

IMPLEMENTATION OF PERFORMANCE-BASED BUDGETING AS A LEGAL INSTRUMENT IN PUBLIC FINANCIAL MANAGEMENT IN INDONESIA

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Abstract

The implementation of performance-based budgeting is an important part of state financial management reform, which aims to improve transparency, accountability, and efficiency in the use of public budgets. This system links the allocation of funds to measurable performance outcomes, thereby changing the paradigm of financial management from simply absorbing the budget to achieving effective and efficient results. This study discusses how performance-based budgeting functions not only as a technocratic tool but also as a legal instrument that binds government institutions to be accountable for the results of state budget use. The legal basis for PBB in Indonesia is reflected in Law No. 17 of 2003 on State Finance and Law No. 1 of 2004 on State Treasury. However, in practice, the implementation of PBB still faces various challenges, such as limited human resources, weak performance indicator development, and a lack of integration between planning and budgeting. Therefore, it is necessary to improve the capacity of civil servants, strengthen information systems, and promote synergy between institutions to encourage the creation of better, more transparent, and accountable state financial management. Thus, performance-based budgeting plays a strategic role as a legal instrument in achieving accountable and results-oriented governance.

Keywords: Performance-Based Budgeting, Legal Instruments, Transparency

INTRODUCTION

Accountability remains a central issue in the public sector in Indonesia. As a developing country, the issue of good governance remains a primary concern in relation to the utilization of authority and management of the public sector. In many developing countries, it is evident that a culture of corruption has become deeply rooted in government bureaucracies, which are characterized by resource scarcity. In this context, the lack of accountability is very prominent and has become a dominant characteristic of administrative culture over time. The process of structural transformation from a traditional society to a modern one and from an agrarian economy to an industrial economy, the process of transforming an economic system dominated by the government to a market economy, where the community increasingly plays a key role in development, is a change and shift currently occurring within the society within which it operates. These two internal processes are driven and influenced by external processes, namely the process of globalization of the world economy, with two characteristics and driving factors: free trade and technological progress (Asyikin, 2020).

The dynamic changes and shifts that have occurred have created a critical mass, and one consequence is that the performance of government agencies has recently drawn much criticism, especially due to the highly dynamic development of society and the emergence of a more democratic climate in government. The public has become more critical in assessing the implementation of public services and naturally expects good and fair implementation as well as quality products and other services. However, in practice, these expectations are not always met by the government, both at the central and regional levels. To date, many cases of public services still fall far short of public expectations (Local Governance Support Program, 2009).

The Indonesian government has enacted Law Number 32 concerning Regional Government and Law Number 33 of 2004 concerning Financial Balance Between the Central and Regional Governments which have brought about changes in regional financial management, resulting in renewal in regional financial management. The main objective of Law Number 32 of 2004 is to provide a strong legal basis for the implementation of regional autonomy by giving regions the freedom to become autonomous regions independently. Meanwhile, the main objective of Law Number 33 of 2004 is as an effort to empower and improve the regional economy, create a fair, proportional, rational, transparent, participatory, accountable financing system, and create a good financial balance between the central and regional governments. Governance management has experienced a paradigm shift in the last two decades, namely from process-oriented to results-oriented. There has been a renewal of the financial management system in both developed and developing countries, including Indonesia. State financial reform in Indonesia was carried out through Law Number 17 of 2003. This law regulates the Implementation of the Integrated Budget, Performance-Based Budgeting, and the Medium-Term Expenditure Framework (KPJM).

The implementation of this law will overhaul the procedures for state financial planning and management, requiring the government to develop a comprehensive conceptual framework and roadmap. To this end, the National Development Planning Agency and the Ministry of Finance have designed a conceptual framework and roadmap in three stages. The first is an introductory phase, implemented from 2005 to 2009. The second is a consolidation phase, implemented from 2010 to 2014. The third is a refinement phase, implemented after 2015.

In Indonesia, various regulations and guidelines have been issued regarding the implementation of performance-based budgeting in local governments. These regulations include the inclusion of performance indicators in planning and budgeting documents and the use of performance indicators in the government budgeting process (Munzil, 2020). This paradigm shift is not only occurring in Indonesia but also in other countries, such as the 31-

member Organization for Economic Co-operation and Development (OECD). Oriented toward the outcomes paradigm with an emphasis on effectiveness, efficiency, and accountability, performance-based budgeting is one of the tools or means to achieve these goals. Numerous studies have been conducted, both in Indonesia and other countries, on the implementation of performance-based budgeting. Based on the description above, the main problems that can be researched and included in this paper can be formulated as follows: 1) How is Performance-Based Budgeting Implemented as a Legal Instrument in Public Financial Management in Indonesia? 2) How effective is performance-based budgeting as a legal instrument in realizing transparency, accountability?

RESEARCH METHODS

In this legal research, the author uses a normative legal research method (Subagyo, 2004), namely research conducted by examining secondary legal materials, such as laws and regulations, legal literature, doctrines, and relevant court decisions. The approach used in this research includes a statutory approach, by examining provisions in laws and regulations that regulate performance-based budgeting systems, such as Law Number 30 of 2014 concerning Government Administration, Law Number 32 concerning Regional Government and Law Number 33 of 2004 concerning Financial Balance Between the Central and Regional Governments. In addition, this study also uses a conceptual approach to understand the concept of performance-based budgeting as part of the principles of good governance and legal instruments in public financial management (Soekanto, 2015). Research data was obtained through library research, by collecting and reviewing primary legal materials (relevant laws and court decisions), secondary legal materials (books, journals, scientific articles), and tertiary legal materials (legal dictionaries and legal encyclopedias) related to the state financial management system and the application of performance-based budgeting principles (Abdulkadir, 2004).

RESULT AND DISCUSSION

Implementation of Performance-Based Budgeting as a Legal Instrument in Public Financial Management in Indonesia.

Referring to Government Regulation Number 105 of 2000 concerning Regional Financial Management and Accountability, regional budgeting in Indonesia is structured using a performance approach. This approach was developed to address various shortcomings of the traditional approach, particularly the lack of benchmarks for measuring performance in achieving public service goals and objectives (Rizqiyanto & Rahman, 2024).

Performance-based budgeting is a budgeting method for management to link each funding outlined in activities with the expected outputs and results including efficiency in achieving the results of these outputs (Financial and Development Supervisory Agency, 2005). These outputs and results are outlined in performance targets for each work unit. Meanwhile, how these goals are achieved is outlined in the program followed by financing at each level of goal achievement. A program in a performance-based budget is defined as a policy instrument containing one or more activities to be implemented by a government agency or institution to achieve targets and objectives and obtain budget allocations or community activities coordinated by government agencies (Rizqiyanto & Rahman, 2024).

Good public financial management is a crucial foundation for transparent, accountable, and effective governance. One approach currently under scrutiny in the state financial system is the implementation of performance-based budgeting (PBB). This approach aims to link fund allocation to results, not simply budget absorption. Public financial management is a response to the weaknesses of traditional budgeting approaches, which focus solely on inputs and fail to ensure optimal outputs or development outcomes. (Sangki et al.,

2019)

In Indonesia, the strengthening of the performance-based budgeting system has a strong legal basis, particularly since the enactment of Law Number 17 of 2003 concerning State Finances. This law explicitly states that state financial management must be carried out in an orderly, efficient, economical, effective, transparent, and accountable manner. In this context, the implementation of performance-based budgeting is not only a technocratic policy instrument, but also a legal instrument that binds, directs, and limits the scope of government institutions in preparing and using public budgets (Prastowo, 2014).

In essence, performance-based budgeting requires each government work unit to establish clear programs and activities, accompanied by performance indicators, target milestones, and plans for efficient budget utilization. In practice, every rupiah spent by the state must be linked to measurable outcomes, such as improved public service quality, economic growth, poverty reduction, or other development indicators. This encourages a paradigm shift from simply "spending the budget" to "achieving the best performance with an efficient budget" (Prastowo, 2014).

As a legal instrument, the implementation of performance-based budgeting also improves oversight and accountability. Provisions in Law Number 1 of 2004 concerning the State Treasury stipulate that every use of the state budget must be legally accountable, both administratively and criminally, if misuse is found. Therefore, failure to achieve performance targets or using the budget outside the provisions stipulated in the performance-based budget document can result in legal consequences, particularly if accompanied by elements of negligence or procedural violations.

The implementation of performance-based budgeting also encourages the government to improve the overall development planning system. Every program must align with the medium-term strategic plan (Renstra) and the annual work plan (RKA), both of which are directed to include performance indicators. In this regard, indicators are key to the success of PBB implementation, as unmeasurable or unrealistic indicators will complicate the evaluation process and ultimately weaken accountability.

The Indonesian government has developed the Budget Performance Evaluation (EKA) system and the Government Agency Performance Accountability System (SAKIP) as part of the performance-based budgeting ecosystem. Every ministry, agency, and regional government is required to prepare performance reports based on the implementation of budgeted programs and activities. These reports serve as oversight tools for the Supreme Audit Agency (BPK), the Inspectorate General, the Ministry of Administrative and Bureaucratic Reform (KemenPAN-RB), and the House of Representatives (DPR), the legislative body responsible for oversight of budget policy.

However, in practice, the implementation of performance-based budgeting in Indonesia has not been entirely ideal. Many ministries and local governments still face difficulties in developing appropriate performance indicators. Some institutions even develop indicators that are irrelevant to activity outputs, or are too general and difficult to measure objectively. Furthermore, the bureaucracy still tends to focus more on budget absorption, especially towards the end of the fiscal year, than on the quality of results achieved. This mindset demonstrates that although PBB has become a legal instrument, its implementation has not substantially changed bureaucratic behavior.

Another challenge is human resource capacity. Many civil servants (ASN) lack the understanding and skills to develop appropriate performance-based programs. This is exacerbated by the lack of adequate information systems to monitor and evaluate budget implementation. Some regions even lack an integrated performance reporting system, complicating reporting and oversight.

Institutionally, the harmonization of the development planning system (managed by

Bappenas) and the budgeting system (managed by the Ministry of Finance) still needs to be strengthened. The disconnect between planning and budgeting documents results in asynchronous programs and wasted resources. In this context, the PBB should serve as a bridge between strategic development plans and budget realization, as its success lies in consistency between planning, implementation, and performance evaluation.

Nevertheless, there are also numerous examples of successful implementation of performance-based budgeting in Indonesia. The Ministry of Finance, for example, has implemented a rigorous performance indicator system across all its programs and integrated results-based evaluation processes into its financial reporting system. Several local governments, such as Surabaya City and Sleman Regency, have also begun implementing PBB principles in the planning and implementation of their regional budgets (APBD), and have successfully achieved high accountability ratings from the Ministry of Administrative and Bureaucratic Reform (KemenPAN-RB).

As part of its strategy to strengthen public financial management, the government needs to continue promoting budget reform by strengthening the legal aspects of performance-based budgeting. One crucial step is to strengthen sanctions for institutions that fail to meet performance targets without a clear reason, while also providing incentives for institutions that demonstrate budget efficiency and effectiveness. Furthermore, increasing the capacity of civil servants (ASN) through intensive training on the PBB (land tax), developing performance indicators, and reporting on performance should be a priority in the bureaucratic reform program.

In the long term, implementing performance-based budgeting as a legal instrument will support the creation of better, more transparent, and participatory state financial governance. Through this approach, the public can participate in monitoring development outcomes based on objective indicators, rather than solely relying on political narratives or financial reports that may not reflect the reality on the ground. Furthermore, the integration of financial, legal, and performance management systems will create a robust ecosystem for managing state resources.

It's also important to recognize that the success of the PBB is determined not only by the availability of regulations, but also by political commitment, bureaucratic will, and the active participation of the public. Therefore, the implementation of the PBB as a legal instrument must be understood as a long-term transformation process that requires continuous monitoring, periodic evaluation, and adaptation to changing social, political, and economic dynamics.

Thus, performance-based budgeting holds a strategic position in public financial management in Indonesia. It serves not only as a technical tool for formulating and implementing development programs, but also as a legal instrument that ensures that every state expenditure has a legal basis, measurable results, and clear accountability. Going forward, Indonesia's success in managing state finances will be determined by the consistent, systematic and comprehensive application of performance-based budgeting principles.

The Effectiveness of Performance-Based Budgeting as a Legal Instrument in Realizing Transparency, Accountability, and Efficiency in Public Financial Management in Indonesia

In the Decree of the Head of LAN No. 239/IX/6/8/2003 concerning Guidelines for the Preparation of Government Agency Performance Accountability Reports, it is explained that:

"Accountability of government agency performance is the embodiment of a government agency's obligation to be responsible for the success and failure of implementing the organization's mission in achieving the targets and objectives that have been set through a periodic accountability system.

Public accountability that must be fulfilled by public sector organizations consists of several dimensions. According to Elwood (1993) in Mahmudi (2010:9), these dimensions are honesty and legal accountability, process accountability, program accountability, policy accountability, and financial accountability.

Budget transparency and accountability are the processes and methods used by the government to facilitate public access to budget-related information, from the initial stages of planning through to accountability reporting. This information relates to budget planning (Simanjuntak, 2024).

The budget serves as an instrument of public accountability for the management of public funds, most of whose activities are financed by public funds. The preparation of a performance-based budget aims to increase the efficiency of resource allocation and the effectiveness of its use in accordance with the planning established by the regional government. With the existence of a performance-based budget, it is expected that the budget can be controlled and used optimally to improve public welfare and support increased public sector accountability (Nurrizcky, 2017). Therefore, the relationship between performance-based budgeting and government agency performance accountability can be seen in Bastian's statement (2006:54), namely that efforts to create performance-based budget management are expected to be able to meet various demands and needs of the community, namely the formation of a spirit of decentralization, democratization, transparency and accountability in the process of government administration in general and the process of regional financial management in particular.

Performance-Based Budgeting is an approach to public financial management that links funding (input) to desired results or outputs and outcomes. This budget focuses not only on the amount of funds used, but also on how effectively and efficiently those funds are used to achieve public policy objectives.

The concept of performance-based budgeting has become part of state financial management reforms aimed at improving public sector accountability and transparency, as mandated by various laws and regulations, including Law No. 17 of 2003 concerning State Finance and Law No. 1 of 2004 concerning State Treasury. Based on this, performance-based budgeting functions not only as a financial planning and control tool, but also as a legal instrument that requires the government to be accountable for budget use based on established performance results.

As stated in the Decree of the Head of the State Administration Agency (LAN) No. 239/IX/6/8/2003 concerning Guidelines for the Preparation of Government Agency Performance Accountability Reports, it is stated that performance accountability is the embodiment of a government agency's obligation to account for the success and failure of implementing the organization's mission through a periodic accountability system. This emphasizes that every public sector organization is required to prepare a performance report that reflects the achievement of objectives in a transparent and measurable manner.

According to Elwood (1993) in Mahmudi (2010), public accountability encompasses several important dimensions, namely: honesty and legal accountability, process accountability, program accountability, policy accountability, and financial accountability. These dimensions indicate that accountability in the public sector is not only related to finance, but also to compliance with the law, process efficiency, program relevance, and government policies (Mahmudi, 2010).

The implementation of performance-based budgeting plays a crucial role in increasing transparency and accountability, as every expenditure must be linked to measurable performance indicators. This means that every rupiah spent must yield tangible results, both in the form of outputs and outcomes. Transparency arises when the public can access information related to budget planning, implementation, and reporting; while accountability is

reflected in the government's obligation to explain and account for its performance and budget use to the public (Mardiasmo, 2002).

Performance-based budgeting also promotes efficiency in public financial management. Efficiency is achieved when the government is able to produce public services at lower costs while maintaining high quality. Through this system, government activities will be more focused on results and impact, rather than simply activities or budget absorption. This aligns with Bastian's (2006) view that performance-based budgeting is a form of reform to achieve decentralization, democratization, transparency, and accountability in regional governance (Bastian, 2006).

Based on this, this system also supports the implementation of good governance, which emphasizes transparency, participation, accountability, and efficiency. Performance-based budgets compel government agencies to develop measurable, realistic, and results-oriented performance indicators. This makes the budget preparation and implementation process more systematic and legally and publicly accountable.

As a legal instrument, performance-based budgeting also reinforces the principles of justice and equity. Every program and activity must be based on an analysis of community needs, not solely on political considerations. Thus, this instrument can reduce the potential for irregularities or corruption in state financial management and accelerate the achievement of national development goals.

The effectiveness of performance-based budgeting as a legal instrument is largely determined by the commitment and capacity of state officials in formulating policies, establishing performance indicators, and implementing and evaluating programs. Therefore, improving human resource competency, strengthening financial management information systems, and maintaining strict oversight are key factors in the successful implementation of this system in achieving transparency, accountability, and efficiency in public financial management in Indonesia.

CONCLUSIONS

The implementation of performance-based budgeting (PBB) in Indonesia is an important part of the reform of the state financial management system, which aims to create more transparent, accountable, efficient, and effective governance. This approach has a strong legal basis through several regulations such as Law Number 17 of 2003 concerning State Finance, Law Number 1 of 2004 concerning State Treasury, and Decree of the Head of LAN No. 239/IX/6/8/2003, which emphasizes the importance of accountability for the performance of government agencies. Performance-based budgeting is not only a technocratic planning tool but also a legal instrument that forces each government work unit to link each allocation of funds to measurable achievements. Thus, the implementation of performance-based budgeting encourages transparency through the disclosure of budget information to the public, accountability through clear performance accountability, and efficiency by prioritizing results over mere budget absorption. Nevertheless, the implementation of performance-based budgeting in Indonesia still faces significant challenges, particularly related to limited human resources, inadequate development of performance indicators, poor integration between planning and budgeting systems, and the persistence of a bureaucratic culture focused on budget absorption. This indicates that, while legally sound, the implementation of performance-based budgeting still requires comprehensive overhaul.

To optimize the implementation of performance-based budgeting as a legal instrument in public financial management in Indonesia, the government needs to improve the capacity of human resources, particularly state civil servants (ASN), through continuous training on the development of performance indicators, program planning, and results-based reporting. Furthermore, a nationally integrated financial and performance information system is needed

to ensure efficient and accurate monitoring and evaluation. The government must also strengthen the synergy between planning and budgeting systems to ensure that each program is relevant to development targets and avoids overlap. Furthermore, a consistent implementation of an incentive system for institutions that achieve efficient performance and strict sanctions for those that fail to meet performance targets without justifiable reasons is necessary to foster an accountable work culture.

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