

## **SUMMARY ASSESSMENT OF POLICY ACTIONS UNDER SUBPROGRAM 2**

1. At the inception of the FPEMP 2016, the Government agreed to accomplish 12 measures – 6 prior expected actions (or triggers for loan disbursement) and 6 policy milestones (supporting measures and activities) – as the basis for Subprogram 2.
2. Based on the fact-finding mission and concurrence by Government the following is the status of progress with subprogram 2 original policy actions:
  - (i) All six (6) policy triggers are fully accomplished.
  - (ii) All six (6) original policy milestones fully accomplished.
3. Subprogram 2 policy matrix comprises 13 actions – 7 policy triggers and 6 policy milestones. Following changes made to the policy matrix as follows:
  - (i) Prior Actions (all accomplished)
    - a. Added a new prior action on the approval of presidential regulations 17/2017 which links up planning of national priorities to the entire budget cycle. This is a critical reform that is a prerequisite to implement SDGs. With this reform, priority programs for SDGs can be jointly identified, provided sufficient resources, and implementation monitored and evaluated.
  - (ii) Policy Milestones (all accomplished) – no substantive changes made, refinement made to better demonstrate impact of government reforms.

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<b>Output 1: Medium Term Expenditure Aligned with RPJMN and SDG Targets</b>		
<p>1. Government implements SDG strategy by (i) approving Presidential Regulation that details SDG implementation framework and delineates responsibilities of line ministries, and (ii) provide periodic reporting of progress achieved against set timelines.</p>	<p><u>Policy Milestone accomplished</u></p> <p>In July 2017, the President issued Presidential Regulations 59/2017 on the Implementation of SDGs</p> <p>This regulation established the national coordination team chaired by the President, to implement SDGs, monitor progress and provide annual reporting on achievement of targets. These targets include gender related targets in SDG 5 on gender equality. The regulation also require BAPPENAS to develop road map and national action plan, and for subnational governments to develop local action plan which have been included as policy milestone for subprogram 3 thus providing continuity of reform. In addition, the government through BAPPENAS and Ministry of Women Empowerment and Children Protection has also developed a gender mainstreaming strategy as part of cross cutting implementation of SDGs.</p>	<p>1. The government implemented SDGs strategy by (i) approving Presidential regulations which established national coordination team chaired by President to monitor progress and provide annual reporting on achievement of targets (including gender related targets) and (ii) developing a National Strategy for Accelerating Gender Mainstreaming.</p>
	<p><b><u>New prior expected action fully accomplished.</u></b></p> <p>The government requested an additional expected prior action proposed in subprogram 2 to recognize the</p>	<p><b>2. The government synchronized national development priorities with budget preparation, execution, monitoring and reporting under a unified results framework.</b></p>

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	<p>government's reform in synchronizing planning of national priorities and the end to end budget process, which includes budget allocation, disbursement, execution, monitoring and implementation.</p> <p>This was captured in the approval of the Presidential Regulations 17/2017 on the synchronization process of planning and budgeting of national development which was approved in May 2017. ADB's attached TA will provide capacity building to staff of BAPPENAS to implement the regulation.</p>	
<p><b>2. Government improves the targeting, coverage and monitoring of government social protection programs including implementation of non-cash social protection (smart card) to 1.2 million households</b></p>	<p><b><u>Prior action fully accomplished and exceeded expectations.</u></b></p> <p>The non-cash (smart card) social assistance program was expanded to 1.4 million (target during subprogram 1 was 1.2 million). The conditional cash transfer program was also expanded to cover 10 million families. Based on ADB's study, these increases has had a significant impact on reducing inequality.</p> <p>In addition, the President also issued Presidential Regulation 63/2017 in July 2017 to establish a control team headed by the Minister of the Coordinating Ministry of Human Cultural Development and</p>	<p><b>3. The government enhanced its social assistance program by:</b></p> <p><b>(i) expanding the coverage of the non-cash social assistance programs (smart-card) to 1.4 million households and conditional cash transfer program from 3.5 million to 10 million families (including pregnant mothers);</b>  <b>(ii) establishing a monitoring team headed by the Minister of Coordinating Ministry of Human and Cultural Development; and</b>  <b>(iii) providing flexibility in the frequency of accessing assistance based on beneficiary needs.</b></p>

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	which explicitly stated that beneficiaries should determine the frequency and quantity of daily goods purchased from appointed shops.	
3. Government increases real spending in education, health, social protection and public infrastructure including funding to support mandatory primary education for 12 years.	<p><u>Policy Milestone accomplished</u></p> <p>Further reduction of energy subsidy provided fiscal space and significant increases in budget allocation for health, education, infrastructure and social assistance.</p> <p>In 2017, increases were as below:  i) education: from \$92.3 million to \$419.8 million (increase of 13.3%)  ii) health: from \$92.3 million to \$104.9 million (increase of 13.7%)  iii) infrastructure: from \$269.1 million to \$400.9 million (increase of 49%0  iv) social assistance: from \$49.6 million to \$55.3 million (increase of 11.5%)</p> <p>Similar level of increases was allocated in the 2018 budget.</p>	4. The government increased budget allocation in real terms in education, health, social assistance and public infrastructure by 7% from 2016 to 2018, including funding to support mandatory primary education for 12 years.
<b>Output 2: National public expenditure system enhanced</b>		
<b>4. MOF enhances the multi- year budgeting approval process to provide line ministries greater authority to plan their public investment program.</b>	<p><u>Prior action fully accomplished</u></p> <p>The Minister of Finance issued regulation 94 in July 2017 to provide guidance on the budget approval and endorsement process including for multi-year budget.</p>	<b>5. The government enhanced the multi-year budgeting approval process to provide line ministries greater authority to plan their public investment program by (i) providing guidance on the approval and</b>

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	<p>The Presidential regulation on Procurement was issued on 22 March 2018. The regulations contains important reforms on multi-year contract that supports multi-year budget process. Starting July 2018, line ministries can use multi-year contract for contracts that expand beyond 1 fiscal year and for services/projects that can benefit from the efficiency of a multi-year contract (even if the duration is less than 1 year).</p>	<p><b>endorsement process and (ii) issuing a Presidential regulation allowing the use of multi-year contract for projects and service contract that would benefit from using multi-year contract.</b></p>
<p>5. Government approves guidelines and operational procedure for management of idle assets.</p>	<p><u>Policy Milestone accomplished</u></p> <p>The State Asset Management Agency (LMAN) was established under subprogram 1, In 2017, LMAN which reports to the Ministry of Finance issued its organizational framework and standard operating procedure that enabled it to turn around idle assets either for sale, rent or other government infrastructure project. By 2017, LMAN is already managing \$2.8 billion of idle assets.</p>	<p><b>6.</b> The Government expanded the operations of the State Asset Management Agency by issuing the organizational framework and standard operating procedures for the management of \$2.8 billion of idle assets.</p>
<p><b>6. Government consistently publishes medium-term fiscal framework (MTFF) in Macroeconomic and Fiscal Policy Framework.</b></p>	<p><u>Prior Action Fully Accomplished</u></p> <p>In 2017, the government took concrete steps to improve its budget transparency. It continued to publish the medium-term fiscal framework including analysis and budget assumptions. Budget data is also</p>	<p><b>7. The government promoted transparency in budget process by (i) publishing medium-term fiscal framework in the Macroeconomic and Fiscal Policy Framework including background analysis,</b></p>

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	<p>made available to the public in a dedicated portal and to implement SDGs, the budget was tagged into themes such as climate change and gender responsive budgeting.</p> <p>Due to these action, the International Budget Partnership in its 2017 update concluded that the government had published all required data and transparency is now in line with international standards.</p>	<p><b>forward challenges, and reforms to strengthen budget functions</b>  <b>(ii) publishing budget data in a dedicated portal and</b>  <b>(iii) disaggregating budget tagging into thematic areas including climate change and gender responsive budgeting.</b></p>
<p>7. MOF reinforces implementation of ADIK in line ministries as input for budget review and implementation of medium-term expenditure Framework (MTEF) and performance-based budgeting.</p>	<p>Policy milestone accomplished</p> <p>Previously BAPPENAS and MOF used different IT platform for planning of national priorities (RENJA) and budget planning, execution and monitoring (ADIK). However in 2017, these 2 platforms was merged into KRISNA which allows both BAPPENAS and MOF to use the same system in its interaction with line ministries. This has increased efficiency and resulted in an inclusive process. It has also resulted in less confusion for the line ministries as all data and process with BAPPENAS and MOF is now in the same platform.</p>	<p>8. MOF and BAPPENAS jointly developed and implemented a new system (KRISNA) which integrates planning, budgeting, execution and performance monitoring of public expenditures and implemented the system for the 2018 budget.</p>
<p><b>8. MOF continues to simplify the budget execution mechanism to expedite budget realization including by giving more flexibility for line</b></p>	<p><b><u>Prior Action fully accomplished</u></b></p> <p>The government began implemented e-payment system which expedited budget</p>	<p><b>9. The government expedited budget realization by</b>  <b>(i) implementing automated payment</b></p>

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<b>ministries to undertake activities for budget execution.</b>	realization. As part of this reform, electronic based accounting modules (SAKTI) was rolled out to 322 spending units with the remainder spending units to be completed by end of 2019. In addition, the Presidential regulations on Procurement issued in March 2018 brings forward the entire advance procurement cycle which should change the profile of budget realization so that it is more balanced throughout the year.	<b>(e-payment) and roll out of accounting modules (SAKTI) to 322 spending units, (ii) issuing a Presidential regulation which allow line ministries to engage procurement agents and which allow tender process to begin when estimated budget is approved.</b>
9. MOF will improve online monitoring of Financial Management Information System (SPAN).	<u>Policy Milestone accomplished</u>  The online monitoring system (OM-SPAN) was implemented at subnational governments level covering DAK and Village Fund. These monitoring improved accountability of subnational governments and therefore service delivery.	10. MOF expanded the use of OM SPAN to cover DAK and Village Fund to strengthen accountability at subnational government level.
<b>Output 3: Fiscal transfers and subnational governments' spending for service delivery improved</b>		
<b>10. MOF implements a monitoring and evaluation system for specific allocation grant (DAK) for health, education, and local infrastructure to ensure DAK funding is being properly used at local level and improves the capacity building for local government in planning and budget execution.</b>	<u><b>Prior Action Fully Accomplished</b></u>  In August 2017, the Ministry of Finance issued Regulation 112/PMK.07/2017 on transfers to region and village fund. This regulation increased efficiency by requiring 25% of DAU, DID and regional sharing fund budget be allocated for local infrastructure. Since DAU is mostly for recurring expenses, this embedded local infrastructure and maintenance in	<b>11. MOF enhanced its fiscal transfers to improve service delivery and increase infrastructure spending by (i) requiring 25% of DAU and regional sharing fund be allocated for local infrastructure, (ii) increasing allocations for community health care and family planning from Rp. 4.6 trillion in 2016 to Rp. 10.4 trillion</b>

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	subnational governments' budget. The regulation also linked subsequent disbursement to percentages of absorption. This means subnational governments' will have to spend (in line with national priorities) a fixed percentage before they can get subsequent disbursement. Finally, there was increased direct allocation for community health care and family planning to help subnational governments meet SDH health related indicators.	<b>in 2018, and (iii) improving monitoring and evaluation of the specific allocation grant by requiring reporting of output achievements for subsequent disbursements</b>
<b>11. The government refines local government performance indicators to improve the selection criteria for recipients of DID.</b>	<b><u>Prior Action Fully Accomplished</u></b>  Ministry of Finance regulation 117 also improved the criterial for DID fiscal transfer. The transfer was linked to better governance and service delivery with specific focused on education, health and infrastructure (in line with SDGs). In addition, MOF also raised the bar and required subnational governments to receive unqualified opinion or their financial reports to qualify for DID transfer.	<b>12. The government refined local government performance indicators to improve the selection criteria for recipients of DID by covering (i) fiscal health and financial management, (ii) public service delivery (education, health and infrastructure), (iii) social welfare (Human Development Index).</b>
12. The government undertakes additional measures to address idle fund and slow budget execution at local level.	<b><u>Policy Milestone Accomplished</u></b>  The government took a firm stance against subnational governments who were not spending for local service by postponing subsequent disbursement of DAU and	13. The government addressed idle funds by postponing subsequent disbursement of the general allocation fund and the revenue sharing fund subject to timely submission of monthly reports.



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	revenue sharing fund until they receive complete and accurate report detailing expenditure in the preceding months. If the reports were not of satisfactory standard, then the subnational government concerned will not receive the next transfer until this has been corrected. This improved accountability of subnational governments and reduced idle funds as transfers had to be spent on agreed and approved parameters.	