

Knowledge for policy: Regulatory obstacles to the growth of a knowledge market in Indonesia

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Executive Summary

This diagnostic study analyses features of Government of Indonesia human resources management and procurement regulations that restrict the flow of knowledge to government from outside sources. The study describes the interaction between the demand side (government institutions) and supply side (universities, think tanks, NGOs etc) and the role of certain regulations in hindering the growth of an effective market in intellectual services and research.

The level and quality of demand for knowledge emanating from government is very powerful determining factor in the nature of the knowledge market. Current institutional arrangements for the application of knowledge to policy are uncoordinated and dominated by the vested interests of various agencies and powerful individuals within them. Within government, divisions between different categories of staff create barriers between policy expertise and the policy decision-making process. This hinders the capacity of government to formulate its knowledge needs, to develop evidence-based policy and to use outside sources of research and advice.

The case study of the national parliament (DPR) shows the results of human resources regulations inspired by an arbitrary division between administrative and research work that does not reflect the reality of the workplace. The categorisation of “structural” (administrative) and “functional” (specialist) staff prevents the development of a single cadre of personnel who have a combination of policy-based expertise and an understanding of how to manage human and financial resources in support of the work of the DPR. The parliament is an institution that depends on information and research to function, but knowledge flows, both within the institution and in relation to outside sources of knowledge, are severely constricted by the way staff are organised, managed, assessed and remunerated.

The case study of the Ministry of Finance (MoF) shows that problems with human resources management regulations extend to executive government agencies and have similar negative effects on policy-making. Efforts to reform MoF, however, shows that change is possible within the existing regulatory framework provided agencies are given sufficient autonomy over the management of their own personnel.

On the supply side, the acquisition of knowledge by government is hindered by a range of problems created by procurement processes. The Presidential Decree that provides the legal framework for procurement is not itself the prime cause of those problems, but the complexity and ambiguity of the Decree and the inconsistent way it is implemented by different government agencies is part of the explanation.

The restrictive nature of regulations for tendering excludes universities and non-profit organisations from competing for contracts for the provision of intellectual services and research to government. This creates dilemmas for organisations that need to find avenues for funding, but at the same time want to protect their independence, avoid complex administrative procedures and not become associated with corrupt official practices. Universities often take alternative routes such as working through front consultancy companies, but this often produces poor quality research, diverts staff time and provides no career stability for young researchers. These gaps have for many years been bridged by foreign donor funding which has become a major element in the provision of policy-relevant research to government.

Many of the problems with procurement regulations are intertwined with a stultifying culture of officialdom and by the manipulation of regulations for corrupt purposes. In some cases, officials are constrained by the need to follow the existing restrictive interpretation of the regulations in their particular agency, by poor training and by pressure from superiors. This is often related to the fact that senior officials enforce the regulations in a way that allows them and/or their associates to benefit personally from the corrupt disbursement of state funds. While the anti-corruption measures of recent time may have increased the risk of misusing state funds, they have also had the paradoxical effect of slowing the disbursement of funds because officials are afraid of being accused of corruption.

Relations between government and potential suppliers of knowledge are dominated by personal connections rather than institutional networks and processes. Governments are unable to formulate demands for knowledge in a systematic way because their human resources and expertise are poorly managed, so ministers and senior officials rely on established networks and circles of select individuals. This not only restricts the range of input received, but also reinforces a culture of patronage, nepotism and corruption.

The market for knowledge in Indonesia is dysfunctional: signals from government to the outside market have been confused and distorted by unsystematic conception of needs for knowledge, by restrictive implementation of regulations and by waste and corruption. This makes it very difficult for universities, think tanks and non-government organisations to be sustained by funding from state-supported contracts.

The problems identified in this study relate to systemic deficiencies in the structure of government that can be partly, but only partly, explained by the nature of regulatory systems. The regulations need to be reformed as part of a revitalisation of the knowledge sector. But the role of the regulatory environment should not be analysed in isolation. The regulations should be placed in the context of long term organisational issues in the civil service and the “culture” of bureaucracy in Indonesia. The regulations are not the *cause* of the problem, but they are *part* of the problem and need to be addressed as part of a comprehensive solution.

A successful reform effort will require:

- Political will and leadership from the highest levels of the Indonesian government.
- Allocation of funds, human and intellectual resources by the Indonesian government.
- A substantial commitment of donor funding and the coordinated involvement of the major bilateral and multilateral donors.
- A partnership between the government, donors and the research community.
- Continuing analytical work by all three parties to the partnership.
- Discussion, negotiation and planning that includes all relevant stakeholders in government, the private sector and the non-government sector.
- A phased and flexible strategy for implementation.

One of the first initiatives should be to engage with international donor agencies to rethink donor strategies in the knowledge. This is because donors have taken on a long-term functional role in the provision of knowledge to the policy process, thus eliminating a major incentive for reform.

There should be a comprehensive stakeholder analysis to identify interested parties and to analyse how they might be affected by change and how their active contribution can be organised. This should be the starting point of a process of engagement and negotiation with stakeholder institutions and individuals. Reform will probably proceed in an incremental way. In these circumstances it may be necessary to show progress through the demonstration effect of limited change within existing regulations, including localised initiatives and pilot projects.

1. Introduction

This is a diagnostic study of procurement and human resources regulatory systems that affect the provision of knowledge to the Government of Indonesia (GOI). The terms of reference for the study specify that the diagnostic should provide “an analysis of the regulatory systems that restrict and undermine the knowledge sector in Indonesia”, with a focus on: “(a) the procurement laws and processes adversely affecting them; (b) the implications upon human resource management and (c) the restraints imposed upon professional publications, career opportunities and the quality of the analytical papers being produced and related ability of the sector to influence policy.”²

2. Structure and methodology

This study uses McCarthy and Ibrahim’s category of “policy-relevant” knowledge as a starting point (2010:3). We are examining that part of the knowledge sector that relates to advice and intellectual services whose goal is to feed directly into the development of government policy. We do not include “pure” research or research for advocacy, even though either of these may at some time enter the public domain and become part of policy discourse.

Within that context we use the concept of a “knowledge market” to help understand the nature of the interaction between government and outside suppliers of knowledge and to diagnose problems in the relationship between the supply and demand sides. In some cases, the two sides are not literally in a market relationship, because some suppliers do not have commercial relations with government even though they may be supplying knowledge to government agencies and government leaders. But in the majority of cases, there is either a commercial contract between government and supplier or there potentially could be such a contract but the gap is filled by funding from an international donor agency. This study aims to identify obstacles to the government’s payment for knowledge services in order to facilitate a marketisation of the process and to reduce the current dependence on donors.

The study approaches the question of the provision of knowledge to the policy-making process by analysing the nature of the demand and supply sides in the process and the interaction between the two. The supply side is composed of the providers of knowledge from outside government and the demand side is the various agencies (*instansi pemerintah*) of the GOI (both executive and legislative branches) and units within agencies.

The supply side can be divided into the following groups:

- Not-for-profit think tanks and research foundations;

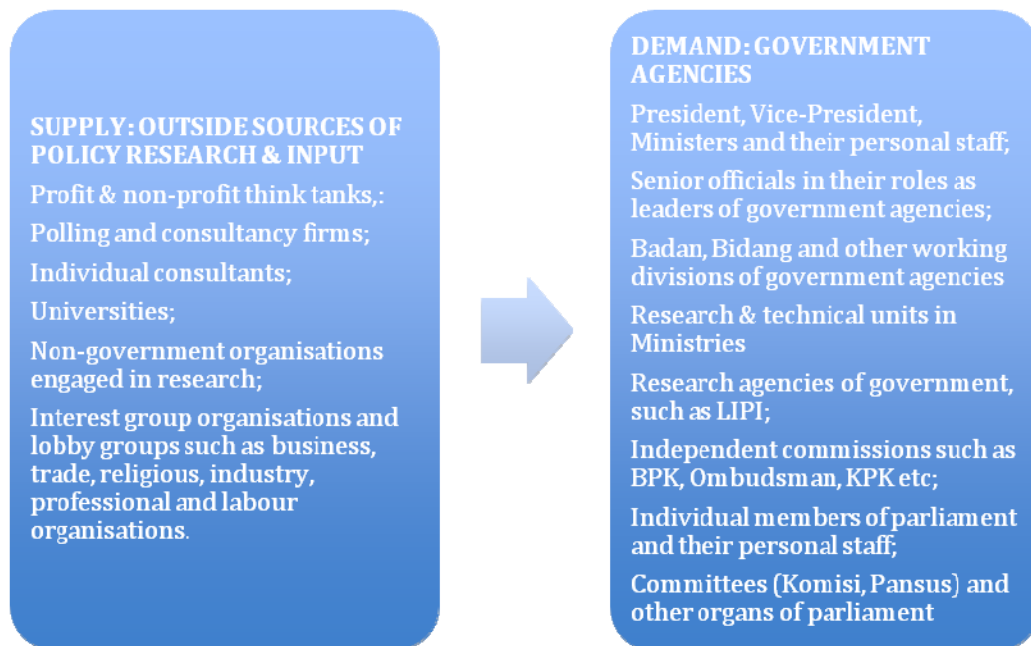
² Terms of reference: Review of the procurement and regulatory systems’ impact up Indonesia’s knowledge sector. 2009.

- Profit-making think tanks, survey and consultancy firms;
- Individual consultants;
- Universities;
- Civil society organisations (CSOs) engaged in research and/or advocacy, including religious organisations;
- Interest group organisations and lobby groups such as business, trade, industry, professional and labour organisations.

On the demand side, although government can be seen as a single entity, it is composed of a wide range of different offices, agencies and divisions. When suppliers deal with government, they deal with individual units and agencies, not the government as whole. These include:

- The President, Vice-President, Ministers and their personal staff;
- Individual senior officials in their roles as leaders of government agencies;
- Badan, Bidang and other working divisions of government agencies;
- Research and technical units within Ministries
- Research agencies of government, such as LIPI;
- Independent commissions and agencies of government, such as BPK, Ombudsman, KPK etc;
- Individual members of parliament (national and regional level) and their personal staff;
- Komisi and other organs of parliaments;
- Parliamentary secretariats.

Figure: Supply and demand sides in the provision of knowledge to government



The study recognises that government is a producer of knowledge as well as a consumer. Different parts of government have different roles in the flow of knowledge. Some, such as leading office-holders and senior officials, are largely consumers of knowledge. Other divisions of government, such as research and technical units, both consume and produce knowledge, while also distributing knowledge to other parts of government. Thus the various component parts of government play differing roles in the acquisition and provision of knowledge and have varying and complex relationships both within and outside government. Each has different demands for knowledge and interacts in particular ways with providers of knowledge outside government.

A key analytical focus is the relationship and interaction between the supply and demand sides of the equation. As a USAID-funded study expressed it in the context of provision of consultancy services to local government:

Sustainable governance capacity building requires a market of service exchanges between local governments and public and private service providers. ...an effective market exists when a local government consumer ... concludes that a capacity development solution is required, and is willing to “pay” for a solution service (effective demand); and when a service provider can market and deliver the technical expertise to solve the problem with a demonstrated positive impact on performance (effective supply). (USAID LGSP 2009: 5)

The relationship between government and potential suppliers is two-way, but government is clearly the more powerful of the two in shaping the nature of the market in knowledge. The quantity and quality of requests for knowledge coming from government will critically determine the type of suppliers that serve the market and what, in financial terms, they have the capacity to supply. If governments produce clear and well-defined demands for knowledge and make

it procedurally easy and financially viable for suppliers to meet such demands, governments can facilitate the creation of a market in the provision of knowledge. The existence of a range of suppliers can, in turn, make it more attractive for government agencies to seek outside knowledge.

The problem, however, is that government in Indonesia tends not to generate effective demand of this kind. While GOI, like all governments throughout the world, needs more and more high quality knowledge to deal with the complex policy requirements of the modern state, it has difficulty in articulating its needs and in building good working relationships with potential suppliers. McCarthy and Ibrahim (2005: 7) observe that “Indonesia has a pressing requirement for applied, policy relevant research that can support evidence-based policy making”. The need for knowledge exists, but turning that need into effective demand that can be met by outside suppliers is problematic. In the words of a senior academic, “government does not appreciate serious and rigorous research work, so the incentive to produce quality is low”.

An OECD/World Bank study on procurement systems in developing countries argued that:

A functioning and competitive private sector market is ... a key partner to the public procurement system in a well-functioning system. To be an effective partner, the market must have confidence in the competence of the contracting authorities at all levels within the system to implement and administer the public procurement system in accordance with the legislative and regulatory framework. (OECD/World Bank 2005:64)

The key features of a functioning public procurement market include:

1. There are effective mechanisms for partnerships between the public and private sector.
2. Private sector institutions are well organised and able to facilitate access to the market.
3. There are no major systemic constraints (*e.g.* inadequate access to credit, contracting practices, etc.) inhibiting the private sector’s capacity to access the procurement market. (*ibid.*)

It is clear that in Indonesia most of these features are absent, particularly in the production and supply of knowledge. Government has been unable to generate effective demand for knowledge and that the market is disorganised and fragmented and that information is difficult to obtain. Suppliers suffer from incomplete knowledge about what is demanded from the government side. Information is either deliberately obscured by government officials with a personal interest in restricting the number of entrants into the market, or it is not made available to potential suppliers because government agencies lack the capacity to clearly articulate their knowledge needs.

Gaps in the knowledge market largely been filled by international donors. The tradition of philanthropic funding of research organisations in Indonesia is very weak. In the past, CSIS was the only significant body funded by direct private

support and this has been added to by the foundation of the Freedom Institute. Therefore, most of the funding for independent knowledge creation continues to come from foreign bilateral and multilateral agencies.

These problems, at least to the extent that they relate to procurement and human resources processes, are the central issue for this diagnostic study.

With its focus on relationships, the study is divided into two main parts:

- Analysis of certain problematic aspects of human resources management regulations in GOI that adversely affect the quantity and quality of demand for knowledge produced by government. The methodology is to use case studies of the parliament (DPR), and the Ministry of Finance to highlight a number of different ways in which the regulations operate in practice; the incentive structures they create for the behaviour of government personnel; and the impact on the creation and transfer of knowledge.
- Analysis of problems with GOI procurement regulations that provide little material incentive for potential suppliers of knowledge; tend to encourage rent-seeking and corrupt behaviour by government officials; and mean that funding for the provision of knowledge is dominated by donors.

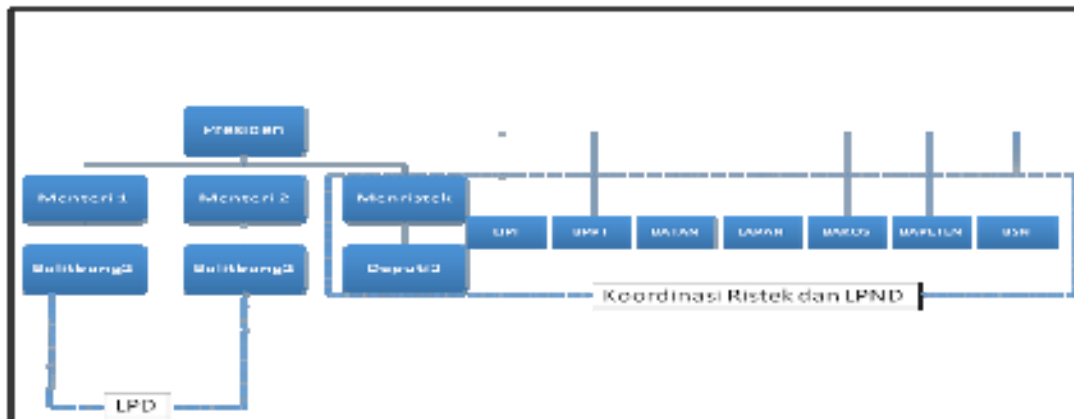
3. Demand side: Barriers to knowledge flow in GOI

The current institutional arrangements for the acquisition, production and management of knowledge in GOI are described in the Medium Term National Development Plan (RPJMN) produced for the President by Bappenas. A flow chart in the RPJMN (reproduced below) shows that there is a proliferation of independent departmental and non-departmental research and development agencies. The departmental bodies are responsible to their respective ministers. The non-departmental research agencies are “coordinated” by the Ministry of Research and Technology, but the only direct responsibility they have is to the President him/herself.

In practice, as McCarthy and Ibrahim (2005) demonstrate, the research effort that feeds into government policy is diffuse, uncoordinated and dominated by the vested interests of the various agencies and powerful individuals within them. Departmental research bodies do not communicate with each other because their respective ministries rarely coordinate with each other in the development of policy. The relationships between departmental bodies and the non-departmental ones are ill-defined. There are, however, certain important roles played by non-departmental research agencies that have a major impact on the research output. The most important example for this study is the role played by LIPI in the evaluation of technical (functional) staff in ministries and other institutions, a role whose problematic effects in creating perverse incentives for such staff is discussed in section 3.1.2.

Figure 1: Structure and relationships of government research agencies

LEMBAGA PENELITIAN PEMERINTAH



The need for coordinated and united efforts in the production of knowledge and the development of evidence-based policy is frequently given recognition within GOI. The RPJMN, discussing the government’s role in supporting innovation and the development of technical knowledge, argues this case strongly:

Technological innovation is created if the [personnel of government agencies] that know the technological needs [of the community] interact intensively with the personnel that have the duty of inventing technology. Innovation does not necessarily occur in one-time interactions, but emerges randomly through frequent and intense interaction. ...to increase the productivity of R&D in an organisation, the intensity of communication between the parties involved should be of such a kind that they together create a “collective mind” [*English in original*]. From this perspective, to increase the productivity of R&D in ministries there is a need to develop institutions where the personnel who know the technological needs and those who invent technological solutions are of the one mind.³

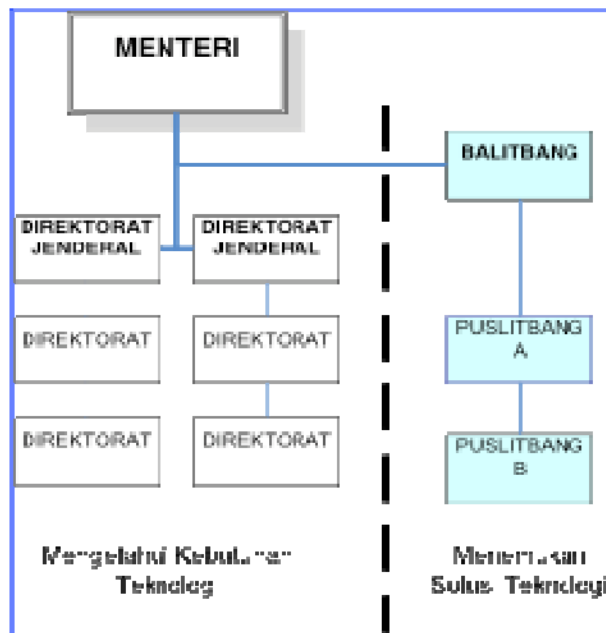
In other words, it is essential for the policy and technical personnel in ministries to act with one mind.

Yet, at the same time, the RPJMN describes, without any critical comment, the existing arrangements that make it very unlikely that this desirable situation will emerge. This important planning document does not question the conceptual basis of a structural distinction between “personnel who know technological needs” and “personnel who invent technological solutions”. Indeed the diagram provided as a representation of the structure of ministries precisely illustrates the reality that there are artificial divisions between staff involved in the production and distribution of knowledge and the development of policy.

Figure 2: Managerial divisions between policy & research

³ Rencana Pembangunan Jangka Menengah Nasional (RPJMN) Tahun 2010 – 2014, Bappenas, Jakarta, p. 4.9. [author’s translation]

POLA PENGELOLAAN LEMBAGA PENELITIAN KEMENTERIAN



The above diagram shows one of the key obstructions to provision of knowledge to the policy process. There is a division between the Directors General and their staff, who are responsible for developing policy solutions to issues being dealt with by the Minister, and the research staff of the research and development units (*Badan Penelitian Perkembangan – (Badlitbang)*) who are meant to provide the relevant specialist subject input. The dividing line is ill-defined but obvious and, most importantly, there is no line of authority subordinating one of the two branches to the other. Both branches and their staff are formally answerable only to the Minister, an authority that is necessarily distant and difficult to exercise without an intervening layer of officials to execute it. With such structures and lines of authority in place, declarations of the necessity to think “with one mind” are like to remain exhortations that are routinely ignored.

The most important result of this structure is that, as discussed in the case studies below, research and technical staff have neither responsibility for, nor authority over, decisions about the making of policy. This gives them no incentive to feed their knowledge into the policy process or even to make it relevant and useful for the officials charged with making policy. The policy staff, on the other hand, are likely to have no experience or specialist expertise in the area for which they are responsible and receive only limited useable input from the research staff who are meant to have such expertise.

The following case studies are designed to provide more detail about the effects of these aspects of human resources management in GOI on the provision of knowledge to the policy process.

3.1. Case study 1: Human resources and knowledge flows in Parliament

The first case study of the national parliament (DPR) is designed, firstly, to illustrate the variety of ways that knowledge flows from outside providers to government agencies and flows within those agencies and, secondly, to highlight issues about the way in which the human resources of the GOI are organised and managed and their impact on the provision of knowledge. The argument advanced is that aspects of GOI regulations on personnel management:

- Do not lead to the recruitment of the best qualified staff. Staff with poor or inappropriate qualifications do not gather or produce the highest quality knowledge for policy.
- Create barriers between different categories of staff and interfere with the flow of knowledge within government.
- Create perverse incentives for specialist staff which discourage them from gathering the most useful knowledge from outside sources and encourage them to produce knowledge that is often not related to the needs of government.

In doing so, these regulations and practices reduce the effectiveness of the relationship between the supply and demand sides of the provision of knowledge to government. They tend to distort the nature of the knowledge which is demanded by the government side and thus adversely affect the utility and relevance of what is supplied by outside sources.

The focus of the case study was not selected because the national parliament it is in any way unusual. On the contrary, its human resources management procedures are typical of those used by other GOI institutions. The regulations applied in the DPR affect all institutions of government at both the national and regional levels.

3.1.1. Flows of knowledge in a state institution

The example of the DPR reveals some of the complexity of the relationships between government institutions and outside sources of knowledge on the one hand, and the flow of knowledge within institutions on the other. The DPR as a whole has certain overall knowledge needs, but different actors within the institution have different demands and these are met through a variety of channels.

The ultimate consumers of knowledge in the DPR are:

- Leadership of the DPR (Speaker, Deputy Speakers, Steering Committee);
- Eleven DPR Commissions on sectoral issues;
- Other standing committees (*Badan*) such as the committees on the budget, legislation, inter-parliamentary relations, house affairs etc.;
- Special temporary committees (*Pansus*) established for particular purposes, such as to consider a particular or pursue a special inquiry;

- Party caucuses (*Fraksi*);
- Individual DPR members.

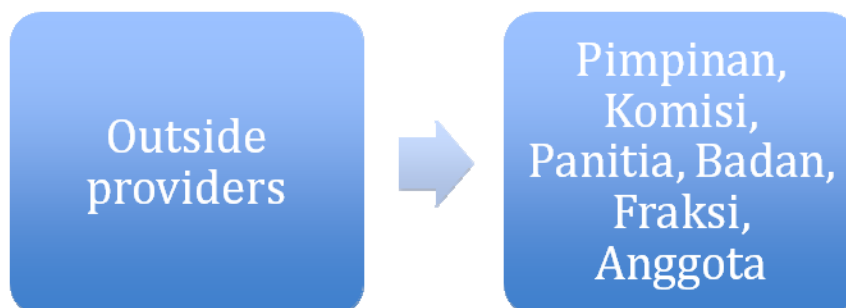
The knowledge needs of these constituent parts of the DPR can be met directly from outside suppliers such as those mentioned above in 1.2. This direct flow of knowledge from outside sources could take many forms, including:

- Advice from individual researchers from think tanks, universities or consultancy firms to the DPR Leadership or leaders of Komisi or other bodies in the DPR, conducted in an informal personal way.
- Advice from individual researchers to formal meetings of DPR bodies (eg. Komisi, Badan, Pansus), including public hearings.
- Commissioned written research, statistics or other information from think tanks, universities or consultancy firms to DPR bodies, either for their private consideration or for public circulation.
- Research, information or views from NGOs, lobby groups and stakeholders during the course of debate on legislation or DPR inquiries.

In the case of this type of knowledge flow, there is a direct relationship between the supplier and the consumer of knowledge. It may be a formal institutional connection between a research foundation or private consultancy and a DPR body such as a Komisi or, as is frequently the case in Indonesia, it could take the form of a personal connection between individuals from the two sides.

In graphic form this relationship can be illustrated in the following way:

Figure 3: Flow of knowledge direct from outside sources to DPR members & DPR bodies



In practice, however, it is increasingly difficult for legislators to deal directly with suppliers of knowledge, a problem that is repeatedly referred to in the international literature on the provision of information and advice to parliaments (Shephard 1991, Verrier 1995, CRS 2008). The proliferation of sources of knowledge brought by the information revolution and general demands on parliamentarians' time make one-on-one contact with suppliers increasingly difficult. This is less problematic in the case of formal public meetings and seminars where administrative support staff can make the necessary arrangements. But legislators and parliamentary bodies also need

private sources of advice and DPR members have for many years argued that they need more support from qualified research staff.

Internationally, demand for such support has generally been met by providing three kinds of staff:

- Personal staff for individual members and/or their party caucuses, usually with extra provision for members in leading positions, such as the Speaker and chairs of committees.
- Research and technical staff to committees and other parliamentary bodies.
- Staff working in some form of library and/or research unit (usually in-house, but sometimes semi-independent from the parliament) with general access for all members and parliamentary bodies and their staff.

Staff of this kind play the role of “pre-digesting” knowledge for the ultimate users, ie. members and parliamentary bodies. This includes searching for and supplying information, but in an information-rich world it also critically involves storing, sorting, sifting, selecting and summarising information to make it more useable for the parliament. In addition, specialist staff bring their own expertise to bear to analyse knowledge flowing into the parliament so as to facilitate the processes of debate, deliberation and law-making. In doing so they are also interpreting and creating knowledge for the specific purposes of the DPR. According to the category of staff, this can include writing drafts of position papers, policy documents, reports and legislation and the provision of written analytical papers (research papers, current issues summaries, budget analysis, bibliographical notes etc) for general use by the parliament and/or for individual members and parliamentary bodies. According to the category of staff, some of this analytical material may be partisan or political in character, designed to assist the achievement of individual, party or institutional political goals.⁴

In the DPR, staff in the first category take the form of personal staff for individual members (*asisten pribadi*) and specialist staff for the party caucuses (*staf ahli fraksi*). These are political staff appointed by the DPR member or party but funded by the state budget. The flow of knowledge from outside providers, its processing by staff and the provision of knowledge to the end users is represented in the Figure 4.

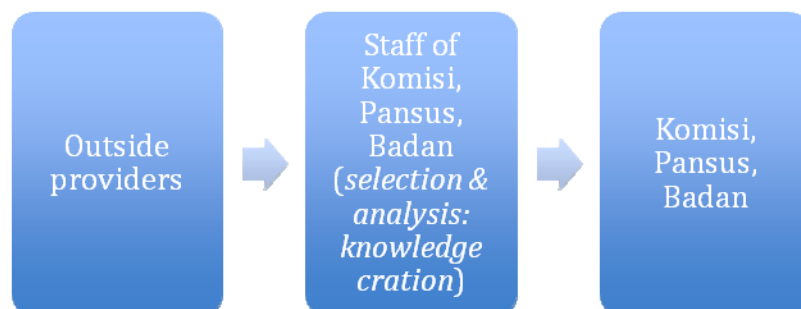
Figure 4: Flow of knowledge from outside sources through political staff to DPR members and party caucuses

⁴ The personal staff of members and the staff of party caucuses are the most likely to be called upon to produce partisan knowledge. But it is also often the case that staff within an information and research service will be tasked to produce analysis that is tailored towards a particular political point of view. This does not mean the staff are themselves partisan, but that they can produce knowledge that meets the range of political demands of the parliament. The crucial point is that the staff are impartial: in other words that they can provide to all the streams of opinion represented in the parliament. Because parliament is a place where political differences are openly aired, this is a critical difference between the knowledge produced by staff in a legislature, compared to that produce by executive government staff.



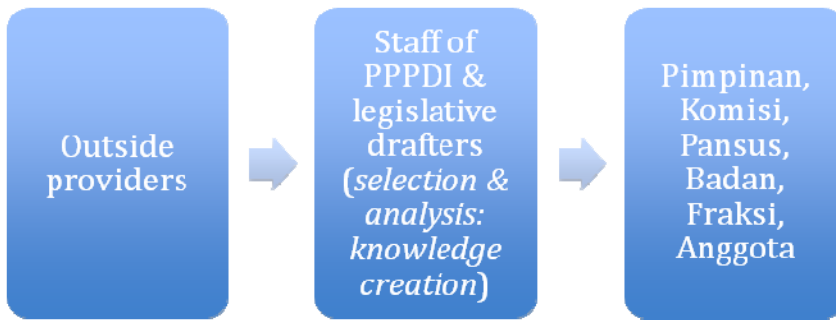
Staff in the second category in the DPR include specialist staff (*staff ahli*) for Komisi, Pansus and other bodies (*badan*). These are non-political staff (in theory at least) funded by the state budget, but who are not civil servants (PNS). Administrative staff, in addition to providing physical and administrative support, can also play a role in the provision of information, although rarely with an analytical value added. The flow of information from outside and its processing by these staff is similar to that of the personal and political staff and is shown in Figure 5.

Figure 5: Flow of knowledge from outside sources through specialist staff (*staf ahli*) to DPR bodies



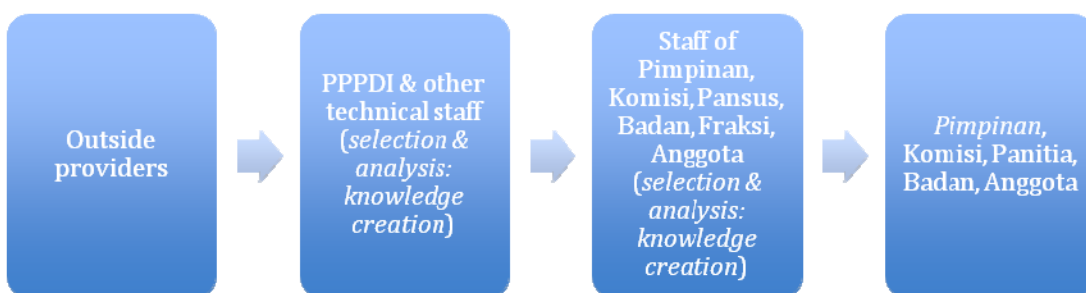
The third category of staff in the DPR includes the staff of the research and information service (PPPDI), including researchers, librarians, archivists and computer specialists. In addition, there are legislative drafters located in a different division of the Secretariat. Their role is to provide knowledge in the form of information, analysis and other technical services to the DPR Leadership, Komisi, Pansus, Badan, Fraksi and individual DPR members. The flow of knowledge from outside sources, as processed and analysed by these staff, before being supplied to the end users (individual members and parliamentary bodies) can be represented in the following way:

Figure 6: Flow of knowledge through the staff of PPPDI and legislative drafters to DPR members and DPR bodies



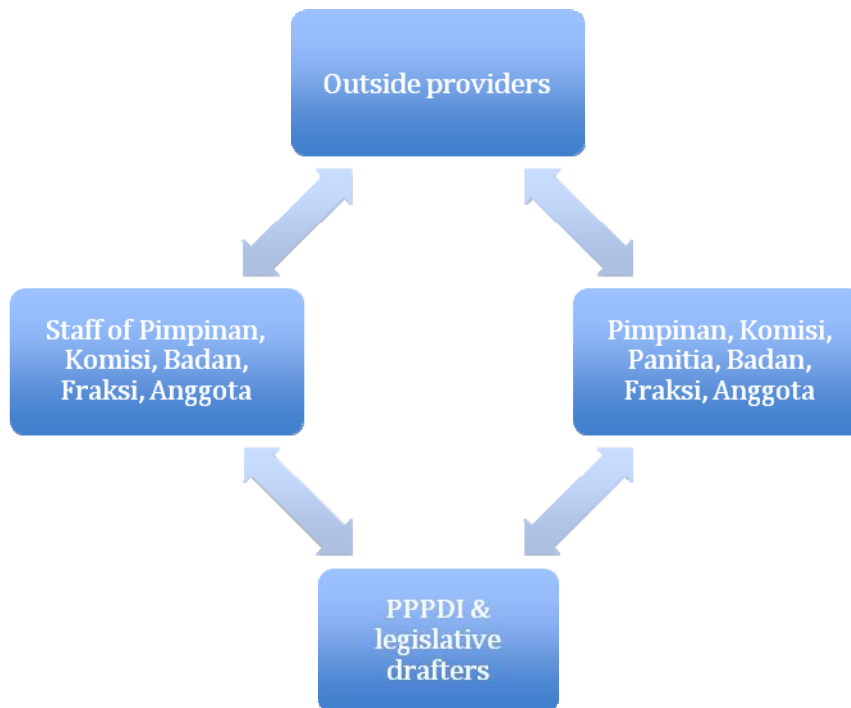
A critically important role for this category of staff is not only to provide knowledge to the ultimate users in the DPR, but also to be a knowledge resource for other staff in the DPR. In fact, in many parliaments internationally it is more likely for such staff to have most direct contact with the personal staff of members and the staff of parliamentary bodies rather than with the members themselves. This is related to the point mentioned above regarding the increasing challenges that individual legislators have in dealing directly with suppliers of knowledge. So just as DPR members may rely on their staff to gather knowledge from outside sources, so they often rely on their staff, in turn, to call on the support of DPR staff such as researchers in the PPPDI. The staff of members and parliamentary bodies (who are usually generalists rather than specialists) need the assistance of specialist research, information and IT staff, such as in the PPPDI. These relationships amongst different categories of staff are still under-developed in the DPR, but such flows of knowledge do still occur. They can be represented in the following way:

Figure 7: Flow of knowledge to DPR members and DPR bodies through their staff, as provided by PPPDI and legislative drafters



The sum total of the flows of knowledge between outside providers and end users in the DPR (DPR members and parliamentary bodies) and DPR staff as described above are complex and overlapping. Figure 6 shows how some knowledge flows directly from outside providers to end users, while other knowledge is directed to the end users by various categories of staff who act as conduits, filters and interpreters of knowledge. In addition, knowledge flows between various categories of staff in preparation for its provision to end users.

Figure 8: Total knowledge flows into and within DPR



3.1.2. Problems of human resources management in the flow of information

The above case study of the DPR showed the critical importance of different types of staff in facilitating the flow of information into the DPR and within it, as well as the role of specialist staff in analysing knowledge and thus creating knowledge tailored to the policy and political demands of the DPR. As mentioned, in the information saturated world of politics the importance of well-trained and motivated staff continues to increase. Decision-makers in all branches of government are not able to deal directly with sources of knowledge or to process the volume of knowledge at their disposal. It is therefore important that supporting staff be available, and even more important that they be well managed. Human resources are limited and must be used efficiently.

This paper argues, however, that there are major weaknesses in this vital link between the DPR and outside sources of knowledge. These weaknesses or not unique to the parliament, but extend to the rest of government. The way in which staff are categorised, supervised, remunerated and advanced in their careers creates a structure of incentives which discourages rather than motivates staff to provide the most useable knowledge for their consumers. The problems with the current system of human resources management include:

1. The division of staff into “functional” staff (*staf fungsional*) and “structural” staff (*staf struktural*) creates arbitrary distinctions between staff responsibilities which do not reflect the reality of the work process, including separating staff with specialist subject knowledge from the

policy decision-making process. This hinders the application of knowledge to the policy and legislation-making processes.

2. The oversight of advancement procedures for functional staff by outside bodies such as LIPI, National Library, National Archives and various Ministries does not create incentives for those staff to provide knowledge that is useful and useable for the institution they work for.
3. Recruitment procedures require that staff enter the service at a base level, without previous professional or managerial experience, and do not allow for the appointment of staff from outside the civil service at middle and senior level. This limits capacity to recruit individuals with the necessary high-level knowledge.
4. The specialist staff of committees and other DPR bodies are mostly appointed as short term contract staff (*staf ahli*) whose selection tends to be cumbersome and politicised.

In relation to problem (1) listed above, civil service staff (PNS) in the DPR (and in all government agencies) are divided into various categories. For the purposes of this discussion, the two main categories are structural staff, with mainly administrative and managerial duties, and functional staff who are responsible for specialised and technical tasks requiring particular expertise. This division is based on the idea that civil servants' work is composed of two distinct and unconnected functions: technical work and administration. It is a conception that is heavily influenced by a view taken from the natural sciences, where the difference between the work of, for example, a research scientist, engineer or medical specialist and that of an administrative generalist seems relatively clear.

In reality, the practical distinction between the management of financial and human resources and the technical functions of a particular agency is not so clear in the workplace. Even in the case of a specialised agency such as a scientific research unit, hospital or educational institution, roles are blurred, particularly at the more senior levels. Scientists and medical and educational specialists regularly become the planners and managers of their agencies and generalist administrators make decisions that are deeply involved with technical questions.

In the case of policy-making and the provision of knowledge to the DPR, the distinction hardly exists in practice. Decisions about the allocation and oversight of resources and the content of policy documents fall in the shoulders of staff with a variety of skills and backgrounds. Ill-conceived divisions in the allocation of work tend to break down cooperation and reduce efficient use of resources.

In the DPR, most of the functional staff are concentrated in the PPPDI, as described above. Here the division into functional and structural staff has a number of negative effects, including the following:

- The work of providing information and analysis services to the DPR is divided between functional staff such as researchers and structural staff who manage physical resources and oversee the flow of work. The researchers have subject expertise but no managerial authority or responsibility and the

managers make routine administrative decisions but have neither subject understanding nor experience in making decisions about the prioritisation of research or the development of staff expertise.

- As a consequence, there is no group of staff with a clear responsibility to manage the overall strategic direction of all aspects of a “knowledge service” for parliament. No-one has the duty to deal with questions such as: what are the knowledge needs of the DPR?; does the PPPDI have the appropriate expertise to meet these needs?; are the products produced by the PPPDI presented in a style and format which makes them most useful for the DPR? what is the level of consumer awareness of PPPDI services and their level of satisfaction with the service?
- While the structural staff might, in theory, develop an understanding of the technical issues involved in the provision of information and research to the DPR, the practice of regular rotation of structural staff through different positions (usually every two years) means that they have little opportunity acquire that knowledge. Moreover, their classification as generalist staff means there is no monetary or promotional incentives to enhance their subject skills or training designed for them to do so.
- Communication between the two categories of staff is often poor and relations between them can be mutually antagonistic. Structural staff tend to see functional staff as “spoilt” and not subject to proper discipline and supervision. Functional staff, on the other hand, frequently resent their formal subordination to what they see as less-qualified staff whose control over administrative paperwork may hinder their career progression. Many functional staff also consider that remuneration and promotion prospects for their category are less attractive than those for structural staff.

The division of staff duties into categories that do not reflect workplace realities is problematic in principle, but it is made even worse by how it is implemented in practice. As mentioned in problem (2) listed above, the performance assessment and career advancement of functional staff is regulated by specialist agencies that are deemed by the regulations to have the technical knowledge necessary to measure the output of specialist staff. This function is performed by LIPI in the case of researchers, by the National Library for librarians, by the National Archives of archivists, by the Ministry of Law and Human Rights for legislative drafters, and so on.

Under these arrangements, each member of staff from the particular category is required to submit an annual evaluation report (*Daftar Penilaian Pelaksanaan Pekerjaan* (DP3) – Evaluation List of Work Performed) to his/her relevant evaluating agency. This report is then used as the basis to determine whether the staff member will receive his/her two or four-yearly salary increase or promotion to a higher rank (*golongan*). Thus even though functional staff are nominally subordinate to a structural staff member of a higher rank, structural staff heading the branch or division in question have no role in evaluating the performance of functional staff. Speaking generally about the weakness of the DP3 system in the civil service as a whole Turner et. al. (2009: 244) observed:

In most (Indonesian civil service) organisations there is no formal evaluation process involving interaction between supervisor and staff member, and it is common knowledge that employees often complete their own evaluation forms to ensure a 'good' result, then have them approved by their supervisors. In this system, poor performance goes undetected, and appraisal results cannot be used for training and development purposes... Good performance is also unrecognised and therefore not properly rewarded, causing frustration and weakened motivation among high-performing employees. The faults of the DP3 system have been known for many years, but its non-threatening nature has probably ensured its support within the civil service and hence its longevity.

The result of this system for functional staff is a structure of perverse incentives that encourages staff to produce outputs that are not measured by their usefulness to their own institution (the DPR), but are evaluated by an outside agency. Research staff, for example, are encouraged to produce academically-oriented articles that may be only coincidentally relevant to the needs of the DPR. They are of little use for busy parliamentarians and their staff who need succinct information and analysis precisely targeted on the issues of the day. But because long abstract articles attract the highest assessment ratings, it makes sense for researchers to concentrate on this kind of product. Consequently, the knowledge needs of the DPR are neglected.

The situation is made even worse by the fact that the methods used by the evaluating agencies to assess staff are seriously flawed. Staff are awarded a series of credit points, according to their attainment of higher levels of educational qualifications or their production of certain outputs. When they score enough points they will be advanced in salary and/or rank. The problems with these methods include:

- There is an over-emphasis on formal qualifications and numbers of hours of training courses. Obtaining a degree and participating in training courses attracts far higher scores than any other category.
- The measures are entirely output-driven, with the focus being on the production of a certain product or activity for its own sake, rather than for its results, effectiveness or utility for end users. Outputs include publication of articles and books, production of new designs or prototypes and disseminating knowledge to peers. Categories and description betray a conception of specialist staff as "scientists" and "technicians" (*ilmiah, ilmu pengatahuan dan teknologi*).
- The process is dominated by the attainment of a numerical score, not by a qualitative evaluation. In practice, the only role the evaluating agency actually plays is to check the enumerated data already compiled by the administrative (*structural*) staff in the DPR: little or no quality control or assessment is actually performed.

The regulations which govern these arrangements are a series of agreements between the National Civil Service Personnel Agency (BKN) and the relevant

agency. For example, in the case of researchers, there is an agreement between BKN and LIPPI (*Keputusan Bersama LIPI & BKN 3719/D/2004 & 60/2004*). For legislative drafters, there is an agreement between BKN and the Ministry of Justice and Human Rights (MenHukHAM) (*Keputusan Bersama MenHakHAM & BKN M.390-KP.04.10/2002 & 1/2002*).

The issue with recruitment procedures listed as problem (3) above is that restricting entry to a junior level means that most functional staff are young graduates who expect to advance through seniority, obtaining further educational qualifications and civil service training. They lack a proven track record of achievement, whether in the public, business or non-government sectors, that might qualify them to provide high quality, relevant and politically savvy input into the parliamentary process. The regulations thus prevent the DPR from tapping into the best qualified human resources available in the labour market.

The appointment of specialists on short term contracts (*staf ahli*) to support committees and other DPR bodies listed as problem (4) above was a system introduced relatively recently as a way of circumventing the restrictions imposed by civil service regulations discussed above. Short term contracts make it possible for the DPR to obtain higher level expertise and knowledge, but tends to create their own problems and replicate existing ones.

- The arbitrary distinction between administrative and technical work is maintained and even deepened. *Staf ahli* may bring policy knowledge but they are not integrated into decision-making about the allocation of resources and priorities. They are often senior figures with multiple positions upon whom it is difficult to impose a workplan, day to day discipline and consistent output.
- The authority to choose *staf ahli* falls on the DPR members in the committee or DPR body, rather than on senior staff. This tends to politicise the process and open it to the possibility of selection for patronage rather than for competence. The fact that contracts must be renewed annually exacerbates these tendencies and also makes the positions less attractive to younger candidates who need the security of longer contracts.
- Thus while civil service regulations tend to produce a very junior and under-qualified research staff, contract procedures often produce an overly-senior research staff who have limited commitment to the position and are difficult to integrate into a single body of personnel.

3.2. Case Study 2: Reform of Ministry of Finance

This case study is designed to show how problems discussed in the case of the DPR above are not unique to parliament, but also affect executive government agencies. The example of the Ministry of Finance will show the limits that personnel regulations impose on the scope for strengthening knowledge capacity within government, but also what it is possible to achieve within the boundaries of current arrangements and with a number of key reforms. The conclusions of the case study are that:

- The organisation and management of functional staff separates them from decision-making on policy and renders them largely ineffective as sources of knowledge.
- Attempts at restructuring in the Ministry designed to strengthen the production and flow of knowledge were hampered by this and other HR regulations.
- Existing regulations do not entirely eliminate the scope for reforming knowledge-related structures, but certain key changes do need to be implemented.

During the tenure of Boediono as Minister of Finance, a proposal was put forward to strengthen the technical capacity of the Ministry in the area of the National Budget. Sri Mulyani continued to support the reforms during her time in office. The proposal entailed the establishment of a fiscal policy office which would be staffed by a team with specialist expertise on fiscal issues. In order to attract staff of sufficient calibre it would be necessary for them to be appointed at echelon I, II and III.

The problem, however, was that personnel regulations specify that echelon-level staff must have a certain complement of subordinate staff attached to them. This would have meant that the proposed team of 20-30 staff at echelon I, II and III would have become a major unit with successive layers of structural (administrative) personnel. Not only would this have been expensive, it would have defeated the objective of having a compact unit that could respond quickly to emerging issues.

An alternative approach could have been to compose the fiscal policy office of functional (specialist) staff, because they do not need the same complement of subordinate staff. This was not a viable option, however, because it would have replicated the same problems with functional staff discussed in the DPR case study above: that they are organised and supervised in a way that diverts their efforts away from the needs of their employing agency.

The Fiscal Policy Office (BKF) was eventually established in 2006. Its personnel were drawn from structural staff from a number of existing Directorates of the Ministry, along with their complement of functional staff. The critical initiative, however, was that the Ministry of Administrative Reform (MenPAN) agreed to allow the Ministry of Finance to set separate rates of remuneration for staff in the Ministry. This allowed BKF to introduce an internal system of performance appraisal for staff of the unit which was linked to remuneration. BKF was therefore able to make the process of performance assessment more meaningful by designing it for the immediate needs of the unit rather than relying on the antiquated system used in the rest of the civil service. Importantly, staff were provided with real incentives to improve their performance because it improved their income. The increased scope for the enhancement of staff skills and capacity can potentially improve the quality of advice provided to senior officials and the Minister.

The remaining problem that had to be confronted was how to make best use of the functional staff unit. Functional staff had historically been concentrated in a separate division of the Directorate and their time had largely been consumed in outside teaching engagements and the production of research papers for assessment by LIPI. In an attempt to integrate these specialists into the work of the various policy divisions of the BKF, the single unit for functional staff was broken up and the staff were spread across the divisions. This arrangement, however, could not overcome a basic problem: that the division between the two types of staff and the performance assessment of functional staff by an outside body impeded the effective exploitation of human resources of the Ministry.

The issues encountered during the establishment of the BKF were instructive examples of both the extent and limitations of what can be achieved within existing regulations. The objective behind the creation of the BKF was enhancement of a key aspect of knowledge in government: the quality of fiscal policy advice to senior officials and the Minister. But personnel regulations made it impossible to bring about the changes that were aimed for until the Ministry was freed from some of the constraints of central regulations and were able to establish its own system of performance appraisal and remuneration for structural staff. The maintenance of the existing system for the appraisal and advancement of functional staff, however, has meant that the old problem with the separation of specialist staff from the policy process has been reproduced. A potentially important knowledge resource thus continues to be poorly utilised.

4. Supply side: Procurement and a market for knowledge

The analysis of problems in the provision of knowledge to government in Indonesia in section 3 above has examined the issue from the point of view of the lack of effective demand from government caused by deficiencies in the use of human resources. The following section examines the issue from the supply side by analysing problems in the regulations, procedures and practices for government procurement.

4.1. Existing regulatory framework

The main regulation governing GOI procurement is Presidential Decree (*Keppres*) 80/2003. At the time of its creation, *Keppres* 80/2003 was seen as an important step forward in the improvement of procurement procedures and in the elimination of corruption in the purchase of government goods and services. It sets out the basic principles for transparent and efficient procurement, provides for the establishment of a national procurement agency and mandates certain procedures and standards that must be applied. The procurement agency provided for in *Keppres* 80/2003 was established in 2007 by Presidential Regulation (*Perpres*) 106/2007 under the name of the Office of Government Procurement Policy (LKPP).

Keppres 80/2003 has been amended seven times since 2003. The amendments were passed in the following regulations:

- *Keppres* 61/2004

- *Perpres 32/2005*
- *Perpres 70/2005*
- *Perpres 8/2006*
- *Perpres 79/2006*
- *Perpres 85/2006*
- *Perpres 95/2006*
- In general terms, the main problems that people close to the issue of procurement have raised about *Keppres 80/2003* include that:
 - It is overly detailed and prescriptive and attempts to deal with matters that should ideally be incorporated in a range of other legal and regulatory instruments, including legislation, operating procedures, standards and manuals, as well as other more specific regulations at the presidential and/or ministerial level.
 - The attempt to cover too many matters in one regulation has created confusion about interpretation and implementation.
 - Efforts to explain, clarify and supplement the regulation through the seven amending regulations have had the effect of adding further confusion, with both officials and suppliers being unsure about what provisions still apply and what has been superseded in the amendments.⁵

Because of the confusion around the existing regulations, GOI is currently in the process of drafting a new Presidential Regulation to supersede *Keppres 80/2003*. At the time of writing, the draft regulation has been with the ministries for comment and is scheduled to be completed some time in 2010. The plan is then to draft a law on procurement to be submitted to parliament in 2011.

4.2. Issues and problems in the regulatory framework

An analysis of problems in the regulatory framework for procurement needs to be placed within the context of the overall state of public administration in Indonesia. There is a “culture” of government where rules and regulations are slavishly followed for their own sake, to the detriment of good results, but where the same regulations are manipulated for the personal benefit of the officials involved. Regulations are interpreted and applied in ways that reinforce personnel practices based on nepotism and patronage and where public resources are used for to bolster the power and wealth of office-holders and their private connections and networks outside government.

The following section discusses the problems with the existing regulations within the patterns of formal compliance and personalised implementation. The

⁵ An AusAID-funded project, *Indonesia: Strengthening Public Procurement Program (ISP3)*, has produced a book designed to consolidate all the amendments into a single document. *Konsolidasi Keppres 80/2003 dan Perubahannya, ISP3, Jakarta, 2008.*

author of this study conducted a series of in-depth discussions with potential suppliers of knowledge in the private, non-government and university sectors, as well as specialists on procurement and governance in international organisations. These individuals and institutions identified a range of issues that suppliers have encountered in relation to public procurement systems. These problems have either made it difficult for potential suppliers to work with government or have led them to avoid contracts with government completely.

It is not always a simple matter to establish what role the regulations have played in creating these problems because cause and effect are difficult to untangle. Such issues existed from the time of the New Order, long before the passage of Keppres 80/2003, but it can be said that the regulations have not overcome the problems and may have helped entrench them.

4.2.1. Complexity and confusion in regulations

Probably the most common issue raised by informants to this study is that procurement regulations and processes are not only complex but also very inconsistent and confusing. The LKPP itself recognises that Keppres is open to “multiple interpretations and has many things that are insufficiently clear” (LKPP 2009). As noted above, the original version of the *Keppres* was very complex and successive amendments appear not to have improved the situation. Other issues include:

- Each government ministry or agency has its own specific regulations in addition to Keppres 80/2003 and has its own particular interpretation and practice of the regulatory framework.
- Officials are themselves frequently unclear about the meaning of particular clauses in Keppres 80/2003 and unaware of different ways that the regulations could be applied so as overcome problems in implementation.
- Not all of the problems of dealing with government result directly from procurement regulations. A wide range of other administrative barriers arise in different agencies, with the most commonly mentioned being:
- Rigidity of budget allocations to the various divisions within government agencies can slow down or prevent the allocation of funds to urgently needed research projects. For example, although a Ministry may recognise the need for input into a certain policy area, if the relevant *badan, bidang* or *seksi* has not been allocated funds in the ministerial budget it is very difficult or impossible to move funds from another part of the Ministry.
- Even if funds have been allocated to a project, payment for work done is often extremely slow and may be subject to particularly lengthy delays if it falls over two budget periods. For small entities in the university or non-government sector, this may seriously affect their financial viability and create personal financial difficulties for staff, particularly young and unsalaried researchers.

4.2.2. Problems with tendering for non-commercial organisation

Keppres 80/2003 provides for competitive tendering of contracts that exceed the value of 50 million rupiah. In order to compete in such tenders, bidders must be commercial entities (limited liability companies or *perusahaan terbatas* (PT)). So unless not-for-profit thinks, universities and non-government organisations create a commercial arm they are potentially excluded from a whole range of work for government. For many such organisations, however, taking the commercial option creates a series of dilemmas and operational difficulties.

In the opinion of both knowledge producers and procurement specialists, the threshold of 50 million rupiah for competitive tendering is far too low. It intensifies the pressures to become a PT and makes the field available for direct sourcing very small. The transaction costs involved in submitting a tender for a small contract make it unviable for many potential bidders. This creates a number of possible results:

- Research foundations are forced to compete in an environment that is intrinsically difficult for them.
- International donors are the only realistic alternative for funding and become one of the major sources of finance in the knowledge sector.
- Government agencies seek alternative modes of input, such as taking advice on a personal basis without payment or by directly engaging single individuals.

Some not-for-profit institutions have considered that commercialising their work would compromise objectives of providing knowledge to the community (Pollard 2005: 13). There is a fear of “losing our idealism” and drifting into the culture of “yayasanism”. In other cases, tendering for commercial contracts could distort the organisations’ original subject priorities and divert time and energy from target areas and special strengths. Some organisations, such as SMERU, have decided not to compete for tendered contracts at all, while others, such as CSIS, have taken the option of setting up a commercial arm as an adjunct to the their existing operations. Others have not ruled out the possibility of tendering for government work, but operate in an environment where funding from international donors is the normal route.

One of the growth areas in recent years has been public opinion polls for political parties and candidates for heads of regional government. With democratic elections since 1999, the demand for information about public attitudes has grown amongst electoral contestants, as well as amongst national and regional office-holders such as the President, ministers, provincial governors and district heads. Some government agencies have also commissioned this kind of work: LP3ES has conducted polling for both the police and the Judicial Commission surveying public attitudes to those two institutions. Ideally, this new market could provide a steady source of income for knowledge organisations and support more policy-oriented research. The problem, however, is that polling rarely generates data that is useful for policy-related research and can absorb a great deal of the time and energy of researchers and can result in a redirection of

the priorities of the organisation as a whole. For such reasons, the expanding market in public opinion polling has been eschewed by many research organisations.

The issue of sources of funding for non-government organisations and the implications of their current legal status is related to debate about reform of Law 8/1985 on social organisations (*organisasi masyarakat*). One interpretation of this law is that increased government supervision of such organisations and restrictions on their receipt of foreign funding could severely constrain their independent status and activities. The proposed changes need to be considered as part of a strategy for strengthening the knowledge sector.

Becoming a commercial entity can entail regulatory burdens which are costly in both administrative and financial terms. Entering into a commercial environment means competing against large domestic and international consultancy firms whose human and financial resources are far beyond those of most research foundations. For instance, consultancy firms employ professional tender-writers who can compete for contracts far more effectively. They have the financial reserves to sustain activities during the often prolonged periods between signing a contract and receiving payment from the government agency concerned. A further prominent problem is taxation. For a non-profit organisation the tax imposed is relatively light, but operating as a commercial entity entails greatly increased tax responsibilities.

For universities, the requirement to be a PT to enter into competitive tendering is a major obstacle to their involvement in the provision of knowledge to government. Like non-profit research organisations and NGOs, they are excluded from a major aspect of the policy process. The university sector is obviously a major knowledge resource, but procurement regulations, at least as they are usually interpreted and applied by government agencies, prevent this resource from being used through the avenue of commercial contracts.

Universities, government agencies and office-holders have used a number of methods to try to circumvent these obstacles. The most common way has been to call on individual academics in a personal capacity to provide advice. Ministers and other political leaders are most likely to resort to this way of working, thus contributing to the personalisation of the knowledge market discussed below. Not only is this unsystematic and ad hoc, it does not recompense the universities for their work and relies on salaried staff to devote their time unpaid and mostly unrecognised.

The other way for universities to enter the commercial knowledge market is through intermediaries or under the flag (*bendera*) of consulting companies. Private consulting companies bid for government contracts and pay university staff to produce the required research work. In principle, this can be an effective way to utilise the expertise of academic institutions for policy and is a common phenomenon throughout the world. Indeed, in cases where a university research institution such as the Research Institute on Economy and Society (LPEM) at the University of Indonesia cooperates with a reputable private company, good results can be produced. According to LPEM, the main problem with such arrangements is that university staff receive little professional recognition

because the work is produced under a company name. Staff cannot use this work as credit points for their official assessment and advancement.

In fact, the use of university expertise more often happens in less productive ways. Many consultancy companies have little or no expertise themselves and operate through their personal connections with government officials. They present themselves in tender documents as having a range of staff, but will rely on using university personnel who generally receive only a small percentage of the actual value of the contract. The negative effects of this kind of work on university research priorities and teaching quality, as well as the quality of the research actually produced, is discussed in more detail in McCarthy and Ibrahim (2005). In certain instances, academics themselves have established their own consultancies. The quality of the research may or may not be better when produced in this way, but the amount of time that university staff divert to these personal enterprises is widely regarded by as detrimental to the performance of university duties. The wider issue of consultancy companies and their connections with government official is discussed in section 4.2.7.

4.2.3. Short time limits on submission of tenders

The difficulties created by tendering are exacerbated by the provision in Keppres 80/2003, as amended by Perpres 95/2007, regarding time limits for the preparation of tender documents. The wording of the regulation is generally interpreted by government officials as limiting the total time for the submission of tenders to 14 days (ISP3 2008: 85). In fact, different time limits can indeed be imposed for different types of contracts, depending on their level of complexity (ISP3 2008: 86). This is possible because the timings specified in Keppres 80/2003 are mostly minimum times. For example, the regulation specifies that there must be an “explanation” (*penjelasan (aanwijzing)*) by the government agency to potential bidders. Tenders can then be accepted from the day after the “explanation” and for a *minimum* of 7 days after. But in practice most officials interpret such limits as *maximums* and add up the timings for the various stages in the process to reach a total of roughly 14 days. Even though it is not even clear that this total number of days is what is implied by the regulation, the standard of 14 days is generally applied.⁶

Such limits impose unrealistic expectations on suppliers and often result in rushed tenders that are poorly composed and incomplete. When such practices become the norm and suboptimal bids are regularly awarded contracts, the quality of goods and services supplied to government suffers as a result: the acquisition of knowledge would not be an exception to this.

4.2.4. “Kickbacks” and corruption in procurement

Amongst all knowledge suppliers interviewed for this study, whether in universities, NGOs, consultancies or think tanks, there was a universal reluctance to deal directly with government agencies because of perceptions that they would have to pay “kickbacks” to officials. Alongside slowness and bureaucratic

⁶ For example, the regulation speaks of both working days (*hari kerja*) and days (*hari*) without explanation or definition.

complexity, including but not only in procurement procedures, there is a fear that a considerable portion of funds from government would be sucked up by unofficial payments. The amount that was most commonly mentioned was around 30 per cent: whether this estimate comes from the oft-cited figure that is apparently derived from a World Bank study or from actual experience is not clear. Direct government funding is generally regarded as the least favourable option because it would necessarily involve undesirable dealings. This issue is discussed in more detail in section 4.2.7. in relation to the personalised nature of the knowledge market.

4.2.5. Training, bureaucratic inertia and corruption

Suppliers repeatedly report being told that regulations do not allow certain things to be done, but the reality is that results could be achieved if regulations were enforced differently. Alongside officials' poor understanding of regulations, many suppliers complain about bureaucratic inertia and unwillingness to venture outside established practices. Ministries often have a routine way of setting up contracts and resist changes to procedure even if they comply with regulations: if something has been done a certain way in the past, it must be done the same way today. As one study noted, there is "a tradition of central government focus of ensuring compliance [with procurement regulations] rather than facilitating a market-based system" (USAID LGSP: 11). In such an administrative culture, process reigns over results: the most important objective is to follow the rules as understood in that ministry, not to achieve a good outcome in terms of the goods or services obtained.

Observers of procurement processes note that part of the background to this conservative and inflexible approach is the poor quality of training that officials receive. Training courses tend to emphasise complying with the letter of regulations rather than approaches to their implementation that could achieve the best quality results. Obstacles to quality procurement practices, such as low thresholds for tendering and time limits for submission of tenders mentioned above, could be overcome if officials were trained to use the regulations flexibly rather than be regimented by them.

In addition, reluctance to break with routine ways of working is also partly caused by fear of being open to accusations of corruption. The increasing role of the Anti-Corruption Commission and the general atmosphere of public and media antagonism towards corruption has put pressure on potentially corrupt officials, but it has also had the effect of slowing down the disbursement of state funds at both the national and regional level. Anyone who is familiar with the current climate within government in Indonesia is aware of the effect on expenditure in many policy areas (USAID DRSP 2006 & 2009, World Bank 2007). A constant concern amongst officials is that an apparently unorthodox approach will attract unwanted attention and generate suspicions of illegality. Although the regulations are intrinsically difficult to follow, a path through the problems could be cleared if officials were not so anxious about dire consequences from developing innovative solutions.

4.2.6. Use of procurement regulations to stop corruption

The creation of a stultifying climate of suspicion around procurement is one of the reasons why some procurement specialists have expressed concerns about the use of procurement regulations as a major part of anti-corruption strategies. In the opinion of Mike Burge, Manager of AusAID's Strengthening Public Procurement Program, focusing on procurement regulations can "get in the way of efficient procurement". According to this view, care should be taken when designing procurement regulations because an excessive stress on anti-corruption strategies can divert attention away from the primary purpose of procurement, which is to provide government with the best quality goods and services at the lowest cost to the state budget. Like all government activity, procurement should be transparent and accountable, but its primary objective is not anti-corruption in itself. As an ADB study emphasises, "the performance criterion for evaluating procurement activities is economy, ie., acquisition at the lowest price without sacrificing quality and timely delivery" (Schiavo-Camp & Sundaram 2000: 315).

For example, the introduction of compulsory tendering for contracts above a certain value may help combat corruption. But, in the absence of transparency and accountability across public administration as a whole and in law enforcement, it is unlikely to be effective by itself. A DFID-sponsored handbook on procurement argues that:

Competitive bidding does not in itself stop corruption, although some risks are lowered. Mitigation strategies have to be applied at all stages of the procurement process and [the] legislative framework may influence the strength of the procurement officers' anticorruption work. (Heggstad et. al. 2010: 18)

- In cases where a well-functioning market does not exist, including for the provision of knowledge, compulsory tendering does not work effectively and can make procurement difficult or impossible.

Compared with contracts in other areas of government expenditure, the scale of the misappropriation of state funds that is likely to occur in the procurement of knowledge is relatively small. Transparency International shows that the ten sectors most vulnerable to corruption are as follows:

- 1. Public works, contracts & construction
- 2. Real estate & property development
- 3. Oil & gas
- 4. Heavy manufacturing
- 5. Mining
- 6. Pharmaceutical & medical care
- 7. Utilities

- 8. Civilian aerospace
- 9. Power generation & transmission
- 10. Forestry
- (Transparency International, 2008) (13)
- None of these are related to the provision of knowledge to government. There may be larger and more lucrative contracts involved in the provision of consultancy services for technical and planning issues related to the above areas, but not in relation to government policy concerning such industries.

Direct sourcing is frequently more appropriate for the knowledge sector because of the size of the contracts involved and often because there is effectively only one supplier capable of providing what may be highly specialised expertise. Of course, in infrastructure and equipment contracts there may also be only one dominant player in the market, but in these cases the need for the best price for the government is a paramount consideration and necessitates more detailed bidding requirements.

4.2.7. Personal connections, nepotism and collusion

Given the obstacles to obtaining knowledge through a functioning market, one central concern for every individual and institution involved in the knowledge sector is that relations with government are dominated by personal connections rather than institutional networks or processes. The first successful think tank in Indonesia and model for most other institutions, the Centre for Strategic and International Studies (CSIS), was founded on the basis of personal influence and this pattern of operation has continued to the present day. The late founding member, Hadi Soesastro, observed in interview that “only a few government institutions have a mechanism to systematically sponsor research” and that in most ministries “it depends on the minister and a few senior officials”. Hadi said that CSIS had many times been able to do useful work for a particular ministry under a certain minister, only to find that after a change at the top they could no longer maintain a working relationship. Whatever the minister’s personal efforts, the ministry as an institution had not developed the tradition of fostering outside sources of knowledge – “it is all based on individual initiative”.

The experience of CSIS in relation to commercial contracts with government was also typical for most other organisations in the knowledge sector. The director of one well-known research organisation observed that it was essential to have a “champion” within a government institution in order to be able to work with it. In order to be asked to produce research or other input into the policy process, good personal links with a minister or well-placed insider are a prerequisite.

The personalisation of relations between government and outside providers also extends to internal workings within ministries. Connections with the minister alone are not always enough: one consultancy firm explained that senior officials will sometimes obstruct the minister’s initiative if they consider that they were not consulted in the process of developing a proposal. Officials can be more

concerned with maintaining their networks of power and patronage rather than achieving a good policy or program outcome.

Outside sources of knowledge can be regarded by officials with suspicion and rejected in favour of in-house sources. Although the advice coming from internal sources such as departmental research units (*litbang*) may be weak in analytical terms because of the personnel management issues outlined above, it tends to be favoured because it is more politically “reliable”. Budgets for outside inputs are frequently seen as “project” money to be dispensed for strengthening the patronage network of influential officials. The personalisation of the market for knowledge has partly been the result of the institutional incapacity of government agencies to organise a systematic effort, but it has also suited the interests of powerful officials and ministers to hold unfettered discretion over state resources and to use them for personal and political objectives.

This situation produces the oft-cited phenomenon of the “usual suspects”. A ministry’s favourite suppliers will be approached again and again because of a set of inter-connected reasons:

- They personally know the minister and/or the top officials and are part of the right patronage network. If payment is involved, they can be trusted to “play the game” if regulations are to be manipulated and resources diverted for personal interests.
- The bureaucratic inertia and fear of innovation discussed above make it safer and easier to stick with established suppliers.
- There is little competition from alternative contractors, even if ministries did try to expand their range of potential suppliers.

This situation is a clear example of the interaction between the supply and demand sides in the knowledge sector. The behaviour of government officials is a determining factor for what suppliers can do and thus for the nature of the market for knowledge. Because the acquisition of knowledge is unsystematic and based on personal connections with a few trusted suppliers, think tanks, research organisations, consultancy firms and universities tend to behave in the same way. The number of individuals who play a leading role in the knowledge market tends to be very small and their personal profile becomes their organisation’s main asset. This makes it difficult for younger players to emerge. The lack of process in government is reflected in the lack of institutionalisation amongst suppliers. As McCarthy and Ibrahim note, in the university, non-government and private sectors, the unreliability of government support for research means that research bodies are “unable to provide a secure, long term future for their research staff” (2005: 3). Research contracts in universities have tended to be “controlled by research “godfathers” [and] within a research patronage system” (ibid: 8).

At the extreme end of the spectrum, the influence over the knowledge market exercised by well-placed government officials frequently takes on a collusive and corrupt character. As noted above, the amounts of funds involved in the knowledge sector may be relatively small compared to areas such as public

works, but the distorting effect on the provision of knowledge to government is very great. Front “consultancy” companies are often established by government officials themselves or by people with whom they are closely connected. Such companies are set up purely to tender for and win contracts through processes that are manipulated by officials with a clear conflict of interest. The favoured company may be provided with inside information or the bids of rivals may simply be rejected. If the “insider” company does not face any competing bids, the letter of procurement regulations can be followed by submitting a number of fake tenders from other front companies.

Another way in which regulations can be used for the personal benefit of officials is through the direct appointment of individual researchers and specialists to work produce work for projects included in a ministry’s budget. Because the threshold for competitive tendering is so low, this can be used as an excuse to justify naming particular individuals, usually those who have connections with the officials involved. In most cases, the majority of the funds for the project will end up in the pockets of the officials rather than the people who are meant to produce the required work.

The quality of the knowledge produced in these circumstances is often very low. Projects are regarded by officials as “just a way to move money”, in the words of one senior researcher, and the content of the material is of no real interest. Many discussants separately told the author about incidents of the provision of very low quality research or, at best, research that was highly academic in nature and of little use for policy-makers. Many also mentioned that some studies for government, such as environmental or social impact studies, are repeatedly reused, with nothing but the name of the relevant location changed to suit the particular contract. This will often occur when officials are motivated only by the need to follow regulations that state that a study must be done, without any intention to actually use the information contained in the study.

Because the existing regulatory framework is open to manipulation in these kind of ways, there is little incentive for many officials to think about how the regulations could be reformed. For those who benefit materially from existing arrangements, their main interest is to either keep things as they are or, should the regulations be amended, to develop new tactics to bend the rules.

The use of private organisations to exploit state resources in the knowledge sector is just a small-scale instance of the wider problem of “foundations” (*yayasan*) that has characterised Indonesia since independence and was a major feature of the political economy of the Suharto regime. The use of foundations to channel state funds to powerful private interests was a fundamental element of the system of patronage that underpinned the New Order. The passage of the Law 16/2001 on Foundations and its subsequent amendment as Law 28/2004 was an attempt to eliminate this channel of corruption, especially in the military, but effectiveness of the law has been widely questioned (Rieffel & Dharmasaputra 2008, Assegaf & Eryanto 2003). This issue forms a broader background which must be dealt with in the regulatory reform of the knowledge sector and the creation of effective demand by the government.

4.2.8. The special features of procurement in the knowledge sector

One of the biggest problems created by existing procurement regulations is that they are mainly aimed at that acquisition of goods and the development of public works and infrastructure. The regulations have been designed with the purchase of goods in mind and they work less well in relation to the provision of services to government. And they are possibly least able to deal effectively with the provision of intellectual services and knowledge.

Contracts for the procurement of government supplies such as furniture and text books or for public works such as buildings, roads and bridges are usually large and can involve complex technical specifications. As mentioned above, they are usually handled by large or medium-sized companies. In the knowledge sector, however, the amounts of money involved are often relatively small, have comparatively simple terms of reference, and do not require lengthy technical attachments (even though the research itself might be highly technical). Suppliers tend to be small scale and are often non-profit entities or university-based research institutions. In these circumstances, the technical and financial documents that are required by the regulations for the procurement of goods and public works are often onerous and unnecessary. Procedures for competitive tendering designed to facilitate the acquisition of goods and public works can become obstacles when applied to the acquisition of knowledge.

4.3. Effect of the new Presidential Regulation

As mentioned above, the government has almost completed the process of drafting a new Presidential Regulation (*Perpres*) to replace *Keppres* 80/2003. Unfortunately, however, the approach to the drafting of the *Perpres* has not facilitated a thorough rethinking of the current approach to procurement. Rather than begin anew and develop a new regulation from the starting point of first principles and objectives, the government has taken the approach of amending the existing *Keppres*. According to procurement specialists consulted by the author who have closely examined the draft *Perpres*, a large number of anomalies and inconsistencies will remain in the new regulation, unresolved from the old *Keppres*.

Most of the unresolved issues in the new *Perpres* do not relate to the knowledge sector because, as mentioned above, the main focus of all procurement procedures is the acquisition of government supplies and development projects. The main point of interest is that one of the major obstructions to the procurement of knowledge continues to exist in the draft *Perpres*: the threshold for competitive tendering will remain at 50 million rupiah. Although the threshold for the supply of goods has been increased to 100 million rupiah, the 50 million threshold will remain for consultancy contracts. Since most knowledge sector work would be placed in this category, the situation is effectively unchanged. In any case, 100 million rupiah is still very low and would not materially alter the basic situation in any area of procurement.

5. Conclusions and recommendations

This diagnostic study has examined issues in human resources and procurement regulations that create obstacles to the provision of knowledge to the policy making process in Indonesia. The focus has been on how regulations constrict the development of a market for knowledge from both the demand and supply sides.

Legislation and regulations give legal force to a range of undesirable practices. Personnel management regulations hinder the growth of policy expertise and procurement processes and make it difficult to obtain input from outside sources of advice. Regulations such as Keppres 80/2003 have, deliberately or unwittingly, become an obstacle because of wider institutional weaknesses in civil service processes, as well as official corruption. There is a bureaucratic culture of compliance, poor staff training and pressure to conform to existing practice and to obey superiors. The arcane complexity of regulations allows those with inside knowledge to manipulate the system, particularly when service-wide systems for transparency and enforcement of accountability are weak

Laws and regulations, together with the way they have been interpreted and/or manipulated by senior officials and ministers, are thus part of the reason why government has been poor at articulating its needs for knowledge and its efforts to obtain knowledge from outside sources have generally been unsuccessful. But the role of the regulatory environment should not be analysed in isolation. The regulations should be placed in the context of long term organisational issues in the civil service and the “culture” of bureaucracy in Indonesia. The regulations are not the *cause* of the problem, but they are *part* of the problem and need to be addressed as part of a comprehensive solution.

The reform task is therefore large and daunting. But efforts to bring about legislative and regulatory reform must be part of more generalised structural change in government administration in order to have sustainable effect. Introducing new regulations within the old structure, procedures and culture of the civil service would soon see the old problems re-emerge as established officials learnt how to simply apply the new rules in the old ways.

A successful effort will require:

- Political will and leadership from the highest levels of the Indonesian government.
- Allocation of funds, human and intellectual resources by the Indonesian government.
- A substantial commitment of donor funding and the coordinated involvement of the major bilateral and multilateral donors.
- A partnership between the government, donors and the research community.
- Continuing analytical work by all three parties to the partnership.

- Discussion, negotiation and planning that includes all relevant stakeholders in government, the private sector and the non-government sector.
- A phased and flexible strategy for implementation.

The next steps in the conception, development and planning of a program of regulatory reform in the knowledge sector, as part of a wider effort towards the restructuring of government administration, would appear to be the following.

Rethinking the role of donors in the knowledge sector

One of the first initiatives should be to engage with international donor agencies on the issue of revitalising the knowledge sector. This is required firstly because of the usual issues with donor involvement in a major reform undertaking:

- Foreign funding will be needed to support GOI financial shortfalls.
- International expertise and experience can be brought to bear.
- Donor coordination is necessary to avoid the duplication, lack of communication and gaps in assistance that often weakens donor programs.

But beyond the above issues that commonly arise in donor intervention in any sector, the donor world has an unusual place in the knowledge sector in Indonesia. By their funding strategies over many years donors have made themselves an important player in the sector. As this study has argued, donor funding has bridged a gap between outside sources of expertise and the government by providing both core and project funding to the non-government sector, universities and individual researchers. This has helped establish the rudiments of a knowledge market, but an unintended effect has been that donors have replaced rather than built capacity. Donor operations have taken on a long-term functional role in the provision of knowledge to the policy process in Indonesia. This has eliminated a major incentive for reform in this aspect of the structure of government.

It is therefore critically important that all major donors be included in planning on a successful knowledge sector reform program. Donor funding cannot simply be withdrawn because it would cause a collapse in the production of knowledge and the existing mechanisms of the knowledge market. But because donor interventions have almost become part of the problem, there is a need for fundamental rethinking of foreign intervention in this area. The objective should be to support sustainable institutional capacity and to overcome the structural obstacles to the flow of knowledge between the supply and demands of the knowledge market.

Stakeholder analysis and engagement

A reform effort of the scale suggested in this study would clearly affect the material interests and power of many institutions and the careers and livelihood of a large number of individuals in the civil service, the education sector and non-government organisations. There will be resistance to change from those who perceive, whether rightly or wrongly, that they will lose out during the reform of

the organisations in which they work. It is essential to convince stakeholders that it is in their interests to support change. For some, this may involve compensation for the loss of income, position or influence. But merely overcoming resistance is not enough, reform can be successful only if it mobilises the active support and participation of the organisations and individuals involved in the sector.

Therefore, an important stage in the development of a reform strategy should be to carry out a comprehensive stakeholder analysis to identify the interested parties and to analyse how they might be affected by change and how their active contribution can be organised. An initial list of stakeholders would include:

- Executive government at the national and regional level
- National and regional legislatures
- Ministries and non-departmental agencies and their internal sub-divisions and units
- Agencies with a particular role in government administration and oversight such as MenPAN, Mendagri, BKN, LAN
- State research organisations such as LIPI
- Accountability institutions such as BPK, KPK, Ombudsman
- Civil servants' organisations
- Universities and the wider education sector
- Profit-making think tanks, consultancies and research organisations
- Non-profit research organisations and foundations
- International bilateral and multilateral donors

Having produced a stakeholder analysis, the next stage should be to identify the key players that need to be engaged and initiate a process of discussion with them. Some players will, of course, be of more immediate priority than others. Efforts should begin with the highest levels of government to ensure that there is political will from the institutions and individuals that have the power to execute change. Equally important are those that are directly involved in research and education (eg. Min of Education, Research and Technology, LIPI,) and the structure and functioning of government administration (eg. MenPAN, Mendagri, MenHukHAM, BKN, LAN, Bappenas).

Pilot projects and reform within existing regulations

It is unlikely that reform will occur in a “big bang”, even though that approach did succeed with the decentralisation of power from the centre to the provinces and districts at the beginning of the decade. It seems more likely that change will have to proceed in an incremental way. In these circumstances it may be

necessary to show progress through the demonstration effect of limited change within existing regulations, including through pilot projects.

This study has shown how, in the Ministry of Finance, a combination of strong support from the Minister, commitment by Ministry officials, agreement to vary the regulations by other key ministries (MenPAN) and assistance from donors resulted in reforms that have improved the provision of policy advice to the Minister. This example could be followed as a method to introduce changes within single agencies or sub-units within them without having to overcome large-scale resistance from the vested interests involved in more ambitious programs. The success of local initiatives can provide a data-base of lessons learned to apply in wider contexts. It can also become a means of enlisting the support of powerful players such as ministers and senior officials to extend similar schemes to their organisations by convincing them that reform ideas are both feasible and beneficial to them.

Other initiatives can include more traditional methods such as improved training in the implementation of existing regulations. As this study has argued, the problem with current regulations is not always just the rules themselves, but the way they are interpreted, enforced and manipulated. There is thus scope to improve the current situation, even before reform of the law and regulations occur. Of course, if activities such as training take place in isolation, particularly if they are regarded as simply a way to make use of donor funds, they will have little effect. But if they take place in the context of genuine commitment by senior officials to improving the capacity of their organisations, there could be real results.

Specific recommendations

- 1) The regulations listed in Appendix 1 should be prioritised for critical assessment with the following objectives in mind:
 - To determine what the main objective of each regulation was when it was first drafted and how each regulation has actually been implemented.
 - To identify, as a short to medium term aim, how the regulations might be reinterpreted and differently enforced in their existing form, including through staff training focused on results-based rather than compliance-based implementation.
 - To develop, as a longer term aim, a strategy for the redrafting, amendment or abolition of each of the regulations as an integral part of a regulatory and organisational restructuring of the institutions involved in the provision of knowledge to government.
- 2) Propose a program to reassess and redesign the role of LIPI and other research institutions in the provision of knowledge to government.
- 3) Support the development of specialised technical and policy units in selected agencies, along the lines of the Fiscal Policy Office in the Ministry of Finance.

- 4) In relation to the division of civil service personnel into functional and structural staff:
 - Identify agencies willing to participate in pilot programs to improve cooperation, coordinate and integration between the duties and work programs of each category.
 - Within existing regulations, support the increased role of agencies in the performance assessment of their own functional staff, along with enhanced opportunities for functional staff involvement in the policy process, more rapid advancement and improved remuneration.
 - As a longer term project, support redrafting of the regulations that codify the categorisation of civil servants, as part of a general reclassification of personnel and systems for performance assessment and promotion.
- 5) Develop a program of training for government officials on procurement procedures following the promulgation of the new Presidential Regulation on procurement. The objective should be to move officials' thinking away from traditional approaches based on the letter of the regulations as traditionally interpreted in each individual agency towards a problem-solving approach informed by the first principles and objectives of procurement for government as a whole.
- 6) Support the process of drafting and deliberation on the new Procurement Law, both in executive government and in the parliament. Facilitate the participation of civil society organisations, stakeholders and the general public in the process.
- 7) Investigate synergies between knowledge sector initiatives on procurement of intellectual services and other AusAID programs in the area, such as Indonesia Strengthening Public Procurement Program (ISP3).

Appendix 1: List of regulatory issues and agencies involved

Issue	Regulation requiring action	Agency responsible
Evaluation of functional staff: need for performance assessment regulations that provide incentives for functional staff to produce relevant research	Keputusan Bersama MenHukHAM & BKN M.390-KP.04.10/2002 & 1/2002 tentang Perancang Peraturan Perundang2an	BKN, MenHukHAM & Mendagri
	Keputusan Bersama LIPI & BKN 3719/D/2004 & 60/2004 tentang Peneliti	BKN, LIPI & Mendagri
	Peraturan Bersama Arsip Nasional & BKN 18/2009 & 21/2009 tentang Arsiparis	BKN Arsip Nasional & Mendagri
	Keputusan Bersama MenKes & BKN 1738/Menkes/SKB?XII/2003 & 52/2003 tentang Dokter	BKN, MenKes & Mendagri
	Keputusan Bersama MenKes & BKN 733/Menkes/SKB/VI/2002 & 10/2002 tentang Perawat	BKN, MenKes & Mendagri
	Keputusan Bersama BPS & BKN 002/BPS-SKB/II/2004 & 4/2004 tentang Pranata Komputer	BKN, BPS & Mendagri
Division of structural (administrative) & functional (specialist) staff: need to break down organisational and work divisions between the two categories.	UU 43/1999 Perubahan atas UU 8/1974 UU 8/1974 tentang Pokok-pokok Kepegawaian	BKN
Procurement procedures are complex, ambiguous & implemented in different ways across government. Tendering processes eliminate universities and non-government organisations from the knowledge market	Keppres 80/2003 ttng Pedoman Pelaksanaan Pengadaan Barang/Jasa Pemerintah Amended by: Keppres 61/2004 Perpres 32/2005 Perpres 70/2005 Perpres 8/2006 Perpres 79/2006 Perpres 85/2006 Perpres 95/2006	LKPP
State resources continue to be used by officials for private interests despite post-New Order reforms	UU 16/2001 tentang Yayasan UU No. 28/2004 tentang Yayasan	MenHukHAM
Restrictions of the	UU 8/1985 tentang Organisasi Masyarakat	MenHukHAM

activities and sources of funding of non-government organisations & ambiguity in their legal status		
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