

## **CHAPTER FOUR**

### **FORMULATION OF THE ANNUAL LOCAL BUDGET: THE FIRST STAGE**

#### **4.1. Introduction**

Along with the governance reforms launched in 2000, the Indonesian authorities have introduced numerous new policies - including a new budgeting method - to change the old system implemented during the authoritarian ORBA era. The APBD (annual local budget) is currently formulated under the new paradigm of budgeting, which is expected to significantly improve the management of local government finance.

In the matter of the formulation of the local government budget, a number of critical questions frequently appear, including: how does the APBD get formulated?; what are the discrepancies between policy and practice in formulating the local budget?; who are the actors/ institutions playing dominant roles in the formulation of the budget?; what are the issues and challenges that commonly arise in the APBD formulation process?

This chapter intends to clarify the above questions by presenting an overview of the current APBD formulation process, as well as analysing the gap between policy and practice in this formulation process. The chapter will then go on to identify the actors and institutions who play major roles in the process. This is followed by analysing the prominent issues and distortions in the budget formulation process.

Overall, the chapter consists of two main sections. The first section elucidates the policy-practice gap in the APBD formulation process, while the second section analyses the prominent issues that generally arise in the process.

## **4.2. The Formulation Process for the APBD: the Policy-Practice Gap**

The process of APBD formulation is mainly guided by *Permendagri* 13 of 2006<sup>1</sup>, particularly chapter IV, clauses 78-103. According to these provisions, the APBD formulation process entails five main phases, namely: (1) preparation of the RKPD (*Rencana Kerja Pemerintah Daerah/ Work Plan of Local Government*); (2) arrangement of the KUA (*Kebijakan Umum APBD/ General Policy of APBD*); (c) creation of the PPAS (*Prioritas dan Plafon Anggaran Sementara/ Temporary Budget Margin and Priority*); (d) preparation of the RKA-SKPD (*Rencana Kerja dan Anggaran SKPD/ Work Plan and Budget of Local Body*); and (e) the formulation of local regulations regarding the APBD (*Anggaran Pendapatan dan Belanja Daerah/ Annual Local Budget*)<sup>2</sup>.

Local officials in the study 136ocations formulate the APBD according to the formal guidelines mentioned above. However, in this process, they must also

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<sup>1</sup> *Permendagri (Peraturan Menteri Dalam Negeri/ Regulations of Minister of Home Affairs) 13 of 2006 regarding the guidelines of Local Finance management.*

<sup>2</sup> (a) Preparation of the RKPD (*Rencana Kerja Pemerintah Daerah/ Work Plan of Local Government*) stipulated in *Permendagri* 13 of 2006 clauses 81-82; (b) Arrangement of the KUA (*Kebijakan Umum APBD/ General Policy of APBD*) regulated in clauses 83-86; (c) Creation of the PPAS (*Prioritas dan Plafon Anggaran Sementara/ Temporary Budget Margin and Priority*) stipulated in clauses 87-88; (d) Preparation of the RKA-SKPD (*Rencana Kerja dan Anggaran SKPD/ Work Plan and Budget of Local Body*) regulated in clauses 89-99; and (e) the formulation of local regulations regarding the APBD (*Anggaran Pendapatan dan Belanja Daerah/ Annual Local Budget*) stipulated in clauses 100-103.

accommodate other guidelines<sup>3</sup> which obligate them to conduct a participatory forum known as the *Musrenbang* (*Musyawarah Perencanaan Pembangunan/ Discussion of the Development Plan*). In the light of this, the local authorities make some modifications and adjustments in formulating the APBD. Therefore, as seen in the study areas, the APBD formulation process generally involves eight main phases, as follows: (1) preparation of the draft of the RKPD (*Rencana Kerja Pemerintah Daerah/ Work Plan of Local Government*); (2) arrangement of the *Renja-SKPD* (*Rencana Kerja-SKPD/ work plan of the local government agency*); (3) implementation of the *Musrenbang* (*Musyawarah Perencanaan Pembangunan/ Meeting of Development Planning*); (4) finalisation of the RKPD; (5) formulation of the KUA (*Kebijakan Umum Anggaran/ General Policy of the Budget*); (6) formulation of the *PPAS* (*Prioritas dan Plafon Anggaran Sementara/ Temporary Budget Margin and Priority*); (7) formulation of the *RKA-SKPD* (*Rencana Kerja dan Anggaran-Satuan Kerja Perangkat Daerah/ Work and Budget Plan of the Local Government Agency*); and (8) formulation of the APBD Draft (*Rencana Anggaran Pendapatan dan Belanja Daerah/ Local Revenue and Expenditure Budget*).

The process of APBD formulation officially starts at the beginning of January, or one year in advance of the proposed financial year. The real process of APBD formulation is elaborated below.

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<sup>3</sup> Particularly the guidelines issued jointly by the *Bappenas* Chairman and the Minister of Home Affairs number 0008/M.PPN/01 - 050/264A/SJ of 2007 regarding the implementation of *Musrenbang*.

#### **4.2.1. Preparation of the RKPD draft**

The RKPD (Work Plan of Local Government) is a short-term planning document for a local government (regency and city) for a period of one year. Basically, the RKPD is a translation of the mid-term development plan for local government known as the RPJMD<sup>4</sup> (*Rencana Pembangunan Jangka Menengah Daerah*). The preliminary design of the RKPD is prepared by the *Bappeda* (*Badan Perencanaan Pembangunan Daerah*/ Local Development Planning Board) by elaborating the existing RPJMD. It is prepared at the beginning of January (a year in advance of execution). *Bappeda* staff members generally complete the draft within two weeks, therefore the RKPD is usually ready by mid-January.

Although the local authorities in the study locations have very limited time to create the RKPD, they are generally able to complete this job on time. The informants explained that they do not have any difficulty to complete this task because they only elaborate upon the present RPJMD.

#### **4.2.2. Arrangement of the *Renja-SKPD* (Work Plan of the Local Government Agency)**

Once the RKPD draft, arranged by *Bappeda*, has been completed, then the secretary of *Bappeda* circulates it to all the SKPDs (*Satuan Kerja Pemerintah*

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<sup>4</sup> RPJMD (*Rencana Pembangunan Jangka Menengah Daerah*/ mid-term development plan of local government) is a document for local government development for a period of 5 years. The RPJMD is created, based on the vision and mission (made public during election campaigns), of the elected local government head. Once the candidate gets elected and inaugurated to be the head of local government, then his/ her vision and mission is officially adopted into the RPJMD for the period of 5 years, while the RKPD is arranged to ensure the linkage and consistency within planning, budgeting, program implementation, and supervision. The RKPD consists of regional economic framework design, development priorities, local government obligations, funding, and a work plan implemented either by the central government or local government.

*Daerah/* Local Government Agencies) around mid-January. After receiving the draft of the RKPD, the local government bodies (SKPDs) prepare the preliminary draft of the *Renja-SKPD*<sup>5</sup>. The *Renja-SKPD* is created by elaborating the strategic plan of the local government agency (*Restra-SKPD*) and referring to the guidelines that had been set up previously.

If the programmes or projects listed in the institutional *Renja-SKPD* are not consistent with the provisions that were set up earlier, it could be rejected either by *Bappeda* or the TAPD<sup>6</sup>. Due to these strict conditions, local officials prefer to create programmes or projects in line with commitments formalised earlier, although this often constrains their initiative and creativity to initiate programmes or projects which are more in tune with the current situation on the ground.

The evidence in the field demonstrates that local officials are usually able to finish formulating the draft of the *Renja-SKPD* in a timely fashion. Subsequently, once the draft of the *Renja-SKPD* has been completed, the SKPDs submit the draft to

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<sup>5</sup> The *Renja-SKPD* must be formulated in line with the authority, main duties, and functions of each SKPD as well as matching the *Restra-SKPD* (*Rencana Strategis SKPD/* Strategic Planning of SKPD). In preparing the *Renja-SKPD*, SKPD officials also refer to the initial draft of the RKPD (*Rencana Kerja Pemerintah Daerah/* Work Plan of Local Government) prepared earlier by BAPPEDA.

<sup>6</sup> The TAPD (*Tim Anggaran Pemerintah Daerah/* Budget Team of Local Government) is a team appointed by the local government head and led by the secretary of the local government. The main tasks of the team are to prepare and execute the policies of local government regarding the formulation of the APBD. The members of the team include the planning officials from the local government, financial management officials, and other related officials. The TAPD has the task of: (a) collecting, preparing, and processing materials or data for formulating the draft of the *APBD* (*Anggaran Pendapatan dan Belanja Daerah/* Local Expenditure and Revenue Budget), change of the APBD, and calculation of the APBD; (b) formulating a draft of the APBD, change of the APBD, and calculation of the APBD; (c) discussing the formulation of the APBD draft, change of the APBD, and calculation of the APBD; (d) collecting, editing, and creating answers from the Board/ office/ service/ agency of local government to respond to questions from factions from the DPRD (*Dewan Perwakilan Rakyat Daerah/* Local Parliament); and (e) reporting all duties as mentioned above to the *Bupati/ Walikota* (Regency Head/ Mayor) (PERMENDAGRI 13/2006).

the *Bappeda*, usually by the end of January. Hereafter, this is followed by the execution of the *Musrenbang* (Discussion of Development Planning).

#### **4.2.3. *Musrenbang* (Discussion of Development Planning)**

*Musrenbang* is a citizen forum which aims to gather the aspirations of the local people about development activities in their area<sup>7</sup>. By referring to the guidelines issued jointly by the *Bappenas* Chairman and the Minister of Home Affairs, number 0008/M.PPN/01 - 050/264A/SJ of 2007, local officials in the study areas implement *Bappeda* at five levels, including: (a) *Musrenbang Desa* (*Musrenbang* at the village level); (b) *Musrenbang Kecamatan* (*Musrenbang* at the sub-regency level); (c) *Forum SKPD* (SKPD Joint Forum); (d) *Musrenbang Kabupaten/ Kota* (*Musrenbang* at the Regency/ City level); and (e) *Paska- Musrenbang Kabupaten/ Kota* (Post-Regency/ City-level *Musrenbang*).

The findings from the study areas demonstrate that the *Musrenbang* at each level are generally conducted in a timely manner as stipulated in the formal guidelines. Unfortunately, the role of the local community in the budgeting process is still far from ideal as the majority are involved only at the earliest stage (the village level) of the *Musrenbang*. Further, public participation is only accommodated at the formulation stage of the APBD budgeting process, thus the participation of the local

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<sup>7</sup> Obligation of the local authorities to involve the local community in any development activities, particularly at the public budgeting process, is officially stipulated in a number of regulations, such as Law 32 of 2004 regarding Local Government; Law 22 of 2004 on the Financial Balance between Central and Local Government; Law 25 of 2004 concerning National Development; Government Regulation number 58 of 2005 on Local Government Financial Management; Regulation of Minister of Home Affairs number 13 of 2006 about Guidelines of Local Financial Management; and other related regulations.

community at the stages of validation, execution, and supervision and evaluation is mostly absent. Further analysis of the *Musrenbang* as the main channel to apply a bottom-up budgeting approach will be presented in Chapter Eight, section 8.4.

#### **4.2.4. Finalisation of the RKPD (*Rencana Kerja Pemerintah Daerah/ Work Plan of Local Government*)**

After the *Musrenbang* has been completed, the head of each SKPD (*Satuan Kerja Perangkat Daerah/ local government agencies*) signs off on the final draft of the *Renja-SKPD* (*Rencana Kerja Satuan Kerja Perangkat Daerah/ the work plan of the local government agency*). Afterwards, the SKPD heads submit the *Renja-SKPD* to the BAPPEDA by the end of April.

Once the drafts of the *Renja-SKPD* haven been accepted from all local agencies, the *Bappeda* officials finalise the RKPD draft based on the results of the *Musrenbang*. Normative guidelines forbid local officials from including programs or projects which were not previously proposed in the *Musrenbang*. This study has found many conflicts of interest in this phase, because many projects or programmes listed in the RKPD were, in fact, not actually proposed through the *Musrenbang*. Therefore, these projects/ programs are accommodated into the APBD in a ‘non-procedural way’. This tendency will be elaborated at next section (sub-section 4.3.4). In this phase, it is also seen that *Bappeda* officials commonly face difficulties in maintaining coordination among local agencies, therefore a lack of inter-agency coordination and understanding frequently appears in the APBD formulation process. The analysis regarding this indication is presented at sub-section 4.3.3 of this chapter.

The next step is for the final draft of the RKPD to be formalised by the head of local government in the form of Regulation of *Bupati/ Walikota* (Regency Head/ mayor) by no later than the end of April. Further, the RKPD will subsequently be used as a set of guidelines to prepare the KUA (General Policy of APBD), the PPAS (Temporary Budget Plafond and Priority), and the draft of the local annual budget (APBD).

#### **4.2.5. General Policy of the APBD (*Kebijakan Umum APBD/ KUA*)**

The draft of the KUA<sup>8</sup> is formulated by referring to the RKPD which was validated earlier<sup>9</sup> in the process. In formulating the draft of the KUA, as seen in the field, the head of local government (*Bupati/ Walikota*) is assisted by a team known as the TAPD (Local Government Budget Team) which is led by the Secretary of Local Government. Once the draft of the KUA has been formulated by the TAPD, the Secretary of Local Government hands the KUA draft to the *Bupati/ Walikota*. Next, the *Bupati/ Walikota* submits it to the local parliament (DPRD) for further discussion.

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<sup>8</sup> The KUA contains the achievement targets for the performance of programmes that will be delivered by local government. Additionally, the KUA accommodates projections of local revenues, allocation of local expenditures, as well as sources and usage of financing. By referring to the stipulation in PERMENDAGRI 59/2007, the officials in the study locations explained the general policies that should be elaborated in the KUA including: (a) a description of the macro-economic conditions, including the development of regional macro-economic indicators; (b) the basic assumption of the next-year APBD as well as the GDP growth and inflation rate and other assumptions associated with other regional economic conditions; (c) the local revenue policy which describes the forecast of local revenue sources and volume for the next financial year; (d) the local expenditure policy that reflects the main development program and policy; and (e) the policy of financing that describes the deficit and surplus forecasts and the anticipation to address these.

<sup>9</sup> Formulating the draft of the KUA must also refer to the guidelines of the APBD arrangements issued yearly by the Ministry of Home Affairs. The guidelines contain, among others: (1) points of policy that synchronize between the policies of the central and local governments; (2) the principle and policy for the formulation of the APBD for the following year; (3) the technique of the APBD arrangements; and (4) other specific issues related to APBD arrangements (PERMENDAGRI 37/2010 on General Guidance of APBD 2011).



In the DPRD, the draft of the KUA is discussed by the TAPD (representing local government) and the budget committee of the local parliament (*Banggar* DPRD). As seen in the field, these two committees find it relatively easy to reach agreement, as the KUA does not currently indicate the detailed figures of the APBD, but only contains the general indicators of local development<sup>10</sup>. In case there is disagreement among them, the TAPD members usually tend to accommodate the ideas presented by *Banggar* members, as local legislators presently have more political power than executive officials. Once these two committees have agreed, then the General Policy of the APBD (the KUA) becomes officially formalised. Furthermore, the validated KUA is referred to in the formulation of the structure of, and the figures within, the APBD.

According to Law 17 of 2003 concerning public finance, the draft of the KUA has to be submitted to the DPRD by no later than mid-June. Subsequently, the formalisation of the KUA should normally be completed in the first week of July. However, as found in the sites studied, local officials are often late in submitting the KUA draft to the DPRD. Consequently, the DPRD has very limited time to discuss the proposed draft of the KUA.

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<sup>10</sup> In accordance with the Regulation of the Minister of Home Affairs (*Peraturan Menteri Dalam Negeri/ Permendagri*) No. 59 of 2007 which revised *Permendagri* 13/2006, the KUA has to stipulate the relevant material in the form of a general explanation and does not explain technical matters. The clause regarding the KUA stipulated in *Permendagri* 59/2007 is totally different compared to the provision in *Permendagri* 13/2006. Under *Permendagri* 13/2006, the KUA was set up to elaborate technical matters, including the amount of funds allocated for programs and projects. However, *Permendagri* 59/2007 ensures that the KUA should only manage general indicators of local development. The technical aspects, including the volume of the budget of each proposed program and project should be described in the RKA-SKPD (*Rencana Kerja dan Anggaran-Satuan Kerja Perangkat Daerah/* plan of work and budget of local bodies) and the draft of the RAPBD (*Rencana Anggaran Pendapatan dan Belanja Daerah/* draft of local revenue and expenditure budget).

#### **4.2.6. PPAS (Temporary Budget Margin and Priority)**

Based on the formalised KUA, the TAPD (Local Government Budget Team) in the research locations creates a draft of the PPAS<sup>11</sup>. Once the draft of the PPAS is ready, local government executives and DPRD legislators jointly discuss and then formalise it. The formalisation of the PPAS is signed by the Head of Local Government (*Bupati/ Mayor*) and the Chairman of the DPRD. Subsequently, the ratified PPAS will be circulated to the SKPDs (local agencies) to be referred to in arranging the RASK (*Rencana Anggaran Satuan Kerja/ Budget Plan of Local Agency*).

The guidelines stipulate that the finalisation of the PPAS should be completed by no later than mid-July. Nevertheless, local officers generally struggle to complete the PPAS on time. This phenomenon is quite similar to the KUA process which is also rarely finalised by the deadline because of complicated technical problems. These issues exist because - in formulating the APBD, including arranging the KUA and the PPAS - local officers need to refer to many complex new regulations which have been introduced, and frequently changed, by the national authorities (this is further analysed in the sub section 4.3.7). To deal with these difficulties, local officials prefer to contract out the formulation of the budget documents as elaborated in the sub-section 4.3.8.

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<sup>11</sup> The PPAS contains the priority programs and maximum margin of budget allocated to each local government agency (SKPD/ *Satuan Kerja Perangkat Daerah*). The substance of the PPAS reflects local development priorities associated with the targets that have to be achieved by each SKPD. The PPAS also illustrates the temporary budget margin in each SKPD based on proposed programmes and activities.

#### **4.2.7. The RKA-SKPD (Work and Budget Plan of Local Government Agency)**

The RKA-SKPD (*Rencana Kerja dan Anggaran-Satuan Kerja Perangkat Daerah/ Work and Budget Plan of Local Government Agency*) is arranged based on the KUA (General Policy of Budget) and the PPAS (Temporary Budget Margin and Priority) formalised earlier. Referring to these two documents, the TAPD (Local Government Budget Team), on behalf of the local government head, prepares a guideline for the arrangement of the RKA-SKPD<sup>12</sup>.

Once the guideline for the arrangement of the RKA-SKPD is ready, the Secretary of Local Government, as the chairman of the TAPD, circulates it to all local units. Based on this guideline, each local agency creates an institutional RKA-SKPD<sup>13</sup>. Subsequently, each unit hands its RKA-SKPD to the Official of Local Finance Management (PPKD/ *Pejabat Pengelola Keuangan Daerah*) to be discussed by the TAPD. At this stage, the TAPD also formulates the policy of the Head of Local Government regarding the RAPBD arrangements.

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<sup>12</sup> In creating the guidelines for the arrangement of the RKA-SKPD, the TAPD refers to the *Permendagri* (Regulation of Minister of Home Affairs) concerning APBD arrangements issued yearly. The guidelines for the RKA-SKPD arrangements consist of at least: (1) the PPAS allocated for each programme of the Local Government Agency (SKPD) and completed with the revenue and financing plan; (2) synchronisation of programmes and activities among Local Government Agencies; (3) a time limit to hand the RKA-SKPD to the Management Official of Local Finance (PPKD/ *Pejabat Pengelola Keuangan Daerah*); (4) other aspects that have to be considered by Local Government Agencies in formulating the annual budget, primarily in applying the principles of efficiency, effectiveness, transparency, and accountability; and (5) other attached documents, among others, the KUA, the PPAS, account codes for the APBD, the format for the RKA-SKPD, and the analysis of expenditure standards and price units.

<sup>13</sup> The RKA-SKPD (*Rencana Kerja dan Anggaran-Satuan Kerja Perangkat Daerah/ The Work and Budget Plan of Local Government Agency*) contains the detailed plan of revenues, the plan of expenditures for each program and activity, and the financing plan. These plans are prepared for the proposed financial year as well as the forward estimations for the following year. Additionally, the RKA-SKPD also consists of information about the functions of Local Government, Local Government Agencies, standards of price/cost, and the expected achievements of each programme and project.

The next step is that the TAPD organizes a discussion to analyse the suitability of the RKA-SKPD proposed by the local agencies together with the KUA, the PPAS, and other related planning documents<sup>14</sup>. As seen in the study sites, The TAPD officials habitually struggle to analyse and synchronise the RKA-SKPD with the various complex indicators adopted in the new budgeting system. Those officers have trouble particularly in integrating planning and budgeting because of data unreliability (this phenomenon is elaborated upon in the section 4.3.2 of this chapter). In such situations, if the local staff find this process too complicated and they cannot solve it by themselves, they consult with the provincial officials or even sometimes with officials at the central level (the Ministry of Home and Affairs or Ministry of Finance). Once the process of creating the RKA-SKPD has been completed, then the next step is the formulation of the draft of the structure and figures of the APBD.

#### **4.2.8. Formulation of the APBD**

The TAPD authorities formulate the draft of the structure and figures of the APBD with reference to the RKA-SKPD, which have been previously validated by the TAPD. At the same time, the PPKD (Official of Local Finance Management) prepares two drafts of the regulations, which are a local government regulation regarding the APBD (*Perda tentang APBD*)<sup>15</sup> and a regulation from the local

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<sup>14</sup> At this event, the TAPD analyses the compatibility of the RKA-SKPD with the achievement of performance, performance indicators, analysis of cost standard, the standard of price, and the standard of minimum service set up earlier. Additionally, the TAPD also synchronises the programmes and activities of each Local Agency.

<sup>15</sup> The draft of the Local Government Regulations concerning the APBD are attached with: (1) a summary of the APBD; (2) a summary of the APBD based on local government affairs and organizations; (3) a budget breakdown according to local government affairs, organizations, revenue, expenditure, and financing; (4) a recapitulation of expenditures based on local government affairs, organizations, programmes, and activities; (5) a recapitulation of Local Government Expenditure for synchronization and integration of local government affairs and financial

government head regarding APBD elaboration (*Peraturan Bupati/ Walikota tentang Penjabaran APBD*)<sup>16</sup>. These regulations will then be used as the legal basis for the setting of the structure and figures of the APBD. Once the APBD draft has been completed, the PPKD hands it to the head of local government (*Bupati/ Walikota*) for the final check of this stage of the process. Subsequently, the Secretary of Local Government, on behalf of the local government head, submits the draft of the APBD to be discussed and validated in the local parliament (the DPRD).

As stipulated in *Permendagri 13/2006 jo Permendagri 59/2007*, before the APBD is validated by the Local Parliament (the DPRD), local executives are obligated to make the draft public. This aims to let the public know about the structure and the figures of the APBD, therefore the community can provide further input if needed. Unfortunately, in practice, local government officials in the study locations tend to ignore this essential obligation. Further elucidation about this phenomenon is performed in the sub-section 4.3.5 of this chapter.

### **Model of the APBD Formulation Process**

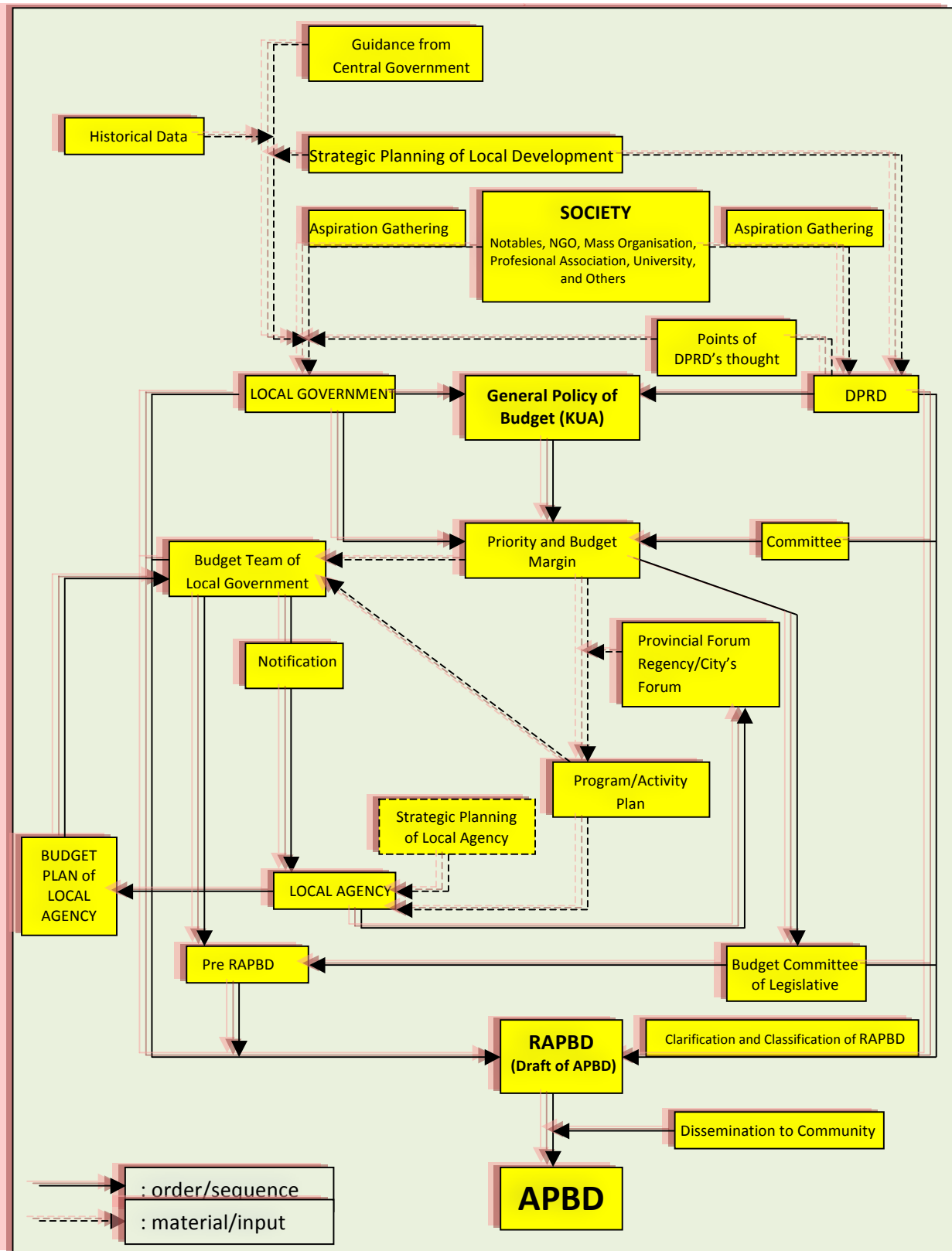
The long process of formulating the APBD as described in detail above can be diagrammatically simplified as follows:

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management functions under the framework of public finance; (6) a list of the number of employees, grouped according to their level and occupation; (7) a list of Local Government credit; (8) a list of Local Government capital (investment); (9) a list of the estimation of reduction and addition of Local Government fixed assets; (10) a list of the estimation of reduction and addition of Local Government other assets; (11) a list of the previous fiscal year activities that are not yet finalized and re-budgeted in the current fiscal year; (12) a list of Local Government reserve funds, and a (13) list of Local Government Debt.

<sup>16</sup> The draft of the regulations of the Local Government Head regarding the Elaboration of the APBD (*Peraturan Bupati/ Walikota tentang Penjabaran APBD*) must include a number of attachments concerning: (a) a summary of APBD elaboration; and (b) an elaboration of the APBD based on the functions of Local Government and the kind of programmes and activities. Furthermore, this draft must provide a detailed explanation of revenue, expenditure, and financing.

**Figure 5.1:** The Process of APBD Formulation



**Source:** Summarised from *Permendagri 13/2006* jo *Permendagri 59/2007* and the results of the interviews

As described above, the process of APBD formulation primarily involves two main parties including local bureaucrats and local legislators (the DPRD). The present budgeting system provides a fair opportunity for local executives and legislatures to take equal roles in the process. However, the role of these two parties in the formulation process of the APBD seems far from equal. In this stage, the roles of local executives and legislators seem disproportionate as local government officials play a more dominant role than the local parliaments<sup>17</sup>.

Overall, the APBD formulation process should be completed no later than the first week of October (of the previous proposed financial year). Nonetheless, in practice, the local authorities of Batu City, Surabaya City, and Trenggalek Regency, often fail to organise the local budgeting process in as timely a fashion as is required in the normative guidelines.

### **4.3. Emerging Issues**

The study has found that the current system of APBD formulation operates within a highly complicated system. Many new principles and methods need to be adopted by the local authorities in formulating the APBD (the annual local budget) with the aim of significantly improving the management of local finance. This situation contrasts sharply with the situation before the reform era, when the process of APBD formulation proceeded in a far simpler fashion. The more recent system also endorses local legislators to take an active part in the APBD formulation process instead of only being a passive party as they were during the New Order era (*Orde*

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<sup>17</sup> The phenomenon of disproportionate role among local officials and legislators at the APBD formulation process would be analysed in detail at the sub section 6.3.1 of this chapter.

*Baru*). Nonetheless, compared to the local executives, the role of local legislators in the formulation process of the APBD remains disproportionate.

#### **4.3.1. The Disproportionate Role of Local Executives and Legislators**

The present budgeting system encourages local parliamentary members to get involved in almost every substantial phase of the APBD formulation process, such as the *Musrenbang*, the formulation of the KUA, PPAS, and APBD drafts, and other related activities. This process intends to give local legislators a greater chance to propose initiatives to be accommodated into the APBD. This is also intended to avoid prolonged debate in the APBD validation process as local legislators have been involved from the early stages of the process. This policy environment essentially changes the old stipulation (before the autonomy era) which set the APBD formulation process as a ‘totally executive domain’.

Nonetheless, the facts found in the study areas show that local legislators are not very enthusiastic about maximising their role in the APBD formulation process. They also seem to be more passive at the various events associated with APBD formulation and tend to surrender to local executives in preparing the APBD draft and its supporting documents. As found in Surabaya City, Batu City, and Trenggalek Regency, the members of the DPRD (the local parliament) only get involved in discussions around certain documents, such as the KUA (general policy of budget) and the PPAS (Temporary budget margin and priority). The local legislative members argue that the formulation of these budget documents is very technical and detailed, while at the same time realising that they do not have the appropriate knowledge and



experience to do this. Hence, they prefer to surrender to local executives entirely in preparing such budget documents.

The study has found that the lesser contribution of local parliamentary members in the budgeting process is due mainly to the low quality of human resources and a lack of experience compared to executive officials. This is because the executive officials lead in terms of experience as local executives hold their positions for a long period of time, while local legislators hold theirs for only a limited period.

It can be referred from the statement of a head of local parliament secretariat (informant GO-09) at the study location:

*.....It is true that ability and competency of members of the DPRD are worse than executive officials. Local officials generally lead in term of experience as they hold occupation for long time. For certain members of the DPRD who are elected more than one period, they are relatively able to counterbalance executive officials. In contrast, for those who are elected for the first time, they usually struggle to equalize executive... (Interview: 06/03/11)*

This fact indicates that the members of the DPRD who hold their position for more than one period of five years do provide a counterbalance to the executive officials. However, for those who have recently been elected for the first time, they usually do not know much about the nature of their duties. As a result, they often struggle to equalise the role of the local executives in the APBD formulation process.

Further, a head of a local body (informant GO-15) points out:

*.....Indeed, they (local legislators) have such great political power and they also have authority to supervise us (local executives) in executing our institutional tasks. However, they are weak in personal capacity, experience, and administrative knowledge in the governmental affairs.... I think the national authorities must evaluate and seek a better system for the local level..... (Interview: 12/03/11)*

In light of this reality, one of former of commission chair at Local Parliament (informant FO-05) states:

*.....the weakness of local legislative members is the fault of political parties. Why? Because political parties did not prepare their members who are proposed to be members of legislative members. Therefore, when they are elected to be parliament (through general elections), they don't know their duties and are confused what they have to do. Finally, they will only surrender to executive...ha...ha..."* (interview: 06/06/11)

Based on data collected in the fields, it is evident that local parliament members contribute lesser than executive officials in the budgeting process. This tendency can be seen in all local governments of research locations even though the nature of case is not exactly same

Despite of this reality, the local executives, as a dominant party in the budget formulation process, often experience problems regarding data validity as well as difficulties in integrating the planning and budgeting structure.

#### **4.3.2. Unreliable Data and Unintegrated Planning and Budgeting**

Managing complex data and integrating the complicated structure of planning and budgeting are some of the difficult problems faced by local officials because the data available in the field are commonly invalid and are generally based on rough estimates only. The problem of data validity is made even worse by the lack of a database management system. Moreover, local agencies in charge of managing the database and the associated information (such as the Regional Archive Unit, the Office of Information and Electronic Data, the Central Bureau of Statistics, etc.) perform rather poorly, so this makes it difficult to obtain accurate, reliable, and well-

informed data. This situation leads to difficulties when, for example, local staff have to create projections of local revenue and expenditure. Since they do not have reliable data about the number of tax payers living in the local area, they struggle to formulate the projections of tax income for local government.

In other cases, such unreliable data repeatedly cause the failure of local staff to integrate local development planning and budgeting. This phenomenon can be seen, for example, from the Office Block (OB) development in the Batu Municipality government. As stated in the development plan for Batu City, starting in 2010, the municipality intended to build a new office block to facilitate government activities and public service delivery. This office block is projected to cost APBD funds amounting to 164 bn Rupiahs to complete. As this project needs a huge budget, local officials of Batu City set up the funding of the project with a multiyear budget, with aduration of four financial years (2010-2014). The first phase of this project has been executed, funded by APBD funds in the 2010 financial year, valued at 36 Billion Rupiahs.

However, the local parliament authorities of Batu City and some non-government parties require local executives to postpone this project, as the project is considered to infringe the *Perda* (Local Regulation) no. 3 of 2004 regarding the Spatial Plan (*Rencana Tata Ruang Wilayah/ RTRW*) formalised earlier<sup>18</sup>. This *Perda* stipulates that the location where the office block is built is allocated for business activities, therefore the development of government offices in this area is not permitted. Due to these conditions, local officials proposed that the DPRD should

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<sup>18</sup> Surabaya Post, 17 March 2011, <http://www.surabayapost.co.id/?mnu=berita&act=view&id=e57c6446502bd9c94cc78c3d92dc0c5c&jenis=1679091c5a880faf6fb5e6087eb1b2dc>

revise the *Perda*. Consequently, while the revision is in process, any activities to develop the office block have to be discontinued.

In addition to the issue of infringing the rules, this OB project also faces funding problems. As mentioned earlier, the Batu City authorities would like to finance the project with a multiyear funding scheme. Nevertheless, the Indonesian Minister of Home Affairs (MOHA) prohibited this project because there would be a change of *Walikota* (City Mayor) of Batu City at the end of 2012<sup>19</sup>. As mentioned in *Permendagri* 13 of 2006, local governments are not permitted to apply multiyear funding schemes in case there is a succession of local government heads within the funding period. Therefore, in this case, the project has to be delayed and can only be resumed in the 2014 fiscal year<sup>20</sup>.

This phenomenon is actually quite ridiculous because the local government elites are supposed to know that they are not permitted to build government offices at this particular designated location, as this provision is clearly stated in the local regulation (*Perda*) made by the local executives and legislators themselves. The Batu City officials, particularly from the DCKTR (*Dinas Cipta Karya dan Tata Ruang/* Service of General Work and Spatial) as the local body in charge of the project, claim that they received the wrong information when they created the master plan for the OB. They had obtained information stating that the existing *Perda* had been revised

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<sup>19</sup> PERMENDAGRI 13 of 2006 regarding the Guidelines of Local Finance Management stipulates that local governments are not permitted to apply multiyear funding in case there is a succession of local government heads (*Bupati/ Walikota*) within the period of funding.

<sup>20</sup> Tribun News, 18 December 2012, <http://surabaya.tribunnews.com/2012/12/18/proyek-block-office-batal-anggaran-multiyears#sthash.cHwu7Vji.dpuf>

by the DPRD, so they assumed that the development of the OB could go ahead. In fact, the revision was still in process.

The research discovers many similar phenomena in other local governments in the study areas. The local officials frequently struggle to integrate local development planning and budgeting because much of the data supplied by the relevant institutions are unreliable. In parallel with this, local government officials in the sites generally also experience difficulties in maintaining coordination among agencies when formulating local projects and budgets.

#### **4.3.3. Lack of Inter-Agency Coordination and Understanding**

The study has found that there is a tendency for each SKPD (local body) to prioritise their own institutional programmes and projects. They also seem more motivated to pursue the interests and successes of their own institution. As a result, coordination and synchronisation with other institutions tend to be ignored. This is evidenced through, for instance, the case of the empowerment of poor fishermen in the Regency of Trenggalek. The daily lives of fishermen can be divided into two dimensions: 'sea affairs' and 'land affairs'. 'Sea affairs' are any activities undertaken by fishermen at sea to catch fish and other related activities. 'Land affairs' are any activities where the fishermen stay on the land or when they are not taking part in their main occupation of fishing at sea.

In supporting the lives of the fishermen, the DKP (*Dinas Kelautan dan Perikanan/* Office of Maritime Affairs and Fisheries) authorities assume that they are only responsible for assisting fishermen in 'sea affairs'. In this context, the DKP only

concentrates on supporting fishermen to undertake their main profession at sea. The DKP also focuses on improving the skills of fishermen to catch fish and to increase their incomes from fishing. In consideration of this assumption, the DKP does not allocate a budget to support fishermen with any activities aside from fishing because the DKP officials contend that assistance for all the fishermen's activities in 'land affairs' (i.e. how to manage their income, how to build a new business, how to get a better job, etc) should be handled by other local agencies, such as the Board of Community Empowerment (*Badan Pemberdayaan Masyarakat*), the Office of Industrial and Trade Affairs (*Dinas Perindustrian dan Perdagangan*), and other related institutions.

Nevertheless, this assumption by DKP officials (that improving the livelihood of fishermen in 'land affairs' will be tackled by other local government agencies), contrasts completely with the points of view taken by other local institutions. Officials of other local agencies argue that all programmes targeted at fishermen (both for 'sea affairs' and 'land affairs') are fully under the jurisdiction of the DKP. In this matter, if local bodies – other than the DKP -- create any programme targeted at the fishing community, it would surely be rejected by the DPRD because the programme would be considered to be incompatible with the institutional *Tupoksi* (*Tugas Pokok dan Fungsi/ Main Task and Function*) of those local agencies.

The phenomenon presented above clearly confirms that there is a misunderstanding between the DKP and other SKPDs (Local Agencies) with regards to the formulation of development programmes for the fishing community. In this case, the DKP assumes that they are only responsible for supporting fishermen in 'sea affairs', while other local institutions insist that the DKP is supposed to handle both

‘sea affairs’ and ‘land affairs’. Consequently, ‘land affairs’ in the lives of the fishermen are not covered by the development programmes of any of the local agencies. This obviously leads to only limited APBD funds being allocated to the fishermen because the programmes only cover the ‘sea affairs’ of the fishermen’s livelihoods. A further impact of this circumstance is that efforts to alleviate poor fishermen from the poverty trap are still far from ideal. Since both parties in the debate staunchly defend their positions, this ‘misunderstanding’ remains an ongoing issue.

#### **4.3.4. The Emergence of Non-Procedural Local Projects**

Normatively, the APBD (Local Revenue and Expenditure Budget) must accommodate only programmes and activities proposed through the *Musrenbang* (Discussion of Development Planning). Nevertheless, it has frequently been found that ‘new projects’ have been included in the APBD not through the proper procedural channels (such projects were not proposed by any of the *Musrenbang* participants). The study confirms that this situation is very common and that this happens every financial year.

A staff member from the DPUBMP (*Dinas Pekerjaan Umum Bina marga dan Pematusan/* Service of General Work, Road, and Drainage) in Batu City has stated that in every financial year a number of ‘non-procedural projects’ are suddenly listed in the institutional work plan of the DPUBMP. In 2011, for example, more than five institutional DPUBMP projects were found that could have been categorised as non-procedural projects because they were not proposed through the *Musrenbang*. Even though it is hard to determine who proposed the projects, it is believed that they must

have been ordered by powerful parties that could not be refused by the elites of the DPUBMP.

Those projects not proposed through the MUSRENBANG, but suddenly listed in the APBD draft, are known as “*proyek titipan*” (by-order projects). The majority of these projects are ordered by powerful groups, including political parties, the business community, NGOs, the inner-circle of the head of local government, and other interest groups<sup>21</sup>. The phenomenon of *proyek titipan* is not unique to the study locations, as it also occurs commonly throughout Indonesian local government. For example, this has been the case with a project for the procurement of safety deposit boxes in the Regency of Sidoarjo (Koran Sindo, 2013)<sup>22</sup>, a *Proyek titipan* in the Capital Special Territory of Jakarta (SH News, 2013)<sup>23</sup>, by-order projects in the Service of General Work in the Regency of Musi Banyuasin (Buana Sumsel, 2010)<sup>24</sup>, institutional projects for the Service of Marine and Fishery Affairs ordered by local legislators in Maluku (Ambon Ekspres, 2012)<sup>25</sup>, various *proyek titipan* which were not properly implemented (Majalah Fakta Online, 2012)<sup>26</sup> and many others.

To reduce the trend of non-procedural projects being included not through the *Musrenbang*, in 2011 the *Bupati* of Trenggalek Regency introduced a Regulation of

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<sup>21</sup> Further explanation and analysis regarding the execution of “*proyek titipan*” (by-order projects) will be presented in Chapter Eight.

<sup>22</sup> Koran Sindo, 24 May 2013, <http://www.koran-sindo.com/node/315979>

<sup>23</sup> SH News, 08 April 2013, <http://www.shnews.co/detile-17484-banyak-anggaran-titipan-dalam-proyek-dki.html>

<sup>24</sup> Buana Sumsel, 15 April 2010, <http://buanasumsel.com/di-insiyalir-banyak-proyek-titipan-di-dinas-pu-bina-marga-musi-banyuasin/>

<sup>25</sup> Ambon Ekspres, 12 January 2012, <Http://www.ambonekspres.com/index.php?option=read&cat=53&id=36411>

<sup>26</sup> Majalah Fakta Online, November 2012, <http://majalahfaktaonline.blogspot.com.au/2012/11/ditemukan-sejumlah-proyek-tak-beres-di.html>



Local Government Head (*Peraturan Bupati*) which strictly forbids local officials from accommodating any projects not proposed via the *Musrenbang*. This rule aims to ensure that every project accommodated in the APBD is genuinely proposed by the local community. Unfortunately, the effectiveness of this rule cannot be clearly known until after the completion of this study.

#### **4.3.5. Non-Compliance in Making the APBD Draft Public**

As stipulated in the normative guidelines, the local authorities are obligated to publicise the annual budget (APBD) both when the APBD is still in draft form (before it is validated) and also once the draft has been formalised. However the reality in the sites indicates that local officials do not often deliver on this obligation. Local residents claim that they have never seen the APBD being made public.

It is not only the local executives, but also the politicians from the DPRD who do not publicise the APBD draft. The local legislators usually have very limited time to process the APBD because they accuse the local executives of being habitually late in submitting the draft of the APBD to the DPRD. Consequently, the legislators are unable to appropriately execute their duties, including disseminating the APBD draft to the community.

Local government officials generally deny this accusation by the local legislators indicated above. They argue that the local legislators are also responsible for the delay in the formulation of the APBD because the DPRD authorities tend not to discuss the draft of the KUA (General Policy of Budget) and the PPAS (Temporary Budget Margin and Priority) proposed by local bureaucrats in a timely fashion.

In addition, local officers do not pay much attention to the dissemination of the APBD because they consider that this part of the procedure is not compulsory for local governments. As well, most of them do not know that local governments are obliged to make the APBD public when it is still in draft form. Moreover, they are also worried about the misuse of the APBD if it is publicised. A staff member of local government (*informant GO-7*) revealed:

*In my opinion, it is some extent risky if we expose the detailed APBD. It will probably be misused by irresponsible people. You know somehow APBD is a confidential file, hence it will be provided only for authorised people. If certain people, like you, want to get access on the document of APBD, then they have to apply for an official permission first and explain why they want to get access to it. In case their objective is not clear, we are possibly to reject their request ... anyway, to be honest I don't know that local governments also must publicise the APBD draft before being validated. I just knew it from you ... (interview: 23/03/2011).*

The assumption that the APBD can only be accessed by authorised parties opposes the provisions stipulated in the formal regulations. It is clearly stated that the APBD is a public document therefore every citizen has a right to have access to the APBD. Moreover, the local authorities are obliged to make the APBD public, both before and after formalisation of the document. Unfortunately, the Indonesian government authorities do not impose tough sanctions when local governments infringe upon this clause. As a result, such violations continue to go unacknowledged.

#### **4.3.6. Untimely Process in Formulating Budget Documents**

Formulation of budget documents such as the RKPD, the KUA, the PPAS, the APBD draft, and other documents, is a lengthy and complicated process. To assist local governments in preparing these documents, the Indonesian government has

issued comprehensive guidelines. However, despite this technical process, it is still difficult to avoid delays.

As found in Surabaya City, Batu City, and Trenggalek Regency, the delay in finalising the budget documents is partly due to the fact that the executive officials are often late in submitting drafts of the KUA and the PPAS to the DPRD. This leads to delays of the discussion process of these documents by the DPRD. This fact becomes even worse through the tendency of local legislators to not immediately discuss and approve the draft of the KUA and PPAS as proposed by local officials. Consequently, the draft cannot be processed and passed on to the next stage in a timely manner. Most local legislators are not interested in immediately discussing and finalising the KUA and the PPAS because these documents do not clearly state the amount of money allocated to each project, but instead, only contain general policies and estimations of the annual budget. The study has also found that local legislators are generally more enthusiastic about discussing the APBD figures because they often have an interest in seeking to gain economic advantage from the monies allocated to local projects, programmes, and activities (this tendency will be further elucidated in the next chapter).

As a result, the KUA and the PPAS, which should be finalised by mid-July of each year, are usually completed late. The delay in finalising the KUA and the PPAS automatically leads to a delay in finalising the draft of the annual local budget (APBD). Data from the field shows that over the last decade, Surabaya City, Batu City, and Trenggalek Regency recorded average delays of 2 to 11 weeks every year in completing the KUA and PPAS documents.

Delays in completing the KUA and the PPAS are not unique to the Regency of Trenggalek, the City of Batu, and the City of Surabaya. As reported by the local and national mass media, the delays in formulating the KUA and the PPAS are common across Indonesia, among others, in the Regencies of Aru (Siwalimanews, 12 October 2011), Bungo (Jambi-Independent, 4 November 2011), Nunukan (Tribunkaltim, 21 November 2011), Bojonegoro (Blok Bojonegoro, 01 December 2011), and Indragiri Hilir (Detikriua, 20 December 2011), and the Cities of Tanjungpinang (Haluankepri, 06 December 2011), and Makasar (Ujung Pandang Ekspres, 22 November 2011), as well as in other local governments.

The failure to complete the formulation of the budget documents in a timely manner, as mentioned, is due to technical problems, as the Indonesian government frequently changes the regulations by issuing new laws and guidelines regarding the local budgeting process. As a consequence, the local officials are often confused when it comes to implementing these new policies.

#### **4.3.7. Too Many New Regulations: the Challenge in Mastering Them**

The reality demonstrates that the central government frequently changes many regulations in a relatively short space of time<sup>27</sup>. To anticipate trouble might arise due

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<sup>27</sup> Over the last decade, the main guidelines concerning APBD formulation have been changed four times. Two years after the implementation of the local autonomy and fiscal decentralisation policy, the Indonesian government issued *Kepmendagri (Keputusan Menteri Dalam Negeri/ Decree of Minister of Home Affairs)* number 29 of 2002 regarding guidelines for APBD Arrangements. However, this regulation did not last long. In 2006, the Indonesian government issued *Kepmendagri (Peraturan Menteri Dalam Negeri/ Regulation of Minister of Home Affairs)* number 13 of 2006 to replace *Kepmendagri 29/2002*. Then, just one year later, *Kepmendagri 13/2006* was revised by the issuance of *Permendagri 59/2007*. Finally, in 2011, the Indonesian Government issued *Kepmendagri 21/2011* regarding the Second Revision of *Kepmendagri 13/2011*. In addition, regulations related to financial management at the local government level had also been changed by the Indonesian Government. For instance, PP (*Peraturan Pemerintah/*

to these new policies, the national and provincial governments conduct numerous training sessions for local officials to disseminate those new regulations. Nevertheless, those training sessions are mostly ineffective and too theoretical; accordingly most local government officials are still struggling to adopt the new regulations and guidelines. This circumstance forces local officers, therefore, to learn how to implement these new regulations by themselves. Consequently, most local staff members are unable to adopt the new regulations in a short space of time, so the APBD formulation process is, once again, delayed.

As seen in the field, many of the older guidelines have not yet been perfectly implemented, despite the new regulations already being introduced and having to be immediately implemented. Ideally, the local officers need at least five years to become completely familiar with new guidelines. This issue is aggravated by the fact that some of the regulations often overlap or do not complement each other. Also, the lack of adequate human resource capacity among the people working in local government and in parliament significantly contributes to causing obstacles to enforcing the new policies. The study has found that the frequent changes of regulations have been caused by the transitional government in Indonesia, as a result of the collapse of the authoritarian ORBA (New Order)<sup>28</sup>. These changes have also

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Government Regulation) number 105 of 2000 regarding Management and Accountability of Local Finance was replaced in 2005 by the issuance of PP number 58 of 2005. Moreover, PP number 24 of 2004, regarding Standards of Governmental Accountancy, was replaced by PP number 71 of 2010.

<sup>28</sup> As is commonly known, Indonesian reform was not well prepared and happened quite suddenly. It was triggered by the collapse of the new order regime (*rezime Orde Baru*) under the administration of President Soeharto in 1998. Just a year after the resignation of President Soeharto, due to the strong pressure to change the very centralistic governmental system, the Indonesian transitional government issued a new package of regional autonomy laws.

been caused by conversions of basic laws<sup>29</sup>. Furthermore, the rotations of key officials at the central level have, to some extent, also contributed to changes in the regulations<sup>30</sup>.

#### **4.3.8. Contracting-Out: the Instant Way Out**

As previously mentioned, a majority of local officials still struggle to independently formulate the APBD documents, such as the RPJMD, the RKPD, the KUA, the PPAS, and so forth. This is due to low levels of human resource capacity and lack of experience because, in the past, local government officials were not required to be responsible for these documents. As well, the local officers claim that they have hectic daily routines, so they do not have enough time to create these documents. To deal with these problems, local authorities tend to opt for a simple solution in the form of contracting-out. In this case, they prefer to hire professional

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<sup>29</sup> The new package of regional autonomy laws consisted of Law 22 of 1999 regarding Local Government and Law 25 of 1999 concerning Financial Balance between Central and Local Government. These laws substantially replaced the previous local government law, namely Law 5 of 1974 which was very centralistic in orientation. The issuance of these basic laws automatically required the Indonesian government to change the lower-level regulations. In 2000, the Indonesian government issued PP (*Peraturan Pemerintah/ Government Regulation*) number 105 of 2000 regarding Management and Accountability of Local Finance, followed by the issuance of *Kepmendagri* (Decree of Ministry of Home and Affairs) number 29 of 2002 regarding the guidelines of APBD Arrangements. Moreover, the Indonesian government also issued Law 17 of 2003 concerning Public Finance. In 2004, Law 22 of 1999 and Law 25 of 1999 were changed along with Law 32 of 2004 on Local Government and Law 33 of 2004 regarding Financial Balance between Central and Local Governments. These changes lead to change in related lower-level regulations. As a result, *Kepmendagri* number 13 of 2006 concerning Guidelines of Local Finance Management was issued to replace *Kepmendagri* 29 of 2002. Afterwards, *Kepmendagri* 13/2006 itself was revised twice by the issuance of *Kepmendagri* 59/2007 and *Kepmendagri* 21/2011. Furthermore, the Indonesian government issued PP (*Peraturan Pemerintah/ Government Regulation*) number 58/2005 regarding Local Finance Management to replace PP 105/2000. Additionally, PP 71 of 2010 about Standard of Governmental Accountancy was formalised to replace PP 24/2004.

<sup>30</sup> The common tendency in Indonesia is for new officials to tend to issue new regulations. For example, a new minister often issues a new KEPMEN (*Peraturan Menteri/ Minister decree*) even though it is not really urgent.

consultants (experts from universities or other professional institutions) to create a number of the APBD mandatory documents.

Local officials insist that, by hiring professional consultants, the formulation of the budgeting documents will be completed properly. This practice also does not infringe the law, as some of the legal regulations (such as *Permendagri* 13/2006, Government Regulation/PP 58 of 2005, and President's Regulation 54/2010) allow local governments to involve consultants when they are struggling to execute institutional tasks.

Nonetheless, non-governmental parties argue that contracting-out of the formulation of budget documents is inefficient. According to them, the formulation of the budget documents is a routine task which is supposed to be independently completed by local government officials themselves. They argue that contracting-out the formulation of the budget documents is indeed allowed by the formal regulations, however it is actually only meant to be a 'temporary solution' for those times when local staff are still struggling to implement new policies. Once local staff members have become familiar with the policy, they are then supposed to execute it themselves. The facts in the field denote that local officials tend to continue to hire consultants even though they are actually able to undertake the task by themselves. Further to this point, an NGO activist (informant LN-3) from the City of Malang stated that:

*It is definitely wasteful and inefficient. Local staff are supposed to learn to do those jobs by themselves, so the money can be saved and can be allocated for more useful things ... anyway, it is very easy to analyse why local government staff prefer to do contracting-out in conducting some jobs. It is because of an economic motive. I mean, local officials expect to gain commissions quoted from consultants executing the projects (interview: 22/03/2011).*

In this respect, most professional consultants do not refute the claims of a money-motive behind decisions to contract out. A scholar from Brawijaya University, who is frequently hired by local governments, explains that he never receives 100% of the project funds. He always refunds a certain percentage of the project funds to the local officials who hired him for the project. As found in the study sites, for the projects such as formulating the RPJMD, RKPD, KUA, or other documents, local government officials usually quote around 25-40% from the project funds or sometimes even more. Hence, after tax, the contractors receive roughly only about 45-55% (from the budgeted funds) for operational costs to execute the project.

Civil servants in the study sites claim that contracting-out is the easiest way to implement some of the new policies. Interestingly, in fact, there is a hidden reason why local bureaucrats prefer to contract out. This is for 'safety reasons'. Local officials argue that once a project is conducted by a third party (a consultant), it will create a more secure situation for local staff. This means that if, for example, there are any mistakes found in the documentation created by the consultant, the local officers will be excused on the grounds that it was the consultant's fault, as the document was created entirely by the consultant. Therefore, local officials will not be completely blamed for the trouble.

Hiring consultants to execute routine tasks has a number of pros and cons. Nevertheless, due to the belief that this strategy may have positive impacts, most local government officials prefer to keep contracting out the formulation of the planning and budget documents.



#### **4.4. Summary**

The present budgeting process encourages local parliaments (DPRD) to get involved at the formulation stage of the APBD. Nevertheless, local executives remain highly dominant in this process compared to local legislators (the parliament/ DPRD). This occurs because local government officials have better qualifications in terms of knowledge, experience, and education. This fact supports the contention of *Santiso* (2004, pp. 55-56) that the executive has a predominant role in budget policy-making, the drafting of the budget bill, and executing the budget. Executive predominance reduces the parliament to a secondary role in the policy formulation process. This is consistent with *Krafchik* (2001) who maintains that the drafting stage is the most closed part of the budget process in virtually all countries and that which is most dominated by the executive.

Nonetheless, despite their domination, as the GAO (1993) noted, the executive officials face significant challenges in aligning and integrating the planning and budget structures in a way that meets the needs of all the stakeholders involved in the process. This is similar to the situation found in the sites whereby during the APBD formulation process, local government officials often struggle to maintain the validity of the data and also to sustain coordination and synchronisation among local institutions. This leads to a situation in which projects/ programmes proposed by local agencies frequently overlap with each other. Additionally, this causes local people cannot obtain the optimal benefits of local development.

One of the important points associated with budget formulation is how the budget gets formulated: whether through a top-down or a bottom-up approach

(Ljungman, 2009). As seen in the field, in theory local governments apply combination of those two approaches. However, in reality, they employ top-down method because operating combination of op-down and bottom-up approach simultaneously is quite complicated (Ljungman, 2009) as public involvement in developing countries is mostly obstructed by negative myths (Krafchik, 2001), a lack of knowledge, citizen apathy, lack of time, and also the assumption that public opinions are undesirable (Firsby & Bowman, 1996).

The constitution obligates local governments to publicise the APBD draft before it is formalised by the DPRD (the local parliament). Nevertheless, this essential obligation is frequently ignored because local officials think that the APBD is a confidential document, hence only authorised people are allowed access to it. Local officials are also worried about the potential misuse of the APBD by unauthorised parties. Moreover, some of the local authorities do not even know that they have to make the draft of the APBD public prior to validation.

In the process of formulating the APBD draft, local authorities face a latent problem in the form of untimely completion. This delay is caused by a number of complex technical and political problems. The difficulties faced by local staff in formulating the APBD documents are caused by the issuing of a large number of new rules to regulate the process of local budgeting. To solve this problem, local governments tend to opt for a simple solution in the form of contracting-out. Even though this strategy is to some extent contradictory, local officials often insist that contracting-out is the best way to accelerate the formulation of budget documents.

To avoid the problem of untimely completion as found in the research locations, Ljungman (2009, p. 5) encourages government agencies to implement a top-down process of budgeting. Earlier, Hagen (1992) has declared that a top-down decision-making method in parliamentary system is more conducive to fiscal discipline than are bottom-up procedures. This point is supported by a number of studies conducted later by De Haan & Sturm (1994); Woo (2003); Gleich (2003); and Yläoutinen (2004).

The process of APBD formulation, as elaborated upon and analysed in this chapter, will subsequently be followed by a discussion of the next stage of the APBD budgeting process, known as the validation process of the APBD. The elaboration and analysis of the APBD validation process will be presented in the next chapter (Chapter Five) entitled ‘The Validation Process of the Annual Local Budget (APBD): the Second Stage’.