Indonesia Spending Reviews
in the Context of Financial Management Reform

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List of Acronyms

ADIK	Arsitektur dan Informasi Kinerja
APBN	Anggaran Pendapatan dan Belanja Negara
APIP	Aparat Pengawas Internal Pemerintah
CSR	Comprehensive Spending Review
ERC	Expenditure Review Committee
EU	European Union
FMR	Financial Management Reform
GFC	Global Financial Crisis
K/L	Kementerian Negara/Lembaga
GDP	Gross Domestic Product
LCM	Lüder Contingency Model
MoF	Ministry of Finance
NPM	New Public Management
OECD	Organizations for Economic Cooperation and Development
PBB	Performance-Based Budgeting
PPBS	Planning, Programming Budgeting System
SMART	Sistem Monitoring dan Evaluasi Kinerja Terpadu
SR	Spending Reviews

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Abstract

Public Financial Management Reform has emerged in Indonesia since the beginning of year 2003. One of the policy applied is implementation of Spending Review. Spending Review considered as one of management tool to get consolidate fiscal and financial after the Global Financial Crisis struck in 2007-2008. More than five years since 2013 when the first engagement of spending reviews as part of budgeting process in Indonesia, government has try to integrate spending reviews with performance based budgeting. Because through the information generated from PBB, spending review would be successfully increased the quality of public expenditure of Indonesia government. With Lüder FMR model as a conceptual framework, author want to compare the policy of Indonesia in implementing spending review with the guidance of spending reviews made by OECD countries to know the success/failure of that policy. Although the conclusion made by researcher are not strong due to the limitation of descriptive analysis, the findings of this study hopefully can elaborate the political motives behind government spending reviews process in Indonesia link to budgeting context, there is the potential that improvement of what have done by spending review implementation would be useful in the future.

Relevance to Development Studies

Public Financial Management Reform of Indonesia play significant role to the development environment. As the growing developing country, Indonesia has implementing public policy reform such spending review to increase the quality of budget expenditure. Spending reviews is argued to be the new management reform tool to create fiscal consolidation that bring improvement in public sector to delivered public services.

Keywords

Budgeting, Financial Management, Reform, Spending Reviews,

Chapter 1
Introduction

1.1 Background Information

It has been a decade, since countries in the world especially in Europe region are trying to recover from the effects of the global financial crisis (Sgherri and Zoli 2009: 3-4). Central government of the affected countries are trying to be much wiser in spending their public money (Sgherri and Zoli 2009: 7-8). Many of the European states enacted policies to react from the challenge that they faced. One of the influential policies to address this challenge is containing the public spending through 'cutback management' (Levine 1978; 1979; Dunsire and Hood 1989; Bozeman 2010 as cited in Raudla et al. 2013: 3-8). In line with that, Raudla et al. (2013: 28-30) also mention spending review as one of the cutback management methods. Spending reviews (SR) is considered to be one of the most advanced and developed methods used by the deteriorated state to consolidate and stabilize their fiscal (Postula 2017: 68).

To begin with, every organization (including the state) has to meet the needs of its stakeholders (Postula 2017: 64). According to Orlowski (2010 as cited in Postula 2017: 64), every organization has two functions at the same time: marketing unit and innovation centre. As marketing unit, an organization must have good understanding and try to identify what the customer needs (ibid). As a result, the organization will do their best to adjust the outcome or product through innovations (ibid). While the latter function is how the organization find a way to generate and deliver the product to customers in the most economical way (ibid). In a state context, marketing function is carried out outside the system so it needs to be adjusted to the community desire in a democratic sphere (ibid). On the other hand, the innovation function can be applied by using efficient tool as depicted in the budget document (ibid).

Postula (2017: 64) claimed that there is no method used to perform SR uniformly. Most of the reference that has been published only generates some guidance that would be followed by countries that want to implement SR in their budgeting process. However, when a state wants to achieve more accurate and effective results in the use of SR, it has to develop some key factors. These key factors include: political commitment, administrative responsibility, targeted and appropriate program management, integrated procedures, continous innovation and improvement, enhanced transformation capacity, and efficient culture (ibid).

SR as a policy in public administration is not only looking for opportunities to cut the budget, but also to reform the public finances management for the utilization of funds in a more strategic and appropriate function (Marczewski 2012 as cited in Postula 2017: 65). SR comprises all levels of activities of the country, and being done by conducting profound and strategic analysis (ibid). It use an evaluation method relevant to SR such as ex-ante evaluation and cultural evaluation, which is still a debate widely when discussing state expenditure policies (ibid).

Several studies found that SR in developed countries has been widely implemented (Robinson 2013: 35-36; Hawkersworth and Klepsvik 2013: 121). However, the literature about SR in developing countries like Indonesia is still limited. In Indonesian context, there is limited studies on SR that are used to identify the operational performance to improve the output quality of work units at the government organizations.

There is a review of the quality of *Anggaran Pendapatan dan Belanja Negara (APBN)*/Indonesian state budget conducted by the World Bank in 2016. It focuses more on measuring the quality of expenditure in term of allocative efficiency on measurement of budget outcome (World Bank 2008). The study on operational performance in the technical efficiency of spending in Indonesia conducted by World Bank can be considered as partial analysis (e.g. education sector) and not comprehensive. As a result, this research is expected to analyze the spending review especially in the context of its implementation on developing countries by using Indonesia's case as lesson learned.

Previous research about SR in Indonesia by Parhusip in 2016 was analyzing the implementation of SR in some ministries from 2013-2016. He found six conclusions as follows. First, changes in the mechanism of compiling the SR from the top-down to the bottom-up or joint review method (Parhusip 2016: 206-207). As is evident in other countries that the bottom-up and joint review methods are more successful in the compilation of spending reviews, Indonesia needs to change the top-down approach that has been used (ibid). By performing a bottom-up or joint-review method, it is expected that the sense of ownership of the *Kementerian Negara/Lembaga (K/L)* or Ministries/Organizations will increase and can support the successful implementation of the compilation and use of spending reviews.

Secondly, the development of methodology is needed to measure technical efficiency (Parhusip 2016: 207). Performance measurement method by the Directorate General of Treasury (DG Treasury) of the Ministry of Finance (MoF) needs to be improved to measure operational performance better (ibid). Currently, review in the allocation of *Rencana Kerja Anggaran Kementerian/Lembaga (RKA K/L)* or Ministry's Budget Working Plan has been putted as integral part of the budgeting process (ibid). However, the review of RKA K/L allocation has not been fully able to measure the technical efficiency of the operational units (ibid). Thus, it is necessary to develop alternative methods that can be used and make it integrated to the process of the budget preparation in the fiscal year (ibid). Therefore, it is also necessary to improve coordination with related units, impprove the MoF and ministries employees's competences and conduct comparative study review in developed countries.

Thirdly, strengthen the mutual interconnection among unit under MoF, DG Treasury and Directorate General of Budget (DG Budget) in the framework to improve *Arsitektur dan Informasi Kinerja (ADIK)* or Architecture and Information of Performance and *Sistem Monitoring dan Evaluasi Kinerja Terpadu (SMART)* or Integrated System for Performance Monitoring and Evaluation (ibid). A key challenge in measuring technical efficiency is determination of relevant and valid performance information in form of the inputs, outputs and outcomes contained in planning and budgeting documents (ibid). As a result, ADIK needs to be fully carried out and implemented (ibid). Currently, DG Treasury only received partial performance information from DG Budget. It shows the important role of coordination in improving the performance information. Improvement of ADIK and SMART are intended to make performance information becomes more valid and relevant. Furthermore, these can be used for conducting performance measurement in spending review and supporting implementation of performance-based budgeting broadly.

Subsequently, the research recommend strengthening of coordination between MoF and ministries (ibid). The lack of coordination is reflected in unqualified performance information which are needed for the success of SR (ibid). Therefore, it would be good to strengthen the internal coordination within the MoF particularly between the DG of Treasury and the DG of Budget.

Additionally, the paper constitute government to institutionalize the SR process in the budgeting calendar (Parhusip 2016: 207-208). To improve the certainty that the results of spending reviews are being used by the high-level authority of budget planning, the process of compiling the SR should be institutionalized into budgeting cycle of the next fiscal year (ibid). As a result, the timeframe need to be set in the form of regulation. It is expected that all ministries with the coordination of MoF begin to compile the previous budget SR in January for submission of the results in conjunction with the review time of RKA K/L of *Aparat Pengawas Internal Pemerintah (APIP)* or Government Internal Supervisory Apparatus (ibid). The study found that the results of SR have not consistently used in budget decision-making. Consequently, the SR in Indonesia has not been fully referred to SR done in developed countries (ibid).

The next conclusion is government need to give more attention for human development program by intensifying the SR training program (Parhusip 2016: 208). Human resource capacity is one of the key success factors of compilation of SR (ibid). The compilation of the SR requires the technical skills of state finance and budgeting, which are not owned by all ministries (ibid). It leads to increasing demand of relevant education and training program. However, limited SR training conducted for MoF employees is not enough.

Last but not least, recommendation of the paper is to give penalties for poor performance of ministries in delivering public service (ibid). The purpose of the compilation of SR is to increase the degree of government spending (budget performance) which is expected to improve the performance of the organization in the form of better output and outcomes (ibid). To increase awareness and seriousness of the ministries for the purpose, sanctions should also be given to the non-optimal outcome of ministries (ibid). The output achievement should be seen not only from the budget absorption rate, but a good level of performance, including improved SR results (ibid).

1.2. Justification of the Study

The main objective of this study is to understand the reason why government applying spending reviews as a financial management reform in budgeting policy. The researcher will try to evaluate the importance of spending reviews as a part of budgeting process in Indonesia by comparing the development of Spending Reviews in the Organization for Economic Cooperation and Development (OECD) members. By doing this research, we hope to find indisputable insight of the government expediency to enhance the technical way of undertaking the SR methodology in the year to come for Indonesian government. The intension of this paper would be beneficial for the following reasons. The first one, this study provides general conclusions based on literature and conceptual framework on the implementation of SR. Secondly, from the result of the comparison, hopefully it would be fundamental for the next research in the same field. The last one, good consequences hopefully will be generated from this writing for the government who will act as decision maker, like Minister of Finance, to implement SR in Indonesia. General conclusion from this paper hopefully would be a good recommendation on how increasing the utilization of spending reviews in budgeting policy in public sector.

1.3. Research Questions

To get through of the research goals, this study would raise the important research question 'Should Indonesia government Applying Spending Reviews in their budgeting Cycle?'
To elaborate, the research also raise sub questions as follows:

1. To What Extent Spending Review has to be integrated in budgeting cycle of public sector?
2. Why and why should a country implement spending reviews?
3. How is the development of implementation of Spending Reviews in Indonesia?

1.4. Data and Methodology

Several studies provide recommendation policies to the development of spending reviews. There is only a few of literature and study in implementation of spending reviews in developing country. Through this paper we provide the contribution of literature review of implementation SR in Indonesia as developing country. This studies recommend improvement of Indonesia SR implementation in the future.

In answering research questions, the authors use a qualitative research approach. Creswell (2014) states that there are several reasons for using qualitative research: first, when there is a problem that needs to be explored; and second, the use of qualitative research is necessary because of the need for a detailed and complete understanding of the problem. The problems that arise in the compilation of the SR resulted in the need to explore and analyse the SR through a comprehensive understanding of the problem by exploring the context, which cannot be derived from quantitative research. De Graaf & Huberts (2008) states that quantitative research is not always able to answer questions such as the characteristics of a phenomenon, and it can only be responded by qualitative research. Creswell (2014) argues that validation flaws in qualitative research can be mitigated by using validation strategies for qualitative research, including triangulation strategies, negative case analysis with hypothesis refinement as research continues, clarification of researcher bias and member checks.

Using the Lüder Financial Management Reform (FMR) model (2002), a tool to analyse the financial management in accounting and budgeting reform, we make the comparison between the SR development in Indonesia and SR conducted in advanced countries like OECD government. Suggestion on using the Lüder FMR model to examine research in budgetary reform (by making comparison across countries) was delivered by Bawono (2015).

To answer the research questions, the writer would rely on secondary data that was collected primarily from archival documents using available channel of information from many resources that available - the latest paper, journals, government statistics, books, laws – in any languages that would be beneficial like OECD publications. This data was used to provide both background and context to the history of SR. Data was analysed through analytical review of relevant documents.

1.5. Organization of the Research Paper

The paper will be reassembled into 5 Chapter. The first chapter will explain how this research was arranged. The next chapter will discuss relevant literature review and conceptual framework. Then chapter 3 will explain of implementation of SR in Indonesia, some background information on Ministry of Finance who has initiative on implementing SR. Chapter 4 will present the analysis on the findings, followed by chapter 5 which will present general conclusion.

1.6. Limitations of the Study

There are some limitations of the research in data collection and analysis of the findings. With the limitation that researcher have in time and funding, we do not provide questionnaires and interviews to enriched data that writer collected with some bureaucratic difficulties from Indonesia government because the data that were collected were confidential and haven't published to public. Therefore, the analysis that made latter based from limited data and literature review of SR.

Moreover, there are limited numbers of studies that examine the impact of SR implementation in Indonesia. Most research on implementation of SR are conducted in countries that characterized by significant economic advancement and mature public management systems. So, the writer can only provide general policy recommendation for developing country such as Indonesia, due to the limitations given.

Chapter 2
Conceptual and Literature Framework

2.1 Introduction

This chapter will explain the Lüder FMR that we pick as a conceptual framework and Spending Reviews as a theoretical framework in this study. The Lüder FMR in this research use to identify the contextual factors and key players within public sector administration especially in accounting and budgeting reform (Lüder 2002, 2013), while spending reviews has been broadly applied to examine government expenditure.

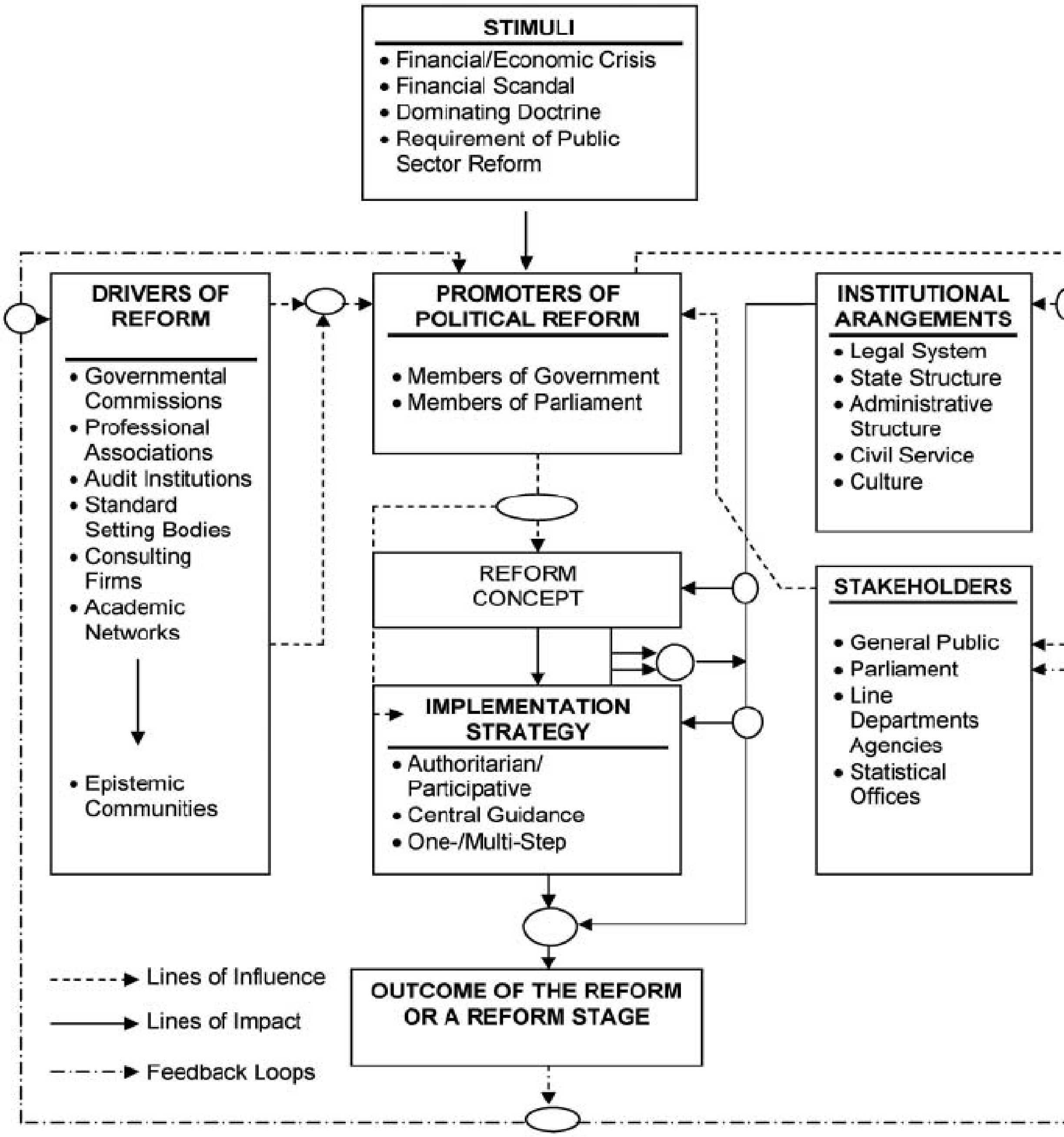
2.2 The Lüder FMR Model

The Lüder FMR model which was introduced in 1994 (Lüder 1994), is a new contingency theoretical approach developed after the first model in 1992 under the name "Lüder Contingency Model (LCM)" (Lüder 1992). The theory uses the basic assumption that the process of reform (public sector, politics, and state administration) that takes place in a country has an involvement of each institution that can influence attitude and behaviour of various participants (Lüder 1992: 108). Lüder LCM and FMR models have been widely used in research in the field of government accounting reform in developed countries, but few still execute it for the field of budgeting.

The Lüder model is a theory that can provide a comprehensive explanation for an organization (including a state) undergoing a transition from the old-fashioned governance accounting and budgeting model to contemporary system based on the relationships between actors in national life in an institutional context (Lüder 1992). Such a conceptual framework considered as a unity system that must be able to provide a good degree of data validity (Laughlin 1995).

The Lüder FMR (2002) model was developed specifically to provide an appropriate solution to previous model shortcomings (LCM) that only prioritized on "context rather than behavior" (Chan 1996: 11). The limitation of the LCM model is too focus only on contextual variables (such as stimulus and political and administrative structures) rather than behavioural variables (including changes made by actors). Whereas in the Lüder FMR (2002) model (see Figure 1), transforming actors (promoters, reformers, and stakeholders) are analyzed for their behavior. So, what happens then is the Lüder FMR (2002) model establishing a dynamic feedback mechanism that occurs in many reform processes based on the analysis produced by the key actor (Lüder 2002).

Figure 1. Financial Management Reform Process Model



Source: Lüder 2002

2.3.1 Budgeting and its Function

Budgeting in a public sphere has three functions at once in wide scope: economic, political, and legal (Veiga et al. 2015: 26-27). The function as an economic tool because budgeting aims at how countries allocate resources available efficiently in achieving the welfare of society at large by equipping income and expenditure. In budgeting context, it has been determined which government programs are of high priority with the aim of providing excellent service to the citizens. With this function, the budget is expected to be a tool for the owners of authority in implementing operational adjustments for the realization of fiscal balance. in the final stages of the fiscal year budget, it is expected to evaluate the revenues and expenditures contained in the financial statements of the country. As for local governance, the budgeting function is to measure how efficiently the local government provides services within the prescribed budget.

As a political function, the budget is an offer in the form of a program proposal from the government to the legislature that has the right to receive a government fund proposal from the government for a fiscal year. At the end of the fiscal period, the executive must submit accountability reports for the use of the budget by each government unit to the board members. Finally, as a function of law because the determination of a country's budget is regulated by the law of the regulation. even in some instances the budget is a legal tool that has legal consequences for managers, especially at the local level where organizations that violate these budgetary rules may be subject to sanctions contained in the law.

2.3.2 Government Budgetary Reform

As part of public sector management reform, budgetary reform refers to budgeting system change within government. Government budget involve the financial planning of public money that consists of revenue and expenditure estimation for a specific period (Schiavo-Campo and Tommasi 1999: 19). There are many reasons for government performing budgetary reform. Several researchers have argued that as government activities in the modern era expanded and diversified, the role of government budgets has also become more complex in order to address them. Thus, reform is needed because traditional budgeting systems inadequately address the needs of modern government (Curristine 2005: 129). Other researchers have argued that reform occurs as a result of the influence of new budgetary systems from other countries (Aristovnik and Seljak 2009: 4-5).

Several studies have examined budgetary reforms within countries and various budgeting formats; for instance, Performance-Based Budgeting (PBB) in Sri Lanka (Dean 1986b), program budgeting and PBB in Malaysia (Dean 1986c), planning, programing, budgeting system (PPBS) in the USA (Page 1967), program budgeting in OECD countries (Kraan 2008), and zero-based budgeting (ZBB) in the USA (Wetherbe and Dickson 1979). However, these studies, and most budgetary reform research, lack any theoretical framework(s) for interpreting the factors influencing budgetary reform (Sterck 2007). Thus, the examination of public sector budgeting in its various forms and a corresponding theoretical framework are needed to understand the history of innovation in budgeting of government sphere, inclusively the improvement of performance budgeting. The next section examines budgeting in the public sector, including traditional formats and their limitations, and several contemporary budgeting forms that have replaced traditional budgeting.

2.3.3 Budgeting in the Public Sector

International governmental organisations across the globe, utilised traditional budgeting as part of their budgetary process (Jones and McCaffery 2010). Traditional budgeting focuses solely on the utilisation of inputs or organisational resources; for instance, labour, money, materials, and equipment. Traditional budgeting has been used in many countries, including the USA (Kelly 2003), New Zealand (Schick 1998), and India (Chowdhary 2001), for over a century because of its simplicity and stability when deciding on policy outcomes. However, traditional budgeting does not consider information regarding the performance of an organisations' programs and activities when assessing resource allocation (Wildavsky 1978). Thus, traditional budgeting contributes to both inefficiency and ineffectiveness within public monetary management (Osborne 1993). There are several forms of traditional budgeting:

- **Annual budgeting**, budgets are formulated in each pricing and acceptance account within a year. Here the budget is usually not in accordance with government programs that have been prepared, and often divided according to the use of funds and how the government took policy (Wildavsky 1978). As the annual budget lacks long-term vision, there are problems in controlling budget allocations within long-term government programs. Examples include infrastructure development programs that require a cycle of three years or more to complete, where it is difficult to control budget duplication and overlapping because of fragmentation and annual estimations. This results in inefficiency and ineffectiveness within public budgeting (Caiden 1982).
- **Line-item budgets** involve revenues and expenses being separated into specific centres including wages, supplies and travel (Schick 1966). Although this budgeting has benefits for public sector managers in that it has a simple format and is easy to manage (Kelly 2003), it is also problematic as it does not facilitate analysis as to whether each item is necessary as a line item, and/or whether the proposed expenditure or revenue in each item is allocated efficiently. Furthermore, in this form of budgeting, public sector managers are not allowed to reallocate funding between items. This inflexibility impacts upon budget efficiency and effectiveness as funding for each line item will be spent in ongoing budget year, otherwise it is lost or reduced in the next accounting period (Osborne 1993). As a consequence, public sector managers tend to fully utilise the monetary allocation on each line item to preserve their budget in the following year.
- **Incremental budgets** formulate the current year's budget by increasing/decreasing revenue and expenditure based on the previous year's budget (Wildavsky 1978). The incremental budget has benefits of simplicity, stability and permeability in the political system, because it provides the easiest way to forecast a budget's increase and/or decrease (Kelly 2003). However, this budgeting form is inefficient and ineffective with respect to public expenditure accountability, as prior budgets lack comprehensive review. Budget allocation is not based on an established public need, and merely preserves the previous budget and/or activities (Khan and Hildreth 2002). Furthermore, similar to line- item budgets, the incremental budget nurtures the manager's attitude of "use it or lose it", as if expenditure is not used in the current period it will reduce in subsequent periods. Furthermore, in order to maintaining preferred budgetary slack, incremental budgeting forces public sector managers to deflate revenue and inflate expenditure, giving the impression that managers are improving performance. Furthermore, since the budget is assigned the same allocation every year, it is difficult to decide funding allocations for new ac-

tivities. Thus, incremental budgeting maintains a conservative paradigm and does not support risk-taking (Bragg 2013).

These forms of traditional budgeting are not mutually exclusive and could take place at once (Khan and Hildreth 2002). However, as the purpose of public sector budgeting reform is to increase efficiency and effectiveness, modern public sector budgetary that uses any of the traditional aforementioned budget types face problems. PBB was introduced to alleviate the problems caused by traditional budgets (For example see Dean 1986a).

To address and eliminate these problems, several contemporary public sector budgetary approaches have emerged that are similar to PBB. These budgets also use performance information to evaluate government budget documents. They include:

- **Program/Programme budgeting**, which focuses on the expected results of government programs and classifies public sector expenditure based on government objectives. Thus, activities / programs with the same objectives are included in a single budget (Carlson 1969). This type of budget, also emphasises the achievement of longer-term community-wide goals that relate to revenues and expenditures of multi-year programs (Novick 1967).

In general, the determination of the program is governed by a form of government organization, where each leader of one ministry is responsible for some budget items. There won't be found the same responsibilities between programs and/or Director General (Kraan 2008). Therefore, as program budgeting focuses on the expected results of the program and long-term vision, it alleviates the limitations of traditional budgeting that include orientation toward inputs and line items and the possible overlapping across multi-year programs. Program budgeting can be seen as an early variant of PBB, and has been used in conjunction with PPBS (McNab and Melese 2003).

- The definition of **Zero-based budgeting (ZBB)** is brought by the Chartered Institute of Management Accountants (CIMA) as:

> *..a method of budgeting which requires each cost element to be specifically justified, as though the activities to which the budget relates were being undertaken for the first time. Without approval, the budget allowance is zero. (Scarlett 2005: 216).*

In the context of the public sector, each government department/agency proposes decision-packages that contain annual budget and performance information. Moreover, the budget committee evaluates each decision-package and approves it based on government requirements (McGill 2001).

Zero-based budgeting has many advantages that eliminate traditional budget weaknesses, especially in relation to incremental budgets. Firstly, ZBB allocates resources more efficiently as the budget is formulated based on organisational needs and benefits rather than from previous-year approaches. Moreover, as it is public sector managers who allocate expenditure to activities in this budgeting form, it is nearly impossible for them to inflate or deflate expenditures and revenues. Further, this budgeting coerces public sector managers into improving their operations by identifying and excluding inefficient and outdated operations. ZBB coerces public sector managers into deciding which activities are valuable to the organisation. Thus, they can eliminate non-valuable activity and improve organisational efficiency and effectiveness (Bragg 2013). However, in the USA, ZBB faced difficulties during early implementation due to increased paperwork in the budgeting process and a lack of performance information needed for analysis (US General Accounting Office 1997).

- **Planning Programming Budgeting System (PPBS)** was initiated in the USA in the 1960s, and is designed to facilitate budget decision-making within government departments/agencies by utilising better program categories (Page 1967).

> *Proponents of PPBS believed that efficiencies and improvements in government operations could be achieved through a common approach for (a) establishing long range planning objectives, (b) analysing the costs and benefits of alternative programs which would meet these objectives, and (c) translating programs into budget and legislative proposals and long-term projections (United States General Accounting Office 1997: 35).*

When PPBS was first implemented it was known as output budgeting, and was identical to program budgeting. PPBS was promulgated in many countries, including France and Malaysia, as part of the international activities led by the United Nations (UN), the International Monetary Fund (IMF) and the World Bank (Robinson 2007). Thus, similar to program budgeting, PPBS seeks to address several limitations of traditional budgeting, especially for annual and line-item budgeting, including changing orientations from inputs to outputs, transforming budget accounts from line items to program based, and accommodating a long-term vision that reduces inefficiency in multi-year programs (Schick 1966). Nevertheless, many problems arise in PPBS implementation, for instance, the increased paperwork within the budgeting process, difficulties in measuring the costs and benefits of programs, and complexities in linking programs with budgetary structures (United States General Accounting Office 1997).

These contemporary public sector budgetary approaches outlined above were categorised by some researchers as different to PBB (Ho 2011; Shah and Shen 2007). However, other researchers consider these modern budgeting techniques to be variants of PBB, because of the utilisation of performance information within the budgetary document (Van Nispen and Posseth 2006). Robinson (2007) classifies program budgeting as an early variant of PBB. As PPBS is identical to program budgeting, this technique could also be classified as a variant of PBB.

2.3.4 What is Performance-Based Budgeting?

There is no single agreed definition of PBB, but an early definition can be found in the US Budget and Accounting Procedure Act 1950, where PBB is described as being based on performance and program cost information by organisational unit. Furthermore, PBB is used to identify and emphasise programs and/or activities performed based on organisational, functional, and project/activity formats (United States Congress 1950). Additionally, PBB has been defined as:

> *...a system of budgeting that presents the purpose and objectives for which funds are required, costs of programs and associated activities proposed for achieving those objectives and outputs to be produced or services to be rendered under each program (Shah and Shen 2007: 5).*

> *...designed to strengthen the linkage between funding and results (outputs and outcomes), through the systematic use of formal performance information, with the objective of improving the allocated and technical efficiency of public expenditure (Robinson 2007: 1).*

In summary, PBB is a budget model that focuses on resource allocation based on performance information within a program and/or activity. This performance information is used to approve each program and/or activity over an organisational unit in order to provide public services.

According to Kong (2005), there are three types of performance measurement orientations within budgeting: resource-focused, organisation-focused and customer-focused. Resource-focused means that government budgets only measure input resource performance (e.g. financial, human, or other resources), which is the basis for traditional budgeting. Organisation-focused measurement means that the government budgets also focus on the performance of organisational processes and outputs, including finance, services and programs and/or activities. This performance type retains certain characteristics from the old PBB, and is also recognised as a characteristic of program budgeting. Finally, customer-focused measurement means that government budgets emphasise customer performance measures (satisfaction, service quality and outcome), which is a characteristic of the new PBB (Kong 2005). Therefore, the performance focus of old PBB (1949–1980s) was organisation-focused, whereby the new PBB (1990s–present) focuses on customer orientation.

The customer-oriented performance measurement focus inherent within PBB is in line with the principles of New Public Management, which also places emphasis on customer orientation (Dunleavy et al. 2006; Diefenbach 2009). NPM aims to reorganise public sector organisations by aligning their management, accounting and reporting methods to government sphere with the purpose of improving government's administration system, with citizens also being customers (Denhardt and Denhardt 2000; Dunleavy and Hood 1994).

These PBB categories have several advantages in being able to solve the problems of traditional budgeting. Firstly, in contrast with traditional budgeting that only focuses on inputs and/or resource utility, PBB focuses on resource allocation to achieve outputs and outcomes. Therefore, PBB may achieve more efficient resource allocation processes as it is based on program and/or activity performance information (Kong 2005). Secondly, PBB offers flexibility to reallocate money between programs based on performance achievement that reduces inefficiencies caused by unspent budgetary allocations. Moreover, as PBB places emphasis on programs and/or activities rather than expenditure items, it reduces the incentive for public sector managers to increase expenditure or decrease revenue (Curristine 2005). Furthermore, similar to program budgeting and PPBS, PBB provides long-term vision to accommodate multi-year programs as part of a modern organisational strategy. Finally, PBB provides more informative performance in each program for executive assessment and legislative approval.

2.4 Spending Reviews

2.4.1 Spending Reviews and its Purpose

According to Robinson (2013: 4-5), spending reviews have the definition as a step taken into the budget austerity process that begins with a thorough observation of the expenditure that will be used as baseline spending[1]. Evaluations for proposing new expenditure or budget incremental initiatives are not part of the spending review, although the austerity proposal is to be used for additional budget activities[2] [3].

Robinson (2013: 5) explained that spending review has two main goal: the first one is giving the decision makers of the state to gain full control of the government spending and the latter, spending reviews developing to prioritize expenditure of public funding.

Furthermore, Robinson stated that spending reviews can be divided into two categories, if we want to identify by the saving measure (ibid). The first one is efficiency savings which will be achieved by reducing the expenditure by changing its way to deliver service. Producing the same quality and quantity of service at reduces expenses. It also called as operational parsimony. While the second type is strategic saving which is achieved by cutting the budget that has to be delivered to the society.

The example given in his paper is the latest type of spending reviews would be UK spending reviews that conducted in 2004, where the target of those spending reviews is to gain efficiency, it is referred to functional spending reviews (ibid). While the first type of review that have two purposes on strategic and efficiency review like that Canada did on 2011-2012 with the name of Strategic and Operating Review.

The money option raised from spending reviews process point outs that the government know how to cut the baseline spending by reducing the fund on transfer payment or which business procedure will be reduce (Robinson 2013: 6). Those saving is different from non-specific cuts where government cut the ministry budget without the reviews process in advanced and not knowing where the cut will be undergoing.

The last terminology from is not all the system to assess or evaluate the effectiveness and efficiency of government spending called spending reviews (ibid). The same options go to other way around. The wide government system evaluation of program in ministries can be considered as spending reviews. The meaning of the term is only a step where government design the reviews process to gain saving options. Evaluation based information that available could possibly regarded to spending reviews. Like, one program called ineffective is likely to happens when the information those project

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[1] Baseline spending could be defined as government spending on recent activities where there is no political change interruption

[2] The definition of spending reviews has the same meaning as provided in (2012a: 3)

[3] spending reviews that designed to knowing saving options and increasing the baseline spending, but only through the seek for saving the cycle can be regarded as spending reviews

by evaluating the possible saving that can be raised from the associated program.

2.4.2 Why Interested implementing Spending Reviews?

The financial crisis that widely spread hit the world in 2007-2008 became a stimulus for almost all countries to be able to reduce and balance the budget deficit that occurred (Postula 2017: 68). Spending reviews are one of the most promising avenues for fiscal consolidation as an evaluation method for policy analysis taken by the government (Dunn 2015). Spending reviews are like two sides of a coin's eye in a government policy review. On the one hand, spending reviews look for errors in budget planning in the past by looking back, which focuses more on assessing target accuracy, effectiveness, and efficiency (van Nispen 2016: 482). On the other hand, spending reviews are an alternative tool because they can produce better choices for future budgeting which is a feature of a benefit-focused evaluation (Patton 2008 as cited in van Nispen 2016: 482). Spending reviews focus on being able to smartly cuts the state budget; the spending cuts that are based on actual evidence gained from SR execution (ibid). This is contrary to performance evaluations that rely on a budget-cut target (ibid). In essence, SR is regarded as a tool that can compensate for "fundamental asymmetry of the regular budget process that is able to produce good choices for new expenditures, but does not produce good choices for new savings" (OECD 2011: 81). As a result, the SR is not to cut the budget that has been given this year but rather to provide alternative options for budgeting next year (Kraan 2008: 21; OECD 2012: 115) by diverting the burden of proof to the ministry to think of alternative programs more appropriate.

Many states in the world, especially from European Union member, showing different interest in implementing spending reviews as there are no rules enacted internationally stated that SR is an obligatory tool in maintaining fiscal balance (Postula 2017: 68). The EU statute law only regulate the best way to maintaining rational fiscal policy in with given some indications and how to fulfil those condition, from the provisions of the Treaty on the Functioning of the European Union (TFEU) which is widely expanded to the Pact for Stability and Growth, and elaborated in 2011 in the directive on requirements for euro area countries' budgets (ibid). The law gives some referral about the goal and the guidance that can be taken by the members state to keep the public finance on the desired level of balance public expenditure although the good practice on how to do the right things may vary on each government (ibid).

As the respective member of European Council, some experts attended the meeting on 5 March 2013 to build common direction on how to improve public sector financial by enhancing coordination among members with dialogues and knowledge sharing in reviewing budgetary process and procedures to gain efficiency and sustainability in public sector expenditure (ibid). The result from that interstate dialogues is ruling out three recommendation way to achieved that goal: spending reviews, task-based budgeting and *top-down* budgeting (ibid).

In addition, Postula (2017: 68-69) said that government should give more attention to top priority programs that has the biggest impact to community life which is said by the economy experts as allocative efficiency. Having an expenditure on the biggest precedence of activity could be said as important view to attain proper implementation of public finance. The goal of following up those programs can be to give alternatives solution which have ultimate impact to solve such a sober trouble on society. Furthermore, Postula (2017: 69) advised that effectiveness can be regarded when the chosen programs delivered the intended result in a minimum cost. In line with the high priority programs spending, there are some changes in the decision makers side (for the example the legislator and the budget executor). They will get dependable knowledge and information on efficiency and effectiveness of the program spending and they significantly use the data to make a better decision when they enter discussion about determining the next year budget. Moreover, Postula said that the high value information attained from those process could make spending ministries to improve their performance by delivering the most effective program to public (ibid).

In some cases when MoF and the decision makers of budget cycle in a country make the right decision in exercising the budget based on the performance information raised from spending reviews process, the line ministries will follow the action by examining every program they proposed to the budgetary decision makers and try to implement it in an effective way (ibid). Postula (2017: 69) added that in subsequent time of those process, they will make a great consideration in making decision of their budget because the spending ministries feel high imperativeness to improve the decision of their budgetary context in order to increase their program effectiveness which is lead in securing the budgetary fund for next year. With the right decision make in budgeting process – by using the performance information available in the budgeting document – the ministries may implement their program budget efficiently (ibid).

Postula (2017: 69) claims that preparation of a budget draft commonly ignores the expenditure that already in place. It can be seen on the weakness of initial framework and ineffective spending allocation (ibid). A prudent analysis by developed countries like United Kingdom and The Netherlands towards new expenditure proposal during the budgetary process help the creation of new fiscal space (ibid). Therefore, inefficient governmental program can be substituted with new program that provide better values (ibid).

Marcel (2014) as cited in Postula (2017: 69) argues that "these also support the implementation of the state's strategic projects that are ambitious, modern and pro-growth". Furthermore, Schick (2009) as cited in Postula (2017: 69) also argues that the frequency of the budget shifting indicates the level of inefficiency public spending.

Decision makers usually experienced limited information access regarding public spending because of political factor and expenditure rigidity Postula (2017: 70). This condition leads to inefficiency and ineffectiveness of budget expenditure (ibid). Furthermore, it is worsened by ignorance from the ministries to keep pursuing ineffective program (ibid). As a result, it is difficult to reduce funds for this program which happen in many governance areas (ibid).

It is important to review efficiency of budgeting (ibid). Indicators for efficiency is not enough to measure the effectiveness (ibid). Prudent analysis on assessing the program being undertaken can provide information about effectiveness and efficiency (ibid). As a result, it can only be done with relevant information (ibid). Assessment of budget and outcomes are essential to organize and create systematic information (ibid).

Experience from countries depict relation of the assessment and task-based budgeting (ibid). In task-based budgeting, an assessment has critical role (ibid). It is because an assessment determine whether or not outputs from task based budgeting are effective. Therefore, task-based budget and assesment are closely related since the beginning (ibid).

Examples of early implementation of task-based budgeting were happened in the United States in late 1960s by implementation of Planning Programming Budgeting Systems – PPBS Postula (2017: 70-71). It become pioneer on global arena and adopted by other countries like Canada and later on adopted by France namely *La rationalisation des choix budgétaires* in 1968 (ibid). In addition, PPBS model also adopted by Australia in 1980s (ibid). The government issued regulation that requires every budget spending proposals to incorporate targets and effectiveness indicator (ibid).

2.4.3 Spending Review Drawback in the Budgetary Process

From the definition above, according to Robinson (2013: 7) spending reviews regarded as one tool to increase expenditure prioritization (allocative efficiency) – that will secure the process of reallocation resource of government to deliver the best delivery service. Spending reviews – recently being used by developing countries – regarded to be the cure for the weakness of traditional budget process which is budget prioritization.

Furthermore, Robinson (2013: 7) stated that in many case of budgeting preparation, government forget to look for baseline expenditure, only focus on proposing new expenditure. In consequences, the budget planned by government still regarded as ineffective and inefficient. the unbalance of the new government spending focus is an unbalanced focus problem known as budget "incrementalism" (Berry 1990 as cited in Robinson 2013: 7).

The traditional budget preparation is considered not success to address the program prioritization spending (Robinson 2013: 7). The hard things to do by central government in making decision like the MoF or any political leader is when the right time to reallocate budget (ibid). Sufficient information are needed to create effectiveness and efficiency of an expenditure and abilities to resist the influence from political and ministries (ibid). There is a time when revenues growth extracting from taxes isn't sufficient enough, the temptation to avoid reallocation is by permitting aggregate spending to go ahead than revenue with deficit budget (ibid).

In addition, Robinson (2013: 7) explained the reason why in good environment like the time before the global crisis, the government and parliament remain silence in the budget reallocation. The authority give permission to reallocate the budget (ibid). Its purpose is make other ministries only took the margin and the budget flexibility generated from those action was limited (ibid). That's why we need to utilized spending review to overcome the obstacle may arise. It need the role of central government to do the reallocation of the resources. By using the willingness of the leader of a country to cut ineffective expenditure that new priority program can be funded and keep the public expenditure in good balance (ibid).

2.4.4 Integration of Spending Review into the Budget Process

Spending review is separated from budget planning process, but many countries experiences the other way. For example, Robinson (2013: 7) claimed by the mid of 1980s, some government setting up a commission to prepare separate spending reviews from budgeting process. The example to this context is The Grace Commission which has to reported to Congress about its task. The budget process preparation was not linked with the calendar of the Commission, not guided the budgetary saving target, and worked outside the government side.

On the other hand, Robinson (2013: 7-8) give different explanation that many members of OECD conducting spending reviews over the past 20 years that fully integrated into budget planning cycle. Which is mans that they already designed their spending review so that government can consider and fully decisive during budget process. Government can choose the saving options and how much the public funding over each line ministries to delivering public service for some years budget fiscal. The OECD states members worked to ensure that those saving are linked at the right stage of budgetary planning process.

In addition, Robinson (2013: 8) said that the main reasons to include spending reviews into budget planning process would be for encouraging government to adopt high priority program and ensuring the scale effort made by spending review. First, when we talk about spending reviews, the saving options and continuous consideration of new spending proposal will give government the benefit from both allocative efficiency and aggregate expenditure (ibid). By taking an action of considerations of new spending proposal, government can have the possibility to fund high-priority new spending projects without worry to increase the level of total expenditure spent, by selecting additional savings options (ibid). The encouraging condition comes from comparing the two objects which are the merits of new spending proposals and the baseline spending (ibid). This measurement would be beneficial for top-down budgeting, which needs some tools to integrated expenditure ceiling that required from the early stages of budget planning cycle (ibid). How to make the considerations working properly is by utilizing spending reviews should be presented to the high political managerial in budget planning process at the exact time to propose a new major government expenditure (ibid).

Second reason why spending reviews would be good to be integrated in the budgeting process is to ensure that government expenditure efforts to calibrating the budget purpose for total spending by government (ibid) For instance, if central government want to make great reduction in the public expenditure, spending reviews must be done thoroughly to capture extensive and high value saving options (ibid). If the purpose of the government is different, it should consider spending reviews as a tool to increase fiscal space priority by still controlling total expenditure (ibid).

When the spending reviews utilized to strengthen the connection with major fiscal consolidation and aggregate expenditure, it would be good if government setting the target of required savings to be identified before the integration into budget process (ibid). Many countries who applied the second approach set their minimum saving target by 5% to all spending ministries, or they might select which program they wanted to be assessed using spending reviews (ibid). However, it is possible –

when a country need to face bad precondition of having spending reviews – government set that low priority program of government agencies to identify larger amount of savings while the ministries who have higher priority programme to calculate their saving much lower (ibid).

2.4.5 Countries who Implemented Spending Review

Before the years of the Global Financial Crisis (GFC), spending review "was not considered as an important element in the budget preparation processes of OECD countries" (Robinson 2013: 9). Several countries have undergone spending review such as the Netherlands, denmark and Finland (ibid).

In addition, Robinson (2013: 10) mentions that commonly in discussion of SR always talking about the United Kingdom and Australia. United Kingdom already spend 20 years implementing SR before the GFC[4]. Moreover, Australia already put SR so called Expenditure Review Committee (ERC) of Cabinet in the budget preparation since the mid-1970s (ibid). However, the words "spending review" or "expenditure review" in these contexts may become misleading (ibid). SR in UK and Australia focus on comprehensive budget preparation i.e. the review of new spending proposals (ibid). On the other hand, both countries do not include saving expenditure (ibid). Thus, as the UK Treasury acknowledges that the UK SRs prior to 2007 "focused on allocating incremental increases in expenditure", and only giving little attention to savings measures (HM Treasury 2006: 24 as cited in Robinson 2013: 10). Seemingly, only in 2007 Comprehensive Spending Review (CSR) can depict a true spending review (ibid). Moreover, in Australia, the ERC did not review sufficiently the yearly running baseline expenditure before GFC (ibid).

Before global financial struck exactly around a decade ago, spending reviews only viewed as one minor tool to gain the balance of fiscal condition, but right after GFC, spending reviews seen as a big tool that would be given applause by most countries (ibid). After the consolidation process complete, many countries still engaging with spending reviews while the others not willing to continue the process (ibid). We could see the example from the Netherlands, when spending review was first engaged in the public sector of their budgeting system, many reviews were done at that time (more than thirty reviews). By the time of the GFC struck EU, the reviews has decreased to five reviews per year (ibid).

Furthermore, Robinson (2013: 10-11) claimed that in cases of the Netherlands and Denmark, certain level of SR are still maintained where not happen in elsewhere. Additionaly, in Canada a similar successfull program of SR conducted in 1994-1996 was entailed by a number of attempts to establish spending review as an ongoing process (Good 2014: 292 as cited in Robinson 2013: 11). However, it become essentially unsuccessful, and by the time of the GFC Canada had no spending review process (ibid).

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[4] Spending reviews took place under the Blair and Brown Labour governments in 1998, 2000, 2002, 2004, and 2007.

Many things change after the financial crisis struck in 2007. When OECD going through a surveyof all state members, van Nispen (2016: 482) stated that only 16 out of 31 members of the OECD still using spending reviews as the part of their budgeting process. Including with the states who still implementing spending reviews such as Ireland, France and Italy who have no experiences before engaging spending reviews (ibid). In addition, Australia and Canada also implement SR even though they had abandoned the process before hand (ibid).

After GFC, there are major shift characteristic of SR: broader scope and money oriented (Robinson 2013: 12). One major examples of this type of SR is the 2010 CSR in UK aim to pursue big expenditure cut (ibid). Across the OECD, "comprehensive" spending reviews became trend (ibid). Recently, there is an extending scope of implementing spending reviews (ibid). Most members of OECD taking serious attention to the process of doing extension of strategic savings and efficiency savings (ibid). Because since the GFC struck many countries, the rise to implement spending reviews have only one reason which is targeting the government to consolidate their public expenditure and including spending reviews to be primary instrument for cutting the (ibid). Why many states need to reflect on their way to consolidate their fiscal condition after GFC would be some of serious number of factors (Robinson 2013: 12-13):

- The turndown of public finance when the crisis struck from the result of the big deficit that storm the bailouts.
- The awakened of most OECD states to supervise the unexpected global crisis.
- The awareness of government about the crucial of fiscal consolidation for market trust.
- Complying the rules of fiscal that has been set (e.g. Indonesia 3 percent deficit limit of Gross Domestic Product).

In this paper, we will try to present a comparative analysis in the FMR context of the model by looking at institutional analysis of spending reviews as a tool for fiscal consolidation in developed countries (eg, the Netherlands) than in developing countries like Indonesia. In explaining the comparison, there are two institutional arrangements (OECD 2010: 41 as cited in van Nispen 2016: 483). First, the role of the SR implementation coordinator is given to the hands of a committee under the supervision of the Prime Minister or Minister of Finance. As a result, the resulting budgeting austerity policies are often less synchronized with the needs of line ministers because the responsibility for a budget conservation policy is in the hands of the top-down SR. Second, the policy to incorporate the results of expenditure reviews into the context of the budgeting cycle (ibid).

According to van Nispen (2016: 483), there is a fundamental difference between spending review and expenditure reviews. SR has a major role to identify potential savings that are under strict supervision whereby the results of those oversight are used to cut the budgets or to identify widely used for budget cuts or reallocations (OECD 2012: 3 as cited in van Nispen 2016: 483). The additional or new expenditure obtained from the assessment proposal doesn't count as SR (Robinson 2014: 4-5 as cited in van Nispen 2016: 483). Thus, the consequences of such understanding, what the UK, Ireland, Australia, and even the World Bank done cannot be categorized as SR because they have the sole purpose of seeking expenditure effectiveness (Pradhan 1996; Deolalikar 2008 as cited in van

Nispen 2016: 483).

Chapter 3
Background Situation in Indonesia

3.1 Ministry of Finance Reforms

Bureaucracy Reform in Ministry of Finance was an integral part of the National Reform caused by the 1998 economic crisis that impacts all walks of life. At the national level, the era of reform is marked by the publication of the People's Consultative Assembly (MPR) Number XI/1998 on the administration of a clean free state against corruption, collusion and nepotism (KKN) and Law Number 28 year 1999 on the administration of a clean and free KKN. At the level of the Ministry of Finance, since 2002 - 2006 various reforms have been implemented, among others: 1) the issuance of the State Finance Law Package consisting of Law Number 17 Year 2003 on State Finance, Law Number 1 Year 2004 on State Treasury and Law Number 15 Year 2004 on Audit of State Financial Management and Accountability; 2) separation of functions of budget formulation and budget execution; 3) the establishment of the Large Tax Office as part of the modernization of tax administration phase I.

According to Parhusip (2016: 194), start from 2007 Ministry of Finance undertook massive bureaucratic reforms implemented through 3 main pillars, namely: 1) Organizational Pillars, through sharpening of tasks and functions, coherent grouping of tasks, elimination of overlapping tasks, and modernization of offices in both the fields of taxation, customs and excise, treasury, state property, and other state financial functions; 2) Pillars of Business processes, establishing and improving of Standard Operating Procedures that provide clarity and promise of services, conduct analysis and evaluation of positions, application of rank system rankings, and management of performance based on balance scorecard and the development of various e-Government application systems; 3) Pillar of human resources, among others through improvement of discipline, development of assessment center, Competency based training, implementation of system merit, structuring human resources, development of Employee Management Information System (SIMPEG), and application of reward and punishment consistently.

Furthermore, the President of the Republic of Indonesia enacted Presidential Regulation No. 81/2010 on the Grand Design of Bureaucracy Reform 2010-2025, which was followed up by the issuance of the Regulation of the Minister of Administrative Reform and Bureaucracy Reform No. 20/2010 on Road Map of Bureaucratic Reform 2010-2014. With these regulations, the Bureaucratic Reform of the Ministry of Finance is integrated with the National Bureaucratic Reform conducted through the 8 Areas of Change and the implementation of Monitoring and Evaluation.

Throughout 2012, several changes occurred in the scope of DG Treasury. The last change concerns the reorganization of the vertical office of the DG Treasury through the Regulation of the Ministry of Finance Number 169/PMK.01/2012 on the Organization and Working Procedures of Vertical Institutions at the DG Treasury. The change is motivated by two things. First, the adjustment to anticipate the implementation of the *Sistem Perbendaharaan dan Anggaran Negara (SPAN)* or State Treasury and Budget System within the Regional Office of the DG Treasury and (in particular) the Office of the State Treasury Service in 2013. Second, the assignment or mandate from the Minister of Finance to the Regional Office of the DG Treasury to perform the role of representation of the Ministry of Finance in the regions. Both of these require fundamental changes to the structure, duties, and functions of the Regional Office of the DG Treasury.

3.2 Reasons for the Indonesia's Interest in Spending Reviews

Spending reviews considered by economists are part of the budgeting cycle (Noman 2008). It is not a new thing applied in the world, it just has not been done in Indonesia before. Spending Review is an evaluation after the implementation of the budget, which is used by the government to see whether the output or outcome planned in the budgeting document can be achieved with available funds.

The idea of implementing a spending review in Indonesia began when the Indonesian government was invited to the OECD conference in Paris in 2011. The Director General of Treasury assigned to represent the Minister of Finance to attend the event entered the group discussing the theme of budgeting and treasury together with representatives of the OECD countries. The issue discussed in the discussion group is spending review. The presentation presented in the discussion group is intended to overcome the financial crisis occurring in EU countries, especially the OECD members, among others, how to overcome the very high deficit problems (9% of GDP) and the debt that reaches 100% of GDP.

Spending review discussed in the OECD countries meeting aims to find savings that can then be used to reduce the deficit or debt (Pollitt 2010). The two methodologies of spending reviews discussed in that meeting to overcome their financial problems are functional and strategic review. By studying both methods, the idea to apply spending review in Indonesia with the same context but different objectives are emerged.

Why the Indonesian government needs to conduct a review in Indonesia, it is because there has been an increase in the number of budgets in Indonesia since 2005, where the state budget at that time amounted to 500 trillion rupiahs and increased more than three times in 2012 to 1,600 trillion. However, such a large budget increase is not followed by developments in the quality of life of Indonesians, reflected in the so-called index of human development (HDI). Based on data from the United Nations, Indonesia's HDI level from 2005 to 2012 did not experience a significant increase when the State Budget (APBN) was so rapid. It can be interpreted that the money spent by the government in financing expenditure for public services in Indonesia does not produce outcomes in line with the increase in the value of rupiah.

The increase in the Indonesian State Budget annually, especially since the last ten years, has not been matched by the increase in national income. Indonesia, which implements a deficit budgetary policy to increase the pace of the economy, is less successful in reducing the deficit between state revenues and expenditures. With the increasing deficit each year, it requires the attention of the government to find a solution to the gap that occurred is still within safe limits for the Indonesian economy.

Spending review is one way to overcome the gap that occurs by reviewing inefficient government spending. (see graph 1).

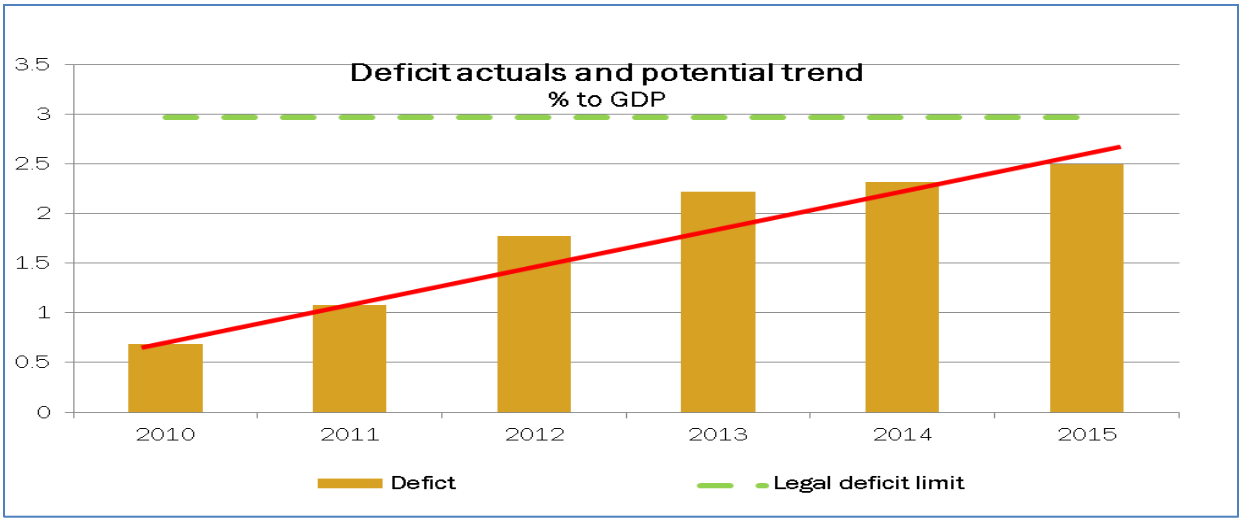
Table 1: The Indonesian Government Spending and Revenue (in trillion rupiah) and the gap (in percentage) to GDP 2010-2015

Source: Adopted from personal communication which received on 10 May 2017 and recalculated with Statistic Bureau data

From the graph above, we can see that the government expenditure is increase more than 600 billion rupiah from 2010 until 2015. In the same time, the national income, which is mainly come from taxes, is expanded less than 500 billion rupiah. So, there is a big increase in the gap of the government expenditure and revenue which start 0.58% of GDP in 2010 up to 2.53% of GDP in 2015.

Indonesia through Constitution Number 17 year 2003 on State Finance has set the upper limit of the state budget deficit to 3% of GDP. From the graph 2 below we can spot that although from 2010 until 2015 Indonesia has not surpass the limit, but the figure has increase almost 5 times from 2010 which is only 0.58% become 2.53% in 2015. If the central government didn't address this problem soon enough, there will be possibility that the limit surpassed in the couple of years.

Table 2: The Indonesian Budget Deficit trend (percentage) from 2010-2015



3.3 Budgeting Context in Indonesia

Budgets are closely linked to public financial management that focuses on the effects of budget activities in the form of taxation and actual expenditures and how they should be implemented (Rosen & Gayer 2010). Public expenditure in particular is often used as a reference to measure the size of a government, which is categorized into three types of expenditure: (1) goods expenditure, (2) transfer of income to people, private sector and other government and (3) payments flowers (Rosen & Gayer 2010). It shows the significance of the budget and its management in public finances.

After the rolling out of state financial management reforms since 2004, budget process in Indonesia has adopted a performance-based budgeting, where budgets are use as based on performance or output/ outcomes. This is in accordance with the mandate contained in Article 14 paragraph (2) of Law no.17 Year 2003 in State Finance "Work plans and budgets prepared by the Minister/Head of Institution, prepared on the basis of work performance to be achieved".

The implementation of performance-based budgeting in Indonesia is heavily influenced by NPM which introduces budget for results in order to increase the clear link between budget and outcomes (outputs and outcomes) obtained. Rubin and Kelly (2007) argue that public budget reform has key elements such as the shift from line-item budgeting to output-oriented budgeting and outcomes coupled with the identification of performance contracts.

Since the implementation of the state financial management reform in Indonesia, the budget has been supported by 3 (three) main pillars: (1) performance-based budgeting, (2) unified budgeting, and (3) medium term expenditure framework (Ministry of Finance 2014). Performance-based budgeting in Indonesia is conducted through the implementation of 3 (three) main principles: (1) performance oriented, (2) flexibility in the implementation of the budget (let the managers manage), and (3) budget allocation with functional approach (money follows function) (Wijaya 2016). In addition to the implementation of the above principles, performance-based budgeting in Indonesia is built through 3 (three) instruments or tools, namely: (1) performance indicators which are measuring instruments for measuring and evaluating performance, (2) cost standard which is a tool to know how much which is needed to implement an activity and produce a certain performance, and (3) performance evaluation is to know whether the planned performance target can be achieved well (Wijaya 2016).

3.4 Spending Review as Part of a Performance-Based Budgeting System in Indonesia

Spending reviews are generally defined as one of the fiscal reform tools used to create fiscal space by reducing and / or reallocating budget expenditures due to changes in priority and demand for service improvement or improvement in performance measures (OECD 2012). OECD (2007) notes that spending review conducted in the UK is part of a performance-based budgeting framework that differs from the framework undertaken in similar reform countries. This is in line with Robinson (2014) suggesting that spending review has a relationship with performance-based budgeting systems, especially when the review become a standard element in the budget preparation process. In other words, the spending review is essentially part of a performance-based budgeting system, primarily because the information presented is used in budget decision-making.

Spending reviews are in line with the orientation of performance-based budgeting systems because the performance information generated by spending reviews can facilitate a performance-oriented budgeting process. The OECD survey in 2011 reinforced the notion that spending review was part of performance-based budgeting, where the survey found that out of 32 countries performing performance budgets, 16 or half used different types of spending review (OECD 2012). The point is, as long as the information spending review is utilized in budget decision making, then the spending review is one of the forms/models of performance-based budgeting (OECD 2012).

In the context of budgeting, the spending review can be done by considering 3 (three) public expenditure management objectives or 3 (three) budget outcome levels, namely: (1) achievement of aggregate efficiency objectives which is the achievement of aggregate fiscal discipline, (2) allocative efficiency in the form of strategic prioritization and (3) technical efficiency as measured through operational performance (World Bank 1998; Allen & Tomassi 2001).

3.5 Implementation of Spending Reviews in Indonesia

Indonesian Spending review began in 2013 where Ministry of Finance as a leading institution (Majalah Treasury Indonesia 2013). The purpose of the spending review in 2013 is to identify the state expenditures in order to avoid inefficiency in the use of the budget, ie to identify only one-time and non-recurring programs/activities in the next fiscal year, to identify potential fiscal space, to measure government spending from economic aspects, efficiency, and effectiveness. The results of the identification are the emergence of inputs/recommendations for the formulation of budgeting policies and budget execution in order to improve the quality of government expenditure as well as to be used as inputs for the preparation of Ministry/Agencies work plans at a three-party meeting between the Ministry of Finance, National Development Planning Agency, and the Ministry (DG Treasury Report 2013). Spending reviews conducted in Indonesia are still at the level of measuring technical efficiency that is the level of operational efficiency measured to assess whether output (service provided by the government) has been achieved with the minimum possible resources (DG Treasury report from 2013-2016).

Chapter 4
Analysis and Findings

4.1 Introduction

This chapter shows the result of the analysis and findings from the conceptual framework and secondary data collected from government documents.

4.2 The Stimuli

Stimuli are defined as the events that exist in the early phase of FMR that indicate the need for a new financial management system. These stimuli affect expectations and behaviours and promote reform (Lüder 2002). Based on the literature review, the events that trigger most government around the world, especially OECD members, is the Global Financial Crisis 2007-2008. By that time, in order to maintain the fiscal in good balance, they need to reduce the public expenditure or reallocate the fund of un-prioritized program (without worrying the quality of their public service delivery) by implementing a new management system that called spending reviews (OECD 2011). The other boost of practicing SR is the demand for greater transparency in budgetary processes and spending decisions has risen, stemming from the institutional side via new standards, rules and stakeholders and from the civil society (Lüder 1992).

On the other hand, for Indonesia case, the stimuli of implementation SR are the bad quality of government spending in delivering public service and the increase of budget deficit where the last five years it almost reached the ceiling of its limit (3% of Indonesia GDP) (Majalah Treasury Indonesia 2013). So, by implementing the same financial instrument of those OCED countries, the government want to find fiscal space that can be used as a new initiative funding in the next year budget planning. The fomentation of large scale organization like IMF and World Banks (who has the power to dominating the way of governing a developing country like Indonesia) also has influenced a government thinking of applying SR.

4.3. Reform Driver

Reform drivers are the recognised institutions or professionals that act as motivators for budgeting reform. These drivers could be government commissions, professional associations, standard-setting bodies, consulting firms, scholarly networks or epistemic communities (Lüder 2002). OECD considered as organization who drive the budgeting reform in European and international sphere by designing the spending reviews guidance to be implemented by its member. For Indonesia context, the reform driver would be Ministry of Finance who acquired the knowledge of SR implementation when invited by OECD Conference in Paris in 2011 (Majalah Treasury Indonesia 2013).

4.4 Political Reform Promoter

Political reform promoters include executive members of government or parliament who are impacted by stimuli and who initiate and influence reform. These include the Prime Minister, Minister of Finance, or members of parliament and/or congress who play a key role in government (Lüder, 2002). Political reform promoters have a significant role in governmental budgetary reform. In the USA, the Office of Management and Budget (OMB), Treasury, and the Office of Personnel Management, are key actors on budget reform (Chan 1994). Furthermore, in Portugal, Qatar, Germany, France, and the UK, the respective MoFs were important political reform promoters that supported budgetary reform (Jones et al. 2013).

As for Indonesia, the promoter of policy reform is respective members of Ministry of Finance. Together with the representative agency of Australia (AIPEG), the member of the team was the pioneer in designing spending reviews for Indonesia context.

4.5 Institutional Arrangement

Institutional arrangements influence stakeholders and in turn are influenced and shaped by political reform drivers. Institutional arrangements consist of five variables. The first is refer to the basis of Law in implementing SR. Although there is no codified rule that cover SR, OECD published the guidance for SR. This is because the role of OECD as international organization is to promote policies that will improve the economic and social well-being in the world. As for Indonesia context, DG of Treasury ruled out the guidance for SR implementation. However, like Parhusip (2016) argued, because the decree only bound internal DG of Treasury, SR implementation has no political support to be rightfully applied into budgetary process.

Secondly, state structure relates to the structure of the government, being unitary or federal, cooperative or competitive federalism, unicameral or bicameral legislature, or a combination of any of these. A combined unitary structure and a unicameral legislature with strong executive power can be conducive to supporting government initiated reform.

Thirdly, administrative structure relates to the authority of central/federal government regarding decision-making. Decision-making could be centralised or decentralised administratively. It could be concentrated or fragmented within financial management, or it could be found within a central organisational unit. For the case of Indonesia SR, because the decision makers of SR and the budget allocation is in different unit under MoF, the obstacle of unified SR into the budgetary cycle still have to encountered.

Fourthly, the qualifications of the civil service, refers to the capability of governmental staff to implement reform. Lack of staff capability can result in a failure of the reform process. The lack of professional training for conducting spending reviews has impeded budgeting reform in Indonesia (Parhusip 2016).

Finally, 'culture' refers to the readiness for facing risk and uncertainty, and the social, administrative and political makeup of a society; that is, whether a system is risk-taking or risk-averse, individualist or collectivist, and its degree of openness and responsiveness (Luder 1992; 1994). Most of OECD members who implementing SR in their budget calculation, has mature and vigorous political and financial management system. Although government of Indonesia have good initiatives on conducting SR since 2013, but the overview result of SR hasn't fully open to community.

4.6. Stakeholders

Stakeholders are the people or institutions positively or negatively influenced by reform, but the term excludes those who are reform drivers and political reform promoters. Stakeholders could be the general public/citizens, parliament (non- political reform promoters), the administration (line department and agencies), and statistical officers (Lüder 2002; Pollitt and Bouckaert 2011). Reform success also depends on stakeholders receiving or abandoning the new model. Stakeholders can expedite or postpone reform, affecting the success of the implementation strategy and the outcomes of the reform (Lüder 2002). In most of EU states, the parliament not only act as promoter of budgeting reform, but also stakeholders. Indonesia SR have three main stakeholders of its application to budgeting process. They are DG of Budgeting, Development Planning Ministry and line ministries (DG of Treasury 2016).

4.7 The Reform Concept and Implementation Strategy

The reform concept represents full or modified performance budgeting. The reform concept includes all or some features related to the performance-based budgeting system. An implementation strategy is a process of implementing reform. It could be authoritarian or participative; involve centralised or decentralised guidance; be with or without a pilot model; comprise one or multiple steps in implementation; include considerable or minimal user discretion; vary in duration; and include or exclude systematic staff training (Pollitt and Bouckaert 2011; Lüder 2002).

4.8 Outcome of the Reform

The outcomes of the reforms are the result of the process of budgeting innovation. The Lüder FMR model allows for the possibility of multiple stages of reform. If there is a need to change the outcome of the reform, it will 'loop back' to the political reform promoters to restart the reform process as a dynamic flow model (Lüder 2002).

This study used the Lüder FMR model to analyse budgetary reform, with a clear link between each instrument variable discussed previously (stimuli, reform drivers, political reform promoters, institutional arrangements, implementation strategy, stakeholders, reform concept and outcome of the reform). These variables are needed to analyse the development of SR implementation as part of budgetary reform. Furthermore, this model proposes a feedback loop that allows budgetary reform to be examined in multiple stages.

4.9 Key Successful Factor of SR

Table 3. Key Succes Factors SR developed countries vs Indonesia

Factors	Developed Countries	Indonesia
Strong political commitment at high national level throughout the project.	clear strategic mandate notably spelling out the objectives (included quantified targets) and into regular monitoring, communication and decision-making on reform options generated.	Lack of political commitment at high level
Scope of Review	Covering a significant share of general government expenditure across several policy areas	Covering all line ministries
Command Centre	Enjoying political backup for coordinating	Not clear who should conducting SR
Resources	Sufficient resources	inadequate of staff training to cover all ministries spending
End-user policy outcomes	Clear connection between expenditure and budget classification	No clear connection of SR result to budget process
Transparent Monitoring and reporting	To the public of the process and impact	Result of SR hasn't publicly transparent
Lesson learn	Independent ex post evaluation of SR	Review by respective member of MoF staff who act as reform driver

Chapter 5
Conclusion

This study is conceptual framework analysis based on literature examining the implementation of spending reviews as a public management reform. This study objective is to distinguish the implementation of the new management reform tool such as SR by using Lüder FMR model by delivering comparison in every stage of SR phase. Based on analysis of all variables on FMR model, we come to our final conclusion about the policy why Indonesian government implement SR.

The answer to first sub-question of the research is the spending review should be essential part of a performance-based budgeting system, primarily because the information presented is used in budget decision-making. On the Indonesia case, the result of spending reviews hasn't fully been integrated in budgeting cycle. From the secondary survey, there is no continuity of using the SR result to budgeting input for the future.

The SR is not a magical tool that can reduce the public expenditure in one smart cuts. It works on long periodic of time. So, the need to design the SR process within a budgetary cycle of a country should be done properly.

From the analysis in the previous chapter, we can conclude that SR implementation in Indonesia haven't work properly as on advanced country. The reason why the development of SR in Indonesia isn't smooth enough is because the lack of political support from other government agencies and no clear mandate of who should be managing Indonesia SR due to lack of coordination.

As we know, our conclusions on implementation of SR are based only on comparison on literature reviews of other states. We propose some suggestions and policies based on the results of our comparison. First, subsequent studies on the policy design of Indonesia SR and the impact of SR on budgeting cycle. Therefore, further studies need to consider using survey and interviews of all key actors in budget reform. Second, the conceptual framework used in the research in the future should use evidence base policy. Studies on the evidence based of SR implementation especially in developing country like Indonesia is still very minimal. Third, policy makers (government) need to provide strong regulations which support the implementation of SR in public finance, so budgetary institutions can work together in a clear command. However, further research needs to be done to convince the government how to increase the quality of public spending to its stakeholders.

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