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Impact of Budget Support on Accountabilities at the Local Level in Indonesia

by
Philippa Venning*

A thorough analysis of existing governance and accountability structures in a decentralised country is necessary before deciding to deliver development assistance directly to the regional level. This article examines the mechanism of donor-provided budget support at the local level in Indonesia and its potential impact on accountability structures.

* Philippa Venning is an Acting Director in the Australian Agency for International Development (AusAID). This article was written as part of a Masters of Law at the University of Melbourne and represents the personal views of the author, not the views of AusAID.

Accountability is a key driver in the quest to deliver effective development outcomes. Donor-provided budget support offers a mechanism with which to deliver development assistance to a partner government that can promote accountability more so than traditional project-based aid. While some evaluations of budget support have assessed its impact on accountability, the evaluations and analyses have rarely examined the concept of accountability in all its complexity. This article unpacks the concept of accountability and argues that experiences in delivering budget support in one area, let alone one country, cannot simply be transposed to assume that budget support will improve accountability in a comparable way in another context. Accordingly, existing local accountability structures must be thoroughly examined in the context of broader political dynamics, particularly where budget support is provided in a decentralised country directly to the regional level of government.

To demonstrate this, this article looks at one of Indonesia's 33 provinces, Gorontalo, in order to examine existing local dynamics and predict how these might be impacted upon with a donor providing budget support. Section 1 introduces the concept of budget support in its historical context and presents current trends in its provision. Section 2 explains what is meant by the nebulous concept of "accountability" and how this concept can play out in a decentralised country such as Indonesia. Section 3 briefly canvasses Indonesia's public financial management reforms, including reforms to the budfget process and the introduction of a new "on-granting" mechanism for budget support to regional governments. Section 4 delves into the detail of the particular public financial management context of Gorontalo, including examining the impacts on accountability of central government grants to regional governments. This information is used in Section 5 to draw valuable lessons for a donor providing budget support.

This research is timely, given Indonesia's new regulations to govern the provision of budget support to regional governments and the increasing interest by donors in providing budget support. This article raises issues that would need to be carefully addressed in the design of a programme of assistance to ensure that budget support does not undermine recent reforms in Gorontalo but instead results in positive impacts on accountabilities and consequently more sustainable development outcomes.

1. Budget support: history and trends

1.1. Historical context for the provision of budget support

In the 1960s, developing countries[1] usually financed their recurrent budget[2] from locally raised revenues, and donors – particularly the relevant former colonial power – largely funded the capital budget.[3] Developing countries typically had a national development plan with donors' funds aligned with this plan and recorded in the budget. With the economic crises of the 1970s, rising levels of poverty in many developing countries led to increased aid inflows, and many developing countries ceased funding their own capital expenditure (Moore, 1998, pp. 108-109). Donor influence increased at the expense of local authority. Donors began to fund projects directly and entirely, and bypassed domestic budget and planning systems. Particularly in the health and education sectors, donors funded both recurrent and capital costs in many developing countries. Given the fungibility of money and the weakened budgeting process, developing countries could leave sectors of interest to donors – such as public infrastructure and service delivery – to foreign funding and focus on short-term priorities, in some cases military expenditure (Moore, 1998, pp. 108-109).

To increase developing country ownership of reforms and to promote accountability for the use of funds, in the 1990s donors began to deliver development assistance through sector-wide approaches (SWAPs). A SWAP occurs where multiple donors pool their funds to support a government's policies in a certain sector (Moore, 1998, p. 109; White, 2007). Australia is the major donor funding a SWAP to support Papua New Guinea's health sector, for example. While these approaches have been found to reduce transaction costs for a partner government, experience shows that donors tend to dominate in the policy dialogue with limited sustainable impact on the partner government's policy implementation (for example, White, 2007).

More recently, donors have begun moving away from supporting particular sectors to contribute funds directly to a partner government's budget, known as budget support. Some early examples of countries receiving budget support include Uganda – where donors now finance nearly half of total government expenditures (Atingi-Ego, 2006) – and Mozambique, where 35% of total foreign assistance is provided through budget support representing nearly 20% of government expenditure (Binkert and Sulemane, 2006). Budget support can also be provided to local governments in decentralised countries, such as World Bank budget support to states and provinces in India and Pakistan (Devarajan and Shah, 2006).

1.2. What is budget support and why is its incidence increasing?

The World Bank defines budget support as regular development assistance provided directly to a government's budget in support of a medium-term programme, and which uses the government's own financial management systems and budget processes (Koeberle and Stavreski, 2006, pp. 1 and 5). Budget support is not earmarked for expenditure on specific activities or budget line items (Koeberle and Stavreski, 2006, pp. 1 and 5).[4] There may be an understanding between a donor and the government that the donor's funds will be spent on certain priority sectors, but this is not usually mandated. Although spending is not earmarked, the support is rarely completely untied. For example, the support may be conditional on performance indicators being met or the partner government developing a certain policy, and to this effect the partner government may need to participate in policy dialogue and receive technical assistance (DFID, 2007b, p. 1).

In general terms, a donor's decision to provide its assistance through budget support is usually motivated by two fundamental drivers: first, to improve development outcomes and, second, to improve the effectiveness of aid delivery (DFID, 2004, p. 1). With respect to the first, development outcomes are dependent on public spending to improve public services such as health and education, and public spending depends on the government's budget process. By supplementing a government's budget with foreign-provided funds, more funds are available for public spending. Second, and partly in response to the negative impacts of past policies of conditionality and structural adjustment (Stiglitz, 1998; Wade, 2001), donors provide budget support to reduce strain on partner government systems, harmonise donor activities behind the partner government's own policies and priorities, and empower rather than impose conditions on partner governments.

In practical terms, as rich countries are called upon by the United Nations to increase their aid spending to 0.7% of gross national product,[5] donors need to seek new aid modalities to facilitate the "scaling up" of assistance (Koeberle, Stavreski and Walliser, 2006, p. xv). Donors need to find mechanisms that can deliver greater amounts of aid more effectively and without a commensurate increase in administrative costs. Budget support provides an appealing option to provide significant funds without needing to manage large contracts and implement projects.

Inherent in both of the two drivers of budget support above is the objective of promoting accountability (DFID, 2004, p. 1) and it is to this nebulous concept that we now turn.

2. Budget support and accountability in a decentralised environment

2.1. What is accountability?

"Accountability" can be defined in a host of different ways but will be used for the purposes of this article to refer to how people can hold their political representatives responsible for the way in which their decisions and activities impact upon them (Blair, 2000, p. 24). Technically,

> accountability denotes a relationship between a bearer of a right or a legitimate claim and the agents or agencies responsible for fulfilling or respecting that right… [it] is a two-way relationship of power. It denotes the duty to be accountable in return for the delegation of a task, a power or a resource. (Lawson and Rakner, 2005, p. 9).

Accountability can be further understood by breaking the concept down into three aspects: *i)* transparency – that is, decisions are taken openly; *ii)* answerability, meaning that there is an obligation to justify decisions publicly; and *iii)* controllability, or the existence of a means to sanction decisions, or at least threaten to sanction them (Lawson and Rakner, 2005, p. 10; United Nations Capital Development Fund, 2005, p. 180).

Accountability operates in a number of different directions, involving different stakeholders. Direct accountability from decision makers to the public is usually referred to as "vertical accountability". Vertical accountability can be promoted from both the supply and demand sides. The supply side refers to institutional mechanisms, such as the provision of accurate and accessible budget information and processes to gather and action feedback from civil society organisations,[6] parliament, auditors or other external stakeholders (Fölscher, 2006b, p. 134). The demand side encompasses stakeholders external to the executive who request information and take action to hold the executive responsible (Fölscher, 2006b, p. 134), for example to ensure that budget allocations are transferred into development outcomes (Ablo and Reinikka, 1998, p. 30). The parliament, the media and civil society are key external stakeholders on the demand side of vertical accountability.

"Horizontal accountability" refers to the way in which indirect accountability between decision makers and the public is delegated among the arms of government (Lawson and Rakner, 2005, p. 10). For example, it can refer to relations: between the legislature, executive and judiciary; within these arms of government; and between elements such as the Cabinet, line agencies and other departments, auditors and special commissions (Lawson and Rakner, 2005, p. 10). It is also used for the purposes of this article to refer to accountability relations between different levels of government, such as the central and regional governments in Indonesia.[7]

2.1.1. External accountability in development assistance

Specifically in a development context, "external accountability"[8] usually refers to the accountability of partner governments to international entities such as multilateral institutions or donor governments, for example for the use of foreign funds. External accountability also encompasses lines of accountability between the donor government and the institutions and beneficiaries in the partner country – the targets of development assistance. From the perspective of domestic politics within the donor country, external accountability is in turn important so that the executive branch of the donor country can demonstrate vertical accountability to its own parliament and taxpayers, showing the effective use of public funds allocated for development assistance (De Renzio, 2007, p. 2).

In adopting the 2005 "Paris Declaration on Aid Effectiveness", donors resolved to reform the way aid is managed and delivered (High-Level Forum on Aid Effectiveness, 2005, paragraph 1). Accountability is integral as signatories reaffirmed their commitment to enhance both "donors' and partner countries' respective accountability to their citizens and parliaments for their development policies, strategies and performance" (paragraph 3[iii]). Under the Paris Declaration, donors should avoid "creating dedicated structures for day-to-day management and implementation of aid-financed projects and programmes" (paragraph 21) and rather should better co-ordinate their activities, commit to longer-term predictable assistance, align their assistance with partner government policies and use partner government systems (including budget and accounting mechanisms) as much as possible (paragraphs 3, 4 and 26).[9] The increasing popularity of delivery of development assistance through budget support reflects pledges made under the Paris Declaration.

2.1.2. Accountability is a nebulous concept

It must be recognised that the above discussion of accountability reflects a largely Western academic tradition that is not always clearly translated into a developing country context, particularly at the local level. Accountability is frequently used in the development context by partner countries, but different meanings are often intended. In developing countries, the term is often used to refer to financial transparency or visibility of decision making, and people may consider the term from the perspective of a number of different traditions (Lawson and Rakner, 2005, p. 20).

For example, leaders at the village level in Indonesia may justify decisions based on local notions of justice and morality, taking into account religious values and subsistence living, rather than more Western notions of reasonableness, consistency and rationality (Lawson and Rakner, 2005, p. 20). Many Indonesians have varied expectations of the restraints on their leaders and representatives, and in practice there may be considerable overlap between village institutions of government as one leader may take multiple roles, reducing the perception of balancing power (World Bank, 2008a).

> Using the … concepts of [transparency, answerability and controllability] to capture the experience of accountability locally is like trying to nail jelly to the wall; the concepts pin down the reality with great difficulty. Reality at local level is a fluid field of interpenetrating institutions and actors, informed by co-mingling cultures of accountability which place rather loose, and not always consistent, restraints on the actions of leaders. (Lawson and Rakner, 2005, p. 20).

2.1.3. Why is the promotion of accountability important and not automatic?

There are sound reasons why signatories to the Paris Declaration have agreed to the promotion of accountability as being an integral part of development assistance. Vertical accountability between a partner government and its citizens is an important precursor to country ownership of development programmes. Country ownership has been found to be a key determinant of the sustainability of reforms and to discourage misappropriation of funds, for example through corruption (Mfunwa, 2006, p. 8; De Renzio, 2007).

However, the complex nature of different accountabilities outlined above means that the process of promoting accountability is not always as linear as the commitment to enhance donors' and partner countries' respective accountability to their citizens and parliament suggests (DFID, 2007a, p. 57). For example, external accountability can undermine vertical accountability. Accountability to a donor country's parliament and taxpayers may reduce the donor's and partner government's accountability to the beneficiaries in the partner country.[10] This can result in detrimental development practices – for example, donor countries may prefer to: provide more funding for avian influenza and HIV/AIDS which may threaten their own interests more than basic health care; focus on short-term highly visible outcomes such as media-friendly vaccination programmes that bypass the local health system needed to sustain such programmes in the longer term; or provide assistance conditional on the use of parallel management and reporting systems to ensure donor government control over the use of funds (De Renzio, 2007).[11]

Accordingly, the development community – in aiming to promote "accountability" – must tread carefully through the minefield of competing and complex concepts and lines of accountability to make sure that its actions actually do promote sustainable development outcomes.[12]

2.2. Accountability in a decentralised environment

One way that partner governments attempt to improve vertical accountability is by decentralising government functions. Decentralisation is the empowering of local governments and represents "a massive reorganisation of the state" (Alicias *et al.*, 2007, pp. 4, 5). The main premise of decentralisation is that "by building popular participation and accountability into local governance, government at the local level will become more responsive to citizen desires and more effective in service delivery" (Blair, 2000, p. 21). To be successful, decentralisation requires that local-level public servants be held accountable to locally elected representatives who are in turn accountable to the public (Blair, 2000, p. 21).

Free and fair elections are the most direct way to ensure that representatives are responsive to the public. Since the advent of the decentralisation policy in Indonesia, there have been over 350 direct elections for local representatives. Added to the very high voter turnout rates, more Indonesians have voted in more elections than citizens in any other democratic country in the past decade.[13]

However, elections alone are not sufficient to ensure vertical accountability due to the duration between elections and the broad policy issues that are the subjects of campaigns. Governments must be held to account far more regularly than each time there is an election. On the demand side, accountability requires regular mechanisms for the public to express preferences and views on policies and activities, and for the public to monitor government processes and outcomes to ensure the effectiveness of government spending and clean government (Blair, 2000, p. 27). Vertical accountability between governments and their citizens has been found to be more likely not only where the budgeting process is transparent but also where there are strong checks and balances built into the system of government, where citizens participate in government, and where the relationship between civil society and parliament is constructive (Mfunwa, 2006, p. 8).

Here, the capacity of civil society and parliaments to monitor and advocate during a transparent budget process and implementation of that budget is crucial. Accountabilities will also be promoted by the existence and capacity of other stakeholders such as political parties and the media, and by the use of public meetings, polls and opinion surveys, and formal complaint processes (Blair, 2000, p. 30). The existence of local government makes it easier for vertical accountabilities to operate, as citizens and other stakeholders are more proximate to their representatives.

Although research in developing countries indicates that, other than elections, political parties, civil society and the media are the most important pressure groups for promoting the accountability of representatives to the people (Blair, 2000, p. 31), the dichotomy between supply-side and demand-side accountability factors is somewhat circular. While a strong civil society will encourage local governments to be more accountable by facilitating the mobilisation of community voice, the existence of an effective government that is worth lobbying is often a precursor for the development of vibrant pressure groups (United Nations Capital Development Fund, 2005, p. 186).

In a decentralised environment, local governments represent another link in the accountability chain (United Nations Capital Development Fund, 2005, p. 195). Although local governments have considerable powers and authorities in many decentralised countries, local governments remain accountable to the central government for adherence to its priorities, policies and laws. To this end, information must flow upwards, yet accountability between public servants and elected officials at the regional level will be higher where public servants are not predominantly answerable to the central agency (Blair, 2000, p. 27). Accordingly, decentralisation presents opportunities for vertical accountability but considerable challenges for horizontal accountability, which will be discussed further in the Indonesian context in Section 4.

2.3. Budget support and impacts on accountability

As discussed above, budget support in theory promotes the achievement of pledges made under the Paris Declaration to enhance accountability. In terms of vertical accountability, budget support brings foreign-provided funds under the control of national stakeholders: both the government, which receives and controls the funds, and the population, which may indirectly control the funds via political mechanisms including scrutiny of the budget process, elections and the other mechanisms mentioned above (DFID, 2007c, p. 1). In this way, providing assistance via budget support should help to ensure that partner countries assume ownership and that development assistance reflects national objectives rather than donors' choice of projects (DFID, 2004, p. 6).

Providing budget support should also improve horizontal accountability relationships within a partner government. For example, rather than donors working directly with line ministries in relation to projects that may impact negatively on power dynamics between ministries and reduce policy co-ordination, the ministry of finance usually takes a more central role in co-ordinating development assistance through budget support and implementing country policies. Line ministries' accountability to the ministry of finance would increase rather than their accountability to individual donors (Koeberle and Stavreski, 2006, p. 14). In time, policy co-ordination and management within partner governments may improve as a result of budget support provision.[14]

Demonstrating external accountability between the partner government and the donor for use of that donor's funds generally relies on the credibility and transparency of the partner government's budget and auditing processes.[15] Where a partner government has weak financial management and accountability systems, there is a greater fiduciary risk that development assistance will be misappropriated, and donors may be more reluctant to provide budget support. However, rather than setting up parallel systems to manage donor-funded projects, in some circumstances donors many provide technical assistance to accompany the provision of budget support to strengthen the accountability of public financial management systems, for example in transparency and reporting standards (DFID, 2007b, p. 4; DFID, 2004, p. 6; Koeberle and Stavreski, 2006, p. 16).

The United Kingdom Department for International Development (DFID) has evaluated a number of budget support programmes and found that budget support has at times made concrete improvements to accountability. For example, in Mozambique published agreements and joint performance frameworks were agreed between donors and the government and were used by parliament to evaluate the performance of both the government and the donor against their respective agreed commitments, boosting both vertical and external accountabilities (DFID, 2007c, p. 5).

Accordingly, budget support can not only reduce the negative impacts of the tension between external and vertical accountabilities described above, but also promote improvements in domestic vertical and horizontal accountabilities. How this may play out in the context of Indonesia's decentralised environment will be explored below.

3. Indonesia's public financial management and the framework for budget support

3.1. Indonesia's own brand of decentralisation

Indonesia's population of over 230 million people is spread over a vast resource-rich archipelago of over 17 000 islands. Regional disparities are large, with huge variations in population density, language, culture, poverty levels and access to resources. Indonesia has undergone significant change since it was severely impacted upon by the Asian Financial Crisis beginning in 1996 and culminating in the fall of President Soeharto in 1998. Soeharto's immediate successor, President Habibi, announced the decentralisation policy as an ambitious agenda to reform Indonesia's political and fiscal management.[16] Considerable fiscal and political power has been transferred from the central government to Indonesia's 440 regions, known as *kabupaten* and *kota*.

The decision to decentralise reflected the central government's desire to stem the rising resentment of outer regions that wanted self-determination, most notably the resource-rich provinces of Aceh and Papua and the former East Timor, as well as the rise of democratic sentiment following the fall of Soeharto (Fitriani *et al.*, 2005, p. 60). Another significant rationale for decentralisation was to improve vertical accountability by bringing government closer to the people, enabling Indonesia's diverse and disparate population to have a say over the policies that impact upon them. The more direct line of accountability between local governments and their constituents was expected to improve local service delivery, particularly in infrastructure development, health and education.[17] This is in sharp contrast to the Soeharto years, where power was concentrated in Jakarta and the central government was heavily criticised for taking considerable resource profits from the regions for the benefit of Java, the most densely populated island that houses the capital city.

Decentralisation is primarily established under two central government laws: the first on regional governance which focuses on political and administrative decentralisation[18] including expenditure responsibilities and accountabilities, and the second on fiscal balance which governs the distribution of revenues to the regions.[19] Under the Law on Regional Governance, regional governments have responsibility for a range of public services including education, health, public infrastructure, agriculture, industry and trade, investment, the environment, land, labour and transport.[20]

Under the Law on Fiscal Balance, regions are responsible for managing their own public finances.[21] On the revenue side, regional governments have the power to impose taxes and service fees. In addition, they receive from the central government a portion of revenues from central-level taxes, for example for natural resources, and various grants. Transfers from the central government aim to reduce fiscal disparities between the regions – resulting, for example, from variations in natural resource wealth – and have significant accountability implications which will be explored below (World Bank, 2007, p. 119). Provincial and regional governments now manage over a third of Indonesia's total public expenditure (World Bank, 2007, p. 116).

Specifically with respect to accountability mechanisms, decentralisation has shifted accountability to "a local political accountability model" (Fitriani *et al.*, 2005, p. 61). The head of the region is elected and is accountable to the regional parliament, and the regional executive and parliament should act in partnership.[22] The regional parliament approves the regional budgets as well as local laws and regulations that regulate village-region relations, including accountability mechanisms (Fitriani *et al.*, 2005, p. 61). How accountabilities play out in practice in local-level budget processes will be discussed below in relation to one province of Indonesia, Gorontalo. But first, the national and regional budget processes will be briefly canvassed to place Gorontalo's financial management system into context.

3.2. Indonesian budget process

3.2.1. Central-level budget process

Indonesia's budget operates on a calendar year basis. Between January and April, the Ministry of Planning issues the government's annual work plan, in line with its five-year Medium-Term Development Plan. Budget formulation is based on this annual work plan.[23] The annual work plan and the Ministry of Finance's fiscal policy statement are deliberated by the National Parliament in May. Agreements achieved in the deliberations, Cabinet pronouncements of general budget priorities, and the Ministry of Finance-issued indicative budget ceilings are used by the line ministries and agencies to prepare their annual budget proposals. The parliamentary commissions consider their relevant ministries' and agencies' budget proposals in June, and results are submitted to the Ministry of Finance in July. Around August, the Cabinet submits the draft state budget to the Parliament for deliberation and approval.[24] The Parliament approves the budget by unit of organisation, type of expenditure, function, programme and activity.[25] The President issues a regulation on budget details in November, and ministries and agencies revise their annual work plans and prepare their budget execution documents in December (World Bank, 2007, p. 101).

Indonesia is implementing three key reforms in relation to the central budget process: unifying the budget so that previously excluded items are included, such as subsidies; implementing performance-based budgeting; and commencing medium-term expenditure frameworks.[26] However, the budget system still has many flaws. To date, the budget formulation process has focused more on inputs than on implementing the government's political priorities, and the system is highly inflexible (World Bank, 2007, p. 102). Accountability mechanisms remain weak in practice, and the audit process is complex and not independent. For example, the Parliament has a limited role in accountability (World Bank, 2007, p. 106), and its deliberations of the budget focus on approving or rejecting individual line items and not whether the budget translates the government's political priorities into outcomes for citizens.

3.2.2. Regional-level budget process

Following decentralisation, the central government passed a number of regulations governing the regional budget process.[27] Regional governments must undertake performance budgeting and develop medium-term expenditure frameworks. Participatory planning and community input are mandated parts of the budget process. Community consultation meetings, *musrenbang*, have been held in relation to local planning processes since the Soeharto years, but have now been mandated by regulation.[28] In the development planning process, *musrenbang* are typically held in January each year at the village level and in April or May at the regional level. *Musrenbang* aim to be a deliberative forum where government and non-government stakeholders express aspirations and negotiate differences in order to reach consensus on identifying and prioritising community development policies (USAID, 2008; problems with the process are also canvassed on pp. 5-6). The regional government should use the outcomes from the *musrenbang* process along with sectoral plans to develop the region's development plan along with potential funding sources. The plan is considered in the provincial-level *musrenbang* which in turn feeds into the provincial development plan, and ultimately the national budget process (SMERU Institute, 2008, p. 35).

Budgets are being unified with the inclusion of more revenue sources in the budget. Enhancing vertical accountability and transparency, all revenue from the central government (other than deconcentrated funds)[29] as well as own-source revenue must be included in regional budgets, and all use of the funds must be justified to the regional parliaments.

In reality, an average of less than 10% of regional revenue comes from regional taxes and service fees.[30] Most of the regional governments' revenue comes from the central government and is designed to reduce regional wealth disparities. This "balancing fund" is made up of three parts: *i)* shared revenue which includes property and income taxes imposed by the central government and revenue from natural resources; *ii)* a general allocation grant (not earmarked); and *iii)* special allocation grants (earmarked to finance areas of national priority) (World Bank, 2007, p. 119). The domestic accountability structures applying to grants are canvassed below, to help understand the local conditions into which budget support would be provided.

Despite significant reforms, the World Bank states that, in practice, the regional budget process is not yet transparent or accountable. A joint central government and World Bank study to measure the performance of the average region against the standards set by law showed that less than half of the regions meet nine standards in finance management, ranging from planning and budgeting to reporting and external oversight (World Bank, 2007, p. 126). Some of the findings of the study can be explained through the lens of the three aspects of accountability described in Section 2 above.

First, in relation to transparency, the required reporting of financial information from the regions to the central government is irregular and incomplete, let alone disclosure of fiscal information to the public (World Bank, 2007, p. 126). This brings risks of financial mismanagement ranging from corruption, inefficient use of fiscal resources and misallocation of central government-provided funds (World Bank, 2007, p. 126).

Second, with respect to answerability, although performance-based budgeting does have the potential to improve accountability for results to regional populations on the expenditure side, to date implementation has been weak due to limited technical capacity of regional governments and conflicting regulations and directions from central ministries (World Bank, 2008b, p. 75). The cumbersome budget processes described above result in delays and uncertainties for regional governments.The central Ministry of Home Affairs must authorise provincial budgets, and provincial governments in turn must authorise district budgets, which delays regional government disbursements.[31]

Revenues from the central government tend to come late in the fiscal year and are often unpredictable and not fully expensed.[32] This has impacts on regional governments which have to review their spending plans and delay programme implementation. Expecting central government transfers, regional governments rarely use own-sourced revenue on areas of priority, such as health and education (World Bank, 2007, p. 128). The result is that the participatory and performance-based regional budgeting process does not effectively translate into development outcomes for citizens.

Third, in relation to controllability, the State Audit Agency only regularly audits around 60% of regional governments partly due to lack of resources. Where regions are audited, the reports are submitted to the regional parliaments but significantly not disclosed to the public. Accordingly, it is not surprising that audit findings are rarely followed up and that corrupt practices are not punished (World Bank, 2007, p. 127). The study sponsored by the World Bank recommends that "financial information on budgetary performance and allocations, and the enforcement of accounting standards, would enhance accountability mechanisms inside local governments and across levels of government" (World Bank, 2007, p. 127).

3.3. Granting mechanisms

Having canvassed the central and regional budget processes in broad terms, the different mechanisms to allocate grants to regional governments will be outlined, with particular focus on the new on-granting mechanism that would be used to provide budget support.

3.3.1. Existing granting mechanisms

The un-earmarked general allocation grant mentioned above has two components: a lump sum which covers public service wages, and a sum calculated on an individual region level to cover the difference between fiscal capacity and expenditure needs. This grant will not be considered in great detail, as the experience with implementing the special allocation grant has more relevance for explaining the new on-granting mechanism. Suffice to say that the general allocation grant's lump-sum component serves to reduce the vertical accountability of regional governments to their citizens because priorities are not set with a participatory process, and that it reduces the incentive for regional governments to increase efficiency of the regional governments (for example, an increase in public service efficiency bringing down salary costs would reduce the lump sum received by that region) (World Bank, 2007, pp. 120-121).

Special allocation grants are usually earmarked by the central government for health, education, infrastructure development, local industry or the environment. Funds are provided from the central government budget and included in regional budgets. Regions must also provide matching funding equivalent to at least 10% of the grants to provide for operational costs.[33] The amount of the special allocation grant is determined by the central government by considering the overall fiscal position of a region, its level of underdevelopment, conflict and natural resources, plus criteria set by the relevant central government ministries.[34] The impacts on accountability of the special allocation grants will be taken up in Section 4 because they are particularly relevant to an attempt to predict the impact on accountabilities of the new on-granting mechanism.

Not included in regional budgets but impacting upon regional development spending are deconcentration funds. These funds are provided directly by central line agencies to their counterpart sectoral agencies at the regional level. These funds are generally decreasing in significance and will soon be channelled through general allocation grants (World Bank, 2007, p. 125); however, they remain a significant source of funding in Gorontalo, and the impact of these funds on accountabilities will also be discussed in Section 4.

3.3.2. New on-granting mechanism for budget support

The on-granting mechanism recently established by the Indonesian government must be used for all donor funds, including budget support, being provided to regional governments. Given that, under decentralisation, it is now regional governments that are responsible for policies that have the most impact on poverty, including service delivery, many donors including Australia are looking to target their assistance to the regional level. Even though Indonesia is now categorised as a middle-income developing country, there remain huge disparities in wealth across the country, with some provinces' poverty levels at low-income developing country levels (Commonwealth of Australia, 2008, pp. 2-3). Accordingly, donors are able to use the on-granting mechanism to target their aid to the poorest areas while supporting the decentralisation process.[35]

Although all the on-granting regulations have not yet been tested in practice, the process on the face of the regulations will be outlined.[36] Under the current regulations, two agreements must be negotiated before funds can be on-granted, establishing two lines of accountability. The first agreement is between the central government and the donor, and the second between the central government and the relevant regional government.[37]

***a)* The agreement between the central government and the donor.** The first step is to select a proposal for development activities using foreign funds. A regional government can submit a proposal to the central Ministry of Planning.[38] A proposal must relate to activities to improve governance functions or the provision of basic services, to protect natural or cultural resources, to support research and technology and/or to provide humanitarian assistance.[39] The Ministry of Planning evaluates the proposal in terms of the President's Plan of Priorities for Foreign Loans and Grants (although exactly how this Plan is formulated is unspecified) and the Medium-Term Development Plan (the central government's five-year development plan).[40]

The Minister of Finance should then approach foreign donors with selected proposals.[41] Where commitments are made, the relevant regional government prepares an activity plan.[42] After all the preparations are complete – including finalising monitoring and evaluation indicators, baseline data, matching grant allocations, any necessary land acquisitions and project management plans – the agreement between the Minister of Finance, in consultation with the Ministry of Planning and the Department of Foreign Affairs, and the donor is negotiated.[43] The foreign grant and matching funds must be included in the national budget or, if it has already been passed, in an amendment[44] as well as in the region's budget.[45]

***b)* The agreement between the central government and the regional government.** The agreement between the central government and the relevant regional government must be finalised within two months of the head agreement.[46] This second agreement must specify the purpose, amount, source and donor of the grant, any conditions, and the requirements for reporting and monitoring of the grant.[47] As the grant and matching funds must be included in the region's budget, reporting must mirror the reporting for all other government finances.[48] The money flows first from the donor to the Ministry of Finance, and then the Ministry of Finance on-grants the funds to the region.[49] The central government can cancel the grant if there is a breach of any provision in the agreements.[50]

The regulations mandate that the receipt of the grant must be managed and implemented transparently and accountably through the regional budget process.[51] The regional-level agreement must be provided to the Ministry of Finance, the Ministry of Planning and the financial auditors.[52] The regional government is also required to report to the central government quarterly about the progress of the activities and expenditure of the grant.[53] The central government is to conduct quarterly monitoring and evaluation of the use of the funds, the progress of activities and compliance with the agreements.[54] Internal and external monitoring institutions can monitor the implementation of the grant.[55] Although details are not given about how this oversight could be done, the Minister of Finance is to publish information about foreign-funded grants including the amount, type and source of grants, any conditions imposed, reporting and oversight requirements, rights and responsibilities of the grantor and grantee, and any sanctions included in the agreements.[56] It is not specified in the regulations, however, how the public can access this information.[57]

How the on-granting mechanism may work in practice remains untested.[58] For example, the regulations do not clarify horizontal accountabilities between the Ministry of Finance and the sectoral agencies. However, given donor interest in supporting decentralisation, targeting regional inequities and moving to donor support modalities, the use of the on-granting mechanism is likely to become very significant.

4. How might the on-granting mechanism impact on accountabilities in Gorontalo?

In light of the considerable financial information available on Gorontalo and donor interest in providing budget support to regions within the province, this article will analyse Gorontalo's public financial management structures. The impacts on accountabilities of existing grant mechanisms will be investigated, to raise issues relevant for the implementation of the new on-granting mechanism.

4.1. Gorontalo and the provision of budget support

Gorontalo is a newly established province[59] consisting of six regions in the northeast of the island of Sulawesi. Gorontalo was the poorest area in Indonesia but, after it was established as a separate province, the additional resources received from central government general allocation grants and deconcentrated spending by line ministries have raised income levels. Nevertheless, Gorontalo has the third-lowest per capita gross regional domestic product in Indonesia, with public service delivery and socio-economic indicators continuing to be weak (World Bank, 2008b, pp. 2, 3, 19).[60]

Despite this situation, Gorontalo has made significant progress in terms of public financial management reforms which make it a popular contender for receipt of development assistance through budget support. Reforms include streamlining the bureaucracy and improving institutional capacity (World Bank, 2008b, p. 8). Some regions in Gorontalo have made improvements to budget transparency, have issued regulations on access to information and have established one-stop government service offices.[61]

As Gorontalo offers significant lessons learned for other provinces, it has been the subject of a World Bank public expenditure analysis (World Bank, 2008b). Gorontalo performs well in terms of public financial management relative to other provinces, although its constituent regions do not rate quite as highly, largely due to lack of capacity (World Bank, 2008b, pp. 72-73). Nonetheless, the World Bank analysis found that the regions in Gorontalo perform well in reporting, auditing and supervision, partly due to strong public expenditure capacity and monitoring at the provincial level (World Bank, 2008b, p. 8).

Given its significant poverty levels but progressive government, Gorontalo is a likely contender for trial budget support programmes. A pilot programme being considered by several donors would aim to improve the quality of public service delivery and public financial management of selected regions by providing incentives to regional governments. Budget support would be provided via the on-granting mechanism to high-performing regional governments where certain additional improvements in financial management performance are achieved. The provision of technical assistance would also be considered to support implementation of the reforms.

4.1.1. Existing public financial management and accountability structures in Gorontalo

Gorontalo's regional governments have not yet provided quality development outcomes for their citizens. The regions tend to run budget surpluses, and per capita expenditure is well below the national average (World Bank, 2008b, p. 34). Further reducing spending on public services and other development objectives, one-third of the money spent is spent on government administration. Spending on education has decreased, as will be discussed below, but remains the second largest item of expenditure at 20% of spending, followed by infrastructure at around 15% (World Bank, 2008b, p. 36). Of revenue that is included in regional budgets, over 80% consists of general allocation grants (World Bank, 2008b, p. 22). Special allocation grants to Gorontalo, making up about 10% of regional budgets, have primarily been used to finance education and health programmes and the construction of roads (World Bank, 2008b, p. 26). However, not included in the budget is a particularly high level of deconcentrated funds received by regional line agencies directly from their central government counterparts.

Deconcentrated spending grew from 24% of regional spending in 2002 to 60% in 2006 (World Bank, 2008b, p. 34) and now represents the sixth-highest figure in the country (World Bank, 2008b, p. 41). Most is spent on education, infrastructure, health and agriculture (World Bank, 2008b, p. 42). The high level of deconcentrated spending has a number of impacts. First, central line agencies play the major role in determining spending priorities in Gorontalo. Second, although regional budgets have been increasing, regions are spending an increasing percentage on government administration and a decreasing percentage on social services, particularly education, reflecting the fact that these funds come from the separate pool of deconcentrated funds (World Bank, 2008b, p. 4). For example, 35% of regional expenditure was spent on education in 2002, but in 2006 this percentage had decreased to around 27%, reflecting a 300% increase in deconcentrated spending on education during that time period (World Bank, 2008b, pp. 36, 50). Accordingly, Gorontalo's education sector now relies on central government funding for three-fifths of its education spending (World Bank, 2008b, p. 50).[62] Third, and most significantly, high levels of deconcentrated funds do not promote accountability as they are not included in the regional budget planning and accountability processes, which provides little incentive to increase regional-level leadership of sectors crucial for development and poverty reduction.[63]

With respect to the remaining revenue sources that must be reflected in regional budgets, Gorontalo has implemented a number of reforms in its budgeting process. In line with the nationally mandated regional planning system,[64] regional governments must draft long-term (20 years), medium-term (five years) and annual plans (World Bank, 2008b, p. 74). Performance-based budgeting, discussed above, was initiated in Gorontalo in 2003 (World Bank, 2008b, p. 76). In addition to audits by the State Audit Agency,[65] Gorontalo implements its own comprehensive audit procedures at the provincial and regional levels.[66]

Gorontalo's participatory approach to its budget formulation process has significant vertical accountability benefits. In addition to the series of *musrenbang* starting at the village level, feeding into the regional level and then the provincial-level planning processes, the parliament also conducts a community consultation process called *jaring asmara*. Another notable reform in Gorontalo is the holding of talk shows broadcast on public radio hosted by regional and provincial government officials who talk with citizens. However, although significant levels of consensus are reached on developing the short-term development plan and government priorities, the translation of these priorities into realistic budget allocations remains weak, due to the lack of technical capacity of local government officials (World Bank, 2008b, p. 75).

4.1.2. Special allocation grants and potential on-granting impacts on accountabilities

Although there is no available research that specifically analyses the impact on accountabilities in Gorontalo of special allocation grants, described in sub-Section 3.3.1 above, research across Indonesia helps to raise issues that may point to limited positive accountability impacts and effectiveness of the on-granting mechanism.

In theory, the special allocation grants could improve accountability by shifting the responsibility for implementing the activities funded by the special allocation grants to the regional level, and therefore closer to citizens. Co-ordination should be improved, as regional governments must form an integrated team to manage the planning, implementation, reporting and monitoring of activities and ensure that they do not overlap with other development programmes (SMERU Institute, 2008, p. 14).[67] Promoting transparency, the regional executive should also issue a budget implementation statement for the special allocation grants (SMERU Institute, 2008, p. 14). However, despite these regulatory requirements and significantly for the new on-granting mechanism, in practice the special allocation grants can have negative implications for accountability.

***a)* Lack of policy co-ordination and local ownership of priority sectors.** There is little horizontal accountability or policy coherence in relation to how special allocation grant funds are allocated. As a result, the funds tend to be scattered across many sectors and attempt to serve a variety of purposes, from general poverty-reduction activities to the achievement of specific standards of minimum service (World Bank, 2007, p. 123; SMERU Institute, 2008, p. iv).

Although regions are empowered by legislation to submit proposals for special allocation grant funds, regions in reality have little input into the allocation of special grants. Proposals that may be submitted by regional governments only relate to the overall special allocation grant for that region; they cannot propose specific activities (SMERU Institute, 2008, p. 19) and, in any event, regions would have limited ability to develop proposals before they know the amount of their allocation. A provincial government official stated that regions "have little influence over DAK [special allocation grant] allocations, as these are pre-determined at the central level" (World Bank, 2008b, p. 68). Others say that, even where proposals are sent to central line agencies, there are no mechanisms in place to consider them (SMERU Institute, 2008, p. 10). Central government officials have said that the bottom-up mechanism of proposals being received from regional governments was trialled, but the proposals were overly ambitious and poorly justified, so the central government reverted to the top-down approach where the grant allocations are centrally determined (SMERU Institute, 2008, p. 37). Despite this centralised approach, the Ministry of Planning has found that special allocation grant-funded activities have rarely conformed to the annual government work plan (although this situation is reported to be improving; SMERU Institute, 2008, p. 12).

It could be predicted that the weakness of policy co-ordination evident at both the central and regional level with respect to the special allocation grant and the lack of regional government ownership are likely to cause similar problems for the accountability of the on-granting mechanism. Proposals relating to the on-granting mechanism could be similarly ignored and the process could become centrally dominated.

***b)* Lack of transparency.** Other government officials state that the process of allocating funds is not transparent[68] and that regions lobby Jakarta to receive larger special allocation grants (SMERU Institute, 2008, pp. iv, 36). Bargaining between central agencies and regional government officials is said to occur. One region even admits to hiring a company to lobby Jakarta for the special allocation grant in the maritime affairs and fisheries sector in return for a fee equivalent to the value of 10% of the grant allocated (SMERU Institute, 2008, p. 39). Parliamentarians are also said to broker allocation deals in the interests of their electorates (SMERU Institute, 2008, p. 37). Given the power of the central government to determine which regions receive what foreign funds and to cancel grants made under the on-granting mechanism, and given the general lack of transparency in the budget process (discussed in sub-Section 3.2.2 above), the avenues for lobbying and corruption are potentially even greater than is reportedly the case for the special allocation grants. As an integral component of accountability, lack of transparency will have negative implications for accountability.

***c)* Undermining the aims of decentralisation.** Despite the provision of substantial special allocation grants to certain sectors, the expenditure and development outcomes achieved by regional governments in those sectors continue to be weak (SMERU Institute, 2008, p. 34). As the number of sectors to which the grants have been provided have increased in line with expanding development priorities of the central government, the regions have correspondingly lost authority in those sectors as they continue to be fiscally dependent on central government grants. This has had negative implications for the progress of the decentralisation policy and regional governments' vertical accountability for results to their citizens (SMERU Institute, 2008, p. 34).

Further restraining vertical accountability gains of decentralisation, the authority of regional governments could be reduced further under the on-granting mechanism as they have considerably less control over the allocation of funds, which are essentially agreed between the donor and the central government. The President's plan of priorities is set at the central level, but it is at the regional level that policies and programmes are implemented. This disconnect would reduce regional government ownership of the policies, impacting negatively on accountabilities and development outcomes (Alonso *et al.*, 2006, p. 168). This problem may be magnified in Gorontalo where the regional governments' ownership of policies in key sectors crucial for development has already been eroded by the high levels of deconcentrated funds. Adverse incentives and targeting are likely to result, as is apparent with existing grants as funds are not necessarily expended on areas set as high priorities by the regional government.

***d)* Creating further delays and administrative costs.** In relation to horizontal accountability, given the power struggles and weak co-ordination between agencies and the cumbersome budget process described above, delays frequently occur in the central government's allocation processes that can cause delays in regional budget processes (see sub-Section 3.2.2 above). Due to the complicated and opaque calculation process, it is difficult for regions to estimate the allocation they may receive, which means that regions often need to resubmit the agreed budget to the regional parliament, with significant resource implications (SMERU Institute, 2008, pp. 19, 23). Adding other layers to the approval process with the on-granting mechanism – namely the donor government's domestic budget process and the negotiation of the two agreements – would likely increase delays and problems for regional governments' planning and timely expenditure and programme implementation.

***e)* Lack of oversight and evaluation.** Reflecting the general lack of reporting of financial information discussed above (see sub-Section 3.2.2), regions rarely report back to the central government on their use of the special allocation funds (SMERU Institute, 2008, p. iv)[69] – even though this is required by regulation and the distribution of funds to regions can be deferred until a region fulfils its reporting requirements.[70] Where regions do send reports on activity progress to the Ministry of Finance, they rarely receive any feedback or follow up (SMERU Institute, 2008, p. 45). There is no reason to be confident that compliance with the reporting, monitoring and evaluation requirements for on-grant funded activities would be any better than for special allocation grants; in fact, demand from the central government for compliance with these regulations may be weaker, as the funds are not their own. This situation would support neither vertical nor horizontal accountabilities.

***f)* Undermining public financial management reforms.** With respect to vertical accountability, as the special allocation grant is part of a region's budget, the government must go through the regional budget process outlined above. The *musrenbang* process encourages community participation in the development process even though critics say that in practice the *musrenbang* tend to be elite-dominated and that women's voices in particular are often excluded (SMERU Institute, 2008, p. 35). More fundamentally, the determination of the special allocation grants is not linked to the *musrenbang* process, but rather to criteria stipulated by the central government (SMERU Institute, 2008, p. 35). Similarly, even though the on-granted funds should be managed in the same way as other on-budget funds, the central government dominated nature of the on-granting mechanism means that these funds and activities would essentially be outside the *musrenbang* process. This situation is particularly crucial for Gorontalo, a province that has made notable gains in community participation processes that risk being undermined by the on-granting mechanism.

5. Lessons for the provision of budget support to a regional government in Indonesia

5.1. *Ongoing understanding of local political, economic and social dynamics is crucial*

The above discussion of the complex nature of the accountabilities present in a decentralised environment indicates that it would be near impossible to predict how the delivery of development assistance through budget support would impact on the local accountability structures and political dynamics in Gorontalo without a thorough analysis of existing governance structures. Without this understanding, the provision of budget support could lack effectiveness, such as by not contributing to development outcomes with poor priority setting and policy co-ordination, or could inadvertently work to undermine functioning accountability structures, such as implementation of the decentralisation policy, budget reforms and community consultation mechanisms, or could promote avenues for corruption. Although some of these problems could be overcome with good design, others may require broader change, such as revisions to the on-granting mechanism.

It must also be recognised that provision of budget support to Indonesia would inevitably shift political balances of power, for example by increasing the power of the Ministry of Finance at the expense of the line ministries and decreasing incentives for the latter to be vertically accountable for poverty-reduction outcomes (Koeberle and Stavreski, 2006, p. 14). This imbalance could cause tensions between ministries, at least in the short term (Development Information Services, 2006, p. 108). Accordingly, analysis of local dynamics must continue after the provision of budget support has commenced in order to monitor impacts on accountabilities so that programme design can be adjusted where necessary to avoid negative impacts.

Recognising that budget support occurs in a political context, donors must also acknowledge that the context can change rapidly. As budget support uses the government's own systems, these programmes are clearly identified with the government of the day. In this way, the support can be politically vulnerable as the donor is closely identified with the government. Upon a change of administration, not only must the relationship of partnership and trust be rebuilt, but the donor or its programmes may be terminated as the new government stamps its own brand on popular development programmes (DFID, 2007c, p. 31, paragraph S57). This risk is heightened when donor support has been publicly identified with a high-profile government programme.[71] Accordingly, donors should also consider alternative avenues of support, such as to civil society organisations.

5.2. A relationship of trust should be developed between the donor and the regional government

Budget support has been found to be more effective where there is a relationship of trust between representatives of the donor and the partner government (Mosley and Abrar, 2006, p. 311). Trust is encouraged from the experience of negotiating (Mosley and Abrar, 2006, p. 312). However, in the case of Indonesia's on-granting mechanism, the negotiation is two-fold – between the donor and the central government on the one hand, and between the central and local governments on the other – reducing the likelihood of the trust relationship developing between the donor and the recipient of the funds.

Further challenging the building of relationships of trust, the choices of regions to fund are always political (Devarajan and Shah, 2006, p. 387). Such choices may result in competition between regions[72] for on-granted funds, which may encourage regions to accelerate reforms in public financial management as has been achieved in Gorontalo. However, the choice of where to focus scarce development resources will likely reflect the political priorities of the central government and possibly even the donor country in preference to considering the relevant local dynamics and needs of target regions. Central-level co-ordination and determination of national priorities are clearly important, but donors should be mindful of these political dynamics and also seek to develop an effective relationship of trust directly with the partner government at the regional level.

5.3. Lack of attention to the demand side is likely to limit accountability benefits

Prior to a decision to design a programme to provide budget support, not only the supply side of the public financial management system should be analysed but attention must also be paid to analysis of the demand side.[73] Details of how citizens access and process information and express their voices must be researched and analysed. Making budget information publicly available does not mean that the information will automatically be accessed and analysed. It is important to provide support to develop the capacity of external stakeholders, such as the regional parliaments, the media or civil society more broadly, to access and analyse available information and to lobby and monitor implementation of government programmes (Development Information Services, 2006, p. 116).[74]

By placing so much support in government systems to provide budget support, it may be politically difficult for budget support donors to fund some civil society organisations or other stakeholders who could criticise the government and its budget process.[75] In this way, it is foreseeable that the desire to build trust between the partner government and the donor may actually discourage support for other elements that are vital to an accountable regional government budget process. However, without support to the demand side of vertical accountability, gains made on the supply side may not be capitalised upon to the full extent possible.

5.4. Revenue-raising ability is also important

Failing to adequately address the equitable and effective revenue-raising capacity of regions will also limit the benefits of any improvement in accountabilities brought by budget support. Providing foreign funds through the on-granting mechanism is likely to exacerbate the existing disincentives for regions to source and collect their own revenues resulting from high levels of central government support leading to regional budget surpluses. This situation encourages regions to be fiscally dependent on funds from the central government or donors which, as discussed above, is contrary to the aims of decentralisation to make local government more accountable to its citizens.

"The exercise of citizen influence over state revenue and expenditure lies at the heart of effective democracy" (Moore, 1998, p. 85). Supplying funds by budget support may have the potential, when implemented in ideal circumstances, to promote accountability in spending priorities between the people and the government – certainly more so than donors directly funding projects and bypassing the government's own budget processes. However, governments should also be accountable to the people regarding the origin of the funds. By placing funds on budget, the source of revenue is made public and the government is required to disclose the source of funds provided through the on-granting mechanism. However, where a government derives revenue from development assistance, it is likely to have privileged information about the funds and how they are to be used, channelled and accounted for. Citizens may not have access to all this information, and the government can use its privileged position to control the policy agenda.

> Members of the legislature and the public have little opportunity to acquire or develop knowledge about public finance because so many decisions are taken in closed, privileged arenas where leading representatives of the state negotiate with major income providers (Moore, 1998, p. 98).[76]

Significantly, research indicates that on a continuum between revenue that is earned (for example, through imposing and collecting income taxes) and revenue that is unearned (for example, grants from donor countries), where most revenue comes from earned sources, the government is more likely to be accountable and responsive to the people (Moore, 1998, pp. 85, 94). This makes intuitive sense – people are more concerned about the effective use of their own money than someone else's, for example foreign donor funds. It follows that budget support programmes should include a strategy as to how regional governments will be able to overcome disincentives to raise this revenue themselves.

These arguments raising potential issues with budget support are far more significant where the amount of assistance provided is a high proportion of a regional government's budget, as the problems above are magnified. Yet even where funds provided through budget support would be a small percentage of a region's budget, donor governments should not only look to create incentives on the expenditure side, but should also assist partner governments to develop their capacity on the revenue side (Moore, 1998, p. 110). Poor people pay informal fees for many public services that would be more accountable if channelled through the formal tax system and the budget. This is where external accountabilities come into play, as donor-funded programmes to support revenue raising in developing countries could easily be misconstrued as increasing taxes on the poor – and therefore disadvantaging them – even though these revenues are more likely to be used for public services that should favour the poor.

It could be said that the extension of this argument is that all development assistance creates dependence at some level and should be ceased in favour of partner governments "going it alone". However, this article does not argue that developed countries should not assist developing countries. Huge inequalities in income across the world mandate the need for funds and technical assistance to flow from rich to poor countries. However, this article has shown that budget support alone, while an improvement on project-based aid, will not necessarily have positive impacts on accountability and hence improve development outcomes. Gains in vertical accountabilities through budget support may be limited where corresponding attention is not paid to the development of regional government autonomy on the own-source revenue side. If this is taken seriously, it may have challenging consequences for donor countries that may need to take a more honest look at how the systems of international trade, labour mobility and incentives for foreign direct investment impact on the revenues of developing countries.

6. Conclusion

In theory, providing development assistance through budget support has the potential to improve accountabilities and to result in more sustainable development outcomes than is the case with more traditional project-based forms of aid. Policy co-ordination and ownership by the partner government should improve, with expenditure priorities set by partner governments rather than dictated by external accountability to donor countries. Vertical accountabilities, particularly in a decentralised country, should be strengthened as the partner government is directly responsible to citizens for expenditure outcomes.

However, the above examination of the provision of grants to the province of Gorontalo shows that the potential impact of budget support on accountabilities must be interpreted in the particular political and fiscal context of the target area, whether a country or a region of a country. In Gorontalo, it is foreseeable that funds provided through the on-granting mechanism, if they do not take its peculiarities into account, could undermine the region's initiatives in public financial management reform and authority over service delivery and revenue raising, thereby weakening the decentralisation process and vertical accountabilities.

Increasing accountability is not a straightforward aim, as choices to strengthen certain lines of accountability over others are political and must be deliberated in full consideration of all the relevant political and fiscal dynamics. Donors must not succumb to a decision to provide assistance via budget support just because it presents a simpler way to deliver more development funds without a commensurate increase in administrative costs, because evaluations of some examples of budget support have had positive impacts on accountabilities, or to assuage guilt over the inequalities of the global system. Accountabilities are highly political and context specific, and the provision of budget support must be carefully examined on a case-by-case basis.

As well as ensuring that no harm is done, context-specific analysis could be used to promote some positive impacts on accountabilities from providing budget support. However, there are inherent limitations in budget support programmes that donors must address in order to more effectively promote accountabilities. Donors may need to consider providing assistance in more politically sensitive areas. For example, robust support to civil society to challenge the government's financial management processes and assistance to improve regional governments' revenue collection capacity may need to complement budget support programmes in order to promote accountabilities and lead to the attainment of more sustainable development outcomes.

Notes

1. Many different terms are used to describe countries, including “poor”, “Third World”, “South” and “developing” on the one hand, and “rich”, “First World”, “West”, “North” and “developed” on the other. This article will use the terms “developing” and “partner” countries. The first choice is not an endorsement of modernisation theory, nor any other. The second, used to refer to the recipient of foreign funds, reflects a movement in development circles away from post-colonial language to language denoting aims to reflect more equal relationships. It should also be noted that the concept and definition of development is subject to much debate, which is beyond the scope of this article. “Partner government” is used to refer to the recipient of foreign assistance and could be used to refer to the central or local level.
2. The recurrent budget captures ongoing revenues (such as taxes) and expenditures (such as wages and rent) necessary to keep the economy going.
3. The capital budget consists of the government’s spending on non-recurring items such as infrastructure.
4. Contrast with a SWAP which provides budget support earmarked to activities in a particular sector.
5. International Conference on Financing for Development (Monterrey Consensus), Mexico (2002) at paragraph 42, although the target has been affirmed in many international agreements since it was first set by a United Nations General Assembly Resolution in 1970.
6. Civil society organisations can include non-government organisations, media, community-based groups, etc. Civil society is not inherently inclusive and representative and, just as occurs in developed countries, these groups can also represent narrow special interests in developing countries.
7. Indonesia has three main tiers of government: central level, provincial level and regional level (the latter called *kabupaten* and *kota*). Accountability between different levels of government also has aspects of vertical accountability, as decentralisation can boost or detract from the vertical accountability between the central or regional government on the one hand, and citizens on the other.
8. Sometimes called “upwards accountability”, but this can be confusing in a decentralised environment so “external accountability” will be used.
9. Specifically, under the “Accra Agenda for Action” (Third High-Level Forum on Aid Effectiveness, 2-4 September 2008, paragraph 15[e]), donor members agreed to aim to channel 50% of assistance through partner countries’ fiduciary systems.
10. Interesting empirical research indicates that the tension between accountability to a donor’s country’s constituents and partner country beneficiaries is affected by the quality of vertical accountability mechanisms **within** donor countries. These mechanisms have been found to be an important factor in the delivery of effective development assistance. Where political institutions are democratic and transparent in a donor country, the government tends to be more orientated to society’s interests. This also extends to external interests – a donor country is also interested in stable, democratic and prosperous neighbours – so donors with strong domestic vertical accountability mechanisms are more likely to deliver quality development assistance. Poor development assistance is often blamed on pressures from narrow domestic interest groups such as the aid or trade industries. In a vibrant democracy of the donor country, the power of particular special interests groups is reduced, so improved democratic accountabilities tend to encourage more effective foreign development policies and priorities. See Faust, 2008, pp. 383-384.
11. One way to manage this last tension is to use joint monitoring and evaluation systems, led by the partner government but supported by technical assistance from the donor country. However, this presents further difficulties for budget support modalities, as the number of donors and the partner government contributing to a broader pool of budget funds make it hard to attribute a particular outcome to a particular donor government’s funds.
12. It must be acknowledged that measuring the impact of development assistance on accountabilities and development outcomes is a hugely difficult task.
13. Indonesia is also one of the most electorally competitive countries in the world, evidenced by the fact that 43% of incumbents in provincial and regional elections lose their positions when running for re-election (MacIntyre and Ramage, 2008, p. 10).
14. Describing the horizontal accountability mechanisms promoted by budget support over other development assistance modalities: “Finance ministries should demand that sector ministries deliver sustainable development results, line ministries have an interest in receiving adequate

funds on a regular basis, supreme audit authorities monitor the proper use of public funds, and parliaments can hold governments accountable for delivering on their promises" (Koeberle and Stavreski, 2006, p. 21).

15. The Paris Declaration warns against the imposition of parallel systems, such as separate monitoring and evaluation systems (High-Level Forum on Aid Effectiveness, 2005, paragraphs 17 and 45). Also see Koeberle and Stavreski, 2006, p. 8.
16. Law No. 22 of 1999 on Regional Governance (later replaced with Law No. 32 of 2004) and Law No. 25 of 1999 on Fiscal Balance between Central and Regional Government (later replaced with Law No. 33 of 2004).
17. This has not been borne out in practice yet, but it is still early.
18. Administrative decentralisation is defined as "the transfer of power from the higher to lower hierarchy of the same organisation" (Alicias *et al.*, 2007, p. 60).
19. Law No. 32 of 2004 on Regional Governance and Law No. 33 of 2004 on Fiscal Balance.
20. Provincial governments have little power but do form a co-ordination role for regions in their jurisdiction.
21. Law No. 33 of 2004 on Fiscal Balance, Articles 4, 66, 67.
22. Law No. 22 of 1999 on Regional Governance, Article 16(2).
23. Law No. 25 of 2004 on National Development Planning Systems, Article 25; Law No. 17 of 2003 on State Finance, Article 12.
24. Law No. 17 of 2003 on State Finance, Article 15; World Bank, 2007, p. 100.
25. Law No. 17 of 2003 on State Finance, Article 15.
26. Law No. 17 of 2003 on State Finance.
27. The major regulations are outlined in World Bank, 2007, p. 125.
28. Law No. 25 of 2004 on National Development Planning Systems; the Ministry of Planning and the Ministry of Home Affairs issued Joint Circular No. 0259/M.PPN/I/2005.050/166/SJ on Technical Guidelines on the Organisation of Development Planning Community Consultative Meetings.
29. The central government continues to provide deconcentrated funds to regional governments but this is being phased out by law (Law No. 33 of 2004 on Fiscal Balance, Article 108). These funds will be instead channelled through the special allocation grants (World Bank, 2007, p. 123).
30. About half of this amount is lost to administrative costs (World Bank, 2007, p. 124). Most own-source revenue comes from hospitality and electricity taxes, and fees for building permits and use of health services and public markets (World Bank, 2007, p. 124).
31. Law No. 32 of 2004 on Regional Governance.
32. In fact regional governments tend to significantly underspend their budgets (and of the money spent, on average more than 30% is spent on government administrative costs as opposed to public services).
33. Law No. 33 of 2004 on Fiscal Balance, Article 41.
34. Law No. 32 of 2004 on Regional Governance and Law No. 33 of 2004 on Fiscal Balance; World Bank, 2008b, p. 26; SMERU Institute, 2008, p. 1.
35. Under the new country strategy agreed between Australia and Indonesia, development assistance will focus on regions in five of the poorest provinces (Commonwealth of Australia, 2008, p. 6).
36. The way the mechanism may work in practice may not follow the letter of the law.
37. Presidential Regulation No. 2 of 2006 on the Provision of Loans and Grants and On-granting.
38. Presidential Regulation No. 2 of 2006 on the Provision of Loans and Grants and On-granting, Article 7.
39. Ministry of Finance Regulation No. 168 of 2008 on Regional Grants, Article 10.
40. Presidential Regulation No. 2 of 2006 on the Provision of Loans and Grants and On-granting, Article 9 and Article 7 elucidation.
41. Presidential Regulation No. 2 of 2006 on the Provision of Loans and Grants and On-granting, Article 11. Or, where a region has a proposal which has received a funding commitment from a foreign donor, the regional government can submit the proposal to the Ministry of Finance requesting it be included in the regional activity plan (Article 16[2]).

42. Presidential Regulation No. 2 of 2006 on the Provision of Loans and Grants and On-granting, Article 11.
43. Presidential Regulation No. 2 of 2006 on the Provision of Loans and Grants and On-granting, Article 14 and its elucidation.
44. Presidential Regulation No. 2 of 2006 on the Provision of Loans and Grants and On-granting, Article 17.
45. Presidential Regulation No. 2 of 2006 on the Provision of Loans and Grants and On-granting, Article 18.
46. Presidential Regulation No. 2 of 2006 on the Provision of Loans and Grants and On-granting, Article 21.
47. Ministry of Finance Regulation No. 168 of 2008 on Regional Grants, Article 14.
48. Presidential Regulation No. 2 of 2006 on the Provision of Loans and Grants and On-granting, Article 22.
49. Details of the flow of funds are included in Ministry of Finance Regulation No. 168 of 2008 on Regional Grants and Ministry of Finance Regulation No. 169 of 2008 on the System for Channelling Grants to Regional Governments.
50. Ministry of Finance Regulation No. 168 of 2008 on Regional Grants, Article 22.
51. Ministry of Finance Regulation No. 168 of 2008 on Regional Grants, Article 18.
52. Ministry of Finance Regulation No. 168 of 2008 on Regional Grants, Articles 13, 14.
53. Presidential Regulation No. 2 of 2006 on the Provision of Loans and Grants and On-granting, Article 23; Ministry of Finance Regulation No. 168 of 2008 on Regional Grants, Article 25.
54. Presidential Regulation No. 2 of 2006 on the Provision of Loans and Grants and On-granting, Article 24.
55. Presidential Regulation No. 2 of 2006 on the Provision of Loans and Grants and On-granting, Article 25.
56. Presidential Regulation No. 2 of 2006 on the Provision of Loans and Grants and On-granting, Article 27; Ministry of Finance Regulation No. 168 of 2008 on Regional Grants, Articles 13, 14.
57. Notably, it is very hard for the public to access laws passed by most regional parliaments.
58. In 2007, the Minister of Finance established a new agency, the Directorate General of Fiscal Balance, with one of its tasks being to manage the on-granting mechanism. New regulations are progressively being issued by the Ministry of Finance to provide further clarification of the process.
59. Law No. 38 of 2000 Establishing Gorontalo as a New Province.
60. For example, junior secondary education enrolment rates in some regions are only 44% and the infant mortality rate is high at 77 deaths per 1 000 live births.
61. Interestingly and somewhat unusually for Indonesia, Gorontalo has a woman head of the regional planning department.
62. Similarly, health – like education, an area for regional government responsibility under decentralisation – is over 70% funded by deconcentrated spending (World Bank, 2008b, p. 65).
63. This percentage should decrease with these funds being channelled through special allocation grants, the relative importance of which is expected to increase from their current proportion of budgeted fiscal revenue of 10% (World Bank, 2008b, p. 23).
64. As decreed in Law No. 33 of 2004 on Fiscal Balance.
65. The provincial budget has been audited by the State Audit Agency every year since 2002 and the financial statement is published in the local press (World Bank, 2008b, p. 76).
66. Internal audits at the provincial and regional levels have revealed nearly 1 000 administrative cases regarding the misuse of budget funds or incorrect administrative procedures over five years. The majority of these cases were resolved at the provincial level, although only around 15% were followed up at the regional level (World Bank, 2008b, p. 79).
67. However, co-ordination in most regions is weak and management is dominated by the sectoral regional agencies, with the Regional Ministries of Planning playing a very limited role (SMERU Institute, 2008, p. 46).
68. Even to know what the real process is within the central government is very confusing. Officials from the Ministry of Finance, the Ministry of Planning, the Ministry of Home Affairs and sectoral agencies give different responses as to where power lies in this process. See interesting accounts in SMERU Institute, 2008, pp. 37-38.

69. Most regions do not provide their final budgets and execution reports to the central government on time (IMF, 2006, p. 23).

70. Law No. 33 of 2004 on Fiscal Balance, Article 102. Monitoring and evaluation for development activities implemented by regional governments generally are woefully inadequate. Particularly for the special allocation grants, neither the regional nor the central government allocates any budget for monitoring and evaluation. Regions are required to submit quarterly progress reports for the special allocation grant-funded activities to the central and provincial governments, but most do not do so (SMERU Institute, 2008, p. 44; Government Regulation No. 55 of 2005).

71. For example, the government of Indonesia is implementing a new National Programme for Community Empowerment, which is a programme that delivers annual block grants of USD 8 400 to the village level. The programme will gradually be "up-scaled" until it is provided to all of Indonesia's over 70 000 villages by 2010. The grants are reflected in the regional-level budget but the activities are determined through a competitive proposal process decided at the sub-district level. In the initial stages, donors who wish to assist the programme can earmark their support, for example to assist particular districts, but by 2010 all support must be un-earmarked and on budget. The Programme is closely associated with the current President, Susilo Bambang Yudhuyono. There is a risk that the national elections in 2009 will see a change in government and the programme could be cancelled. Thus donors may have to start over to develop new mechanisms through which to deliver assistance ("Program Nasional Pemberdayaan Masyarakat" [National Community Empowerment Program], *Quarterly Update* newspaper, November 2007).

72. An opposing argument is that providing budget support to regions promotes equity because funds are allocated transparently (DFID, 2007c, p. 91).

73. For the importance of the demand side for accountabilities see Sections 2.1 and 2.2.

74. For the value in checks and balances on the demand side for vertical accountability see Section 2.2 above.

75. Similarly, it may be difficult to support the private sector to provide services in place of the government, even though the private sector is a significant driver of growth and poverty reduction (DFID, 2007c, p. 28, paragraph S43).

76. In Indonesia, even though the foreign grants would be on budget, the extent of public involvement or disclosure around the agreements made between the donor and the central government – and the central government and the public – is unclear, as discussed above in sub-Section 3.3.2.b.

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