



Budgeting in Indonesia

**Meeting of OECD Asian Senior Budget Officials
Bangkok, 12-13 February 2009**

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Agenda

- **Fundamental Changes to Budgeting since the 1997/98 Political and Economic Crisis**
- **Distinctive Characteristics of the Indonesian Budget Process**
- **Stages of the Budget Formulation Process**
- **Conclusions**

Fundamental Changes to Budgeting since the 1997/98 Crisis (1)

■ **Modern Legal Framework for Budgeting**

- Old framework a legacy of Dutch colonial rule
- New framework emphasises accountability and transparency
- Enacted unanimously by Parliament
- Emphasises detailed, input orientation

■ **Unified and More Comprehensive Budget**

- Separate capital and operating budgets merged
- Off-budget activity placed on-budget, e.g. military

Fundamental Changes to Budgeting since the 1997/98 Crisis (2)

■ Massive Fiscal Decentralisation

- “Big Bang”
- Over 2.5 million civil servants transferred from national to regional governments
- Fiscal transfers – limited own revenue
- Fiscal discipline maintained

■ Highly Assertive Role for the Parliament

Distinctive Characteristics of the Indonesian Budget Process (1)

■ Fiscal Rule

- An overriding emphasis on fiscal discipline
- Deficit and debt fiscal rule in place (3% - 60%)
- Actual performance much better
- Operational expenditure rules?

■ Under-Spending and Year-End Spending

- Especially for capital expenditures and purchases of goods and services
- Sharply rising appropriations – lags are normal
- Cumbersome procurement regulations

Distinctive Characteristics of the Indonesian Budget Process (2)

■ National Planning Function

- Long history of such activity
- 5-year time frame = President's term of office, *i.e.* not rolling
- Role of plan (BAPPENAS) and budget (Ministry of Finance) appears clear

■ Special Role of Fuel

- Both on revenue and expenditure side
- Plays havoc with budget

■ Rigidities in the Budget

- Transfers to regional governments
- Constitutional formula-based spending, *i.e.* 20% for education
- Prevalence of earmarks
- Operating expenditure on “auto pilot”
- Civil service regulations

Budget Formulation Process

-Five Stages-

- **Establishing the Level of Resources Available for the Next Budget**
- **Establishing Priorities for New Programs**
- **Pre-Budget Discussions with Legislature**
- **Finalization of the Budget Proposal**
- **Preparing Detailed Budget Implementation Guidance**

Establishing the Level of Resources Available for the Next Budget

- **Economic Assumptions and Revenue Forecasts**
 - Responsibility of MOF Fiscal Policy Office
 - Technical experts team
 - Ranges, rather than fixed points
 - Fuel prices - incentives for underestimating

- **Funding for baseline on-going expenditures**
 - Responsibility of MOF D-G Budget
 - New Medium-Term Expenditure Framework

- **Resulting available resources for new activities in effect “handed over” to BAPPENAS**

Establishing Priorities for New Programs

- **BAPPENAS prepares internal plan for allocating the available new resources**
 - Close substantive relations with spending ministries and agencies
- **Role of Presidency and Co-ordinating ministries**
 - Informal retreats
 - Cabinet meetings
- **Joint Budget Circular with “indicative” ceilings**
 - Trilateral meetings
 - BAPPENAS focuses on substantive policy content
 - MOF ensures robust costing of new initiatives
- **National Forums (*Musrenbang*)**

Plans and Budgets



Pre-Budget Discussions with Legislature

- **Fiscal Policy Statement, Government Work Plan and Ministry-Specific Work Plans presented**
- **Ministry of Finance negotiates with the Budget Committee on the macroeconomic framework (i.e. economic assumptions), revenue forecasts and budget aggregates**
- **Sectoral ministries have discussions with their respective sectoral commissions**

Finalization of Budget Proposal

- **Revised circular including a “preliminary” ceilings**
- **Annual Ministerial Work Plan and Budgets**
 - Format of plan and budget being harmonised as part of performance budgeting reforms
 - Sectoral ministries have extensive contact with their sectoral commissions
 - BAPPENAS and MOF verify consistency with Government Work Plan and budget ceilings respectively
- **Budget Documentation**
 - Very detailed
- **President’s Budget Speech**

Preparing Detailed Budget Implementation Guidance

- **Budget Approved two months prior to fiscal year**
- **Sectoral commissions continue discussing details of budget appropriations**
 - Parliament does withhold disbursement of funds even if it is not satisfied with the details of planned expenditure
- **Satker's – Budget Users**
 - 20,000+
 - Each gets detailed budget

Conclusions

- **Fundamental reforms have been implemented**
 - Magnitude of changes cannot be underestimated
 - Further reforms are continuing
- **National planning function**
- **Top-down budgeting**
- **Very detailed, input-oriented budget**
- **Extensive role of parliament throughout the process, formally and informally**
 - Consensus nature of decision-making most notable
 - Need for independent analytical capacity
- **Accruals ?**

For further information



Volume 8, No. 3

www.oecd.org/gov/budget

OECD Journal on Budgeting

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