

# 11 Performance Budgeting in Indonesia: Brief History, Progress, and Lessons Learned

*Aichiro Suryo Prabowo*

## Introduction

After Indonesia went through an economic and political crisis in the late 1990s, the government passed legislation pertaining to public financial management reform. The old budget system proved to be inadequate to answer public demand for government transparency and accountability, especially with regards to the state budget management. The new legislation, therefore, came to set a new foundation for a sound budgetary system in the Indonesian government, in which performance budgeting is featured.

This study focuses on the performance budgeting experience of Indonesia at the national level and assesses how technical ministries and agencies under the central government have used performance information in the budgetary process. The extent to which performance budgeting is implemented by the government is also analyzed. Local governments where governors or mayors are locally elected and not appointed by the president manage their budget almost independently and thus are beyond the scope of the study.

The Indonesian approach of performance budgeting has three distinct principles, namely “output and outcome-orientation,” “letting the managers manage,” and “money following functions.” Along with the term “performance budgeting,” the three principles are often mentioned in government regulations. However, the study finds that the Indonesian government has not been able to fully internalize performance budgeting in its budgetary process. Not all stakeholders within the administration comprehend performance budgeting concepts, nor are they able to correctly derive and draw linkages between performance information such as program input, output, and outcome.

This chapter begins with a brief discussion on the history and political backdrop of performance budgeting reform in Indonesia. The annual budgetary process in the Indonesian government is laid out afterward. The section that follows looks into the three Indonesian performance budgeting principles as well as instances in which these principles are found in government practices. Lastly, lessons learned are presented, with the hope that future efforts to carry out similar budgetary system reforms, especially in developing countries comparable to Indonesia, could learn from the Indonesian experience.

## Political Transition and the Beginning of Performance Budgeting Reform

President Suharto, Indonesia's second president, had been in power for more than thirty years when the Asian economic crisis hit the country in the late 1990s. Inflation soared and the rupiah, the country's currency, plunged from 3,000 per US dollar to an unprecedented 16,000 per US dollar. While the economy continued to decline, scarcity rumors spread and social disorder grew. Corruption and nepotism under Suharto had been prevalent and his decision to serve for another term, which was granted by the pseudo-parliament in 1998, provided the impetus for yet more public resistance. Academics and students organized rallies to demand the president's stepping down, enticing common citizens to join the bandwagon. All these played a crucial role in the breakdown of the Suharto regime. Finally, on May 21, 1998, Suharto announced his resignation. The end of the Suharto regime turned a new page in the Indonesia history and paved the way for a democracy.

Following Suharto's resignation, Habibie, a Western-educated engineer, who had been Suharto's vice president, took over as Indonesia's third president and advocated for an election to restore government legitimacy. In June 1999, an openly contested election was held, rightfully seating 462 members of *Dewan Perwakilan Rakyat (DPR)* or the House of Representatives. This was a remarkable moment, considering that the last time Indonesia had a free election was in 1955. The representatives-elected plus representatives of the military, police, and various social groups constituted the 700-member *Majelis Permusyawaratan Rakyat (MPR)* or the People's Consultative Assembly. In October 1999, they together selected Abdurrahman Wahid, a moderate Islamic leader as the fourth president of Indonesia for a five-year term. It was not long until the People's Consultative Assembly impeached President Wahid in 2001 on grounds of incompetence and promoted his vice president, Megawati, the daughter of Indonesia's first President Sukarno, as the fifth president of Indonesia for the remaining term.

Despite the challenging political transition, the new MPR was determined to push forward its agenda to reform the governmental system. During their first five-year tenure, there were major amendments to *UUD 1945* (the Indonesian constitution) and passages of more than 100 *Undang-undang* (laws), including those pertaining to public financial management reform. The amended constitution mandates the government to implement the state budget in an open and accountable manner to best attain the prosperity of the people.<sup>1</sup> It prescribes the DPR to review and give approval to the State Budget Bill. Also, it gives *Badan Pemeriksa Keuangan (BPK)* or the State Audit Board, as an independent body, the authority to audit the state finances accountability. The constitution stipulates that details concerning the state finances be regulated further by implementing laws.

At that time, the operations of the state budget management were still subject to ancient laws that had been in place even before Indonesia gained independence from the Dutch colonization in 1945.<sup>2</sup> Sukarno and Suharto incorporated some minor amendments and preserved the laws throughout their presidency, yet these laws are deemed not suitable for the government that requires democratic legitimacy and accountability over the state budget. They did not feature good governance principles, not to mention the performance budgeting concept. The public, on the other hand, demanded a remedy for Suharto's

administration – that is, a clean government that upholds transparency and accountability in their administration. Considering the irrelevancies of the prevailing laws, the new government drafted new laws pertaining to public financial management, as mandated by the amended constitution. The Ministry of Finance (MOF) spearheaded the work and began to draft a package of legislation regarding public budgeting, treasury, and auditing. The State Finances Draft Law aspired to lay a foundation for public budgeting, the State Treasury Draft Law proposed modern state treasury principles, and the State Audit Draft Law aimed to reaffirm the role of the State Audit Board in auditing the state budget accountability (Ministry of Finance 2002).

Apparently, formulating reform policies was not an easy task. In 2000, President Wahid openly admitted the difficulties, especially during the enduring economic decline, political transition, and social disharmony (Wahid 2000). As a result, multiple international donors, such as the World Bank, the Asian Development Bank, and the International Monetary Fund, stepped in and offered technical assistance to help Indonesia improve its budget preparation and management. Upon the government's request, these institutions cooperated and produced several reports to evaluate the existing budget system and propose reform strategies. One of the reports highlights that the existing budget system provided limited information on program results (World Bank 2001). Consequently, it was difficult for public managers to monitor program efficiency and accountability. The budget system also was not well adapted to evaluate alternatives, nor was there a mechanism to formally conduct a cost–benefit analysis for a particular government program. The report, therefore, suggested that the Indonesian government introduce performance-focused budgeting preparation process, incorporating program outputs and performance indicators into the budget document.

Shortly after the circulation of the international donors' reports, the Minister of Finance formed the Financial Management Reform Committee to independently study public financial management best practices and evaluate the prevailing regulations and practices in the Indonesian government. The committee's findings were consistent with the international donors' reports. They considered the existing budgeting system as merely input-based and did not provide decent performance information (Ministry of Finance 2002). For this reason, the committee suggested a budgetary reorientation towards performance-based budgeting system. By that time, the term “performance budgeting” was barely known to the administration and thus, arguably, this marked the beginning of the performance budgeting reform in Indonesia.

All these efforts to evaluate and reorganize the budgetary system in the Indonesian government resulted in the passage of Law No. 17 of 2003 on State Finances (“the State Finances Law”) in 2003. A year later, President Megawati and the DPR also agreed to jointly pass two other laws that had been prepared under the same legislation package, the Law No. 1 of 2004 on State Treasury (“the State Treasury Law”) and the Law No. 15 of 2004 on State Financial Management and Accountability Audit (“the State Audit Law”). These two are not directly linked to the budgetary process but are still within the public financial management framework. Concurrently in 2004, Law No. 25 of 2004 on State Planning (“the State Planning Law”) was enacted. The State Finances Law and the State Planning Law then became the paramount pieces of legislation underpinning planning and budgeting reforms in the Indonesian government.

The State Finances Law describes the general principles for managing the government budget, such as professionalism, transparency, and accountability. It sets out the timeline and milestones for developing the annual budget, the key stakeholders involved, and sanctions against budget irregularities. In its elucidation section, the law emphasizes the need to improve the budgetary process through the implementation of performance-based budgeting. This requires the government to include performance information in the ministerial plan document. The state budget formulation is no longer a standalone procedure and should take into consideration government planning, which is the subject matter in the State Planning Law. The State Planning Law specifies the steps to properly prepare government plans, warrants public participation in the process, and encourages the use of data-driven technocratic approaches. It revitalizes the role of *Badan Perencanaan Pembangunan Nasional (Bappenas)* or the Ministry of Planning to direct strategic planning at the national level. Technical ministries and agencies (both of which are referred to as “line ministries” hereafter) must consider Bappenas’ framework when formulating theirs so that ministerial-level plans are not contradictory to that of the national long-term objectives. Lastly, the law prescribes that each line ministry should actively monitor whether the plan is well-executed and targeted results are achieved.

As the State Finances Law, the State Treasury Law, the State Planning Law, and the State Audit Law came into force, it is legally binding for line ministries under the Indonesian central government to incorporate good governance principles in every process of their administration. The legislation has provided an enabling environment for a reformed public financial management system, particularly performance budgeting, in Indonesia. Diamond (2007) suggests that having legal frameworks and replacing existing legislation that supports traditional budget system is necessary for reform to take off. However, as he argues, legal instruments by themselves are not sufficient. Hence, the legislation displays a promising beginning for public financial management reform in Indonesia. Nonetheless, success depends on whether or not the government is able to leverage the legislative mandate as well as incentivize and monitor the actions of key stakeholders within line ministries to implement the laws faithfully and effectively.

## Budgeting Process in the Indonesian Government

Since the passage of the State Finances Law and State Planning Law in the early 2000s, the Indonesian government has issued and revised several implementing regulations to guide all line ministries in preparing their respective annual plan document. Table 11.1 summarizes the budgeting process, according to relevant government regulations as of 2016.<sup>3</sup> In column 1, Y-1 refers to the year preceding the budget year and Y means the year in which the budget is executed. The key entities involved in the budget process include the MOF, the Ministry of Planning (Bappenas), the House of Representatives (DPR), and line ministries. A merged column indicates activities in which more than one governmental entity is involved.

As seen below, the budget preparation process begins in January preceding the budget year. MOF, Bappenas, and line ministries work together to align ministerial work plan, national fiscal capacity, and national priorities until May to produce *Rencana Kerja Pemerintah (RKP)* or the central government annual work plan and *Rencana Kerja Kementerian/Lembaga (Renja K/L)* or the ministerial-level annual work plan. This step involves a technocratic approach and ideally incorporates performance measures such as

*Table 11.1* The Budgeting Process of the Indonesian Government

<i>Month, Year</i>	<i>Entity</i>	<i>Activity</i>	
January, Y-1	Bappenas	Developing yearly national policy objectives and priorities relevant to President's five-year and long-term plan	
	MOF	Analyzing fiscal capacity	
	Line Ministries	Reviewing past programs implementation; proposing new initiatives	
March, Y-1	Bappenas	Developing government annual work plan (RKP)	Trilateral Meeting to align national agenda, government fiscal capacity, and ministerial work plan
	MOF	Developing indicative ceiling for line ministries	
	Line Ministries	Developing ministerial-level annual work plan (Renja K/L), encompassing policy objectives, program outcomes, activity outputs, and budget forecast	
May, Y-1	Bappenas	Finalizing government annual work plan (RKP)	Executive branch & DPR hearing, considering RKP, KEM PPKF, ministerial-level indicative ceiling, and Renja K/L
	MOF	Determining macroeconomic and fiscal policy framework (KEM PPKF)	
	Line Ministries	Finalizing ministerial-level annual work plan (Renja K/L)	
	DPR	Hearing and providing feedback on government budget	
June, Y-1	MOF	Determining budget ceiling for each line ministry	
	Line Ministries	Developing ministerial-level budget for year Y programs given the budget ceiling, subject to MOF and Bappenas' review	
August, Y-1	DPR	Meeting to scrutinize proposed ministerial-level annual budget and work plan, including the targeted output and outcome therein, in order to get DPR's approval	
	Line Ministries		
	MOF	Setting budget allocation for each line ministry provided DPR's approval	
October, Y-1	Line Ministries	Adjusting ministerial-level work-budget plan based on the allocated budget	
December, Y-1	MOF	Work-budget plan authorization for each line ministry	
January, Y	Line Ministries	Kicking off budget implementation	

program outcome, activity output, and budget forecast, which is performance budgeting in nature. The finalized central government and ministerial-level annual work plan are subject to review by the DPR during legislative hearings around May, after which the budget is assigned to each ministerial program. The DPR has a considerable role in determining whether the proposed plan is approved, and the deliberation process may look into the details, including programs, activities, expected results, and the requested budget. The process, nevertheless, is often political and is often filled with adjustments and revisions of the budget requests and program plans.

Table 11.1 does not provide information regarding the ex-post procedures for reporting, evaluating, and auditing the state budget execution. At the end of the year, line ministries must prepare and submit financial statements to the State Audit Board for external auditing. The board will evaluate whether internal controls are sufficient and whether reporting complies with the Indonesian governmental accounting standards. Line ministries are also held accountable for the fulfillment of their annual work plans and each is required to submit a performance accountability report to the Ministry of Administrative and Bureaucratic Reform.

### **Performance Budgeting Features and Implementation Progress**

Amid the growing discourse of performance budgeting in the field of public administration, there has not been a single universally approved definition of the term “performance budgeting.” The World Bank (1998) describes how performance budgeting came as a remedy for the traditional “line item” budgeting and defines the concept as the integration of activity information and budgeting process. Line-item budgeting builds the budget incrementally and provides no justification as to why and how efficient money is spent on an activity. Performance budgeting, on the other hand, develops the budget based on the anticipated workload and allows managers to develop input measures, and thus puts efficiency as the point of interest. Robinson (2007) offers a slightly different perspective; while he agrees that performance budgeting is intended to improve efficiency, he puts forward that it is not activities, but results of the activities that performance budgeting tries to link to the budget. Similarly, the OECD (2008) defines the term as budgeting that connects budget allocation with measurable results. The OECD further categorizes the term into three types based on the extent to which result information is presented and used in resource allocation process: presentational performance budgeting, performance-informed budgeting, and direct performance budgeting. Meanwhile, Shah (2007) identifies performance budgeting as a system that presents policy objectives, proposed activities, associated costs, and targeted outputs, outcome, and impact under each government program. He also distinguishes performance budgeting on the basis of performance information availability and usage in resource allocation, but comes up with different groupings: performance-reported budgeting, performance-informed budgeting, performance-based budgeting, and performance-determined budgeting. Despite these differences, the literature unequivocally suggests that performance budgeting ensures the availability and usability of information about the costs and results of governmental programs.

Indonesian performance budgeting is not significantly different from the one discussed in the literature, but the country has its own performance budgeting interpretation and

approaches. Rooted in the 2003 State Finances Law, implementing regulations that came afterward honor the concept and explain that the ministerial work-budget plan of the Indonesian government must be formulated using the performance budgeting approach.<sup>4</sup> Further, the regulations define Indonesian performance budgeting as having at least three principles: 1) output and outcome-orientation; 2) letting the managers manage; and 3) money following functions.

The first principle, “output and outcome-orientation,” signifies that the state budget is disbursed to generate results that will benefit the public (MOF 2009). Consequently, line ministries need to always consider results when proposing a work-budget plan and then pursue the targeted results accordingly. It is imperative that they are able to not only correctly define but also accurately measure output and outcome. As importantly, they are bound to draw a connection between input, process, and output. Carrying out this feat turned out to be a challenge for the administration. In 2012, the MOF under the sixth Indonesian president, President Yudhoyono, coordinated a self-evaluation of performance budgeting implementation among line ministries, using their respective annual budget and programs. Their analysis suggests that line ministries generally were not able to define inputs, outputs, or outcomes for their programs correctly, nor to draw the linkage between these inputs, outputs, and outcomes (MOF 2015). For example, around 360 assets were incorrectly defined as outputs while they actually were inputs (i.e., cars, computers, buildings). Also, over 3,800 outputs were merely administrative products (i.e., reports, documents), not substantive program results. There were also more than 2,000 cases in which outputs were unclearly defined, hampering further evaluation.

To address the problem, the MOF attempted to reorganize performance measurement architecture and reintroduced the “logic model” approach in 2014 (MOF 2014c). The concept was not entirely new – in 2009, the MOF and Bappenas already regarded the logic model as one of the budgeting features, although only later was it formalized in government regulations. The approach suggests that program development should first consider the expected long-term impact, and then derive it into program outcome, activity output, and required input (MOF and Bappenas 2009a). Doing so draws a clear connection between expected results (output, outcome) and the strategy or process to achieve them (activity, input). The logic model approach conceptually supports national policy objectives and priorities. Line ministries are obliged to take the national agenda as given and develop their programs based on it. In order to secure funding, it is necessary that the justifications of programs by a line ministry are aligned with national plans.

Figure 11.1 illustrates how the logic model is incorporated into a work-budget plan document in Indonesian line ministries and how performance measures are reported, according to the 2014 regulation.<sup>5</sup> There are several documents that line ministries are required to fill out and submit to the MOF in the budgeting process, and the form below is just one of them. (The original Indonesian has been translated into English and stylized without removing what is relevant to performance budgeting as the subject matter.) This form allows a spending unit in a particular line ministry to propose activities that are in line with the national and ministerial priorities. Each activity needs to have measurable performance indicators as well as a budget projection.



MINISTRY/GOVERNMENT AGENCY  
WORK-BUDGET PLAN

FORM 2  
ORGANIZATIONAL UNIT RESULTS ACHIEVEMENT PLAN  
BUDGET YEAR 20XX

MINISTRY/GOVERNMENT AGENCY	...
ECHELON I/ORGANIZATIONAL UNIT	...
UNIT MISSION	...
STRATEGIC OBJECTIVE	...
PROGRAM	...
RESULT	...
ECHELON 1 KEY PERFORMANCE INDICATOR	1. ... 2. ..., etc.

H. PROGRAM DETAILS:

Code	I. ACTIVITY, ECHELON II/SUBUNIT, FUNCTION, SUB-FUNCTION, NATIONAL PRIORITY, PRIORITY FOCUS II. OUTPUT (VOLUME, BASE UNIT), INDICATOR, BASELINE, NEW INITIATIVE	BUDGET ALLOCATION (IN THOUSANDS RUPIAH)				
		Budget Year 20XX- 1	Budget Year 20XX	Budget Year 20XX+1	Budget Year 20XX+2	Budget Year 20XX+3
(1)	(2)	(3)	(4)	(5)	(6)	(7)
	Activity 1 Echelon II/Subunit: ... Function: ... Sub-function: ... National Priority: ... Priority Focus: ...	xxx	xxx	xxx	xxx	xxx
	OUTPUT 1 Output 1: ... Output 2: ... (Volume, Base unit) etc.	xxx (unit) xxx (unit)	xxx (unit) xxx (unit)	xxx (unit) xxx (unit)	xxx (unit) xxx (unit)	xxx (unit) xxx (unit)
	Activity Performance Indicator 1. ... 2. ..., etc.					
	Baseline		xxx			
	New Initiatives		xxx			
	Activity 1 Echelon II/Subunit: ... Function: ... Sub-function: ... National Priority: ... Priority Focus: ...	xxx	xxx	xxx	xxx	xxx
	OUTPUT 1 Output 1: ... Output 2: ... (Volume, Base unit) etc.	xxx (unit) xxx (unit)	xxx (unit) xxx (unit)	xxx (unit) xxx (unit)	xxx (unit) xxx (unit)	xxx (unit) xxx (unit)
	Activity Performance Indicator 1. ... 2. ..., etc.					
	Baseline		xxx			
	New Initiatives		xxx			
	etc.					
	TOTAL	xxx	xxx	xxx	xxx	Xxx
	BASELINE TOTAL		xxx			
	NEW INITIATIVE TOTAL		xxx			

Figure 11.1 Work Plan Document for Echelon I Unit Under the Line Ministry in the Indonesian Government



The second principle of the Indonesian performance budgeting, “letting the managers manage,” aims to give public managers greater flexibility in choosing the means and strategies to achieve the targeted results, while maintaining accountability over the allocated budget (MOF and Bappenas 2009b). Shah (2007) argues that this principle fixes output as the basis for managerial accountability while relaxing controls on input. He takes Sweden, where government agency directors are responsible for staff hiring, evaluation, promotion, and dismissal, as an example. The same concept also applies in New Zealand, where public managers can choose the inputs mix to be used in producing agreed outputs (Schick 1996). Within budget limits, managers in the New Zealand government are given freedom to hire and pay staff, procure office accommodation, purchase supplies and services, and spend on other inputs. Similarly, Robinson (2005) suggests that the principle of “letting the managers manage” eliminates unnecessary procedures that would limit managers’ choice of inputs. Notwithstanding this principle, the Indonesian regulations state that decisions regarding government program inputs are not under a manager’s absolute discretion. Staff recruitment, for instance, cannot be determined by a manager alone, but rather has to go through a centralized program of civil service recruitment. Also, input rates for recurring activities, such as honorariums, business trip allowances, and operational vehicles, are subject to the standards set by the Ministry of Finance.<sup>6</sup> Managers, however, can influence how efficient their unit operations are, so long as the maximum spending ceiling is not exceeded and the planned output is achieved. It is evident that managerial flexibility across line ministries is not without limitations.

Managerial flexibility embodies an organization characteristic that is decentralized in nature. Decentralization, furthermore, supports the concept of effective government that is entrepreneurial, mission-driven, and results-oriented, as opposed to being bureaucratic (Osborne 1993). According to it, once organization goals are set, ministerial leaders should let the managers manage and determine the best way to achieve them. In the context of Indonesia, however, managerial flexibility could be seen as a double-edged sword. On the one hand, it empowers managers to make decisions quickly and intelligently. On the other hand, it gives room for arbitrary decision-making. If controls are wiped out entirely, then managers may easily commit wrongdoing at the public expense. Moreover, Indonesia has had a long history of systemic corruption, and although almost two decades have passed since the public financial management reform was initiated, corrupt practices have not subsided completely. Giving public managers more freedom in managing the state budget indeed enhances performance budgeting development in Indonesia, but it could also backfire and precipitate unfavorable and unintended outcomes.

Despite this risk, the Indonesian government acknowledges that flexibility as such is sometimes needed in public service provisions. The 2004 State Treasury Law allows the MOF to form *Badan Layanan Umum (BLU)* or the Public Service Agency, a special unit with financial and operational flexibility to provide selected public services. Examples of BLUs include public hospitals and state universities. They can have their own-source revenues in addition to the state funding and manage their cash flows independent to their parent institution. BLUs can also recruit non-civil servants as employees and set their own remuneration package based on merit (MOF 2016). Nevertheless, BLUs are relatively small in size, and their built-in flexibility should not be considered as the common practice in the Indonesian government.

The third performance budgeting principle in Indonesia is “money following functions.” It allocates budget to line ministries, under the assumption that each line ministry has a distinct function so that the total budget can be divided up and allocated efficiently (MOF and Bappenas 2009b). The principle ensures clear accountability between spending and its owner – the line ministry responsible for programs within a function. If every line ministry were bestowed with mutually exclusive functions and thus pursued different programs, duplication would be less likely, resulting in budget efficiency. Unfortunately, some line ministries often have overlapping functions. One study from the State Administration Agency (2013) exemplifies this point and finds that for over 25 functions, more than one entity in the Indonesian government legally shares the same responsibilities and authority. In relation to the situation, the seventh president, President Widodo, put forward his willingness to integrate or dissolve some of the line ministries that had a common area of interests (Cabinet Secretariat 2016). Despite this effort, program and budget duplication still exist.

The implementation of the “money following functions” principle also encounters another obstacle as its meaning is frequently misunderstood by key stakeholders in the central government. In one cabinet meeting in 2016, for example, President Widodo criticized the “money following functions” principle and even ordered his administration to not use it in the budgetary process. He perceived the principle as misleading – for it emphasizes dividing up the budget without considering the results – and suggested an alternative that sounds somewhat similar, “money following programs,” but in fact has a closer meaning to the first principle of the Indonesian performance budgeting – that is “output and outcome-orientation.” Following the order, several reports were distributed by the MOF and Bappenas to clarify the confusion (Bappenas 2016; Directorate General of Budget MOF). “Money following functions” is one of the three principles in the Indonesian performance budgeting and one should see the three as inseparable to grasp the significance, yet evidently, there has not been a congruent understanding of how the “money following functions” principle should be interpreted, let alone be used as guidance for restructuring the government’s institutional arrangement, delegating responsibilities, and eventually allocating budget.

In spite of the hurdles in comprehending the third principle, overcoming inefficiency had been a bigger mission to accomplish and was a motivator for the Indonesian government to reform its budget system. In order to address this issue, the MOF introduced “spending review” as part of a bigger monitoring and evaluation task in 2013. Through spending review, the MOF looks into the annual budget of each line ministry, seeks out duplications and inefficiencies, and finally catches potential savings that will improve national fiscal space (Directorate General of Treasury MOF 2015). When it was implemented in 2013, spending review selectively assessed the budgets of 20 line ministries and discovered Rp50 trillion (US\$3.7 billion) inefficiencies – about 9 percent of the central government budget. The toll of inefficiencies were claimed to be lower in 2014, 2015, and 2016 – respectively, 3 percent, 1 percent, and 1.2 percent of the total budget (Directorate General of Treasury MOF 2016).

### **Lessons Learned from the Indonesian Experience**

The fact that line ministries have not been able to fully implement performance budgeting is partly attributable to the absence of sequential, well-coordinated implementation strategies. The Indonesian government relies heavily on legislation that applies to line ministries

collectively, resembling a “big bang” approach of organizational change. However, without proper sequencing and capacity building, public managers and their team have encountered difficulties in executing the legislative mandates of performance budgeting. Take the principle of “letting the managers manage” as one example – the term is often mentioned in government regulations as one of the Indonesian performance budgeting principles, but mechanisms to put it into action are barely available. In fact, the existing regulations still focus primarily on procedural controls for public managers in making input decisions, not to mention the lack of mechanisms to reward those who can achieve some efficiency or effectiveness standards. Similarly, the “money following functions” principle has not been fully reflected in government practices. Some line ministries are found to have overlapping functions, and duplication and inefficiencies remain a serious challenge of the government.

This is not to argue that the government has done nothing to move toward performance budgeting. In fact, considerable progress has already been made. For example, it has introduced the use of the logic model in departmental strategic planning and goal setting. Also, spending reviews have been institutionalized in budgetary process, which is a significant step in moving towards performance budgeting. At the same time, performance budgeting reform in Indonesia has faced many challenges because it has not been exercised under one single grand design. The Ministry of Finance tried to carry out a rather sequential approach by piloting performance budgeting in six line ministries in 2010 (Directorate General of Budget MOF 2010) and then internally in 2014 (MOF 2014a; MOF 2014b). While an incremental approach of reform may be desirable and wise, the action was not followed through, which undermines the opportunity for reformers and public managers to learn from it before scaling up. If any, the implementation strategies may be regarded as a half-hearted big bang approach on the one hand and a half-hearted implementation of incrementalism on the other hand. The challenge faced by the Indonesian experience shows that any legislation of performance budgeting needs to be accompanied with a properly designed plan of implementation and feasible execution strategies by line ministries.

Another observation from the Indonesian experience is that performance budgeting is a Western budgeting concept that may work well in developed nations with their specific political and economic contexts. When this concept is transplanted into a developing country such as Indonesia, local adaptation and adjustment are necessary. For example, human capacities are great constraints in the case of Indonesia. Not all stakeholders within the government are able to comprehend the basics of performance budgeting. Defining performance information such as inputs, outputs, and outcomes, as well as drawing connections between them, remain a challenge for some and require significant investment in staff training and system support. These capacity concerns may be less serious in developed nations that have had decades of experience in administrative reforms and system building.

The third lesson from the Indonesia experience has to do with the political side of budgeting. Top decision makers in the Indonesian government mostly understand the imperative of rational decision-making, but their utmost interest is always to meet the popular demand. Sustaining national priorities and overcoming inefficiencies, for instance, are regarded as important if these decision-makers believe that the Indonesian constituents think the same. The budgeting process cannot be apolitical, and understanding the political side of budgeting as such should not discourage the work toward performance budgeting reform. Rather, it should enlighten performance budgeting advocates with how much the

concept could influence changes in the public sector given the local political contexts, priorities, and constraints.

## Conclusion

As Robinson (2007) puts it, there is no one approach to performance budgeting that can succeed in all countries. Even most advanced performance budgeting systems are not yet perfect and continue to evolve. From this perspective, the Indonesian government has made important strides toward a performance-oriented budgeting system over the past two decades despite many challenges and limitations of the system. It has passed several significant pieces of legislation underpinning the emphases and directions of the reform. It has also tried to implement a number of pilot initiatives to explore how the system can be executed more effectively. If the criteria of reform “success” are (1) whether performance information is available in the government budget and (2) if so, whether line ministries under the central government use the information for decision-making, then this study finds that the Indonesian government has been somewhat successful in (1) but has room for improvement in (2). Line ministries in the Indonesian government are indeed providing performance information in their work-budget plan documents as mandated by the regulations. However, not all stakeholders are able to comprehend, define, and measure performance information accurately and unreliable performance information, consequently, hampers effective performance-based decision-making. Performance information is considered in the budgetary process, but it does not have a significant influence on the amount of resources allocated to departments and programs.

Looking ahead, the Indonesian government should first address the human and organizational capacity constraints that have been hindering the reform for the past two decades. In addition, it should emphasize the need for continuous organizational learning to identify specific challenges of the reform and find the right approach to performance budgeting that fits the local circumstances of Indonesia. While some may argue that the progress toward performance budgeting in Indonesia is overdue, this study takes a rather optimistic view and believes that the Indonesian performance budgeting reform has made reasonable progress given where the country was when the reform first started.

## Notes

- 1 Indonesia Constitution article 23.
- 2 Indische Comptabiliteitswet (ICW) No. 448 of 1925, Indische Bedrijvenwet (IBW) No. 419 of 1927, and Reglement voor het Administratief Beheer (RAB) No. 381 of 1933.
- 3 Government Regulation No. 40 of 2006 on Procedures for Formulating National Development Plan and Government Regulation No. 90 of 2010 on Procedures for Formulating Annual Work-Budget Plan.
- 4 Government Regulation No. 21 of 2004 on Development of Ministerial-level Work-Budget Plan Document, as revised by Government Regulation No. 90 of 2010 on Development of Ministerial-level Work-Budget Plan Document.
- 5 Minister of Finance Regulation No. 136/PMK.02/2014 on Guidance of Ministerial Work-Budget Plan Formulation and Review.
- 6 Minister of Finance Regulation No. 71/PMK.02/2013 on Standard Costs in Ministerial Work-Budget Plan Formulation.

## References

- Bappenas. 2016. *Quick Response Analysis Volume I*. Jakarta: Bappenas.
- Cabinet Secretariat. "Presiden Jokowi Minta Lembaga Non Struktural Yang Tumpang Tindih Dengan Kementerian Dibubarkan." <http://setkab.go.id/presiden-jokowi-minta-lembaga-non-struktural-yang-tumpang-tindih-dengan-kementerian-dibubarkan/> (accessed January 15)
- Diamond, J. 2007. Challenges to Implementation. In *Performance Budgeting: Linking Funding and Results*, edited by M. Robinson, 379–390. Washington, DC: International Monetary Fund.
- Directorate General of Budget Ministry of Finance. 2016. *Warta Anggaran Edisi 30*. Jakarta: Directorate General of Budget Ministry of Finance.
- Directorate General of Treasury Ministry of Finance. 2015. *Rencana Strategis Direktorat Jenderal Perbendaharaan tahun 2015–2019*. Jakarta: Directorate General of Treasury Ministry of Finance.
- Directorate General of Treasury Ministry of Finance. 2016. *Majalah Treasury Indonesia Terbitan Pertama 2016*. Jakarta: Directorate General of Treasury Ministry of Finance.
- Ministry of Finance. 2002. *The White Paper Reform of Public Financial Management System in Indonesia: Principles and Strategy*. Jakarta: Kementerian Keuangan.
- Ministry of Finance. 2014a. *Better Practice Guide Penganggaran Berbasis Kinerja*. Jakarta: Kementerian Keuangan.
- Ministry of Finance. 2014b. *Cetak Biru Transformasi Kelembagaan Kementerian Keuangan 2014–2024*. Jakarta: Kementerian Keuangan.
- Ministry of Finance. 2014c. *Petunjuk Penyusunan dan Penelaahan Rencana Kerja dan Anggaran Kementerian Negara/Lembaga dan Pengesahan Daftar Isian Pelaksanaan Anggaran*. Minister of Finance Regulation No 136/PMK.02/2014 (Juni 30, 2014).
- Ministry of Finance. 2015. *Petunjuk Penyusunan dan Penelaahan Rencana Kerja dan Anggaran Kementerian Negara/Lembaga dan Pengesahan Daftar Isian Pelaksanaan Anggaran*. Minister of Finance Regulation No 143/PMK.02/2015 (July 24, 2015).
- Ministry of Finance. 2016. *Laporan Keuangan Pemerintah Pusat Tahun 2016 Audited*. Jakarta: Ministry of Finance.
- Ministry of Finance and Bappenas. 2009a. *Buku 1 Pedoman Restrukturisasi Program dan Kegiatan*. Jakarta: Ministry of Finance and Bappenas.
- Ministry of Finance and Bappenas. 2009b. *Buku 2 Pedoman Penerapan Penganggaran Berbasis Kinerja*. Jakarta: Ministry of Finance and Bappenas.
- Organization for Economic Cooperation and Development. 2008. *Performance Budgeting: A Users' Guide*. Paris: Organization for Economic Cooperation and Development.
- Osborne, David. 1993. Reinventing Government. *Public Productivity & Management Review* 16(4): 349–56.
- Robinson, M and Brumby, J. 2005. *Does Performance Budgeting Work? An Analytical Review of the Empirical Literature*. International Monetary Fund.
- Robinson, M. 2007. *Performance Budgeting: Linking Funding and Results*. Washington, DC: International Monetary Fund.
- Shah, A. 2007. *Budgeting and Budgetary Institutions*. Washington, DC: World Bank.
- Schick, A. 1996. *The Spirit of Reform*. Wellington, New Zealand: State Services Commission.
- State Administration Agency. 2013. *Kajian Desain Kelembagaan Pemerintah Pusat (Arsitektur Kelembagaan Tahun 2014–2019)*. Jakarta: State Administration Agency.
- Wahid, A. *Pidato Kenegaraan Presiden Republik Indonesia*. Speech, Jakarta, August 16, 2000.
- World Bank. 1998. *Public Expenditure Management Handbook*. Washington, DC: World Bank.
- World Bank. 2001. *Country Financial Accountability Assessment*. Washington, DC: World Bank.