



POLICY BRIEF

EXTENSION OPTIONS

**FOR THE SPECIAL
AUTONOMY FUND
2022-2041**

*Towards a Prosperous and
Self-Sufficient Tanah Papua*

June 2021

KOMPAK

Kolaborasi Masyarakat dan Pelayanan untuk Kesejahteraan
Kemitraan Pemerintah Australia - Indonesia

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Extension Options For The Special Autonomy Fund 2022–2041: Towards a Prosperous and Self-Sufficient Tanah Papua – Policy Brief

ISBN:

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Foreword

Since 2015 the KOMPAK program has been supporting the Government of Indonesia's efforts to reduce poverty and inequality through increased access to basic social services in seven provinces and 24 districts. In Tanah Papua, KOMPAK works in four districts in Papua Province (Asmat, Boven Digoel, Jayapura and Nabire) and four districts in Papua Barat Province (Fakfak, Kaimana, South Manokwari and Sorong), covering a total of 18 sub-districts (*distrik*) with 156 villages (*kampung*).

KOMPAK's support builds on the longstanding partnership between the Government of Australia and the Government of Indonesia in improving access to basic services in Papua and Papua Barat. KOMPAK conducts various pilot activities and technical assistance with the Indonesian government in formulating and implementing development policies in Tanah Papua. For technical policy assistance at the provincial level, KOMPAK's support focuses on optimizing the use of Special Autonomy (Otsus) Funds to improve the quality of development outcomes.

The Otsus policy for Papua and Papua Barat, based on Law (UU) No. 21 of 2001, is ending in 2021. Meanwhile, the poverty rate in Papua is still the highest in Indonesia with significant gap in achieving quality development outcomes compared to other regions. Improved planning and implementing mechanisms are needed to accelerate the achievement of development targets in Tanah Papua. To that end, KOMPAK conducted a study on, "Extension Options for Special Autonomy Fund 2022–2041: Towards a Prosperous and Self-Sufficient Tanah Papua." The study analyzed options for the sustainability of the Special Autonomy Fund in Tanah Papua after 2021.

We hope that the results of this analysis will enrich the perspective of policy makers at the central and regional levels on development in Tanah Papua more broadly, as well as on specific policy options for the Special Autonomy Fund. We believe that data-based policy making can encourage more accountable policies. Specifically related to this study, we hope that the results will be useful for accelerating the achievement of development targets in Tanah Papua and improving the welfare of Indigenous Papuans (OAP).

Regards,

Anna Winoto
Team Leader, KOMPAK

List of Abbreviations

ADK	Kampung Fund Allocation
APBD	Regional Budget (District/Province)
APBN	State Budget
BANGGA Papua	Inclusive child grant program for all native Papuan children under the age of four
BAU	Business-as-usual
BH-PDRD	Revenue Sharing of Local Taxes and Regional Retribution
BKF-Kemenkeu	Fiscal Policy Agency – Ministry of Finance
BLT	Direct Cash Assistance
BPS	Statistics Indonesia
BUMD	Local Government-owned Enterprises
DAK	Specific Allocation Fund
DAU	General Allocation Fund
DBH PPh Badan	Revenue Sharing of Corporate Income Tax
DBH-SDA	Revenue Sharing of Natural Resources
DG	Directorate General
DK	Kampung Funds
DPA	Budget Implementation Documents
DPR	Parliament
DPRP	Papua People's Representative Council
DTI	Additional Fund for Infrastructure
GRDP	Gross Regional Domestic Product
Gerbangmas Hasrat Papua	Joint provincial and district program in Papua that aims to accelerate the achievement of the Human Development Index (HDI)
IPG	Gender Development Index
HDI	Human Development Index
IKK	Construction Cost Index
K/L	Ministry and Government Institutions
KFD	Regional Fiscal Capacity
KOMPAK	Kolaborasi Masyarakat dan Pelayanan untuk Kesejahteraan – Australia–Indonesia Government Partnership
KPK	Corruption Eradication Commission
KPPOD	Monitoring Committee on the Implementation of Regional Autonomy

KPS	Papua Health Card
MRP	Papuan People's Assembly
MSS	Minimum Service Standard
NER	Net Enrolment Rate
NKRI	Unitary State of the Republic of Indonesia
OAP	Indigenous Papuans
Otsus	Special Autonomy
PAD	Own-Source Revenue
PBB-P3	Land and Building Tax on Plantation, Forestry and Mining Objects
PDN	Net Domestic Income
Perdasus	Special Regional Regulation
Perpu	Government Regulation in Lieu of Law
PO	Phasing-out
PODES	Indonesia Village Survey
PON	National Sports Week
Posyandu	Integrated Health Service Post
PP	Government Regulation
PROSPEK/RESPEK	Kampung Economic Development Strategic Program
PROSPPEK	Kampung Development Strengthening Strategic Program (in Papua Barat)
Puskesmas	Public Health Centre
PW	Public Works
RPJMD	Regional Medium Term Development Plan
RPJMN	National Medium Term Development Plan
SMK	Vocational Secondary Education
SMU	Senior High School
SU	Scaling-up
TKDD	Transfers to Regions and Village Funds

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Chapter 1

Introduction: Towards the End of the *Dana Otsus*

The end of the Special Autonomy Fund (*Dana Otsus*) for Papua and Papua Barat is less than one year away, but welfare levels and community access to public services, especially for indigenous Papuans (*orang asli Papua*, OAP), in Papua and Papua Barat—the two provinces that receive the *Dana Otsus*, not including Aceh—are still lagging compared with other provinces in Indonesia. The poverty rates and the Human Development Index (HDI) in Papua and Papua Barat Provinces remain the lowest in Indonesia and far below the national average. Furthermore, districts/cities (*kabupaten/kota*) with a high proportion of indigenous Papuans (OAP) are documented as having higher poverty rates and lower HDIs than districts/cities with a low proportion of OAP. In addition, some indicators of basic services among OAP communities, such as education, health, and the availability of infrastructure, show similar disparities.

Law No. 21/2001 on Special Autonomy for Papua Province (*Otonomi Khusus Papua Law*) is a general policy framework that guides the implementation of special autonomy (*Otonomi Khusus*) in Papua Province, and which was later expanded to include Papua Barat Province. In general, the special autonomy policy is intended to provide greater authority for Papua and Papua Barat Provinces and the Papuan people to regulate and manage themselves. Broader authority also means greater responsibility for the two provinces and Papuan people to organise local governments and regulate the utilisation of natural resources for the greatest prosperity of the Papuan people. This authority also empowers the socio-cultural and economic potential of the Papuan people, including an adequate role for indigenous Papuans (OAP) through representatives of *adat* (customary society), churches, and women's groups. The policy enables participation in formulating regional policies and determining development strategies, while respecting the equality and diversity of life of the Papuan people, and preserving Papua's unique culture and natural environment. This was reflected in the change in the province's name from Irian Jaya to Papua, and recognising regional symbols in the form of regional flags and regional songs as a way of actualising the Papuan people's identity and recognising the existence of customary rights, *adat*, indigenous peoples, and *adat* law.

Special autonomy is a variant of the decentralisation concept known as asymmetrical decentralisation, applied to certain regions in response to gaps in development outcomes and welfare, as well as to the meet political demands. The *Otonomi Khusus Papua Law* has a philosophy of protection, empowerment, and partiality (Kemitraan, 2018). This philosophy aims to resolve various problems encountered in Tanah Papua by accommodating the rights of the Papuan people in a more proportional manner and resolving various fundamental problems in Papua, such as poverty, underdevelopment, prolonged social problems, and economic disparities. Therefore, special autonomy is a policy intended to accommodate three needs: (i) responding to the needs of increasing and improving regional welfare; (ii) preserving the integrity of the Republic of Indonesia; (iii) and finding a middle ground to various problems in Tanah Papua. However, KOMPAK (2019b) notes that, after

almost 18 years of implementing the *Otonomi Khusus* Papua Law, this effort remains suboptimal as conveyed by the central government, local governments, and from other development stakeholders, including OAP. The central government argues that the progress of Papua and Papua Barat is not proportional to the amount of budget allocated. Local governments suggest that the implementation of special autonomy is suboptimal due to a lack of clarity in where the authority of the Papua and Papua Barat Provincial Governments differs from other provinces in Indonesia, as regulated by Law No. 23/2014 on Regional Government. Meanwhile, OAP point out that the implementation of special autonomy failed to bring significant progress to their lives.

This situation raises three questions. First, why has the enormous amount of the *Dana Otsus* transferred to Papua and Papua Barat over almost 20 years failed to increase the welfare of the community (especially OAP) and quality public services delivery in Tanah Papua, to bring them on a par with other provinces in Indonesia? Second, is the allocation of the *Dana Otsus* to Tanah Papua after 2021 still needed, such that it can provide benefits as mandated by *Otonomi Khusus* Papua Law? Third, assuming the post-2021 allocation of the *Dana Otsus* is still needed, what fundamental changes are required to improve the performance and benefits of the *Dana Otsus* in Tanah Papua? This policy brief discusses a number of extension options for the provision of *Dana Otsus* to Tanah Papua after 2021. This policy brief is intended to provide input for the discussion of the policy for allocating the *Dana Otsus* post-2021.

Chapter 2

Challenges in the Allocation of the *Dana Otsus*

The *Dana Otsus* nominally increased every year from its initiation in 2002 to 2019. However, in 2020, the allocation declined for the first time as a result of budget shifting towards programs and activities in response to the COVID-19 pandemic. The *Dana Otsus* is intended primarily for education and health services. Since 2009, the *Dana Otsus* has been allocated on the basis of 70 percent to Papua and 30 percent to Papua Barat, which means that Papua Barat receives a higher per capita allocation than Papua, at IDR 2.6 million per capita vs. IDR 1.7 million per capita, in 2019, respectively. Based on this and other comparisons, the distribution of the *Dana Otsus* between the two provinces should be reviewed in the post-2021 *Dana Otsus* policy. The allocations of the *Dana Otsus* and their intended utilisation are provided in Table 2.1.

TABLE 2.1. ALLOCATION AND USE OF THE *DANA OTSUS*

PAPUA	PAPUA BARAT
<i>ALLOCATION</i>	
PROSPEK and Strategic Programs <i>Dana Otsus</i> is first deducted by the funding of PROSPEK and cross-district Strategic Programs (which are budgeted in the district budget/APBD). ^a	<i>Dana Otsus</i> is first allocated for financing: <ul style="list-style-type: none">• Assistance for religious activities.• Assistance for welfare improvement for OAP through PROSPEK.• Assistance for joint programs.• Assistance for customary activities and women's empowerment/cultural development.• Assistance to law-mandated institutions.• Direct Cash Assistance (BLT) to OAP.
Province 20%* (<i>Dana Otsus</i> – PROSPEK and cross-district Strategic Program financing).	Province 10%* (<i>Dana Otsus</i> – financing for the above assistance).

PAPUA	PAPUA BARAT
<p>District</p> <p>80%* (<i>Dana Otsus</i> – PROSPEK and cross-district Strategic Program financing), allocated based on the basic and variable allocations.</p> <p>Basic allocation is the minimum allocation given to the districts.</p> <p>Variable allocations are allocations given to the districts based on:</p> <ul style="list-style-type: none"> • Human Development Index (HDI) • Construction Cost Index (IKK) • Population index • Area index • Proportion of OAP index • District fiscal capacity • New Autonomous Region • Facilities and infrastructure for education, health, and clean water. 	<p>District</p> <p>90%* (<i>Dana Otsus</i> – financing for the above assistance), divided proportionally based on indicators:</p> <ul style="list-style-type: none"> • Proportion of OAP index • Area index • Construction Cost Index (IKK) • Human Development Index (HDI) • Compliance Index: an index that measures a district's unused <i>Dana Otsus</i> from the previous year, achievement of program and activity targets, and punctuality in submitting financial reports.
USE	
<p>Strategic Program (as regulated by Governor Regulation)</p> <p>Province</p> <ul style="list-style-type: none"> • Programs in the fields of education, health, community economic development, and infrastructure, which fall under the authority of the province. • Assistance for religious institutions, indigenous Papuan organisations, and foundations engaged in education, health, and community economy. • Data management for planning and development of <i>Otsus</i>. • Monitoring and evaluation of programs and activities financed by the <i>Dana Otsus</i>. • Improving financial performance of <i>Otsus</i>. • Operational expenditure for the implementation of MRP duties and functions. <p>District</p> <ul style="list-style-type: none"> • Education (minimum 30%). • Health (minimum 15%). • Community economic development (minimum 20%). • Infrastructure development (minimum 20%). • Affirmative assistance to religious institutions, indigenous organisations, and women's groups (maximum 6%). • Planning and supervision of local governments, monitoring and evaluation, and reporting of programs and activities (maximum 4%). 	<p>Program/activity financing (percentage is regulated in Pergub; the following percentages were for 2018):</p> <ul style="list-style-type: none"> • Education (30%). • Health and nutrition improvement (15%). • Supporting infrastructure for increasing the welfare of OAP (20%). • Empowerment of community economy and sociocultural activities (20%). • Affirmative action/special enforcement/ partiality (15%).

Source: Perdasus Papua No. 25/2013, Perdasus Papua No. 13/2016, Perdasus Papua Barat No. 2/2019, Pergub Papua Barat No. 1/2018, Pergub Papua Barat No. 56/2018.

* The cross-district Strategic Program is a technical program in certain fields that are included in basic services. Included in the Strategic Program are: RESPEK/PROSPEK, Gerbangmas Hasrat Papua, BANGGA Papua, and the Papua Health Card. See Box 3 for RESPEK/PROSPEK and Gerbangmas Hasrat Papua.

The transfer of the *Dana Otsus* from provinces to districts is imbalanced. The first disparity lies in the nominal amount of the *Dana Otsus* per capita at the district level between Papua and Papua Barat Provinces. The average per capita *Dana Otsus* in 2018 transferred to districts in Papua Barat (IDR 2.1 million) is more than twice that of districts in Papua (IDR 930,000). This imbalance is due, first, as stated earlier, to the distribution of the *Dana Otsus* at the provincial level between Papua Barat (30 percent) Papua (70 percent). It is also because the nominal amount of the *Dana Otsus* for districts in Papua in the period 2014–2018 did not change, which meant that the proportion of the *Dana Otsus* transferred to districts fell from 64.7 percent in 2014 to 55 percent in 2018; such decline did not occur in Papua Barat. The second inequality lies in the variation in the amount of the *Dana*

Otsus per capita between districts within each province, due to disparities in the number of people who live in each district. However, a noteworthy finding is that the per capita *Dana Otsus* in districts with a high proportion of OAP (IDR 1.2 million) is slightly higher than districts with a low proportion of OAP (IDR 1.1 million). This means that the allocation of the *Dana Otsus* has taken into account the existence of OAP, even though the difference in the allocation of per capita *Dana Otsus* between the two groups of districts is small, at only IDR 102,000.

In the post-2021 *Dana Otsus* policy, the allocation of the *Dana Otsus* from provinces to districts should pay greater attention to the presence of OAP. This can be achieved by increasing the weight of the Proportion of OAP Index in the formula for allocating the *Dana Otsus*, and by improving the data on the presence of OAP, based on an OAP definition that is more in line with the special autonomy policy. Primary data (in-depth interviews with relevant central and regional officials, academics, experts, and community leaders) in the KOMPAK study (2019a) also concluded the need to clarify the definition and to increase the weight of the OAP variable¹ in the formula for the allocation of the *Dana Otsus*. As is the case with the distribution of the proportion of the *Dana Otsus* between provinces, the allocation also needs to balance the fiscal needs and fiscal capacity of each district. In addition, the DG Fiscal Balance Ministry of Finance Study (2017a) emphasises the importance of including inequalities in the provision of public services between districts in the allocation of the *Dana Otsus*.

¹ OAP variable is the percentage or share of OAP in a particular district against total number of OAP in the province. District with larger share of OAP will then receive more *Dana Otsus*.

Chapter 3

OAP Welfare and the *Dana Otsus*

Poverty in Tanah Papua has decreased rapidly since the enactment of special autonomy. The poverty rate in Papua was 41.8 percent at the time when special autonomy was implemented and the *Dana Otsus* first disbursed in 2002, falling to 26.6 percent in 2019. During the same period, Indonesia's poverty rate fell from 18.2 to 9.2 percent. Papua Barat also experienced a rapid decline in the poverty rate from 41.3 percent in 2006 to 21.5 percent in 2019. This significant reduction in poverty rates was inseparable from the provision of the *Dana Otsus* in both provinces (KOMPAK, 2019a). The 2019–2023 RPJMD Papua states that a 1 percent increase in the *Dana Otsus* expenditure would reduce the poverty rate by 0.07 percent during the period 2002–2016 (Pemerintah Provinsi Papua, 2019). Despite this significant reduction in poverty rates, in 2019, Papua was the province with the highest poverty rate Indonesia, while Papua Barat was the second highest.

The reduction in the poverty rate among OAP is lower than among non-OAP, and the rate of reduction in poverty rate among OAP is lower than among non-OAP. During the period 2010–2019, districts with a high proportion of OAP (OAP \geq 80 percent, as a proxy for OAP) experienced a decrease in the poverty rate of 6.6 percentage points (from 42.0 to 35.4 percent). During the same period, districts with a low proportion of OAP (OAP <80 percent, as a proxy for non-OAP) experienced a reduction in their poverty rate of 6.5 percentage points (from 25.1 to 18.6 percent). Although there was a significant decline during this period, the rate of reduction in the poverty rate for OAP (1.9 percent per year) is smaller than for non-OAPs (3.3 percent per year). If the downward trend in poverty levels that occurred in 2010–2019 continues, even though the poverty rates for OAP and non-OAP are decreasing, the difference between OAP and non-OAP poverty levels will widen.

Inequality in per capita expenditure in Papua and Papua Barat is lower than the national average. At the provincial level, in general, per capita expenditure inequality increased in 2010–2015, followed by a decline in 2016–2019. The highest Gini coefficient in Papua was 0.422 in 2015, while in Papua Barat it was 0.440 in 2015. In 2019, Papua's Gini coefficient (0.361) was lower than the national average (0.382), while in Papua Barat (0.381) it was almost the same as the national average. During 2010–2017, the Gini coefficient of per capita expenditure for OAP and non-OAP fluctuated with an increasing trend. The Gini coefficient is higher for non-OAP than for OAP. In addition, the annual rate of increase in the Gini coefficient of per capita expenditure on OAP (0.70 percent) is higher than for non-OAP (0.46 percent).

The national Human Development Index (HDI) increased in the period 2010–2019, including in Papua and Papua Barat Provinces. Although the HDI increased for both provinces, their scores remained lower than the national average. In 2019, the HDI scores for Papua (60.8) and Papua Barat (64.7) were still far below the national score (71.9). Although the HDI score in OAP and non-OAP districts increased in 2010–2019, the average HDI score in OAP districts (ranging between 43.4 and 50.7) was much lower than that in non-OAP districts (66.2 to

70.4). However, the annual growth rate of the HDI score in OAP districts (1.7 percent) was higher than that of non-OAP districts (0.8 percent), which indicates a catching-up of the HDI score among OAP compared with non-OAP populations. Although the HDI achievements of OAP are still far from those of non-OAP, if this trend continues the gap between OAP and non-OAP will narrow.

The KOMPAK study (2019a) generally concludes that the implementation of the special autonomy policy in Tanah Papua has brought economic development and community welfare, as well as progress in public services, although progress has been relatively slow. Although local governments in Papua and Papua Barat financially manage funds of an amount (per capita or per km²) much larger than the national average, the level of efficiency and effectiveness of regional spending (provincial, district, and village), including that of the *Dana Otsus*, is relatively low compared with the national average. The low efficiency and effectiveness of *Dana Otsus* spending is due to the fact that the *Dana Otsus* does not prioritise programs/activities that have large and long-term impacts. The evaluation of six basic service areas—education, health, public works, housing, social, and peace and order—conducted for this study found that imbalances in public services between districts are attributable to unfulfilled minimum service standards.

A study by the Directorate General of Fiscal Balance of the Ministry of Finance (DJP-Kemenkeu) (2017a) concluded that the increase in the achievement of six of the seven district-level development performance indicators in Papua is lower than districts outside Papua. This study compares seven development performance indicators between districts in Papua, which receive the *Dana Otsus*, and districts outside Papua that have similar characteristics but do not receive the *Dana Otsus*. This study found that, both in Papua and outside Papua there was an increase in Primary School Net Enrolment Rate (NER) and Junior Secondary School NER; Life Expectancy and Childbirth assisted by health workers; as well as access to safe drinking water, proper sanitation and ratio of roads with stable conditions. However, except for the achievement of the Primary School NER, the increase in education, health, and infrastructure outcomes in districts in Papua, which receive the *Dana Otsus*, was not as big as the increase in districts outside Papua, which do not receive the *Dana Otsus*. This study attributed the low level of improvement in the quality of public services in Papua to the institutional quality of service providers, the quality of service governance, and the low level of community income. In addition, the difficult geographic conditions and the high costs of providing public service facilities and infrastructure also cause the suboptimal performance of public services in Papua.

The DJPK-Kemenkeu (2017b) study regarding the implementation of special autonomy in Papua Barat concluded that the allocation of the *Dana Otsus* and the Additional Fund for Infrastructure (DTI) to Papua Barat has not had a significant impact on improving the welfare of the community. This was evidenced by the low HDI, and high levels of poverty and income inequality in Papua Barat. Furthermore, this study mentions that most districts, subdistricts, and villages do not fully understand the purpose of the *Dana Otsus*. The *Dana Otsus* is viewed as an addition to the APBD, and district governments do not allocate funds for specific programs related to special autonomy implementation and improving community welfare.

Chapter 4

The Role of the *Dana Otsus* in Direct Spending at Various Levels of Government

The *Dana Otsus* contributes 8 to 11 percent to aggregate government spending in Papua and Papua Barat, far less than the contribution of the General Allocation Fund (DAU). Between 2010 and 2018, the *Dana Otsus* is estimated to have contributed 9 to 11 percent (10 percent on average) of total government aggregate spending in Papua and 8.4 to 11.4 percent (10.1 percent on average) in Papua Barat. The proportion of the *Dana Otsus* in the aggregate expenditure of the two provinces is still far below that of the DAU. During the same period, the average DAU contribution to aggregate government spending in Papua was 40.5 percent and in Papua Barat 32.6 percent. In comparison, the Specific Allocation Fund (DAK) contributed 8.1 percent to aggregate government spending in Papua and 6.2 percent in Papua Barat.

The provincial governments have two roles in the management of the *Dana Otsus*: first, as the implementer of programs and activities sourced from the *Dana Otsus* within the scope of provincial-level authority, and second as the manager of the transfer of the *Dana Otsus* to district governments. The *Dana Otsus*, before being distributed to the two provinces (20 percent in Papua and 10 percent in Papua Barat) and their districts (80 percent in Papua and 90 percent in Papua Barat), is first deducted to fund cross-district strategic programs (such as Gerbangmas Hasrat Papua, BANGGA Papua, and the Papua Health Card). Around 30 to 40 percent of provincial government spending is carried out in the form of transfers to districts.

- **The *Dana Otsus* is an important source of funds in the total expenditure of the Papua and Papua Barat Provincial Governments.** The contribution of the *Dana Otsus* to total provincial government expenditure (excluding transfers to districts) in the 2010–2018 period ranged from 39.9 to 53.5 percent (average 45.8 percent) in Papua, and 28.8 to 42.1 percent (average 36 percent) in Papua Barat.
- **The role of the *Dana Otsus* in the direct expenditure² of the Papua Provincial Government is relatively small.** In terms of proportion to the direct provincial expenditure, spending recorded on program/activity funded by the *Dana Otsus* fluctuates. In the 2011–2013 period, the proportion of the *Dana Otsus* to the direct provincial expenditure ranged from 26 to 32 percent, then decreased to just 10 percent in 2015. The contribution of the *Dana Otsus* to provincial direct spending increased to 19 percent in 2018.
- **The contribution of the *Dana Otsus* to the transfers of the Papua Provincial Government to districts is dominant.** In 2010–2017, around 84 to 96 percent of the Papua Provincial Government’s transfer spending to districts came from the *Dana Otsus*. This proportion decreased to the level of 65 percent in 2018.

² Direct expenditure is a budgeted expenditure that is directly related to the implementation of programs and activities.

At the district level on a consolidated basis, in 2010–2019, the *Dana Otsus* contributed 13.3 to 18.4 percent of total district expenditure in Papua and 15.2 to 22.2 percent in Papua Barat. The smaller role of the district level *Dana Otsus* in Papua compared with Papua Barat is due to the fact that the proportion of total *Dana Otsus* transferred to the districts in Papua (55 percent in 2018) is smaller than in Papua Barat (80 percent). In nominal terms, the total *Dana Otsus* transferred to districts in Papua amounted to IDR 3.1 trillion, compared with IDR 1.9 trillion in Papua Barat. Because the number of districts in Papua (29) is greater than Papua Barat (13), the average amount of the *Dana Otsus* per district in Papua (IDR 106.5 million) is smaller than that in Papua Barat (IDR 148.2 billion).

In summary, the *Dana Otsus* plays only a minor role in spending at various levels of government in Papua and Papua Barat. The discussion in this section shows the limited role of the *Dana Otsus* in government aggregate spending in Tanah Papua at only around 10 percent. The contribution of the *Dana Otsus* to direct expenditure at the provincial level in Papua is around 19 percent, while its contribution to direct expenditure at the district level is around 27 percent (on a consolidated basis); both cannot be categorised as having a large influence. If there is a decrease in revenue from the *Dana Otsus*, the direct expenditure of district governments will be more affected than the two provincial governments. Nevertheless, a number of districts with a very small proportion of the *Dana Otsus* to total expenditures are not expected to experience significant disruption in the provision of public services.

Chapter 5

Spending of the *Dana Otsus* is Still Suboptimal

The inconsistencies in the authority to administer public services between those regulated by the central government and those mandated by the *Otonomi Khusus* Papua Law and the dynamics that occurred have caused confusion in the implementation of public services in Tanah Papua. Box 1 briefly describes the inconsistencies in the authority for education and health services in Papua Province.

BOX 1. CHALLENGES IN THE AUTHORITY TO PROVIDE EDUCATION AND HEALTH IN PAPUA PROVINCE

Although *Otonomi Khusus* Papua Law positions the provincial governments (Papua and Papua Barat) as responsible for the delivery of education for all levels, paths, and types, on the ground such responsibility cannot be fully implemented. This is because the implementation of education at the subnational level follows the direction of Law No. 20/2003 on the National Education System and Law No. 32/2004 on Regional Government. The latter states that the administration of primary and secondary education is under the authority of district governments, while the provincial government coordinates the delivery of education across districts at the primary and secondary education levels. The Papua Provincial Government resolved this through the issuance of Papua Provincial Regulation (Perdasi) No. 5/2006 on Education Development in Papua Province, which regulates the authority to administer basic education as under the authority of district governments, while secondary education, both general and vocational, falls under the authority of the provincial government. In addition, management of higher education, which is the authority of the central government, is also implemented by the provincial government through the provision of scholarships to undergraduate (S1), masters (S2), and doctoral (S3) program students, both domestically and abroad. In its implementation, Perdasi No. 5/2006 cannot be implemented appropriately. In 2014, through Governor Regulation (Pergub) No. 32/2014 on Guidelines for the Implementation and Use of *Dana Otsus* in the Education Sector for districts in Papua, the *Dana Otsus* for education was handed over to district governments. This means that the administration of secondary education is the authority of the district governments, which is not in line with the *Otonomi Khusus* Papua Law. Furthermore, with the enactment of Law No. 23/2014 on Regional Government (revised version), and PP 18/2016 on the Organization of Regional Apparatus, basic education becomes the authority of district governments, while secondary education is the authority of the provincial government.

The provincial government is mandated by the *Otonomi Khusus* Papua Law to set quality standards and deliver health services. However, health delivery in Tanah Papua mostly follows Law No. 36/2009 on Health, as well as the Minimum Service Standards (MSS) in the health sector, based on the Law No. 32/2014 on Regional Government, PP No. 2/2018 on Minimum Service Standards, and a series of related Ministry of Health Regulations and their derivatives. Even though the Papua Provincial Government has issued *Perdasi* and *Pergub* relating health administration, at the implementation level this has not been fully felt by communities, especially OAP. This is because Papua Provincial Government is more focused on allocating costs for health insurance, and the budget allocation to support health facilities and health personnel is felt to be very inadequate (KOMPAK, 2019a). With regard to the participation of religious institutions, NGOs, and the business sector in health administration, the Papua and Papua Barat Provincial Governments have not issued related regulations.

Education³: Cumulatively during 2014–2019, the Papua Provincial Government’s direct spending on the education sector for the *Dana Otsus* was used to fund four major programs, namely Education Service Management (25.7 percent), Special Education and Special Services (25.2 percent), Senior High School (SMU) (11.3 percent), and Vocational Secondary Education (SMK) (7.5 percent). The Papua Provincial Government finances programs for compulsory nine-year basic education and early childhood education (until 2018), as well as improving human resources for higher education.

Health: More than half of the cumulative direct expenditure of the *Dana Otsus* for the health sector of the Papua Provincial Government in 2014–2019 was allocated for the Individual Health Program (36.5 percent) and the Procurement and Improvement of Hospital Facilities and Infrastructure (21 percent).

Infrastructure: The direct expenditure of the *Dana Otsus* in the 2014–2019 period for Public Works (PW) infrastructure by the Papua Provincial Government was relatively smaller than for the health and education sectors, especially since most of the PW infrastructure spending was financed from the DTI.

Housing: Housing sector spending is dominated by *Dana Otsus* direct spending. Housing sector expenditure from the *Dana Otsus* the Papua Provincial Government is allocated only for housing development programs, especially for the construction of liveable houses at the district level.

In general, the utilisation of the *Dana Otsus* is still far from optimal. This means that the output of public service delivery funded by the *Dana Otsus* can be achieved at a lower cost, or that the amount of the *Dana Otsus* disbursed can be used to achieve a higher output of public services, or a combination of both. The KOMPAK study (2019a) also documented a number of problems in planning, budgeting, procurement, and internal control systems, which cumulatively resulted in inefficiencies in the use of fiscal resources originating from Transfers to Regions and Village Funds (TKDD) and the *Dana Otsus*. Tryatmoko (2012) notes that the chaotic (or not optimal) management of the *Dana Otsus* is caused by the inadequate implementation of the *Otonomi Khusus* Papua Law, which is supposed to be specific but is often overtaken by the Regional Government Law. Meanwhile, Musa'ad (2011) states that the special autonomy policy in Papua has not been fully implemented. This is due to the existence of the *Perdatus*, finance and politics, dominant central government control, and the presence of the Papuan People’s Assembly (MRP), which affect the ability of provincial and district governments to implement special autonomy policies (including managing the *Dana Otsus*) optimally. The implication of suboptimal utilisation of the *Dana Otsus* so far is that, if the provision of the *Dana Otsus* to Papua and Papua Barat is to be continued after 2021, it would be sufficient to maintain the amount of *Dana Otsus* at its current level

³ Analysis in this policy brief of program/activity spending on Education, Health, Public Works and Spatial Planning (PW), as well as Public Housing and Settlement (Housing) sectors funded by *Dana Otsus* is based on information at the provincial level for Papua Province, where the province managed 45% of *Dana Otsus* in 2018. Analysis of program/activity expenditures in Papua Barat Province and analysis at the district level were not carried out due to unavailability of data on budget/realisation.

along with fundamental improvements in the management and utilisation of funds. Optimising the utilisation of the *Dana Otsus* should be done to improve its performance, especially for those activities related to improving the welfare of OAP. However, the results of calculating public service achievement data using Susenas data (2010 and 2019), as well as PODES data (2014 and 2018), show that, despite the inadequate utilisation of the *Dana Otsus*, public services in Tanah Papua still register progress for both OAP and non-OAP. This reinforces the case that there is no need to increase the amount of the *Dana Otsus* post-2021.

Chapter 6

The Case for Continuing the *Dana Otsus* Post-2021

Even though the *Dana Otsus* only contributes 8 to 11 percent to the Government's aggregate spending in Papua and Papua Barat, it is important to avoid abruptly terminating the provision of the *Dana Otsus* after 2021. The termination of the *Dana Otsus* in 2022 has the potential to seriously impact the economies of Papua and Papua Barat, given the significant role played by government consumption in shaping these economies. Nevertheless, the extension of allocations after 2021 is expected to be transitional towards the permanent termination of the *Dana Otsus*, given the limited fiscal resources of the central government in the coming years. In addition, an adequate transitional period would be aimed at improving the management of public finances in Tanah Papua, and focusing the existing socio-political order towards improving the welfare of OAP and raising funds independently. This transition period could be implemented with a phasing-out strategy aimed at, among others, maintaining the sustainability of public service provision and ensuring the fiscal readiness of local governments in Tanah Papua for when the *Dana Otsus* extension period ends. This phasing-out strategy would be expected to avoid fiscal shocks at the end of the *Dana Otsus*, encourage efficient use of the budget due to budget constraints (austerity concept), and encourage a gradual increase in local government capacity in managing regional budgets. Such a phasing-out strategy has been implemented with special autonomy in Aceh, although with different calculations and according to the local context.

The extension of the provision of the *Dana Otsus* after 2021 needs to be followed by an increase in the efficiency and effectiveness of the management and utilisation of the *Dana Otsus*. In addition, it will also be necessary to rectify the currently overlapping division of authority between levels of government (central, provincial, district, and village governments) within the framework of the special autonomy policy, as well as the involvement of the central government in the planning and budgeting process, and also the control and supervision of the implementation of programs/activities funded by the *Dana Otsus* (and the Additional Fund for Infrastructure, DTI). All requirements must be set out in the grand design for special autonomy in Tanah Papua to be jointly compiled by the central government, Papua and Papua Barat Provincial Governments, the Papua People's Representative Council (DPRP), and the MRP of Papua and Papua Barat Provinces.

Recommendations

The Gol has decided to extend the provision of the *Dana Otsus* to Papua and Papua Barat, but the amount and duration of the extension has yet to be determined. The Gol's official stance to extend the provision of the *Dana Otsus* to Papua and Papua Barat Provinces was decided at a limited meeting (*Ratas*) on the Papua/Papua Barat *Dana Otsus* on 11 March 2020. Results from the *Ratas* include: (i) the *Dana Otsus*, which is due to expire in November 2021, will be extended through revision of the *Otonomi Khusus* Papua Law; and (ii) the *Dana Otsus* distribution system will be improved through the Affirmative DAK (*DAK Afirmasi*) mechanism. Thus far, there is no clarification on whether the *Dana Otsus* will be part of the current *DAK Afirmasi* mechanism or whether the *Dana Otsus* will remain a separate transfer with a mechanism similar to that of *DAK Afirmasi*. Nevertheless, the Gol plans to make the distribution of the *Dana Otsus* more integrated and guided. Regarding the amount of the *Dana Otsus*, the Gol has indicated that there would be an increase of 0.25 percent (or from 2.0 to 2.25 percent) in the national DAU ceiling, while the Gol's official stance regarding the extension period is not widely known.

Better integration and improved governance were the President's main focus for the new design of the *Dana Otsus*. President Joko Widodo conveyed several points regarding the extension of the *Dana Otsus*, two of which are: (i) that the *Dana Otsus* should not stand alone; it must be integrated with other instruments used by the central government from the APBN to accelerate development in Papua and Papua Barat; and (ii) that it is necessary to formulate a new design in a more effective manner, which can accelerate progress in improving the welfare of Papuans in Papua and Papua Barat. Integration of the *Dana Otsus* with other instruments in the APBN will be highlighted separately in the simulation (discussed below) as alternative funding for the accelerated development of Papua and Papua Barat outside of the *Dana Otsus*.

This policy brief offers four scenarios for the continuation of the *Dana Otsus* after 2021. The projection provides an overview of the estimates for the *Dana Otsus* for each of the four scenarios, together with the implications to be considered by policy makers. The provision of the *Dana Otsus* is assumed to continue for 20 years, starting from 2022 to 2041.

The projection of the *Dana Otsus* is calculated using the 2010–2021 DAU as the baseline condition. It is assumed that the *Dana Otsus* in the extension period (2022–2041) will still be based on the national DAU ceiling. The four scenarios for the continuation of the *Dana Otsus* are:

- **Scaling-up (SU)**, where the *Dana Otsus* ceiling is increased from 2 to 3 percent of the national DAU ceiling. This scenario follows the recommendations of the KOMPAK study (2019a), which is based on the idea that there is still a wide gap in public services (especially in the education and health sectors) in Papua and Papua Barat compared with other provinces, as well as the high development challenges in these two provinces, the results of dialogue with various stakeholders, and also projections of development needs in Papua and Papua Barat.
- **Business-as-usual (BAU)**, where the *Dana Otsus* ceiling, following the provision of *Otonomi Khusus* Papua Law, is set at 2 percent of the national DAU ceiling. This scenario is presented as a comparison for the other three scenarios.
- **Phasing-out 1 (PO-1)**, where the annual *Dana Otsus* ceiling decreases gradually and linearly from 2 percent of the national DAU ceiling in 2021 (the last year of the *Dana Otsus* based on the *Otonomi Khusus* Papua Law) to zero in 2042 (the first year after the end of the *Dana Otsus* extension).
- **Phasing-out 2 (PO-2)**, which is similar to PO-1, but the annual decrease in the *Dana Otsus* ceiling starts in the sixth year of the extension (2027). This scenario is formulated by taking into account the impact of the COVID-19 pandemic on the fiscal capacity of Papua and Papua Barat Provinces. In this scenario, from 2022 to 2026, the *Dana Otsus* ceiling is set at 2 percent of the national DAU ceiling (or similar to that of BAU), and then starting from 2027, the *Dana Otsus* ceiling decreases gradually and linearly from 2 percent of the national DAU ceiling towards zero in 2042.

Presentation of the *Dana Otsus* simulation results focus on the PO-1 scenario; the results are compared with those of the BAU scenario. Comparison of these two scenarios is intended to identify an estimated fiscal gap that will need to be filled from other funding sources should the Gol decide to implement the PO-1 scenario.

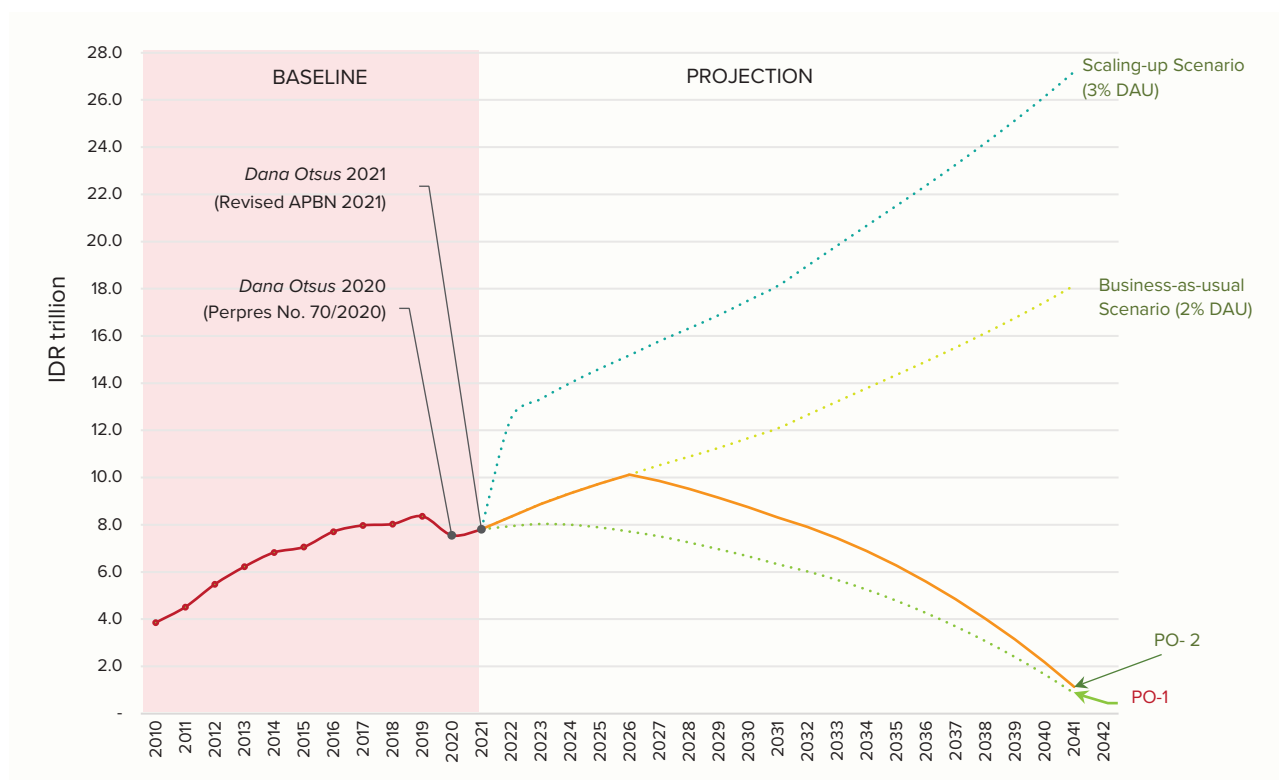
The Phasing-out scenarios of the *Dana Otsus* (both PO-1 and PO-2) are expected to achieve the goal of maintaining the sustainability of public service provision and ensuring fiscal readiness of local governments in Tanah Papua when the extension of the *Dana Otsus* ends. There are three benefits from implementing either one of the phasing-out scenarios:

- **Prevent fiscal shock at the end of the *Dana Otsus* extension period.** The ever-increasing *Dana Otsus* will create a higher fiscal dependence to fund programs/activities in Papua and Papua Barat. The accumulation of the *Dana Otsus* during the extension period of the BAU scenario has the potential to create an identical problem: concerns about the impact of a fiscal shock at the end of the provision of the *Dana Otsus*. The phasing-out scenario is intended to combine the extension of the provision of *Dana Otsus* with structured and gradual efforts to ensure that local governments have better fiscal readiness at the end of the extension period.
- **Increase efficiency.** The phasing-out scenarios are expected to contribute to the efficiency of service delivery and public investment as a result of increasing budget constraints. Through the phasing-out scenarios, local governments are expected to maintain fiscal balance to fund essential public services, and tighten spending on less strategic programs/activities. Development planning processes and prioritising budget allocations should be carried out more carefully and oriented towards the greatest impact for the community.
- **Increase capacity building.** Through the phasing-out scenarios, local governments in Papua and Papua Barat are expected to pay greater attention to efforts to increase capacity in managing regional revenues. The phasing-out scenarios assume that a gradual reduction in the amount of the *Dana Otsus* needs to be followed by systematic efforts to achieve a higher growth rate of local own-source revenues (PAD) than the projected PAD growth rate in the baseline condition.

7.1. Projection of *Dana Otsus* 2022–2041: SU, BAU, PO-1, and PO-2 Scenarios

Based on the SU and BAU scenarios, the *Dana Otsus* is projected to increase, respectively, up to IDR 27.2 trillion and IDR 18.1 trillion in 2041 (the last year of the *Dana Otsus* extension), then go to zero in 2042. Under the BAU scenario, the *Dana Otsus* is projected to increase significantly from IDR 7.8 trillion in 2021 to IDR 18.1 trillion in 2041. With the end of the *Dana Otsus* extension in 2041, it is assumed to be zero in 2042, implying a potential fiscal shock of IDR 18.1 trillion. Likewise, the SU scenario shows a potential fiscal shock of IDR 27.2 trillion in 2042. Figure 7.1 shows simulation results of the *Dana Otsus* for the four scenarios for the period 2022–2041.

FIGURE 7.1 PROJECTION OF THE *DANA OTSUS* FOR 2022–2041 BASED ON THE SU, BAU, PO-1, AND PO-2 SCENARIOS



Source: KOMPAK calculations.

In the phasing-out scenarios, the magnitude of the *Dana Otsus* is estimated to be in the range of IDR 860 billion to IDR 1.1 trillion at the end of the extension period in 2041. The phasing-out scenarios, where the proportion of the *Dana Otsus* gradually and linearly decreases relative to the national DAU ceiling, have low potential for fiscal shock at the end of the extension period. The potential for a fiscal shock can even be totally avoided if systematic efforts to increase PAD succeed in achieving a stable growth target of above 15.4 percent per year (see subsection 7.3). The phasing-out scenarios have unlimited combinations, but here only two scenarios are presented: PO-1 and PO-2. Based on the PO-1 simulation, the *Dana Otsus* in 2041 will only amount to IDR 860 billion, while PO-2 will amount to IDR 1.1 trillion. Because the projected DAU ceiling is constantly increasing, the following are four important notes from the simulation results of the phasing-out scenarios:

- Although the proportion of the *Dana Otsus* to DAU will decrease, it is estimated that the amount of the *Dana Otsus* will still be higher than the 2021 *Dana Otsus* (the last year of the *Dana Otsus* according to the *Otonomi Khusus* Papua Law) until 2024 for PO-1, and until 2031 for PO-2.
- In PO-2, the amount of the *Dana Otsus* is projected to continually increase until 2026.

- The projected fiscal gap at PO-1 starts in 2022 and continues to grow until 2041. The magnitude of the fiscal gap in 2022 is 0.1 percent of the national DAU ceiling, or IDR 470 billion. This implies that, under the PO-1 scenario, fiscal resources from non-*Dana Otsus* sources are needed to close the fiscal gap from the first year of extension period, while fiscal needs from non-*Dana Otsus* sources for the PO-2 scenario are projected to begin in 2028 with 0.12 percent of the national DAU ceiling, or around IDR 700 billion.
- Cumulatively from 2022 to 2041, the fiscal gap for PO-1 is around IDR 77.3 trillion, while for PO-2 it is about IDR 53.3 trillion. Although the cumulative fiscal gap looks large, the annual projection is in the range of IDR 470 billion to IDR 1.8 trillion per year. This means that the annual fiscal needs from non-*Dana Otsus* sources range between IDR 470 billion and IDR 1.8 trillion per year.

7.2 Strategies to close the fiscal gap through non-*Dana Otsus* sources

To close the PO-1 and PO-2 fiscal gaps, non-*Dana Otsus* funding sources are required. This policy brief offers four alternative sources of funding.

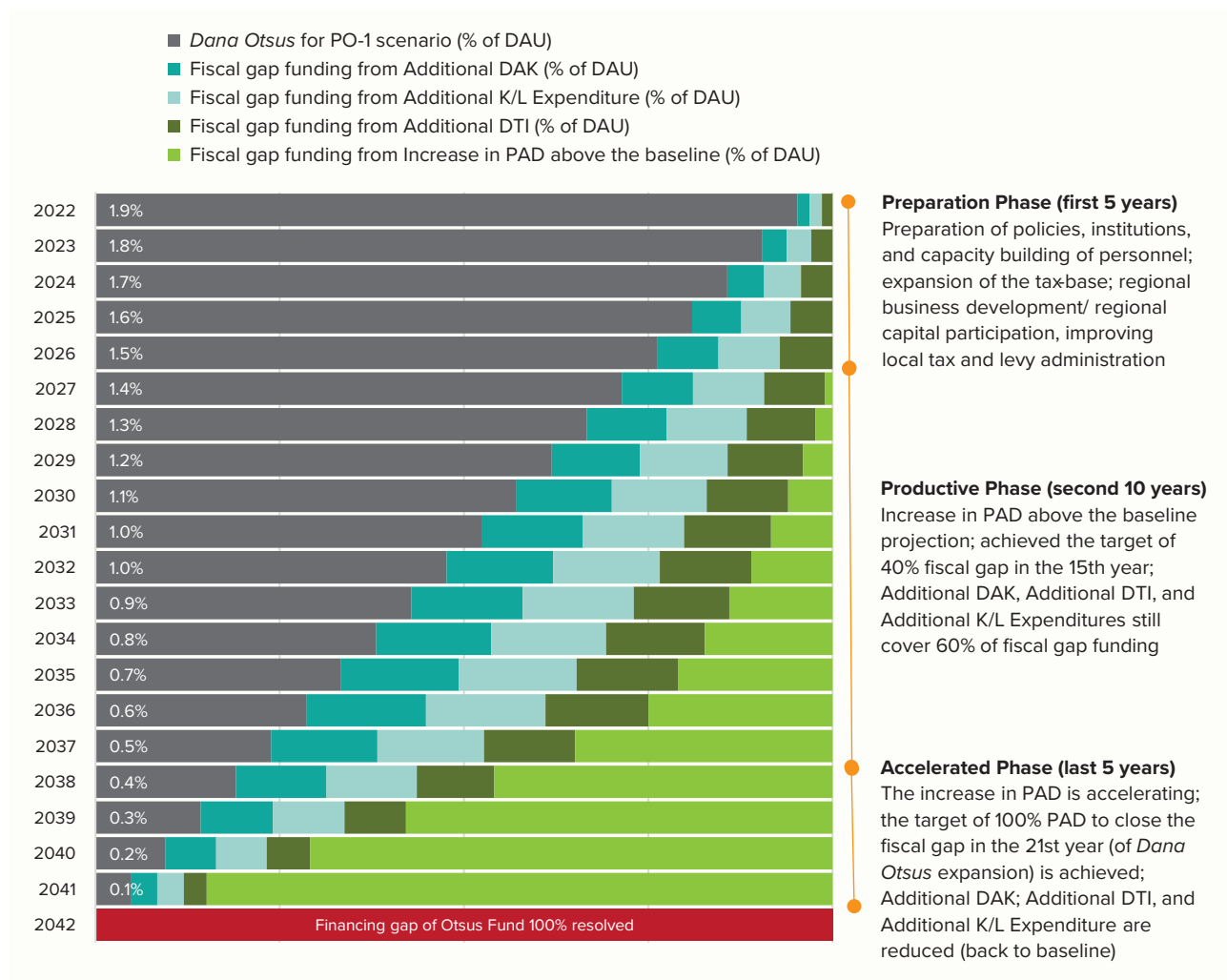
- Increase in Local Own-Source Revenue (PAD).
- Additional DAK above (on top of) the applicable DAK.
- Additional DTI above (on top of) the applicable DTI.
- Additional K/L Expenditures above (on top of) the applicable K/L expenditures.

The funding strategy for each of these funding sources is structured based on three phases of funding following the projected growth of PAD in Papua and Papua Barat. These three phases are:

- **Preparation Phase** for the first five years (2022–2026). In this phase, it is assumed that PAD is still moving at the baseline growth rate. In this phase, alternative funding to cover the fiscal gap still comes entirely from three other sources, namely Additional DAK, Additional DTI, and Additional K/L Expenditures. The focus of local governments in Papua and Papua Barat at this phase is on the preparation and strengthening of institutional, regulatory, and human resource capacity building, as well as the modernisation of regional revenue management organisations. In this phase, efforts should be made to expand the tax base, strengthen tax and retribution systems and administration, ensure new regional investment in strategic ventures that have the potential to generate high returns on investment, and establish Local Government-owned Enterprises (BUMDs), etc. However, it is assumed that PAD growth is still the same as PAD growth in the baseline period.
- **Productive Phase** during the second 10 years (2027–2036). In this phase, PAD is expected to have a role in covering the fiscal gap, but only to contribute about 35 percent of the existing fiscal gap. It is hoped that the improvements and capacity building carried out during the preparation phase produce results. Meanwhile, the funding strategy from Additional DAK, Additional DTI, and Additional K/L Expenditures still has a large enough role to cover about 65 percent of the fiscal gap. In this phase, further efforts towards the accelerated phase (the final five years) will occur.
- **Accelerated Phase** over the final five years (2037–2041). In this phase, PAD growth is expected to accelerate higher than the second 10 years, while the role of funding from Additional DAK, Additional DTI, and Additional K/L Expenditures will begin to decrease. It is expected that PAD can cover 65 to 100 percent of the fiscal gap, in anticipation of termination of the *Dana Otsus* in 2042.

Fiscal gap funding from non-PAD and non-*Dana Otsus* sources has unlimited combinations. This simulation uses the following financing scheme: 35 percent Additional DAK, 30 percent Additional DTI, and 35 percent Additional K/L Expenditure. In PO-1, funding to close the fiscal gap from non-PAD and non-*Dana Otsus* sources takes place from the first year of the extension period (2022), while in PO-2 from 2026. Figure 7.2 illustrates the fiscal gap funding scheme for PO-1.

FIGURE 7.2. FISCAL GAP FUNDING SCHEME BASED ON THE PO-1 SCENARIO



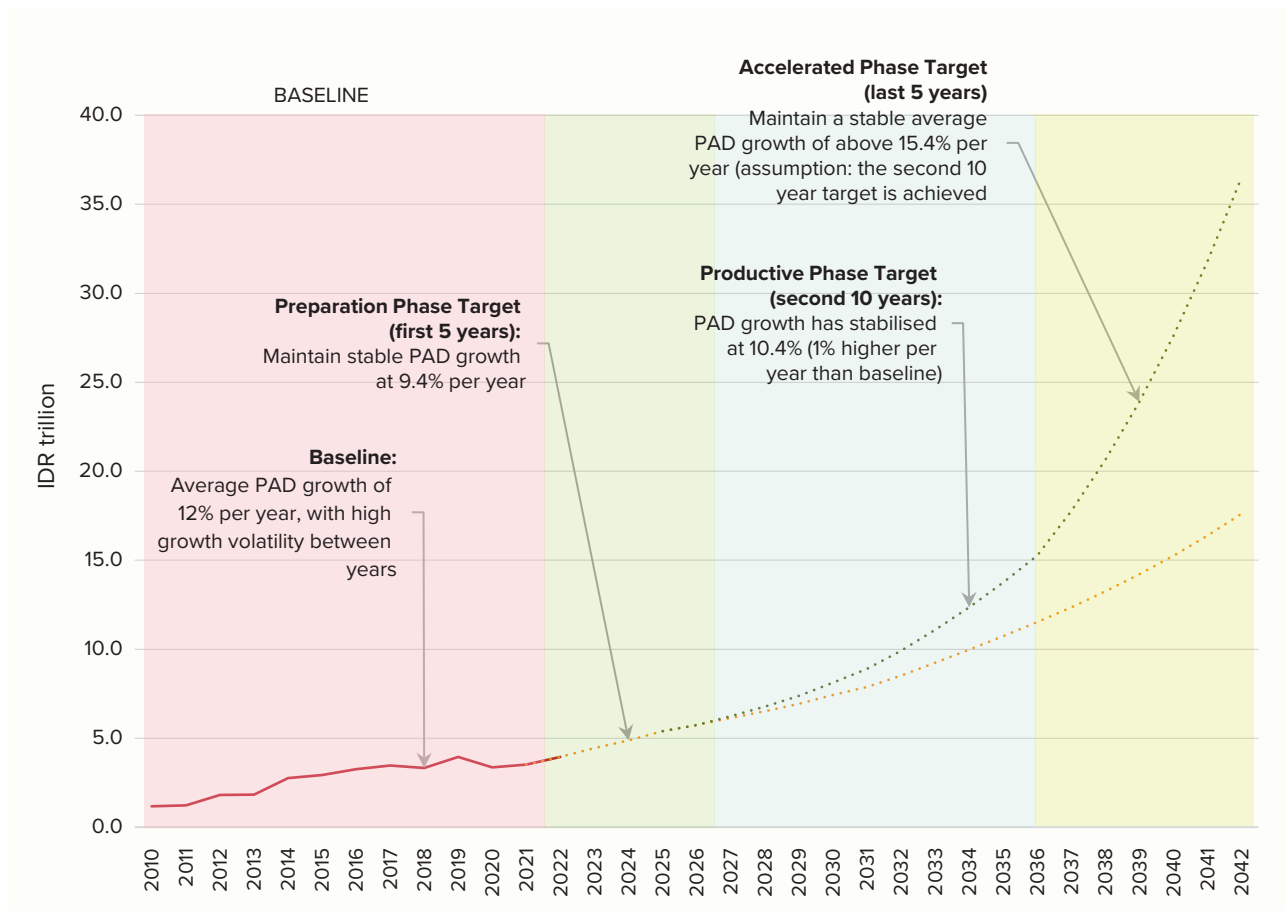
Source: KOMPAK calculations.

Subsections 7.3 to 7.6 present the simulation results of the projections of the four alternative sources of funding to cover the fiscal gap in the PO-1 scenario: increase in PAD (subsection 7.3), Additional DAK (subsection 7.4), Additional DTI (subsection 7.5), and Additional K/L Expenditures (subsection 7.6).

7.3 Closing the fiscal gap through increasing PAD collection

To close the fiscal gap under the PO-1 scenario, PAD growth in Papua and Papua Barat needs to reach a minimum of 10.4 percent per year in the productive phase and 15.4 percent per year in the accelerated phase. The average consolidated PAD growth of all local governments in Papua and Papua Barat was around 12 percent per year in the baseline period (2010–2021). However, this growth rate is marked by very high annual volatility. PAD growth can reach 54 percent during some years, while in other years it only grows by 1 percent or even has negative growth. This suggests that an average baseline PAD annual growth of 12 percent would be difficult to achieve. Simulation results show that, if the PAD growth target can be managed for at least 9.4 percent per year in the preparation phase, at least 10.4 percent per year in the productive phase, and 15.4 percent per year in the acceleration phase, the target of increasing PAD to cover 100 percent of the fiscal gap by 2042 can be achieved. To fulfill this, stable annual PAD growth is essential.

FIGURE 7.3. PROJECTIONS AND TARGETS FOR INCREASING PAD TO CLOSE THE FISCAL GAP UNDER THE PO-1 SCENARIO



Source: KOMPAK calculations.

Note: Projections are based on PAD of all local governments (provinces and districts) in Papua and Papua Barat.

A detailed PAD increase strategy needs to be prepared in accordance with the specific capacities of each local government for each source of PAD. The projection of PAD target increase in this simulation is calculated based on PAD consolidated data of all local governments in Papua and Papua Barat. In fact, the target of increasing PAD must be carried out at each local government with different approaches and solutions between provinces, between provincial and district levels, as well as between district governments. The variety of targets and approaches will depend heavily on achievement of the baseline and the contribution of the *Dana Otsus* to programs/activities in each local government. In addition, it is necessary to map the capacity of PAD based on income sources. The source of the volatility of PAD growth in the baseline period needs to be identified: whether it comes from local taxes, local levies, proceeds from local government wealth/assets, or from other sources of PAD.

News coverage in the mass media, as well as a number of studies conducted by researchers from higher education institutions in Papua, are optimistic on achieving a structured and sustainable increase in PAD. The Papua Provincial Government, together with the Corruption Eradication Commission (KPK), will form a team to collect data on new PAD potential from the forestry sector, fisheries, and sea transportation infrastructure such as ports. In addition, the Manokwari District Government plans to increase PAD from the marine and fisheries sector, given the potential for fisheries, especially tuna. The potential for raising PAD is also reflected in a number of studies conducted by researchers from universities in Papua and Papua Barat. Urip et al. (2016) and Antikasari et al. (2018) documented the potential revenue from market and terminal fees in Kota Jayapura. Increasing local tax and levy revenues through health service fees, nuisance permits, and solid waste service

fees in Jayapura District (Horota et al. 2017), as well as airport parking fees and forest product distribution fees in Yahukimo District (Nusa et al. 2017) have also been studied. Meanwhile, the potential for increasing PAD from wealth/assets management in Papua Province (Funangi et al. 2018) and utilisation of fixed assets in Boven Digoel District (Montayop et al. 2016) has also been studied in a structured manner. To conclude, the desire to increase PAD in Papua and Papua Barat is not new and local governments can undertake more structured and in-depth studies of the potential of PAD with the aim of increasing future PAD.

7.4 Closing the fiscal gap through the provision of Additional DAK

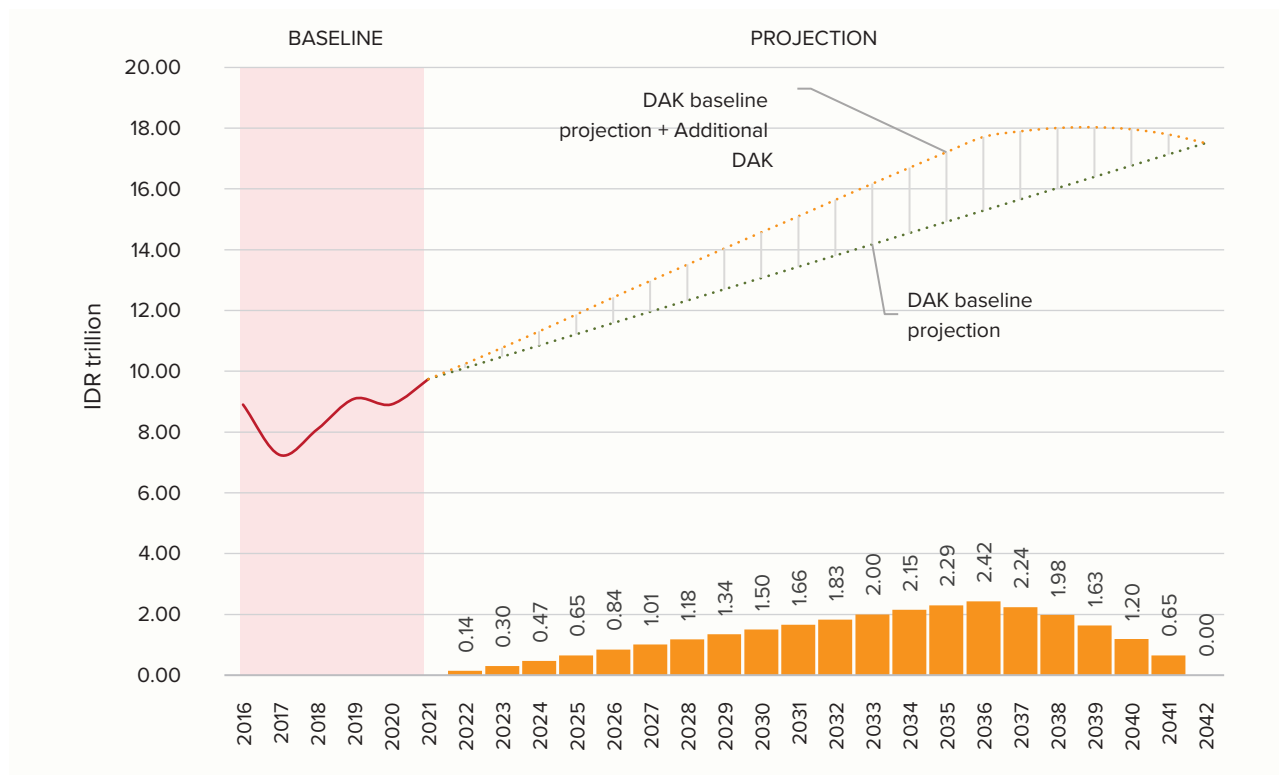
The provision of Additional DAK is an alternative funding instrument to help close the fiscal gap in the phasing-out scenarios, especially for financing basic service programs/activities. The Additional DAK allocation in this projection is a consolidation of the Physical DAK and Non-physical DAK in the entire DAK allocation sector. The simulation is intended to identify the overall DAK ceiling requirements. For the purposes of allocating Additional DAK by sector/sub-sector/program, a more detailed mapping is required, by considering at least the following two aspects:

- The allocation structure for Physical and Non-physical DAK by sector/subsector/program.
- Priority for development needs in respective districts in Papua and Papua Barat that have been funded by the *Dana Otsus*.

Through such mapping, it is hoped that Additional DAK schemes can be obtained to not only achieve the goal of overcoming the fiscal gap, but also to ensure that Additional DAK is allocated for strategic areas.

Simulation results show an estimated Additional DAK of IDR 500 billion to IDR 2.35 trillion per year above (on top of) the baseline projection. The baseline projection refers to the DAK projection based on the growth rate in the baseline period of 2016–2020. The DAK in Papua and Papua Barat is projected to increase from IDR 9.7 trillion in 2021 to IDR 18 trillion in 2041. Annual Additional DAK to close the fiscal gap is estimated to increase from 1.4 percent above (on top of) the baseline projection in 2022, up to a maximum of 15.4 percent in 2036. From 2037, Additional DAK is estimated to decrease until it reaches zero in 2042, when PAD in Papua and Papua Barat is projected to be able to cover 100 percent of the fiscal gap. Figure 7.4 shows the projection and target for Additional DAK increases to close the fiscal gap under the PO-1 scenario.

FIGURE 7.4. PROJECTIONS AND TARGETS FOR ADDITIONAL DAK TO CLOSE THE FISCAL GAP UNDER THE PO-1 SCENARIO



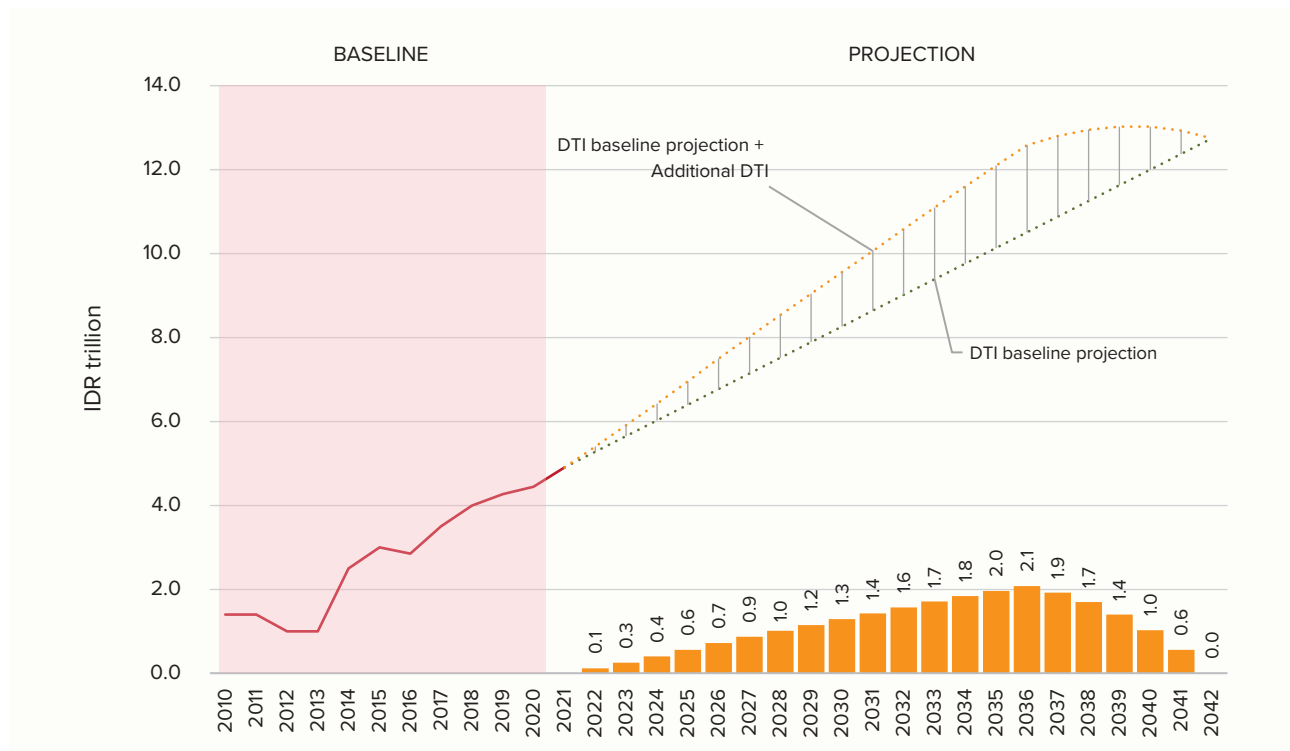
Source: KOMPAK calculations.

7.5 Closing the fiscal gap through the provision of Additional DTI

The need for infrastructure development is still very high in Papua. Additional DTI instruments can be used to accelerate infrastructure development, especially for cross-district road infrastructure. The low connectivity between districts is one of the main development challenges facing Papua and Papua Barat. This is one of the causes of the high Construction Cost Index (IKK) in the two provinces, which has an impact on the high budget requirements for basic service infrastructure development. The simulation is based on the assumption that the provision of DTI will continue in the special autonomy policy post-2021, and that the increase in DTI will follow its baseline trend. The Additional DTI scheme is expected to contribute to the decline in the IKK, so that the funding needs for basic service infrastructure development can be further reduced.

The need for Additional DTI is estimated to be 2 to 19 percent above (on top of) the DTI baseline projection. The *Otonomi Khusus* Papua Law does not stipulate the amount of DTI, as it is fully based on an agreement between the central government and the DPR. The amount of baseline DTI for Papua and Papua Barat is relatively consistent at around 0.7 to 1 percent of the national DAU ceiling. Simulation results based on 2010–2020 DTI baseline data show estimated DTI transfers for Papua and Papua Barat increasing from IDR 4.9 trillion in 2021 to IDR 12.7 trillion in 2041 (the end of the extension of the *Dana Otsus*). The Additional DTI needed to cover the fiscal gap in the PO-1 scenario (Figure 7.5) ranges from IDR 100 billion to a maximum of IDR 1.9 trillion in 2036. This is equivalent to 2 to 19 percent of the DTI baseline projection value. Starting in 2036, Additional DTI will decline until it reaches zero in 2042.

FIGURE 7.5. PROJECTIONS AND TARGETS FOR ADDITIONAL DTI TO CLOSE THE FISCAL GAP UNDER THE PO-1 SCENARIO



Source: KOMPAK calculations.

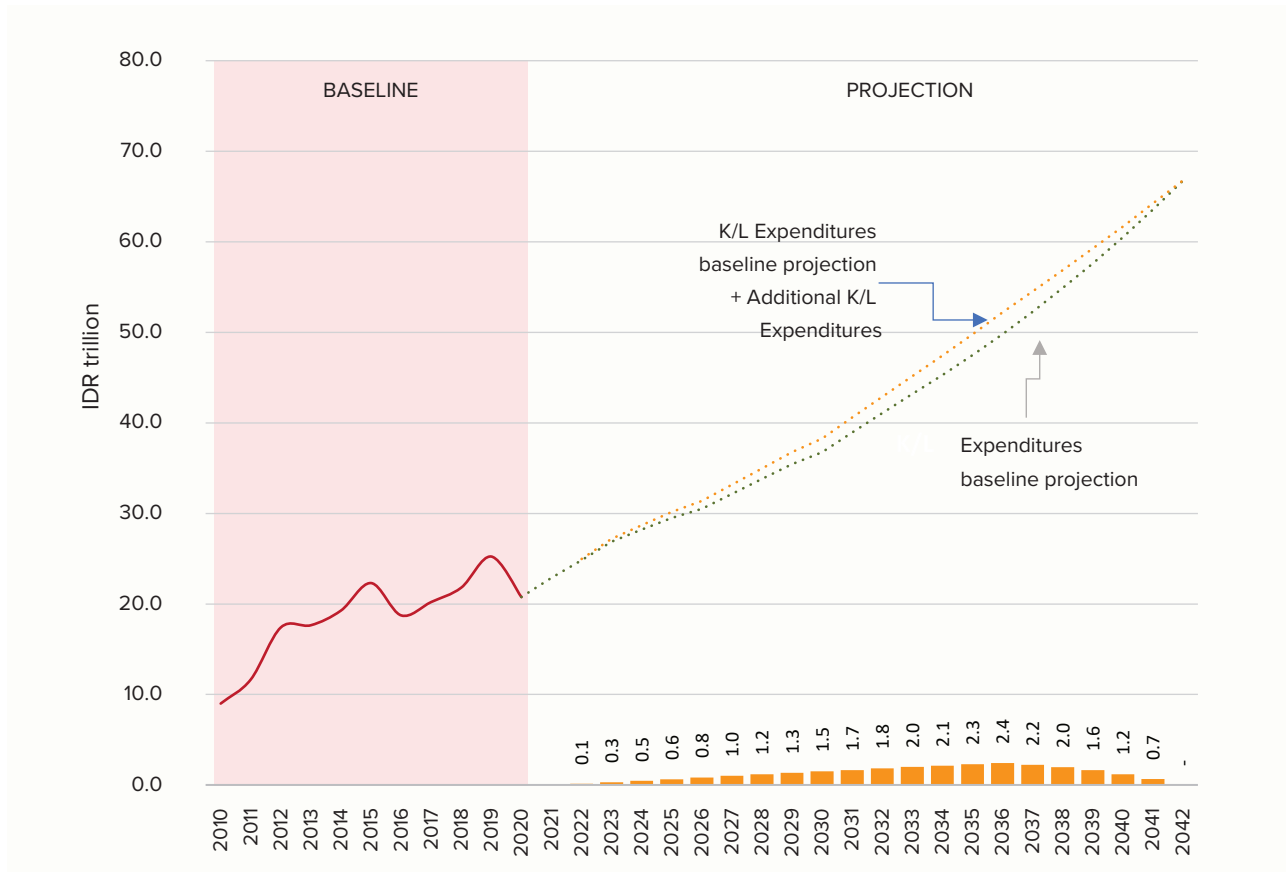
7.6 Closing the fiscal gap through the provision of Additional Line Ministries/Government Agencies (K/L) Expenditures

Additional K/L Expenditures in Papua and Papua Barat can be aligned with national development priorities.

Additional K/L Expenditure in Papua and Papua Barat for the purpose of closing the fiscal gap in the phasing-out scenarios is not intended to make the central government take over regional authority. Development challenges in Papua and Papua Barat constitute a broad spectrum, and overcoming them requires the roles of various levels of government, including the central government, in accordance with their authority. For example, some of the central government authorities in Papua and Papua Barat need to be improved, including the upgrading of national roads and other infrastructure development in Papua Barat, which falls under the authority of the central government. In addition, the role of K/L Expenditures to maintain sufficient aggregate government spending in Papua and Papua Barat is very important. Efforts to close the fiscal gap under the phasing-out scenarios are not only intended to maintain the fiscal capacity of local governments in these two provinces to finance public services, but also to avoid economic growth faltering, given the important role played by government consumption expenditure in the formation of GRDP in Papua and Papua Barat.

Additional K/L Expenditures in Papua and Papua Barat in the next 20 years are estimated to reach 0.6 to 4.6 percent of the baseline projection. K/L spending in Papua and Papua Barat is estimated to have reached IDR 25 trillion in 2019 and will experience a decline in 2020–2021 in line with the decrease in total K/L spending due to the COVID-19 pandemic. It can be seen in Figure 7.6 that the difference between the baseline projection and the baseline projection plus Additional K/L Expenditures is very narrow. This is because, in contrast to Additional DAK or Additional DTI, Additional K/L Expenditures in Papua and Papua Barat were relatively high in the baseline period, so the need for additional spending was somewhat limited. To close the fiscal gap, the central government can provide Additional K/L Expenditures in Papua and Papua Barat for the next 20 years, ranging from IDR 100 billion to a maximum IDR 2.4 trillion per year.

FIGURE 7.6. PROJECTIONS AND TARGETS FOR ADDITIONAL K/L EXPENDITURES TO CLOSE THE FISCAL GAP UNDER THE PO-1 SCENARIO



Source: KOMPAK calculations.

7.7 Additional recommendations related to the extension of the *Dana Otsus* post-2021

The Government needs to decide on the most appropriate *Dana Otsus* transfer mechanism to achieve the goals of development and welfare in Tanah Papua. From the previous discussion, it can be concluded that the Government needs to refocus its perspective on providing *Dana Otsus* to Papua and Papua Barat to allocating development funds. The transfer of the *Dana Otsus* can be provided in the form of specific grants by applying strict requirements, or in the form of general assistance for specific uses (block-specific grants). Increasing the welfare of the community, especially OAP, in the fields of education, health, housing, access to basic infrastructure, economic activities, etc. needs is the main objective of providing the *Dana Otsus*. Meanwhile, in the field of public financial management, the management of the *Dana Otsus* must prioritise aspects of accountability. Salle (2011), in examining the phenomenon and problems of local government financial accountability in the context of special autonomy in Papua Province, recommended central government play an active role in the formulation of policies on the allocation and use of the *Dana Otsus*; this is crucial for progress in Papua. Nevertheless, the central government needs to maintain the authority of the provincial governments in managing the *Dana Otsus* by improving governance and accountability. This can be done by providing measurable and stringent requirements related to the use of the *Dana Otsus*. Regarding the authority to manage development in Tanah Papua, Sumule (2020) asserts that, after nearly 20 years, there is no difference in development management authority in Papua and Papua Barat Provinces. Such a situation was caused by the absence of any initiative from the central government and K/L to clearly delegate authority to the provincial governments. Other than this, the central government needs to immediately resolve overlapping authority in the delivery of strategic public services, such as education and health.

The provincial governments of Papua and Papua Barat, together with the MRP and DPRP, need to prepare a grand design for special autonomy implementation that prioritises the welfare of OAP and strives for innovative solutions to fund programs/activities. Funding strategies for programs and activities in the grand design can be linked to the Strategic Priority Projects (better known as major projects) prepared by Bappenas in the 2020–2024 RPJMN. One of the major projects that focuses on improving the welfare of OAP is the Development of Customary Areas of La Pago (Papua) and Domberay (Papua Barat). In addition, the provincial governments of Papua and Papua Barat need to explore development funding options through the regional government-private partnership channel, and other regional government funding mechanisms in accordance with applicable regulations.

One of the sources of extracting PAD within the framework of the special autonomy policy is to set the Land and Building Tax on Plantation, Forestry and Mining Objects (PBB-P3) as district taxes in the provinces of Papua and Papua Barat. This proposal is aimed at shifting the composition of the District APBD in Papua and Papua Barat Provinces from Tax Revenue Sharing (DBH-Pajak) to become part of PAD (KOMPAK, 2019a). In the medium and longer term, this will increase the role of PAD in the APBD. The PBB-P3 transfer will provide significant additional PAD to Papua Barat (IDR 137.1 billion in 2020), Teluk Bintuni District (IDR 263 billion), and Sorong District (IDR 146.1 billion), and also Papua Province (IDR 64.5 billion) and Mimika District (IDR 140.8 billion).

A number of measures should be taken during the transition period in 2020–2021 to ensure that the provision of the *Dana Otsus* after 2021 can be of optimal benefit. These include:

- Evaluating strategic programs (RESPEK/PROSPEK, Gerbangmas Hasrat Papua, KPS, BANGGA Papua, Religious Assistance, Education, and Public Housing), as well as looking for synergy of objectives and activity components with existing national programs.
- Conducting detailed evaluations of public spending on the use of the *Dana Otsus* and the DTI at the provincial and district levels, seeking efficient and effective funding mechanisms in basic service provision and public investment.
- Preparing technical instructions related to supervision in the implementation of programs/activities funded by the *Dana Otsus* and to increase the capacity of relevant local government officials.
- Preparing technical instructions related to the periodic evaluation of the *Dana Otsus* post-2021 (for example, every three years).

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*Kolaborasi Masyarakat dan Pelayanan untuk Kesejahteraan
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