Since the downfall of President Suharto in the late 1990s, Indonesia has made remarkable progress in democratizing its political system. In the wake of these reforms the parliament has become more independent from the formerly very strong executive and has gained substantial powers to scrutinize and react to initiatives and policies proposed by the executive. Among others reforms, the parliament now holds stronger powers with regard to the preparation of the state budget and oversight of its execution.

These reforms have caused unprecedented changes in the way the state budget is formulated in Indonesia. Ideally, the governance of the budget reflects the delicate balance between executive power and legislative oversight. The realignment of democratic checks and balances in the budget process is a complex process intertwined with other aspects of the full political system: the establishment of representative structures, the electoral system, and the establishment of a functioning multiparty system. How these checks and balances work in practice depends on the effective powers of elected representatives in relation to the executive branch, including the power to appoint and remove executives (through votes of no confidence, impeachment, and so forth); the power to compel information from the executive branch (for example, require reports and audits); the power of the purse; a functioning committee system capable of knowledgeably monitoring and assessing executive branch behavior; and the incentive structure for elected representatives to fulfill their mandates.

This chapter examines the institutional framework and the evolving role of the parliament, particularly of the lower house (Dewan Perwakilan Rakyat—DPR) in the budget process in post-Suharto Indonesia. The focus is on exploring systemic issues and developing an understanding of how the institutional framework affects the general political dynamics and mechanics in the budget process and thereby shapes executive and legislative relationships in the budgetary realm.
Democratization and the Evolving Political Role of Indonesia’s Parliament Post-Suharto

During the three decades of President Suharto’s rule, political power was heavily concentrated in the executive. Constitutionally the People’s Consultative Committee (Majelis Permusyawaratan Rakyat—MPR)\(^1\) was the highest state institution in the country, responsible for nominating and appointing the president. In practice, however, the president effectively controlled MPR decision making through an intricate system, monopolizing political power in his hands.

Political activity and political parties were restricted—in 1973 Suharto forced the then nine opposition parties to amalgamate into two groups, the United Development Party (PPP) and the Indonesia Democratic Party (PDI)—and the Joint Secretariat of Functional Groups (Golkar) was given a central role in rallying popular support for the New Order in carefully staged national legislative elections.\(^2\) The PPP and PDI were prohibited from organizing and mobilizing at the grass-roots level between election campaigns, and Golkar was the only organization with roots down to the village level, since government officials at the village level were all members of Golkar. Not surprisingly, Golkar dominated the electoral process throughout the New Order period.\(^3\)

The effect of these arrangements was to concentrate political power within the presidency with strong support from Golkar, the bureaucracy, and the military, effectively blurring the separation of powers to favor executive control over state affairs. This also applied to budgetary decision making. De jure legislative budget powers were enshrined in Article 23 of the 1945 constitution, which stipulates, “In establishing state revenue and expenditure, the DPR shall have a stronger position than the government.” However, the New Order’s DPR never questioned or amended the government’s budget proposals. President Suharto demanded that politicians and legislators comply with his so-called national consensus decisions.

The New Order system unraveled in the particularly eventful and politically volatile environment triggered by Suharto’s downfall in 1998. Changes in the political system marked Indonesia’s rapid transition to a more democratic system (Schneider 2005, 4), among them several related to the budget process:

- In 1999, the first constitutional amendment gave the DPR “authority to enact Laws” introduced an annual session in the MPR, and established an ad hoc committee on constitutional amendments.
- In 2000, the MPR passed the second constitutional amendment, reinstating the role of the DPR in approving the budget, legislative oversight, and authority to legislate.
- In 2001, the third constitutional amendment formalized conditions to impeach the president and further strengthened the legislative authorities to perform checks and balances by having a right to choose, among others, general election commission (KPU), Supreme Audit Board (BPK), and Judicial Commission (KY) members.
In 2002, a fourth constitutional amendment clarified technical provisions related to the separation of powers (between judicial, legislative, and executive branches); abolished military, police, and other executive appointees in the MPR; and stipulated a two-round system for the presidential election.

The constitutional amendments and subsequent legislation substantially augmented parliamentary powers in relation to the executive (Sherlock 2007a, 23) For example, the DPR can initiate the impeachment of the president (with the consent of the Constitutional Court and the MPR). The DPR also has the sole authority to enact state legislation, including the annual state budget, which is promulgated as a law.\

In step with the strengthened horizontal accountability between the executive and legislature, vertical accountability of members of parliament to the electorate was also strengthened. Among the first laws passed by the newly empowered DPR were the three political laws on political parties, general elections, and the formation of the legislature. These laws moved the DPR from a highly controlled political arrangement with restricted access to electoral competition to an arrangement whereby public offices, including seats in the parliament, have become subject to increasing competition and contestability. This has led to sweeping changes in the composition of the legislature, breaking the previous one-party dominance by Golkar. However, with upward of 15 parties represented in the parliament (since 2004), the electoral outcomes have also resulted in a particularly fragmented political landscape. In both 1999 and 2004 none of the competing parties obtained a sufficient majority to be able to pass legislation on their own. The electoral outcomes have affected the political dynamics that shape legislative decision making and its relationship to the executive. The fact that none of the larger parties (see table 21.1) controls a sufficient majority to pass legislation necessitates political maneuvering in order to build support for

### Table 21.1. Top 10 Political Parties in the 1999 and 2004 General Elections

<table>
<thead>
<tr>
<th>Party</th>
<th>1999 Votes (%)</th>
<th>1999 Seats (%)</th>
<th>2004 Votes (%)</th>
<th>2004 Seats (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>PDI-P</td>
<td>33.74</td>
<td>33.12</td>
<td>Golkar</td>
<td>21.58</td>
</tr>
<tr>
<td>Golkar</td>
<td>22.44</td>
<td>25.97</td>
<td>PDI-P</td>
<td>18.53</td>
</tr>
<tr>
<td>PKB</td>
<td>12.61</td>
<td>11.04</td>
<td>PKB</td>
<td>10.57</td>
</tr>
<tr>
<td>PPP</td>
<td>10.71</td>
<td>12.55</td>
<td>PPP</td>
<td>8.35</td>
</tr>
<tr>
<td>PAN</td>
<td>7.12</td>
<td>7.36</td>
<td>PD</td>
<td>7.45</td>
</tr>
<tr>
<td>PKS</td>
<td>1.94</td>
<td>2.81</td>
<td>PKS</td>
<td>7.34</td>
</tr>
<tr>
<td>PK</td>
<td>1.36</td>
<td>1.52</td>
<td>PAN</td>
<td>6.44</td>
</tr>
<tr>
<td>PBB</td>
<td>1.01</td>
<td>0.87</td>
<td>PBB</td>
<td>2.62</td>
</tr>
<tr>
<td>PNI</td>
<td>0.64</td>
<td>1.08</td>
<td>PBR</td>
<td>2.44</td>
</tr>
<tr>
<td>PDI</td>
<td>0.62</td>
<td>0.43</td>
<td>PDI</td>
<td>2.33</td>
</tr>
</tbody>
</table>

Source: Ananta, Arifin, and Suryadinata 2005, 14, 12.
particular initiatives. In addition, most parties compete on religious, ideological, or personal, rather than policy platforms, making it difficult to form stable coalitions.  

The DPR continues to face structural and performance weaknesses that prevent it from fully exercising its democratic governance role, including weak internal capacity, limited effectiveness of institutions of political-interest mediation, and a volatile and fragmented party system. News reports and analysis frequently point out the low legislative performance of the DPR, including the quantity and the quality of legislation. In 2005, just 12 laws were passed, and only four were among the 55 expected new laws projected by the National Legislation Program (Prolegmas).

Besides poor performance, concerns about corruption, waste, and abuse represent another set of problems for the DPR in terms of its public relations and perceived legitimacy. This has resulted in broad public distrust in the parliament as an institution, as witnessed by the low ranking it received in the Global Corruption Barometer 2006 by Transparency International, where it shared the lowest rank with the police and the judiciary (it received a score of 4.2, with a score of 5 being extremely corrupt and 1 being not at all corrupt).

**Internal Organization of the DPR**

As many observers and legislators confirm, the comparatively poor performance of the DPR is largely a result of its low level of institutional capacity. Structural weaknesses, management and human resource problems, and budget constraints are the major problems in this legislature, which for so long was not expected to function as an autonomous branch of government. Arguably, it will take some time until the DPR adjusts to its new role and becomes a modern and effective legislature ready to face the challenges of democratic government—to fulfill its constitutional functions, legislate efficiently, plan the state budget, and provide effective government oversight.

The internal organization of the DPR includes house leadership, an overlapping system of party factions, sectoral commissions, and cross-sectoral committees. All have some influence on the role of the DPR in the budget process and in oversight in general. The leadership of the DPR plays the role of spokesperson on behalf of the DPR and acts as a coordinator for various DPR meetings. However, the leadership's role is largely symbolic when the DPR interacts with other state institutions or with another country's institutions or officials. Internally, the leadership is critical within the current framework of legislative decision making. Unlike most parliaments, the DPR's decision making follows a complicated system of consensus building rather than majority votes (applied if there is a deadlock). DPR leadership and commission leadership play an important role in ensuring that consensus is reached.

Furthermore, to facilitate more streamlined decision making, parties are organized into factions. Factions are groups of DPR members based on the configuration of political parties' number of seat in the DPR, and every DPR
member must be associated with one faction. Each faction is required to have at least 13 DPR members from the same political party. Consequently, a party that has fewer than 13 members in the DPR has to join another party to form one faction that meets the threshold number of DPR members. The leader is determined through intraparty decision making or agreement between parties. A political party will channel its political initiatives through the faction governed by the DPR's rules of procedure. Each faction is proportionally represented within commissions, standing committees, special committees, and other DPR instruments of power. The DPR currently has 10 factions. The factions, rather than the parties, are typically the basis for representation in the DPR’s sectoral commissions and cross-sectoral committees. Though the factions formally represent the key structure of party organization within the parliament, incentives for effective consensus building between parties remain weak.

The DPR is organized into a system of sectoral commissions that carry out scrutiny of respective ministries and executive agencies. Every member of the DPR must be a member of at least one commission. There are currently 11 commissions, which are aligned to the portfolio ministries in the executive. The commissions are the principal working units within the DPR that are used to discuss in detail and amend draft bills. According to one assessment (Sherlock 2003):

The commission is powerful because: they have an ability to reject, delay or facilitate bills and determine their content; DPR can exercise both formal authority and practical power through this instrument over the President, Ministers and government agencies; it [is] also often used as an instrument to shape public opinions by having a potential to embarrass government officials through hearings; and by having a big influence to determine appointments of high state official positions can influence the actual execution of government policy. (12)

The leadership of each commission (one chair and three vice chairs) plays an influential role both within the commission and while representing the commission in other bodies in the DPR (Sherlock 2007, 16). The leadership can schedule meetings and hearings and determines the agenda. Furthermore, the leadership can decide the compositions of subcommission and the commission’s representation in the Budget Commission. The commission leadership regularly meets with the leadership of the house and with the Consensus Committee on the introduction and scheduling of the new bills.

In addition, a number of cross-sectoral committees are designed to help streamline decision making and facilitate consensus building among DPR factions. Among the most powerful is the Consensus Committee (Bamus). The Consensus Committee has several functions: determining the agenda for each annual session (including prioritization of draft bills and the time frame for enactment); providing advice to the DPR leadership; and consulting and coordinating with other institutions (government, MPR, DPD) in the context of the constitution. The Consensus Committee plays a critical role in the
internal procedures of the DPR. According to Sherlock, (2007a) "The power of the committee comes from the fact that it is the gatekeeper for the entry of bills and requests for inquiries" (14). Moreover, during recess, the leadership, after consulting with the leadership of factions, can call the Consensus Committee to make organizational decisions on behalf of the DPR. Another cross-sectoral committee is the legislative body which was established to ensure that the DPR fulfills its legislative role. Initially the legislation body was limited to dealing with the administrative process and technical aspects of legislation and less with the substantive aspects of bills. Following the 2001 revisions in the DPR’s rules of procedure, its authority became broader and now encompasses the substance of bills. The body is also responsible for drafting the legislation plan, which outlines priority legislation for each year. The body therefore has a critical impact on the overall legislative agenda.

Finally, there is the Budget Commission, which is a key player in the budgetary decision-making process. The committee works on the budget with its counterpart in the government—usually coordinating with the coordinating minister for economic affairs, the minister of finance, and the minister of national development planning. In 2005–06 the Budget Commission consisted of 83 members who represented about 10 parties and 28 regional constituencies. Members are drawn from all of the other sectoral commissions. The leadership of the Budget Commission consists of one chair and three deputy chairs chosen from and by the commission members during a meeting led by the DPR leadership. The specific role of the Budget Commission is discussed in more detail below.

Parliament and the Budget Process

The institution of appropriate checks and balances, particularly with regard to budgetary decisions, are important pillars of sound governance systems. As discussed above, the process of rapid democratic transition restored parliament’s substantial powers in what was previously a closed budgetary system. Since then the evolving nature of interventions by the DPR has been a striking feature of the budgetary process. The constitution and subsequent legislation established a strong parliamentary role in the budget process. As is typical for presidential systems, the DPR enjoys broad scope to revise the budget, make its own revenue and spending decisions, and monitor and discipline the discretionary power of the executive.

Some observers and large parts of public opinion in Indonesia share the view that the extension of legislative powers may have gone too far, in particular because, unlike other presidential systems, the Indonesian presidency does not have a formal veto power over legislation passed by the parliament. Indeed, once approved by the DPR and submitted to the president, bills have to be signed by the president within 30 days or they automatically become laws. However, although there is no formal veto power on the part of the executive, the constitution requires that "each bill [be] discussed by the DPR and the President to reach joint agreement.” Therefore, the authority to enact
legislation, including the annual budget law, is shared between parliament and the president (Sherlock 2007a).

The Regulatory Framework

The institutional framework of the budget process, including the role, responsibilities, and authorities of the DPR, are set out in Law 17/2003 on state finances. The legislative powers pertain to ex ante deliberation, approval of the executive budget proposal, and ex post oversight of the budget's implementation. With regard to the budget preparation process, the DPR is involved in three stages. First, in May the executive submits the government work plan (RKP) and fiscal framework to the parliament. The deliberation and adoption of these documents results in reaching agreement on fiscal priorities and the macroeconomic framework underlying the budget. They are the basis for the setting of the indicative budget ceilings for programs and ministries by the directorate general of the budget, which are used in drafting the annual ministerial work plans and budgets.

Second, during June and August, preliminary discussions of the annual work plans of ministries and agencies take place directly between sectoral parliamentary commissions and their corresponding spending ministries. This provision of the law has resulted in an increase in the number and length of parliamentary hearings and interventions.

Finally, in August the government formally submits the draft budget law to parliament for debate (Law 17/2003 on state finances, Art.15). The president presents the state budget bill to the plenary session, and then deliberations of the detailed ministerial work plans and budgets (submitted to DPR as an annex to the draft state budget bill) take place at the commission level. The leadership of the Budget Commission reports to the DPR plenary session on the results of the first round of deliberations. The factions then deliver their final opinion, and the budget bill is enacted by October (or at the least two months before the budget year starts) to leave sufficient time for the executive to prepare budget implementation documents.

Once the budget is passed, the DPR has the right and responsibility to engage in oversight with regard to both financial compliance and achievement of results. The DPR has a number of means at its disposal to engage in ex post oversight. Perhaps most important, the DPR Budget Commission oversees and approves the midyear budget revision. In addition, Law 17/2003 on state finances requires the president to deliver an annual accountability report outlining the achievements and performance of the government, and sectoral commissions have the right to summon portfolio ministries to report on progress in implementing programs. The Supreme Audit Board's audit report is also submitted to the DPR for parliamentary review. So far, however, the DPR seems to invest primarily in budget formulation, paying much less attention to ex post oversight. Despite the disclaimer issued by the supreme auditor for five consecutive years on the executive's financial reports, little follow-up has taken place from the parliament's side. As such, the role of the parliament as the institution with public responsibility for financial oversight has not yet been effectively established.
Figure 21.1. Responsibilities in the Public Expenditure Management Cycle

Box 21.1. The Role of the House of Regional Representatives (DPD) in the Budget Process

In 2004 Indonesia established the Dewan Perwakilan Daerah (DPD)—Indonesia’s House of Regional Representatives (upper house). The function of the DPD is to represent regional aspirations in the national political process. Its members are directly elected with four representatives for each province. While the powers of the DPD are limited, the constitution mandates the DPD with the authority to:

1. Propose bills to the DPR related to: regional autonomy; central and regional relations; formation, enlargement, and merger of regions; management of natural resources and other economic resources; and bills related to the financial balance between the centre and the regions.
2. Participate in the discussion of bills related to the matters in paragraph 1 above, as well as provide advice to the DPR on bills on the state budget and bills related to taxation, education, and religion.

(continued)
Box 21.1. (continued)

3. Oversee the implementation of laws related to the matters in paragraphs 1 and 2 above, as well as submit the results of such oversight to the DPR in the form of material for its further consideration.²⁷

With regard to the budget process, the powers of the DPD are limited to an advisory role. The DPR has the sole responsibility for passing the budget bill and for overseeing the implementation of it by government. The DPD has the authority only to render advice to the DPR on the state budget bills, in particular on matters that affect regions, such as the allocation of intergovernmental transfers. Moreover the DPR does not have a constitutional obligation to act on issues raised by the DPD. Similarly, the DPD has the authority to oversee budget implementation, but it is up to the DPR to take action on the results of DPD investigations.

The DPD has nevertheless shown a desire to play a strong role in the budget process and has sought outside assistance to build its capacity to do so effectively.²⁸ For example, the Budget Commission (Commission IV) of the DPD scrutinized the government’s 2007 budget proposals, held a series of public hearings in western, central, and eastern Indonesia, and prepared a written report for the Ministry of Finance (MoF). The report, which contained 32 recommendations, was launched in a special public event well covered by over 40 representatives of the national media. In a separate address to the DPD, the president of Indonesia acknowledged five recommendations by the report.

The main recommendations of the Budget Commission’s report were about macroeconomic policy direction, fiscal policy (in particular, fiscal equalization between the center and the regions), budget priorities, problems regarding the budget implementation, and intergovernmental relations between central and regional government. In preparing the report, the commission used data and information from the public hearings, the Department of Finance, the State Planning Agency (Badan Perencanaan Pembangunan), regional governments, and leading nongovernmental organizations and think tanks. In addition, the final (published) version of the report was the result of a participatory process designed to involve the entire DPD. Two earlier drafts were debated at an ad-hoc commission (PAH) IV meeting and received input from all 32 members. Once approved, the final draft was circulated to all 128 members of the DPD, who were given five working days to review it and request modifications before it was debated in the plenary and approved unanimously (Datta, Handayani, and Strait 2006).

Ellis (2007) noted that “the acceptance of DPD recommendations ... as well as the role given to oversight in the 2006 DPD strategic plan, suggest that the DPD will be able to establish a real, if limited, role for itself.”
The Evolving Nature of Legislative Engagement—Some Preliminary Observations

The scrutiny and approval of the draft annual budget by parliament are essential features of the budget approval and implementation process in any well-functioning democracy. Since the first free elections were held in Indonesia in 1999, executive-legislative relations are still evolving, and both branches of government need to adjust to the new institutional environment. While the transition is arguably far from complete, a number of interrelated features stand out in the way this relationship is shaped by the political setting and institutional context.

First, under the current framework the legislative amendment powers are virtually unlimited. Law 17/2003 provides that "the DPR may table amendments regarding the amount of the receipts and spending specified in the budget bill" (Article 15). The parliament has made use of this authority, and has repeatedly increased the revenue projections proposed by the executive in order to boost annual spending. For example, during deliberation of the assumptions underlying the draft 2007 budget, the aggregate indicative spending ceiling of Rp 230 trillion was revised up by parliament to Rp 256 trillion. Further upward revisions were made to spending after the draft state budget (ABPN) was submitted to parliament in mid-August 2006. In the current fiscal environment with buoyant revenues, this has not compromised the executive focus on fiscal consolidation and debt reduction. However, unlimited amendment rights do entail the risk of rising deficits in particular should fiscal conditions tighten. In a more restrictive budgetary environment, parliamentarians may choose to raise the deficit to avoid spending cuts. Many countries have chosen to impose fiscal rules that are binding for both the executive and legislature, to curtail such risks. In Indonesia, safeguards are included in Law 17/2003, Article 12, along with subsequent implementing regulations that set the maximum deficit at 3 percent GDP (gross domestic product) and set maximum cumulative debt at 60 percent of GDP.

Second, the current budget deliberation process, and the resulting appropriations structure embodied in the budget law and annexes, allow for legislative involvement at a rather detailed level. The practice of submitting full ministerial work plans and budgets to the DPR for deliberation is one of the reasons for this focus on details. Article 15 of Law 17/2003 on state finances stipulates that budget appropriations of the DPR are to be classified by organizational units, functions, programs, activities, and types of expenditure. There are currently about 130 programs, with 19,945 spending units (satker) detailed by location, each of which has a detailed line item budget. Reportedly the DPR can, and routinely does, change the specific line items in expenditure appropriations proposed in the executive budget preposals.

This detailed appropriations approach is not atypical in presidential systems. John Huber and Charles Shiman (2002) noted that the more pronounced separation of powers and resulting policy conflicts between the legislature and the executive in presidential systems create incentives for a detailed rather than a flexible approach to legislation in general, and to budget appropriations
in particular. In addition, the detailed legislative involvement creates opportunities for members of parliament to follow political inclinations to use budget decisions to serve their constituencies (which may be defined by geographic regions or by other shared interests), for example, through targeted spending in certain regions. Individual members have also allegedly misused their authority over detailed spending items, to extract rents (see box 21.2).

These detailed deliberations not only consume considerable time and resources on the part of both the executive and the legislature, but they also presumably impair the quality of legislative engagement. Although the parliament as an institution has a strong interest in ensuring that overall spending priorities are reflected in the budget and that fiscal stability is maintained, the attention of individual members to detailed line items may distract from the focus on those more aggregate variables in the budget. Changing the current appropriation structure is politically challenging, given the enshrined vested interests in the current approach. Indonesia is pursuing an ambitious program

**Box 21.2. Budget for Sale: The Role of Budget Brokers**

Allegedly, the legislative involvement in the budget process, while designed to ensure representation of broad societal interests, has been partly captured by vested interests. Reports by the highly respected news magazine Tempo uncovered practices of budget "brokering" in the DPR. Brokers typically are staff or close associates working for DPR or even the DPR member himself or herself that help to seal specific deals when it comes to budget approvals by the DPR Budget Commission. They usually receive a commission based on the contract value.

For example, one case in budget year 2005 shows that budget requests by regional government for the postdisaster rehabilitation and reconstruction program under the Department of Housing and Regional Infrastructure, which were funded under supplemental finance, were more likely to be approved if there was a budget broker involved. According to Tempo investigations, the "fee" to get a proposal approved in the DPR is about 4 percent of the project's total value. Those whose budget exceeds the original amount that was requested are charged an even higher commission. The supplemental budget is particularly prone to such corrupt activities, since regional governments can award contracts without competitive bidding processes. Potential project contractors in collusion with regional governments are loyal "customers" of budget brokers. However, the practice does not seem to be limited to supplemental finance. Other reports describe similar practices in the DPR authorization of intergovernmental transfers, including most prominently the special allocation funds (DAK), which are largely allocated by a rather discretionary process involving the DPR Budget Commission. According to Tempo reports, budget approvals for specific DAK grants are brokered at a 15 percent fee.

Sources: Tempo (2005a, 2005b).
to modernize its public financial management system to underpin more transparent, accountable, and efficient resource allocation decision-making processes and sustainable fiscal policies. These reforms include a move toward results-based budgeting and the institution of a medium-term perspective in fiscal policies. In introducing a performance-oriented budget system, a first essential step is to simplify the budget appropriation structure. In other countries, this has usually been done by introducing to parliament a budget in which there are only a few budget programs (or outputs) per ministry. Politically, this would require the DPR to agree to such changes, trading off detailed controls against potential strengthened results and accountability on the part of the executive.

Third, the internal deliberation and approval process in the parliament is not sufficiently centralized. Jürgen von Hagen (2005) emphasized the importance of centralization of budgetary decisions within legislatures to ensure a disciplined approach to budget deliberations. For example, the U.S. Budget Enforcement Act passed in the 1990s reformed congressional procedures to enforce discipline in congressional budget approval. In Indonesia, some observers have remarked that internal parliamentary procedures are still evolving. For example, Sherlock (2003) observed that the large number of members on each commission (averaging more than 60), the failure of commissions to reach quorums because of nonattendance, multiple agendas for members, unfocused commission meetings, difficulties in reaching decisions, and the poor quality of discussion, debate, and questioning in commissions all contribute to a rather ineffective legislative process.

With regard to the deliberation of the budget, the Budget Commission is the key committee. The Budget Commission’s main role is to coordinate the review and approval of draft budgets and budget accountability reports. It is the main counterpart of the Ministry of Finance and plays a key role in advising the plenary session on the overall budget package. However, budget requests for each ministry currently must be approved by the sectoral commission responsible for oversight of that ministry, and sectoral commissions do not always complete their examinations of detailed budgets prior to the end-October adoption by the DPR of the overall budget. In this case, the respective parts of the budget are blocked, and the budget cannot be implemented—that is, spending cannot take place—until the relevant parliamentary commission approves it. For example, for the 2007 budget, the commission responsible for agriculture had not approved the detailed budget for the Ministry of Agriculture by mid-February 2007.

Moreover, the fragmentation of the party system and feeble party discipline impose only weak incentives on individual members to comply with collective interests. With 24 political parties represented in the DPR (in 2007) and with several factions represented on parliament’s 11 committees, reaching binding consensus is often difficult. Indeed, the fragmented membership and competing interests represented in the DPR, combined with the detailed approach to appropriations, has made it difficult for the DPR to come to a consistent position in its deliberation with the executive.
Given its substantial responsibility and the complexity of the issues at stake, the parliament needs to build adequate capacity to enable informed judgment and decision making. Some countries have institutionalized a non-partisan budget office to provide impartial assistance to the parliament in preparing budget scenarios. Although the Budget Commission has recruited several technical staff to assist in its analytical work, when it is compared with some other countries with presidential systems of government, the technical support to the DPR is still rather limited.

Conclusion

The political reforms that followed President Suharto's downfall in 1998 triggered grand constitutional changes in the way the Indonesian state operates and is held accountable. As in all modern democracies, representative government structures were established (1) to provide institutional channels for aggregating the preferences of individuals and groups in a society and (2) to ensure that these preferences are reflected in policy decisions. This has entailed the institutionalization of the legislative power of the purse, which arguably is one of the key features of any modern democratic system.

The realignment of democratic checks and balances in the budgetary process is a complex process that is directly affected by the broader constitutional design and political system. Typical for presidential systems, the DPR enjoys broad scope to revise the budget and make its own revenue and spending decisions and to monitor and discipline the discretionary power of the executive. Arguably, the extension of legislative powers is not without potential for conflict, in particular because, unlike other presidential systems, the Indonesian presidency does not have a formal veto power over legislation, including the budget bill, passed by the parliament to countercheck legislative powers. Though this has in the past years not resulted in major policy conflicts over the budget, neither the executive nor the legislature seems to be fully satisfied with executive-legislative interactions in the budgetary realm.

The excessively detailed legislative involvement in the current budget preparation process, and the resulting appropriations structure embodied in the budget law and annexes, has profoundly affected the quality of legislative interventions. These detailed deliberations not only consume considerable time and resources on the part of both the executive and legislative, but the attention of individual members to detailed line items may distract from the focus on more aggregate spending priorities in the budget. Changing the current appropriations structure is politically challenging and would require the DPR to agree to such changes, trading off detailed control against strengthened results and accountability on the part of the executive.

Second, internal deliberation seems insufficiently centralized. A review is under way by the DPR examining its own internal operating arrangements for budget review, decision-making, and approval. Operating procedures should aim to ensure that all parliamentary commissions, including sectoral
commissions, have focused, informed, and timely discussions relating to the annual budget law.

Finally, the DPR needs to develop its capacity to meaningfully review and approve executive proposals. Although the Budget Commission has recruited a few technical staff members to assist in its analytical work, technical support to the DPR is still limited. Going forward, the DPR may wish to consider the establishment of an independent parliamentary budget office.

Annex: DPR Sectoral Commissions and Their Government Working Counterparts

<table>
<thead>
<tr>
<th>Commission</th>
<th>Subject</th>
<th>Government department and/or state/government agencies</th>
</tr>
</thead>
<tbody>
<tr>
<td>I</td>
<td>Defense, international affairs, information</td>
<td>Ministry of Foreign Affairs, Ministry of Defense, Ministry of Communication and Information, National Defense Institute, National Intelligence Agency</td>
</tr>
<tr>
<td>II</td>
<td>Home affairs, regional autonomy, state apparatus, land issues</td>
<td>Ministry of Home Affairs, State Ministry of Administrative Reform, National Land Agency, State Secretary, Cabinet Secretary, National Civil Service Agency</td>
</tr>
<tr>
<td>III</td>
<td>Laws and regulations, human rights, security</td>
<td>Ministry of Laws and Human Rights, Attorney General, National Police, Corruption Eradication Commission, Judicial Commission</td>
</tr>
<tr>
<td>V</td>
<td>Transportation, telecommunication, public works, people housing, rural development, underdeveloped regions</td>
<td>Ministry of Public Works, Ministry of Transportation, Ministry of People Housing, State Ministry of Less-Developed Region</td>
</tr>
<tr>
<td>VI</td>
<td>Industry, trade, cooperatives/small and medium enterprise, state-owned enterprise, investment, national standardization</td>
<td>Ministry of Industry, Ministry of Trade, State Ministry of Cooperatives and Small and Medium Enterprises, State Ministry of State-Owned Enterprise, Investment Coordinator Body</td>
</tr>
<tr>
<td>VII</td>
<td>Energy, mining, research and technology, environment</td>
<td>Ministry of Energy, Natural Resource and Mineral, State Ministry of Research and Technology, State Ministry of Environment</td>
</tr>
<tr>
<td>VIII</td>
<td>Religion, social issues, women's empowerment</td>
<td>Ministry of Religion, Ministry of Social Affairs, State Ministry of Women Empowerment</td>
</tr>
<tr>
<td>IX</td>
<td>Demography, health, labor, transmigration</td>
<td>Ministry of Health, Ministry of Labor and Transmigration</td>
</tr>
<tr>
<td>X</td>
<td>Education, youth, sport, tourism, art and culture</td>
<td>Ministry of Education, State Ministry of Youth and Sport, State Ministry of Culture and Tourism</td>
</tr>
<tr>
<td>XI</td>
<td>Finance, national planning, nonbanking financial institution</td>
<td>Ministry of Finance, State Ministry of National Development Planning, Central Bank of Indonesia</td>
</tr>
</tbody>
</table>

Source: Center for Law and Policy Study (PSHK)'s Web site on Indonesia Parliament (http://www.parlemen.net) and DPR official Web site (http://www.dpr.go.id).

Notes

The authors work as governance adviser and public financial management specialist, respectively, at the World Bank Jakarta. The views expressed in this paper are those of the authors only and should not be attributed to the World Bank. The authors would like to thank Soekarno Wirokartono, Frank Feulner, Stephen Sherlock, Rick Stapenhurst, and Lisa von Trapp for comments on earlier versions of this chapter.
1. During Suharto’s reign (1968–98), the MPR also established the broad outlines of state policy (GBHN) meant to be the general principles to guide activities of all state organs, including the DPR (lower house), in the succeeding period. The MPR was composed of DPR members, regional and civil society group representatives, and active military officers.

2. Designed to bring diverse social groups into a harmonious organization based on “consensus,” by 1969 Golkar had a membership of some 270 associations representing civil servants, workers, students, women, intellectuals, and other groups.

3. In the general elections of 1971, 1977, and 1982, Golkar won 62.8, 62.1, and 64.3 percent of the popular vote, respectively (King 2003).

4. Formally, there must be proof of legal misconduct on the part of the president for an impeachment to be legitimate. If the Constitutional Court rules that this is the case, the DPR may submit the motion to the MPR (consisting of 128 DPP (upper house) members and 550 DPR members), and two-thirds of the MPR must approved the initiative (Sherlock 2007a, 7) In practice, the only time a president was impeached was in 2001, when political differences with the DPR eventually forced President Wahid out of office. At that time the impeachment rights were less restricted than under the more recent third constitutional amendment.

5. It is important to note that the constitutional amendments of the late 1990s followed the state architecture of the pre-Suharto period and initially instituted a parliamentary system whereby the president and vice president were chosen in indirect elections by the parliament. This only changed with the revision of the regulatory framework, namely by Law 31/2002 on political parties, Law 12/2003 on general elections, and Law 22/2003, which stipulated direct elections for the presidency. The first direct presidential elections were held in 2004.

6. An early indication of the importance of politicking was the presidential election in the MPR. Although the PDI-P party controlled one-third of the parliamentary seats, it did not succeed in the elections for the presidency. Megawati Sukarnoputri lost in the presidential election in MPR against Abdurrahman Wahid (Gus Dur) from the PKB party, who brilliantly maneuvered to obtain support from the so-called middle axis grouping.

7. It should be noted that the Indonesian party system has been delineated along broad ideological demarcations of Islamic and nationalistic parties.

8. The National Legislation Program consists of a list of priority legislation for the DPR.


12. There is a restriction that members of the legislative body cannot come from leadership of commissions or members of the domestic affairs committee or the Inter-Parliamentary Cooperation Committee.


14. DPR Standing Orders, Chapter 17, Art. 123, on the enactment of law.


18. International Institute for Democracy and Electoral Assistance (IDEA), the World Bank Institute, and the Australian Senate are among some of those supporting capacity building of the DPD.

19. Another sign that the DPD may be gaining influence in this area, the Jakarta Post reported that "Wednesday's session settles an argument between DPD and the House. The DPD had wanted a separate session to hear the President's annual budget speech ... the House wanted to hold a joint session." "SBY [Susilo Bambang Yudhoyono] Speech to Highlight Regions." Jakarta Post, August 23, 2006.

20. Again, this is a typical feature of presidential systems. For example, the U.S. Congress has unrestricted budget amendment powers. However, under the 1974 Congressional Budget Act, a budget resolution, laying out fiscal aggregates expected to be respected, is adopted by congressional budget committees prior to adoption of the annual federal Appropriation Acts by Congress.

21. For example, for the 2006 budget, the Budget Commission worked on an assumption of a central government deficit target of a maximum of 1.2 percent of GDP.

22. Pork-barrel spending by representatives of geographically divided constituencies has been treated widely for the U.S. case, both theoretically as well as empirically. Weingast, Shepsle, and Johnson (1981) provide a comprehensive treatise and show that individual members have an interest in spending programs with regionally targeted benefits that are nationally funded.

23. For example, in the United States, the Congressional Budget Office (CBO) assists the Congress, especially the House and Senate Budget Committees, by preparing reports and analyses. In accordance with the CBO's mandate to provide objective and impartial analysis, the CBO's reports contain no policy recommendations.

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