

## RISK ASSESSMENT AND RISK MANAGEMENT PLAN

Risk Description	Rating	Mitigation Measures	Responsibility
<b>A. Technical</b>			
<p><b>Capacity gaps.</b> Local governments have weak capacity in PFM and public procurement.</p>	H	<p>The MOF increases the frequency of its public finance courses for local governments, which build their capacity through improved PFM skills. ADB is currently providing capacity building through a loan (State Accountability Revitalization Project) and technical assistance (Enhancing Roles of Supreme Audit Institutions) to more than 500 central government internal auditors and public finance officials within selected line ministries. The MOF and MOHA are also rolling out capacity building programs on planning and cash management for subnational governments.</p>	MOF and BAPPENAS
<p><b>Institutional issues.</b> There is lack of coordination among central and subnational level agencies on PFM-related issues.</p>	M	<p>The Regional Autonomy Advisory Council, which is headed by the vice president, can facilitate better coordination between the MOF and MOHA with regard to fiscal decentralization. ADB has been facilitating better coordination between the MOHA and MOF on fiscal decentralization through capacity building TA.</p>	MOF and MOHA
<b>B. Economic and Financial</b>			
<p><b>Macroeconomic.</b> Continuous market turmoil and low commodity prices, which have exposed structural weaknesses in the economy, may affect budget revenue and allocations to core sectors.</p>	M	<p>The government is committed to instituting structural reform to attract investments; diversify sources of growth; and broaden the inclusive nature of growth, including through employment programs</p>	Coordinating Ministry of Economic Affairs, MOF, OJK, and Bank Indonesia
<p><b>Financial stability.</b> Tapering and increasing of interest rates by the United States Federal Reserve may result in capital outflow in Indonesia, creating financial market</p>	M	<p>The government recognizes that promoting financial stability, developing the capital market, and improving access to financial services for the poor are integral for economic growth and reducing poverty and inequality. The Law on Crisis Prevention and Management also</p>	MOF, OJK, and Bank Indonesia

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instability due to the underdeveloped bond market.		institutionalized the Financial System Stability Committee to oversee stability of the financial system.	
<b>C. Governance</b>			
<p><b>Public financial management.</b></p> <p>The medium-term expenditure framework's performance-based budgeting needs improvements in relation to (i) capital and recurrent cost implications, (ii) determination of the budget ceiling for future years, and (iii) determination of baselines to strengthen allocative efficiency of the government budget.</p>	M	Efficient utilization of overall resources through sound PFM continues to be a key priority of the government. PFM reforms are also increasingly aligned with the priorities identified in Indonesia's National Medium-Term Development Plan. (2015-2019) ADB is providing TA on improving PFM capacity and tax administration at the local level. ADB will continue to seek partnerships, through co-financing for PFM reforms, with other development partners. Lastly, ADB will provide budgetary support on improved PFM for better service delivery at the local level through the Fiscal and Public Expenditure Management Program.	MOF
<p><b>Public procurement.</b></p> <p>Slow and inefficient public procurement process has contributed to slow disbursement and budget execution.</p>	M	The government has introduced advanced procurement as a key reform measure alongside mandating the adoption of an e-procurement system to expedite budget execution. The draft presidential regulations on procurement will bring forward the advance procurement cycle. ADB's support in this area includes dialogue with and TA support for the National Public Procurement Agency.	MOF and National Public Procurement Agency
<p><b>Fiscal transfers.</b> The formula used for the allocation of the largest unconditional grant to local governments, the General Allocation Fund, does not properly estimate the expenditure needs and fiscal capacity of local governments, while the Specific Allocation Fund, the transfer devoted to covering capital expenditure needs of</p>	M	The government approved Presidential Regulation No. 159, which makes subnational governments more accountable toward the fiscal transfers they receive, with timely reporting a requirement for subsequent disbursement. The information provided by subnational governments will improve targeting. The MOF and MOHA are also building the capacity of subnational governments, including on planning and cash transfers.	MOF and MOHA

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local governments, suffers from poor targeting at the sector and jurisdictional levels.			
<b>Corruption.</b> There are concerns about inadequate institutional accountability in the public sector.	L	The governance of PFM has been improved with the introduction of the National Financial Management Information System within the MOF. The national budget process has also been made more transparent with the MOF including the fiscal risk assessment in the financial note for the national budget. More transparency in Indonesia's budgeting process also improved its score in the Open Budget Index from 59 in 2015 to 64 in 2017. In the Asia region, it was ranked second after the Philippines (67 out of 100). Globally, Indonesia's score was higher than the global average (42). Indonesia's commitment to budget transparency and increased participation of citizens has mitigated corruption issues during the budget process. ADB will continue to work with the government on increasing transparency of the budget process within local governments, including through better monitoring of the various fiscal transfer instruments and capacity building of selected subnational governments.	Corruption Eradication Commission
<b>Overall risk</b>	M		

ADB = Asian Development Bank, BAPPENAS = Badan Perencanaan Pembangunan Nasional (National Development Planning Agency), MOF = Ministry of Finance, MOHA = Ministry of Home Affairs, PFM = public financial management, OJK = Otoritas Jasa Keuangan (Financial Services Authority).

Source: ADB.