For access to clean water, both Gorontalo and West Sulawesi had broader disparities. Among the bottom four quintiles in West Sulawesi, less than one third of people have access to clean water. In the top quintile, by contrast, 68 percent have access to clean water. These disparities in North Sulawesi require attention from the provincial government, especially the distribution of access to clean water .

**Figure 5.25 Access to clean water and sanitation in Sulawesi, by income group**



Source: World Bank Estimation from 2009 National Socio-Economic Survey

**In the transportation sector, use of air transportation has increased both for passengers and goods.** North Sulawesi Province Central Bureau of Statistics (BPS) 2009 data shows an increase in the number of passengers and amount of goods passing through Sam Ratulangi Airport. The number of passengers has increased 22 percent in five years, cargo has increased 27 percent and airmail traffic has more than doubled (122 percent).

**Table 5.3 Passenger and goods traffic passing through Sam Ratulangi Airport has increased**

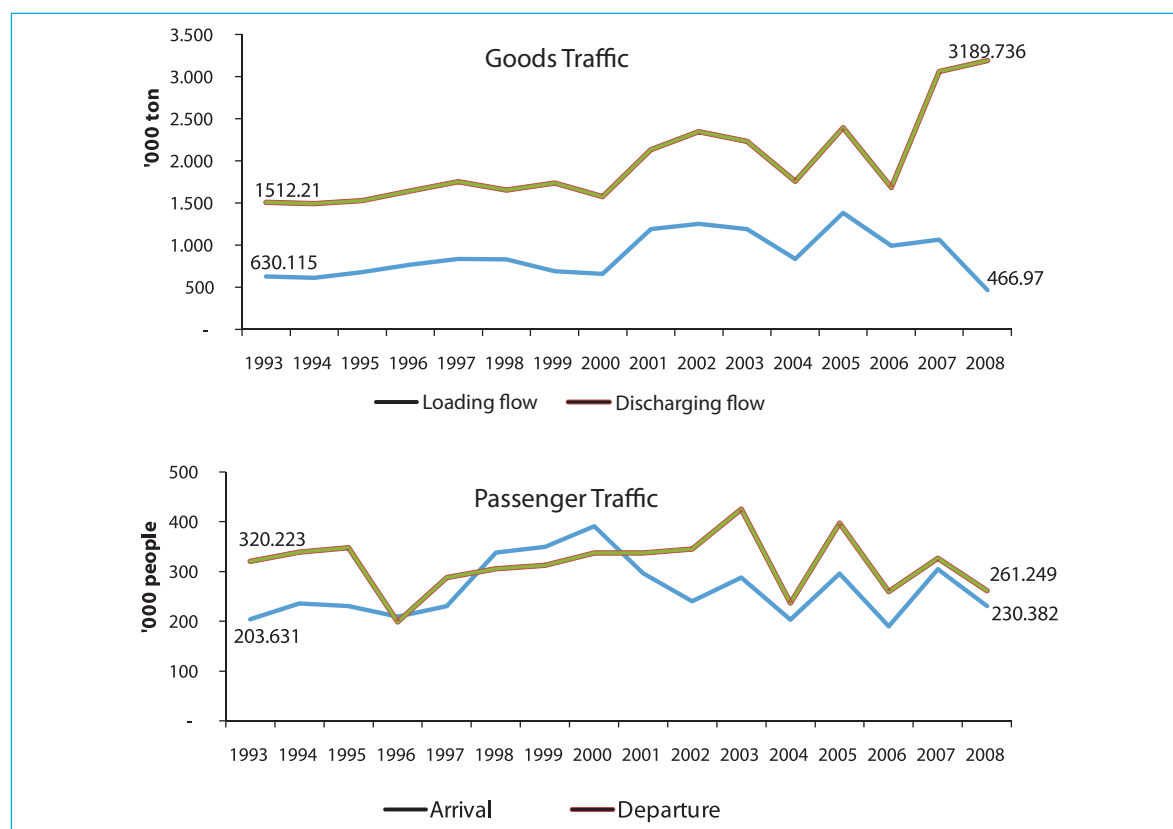
	2004	2005	2006	2007	2008
Passengers (people)	1,042,002	802,371	1,139,334	1,132,657	1,275,405
Baggage (Kg)	14,278,850	13,720,566	14,898,766	14,758,286	16,016,042
Cargo(Kg)	8,687,025	7,911,961	9,553,703	9,866,495	11,004,635
Postal (Kg)	214,333	160,928	170,478	229,292	475,136

Source: North Sulawesi in Numbers 2009, Central Bureau of Statistics

**Decreasing numbers of passengers are using sea transportation, but the flow of goods continues to increase.** Passenger mobility in North Sulawesi was calculated from the two main ports, namely Bitung Port and Manado Port, whereas flow of goods was measured at Bitung Port. Over a fifteen-year period from 1993 to 2008, the number of ship passengers has decreased from 524,000 to 491,000. Passenger numbers did increase in the late 1990s and early 2000s, but the rapid development of air transportation has caused sea transportation passenger numbers to fluctuate and generally decrease. The outflow of goods sent from North Sulawesi has decreased since 2005, but there has been a large increase in the inflow to North Sulawesi. Total goods traffic through Bitung Port has almost doubled in 15 years. If this trend continues, the

North Sulawesi provincial government will need to appraise the capacity and quality of its port services and supporting infrastructure such as highways.

**Figure 5.26 Goods traffic at North Sulawesi's main port has increased, whereas passenger traffic has fluctuated**



Source: North Sulawesi In Numbers 2009, Central Bureau of Statistics

**Sea transportation in archipelagic districts remains dependent on pioneer shipping.** Law no. 17/2008 on Shipping designates pioneer shipping to be transportation services on routes determined by the government to serve areas or region which are not served by water transportation due to lack of commercial viability. Archipelagic districts such as Sangihe and Talaud remain highly dependent on pioneer shipping services, which as of 2008 were provided by just three vessels. The Law on Shipping also states that either the central government and/or a sub-national government may fund and hold the operational authority over pioneer shipping.

**The quality of national roads in North Sulawesi has decreased, whereas provincial roads have improved.** Highways constitute basic supporting infrastructure for goods and passenger traffic from seaports and airports. North Sulawesi BPS data reveals a decrease of 10 percentage points in the amount of national roads in good condition between 2003 and 2007. The proportion of national road in critical condition increased from 4 percent to 7 percent over the same time period. By contrast, the proportion of provincial roads (for which the provincial government is responsible) in good condition almost doubled. With goods and passenger traffic increasing in North Sulawesi, attention is required to road quality given its position as the main supporting infrastructure.

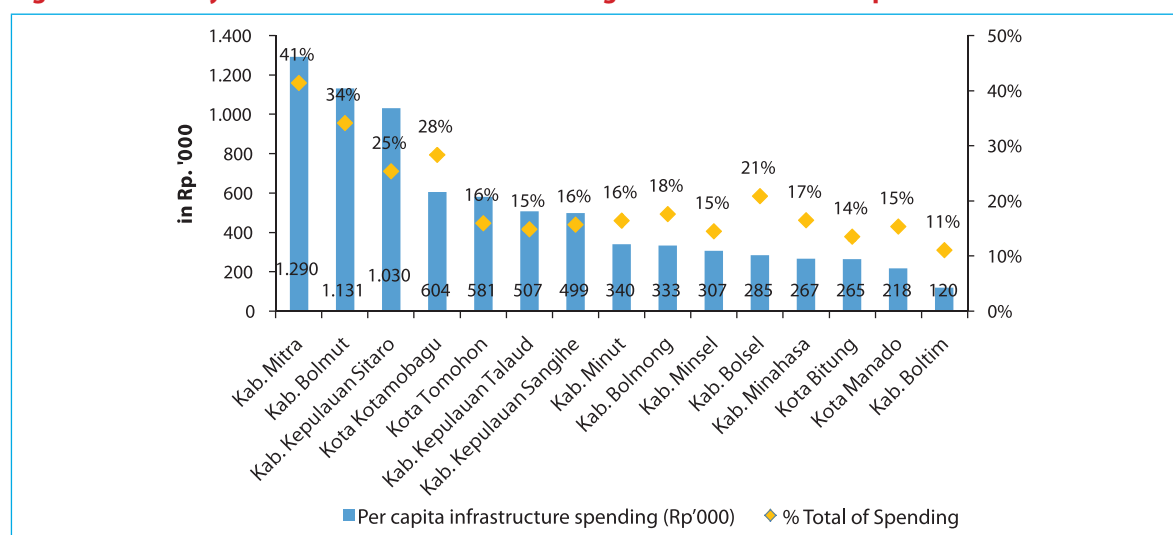
**Table 5.4 The proportion of good-quality road in North Sulawesi has increased**

	Nasional Road		Provincial Road	
	2003	2007	2003	2007
Good (Km)	655.06	893.44	408.69	511.82
Not Good(Km)	116	272.95	649.77	273.7
Critical (Km)	38.36	101	252.06	47.5
Good (%)	81%	70.5%	31%	61%

Source: Sulawesi in Numbers 2009, Central Bureau of Statistics

### 5.3.3 District/Municipality Analysis in North Sulawesi

**Newly formed districts and municipalities generally have greater infrastructure spending.** This trend holds for various regions because newly formed districts/municipalities spend their budget on the construction of new government buildings. The four districts/municipalities in North Sulawesi with the highest infrastructure expenditure – both in per capita terms and as a proportion of total expenditure – are each relatively newly established districts.

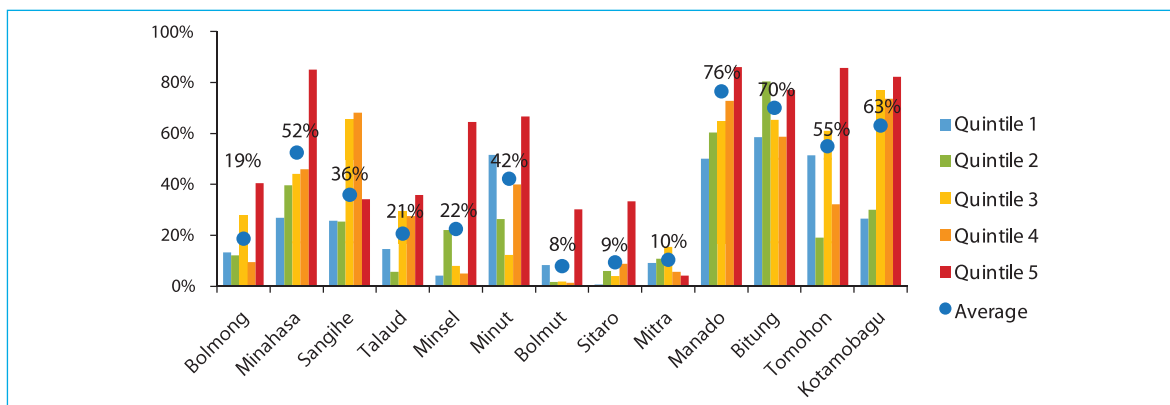
**Figure 5.27 Newly established districts have the highest infrastructure expenditure**

Source: North Sulawesi PEA Database, Sam Ratulangi University

**Urban areas in North Sulawesi generally have high access to clean water, but several districts have far lower levels of access.** Districts with low levels of access are generally archipelagic districts and newly established districts. Disparities in access between income groups are another problem, although this problem also applies in urban areas such as Kotamobagu municipality. In Bolaang Mongondow Utara and Sitaro districts, one third of the highest income quintile has access to clean water. For all other income groups, less than 10 percent have access to clean water. For the two lowest income quintiles, an average of 28 percent have access to clean water. This figure is much lower than the average for the lowest two quintiles across municipalities of 63 percent.



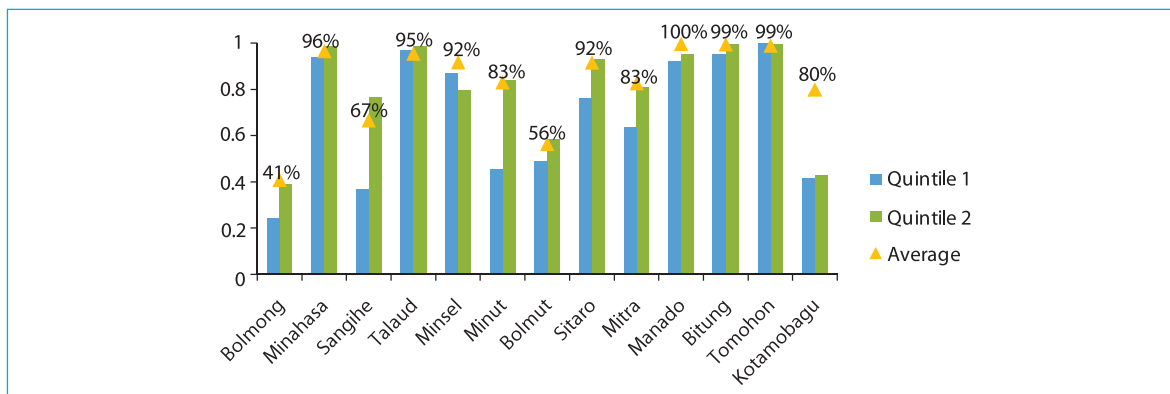
**Figure 5.28 Disparities remain in basic infrastructure coverage between municipalities and districts in North Sulawesi**



Source: World Bank Estimation from 2009 National Socio-Economic Survey

**Lower income earners in North Sulawesi generally have access to proper sanitation.** In most districts in North Sulawesi, more than 90 percent of the two lowest income quintiles have access to sanitation. Regions with low rates of access are Bolaang Mongondow, Sangihe, Bolaang Mongondow Utara and Kotamobagu. Only 40 percent of the lowest income earners in Kotamobagu have access to proper sanitation, whereas the overall average in the municipality was nearly 80 percent. In Bolaang Mongondow, access to sanitation for low income earners is nearly equal to the district's average. These two examples reveal large disparities in Kotamobagu, whereas in Bolaang Mongondow, access to proper sanitation is low overall.

**Figure 5.29 Some low income earners in North Sulawesi have access to sanitation**



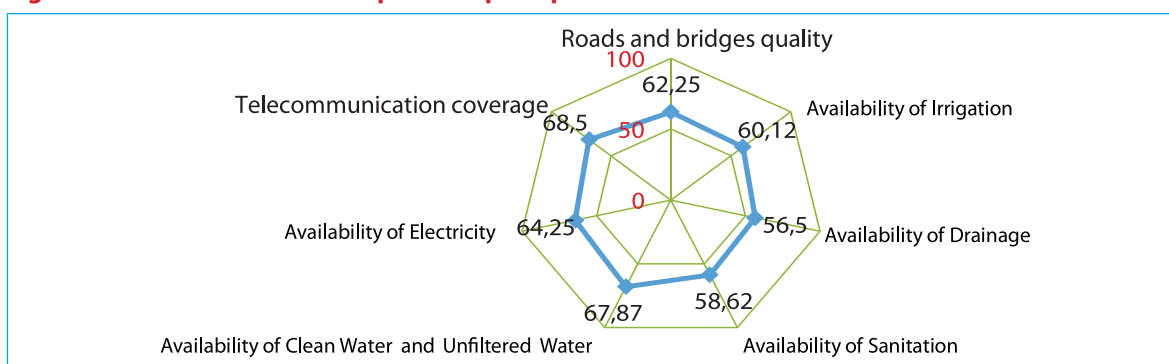
Source: World Bank Estimation from 2009 National Socio-Economic Survey

### 5.3.4 Public Response to Infrastructure Services

Seven indicators were employed to evaluate the response to public service provision for basic infrastructure: public perceptions of road and bridge quality, availability of irrigation, availability of drainage, availability of sanitation, availability of clean water, availability of electricity, and telecommunications coverage.

**Public perceptions of infrastructure services were relatively low compared to perceptions of health and education services.** The average assessment scores given by respondents for infrastructure was 62 (on a scale from 1 to 100), whereas the average score for health services was above 70. Public perceptions were most positive regarding telecommunications coverage, although the private sector is responsible for almost all of this infrastructure. Perceptions of clean water coverage were also relatively positive, although these perceptions run contrary to the results of the 2009 National Socio-Economic Survey, which show clean water access in North Sulawesi not to be better than the access to sanitation and electricity. This result could possibly indicate that selected respondents lived in urban areas or district capitals, or were drawn from higher-income groups.

**Figure 5.30. North Sulawesi respondent perceptions of infrastructure services**



Source: North Sulawesi PEA Database, Sam Ratulangi University

### 5.3.5 Conclusion and Recommendations

**Infrastructure expenditure has increased fourfold in the last five years, over which period the share of spending on personnel has decreased.** Nevertheless, central government spending has increased from year after year as a proportion of infrastructure spending in North Sulawesi. Four newly established districts/municipalities are the highest spenders on infrastructure in North Sulawesi. The majority of infrastructure spending from newly established districts must be taken into account, since it does not automatically equate to provision of better basic services.

**Of the three basic infrastructure categories, the coverage of clean water was lower compared to access to sanitation and electricity coverage.** Disparities remain between districts and income groups. Disparities are also evident within certain districts such as newly formed Minahasa Tenggara, Bolaang Mongondow Utara and Sitaro. It is recommended provision of services for basic infrastructure access focus on lower income earners, especially for the provision of clean water and sanitation access.

**A shift in passenger traffic has occurred from sea transportation to air transportation.** This shift results from increasing tourism in North Sulawesi along with North Sulawesi's growing role in providing MICE (Meetings, Incentives, Conventions, Exhibitions) services, for which the majority of consumers use air transportation. Sea transportation remains favored for freight. The main recommendation is to improve carrying capacity and service quality of at airports to anticipate growth in passenger numbers. Another recommendation is to improve loading and unloading efficiency at the port to anticipate growing goods' traffic and improve competitiveness against other ports.

**Communities in outermost districts remain heavily reliant on pioneer shipping services, but there are very few pioneer vessels in North Sulawesi.** Passenger numbers for sea transportation have decreased, but sea transportation will remain crucial to communities in archipelagic regions. Low frequency and unpredictable weather remain obstacles to transportation services in outer islands, however. A special allocation of infrastructure spending to support pioneer shipping is required, because these routes are unlikely to attract commercial operators.

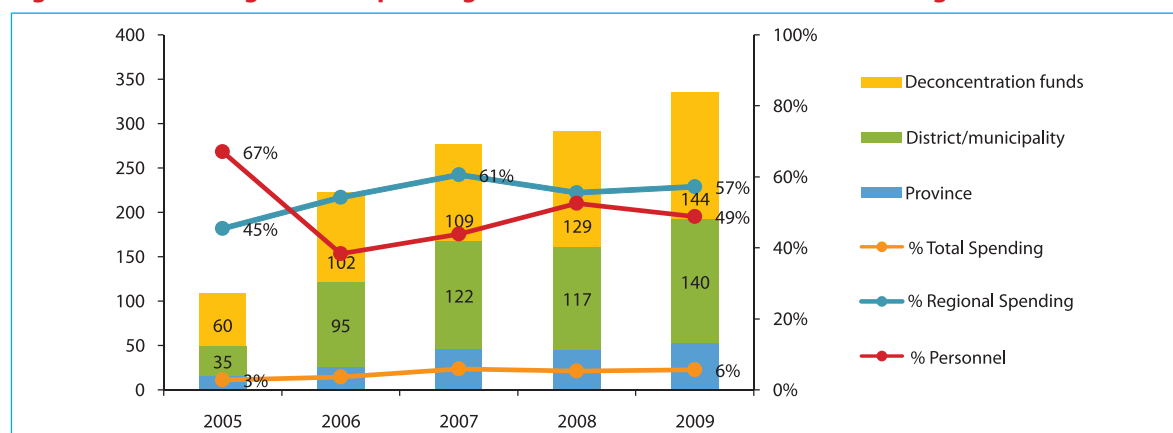
## 5.4 Agriculture and Plantation Sector

**North Sulawesi's high potential plantation commodities are coconuts, clove, nutmeg, coffee, and cacao.** The output of these plantation sub-sectors has been inconsistent, however. Coconuts are the commodity most favored by communities in North Sulawesi, but neither its plantation area nor production have increased significantly. Clove plantations exhibited the same trend – their production in fact decreased significantly in 2008. By contrast, production increased for rice and crops such as maize, peanuts, and soybean.

### 5.4.1 Agriculture and Plantation Sector Expenditure

**Agriculture sector expenditure is increasing each year, although it remains a very small proportion of overall spending.** Agriculture expenditure more than doubled between 2005 and 2009, rising from approximately 3 percent to 6 percent. Sub-national governments have not exhibited optimal commitment to spending on this sector, as 43 percent of agriculture expenditure derives from central government transfer. Of the Rp. 192 billion spent on agriculture in 2009 by North Sulawesi's sub-national governments, Rp. 94 billion or 49 percent was allocated to personnel expenditure.

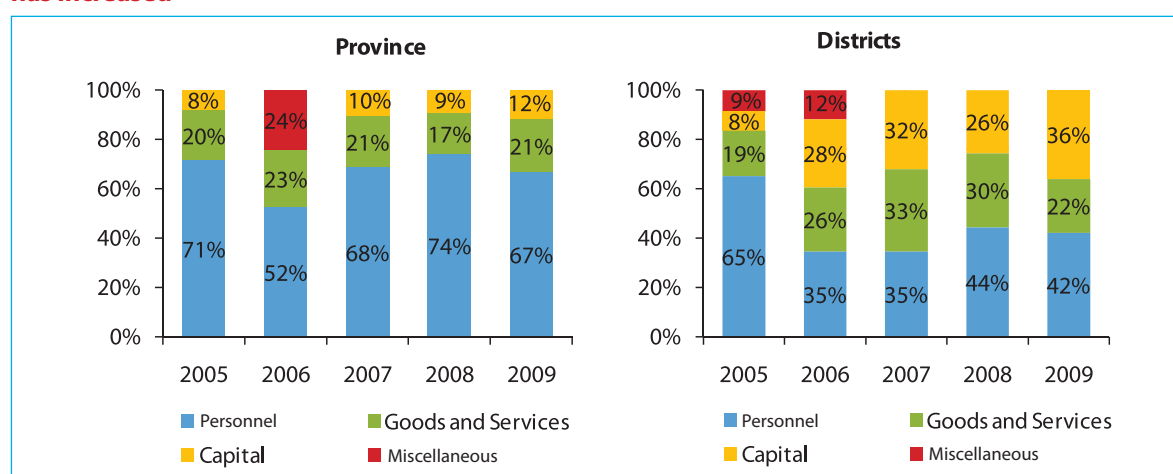
**Figure 5.31 Half of agriculture spending in North Sulawesi derives from central government transfers**



Source: North Sulawesi PEA Database, Sam Ratulangi University

**Agricultural sector personnel spending in North Sulawesi remains high, particularly at provincial government level.** Provincial level personnel expenditure averaged more than 60 percent between 2005 and 2009, whereas at district/municipality level the proportion spent on personnel expenditure decreased from 65 percent to 42 percent over the same time period (Figure 5.32). In the agriculture sector, programs related to food security or production increases are generally included in the goods and services spending allocation. Goods and services spending at district/municipality level increased from only Rp. 6 billion (19 percent of agriculture spending) in 2005 to Rp. 31 billion (22 percent of agriculture spending). Nevertheless, goods and services spending also includes official travel expenses. The proportion spent on capital expenditure at district/municipality level increased from 8 percent (Rp. 3 billion) in 2005 to 36 percent (Rp. 50 billion) in 2009. Capital spending in the agriculture sector is frequently used to build and provide supplies for government offices, however.

**Figure 5.32 Personnel spending at district/municipality level has decreased, whereas capital spending has increased**



Source: North Sulawesi PEA Database, Sam Ratulangi University

## 5.4.2 Agriculture and Plantation Sector Outputs and Outcomes

**Rice production in North Sulawesi has increased, but its productivity has been stagnant for the past three years.** Production of rice, maize, and beans has consistently increased. Rice productivity in North Sulawesi also increased from 4.7 tons per hectare to 4.97 tons per hectare over the past five years, although its productivity has been stagnant for the past three years. Further rice productivity increases have become difficult because cultivation methods and input qualities are already almost maximal. Rice crops with their large water requirements are also strongly influenced by climatic factors. For example, high rainfall can flood farmland and increase the water content of the husked rice, making it difficult to dry, reducing the quality of rice produced. In view of the increasing area of paddy rice farmland and relatively stagnant productivity, the North Sulawesi government's policy to increase rice production remains limited to land extension.

**Maize production in North Sulawesi has nearly tripled and its productivity has increased by 50 percent over the past five years.** Maize production increased from 195 tons in 2005 to 509 tons in 2009. Plantation area increased rapidly in 2007 to 115,000 hectares, up from 82,000 hectares the previous year, and production also increased by 68 percent the same year. The increase in maize production and productivity reflects the emphasis on maize production of sub-national governments in North Sulawesi over the past five years. Other provinces in Sulawesi such as Gorontalo and South Sulawesi have also implemented similar improvement programs.

**Table 5.5 Area of harvested fields and production of agricultural commodities in North Sulawesi**

	Land (Hectare)					Production(Ton)				
	2005	2006	2007	2008	2009	2005	2006	2007	2008	2009
Dry land paddy rice	88.772	89.159	94.528	98.416	103.887	417.659	441.573	473.94	492.177	516.522
Wetland paddy rice	6.174	5.558	38.02	11.535	10.858	14.966	13.328	92.957	28.014	27.657
Maize	71.644	82.189	115.664	131.791	126.349	195.305	242.713	406.759	466.041	509.261
Cassava	6.695	6.058	5.709	6.388	5.907	68.463	82.919	74.406	83.654	79.471
Yam	4.457	3.755	3.618	4.278	5.43	38.67	37.345	35.485	42.059	39.98
Peanuts	5.668	5.821	5.756	6.573	6.45	6.267	7.206	7.553	8.639	8.896
Soy bean	3.179	3.321	2.662	5.227	5.652	4.113	4.875	4.573	7.217	7.342
Mung bean	1.417	1.506	1.614	1.791	2.123	1.463	2.079	2.153	2.381	2.553

Source: North Sulawesi in Numbers 2009, Central Bureau of Statistics

**With the exception of nutmeg and cacao, cash crops production in North Sulawesi has decreased.**

In contrast with food crops such as rice and vegetables, cash crops are strongly influenced by market prices. Although the government has determined a national purchase price, local farmers often receive a lower price. Moreover, some commodities such as cloves can only be harvested once every two years. The production of nutmeg and cacao, as the premium commodities in North Sulawesi, increased. Nutmeg land productivity increased from 0.26 percent per hectare in 2005 to 0.7 tons per hectare in 2008. The production of vanilla decreased drastically between 2005 and 2008, because the crop was not prioritized.

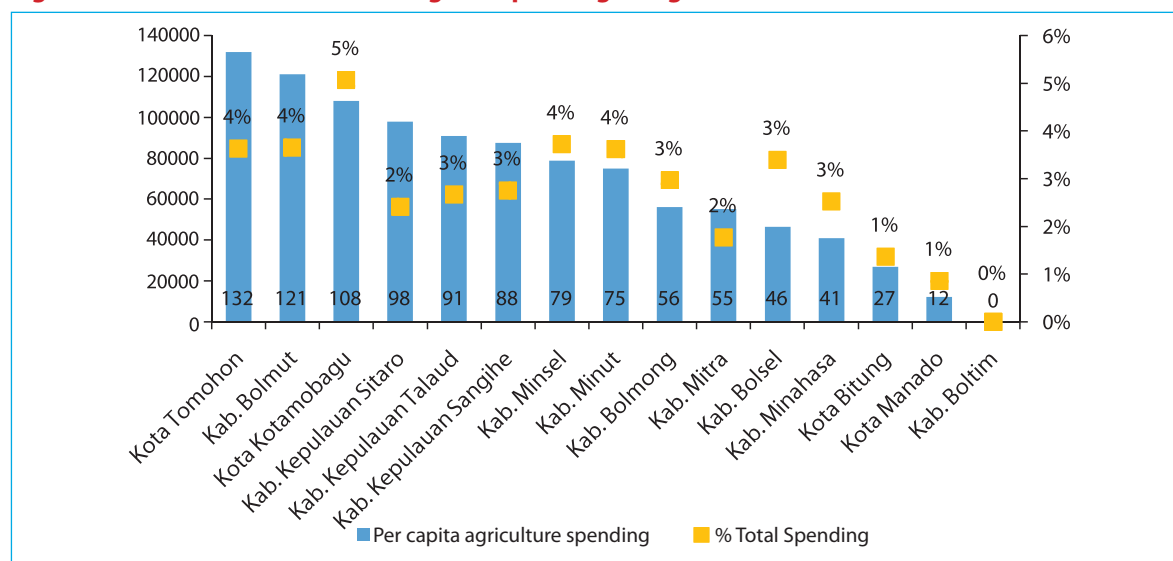
**Table 5.6 Area of harvested field and production of plantation commodities in North Sulawesi**

	Land (Hectares)				Production(Ton)			
	2005	2006	2007	2008	2005	2006	2007	2008
Coconut	262.347	259.306	267.652	272.137	187.719	246.262	229.613	209.995
Clove	70.721	68.106	72.248	74.383	12.672	8.862	19.329	285
Nutmeg	11.33	13.814	12.319	13.774	2.946	4.815	1.887	9.646
Coffee	9.689	9.579	9.488	9.143	5.929	5.951	3.323	3.305
Cocoa	10.556	9.743	10.071	11.695	3.144	3.069	1.924	5.141
Vanilla	5.239	5.273	5.755	5.404	1.165	-	717	436

Source: North Sulawesi In Numbers 2009, Central Bureau of Statistics

**Urban areas have the highest per capita spending on agriculture.** Tomohon and Kotamobagu municipalities have the highest and third highest per capita agriculture spending respectively. Tomohon municipality is renowned as a vegetable producing area of North Sulawesi. North Sulawesi BPS data reveals that in 2008, Kotamobagu had the highest rice field productivity in North Sulawesi of 5 tons per hectare. In both municipalities, the budget commitment was intended to improve the performance of their agricultural commodities.

Several newly established districts also spend highly on agriculture, such as Bolaang Mongondow Utara. Although Bolaang Mongondow Utara is a new district, 2008 data reveals it to be the fifth largest rice producer and the fourth largest maize producer in North Sulawesi.

**Figure 5.33 Urban areas have the highest spending on agriculture**

Source: North Sulawesi PEA Database, Sam Ratulangi University

### 5.4.3 Conclusion and Recommendations

**Agriculture expenditure in North Sulawesi more than doubled between 2005 and 2009, with nearly half of spending coming from central government deconcentration funds.** Agriculture spending amounted to 6 percent of total expenditure over this period, half of which was allocated to the personnel spending. As personnel spending at provincial and district/municipality levels has decreased, capital expenditure has increased. The majority of this capital spending was allocated to build governmental offices, however. The main recommendation is to decrease capital expenditure on government buildings and facilities. Spending on agricultural counseling and facilitation programs, which is usually included in goods and services expenditure, also needs to be increased.

**Rice production in North Sulawesi has increased by nearly 100,000 tons (24 percent) over the past five years.** Maize production increased by more, at 161 percent in five years. Corn farm productivity also increased by nearly 50 percent, compared to stagnant rice farm productivity of 4.9 tons per hectare. Since agricultural commodities such as rice and other crops are vulnerable to climate change, sub-national governments in North Sulawesi must prepare facilitation and awareness programs to assist farmers to adapt to such climate change.

**Among high potential cash crop commodities in North Sulawesi, it was the production of nutmeg and cacao that increased between 2005 and 2008.** Clove production fluctuated, because the clove harvest cycle takes longer than a year. Although coconut production in 2008 exceeds 2005 levels, production has actually been decreasing since 2006. North Sulawesi needs to adopt a strategic policy focused on certain plantation products to increase its competitiveness. An agro-industry policy should be pursued in tandem with this policy to add greater value to North Sulawesi's plantation products..





## Chapter 6

# Development of North Sulawesi as Indonesia's Gateway to East Asia and the Pacific



**In order to develop more rapidly, North Sulawesi cannot depend only its agricultural sector, which has been dominating and driving the regional economy.** In order to accelerate economic growth, a transformation is required in regional economic development, through strengthening the agriculture-and-fishery-based industry, which are already developing, and making breakthroughs via the service sector and other related activities.

**Natural resources, strategic position in the Pacific, and better human resources are the main assets to develop North Sulawesi as Indonesia's Gateway to East Asia and the Pacific.** This vision is set forth in the 2011-2025 Master Plan for the Acceleration and Expansion of Indonesia's Economic Development presented by the Coordinating Ministry for the Economy in Bogor on February 21, 2011. In the master plan, North Sulawesi is to play a role in the fisheries and marine sectors, which are part of the economic corridor of Sulawesi. Secondly, with regard to national connectivity, Bitung Port is projected to be a global connecting port of Indonesia. This chapter maps the supporting potential of North Sulawesi as a new economic growth area in eastern Indonesia and also considers both internal (from North Sulawesi) and national challenges.

## 6.1 North Sulawesi's Potentials

### 6.1.1 Geography and Accessibility

**Geographically, North Sulawesi province is close to the Pacific Ocean.** The province can utilize its position to attract goods traffic from East Asia if it is supported by good sea access, land access, sound bureaucracy, and good transportation. The Manado-Bitung Office of Integrated Economic Zone Management (BP KAPET) has estimated differences in distance, travel time and vessel rental fees from several ports in the Pacific to Bitung Port under two scenarios of passing through Tanjung Priok and going directly to Bitung, as shown in Table 6.1.

**Table 6.1 Distance between Bitung Seaport and several international ports in the Pacific**

	Port of Destination Country					
	Kaohsiung, Taiwan	Hong Kong, Cina	Shanghai, Cina	Busan, Korea	Tokyo, Jepang	Los Angeles, A.S
Distance to Bitung via Tanjung Priok (nautical miles)	3,526	3,365	4,142	4,408	3,429	9,574
Direct Distance to Bitung (nautical miles)	1,346	1,423	1,901	2,113	2,22	6,651
Estimation of distance difference compared to the distance via Tanjung Priok (nautical miles)	2,18	1,942	2,241	2,295	1,209	2,923
Estimation of travel time difference compared to the distance via Tanjung Priok (hours)	346.46	336.11	349.11	351.46	364.24	378.76
Estimation of difference in the number of days compared to the voyage time required via Tanjung Priok (days)	14.44	14.00	14.55	14.64	15.18	15.78
Difference in Vessel Rental Fees (thousand US\$ )	2,887	2,801	2,909	2,929	3,035	3,156

Source : Manado-Bitung Management Agency (BP KAPET), 2008.

Note : Assumes ocean vessel speed of 23 knots  
Assumes domestic feeder vessel speed of ten knots  
Assumes transit time in Tanjung Priok is three days.

**Freight traffic by sea and land to North Sulawesi is increasing, as is the quality of provincial roads.**

Figure 5.26 illustrated an increasing trend in the volume of goods passing through North Sulawesi's seaport and airports. Table 5.4 also revealed an increase over the past five years in the percentage of good quality provincial roads. With rail transportation not available, the quality of roads connecting the seaport and airport to domestic markets in North Sulawesi is crucial to support increasing goods transportation and passenger traffic.

**Regulatory support is required to increase the role of Bitung Seaport.** Law no. 17/2008 on Shipping and its derivative Government Regulation no. 61/2009 on Ports are hoped to be able to improve the quality of service from port companies. The issuance of the two regulations provides an opportunity to create competition in the provision of port services, which will ultimately increase the quality of the service.

**Box 6.1**

In 2001, the Government of North Sulawesi province through the Manado-Bitung Office of Integrated Economic Zone Management (BP KAPET) joined with SWIRE Shipping Company to open a direct container shipping service from Bitung to Singapore. As a regular pioneer service to open a direct shipping route to Singapore, the service began with three containers but increased to a fortnightly shipment of more than 200 20-foot containers after approximately two years. The number of containers dispatched from Bitung port to overseas destinations was much higher than this, because some fisheries factories continued to use the conventional route through Tanjung Priok (Jakarta) or Tanjung Perak (Surabaya).

Mid-sized and small-scale exporters utilized this direct shipping service. Delivery costs via this direct service were cheaper than shipment via Jakarta or Surabaya, with the cost difference varying between USD250-USD300 per 20-foot container.

PT. Pelindo IV provided cost relief for the container storage yard costs, but unfortunately this incentive only lasted for around three months. This PT. Pelindo IV incentive also did not compare to the costs of repositioning ocean going containers from Singapore to Bitung. This direct shipping service operated for less than three years because the services and incentives provided by the Bitung port were uncompetitive with Madang port in Papua New Guinea, which led to the initiation of a Madang-Bitung-Singapore shipping lane.

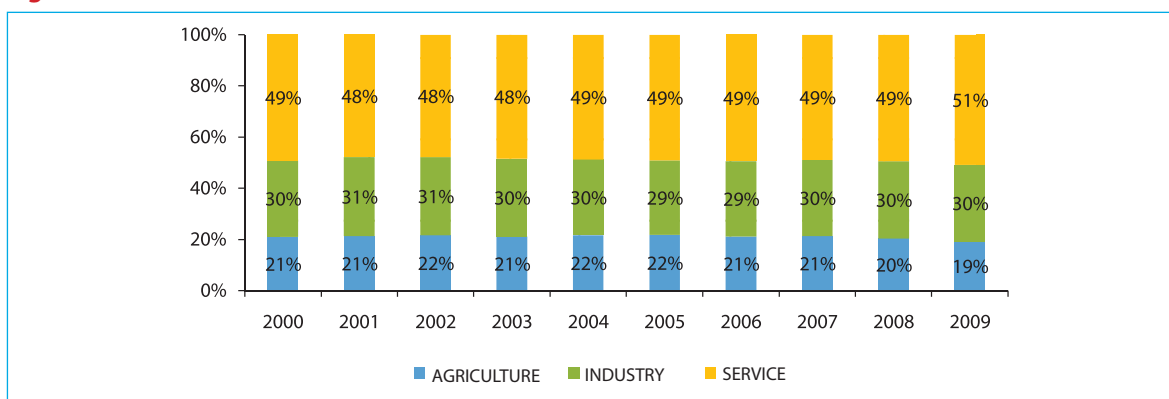
While phase II of the container port expansion is underway, and with the issuance of Law no. 17/2008 and Government Regulation no. 61/2009, the Government of North Sulawesi Province is continuing its efforts to invite Main Lane Operators (MLO) to utilize Bitung port. One of the parties to have shown interest is Maersk Line Singapore. Follow-up on implementation is awaiting clarity in the technical implementation of Government Regulation no. 61/2009.

**Development of Bitung Port could help to reduce freight and distribution costs for export products from eastern Indonesia.** Eastern Indonesia possesses export-oriented natural resources, such as fisheries products from the Banda waters and premium cash crops, such as cacao and spices. The majority of these marine and agricultural commodities are exported through the main ports in Java, which results in high transportation cost. To support the development of new growth centers in eastern Indonesia, North Sulawesi is expected to play a role in reducing the cost and maintaining the quality of products, which may ultimately increase product competitiveness in international markets.

## 6.1.2 Service and Plantation Products

**The contribution of the service sector to North Sulawesi's GRDP has increased over the past ten years.** Over this period, the contribution of the service sector (a combination of government services, insurance and financial services and other services) increased, whereas the contribution of agriculture decreased in relative terms (Figure 6.1).

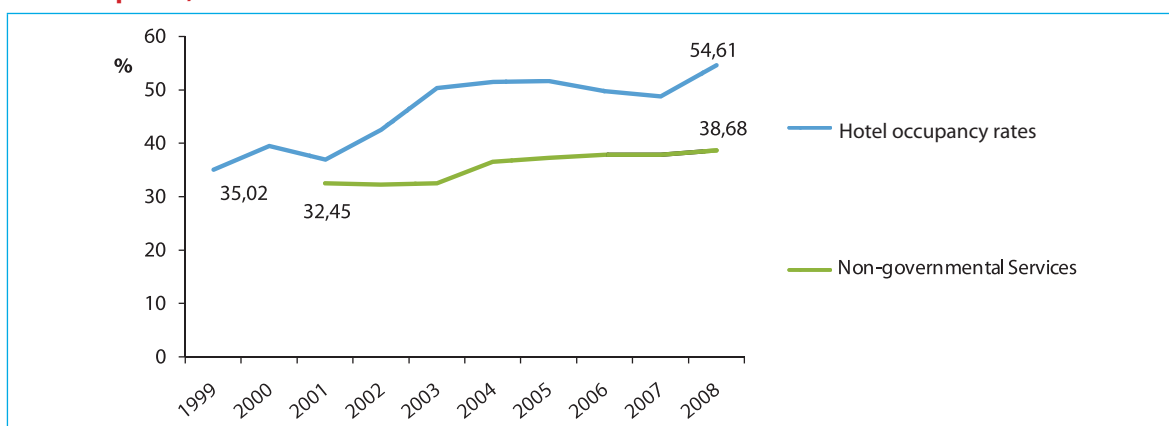
**Figure 6.1 The contribution of the service sector to North Sulawesi's GRDP has increased**



Source: North Sulawesi Province Central Bureau of Statistics (BPS), 2010

If government services are excluded, non-government services contributed 39 percent of North Sulawesi's GRDP in 2008, in part reflecting 14 percent growth between 2001 and 2008 in the trade, hotel and restaurant sector. The growth was supported by the hotel occupancy rate, which significantly increased from 35 percent to 55 percent over this period. The number of foreign tourists visiting North Sulawesi between 2003 and 2008 also increased by 64 percent. If the World Ocean Conference (WOC) and the Coral Triangle Initiative (CTI) in 2009 were included, visitor numbers and hotel occupancy rates would further increase by a significant amount.

**Figure 6.2 Hotel occupancy rates and the contribution of the service sector in North Sulawesi (2000 constant prices)**



Source: North Sulawesi Province Central Bureau of Statistics (BPS), 2006 and 2009.

Non-government service denotes the contribution of related sectors to GRDP; including the trade, hotel and restaurant sector, the transportation and communication sector, the financial, lease, and company services sector And the service sector excluding government services.

Hotel occupancy rates are for hotels with star ratings.

**Tourism could become the primary service sector in North Sulawesi, but at present it is confined to certain tourist sights.** Since the early 1980s, the tourism industry focused solely on exploiting the undersea uniqueness and riches of Bunaken national park. The area developed very rapidly and became an icon of marine tourism in Indonesia, leading to over-crowding at present. Little has been done to develop other potential tourist attractions, such as fishing, hiking and trekking, water sports, community based eco-tourism, and so forth. The current tourism trend in North Sulawesi is for MICE (Meeting, Incentive, Convention, Event) services, which have been growing since the 2009 WOC and CTI events.

### Box 6.2

In 2009, North Sulawesi hosted the World Ocean Conference (WOC) and the Coral Triangle Initiative (CTI) Summit, which was attended by 76 countries, twelve international agencies and six heads of state. The two international events were held in May and attended by more than 6000 people and resulted in an agreement on marine management called the "Manado Ocean Declaration". Subsequently, the two events were followed by the Sail Bunaken event in August in which 33 countries participated. Sail Bunaken made history by permitting the United States' warship, USS. George Washington, to enter Indonesian waters and perform maneuvers in Manado bay alongside warships from other participating countries. More than 10,000 foreign, domestic and local visitors attended this event.

After holding several major events between 2006 and 2009, North Sulawesi has become one of Indonesia's international MICE destinations, adding to Manado's existing reputation with global travelers for its Bunaken and Lembeh Strait Marine National Park. The sub-national government has established marine tourism as the backbone of the tourism industry in North Sulawesi. The provincial government is currently preparing Manado municipality and surrounding areas to host the ASEAN 2011 and APEC 2013 forums. In March 2011, North Sulawesi hosted the Disaster Management Exercise program attended by 26 participating countries with a number of coastal countries as reviewers. This activity was implemented as a collaboration between the Indonesian government and the Japanese government.

**North Sulawesi's net exports increase in value every year.**<sup>6</sup> North Sulawesi's net export value (exports minus imports) is only moderate, but it is increasing every year. North Sulawesi's net exports in 2008 were Rp. 1.5 billion or equal to 10 percent of GRDP (based on 2000 constant prices). This figure increased from Rp. 1.03 billion in 2004, which was equal to 14.5 percent of GRDP. The contribution of exports to GRDP has decreased because North Sulawesi's export commodities are underdeveloped, whereas the inflow of goods from other regions has been increasing significantly.

**Plantation products and their derivative products dominate exports from North Sulawesi.** The plantation sector, which is dominated by traditional commodities such as copra, crude coconut oil, copra residue (*bungkil*), and coconut charcoal continues to contribute the most to North Sulawesi's total exports. North Sulawesi does not have palm plantations, but receives raw materials from several regions in Central Sulawesi, Maluku, and West Papua. Processing is carried out in two factories in Bitung for export through Bitung port. The second largest export commodity is fisheries products. Exports are limited just to fisheries and coconut-based agro industry products. To address the problem, innovation and technology advancements are required to produce high technology-based derivative products (agriculture and plantation).

## 6.1.3 Quality of Human Resources

**Education and health outcomes in North Sulawesi indicate a high quality of human resources.** Figures 5.14 and 5.16 illustrated that the literacy rate and participation rate in schools in North Sulawesi are the highest in Sulawesi and also better than the national average. The same applies to the health outcomes,

6 'Export' and 'import' include domestic trade with other regions in Indonesia



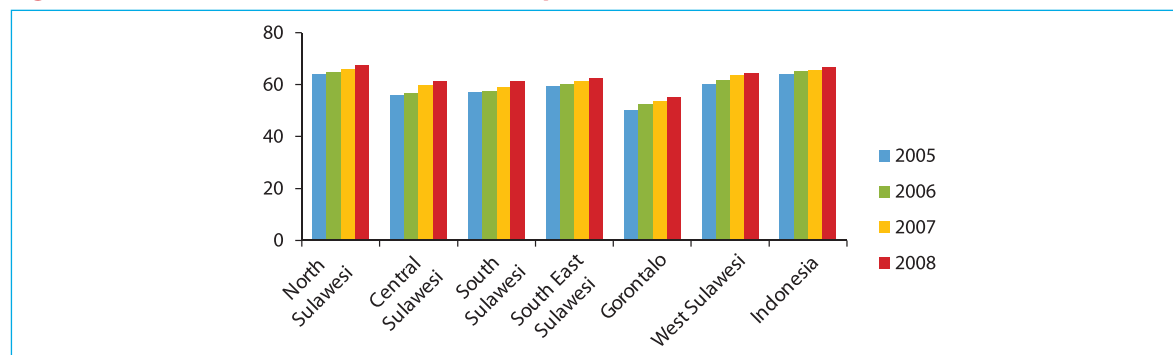
Table 5.1 showed immunization coverage and births assisted by medical workers in North Sulawesi to be better than in other provinces in Sulawesi and the national average.

**Gender bias in North Sulawesi is relatively modest.** Figure 5.17 and 5.18 showed education outcomes for women in North Sulawesi to be equal with the provincial rate. The most recent Indonesia Health and Demographic Survey (SDKI) in 2007 also indicated that 96 percent of women in North Sulawesi obtained post-natal health services, a higher rate than the national average of 93 percent. Concerning employment, 14 percent of employed women work in professional or managerial roles, whereas 49 percent work in service and sales (Figure 6.4). These figures reflect the good education levels of women in North Sulawesi. South Sulawesi registered the highest percentage of married women having a voice in household decisions (86 percent), whereas the figure for North Sulawesi was the second highest at 81 percent. This figure is well above the national average of 66 percent.

## 6.2 Gender and Development in North Sulawesi

**North Sulawesi Gender-related Development Index (GDI) score is the best in Sulawesi and exceeds the national average.** In 2005, North Sulawesi's GDI score of 64.1 was above the national GDI of 63.9. In 2006, North Sulawesi's GDI score of 64.9 was slightly lower than the national GDI of 65.1. In 2007, however, North Sulawesi's GDI score increased again to 66, whereas the national GDI score was 65.3. Likewise, in 2008, North Sulawesi's GDI score reached 67.3, whereas the national GDI was 66.4. Compared to other provinces in Indonesia, North Sulawesi's GDI score is the fourth highest below the Jakarta Special Capital City Region, Yogyakarta and Bali.<sup>7</sup>

**Figure 6.3 Indonesian Gender-related Development Index, 2005-2008**

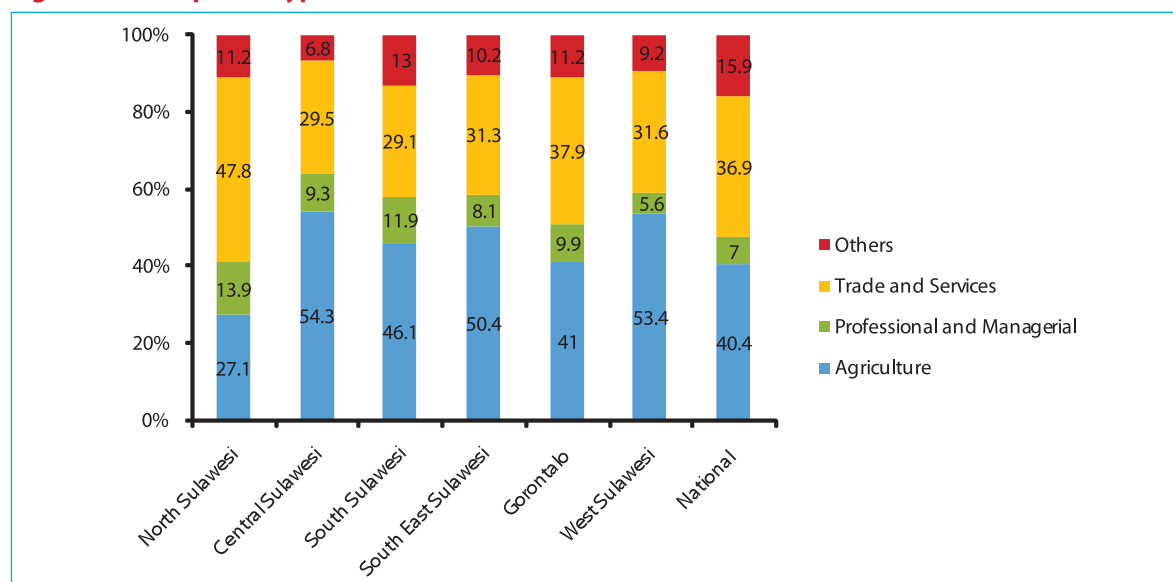


Source: Gender-based Development, Ministry of Women's Empowerment and Child Protection in cooperation with BPS

**North Sulawesi's high Gender-related Development Index score reflects its high life expectancy figure, literacy rate, and labor force composition.** 47.8 percent of women in North Sulawesi work in the service and trade sectors, higher than the equivalent proportion in other provinces in Sulawesi. The same is true of the professional and managerial sectors, with their higher skill requirements. 14 percent of female workers in North Sulawesi work in the professional and managerial sectors; the highest rate of any province in Sulawesi.

<sup>7</sup> See annex for Indonesia Gender-related Development Index, 2005-2008

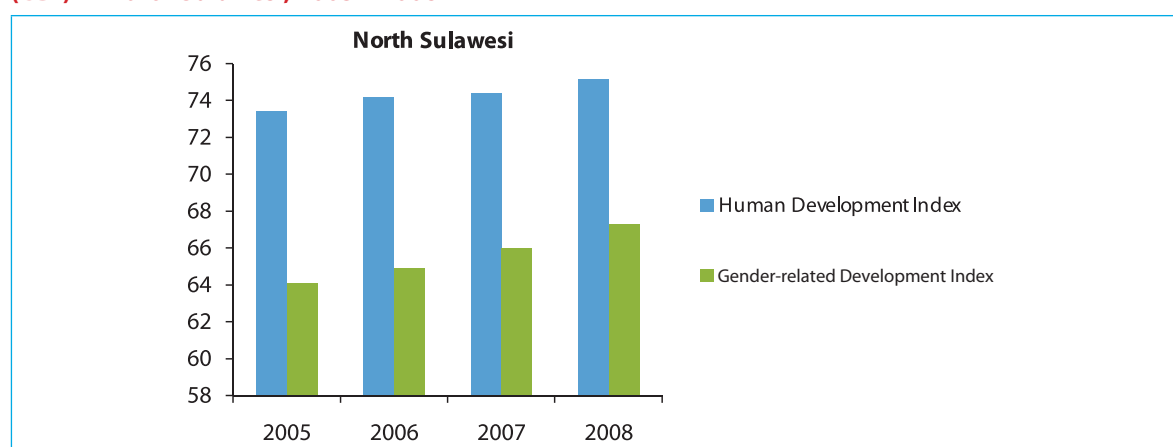
**Figure 6.4 Occupation type for women in Sulawesi**



Source: IDHS 2007

**Although North Sulawesi GDI score exceeds the national average, it remains below the province's Human Development Index (HDI) score.** This comparison indicates that development disparities remain between men and women in the province. Such a disparity is evident in North Sulawesi's 2005 GDI score of 64.1 and its HDI score of 73.4, the 2006 figures of 64.9 (GDI) and 74.2 (HDI), and the 2007 figures of 66 (GDI) and 74.4 (HDI). A disparity is also evident in 2008 figures.

**Figure 6.5 Comparison of Human Development Index (HDI) and Gender-related Development Index (GDI) in North Sulawesi, 2005 – 2008**

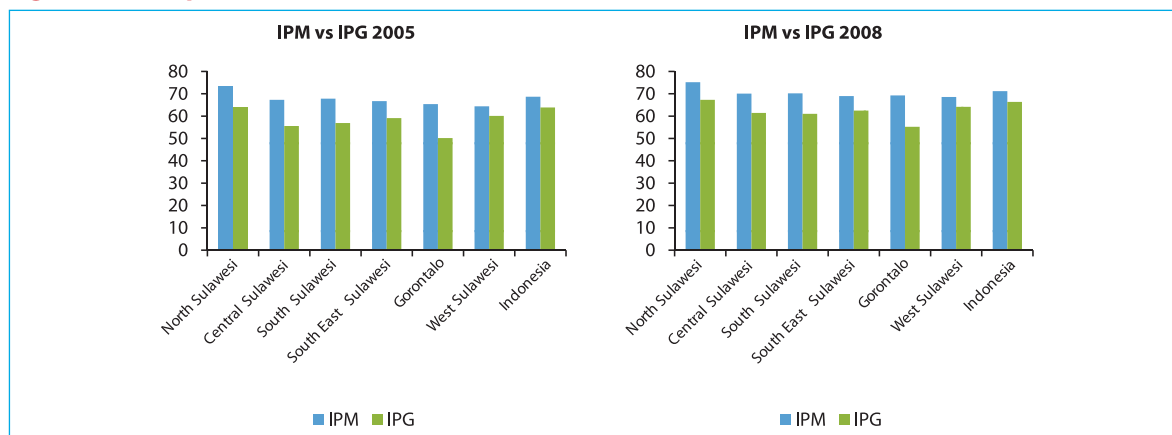


Source: Gender-based Development, the Ministry of Women's Empowerment and Child Protection in cooperation with BPS

**Gender disparities also persist in other provinces in Sulawesi and at national level.** The broadest disparity in Sulawesi in 2005 was in Gorontalo province, where its HDI figure was 65.4 and its GDI score was 50.2, a difference of 15.2. In 2008, a fourteen point gap remained between Gorontalo's HDI and GDI scores. West Sulawesi has the smallest gap in Sulawesi of approximately 4.3 points.



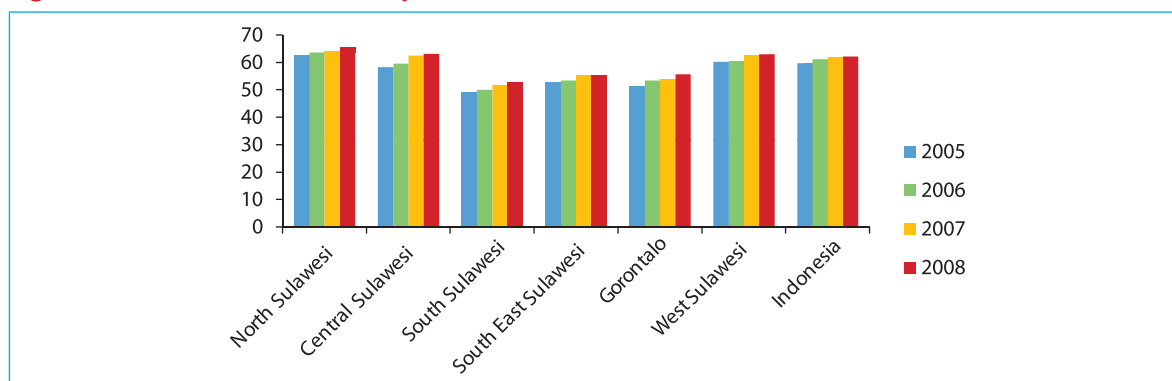
**Figure 6.6 Comparison of HDI and GDI in Sulawesi, 2005 and 2008**



Source: Gender-based Development, Ministry of Women's Empowerment and Child Protection in cooperation with BPS

**As with the Gender-related Development Index, North Sulawesi's Gender Empowerment Index (GEI) score is the highest in Sulawesi and exceeds the national average.** In 2005 and 2006, North Sulawesi's scores of 62.7 and 63.6 respectively were the highest in Indonesia, above the national figures for each year of 59.7 and 61.3. North Sulawesi's GEI scores in 2007 and 2008 of 64.2 and 65.5 respectively remained above the national average, but ranked second behind Central Kalimantan province.<sup>8</sup>

**Figure 6.7 Indonesian Gender Empowerment Index, 2005-2008**



Source: Gender-based Development, Ministry of Women's Empowerment and Child Protection in cooperation with BPS

**Although North Sulawesi has high Gender-related Development Index (GDI) and Gender Empowerment Index (GEI) scores, the high rate of violence against women and cases of trafficking of women in the province require special attention from sub-national governments.** These phenomenon are suspected to be the reason that North Sulawesi's GDI score remains below its HDI score, or why disparities persist in the province. Data compiled by the Swara Parangpuan North Sulawesi NGO highlight the total number of cases of violence against women in this province. In 2002, there were 376 cases. In 2003, the number of cases increased significantly to 577, whereas in 2004, the rate decreased again to 334 cases, which remains too high for cases of violence. The three dominant forms of violence were assault, rape and sexual assault.

<sup>8</sup> See annex for 2005-2008 Gender Empowerment Index

Trafficking of women and children also stands out in the province. There are three types of trafficking cases in North Sulawesi, namely:

- Cases in which women are sold to become 'waitresses' in bars or restaurants
- Cases in which dancers are sent to Japan on entertainment visas, but then made to work as commercial sex workers upon arrival. There were 500 recorded cases in North Sulawesi in 2003 of women being sold in Japan in this manner.
- Cases of baby trafficking.

**It is not easy to obtain accurate data on violence against women or trafficking cases, however.** Not all cases are detected. Not all cases are reported. For instance, the police recorded 170 cases of trafficking between 2002 and 2007, whereas one NGO found there to be 500 women trafficked to Japan in 2003 alone.

### Box 6.3

**Human Development Index (HDI):** a comparative measure of life expectancy, literacy and living standards to measure the effect of economic policies on quality of life.

**Gender-related Development Index (GDI):** an index of basic development outcomes like the HDI, but taking gender disparities into account. The GDI may be used to identify human development disparities between men and women. Gender equality occurs when the value of the HDI is the same as the GDI.

**Gender Empowerment Index (GEI):** a composite index that measures the active role of women in economic and political life. The active role of women in economic and political life includes participation in politics, the economy and in decision-making as well as control over economic resources.

## 6.3 Conclusion and Recommendations for Future Development Policies in North Sulawesi

**The gender-responsive budget in North Sulawesi remains relatively small.** There are relatively few gender-related problems in North Sulawesi, but the province faces the issue of trafficking. The provincial government has allocated only limited funds to address trafficking and other gender-related problems. A greater spending allocation is required to promote women's empowerment in North Sulawesi's economic development so as to improve the standard of living of women.

**North Sulawesi's high gender outcome scores do not provide the whole picture of gender in the province.** North Sulawesi's Gender-related Development Index and Gender Empowerment Index scores exceed those of other provinces in Sulawesi, as well as the national average. This result accords with the better state of human resources in North Sulawesi as compared to other provinces in Sulawesi. Stakeholder interviews revealed trafficking of women and children to be a problem, however. Data on the number of cases remains difficult to obtain, because few cases are detected or reported.

**Regional level cooperation can serve as an opportunity for provinces involved actively by the central government.** The Brunei Darussalam-Indonesia-Malaysia-Philippines ASEAN Growth Area (BIMP-EAGA) is one example of cooperation in which the central government has involved several provinces in Sulawesi as stakeholders. Nevertheless, the central government needs to respond to the commitment of sub-national governments in such cooperation by enacting supporting regulations for ports, immigration and customs. One example is a plan to establish Bitung as a Special Economic Zone.

**A commitment to maintain the quality of infrastructure is required, including infrastructure for which the central government is responsible.** Such infrastructure includes national roads, electricity, seaports, and airports. Table 5.4 showed that the percentage of good quality national roads in North Sulawesi decreased, in a direct opposite of the trend for the quality of provincial roads. Several infrastructure services such as electricity supply have indeed been decentralized, but the sales and distribution mechanism remains under central authority. Infrastructure support has been strengthened by the plan to establish Bitung Port as a global connecting port in Indonesia as indicated in the Coordinating Ministry for the Economy's 2011-2025 Master Plan for Acceleration and Expansion of Indonesia's Economic Development.

**Sub-national governments in North Sulawesi need to develop the tourism and service sectors.** North Sulawesi province has an advantage in the tourism and service sectors. This advantage arises supported particularly from the province's adequate human resources, upgraded hotel service providers in the aftermath of the WOC and CTI, and good infrastructure. The tourism industry, which is yet to be fully developed, can add impetus North Sulawesi's economy in the future. Fiscal stimulus and regulations are very much required from sub-national governments. Such measures might include promoting tourism, encouraging community participation-based tourism, encouraging eco-tourism, and reordering and implementing quality standards for travel agents.

**Sub-national governments must support green energy industry.** Electricity needs outside Java-Bali are very high, but the supply is very limited. Geothermal power has been the main source of green energy in North Sulawesi to date, for instance through the Lahendong geo-thermal power station in Tomohon. In the future, sub-national governments could provide tax and non-tax incentives for renewable energy or to industries producing goods in an environmentally friendly manner.

**The education industry is the main driving force and support strata for regional economic development.** North Sulawesi's education sector is one of the advantages the province enjoys. State and private higher education must be able to support the development of the industries identified above. Moreover, collaborations are required between sub-national governments, higher education institutions and the industrial sector to improve labor expertise in the coconut processing industry, fisheries, marine tourism and eco-tourism, the energy and information technology industries. Such collaboration could help achieve an equal supply and demand relationship between labor and job seekers, and in turn reduce the unemployment rate in North Sulawesi.

**Collaborations and networks with neighboring provinces are definitely required.** Cooperation with neighboring provinces to increasing trade between regions and engage in joint regional promotion might include utilization of existing forums such as the Regional Development Cooperation Agency of Sulawesi (BKPRS) or the Heads of the Regional Development Planning Agency (*Bappeda*) Forum as communication fora to harmonize regional policies. For example, neighboring provinces could also utilize Bitung port as the main gateway for regional exports and imports at a far lower cost than shipping via Tanjung Perak or Tanjung Priok on Java. Such measures could make farmers' and fisherman's products from surrounding regions more competitive in the international market.

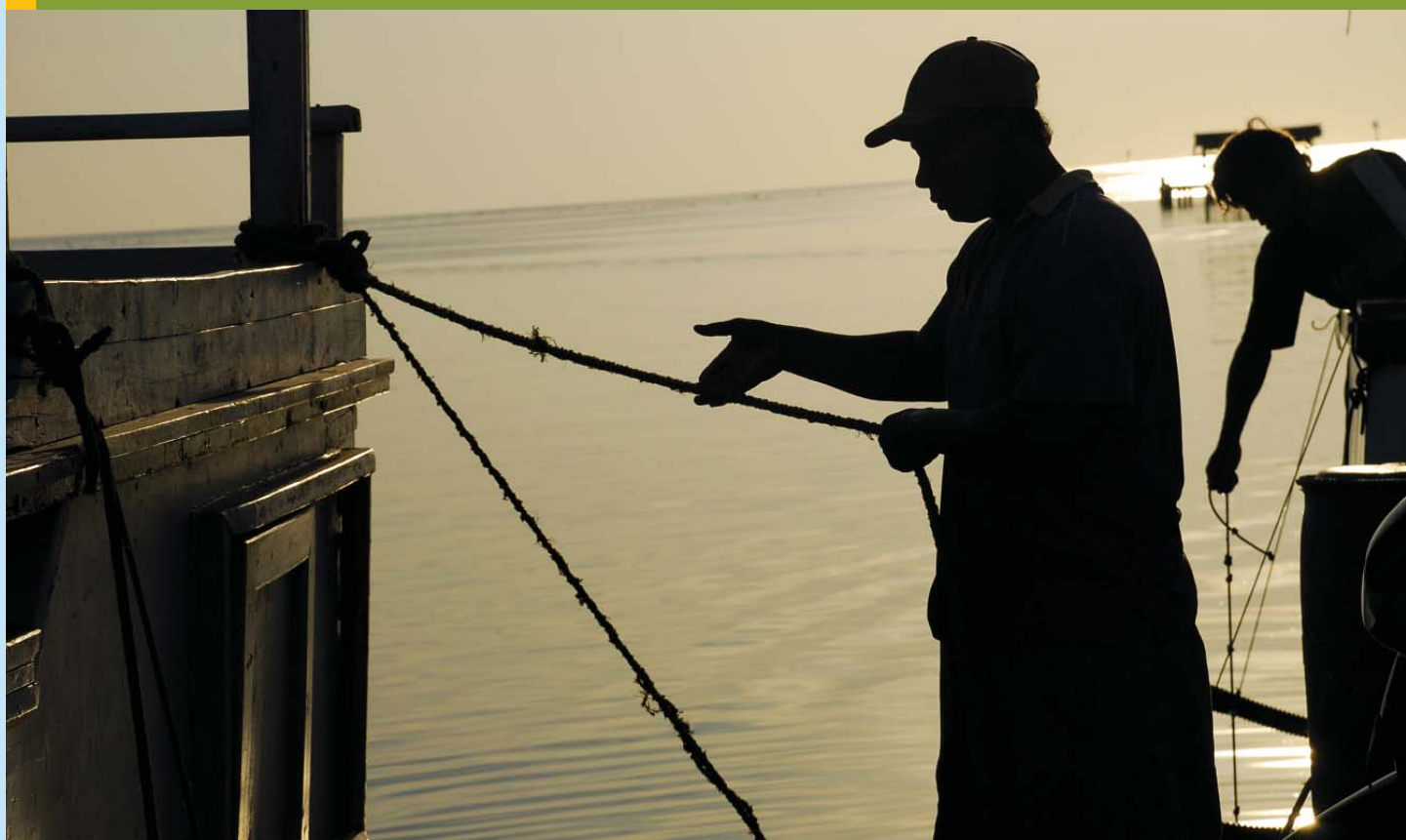
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# Annexes



## Annex A. What is the North Sulawesi Public Expenditure Analysis?

In view of the implementation of Public Expenditure and Capacity Harmonization (PEACH) in various regions of eastern Indonesia, the Government of North Sulawesi took the initiative to conduct a similar program.

Experience from other provinces indicates that participatory public expenditure analysis is a good starting point to improve the quality of sub-national governments' public expenditure management in performing their functions and responsibilities newly apportioned to them under decentralization.

Accordingly, the World Bank, in cooperation with a research team arranged by the Economics Faculty of Sam Ratulangi University, conducted a comprehensive public expenditure analysis to help strengthen sub-national governments' capacity. The North Sulawesi PEACH aims to improve budget resource allocation to contribute to better public service provision at sub-national level, accordance with sub-national government's preferences and deliberations. Involving the decision makers as well as other stakeholders in identifying public expenditure priorities and financial management can achieve such a goal. The main aims of the Public Expenditure Analysis (PEA) component is as follows:

- (i) To obtain a better understanding of public expenditure management in a province, particularly related to the participatory planning and budgeting and the provision of basic services.
- (ii) To obtain a better understanding of ongoing civil service reform, particularly related to regional welfare allowances;
- (iii) To develop strategies to improve North Sulawesi's financial management to achieve better public service provision and public capital investment in order to stimulate higher economic growth.
- (iv) To establish a better system to analyze and monitor the sub-national budget. Such a system could comprise:
  - Establishing a network of counterparts from local universities in North Sulawesi and sub-national government institutions to take the lead in the implementation of the North Sulawesi PEACH, thereby building capacity to be able to independently conduct public expenditure analysis in the future;
  - Providing technical assistance/capacity enhancement to this network to enable it to conduct similar analysis in the future.



## Annex B. Methodology Notes

### B.1 The Sub-national Budget (APBD)

The sub-national budget or APBD is an annual budget, which is allocated and/or spent by provincial and district/municipality governments. The budget consists of two categories: plan (to be approved by the local parliament) and realization (actual expenses or the accountability report of the head of the regional government).

This report compiled a dataset from provincial and district/municipality governments in North Sulawesi covering the period from 2005-2009; the Ministry of Finance also provided data to enable national-level comparison.

### B.2 Framework for Public Financial Management (PFM): Strategic Sectors, Outcomes and Indicators

The World Bank and the Ministry of Home Affairs will assess the financial management capacity of district/municipality governments in developing a public financial management framework. This framework is divided into nine sectors, which are the keys to district/municipality government level financial management:

- (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
- (9) External Audit and Supervision.

Each strategic sector is divided into one to five outcomes, with a list of indicators for each result. The result represents the desired achievement in each strategic sector, and indicators are used to assess the performance of district/municipality governments in these sectors. These outcomes were not formulated based on international best practices, because the disparity between the resultant outcomes and current realities would be too great to produce practical results.

Respondents are asked to provide “yes” or “no” answers to questions, each of which corresponds to an indicator.

Answers are tallied for each outcome, and the score is the percentage of “yes” answers.

Several strategic sectors have been apportioned a greater number of indicators than other sectors, to provide more weight to these sectors in the overall results. For instance, there are 49 planning and budgeting indicators, but only eight public debt and investment indicators. Procurement (41 indicators) and cash management (31 indicators) are other strategic sectors to have been apportioned greater weight.

The North Sulawesi public financial management survey covered the provincial government and fifteen district/municipality governments. Sam Ratulangi University was involved in the research for the survey. By the end of 2007, the public financial management survey had been conducted in approximately 60 districts/municipalities throughout Indonesia.

### **Methodology**

Results were obtained through interviews and FGDs (Focus Group Discussions) with sub-national government representatives from relevant departments. These discussions involve the regional development planning agency, the department of finance; the regional parliament (DPRD), regional revenue service office; regional treasury office; public works agency and sub-national government supervisory agency. To guarantee the accuracy of the data, every “yes” answer must be supported by related documents and/or cross-checking with an additional respondent.

### **Interpretation of Results**

A score was generated for each strategic sector and survey location. For comparison and evaluation, the score of strategic sectors may be assessed in accordance with the following categories. However, the results are prone to subjectivity bias, because results depend crucially on the interpretation of the party conducting the survey. Currently, the World Bank and the Ministry of Home Affairs are cooperating to improve the survey, particularly to attempt to minimize the risk of subjectivity.

### **Overall Score (%)**

80-100	perfect/fully acceptable
60-79	very good/very acceptable
40-59	good/acceptable
20-39	average/sufficiently acceptable
0-19	less/unacceptable

## Annex C. Matrix of Conclusions and Recommendations

**Table C.1 Agenda and Proposals for the Sub-national Public Financial Management Capacity Building Programs in North Sulawesi Province**

Field	Recommendations	Proposed Programs
Regional Laws and Regulations	<ul style="list-style-type: none"> <li>Complete various regulations to underpin proper public financial management practices in compliance the central government's national regulatory framework, including, (i) Regional Regulation on Capital Investment and Regional Public Service Agency; (ii) Head of Regional Government Regulation on Cost Standards and Analysis of Expenditure Standards in order to support performance-based budgeting; and (iii) other more technical regulations for sub-national public financial management</li> <li>Prepare regional regulations to encourage the implementation of transparency and participatory principles</li> </ul>	(i) Training on a comprehensive sub-national public financial management regulatory framework (ii) Technical assistance to ensure completion and enactment of required regional regulations
Planning & Budgeting	<ul style="list-style-type: none"> <li>Improve regional legislature capacity and involvement in the planning and budgeting process</li> <li>Formulate measurable and target-achievement oriented planning and budgeting documents, and enhance synchronization of these documents</li> <li>Prepare a regulation on Cost Standards and Analysis of Expenditure Standards</li> </ul>	(iii) Training for regional legislatures on planning and budgeting (iv) Training and TA on formulation of Cost Standards (SHBJ) and Analysis of Expenditure Standards (ASB) (v) Training and TA on formulation of measurable indicators and targets for various planning and budgeting documents
Cash, asset and procurement management	<ul style="list-style-type: none"> <li>Improve revenue management and mobilization capacity</li> <li>Maintain good performance in revenue management, cash management and control, and temporary cash surplus</li> <li>Maintain and improve procurement performance</li> </ul>	(vi) Training and TA on revenue administration and collection system (vii) Complete regulations sub-national government procurement in compliance with the new regulatory framework established by the central government
Accounting & Reporting	<ul style="list-style-type: none"> <li>Improve human resource capacity with accounting background in public financial management related strategic positions</li> <li>Maintain the integrated accounting information systems established in several regions, and encourage Bolaang Mongondow district to implement a similar system</li> </ul>	(viii) Accounting training and TA (ix) Integrated accounting information system training and TA (x) Increase the number of staff with an accounting background
Internal Audit, External Audit and Supervision	<ul style="list-style-type: none"> <li>Improve the role of internal audits in sub-national public financial management by increasing budget resources and the number of qualified functional auditors</li> <li>Improve communication to support external audit and follow-up of external audit findings</li> </ul>	(xi) Training and TA to strengthen the internal audit function and increase the number of staff with functional auditor capabilities

**Table C.2 Matrix of Conclusions and Recommendations of Revenue and Expenditure Chapters**

Acceptance	
Conclusions	Recommendations
North Sulawesi's district/municipality governments have relatively low own-source revenue and their dependency on central government transfers is increasing. This situation is not in line with the objectives of regional autonomy.	Further study is needed to identify the potential for taxes with an extensive tax base; improved supervision is required to minimize leakage of tax revenues and regional charges; improve human resource capacity in the taxation field is also required.
Non-tax (natural resources) revenue sharing remains extremely small compared to revenue sharing from tax, raising the question of whether North Sulawesi has utilized its natural resource potential to the maximum possible extent.	Further research is required on North Sulawesi's natural resource potential, which may provide a source of regional revenue.
The imbalance in per capita regional revenues between districts/municipalities remains high. Several newly formed districts have very low revenue (particularly Bolaang Mongondow Timur).	Government support is required, for instance through central government transfers, to initiate the development of these newly formed districts/municipalities by improving their fiscal position.
The provincial and most district/municipality governments in North Sulawesi have large unspent budget balances. These sub-national governments cannot absorb the available budget and yet are able to undertake important programs and activities to provide services to the community.	Once their service provision reaches the maximum possible level, these sub-national governments could make additional investments to utilize available funds.

Spending	
Conclusion	Recommendations
Personnel expenditure continues to be very dominant.	<ol style="list-style-type: none"> <li>(1) Reduce the number of personnel through attrition, namely by recruiting fewer new personnel than the number of retiring personnel</li> <li>(2) Recruit highly-qualified personnel and provide proper training to improve productivity</li> <li>(3) Reallocate personnel from areas with excessive number of personnel to the areas experiencing personnel shortage to prevent unnecessary recruitment</li> </ol>
Sub-national governments allocate very little expenditure sectors in which North Sulawesi enjoys an advantage. Only around 3 percent of funds are allocated to agriculture, 0.5 percent to tourism, and approximately 1 percent to the maritime and fisheries sector.	<ol style="list-style-type: none"> <li>(1) Appropriate efficient programs are required, including developing the skills and work ethics of workers in those sectors, and providing adequate finance to enable these advantageous sectors to accelerate the achievement of community welfare.</li> <li>(2) Measures are also required to promote a balance in expenditure trends between personnel spending and infrastructure spending.</li> <li>(3) Health spending of only 8 percent needs to be increased, as health care costs increase and in accordance with the relatively high poverty and unemployment rates.</li> </ol>
The gender responsive budget in North Sulawesi remains very small.	<ol style="list-style-type: none"> <li>(1) Increase expenditure allocation to promote women's empowerment in North Sulawesi's economic development.</li> <li>(2) Steps are needed to increase women's access to economic sectors to facilitate improvement to women's standard of living.</li> <li>(3) Adequate budget allocations are required to finance programs for victims of trafficking, rape victims, unwanted pregnancies and neglected children, including provision of legal aid.</li> <li>(4) Increase budget allocations for the welfare of senior citizens.</li> </ol>

**Table C.3 Matrix of Conclusion and Recommendations for Sectoral Chapter**

Health	
Conclusion	Recommendations
Health indicators in North Sulawesi are generally better than in its neighboring provinces in Sulawesi and than the national average. The distribution of health services and outcomes between districts/municipalities requires attention..	All districts require sufficient medical personnel who are able to access and be accessed by the community.
Health expenditure mostly accounts for less than 10 percent of total expenditure (both provincial and district/municipality level). Most provincial level health spending is allocated to personnel spending. Archipelagic districts have higher per capita health spending than other areas in North Sulawesi province.	Both the provincial and district/municipality governments need to increase the proportion of total expenditure that they allocate to health expenditure. This is important to increase the allocation of community-oriented public expenditure.
The correlation between outputs (ratio of doctors and midwives per 10,000 residents) and outcomes (immunization coverage and birth assisted by medical workers) varies. In urban areas, outputs and outcomes were relatively even, but in districts with larger territory such as the archipelagic districts, health sector outcomes varied. These variations arise because limited transportation and geographical location impede even distribution of and access to medical personnel in archipelagic districts.	Archipelagic districts merit special attention in terms of access and mobility of health workers. Public perceptions of public health service in North Sulawesi are relatively positive, but providers need to improve the standard and hygiene of their equipment and facilities.
Education	
Conclusion	Recommendations
The quality of education outcomes in North Sulawesi is the highest in Indonesia. Education outcomes are also relatively even across every district/municipality in North Sulawesi.	Improve the quality of education of graduates to support job creation and reduce unemployment.
Disparities in education indicators in North Sulawesi are relatively small, both between districts/municipalities, age groups, and sexes.	The equal distribution of access to education in archipelagic districts, in terms of getting students to school and mobilizing teachers, requires attention.
Education sector spending in North Sulawesi increased more than twofold in five years and its proportional allocation is generally always above 20 percent. This overall increase was matched by an increase of personnel spending, which also doubled. Almost all districts and municipalities spend more than 20 percent on education.	The proportion of education expenditure spent on personnel is higher than several other regions where PEA studies have been conducted, and requires reduction.
Education expenditure in North Sulawesi is increasingly dependent on central government transfers. This means the central government is playing an increasingly strong role in providing higher education in North Sulawesi.	A recommendation is for universities in North Sulawesi to improve their quality and self-reliance to reduce central government transfers, for instance through producing academic outputs such as research and training.

Infrastructure	
Conclusion	Recommendations
Infrastructure expenditure has increased fourfold in the last five years, over which period the share of spending on personnel has decreased. Four newly established districts/ municipalities are the highest spenders on infrastructure in North Sulawesi.	The majority of infrastructure spending from newly established districts must be taken into account, since it does not automatically equate to provision of better basic services.
Of the three basic infrastructure categories, the coverage of clean water was lower compared than access to sanitation and electricity coverage. Disparities remain between districts and income groups.	It is recommended provision of services for basic infrastructure access focus on lower income earners, especially for the provision of clean water and sanitation access.
A shift in passenger traffic has occurred from sea transportation to air transportation. Sea transportation remains favored for freight.	The main recommendation is to improve carrying capacity and service quality of at airports to anticipate growth in passenger numbers. Another recommendation is to improve loading and unloading efficiency at the port to anticipate growing goods' traffic and improve competitiveness against other ports.
Communities in outermost districts remain heavily reliant on pioneer shipping services, but there are very few pioneer vessels in North Sulawesi.	A special allocation of infrastructure spending to support pioneer shipping is required, because these routes are unlikely to attract commercial operators.

Agriculture	
Conclusion	Recommendations
Agriculture expenditure in North Sulawesi more than doubled between 2005 and 2009, with nearly half of spending coming from central government deconcentration funds. Agriculture spending amounted to 6 percent of total expenditure over this period, half of which was allocated to the personnel spending.	The main recommendation is to decrease capital expenditure on government buildings and facilities. Spending on agricultural counseling and facilitation programs, which is usually included in goods and services expenditure, also needs to be increased.
Rice production in North Sulawesi has increased by nearly 100,000 tons (24 percent) over the past five years. Maize production increased by more, at 161 percent in five years. Maize farm productivity also increased by nearly 50 percent, compared to stagnant rice farm productivity of 4.9 tons per hectare.	Since agricultural commodities such as rice and other crops are vulnerable to climate change, sub-national governments in North Sulawesi must prepare facilitation and awareness programs to assist farmers to adapt to such climate change.
Among high potential cash crop commodities in North Sulawesi, it was the production of nutmeg and cacao that increased between 2005 and 2008. Although coconut production in 2008 exceeds 2005 levels, production has actually been decreasing since 2006.	North Sulawesi needs to adopt a strategic policy focused on certain plantation products to increase its competitiveness. An agro-industry policy should be pursued in tandem with this policy to add greater value to North Sulawesi's plantation products..

**Table C.4 Matrix of Conclusions and Recommendations for North Sulawesi's Development Policy**

Conclusion	Recommendations
The gender-responsive budget in North Sulawesi remains relatively small. There are relatively few gender-related problems in North Sulawesi, but province faces the issue of trafficking.	A greater spending allocation is required to promote women's empowerment in North Sulawesi's economic development so as to improve the standard of living of women.
North Sulawesi's high gender outcome scores do not provide the whole picture of gender in the province.	Comparative study of indicators used for the Gender-related Development Index and Human Development Index to ascertain exactly what disparities have occurred (in which sectors) and afterwards take measures to reduce the disparity.
Regional level cooperation can serve as an opportunity for provinces involved actively by the central government.	The commitment and cooperation of the central government and sub-national governments is required to enact supporting regulations for ports, immigration and customs.
A commitment to maintain the quality of infrastructure is required, including infrastructure for which the central government is responsible.	Improve quality of infrastructure that supports economic activities including airports, seaports, roads and electricity.
Sub-national governments in North Sulawesi need to develop the tourism and service sectors.	Fiscal stimulus and regulations are very much required from sub-national governments. Such measures might include promoting tourism, encouraging community participation-based tourism, encouraging eco-tourism, and reordering and implementing quality standards for travel agents.
Sub-national governments must support green energy industry. Electricity needs outside Java-Bali are very high, but the supply is very limited.	Sub-national governments could provide tax and non-tax incentives for renewable energy or to industries producing goods in an environmentally friendly manner.
The education industry is the main driving force and support strata for regional economic development.	Collaborations are required between sub-national governments, higher education institutions and the industrial sector to improve labor expertise in the coconut processing industry, fisheries, marine tourism and eco-tourism, the energy and information technology industries.
Collaborations and networks with neighboring provinces are definitely required.	Utilization of existing forums such as the Regional Development Cooperation Agency of Sulawesi (BKPRS) or the Heads of the Regional Development Planning Agency (Bappeda) Forum as communication fora to harmonize regional policies.



## Annex D. Budget Master Table

### Annex D.1 Consolidation of North Sulawesi's Sub-national Government Budgets

**Table D.1.1 Revenue by Source (million Rupiah)**

Province	2005	2006	2007	2008	2009
Own-source Revenue (PAD)	<b>258,686</b>	<b>261,186</b>	<b>283,220</b>	<b>330,032</b>	<b>331,084</b>
Regional Tax	205,752	206,191	238,424	294,955	289,215
Regional Charges	10,563	10,272	5,302	6,331	7,567
Separated Proceeds Of Regional Asset Management	33,373	30,787	30,311	13,201	16,369
Other Legal Own-Source Revenues	8,998	13,936	9,183	15,545	17,933
<b>BALANCING FUND</b>	<b>356,746</b>	<b>546,750</b>	<b>557,289</b>	<b>627,740</b>	<b>674,268</b>
Tax Revenue Sharing	34,642	46,406	55,451	53,786	62,754
Non-Tax Revenue Sharing	100	541	0	0	0
DAU	322,003	499,804	501,838	545,227	558,635
DAK	0	0	0	28,728	52,879
<b>OTHER SHARING FROM RATIFIED RECEIPTS</b>	<b>18,567</b>	<b>0</b>	<b>65,663</b>	<b>29,670</b>	<b>17,998</b>
Grant Revenue	0	0	0	0	0
Emergency Funds	0	0	40,408	28,647	0
Tax Revenue Sharing From Other Provinces And Sub-national Governments	0	0	0	0	0
Adjustment Fund And Special Autonomy	0	0	22,449	0	17,998
Financial Assistance From Other Provinces And Sub-national Governments	0	0	2,806	0	0
Non-Tax Revenue Sharing From Other Provinces And Sub-national Governments	0	0	0	0	0
Other Revenues	0	0	0	1,023	0
<b>TOTAL REVENUES</b>	<b>633,998</b>	<b>807,936</b>	<b>906,172</b>	<b>987,442</b>	<b>1,023,349</b>

District/Municipality	2005	2006	2007	2008	2009
<b>PAD</b>	<b>135,761</b>	<b>145,968</b>	<b>178,078</b>	<b>173,704</b>	<b>202,969</b>
Regional Tax	53,819	62,103	77,265	66,700	75,605
Regional Charges	51,721	49,492	47,371	51,940	57,160
Separated Proceeds Of Regional Asset Management	11,245	9,043	13,720	10,542	7,931
Other Legal Own-Source Revenues	18,976	25,330	39,722	44,522	62,273
<b>BALANCING FUND</b>	<b>1,988,548</b>	<b>3,545,670</b>	<b>3,657,013</b>	<b>3,875,255</b>	<b>4,631,587</b>
Tax Revenue Sharing	165,183	182,706	207,978	250,802	302,574
Non-Tax Revenue Sharing	4,977	63,138	25,053	1,275	0
General Allocation Grant	1,675,550	2,911,000	2,746,160	2,964,050	3,492,574
DAK	142,838	388,825	677,823	659,129	836,439

District/Municipality	2005	2006	2007	2008	2009
OTHER SHARING FROM RATIFIED RECEIPTS	<b>328,125</b>	<b>99,683</b>	<b>387,646</b>	<b>499,066</b>	<b>659,247</b>
Grant Revenue	0	0	19,643	46,286	42,539
Emergency Funds	0	0	121,896	89,521	64,663
Tax Sharing Revenue From other Provinces and Sub-national governments	0	0	68,521	82,736	137,803
Adjustment Fund and Special Autonomy	0	0	165,439	214,857	285,315
Financial Assistance from other Provinces and Sub-national governments	0	0	0	21,951	65,727
Non-Tax Sharing Revenue From other Provinces and Sub-national governments	0	0	2,909	13,788	40,847
Other Revenues	0	0	9,238	29,925	22,352
<b>TOTAL REVENUES</b>	<b>2,452,435</b>	<b>3,791,322</b>	<b>4,222,737</b>	<b>4,548,025</b>	<b>5,493,803</b>

Note: Calculated from Provincial and District/Municipality APBD (realized) in North Sulawesi, 2005-2010 (2009 constant prices)  
Calculations employ Revised Regional Budget (APBD-P) for Tomohon in 2009

**Table D.1.2 Spending by Economic Classification (Million Rupiah)**

Province	2005	2006	2007	2008	2009
<i>Personnel Spending</i>	<b>223,549</b>	<b>292,218</b>	<b>337,084</b>	<b>376,161</b>	<b>335,167</b>
-Indirect	0	0	269,717	300,717	297,466
-Direct	0	0	67,367	75,445	37,701
<i>Goods and Services Spending</i>	<b>172,173</b>	<b>218,900</b>	<b>209,487</b>	<b>188,620</b>	<b>236,257</b>
-Goods and Services	76,640	111,819	0	0	0
-Official Trip	22,689	36,588	0	0	0
-Maintenance	72,844	70,492	0	0	0
<i>Capital Spending</i>	<b>34,528</b>	<b>0</b>	<b>155,122</b>	<b>161,371</b>	<b>241,284</b>
<i>Other Spending</i>	174,275	292,081	167,808	208,944	221,720

District/municipality	2005	2006	2007	2008	2009
<i>Personnel Spending</i>	<b>1,340,998</b>	<b>1,679,041</b>	<b>1,950,867</b>	<b>2,135,423</b>	<b>2,540,743</b>
-Indirect	0	0	1,674,886	1,873,269	2,279,056
-Direct	0	0	275,981	262,154	261,688
<i>Goods and Services Spending</i>	<b>578,611</b>	<b>854,964</b>	<b>700,572</b>	<b>676,420</b>	<b>826,537</b>
-Goods and Services	297,619	393,038	0	0	0
-Official Trip	99,080	143,198	0	0	0
-Maintenance	181,912	318,728	0	0	0
<i>Capital Spending</i>	<b>385,435</b>	<b>480,245</b>	<b>1,055,598</b>	<b>1,144,036</b>	<b>1,690,853</b>
<i>Other Spending</i>	57,312	385,977	306,679	215,709	188,347

Note: Calculated from Provincial and District/Municipality APBD (realized) in North Sulawesi, 2005-2010 (2009 constant prices)  
Calculations employ Revised Regional Budget (APBD-P) for Tomohon in 2009

**Table D.1.3 Spending by Sector (Million Rupiah)**

Province	2005	2006	2007	2008	2009
Sector					
General Government	418,403	506,778	473,746	545,796	566,058
Infrastructure	64,995	98,367	167,038	150,251	197,910
Education	18,476	48,532	56,251	52,225	53,987
Health	29,542	38,898	47,405	46,117	53,915
Agriculture	16,894	28,690	50,945	49,818	58,452
Fisheries and Marine	5,450	8,655	9,361	10,014	12,850
Forestry	12,485	16,339	8,172	9,373	10,225
Social and Women's Empowerment	4,169	6,257	6,254	8,235	11,187
Industry and Trade	4,852	7,206	6,851	8,243	8,162
Employment	7,769	10,151	11,135	11,687	14,413
Population and Transmigration	0	0	0	0	215
Cooperatives and Small-to-medium Enterprise	3,810	5,698	7,379	6,655	8,805
Tourism	9,580	14,054	7,786	7,919	14,167
Energy and Mineral Resources	3,918	5,672	6,886	6,162	6,198
Environment	2,090	2,994	3,235	3,259	4,080
Capital Investment	2,091	4,904	6,378	5,335	5,241
Housing	0	0	0	0	0
Youth and Sports	0	0	680	13,370	8,518
Spatial Planning	0	0	0	635	45
Defense	0	0	0	0	0
<b>Total</b>	<b>604,525</b>	<b>803,199</b>	<b>869,501</b>	<b>935,096</b>	<b>1,034,428</b>

District/Municipality	2005	2006	2007	2008	2009
Sector					
General Government	703,826	1,161,697	1,510,709	1,299,571	1,580,388
Infrastructure	118,986	492,742	596,184	701,786	1,014,713
Education	808,341	878,788	1,240,227	1,415,790	1,688,736
Health	198,801	354,740	277,985	325,420	424,495
Agriculture	38,737	106,726	136,974	131,227	157,105
Fisheries and Marine	18,844	36,518	48,441	49,745	73,067
Forestry	13,942	21,555	17,502	21,398	27,863
Social and Women's Empowerment	32,002	32,975	13,613	18,778	27,541
Industry and Trade	15,631	21,888	26,349	31,971	49,981
Employment	7,052	54,784	11,018	12,710	14,029
Population and Transmigration	16,933	22,337	17,397	23,029	23,210
Cooperative and Small-to-medium Enterprises	4,997	8,109	12,517	13,178	12,723
Tourism	7,083	14,831	11,026	11,787	17,652
Energy and Mineral Resources	5,943	8,607	10,919	12,206	14,220

District/Municipality	2005	2006	2007	2008	2009
Environment	11,690	18,622	39,827	48,555	53,033
Capital Investment	1,921	4,696	5,858	11,036	8,113
Housing	103,985	160,612	13,375	6,660	19,437
Youth and Sports	987	0	13,596	23,474	10,750
Spatial Planning	38,034	0	10,198	12,610	27,583
Defense	52	0	0	656	1,842
<b>Total</b>	<b>2,362,356</b>	<b>3,400,228</b>	<b>4,013,717</b>	<b>4,171,588</b>	<b>5,246,480</b>

Note: Calculated from Provincial and District/Municipality APBD (realized) in North Sulawesi, 2005-2010 (2009 constant prices)  
Calculations employ Revised Regional Budget (APBD-P) for Tomohon in 2009

## Annex D.2 Central Government Spending for North Sulawesi

**Table D.2.1 Deconcentrated Central Government Spending for North Sulawesi (Million Rupiah)**

	2005	2006	2007	2008	2009
PUBLIC SERVICES	28,588	47,284	12,494	6,144	3,167
DEFENSE	910				
ORDER AND SECURITY	100	7	311	389	551
ECONOMY	221,497	179,792	173,085	207,975	217,337
ENVIRONMENT	6,279		1,841	2,359	4,918
HOUSING AND GENERAL FACILITIES	92,569	21,566	44,866	104,697	145,063
HEALTH	66,811	113,407	93,849	33,168	49,006
TOURISM AND CULTURE	4,791	4,773	4,250	3,626	7,430
RELIGION	12				
EDUCATION	166,738	277,525	278,255	311,871	430,574
POPULATION AND SOCIAL PROTECTION	40,995	55,266	39,211	20,966	18,551

Notes: Data obtained from the Financial Balancing Directorate, Ministry of Finance  
Data is realized data (2009 constant prices).

## Annex D.3 Sun-national Budget By Province and District/Municipality

Table D.3.1 Real Per Capita Sub-national Revenues by District/Municipality, 2009 (Rupiah)

	North Sulawesi Province	Manado Municipality	Bitung Municipality	Tomohon Municipality	Kotamobagu Municipality	Minahasa District	Minahasa Utara District	Minahasa Selatan District	Kepulauan Talaud District	Kepulauan Sangihe District	Kepulauan Sitaro District	Bolaang Mongondow District	Bolaang Mongondow Utara District	Bolaang Mongondow Timur District	Bolaang Mongondow Selatan District	Minahasa Tenggara District
PAD	148,544	166,508	93,140	83,523	51,570	79,095	66,613	47,866	54,421	191,222	137,223	40,695	62,056	10,101	27,129	40,336,2994
Regional Tax	129,759	103,089	34,593	39,745	14,359	28,363	10,504	12,945	12,333	20,515	14,317	1,125	9,737	3,535	5,100	82,64,85213
Regional Charges	3,395	38,342	21,813	25,263	16,333	21,889	18,480	12,706	13,334	86,659	24,257	12,510	11,442	3,199	19,247	20,499,6074
Separated proceeds of regional asset management	7,344	2,754	7,462	11,945	-	6,193	-	-	-	7,438	-	7,929	-	-	-	0
Other Legal Own-source Revenues	8,046	22,323	29,273	6,570	20,878	22,649	37,628	22,215	28,754	76,609	98,650	19,131	40,877	3,367	2,782	11,571,8398
BALANCING FUND	302,517	1,197,436	1,879,729	3,396,850	2,272,018	1,582,876	1,917,540	1,967,504	4,466,901	3,069,445	4,666,478	1,806,690	3,307,320	975,769	1,284,003	286,4351,4
Tax Revenue sharing	28,155	101,794	134,091	352,456	123,268	90,146	121,379	126,300	265,886	114,131	222,561	150,748	197,762	76,962	149,176	12,4501,933
Non-Tax Revenue Sharing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	0
DAU	250,638	967,592	1,501,643	2,445,012	1,616,497	1,239,344	1,453,499	1,529,155	3,401,343	2,151,782	3,277,912	1,274,674	2,436,233	835,458	1,062,631	215,2286
DAK	23,725	128,050	243,996	599,381	532,253	253,386	342,662	312,048	799,672	803,532	1,166,006	381,267	673,324	63,349	72,196	587,563,465
OTHER SHARING FROM RATIFIED RECEIPTS	8,075	124,334	280,892	440,525	265,628	254,611	262,034	365,216	491,737	327,373	493,408	309,156	706,924	179,744	201,450	498,749,856
Grant Revenue	-	-	-	-	-	-	-	-	227,200	-	16,186	-	-	126,261	153,486	94,216,1738
Emergency Funds	-	86,642	-	-	62,660	-	-	42,042	59,847	-	13,758	-	-	-	47,964	418,73,855
Tax Revenue Sharing From other Provinces and Sub-national governments	-	10,276	75,547	77,326	164,707	-	-	323,174	131,455	49,281	-	34,604	61,729	-	-	67,710,6517
Adjustment Fund and Special Autonomy	8,075	-	205,345	363,199	-	35,688	170,622	-	-	215,768	256,464	274,553	645,195	-	-	284,480,712
Financial Assistance from other Provinces and Sub-national governments	-	-	-	-	-	218,924	-	-	-	-	-	-	-	-	-	0
Non-Tax Revenue Sharing From other Provinces and Sub-national governments	-	27,416	-	-	38,262	-	61,668	-	73,236	-	77,946	-	-	53,484	-	0
Other Revenues	-	-	-	-	-	-	29,743	-	-	62,323	129,054	-	-	-	-	10,468,4638
Total Revenues	459,137	1,488,277	2,253,762	3,920,898	2,589,216	1,916,582	2,246,187	2,380,585	5,013,058	3,588,039	5,297,110	2,156,541	4,076,301	1,165,614	1,512,583	34,034,37,55

Note: Calculated from Provincial and District/Municipality APBD (realized) in North Sulawesi, 2005-2010 (2009 constant prices)

Calculations employ Revised Regional Budget (APBD-P) for Tomohon in 2009

**Table D.3.2 Real Per Capita Sub-national Spending by Economic Classification, by District/Municipality, 2009 (Rupiah)**

Spending by Economic Classification	North Sulawesi Province	Manado Municipality	Bitung Municipality	Tomohon Municipality	Kotamobagu Municipality	Minahasa District	Minahasa Utara District	Minahasa Selatan District	Kepulauan Talaud District	Kepulauan Sangihe District	Kepulauan Sitaro District	Bolaang Mongondow District	Bolaang Mongondow Utara District	Bolaang Mongondow Timur District	Bolaang Mongondow Selatan District	Minahasa Tenggara District
<b>Indirect Spending</b>																
Personnel	133,461.29	885,498.10	1,058,186.83	1,505,323.15	843,324.47	1,014,949.36	961,422.80	1,059,050.62	1,662,262.68	1,579,079.96	1,347,775.99	877,562.99	794,478.80	621,918.35	704,630.65	885,859.25
Interest	-	-	2,810.50	-	-	-	-	-	-	-	-	-	-	-	-	-
Grant/Subsidy	9,896.22	25,538.12	8,245.79	23,292.48	16,582.01	2,831.20	10,341.12	65,639.05	87,081.22	105,215.40	49,972.81	28,915.28	33,415.93	6,144.68	3,837.15	27,260.82
Social Assistance	24,551.24	63,753.80	66,418.56	105,354.09	12,287.57	20,596.36	90,728.67	38,289.45	56,762.87	36,693.34	43,059.03	31,992.79	30,044.81	10,760.76	27,147.85	107,692.23
Profit Sharing to Sub-regions	61,326.48	249.59	-	-	-	-	52,008.39	-	2,172.94	-	-	-	-	-	-	-
Assistance to Sub-Region	2,691.96	-	-	25,084.21	2,518.79	34,457.38	-	85,330.77	73,640.28	105,088.00	153,732.22	72,596.46	77,401.00	15,004.80	9,592.88	83,280.82
Unexpected	1,011.22	2,299.50	8,280.46	1,791.73	-	51.88	-	109,39.84	16,000.64	5,366.07	24,847.72	2,547.60	1,846.72	3,577.38	7,674.30	4,899.24
Assistance to Vertical Agency	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Direct Spending</b>																
Personnel	16,914.76	99,956.32	165,999.17	360,864.16	80,870.52	33,782.71	83,178.29	79,742.05	223,508.82	119,552.96	179,256.09	126,436.09	206,379.00	110,886.69	117,204.83	19,745.25
Goods and Services	105,999.44	181,257.83	353,639.46	933,171.49	328,811.07	197,538.17	320,065.98	585,512.45	702,750.86	378,064.77	730,297.51	278,272.93	795,237.44	182,950.86	206,276.63	589,653.31
Capital	108,254.48	335,987.17	535,884.91	1,130,254.56	1,106,902.36	512,814.29	805,758.50	452,769.24	1,002,699.87	1,236,295.66	2,025,615.78	703,372.04	1,779,732.83	58,458.21	456,651.33	1,679,823.45
<b>Total</b>	<b>464,107.09</b>	<b>1,594,540.42</b>	<b>2,199,465.69</b>	<b>4,085,135.88</b>	<b>2,391,296.78</b>	<b>1,817,021.34</b>	<b>2,323,503.74</b>	<b>2,377,273.47</b>	<b>3,826,880.17</b>	<b>3,565,356.16</b>	<b>4,554,557.14</b>	<b>2,121,696.18</b>	<b>3,718,536.53</b>	<b>1,209,701.73</b>	<b>1,533,015.61</b>	<b>3,498,214.36</b>

Note: Calculated from Provincial and District/Municipality APBD (realized) in North Sulawesi, 2005-2010 (2009 constant prices)  
Calculations employ Revised Regional Budget (APBD-P) for Tomohon in 2009

Table D.3.3 Real Sub-national Spending by Usage, by District/Municipality, 2009 (Rupiah)

Spending by Usage	North Sulawesi Province	Manado Municipality	Bitung Municipality	Tomohon Municipality	Kotamobagu Municipality	Minahasa District	Minahasa Uluara District	Minahasa Selatan District	Kepulauan Talaud District	Kepulauan Sangihe District	Kepulauan Sitaro District	Bolaang Mongondow District	Bolaang Mongondow Uluara District	Bolaang Mongondow Timur District	Bolaang Mongondow Selatan District	Minahasa Tenggara District
OBLIGATORY FUNCTIONS																
EDUCATION AFFAIRS	22,847	639,414	636,751	1,037,637	591,381	817,592	711,432	831,970	1,283,969	1,232,520	1,157,638	650,980	549,891	246,963	412,214	669,013
MEDICAL AFFAIRS	24,189	81,664	221,692	217,194	193,479	156,371	203,785	178,959	295,867	411,309	439,892	204,660	202,093	48,765	75,113	270,264
PUBLIC WORK AFFAIRS	82,255	204,088	258,789	590,047	640,313	288,599	355,424	344,888	526,671	483,363	1,132,127	361,946	1,228,354	117,960	302,921	1,296,584
PUBLIC HOUSING AFFAIRS	-	10,538	18,171	56,067	-	-	11,237	-	1,147	28,385	-	-	7,119	-	-	5,584
SPATIAL PLANNING AFFAIRS	20	14,406	23,619	30,468	53,913	-	7,316	-	-	28,888	28,275	-	3,189	-	19,526	-
DEVELOPMENT PLANNING AFFAIRS	3,951	15,090	16,267	34,037	31,964	7,384	28,211	18,052	76,567	33,246	54,518	29,638	68,789	44,187	28,381	22,246
TRANSPORTATION AFFAIRS	6,540	30,430	20,740	62,487	38,004	11,405	15,252	-	41,581	48,394	24,313	12,096	34,034	16,191	17,196	13,658
ENVIRONMENTAL AFFAIRS	1,831	29,372	57,832	48,657	25,805	6,595	18,044	7,223	24,035	24,232	51,807	10,964	33,664	5,960	10,308	23,723
LAND AFFAIRS	-	-	-	-	-	-	503	-	-	13,441	-	-	-	-	-	-
POPULATION AND VITAL RECORDS AFFAIRS	-	7,269	11,118	28,581	14,693	7,118	10,736	-	12,162	18,521	25,101	4,707	17,729	13,569	18,334	7,342
WOMEN'S EMPOWERMENT AND CHILD PROTECTION AFFAIRS	544	-	-	4,720	-	-	16,732	-	109	-	17,474	-	2,384	-	16,796	5,339
FAMILY PLANNING AND PROSPEROUS FAMILY AFFAIRS	92	10,445	18,295	34,451	28,221	12,772	4,151	16,475	27,940	23,381	9,628	15,282	19,789	-	-	21,093
SOCIAL AFFAIRS	4,475	6,873	13,128	1,495	15,454	5,795	15,718	14,164	12,560	13,466	16,020	12,011	5,849	-	-	6,091
EMPLOYMENT AFFAIRS	6,467	6,658	13,641	24,161	-	5,454	5,587	-	-	2,360	3,341	10,043	3,796	-	-	12,904
COOPERATIVES AND SMALL- AND MEDIUM-SCALE ENTERPRISE AFFAIRS	3,951	4,826	11,073	21,930	-	6,291	11,621	-	14,854	1,257	1,437	5,526	1,120	-	5,895	-
CAPITAL INVESTMENT AFFAIRS	2,352	-	11,531	17,631	-	3,642	8,184	3,452	7,375	-	10,669	-	2,154	-	-	-



Spending by Usage	North Sulawesi Province	Manado Municipality	Bitung Municipality	Tomohon Municipality	Kotamobagu Municipality	Minahasa District	Minahasa Utara District	Minahasa Selatan District	Kepulauan Talaud District	Kepulauan Sangihe District	Kepulauan Sitaro District	Bolaang Mongondow District	Bolaang Mongondow Utara District	Bolaang Mongondow Timur District	Bolaang Mongondow Selatan District	Minahasa Tenggara District
CULTURAL AFFAIRS	1,375	19,002	-	19,787	-	-	2,260	-	11,010	12,937	3,520	-	1,384	-	576	14,704
YOUTH AND SPORTS AFFAIRS	3,882	3,914	4,807	25,523	-	-	1,203	-	963	5,861	-	17,152	7,114	-	20,241	-
NATIONAL UNITY AND DOMESTIC POLITICAL AFFAIRS	4,853	41,375	53,609	116,065	27,858	15,670	41,620	23,638	20,933	43,951	73,052	23,078	39,108	12,012	21,657	31,929
GENERAL GOVERNMENT AFFAIRS	238,207	419,246	663,812	1,393,127	572,444	334,460	644,241	709,903	1,210,447	859,154	1,033,411	581,126	1,040,995	602,427	510,453	862,499
PERSONNEL AFFAIRS	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
COMMUNITY AND VILLAGE EMPOWERMENT AFFAIRS	2,119	5,192	10,169	23,900	-	13,804	9,952	34,955	45,244	15,916	56,786	17,507	81,614	55,747	-	29,382
STATISTICS AFFAIRS	-	-	-	-	-	-	-	-	1,032	1,083	3,535	-	-	-	-	-
ARCHIVE AFFAIRS	31	1,994	-	10,106	-	-	30	-	280	489	-	-	13,999	-	-	-
COMMUNICATION AND INFORMATION AFFAIRS	1,461	5,530	12,293	794	-	-	5,720	-	-	7,138	29,546	12,039	18,693	-	-	-
LIBRARY	3,255	-	-	-	8,229	1,300	2,197	2,692	-	6,478	13,111	1,175	-	-	-	-
FOOD SECURITY	2,741	6,421	12,385	-	-	5,581	5,406	11,962	17,958	8,598	-	9,023	-	-	-	8,983
ELECTION AFFAIRS	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
AGRICULTURE AFFAIRS	23,483	13,664	30,005	148,282	121,221	45,809	84,029	88,438	102,055	98,241	109,984	62,938	135,968	-	52,064	61,991
FORESTRY AFFAIRS	4,587	-	57	46,639	-	17,103	19,227	9,901	16,302	4,333	13,120	20,013	37,771	-	-	42,327
ENERGY AND MINERAL RESOURCES AFFAIRS	2,781	-	-	23,448	-	3,633	7,759	6,063	-	16,074	27,205	6,932	33,289	-	-	9,082
TOURISM AFFAIRS	6,356	-	12,814	9,842	-	10,551	28,209	8,544	556	8,985	21,177	7,460	8,615	-	2,441	-
MARITIME AND FISHERIES AFFAIRS	5,765	10,153	27,851	25,929	-	16,715	31,299	26,932	65,534	84,135	151,238	28,113	89,627	35,058	1,401	61,376
TRADE AFFAIRS	3,238	6,974	18,381	10,775	28,319	14,056	4,544	19,530	9,464	27,834	22,263	6,437	5,145	-	1,343	-
INDUSTRIAL AFFAIRS	424	-	20,558	21,313	-	9,323	11,876	19,530	267	1,576	24,369	10,850	23,273	10,861	16,186	22,100
TRANSMIGRATION AFFAIRS	97	-	77	-	-	-	-	-	-	-	-	-	1,988	-	-	-

Note: Calculated from Provincial and District/Municipality APBD (realized) in North Sulawesi, 2005-2010 (2009 constant prices)

Calculations employ Revised Regional Budget (APBD-P) for Tomohon in 2009

## Annex E. Gender Indicators

**Table E.1 Indonesian Human Development Index, 2005-2008**

Province/District/Municipality	Human Development Index			
	2005	2006	2007	2008
1. Nanggroe Aceh Darusalam	68.7	69	69.4	70.76
2. North Sumatera	71.4	72	72.5	73.29
3. West Sumatera	70.5	71.2	71.6	72.96
4. Riau	72.2	73.6	73.8	75.09
5. Jambi	70.1	71	71.3	71.99
6. South Sumatera	69.6	70.2	71.1	72.05
7. Bengkulu	69.9	71.1	71.3	72.14
8. Lampung	68.4	68.8	69.4	70.3
9. Bangka Belitung	69.6	70.7	71.2	72.19
10. Archipelago of Riau	70.8	72.2	72.8	74.18
11. The Special Capital City Region of Jakarta	75.8	76.1	76.3	77.03
12. West Java	69.1	69.9	70.3	71.12
13. Central Java	68.9	68.9	70.3	71.6
14. Yogyakarta	72.9	73.5	73.7	74.88
15. East Java	62.2	68.4	69.2	70.38
16. Banten	69.2	68.8	69.1	69.7
17. Bali	69.1	69.8	70.1	70.98
18. Nusa Tenggara Barat	60.6	62.4	63	64.12
19. Nusa Tenggara Timur	62.7	63.6	64.8	66.15
20. West Kalimantan	65.4	66.2	67.1	68.17
21. Central Kalimantan	71.7	73.2	73.4	73.88
22. South Kalimantan	66.7	67.4	67.7	68.72
23. East Kalimantan	72.2	72.9	73.3	74.52
24. North Sulawesi	73.4	74.2	74.4	75.16
25. Central Sulawesi	67.3	68.5	68.8	70.09
26. South Sulawesi	67.8	68.1	68.8	70.22
27. South-East Sulawesi	66.7	67.5	67.8	69
28. Gorontalo	65.4	67.5	68	69.29
29. West Sulawesi	64.4	65.7	67.1	68.55
30. Maluku	69	69.2	69.7	70.38
31. North Maluku	66.4	67	67.5	68.18
32. West Irian Jaya	63.7	64.8	66.1	67.95
33. Papua	60.9	62.1	62.8	64
<b>INDONESIA</b>	<b>68.7</b>	<b>69.6</b>	<b>70.1</b>	<b>71.17</b>

Source: Gender-Based Development 2006. 2007 & 2008, Ministry of Women's Empowerment & Child Protection in cooperation with the Central Bureau of Statistics (BPS)

**Table E.2 Indonesian Gender-related Development Index, 2005-2008**

Province/District/Municipality	Gender-related Development Index			
	2005	2006	2007	2008
1. Nanggroe Aceh Darusalam	59.3	59.6	62.8	64.12
2. North Sumatera	61.7	63	66.7	68.87
3. West Sumatera	62.3	63	66.3	67.46
4. Riau	61.2	62	64	65.41
5. Jambi	58.6	59.6	61.1	62.49
6. South Sumatera	57	58.5	62.4	64.8
7. Bengkulu	62.3	63.9	65.3	67.05
8. Lampung	58	59.5	60.4	62.18
9. Bangka Belitung	54.3	55.4	57.8	59.69
10. Archipelago of Riau	55.1	56.7	60.5	62.5
11. The Special Capital City Region of Jakarta	67.7	68.1	71.3	72.7
12. West Java	58.2	59.8	60.8	61.81
13. Central Java	59.8	60.8	63.7	64.66
14. Yogyakarta	69.9	70.2	70.3	71.5
15. East Java	58.1	59.7	60.5	62.97
16. Banten	56.7	58.1	59	61.49
17. Bali	64.3	66	66	67.08
18. Nusa Tenggara Barat	52.1	53.9	54.6	55.6
19. Nusa Tenggara Timur	58.6	59.6	61.3	63.44
20. West Kalimantan	57.9	58.8	61	62.78
21. Central Kalimantan	60.8	62.3	67.3	68.31
22. South Kalimantan	60.7	61.8	62.2	63.8
23. East Kalimantan	54.2	54.9	56.6	58.12
24. North Sulawesi	64.1	64.9	66	67.32
25. Central Sulawesi	55.6	56.8	59.8	61.42
26. South Sulawesi	56.9	57.4	59	61.04
27. South-East Sulawesi	59.1	60	61.4	62.48
28. Gorontalo	50.2	52.3	53.6	55.25
29. West Sulawesi	60.1	61.5	63.6	64.18
30. Maluku	61.9	62.5	64.6	66.75
31. North Maluku	59.6	60.3	60.5	62.87
32. West Irian Jaya	51.4	52.6	56.1	57.36
33. Papua	57.4	58.6	59.3	61.4
<b>INDONESIA</b>	<b>63.9</b>	<b>65.1</b>	<b>65.3</b>	<b>66.38</b>

Source: Development Gender-Based 2006, 2007 and 2008, Ministry of Women's Empowerment & Child Protection in cooperation with Central Bureau of Statistics (BPS)

**Table E.3 Indonesian Gender Empowerment Index 2005-2008**

Province/District/Municipality	Gender Empowerment Index			
	2005	2006	2007	2008
1. Nanggroe Aceh Darusalam	42.1	46.5	49.7	50.67
2. North Sumatera	49.5	51.2	54.8	56.95
3. West Sumatera	55.3	55.8	59.1	59.56
4. Riau	43.6	47.3	49.9	51.91
5. Jambi	56.1	55.7	58	60.18
6. South Sumatera	56.1	57.1	60.1	62.46
7. Bengkulu	56.4	58.8	60	62.05
8. Lampung	59.3	60.6	61.4	62.81
9. Bangka Belitung	39.6	40.2	42.4	44.11
10. Archipelago of Riau	35.6	37.7	42.8	43.71
11. The Special Capital City Region of Jakarta	57.8	57.9	62	63.37
12. West Java	49.2	53	54.4	55.51
13. Central Java	56.5	56.9	59.3	59.76
14. Yogyakarta	62.3	62.4	62.4	62.87
15. East Java	56.8	57.6	58	59.81
16. Banten	40.1	45.4	46.5	49.02
17. Bali	56	57.7	57.8	58.95
18. Nusa Tenggara Barat	53.2	54.3	54.5	55.32
19. Nusa Tenggara Timur	56.3	57.3	59	61.14
20. West Kalimantan	48.7	49.4	51.3	53.96
21. Central Kalimantan	57.1	60.1	65.1	66.45
22. South Kalimantan	57.4	57.4	57.7	59.86
23. East Kalimantan	43.8	46.5	48.9	49.74
24. North Sulawesi	62.7	63.6	64.2	65.48
25. Central Sulawesi	58.3	59.6	62.5	63.23
26. South Sulawesi	49.2	50	51.8	52.96
27. South-East Sulawesi	53	53.4	55.3	55.56
28. Gorontalo	51.3	53.5	54.1	55.63
29. West Sulawesi	60.2	60.6	62.8	63.06
30. Maluku	51.4	52.2	53.9	56.28
31. North Maluku	40.1	44.1	44.1	46.63
32. West Irian Jaya	41	50.5	55	55.89
33. Papua	57.1	61.9	63.5	64.56
<b>INDONESIA</b>	<b>59.7</b>	<b>61.3</b>	<b>61.8</b>	<b>62.27</b>

Source: Development Gender-Based 2006, 2007 and 2008, Ministry of Women's Empowerment & Child Protection in coordination with the Central Bureau of Statistics (BPS)

## Annex F. Strength, Weakness, Opportunity, Threat (SWOT) Analysis for North Sulawesi as the Growth Center of Eastern Indonesia

### Analysis of North Sulawesi's Development Strategy to become Indonesia's Gateway to East Asia and the Pacific

**Table F.1 Opportunities (O) and Strengths (S) – Weaknesses (W)**

	STRENGTHS (S)	WEAKNESSES (W)
	<ul style="list-style-type: none"> <li>- Strategic geographical position with relation to East Asia and the Pacific Ocean;</li> <li>- Peninsular position of North Sulawesi located at the edge of the Pacific Ocean, surrounded by Indonesian Archipelagic Sea Lane I and Indonesian Archipelagic Sea Lane II;</li> <li>- Relatively secure area with open-minded society, living in harmony despite the religious and cultural differences;</li> <li>- Rich history as the world center of the spice trade;</li> <li>- Natural riches at sea and on the land, including coral reefs, endemic fauna, spices, deep seas;</li> <li>- Existing industries: coconut, fisheries, ecotourism, marine tourism;</li> <li>- Existing infrastructure: for example, international airport/seaport, special tertiary institution for coconut processing;</li> <li>- Governor's leadership awarded with <i>Bintang Mahaputra</i></li> </ul>	<ul style="list-style-type: none"> <li>- Minimal human resource preparedness issues: Lack of knowledge and training (on targeted activities, for example, tourism and coconut processing industry);</li> <li>- Local institutional cooperation between politicians and bureaucrats;</li> <li>- Access to capital and investment for businesses;</li> <li>- Lack of funding for large projects either from donors or investors;</li> <li>- Local: seaport infrastructure, airport runway, electricity supply;</li> <li>- National: taxes, general perspective on corruption;</li> <li>- Financial management support for district/ municipality governments</li> </ul>

OPPORTUNITIES (O)	SO STRATEGY	WO STRATEGY
<ul style="list-style-type: none"> <li>- The center of economic growth in the world has shifted from the Atlantic to East Asia and the Pacific.</li> <li>- Short term advantages: WOC momentum; presidential support, for example for the airport runway; interest of large company –<i>Maersk</i>; political interest from foreign countries – United States Ambassador and Consul.</li> <li>- National reconciliation and regional autonomy/ decentralization.</li> <li>- Performance of Regional Development Bank (BPD) towards Rp. 1 trillion asset holding.</li> <li>- Existence of several leading private universities and three state universities in eastern Indonesia.</li> <li>- The necessity to shorten the distance between Indonesia and the Asia-Pacific.</li> <li>- Central governmental momentum to develop border and periphery areas.</li> <li>- North Sulawesi and its surroundings have many export commodities</li> <li>- Central government policy to develop growth centers and gateways for Indonesia in addition to Jakarta and Bali.</li> </ul>	<p><b>Industry and Trade Development Strategy</b></p> <ul style="list-style-type: none"> <li>- <b>Encourage Indonesia's active role (through North Sulawesi) in East Asia and Pacific regions.</b></li> <li>- <b>Establish North Sulawesi as the center for container consolidation and distribution from Indonesia to East Asian and Pacific markets.</b></li> <li>- Increase regional cooperation in trade with neighboring provinces (Gorontalo, Central Sulawesi, North Maluku, Maluku, West Papua and Papua)</li> <li>- Regional cooperation, such as Brunei-Indonesia-Malaysia-Philippines East ASEAN Growth Area, ASEAN, EAST ASIA and APEC through regional integration arrangement.</li> <li>- Establish North Sulawesi as the operational and distribution center for container ships servicing the East Asian and Pacific markets;</li> <li>- Making North Sulawesi the regional basis for service and business companies in eastern Indonesia</li> </ul> <p><b>Infrastructure Development Strategy</b></p> <ul style="list-style-type: none"> <li>- Develop Bitung Seaport/Sam Ratulangi Airport</li> <li>- Become one of international scale seaport hubs in Indonesia.</li> <li>- Establish Sam Ratulangi Airport as a transit hub.</li> <li>- Develop basic infrastructure and supporting facilities through the central government.</li> </ul> <p><b>Tourism Developing Strategy</b></p> <ul style="list-style-type: none"> <li>- Promote North Sulawesi as a distribution center for marine tourism and ecotourism for tourists entering and exiting eastern Indonesia.</li> <li>- Promote North Sulawesi as a Center for Maritime Studies and Center for Study of the Marine Tourism Industry and Community Based Eco-Tourism.</li> <li>- Promote North Sulawesi as eastern Indonesia's Meeting Incentive, Convention and Exhibition (MICE) activity center.</li> <li>- Promote North Sulawesi as a center for shopping, entertainment, local food, and inter-faith studies.</li> </ul>	<p><b>Strategy to Enhance Human Resources Quality</b></p> <ul style="list-style-type: none"> <li>- Human resources training program, oriented to tourism activities, coconut processing industry, etc;</li> <li>- Increase community understanding of the Growth Gateway through information campaign.</li> <li>- Develop specific expertise, for example, entrepreneur training for students, skills experience obtained from foreign graduates.</li> <li>- Involvement of academics</li> <li>- Increase the role of education institutions</li> </ul> <p><b>Industry and Trade Development Strategy</b></p> <ul style="list-style-type: none"> <li>- Develop transportation industry for logistics distribution assuming that integration and collaboration have been created.</li> <li>- Develop industry with local potential to achieve economic viability, such as deploying skilled workers in coconut production to develop the industry;</li> </ul> <p><b>Entrepreneurship Development Strategy</b></p> <ul style="list-style-type: none"> <li>-Build local community businesses and plan for expansion;</li> <li>-Build small and medium-scale enterprises with entrepreneurship support (increase quantity and expand reach);</li> <li>-Promote entrepreneurship, either from individuals or community.</li> <li>-Involvement of the banking sector.</li> </ul> <p><b>Good Government and Governance Strategy</b></p> <ul style="list-style-type: none"> <li>- Build trust, commitment and action; cooperation at local level between public institutions (political and bureaucracy);</li> <li>- Build without corruption</li> </ul>

## Analysis of North Sulawesi's Development Strategy to become Indonesia's Gateway to East Asia and the Pacific

**Table F.2 Opportunities (O) and Strengths (S)**

OPPORTUNITIES (O)	STRENGTHS (S)	SO STRATEGY
<ul style="list-style-type: none"> <li>- The center of economic growth in the world has shifted from the Atlantic to East Asia and the Pacific.</li> </ul>	<p>Strategic geographic position with respect to East Asia and the Pacific Ocean;</p>	<p>Industry and Trade Development Strategy, through</p> <ul style="list-style-type: none"> <li>- Encouraging an active role for Indonesia (through North Sulawesi) in East Asia and the Pacific.</li> <li>- Regional cooperation, such as Brunei-Indonesia-Malaysia-Philippines East ASEAN Growth Area, ASEAN, EAST ASIA and APEC through regional integration arrangement.</li> <li>- Making North Sulawesi the regional basis for service and business companies in eastern Indonesia.</li> </ul>
<ul style="list-style-type: none"> <li>- Central government policy to develop growth centers and gateways for Indonesia in addition to Jakarta and Bali.</li> <li>- Central governmental momentum to develop border and periphery areas.</li> <li>- The necessity to shorten the distance between Indonesia and the Asia-Pacific.</li> </ul>	<ul style="list-style-type: none"> <li>- Peninsular position of North Sulawesi located at the edge of the Pacific Ocean, surrounded by Indonesian Archipelagic Sea Lane I and Indonesian Archipelagic Sea Lane II;</li> <li>- Existing infrastructure: for example, international airport/seaport, special tertiary institution for coconut processing;</li> </ul>	<ul style="list-style-type: none"> <li>- Establish North Sulawesi as the center for container consolidation and distribution from Indonesia to East Asian and Pacific markets.</li> <li>- Increase regional trade with neighboring province (Gorontalo, Central Sulawesi, North Maluku, Maluku, West Papua and Papua)</li> <li>- Develop infrastructure; develop Bitung Seaport /Sam Ratulangi Airport; International hub port in eastern part of Indonesia.</li> <li>- Develop basic infrastructure and supporting facilities through central government.</li> </ul>
<ul style="list-style-type: none"> <li>- Short term advantages: WOC momentum; presidential support, for example for the airport runway; interest of large company –<i>Maersk</i>; political interest from foreign countries – United States Ambassador and Consul.</li> </ul>	<ul style="list-style-type: none"> <li>- Relatively secure area with open-minded society, living in harmony despite religious and cultural differences;</li> <li>- There is a good relationship between the central government and sub-national governments, in particular with the leadership of the incumbent president and governor</li> </ul>	<ul style="list-style-type: none"> <li>- Increase North Sulawesi's MICE activities (10 percent of MICE in Indonesia).</li> <li>- Promote North Sulawesi as eastern Indonesia's Meeting Incentive, Convention and Exhibition (MICE) activity center.</li> <li>- Promote North Sulawesi as a center for shopping, entertainment, local food, and inter-faith studies.</li> </ul>



OPPORTUNITIES (O)	STRENGTHS (S)	SO STRATEGY
- National reconciliation and regional autonomy/ decentralization	- Governor's leadership awarded with <i>Bintang Mahaputra</i> - Highest status for state budget audit.	<b>Good Government and Governance Strategy</b> - Developing trust, commitment and action; cooperation at local level between public institutions (political and bureaucracy) - "Developing without corruption" in actualizing good government and governance - Pro-job, pro-poor and pro-growth
- Performance of Regional Development Bank (BPD) towards Rp. 1 trillion asset holding. - Existence several leading private universities and three state universities in eastern Indonesia. - North Sulawesi and its surroundings have many export commodities - North Sulawesi has tourism potential.	- Rich history as the world center of the spice trade; - Natural riches at sea and on the land, including coral reefs, endemic fauna, spices, deep seas; - Existing industries: coconut, fisheries, ecotourism, marine tourism; - Increase in retail business activities in Manado in the last five years involving entrepreneurs from several other regions.	- Facilitating investors with entrepreneur, particularly Micro Small and Medium Enterprises. - Partnership with Banking in infrastructure development. - Promote North Sulawesi as a distribution center for marine tourism and ecotourism for tourists entering and exiting eastern Indonesia. - Promote North Sulawesi as a Center for Maritime Studies and Center for Study of the Marine Tourism Industry and Community Based Eco-Tourism.

## Analysis of North Sulawesi's Development Strategy to become Indonesia's Gateway to East Asia and the Pacific

**Table F.3 Opportunities (O) and Weaknesses (W)**

OPPORTUNITIES (O)	WEAKNESS (W)	WO STRATEGY
<ul style="list-style-type: none"> <li>- The center of economic growth in the world has shifted from the Atlantic to East Asia and the Pacific.</li> </ul>	<ul style="list-style-type: none"> <li>- <b>Sub-national governments are yet to optimize</b> regional cooperation, such as Brunei-Indonesia-Malaysia-Philippines East ASEAN Growth Area, ASEAN, EAST ASIA and APEC through regional integration arrangement.</li> <li>- Lack of financing for large-scale projects both from donors and investors.</li> </ul>	<p>Industry and Trade Development Strategy</p> <ul style="list-style-type: none"> <li>- Promote North Sulawesi as a distribution center for marine tourism and ecotourism for tourists entering and exiting eastern Indonesia.</li> <li>- Promote North Sulawesi as a Center for Maritime Studies and Center for Study of the Marine Tourism Industry and Community Based Eco-Tourism.</li> <li>- Regional cooperation, such as Brunei-Indonesia-Malaysia-Philippines East ASEAN Growth Area, ASEAN, EAST ASIA and APEC through regional integration arrangement.</li> <li>- Establish North Sulawesi as the regional basis for service and business companies in eastern Indonesia</li> </ul>
<ul style="list-style-type: none"> <li>- Central government policy to develop growth centers and gateways for Indonesia in addition to Jakarta and Bali.</li> <li>- Central governmental momentum to develop border and periphery areas.</li> <li>- The necessity to shorten the distance between Indonesia and the Asia-Pacific.</li> </ul>	<ul style="list-style-type: none"> <li>- Sub-national governments are yet to prioritize development of the border economy.</li> <li>- North Sulawesi is yet to become a base for large-scale enterprises.</li> <li>- KABIMA, Special Economic Zone, Integrated Economic Development Region are not yet optimal as an integrated business zone.</li> <li>- Unavailability of Air Cargo, Hub International Port (Local: infrastructure-port, airport runway, power).</li> </ul>	<p><b>Industry and Trade Development Strategy</b></p> <ul style="list-style-type: none"> <li>- Develop transportation industry for logistics distribution assuming that integration and collaboration have been created.</li> <li>- Develop industry with local potential to achieve economic viability, such as deploying skilled workers in coconut production to develop the industry;</li> <li>- <b>Developing border economies.</b></li> <li>- <b>North Sulawesi to become surge investor through investment climate improvement.</b></li> <li>- <b>Optimize economic growth centers.</b></li> <li>- <b>Develop infrastructure, airport and seaport.</b></li> </ul>
<ul style="list-style-type: none"> <li>- Short term advantages: WOC momentum; presidential support, for example for the airport runway; interest of large company –<i>Maersk</i>; political interest from foreign countries – United States Ambassador and Consul.</li> </ul>	<ul style="list-style-type: none"> <li>- Human resource issues: lack of knowledge and training (on targeting activities, for example, tourism and coconut processing industry);</li> </ul>	<ul style="list-style-type: none"> <li>- <b>Encourage the acceleration of central government support through regulations to bring about the gateway concept.</b></li> <li>- <b>Partnership with investors (BOT) to develop infrastructure.</b></li> </ul>

OPPORTUNITIES (O)	WEAKNESS (W)	WO STRATEGY
<ul style="list-style-type: none"> <li>- National reconciliation and regional autonomy/ decentralization</li> </ul>	<ul style="list-style-type: none"> <li>- Lack of district/municipality government financial management support;</li> <li>- Local institutional cooperation between politicians and bureaucrats.</li> <li>- National: taxes, general perspective on corruption</li> </ul>	<p><b>Good Government Governance Strategy</b></p> <ul style="list-style-type: none"> <li>- Build trust, commitment and action; cooperation at local level between public institutions (political and bureaucracy)</li> <li>- “Building without corruption” in actualizing good government and governance</li> <li>- Pro-job, pro-poor and pro-growth</li> </ul>
<ul style="list-style-type: none"> <li>- Performance of Regional Development Bank (BPD) towards Rp. 1 trillion asset holding.</li> <li>- Existence of several leading private universities and three state universities in eastern Indonesia.</li> <li>- North Sulawesi and its surroundings have many export commodities</li> <li>- North Sulawesi has tourism potential.</li> </ul>	<ul style="list-style-type: none"> <li>- Access to capital for business world;</li> <li>- Sub-optimal partnership between sub-national governments and universities.</li> </ul>	<p><b>Strategy to Enhance Human Resources Quality</b></p> <ul style="list-style-type: none"> <li>- Human resources training program, oriented to tourism activities, coconut processing industry, etc;</li> <li>- Increase community understanding of the Growth Gateway through information campaign.</li> <li>- Develop specific expertise, for example, entrepreneur training for students, skills experience obtained from foreign graduates.</li> <li>- Involvement of academics</li> <li>- Increase the role of education institutions</li> </ul> <p><b>Entrepreneurship Development Strategy</b></p> <ul style="list-style-type: none"> <li>-Build local community businesses and plan for expansion;</li> <li>-Build small and medium-scale enterprises with entrepreneurship support (increase quantity and expand reach);</li> <li>-Promote entrepreneurship, either from individuals or community.</li> <li>-Involvement of the banking sector.</li> </ul> <p><b>Tourism Development Strategy</b></p> <ul style="list-style-type: none"> <li>- Optimize marketing and image of North Sulawesi.</li> <li>- Develop cultural performances and regional promotion.</li> <li>- Develop sustainable tourism industry.</li> <li>- Enforce environmental regulation.</li> <li>- Increase tourism spending</li> <li>- Quality of air transportation infrastructure, availability of seats and international flight.</li> <li>- Increase the number of flight operators.</li> <li>- Ground transportation infrastructure, road quality,</li> </ul>

## Analysis of North Sulawesi's Development Strategy to become Indonesia's Gateway to East Asia and the Pacific

**Table F.4 Threats (T) and Strengths (S) – Weaknesses (W)**

	STRENGTH (S)	WEAKNESS (W)
	<ul style="list-style-type: none"> <li>- Strategic geographic position with respect to East Asia and the Pacific Ocean;</li> <li>- Peninsular position of North Sulawesi located at the edge of the Pacific Ocean, surrounded by Indonesian Archipelagic Sea Lane I and Indonesian Archipelagic Sea Lane II;</li> <li>- Relatively secure area with open-minded society, living in harmony despite religious and cultural differences;</li> <li>- Rich history as center of world spice trade;</li> <li>- Existing infrastructures: for example, airport/international seaport, special tertiary institution for coconut processing;</li> <li>- Governor's leadership awarded with <i>Bintang Mahaputra</i></li> </ul>	<ul style="list-style-type: none"> <li>- Human resource issues: Lack of knowledge and training (on targeted activities, for example, tourism and coconut processing industry);</li> <li>- Local institution cooperation between politicians and bureaucrats;</li> <li>- Access to capital and investment for businesses;</li> <li>- Lack of funding for large projects either from donors or investors;</li> <li>- Local: seaport infrastructure, airport runway, electricity supply;</li> <li>- National: taxes, general perspective concerning corruption;</li> <li>- District/municipality government financial management support</li> </ul>

THREATS (T)	ST STRATEGY	WT STRATEGY
1. Morotai Island (North Maluku) has infrastructure potential to become an air transit hub. 2. Political will to develop eastern Indonesia 3. Paradigm of development policy	<p><b>Regulation Enforcement Strategy</b></p> <ul style="list-style-type: none"> <li>- Establish North Sulawesi as a key cluster to strengthen the national economic competitiveness.</li> <li>- Achieve paradigm shift and convince the central government of the importance of the gateway.</li> <li>- Obtain policy support through laws and regulations to support the gateway development beyond the term of the present governor to establish the course of gateway development policy.</li> <li>- Rich history as the center of the world spice trade; if supported by the political will to develop eastern Indonesia</li> </ul> <p><b>Gateway Promotion Strategy</b></p> <ul style="list-style-type: none"> <li>- Increase public understanding of the gateway concept through an information campaign. This knowledge will provide a better orientation in responding to national political dynamics.</li> <li>- Secure area with an open-minded community, living in harmony despite religious and cultural differences as long as there is a development policy paradigm.</li> </ul>	<ul style="list-style-type: none"> <li>- Prepare human resources by increasing gateway-related education and training activities.</li> <li>- Obtain support from central and sub-national governments concerning North Sulawesi's <i>geoposition</i> advantage to establish a gateway.</li> <li>- Obtain support from sub-national governments in eastern Indonesia and the central government.</li> <li>- Offer incentives and regulations to partners/investors, particularly in seaport, airport, immigration as well as customs and excise sectors.</li> <li>- Prepare infrastructure; Sam Ratulangi International Airport Gateway, Bitung International Hub Seaport and Bitung Special Economic Zone (KEK) require special central government policies by enacting special laws, as the central government did for the Sabang Port and Batam, Bintan and Karimun Free Trade Zone, either during the New Order or during the transition period.</li> <li>- Each sub-national government needs urgently to enact regional regulations related to the Regional Long-Term Development Plan (RPJPD), Regional Medium-Term Development Plan (RPJMD), Provincial, District and Municipality Spatial Planning, Airport and Seaport, Investment Procedure and Regional Promotion, Environment, Regional and National Strategic Zone, Regional Infrastructure Development Strategy.</li> <li>- Bureaucracy reform, which sub-national governments are yet to perform comprehensively, must be prioritized. The reform program includes streamlining sub-national government structures and the number of sub-national; personnel, public administration service and integrated investment, health, education and basic infrastructure.</li> <li>- Going forward, regional industrial development should be oriented to the development of fisheries and maritime derivative products, the seaport and airport management service industry, the marine tourism industry, knowledge and technology-based small-and-medium scale industry, micro- and small-scale handicrafts industry, food and beverages, and creative industries which can enhance regional exports and products as well as influence the development of other new economic activities in the region.</li> <li>- Improve district/municipality government financial management</li> <li>- Improve every aspect of promotion and image of region.</li> <li>- Lobby the central government with support from surrounding eastern Indonesian regions to alter the Java and Bali-focused development paradigm.</li> <li>- Maintaining regional security stability against terrorist attacks, trafficking and narcotics, which could damage North Sulawesi's image.</li> </ul>

## Analysis of North Sulawesi's Development Strategy to become Indonesia's Gateway to East Asia and the Pacific

**Table F.5 Threats (T) and Strength (S)**

THREATS (T)	STRENGTH (S)	ST STRATEGY
1. Morotai Island (North Maluku) has infrastructure potential to become an air transit hub.	- Strategic geographic position with respect to East Asia and the Pacific Ocean;	<b>Regulation Enforcement Strategy</b> <ul style="list-style-type: none"> <li>- Establish North Sulawesi as a key cluster to strengthen the national economic competitiveness.</li> <li>- Achieve paradigm shift and convince the central government of the importance of the gateway.</li> <li>- Obtain policy support through laws and regulations to support the gateway development beyond the term of the present governor to establish the course of gateway development policy.</li> <li>- Rich history as the center of the world spice trade; if supported by the political will to develop eastern Indonesia</li> </ul>
2. Political will to develop eastern Indonesia	- Peninsular position of North Sulawesi	
3. Paradigm of development policy	- Located at the edge of the Pacific Ocean, surrounded by Indonesian Archipelagic Sea Lane I and Indonesian Archipelagic Sea Lane II;	
	- Relatively secure area with open-minded society, living in harmony despite religious and cultural differences;	<b>Gateway Promotion Strategy</b> <ul style="list-style-type: none"> <li>- Increase public understanding of the gateway concept through an information campaign. This knowledge will provide a better orientation in responding to national political dynamics.</li> <li>- Secure area with an open-minded community, living in harmony despite religious and cultural differences as long as there is a development policy paradigm.</li> </ul>
	- Rich history as center of world spice trade;	
	- Existing infrastructures: for example, airport/international seaport, special tertiary institution for coconut processing;	
	- There is a good relationship between the central government and sub-national governments, in particular with the leadership of the incumbent president and governor	

## Analysis of North Sulawesi's Development Strategy to become Indonesia's Gateway to East Asia and the Pacific

**Table F.6 Threats (T) and Weaknesses (S)**

THREATS (T)	WEAKNESSES (W)	WT STRATEGY
1. Morotai Island (North Maluku) has infrastructure potential to become an air transit hub.	- Human resource issues: lack of knowledge and training (on targeted activities, for example, tourism and coconut processing industry);	- Prepare human resources by increasing gateway-related education and training activities.
2. Political will to develop eastern Indonesia	- Local institutional cooperation between politicians and bureaucrats;	- Obtain support from central and sub-national governments concerning North Sulawesi's <i>geoposition</i> advantage to establish a gateway.
3. Paradigm of development policy	- Access to capital and investment for the businesses;	- Obtain support from sub-national governments in eastern Indonesia and the central government.
	- Lack of funding for large projects either from donors or investors;	- Offer incentives and regulations to partners/investors, particularly in seaport, airport, immigration as well as customs and excise sectors.
	- Local: seaport infrastructure, airport runway, electricity supply;	- Prepare infrastructure; Sam Ratulangi International Airport Gateway, Bitung International Hub Seaport and Bitung Special Economic Zone (KEK) require special central government policies by enacting special laws, as the central government did for the Sabang Port and Batam, Bintan and Karimun Free Trade Zone, either during the New Order or during the transition period.
	- National: taxes, general perspective concerning corruption;	- Each sub-national government needs urgently to enact regional regulations related to the Regional Long-Term Development Plan (RPJPD), Regional Medium-Term Development Plan (RPJMD), Provincial, District and Municipality Spatial Planning, Airport and Seaport, Investment Procedure and Regional IPromotion, Environment, Regional and National Strategic Zone, Regional Infrastructure Development Strategy.
	- District/Municipality government financial management support	- Bureaucracy reform, which sub-national governments are yet to perform comprehensively, must be prioritized. The reform program includes streamlining sub-national government structures and the number of sub-national; personnel, public administration service and integrated investment, health, education and basic infrastructure.
		- Going forward, regional industrial development should be oriented to the development of fisheries and maritime derivative products, the seaport and airport management service industry, the marine tourism industry, knowledge and technology-based small-and-medium scale industry, micro- and small-scale handicrafts industry, food and beverages, and creative industries which can enhance regional exports and products as well as influence the development of other new economic activities in the region.
		- Improve district/municipality government financial management
		- Improve every aspect of promotion and image of region.
		- Lobby the central government with support from surrounding eastern Indonesian regions to alter the Java and Bali-focused development paradigm.
		- Maintaining regional security stability against terrorist attacks, trafficking and narcotics, which could damage North Sulawesi's image.





