

**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 tortoise-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 *mimemisis* 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.

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.....

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
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.....

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GLOSARRY OF ACRONYMS

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

