Fostering Public Participation in Budget-making

Case Studies from Indonesia, Marshall Islands, and Pakistan
Fostering Public Participation in Budget-making

Case Studies from Indonesia, the Marshall Islands, and Pakistan

Edited by

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ADB
The Asia Foundation
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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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ADB
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Clay Wescott, Principal Regional Cooperation Specialist, ADB, was instrumental in launching this RETA and seeing through its implementation until April 2006 along with Raza Ahmad, Governance and Capacity Development Specialist, RSDD. The initial fact-finding and research for the project was carried out by Jorn Brommelhoster, Public Resource Management Specialist, ADB.

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Editors
Abbreviations

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

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

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

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

<table>
<thead>
<tr>
<th>Summary of Basic Country Information¹</th>
<th>Indonesia</th>
<th>Marshall Islands</th>
<th>Pakistan</th>
</tr>
</thead>
<tbody>
<tr>
<td>Population</td>
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<td>57,000</td>
<td>151.8 m</td>
</tr>
<tr>
<td>Year of independence</td>
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<td>1986</td>
<td>1947</td>
</tr>
<tr>
<td>Human Development Index ranking</td>
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<td>121</td>
<td>135</td>
</tr>
<tr>
<td>GDP per capita ($)</td>
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<td>2,097</td>
</tr>
<tr>
<td>Adult literacy rate (%)</td>
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<td>93.7</td>
<td>48.7</td>
</tr>
<tr>
<td>Transparency International ranking</td>
<td>140</td>
<td>–</td>
<td>146</td>
</tr>
<tr>
<td>Gender Development Index ranking</td>
<td>87</td>
<td>–</td>
<td>107</td>
</tr>
</tbody>
</table>

* as of 2003

GDP = gross domestic product; m = millions; and – = not available.
Source: see endnote 1

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¹ 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.
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, 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.
Chapter 1
Introduction

It has been accepted that the quality and nature of governance plays a fundamental role in the achievement of desirable development outcomes. Across Asia, reforms are being made to improve governance by introducing new systems—institutional and technical—intended to increase the transparency and accountability of government. Spurred by concerns for regime survival, threats to territorial integrity, or encouraged by international best practice, governments are undertaking (sometimes radical) changes to governance structures that often reshape the relationship between citizens and the state. Most evident in efforts to decentralize government functions to lower tiers of government, these reforms require governments to reexamine how citizens can influence service delivery and policy decisions.

As the primary management tool of government, the annual budget is a logical place to focus efforts on to improve development outcomes. The budget intersects with all aspects of governance reform—fiscal policy, administrative reform, anti-corruption efforts, service delivery, and social policy, among others. The budget, therefore, provides a tangible focal point for discussions of community priorities and government effectiveness. Applied budgeting efforts have consequently blossomed internationally. Great innovation is being applied to influence budget allocations to respond better to community needs. While these efforts are relatively new and few quantitative evaluations have yet been conducted, preliminary evidence indicates that increased community involvement in the budget process leads to improved service delivery outcomes and increased investment in traditionally underserved communities.

In many countries, and particularly those in the process of democratizing, asserting citizen influence over budget planning and implementation has focused initially on institutionalizing the role of the legislators (as elected representatives of the public) in the budget process. This takes the form of enactment and monitoring responsibilities of the legislative branch over the budget and also in the role of legislators in influencing the allocation of development funds. While obvious, this issue is raised because, in many cases, this form of oversight is not being implemented or is ineffective. In some cases, problems affecting the executive branch (e.g., political interference, corruption) may so permeate the legislature that the oversight role is left meaningless or poses additional challenges. Conversely, in places where legislators can be supported to play their role effectively, they represent a potentially powerful ally to civil society organizations (CSOs) in the budget process.

Civil society commonly refers to citizens outside of government service, drawn directly from communities, and organized in nongovernment organizations (NGOs), grassroots organizations, and private sector associations. In relation to local governments in particular, civil society can influence planning and implementation of government projects to ensure that policy aligns with the needs of the community. Civil society can also play an important role in monitoring the use of resources for impact, thus, increasing accountability of local governments.

In Asia, CSOs’ bottom-up initiatives have been most successful in achieving these goals. Regional efforts to increase public consultation and monitoring of budgets have been spearheaded by NGOs engaged in budget literacy, analysis, and advocacy. Such
Programs are advanced furthest in countries with a vibrant civil society and free press. In India, for example, numerous organizations work to analyze state budgets, create budget briefs, and work with local legislators to increase allocations for poor and underserved communities. To cite one well-known example, the Gujarast-based NGO, Developing Initiatives for Social and Human Action (DISHA), prepares 30 budget briefs annually analyzing state departmental budgets. DISHA is a member of a nationwide network of NGOs that engages in applied budget analysis in 12 Indian states. Working with media and its own network of activists, DISHA has been able to effect a sharp increase in funds dedicated to improve the welfare of tribal populations. In Indonesia, NGOs—such as, the Indonesian Forum for Budget Transparency (FITRA) and the Bandung Institute for Governance Studies (BIGS)—are engaged in budget analysis and advocacy, which, in some cases, has led to the uncovering of significant misuse of funds. BIGS, for example, is participating in a litigation involving 45 members of the Bandung city council for misappropriation of public funds. In Bangladesh, several NGOs are piloting work with local government officials to hold public budget presentations by the Union’s chairpersons, efforts which have been well-received by both local governments and the public.

Participatory budgeting initiatives—or direct community consultations in allocating development resources—are also being implemented in Asia, but generally in a top-down manner that has been less successful. The technical assistance included two countries—Indonesia and Pakistan—where community consultation in the planning of the development budget is explicitly required in the budget rules. Similar to the well-known effort in Porto Allegre, Brazil, these programs are intended to mobilize citizens to identify and propose their own projects for inclusion in the local budget. In both countries, these were top-down initiatives that had faced significant challenges in implementation due, in large part, to political resistance and budgetary constraints in the lower tiers of government. In Pakistan, 25% of development funds must be set aside for projects proposed by citizen community boards (CCBs). Despite the registration of over 25,000 CCBs across Pakistan, these set-aside funds are uniformly underdisbursed. In Indonesia, the budget planning process calls for an elaborate set of public consultation meetings, starting at the village level and moving up to the district level, to solicit local needs. However, no budget allocation is given for proposed projects during this consultation process. The result is that few, if any, of these locally-generated requests are ultimately funded.

Given the growing interest in budget work on the part of both governments and civil society, the Asian Development Bank (ADB) supported a regional technical assistance in a diverse set of countries—Indonesia, Marshall Islands, and Pakistan—to pilot consultative budget planning. The technical assistance was conducted from October 2005 to June 2006 with the broad objective of “enhancing 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.” It was designed to focus on direct involvement of citizens in the budget process (i.e., formulation and review) rather than monitoring with the intention that citizens would improve their understanding of allocation possibilities and revenue options.

This publication is intended for development practitioners, local governments, and CSOs interested in how applied budgeting initiatives have been implemented in the region. General discussion of international best practice and preconditions for successful application of applied budgeting are not covered here as a wealth of information already exists on these subjects. This publication instead provides case studies of the pilot projects in the three countries and shares lessons learned from them for other organizations and stakeholders seeking to increase participation and transparency in budgeting. The Indonesian case study is presented in Chapter Three, the Marshall Islands case study in Chapter Four, and the Pakistan case study in Chapter Five. Each of the case studies provides a contextual background for readers new to the country, an overview of how activities unrolled in that country, and country-specific recommendations and action plans. While the pilot countries were disparate in terms of size, governance systems, and political/cultural background, there are significant overlaps in findings and recommendations arising from the technical assistance experience. This suggests that such initiatives could usefully be replicated in other parts of Asia. Lessons learned and recommendations for replication outside of the pilot countries are presented in Chapter Six.
In designing the activities, the project team carefully considered how to best initiate meaningful pilot activities within the time and resource constraints of the project. In particular, because the project’s timeframe was only 8 months—less than a full budget cycle—results were framed in terms of increased capacity and sustainable mechanisms for engagement rather than any changes in budget allocations. Comparability between countries was further complicated by differences in scale. Nonetheless, the project was able to apply similar approaches and activities in all three countries. Perhaps even more surprisingly, findings and recommendations are similar for the three countries as well. This indicates that the type of activities discussed in this study offer an excellent chance of being replicated even in very different contexts across the region.

Two sites were selected for project implementation in each country, although the focus of the pilot project in the Marshall Islands was on the national budget. In proposing a final list of sites, the team used a set of criteria including: (i) willingness of the local government to share budget documents and participate in public hearings; (ii) presence of civil society stakeholders with a capacity and/or interest in budget literacy and constructive advocacy toward government; and (iii) presence of other donor programs that could support the continuation of these efforts past the timeframe of the technical assistance to encourage sustainability. In addition, an effort was made to select sites in Indonesia and Pakistan that showed sufficient commonalities to allow a comparative analysis. Toward this end, it was decided that in both countries one site should be selected in which the local government was receiving donor assistance on the supply-side of improved budget formulation and one site without such support. In all three countries, civil society partners had not yet received concentrated training in budget analysis and advocacy issues.

In considering the budgeting strategy to be followed in the technical assistance, four possible approaches were considered:

- Systems analysis—advocacy/recommendations for improvement to the budget formulation and implementation process. It was decided that this should not be the primary focus of the pilot project as any recommendations would require administrative or even legislative reforms that could not realistically be affected in the period of this technical assistance.

- Participatory budgeting—in which a portion of the budget is allocated through a consultative process involving the public. While such systems existed in Indonesia and Pakistan, they did not exist in the Marshall Islands. Concentrating on this process, therefore, would limit the comparability between countries. In addition, it was felt that participatory budgeting requires high levels of transparency and government commitment, conditions which do not exist in all the pilot sites.
Analysis and consultation in the drafting of the annual budget—in which the proposed or enacted annual budget can be debated upon and analyzed for its impact on various sectors (e.g., health, education, and environment), impact on particular populations (e.g., women, indigenous, and low-income), or congruence between policy priorities and budget allocations. Budget implementation can also be monitored in terms of whether disbursements meet targets, whether funds are being spent transparently, and whether projects meet quality standards. This was the methodology selected.

Gender budgeting—a subset of annual budget analysis, in which budget analysis focuses on whether public funds are being equitably distributed to both men and women. Stakeholders in all three countries had more exposure to this kind of applied budgeting through various donor programs than any of the other approaches considered. However, given the intended innovative nature of the technical assistance, and the broader focus on civic engagement in the budget process, this approach was considered too narrow.

It was decided that increasing participation in the finalization of the annual budget had the most immediate relevance to stakeholders. Activities, therefore, sought to assist CSOs and local governments to engage in dialogue during consideration of the draft budget for the upcoming fiscal year.

Public consultations already taking place in the pilot countries focus on two parts of the budget preparation cycle. In Indonesia and Pakistan, there are requirements to solicit the public’s views for development projects to be included in the annual budget. As discussed above, these processes do not work effectively and were not selected as the focus of the pilot project because of entrenched political and system challenges unlikely to be addressed during the lifetime of the project. The other existing consultation is at the end of the budget preparation process: in the Marshall Islands and, to a lesser extent, Indonesia, parliament holds public hearings during the enactment of the budget. However, this was deemed to be so late in the process as to be ineffective at incorporating public comments.

Because of these perceived weaknesses in the current consultation processes, the project instead chose to foster discussion of the draft budget document after it is compiled by the Budget Committee, but prior to its submission to parliament. This was deemed more relevant as the draft budget includes those projects which line departments in the executive branch have already proposed, but is early enough in the process to allow revisions.

The project team approached the activities with a number of design elements that were intentionally different from some of the applied budget work already being implemented in the region. First, the concentration was on opening up the budget process to citizens with the objective of increasing transparency and efficacy in budget revenue/expenditures as opposed to changing allocations or generating new demand for services. To this end, materials and discussions emphasized the fiscal constraints facing government (including equal
discussion of the revenue and expenditure sides of the budget) and the need to choose between line items as opposed to solely seeking additional services. This reflects the very real fiscal constraints that the local governments in all three countries face, as well as the need to balance revenue for service delivery with a fiscal policy conducive for private sector growth.

Second, the interests of a majority of stakeholders in better outcomes was acknowledged and solicited, as opposed to focusing solely on a particular disenfranchised group. Toward this end, constituencies such as the private sector, media outlets, and grassroots organizations (e.g., school boards, religious organizations) were included in the activities in addition to established NGOs. These design elements were intended to help inform participants from all sides of the discussion, with the expectation that a better understanding of the resources available, the institutional constraints that bind public sector actors, and the competing priorities from many segments of society will lead to a better governance process that will ultimately benefit local communities, including the poor.

The type and sequence of activities were the same across the three countries. Work began with the development of training materials on budget literacy and practical budget work. This was followed by capacity development workshops to transfer the skills needed for various stakeholders to engage in budget discussions. While the initial intention of the project was to train CSOs, it became evident during the inception visits that local legislators would also welcome capacity building in this area. They were, therefore, offered separate trainings that focused on their oversight and/or enactment role. The third activity was the conduct of local budget forums in which the executive branch presented the annual budget in a public hearing. The project concluded with national conferences in each country where stakeholders were invited to present action plans on how to institutionalize budget consultations in the future. Sustainability of the pilot projects has been supported by facilitating meetings between stakeholders and donors active in this field to discuss future programming opportunities. To further support sustainability and replication, a national NGO was selected in each country to co-facilitate activities, thus, gaining capacity in this area.

A number of actions have been taken to disseminate the knowledge gained during this technical assistance and support future efforts by others. The budget manuals created for each country have been translated into local language and are being distributed widely to CSOs in both hard and electronic copies to foster their budget literacy efforts. The manuals are also being made available online at various websites, including the International Budget Project. To further support sustainability and replication, a national NGO was selected in each country to co-facilitate activities, thus, gaining capacity in this area.

The Asia Foundation Pakistan’s publication, 2006.
3.1 POLITICAL AND ECONOMIC BACKGROUND

Indonesia is the world’s fourth most populous nation, with a total population of over 200 million spread over thousands of islands. It is nearly a middle-income country with GDP per capita in 2003 of $3,361. The vast majority of the population is employed in agriculture (46.1%) or micro or small enterprises (90% of off-farm employment). While absolute poverty is relatively low at 15.1%, the percentage of the population vulnerable to economic shocks is high, with 48.8% of the population living on $2 a day as of 2003.

Indonesia continues to implement significant political and governance changes following the fall of the New Order regime in 1998. For approximately 30 years under President Soeharto, the New Order had institutionalized the role of the military in the government, playing dual roles as security and development actor. The economic growth achieved under the New Order served to legitimize this arrangement in some quarters, but when the Asian financial crisis hit Indonesia hardest of all of the “Asian Tigers,” resulting in a contraction of GDP by 13.5%, the rationale for this arrangement collapsed. Since 1998, when Soeharto stepped down, electoral aspects of the democratic process have been introduced and have been adopted with relative ease. But institutions of checks and balances, in which government officials are held accountable to the public for performance, are still being nurtured. Related to this, genuine participation by citizens in decision-making and monitoring processes remains very limited. In general, the executive branch of government remains stronger than the legislative.10

A significant feature of Indonesia’s governance reforms is the country’s regional autonomy policy, outlined in Laws 22/25 of 1999 and 32/33 of 2004, which devolves significant responsibilities and powers to the kota/kabupaten level of government, equivalent to cities and districts (called regencies in Indonesia). Civil servants now are directly responsible to the heads of local government, as opposed to national Ministries. In the initial Decentralization Law 22/25 of 1999, provinces were given very little powers with devolution going directly to the lower branches of government. Under the Revised Law No. 32/33 of 2004, provinces have increased powers of oversight and coordination over local governments.

Indonesia has a highly-structured government and quasi-government institutions that reach to the village level. Each village has a village council and a village head. Figure 3.1 shows the structure of government in Indonesia, from central government to the smallest units in the village, for rural areas, or neighborhood, for urban areas. Since 2004, the election of city/regency legislatures (DPRDs) has been using a restricted open-list proportional representation voting system. Under this system, citizens have an opportunity to choose not only the party but also a particular candidate from a certain political party. This means a lower-ranked candidate can win a seat when he/she has reached a certain quota. In practice, however, very few candidates in district/city election succeeded in meeting the quota.
Beginning in 2005, mayors/regents are being directly elected for the first time in an electoral process that is still rolling out as heads of government come to the end of their respective terms.

Indonesia consistently ranks as one of the most corrupt countries in the world (140 out of a total 159 countries in the 2005 Transparency International Index). Corruption takes many forms and the impact of decentralization on corruption has not yet been measured. What appears clear is that practices at higher levels of government are also present at local government level, to whatever degree. With regard to the annual budget, common corrupt practices include markups of line items, duplication of line items under different parts of the budget, and the existence of “ghost” positions under salaries. These are in addition to the actual implementation of the budget where corruption affects tax revenues and the awarding of contracts, to note only two high-profile problems. Corruption at the local level is not limited to the executive branch; entire local parliaments have been investigated and charged with misuse of funds since decentralization began, often as the result of applied budgeting work.

Service Delivery Responsibilities of Local Government

Under Law No. 32/2004 on Regional Administration (Article 10), the local governments (province and city/regency) execute nearly all powers, except for the following six components that remain under the authority of the central government: (1) foreign policy, (2) defense, (3) security, (4) administration of justice, (5) national monetary and fiscal policy, and (6) religion.

All other essential governance matters fall under the authority of the local governments at the city and regency level. Table 3.1 provides a list of these responsibilities, which includes most service delivery issues pertinent to the poor. There are guidelines for involvement of even lower levels of government (subdistricts, villages, and neighborhoods) from the central government. In addition, the local parliament can issue its own regulations for devolving some responsibilities to these levels of government.

Despite the general emphasis on the role of the local government and its new powers, in practice, there is still considerable uncertainty and overlap of authority between central and local government. For example, in the education sector, the central government not only prepares the curricula, but it is also involved in school repairs and maintenance projects.

Civil Society Capacity

CSOs were highly constrained under the New Order, with any form of institution requiring government...
approval and support. Sanctioned organizations—closely aligned with the ruling Golkar Party—were extensive at this time and, along with mass-based Muslim organizations, provided services down to the village level. Many of these organizations continue to play an important role in Indonesia. In addition, the NGO sector has blossomed since democratic reforms were instituted with large numbers of organizations working in all spheres of development. However, government officials transitioning to the new context continue to be highly suspicious of these organizations. NGOs, in turn, are still learning to engage constructively with government, rather than pursue the sometimes confrontational politics of the past.

Indonesia has a large number of NGOs active in the area of local governance and budget advocacy. It is almost impossible to get exact data on the number of NGOs working in the country because new ones appear and old ones become inactive all the time. The latest NGO directory published by Japan International Cooperation Agency (JICA) (2005) identified 516 NGOs working on education, environment, poverty, gender, democracy, and human rights issues. Certainly, there are more NGOs than these.

Capacity in budget advocacy is generally much higher than in the other two pilot countries. An assessment made by the Institute of Development and Economic Analysis (IDEA), a Yogyakarta-based NGO working on budget advocacy, identified 127 NGOs and 14 people’s organizations across Indonesia as being involved in budget advocacy work. Unique to the project countries are local NGOs whose mission and full-time work are based on applied budgeting activities. These organizations have different structures. For example, FITRA and BIDS focus on research and, when necessary, litigation when funds are used improperly; whereas, the Center for Local Community Study and Empowerment (P3ML), a local NGO in Sumedang, West Java, works in partnership with DPRD to publish the annual budget (APBD) in the form of posters and assisted DPRD to initiate the issuance of a new local regulation on the budgeting process. P3ML also works with the local government to provide advice and consultation.

Dividing the budget cycle into the stages of planning, enactment, implementation, and auditing, most NGOs focus their advocacy work on promoting participation in the planning process. Some NGOs, such as BIDS and Pusat Telaah dan Informasi Regional/Centre for Regional Information and Studies (PATTIRO), are trying to promote participation in the process of budget enactment (e.g., by conducting a public hearing with the legislature before APBD is enacted by DPRD). There are some that work on monitoring expenditures like Jaringan Relawan Independen/Independent Volunteers Network (JARI), which monitors development projects (but mostly on national-driven projects, such as, the Social Safety Net program), while some donors work on more transparent procurement processes. However, almost no NGOs have focused their activities on the auditing part of the budget cycle.

3.2 LOCAL BUDGETING PROCESS

Sources of Revenue

While service responsibilities have been decentralized, the ability to collect and control revenues remains largely centralized and local governments remain highly dependent on block grants from the central government (dana alokasi umum [DAU] or general funds).13 For most local governments, DAU constitutes approximately 70–80% of their budget and is sufficient to cover salaries and operating costs, but leaves little for development projects and service delivery. In addition, the central government allocates funds for central government-led initiatives implemented in the regions (dana alokasi khusus [DAK] or special funds). These are generally quite limited. Local governments are not notified of the amount of these central transfers until the end of the year, after planning has supposedly been completed. In most cases, therefore, revenue assumptions are based on the prior year’s allocations.

Given the tight constraints on the block grants for non-resource endowed localities, local governments are highly motivated to increase locally-generated revenues, pendapatan asli daerah (PAD). The greatest source of locally-generated revenues is in the form of retribusi, which can be translated as levies or user fees, but in practice have little connection to service delivery. Its primary source for most local governments is licensing fees. This has created a perverse incentive for local governments to increase regulation of the private sector through the issuance of new licenses, charging for licenses.
that were formerly provided nominally free, or requiring more frequent renewal of licenses. Local governments can also tax hotel and restaurant receipts, vehicle registration, and receive back some portions of land tax. However, they are prohibited from levying property or sales tax and have not yet availed the possibility of issuing municipal bonds. One aspect of the technical assistance’s approach was to avoid increasing pressures to increase PAD and focus first on how existing resources could be spent most efficiently.

### Budget Preparation Cycle

Indonesia’s fiscal year runs from 1 January to 31 December. Budget formulation has two components: a bottom-up project planning process called *musrenbang*, and a top-down budget preparation process executed through the local government departments. These processes are laid out in Laws 17/2003 and 25/2004. Both processes are intended to complement strategic plans developed by the local governments, which have replaced the 5-year plans that were practiced under the New Order.

The *musrenbang* is the responsibility of the local government’s Planning Department and is intended to allow citizens to express their aspirations and priorities. The process begins at the village or neighborhood level with identification of projects the village would like to have (usually very small-scale infrastructure). Consultations are held between January and March, depending upon the local government. In theory, these consultations are for all village members, although a number of sites visited during the inception trip said that, in practice, meetings are attended by community leaders rather than the general public. The village head presents project ideas at a subdistrict meeting held the following month. This larger meeting is the first that is attended by local government department heads and/or members of the local parliament. The various proposals from the subdistrict meeting are compiled by the Planning Department and discussed at a district meeting (SKPD), usually held in the summer, along with the proposals of the Technical Departments. The district level meeting is attended by a large number of people, including local parliament, respected community leaders, academics, and sometimes local NGOs. This meeting is theoretically open to the public, although a number of the local governments interviewed during the inception trip specified that this meant people could come and listen to the proceedings, but not to interrupt or to speak.

Because the *musrenbang* process is not tied to any allocation, the process in practice results in a wish list, with a very small percentage, if any, of project ideas eventually being funded in that year’s budget. Some local governments are beginning to allocate funds that can be decided upon through this process. For example, Kebumen’s Parliament has agreed to devolve 10% of the development budget to the subdistrict and village-level government. Similarly, the Makassar government has devolved to about 500 million rupiah (Rp) block grant funds to each subdistrict. This remains an extremely rare occurrence in Indonesia. For most village and subdistrict governments, the *musrenbang* remains primarily a bureaucratic exercise, seemingly of limited utility. One reason for this is the very real financial constraints facing local governments. With up to 80% of available revenues covering recurring expenses, and each department and parliament member having projects they would like to fund, very little is available for allocation to this bottom-up process. Figure 3.2 illustrates the annual preparation cycle, including the *musrenbang* process.
The budget preparation process within the executive branch of government begins when technical departments prepare their draft project proposals. The department heads attend the subdistrict musrenbang meetings and the district meetings to present their project proposals for the year and to hear the ideas of the community. In theory, this allows the technical departments to include the public's ideas in their proposals. All projects coming from all departments are coordinated and written out by the Planning Department in the form of a document called the Local Government Work Plan (Rencana Kerja Pemerintah Daerah—RKPD). Based on this, the general policy on the annual budget is formulated, including priorities and budget ceilings for each technical department. Each technical department then prepares a budget estimate for their work program (RASK/RKA—SKPD) and submits this to the Planning and Finance Departments. The Budget Committee
then prepares the draft budget for the coming year (RAPBD). This is discussed with the Budget Committee of the local parliament. RAPBD is formally submitted by the mayor to DPRD in October in a general meeting where each political party is invited to comment on the budget. In theory, DPRD has one month to assess the budget and provide comments to it before the budget is enacted. The mayor issues a decree enacting the Budget Implementation Document by the end of the year. In practice, delays in preparing the budget are common, reducing DPRD’s ability to give proper consideration to the budget before passage. The annual planning and enactment calendar is provided in more detail in Table 3.2.

The number of planning documents required of the local governments and an effort to simultaneously introduce performance-based budgeting means that many local governments are overwhelmed by technical reforms. Participatory processes further challenge the resources of the line departments at local level.

### Budget Implementation and Monitoring Cycle

General Funds from the central government (DAU) for the annual budget are generally released to the local government in February of each year. Revisions

| Table 3.2 Annual Budget Preparation Cycle, Indonesia |
| --- | --- |
| **Month** | **Activities** |
| Jan | • Fiscal year begins;  
  • The Planning Department (Bapeda) formulates a document called the “Regional Economic Framework” (*Kerangka Ekonomi Daerah*), comprising a projection of revenues and expenditures based on the previous year’s budget, and a list of local government activities, referring to the Medium-Term Development Plan and the Strategic Plans of the Local Government Technical Departments;  
  • All activities related to public services will be discussed in public meetings called the Development Planning Deliberative Meeting Forums (Forum Musrenbang); and  
  • Musrenbang at the village level begins in January |
| Feb | • Musrenbang at the subdistrict level |
| Mar | • Musrenbang at the city/regency level |
| Apr-May | • All activities coming from the various technical departments. SKPDs are coordinated and written out in the form of a document called RKPD. |
| Jun-Aug | • Drafting of KUA of APBD, prepared on the basis of RKPD;  
  • Formulation of provisional priorities and budget ceilings for each work unit; and  
  • Based on the priorities and ceilings that have been set, the technical departments prepare budget estimates for their work programs (RKA-SKPD) and submit these to the local government. |
| Sep | • Compilation of RKAs submitted by the various technical departments. |
| Oct | • Finalization of the draft budget (RAPBD), done by the Executive Budget Committee comprised of the Planning Department (for activity budget) and BPKD (for the personnel budget), coordinated by the regional secretary (sekda);  
  • Local government prepares draft local regulation on the draft budget (RAPBD) to seek approval from DPRD;  
  • Discussion meetings between the legislature and the executive branch; and  
  • Drafting of the RAPBD note. |
| Nov | • Discussion of the budget by the DPRD  
  • Enactment of the budget by DPRD. |
| Dec | • Drafting of Budget Implementation Document to be enacted through a decree by the regent/mayor. |

*APBD = annual budget; BPKD = (badan pengelola keuangan daerah) Local Government Agency for Financial Management; DPRD = local parliament; KUA = (kebijakan umum anggaran) General Budget Policy; RAPBD = draft annual budget; RKA = work and budget plan; RKPD = (*Rencana Kerja Pemerintah Daerah*) Local Government Work Plan; and SKPD = (satuan kerja perangkat daerah) Local Government Technical Department.*

*Sources: Law No. 17 of 2003, Laws No. 32 and 33 of 2004*
to the APBD Report are made by the mayor/regent in June to account for any extra funds or spending (the actual revisions must be finalized three months before the end of the fiscal year).

Internal monitoring and evaluation of planning and budgeting is carried out by each technical department. In other words, implementing agencies make the initial reports and evaluations themselves. The Planning Department head collects and analyzes the monitoring and evaluation results made by each agency. Internal audits are performed by a regional audit agency (Bawasda-Badan Pengawasan Daerah) and a nondepartmental national and provincial agency (Financial and Development Audit Agency [BPKP—Badan Pengawas Keuangan dan Pembangunan]). An external audit is conducted by a supreme audit agency (BPK—Badan Pemeriksa Keuangan).

Every year, the regent/mayor comes up with an annual accountability report based on these internal reports. This document lays out how programs were implemented and includes budget figures that show whether spending/revenues were on target. Based on Law 17/2004, this report must be made no later than 6 months after the end of the fiscal year.

At the end of a regent/mayor’s term, the local parliament sends a notice and asks that person to deliver the final accountability report known as Laporan Pertanggung Jawaban (LPJ). LPJ, which is presented as a progress report, has to mention: (i) local government activities, including performance achievement, the utilization of economic resources, and consistency with the existing laws and regulations; (ii) comparison between projected and actual budgets; and (iii) compliance with the financial report formulation (Source: PP 108/2000). It is delivered and discussed in a plenary session of DPRD.

3.3 FACILITATING CIVIL SOCIETY PARTICIPATION IN LOCAL BUDGETING

Five sites were visited during the inception visit: Pontianak, Sanggau, Kebumen, Makassar, and Watampone. Of these, the local government in Pontianak declined to participate. Sanggau was not selected due to a comparatively weak civil society sector and the absence of ongoing donor programs that could support long-term institutionalization of the pilot project. Watampone was not selected as another donor. The Asia Foundation was actively implementing a gender budgeting program there. Thus, the two sites selected were Kebumen Regency in Central Java, and the city of Makassar in South Sulawesi.

Kebumen

Kebumen is a rural community with a population of 1,200,000. It is approximately three hours by road from the closest city (Yogyakarta). The economy is...
agriculture-based and—while the town and surrounding communities look relatively prosperous—31% of the population lives below the government poverty rate. In 2000, Kebumen was among the third poorest districts in Central Java Province. The local government’s annual budget is $76 million, 93.4% of which comes from central and provincial government transfers.15

Kebumen has gained a reputation as being a reform-minded area, in large part because of a high profile regent, one of only four women elected as heads of local government in the country. The regent, Ms. Rustriningsih, is from the same political party that controls the local parliament and has close relationships with local religious leaders, who have great influence in Kebumen society. This has made her administration politically strong and she has been able to use this to effectively implement anti-corruption measures as a centerpiece of her administration. Efforts to increase transparency and outreach to citizens have included a daily talk show on local TV and ongoing efforts to improve procurement processes.

These initiatives have attracted a great deal of donor support. The World Bank, US Agency for International Development (USAID), and The Asia Foundation have all supported various programs in Kebumen. Several of these programs focused on improving budget processes (for example, institutionalizing performance-based budgeting, and publishing a summary of the annual budget in the newspaper and the city website). Kebumen has also issued local regulations (perda) that support participation such as Perda No. 7/2004 on Village Fund Allocation, Perda No. 53/2004 on Public Participation on Policy and a Regent’s Decree on Village Community Capacity Building (2005). Article 2 of Perda on Village Fund Allocation states that 10% of the current annual budget should be allocated to the subdistricts and villages for development purposes. Nonetheless, the very active civil society sector in Kebumen has faced some resistance from officials in accessing budget documents and feels that more can be done.

Makassar

Makassar, with a comparable population of 1,193,000, provides a very different context. A historically important port city, it is the largest urban center in South Sulawesi and also serves as the provincial capital. Higher income generated by the trade and services economy has resulted in a significantly lower poverty rate, with only 7% of the population living below the government poverty line. Of the $89 million annual budget, 86% derives from central and provincial government transfers.16

The mayor of Makassar, who was elected in 2004, is from the same party that controls the local parliament. Like the regent of Kebumen, he has initiated a number of outreach programs, including the development of a Makassar City website, placing a column in the local newspapers discussing local issues, and holding monthly coffee morning meetings where he meets directly with civil society representatives to discuss issues facing the city. The
Makassar government has allocated Rp7 billion as a block grant to 14 Kecamatan (subdistrict) in the 2006 annual budget to stimulate development at the grassroots level.

Despite these efforts, Makassar has attracted less donor support than Kebumen and even the very active NGO sector in the city conducts most of their activities in the surrounding communities rather than with the city government. One reason may be that in the opinion of some civil society actors, as expressed during technical assistance activities, DPRD’s activities have come under scrutiny. For example, some in the media and local community questioned the propriety of a March 2006 visit to Berlin by DPRD members and their wives on a tourism development mission using the budget allocated for the city museum.

Development of Budget Training Materials

The development of budget training materials began with the collection of existing manuals/materials from well-respected national NGOs engaged in budget training. They were: BIGS, FITRA, PATTIRO, Civic Education and Budget Transparency Advocacy (CIBA), and Women Research Institute (WRI). All organizations graciously provided copies of manuals, books, PowerPoint presentations, case studies, and other training materials. These materials and meetings with other local NGOs (including Initiative Association and P3ML) were used to inform the manual developed specifically for the project. The local governments of Kebumen and Makassar shared their annual budgets for FYs 2005 and 2006 and exercises based on these documents are included in the manual.

Despite the number of NGOs working in applied budgeting in Indonesia, this is one of the first manuals of its kind in the country. Hard copies in English and Indonesian were distributed throughout the project.

Enhancing Local Capacity for Applied Budgeting

Using the budget manuals as the primary training tool, budget literacy workshops were subsequently conducted in each site to transfer capacity to local CSOs that would later attend the budget forums. The agenda covered an introduction to international best practice, the budget cycle in Indonesia, roles and responsibilities of relevant government officers, revenue and expenditure analysis, and a discussion of entry points for budget advocacy. This agenda was spread over 3 days and government officials were invited as guest speakers to convey their views of the budget process.

In Kebumen, 30 persons participated, drawn from local NGOs, organizations of private entrepreneurs, student and youth organizations, women’s organizations, education councils, mass media, village-level activists, and a delegation from the district development planning conference (musrenbang). In Makassar, 25 participants from similar organizations participated. Discussions in both sites included bottlenecks in accessing information,
problems in the current planning process, and the development of initial action plans for possible future advocacy. Personal contacts germinated in these trainings eventually led to the establishment of coalitions working on applied budgeting that would actively engage in the rest of the project activities.

The budget literacy training for DPRD members in Kebumen was structured slightly differently to reflect the parliament’s direct fiduciary role in the budget process. For example, sessions dealt explicitly with how to strengthen the capacity of the legislature. Resource persons from the central government (Ministry of Finance and the State Audit Agency) were brought in to provide additional information on current fiscal practices, audit procedures, and other aspects of the central/local government relationship. There were 29 training participants: 22 members of the DPRD Budget Committee and 7 members of the Local Parliament Secretariat (Setwan). Like the CSOs, DPRD members were asked to prepare an action plan for follow-up to the training.

Parliament members expressed their sense of disempowerment because of problems in the budget process and perceptions by the executive branch that impedes DPRD in its budgeting role. In particular, members highlighted that:

- The executive branch submits the draft budget without supporting planning documents such as the department work plans (RASK).
- There is no support from expert staff, making it difficult for DPRD to argue for revisions.
- Many activities that are not in RKPD suddenly appear in the annual budget.
- There is a discrepancy between the public’s wishes as expressed in the musrenbang and what gets included in the draft budget.
- The executive feels that RKA-SKPDs are technical documents that can only be understood by the executive branch and tends to dismiss concerns expressed by DPRD.

To improve the situation, many DPRD members’ suggestions focused on strengthening internal capacity (e.g., restructuring program management by drafting more realistic annual work programs and increasing the availability of staff in the Secretariat who could assist with budget analysis) and formalizing public consultations. Specific initiatives discussed included:

- Passing a local regulation on planning and budgeting that allows the legislature, as well as the executive branch, to introduce development programs into the annual budget and work plan.
- Including community delegations from the musrenbang in the discussions held by DPRD commissions.
- Encouraging a commitment to increase the village allocation funds.
- Building networks and cooperating with NGOs, business associations, universities, and mass media concerned about budget issues.
- Working with media to publicize budget policies.

The same budget literacy training was offered to Makassar’s local parliament members, but they declined to participate due to their tight schedule. The consultants note that Indonesia has a common culture of providing honoraria, trips, and other financial incentives to government officials for their...
participation in trainings. The members of parliament in both sites of this project requested such incentives, which the project did not provide. The participation of DPRD Kebumen was particularly promising given this context.

In evaluations conducted at the end of the sessions, participants considered the trainings successful in generating debate about the budget process and providing new information on aspects of the local budget pertaining to service provision, composition of revenues, and size of the recurring budget compared to the development budget. However, they felt a longer-term program would, of course, need to provide sustained training and support in budget literacy rather than one session.

**Toward Annual, Government-hosted Budget Forums**

With basic budget literacy skills transferred to the CSOs, the next step was to conduct a public hearing for the draft budget. However, since Indonesia’s fiscal year runs from January to December, the draft FY2007 budget is still in its earliest stages of planning. And usually, a compiled draft budget will be ready by August/September. Delays in enacting the prior year’s budget meant that the FY2006 budget had only recently been passed and it was, therefore, agreed upon that the government would present the FY2006 budget figures. This was considered useful because even if the enacted budget is not normally disseminated, it would still present a model for consultation over a draft budget. However, CSOs in attendance emphasized that in the future they would like to have consultations on the draft budget rather than the enacted budget.

In both locations, the agenda included a general presentation of the government’s priorities for the upcoming year (based on planning documents prepared as part of the annual budget cycle) followed by a briefing on the overall budget figures. This was followed by individual presentations by the Departments of Education, Health, and Public Works. These three departments were selected since they have direct impact on major public goods (including service provision for the poor) and their...
budgets constitute the bulk of expenditures. Presentations were followed by questions and answers from the civil society participants. The discussion was extremely lively, with both female and male participants speaking up and bridging even sensitive issues. A sampling of the questions and concerns raised includes:

- Participants expressed concern over the proportion of allocations for operating (current expenditure) costs compared to direct service costs. For example, in Makassar, the office of the regional secretary (which directs the internal bureaucracy) has a larger budget than any of the technical departments that directly provide services to the public.

- Participants asked about plans or programs and, in particular, how they could access these programs. This demonstrates one of the positive outcomes for local government—they can use this forum to disseminate the benefits they are providing to the community. In fact, the Department of Education in Makassar received sustained applause when they showed pictures of schools in poor repair alongside their respective capital improvement budget for this year.

- There was criticism of the musrenbang process described above. In particular, people felt that it was not fully representative (limited to leading members of the local community) and that it was difficult to track whether any projects were included in the final budget.

- Comments covered revenue issues as well as expenditures. For example, focus was on how low locally-generated revenue is, with concern expressed about irregularities in collection (implying corruption, although this term was not used).

- Many people asked questions related to particular line items (for example, the purpose, derivation, or utilization of those funds). Since the sectoral departments were represented, they were able to answer most of these questions directly. This highlights another benefit of the process for local government—that is, an increased understanding by the public of how the budget is comprised.

**Forum Organization and Ownership**

The organization of the workshops differed in the two locations in the sense that in Kebumen, the local government asked to serve as host rather than ADB or The Asia Foundation. This meant that the local government used its own meeting space, created the agenda (in collaboration with the program team), and sent the invitations. Their agenda differed slightly from Makassar as it involved three breakout sessions (one for each technical department) with an opening and closing plenary. In contrast, the Makassar event was held in plenary for its entirety. In retrospect, breakout sessions may be preferable because most of the CSOs had particular interests that could be discussed in more detail. For example, the sectoral meetings in Kebumen were able to delve into quality issues and coverage of programs as well as the budget per se.

In both locations, the heads of local government were not able to attend due to conflicts in schedules; members of the local parliament also did not attend. In Makassar, the department heads were also unable to attend; and instead, they assigned staff to represent them. This was noted by CSO participants and led to concerns that the government was not serious in its commitment to
budget transparency and consultation. However, the regional secretary of Makassar, who provided the keynote address, was clearly impressed by the level of interest from civil society. Over 100 civil society participants attended the Makassar event (held on a weekday) and over 150 attended the Kebumen event (held on a Saturday). The events received high levels of coverage in the local press.

Thus, the level of involvement in Kebumen (e.g., request to host, attendance by the vice-mayor and department heads) would seem to indicate higher levels of local ownership, and hence, an increased possibility for institutionalization after the end of this project. Both local governments indicated at the conclusion of the workshops that they are interested in pursuing these consultations in the future.

3.4 COUNTRY-SPECIFIC RECOMMENDATIONS

The project concluded with a national conference in Jakarta to foster discussions among government, local NGOs, and international donors on how local budgeting initiatives could be taken forward. The final conference was also an opportunity for the stakeholders from Kebumen and Makassar to present action plans of how they intend to build on the pilot project and implement budgeting work in the future. The local action plans, prospects for sustainability of the pilot projects, and recommendations for broader replication in Indonesia were presented here.

Local Action Plans

Makassar Local Government Action Plan

Actions from the Makassar local government included new initiatives (e.g., making the annual budget available on the internet) as well as expanding existing dissemination campaigns to include budget information. Specifically, the mayor pledged to:

- Increase inclusiveness in the planning process. Like other localities, Makassar has implemented participatory planning processes through musrenbang from the neighborhood level up to the city level. However, during the budget forum and the conference, there were strong criticisms from NGOs and community groups that the musrenbang only involves one organization—the Lembaga Pemberdayaan Masyarakat (LPM), or the Institution for Community Empowerment. Makassar local government will involve broader groups in the musrenbang and SKPD Forums in the future. This will have to be monitored by the CSOs in Makassar, who should work directly with the Planning Department to propose additional organizations for inclusion.

- Increase communication about budgets and other public policy issues with the broader community through existing channels for disseminating information including: public-private dialogues, SMS (text messaging), interactive radio sessions, the internet, and newspaper columns. While this does not require external technical assistance, it is important that CSOs monitor the extent to which this is done, and more importantly, engage with the government once the information is available so that the utility of this extra effort on the part of the local government is clear to all concerned.

- Facilitate people’s participation in budget implementation. The Makassar local gov-
ernment will continue its policy of allocating a certain amount of the annual budget directly to the subdistrict level. This may require external assistance because capacity to program the funds may be weak. Donors engaging in decentralization programs in Makassar may wish to consider such support.

- Conduct an annual budget dissemination process similar to the budget forum held during the pilot project. This may require financial and technical support from donors to defray the costs of the event and to act as a neutral facilitator between the various government offices (Regional Secretary, Finance, Planning, Technical Departments as well as the local parliament) that would be involved in such a meeting.

Kebumen Local Government Action Plan

The commitments from the Kebumen local government build on ongoing reforms in the local government. Future action includes:

- Continue interactive dialogues between the regent and the local government of Kebumen with the public and to continue publishing the Annual Budget Summary in newspapers. As the local government is already engaged in these activities, no further technical assistance is required for implementation of these steps.

- Develop direct mails on the budget, which will be distributed to the smallest neighborhood units, and to conduct annual budget workshops at the subdistrict level. These actions are intended to support increased capacity of subdistrict local government to implement the village fiscal devolution policy. Based on feedback from both the government and civil society counterparts, these steps will require significant donor technical assistance. Kebumen is already discussing with USAID and the World Bank as to whether such support could be made available in the upcoming year.

- Develop a performance evaluation system for local services and develop a transparent and accountable one-stop procurement system.

- Conduct public consultations in the formulation of local laws.

Kebumen Legislative Action Plan

DPRD members proposed an action plan including:

- Conduct comparative studies on budgeting and other institutional matters. This will be done with DPRD’s own funds.

- Increase dialogues with the public, including consultations on the draft annual budget before it is enacted.

Box 4: Promising Signs of Sustainability

The initiative of Kebumen and Makassar local governments to devolve a certain percentage of development funds to lower levels is an encouraging sign that the musrenbang (bottom-up planning) process can be made more effective. However, the local governments face significant challenges in: (i) increasing the capacity of lower level officials to handle the management of these funds; (ii) aggregating the high level of demand for very limited funds; and (iii) monitoring the use of these funds to ensure against improprieties. A new pilot project could be designed to usefully explore ways to support this process so that success stories could be shared more broadly.

Since the close of the project, CSOs involved have continued to work independently with the local governments to support the strengthening of these initiatives. For example, in Kebumen, CSOs are collaborating with the local parliament to revise a number of local regulations on village governance that will contribute toward implementation of the Village Fiscal Devolution program. CSOs in Makassar are working with the Planning Department of the local government to pilot budget activities at the subdistrict level and they are jointly meeting with donors for the funding of these ideas. Such collaboration is an excellent sign that the initiatives begun under the technical assistance will be sustainable.
Publish the annual budget through leaflets and websites.

Monitor the implementation of Local Law No. 53/2004 about public participation in public policy and implement it in the budgeting process.

Revise its tata tertib (the internal mechanism for decision-making processes), to give more access to the public to participate in DPRD’s budgeting process.

Formulate a local law on budgeting that will explicitly include people’s rights to have access to budget information during the planning and monitoring phases of the budget cycle. This may require some external technical assistance.

Civil Society Action Plans—Emerging Coalitions

In both localities, participating CSOs have formed themselves into new coalitions focused on applied budgeting as a result of this technical assistance. In Makassar, the coalition is named Civil Society Empowerment or KuPAS (Koalisi untuk Penguatan Masyarakat Sipil). In Kebumen, it is called Civil Society Forum or Formasi (Forum Masyarakat Sipil). These two coalitions intend to implement similar programs as follows:

- Their basic programs are to advocate more favorable budget allocation and program implementation through increased involvement of citizen and grassroot groups affected by the activities of the development budget.
- They will demand more political openness and the implementation of initiatives that have already been made by local governments, such as fiscal devolution, and increase their own institutional capacity to participate effectively.
- CSOs in Kebumen will direct their efforts toward implementation of the Local Regulation (Perda) on Participation and Village Fiscal Devolution.
- CSOs in Makassar will emphasize a poverty alleviation strategy.
- Both groups will enhance citizen competence on budget issues by conducting budget literacy and budget advocacy trainings for broader community groups.

The sustainability of such efforts will require considerable fund raising to expand ongoing advocacy efforts to include these action points. Toward this end, during the technical assistance implementation, CSOs submitted concept papers to a number of donors such as Ford Foundation, TIFA Foundation, and Canadian International Development Agency (CIDA) for future activities.

Sustainability of the Pilot Projects

Given the proactive nature of the local governments involved, and the relatively large amount of funds available for support to CSOs in Indonesia, there are excellent prospects of these activities being continued in these two sites. The most difficult issue will probably relate to replicating the annual budget forums in a way that allows genuine consultation as opposed to purely dissemination of the draft budget. This will require commitment from the executive branch, support from the legislative arm of government, and active advocacy and engagement by CSOs. However, even should that objective not be achieved, CSOs can still use the increased availability of data resulting from the action plans above to monitor and advocate on budget issues.

Indonesia has already taken significant steps in budget literacy and the formation of national networks of NGOs engaged in this work. The question now is how to deepen applied budgeting from literacy efforts to a meaningful engagement with local governments about funding priorities, efficient use of funds, broadening revenue bases, and related matters. This will require a showcasing of models for public budget consultation that have been demonstrated to work in Indonesia and the dissemination of these models across the country. Finally, civil society capacities would need to be enhanced for effective monitoring of the budgets and long-term involvement in influencing the budget process.

Recommendations for Replication

To foster the institutionalization of meaningful public consultation in the planning and monitoring of local budgets in Indonesia, a number of concrete steps are required. The major recommendations are:
Legal Framework: The central government should provide certainty in the legal framework. Indonesian participatory planning and budgeting process are facing an uncertain regulatory environment as the central government has made numerous and ongoing changes to the budget rules. The Ministries of Finance, Planning, and Home Affairs have all issued regulations requiring planning documents that need to be coordinated and made less burdensome on local governments. It is important to complete and synchronize the existing regulations to ensure clarity and to give overall guidance for citizen participation.

Local Capacities: Government, NGOs, and donors should intensify capacity-building efforts. It is clear from the Makassar and Kebumen experiences that local governments, elected representatives, and civil society groups are struggling with the need to increase their capacity to plan, formulate, and execute their own proposals in promoting pro-poor and participatory budgeting. More concrete guidance and manuals should be produced to support this work. Budget literacy and budget advocacy trainings should be expanded and continued. Donors, who until now have focused their support on CSOs engaging in applied budgeting, should also consider providing technical support directly to the Planning and Finance Departments of local governments to assist them in the implementation of more consultative processes. This should be complemented by increased attention and technical assistance on the role of local parlaments in monitoring the budget and conveying the concerns of constituents to the executive branch.

Access to Information: Local governments should make budget information available and accessible in an easy to understand format for both legislators and civil society audiences. Different media can be utilized to discuss budgets, from formal dissemination workshops to informal discussions on TV, radio, and roundtable discussions. The budget dissemination workshops sponsored under this technical assistance demonstrate that it is possible to develop constructive discussions about budgets. Local governments should hold future workshops before the budget is enacted to encourage public feedback on the priority and feasibility of plans proposed by technical departments.

Dissemination of Innovations: Central government should support increased piloting of participatory budgeting systems. Regions where participatory budgeting takes place need to be supported to achieve more permanent transformation. Regions that have not yet implemented such programs should be exposed to the various models being developed around the country. The Ministries of Home Affairs and Finance can both play active roles in supporting heads of local governments who are committed leaders to these ideas to highlight the gains to other regions which have not yet tried these methodologies. The central government can also draft guidelines for the implementation of both the musrenbang process and consultation on the draft annual budget that would support adoption of best practice across the country. Donors and central government should also consider providing incentives for local government that implement budget transparency measures and involve citizens in the budgeting process.

Donors should improve coordination: The number of donor programs related to supporting decentralization and the various approaches being implemented by donors are resulting in confusion and duplication of effort. Local governments in both locations involved in this technical assistance requested assistance in holding coordination forums as they themselves are hesitant to be seen to question the donors or appear uncooperative. As many donors are decentralizing their own operations, it is recommended that donor coordination forums take place both in Jakarta and on a regional basis.
4.1 POLITICAL AND ECONOMIC BACKGROUND

The year 2006 marks the 20th anniversary of independence for the Republic of the Marshall Islands (RMI). A constitutional democracy, the RMI runs a unicameral, parliamentary government with a President serving as head of state. A US trust territory from the end of World War II until independence in 1986, the RMI maintains strong political and economic relations with the United States (US) under a Compact of Free Association (the “Compact”). Under this free association relationship, the US provides the RMI with economic assistance, defense, immigration privileges, and other benefits in exchange for the right of strategic denial as well as continued use of Kwajalein Atoll as a US military facility.

Most of the 33 members of parliament (including the President and the cabinet ministers) belong to two ad hoc political parties that were formed in the late 1990s: the United Democratic Party (UDP), which currently holds the majority (gaining this majority in the 1999 elections and holding its position again in 2003), and the Ailoon Klein Ad (AKA) Party.

Economic growth, in real aggregate and per capita terms, has been fairly low since independence. Despite high injections of economic assistance, the RMI’s rapid population growth (at nearly 2% per year with a total population of about 57,000 in 2006) and weak overall internal economic performance has made per capita growth flat to minimal. Recent analysis has estimated that real per capita income (in 2003 prices) grew at an annual average of 1% since 1986 and has actually contracted since 1995. Economic growth, in real aggregate and per capita terms, has been fairly low since independence. Despite high injections of economic assistance, the RMI’s rapid population growth (at nearly 2% per year with a total population of about 57,000 in 2006) and weak overall internal economic performance has made per capita growth flat to minimal. Recent analysis has estimated that real per capita income (in 2003 prices) grew at an annual average of 1% since 1986 and has actually contracted since 1995.18

As a result of this long-term economic malaise, the economy remains small, poorly diversified, and heavily reliant on outside resources. With per capita GDP estimated at $2,340, the RMI is closer to Pakistan than to Indonesia in terms of income. Heavy funding

A view of Marshall Islands
flows channeled through the public sector and the continued stagnation in private sector growth and expansion means that the public sector continues to dominate in terms of share of GDP, employment, and paid wages.

Long-term economic stagnation has been the major underlying cause of a growing number of social problems, including increasing poverty, income inequality, and unemployment. Social distress symptoms are increasingly rising (which is a cause for concern), especially in the urban centers of Majuro and Ebeye. Crime, domestic violence, malnourishment, and substance abuse are a few of the emerging issues affecting modern RMI society.

Poor and worsening economic and social conditions at home—combined with free entry privileges to the US—have created a high and steady flow of out-migration. Recent estimates suggest that over 13,000 Marshallese migrated to the US between 1990 and 2004.19 Whereas large overseas migrant populations currently provide economic stimulus for some Pacific Island economies via remittances, for RMI this has yet to materialize. Remittances from Marshallese living abroad are estimated to contribute very little to nothing to RMI economy. This is most likely because of the poor economic status of Marshallese living in the US: nearly 40% of these Marshallese live at or below the US poverty line.20

Traditional Social Structure and Modern Society

While many traditional practices and customs are transforming, traditional Marshallese social and relationship structures remain fairly intact. All Marshallese are born into three broad social classes: the iroij or chiefs, the alap or lords (also sometimes referred to as clan heads), and the ri- jerbal or the commoners (literally translated as the “workers”).

Land is an extremely important resource in the traditional social structure, not only in terms of its economic use, but also in terms of its sociocultural characteristics. Almost all land in the RMI is still held customarily, with most land parcels (called wetos) having three title holders representing the three general social classes. Access and rights to land are passed down through the mother. Marshallese society is also divided by extended family lineages or clans (called jowi) and, like land, clan membership is passed down through the mother.

Marshallese society, therefore, centers on the extended family and places far greater emphasis on group consensus and community than on individualism. Based on consultations among partners during the technical assistance, the questioning or criticism of traditional superiors is discouraged. In the modern context, with the adoption of western forms of governance and with the recent push for increased public demand for accountability and good governance, these traditional norms often present principle conflicts. Public questioning and criticism of government (and its officials) is not a common phenomenon. Whereas, in recent years, the strengthening of different forms of media and the emergence of NGOs has led to an increase in the voicing of concerns over certain public and political issues, the vast majority of Marshallese today remains hesitant to openly question authority.

Service Delivery Responsibilities of Local Government

Unlike the other two pilot countries, the RMI remains relatively centralized given its low population density and limited budget resources. Local governments are able to raise some revenues through sales tax, and are only responsible for providing limited services. These include local police services, solid waste collection, and local roads. Education (which accounts for half of the civil service), health, and public works (roads, sewers, and utilities) remain the responsibility of the national government. For this reason, the project focused on the national budget in RMI, unlike the other two countries.

Civil Society Capacity

The most important CSOs in the Marshall Islands are local community organizations, including parents-teachers associations (PTAs), sports clubs, women’s clubs, and the very active churches (many of which also provide important school services). These organizations have the broadest membership of
Marshallese citizens and provide a structured way of involving users of public services in the pilot project activities.

The RMI has a small number of NGOs, all based in Majuro, that provide an assortment of services from education to vocational training, to advocacy on women’s issues. Some members of the NGO consortium have been trained in budget analysis/literacy under a prior ADB project on gender budgeting, but none are engaged in applied budget work. NGOs are increasingly asserting themselves in advocacy and many now attend the public budget hearings that are usually held in Majuro in August and September. However, as many NGOs rely on public funds, they sometimes are reluctant to openly question the government. At the same time, there are some in government who view civil society as competition for resources and authority rather than as partners. This attitude is felt by the NGO community to impede the development of a vibrant civil society sector.

The private sector is represented by the Chamber of Commerce, also located in Majuro. There are no other business associations in the country. The private sector, to date, has not been involved in budget trainings, but has been vocal in the budget hearings and has experience advocating on policy positions to the government.

The RMI has a relatively open and active media community. Radio is the primary media source for most Marshallese, particularly the government-controlled AM station, which reaches the outer islands. There is also an independent newspaper in Majuro that has a weekly readership of roughly 20,000 (print and electronic versions) and several privately-run FM radio stations in Majuro.

**External Agency Coordination**

The RMI receives assistance from the US through the Department of Interior; Taipei, China; the European Union (EU); various United Nations agencies, and ADB. Related specifically to budgeting, programs have focused on performance-based budgeting (funded by the US), gender-based budgeting (ADB), and community decision-making (the EU).

**4.2 LOCAL BUDGETING PROCESS**

**Revenues and Expenditures**

The national budget, totaling approximately $150 million in FY2006 (including both recurrent and non-recurrent capital investments) continues to draw the bulk of its resources from external sources, again mostly from the US. The US and Taipei, China alone will contribute 70–80% of the total budget in 2006 in the form of grants. The balance is made up of domestic revenues (mostly through import, income, and gross receipts taxes). Funding from the US government for the trust fund and land payments related to military reparations are not included in the national budget.

Development in the RMI is heavily reliant on external sources and, since independence, the nation has seen in excess of $500 million in economic assistance (this excludes other receipts such as lease payments from the US for the use of Kwajalein Atoll and compensation for damages stemming from the US nuclear testing program in the 1940s and the 1950s). The bulk of this assistance came from the US via the Compact and the rest through bilateral relationships with Japan, Taipei, China, Australia, and other donors. The RMI has also received approximately $100 million in development loans, primarily from ADB, which the RMI joined in 1991.

A critical challenge facing the RMI is the size of its civil service, and its budget for salaries now absorbs most of the available budget revenue. The Office of the President calculates that salaries can reach as high as 90–95% of departmental budgets. While an oversized public sector is an issue common to all three countries in this pilot project, the problem is even more pronounced in the RMI than in the other two countries.

**Budget Preparation Cycle**

The fiscal year in the Marshall Islands runs from 1 October to 30 September. Planning begins in January of each year and the budget cycle is shown in Table 4.1.
FOSTERING PUBLIC PARTICIPATION IN BUDGET-MAKING

Given that such a high percentage of the budget is concentrated on salaries and operating costs, allocations are quite static from year to year. Low economic growth and dependency on US government’s transfers mean revenues are also highly static.

Budget Implementation and Monitoring Cycle

Budget implementation and monitoring are primarily the responsibility of the Ministry of Finance, under the guidance of the Secretary, Minister, Chief Secretary and Cabinet. Additional oversight is provided by the legislative branch’s three budget-related committees (Ways and Means, Appropriations, and Public Accounts). The Ministry of Finance currently does not issue any revision updates or reports on the enacted budget during the year.

Legal Basis for Participation

There is no specific act or law that explicitly defines what budget information is to be made public and what is to remain confidential. However, since the budget is put into a public law format and passed by the Parliament (Nitijela), it is automatically available to the public. Open debate and discussion about the law and other issues that affect the budget, however, are not mandated and are, therefore, not always carried out.

While there is no legal basis for participation in the budget process, it is common practice for the Parliament’s Appropriations Committee to hold budget hearings for public debate and discussion, as described above. However, these hearings are lightly attended by civil society.

4.3 FACILITATING CIVIL SOCIETY PARTICIPATION IN LOCAL BUDGETING

The project was launched by holding consultations in Majuro and Ebeye, the two main atolls or groups of islands that account for over 75% of the total population. Given the circumstances of RMI, the project focused on the national budget. Nonetheless, activities took place in both Majuro and Ebeye to involve as large a number of CSOs as possible in the project.²²

Majuro, with a population of 26,000 or nearly half of the total population, is the seat of the national government and has access to the most extensive

<table>
<thead>
<tr>
<th>Month</th>
<th>Activity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jan</td>
<td>The Economic Office of the President updates macroeconomic projections (revenue, inflation, etc.) in the Medium-Term Budget Investment Framework.</td>
</tr>
<tr>
<td>Feb</td>
<td>The updated framework is submitted to the Budget Office which notifies the Cabinet Ministers of their allocations for the year.</td>
</tr>
<tr>
<td>Mar–Apr</td>
<td>Line Ministries prepare department budgets and submit them to the Budget Office.</td>
</tr>
<tr>
<td>Apr–May</td>
<td>The Budget Office prepares the draft budget using ministerial input.</td>
</tr>
<tr>
<td>Jun</td>
<td>The draft budget is submitted to the Cabinet.</td>
</tr>
<tr>
<td>Aug</td>
<td>Cabinet approves or revises the budget and submits to the Appropriations Committee in Parliament.</td>
</tr>
<tr>
<td>late Aug–early Sep</td>
<td>The Appropriations Committee holds public meetings (broadcast on government radio) by department in the capital, Majuro.</td>
</tr>
<tr>
<td>Sep</td>
<td>The budget is submitted to the Parliament and then enacted.</td>
</tr>
</tbody>
</table>

A view of Majuro
services in the country. As noted above, the public sector is the largest employer with a small trade and services sector. Ebeye, with a population of 10,000, is the second major population center and is approximately 45 minutes by airplane from Majuro. Majority of the population—presently residents in Ebeye—are from other atolls who are attracted by the formal sector employment opportunities in the neighboring US military base at Kwajelein atoll. Since they are not native to the atoll, they hold no land rights which remain with the traditional landholders. While the RMI has no national definition of poverty, Economic Policy, Planning, and Statistics Office (EPPSO) estimates that approximately 20% of the total population lives on less than $1/day. Residents of Majuro and Ebeye, with the best access to formal employment in the country, presumably have lower rates of income poverty than this national average.

**Development of Budget Training Materials**

There had never been a budget manual developed specifically for the RMI. Thus, the project created entirely original materials, based on budgets and planning documents provided by the government. A summarized version was translated into Marshallese. As the first and sole resource of its kind for the Marshall Islands, the manual was distributed as widely as possible to provide a lasting resource to CSOs interested in engaging in applied budget work in the RMI. In addition to hard copies disseminated through CSO networks, a local organization has placed the manual in its website, and a summary of the budget was published in the main newspaper.

**Enhancing Capacity for Applied Budgeting**

A one-day training format was found to be most suitable to respond to the needs of the Marshallese community as almost all CSOs in RMI are staffed solely by volunteers, which severely limits the levels of realistic participation. Almost all participants took unpaid leave from work to attend these trainings, reflecting a strong interest in the project-sponsored activities.

A total of five workshops were conducted (three on Majuro and two on Ebeye). A total of 68 participants attended these trainings representing churches, schools and school PTAs, NGOs, and a number of concerned citizens who came in an individual capacity. To contribute to the sustainability of such budget literacy efforts, the trainings were co-facilitated by a representative of the local NGO Women United Together in the Marshall Islands (WUTMI).

Most of the training schedule was devoted to a basic review of the budget calendar and process as this was new material for the participants. Using the budget manual as the main-source document, key actors and their roles in the budget cycle were covered. The training also taught CSOs how to conduct very simple micro- and macro-level analyses of the budget. Highlights of the discussions included:

- Participants showed interest when the lecture focused on the constitutional mandate of each of the key RMI actor in the budget process. It was clear that key government bodies contributed to the overall accountability and transparency of the budget process that are inactive. For example, Public Accounts Committee (PAC) in the Legislative Branch has

![Workshop with NGOs](image)
not met in recent years. Many of the participants had not even heard of PAC, a reflection of its ineffectiveness.

- In general, it was clear that basic civic issues (such as, government roles and functions) were not known by most of the population, signaling a gap in the RMI’s education system.
- The Ebeye Special Needs (ESN) grant commanded a large portion of the discussions for the Ebeye trainings, spurring many questions that were not addressed sufficiently during the outreach campaigns of the Compact Negotiations Office in late 2003. Discussions included topics such as: how ESN grant concept came about during the negotiations; what ESN grant could be used for; and how the grant was used in FYs2004, 2005, and 2006. It was clear from the discussion that most participants did not have this information previously. Upon realizing how ESN could be utilized, people then started asking who decides on how ESN will be used. Is it a government decision or should the people in Ebeye be consulted on what needs ESN grant should tackle?

Although this initial training provided a basis for the CSOs to engage with the government, it was the first step to create real capacity for the financial analysis needed to conduct applied budget work. Future efforts will be required to create broader capacity for budget analysis and to support the creation of an NGO specifically mandated to undertake budget work. In the RMI, WUTMI has expressed their interest in taking on such work and a separate training was, therefore, conducted at their annual meeting so that all their members, including representatives from the outer islands, could be exposed to the budget concepts covered in the trainings.

**Toward Annual, Government-hosted Budget Forums**

The budget workshop in the RMI was held in April 2006. The audience consisted of 14 civil society representatives, including three Ebeye residents whose attendance was supported by the project. Gender representation among speakers and participants was roughly equal. A journalist from the *Marshall Islands Journal* attended and subsequently provided coverage in the local paper.

The government’s presentation provided an overview of its priorities for the upcoming years and offered a frank discussion of some of the political and capacity challenges it was facing that had made it difficult to institutionalize budget reforms. Although the Ministry of Finance had indicated to the project team prior to the meeting that they would present projected figures for FY2007, on the day of the event they were not able to share these figures as the draft budget (which provides the ceilings for each Ministry for the upcoming fiscal year) had not yet been submitted to Cabinet. However, they explained that overall figures (revenue/expenditure) were expected to be consistent with the FY2006 budget.

Because no budget numbers were presented, CSO response to the presentation focused on information access rather than the budget per se. Issues raised in the discussion included:

- How the government can improve access to budget and other government documents, particularly for citizens who live off the main atoll.
- A discrepancy between the RMI’s stated commitment to gender equality and the lack of funds dedicated to women’s issues.
- Poor communication between the government and CSOs, particularly in areas of important service delivery such as education.

Following the budget forum, workshops were conducted with CSOs on both Ebeye and Majuro to discuss action plans and how to address the perceived bottlenecks in accessing budget documents.

**4.4 COUNTRY-SPECIFIC RECOMMENDATIONS**

The final conference was held in June 2006 and attended by the Cabinet’s Chief Secretary, the highest ranking civil servant in the government. Recommendations for increasing public participation and oversight in the budget were presented by civil society representatives from each atoll; and the Chief Secretary was invited to respond to these ideas. The
recommendations and his response are given below.

Recommendations

Although a large number of suggestions for improving the budget process were discussed during the trainings and budget forum, the CSOs chose to concentrate on a few high-priority recommendations during the final conference. Ebeye’s recommendations were presented separately as CSOs there face slightly different challenges than CSOs on Majuro.

**Ebeye CSO Recommendations**

1. CSOs made various suggestions for ways to disseminate budget and other government information on Ebeye. These included making publications available through schools and various government/NGO offices, including the office of the Deputy Chief Secretary Representative for Ebeye and the Kwajalein Atoll Local Government.

2. RMI poses a unique funding environment for CSOs in that most international donor support is facilitated through the central government. Ebeye’s distance from the capital complicates their access to information on what program funds are available, and they, therefore, requested that the government include information on foreign grants in their dissemination efforts.

3. Addressing the finding during the budget trainings that most citizens are unaware of basic civics concepts and the model of the RMI government, the Ebeye CSOs suggested that the government include these subjects in the primary school curriculum.

**Majuro CSO Recommendations**

1. Increase public education on the budget and governance issues. CSOs encouraged the government to support budget literacy efforts.

2. Improve information flows and access. Like their colleagues on Ebeye, CSOs stressed the need to make information available more easily and encouraged the creation of a website. They also expressed support for the idea of establishing a Nitijela library where budget and other documents would be available to the public.

3. Improve information detail and quality. Requested that financial statistics and budget figures be disaggregated in such a way that operating expenses are detailed and easy to understand.

4. Continue and expand performance-oriented budgeting to all Ministries. Currently, only the Ministry of Education is fully implementing this reform.

5. Release the draft budget earlier to the general public.

**Box 5: Importance of a Legal Framework**

Confusion during the budget forum over whether the Ministry of Finance had the authority to share draft budget figures exemplifies the challenges of implementing applied budget work in contexts where there are no clear guidelines on what information is considered public. While the absence of a supportive legal framework does not mean budgeting work is impossible, practitioners should be aware of the potential complications presented by such an environment. CSOs should begin by building strong linkages to government figures with the authority to authorize the sharing of budget information. Advocacy on rights to information and persistence in explaining to government officials the benefits of more transparent budgeting methods can also be helpful.
Action Plans

Executive Action Plan

The Chief Secretary expressed his support and willingness to bring these suggestions to the Cabinet for action. He also committed to the following concrete future steps:

- The President’s office and the Nitijela are developing websites that will host government documents, including the budget, for anyone to access.
- The government envisions that roll-out of performance-based budgeting will be completed in the next 3 years. The delay is due to human resource constraints.
- As a sign of his commitment, the budget circular, showing FY2007 department ceilings and the assumptions underlying the budget, was made available immediately at the meeting. This is the document that was not shared at the April conference.
- The Chief Secretary expressed his willingness to hold public hearings on the draft budget before the Nitijela convenes its hearings prior to the passage of the budget.
- Ebeye will be included in the distribution list of government documents and publications, and the Deputy Chief Secretary Representative Office (responsible for Ebeye matters) will be trained to assist in the dissemination of these documents. The local government on Ebeye will be included in this distribution list and a member of the Ebeye Mayor’s office in attendance expressed their readiness to participate in distribution of these documents.

Legislative Action Plan

Three members of the Nitijela participated in the final conference and publicly committed to reinvigorate PAC. They announced that PAC, which is tasked with monitoring government expenditure, will meet for the first time in several years beginning on 28 June 2006. The Chairperson of PAC also requested training for Parliament members on budgeting.

Civil Society Action Plan

In addition to making the recommendations for government action above, CSOs, on their part, pledged to further budget transparency efforts by:

- **Hosting documents on their websites.** Several NGOs expressed willingness to dedicate space on their internet websites for public government documents. This would complement the government’s efforts in uploading any public documents for its own dissemination policies. As a first step, WUTMI has already placed the budget manual and budget circular on their website, www.wutmi.org.
- **Assisting in disseminating information.** CSO offices are willing to set aside an area in their respective libraries, offices, and schools for general government documents. These documents can be viewed by anyone who cannot access the internet. For example, copies of the budget manual in Marshallese were distributed at the final conference and will be made available to the networks of CSOs in attendance.
- **Educating the public on budgets.** WUTMI, the only NGO in the country with national outreach, has taken ownership of this project and will continue to educate CSOs in the RMI on basic budgeting.

Sustainability

The very high level representation on the part of the President’s office signaled to the various ministries present, particularly the Ministry of Finance, that the government is serious in making these commitments. This is extremely important to the implementation and sustainability of the action plans presented here. However, the RMI continues to face significant human resource constraints on the part of the various ministries in pursuing better budgeting practices that will take time and resources to overcome. Nonetheless, if the people’s access to information improves, particularly off Majuro, this will be a very tangible and important step in enhancing transparency.

On the part of the Nitijela, public pressure, particularly through the media, helped motivate the
PAC to meet again. Following their first session, they have created a schedule to meet with various ministries to review their budgets and spending. These meetings should be monitored by the public and the media, in particular, should play a central role in continuing to highlight budget issues to the public. Technical assistance may be important in ensuring that such meetings are effective as Parliament members do not receive any budget training or accounting support.

Civil society faces rather unique constraints in the RMI given the very limited resources available for programming on governance reforms. Until recently, most donor support for CSOs have focused on their role in service provision given the pressing needs facing the population. Donors are encouraged to recognize the important role that CSOs can play in demonstrating demand for governance reforms. In terms of the sustainability of budget literacy efforts and forums, particularly off Majuro, WUTMI is preparing proposals for dissemination to those donors present in the RMI. Absent donor assistance, they will continue to use forums, such as their annual meetings, to increase the capacity of their members in budget literacy and advocacy.
5.1 POLITICAL AND ECONOMIC BACKGROUND

The Government in Pakistan has been marked by alternating periods of rule by poorly functioning political parties interspersed with military interventions. Despite the strong role of the military in politics, a broad political consensus that Pakistan must have a federal structure and parliamentary form of democratic governance exists. The challenge is how to deliver improved government services and welfare outcomes in the face of entrenched, patronage trends that have dominated in the past.25

The military government in 2000 initiated an ambitious decentralization program intended to address the issue of improved governance at the local level. These reforms were laid out in the Local Government Ordinances (LGOs) of 2001, which devolved significant powers and service delivery functions to local governments. Aspects intended to increase citizen involvement and oversight are explicitly included in the LGO, including direct elections of councils at the lowest level of local government that in turn indirectly elect councils at the subdistrict and district levels. While certain actors at the provincial level, among the bureaucracy, and in civil society have resisted the LGOs, it is unlikely to be reversed in the future.

Pakistan experienced stagnant growth rates during the 1990s, but economic activity has increased significantly since 2001. Growth has reached over 6.5% during the last 4 years, with resulting reductions in poverty. While investment and exports are up, foreign direct investment remains roughly equal to official donor assistance at approximately $1 billion per year. Attracting increased investment in a difficult security environment and maintaining high levels of growth to absorb the expanding workforce population are the primary challenges facing the government as it seeks to lift the population out of poverty. In the short-term, the government faces rising inflation, increasing current account and fiscal deficits, and speculative activities in asset markets.26

One of the significant concerns facing Pakistan is its low achievement of human development relative to GDP. Indicators for infant mortality, life expectancy, and literacy are significantly lower than comparable countries. This has largely been blamed on structural inequalities in rural areas which continue to act along traditional feudal lines as well as wide disparities in the access of women to opportunities related to education, health, and income/employment. Thirty-three percent of the population lived below the poverty line in 1999 (the most recently available data), but the poverty trends have shown improvement of late in line with economic growth.

Service Delivery Responsibilities of Local Government

LGOs create three levels of local government—district, tehsil, and union—and clarify their service responsibilities and fiscal authorities. District governments are responsible for health, education, and roads. Tehsil governments are primarily responsible for local
infrastructure, including water and sanitation, sewerage, street lighting, and road maintenance. Union governments are responsible for very small-scale public works (e.g., village wells) and cultural and community events.

Decentralization in Pakistan differs significantly from that in Indonesia where civil servants at the lower levels of government continue to report primarily to the provincial government. Although budget transfers from the province to the lower levels of government include funds for these staff, the heads (Nazims) of tehsil and union governments are not yet able to effectively control the size or quality of the staff assigned to them.

LGOs provide local governments with powers to raise their own revenues through taxes, fees, tolls, etc.27 Proposals for new taxes must be vetted at public hearings and require provincial government’s approval. Other sources of revenue for local governments include rents from property and profits from investment.

External Agency Coordination

By far, the largest donor-backed effort to support decentralization in Pakistan is a $300 million program loan—the 2002 approved Decentralization Support Program—assisted by ADB. This program includes a $30 million of technical assistance resources focused on supporting capacity building, including financial management support for local government, gender mainstreaming efforts, and support for fiscal decentralization. There are also large-scale efforts being supported by The World Bank (to improve financial management systems), CIDA (to build capacity of local governments, increase community participation, and mainstream gender), and United Kingdom’s Department for International Development or DFID (focused on performance-based budgets). Most of the activities under these programs are directly focused on government officials as targets of training and recipients of support. Comparatively little technical assistance has been extended to elected members of the councils.

A number of donors also support civil society partners through the Devolution Trust for Community

Civil Society Capacity

Pakistan’s relatively low level of human development and its limited history of democratic governance present a particular challenge in relation to identifying civil society partners able to engage in applied budgeting. None of the district-based CSOs who participated in the project had any prior exposure to budget work, although they felt that they would be able to understand the accounting concepts involved and were very enthusiastic about engaging in the activities. As in the other countries, materials and manuals were developed in a simple format and in local language to be effective.

Private sector representation consists of local Chambers of Commerce and Industry, which represent larger businesses involved in manufacturing and import/export. Trade associations represent retailers and are quite active at the local level. The private sector has relatively better access to government policy processes than NGOs.

The press clubs are an important component of civil society at the local level. They are instrumental in raising public opinion and influencing decisions by public authorities. Both the executive and legislature attach significant importance to media. However, the local media is not yet aware of its increased responsibility due to decentralization (e.g., ensuring publication of tax proposals by local government to get public opinion). Moreover, it has not yet played any role with regard to analysis of local budgets or generating public debate on budget issues.
Empowerment (DTCE), a program under the National Reconstruction Bureau that helps establish citizen community boards (CCBs). There are also a number of efforts to disseminate gender responsive budgeting. However, support for the demand side of decentralization reforms has been limited compared to the assistance directed at local governments. In addition, much of the budget-related work to date has focused at the district level, with comparatively fewer interventions at the tehsil and union levels. This technical assistance, therefore, complemented ongoing efforts by building capacity of civil society partners and the private sector to engage on budgeting issues and also by focusing at the lower levels of local government.

5.2 LOCAL BUDGETING PROCESS

Revenues and Expenditures

As in Indonesia and the Marshall Islands, Pakistan’s share of salaries and other operating costs (current expenditure) represent the large majority of the budget. This situation has recently been exacerbated by action taken by provincial governments to increase salaries of their staff (by as much as 30–40% according to District Executive Development Officers interviewed during the inception visit), while only increasing the budget transfers to local governments by approximately 10% to cover the additional expense. This has significantly decreased the availability of development funds, defined in the Budget Rules as noncurrent expenditures.

Development funds, generally used for local infrastructure projects, are hotly contested as a source of patronage used to benefit particular tribal and social groups. One of the innovations under the LGOs is that 25% of available development funds at each of the lower levels of government must be reserved for projects that CCBs initiated. CCBs consist of registered groups of citizens, not necessarily NGOs, who make project proposals through their local governments. CCB allocation cannot be spent on other development projects and is carried forward if undersubscribed. This program has met with mixed results thus far, with many local governments having low disbursement rates for reasons that include lack of political support, poor quality of proposals, and the inability of CCBs to provide a required 20% cash contribution to the projects. In addition, it appears that in some cases politicians appear to be creating their own CCBs to secure access to these funds, undermining the intention of genuine citizen-driven allocations.

Budget Preparation Cycle

The budget process for the two pilot sites, Jehlum and Kasur in Punjab Province, involved in the project is laid out in Punjab District Government and Tehsil Municipal Administration (TMA) Budget Rules 2003 as shown in Table 5.1. The fiscal year runs 1 July to 30 June. The EDO F&P issues budget calls in September. Allocations are based on the prior year’s budget and department heads have until the end of December to submit the first draft of their department budgets (including current and development expenditures). EDO compiles these in January and refers any proposed development projects to the Development Committee for consideration. At the same time, CCBs draft proposals for development projects in their communities. These proposals are submitted to the government through the councils and relevant department heads, who evaluate the technical feasibility of each proposal. In March, EDO F&P revises the current year’s budget so that the upcoming year will reflect any budget shortfalls or surpluses that will be carried forward. During this same period, the F&P compiles the departmental budgets, requests justifications for any increase in spending, and obtains approval from the Development Committee for proposed projects. The head of the local government, the Nazim, submits the draft budget to the council in June. The council is required to enact the budget bill by the end of June.

All local government officials execute budgets using delegated powers of the council. In most cases, budgets are passed on time (although following elections in late 2005, most councils were not able to approve their budgets within the statutory time limit). But the quality of the process varies widely across the local governments. The development portion of the budget is well contested, scrutinized for inter-constituency comparisons, and debated upon in the council. At the same time, there are complaints that rather than seeking better services, the councilors prefer allocations for infrastructure in
their constituencies. The recurrent budget is not discussed and attracts little attention. This means that most of the budgetary outlay is not analyzed nor subject to debate. CCB allocation is also discussed and subjected to political compromises to ensure a positive vote, but it is not reviewed within any development policy context.

Budget Implementation and Monitoring Cycle

Through its monitoring committees, the council—in theory—exercises legislative oversight over the departments and their work, providing guidance, seeking information, and discussing issues. The Accounts Committee of the council, with responsibility for reading monthly accounts in public hearings, informs its members and the citizens of the status of local finances. Once a year it receives the independent audit report and takes up issues brought out before it, applying sanction, and ordering corrective action.

However, the monitoring committees are not fully functional and only rarely do they actively work in their sectors. Lack of experience, precedence, and administrative resources combine to make them barely effective. District (Zila) accounts committees also do not perform in accordance with the spirit of the ordinances, failing to conduct public hearings of the local accounts or audit reports.

Legal Basis for Participation

The LGOs and implementing Budget Rules provide for a number of mechanisms for the public (directly and through elected councils) to exercise control over the budget process. New systems have been created under the Punjab Local Government Planning Manual. These include public consultations at the beginning of the budget cycle; the presentation of the Annual Development Plan; draft budget to the council for consideration; hearings on proposed tax proposals; and the empowering of the council to enact the budget. These elements are intended to
ensure that funds are used appropriately and that development projects respond to the priorities of the population. In practice, however, these mechanisms are largely ignored.

5.3 FACILITATING CIVIL SOCIETY PARTICIPATION IN LOCAL BUDGETING

The project staff visited the municipalities of Jehlum, Faisalabad, and Kasur in Punjab province in late 2005. As in the other countries, meetings were held with the executive (Nazim and EDO F&P, tehsil municipal officers and tehsil officers) and legislative branches (tehsil councilors), as well as NGO and private sector representatives. It was decided not to work in Faisalabad as DFID already has a large technical assistance program ongoing in the municipality. In addition, it was decided to work at the tehsil level (subdistrict) rather than at the district level based on discussions with citizen groups indicating that water and sanitation and other services that the tehsil government provided priority concerns.

Jehlum tehsil is located in the north of Punjab Province, approximately 2 hours south of the capital Islamabad and several hours by road from the provincial capital of Lahore. A relatively small town with a population of 320,000, its economy relies on military service, small industries, and agriculture as the main sources of employment. Overseas remittances are also an important source of income. With an annual budget of $2.2 million, income per capita is PRs185, more than double the per capita income generated in the other project site, Kasur. The Nazim is dynamic and interested in development work. The Naib Nazim is also very active and, under his leadership, the council plays a relatively assertive role in holding the Nazim accountable. Perhaps because of its distance from Lahore where most donor-funded decentralization programs are based, Jehlum has not received significant donor assistance in implementing decentralization.

Kasur tehsil is located approximately 1 hour outside of the provincial capital, Lahore. It is a large trading center with a population of 1,154,990. Agriculture, textile, leather tanneries, and retail are the main sources of employment; the annual budget is $4 million. Both the Nazim and Naib Nazim enjoy good relations with the council. The local government has been receiving technical assistance to strengthen financial and budget systems from CIDA.

Development of Budget Training Materials

Unlike Indonesia, few extant training materials are targeted at CSO audiences. The primary resources available were those developed under ADB’s Decentralization Support Project, which is tailored toward a civil service audience and district, rather than tehsil government. A gender budget manual had been developed with support from CIDA, but was found to be too specific to meet the current project’s objectives. In Pakistan, therefore, as in the other two countries, the project largely created original materials using the budgets from Jehlum and Kasur for FY2005 to shape the exercises. The manual was translated into Urdu to allow for a broader audience and is being disseminated broadly through NGO networks.
Enhancing Capacity for Applied Budgeting

The workshops in Pakistan were organized in collaboration with local organizations to develop a sense of local ownership and to facilitate local partners in mainstreaming budget-related initiatives into their programs. Local partners made all the required arrangements including identification and reservation of venue. They also provided critical help in identifying potential participants. In addition, The Asia Foundation collaborated with the Centre for Peace and Development Initiatives, Pakistan (CPDI-Pakistan) to provide facilitation. CPDI has worked on a number of access to information issues in Pakistan and is a national NGO with advisors based in Punjab. Co-facilitating was intended to strengthen the organization’s capacity to undertake this kind of work in the future.

The budget literacy training in Kasur was attended by 39 members of NGOs, journalists, representatives of bar councils, and office-bearers of CCBs. The training in Jehlum had 33 participants, including two persons who had served in the previous tehsil council and one serving councilor.

Similar to the Marshall Islands, the agenda was for a 1-day session covering the materials presented in the budget manual. In addition, a documentary that CPDI developed discussing access to information and budget advocacy efforts in India was shown. The film generated a great deal of debate and a discussion of provisions under LGOs for access to information. Suggestions were given to participants on how they could try to approach their local government for documents that are supposed to be public under the law. Most participants said that they did not know that they had any right to information vis-à-vis the local government and were unaware of the legal provisions that mandate the local governments to consult citizens and seek their input on various proposals. Even the former councilors in attendance expressed their lack of knowledge of the legal provisions on right to information and pointed out that they too had faced problems in accessing information on budget and development projects.

There was also a great deal of discussion related to CCB allocations and how the process could be made more efficient. CCB allotments are significantly underspent in Kasur, and participants discussed reasons for this including:

- The district Nazim belongs to an opposition political party and, therefore, does not enjoy good relations with the provincial government. On the behest of the provincial government, the district coordination officer (DCO) does not cooperate with the Nazim, which causes a range of difficulties in the context of approving projects for CCBs.
- Some CCBs have deposited their share of funds, but projects have not been approved even though many months have passed.
- Many projects submitted by CCBs have been rejected on vague grounds, for example, failing to show sufficient innovation.
- CCBs that have received approval tend to be affiliated with senior officers or politicians. There is little transparency and a large number of complaints regarding nepotism and favoritism.

Box 6: Reforms of Institutional Arrangements Must Buttress Legal Provisions

A film on consultative budgeting in India and the implementation of India’s Freedom of Information Act stirred a great deal of debate. Comments highlighted the political dynamics in Pakistan and how they act to limit participation, for example:

“India is different. There exists a functioning democracy, and people can raise their voice.”

“These cases in Pakistan highlight that the passage of laws does not guarantee their implementation unless institutional arrangements are clear and political buy-in is assured among those responsible for implementing reforms.”

- The district Nazim belongs to an opposition political party and, therefore, does not enjoy good relations with the provincial government. On the behest of the provincial government, the district coordination officer (DCO) does not cooperate with the Nazim, which causes a range of difficulties in the context of approving projects for CCBs.
- Some CCBs have deposited their share of funds, but projects have not been approved even though many months have passed.
- Many projects submitted by CCBs have been rejected on vague grounds, for example, failing to show sufficient innovation.
- CCBs that have received approval tend to be affiliated with senior officers or politicians. There is little transparency and a large number of complaints regarding nepotism and favoritism.
Feedback from participants indicated that more time was needed for absorption of the analytical methodologies. More time would have been particularly useful to organize group work by participants on specific assignments related to estimation of receipts and whether projections were realistic in the light of past trends. In other words, participants needed some opportunity for hands-on exercises where they could apply the methods explained to them to analyze revenues.

Council Trainings

The training for tehsil councilors was modified to take into account the responsibilities of councilors in enacting the local budget. The training in Jehlum was organized with very active support of the head, or Naib Nazim, of the tehsil council and the head, or Nazim, of the TMA. In total, 18 persons attended the workshop. In Kasur, the training was held on 13 May and was attended by 38 councilors including the Naib Nazim.

The training included discussions on common budgeting problems, such as the predominant role of bureaucracies in developing and executing budgets; a culture of secrecy when it comes to sharing budget-related information with citizens; lack of feedback from citizens in budget preparation; and the limited time given to councilors to consider the budget prior to enactment. Councilors largely agreed that these problems were present in their area and particularly expressed that the bureaucracy does not share information with them, nor are they consulted in the budget-making process. Some of them noted that the budget enactment process is only a formality as it is often passed hurriedly and without any significant debate. As in the CSO trainings, participants were also unaware of the legal provisions that mandate the local governments to consult citizens and seek their inputs on various proposals.

The discussion of the budget cycle raised the following issues:

- Councilors are not consulted in the budget-making process.
- The draft budget is not presented to the council.
- Draft taxation proposals are not presented in the council for discussion.
- Taxation proposals are also not published in newspapers for feedback and suggestions from citizens.

These issues demonstrate that the provisions of LGOs (2001), which provides the legal basis for decentralization in Pakistan, have yet to be fully integrated into the local government process as the ordinance requires the actions above.

Toward Annual, Government-hosted Budget Forums

The agenda in both tehsils was the same: after the welcome remarks, the tehsil municipal officer (TMO) presented the current budget, followed by an open discussion. There was also a session devoted to discussion of ways to institutionalize public participation in budget formulation in the future. Unlike the other two countries, there was a high level of participation by local councilors, who made up nearly half the participants in Kasur (33 out of 69 attendees) and about one third in Jehlum (17 out of 54 attendees).

Kasur

In Kasur, the FY2006 budget was not yet prepared as the government had not received notification of the quantum of fiscal transfers from the province. However, the budget was expected to be consistent with that of FY2005 with some upward revisions and that development projects would be chosen from those submitted by the councilors. Concerns and issues raised in the discussion included:
From the viewpoint of the executive, the lack of long-term development planning on the part of the council leads to ad hoc and inefficient projects.

Councilors were concerned that they are not involved in the budget process and not given sufficient time to consider the budget properly before enacting it. The TMO responded that the councilors suggested all development projects, thus giving them a way of providing input into the budget. As for other stakeholders, he suggested that they were welcome to approach the Nazim or councilors to express input. The Naib Nazim promised to convene a meeting of the council to discuss the draft budget once it had been prepared.

Concerns that local governments are not approving CCB proposals, resulting in underspent development funds. After initially responding that there were few projects submitted, it was pointed out to the TMO that over 400 CCBs were already registered in Kasur. He then clarified that the projects were not considered technically viable and expressed suspicions that CCBs were being created to benefit certain groups or families rather than genuine community needs.

Questions were raised about allocations in particular service areas, some of which were not the responsibility of the local government (e.g., dispensaries). The workshop, thus, allowed the tehsil authorities to clarify for the public which level of government provides which services. Areas of concern included water, sanitation, and repair of roads. TMO suggested that councilors should submit development plans for these areas as no funds were available in other parts of the budget.

Concerns were raised that most funds are allocated for urban parts of the tehsil, neglecting rural areas. Councilors also suggested that future technical assistance extend such workshops to the Union level.

**Jehlum**

In Jehlum, the Nazim expressed his support for the pilot project and the Naib Nazim, who leads the tehsil council, called upon councilors to take an active role in the budget discussion and monitoring committees. The TMO presented preliminary figures for the FY2006 budget although it had not been circulated to the council in April. He explained that the failure to disseminate the budget in April was due to the elections, which created time constraints. Points of discussion included the following:

- As in Kasur, the Jehlum local government cited that lacking an overall plan for the tehsil hindered the achievement of development goals and suggested that a technical assistance is needed to create such a plan in the future.
- Councilors proposed the inclusion of specific development schemes which TMO noted and
eventually included in the draft budget.

- The issue of development funds to opposition party members was raised. Opposition party members were not given allocations, but TMA did note that funds were being spent in all Union Councils (UCs), although not necessarily through the councilor.

- As in Kasur, the under-disbursement of CCB funds was raised. From TMA’s perspective, few CCBs were registered as the process can be considered lengthy and the cost share requirement was prohibitive to some groups.

- The low recovery rates for public utilities, such as water, and the impact on services were also discussed. TMA outlined the efforts it is making to increase revenue generation, including outsourcing bill collection.

Suggestions for Institutionalization

In addition, the councilors held sessions to discuss ways in which public consultation on the budget could be institutionalized in the future. The suggestions in both Kasur and Jehlum were quite similar and included:

- Local NGOs should organize budget consultation forums each year to discuss the budget and provide feedback to the TMA.

- UC Nazims and Naib Nazims should hold consultations with relevant communities before submitting development schemes.

- The Asia Foundation should organize workshops on budget analysis for clusters of UCs, so that people could be informed of budget issues at the grassroots level.

- TMA should establish a system of receiving and analyzing public views before and during the budget preparation.

- As per rules, a draft budget must be presented and properly debated upon in the council in April. Councilors must share the budget information with their constituents and seek their views before coming to the council meetings.

- The Nazim receives views and suggestions daily from people who visit his office. However, it would be better if he holds formal and special meetings on budget matters with larger groups from diverse backgrounds. Hence, the inputs of these sectors, which do not get the chance to interact with the Nazim normally, could also be received.

- Budget information should be provided to local media, including local cable networks. This would allow people to learn about the budget and give feedback, as appropriate.

It is interesting to note that in both Indonesia and Pakistan, participants in the budget forums felt that budget dissemination activities should be replicated at even the lower levels of government (subdistrict).

5.4 COUNTRY-SPECIFIC RECOMMENDATIONS

The final conference in Pakistan was held on 18 July 2006. The Chairperson of the National Reconstruction Bureau, the central government agency spearheading decentralization efforts delivered the keynote address; the Chairperson of the Standing Committee on Local Government and Rural Development for Punjab also spoke. As in Indonesia, representatives from both local communities discussed their experiences of the project and their action plans. The commitments from the executive branch focus on implementing provisions of the LGOs and budget rules that are not yet operational.

Action Plans

Jehlum Local Government Action Plan

The tehsil Nazim represented Jehlum and spoke of the importance of public participation and budget transparency in winning credibility and improving public image. He expressed his belief that if people have confidence that the budget is transparent and funds are used properly, they become willing to pay taxes and cooperate with the government. He lauded LGO 2001 for including a number of provisions for budget transparency and public participation and committed to ensuring that all the relevant provisions in the LGO would be fully implemented during the year. In particular:

- The tehsil administration will take initiatives to create awareness about development projects,
FOSTERING PUBLIC PARTICIPATION IN BUDGET-MAKING

the budget-making process, and how citizens can give their suggestions.

- He pledged to hold public consultations before determining priorities for the next year’s budget. The timing and venue of these consultations will be announced in advance, and people from diverse backgrounds and political affiliations will be welcome to participate and give feedback.

- He will ensure that the tehsil administration will implement Article 137 of LGO 2001 on access to information and will give citizens easy and cost-effective access to documents and records that the administration holds.

- As required by the budget rules, the draft budget will be presented in the council next year. It could not be done this year in view of limited time—considering that the administration had to first prepare last year’s budget, which had been delayed due to the local government elections in 2005.

- Similarly, as the budget rules require, taxation proposals will be published in May for feedback from the public. The feedback will be properly documented to inform the finalization process of taxation proposals.

- The tehsil administration will regularly provide reports to the council on the pace of project implementation, revenue collection, and budget expenditures. Monthly revenue receipt statements as well as monthly expenditure statements will be submitted to the council for discussion and executive oversight.

In implementing these measures, he spoke of the constraints that his administration faces in view of limited resources and capacity of staff and councilors. The needs he identified included staff training in budget making, technical and financial support to develop a master plan for the tehsil, as well as technical support for developing and strengthening monitoring mechanisms.

Jehlum Council Action Plan

Ms. Rizwana, a tehsil councilor, represented the Jehlum council. She discussed the success of the pilot initiative from her perspective, noting that various suggestions of councilors had been included in the final budget document this year, thanks to the budget forum. She accounted for this by the increased awareness of the councilors of the budget process. An additional improvement in this context was that there was equal allocation of funds to both women and men councilors in this year’s budget, unlike in previous years.

She committed to use the knowledge and skills acquired through the training workshops to ensure that the budget process is transparent and civil society groups get opportunities to participate in the budget-making process. These commitments, while not concrete, demonstrate that political will is present to build future technical assistance through sustained cooperation with the tehsil council.

Kasur Local Government Action Plan

The tehsil Nazim of Kasur pledged that all laws and rules related to civil society participation would be fully implemented. He cited other reforms taken by his administration including moving the funds of the tehsil administration from a current account to an interest-bearing account and implementing a transparent auction procedure, which had resulted in increased local revenues.

Kasur Council Action Plan

The Kasur council will be involved in the budget-making process by doing the following:

- Sufficient time will be allocated for discussion and debate in the council to ensure that the budget statement is thoroughly scrutinized and views of councilors, if appropriate, are incorporated in the approved budget.

- The council will insist upon the Administration presenting the draft budget in the council, as required by the budget rules. Similarly, the council will require the administration to publish the taxation proposals in May for public comments.

- The council will establish monitoring committees to keep an eye on expenditures and ensure that there is no leakage or deviation from the approved budget. There will, however, be a need to train members of the monitoring committees in executive oversight.
The council will demand that the administration regularly submits to the council monthly revenue receipt and expenditure statements.

**Civil Society Action Plan**

The civil society representative from Jehlum pledged that civil society groups would play their role in creating public awareness and would use the skills acquired through the training workshops to hold local governments accountable. She suggested that NGOs should be allowed to attend meetings of the council and that their views should be invited and considered before taking final decisions. She also recommended the use of TV cable networks, which exist in almost all towns, to create awareness on issues related to the budget. Furthermore, she proposed that monitoring committees in the council be formed and include civil society representation. The civil society representative from Kasur added that civil society groups would maintain regular contact with the Nazim and Naib Nazim on budget matters and asked that special attention be paid to resolve the underutilization of CCB budget.

**Sustainability and Replication**

The general nature of many commitments made in Pakistan reflects the relatively new nature of this exercise in the country context. Low levels of capacity on the part of local CSOs, councilors, and tehsil administrators make institutionalizing these reforms challenging. Nonetheless, the stakeholders clearly expressed interest in continuing these activities. This represents an important opportunity to deepen these pilots through continued assistance to develop a complete model for Pakistan. First, technical assistance is being provided to administrators, but clearly more have to be done specific to strengthen budget preparation and development planning. Many donor efforts are concentrated at the district level, but significant budget resources at the tehsil level could be programmed more efficiently if civil servants had increased capacity.

Second, donor efforts should be extended to focus more explicitly on strengthening the capacity of councilors. This will include direct measures to build up the council secretariat to provide technical assistance on a daily basis to councilors, who are volunteers. In addition, councils need support to establish the sectoral and accounting committees intended to monitor the budget. Without more effective demand from councils and the public at large, the executive will unlikely take seriously the requirements under the budget rules for engaging substantively with the council.

Significant efforts have to be made to build up the capacity of local CSOs to engage in budget work. While the budget manual developed under this project is being distributed widely, it cannot replace extensive training and grant support to organizations willing to engage in budget advocacy and monitoring. The creation of a national-level network on budget advocacy would be helpful, but individual pilots at the tehsil level are still badly needed as budget advocacy remains a new methodology in the country.

Although it was not the primary focus of this technical assistance, the functioning of CCB provisions in the budget received a great deal of attention. Donor programs working to support the formation of CCBs and improve the quality of their proposals may find that broader budget work supports disbursement of these funds by addressing some of the political and supply side capacity constraints currently impeding better implementation.

**Lessons Learned and Recommendations**

As in every local government, conflicts of varying degrees exist between the executive and the legislative branches. In Pakistan, these conflicts, which are generally on the issue of resource distribution, appear to be managed by accommodating the demands of more vocal and stronger players. In the absence of transparent procedures and open debate in the councils, such compromises generally involve specific individuals and do not necessarily contribute to developing clear criteria or clarifying the exact roles and responsibilities of relevant offices or branches. As a result, the focus remains on personalities, rather than institutions.

Tehsil councils are vested with a large number of powers and responsibilities under LGO 2001, but very few of these are actually being used and performed. This is due to a variety of
reasons including lack of awareness, limited capacity, restricted opportunities for open debate on relevant issues and concerns, and a noncooperative executive. It is possible to significantly increase opportunities for public participation by strengthening the tehsil councils. At present, councilors generally believe that their only responsibility is to ensure that they get a fair share in the development projects for the constituencies they represent. They have little understanding of their role in development planning, monitoring of development projects, establishing transparent and participatory mechanisms for service delivery, and holding the executive accountable for any performance deficit. Even when they seek to perform such roles, the relevant initiatives are mostly verbal, rhetorical, and do not make good use of authentic official information and laid-down rules and procedures.

Councilors frequently complained about the attitude of the executive, who does not consult them in the planning and development process. However, when urged that they also needed to consult constituents and civil society groups before recommending development schemes or taking other initiatives in the councils, they were not completely convinced. They had the view that, once elected, they represented the public and had the right to speak on their behalf. It is, therefore, important to engage them in a dialogue in such a manner that they realize the importance of regular consultations with stakeholders both individually and collectively through the forums that the council or its committees establish. It may be particularly important to highlight that the executive would take the councilors (or the council) far more seriously if their initiatives and recommendations include the views of relevant stakeholders.

Access to official information is a major problem for both councilors and members of civil society. This is despite the fact that the LGO 2001 clearly guarantees citizens’ right to access information held by all offices of TMA. Even more instructive is the fact that hardly any councilor or civil society activist was aware of this legal right and, therefore, no one had demanded information by referring to the relevant section.

There exists very limited capacity for applied budget analysis both among the councilors and civil society groups. In the course of training workshops, trainers had to significantly simplify and modify the modules and training methods, as the base skills were below the expected levels. Participants lacked interest and aptitude for statistics, and required a lot of motivation and skill to obtain their attention. Trainers also needed to explain to them the very basic information and concepts used in the budget documents. Explaining all concepts and principles by concrete examples and comparative statistical data from within the target tehsils were found to be extremely helpful. Participants, for instance, took special interest in comparative data about per capita revenue and per capita expenditures in the two tehsils.

There is generally a dominant environment of apathy, helplessness, and lack of initiative on the part of civil society based on an assumption that any efforts are not going to make a difference. Such attitudes are partly formed by stories of failed attempts from within the local and national political environment. On close examination, most of these failures involved individuals and groups who had established unrealistic targets, and who were driven by passion and sentiments rather than a realistic assessment of the skills and advocacy techniques necessary to succeed. There is a need to provide training in establishing realistic and achievable advocacy targets and appropriate advocacy techniques, and share success stories from within the region wherein people took initiatives and made a significant difference.

Many participants requested that more training workshops on applied budget analysis should be organized. This indicates a demand for learning about relevant rules and acquiring appropriate skills, although it may not be very strong and well-articulated. The very fact that the budget documents were frankly and openly discussed outside the councils was very encouraging and motivating for many repre-
sentatives of civil society groups. More such events could create further interest and greater momentum for public participation.

One major success of the project was dependent upon obtaining the full cooperation of both the council and the executive in terms of agreeing to allow opportunities for open discussions on the budget documents. This was achieved partly because the relevant officials could be persuaded that they could gain political capital by offering opportunities for public participation. This demonstrates that significant entry points exist or can be created for establishing partnerships and promoting the project objectives. Such a possibility is greater if simultaneous awareness and capacity-building initiatives are taken on the demand side as well.

Almost all participants complained about lack of funds in the face of huge development and service delivery challenges. Such complaints were invariably followed by demands that the provincial and federal governments must transfer more funds to the tehsil levels. However, when their attention was drawn to the fact that the tehsil administration could also take initiatives to increase local revenue collection, the typical response was that people were too poor to pay taxes. This reflects that councilors may not sufficiently recognize their revenue collection potential, nor are they adequately equipped to develop and implement effective ways to increasing local revenues. A major concern is that people would resist any imposition of taxes or increase in fees. It was realized that there was a need to initiate dialogue on the positive linkage between the willingness to pay taxes and fees and the quality of services to be delivered by TMA. But the objective of increased local revenue generation is unlikely to be achieved in the absence of robust mechanisms of information sharing, transparency, and public participation in relevant planning and policy processes.

Local government elections in Pakistan are held on nonparty basis, but the fact is that political parties do play a significant role in local politics. Most councilors and Nazim are widely known for their political party affiliations. As a result, proceedings in the council or the nature of relationship between the council and the executive are significantly formed or influenced by party affiliations. Such factors need to be fully understood in designing and implementing training programs.

Under the rules, the executive must present the draft budget to the council in April for discussion and feedback. However, the executive branch never implemented this rule in the targeted tehsils; nor did the councils ever demand the executive branches do so. In fact, when the TMO in Kasur was asked to present the draft budget in May in the workshop, his response was that it was difficult to prepare the draft budget until the auctions had been made and the provincial budget has been presented. This reflects limited technical capacity, as the TMO did not know that draft budget could be developed based on forecasts for next year.

The nature of these challenges indicates the dual political and technical nature of program design necessary for success. Consultative budgeting in Pakistan represents an area of great potential in realizing the intentions of the LGOs. Development partners are encouraged to replicate such efforts to demonstrate that local government can be responsive to citizen needs in concrete ways.
6.1 GENERAL LESSONS LEARNED

In sponsoring a pilot project, ADB explicitly sought to examine what factors support or detract the institutionalization of consultative budget processes. The range of countries involved in this project has provided contrasting contexts from which to draw these lessons. Factors that strongly influence whether or not budget participation is likely to succeed can be considered in three areas: institutional, technical, and political/cultural. The issues highlighted below were found in all three countries to varying degrees and thus may be useful in a broad range of Asian contexts.

Institutional Considerations

As democratizing countries create and empower local legislatures, there is necessarily a period of transition in which government officials and bureaucrats must accustom themselves to new sources of oversight. This period can be marked by high levels of conflict between executive and legislative branches of government over resources and authority. Such conflict is exacerbated by a generally weak capacity of newly institutionalized legislatures correlating with poor functioning of their role in budget monitoring and oversight mechanisms. While tensions between executive and legislative branches exist in all democracies, new democracies may be particularly prone to this problem.

Legal mechanisms for public consultation and/or oversight of the budget under decentralization programs generally focus on the role of legislators as representatives of the public. Indeed, many of the legislators and government officials interviewed during this project felt that direct public consultation was redundant with the function of local legislators as representatives of the people. The focus on consultation processes internal to government (for example, hearings between the executive and legislative, public hearings held by the local government) means that resistance by government stakeholders can easily result in a failure to implement these provisions. In this climate, CSOs and constituents should express the value of direct participation of citizens and proactively build bridges to legislators. Governments seeking to increase public participation may also wish to consider mechanisms that rely on proactive citizens to involve themselves in the budget process, for example, Freedom of Information legislation, which may be more useful in guaranteeing budget consultation/oversight.

Perhaps due to the urgency of delivering services and ensuring that budgets are passed on time, consultative activity during the budget cycle almost exclusively focuses on budget preparation and enactment. Mechanisms to monitor the use of funds or evaluate the impact of programs are weak or absent. This can take the form of legislative monitoring committees failing to meet or be trained as in Pakistan, or failure of the executive to prepare and submit budget revisions during the fiscal year as in the Marshall Islands. In countries with weak accountability and high levels of corruption, where actual budget expenditures are at risk of being spent...
on non-budgeted items, budget monitoring is at least as useful an area for public involvement as budget planning.

Technical Considerations

Decentralization efforts in Indonesia and Pakistan have attracted significant donor support in the form of both financial and technical assistance. The bulk of this support has been directed to aiding civil servants to learn and implement the new rules and structure. Far less support has been provided to local legislators. As a consequence, legislators are not fully aware of their responsibilities to enact and monitor the annual budget. Nor are they aware of provisions in the law regarding public consultation. The failure of the budget schedule and budget rules to be implemented in two of the pilot countries, while partly an institutional problem, as highlighted above, is also clearly related to limited capacity of bureaucrats to understand and implement budget rules, and parliaments/councils to engage meaningfully in their oversight roles.

The clarity of budget formats significantly impacts whether civil society can evaluate and monitor expenditures. This is particularly important in relation to the current (administrative) expenditure portion of the budget, which receives almost no review by the public or the legislative, but is likely to include large amounts of funds subject to inappropriate use, particularly in countries with embedded corruption. Efforts to introduce performance-based budgeting are useful in allowing the public to examine costs in detail and to connect expenditures to expected outcomes. However, governments often face significant human resource constraints in implementing this kind of accounting. Donors should be careful in advocating the adoption of performance-based budgeting simultaneous with more participatory forms of budgeting as the two reforms may overwhelm local bureaucrats trying to adjust to the new systems.

For most citizens, undertaking financial analysis is off-putting and time-consuming. For civil society actors to engage in analytical work, sustained external technical assistance to create capacity to analyze budgets and financial support to engage in advocacy are prerequisites for successful institutionalization. Donors should anticipate significant long-term engagement with local counterparts to replicate applied budgeting approaches.

Finally, during budget forums, general discussions of the budget were considered to be less effective than presentations of the budget by sector. This allowed for more in-depth discussions of line items as well as the link between quality and output in relation to resource inputs. This was seen most clearly in Indonesia where the Makassar meeting, held in plenary, resulted in a more general discussion of the budget than in Kebumen where breakout sessions led by the heads of the departments, resulted in more concrete discussions of outputs and needs.

Political and Cultural Considerations

As in most democracies, legislators view securing development projects/funds for their constituents as
CHAPTER 6  CONCLUSION AND RECOMMENDATIONS

an important part of their ability to be reelected. Given the scarce resources for development funds at the local level, this often results in an informal system of apportionment whereby each local legislator is “entitled” to a certain amount of the development budget for their district. This can have the negative result of development expenditures that are ad hoc and not strategic.

In some cases, there have been movements toward more equitable distribution of funds: for example, requiring that some funds be spent in all subdistricts of the local government, or trying to provide additional funds to low-income parts of the municipality/district. The creation of annual or mid-term development plans, particularly if based on needs assessments in the community, would facilitate more efficient use of development funds, but require achieving political consensus.

Related to the apportionment of development funds among legislators, attempts to ensure political representation by women through instruments such as quotas have resulted in their relative marginalization in their own parties and legislatures. One consequence of this is that many have unequal access to budget information, seats on committees that deal with budget review, and development funds for their constituencies. On a positive note, many women being elected to these positions, exactly because they are marginalized, appear to be more willing to make budget documents available to the public and have a vested interest in gaining access to budget information themselves to find out how much funds other legislators are receiving.

On the part of the executive, the attitude of some officials who remain resistant to the idea of sharing budgets as public information, particularly before enactment, can obstruct applied budgeting. This derives from traditional notions of what constitutes state’s secrets; a concern that budget officials will be reprimanded by those higher up in the bureaucracy or by politicians who do not want this information shared; a sense that “working documents” (i.e., a budget that will change and is not yet finalized) are not fit for public consumption or a failure to maintain the budget schedule (often due to behind-the-scenes political deal making in addition to the technical constraints discussed above) resulting in budget documents not being compiled in any comprehensible format until enactment is urgent to maintain expenditures. Leadership by the head of the government is important in signaling to bureaucrats responsible for preparing the budget that increased transparency will be rewarded rather than punished.

Ironically, as external budget monitoring becomes more effective at uncovering misallocations/abuses, this may have the effect of reducing the willingness of local governments (both legislative and executive branches) to cooperate. For instance, some local governments in Indonesia that were visited during the inception visit cited recent legal actions taken against corrupt local parliaments as the reason they were hesitant to participate in the pilot project. Thus, the success of applied budgeting initiatives in increasing transparency may actually hinder replication.

It should also not be assumed that civil society actors necessarily understand why they should be involved in the budget process or that they will feel comfortable engaging in such consultation. Factors leading to this include a sense that putting together the budget is the job of government and can safely be entrusted to them; cultural unease in some communities at questioning authority or disagreeing in public (particularly with people in positions of power), or a feeling of hopelessness that advocacy can lead to tangible reforms.

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Box 8: Addressing Gender Concerns

In Pakistan, 33% of local council seats are reserved for women. However, once elected, women are often treated differently due to their perceived lack of political base. Activities under the technical assistance highlighted that women councilors were not receiving equal access to development funds as their male counterparts.

The Jehlum local government agreed to address this inequity by giving women and men councilors equal access to development funds as a result of discussion at the budget forum. While this may be a stipulated requirement under the laws of the land, dialogue and exchange help clarify such issues and bring them into the public domain with possibilities of replication.
As discussed in Chapter Two, challenges to implementing participatory budgeting initiatives, in which the public actually decides on the use of development funds, are particularly steep. In both Indonesia and Pakistan, decentralization laws have provisions for bottom-up planning processes related to the formation of the annual development budget. In both cases, these have not been very effective primarily due to political resistance, but are also due to fiscal constraints and the logistical difficulties of aggregating high levels of demand.

Given the difficulties of increasing revenues, addressing limited development funds in the budget will necessarily require frank discussion of how current expenditures are set. Historical and economic legacies in many Asian countries have resulted in proportionally large public sector employment. The result is that the vast bulk of budgets are spent on salaries, reducing the availability of funds for service provision. As public consultation efforts proceed, a debate over efficient use of funds is sorely needed, but can only occur if current expenditures are clearly decipherable. Rationalizing the size of the civil service is a politically difficult challenge facing many governments. Better understanding of the impact on the size of the civil service on local development budgets may assist in making civil sector reforms more palatable.

6.2 LESSONS FOR REPLICATION OUTSIDE THE PILOT COUNTRIES

Although the short duration of the project means that conclusions must be considered provisional, the fact that common experiences were seen in such different contexts leads us to make some recommendations as to how such initiatives can be pursued in other municipalities/countries. As a general guideline, it is suggested that governments, donors, and CSOs wishing to replicate these activities consider the following:

1. **Clear regulatory frameworks help support participatory budgeting**

   Efforts are most likely to meet success in countries/locations that have some legal/regulatory framework supportive of public involvement in governance processes and where the head of government is willing to show leadership on this issue. Governments that do not yet have laws or regulations allowing for public consultation and monitoring of budgets should consider enacting such legislation. Governments that have already created such a framework should be encouraged to ensure that other parts of the Budget Rules are consistent with public participation and may wish to consider issuing guidelines to local governments highlighting best practice in implementing public consultation.

2. **External assistance can contribute to local reform efforts**

   The reforms required to facilitate successful applied budgeting efforts often need external assistance. This can be both in facilitating dialogue between branches of government and civil society or, more technical in nature, focusing on the actual budget preparation and analysis itself. Technical assistance to local governments should be offered to ensure that budgets are being produced in a clear format and that the Budget rules and calendar are being followed. Technical assistance should be extended to local parliamentarians at the same time to the executive so that they better understand their role in the budget process. CSOs require technical assistance to learn how to analyze budgets and grant assistance to allow them to focus staff time and resources on preparing budget briefs, trainings, and advocacy activities.

3. **Civil society must start with simple and effective methods**

   CSOs should initially concentrate on budget literacy efforts so that their constituents can usefully engage in budget dialogue. Budget literacy materials should assume no prior knowledge of budgets, accounting concepts, or government functions and should be in local language. Repeated trainings over a sustained period of time are needed to absorb the information.

4. **Access to information is vital**

   Programs are recommended to focus first on access to information as the initial and prerequisite step to greater public involvement in budget planning and
oversight. Local governments should be supported to disseminate budget information broadly including mass media such as radio, newspaper, television, and the internet.

Forums to engage public feedback are a useful next step and can be sponsored by either the executive or legislative. However, it is important that such forums should happen early enough in the annual budget cycle to allow for revisions of the budget. In addition, to be legitimate, such forums must be as inclusive as possible.

6.3 CONCLUSION

Politics matters

The experiences of the three countries in this pilot project highlight that the challenges to opening budget processes to public oversight are primarily political, not technical. In general, the willingness of the head of government to enable and consider public input into the budget process sets the tone for how successful activities will be. Resistance at the lower levels of the bureaucracy will only give way in the face of an overarching environment supportive of these efforts. Reform-minded individuals should be supported with technical assistance for their staff and should be engaged in disseminating their activities to other local governments. The active participation of heads of government in this pilot project demonstrates that there are counterparts who are eager to institute more consultative practices. Donors are encouraged to focus programming on these sites to develop viable models for consultation that can be used to persuade other local governments of the benefits of opening the budget process to the public.

Because government documents are still commonly treated as state secrets in many developing countries, a legal framework supporting enhanced transparency is very useful in clarifying for bureaucrats what information can be shared with the public. The presence of a supportive legal framework that can be referred to in requesting access to budget information greatly facilitates the likelihood that this work will be successful. While the existence of legal provisions does not mean that they will be implemented in the absence of demand, it is difficult for officials to directly refuse to implement these provisions once discrepancies between law and practice become the subject of public debate. The case of the RMI demonstrates that while reforms can be made in an environment without legal provisions for public participation in budgeting, this was dependent upon the personal commitment of high level officials. This makes such reforms vulnerable to personnel changes.

Reform ownership

Where governments are pursuing reforms to allow the community to have direct input into decision making over development funds, the political and fiscal challenges of implementing such measures must be fully recognized. To overcome these challenges, fiscal transfers should take into account the overall levels of funding absorbed by current expenditures. Where development funds are too small to provide significant support for community projects, the solicitation of ideas from the community may just lead to frustration as projects go largely unfunded. Where development funds are sufficient but are being underspent for whatever reasons, central governments may consider providing incentives to local governments, for example, by making disbursements of block grants contingent on the progress of the development fund pipeline. Donors should be aware that reforms along these lines require significant political buy-in at all levels and should, therefore, consider working on budget transparency and public consultation first before attempting such ambitious programs.

Understanding the local context is important

The interests of various government officials are not uniform and should be taken into account when assessing the sustainability and replicability of applied budgeting initiatives. Indeed, the perceived conflict of interest between the executive and legislative branches can facilitate more participatory budgeting as parliamentarians join with civil society actors in demanding better access to the budget process. Donors are encouraged to deepen engagement in one community to work with the executive, legis-
lative, and civil society as the three pillars of this activity. Most interventions tend to focus on capacity building of one counterpart. A three-prong effort is likely to be more effective in addressing the complex barriers to greater budget oversight.

**Civil society coalitions are essential for success**

In designing applied budgeting initiatives, site selection should be biased toward areas where civil society has capacity and interest to engage in applied budgeting. The willingness of CSOs to engage in applied budgeting should not be assumed: many groups either feel that the budget is the responsibility of the government or that their inputs will be ignored. In addition, for many CSOs, particularly at the grassroots level, the technical challenges involved in undertaking the financial analysis required are formidable. For this reason, many efforts have focused primarily on budget literacy. Despite large investments in some countries to create capacity, there is a surprising paucity of training manuals available. Furthermore, making the leap from understanding the budget to advocating for budget revisions and engaging effectively with local government requires another set of skills. Internationally, these efforts have had most success when undertaken by NGOs dedicated to applied budgeting. For this reason, donors may wish to focus on institutional strengthening of a core group of NGOs by extending grants and technical support to organizations wishing to engage in budget analysis as a primary activity of their organization.

Advocacy networks that are provincial or national play an important role in supporting individual efforts and contributing to replication. NGOs should form such networks to support broader advocacy efforts and support the dissemination of information both domestically and internationally.

**Media has a paramount role in promoting transparency**

The role of mass media in promoting increased transparency is well-accepted and has been demonstrated in both industrial and developing countries. Its role should be carefully considered in designing applied budgeting activities to take advantage of the educational and advocacy roles the press can play. For example, coverage of project activities and opinions-editorials in the Marshallese press appear to have contributed to PAC agreeing to meet again. In Makassar, local press highlighted the absence of local councilors and certain high-level officials from the budget forums, questioning the government’s commitment to participation. CSOs are encouraged to partner with the press, and budget literacy trainings should be extended to journalists to encourage their active participation in applied budgeting efforts.

The success of the pilot initiatives indicates that significant opportunities for broadening and deepening applied budgeting work in Asia exist. Benefits seen under the pilot project include increased commitment by the executive and legislative branches to follow the budget rules, improve internal processes, and solicit civil society inputs. On the part of CSOs, these activities provide increased understanding of 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 genuine needs of the community. Consistent with international experience, therefore, applied budgeting can play an important part in supporting improved governance outcomes in Asia, particularly at the local level in a context of decentralization.
Appendix 1
Summary Budgets, Indonesia

Kebumen 2006 Expenditures by Sector

<table>
<thead>
<tr>
<th>No.</th>
<th>Description</th>
<th>Amount (Rp)</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>General Administration</td>
<td>186,638,355,000.00</td>
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<td>Agriculture</td>
<td>10,838,120,000.00</td>
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<td>3</td>
<td>Fishery and Maritime</td>
<td>9,387,475,000.00</td>
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<td>4</td>
<td>Forestry and Plantation</td>
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<td>5</td>
<td>Industry, Trade, and Cooperatives</td>
<td>2,388,725,000.00</td>
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<tr>
<td>6</td>
<td>Manpower</td>
<td>4,038,475,000.00</td>
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<td>7</td>
<td>Health</td>
<td>53,308,475,000.00</td>
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<td>8</td>
<td>Education and Culture</td>
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<td>9</td>
<td>Social</td>
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<td>10</td>
<td>Public Work</td>
<td>135,753,901,000.00</td>
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<td>11</td>
<td>Transportation</td>
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<td>12</td>
<td>Demography</td>
<td>12,243,348,000.00</td>
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<td>13</td>
<td>Tourism</td>
<td>5,373,953,000.00</td>
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<td></td>
<td><strong>Total expenditures</strong></td>
<td><strong>703,949,756,000.00</strong></td>
<td><strong>100.00</strong></td>
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Source: Local Government, Kebumen

Makassar 2006 Expenditures by Sector

<table>
<thead>
<tr>
<th>No.</th>
<th>Description</th>
<th>Amount (Rp)</th>
<th>Percentage</th>
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<td>Industry, Trade, and Cooperatives</td>
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<td>Manpower</td>
<td>2,914,351,000.00</td>
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<td>5</td>
<td>Health</td>
<td>48,507,186,923.00</td>
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<td>Education and Culture</td>
<td>279,974,960,500.00</td>
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<td>Social</td>
<td>3,212,950,000.00</td>
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<td>Spatial Planning</td>
<td>5,136,792,150.00</td>
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<td>Housing</td>
<td>7,094,237,375.00</td>
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<td>Public Work</td>
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<td>Transportation</td>
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<td>Environment</td>
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<td>13</td>
<td>Demography</td>
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<td>14</td>
<td>Tourism</td>
<td>6,531,214,250.00</td>
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<td><strong>Total expenditures</strong></td>
<td><strong>824,893,386,957.00</strong></td>
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Source: Local Government, Makassar
### Kebumen 2006 Revenues

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<th>Description</th>
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<td>- Local taxes</td>
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<td>- Local services fees</td>
<td>16,357,576,000.00</td>
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<td></td>
<td>- Proceed from local government-owned enterprises and share of proceeds from local government assets</td>
<td>1,058,750,000.00</td>
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<td>- Other legitimate income</td>
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<td>Balancing Fund</td>
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<td>- Tax/nontax revenue sharing from the central government</td>
<td>15,222,638,000.00</td>
<td>2.38</td>
</tr>
<tr>
<td></td>
<td>- Block Grant (DAU)</td>
<td>536,689,000,000.00</td>
<td>84.00</td>
</tr>
<tr>
<td></td>
<td>- Special Grant (DAK)</td>
<td>29,060,000,000.00</td>
<td>4.55</td>
</tr>
<tr>
<td></td>
<td>- Tax/ Services revenue sharing and financial assistance from the provincial government</td>
<td>15,999,176,000.00</td>
<td>2.50</td>
</tr>
<tr>
<td>3</td>
<td>Other legitimate income</td>
<td>6,500,000,000.00</td>
<td>1.02</td>
</tr>
<tr>
<td></td>
<td><strong>Total revenues</strong></td>
<td>638,880,889,000.00</td>
<td>100.00</td>
</tr>
</tbody>
</table>

Source: Local Government Kebumen

### Makassar 2006 Revenues

<table>
<thead>
<tr>
<th>No.</th>
<th>Description</th>
<th>Amount (Rp)</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Locally-generated Revenue (PAD)</td>
<td>113,803,878,705.00</td>
<td>14.08</td>
</tr>
<tr>
<td></td>
<td>Local taxes</td>
<td>68,744,343,215.00</td>
<td>8.50</td>
</tr>
<tr>
<td></td>
<td>Local services fees</td>
<td>40,607,097,440.00</td>
<td>5.02</td>
</tr>
<tr>
<td></td>
<td>Proceeds from local government-owned enterprises and share of proceed from local government assets</td>
<td>1,849,938,050.00</td>
<td>0.23</td>
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<tr>
<td></td>
<td>Other legitimate income</td>
<td>2,602,500,000.00</td>
<td>0.32</td>
</tr>
<tr>
<td>2</td>
<td>Balancing Fund</td>
<td>694,517,739,000.00</td>
<td>85.92</td>
</tr>
<tr>
<td></td>
<td>Tax/Nontax revenue sharing from the central government</td>
<td>93,133,739,000.00</td>
<td>11.52</td>
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<tr>
<td></td>
<td>Block Grant (DAU)</td>
<td>513,004,000,000.00</td>
<td>63.47</td>
</tr>
<tr>
<td></td>
<td>Special Grant (DAK)</td>
<td>14,680,000,000.00</td>
<td>1.82</td>
</tr>
<tr>
<td></td>
<td>Tax/ Services revenue sharing and financial assistance from the provincial government</td>
<td>73,700,000,000.00</td>
<td>9.12</td>
</tr>
<tr>
<td>3</td>
<td>Other legitimate income</td>
<td>-</td>
<td>0.00</td>
</tr>
<tr>
<td></td>
<td><strong>Total revenues</strong></td>
<td>808,321,617,705.00</td>
<td>100.00</td>
</tr>
</tbody>
</table>

Source: Local Government, Makassar
## Appendix 2

### Summary Budgets, Pakistan

### Expenditures 2004–2005, Kasur

<table>
<thead>
<tr>
<th>No.</th>
<th>Description</th>
<th>Amount (PRs)</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>General Administration</td>
<td>111,821,189.00</td>
<td>47.09</td>
</tr>
<tr>
<td>2</td>
<td>Development</td>
<td>125,666,000.00</td>
<td>52.91</td>
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<tr>
<td></td>
<td><strong>Total expenditures</strong></td>
<td><strong>237,487,189.00</strong></td>
<td><strong>100.00</strong></td>
</tr>
</tbody>
</table>

Source: Local Government, Kasur

### Budget Estimate of Revenues 2004–2005, Kasur

<table>
<thead>
<tr>
<th>No.</th>
<th>Description</th>
<th>Amount (PRs)</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Locally-generated Revenue</td>
<td>95,610,000.00</td>
<td>42.28</td>
</tr>
<tr>
<td></td>
<td>Local taxes</td>
<td>55,920,000.00</td>
<td>24.73</td>
</tr>
<tr>
<td></td>
<td>Local services fees</td>
<td>14,790,000.00</td>
<td>6.54</td>
</tr>
<tr>
<td></td>
<td>Service rates</td>
<td>10,000,000.00</td>
<td>4.42</td>
</tr>
<tr>
<td></td>
<td>Rent</td>
<td>1,900,000.00</td>
<td>0.84</td>
</tr>
<tr>
<td></td>
<td>Miscellaneous</td>
<td>13,000,000.00</td>
<td>5.75</td>
</tr>
<tr>
<td>2</td>
<td>Capital Income</td>
<td>8,000,000.00</td>
<td>3.54</td>
</tr>
<tr>
<td>3</td>
<td>Grants</td>
<td>122,500,000.00</td>
<td>54.18</td>
</tr>
<tr>
<td></td>
<td>Development Grants</td>
<td>12,500,000.00</td>
<td>5.53</td>
</tr>
<tr>
<td></td>
<td>Nondevelopment Grants</td>
<td>110,000,000.00</td>
<td>48.65</td>
</tr>
<tr>
<td></td>
<td><strong>Total revenues</strong></td>
<td><strong>226,110,000.00</strong></td>
<td><strong>100.00</strong></td>
</tr>
</tbody>
</table>

Source: Local Government, Kasur
### Expenditures 2004–2005, Jehlum

<table>
<thead>
<tr>
<th>No.</th>
<th>Description</th>
<th>Amount (PRs)</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>General Administration</td>
<td>84,791,500.00</td>
<td>54.57</td>
</tr>
<tr>
<td>2</td>
<td>Development</td>
<td>70,600,500.00</td>
<td>45.43</td>
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<tr>
<td></td>
<td><strong>Total expenditures</strong></td>
<td><strong>155,392,000.00</strong></td>
<td><strong>100.00</strong></td>
</tr>
</tbody>
</table>

Source: Local Government, Jehlum

### Budget Estimate of Revenues 2004–2005, Jehlum

<table>
<thead>
<tr>
<th>No.</th>
<th>Description</th>
<th>Amount (PRs)</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Locally-Generated Revenue</td>
<td>100,144,400.00</td>
<td>71.15</td>
</tr>
<tr>
<td></td>
<td>- Local taxes</td>
<td>22,906,000.00</td>
<td>16.27</td>
</tr>
<tr>
<td></td>
<td>- Local services fees</td>
<td>18,344,500.00</td>
<td>13.03</td>
</tr>
<tr>
<td></td>
<td>- Service rates</td>
<td>7,173,000.00</td>
<td>5.10</td>
</tr>
<tr>
<td></td>
<td>- Rent</td>
<td>9,650,000.00</td>
<td>6.86</td>
</tr>
<tr>
<td></td>
<td>- Miscellaneous</td>
<td>1,402,000.00</td>
<td>1.00</td>
</tr>
<tr>
<td></td>
<td>Arrears</td>
<td>40,668,900.00</td>
<td>28.89</td>
</tr>
<tr>
<td>2</td>
<td>Capital Income</td>
<td>930,000.00</td>
<td>0.66</td>
</tr>
<tr>
<td>3</td>
<td>Grants</td>
<td>39,684,000.00</td>
<td>28.19</td>
</tr>
<tr>
<td></td>
<td>- Development Grants</td>
<td>16,176,000.00</td>
<td>11.49</td>
</tr>
<tr>
<td></td>
<td>- Nondevelopment Grants</td>
<td>23,508,000.00</td>
<td>16.70</td>
</tr>
<tr>
<td></td>
<td><strong>Total revenues</strong></td>
<td><strong>140,758,400.00</strong></td>
<td><strong>100.00</strong></td>
</tr>
</tbody>
</table>

Source: Local Government, Jehlum
Endnotes


2 For discussions of lessons learned in consultative budgeting, see Brillantes, A. & Sonco, J. in Participatory Planning and Budgeting at the Subnational Level, and Wampler, B. A Guide to Participatory Budgeting.

3 See Assessment of Participatory Budgeting in Brazil, Center for Urban Development Studies, Harvard University and Inter-American Development Bank (2004).

4 See Social Development Notes, World Bank, Case Study 3—Gujarat, India: Participatory Approaches in Budgeting and Public Expenditure Management” and Malajovich and Robinson, Budget Analysis and Social Activism: the Case of DISHA in Gujarat, India.

5 See Kuznezov, L. Making Services Work for the Poor in Indonesia.

6 See Rahman, Atiur, Effective Participation: Community Engagements in Participatory Budgeting in Bangladesh.

7 See international budget.org and logolink.org for broad guidelines on applied budgeting.

8 See Brian Wampler, A Guide to Participatory Budgeting for discussion of necessary conditions for successful replication of participatory budgeting models.


12 See Kuznezov, L. Making Services Work for the Poor in Indonesia.

13 See http://djpkpd.go.id/berita/dau/panduan-dau.htm for details on the formula used to calculate DAU.

14 In Kebumen, the law on fiscal devolution has been issued but not yet been implemented fully. This year, about 5% of the budget was devolved to the village (not subdistrict) level. CSOs in Kebumen are trying to advocate full implementation of this regulation.

15 See Appendix for a summary of the Kebumen annual budget.

16 See Appendix for a summary of the Makassar annual budget.

17 For example, in the Kebumen Fiscal Year 2006 budget, education received 42% of funds; infrastructure, 19.28% of funds; and health 7.75% of funds.
Based on interviews with the Marshall Islands Journal. The Team Leader met with government officials from the national government, as well as representatives of the local governments of Majuro and Ebeye. Citizen representatives from NGOs, schools, churches, the private sector, and media were also consulted. Since the primary social services (health, education, and infrastructure) are provided directly by the central government, it was decided to focus on the national budget rather than local budgets.

According to the budget calendar provided to the Asian Development Bank’s consultants by the Government, the draft summary budget is usually presented to the Cabinet in early April.

See www.wutmi.org

See Bose, S., and Jalal, A. Modern South Asia: History, Culture, Political Economy; and Ziring, Lawrence. Pakistan at the Crosscurrent of History for more on Pakistan’s political economy.


Schedule Two gives details of taxes that can be levied by district, tehsil, town, and union councils.

See www.dtce.org.pk for more information on the Devolution Trust for Community Empowerment.

See www.cpdi-pakistan.org for more information on CPDI.

This comment underlies the lack of awareness that the council also has the right to enact (and thus question) current expenditures.

See nrb.gov.pk for more information on the National Reconstruction Bureau.

For information on the role of the media in promoting transparency see Balkin, J.M. How Mass Media Simulate Political Transparency and Jayaweera, W. How media pluralism advances government transparency.
References


———. 2004. Law No. 32 on Regional Administration.

FOSTERING PUBLIC PARTICIPATION IN BUDGET-MAKING


United Nations, Department of Economic and Social Affairs. 2005. Participatory Planning and Budgeting at the Subnational Level.


Fostering Public Participation in Budget-Making

This publication documents the experiences, successes, and challenges of pilot testing participatory budgeting at the local level in three countries of Asia and the Pacific: Indonesia, Marshall Islands, and Pakistan. The pilots implemented under an Asian Development Bank (ADB) regional technical assistance demonstrated the challenges of public involvement in the budget process and highlighted the need for an active and articulate civil society in the local context. Successful pilots in these countries also demonstrated that civil society’s engagement is not difficult to elicit provided local governments have the political will and technical resources. Using simple, effective, and low-cost methods, local governments can promote transparency and openness in their decision making by following such an approach. Transparency is vital for good governance that in turn leads to economic growth and poverty reduction in the long term. Lessons and experiences from the pilots in different contexts show similar conclusions about the process. Therefore, publication of these case studies will provide access to knowledge and good practice to hundreds of local governments in Indonesia and Pakistan for replication, and will provide guidance to development practitioners and government officials in other countries. Overall, this publication will serve the purposes of knowledge sharing and dissemination across the region. Other international development agencies could also use some of the lessons documented to mainstream participatory approaches and civil society partnerships in their projects and programs.