



Technical Assistance Report

Project Number: 48294-001
Capacity Development Technical Assistance (CDTA)
January 2015

Republic of Indonesia: Tax Revenue Administration Modernization and Policy Improvement in Local Governments (Financed by the Government of Switzerland)

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Asian Development Bank

CURRENCY EQUIVALENTS

(as of 6 January 2015)

Currency unit	–	Rupiah (Rp)
Rp1.00	=	\$0.00007
\$1.00	=	Rp12,622

ABBREVIATIONS

ADB	–	Asian Development Bank
DGFB	–	Directorate General of Fiscal Balance
GDP	–	gross domestic product
MOF	–	Ministry of Finance
MOHA	–	Ministry of Home Affairs
TA	–	technical assistance

NOTE

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

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CONTENTS

	Page
CAPACITY DEVELOPMENT TECHNICAL ASSISTANCE AT A GLANCE	
I. INTRODUCTION	1
II. ISSUES	1
III. THE PROPOSED CAPACITY DEVELOPMENT TECHNICAL ASSISTANCE	2
A. Impact and Outcome	2
B. Methodology and Key Activities	2
C. Cost and Financing	4
D. Implementation Arrangements	4
E. Governance	5
IV. THE PRESIDENT'S RECOMMENDATION	5
APPENDIXES	
1. Design and Monitoring Framework	6
2. Cost Estimates and Financing Plan	9
3. Outline Terms of Reference for Consultants	10
SUPPLEMENTARY APPENDIX (available on request)	
1. Procurement Plan	

CAPACITY DEVELOPMENT TECHNICAL ASSISTANCE AT A GLANCE

1. Basic Data		Project Number: 48294-001	
Project Name	Tax Revenue Administration Modernization and Policy Improvement in Local Governments	Department /Division	SERD/SEPF
Country Borrower	Indonesia NA	Executing Agency	Directorate General Fiscal Balance
2. Sector		Financing (\$ million)	
✓ Public sector management	Public expenditure and fiscal management		5.00
		Total	5.00
3. Strategic Agenda		Climate Change Information	
Inclusive economic growth (IEG)	Pillar 1: Economic opportunities, including jobs, created and expanded	Climate Change impact on the Project	Low
4. Drivers of Change		Gender Equity and Mainstreaming	
Governance and capacity development (GCD)	Anticorruption Institutional development Institutional systems and political economy Organizational development Public financial governance	No gender elements (NGE)	✓
Knowledge solutions (KNS)	Application and use of new knowledge solutions in key operational areas Knowledge sharing activities Pilot-testing innovation and learning		
Partnerships (PAR)	Civil society organizations Official cofinancing		
Private sector development (PSD)	Conducive policy and institutional environment		
5. Poverty Targeting		Location Impact	
Project directly targets poverty	No	Not Applicable	
6. TA Category:		A	
7. Safeguard Categorization		Not Applicable	
8. Financing			
Modality and Sources		Amount (\$ million)	
ADB		0.00	
None		0.00	
Cofinancing		5.00	
State Secretarial for Economic Affairs (SECO) - Switzerland		5.00	
Counterpart		0.25	
Government		0.25	
Total		5.25	
9. Effective Development Cooperation			
Use of country procurement systems	No		
Use of country public financial management systems	No		

I. INTRODUCTION

1. The proposed technical assistance (TA) aims to support the Government of Indonesia in strengthening local tax revenue administration and policy at the central and local levels.¹ The Ministry of Finance (MOF) has a national strategy of increasing the country's local tax to gross domestic product (GDP) ratio from 1.2% in 2012 to 1.7% in 2015.² In addition, a concurrent effort will be made to increase the ratio of own-source revenue to local budget from 16% in 2012 to 22%–25% in 2015. Urban local governments that have the potential to increase their revenues because of the size of their economy and population will be key to increasing local own-source revenue. The TA will also provide knowledge sharing to a select number of local governments that have weak capacity but the potential to increase revenue because of increased economic activity. The TA is a continuation of ongoing Asian Development Bank (ADB) support to strengthen governance in local governments, particularly in the area of local revenue administration.³

II. ISSUES

2. **Increasing local government fiscal autonomy.** The passing of Law No. 28 Year 2009 on Local Government Taxes and Retributions provides more autonomy to local governments in raising own-source revenues. Local governments can now expand local tax and *retribusi* (user fee) bases, and have the discretion to set their own tax and fee rates. The law is specific with regard to the revenue assignment and taxation power of provincial, municipal and district governments, with more power given to the latter.⁴ Municipalities and districts are responsible for managing and administering property taxes, which account for the largest share of local own-source revenue. The ability of local governments to raise local own-source revenue through taxes provides increased accountability to their constituents. The design and administration of local revenue systems are crucial in improving the local tax system. The impacts of tax reform have been significant—own-source revenues, as a share of the total budget resources of local governments, have increased significantly, from 18.6% in 2010, to 19.66% in 2011, and 20.4% in 2012. However, these increases have not been accompanied by increases in (i) the local tax ratio, which was 1.4% of GDP in 2012, a decline from 2.9% in 2011; or (ii) local tax per capita, which was about Rp77,000 in 2012.⁵ The devolution of property taxes has also created some administrative challenges, such as a reduction in the number of payment channels, inadequate property valuation capabilities, an outdated fiscal cadastre, and inaccurate arrears data.

3. **Increasing local government accountability and transparency.** Recent research supports the view that taxation policy and administration are critical for improving governance and thus improved transparency. Taxation forms the basis of accountability and transparency relationships—based on mutual rights and obligations—between the local government and its constituents. Constituents that pay taxes have a right to demand accountability and

¹ The TA first appeared in the business opportunities section of ADB's website on 14 October 2014.

² The realized figure for collection of total local taxes in 2013 is Rp. 114.5 trillion or 1.3% of GDP.

³ ADB. 2012. *Technical Assistance to the Republic of Indonesia for Local Government Finance and Governance Reform*. Manila (TA 8057-INO, \$800,000, approved on 4 April). TA 8057 has reviewed the state of readiness of local governments in implementing local taxes, conducted pilot study on local tax administration in 6 local governments, and produced a diagnostic assessment of local tax administration reform for City of Jakarta.

⁴ Provincial governments are authorized to collect taxes on motor vehicles, surface water, and cigarettes, while municipal and/or district governments collect taxes on hotels, restaurants and entertainment centers, billboards, street lighting, nonmetallic mineral deposits, groundwater, edible bird's nests, and property. The central government retains the authority to collect income taxes, value-added tax, taxes on luxury goods, and property taxes for agriculture, forestry, and mining.

⁵ The drop results from local GDP increasing more quickly than local tax revenue.

transparency, and improved and responsive provision of public services, with increased constituent participation. As such local government needs to be more transparent on whether the local taxes are being used to finance expenditures that are responsive to the needs and preferences of citizens. The emergence of a more accountable and transparent local government occurs when the government faces incentives to increase its public budget through engagement with constituents, rather than through reliance on central government transfers and/or narrow natural resource rents. A property tax is an excellent example of a tax that promotes public participation and greater local government accountability—it is direct, highly visible, substantial, and affects a large proportion of the constituency.

4. **Weak tax compliance.** Lessons from diagnostic work in Jakarta indicate that the property tax compliance rate in 2013, in terms of the number of tax bills issued, was only 55%, although Jakarta collected almost 80% of the total property tax amount billed. Only about 41% of the registered hotel, restaurant, and entertainment industry taxpayers actively remit sales tax every month. The existing fiscal cadastre is outdated, with much missing data, and does not reflect the current situation. Information technology capabilities are substandard and the core tax system is fragmented, with separate database and business processes for each tax type. The tax-type organizational structure also does not conform to international good practices. Taxpayer services are not standardized across tax offices and payment channels remain limited for certain tax types.

5. **Need for increased capacity.** As local governments are given more responsibility for managing their fiscal affairs, there is a pressing need to significantly and rapidly increase the technical, administrative, and fiscal policy analysis and revenue mobilization capacity of local public financial officers, especially in light of the enormous revenue potential. Local government financial officers currently have limited capacity to analyze local revenue potential and implement effective revenue administration, particularly with regard to the recently devolved property tax. Inappropriate tax policy and/or ineffective administration leads to low voluntary compliance and low revenue yields. Low voluntary compliance is exacerbated by local tax regulations that impose a heavy burden or high compliance costs, and contributes to low revenue yields, which in turn affect public service delivery, weaken downward accountability, create opportunities for rent-seeking activities, and increase reliance on central government transfers. The introduction of e-tax services (electronic registration, filing, payment, and other inquiries) being proposed under this TA will reduce direct contact between taxpayers and tax officials, and thus strengthen governance, and decrease response time and compliance costs.

III. THE PROPOSED CAPACITY DEVELOPMENT TECHNICAL ASSISTANCE

A. Impact and Outcome

6. The impact will be increased local own-source revenues and tax compliance rates in Indonesia. The outcome will be improved tax administration and policymaking capacity of local governments.

B. Methodology and Key Activities

7. The TA will work at both central and local levels. At the central level, the TA will focus on improving the main regulatory framework on local revenue mobilization and building up the capacity of the Directorate General Fiscal Balance (DGFB) of MOF in overseeing the fiscal decentralization. On the regulatory aspect, the TA will review the effectiveness of the current devolution of local taxes and also explore how to incentivize local governments to increase local taxes. Such incentives can be imbedded in the current intergovernmental transfer system. The

capacity building for DGFB will focus on strengthening their knowledge on local government tax policy and revenue administration, through a series of analytical studies. The TA will also upgrade the capacity of DGFB staff through field visits, training seminars and workshops in local revenue administration, aimed at finding cost-effective and politically acceptable approaches and establishing sustainable central support for efficient and equitable revenue administration in the selected LGs. The inputs of local governments will also be critical in ensuring that the capacity building and reform efforts can be well implemented.

8. At the local level the TA will focus on mobilizing local tax revenues and supporting institutional and systems transformation to more modern, efficient and credible revenue administration in the selected LGs: provincial governments of Jakarta and West Java; and the city of Bandung (West Java). The TA will also work with other reform-minded cities such as Balikpapan (East Kalimantan), Makassar (South Sulawesi), Surakarta (Central Java), and the district of Badung (Bali) in their local tax reform but not as extensively as in the first three local governments. The local governments were selected on the basis of management commitment to tax reform, tax revenue potential, fiscal and staff capacity, and location. DGFB would like the selected local governments to become centers of excellence on local revenue administration; they can then share knowledge, solutions, and lessons with other local governments. A key objective is to increase the quality of services provided by the local tax unit and thus promote voluntary compliance.

9. **Output 1: Harmonization and delineation of responsibilities between the central and local governments on tax policy and administration.** The TA will assist the central government by conducting assessments of various aspects of the central government's policies regarding local government tax policy and revenue administration, looking at both central and local levels. The key engagement will be with the government's tripartite team—comprising DGFB, the Directorate General Tax of MOF, and Ministry of Home Affairs (MOHA)—on Law No. 28, and conducting joint studies and preparing academic papers to review the effectiveness of the law as well as its implementing regulations. The TA team will work closely with DGFB on evaluating the impact and implications of Law No. 28/2009 on the intergovernmental transfer system, and specifically examining the incentive effects of the general specific allocation transfer (or block grant transfer to local governments) on local revenue mobilization. The TA will also include analytical work on the devolution of property tax on mining, forestry and plantation sectors, tax object valuation models, and local business tax and income tax surcharges. Training seminars and focus group discussions will be held to disseminate the lessons to DGFB staff.

10. **Output 2: Mobilization of local tax revenues and broadening of tax bases.** The TA will support the comprehensive updating of the fiscal cadastre in the selected local governments, property revaluation, and collection of tax arrears. Improving the fiscal cadastre is a key to measuring the true potential of property taxes. In most cases, local governments in Indonesia, including those selected for pilot projects, have been unable to improve their fiscal cadastre. The effect has been low property tax potential, which impacts local revenue forecasts. Fiscal cadastre improvement would require cooperation from a third party to ensure the map is as up-to-date as possible. The third party envisioned under the TA is the Information Geospatial Agency.

11. **Output 3: Institutional transformation of local tax administration.** The TA will perform a revenue administration diagnostic analysis for the selected local governments on tax revenue performance and administrative capabilities as well as tax gaps and revenue administration conduct baseline and evaluation taxpayer satisfaction surveys, produce

academic papers on tax revenue reorganization, develop human resource management strengthening strategies for local revenue administrations, produce standard operating procedures for core tax functions and deliver training on institutional transformation. The TA envisions assessing the institutional reform proposed under the TA through comparison with international good practice on tax administration, such as the establishment of tax administration based on function rather than tax type, and formation of an internal compliance section to improve internal control capacity and governance.

12. **Output 4: Revenue system development and implementation.** The TA will focus on developing and implementing an integrated centralized core tax administration system and related documentation and user's manual, producing a medium-term IT blueprint, producing systems analysis and design documents, and introducing an automated system for taxpayer services accessible on mobile devices (e-tax services). Services that are envisioned to be provided are integrated connectivity between central and branch office, an incorporated backup system, integrated single taxpayer identification through integrated recording, automated audit selection, introduction of return filing with automated error correction, utilization of external information and third party data, and introduction of inter-tax type data checking. System implementation will be assisted through development of a project operations manual and project management tools for transformation of revenue administration systems.

C. Cost and Financing

13. The TA is estimated to cost \$5,250,000, of which \$5,000,000 will be financed on a grant basis by the Government of Switzerland and administered by ADB. The Government of Indonesia will provide counterpart support in the form of counterpart staff, office space, workshop and consultation support, and other in-kind contributions. The cost estimates and financing plan are in Appendix 2.

D. Implementation Arrangements

14. The TA will be implemented over 3 years, and is expected to commence in March 2015 and end in February 2018. The executing agency will be the DGFB of MOF, which is responsible for local revenue policies and fiscal decentralization. The implementing agencies will include the Directorate of Local Taxes of DGFB, the provincial governments of Jakarta and West Java; the cities of Balikpapan (East Kalimantan), Bandung (West Java), and Makassar (South Sulawesi); and the district of Badung (Bali).

15. For interagency coordination and overall policy guidance, the project will form an advisory committee, headed by the DGFB of MOF, which will include representatives from the Directorate General of Regional Finance of MOHA, the Directorate General of Tax of MOF, ADB, and the Government of Switzerland. DGFB is responsible for setting up policy direction for fiscal decentralization; the Directorate General of Regional Finance of MOHA is responsible for implementation of the regional financial management information system in local governments; and the Directorate General of Tax of MOF is responsible for devolution of property tax.

16. The TA plans to engage 420 person-months of consulting services (48 person-months of international and 372 person-months of national services) through a mix of individuals and firms. Three types of consultants will be selected by ADB: (i) a team comprising one international and seven national tax revenue administration modernization advisors that will be selected using quality- and cost-based selection at a ratio of 80:20, and a full technical proposal; (ii) three specialized firms for the tax information technology system, which will use consultants' qualification selection; and (iii) short-term individual advisors in fiscal decentralization policy,

bureaucracy reform, and property valuation. The TA will carry out an advance procurement action to expedite the recruitment of consultants prior to TA effectiveness. The consultants will be engaged by ADB in accordance with the Guidelines on the Use of Consultants (2013, as amended from time to time).⁶ Any procurement will be done in accordance with the Procurement Guidelines (2013, as amended from time to time). Disbursement under the TA will be done in accordance with ADB's *Technical Assistance Disbursement Handbook* (2010, as amended from time to time).

17. The TA assumes (i) that the central government has the will to build local government capacity and to revise intergovernmental transfer policies, which is necessary to give local governments the incentive to raise their own revenues; and (ii) that local governments have the commitment and willingness to execute actions to tap potential revenues. The leadership of DGFB of MOF has shown strong commitment for reform and to support local governments in the implementation and improvement of the property tax system. In securing a commitment from local government for local tax reform, during its initial phase the TA will work with local governments that have shown strong leadership and political will for reform by strengthening the institutional capacity of their revenue administration, and mobilizing revenues. Each selected local government will be supported by a dedicated TA team to ensure rapid response to technical support needs. Further, the proposed solutions under the TA will be under the existing legal framework. The executing agency supported by the ADB TA team will look for approaches to increase cooperation with local universities or academic institutions (e.g., through memorandums of understanding between MOF and the local universities), and thereby strengthen support for local governments.

E. Governance

18. MOF's financial management and procurement capacity to carry out the project is adequate. In June 2014, MOF implemented an integrated financial management system that aims to make the budget execution process more efficient, economical, effective, transparent, and accountable.⁷ ADB has provided ongoing support to improve technical capacity and controls, particularly on public procurement. As a result of the government's continuing commitment to reducing corruption, the capacity of the Corruption Eradication Commission has improved markedly.⁸ ADB's Anticorruption Policy (1998, as amended to date) was explained to and discussed with the government.

IV. THE PRESIDENT'S RECOMMENDATION

19. The President recommends that the Board approve ADB administering technical assistance not exceeding the equivalent of \$5,000,000 to the Government of Indonesia to be financed on a grant basis by the Government of Switzerland for Tax Revenue Administration Modernization and Policy Improvement in Local Governments.

⁶ To improve the effectiveness of ADB's limited staff resources and streamlined TA administration, the user unit will explore the use of lump-sum, fixed cost out-of-pocket expense contracts.

⁷ The prevailing regulation on the integrated financial management system is the Ministry of Finance Regulation (PMK) No. 154/PMK.05/2014.

⁸ From 2003 to 2012, the Corruption Eradication Commission has handled 223 high-profile cases involving top government officials; of these 169 cases have been processed in court.

DESIGN AND MONITORING FRAMEWORK

Design Summary	Performance Targets and Indicators with Baselines	Data Sources and Reporting Mechanisms	Assumptions and Risks
<p>Impact Local own-source revenues and tax compliance rates increased in Indonesia</p>	<p>By 2020: National local tax ratio is increased to 1.7% of GDP (baseline in 2012 is 1.2% of GDP)</p>	<p>Ministry of Finance</p>	<p>Assumption Public finance reforms continue to be one of the main reforms at the central and local levels.</p> <p>Risk Central and local political pressure to halt the public finance reform</p>
<p>Outcome Improved tax administration and policymaking capacity of local governments</p>	<p>By 2018: Property tax revenue compliance rate increased by 5–10 percentage points at each selected local government (baseline 65%–85% in 2013)</p> <p>Total local taxes increased by 25% (baseline Rp. 114.5 trillion in 2013)</p> <p>Tax revenue of provincial governments of Jakarta and West Java; the cities of Balikpapan (East Kalimantan), Bandung (West Java), Makassar (South Sulawesi), Surakarta (Central Java), and district of Badung (Bali) are doubled from 2013 levels</p>	<p>Fiscal cadastre of each selected local government</p> <p>Ministry of Finance</p> <p>Local government budget documents</p>	<p>Assumption Reform-minded local leaders lead public finance reform at local level.</p> <p>Risk Slow implementation of central government decentralization policies</p>
<p>Outputs 1. Harmonization and delineation of responsibilities between central and local governments on tax policy and administration</p>	<p>Analytical reports and training on local tax policy, revenue mobilization, and intergovernmental transfer policies (Q4 2016)</p> <p>Analytical report on the devolution of property tax on mining, forestry, and the plantation sector produced (Q4 2016)</p> <p>Analytical report produced and training of DGFB staff delivered regarding alternative simplified tax object valuation models (Q1 2017)</p> <p>Analytical report on the local business tax and income tax surcharge produced (Q3 2017)</p>	<p>Consultant reports and MOF review reports</p> <p>Consultant report</p> <p>Consultant reports</p> <p>Consultant report</p>	<p>Assumptions Required data is available and accessible.</p> <p>Sufficient counterpart funding available to deliver appropriate information technology solutions.</p> <p>Commitment from central government to build local government capacity and to revise intergovernmental policy, specifically on general allocation fund.</p>
<p>2. Mobilization of local tax revenues and broadening of tax bases in selected LGs</p>	<p>Arrears collection and tax object valuation manuals developed and technical support provided for conducting collection and property tax reevaluation for Jakarta (Q3 2015) and West Java, Bandung, Badung, and Makassar (Q2 2016)</p> <p>Fiscal cadastre construction and maintenance manual developed, and officials from Jakarta (Q3 2015) and West Java and Bandung (Q3 2016) trained</p> <p>Fiscal cadastre updated, covering more than 1.5 million tax objects in Jakarta (Q2 2017) and >200,000 tax objects, in West Java and Bandung (Q1 2018)</p>	<p>Arrears collection manual</p> <p>Tax object valuation manual</p> <p>Fiscal cadastre construction and maintenance manual</p> <p>Fiscal cadastre statistics report</p>	<p>Risks Resistance to changing the existing platform due to past investment.</p> <p>Resistance from key stakeholders due to uncommon organization design and expanded staffing requirements.</p>

Design Summary	Performance Targets and Indicators with Baselines	Data Sources and Reporting Mechanisms	Assumptions and Risks
3. Institutional transformation of local tax administration in selected LGs	<p>Diagnostic report produced on tax revenue performance, tax gaps, and revenue administration capabilities of Jakarta (Q2 2015) and West Java and Bandung (Q3 2016)</p> <p>Baseline taxpayer satisfaction survey based on accountability and transparency conducted in Jakarta (Q2 2015) and West Java and Bandung (Q4 2016)</p> <p>Change management manual and roadmap developed in Jakarta (Q2 2015) and West Java and Bandung (Q4 2016)</p> <p>Academic papers produced on restructuring tax revenue organization and strengthening HRM of Jakarta (Q3 2015) and West Java and Bandung (Q1 2017)</p> <p>SOPs developed for core tax administration functions in Jakarta (Q3 2016) and West Java and Bandung (Q2 2017)</p> <p>Training and focus group discussions delivered on institutional transformation for Jakarta (Q1 2017) and West Java and Bandung (Q4 2017)</p>	<p>Consultant reports</p> <p>Survey instrument templates and survey results</p> <p>Consultant reports</p> <p>Consultant reports</p> <p>SOP document</p> <p>Training evaluation reports</p>	
4. Revenue system development and implementation in selected LGs	<p>Medium-term IT blueprint for Jakarta (Q2 2015) and West Java and Bandung (Q4 2016) produced</p> <p>Systems analysis and design document produced for Jakarta (Q2 2016) and West Java and Bandung (Q1 2018)</p> <p>Systems user's manual and training materials produced for Jakarta, West Java, and Bandung (Q3 2017)</p> <p>Integrated centralized core tax administration systems introduced, and taxpayer services accessible from mobile devices by taxpayers in Jakarta (Q3 2017 Q3) and West Java and Bandung (Q4 2017)</p>	<p>Medium-term IT blueprint</p> <p>Systems analysis and design document</p> <p>Systems user's manual and training materials</p> <p>User's acceptance test report</p>	
<p>Activities with Milestones</p> <p>1. Harmonization and delineation of responsibilities between central and local governments on tax policy and administration</p> <p>1.1 Analytical reports and training of DGFB staff (through focus group discussion) conducted on the local tax policy, revenue mobilization, and intergovernmental transfer policies (Sept 2016)</p> <p>1.2 Analytical report on impact of devolution of property tax on the mining, forestry, and plantation sectors (Sept 2016)</p> <p>1.3 Analytical work and training conducted on alternative simplified tax object valuation modeling (Feb 2017)</p> <p>1.4 Analytical report on local government business and income tax surcharges for</p>			<p>Inputs</p> <p>Government of Switzerland: \$5,000,000</p> <p>Inputs</p> <p>Note: The Government of Indonesia will provide counterpart support in the form of relevant</p>

<p>DGFB, City of Jakarta, West Java, Bandung, Badung, Surakarta, and Makassar (Sept 2017)</p> <p>2. Mobilization of local tax revenue and broadening of tax bases</p> <p>2.1 Manuals prepared for debt management and tax arrears collection, tax object valuation and technical support on conducting collection and property tax reevaluation for Jakarta (Q3 2015) and West Java, Bandung, Badung, Surakarta, and Makassar (Q2 2016)</p> <p>2.2 Fiscal cadastre construction and maintenance manual produced and officials from Jakarta (Q3 2015) West Java and Bandung trained (Q3 2016)</p> <p>2.3 Fiscal cadastres are updated covering >1.5 million tax objects in Jakarta (Feb 2017) and >200,000 tax objects in West Java, Bandung, Badung, Surakarta, and Makassar (Feb 2018)</p> <p>3. Institutional transformation of local tax administration</p> <p>3.1 Diagnostic report prepared on tax revenue performance, tax gaps, and revenue administration capabilities of Jakarta (May 2015)</p> <p>3.2 Change management roadmap for tax revenue organization cultural change in Jakarta (May 2015)</p> <p>3.3 Baseline taxpayer satisfaction survey conducted in Jakarta (May 2015)</p> <p>3.4 Academic paper on tax structure reorganization and human resource management for Jakarta submitted to relevant authorities (May 2015)</p> <p>3.5 SOPs for core tax administration functions in Jakarta produced (Aug 2016)</p> <p>3.6 Baseline taxpayer satisfaction surveys in West Java and Bandung conducted (Nov 2016)</p> <p>3.7 Diagnostic report on tax revenue performance, tax gaps, and revenue administration capabilities of West Java and Bandung produced (Nov 2016)</p> <p>3.8 Change management roadmap for tax revenue organization cultural change in West Java and Bandung produced (Nov 2016)</p> <p>3.9 Academic paper on tax structure reorganization and human resource management in West Java and Bandung submitted to the relevant authorities (Feb 2017)</p> <p>3.10 SOPs for core tax administration functions in West Java and Bandung produced (May 2017)</p> <p>3.11 Training, workshops, study visits, benchmarking, and focus group discussions conducted on institutional transformation for Jakarta (Q1 2017) and West Java and Bandung (Q4 2017)</p> <p>4. Revenue system development and implementation</p> <p>4.1 Medium-term IT blueprint prepared for Jakarta (May 2015) and West Java and Bandung (Nov 2016)</p> <p>4.2 Systems analysis and design documents produced for Jakarta (May 2016) and West Java and Bandung (Feb 2018)</p> <p>4.3 Systems user's manual and training materials (Aug 2017)</p> <p>4.4 Integrated, centralized core tax administration systems completed and implemented in Jakarta (Aug 2017) and replicated to West Java and Bandung (Feb 2018)</p> <p>4.5 Integrated taxpayer accounts, electronic filing, and other taxpayer services can be accessed from mobile devices by taxpayers in Jakarta (Q3 2017) and West Java and Bandung (Q4 2017)</p>	<p>counterpart staff and office accommodation, and other in-kind contributions.</p>
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DGFB = Directorate General of Fiscal Balance, GDP = gross domestic product, HRM = human resource management, IT = information technology, MOF = Ministry of Finance, Q = quarter, SOP = standard operating procedures, TA = technical assistance.

Source: Asian Development Bank.

COST ESTIMATES AND FINANCING PLAN

(\$'000)

Item	Amount
Government of Switzerland^a	
1. Consultants	
a. Remuneration and per diem	
i. International consultants	1,046.0
ii. National consultants	2,078.0
b. International and local travel	163.0
c. Reports and communications	82.0
2. Training, seminars, and conferences	728.0
3. Taxpayer surveys (field data collection)	180.0
4. Office equipment ^b	110.0
5. Miscellaneous administration and support costs ^c	500.0
6. Representative for contract negotiations	50.0
7. Monitoring and evaluation, project audit ^d	35.0
8. Contingencies	28.0
Total	5,000.0

Note: The technical assistance (TA) is estimated to cost \$5,250,000, of which contributions from the Government of Switzerland are presented in the table above. The Government of Indonesia will provide counterpart support in the form of counterpart staff, workshop and consultation support, and other in-kind contributions. The value of the government contributions is estimated to account for 5% of the total TA cost.

^a Administered by the Asian Development Bank (ADB). This amount also includes ADB's administration fee, audit costs, bank charges, and a provision for foreign exchange fluctuations (if any), to the extent that these items are not covered by the interest and investment income earned on this grant, or any additional grant from the Government of Switzerland.

^b Equipment to be purchased or rented includes computers and software, computer video projectors, printers, and photocopiers, which will be procured or rented in accordance with ADB's Procurement Guidelines (2013, as amended from time to time). Equipment will be turned over to the executing agency upon completion of the TA.

^c Includes an administration fee, bank charges, foreign exchange fluctuations (if any), and TA administration missions.

^d Monitoring and evaluation includes an external review to be conducted 14 months before the project ends. Project audit will be in the form of ADB financial standard audit.

Source: Asian Development Bank estimates.

OUTLINE TERMS OF REFERENCE FOR CONSULTANTS

1. In order to support the technical assistance (TA), the following consulting services will be engaged: (i) a long-term team of international and national advisors specializing in tax revenue administration modernization; (ii) three short-term teams of national advisors specializing in tax revenue information and technology systems; and (iii) short-term individual advisors in fiscal decentralization policy, bureaucracy reform, and property valuation.

A. Tax Revenue Administration Modernization Team

2. **International advisor** (about 36 person-months, continuous, firm). The international tax revenue administration modernization advisor will be the overall team leader. She or he will provide thought leadership and strategic guidance for the entire TA and will support the development or improvement of regulatory and institutional frameworks to strengthen local tax administration. The consultant will have at least a master's degree in public administration or other relevant field and at least 15 years of relevant experience in tax administration in Indonesia. Good to excellent knowledge of written and spoken English is a must, and Bahasa Indonesia is a strong advantage.

3. **National advisors** (seven national advisors, about 36 person-months each, continuous, firm). The national advisors will consist of the following consultants:

- (i) **Knowledge management specialist and deputy team leader.** The consultant will be responsible for developing and implementing a knowledge management strategy and plan for the project. The consultant will undertake his or her assignment in close coordination with the Asian Development Bank (ADB) team, the team leader, and the government's counterparts. The consultant will support the team leader in providing overall project management support to the project team and government counterparts in all matters related to contract administration, and ensuring timely delivery of project tasks. The consultant will have an advanced degree in business administration or other relevant field, and at least 10 years of relevant experience in project management and tax administration reform in developing countries. Good to excellent knowledge of written and spoken English is highly desirable.
- (ii) **Tax administration systems specialist.** The consultant will assist the selected local governments in the development of business processes and information systems strategies. The consultant will be responsible for conducting systems analysis and supporting the development and implementation of a modern revenue administration system in local governments. In addition, the consultant will train central government counterparts and support local governments in evaluating and updating property valuation for property tax purposes. The consultant will have at least a bachelor's degree in information systems, computer science, or other relevant field, and at least 10 years of relevant experience in the development and administration of core tax administration systems. Good to excellent knowledge of written and spoken English is highly desirable.
- (iii) **Tax administration and policy specialist.** The consultant will assist the team leader and short-term international advisors to develop the analytical capacity of government counterparts. The consultant will play an important role in

contributing to an academic paper for institutional transformation and in designing and conducting baseline surveys. The consultant will have an advanced degree in economics, public finance, or other relevant field, and at least 5 years of relevant experience in fiscal decentralization and revenue mobilization. Good to excellent knowledge of written and spoken English is highly desirable.

- (iv) **Fiscal cadastre, geographic information system, and tax collection specialist.** The consultant will assist the selected local governments in updating and conducting systematic field surveys to maintain the fiscal cadastre, and in the development of geographic information system capabilities. The consultant will also assist local governments in developing collection strategies and conducting risk analysis for collecting property tax arrears. The consultant will have at least a bachelor's degree in geodetic engineering or other relevant field, and at least 10 years of relevant experience in fiscal cadastre construction and maintenance in developing countries. Good to excellent knowledge of written and spoken English is highly desirable.
- (v) **Tax administration specialist and field office manager.** The consultant will provide strategic guidance on the reform agenda of the supported local governments. The consultant will manage the day-to-day reform operations and provide technical support for capacity building and reform implementation in the supported local governments. The consultant will liaise with the team at the project headquarters in coordinating the training and capacity building activities at the local government level. The consultant will have an advanced degree in public administration or other relevant field and at least 10 years of relevant experience in tax administration in Indonesia. Good to excellent knowledge of written and spoken English is highly desirable.
- (vi) **Tax systems and change management specialist.** The consultant will provide overall project management support to local government counterparts in all matters related to capacity building, TA, and reform implementation. The consultant will be responsible for change management issues relating to the institutional transformation of revenue administration within the selected local governments. The consultant will play an important role in contributing to the development of standard operating procedures, business process improvement, and change management at the local government level. The consultant will have an advanced degree in business administration or other relevant field, and at least 10 years of relevant experience in project management and tax administration reform in developing countries. Good to excellent knowledge of written and spoken English is highly desirable.
- (vii) **Governance, organizational development, and human resource management specialist.** The consultant will assist the selected local governments in the development of academic papers for improving the organizational structure and human resource management of the revenue administration. In addition, the consultant will develop cultural change strategies and conduct fiscal impact analyses for fulfilling staffing requirements. The consultant will play an important role in developing standard operating procedures and conducting baseline taxpayer satisfaction surveys. The consultant will have an advanced degree in public administration or other relevant field, and at least 10 years of relevant experience in organizational development

and human resource management in public institutions in Indonesia. Good to excellent knowledge of written and spoken English is highly desirable.

B. Information Technology Solution Team (national, 12 person-months, three persons, intermittent, firm)

4. The information technology solution consultants will assist the selected local governments in the development of information technology solutions and implementation strategies. The consultants will be responsible for supporting the development and implementation of a modern revenue administration system in local governments through the use of mobile technologies.

C. Tax Administration Business Process Team

5. **Tax administration business process consultants** (national, 54 person-months, three persons, intermittent, firm). The consultants will conduct systems analysis for business processes of an integrated tax administration system for the supported local governments. Each consultant should have relevant professional certification, experience in tax administration information system improvement, and in designing and developing large computer applications. Good knowledge of written and spoken English is highly desirable.

D. Core Tax System Programmer Team

6. **Core tax system programmers** (national, 54 person-months, three persons, intermittent, firm). The three consultants will support the development of an integrated core tax administration system. Each consultant must have a relevant professional certification and at least a bachelor's degree in computer science, information systems, or other relevant field. The consultants must have at least 5 years of experience in designing and developing large computer applications. Good knowledge of written and spoken English is highly desirable.

E. Short-term Individual Advisors in Fiscal Decentralization Policy, Bureaucratic Reform, and Property Valuation

7. **Senior decentralization and revenue policy advisor** (international, 6 person-months, intermittent). The consultant will bring international experience and knowledge of good practices to support government counterparts and national consultants in carrying out analytical work and assessing various aspects of fiscal decentralization to improve Law No. 28 on Local Taxes and Retributions. The consultant will play an important role in contributing to the harmonization and delineation of responsibilities between central and local governments regarding tax policy and administration. The consultant will have at least a master's degree in public finance or other relevant field, and at least 15 years of relevant experience in fiscal decentralization in developing countries. Good knowledge of spoken and written Bahasa Indonesia is an advantage.

8. **Senior governance and bureaucratic reform advisor** (international, 2 person-months, intermittent). The consultant will provide international experience and knowledge of good practices for strengthening governance and developing bureaucratic reform strategies in local governments. The consultant will play an important role in contributing to an academic paper on institutional transformation. The consultant will have at least a master's degree in public administration or other relevant field, and at least 15 years of relevant experience in designing governance and implementing bureaucratic reforms in developing countries. Good knowledge of

spoken and written Bahasa Indonesia is an advantage.

9. **Senior property valuation advisor** (international, 4 person-months, intermittent). The consultant will provide international experience and knowledge of good practices for improving (and possibly simplifying) local government valuation methodologies for property tax purposes. The consultant will have at least a master's degree in public administration or other relevant field, and at least 15 years of relevant experience in property valuation for property tax purposes in developing countries. Good knowledge of spoken and written Bahasa Indonesia is an advantage.