PUBLIC EXPENDITURE MANAGEMENT REFORM IN INDONESIA: AN ASSESSMENT OF THE ROLES OF THE TREASURY AND OTHER INSTITUTIONS

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ABSTRACT

The success of governments is often defined and judged by their management of public expenditure because it shows the policies, priorities and actions which they have taken. In view of the importance of sound expenditure management, the Government of Indonesia reformed the PEM system in 2003 and incorporated international best practices into its laws as a form of institutional isomorphism. This study has assessed the roles of the Indonesian Treasury and other key institutions in formalizing and internalizing these approaches for the period 2004 to 2009. In particular, it has examined the roles of the Treasury in supporting and applying performance-based budgeting, treasury single account, and accrual accounting.

By using a modified Bennett’s (1975) hierarchy model and Allen et al.’s (2004) PEM assessment instruments, the processes and outcomes have been explored. Interviews with the reform initiators, policy makers and related stakeholders were conducted and questionnaire surveys to policy implementers were undertaken. The findings show that although the process contributed positively to the outcomes, generally the outcomes were less optimal due mainly to incomplete institutional arrangements, poor connectedness between functions, and uneven empowerment of key actors.

The study reveals that a concurrent linear iterative approach is essential when applying contemporary approaches to PEM. It is different from other proposed approaches to PEM, such as the two-pronged approach prepared by the World Bank (1998), a torto-hare approach developed by Campo and Tommasi (1999), the platform approach by Brooke (2003), and Peterson’s (2007) evolutionary approach. Moreover, the study suggests the importance of getting the changing control arrangements right instead of Schick’s (1998) sequential vertical controls. Control is not eliminated but shifted to other stages in the system, whether it is put as ex-ante control or ex-post control; the flexibility can be delivered to an entity, a unit, or an officer after certain controls have been developed. To effectively change, attention needs to be paid to the boundaries and functions of entity, the roles of the Treasury, the nature of financial transactions, and the delegation of authority from the Treasury to other financial officers or institutions. The role of the Treasury as a change agent is particularly significant during reform, not only to deliver treasury services but also to issue treasury regulations covering new institutional arrangements and to train related actors. The roles of other institutions in PEM will depend on the Treasury. Therefore institutional isomorphism in the form of mimemis will not be successful if it only changes laws without also promoting wider understanding of the related concepts and practices. An indigenous developing country model, as identified by McCourt (2001), will be difficult to find. Nevertheless, legacy effects, as identified by Painter and Peters (2010), are likely to continue, particularly when awareness of the proposed changes is low and when the key actors are indifferent to reform. The most salient factor is the continuity of reform as a culture.
DECLARATION OF ORIGINALITY

I certify that this thesis does not incorporate without acknowledgement any material previously submitted for a degree or diploma in any university; and that to the best of my knowledge and belief it does not contain any material previously published or written by another person except where due reference is made in the text.

Noor F. Achmad
Candidate

Date:......../....../........

I believe that this thesis is properly presented, conforms to the specification for the thesis, and is of sufficient standards to be, prima facie, worthy of examination.

Dr. Noore A. Siddiquee
Principal Supervisor

Date:......../....../........

Assoc.Prof. Jo Baulderstone
Co-Supervisor

Date:......../....../........
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GLOSARY OF ACRONYMS

ADB  Asian Development Bank
APBN  The State Annual Budget (*Anggaran Penerimaan dan Belanja Negara*)
BAKUN  The State Accounting and Reports Agency (*Badan Akuntansi Keuangan Negara*)
BAPPENAS  The National Development Planning Agency (*Badan Perencanaan Pembangunan Nasional*)
BI  The Bank of Indonesia (*Bank Indonesia*)
BPK  The Supreme Audit Institution (*Badan Pemeriksa Keuangan*)
BPKP  The Financial Comptroller and Development Supervisory Agency (*Badan Pengawas Keuangan dan Pembangunan*)
CEO  Chief Executive Officer
CFO  Chief Finance Officer
COO  Chief Operational Officer
FMRC  Financial Management Reform Committee (*Komite Penyempurnaan Managemen Keuangan Negara*)
GSC  General State Cash (*Kas Umum Negara*)
GFS  Government Finance Statistics
IFMIS  Integrated Financial Management Information System
KAR  Regional Accounting Office (*Kantor Akuntansi Regional*)
KASIPA  Financial Administration Office (*Kantor Verifikasi dan Pelaksanaan Anggaran*)
KPKN  Payment Verification Office (*Kantor Perbendaharaan dan Kas Negara*)
KPPN  Treasury Service Office (*Kantor Pelayanan Perbendaharaan Negara*)
MOF  The Ministry of Finance (*Kementerian Keuangan*)
PAN  The State Finance Accountability Reports in form of budget realization (*Perhitungan Anggaran Negara*)
PEN  Public Expenditure Management
RKP  The State Annual Plan (*Rencana Kerja Pemerintah*)
RKA-KL  The Work Plan and Budget of line ministry/agency (*Rencana Kerja dan Anggaran Kementerian /Lembaga*)
SAKIP  Performance Accountability System within governmental institutions (*Sistem Akuntabilitas Institusi Pemerintahan*)
TSA  Treasury Single Account

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