Policy Brief

Expenditure Efficiency in the Implementation of the 2025 Regional Budget: Optimising the Fulfilment of Mandatory Spending in the Province of North Kalimantan

Irfan Tulak, Nurul Affandy, Iskhak Fatonie, M. Yusran, Faisar Jihadi

September 2025

Executive Summary

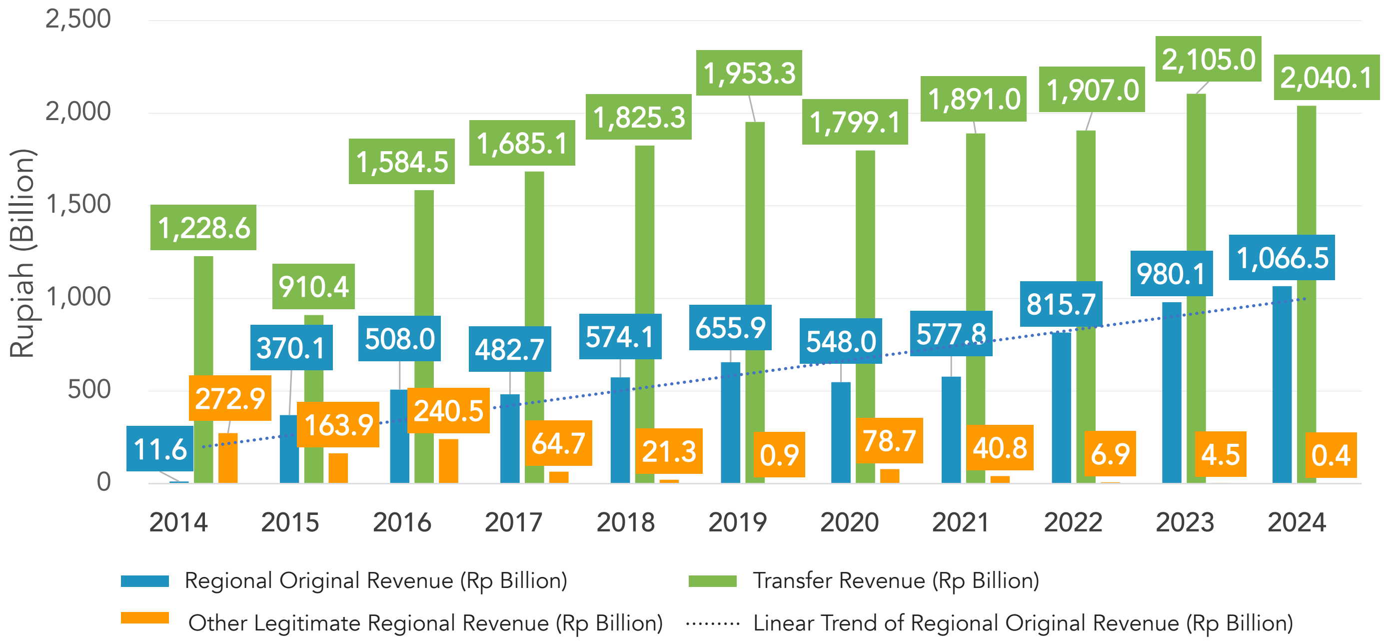
North Kalimantan (*Kaltara*) faces major fiscal challenges in seeking to expand infrastructure and improve basic services. Over 70% of funding comes from the central government, while Presidential Instruction No. 1 of 2025 and the Minister of Finance Decree No. 29 of 2025 have tightened fiscal flexibility through strict efficiency rules. Suspension of the Special Allocation Fund for Physical Infrastructure (DAK – *Dana Alokasi Khusus*) has further limited the province's ability to invest in facilities and basic services, especially for remote and vulnerable communities.

Kaltara faces significant fiscal challenges, including a failure to meet mandatory education and infrastructure requirements due to inefficient budget systems and a limited tax base. Geographic challenges also increase service costs. The province receives low revenue despite environmental damage. The budget focuses on output, not outcomes, while poor governance and inaccessible infrastructure hinder the essential service delivery.

This brief offers several policy approaches to overcome these challenges. Key measures include optimising Own-Source Revenue (PAD – *Pendapatan Asli Daerah*) through digitalising taxation and improving personnel expenditure efficiency. The province should explore alternative funding options, including Public-Private Partnerships (PPPs) and the Regional Incentive Fund (DID – *Dana Insentif Daerah*). Greater efficiency in non-community activities will free resources for essential services, while increased development partner engagement will provide financial and technical support. These measures are crucial to meeting mandatory spending requirements without compromising public services.

Keywords: *expenditure efficiency, mandatory spending, 2025 Regional Budget*

Graph 1. Regional Revenue of North Kalimantan (Kaltara)



Source: Draft Technocratic Design of the North Kalimantan RPJMD 2025–2029

Background

Kaltara is one of Indonesia's newest provinces. Its economy remains heavily reliant on the primary sector, and more than 70% of its budget comes from the central government (RPJMD Kaltara – Technocratic Draft of the North Kalimantan Medium-Term Regional Development Plan 2025-2029). Over the last five years, PAD has shown an upward trend (Graph 1), but this growth has been insufficient to cover development expenditure needs, including infrastructure.

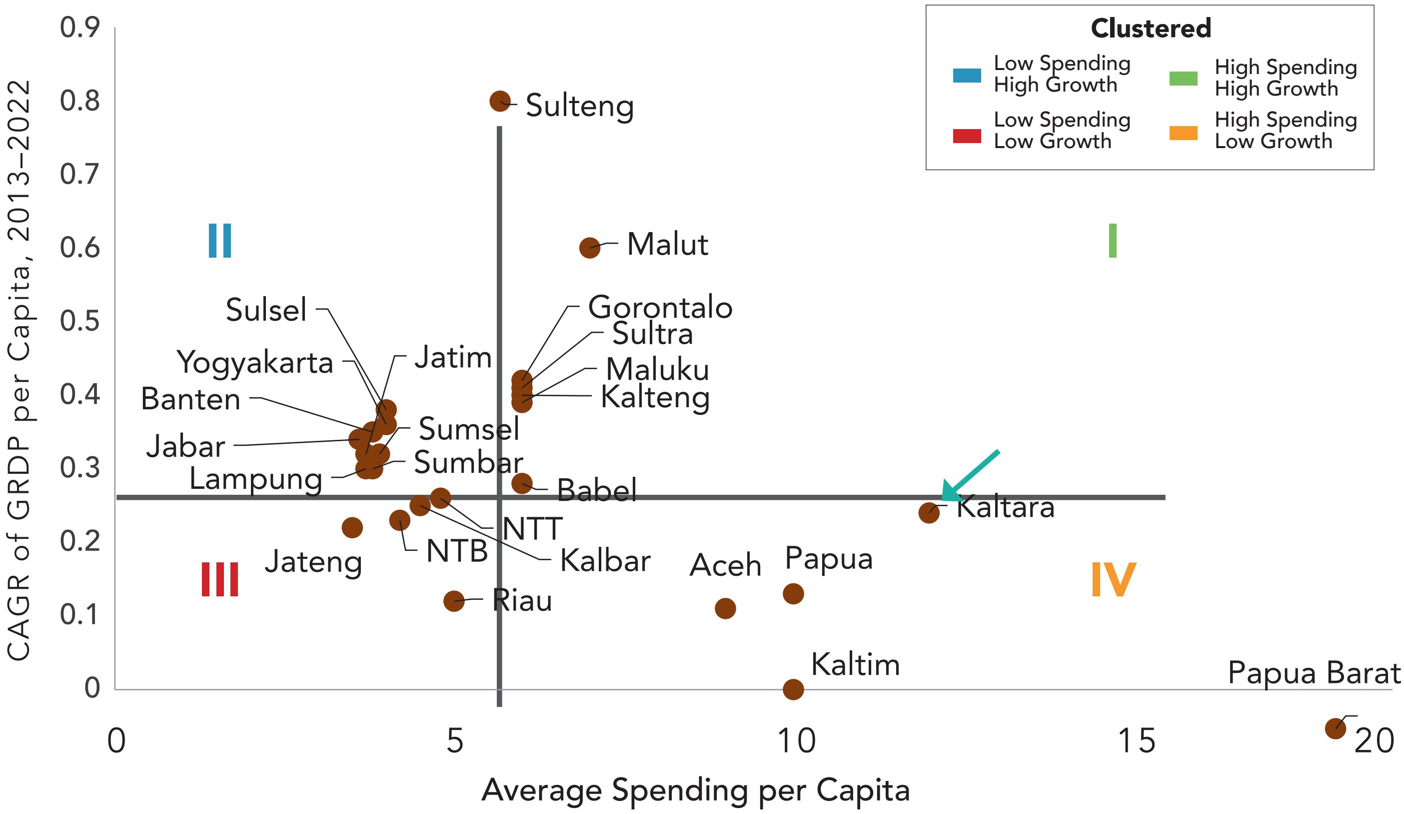
Presidential Instruction No. 1 of 2025 marks a significant shift in national fiscal management strategy, emphasising expenditure efficiency to ensure optimal budget allocation. This policy is further clarified by the Minister of Finance Decree No. 29 of 2025, which sets transfer allocations at 40% for infrastructure, 20% for education, and a maximum of 30% for personnel expenditure. While designed to strengthen, these measures place considerable pressure on Kaltara, particularly as the DAK has been fully suspended.

Kaltara faces the risk of stagnation in the development of essential infrastructure required for community access to basic services, such as roads, electricity, and clean water. According to official data from 2022, accessibility to basic services in the province remains highly limited, especially in remote areas that rely on infrastructure subsidies from the central government (Integrated Planning, Budgeting, Analysis and Evaluation of Poverty Alleviation: SEPAKAT – *Perencanaan Penganggaran, Analisis dan Evaluasi Kemiskinan Terpadu*; Socio-Economic Registration: Regsosek – *Registrasi Sosial Ekonomi*). Consequently, as of 2024, the Maternal Mortality Rate (per 100,000 live births) and the Infant Mortality Rate (per 1,000 live births) in Kaltara remain higher than the national averages. Furthermore, the percentage of the population with adequate housing is only 56%, below the national average of 61%, and nearly 10% of residents still lack access to clean water.

Kaltara's fiscal condition shows signs of 'high spending, low growth'. As Graph 2 indicates, the provincial government's development budget allocation has had little impact on economic growth. Research and lessons from various countries suggest that, in addition to timely and corruption-free budget absorption, three prerequisites must be met for government expenditure to contribute to growth.

First, expenditure must target productive sectors, such as education, health, infrastructure, and public investments that enhance long-term productivity and economic output (Tammar, 2021). Second, institutional efficiency and quality are paramount. Effective use of public funds requires political will from policymakers to channel public funds into programs with high economic impact (Tammar, 2021; Chudik et al., 2017). Institutions must carefully identify priority sectors and align allocations to stimulate growth. Third, a 'threshold effect' exists. Chudik et al. (2017), in a study across 15 countries in Asia and North Africa, found that when government expenditure exceeds 10-30% of Gross Domestic Product, inefficiency and waste increases, along with an overlap with private sector activity.

Graph 2. CAGR of GRDP per Capita and Regional Expenditure per Capita (Million Rupiah), 2013–2022



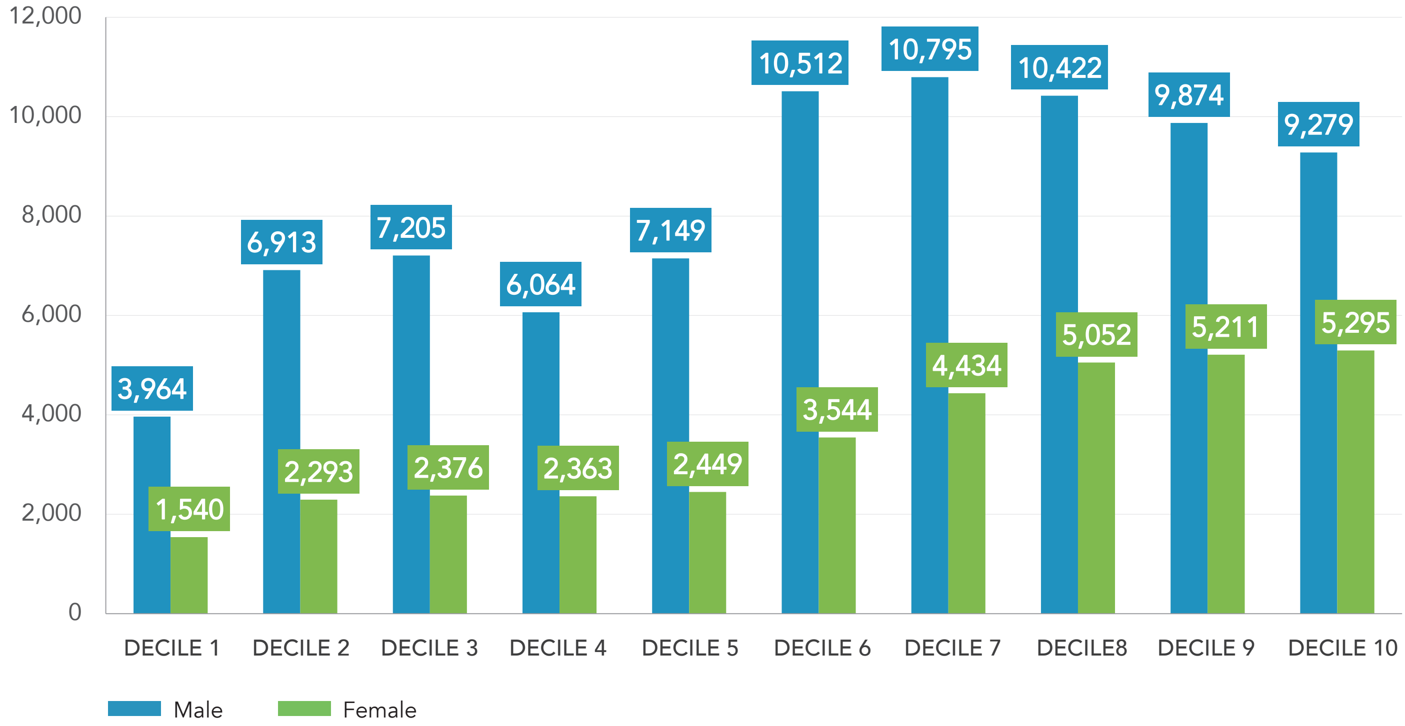
Source: Presentation by the Directorate General of Fiscal Balance, Ministry of Finance, during the Regional Fiscal Policy Alignment Workshop (KEM PPKF) – KUA PPAS, North Kalimantan Province, September 2024

Problem Description

Fulfilment of Mandatory Spending is Sub-Optimal
The Provincial Government of North Kalimantan has not yet met national regulations requiring a minimum allocation of 20% of the budget for education and 40% for infrastructure. Budget allocations have been diverted to other priority sectors, including health. Demographic, geographic, and infrastructural challenges increase service delivery costs, as staff mobility and logistical needs increase expenditure per service component. At the same time, limited PAD means that allocations for mandatory spending in education, health, and infrastructure must compete with the funding needs of other regional priorities.

Potential Revenue from Individual and Corporate Taxes is Insufficient for Infrastructure Development Needs
Analysis of Regsosek data (2022) shows that the number of Kaltara residents aged 18 and over, excluding those in the lowest three income deciles, is 92,443. If 50% of this group is employed in the formal sector, the potential number of taxpayers is only around 46,000, indicating that personal income tax does not offer a strategic solution for raising sufficient revenue to meet mandatory spending requirements.

Graph 3. Working Age Population by Decile in North Kalimantan (Kaltara)



Source: SEPAKAT Regsosek, 2022

Data from the Central Statistics Agency (BPS - *adan Pusat Statistik*) in 2023 show that Kaltara has 40 medium and large-scale industrial companies, 37 of which operate in coal mining. Kaltara also has 267,000 Micro, Small, and Medium Enterprises (MSMEs), but 99.9% of them report an annual turnover of less than IDR 500 million, which exempts them from tax obligations. This suggests two possibilities: first, the registry of large companies may be incomplete and not capture the full potential for corporate tax collection; or second, the corporate tax base is too narrow to compensate for the suspension of DAK, which needed to improve access to and the quality of basic services.

Revenue from the Coal Resources Revenue Sharing Fund is Too Low

Based on 2019 data from the North Kalimantan Provincial Communication and Informatics Agency, the province has 79,473 hectares of productive coal mining areas, with 37 companies actively engaged in production. In 2025, the Mineral and Coal Revenue Sharing Fund (DBH Minerba – *Dana Bagi Hasil Mineral dan Batubara*) generated IDR 364.86 billion for the province. This equates to IDR 4.59 million per hectare per year from active coal mining operations, despite an estimated annual production of 25-28 million tonnes. Revenue at this level is disproportionately low considering the loss incurred by the deforestation and environmental damage that threaten the living spaces and nutritional sources of Kaltara's Indigenous communities.

Coal from Kaltara is exported to other provinces for use in steam power plants (PLTUs – *Pembangkit Listrik Tenaga Uap*) or as a raw material for products such as fertiliser. Without local processing, Kaltara misses out on potential jobs and economic benefits.

Budget Expenditure Remains Output-Oriented Rather Than Impact-Oriented

A budget structure dominated by personnel costs limits the allocation of funds to other productive sectors. The regional financial management system also continues to face challenges related to transparency and accountability. Without stronger control mechanisms, efficiency policies may fail to deliver real benefits to the community.

Targeted Policies

- Presidential Instruction No. 1 of 2025 concerning Expenditure Efficiency in the Implementation of the 2025 State and Regional Budgets.
- Minister of Finance Decree No. 29 of 2025 on Adjusting Allocation Details for Transfers to Regions by Province, Regency and City in the 2025 Fiscal Year for Expenditure Efficiency.
- Minister of Home Affairs Circular No. 900/833/SJ on Revenue Adjustment and Regional Efficiency Expenditure in the 2025 Regional Budgets.
- North Kalimantan Provincial Regulation No. 1 of 2024 concerning Regional Taxes and Levies.

Policy Recommendations

1. **Optimisation of Own-Source Revenue (PAD)**
   The North Kalimantan Provincial Government, through its Regional Development Planning Agency (Bappeda), Regional Revenue Agency (Bapenda - *Badan Perencanaan Pembangunan Daerah*), and other relevant Regional Government Organisations (OPDs – *Organisasi Perangkat Daerah*), should implement programs to broaden and strengthen regional taxes and levies. These efforts should focus on the mining, plantation, and tourism sectors, rather than personal income tax. This can be supported through policies such as waiving penalties on land and building taxes and motor vehicle taxes to re-identify taxpayers, a practice successfully implemented in West Java and Jakarta through tax amnesty programs. In addition, digital tax and levy services should be developed to improve transparency and collection efficiency. The provincial government can seek central government support for digitalisation.

2. **Efficiency in Personnel Expenditure**
   The provincial government, through Bappeda, the Regional Civil Service Agency (BKD – *Badan Kepegawaian Daerah*), and relevant OPDs, should conduct a comprehensive review of non-productive expenditure. Strengthening the digitalisation of administrative services would also reduce the need for non-essential personnel. As in other provinces, the proportion of personnel expenditure in Kaltara is high, including for non-permanent staff.

3. **Alternative Funding Schemes**
   The provincial government can collaborate with the private sector through PPPS and utilise Corporate Social Responsibility (TJSL - *Tanggung Jawab Sosial dan Lingkungan*) funds to finance infrastructure projects without burdening the regional budget. It can also leverage regional performance incentives and other grants to support the education and health sectors. Partnerships with development partners, such as the Australia-Indonesia Partnerships for Basic Service Acceleration (SKALA) and Innovation for Indonesia's Children (INOVASI), should be expanded to secure technical support. This support may include enhancing PAD, building the capacity of tax collection staff, improving regional planning documents to support efficiency, optimising regional assets, and reforming regional tax regulations.

4. **Efficiency in Activities without Direct Community Impact**
   Expenditure efficiency can be achieved by rationalising official travel, limiting out-of-region trips to those with clear strategic value and a high impact on regional development. Non-essential spending should be reduced, including the procurement of new official vehicles, non-urgent office renovations, and the purchase of consumable goods that can be managed more efficiently. Efficiency can be extended to meetings and outreach activities by avoiding unnecessary ceremonial events and using online platforms for meetings. Non-priority infrastructure projects, such as non-urgent new buildings, should be postponed so that funds can be redirected to more critical public services. In addition, regional assets should be optimised to ensure that non-productive assets are utilised or repurposed to generate additional income.

IFC Tower 2, Level 17
Jl. Jendral Sudirman Kav. 22-23 Jakarta 12920
skala.or.id
https://s.id/Channel-SKALA