

NPM in Indonesia: Budget Restructuring, Privatisation and Civil Service Reform

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ABSTRACT

This paper aims to evaluate the application of New Public Management (NPM) in Indonesia's public sector through a brief description of public sector reform implementation and its impact to achieve better management practices and quality of public service delivery. The global advice of NPM-based reform suggests that public sector reform should be focused on management of public spending, management of public enterprises, and civil service reform. Based on this premise, the main analysis on Indonesia's NPM included national budget restructuring, privatisation on parastatals, and bureaucratic reform. Indonesia's budget restructuring obtained more adequate progress than both privatisation and civil service reform because of its high degree in managerial autonomy and relatively free political environment. Further research is needed to validate this proposition and to explain why NPM succeed in some areas and fail in others.

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1. Introduction

In the field of public administration, both academics and practitioners have been engaged with the discourse of NPM which mainly refers to managerialism approaches in organising and managing public affairs. As the effect of globalisation, the wave of NPM has been spreading and influencing the practice of governance around the world. In another words, the NPM influences the practice of governance within the nation-state around the globes.

The greater attention on NPM in developing countries is emerged (Bangura & Larbi, 2006; Samaratunge, Alam, & Teicher, 2008). The success stories of NPM have encouraged many developing countries to adopt this approach in their administrative systems. As one of NPM adopters, like many other countries, Indonesia translates the concept of NPM as the notion of 'good governance' and began to apply it in 1998 as a response to internal political change as well as financial crisis which surged through South East Asia. Thus, Indonesia implements public sector reform on national budget restructuring, privatisation on

parastatals and civil service reform in accordance to World Bank suggestion (Common, 2001).

To analyze the implementation of three initiatives, the author scrutinises a bunch of academic literatures related to Indonesian public sector reform especially national budget restructuring, privatisation on parastatals, and civil service reform. In addition, the author also supplements additional data and metrics from national and other mass- media report.

This paper discusses the main concept of NPM and its connection to public administration both in theory and practices. It will tackle the inquiry why NPM matters in the discourse of public administration scholarship. Then, the NPM initiatives will be evaluated in Indonesia jurisdiction context to gain the description of these initiatives and their impacts in Indonesia public sector reform.

2. Discussion

2.1. New Public Management

NPM indicates new approaches, the way in which public sector institutions provide public services to the

citizen. It criticizes 'Weberian Bureaucracy' on its red-tape, rigidity and in-efficiency. Practitioners and scholars believe that NPM is a different and better way to be implemented than traditional public administration (Gow & Dufour, 2000).

There are many terms to denote NPM such as 'Reinventing Government' (Gaebler & Osbourne, 1993), 'Managerialism' (Pollitt, 1990), 'Market-Driven Public Management' (Kelly, 1998), and 'Modernisation' (Massey & Pyper, 2005). However, all of them have the same focus to adopt and apply private sector management and techniques for efficiency in public sector. It also denotes the use of individualism and new institutional economics known as 'public choice theory' initiated by Chicago, Virginia, and Austrian school of thought as its basic philosophy (Hood, 1991; Hood & Peters, 2004; O'Flynn, 2007; Vries, 2012).

According to Hood (1991) NPM emphasises on professional management, performance measurement, control in output, decentralisation, competition, efficiency in resources and adopting private sector management style. He stated that "NPM'S rise seems to be linked with four other administrative 'megatrends', namely:

- 1) Attempts to slow down or reverse government growth in terms of overt public spending and staffing;
- 2) The shift toward privatization and quasi-privatization and away from core government institutions, with renewed emphasis on 'subsidiarity' in Service provision
- 3) The development of automation, particularly in information technology, in the production and distribution of public services; and the development of a more international agenda, increasingly focused on general issues of public management, policy design, decision styles and inter- governmental cooperation, on top of the older tradition of individual country specialisms in public administration. (page.3)

Despite its general applicability, in the field of practice, there are many different images in the NPM-based countries facade (Pollitt & Bouckaert, 2000). The variety can be described for instance: United Kingdom with its managerialism and civil service-modernisation, New Zealand and Australia with their sophisticated performance management system, Netherlands and Denmark with their devolution and internal modernisation, United States with its dynamics management sciences approaches.

Also, there are some critics toward NPM such as Olsen (2004) with his work on *Maybe It is Time To Rediscover Bureaucracy* which tried to contest 'Anglo-Saxon' NPM model with 'Neo-Weberian State'. Simultaneously, Drechsler (2009) argues that NPM-

based reform is not suitable to be implemented in South East of Europe area.

Despite some criticism, many NPM based tools and instruments are still used and optimized in order to support process improvements of the public sector management (Vries, 2012).

The discourse whether NPM is still applicable or it has already diminished, would be proven in the field of practises. However, in academic discourse, NPM is still beneficial to understand public administration as overarching paradigm. As suggested by Pyper (2015) that it is more useful to view public administration not as classical and traditional old-fashioned mode of government, but as supreme paradigm where we can locate subsequent development such as NPM or post-NPM and its variances. NPM is still essentials in public administration based on historical and paradigmatic perspective.

From the historical perspective, NPM and traditional public administration are experiencing dialectical conception particularly in the relationship between state and society, government and citizen, politics and management. Public administration was "then"; public management is "now" (Catlaw, 2008; Lynn, 2006).

It is valuable to pinpoint the NPM in analysing public administration as the evolution of societies which organised to fulfil public needs. As cited from Leonard D. White (1926) in (Lynn 2006:4) "the natural history of administration connects its ancient and modern forms in an unbroken sequence of development". In light of that, NPM lies as the development of public administration and it will transform on its dynamics within societies.

Massey & Pyper (2005) argues that innovation of technology and the changing environment in politics and socio-economic encourage the "social-institution" re-labelled as it is known as NPM at the moment. The social scientist sometimes finds themselves in the mission of re-discovering since we might be not aware that certain finding was implemented in a long time ago. This argument subtly argued the changes paradigms in public administration will happen concomitant overtimes. For instance, in the 20th century, Weber's concept of bureaucracy was the most effective and efficient way. However, at the moment, it is considered to be the centre issue of criticism in which NPM emerges.

NPM has been seen by many scholars as the new paradigm as it implies values and administrative cultures that replaces traditional public administration (Gow & Dufour, 2000). However, in real-life, there are major overlaps between paradigm and developmental phases (Pyper, 2015). Therefore, it is essential to scrutinise the paradigmatic shift and trend in public administration that influences the way in which nation-state deliver public services.

Like it or not, the NPM as global policy diffusion in public sector reform is ubiquitous. Thus, studying public sector reform in NPM adopters, need to consider the substance of NPM in the perspective of theory as well as practises.

2.2. Public Sector Reform in Indonesia

Global governance plays an important role in the diffusion of NPM approach on nation-state administrative systems. Common (2001) argues that NPM become priority of international agenda through World Bank, OECD and IMF as donor institutions. He also argued that NPM is an “unmistakable” impact on public administration because of international organisations involvement.

According to Larbi, (1999), NPM in Indonesia was categorised on what he called ‘crisis state’ approach characterized by its serious attempts to speed up its economic recovery through decentralization; privatisation, economic deregulation, as well as implementation of performance based budgeting and accrual public sector accounting. It mainly triggered by the financial and economic crisis which suffered East and South East Asia in 1998. However, I tend to agree the 1998 Indonesian reform was a mixture of economic crisis and internal political change from ‘New Order’ to ‘Reform Era’. This condition in agreement with what Nordholt & Abdullah (2002) called ‘transition’.

In the process of adoption, NPM will be interpreted differently by countries based on their backgrounds and settings. Ferlie, Lynn and Pollit argue that “each country makes its own translation or adaptation” (Ferlie, Lynn, & Pollit, 2005p.721). Indonesia perceives NPM as ‘good governance’ label which emphasises on the principle of accountability, transparency, responsiveness, responsibility, participatory and consensus-oriented.

To fulfil the requirement of aid from crisis recovery, Indonesia began to transform and restructure its administration labelled “public sector reform”. According to (Bangura & Larbi, 2006), public sector reform has four main objectives to achieve such as fiscal stability, public sector efficiency and state capacity also public accountability. These principles are inter-related with the principles of NPM as Hood (1991) stated that NPM emphasis on managerialism, market and competition.

Context does matter in applying NPM (Brandsen & Kim, 2010; Common, 2001b; Conteh & Huque, 2014; Huque, 2001; Massey, 2009; Samaratunge et al., 2008; Vries, 2012). NPM in some countries work better than others depend on political, cultural values, legal-jurisdiction and social-economic system that affect the implementation of public management reform.

Background and setting in which NPM implemented are important sections.

Indonesia is a unitary republic applying ‘rechtstaat’ and is still using some basic codifications and laws which were made in the colonialism era. Indonesia is democratic country practises presidential system with regular election every 5 years. After 1999, decentralised government has been implemented to divide the arms of government by 34 provinces and 497 municipalities/regencies to improve the quality of public services.

To begin the reform, Government of Indonesia designed the main legal bases on public sector reform during and after 1998’s financial crisis, the as follows:

- 1) People Consultative Assembly Statement Number XI/1998 which instructed the government to abolish the practice of corruption, collusion and nepotism.
- 2) Law Number 22/1999 and Law Number 25 (later, it amended several times until the latest Law Number 9/2015) as foundation of decentralisation and devolution in Indonesia.
- 3) Presidential Instruction Number 7/1999 to put the foundation of performance measurement and accountability.
- 4) Law Number 17/2003 and Number 1/2004 to regulate the state finance.
- 5) Law Number 19/2003 about State-Owned Enterprises
- 6) Presidential Regulation Number 81/2010 about Indonesia’s Grand Design of Bureaucratic Reform.

Following World Bank (1991) as cited in Common (2001), stated that the alternative to be dealt with better governance in public sector reform consist of three ideas. They are management of public spending, management of public enterprises, and civil service reform. The three issues indicated the way in which Indonesia perceive NPM through national budget restructuring as the elaboration of better management of public spending, privatisation on parastatals to attain better management of public enterprises and civil service reform known as bureaucratic reforms to translate civil service reform. These dimensions are used to observe the application of NPM in Indonesia. This perspective is used as reliable evidence whether NPM works in Indonesiapublic sector reform or not.

2.3. National Budget Restructurisation

The national budget restructuring began in 2003 with the launching of Law Number 17 as an umbrella for national budget restructuring. It is the basic guidance for implementation of unified budget, Medium Term Expenditure Framework (MTEF), and Performance-Based Budgeting (PBB). This program is designed top-down and technocratic, centred in Ministry of Finance. The government began to implement unified budgeting

in 2005 from previously were separate between operating and development budget.

Also, the implementation of MTEF allows central and local governments to predict and mitigate the expenditure framework along with presidential period in 5 years. Mentioned by Blöndal, Hawkesworth, & Choi (2009), Indonesia improves the quality of fiscal policy after adopting MTEF which is similar with Maastricht Criteria for Economic and Monetary Union as Indonesia's fiscal performance has been performing significantly better.

To improve the quality of public spending, PBB was introduced in 2005 and should be in application to design program and budget framework. The recent model being used is balanced scorecards and logic model formulation to ensure performance with the support from Government Partnership Fund, a program partnership between Australia and Indonesia Government. To support the business process of budgeting system, Ministry of Finance used e-budgeting to ensure accountability and transparency (Ministry of Finance Indonesia, 2014). OECD countries have reported the use of performance information in budgeting creates a sharper focus on results within government. The process also provides more and better understanding of government goals, objectives and priorities (Blöndal et al., 2009)

As the impacts of these initiatives, fiscal discipline was maintained during this transition period and continues to be maintained. Report from Centre of Budget Policy, Ministry of Finance (2015) fiscal deficit decreases from 2.20% of GDP to 1.90% of GDP in the revised fiscal year 2015, fuel subsidy is significantly reduced from IDR276T to IDR64.7T. It means that the government can save worth IDR 211.3T.

2.4. Privatisation on Parastatals

McLeod (2002) cited in (Astami, Tower, Rusmin, & Neilson, 2010) note that Indonesian public enterprises continued to struggle with low cost-effectiveness, overstaffing, unfocused operations and poor productivity. An empirical study from (Astami et al., 2010) shows that privatised or partially privatised enterprises do better performance than fully state-owned.

However, privatisation on public enterprises has been relatively cautious. Only 6 of 125 public enterprises had been partially privatized through initial public offerings by 2003 (Yonnedi, 2010). Latest data from Ministry of State-Owned Enterprises, from total 142, only 14 public enterprises were privatized in 2012. The obstacle of privatisation lies on negative impressions among legislative and public opinion as well as politicians.

Comparing with budget restructuring with its technocratic style, privatisation tend to collide with political issues. It is concurred with the statement that autonomy of public managers from political influence is one of the success driver of NPM-type reform (Curry, Hammerschmid, Jilke, Sebastian, & Van den Walle, 2015).

2.5. Civil Service Reform

Civil service or bureaucratic reform is not an option for Indonesia, it is a necessity. National Development Planning Agenda/RPJMN 2015-2019 states that bureaucratic reform is one of the top priority agendas. Before 2010, reforms were fragmented, and no guidance provided. Presidential Regulation Number 81/ 2010 was issued to conduct national bureaucratic reform. Institutional reform started in 2008 with 3 pilot projects include Ministry of Finance, Audit Board and Supreme Court. This project expanded gradually to 75 central government institutions in 2014.

Some positive outcomes have shown as the reform undergo. The enhancement on financial accountability of Central Government which showed by fair opinion without exception from National Audit Board has increased from 57% in 2010 to 74% in 2013. Performance Accountability also advances from 63, 9% to 94% in 2013. In the area of public services, the launching of One Stop Service on providing basic services increase from 5 units in 2005 to 360 units in 2009 and 476 units in 2013.

Simultaneously, surveys being held by National Commission for Corruption Eradication/KPK to evaluate the integrity and quality public service labelled as Integrity of Public Service Index (IPSI) valued 1-10 started from 2007 with index for Central government 5.83 went up to 6.84 in 2008 but decline to 6.16 in 2010. In 2011, it bounced to 7.07 before decreased by 6.80 in 2013 and then improve in 2014 by 7.22. This fluctuates value indicates the unsound system in public service delivery.

However, civil service reform still focuses on central governments and will be expanded to local government starting from 2015 (RPJMN). Similar with privatisation of parastatals, bureaucratic reform also experiences low managerial-political autonomy especially down-sizing and remuneration which attracted polemics in internal bureaucracy, the parliament as well as public opinion.

In the eyes of global environment, the standard of governance in Indonesia notices to be improved. For instance, Global Competitiveness Report placed Indonesia in rank 120 from 189 countries in the terms of easy doing business. The score of Government Effectiveness Index is low by -0.24 (scale -2.5 to 2.5) comparing with Singapore: 2.2, Malaysia: 1.1 and Thailand 0.3 (World Bank, 2014).

A Study conducted by (Haque, 2013) placed Indonesia as moderate-cautious degree in NPM-type reforms and extent of globalisation comparing with Singapore and Malaysia as highest among South East Asia countries. In this sense, Indonesia is perceived to be slower in public sector reform than its neighbouring countries.

The serious issue needs to be addressed is corruption. It is still alleged to be the main problem in civil service. It signs of widespread bribery and low level of rule of law in corruption eradication initiatives. Latest report from National Statistics Bureau (2015) scores corruption behaviour index by 3.61 which declined from previous year from 3.63 in 2013 (scale 0-5). Also, in 2016, Transparency International ranked Indonesia at 90 from 176 countries with 37 points. It rises 1 point from 2015 but decreases 2 rank. Indonesia overtook Thailand (35 points) but could not surpass Malaysia (49 points), Brunei (58 points) and Singapore (85 points).

3. Conclusion

To conclude, NPM may work better in some countries or stuck and even failed in the others. Many researches suggests that 'contextualization' in NPM adoption must be considered. The slower and less satisfactory outcome does not mean that Indonesia has failed, rather it still seeks the best and most appropriate way to find its context on its national administrative reform environment. Some of the important issues on public sector reform are corruption cases and the degree of autonomy for public manager in implementing the reform.

Budget restructuring in Indonesia has shown more satisfaction outcomes and adequate progress than both privatisation and civil service reform due to its high degree in managerial autonomy and political free atmosphere. The higher autonomy of public manager, the more successful reform will it be. The lower political affluence in public sector reform, the more successful outcome will it be. Further empirical research is needed to validate above hypothesis and to explain why NPM succeed in some areas and fail in others.

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