



PROJECT MUSE®

---

Public Sector Reforms and Financial Transparency:  
Experiences from Indonesian Districts

Stein Kristiansen, Agus Dwiyanto, Agus Pramusinto, Erwan Agus  
Putranto

Contemporary Southeast Asia: A Journal of International and Strategic  
Affairs, Volume 31, Number 1, April 2009, pp. 64-87 (Article)



Published by ISEAS–Yusof Ishak Institute

➔ For additional information about this article

<https://muse.jhu.edu/article/265201>

# Public Sector Reforms and Financial Transparency: Experiences from Indonesian Districts<sup>1</sup>

---

STEIN KRISTIANSEN, AGUS DWIYANTO,  
AGUS PRAMUSINTO AND ERWAN AGUS  
PUTRANTO

*As in many Asian, African, and Latin American countries, democratization and devolution reforms have characterized the recent development of public management in Indonesia. This article analyses the current development of “good governance” in Indonesian local government. The main objective is to assess the level of transparency, the mechanisms for hiding, and the extent of corruption in district budgeting and accounting. The empirical data consists of 200 in-depth interviews with members of the executive, legislative and civil society institutions in six districts. The article concludes that national systems and traditions of politics and bureaucracy have a strong negative impact on local administrative procedures, leaving only marginal space for regional*

---

STEIN KRISTIANSEN is Professor of Development Studies at the Department of Economics at University of Agder, Norway.

AGUS DWIYANTO is Professor of Public Administration at the Faculty of Social and Political Studies.

AGUS PRAMUSINTO is a Senior Lecturer and the Director of the Masters Program in Public Administration and ERWAN AGUS PUTRANTO is Senior Lecturer and the Deputy Director of the Masters Program in Public Administration at Gadjah Mada University, Yogyakarta, Indonesia.

*variance and improvements. There is a remarkable lack of transparency, and checks and balances in public financial affairs are largely absent in all districts.*

**Key words:** corruption, decentralization, public management, local government, Indonesia.

Public administration in Indonesia has changed dramatically since 2001. The country has gone through one of the fastest and most comprehensive devolution reforms ever seen. Managerial and financial responsibilities have been decentralized from central government, mostly to local government at the district level. There are now 473 districts, representing the third layer of a five-tier government hierarchy. The reforms followed the severe economic crisis that started in 1997 and the introduction of multi-party elections and democratic governance in 1999. Notwithstanding these developments, transparency remains very limited and there are clear signs of escalating corruption at the local government level.<sup>2</sup> There are strong tendencies to political capture, which further the interests of new local elites,<sup>3</sup> and continued democratic development is threatened by the people's lack of trust in the civil service and local political institutions.<sup>4</sup>

Decentralization may have been a step towards "good governance" but mainly reflects a change in the national power balance, which gives increased chances for opportunistic and rent-seeking behaviour among bureaucrats and politicians at the local level. Enhanced levels of accountability and transparency should ideally improve the governance system, but state documents remain confidential, the political will to implement the Freedom of Information Act is lacking, and the government at various levels demonstrates little interest and ability in performance-oriented budgeting.<sup>5</sup> Mechanisms for controlling the bureaucracy are still very weak. Steps should be taken to develop less ambiguous accountability structures and improve systems of monitoring and evaluation. This article aims to help show the way forward.

The main objective of this article is to assess the impacts of administrative reforms and political rhetoric on systems and quality of governance at the local level. Research questions include the following: Why are levels of transparency in government financial affairs generally low in Indonesia? What mechanisms are used to reduce public insight in district budgeting and accounting? What can

be done to enhance financial transparency at local levels and thereby reduce levels of corruption among bureaucrats and politicians?

The article begins with a description of the civil service in Indonesia and explains the traditions of opacity in public management. The following section comprises a literature review and presents recent theories and empirical findings on transparency and accountability related to public governance. Methodology and study areas are introduced in the third section, followed by a presentation and discussion of empirical findings.

### **Traditions and Systems of Opacity in Indonesian Public Management**

The Indonesian civil service has its roots in the Dutch colonial administration, which was not open to insight from ordinary citizens.<sup>6</sup> Dutch business interests colluded closely with colonial administrators, and corruption was a serious problem.<sup>7</sup> During the first two presidencies of the new republic — under Sukarno and Soeharto from 1949 to 1998 — strong forces worked to concentrate power in the hands of executive bodies in Jakarta and limited influence was given to elected assemblies. As far as possible, power was not diffused, and information on state and administrative issues was monopolized and only portioned out carefully for the benefit of well-established power holders.<sup>8</sup>

During the Soeharto era in particular, the civil service served the dual function of a political instrument as well as a strong and wide-ranging administrative apparatus. It grew to encompass more than four million employees, from central and local administrative units to the police, military, schools and health institutions. Decentralization reforms in 2001 had some impacts on the organization and function of the civil service. A main provision of the new law on regional government (Law 22/1999) was the abolition of the previously strict hierarchical relationship between the central government, provinces and districts. Another provision was that regional heads at both provincial and district levels should be held accountable to regional legislative bodies rather than to higher levels of government. Recently, the regional heads have been elected directly by their respective constituencies and held responsible to them. The 473 districts (*kabupaten/kota*), with an average population of 500,000, have become responsible for the funding and implementation of activities in sectors including education, health and public works.

Three-quarters of the civil service, including teachers and health workers, are now assigned to local governments, predominantly at the district level. All newly recruited civil servants still have to participate in a joint training programme (*Prajabnas*) where they are taught military discipline, government regulations and administrative procedures and management. The training is intended to improve competency and create clean and good governance.<sup>9</sup> Another purpose of the *Prajabnas* is to promote loyalty to the state and the national constitution. The result is the continuous construction of a rather exclusive club of officers unified in a non-efficient and self-beneficial bureaucratic culture.<sup>10</sup>

Decentralization reforms in Indonesia reorganized the whole system of politics and bureaucracy and created a new class of politicians and “their agents, the civil servants”.<sup>11</sup> Regional political and bureaucratic institutions were developed into means for building private wealth and recovering the costs associated with capturing powerful positions,<sup>12</sup> and local politicians now regard receiving gifts from the executive as completely natural.<sup>13</sup>

With regard to the public budgeting process, previous empirical studies have concluded that the practice of money politics and procurement mark-ups is still widespread.<sup>14</sup> The controlling roles and routines of local parliaments have traditionally been weak. With their increasing authority and the dominating personal interests of members of parliament, levels of transparency may actually have been reduced after decentralization.<sup>15</sup>

Under President Sukarno, financial accountability virtually collapsed because of administrative deterioration.<sup>16</sup> Moreover during the New Order era, ambiguous rules and the mix of political and bureaucratic responsibilities contributed to non-transparency and inefficiency in public financial management.<sup>17</sup> Theoretically, the new budgeting system after decentralization reforms were introduced should have created a more accountable, transparent and honest budgeting policy in local government. In practice, however, studies indicate that horizontal accountability still tends to be very weak. Local parliament members rarely gain access to district budget details,<sup>18</sup> and district accounts are impossible to obtain by anyone outside senior officials in the local administration.<sup>19</sup> Meanwhile, the central government has lost control over local governments’ financial arrangements.<sup>20</sup>

Generally, in Indonesia today there are no institutions that can seriously deal with ordinary citizens’ complaints regarding unfair or inefficient public service. The Ombudsman system has not been

properly established as an efficient institution, and serious civil society watchdogs are absent in most districts.<sup>21</sup> Studies also conclude that local governments in Indonesia are not doing enough to provide information to ordinary citizens by modern and transparent means such as e-government.<sup>22</sup>

## Literature Review

As discussed above, the bureaucracy in Indonesia is characterized by corruption and inefficiency, the result of long-standing traditions and strong cultural norms. Conditions have not improved following democratization and decentralization, in spite of frequent talk of the need for “good governance”. Discussion on this term remains cloudy and there is a need to sharpen analytical tools when searching for reasons behind and solutions to “bureaucratic failures”, fraud and inefficiency.<sup>23</sup>

In most Western countries, principles of “new public management” were introduced in the 1990s in response to documented inefficiency and ineffectiveness in the public sector. Decentralization, privatization and management accounting became crucial elements in the revised public governance structures, which were reorganized in an attempt to make them goal-driven and client-oriented.<sup>24</sup> To a large extent, new public management theories were derived from economic organization theories, like public choice and principal-agent models. Public-sector agencies are assumed to be “self-interested bodies that need to be controlled”.<sup>25</sup>

In developing countries, the term “good governance” similarly came into vogue in the late 1990s,<sup>26</sup> carrying with it many of the same elements as new public management strategies. In Indonesia, the decentralization of government in 2001 was an epoch-making element in public administration reforms. The official goal was to transfer political power and administrative responsibility to local levels thereby enhancing financial transparency and public scrutiny.

Ideally, devolution reforms should be followed by a robust form of local government accountability towards local constituents and a demand driven process of performance-based budgeting.<sup>27</sup> The major international lending institutions regard good governance as a combination of four factors: accountability, transparency, predictability and public participation.<sup>28</sup> According to a more critical position, however, the quality of governance is dependent on underlying power structures rather than on administrative reforms, and decentralization may easily result in new “predatory networks of patronage”.<sup>29</sup>

Imported Western theories and strategies regarding public management are not easily implemented in contexts where economic and political environments are characterized by vast information asymmetries, weak democratic traditions and limited administrative capacities.<sup>30</sup> Management methods certainly need to be contextualized, taking institutional as well as regional characteristics into consideration when implementing strategies.<sup>31</sup> In addition, externally induced demands for change in governance structures in developing countries may be rejected due to inconsistencies with local values and traditions, or simply because they are regarded as imperialistic.<sup>32</sup> It is important to assess more closely the meaning and content of “accountability” and “transparency” in order to make this terminology more appropriate for analyses of administrative practices, strategies and reforms in various political and cultural contexts.

Accountability in its most fundamental sense refers to the answerability to someone for expected performance. There are at least two dimensions of bureaucratic accountability, which may be difficult to combine.<sup>33</sup> First and foremost, accountability implies responsibility and liability, but a crucial question is to whom a bureaucrat feels responsible and liable. There might be divergent interpretations of orders of principals, and bureaucrats often face multiple sources of legitimate authority and competing expectations of performance.<sup>34</sup> Individual bureaucrats may be internally punished for malfeasance and rewarded for success, based on judgements made by their superiors. Such judgements may be very different from those of political or judicial institutions and may be in obvious contradiction to bureaucratic efficiency as regarded from the perspective of ordinary citizens. Secondly, accountability implies transparency and “controllability”. This means that the bureaucracy should ideally be subject to public insight and regular external reviews and questioning. Accountability in financial matters is thus supported by transparency. Ideally, any information regarding the use of public resources — past, current and future — should be disclosed to the citizenry.<sup>35</sup>

Transparency may be defined as “legal, political, and institutional structures that make information about internal characteristics of government and society available to actors both inside and outside of the domestic political system”.<sup>36</sup> A distinction may be made between internal and external transparency and control.<sup>37</sup> Examples of controlling external stakeholders are elected politicians, judicial authorities or civil society in general. Internal transparency and control

mechanisms can be in relation to office heads, higher levels of a hierarchical order or internal auditors. Transparency should encompass such attributes as timeliness, easy access, comprehensiveness, relevance, quality, comparability and reliability of information.<sup>38</sup> If educational levels and political awareness are low, there is a need to emphasize that transparency should not only make information accessible, but also understandable by external stakeholders and the general public.<sup>39</sup>

The focus on transparency in public administration is relatively new,<sup>40</sup> and limited empirical research has been conducted on this issue in developing countries. Pressures to enhance public efficiency and reduce corruption, however, combined with the recent availability of modern information technology, make increased transparency a topical issue in most developing countries.<sup>41</sup> Lack of transparency is often seen as the major facilitator for corruption.<sup>42</sup> It is generally recognized that fraud flourishes when agents have monopoly power over clients, when agents have great freedom of choice or high discretionary power and when accountability of agents to the principals is weak.<sup>43</sup>

Bureaucrats who are not being checked by politicians or civil society institutions tend to operate in a non-transparent manner and with limited accountability, and increasing information asymmetry tends to give public managers higher discretionary freedom.<sup>44</sup> Powerful civil service elites in developing countries therefore tend to strive to maintain control over how information is disclosed. Previous research reveals that an increase in transparency is negatively associated with high levels of autonomy among bureaucrats.<sup>45</sup> In Indonesia's case, the low level of financial transparency is strongly correlated with opportunities to engage in corrupt activities. Local bureaucrats may be agreeable to openness only so long as it does not contradict their private economic interests.<sup>46</sup>

Theoretically, enhanced transparency may be driven by both the supply and demand sides. On the supply side, bureaucrats in some cases have a need to create transparency as a means to legitimize their power and demonstrate responsibility.<sup>47</sup> However, in countries with high levels of corruption and maladministration, the supply side motives will probably be weak above this basic legitimizing function.<sup>48</sup> From the demand side, motives for enhanced transparency may include corruption eradication, enhanced efficiency in the use of public monies, judging the distribution of policy benefits and higher quality of public service delivery. However, government information may be difficult to comprehend, not least

in financial matters. There is often a scarcity of direct users of financial information, limiting the power of the demand drive for transparency, especially in countries with low levels of economic development and weak democratic cultures.<sup>49</sup> A number of studies have concluded that it is well-informed and better-connected citizens who demand improvements in transparency and public service delivery.<sup>50</sup>

Based on the foregoing presentation of the Indonesian civil service and our theoretical discussion, we expect to find well-maintained high levels of discretionary power in the local bureaucracy and limited results from decentralization and democratization on financial transparency in local government. Both the supply and demand drives towards transparency are expected to be weak, and external accountability of the bureaucracy is therefore probably limited. In the empirical part of the article, we consider the levels and mechanisms of transparency and accountability in budgeting and accounting in a selection of Indonesian districts. The main objective is to determine if administrative reforms and political rhetoric have contributed to good governance at the local level.

### **Methodology and Study Areas**

The empirical research is based mainly on qualitative methodology. There are no single answers to questions on current systems and the quality of accountability and transparency in Indonesian local government. National laws and regulations may stipulate transparency in parts of the budgeting and accounting procedures, but laws are interpreted differently and may not be properly obeyed. The executive and the legislative will have divergent opinions on the desirability and realities of financial transparency in many cases, and educated and well-informed representatives of civil society may sometimes be the most reliable informants. Approximately 200 in-depth interviews were conducted with selected respondents in six study areas. Three main groups of respondents have been included, namely bureaucrats, local parliament members and civil society representatives. From the executive, leading officers from four departments were invited: health, education, public works and planning. Also district heads or their secretaries (*Sekda*) are included among the respondents. From the legislative branch we interviewed at least three members of the local parliament (DPRD, *Dewan Perwakilan Rakyat Daerah*) in each district, aiming for the heads of major committees. From civil society we selected leading representatives from local media

institutions and NGOs. Local university faculty and members of local business associations were also interviewed.

Interviews were conducted in late 2006 and early 2007. Each interview lasted for an average of two hours. From 400 hours of tape recorded interviews, the authors made transcripts of the parts covering questions in the interview guide. All interviews were conducted in Bahasa Indonesian by researchers from Gadjah Mada University. Interviewers were sensitive to creating an atmosphere of trust and open communication, and the respondents were given ample time and freedom to express themselves. Approximately twenty questions, mostly open-ended, on budgeting and accounting were expressed in different ways in each of the interview guides for the three respondent groups. Some respondents refused to answer some of the questions, however, and some also excused themselves because of a lack of knowledge on certain issues.

Additional secondary data was collected from websites run by districts or from their most recently published statistical yearbooks (*Kabupaten Dalam Angka*). Judicial information has been taken from current national and local laws and regulations related to the selected topic. The interview guides also contained several questions that enabled some basic quantitative comparisons. Focus group discussions were conducted at the end of data collection in some districts, with attendees from government institutions, politicians and civil society institutions. Information from the previous interviews and other data collection was presented as a basis for discussion.

The six districts were selected based on the criterion of being representative for one urban and one rural district within provinces at different localities: central (D.I. Yogyakarta), semi-peripheral (Nusa Tenggara Barat), and peripheral (Gorontalo). The study areas were very diverse in terms of population, education and economic development (see Table 1).

Kota Yogyakarta is the administrative and commercial centre of Yogyakarta province, centrally located in Java. The city of Yogyakarta has a population of 450,000 and more than 100 institutions of higher learning within its surroundings. Yogyakarta province, with a population of 3.5 million, serves as a centre of higher education for the whole country. Kabupaten Gunung Kidul is located in Yogyakarta province, with its administrative centre only 40 kilometres from the city of Yogyakarta. The main source of income is agriculture and the district is characterized by low educational and income levels. Kota Mataram and Kabupaten Bima are districts within the province of Nusa Tenggara Barat, mainly comprising the two islands of Lombok

Table 1  
Basic Characteristics of Study Areas

	Kota Yogyakarta	Kabupaten Gunung Kidul	Kota Mataram	Kabupaten Bima	Kota Gorontalo	Kabupaten Pohuwatu
Population	443,112	683,389	343,563	410,682	156,390	108,544
Education level*	75.6	35.3	60.9	44.5	—	20.8
Level of economic development†	17.5	6.4	5.1	3.9	4.7	4.6

NOTES: \* Percentage of age group attending senior high school.

† Gross regional product per capita (in million Rupiah).

SOURCE: District statistical yearbooks 2006 and 2007.

and Sumbawa, east of Bali. Mataram on Lombok is the commercial and administrative centre of the province and also the site of the state university and is home to a large number of media and civil society institutions. In comparison, Kabupaten Bima on Sumbawa is rural and remote and is disadvantaged in terms of education standards and economic development. The third and most peripheral province included in our study, Kota Gorontalo, was established as a separate administrative unit in 2000 and is located on the Minahassa Peninsula in the northern part of Sulawesi. Kota Gorontalo is a small town and the provincial centre, while Kabupaten Pohnuato is located in a rural area dominated by agricultural production.

In the following presentation of findings, we have selected a number of representative quotations from the various respondent groups to illustrate the lack of transparency and financial procedures. Presentation of interview data is organized according to the assumptions mentioned earlier and discussed together with the assessment of available written district documentation and national laws and regulations.

## Findings

As noted earlier, our empirical approach is mainly based on qualitative methodology, thus supplementing the many quantitative corruption perception studies already conducted in Indonesia. However, in the interviews we also asked the respondents to rank their trust in the other respondent groups and their perception of current levels of transparency in budgeting and accounting in their respective districts.

Among civil society representatives, trust in bureaucrats is generally very low in the more centrally located districts (Yogyakarta, Gunung Kidul and Mataram) while remarkably higher in the peripheral areas. Trust in politicians is generally very low all over. It is interesting to note that even journalists and NGO representatives do not trust their peers when it comes to investigating and publishing information on illicit financial activities in local government. Respondents' opinions on levels of financial transparency reveal some differences among districts and respondent groups, as can be seen in Table 2.

The district governments in the cities of Yogyakarta and Mataram are generally regarded as the most transparent among the six study areas by our civil society respondents. On a scale from 1 to 10, they score 6.0 and 6.2 respectively. In comparison, journalists and NGO representatives in the rural district of Gunung Kidul give an average

Table 2  
**Transparency Perception Index**  
(max = 10)

	<i>Bureaucrats</i>	<i>Legislative members</i>	<i>Civil society representatives</i>
Kota Yogyakarta	8.1	6.0	6.0
Gunung Kidul	7.2	8.0	3.9
Mataram	7.5	8.0	6.2
Bima	7.0	5.1	5.2
Kota Gorontalo	7.8	9.0	4.9
Pohuwato	7.8	6.5	4.7

score of 3.9. Not surprisingly, there is a significant difference in scores given by civil society representatives and by power holders in the executive and legislative. In Gorontalo, for instance, the bureaucracy gives an average score of 7.8, the legislative members 9.0 and civil society representatives are more critical and give a score of 4.9.

Perceived transparency is not, however, significantly different among districts. The generally high scores among bureaucrats and politicians everywhere indicate the weakness of the subjective perception methodology when involving respondents who have a clear motive to answer in ways that distort reality. As argued in the previous section, in-depth interviews and open-ended questions also have their weak points, but offer more possibilities to reveal murky financial issues and irregular practices in budgeting and accounting. Nevertheless, information and personal opinions given in the interviews must be interpreted based on insight into current laws and regulations and ongoing political debates.

There is a debate in Indonesia on systems of accountability for district executives. Included in this debate is the following question: for what and to whom should bureaucrats be accountable? District governments and their increasingly powerful leaders, the *bupati* or *wali kota*, fight to maintain and further strengthen their newly-gained autonomy in relation to the higher levels of the hierarchical executive system. Central government efforts to strengthen vertical accountability are not popular among leading district bureaucrats. Meanwhile, politicians in district parliaments (DPRD) strive to uphold their authority and the system of horizontal accountability, introduced by Law 22/1999 and implemented in 2001.

The accountability debate and the central-local power struggle are reflected in a zigzag of national guidelines for financial government at the local level. Budgeting and accounting procedures are guided by an increasing number of new laws and regulations, which are from different ministries and administrative layers and may be contradictory. When leading bureaucrats were asked which national laws and regulations they followed in financial matters, twelve different sets of laws and regulations were identified.<sup>51</sup>

According to the head of administration (*Sekda*) in Yogyakarta: “Sometimes the central government is inconsistent; they often issue regulations but rarely implement them.” A department head in Pohuwatu complained that: “We haven’t even finished implementing one regulation and there’s already a different one introduced ... sometimes the new regulation reverts to a previous one.” District bureaucracies tend to take advantage of the contradictions and ambiguity of laws to reduce their external accountability, horizontally as well as vertically, and enhance their discretionary authority in financial matters. As a result, in our interviews, department heads say that financial accountability is an internal affair and that they are liable to the district head (*bupati* or *wali kota*). In their defence, district heads can point to various laws stipulating that they are accountable either to the local parliament, to the central government through the provincial governor or directly to their local constituencies.

District bureaucrats in our study seem inclined to choose and follow laws and regulations that give them maximum discretionary power. According to the head of the planning department in Pohuwato district, an older regulation (*Permendagri* 29/2002 on the management of local government finance) is preferable for guiding the budgeting process, because, in his words, “We can be more elastic.” The most recent law, *Permendagri* 13/2006, offers less flexibility in that it presents a strict nomenclature that requires every item of the annual district budget (*APBD, Anggaran Pendapatan dan Belanja Daerah*) to follow an integrated code system, which is also applicable for the annual district accounts. This regulation also states that publication of the audited accounts, i.e. the “APBD realization”, is now compulsory. Leading bureaucrats, however, question the validity of paragraphs in the new regulations when they contradict the contents of national laws of higher order, such as Law (*UU*) 32/2004 on local government and Government Regulation (*PP*) 58/2005 on the management of local government finance.

As revealed in our study, the current status of district bureaucracies is characterized by continuous extensive discretionary space and low levels of external accountability, which rests in the lack of transparency in district financial matters. According to one district head, budget leaks in his region can exceed 20–30 per cent. There is no reason to believe that these figures are exaggerated or that conditions are any better in other districts. Budgetary leaks are caused by the executive's discretionary power, and bureaucrats tend to use various means to keep illicit financial channels open and public insight closed. It appears that detailed annual budgets are mostly unavailable to the public, though general budget figures are published in most districts. However, items in budgets and accounts are often incompatible, which hinders public checking of real spending. Moreover, detailed annual accounts remain unpublished and inaccessible to the public in all the six districts in our study. Bureaucrat respondents in all districts agree that performance indicators are not applied in the budgeting process and that no external agent is able to measure their efficiency. The four mechanisms of maintaining the high level of discretionary power and the low level of transparency are illustrated by empirical findings below.

#### *Non-availability of Budget Details*

Asked if the annual budget is published, bureaucrats in most districts answer in the affirmative, but in fact only general information and overall figures are made available to the public. Bureaucrats in some districts say APBD budgets are published online, but journalists and NGO representatives complain that the websites are inaccessible. In Gunung Kidul, all respondents agree that no details of the district budget are available to the public. After the budget has been approved by the district parliament, only a brief financial report is published in a local bulletin with limited circulation. An NGO activist there remarked that the bureaucracy still considers APBD to be confidential. The district secretary in charge of budgeting and accounting (*Sekda*) in Mataram admitted that details of the APBD are not widely released. A journalist in Yogyakarta opined that district budget publications only stress positive attributes, while an NGO representative in Bima commented that nothing about the APBD was transparent. According to elected politicians interviewed by the authors, the general public is not competent to understand the details concerning district budgets, and therefore no political pressure exists to be more transparent.

There are some differences among the districts as regards the openness of the budgeting process and the public's access to general budget information. More details are available in urban districts, especially in Yogyakarta and Mataram. According to a leading district officer in Yogyakarta, however, only researchers occasionally ask about budget details. Rural districts like Gunung Kidul, Bima and Pohuwatu lag behind and bureaucrats there rarely reveal budget information. Even in Yogyakarta, specific budget allocations, the so-called RASK (*Rencana Anggaran Satuan Kerja*), are virtually impossible to obtain, even for senior researchers from leading universities. A senior officer in the public works department there commented that the community is not ready yet to think about matters related to financial government policy. According to a commission head in the local parliament of Yogyakarta, transparency in these matters has to do with culture: "Our culture differentiates: if DPRD asks for the budget then usually the executive will give it to us, while the community [would be] neglected. It needs time to change."

Bureaucrats generally argue that the public has a theoretical opportunity to take part in an open and bottom-up budget planning, the so-called *Musrenbang* (*musyawarah perencanaan pembangunan*/development planning deliberation) process, and thereby also gain insight into the process. According to most civil society activists, however, this process is either non-existent or essentially closed. An NGO representative in Mataram expressed the view that there was a lack of goodwill towards involving the public in financial planning. A planning department officer in Bima admitted that the local community had not yet participated in the framing of the budget. A representative from an NGO in Gorontalo complained that the mayor threatened to report his organization to the police when they complained about budget allocation.

Budgeting in the studied regions is generally regarded as an exclusive process taking place within the district executive unit. According to the head of *Bappeda* in Yogyakarta, politicians in the local parliament only participate in setting out general development plans. Leading bureaucrats elsewhere, like the head of *Bappeda* in Gunung Kidul, say the legislative's role in financial affairs is only to approve the budget as proposed by the executive. According to a district parliament representative in Bima, almost all budgeting authority is in the hands of the Bupati. The head of the planning department in one district also admits that the district budget planning is based on executive members' personal

interests rather than the needs of society: “The personal interests [of bureaucrats] count for 90 per cent and the needs of society only 10 per cent.”

The district budgets normally undergo frequent and substantial revisions during the year, with only limited attention from institutions and persons outside the bureaucracy. Normally, budget revisions are not published or made available to the public in the six studied districts. When asked if major revisions to the budget were published, the head of the financial division in Mataram replied: “Not at all.” According to DPRD members in Mataram, the executive always has the upper hand in financial matters, and funds can easily be diverted from approved budgets.

### *Lack of Compatibility between Budgets and Accounts*

The introduction of the new financial regulation (*Permendagri 13/2006*) with its strict and universal budget nomenclature has received a mixed response. It may improve budgetary efficiency by streamlining the district financial system, and should be beneficial for transparency. However, the discretionary power of bureaucrats has been reduced to a level that curbs their financial flexibility and creativity. Also, the new regulation blocks local legislatures from getting involved in the budgeting process; only the finance committee takes part in discussions. Our interviews reveal that the new law is only being partly implemented.

Bureaucrats interviewed by the authors who stated that budget and account items are currently compatible were not willing to present documentation on this matter during our discussions. The head of the planning department in Mataram, for instance, said that budget and account items should be compatible according to the government nomenclature, but no examples were presented to us on request. “Budgets and accounts are currently not compatible. ... We have problems implementing the new nomenclature [of *Permendagri 13/2006*]”, said the district secretary (Sekda) in another region. Many other leading bureaucrats, including the head of Bappeda in Yogyakarta, also identified difficulties implementing *Permendagri 13/2006*. According to one of them: “This *Permen 13* really constricts our space.” Other members of the executive acknowledged that incompatibility created a problem for financial transparency, and many department heads admitted that more consistency between budgets and their realization was needed to improve financial transparency and efficiency.

### *Annual Accounts Remain Unpublished and Inaccessible*

Details on real spending of district funds were not made available to the public in any of the districts in this study, and in some regions such information was not even available to ordinary members of the legislature. According to the head of the finance committee (*Komisi A*) in the local parliament in Yogyakarta, publication procedures are insufficient to keep society informed about the real use of public funds.

Accounts in all districts are mainly audited by an internal auditing institution, *Bawasda*, which reports only to the district head. According to a district parliament member, the *Bawasda* has no autonomy. Occasionally, selected parts of the district accounts are also audited by *BPKP* (*Badan Pemeriksa Keuangan dan Pembangunan*/Financial and Development Auditing Board) or *BPK* (*Badan Pemeriksa Keuangan*/Financial Auditing Board), institutions that report to the President and the national parliament respectively. According to one of our respondents, a journalist in Bima, even *BPKP* and *BPK* auditors are generally regarded as “internal”. If any financial irregularities are discovered, sanctions are normally limited to a request to correct the misuse of public funds. None of the auditing institutions have the authority to bring cases up for judicial action.

According to civil society respondents in most districts, only the non-detailed annual accountability report is presented by the district head for formal approval by the DPRD. A local member of parliament in Bima remarked that the local parliament does not receive any audited accounts and that, accordingly: “DPRD is not in a position to give any sanctions to the executive for misuse of public funds.” According to a DPRD member in Pohuwato, the local parliament should receive the audited accounts report according to the law, but never did. A member of another district parliament complained that the budgeting committee was weak and lacked members with financial expertise. In Gorontalo, bureaucrats are generally of the opinion that audited accounts shall only be approved by the district head and that these accounts should not be made available to the public because they are “state documents” (*dokumen negara*) and therefore confidential. The vice-chairman of the district parliament in Gorontalo admitted that the DPRD cannot refuse to accept the Bupati’s accountability report according to the current law. Civil society representatives are generally very critical of the role of the legislature in controlling the executive. According to one in Bima: “When DPRD members’ economic interests have been fulfilled, they

are no longer interested in monitoring.” According to a well-informed respondent in Mataram: “DPRD has formally enough control but when they have the same principal [as the bureaucrats], the control becomes non-transparent” (the mayor of Mataram and the head of the DPRD are from the same political party). A civil society representative in another district stated that: “DPRD is not willing to control the executive in financial matters. They [DPRD members] are very close to the Bupati and are always running around him.”

### *Limited Responsibility for Financial Efficiency*

Department heads interviewed by the authors clearly admit that they have incentives for spending but not for saving. There is no difference among the six districts in our study on these matters. According to the head of the planning department in Yogyakarta, for instance, performance indicators are not really implemented there, and the officer in the same position in Mataram said that no real performance indicators were applied. Requirements for performance-based district budgeting are clearly stated in current national regulations (e.g. *Kepmen* 29/2002), but bureaucrats excuse themselves by the fact that even internal transparency and sector information are missing. As expressed by an officer in the planning department in Bima: “How could we implement performance indicators when we don’t even have the basic figures? ... The main problem related to performance-based budgeting is lack of data.” According to a member of parliament in Pohuwatu, the district budgeting is based on project value and not performance, clearly indicating that bureaucrats’ personal gains increase with higher public costs. Finally, the frequent and unannounced budget revisions during the financial year also contribute to the limited internal transparency and the lack of necessary data for performance measurement.

### **Conclusion**

This article assesses the impacts of administrative reforms and “good governance” rhetoric on the practice of financial management at the local level in Indonesia. The selection of study areas within the country was made to obtain an empirical basis for comparison and generalization. Sampling of respondents for in-depth interviews was carried out for data triangulation and for gaining insight and knowledge based on a spectrum of individual responsibilities, experiences and perspectives. The qualitative research methodology has its strong

and weak points. In particular, giving the respondents ample time to talk without interruption was compatible with Indonesian culture and opened for the disclosure of information that might normally be hidden. On the other hand, most information was subjective and may also have been skewed. Government respondents clearly have a more positive opinion on levels of transparency compared to civil society representatives.

Some reported dissimilarities between urban and rural districts may be best explained by respondents' subjectivity and biased opinions. Urban civil society representatives are generally more critical than those in rural areas, possibly due to higher levels of education and better information flows. Meanwhile, rural government representatives tend to be more open regarding illegitimate practices, possibly because of limited civil society awareness. There seems to be a tendency that the less transparent the governance, the more open illicit financial practices are. For instance, it is remarkable that the administrative head in a non-transparent rural district openly admitted in a formal interview that more than 30 per cent of his district budget is siphoned off. There is likewise a tendency that more surface government transparency goes along with more sophisticated means of hiding unlawful financial procedures. In the city of Yogyakarta, for instance, more financial information is published but people's trust in the government is still very low and many statements from our interviewees indicate widespread illegitimate behaviour of power holders in matters related to budgeting and accounting. Biased answers thus make it difficult to compare transparency levels and accountability routines among districts. We are able to conclude, however, that mechanisms of transparency and external accountability are very weak in all districts, facilitating corruption and the misuse of public funds.

Generally, budget details are not available in the districts studied in this article. Power holders typically are of the opinion that the general public neither has the competence nor the capacity to understand the particulars of district budgeting. Bureaucrats thus play their role in allocating the budget without being governed or monitored by the public. The lack of compatibility between budget and account items also hinders transparency and external control. There is an obvious lack of willingness by leading bureaucrats to implement new national regulations that would limit their discretionary financial space. In addition, transparency and external accountability are limited by the fact that annual accounts remain unpublished and inaccessible to the public and even to elected representatives in

local parliaments. Finally, we have documented limited responsibility for financial efficiency in district administration. No performance indicators are being utilized, and leading local bureaucrats and politicians admit that they have strong incentives for spending and not for saving public funds.

Democratization and decentralization brought dramatic changes in political power and government administration in Indonesia, but power holders at local levels have strengthened their monopolies of power and discretionary space, often at high social costs. Senior bureaucrats find excuses to disobey regulations contained in national laws that would limit their financial flexibility and contradict their personal economic interests. Control by civil society is easily limited by power holders' monopoly of information and is also hindered by lack of knowledge among ordinary citizens. Also, local legislative members and even journalists and NGO leaders can often not be trusted as checks on the executive's flexible handling of public means as they are too easily co-opted by financial incentives. Local members of parliament are normally elected based on their willingness to pay their electorates and are therefore easily silenced by financial sharing arrangements with the district head and his team of leading bureaucrats.

Devolution should ideally bring bureaucratic power closer to the people, thereby enhancing transparency and controllability. In reality, in Indonesia even after administrative and political reforms customs of opacity have been maintained. Cultural and political traditions generally make power sharing difficult in Indonesia. There is a strong will to exercise power by some and a willingness to obey by others, which is combined with the right to withhold information by some and avoidance of questions by others. Alternatively, bureaucrats emphasize the functioning of internal accountability, which has limited value for good governance as long as department and district heads as well as auditing institutions partake in collusion and corruption. Prevailing practices of secrecy are also legitimized by reference to state security. The term "state document" (*dokumen negara*) is often misused, rendering most public financial documents as classified or confidential. The political and social environment is characterized by vast information asymmetries, and power holders lack incentives to change the status quo. There is also a general societal concern that corruption would proliferate if more elite agents were given gatekeeping positions.

The moral hazard related to asymmetric information in district financial affairs can probably only be reduced by allowing and

educating the general public to access and comprehend budget and account figures and procedures in a way that breaks the monopoly of power and reduces the discretionary space of the local bureaucracy. The demand drive towards financial transparency and external accountability at the district level should be strengthened by central government regulations.

## NOTES

- <sup>1</sup> The article is based on research conducted at Gadjah Mada University under the Transparency in Local Governments Programme funded by the Norwegian Ministry of Foreign Affairs. The authors are grateful to two anonymous referees for their comments on an earlier draft of this article.
- <sup>2</sup> D. Haryadi and R. Sumindar, *Belanja-Belanja Dewan: Studi Dokumen Anggaran Belanja DPRD Kota Bandung 1997–2002* (Bandung: Bandung Institute of Governance Studies, 2002); A. MacIntyre, “Institutions and the Political Economy of Corruption in Developing Countries”, Discussion Paper, Workshop on Corruption, Stanford University, 2003.
- <sup>3</sup> F.X.A. Susanta, “Kapasitas DPRD dalam tata pemerintahan demokratis”, Program Pasca Sarjana Magister Administrasi Publik, Universitas Gadjah Mada, Yogyakarta, 2004; P. Cook, C. Kirkpatrick, M. Minogue, and D. Parker, eds., *Leading Issues in Competition, Regulation, and Development* (Cheltenham: Edward Elgar Publishing, 2004), p. 13.
- <sup>4</sup> A. Dwiyanto, “Teladan dan pantangan dalam penyelenggaraan pemerintahan di Indonesia”, PSKK, Gadjah Mada University, Yogyakarta, 2003.
- <sup>5</sup> G.M. Guess, “Comparative Decentralization Lessons from Pakistan, Indonesia, and the Philippines”, *Public Administration Review* 65, no. 2 (2005): 217–30; Sutrisno, “Analisis APBD berdasarkan kinerja: Studi pelaksanaan penyusunan APBD berdasarkan kinerja”, Program Pasca Sarjana Magister Administrasi Publik, Gadjah Mada University, Yogyakarta, 2004.
- <sup>6</sup> J.C. Scott, “Handling Historical Comparisons Cross-nationally”, in *Political Corruption: Concepts and Contexts*, edited by A.J. Heidenheimer and M. Johnston (New Jersey: Transaction Publishers, 2002), pp. 123–38.
- <sup>7</sup> J.S.T. Quah, “Corruption in Asian Countries: Can it be Minimized?” *Public Administration Review* 59, no. 6 (1999): 483–94.
- <sup>8</sup> M. Lim, “From War-net to Net-war: The Internet and Resistance Identities in Indonesia”, *The International Information & Library Review* 35, no. 2–4 (2003): 233–48; G. Nugroho, *Indonesia Pasca-2000, Era Televisi Publik* (Jakarta: Kompas, 2000).
- <sup>9</sup> Jatim, “Pengumuman Penerimaan CPNS Jatim” (Jawa Timur 2005) <www.jatim.go.id>
- <sup>10</sup> “Menneg PAN M. Feisal Tamin: 53 Persen PNS ‘Makan’ Gaji Buta”, *Kompas*, 17 May 2003; S. Kristiansen and M. Ramli, “Buying an Income: The market for Civil Service Positions in Indonesia”, *Contemporary Southeast Asia* 28, no. 2 (2006): 207–33.

- <sup>11</sup> The World Bank, *Combating Corruption in Indonesia: Enhancing Accountability for Development* (Washington, D.C.: World Bank East Asia Poverty Reduction and Economic Management Unit, 2003), p. vi.
- <sup>12</sup> S. Kristiansen, "Recovering the Costs of Power: Corruption in Local Political and Civil Service Positions in Indonesia", paper presented at the CSIS Workshop on Corruption, Jakarta, August 2008 <[http://www.csis.org/media/csis/events/080716\\_kristiansen.pdf](http://www.csis.org/media/csis/events/080716_kristiansen.pdf)>.
- <sup>13</sup> N. Choi, "Local Elections and Party Politics in Post-Reformasi Indonesia: A view from Yogyakarta", *Contemporary Southeast Asia* 26, no. 2 (2004): 280–301.
- <sup>14</sup> L. Ashari, *Dinamika Pemerintahan Kabupaten: Forum, Perencanaan Anggaran dan Transparansi Studi Kasus di Kabupaten Bangkalan dan Poso* (Jakarta: Bank Dunia, 2004).
- <sup>15</sup> D. Haryadi and R. Sumindar, *Belanja-Belanja Dewan: Studi Dokumen Anggaran Belanja DPRD Kota Bandung 1997–2002*, op. cit.
- <sup>16</sup> J.A.C. Mackie, "The Commission of Four Report on Corruption", *Bulletin of Indonesian Economic Studies* 6, no. 3 (1970): 80–88.
- <sup>17</sup> A.P.S. Atmadja, *Mekanisme Pertanggungjawaban Keuangan Negara: Suatu Tinjauan Yuridis* (Jakarta: PT. Gramedia, 1986); D.W. King, "Bureaucracy and Implementation of Complex Tasks in Rapidly Developing States: Evidence from Indonesia", *Studies in Comparative International Development* 30, no. 4 (1995): 78–93.
- <sup>18</sup> S. Amir, S. Pandangan, *Agenda dan Strategi PPP Mewujudkan Transparansi Pengelolaan APBD* (Bandung: Bandung Institute of Governance Studies, 2006); Sopanah, "The Influence of Public Participation and Transparency on the Knowledge of the DPRD Members and the Local Budget Control", Masters Thesis at the Department of Accounting, Gadjah Mada University, Yogyakarta, 2003.
- <sup>19</sup> I. Kasiri, "The Implementation of Accountability and Transparency Principles on the APBD Formulation: A Case Study at the District of South Bengkulu", Department of Political Sciences, Gadjah Mada University, Yogyakarta, 2003; S. Kristiansen and Pratikno, "Decentralizing Education in Indonesia", *International Journal of Educational Development* 26, no. 5 (2006): 513–31.
- <sup>20</sup> T.I. Sukiadi, "Penyusunan anggaran Pendapatan dan belanja daerah Propinsi Sulawesi Tenggara", Program Pasca Sarjana Magister Administrasi Publik, Universitas Gadjah Mada, Yogyakarta, 2004.
- <sup>21</sup> LGSP & MAP, "Local Government Assessment", Magister Administrasi Publik, Gadjah Mada University, Yogyakarta, 2006.
- <sup>22</sup> M. Rose, "Democratizing Information and Communication by Implementing E-government in Indonesian Regional Government", *The International Information & Library Review* 36, no. 3 (2004): 219–26.
- <sup>23</sup> J. Wallis and B. Dollery, "Government Failure, Social Capital and the Appropriateness of the New Zealand Model for Public Sector Reform in Developing Countries", *World Development* 29, no. 2 (2001): 245–63.
- <sup>24</sup> G.J.V. Helden, "Researching Public Sector Transformation: The role of Management Accounting", *Financial Accountability and Management* 21, no. 1 (2005): 99–133.

- 25 P. Laegreid, P.G. Roness, and K. Rubecksen, "Performance Management in Practice: The Norwegian Way", *Financial Accountability and Management* 22, no. 3 (2006): 251–70.
- 26 T. Weiss, "Governance, Good Governance, and Global Governance: Conceptual and Actual Challenges", *Third World Quarterly* 21, no. 5 (2000): 795–815.
- 27 G. Ferrazzi, "Obligatory Functions and Minimum Service Standards for Indonesian Regional Government: Searching for a Model", *Public Administration and Development* 25, no. 3 (2005): 227–38.
- 28 G. Kopits and J. Craig, *Transparency in Government Operations* (Washington, D.C.: IMF Occasional Paper 158, 1998).
- 29 V.R. Hadiz, "Decentralization and Democracy in Indonesia: A Critique of Neo-institutionalist Perspectives", *Development and Change* 35, no. 4 (2004): 697–717.
- 30 J.D. Montgomery, "Bureaucrat, Heal Thyself! Lessons from the Three Administrative Reforms", *World Development* 24, no. 5 (1996): 953–60; P. Khaleghian and M. Das Gupta, "Public Management and the Essential Public Health Function", *World Development* 33, no. 7 (2005): 1083–99.
- 31 C. Montes and M. Andrews, "Implementing Reforms in Bolivia: Too Much to Handle?" *International Journal of Public Administration* 28, no. 3–4, (2005): 273–90; M. Noordegraaf and T. Abma, "Management by Measurement? Public Management Practices amidst Ambiguity", *Public Administration* 81, no. 4 (2003): 853–71.
- 32 G.M. Guess, "Comparative Decentralization Lessons from Pakistan, Indonesia, and the Philippines", *Public Administration Review* 65, no. 2 (2005): 217–30.
- 33 J.G. Koppell, "Pathologies of Accountability: ICANN and the Challenge of 'Multiple Accountabilities Disorder'", *Public Administration Review* 65, no. 1 (2005): 94–108.
- 34 B.S. Romzek and P.W. Ingraham, "Cross Pressures of Accountability: Initiative, Command, and Failure in the Ron Brown Plane Crash", *Public Administration Review* 60, no. 3 (2000): 240–53.
- 35 K. Barata and P. Cain, "Information, not Technology, is Essential to Accountability: Electronic Records and Public-sector Financial Management", *The Information Society* 17, no. 4 (2001): 248.
- 36 E.E. Otenyo and N.S. Lind, "Faces and Phases of Transparency Reform in Local Government", *International Journal of Public Administration* 27, no. 5 (2004): 288.
- 37 B.S. Romzek and P.W. Ingraham, "Cross Pressures of Accountability", op. cit.
- 38 G. Kopits and J. Craig, *Transparency in Government Operations*, op. cit.; D. Heald, "Fiscal Transparency: Concepts, Measurement and UK Practice", *Public Administration* 81, no. 4 (2003): 723–59; K. Heard-Laureote, "A Transparency Gap? The Case of European Agricultural Committee Governance", *Public Policy Administration* 22, no. 2 (2007): 239–58.
- 39 S.P. Wall, "Public Justification and the Transparency Argument", *Philosophical Quarterly* 46, no. 185 (1996): 501–08; D. Neyland, "Achieving Transparency: The Visible, Invisible and Divisible in Academic Accountability Networks", *Organization* 14, no. 4 (2007): 499–516.

- <sup>40</sup> S.J. Piotrowski and G. Van Ryzin, "Citizen attitudes towards transparency in local government", *The American Review of Public Administration* 37 (2007): 306–23.
- <sup>41</sup> E.E. Otenyo and N.S. Lind, "Faces and Phases of Transparency Reform in Local Government", op. cit., p. 288.
- <sup>42</sup> C. Hood, "Transparency", in *Encyclopedia of Democratic Thought*, edited by P.B. Clarke and J. Foweraker (London: Routledge, 2001), pp. 700–01.
- <sup>43</sup> R. Klitgaard, *Controlling Corruption* (Berkeley: University of California Press, 1988); W.C. Mitchell and R.S. Simmons, *Beyond Politics: Markets, Welfare, and the Failure of Bureaucracy* (Boulder, CO: Westview Press, 1994).
- <sup>44</sup> J. Gil-Garcia and I.J. Martinez-Moyano, "Understanding the Evolution of E-Government: The Influences of Systems of Rules on Public Sector Dynamics", Center for Technology in Government, University at Albany, US, 2006.
- <sup>45</sup> E.W. Welch and W. Wong, "Global Information Technology Pressure and Government Accountability: The Mediating Effect of Domestic Context on Website Openness", *Journal of Public Administration Research and Theory* 11, no. 4 (2001): 509–38.
- <sup>46</sup> A. Dwiyanto, "Teladan dan pantangan dalam penyelenggaraan pemerintahan di Indonesia", PSKK, Gadjah Mada University, Yogyakarta, 2003.
- <sup>47</sup> S.J. Piotrowski and G. Van Ryzin, "Citizen Attitudes towards Transparency in Local Government", op. cit.
- <sup>48</sup> E.E. Otenyo and N.S. Lind, "Faces and Phases of Transparency Reform in Local Government", op. cit., p. 288.
- <sup>49</sup> Ibid.
- <sup>50</sup> H. Fuhr, "Constructive Pressure and Incentives to Reform: Globalization and its Impact to Public Sector Performance and Governance in Developing Countries", *Public Management Review* 3, no. 3 (2001): 419–43; R. Putnam, *Making Democracy Work: Civic Traditions in Modern Italy* (Princeton: Princeton University Press, 1993); N. Sundar, "Is Devolution Democratization?" *World Development* 29, no. 12 (2001): 2007–23.
- <sup>51</sup> The following is an overview of various types of Indonesian laws and regulations regarding decentralization and financial matters, from higher to lower rank:
- UU/*Undang-Undang* is the highest-order central government law, formulated by the national parliament (DPR) and approved by the President.
  - PP/*Peraturan Pemerintah* is a government regulation formulated by the President for the completion and execution of an *Undang-Undang*.
  - *Inpres* means *Instruksi Presiden* or Presidential Instruction.
  - *Kepres* is the abbreviation for *Keputusan Presiden*, which means Presidential Decree.
  - *Kepmen* means *Keputusan Menteri* or Ministerial Decree.
  - *Permen/Permendagri* is the abbreviation for *Peraturan Menteri Dalam Negeri*, meaning a regulation from the Ministry of Home Affairs.
  - *Perda (Peraturan daerah)* is a local by-law, formulated by the local parliament (DPRD) and approved by the governor or district head.