

## THE IMPLEMENTATION OF PERFORMANCE BASED BUDGETING IN PUBLIC SECTOR (INDONESIA CASE: A LITERATURE REVIEW)

Meily Surianti and Abdul Rahman Dalimunthe

<sup>1</sup>Accounting Doctoral Study Program Student, Faculty of Economics and Business, Padjajaran University, Bandung, Indonesia, Lecturer at Politeknik Negeri Medan, Indonesia

<sup>2</sup>Lecturer at Politeknik Negeri Medan, Indonesia

---

**ABSTRACT:** *The author conducted literature review to analyze and evaluate the implementation of performance-based budgeting in Indonesia. The Indonesian government has to reform government financial management since 2003 by Act No. 17 of 2003. The law governing the Integrated Budget Implementation, Performance-Based Budgeting, and the Medium Term Expenditure Framework (MTEF). Indonesia is a developing country, which has different characteristics from developed countries, so that the obstacles encountered in the implementation of performance-based budgeting differently. Based on the results of the literature review, concluded that the grand design of performance-based budgeting set by the Indonesian government in accordance with existing literature. However, various studies in Indonesia showed that the implementation of performance-based budgeting, both at the central and local governments are still not in accordance with a predetermined grand design.*

**KEYWORDS:** Performance Based Budgeting, Public Sector

---

### INTRODUCTION

Accountability remains a central issue in the field of public sector in Indonesia. As a developing country, the issue of good governance is still a major concern in relation to the use of authority and public sector management. In many developing countries proved that the culture of corruption has been so entrenched in government bureaucracy that is precisely characterized by the scarcity of resources. In that context, the absence of accountability is very prominent and becomes the dominant character of administrative culture during a certain period. (Wiranto, 2009). The process of structural transformation from a traditional society to a modern society and from an agrarian economy to industrial economy, the process of transformation of the economic system dominated by the government towards a market economy, where people increasingly play a role as the main actors of development, is a change and a shift is happening in the middle being surrounded society. Both internal processes are driven and influenced by external processes, namely the process of globalization of the world economy, with two characteristics and factor driving that is free trade and technological progress.

Changes and shifts that occur dynamically have created a critical mass, and one of consequence is the performance of government agencies become much criticism lately, especially since a very dynamic development of society and the emergence of a more democratic climate in the government. People have become more critical in assessing the implementation of public service and of course expect a good and fair implementation as well as other products and services quality. Only in practice, this expectation is not always met by the government, both at central and regional levels. Until now, there are still many cases of public service that is far from the expectations of society (Local Governance Support Program, 2009).

In the last six years, namely from the year 2009 - 2014, Indonesia is still ranked very low for the Corruption Perception Index (CPI), is a Level Index Corruption in the public sector issued by Transparency International, an independent international organization, which conducted a survey in the whole world, CPI Indonesia following ranking list of the year 2009 - 2014:

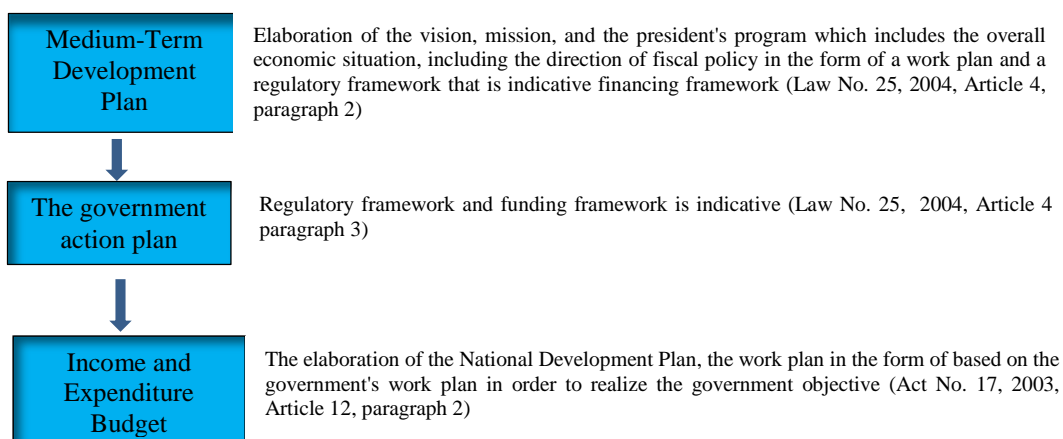
**Tabel 1: Indonesia Corruption Perception Index Rank in 2009- 2014 Period**

| Tahun | Rank | Indonesia CPI | The Number of Countries Surveyed | Countries with the Highest CPI |
|-------|------|---------------|----------------------------------|--------------------------------|
| 2009  | 111  | 2.8           | 180                              | New Zealand: 9.4               |
| 2010  | 110  | 2.8           | 178                              | Denmark: 9.3                   |
| 2011  | 100  | 3.0           | 183                              | New Zealand: 9.5               |
| 2012  | 118  | 3.2           | 176                              | Denmark : 9.0                  |
| 2013  | 114  | 3.2           | 177                              | Denmark: 9.1                   |
| 2014  | 107  | 3.4           | 175                              | Denpark: 9.2                   |

Source: [www.transparency.org](http://www.transparency.org)

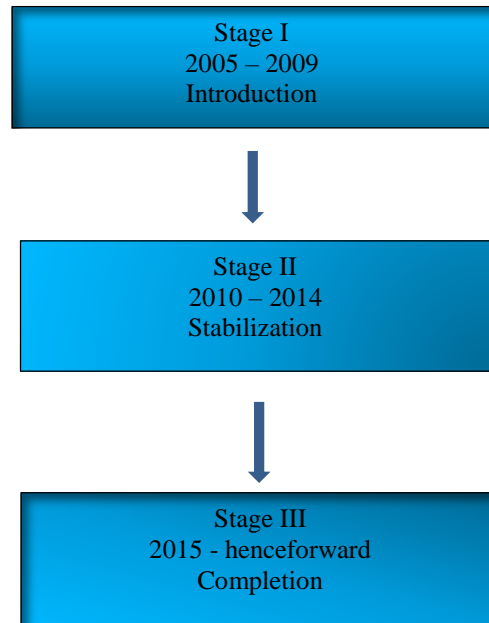
Indonesia government enacted Act No. 32 concerning local government and Act No. 33 of 2004 on the financial balance between central and local governments that have given the changes in the financial management area so happens reforms in the area of financial management. The main objective of the Act No. 32 of 2004 is to provide a strong legal foundation for the organizers of regional autonomy by giving freedom to the region to make independent autonomous regions. While the principal purpose of Act. No. 33 of 2004 is an attempt to empower and improve the regional economy, creating a financing system that is fair, proportionate, rational, transparent, participatory, accountable, and creating a good financial balance between the center and regions. Government management has undergone a paradigm shift in the last two decades, namely from process-oriented becoming a results-oriented have reformed financial management system in both the developed and developing countries, including Indonesia. Reform of state finances in Indonesia conducted by Act No. 17 of 2003. The law governing the Integrated Budget Implementation, Performance-Based Budgeting, and the Medium Term Expenditure Framework (MTEF). Technical implementation of these laws are described in detail in Act No. 25 of 2004 which regulates the Regulatory Framework and Funding Framework.

**Figure 1: Components of the Planning and Budgeting of Indonesia Government for Reforming the Financial Management**



Implementation of the legislation will remodel the procedures for planning and financial management of the country so the government need a conceptual framework and a comprehensive roadmap. To that end, the National Development Planning Agency of Indonesia and the Finance Ministry have designed a conceptual framework and roadmap into three stages. The first stage is the stage of introduction carried out in the period 2005 to 2009. The second stage is the stabilization phase to be implemented in 2010 to 2014. Meanwhile, the third stage is the stage of completion that will be carried out after 2015.

**Figure 2: The Implementation of Act Performance-Based Budgeting Road Map**



In Indonesia, various regulations and guidelines have been issued related to the implementation of performance-based budgeting to the local government. Including regulated therein is the inclusion of performance indicators in planning documents and budgeting as well as the use of performance indicators is in the government's budget process. (Hendra Cipta, 2011).

This paradigm shift is not only happening in Indonesia, but also in other countries, as examples of countries that are members of the OECD, the Organisation for Economic Co-operation and Development, which consists of 31 countries. Oriented on results (outcomes) paradigm with an emphasis on effectiveness, efficiency, and accountability, making performance based budgeting or performance-based budgeting as a tool or a tool in achieving that goal. Much research has been done, both in Indonesia and in other countries, on the implementation of performance-based budgeting.

## LITERATURE REVIEW

### The Development of the Public Sector Budgeting

Budget has a function to connect tasks to be performed by the number of resources required to implement them. With a budget organization can limit spending commensurate with reception, maintain balance and prevent excessive spending above the limits. In the government sector,

the budget has technical aspects and also political aspects are strongly influenced by the economic situation, public opinion, the various levels of government, interest groups, the press and politicians. In the budget the government sector has a close connection between the people as taxpayers with the government as user funds from the people. (Budget Directorate, 2014).

Public sector budgeting systems evolve and change according to the dynamics of public sector management and claims that arise in the community. Until now, there are several types of public sector budgeting, the Line-Item Budgeting that is widely used in developing countries, the Planning Programming Budgeting System, which was developed in the 1960s, Zero-Based Budgeting, which was developed in 1970s and the final Performance-Based Budgeting, which was developed in the 1990s.

Caiden (1998), quoted by Ouda (2011) identifies several criticisms of traditional budgets. Briefly summarized, they are problematic because they:

- result in uncontrollable and unpredictable budgets;
- produce incremental budgetary growth with no link to strategy;
- involve a focus on inputs not outputs and outcomes;
- generate a short-term perspective;
- produce rigidity and waste due to little incentive for efficiency;
- involve cash based accounting resulting in weak asset management;
- use poor information about costs, outputs and outcomes; and
- produce budgets that are unresponsive to politicians and public demands.

In short, this budget system does not satisfy the information needs of the efficient and effective government.

Shah and Shen (2007) states that the traditional line-item budgeting arise due to the lack of control on spending that contributed to the creation of an environment that can increase corruption. Traditional line-item budgeting presents expenditures based on inputs or resources used. The main characteristic of the line item budget system is set an upper limit line item in the budget allocation process and ensures that the unit can not exceed the expenditure ceiling or upper limit (Shah and Shen, 2007).

Rubin (2007) stated that the assumptions underlying the model input budgeting is a finite resource and control over spending levels and the distribution of resources will be able to increase efficiency (Rubin, 2007). Therefore, the power line item budgeting is a strict control over public spending through the input specification details or detailed (Shah and Shen, 2007). Another feature of the traditional budget is incrementalism. With the approach of incrementalism, the number of items the budget a fiscal year is determined by adding or subtracting the amount of the previous year's budget by a certain margin.

The weaknesses of Line-Item Budgeting system, especially in the absence of a rational connection between the amount of the budget set by the results or objectives to be realized with the budget expenditure corrected with the advent of Planning Programming Budgeting System

(PPBS) (Diamond, 2003). US Department of Defense in 1961 implemented this system for the first time, and then applied to all federal government agencies and spread rapidly at the state and local governments (Diamond, 2003).

In Planning Programming Budgeting System, much attention focused on the preparation of plans and programs. Plans drawn up in accordance with the national goal is for the welfare of the people because the government is responsible for the production and distribution of goods and services and allocation of economic resources is another. Measurement of the benefits of the use of funds from the perspective of its impact on the overall environment, in both the short term and in the long term. Grouping outposts budget based on the objectives to be achieved in the future.

Besides the three forms of budgeting system mentioned above, also known budgeting system called Zero Based Budgeting. Zero based budgeting is a budgeting system that is based on estimates of activity for the year, not on what has been done in the past. Zero based budgeting requires an evaluation of all activities or expenditures and all activities starting from a zero base, there is no specific minimum expenditure level.

Cheong (2010) states that a zero-based budgeting offers a better approach to cover the deficiencies that exist in the traditional line item budgeting (incremental budgeting). Unlike incremental budgeting, zero based budgeting is not started from the previous year's budget. On zero based budgeting system, activities of existing operational studied, and the sustainability of the activities or operations must be justified return based on usability and organizational needs. In this system, the effectiveness of the budget is emphasized, in which the emphasis is on the incremental system of expenditure control.

Zero based budgeting aimed to justify the allocation of resources as an individual budget scheme, to not consider the budget the previous period. Preparation of zero based budgeting not based on historical data and start each budget period from zero . Each item must be justified total budgeted costs required and the total benefits obtained. Zero based budgeting is designed to avoid the creeping behavior, that is behavior that always make adjustments in inflation. (Cheong, 2010).

The latter type, performance-based budgeting, developing in line with the shifting paradigm of public sector management of the administrator traditional model of public (traditional models of public administration) new approaches to public management. Some of the main ideas contained in the new public management approach, as stated Hughes (1998), is any fundamental changes to traditional public administration by giving great attention on achieving results; a shift from classical bureaucratic to create the organization, personnel and staffing requirements more flexible; goal setting and personal organization clearly and performance indicators to measure achievement; government officials more accountable politically to the government of the day; government functions can be tried conducted by the market; as well as the tendency of reducing the role of government through privatization. Most OECD countries have carried out reforms to contain the growth in public spending and improve spending outcomes since the early 1990s. Reforms can be classed under three broad headings (Curristine, Lonti, and Joumard, 2007):

- making the budget process more responsive to priorities;
- making management practices more flexible, such that defined priorities are easier to achieve;

- strengthening competitive pressures among providers of public services and, where not incompatible with equity considerations, containing the demand for public services.

**Table 2: Implementation Examples of Budgeting System**

| Type of Budgeting System           | Implementation   |
|------------------------------------|--|
| <i>Line Item</i>                   | Applied by all local governments in Indonesia based on Government Regulation No. 5 of 1975 on the management of regional financial accountability and oversight, and dynamically balanced budget   |
| PPBS                               | Social services programs on 'children and families handicapped, elderly care, mental disability', etc. The program is outlined in the budget, so it can be given information about the income and expenditure of each program unit   |
| <i>Zero Based Budgeting</i>        | Oriented budgeting procedures in achieving the goals of organization. Therefore, the determination of objectives according to ZBB can be done in stages: identification unit decisions governmental organization activities carried out in various work and units develop decision package |
| <i>Performance Based Budgeting</i> | The report format of the Indonesian Budget   |

Source: data processed

### **Performance Based Budgeting and Its Implementation in Indonesia**

#### **Performance Based Budgeting**

Curristine (2005) states that the need for improving the public sector performance is becoming more the center of attention when the government faces multiple demands on public expenditure, in which the claim is a demand to be able to provide a quality service, but on the other hand the tax payer does not want to pay more tax. Performance-based budgeting and performance-based management try to find out how to change the focus of the budget, management, and accountability in which the previous system focused budget, management, and accountability only on input.

In short, the governments are requested to be efficient and effective. This means that there should be emphasis on strategic control of aggregate spending and priority setting; and the facilitation of greater efficiency and effectiveness through delegation of management authority with accountability for results. In order to achieve that, the decision-makers in all levels in the public sector need a more improved and useful information. This, in turn, requires from the government to perform radical changes in the public administration system. Examples of these reforms are (1) Management changes; (2) Accounting changes; and (3) Budgeting changes. (Ouda, 2003).

One approach that can be done to improve the performance of the public sector is the 'managing for result' in the budget. Inherent in all these approaches is the idea of devolving responsibility while demanding accountability for results. Other basic elements of managing for results are: Strategic planning—identifying core missions and goals of government; and Performance



information—using government measures to manage and improve performance. (World Bank, 2003). Strategic planning should be the first part of managing for results, identifying what is important to measure and legitimizing the measures selected. In managing for results, state governments have identified three main uses for performance information: (1) Increasing public accountability; (2) Managing for better performance; and (3) Improving resource allocations. (World Bank, 2003).

Qi and Mensah (2012) states that the performance based budgeting is intended to improve the performance of the government in providing services and products to its citizens more efficiently and effectively. By focusing on the outcomes expected relative to the amount of money that spent, and then comparing the actual outcome with the expected outcome. Furthermore Qi and Meshach (2012) states that the implementation of the Performance Based Budgeting in the public sector especially in the government is strongly influenced by the policies of a political nature.

Marc and Jim (2005) states that the performance based budgeting is a procedure or mechanism to strengthen the linkages between the funds provided to the agency / government institutions with the outcome (impact) and / or output, through budget allocations based on 'formal' information about performance. Performance 'formal' information: information on the measures of performance (performance measure), the size of the fee for each group outputs and outcomes, and assessment of the effectiveness and efficiency of spending through a variety of analysis tools. Furthermore, Marc & Jim (2005) explains that the performance based budgeting aims to improve the efficiency of the allocation and productivity of government spending.

While VanLandingham, et.al. (2005) explains that the purpose of the performance based budgeting are: (1) Improving accountability by facilitating the definition of the mission and goals of the organization; (2) Evaluating of the performance, and the use of performance information in decision making planning and budgeting; (3) Increasing the flexibility of the budget, with a focus on process over outcomes, not inputs; (4) Improving coordination, eliminating duplication of programs, and providing better information to decision-makers; Involving citizens more in the process of governance- with the assumption that citizens are more interested in outcomes than process; and (5) Developing incentives for the unit to be more efficient and effective.

*The Organisation for Economic Co-operation and Development* in Demeulenaere et.al. (2013) identify three difference types of performance based budgeting:

**Tabel 2: Performance Budgeting Categories**

| Type                           | Linkage between Performance Information and Funding | Planned or Actual Performance                  | Main Purpose in the Budget Process |
|--------------------------------|---|--|------------------------------------|
| Presentational                 | No link   | Performance Targets and/or Performance Results | Accountability                     |
| Performance-Informed Budgeting | Loose/indirect link                                 | Performance Targets and/or Performance Results | Planning and/or accountability     |

|   |                   |                     |  |
|---|-------------------|---------------------|--|
| Direct/Formula based Performance Budget | Tight/direct link | Performance Results | Resource allocation and accountability |
|---|-------------------|---------------------|--|

*Source : OECD, in Demeulenaere et.al. (2013)*

According to Bouckaert and Halligan (2008) in DeMeulenaere et.al. (2013), the performance based budgeting must be accompanied by a broader performance management, which consists of three steps, namely measurement, incorporation, and use of performance information. This form is a logical sequence of data collection, integration of the data into the management system, and finally use the resulting information. Performance measurement is the collection of data related to performance systematically, while the incorporation is the addition of data to the documents and procedures with the ultimate goal of influencing organizational discourse, culture, and memory. The use of performance information to design policy, to decide, for the allocation of data sources, competence and accountability, control, evaluation and assessment of behavior and results, and to the substance of the reporting and accountability mechanisms.

### **The Implementation of Performance Based Budgeting in Indonesia**

The problems arising from the implementation of the traditional line-item budgeting does not only happen in Indonesia, but also occurs in other countries that use. Rasul (2003) states the main problems arising in Indonesia caused by the implementation of traditional line item budgeting are:

- Expenditure control oriented which resulted in a very limited accountability, ie only on the magnitude and manner in accordance with the allocated expenditure, rather than on the results achieved (overseeing result).
- The dichotomy of routine and development are not clear (ambiguity on a distinction between capital and revenue expenditure) that cause a shift in the practice of the budget (budgetary sifting), the problem of financial sustainability (sustainable financing).
- Allocation base is not clear where the target budget increase is based on the percentage of realization of the previous year's budget or, in other words, just based on the ability of each government agency to absorb the budget, rather than on the level of performance achieved.
- Tend not flexible (rigid) where in certain types of expenses are limited authority to the head of the institution to shift certain budget items that indicate a weakness in the application of accountability that agency managers accountable only for the amount of money spent within the budget available and not to results.
- The orientation is only one budget year (short-term perspective) so that annual funding plan as outlined in five-year planning document is not associated with budgeting system applied.

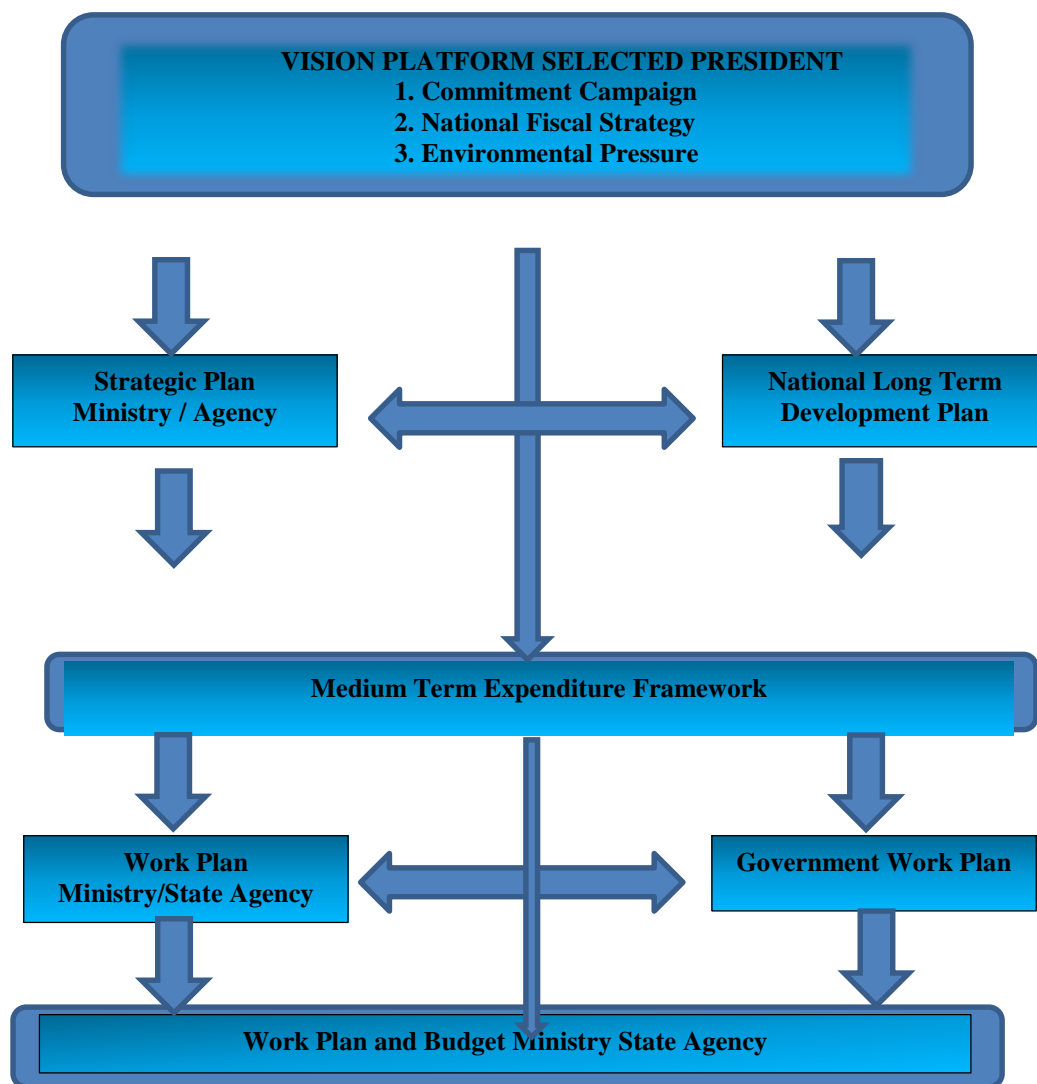
In Indonesia, the performance-based budgeting is done by taking into account the relationship between funding and outputs and expected results, including efficiency in achieving results and outcomes. In a performance-based budgeting required performance indicators, standard cost, and performance evaluation of each program and the type of activity. Level of planned output and output unit cost basis for budget allocation and estimated progress of the program in



question. (MoF, 2014). The purpose of budgeting is (1) Improving the quality of public services; (2) Improving linkages between policy, planning, budgeting, and implementation; (3) Optimizing the use of resources to priority programs and supporting activities; and (4) Developing management and performance measurement.

Basically the planning and budgeting reform intended to achieve three ideal conditions, namely: proper, accountable, and transparent. Proper planning and budgeting means more scalable performance and sequentially from the priority performance indicators (impact), program (outcome), and activities (output). Proper also means planning and budgeting be realistic taking into account the availability of budget. The ideal condition is accountable, which means planning and budgeting have targets and clearly in charge. And the latter is transparent which can be interpreted as people ease in accessing the planning and budgeting through the documents of National Mid-Term Development Planning, Strategic Planning, Government Planning Activity, and the Indonesian Budget. To achieve these objectives then drafted three main pillars of planning and budgeting reform, namely: aggregate fiscal discipline, allocative efficiency, and operational efficiency.

**Figure 3: Budgeting Planning Process**



*Source : Ministry of Finance, 2010*

The Government of Indonesia has committed to implement performance-based budgeting pilot project with a medium term perspective of six (6) of the state ministries / agencies as early stages of 2009. The weakness in the system running on them are (1) Implementation of performance-based budgeting and budgeting in a medium-term framework for five years has not achieve optimal results because there is no linkage between planning documents and budget documents; (2) Policy priorities implemented by the government through the Government Work Plan book I did not clear time frame for completion and every year is always changing according to the theme set forth resulting in the budgeting process always return to zero (zero based budgeting); and (3) adoption of the MTEF at this point is merely to include forecast forward the next three years, but there is no methodology to provide justification that the specified forecast forward is an initial indication of next year funding.

### Performance Based Budgeting Cycle

The budget cycle is a period or periods begin when the budget is drawn up with the current budget calculation authorized by law. The budget cycle is different from the fiscal year. The fiscal year is a period of one year to account for the implementation of the budget or the time at which the budget is accounted for. Obviously, that could include a year budget cycle exceed the budget or the budget because basically the end of a budget cycle ends with the calculation of the budget passed by the legislation. Budget cycle consists of several stages (phases) ie (MoF, 2014):

Budget preparation stage

1. Budget approval stage
2. Stages of implementation of the budget
3. Stage supervision of the budget implementation
4. Validation stage budget calculations

The scope of performance-based budgeting (MoF, 2014):

1. **Determine the vision and mission** (which reflects the organization's strategy), goals, objectives, and targets. Determination of the vision, mission, goals, objectives, and the target is the first stage of an organization that should be established and become the highest goal to be achieved so that any performance indicators should be associated with the component. Therefore, the determination of the components is determined not only by governments but also include the community in order to obtain information about the needs of the public.
2. **Determine performance indicator.** Performance Indicator is a quantitative measure that describes the level of achievement of a goal or goals that have been set. Therefore, the performance indicators that will have to be a calculated and measured and used as a basis for assessing or see the level of performance both in the planning phase, the implementation phase or phase after completion and useful activities (work). Performance indicators include:
  - a. Input is a resource that is used in a process to produce output that has been planned and determined beforehand. Indicators of inputs include funding,

human resources, facilities and infrastructure, data and other information required.

- b. Output is something that happens as a result of a particular process by using the input that has been set. Output indicators used as a basis for assessing the progress of an activity or benchmarks associated with objectives that have been well defined and measurable.
  - c. Outcome is an output that can be directly used or the real result of an output. Indicators of outcome is predetermined target program.
  - d. Benefit is the added value of an outcome that benefits will be visible after some time later. Indicators show the benefits of the things that are expected to be achieved if the output can be completed and functioning optimally.
  - e. Impact is the effect or consequences caused by the benefits of an activity. Indicators of impact is the accumulation of some of the benefits that occur, the impact is only visible after some time later.
3. **Evaluation and decision making of the election and program priorities.** These activities include the preparation of alternative rankings and then take decisions on programs / activities that are considered to be a priority. For the selection and prioritization of programs / activities considering the limited resources.
  4. **Standard Cost Analysis** is the standard cost of a program/activity so that the budget allocation becomes more rational. Standard cost analysis done to minimize the disagreement between the executive and the legislature to loosen the budget allocation in each unit so that the budget is not efficient. In preparing the crew need to pay attention to the principles of budgeting, acquisition of data in decision making budget, local budget planning cycle, the structure of the country/region budget, and the use of standard cost analysis. In preparing the crew that needs attention is to obtain quantitative data and make budgeting decisions.

### **Performance Measurement Information**

Public sector performance measurement system is a system that aims to help public managers assess the achievement of a strategy through financial and non-financial measurement tool. Performance measurement is intended to: (1) help improve government performance; (2) the allocation of resources and decision-making; and (3) realize the public accountability and improving institutional communication. Whereas the objective performance measurement system is to: (1) Communicating better strategy; (2) Measuring the performance of financial and non-financial balanced way; (3) Accommodating understanding of the interests of the middle and lower-level managers and motivate achieve goal congruence; and (4) In order to achieve satisfaction based approach to individual and collective ability rational.

Performance measurement provides several benefits, including providing an understanding of the size of that used for assessing the performance of management, provide direction for achieving performance targets, to monitor and evaluate the achievement of the performance, as is the basis for reward and punishment, as a means of communication between subordinates and leaders, helping identify whether a customer satisfaction are met, helping fulfill the activities of government agencies, as well as ensuring that the decisions made objectively.

The information is used for performance measurement consists of two, namely:

**Financial Information.** Assessment report financial performance is measured based on a budget that has been created by analyzing the actual performance with the budgeted. Analysis of variance focuses on variance revenue, variance expenditure, after analysis of variance, then the identification of the cause of a variance.

**Non-Financial Information.** Comprehensive performance measurement technique that has been developed is the Balanced Scorecard Measuring performance based on non-financial and financial aspects. Performance measurement is done by using the basic criteria in public management, namely: the economy, efficiency, effectiveness, transparency and public Accountability. Efficiency measurements performed by (1) Measuring the ratio between the output to the input; (2) The greater output than input, the higher the level of efficiency of the organization; (3)  $\text{Efficiency} = \text{Output} / \text{Input}$ . While measuring the effectiveness of the measure of success in achieving the set objectives. The latter is the outcome measurement. Outcome is the impact of a program as or activities on the community. Outcome higher value than the output.

### **Combining performance information into the Budgeting Process**

There are six critical areas that must be considered when incorporating performance information into budgeting process (Nasbo, 2013). These six critical areas are: (1) Build the capacity to use performance data; (2) Select the size of the performance that really relevant and have the power to; (3) Obtain input from stakeholders; (4) Using performance information for strategic planning; (5) Increase the transparency and engage the public with the performance data; and (6) Designing a system that is flexible and can be used for long periods of shelf.

### **Performance Based Budgeting Researches in Indonesia**

Wydiantoro, (2009) examined the implementation of performance based budgeting at Diponegoro University, Semarang. Findings of this research showed that in general, the idealism of performance based budgeting is not yet achieved, although there is right in understanding of performance budgeting meaning by staff and managers. There are many mistakes in budgeting process sequences included planning, implementation, performance measurement and evaluation, and reporting. The less comprehensive communication, integration computerize application system, rewards and punishment system, and ethic of work become the causes of the problems.

Cipta (2011) tried to analysis the implementation of performance based budgeting at Tanah Datar region. He found that a fundamental requirement in the application of a simple form of performance-based budgeting has not been fulfilled in budgeting Tanah Datar fiscal year 2009 and 2010. Hermawan (2010) analyzed the performance-based budgeting system implementation in the Presidency Environmental Household-Indonesia Republic Secretariat. The analysis showed that the performance-based budgeting within the Household of the Presidency, in the formulation of strategic plans, performance plans, programs and activities are still not in accordance with the theory of performance-based budgeting. This application showed no real accountability performance of Presidential Household organizational performance, and showed that the application of performance-based budgeting just to comply with existing.

Madjid (2013) analyzed the implementation of performance based budgeting in Education and Training Finance Agency. Based on the study carried out it can be concluded that: agencies has met the performance-based budget documents, but agency strategy in the long-term plan can not be directly implemented in the activities of the institution. Institutions have implemented elements of performance-based budgeting but still there is a difference between the performance indicators in planning documents with performance indicators on work plans and action plans. The new standard charge output fraction can be applied in the institutions, and performance evaluation can not be implemented optimally. Successful implementation of performance based budgeting in organizations affected by the completeness of the rules, understanding, consistency and evaluation. There are differences in perception related to the success of implementation of performance based budgeting in organizations between actors / executor of planning and budgeting which concluded that the agency has successfully implemented the performance-based budgeting, while according to experts of planning and budgeting and service recipient institutions are not yet fully succeeded in implementing performance-based budgeting.

Rahmiyati (2009) evaluated the implementation of performance based budgeting in regions government and province government of East Java Province. He concluded that East Java government has made preparation for the performance-based budgeting but not perfect. There is still a lack of understanding of all sides of the legislation in force and still weak make a commitment to implement a performance-based budget implementation has not gone well. Legislation that is newly implemented only fulfill the formal and legal aspects are still far from the essence of which is expected from the implementation of performance-based budgeting.

Isti'annah (2010) examined the implementation of performance budgeting in Exchequer Transformation Directorate of Financial Ministry. She found that budgeting process in government institutions is still memorable perform the traditional system, which is loaded with practices that are not efficient. In practice, there's also a drawback since performance planning, the preparation process, and the discussion of the budget until the assignment in the state document formats. Kurrohman (2012), stated that according to analysis done by using summary the realization of the budget and budget summary budget over 25 counties and 6 cities were respectively in 2004-2006 and 2008 2010 are listed on [www.djpk.depkeu.go.id](http://www.djpk.depkeu.go.id) it can be concluded as follows: (1) The results of hypothesis testing using different test statistic non parametric Wilcoxon signed rank test showed that the differences before and after the application of performance-based budgeting on economic ratios and efficiency ratio; and (2) there is no difference before and after the application of performance-based budgeting in the effective ratio.

## CONCLUSION

Indonesian government since 2003 have reformed the financial management of government. One way is to implement performance-based budgeting, either by the local government and central government. Reform of financial management of government in Indonesia conducted by Act No. 17 of 2003. The law governing the Integrated Budget Implementation, Performance-Based Budgeting, and the Medium Term Expenditure Framework. The implementation of performance based budgeting in Indonesia divided into three stages. The first stage is the stage of introduction carried out in the period 2005 to 2009. The second stage

is the stabilization phase to be implemented in 2010 to 2014. Meanwhile, the third stage is the stage of completion that will be carried out after 2015.

Based on the literature review shows that the Indonesian government has designed with the concept of performance-based budgeting which has been in accordance with the concept of performance-based budgeting in the literature. Grand design performance-based budgeting in Indonesia shows that this approach has been integrated into the planning of short-term, medium term and long term. However it turns out, various studies have been conducted in Indonesia showed that the implementation of performance-based budgeting is still a 'potluck', ie only to meet formal legal. Substantially no studies that show that the performance-based budgeting has been implemented in accordance with the basic concept that has been designed.

Research results indicates that the 'failure' is mainly due to a lack of understanding of the basic concepts of performance-based budgeting by the compilers of the budget and budget users. Human resource issues in the government sector in Indonesia is still remains a major problem, especially in local governments.

## REFERENCES

- Achlani, F., dan B. Tri Cahya. 2011. Aspects of Rational Analysis in Public Budgeting for Effective Implementation of Performance Based Budgeting in Surakarta Government. *Jurnal Maksimum*. Vol.7, No.1, Maret. Pp. 68-77
- Aydemir, N.Y. 2010. Performance-Based Budgeting: A Case Study about the Effects of Performance Measures on the Agency Budgeting Process in West Virginia State Government. *A thesis presented to the faculty of the College of Arts and Sciences of Ohio University*. August
- Bappenas. 2010. The Implementation of Performance Based Budgeting in the Sector Law, Justice and Human Rights. *Prosiding Public Discussion*. 19 Oktober
- Bourdeaux, Carolyn. 2006. Legislative Influences on Performance-Based Budgeting Reform. *Fiscal Research Center Andrew Young School of Policy Studies Georgia State University*. Atlanta, GA FRC Report No. 128 May
- Cholifah dan Syafi'i. 2014. The Model of Effectiveness in Employing Performance-Based Budgeting In Regional Revenue Service of East Java. *Academic Research International*. Vol. 5, 5 September.
- Cipta, H. 2011. Analysis of Performance-Based Budgeting Application of Local Government (Explorative Study on Tanah Datar). Thesis at Andalas University Graduate Program. Padang
- Curristine, T. 2005. Government Performance: Lessons and Challenges. *OECD Journal Budgeting*. Vol.5, No.1, pp. 127-151
- Curristine, T., Lonti, Z., and Joumard, I. 2007. Improving Public Sector Efficiency Challenges and Opportunities. *OECD Journal on Budgeting*. Vol. 7. No.1. pp. 1-42
- Demeulenaere, E., L. Corvo, G. Bouckaert, and M. Meneguzzo. 2013. Measuring performance based budgeting in Flemish and Italian municipalities. *Full paper for the Egpa Conference*. Edinburgh, 11-13 September, pp. 1-23
- Diamond, J. 2002. Performance Budgeting – Is Accrual Accounting Required?. *IMF Working Paper 02/240. International Monetary Fund*. Washington.



- Diamond, J. 2003. From Program to Performance Budgeting: The Challenge for Emerging Market Economies. *IMF Working Paper 03/69*. International Monetary Fund. Washington.
- Diamond, J. 2005. Establishing a Performance Management Framework for Government. *IMF Working Paper 05/50*. International Monetary Fund. Washington.
- Helmuth, U. 2010. The Impact of Performance Budgeting on Public Management. *Dissertation of the University of St. Gallen, Graduate School of Business Administration, Economics, Law, and Social Sciences*. Germany
- Hermawan, E. 2010. Analysis of Performance-Based Budgeting System Implementation in the President's Environmental Household-Secretariat of the State of RI. Thesis in the Master Program Planning and Public Policy, Faculty of Economics, University of Indonesia. Jakarta
- Hesda, A.R., dan D. Setyaningrum. 2014. Analysis of Performance Based Budgeting System Implementation of the Fiscal Control in ASEAN Countries. *Prosiding Accounting National Simposium 17 Mataram*. Mataram University, Lombok, 24-27 Sept
- Ioana, B. 2010. Considerations on the Public Funds Use Based on the Performance: Program Budgeting. *Budgetary Research Review*. Vol.3 (1), pp. 20-45
- Iratni, E., M. Djasuli, dan N. Hayati. 2012. Factors Affecting the Successful of Performance Based Budgeting Implementation in the Regency of Bangkalan. *Public Reform for Good Government Governance – A4-PFM Conference*. Surabaya, Indonesia, November 13th-14<sup>th</sup>
- Isti'anah. 2010. Adoption and Implementation of Performance Based Budget. *Jurnal Informasi, Perpajakan, Akuntansi, dan Keuangan Publik*. Vol.5, No.1, Januari, pp. 73-84
- Kurrohman, T. 2012. Evaluation of Performance Based budgeting with Value for Money Concept. (Case Study at East Java Province). *Forum Bisnis dan Keuangan I*. pp. 14-29
- Madjid, N.C. 2013. Analysis of Implementation of Performance-Based Budgeting (Case Study on Education and Training Agency finances). Academic Study of BPPK, Ministry of Finance of Republic of Indonesia.
- McNab, R.M. and F. Melese. 2001. Implementing GPRA: Examining the Prospects for Performance Budgeting in The Federal Government.
- Ministry of Finance. 2010. Implementasi Penganggaran Berbasis Kinerja pada Sektor Hukum, Peradilan, dan HAM. *Prosiding Penyelenggaraan Diskusi Publik*. Jakarta, Oktober 19
- Ouda, H.A.G.2003. Public Sector Accounting and Budgeting Reform: The Main Issues Involved with Special Focus on the Arab World. *United Nations, Economic and Social Commission for Western Asia*.
- Ouda, H.A.G.2011. Suggested Framework for Implementation of Performance Budgeting in the Public Sector of Developing Countries with Special Focus on Egypt. *13<sup>th</sup> Biennial CIGAR Conference-June 9-10, Glent University Belgium*, pp. 1-28
- Pakmaram, A., K. Esgandari, H. B. Koshteli, and M. Khalili. 2012. Identifying and Prioritizing Effective Factors in the Performance Based Budgeting in Telecommunications Company with TOPSIS Method. *African Journal of Business Management*. Vol.6 (24), pp. 7344-7353, 20 June
- Qi, Y., and Y.M., Mensah. 2012. An Empirical Analysis of the Effect of Performance-Based Budgeting on State Government Expenditures. *Research Paper, School of Business Administration China University of Petroleum and Center for Governmental Accounting Education and Research Rutgers Business School, Rutgers University*. Beijing and Rutgers, April 8
- Rasul, S. 2003. Integrating System Accountability and Performance in Perspective Budget Law 17/2003 on State Finances. *PNRI*. Jakarta.

- Republik Indonesia. 2003. Undang-Undang No. 17 Tahun 2003 tentang Keuangan Negara
- Republik Indonesia. 2004. Undang-Undang No. 32 Tahun 2004 tentang Pemerintah Daerah
- Republik Indonesia. 2004. Undang-Undang No. 33 Tahun 2004 tentang Perimbangan Keuangan antara Pemerintah Pusat dan Pemerintah Daerah
- Robinson, M., and J. Brumby. 2005. Does Performance Budgeting Work? An Analytical Review of the Empirical Literature. *IMF Working Paper Fiscal Affairs Department*. Authorized for distribution by Jack Diamond November
- Rubin, I. 2007. Budget Formats: Choices and Implications. Public Sector and Governance and Accountability Series: Local Budgeting. *World Bank*.
- Sefzadeh, S., F. Peiravian., and S. Siehktiar. 2014. Factors in Fluencing the Establishment of Performance Based Budgeting in Public Organizations-2013 ( A Case Study: Qazvin University of Medical Sciences). *Indian Journal Science Research*. Vol. 4
- Shah, Anwar and Chunli Shen. 2007. Citizen-Centric Performance Budgeting at the Local Level. *Public Sector and Governance and Accountability Series: Local Budgeting*. World Bank.
- Shea, R.J. 2008. Performance Budgeting in the United States. *OECD Journal on Budgeting*. Vol. 8, No. 1
- Tri Cahya, B. 2009. Implementation Effectiveness Performance-Based Budgeting: Judging of Influence Resources, Information, Orientation Objectives and Performance Measurement as Rational Aspects (Survey on Government Surakarta). Thesis in the Master of Accounting Faculty of Economics, Universitas Sebelas Maret, Surakarta
- World Bank. 2003. Performance-Based Budgeting: Beyond Rhetoric. *PREMnotes Public Sector*, February, No. 78, pp.1-4
- Wydiantoro, A.E. 2009. Implementation of Performance Based Budgeting: A Study Phenomenology (Case Study at the University of Diponegoro). Thesis in the Master of Accounting Graduate Program Diponegoro University. Semarang