

# Foreword

Improving the responsiveness, accountability, and transparency of governance is now accepted as vital to the achievement of improved standards of living and opportunities in developing countries. The heightened attention in recent years to good governance has logically led to a greater focus on the way in which budgets are formulated, implemented, and monitored. Consultative budgeting initiatives can directly contribute to improved governance outcomes by opening a key planning and management tool to public participation and oversight. Regardless of whether efforts are focused on public involvement in planning, drafting, or implementing the budget, international experience is demonstrating positive outcomes related to efficiency and responsiveness of government services. In particular, as governments implement decentralization programs, opportunities are created for citizens to understand and relate to the budget as an instrument for monitoring and influencing performance and service delivery.

Best practices in applied budgeting have been developed in countries, including South Africa, Brazil, and India. Given the increasing interest in this methodology, the Asian Development Bank (ADB) designed and implemented a regional technical assistance to pilot an applied budgeting project in Indonesia, the Marshall Islands, and Pakistan. The project engaged government officials, legislators, and civil society representatives in two sites in each country—over an 8-month span to initiate budget forums where the annual budget is discussed openly and subjected to suggestions from the public. Activities resulted in an increased awareness of the budget process by the public. Government officials have committed to disseminate budget information

and hold future consultation forums. Legislators have spurred renewed commitment to fulfill their oversight and monitoring functions. These promising results suggest that there is broad scope to expand budgeting initiatives in the region.

This publication is intended as a reference for local governments, civil society groups, and nongovernment organizations seeking to apply consultative budgeting methods. ADB is committed to support its developing member countries in reducing poverty through improved governance, and hopes that these case studies will contribute to an increased integration of public consultation in government programs to improve outcomes for their citizens.

To support ADB's commitments on knowledge dissemination, we are also translating this publication in Urdu and Bahasa to be distributed among the local government leaders and officials and members of civil society at the grassroots level. We hope this endeavor will result in generating a greater demand for transparency and showcase some stories for others to follow. We also hope that officials of other development partners including ADB staff will benefit from the lessons documented here to mainstream participatory approaches and civil society partnerships in their projects and programs.



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# Abbreviations

ADB	Asian Development Bank	MTBIF	medium-term budget investment framework
AKA	<i>Aeloon Klein Ad</i> Party, Marshall Islands	NGO	nongovernment organization
APBD	annual budget, Indonesia	PAC	Public Accounts Committee, Marshall Islands
BIGS	Bandung Institute for Governance Studies	PAD	<i>pendapatan asli daerah</i> —Indonesian local government’s locally-generated revenues
CCB	citizen community board	P3ML	Center for Local Community Study and Empowerment
CIDA	Canadian International Development Agency	PR	rupee, Pakistan
CSO	civil society organization	RAPBD	draft annual budget, Indonesia
DAK	<i>dana alokasi khusus</i> —Funds earmarked for central government projects at the local level in Indonesia	RASK	department work plans, Indonesia
DAU	<i>dana alokasi umum</i> —General funds from central to local government in Indonesia	RETA	regional technical assistance
DFID	Department for International Development, United Kingdom	RKA	<i>rencana kerja dan anggaran</i> —work and budget plan
DISHA	Developing Initiatives for Social and Human Action	RMI	Republic of the Marshall Islands
DPRD	local parliament, Indonesia	RKPD	<i>Rencana Kerja Pemerintah Daerah</i> —Local Government Work Plan
EDO	executive development officer, Pakistan	Rp	rupiah, Indonesia
ESN	Ebeye Special Needs, Marshall Islands	SKPD	<i>Satuan Kerja Perangkat Daerah</i> —Local Government Technical Department
FITRA	Indonesian Forum for Budget Transparency	TMA	<i>Tehsil</i> municipal administration
GDP	gross domestic product	TMO	<i>Tehsil</i> municipal officer
KUA	<i>kebijakan umum anggaran</i> —General Budget Policy	TOR	terms of reference
LGO	Pakistan Local Governance Ordinances (2001)	UC	Union Council, Pakistan
LPJ	<i>laporan pertanggung jawaban</i> —final accountability report, Indonesia	UDP	United Democratic Party, Marshall Islands
		US	United States of America
		WUTMI	Women United Together in the Marshall Islands

**FREQUENTLY-USED FOREIGN TERMS**

<i>Musrenbang</i>	bottom-up planning process in Indonesia
<i>Naib Nazim</i>	head of subdistrict council in Pakistan
<i>Nazim</i>	head of subdistrict in Pakistan
<i>Nitijela</i>	Marshall Islands Parliament
<i>Tehsil</i>	Subdistrict in Pakistan

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NOTE: In this report, "\$" refers to US dollars.

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Editors

# Executive Summary

This publication documents experiences under the Asian Development Bank (ADB) regional technical assistance (RETA) 6170, an eight-month project to increase participation in local budgeting in Indonesia, Marshall Islands, and Pakistan. The project was launched in October 2005 and was completed in July 2006. The technical assistance was specifically intended to pilot applied budgeting in different country contexts and share lessons learned to other organizations and stakeholders seeking to increase participation and transparency in budgeting. Specifically, this publication is intended for use by country stakeholders, practitioners, and development workers to provide examples of considerations that should be taken into account when implementing applied budgeting approaches in Asia.

The purpose of the RETA was to “enhance civil society’s awareness of resource allocation and the budgeting process and their actual involvement in the budget decision-making process. Through civic, informed, and constructive engagement, public service delivery will be more responsive to the poor.” The outputs of the project, as outlined in the terms of reference, included:

- (i) an agreed participatory budgeting strategy;
- (ii) training materials on budget literacy and practical budget work;
- (iii) 12 regional capacity development workshops;
- (iv) local budget forums operational to develop the principles and practices of budget work in local governments; and
- (v) action plan on how to replicate participatory budgeting approaches.

The pilot sites in Indonesia were Kebumen Regency in Central Java and Makassar City in South Sulawesi. In Pakistan, the sites were Kasur and Jehlum subdistricts (*tehsils*) located in Punjab Province. Indonesia and Pakistan are both large, predominantly Muslim countries that have recently undergone significant decentralization policies. They are the most directly comparable of the three countries. The Marshall Islands would be more comparable, in terms of budget and population, to one of the local governments involved in the other two countries. Thus, for the Marshall Islands, it was decided that it was more appropriate to focus on the national budget rather than a local budget and involve civil society organizations (CSOs) from Majuro and Ebeye, the two main population centers, which together constitute over 75% of the population.

Despite their different contexts—as shown in the table below—many of the findings of the project

### Summary of Basic Country Information<sup>1</sup>

	Indonesia	Marshall Islands	Pakistan
Population	217.4 m	57,000	151.8 m
Year of independence	1945	1986	1947
Human Development Index ranking	110	121	135
GDP per capita (\$)	3,361	2,340*	2,097
Adult literacy rate (%)	87.9	93.7	48.7
Transparency International ranking	140	–	146
Gender Development Index ranking	87	–	107

<sup>1</sup> as of 2003  
 GDP = gross domestic product; m = millions; and – = not available.  
 Source: see endnote 1

are surprisingly similar. Activities, while tailored for individual contexts, were broadly the same in each country.

The budgeting strategy agreed upon was to concentrate on introducing public dissemination of and consultation on the draft annual budget. Since the draft annual budget is the document that dictates the actual work plan of the government for the upcoming year, it was felt that generating public oversight of the annual budget would have maximum impact in terms of governance outcomes.

In each country, the project began by developing budget manuals for use in capacity-building workshops. The manuals provide information on international best practice in budgeting, the budget cycle and actors in the respective governments, guides to analyzing revenue and expenditure, and information on how CSOs can get involved in the budget process. English and local language versions of the manual are being disseminated widely.

The manuals were used in a series of trainings to transfer knowledge of the budget process, analysis, and advocacy techniques to the public in each site. A broad range of CSOs was involved, including not only nongovernment organizations (NGOs), but also grassroots CSOs (for example, churches and parent-teacher associations, as well as private sector associations and the media). Five CSO trainings were held in the Marshall Islands and a total of 68 CSOs were trained. Two trainings in Indonesia involved 55 CSOs, while two trainings in Pakistan had a total of 72 CSOs. Trainings were likewise extended to members of the local parliaments of Indonesia and Pakistan, upon their request. One training was held in Kebumen for 22 local legislators and 7 members of the secretariat. Trainings were also held for tehsil councilors in both Jehlum and Kasur.

The trainings highlighted a number of important issues. First, with the varied composition of CSOs, budget materials and trainings had to be greatly simplified for people to follow the materials and remain engaged in the training. Indeed, in some cases, CSOs felt they should not monitor the budget or, more accurately, that their actions have no impact on the functioning of the government. Second, it became clear that in some cases, governments were not following legal provisions in the planning and monitoring of the budget. For example, in the

Marshall Islands, the Public Accounts Committee of the Parliament, which is the primary source of oversight of the annual budget, had not met for several years. In Pakistan, councilors were not consulted on the draft budget or on draft taxation proposals despite provisions in the budget rules requiring both these steps. These findings and discussions led to recommendations and action plans later in the project.

Next, public-private budget forums were held to demonstrate to officials and the public what a consultation process during the planning stages of the budget entails for future replication. Civil society participants who had already participated in the budget literacy trainings were invited to attend and government officials were asked to present the annual budget. Although the original intention of the workshops was to hold a discussion on the draft budget for the next fiscal year, delays in the budget cycle meant that discussion focused instead on the enacted budget. In Indonesia, the fiscal year runs from January to December, which meant that the draft Fiscal Year (FY) 2007 budget was not yet available at the time of the workshop. In the Marshall Islands and Pakistan, the draft budget should have been presented to the Cabinet/local council, respectively, but preparation was behind schedule. The program was, therefore, modified to disseminate the FY2006 budget. Citizens demonstrated that the demand for budget information clearly exists. For example, in Indonesia, over 100 people attended the budget forum in each site.

Citizens' concerns raised during the budget consultations included:

- questions regarding specific allocations and levels of service provision. Areas of concern to citizens (for example, the state of particular public works or funding levels for school) were often addressed immediately or noted by officials.
- in Indonesia and Pakistan, mechanisms intended to channel citizens' needs into the development budget for the upcoming year were criticized. Although the details obviously differed in both countries, the public felt that these mechanisms were not being implemented in good faith by the local governments.

- in the Marshall Islands, access to information was emphasized, particularly for people living off of the main atoll. This encompassed not only budget information, but also a perceived ineffectiveness of the government to communicate with CSOs.

The final activity of the project was a national-level conference to disseminate the case studies, and discuss how the activities could be institutionalized and replicated. Government and civil society counterparts in the pilot sites were asked, prior to the conference, to draft action plans on how they would envisage institutionalizing budget work in the future. While the action plans differed in each country, CSOs centered on budget literacy and advocacy efforts of their members. Government officials in the executive branch focused on ways they could make the budget available to a broader public, often using existing media, such as, government radio and the internet. In cases where the technical assistance had highlighted discrepancies between the budget rules and the actual implementation of the budget (particularly in Pakistan), the heads of local governments pledged to ensure that the budget rules would be followed. Legislators were particularly interested in ways they could fulfill their oversight responsibilities and be in broader consultation with their constituents.

A number of important advances were made during the final conference. For example, in the Marshall Islands, the Senate Public Accounts Committee agreed to meet for the first time in nearly 6 years. In Indonesia, the local parliament of Kebumen is drafting a regulation on local budgeting which will explicitly include provisions for public consultation. These outcomes are particularly encouraging considering the very limited scope of the pilot project and bode well for future replication.

In terms of sustainability, it was found that Indonesia's pilot projects are most likely to receive further support to continue these efforts and have the most capacity—on the part of both government and CSOs—to implement continued budget dialogues. In Pakistan, efforts to implement the budget rules will likely require technical assistance to both the executive and the legislative; ongoing donor support for devolution could align activities to the lessons from this project. Efforts to strengthen

CSOs' capacity to engage in independent analysis and advocacy will require long-term support. In the Marshall Islands, the high-level commitment made at the final conference makes it likely that—at least, in terms of access to information—reforms will be carried out. However, technical support to the Parliament would be very useful in sustaining the monitoring function of the legislative branch. CSOs in the Marshall Islands have high levels of interest and motivation to continue this work, but will be severely constrained in pursuing budget literacy and outreach efforts in the absence of future donor support.

Consistent with lessons learned from related governance programs,<sup>2</sup> the experience in the three countries highlighted the following:

- Conflict between executive and legislative branches of government reduces the likelihood that meaningful public consultation will take place.
- Budget efforts often focus on planning, but monitoring may be even more useful in some contexts.
- Donor fund supporting budget reforms has primarily focused on the executive arm of government to the neglect of the legislative branch.
- Successful institutionalization of applied budget work requires sustained support (financial and technical) to CSOs.
- Even in a democratizing context, many government officials continue to resist the notion that budgets should be shared with the public. Reform-minded heads of local governments can serve as models in this regard.
- Bottom-up processes intended to allow citizens to directly impact the annual budget planning were found to be ineffective in both Indonesia and Pakistan due to political resistance, fiscal constraints, and low capacity. Legal mechanisms such as Freedom of Information Act, which empowers citizens to analyze the budget, may be more useful than mechanisms for consultation within the annual planning process that can be blocked by political resistance.

The experiences of the three countries in this pilot project highlight that the challenges to opening

budget processes to public oversight are primarily political. In general, the willingness of the head of government to involve the public in the budget process sets the tone for the success of the activities. Resistance at lower levels of the bureaucracy will only give way in the face of an overarching environment supportive of these efforts. In addition, a number of technical issues have to be overcome, particularly in strengthening the capacity of civil society counterparts and the legislators to play their respective roles in budget oversight. In replicating these activities, practitioners are advised to:

- Focus efforts on countries/local governments with a legal framework supportive of public consultation and where heads of local governments are willing to take a leadership role.
- Extend technical assistance to both the executive and the legislative branches simultaneously to ensure that the budget rules are followed and that there is agreement on how public consultation should be conducted.

- Work with CSOs to develop budget literacy campaigns and to support long-term networking and capacity building for a successful advocacy.

The success of the pilot initiatives indicates that there are significant opportunities for replicating applied budgeting work in Asia. Benefits seen under the pilot project include increased commitment by the executive and the legislative branches to follow budget rules, improve internal processes, and solicit civil society inputs. On the part of CSOs, these activities provide increased understanding of the government's role and function, and ultimately—by enhancing dialogue and accountability—can strengthen democratic institutions. Increased engagement by civil society in the budgeting process also results in better policy and planning by encouraging more efficient use of resources and projects that respond to the genuine needs of the community. Consistent with international experience, applied budgeting is recommended as a useful tool in supporting improved governance outcomes.