

## DEVELOPMENT COORDINATION

### A. Major Development Partners: Strategic Foci and Key Activities

1. The major multilateral development partners providing support in public sector management, particularly in public financial management (PFM) initiatives, in Indonesia are the Asian Development Bank (ADB) and the World Bank while the governments of Australia, Canada, and the United States, among others, provide bilateral aid. United Nations agencies also provide funding under the United Nations Development Programme. Key activities supported include policy and institutional reforms, and capacity building initiatives to improve government accountability. Development coordination takes place through the Development Partners Working Group on Decentralization, which discusses key initiatives in decentralization, including on fiscal decentralization.

2. The additional financing scales up the current State Accountability Revitalization project,<sup>1</sup> which supports the government's reform initiatives to improve PFM and state accountability, including work initiated by earlier ADB-supported programs: the State Audit Reform Sector Development Program, the Local Government Finance and Governance Reform Sector Development Program, and the Fiscal and Public Expenditure Management Program. The additional financing expands skills development of government internal auditors and public finance officers to improve government accountability. It focuses on (i) linking learning plans, solutions, and delivery through information technology-supported systems; and (ii) improving supervision and functioning of the government internal control system through information technology systems development. The project takes into account assistance provided by other development partners to harmonize support and increase project effectiveness. The table summarizes major development partners' assistance in the core areas related to the project.

#### Major Development Partners

Development Partner	Project Name	Duration	Amount (\$ million)
ADB	Fiscal and Public Expenditure Management Program	2016–2019	1,000
	State Accountability Revitalization Project	2013–2020	57.75
	Tax Revenue Administration Modernization and Policy Improvements in Local Governments	2015–2020	5
Government of Australia	Government Partnership Fund	2011–2017	52
	Australia Indonesia Partnership for Economic Governance	2008–2017	71
	Governance for Growth	2015–2018	81
Government of Canada	Strengthening Public Financial Management	2013–2018	5
EU	Public Finance Management	2013–2018	10
World Bank	Government Financial Management and Revenue Administration Project	2016–2018	2.7
	Public Financial Management – Multi Donor Trust Fund	2007–2020	47.5
USAID	CEGAH <sup>a</sup>	2016–2020	20

ADB = Asian Development Bank, EU = European Union, USAID = United States Agency for International Development.

<sup>a</sup> CEGAH means "prevent" in Bahasa Indonesia.

Source: ADB.

<sup>1</sup> ADB. 2012. *Report and Recommendation of the President to the Board of Directors: Proposed Loan to the Republic of Indonesia for the State Accountability Revitalization Project*. Manila.

## **B. Institutional Arrangements and Processes for Development Coordination**

3. ADB coordinates closely with other development partners through the working group on decentralization, which is currently chaired by the United States Agency for International Development, as well as through the coordination meetings chaired by the Ministry of Finance's Directorate General of Fiscal Balance. Regular communication and meetings between development partners and the National Development Planning Agency (as the central government agency in charge of development planning) are also maintained to foster collaboration and synergies.

4. The ADB project missions closely consulted with development partners during the implementation and additional financing design phases. ADB will continue its existing coordination with the development partners supporting public sector management and governance.

## **C. Achievements and Issues**

5. ADB has been supporting the government in public sector management since 2002. ADB support has contributed to overall improvement of the PFM system through regulatory reform, strengthening of the audit function, and support to fiscal reform under the decentralized government. The project has contributed to the government's overall accountability revitalization agenda. This is reflected in the increased quality of audit opinions from the Supreme Audit Board: the proportion of line ministries receiving an unqualified opinion went from 74% in 2014 to 91% in 2018, and the proportion of local governments receiving unqualified opinions went from 34% in 2014 to 74% in 2018. This was achieved through, among other things, capacity building activities under the current project that targeted government internal auditors and public finance officers both at the central and local government levels. Additionally, during the current project implementation period, Indonesia's ranking on the Corruption Perceptions Index went from 107th in 2014 to 89th in 2018 (out of 180 countries assessed).<sup>2</sup> However, as identified by the 2017 Public Expenditure and Financial Accountability Assessment Report, further support is still required to address weaknesses in the internal audit function.<sup>3</sup> The focus for development partners' assistance will target human capacity development for PFM officials and strengthening of institutional capacity through system improvements, particularly at the local level.

## **D. Summary and Recommendations**

6. ADB's past and current support in public sector management contribute to the Government of Indonesia's development objectives. ADB has continued to be proactively engaged in addressing governance and socioeconomic challenges resulting from an inadequate capacity to manage public resources. ADB has also continued to focus on PFM, particularly in the public sector audit and in decentralization reform. Continued support (which builds on the success of the current project (see footnote 1), the earlier State Audit Reform Sector Development Program,<sup>4</sup> and the assistance provided by other development partners to address weaknesses in PFM implementation) will be provided through the additional financing by (i) enhancing the capacity and capability of government internal auditors and finance officers in the areas of risk

<sup>2</sup> The Corruption Perceptions Index is released annually by Transparency International, a nongovernment organization focusing on tackling corruption. Transparency International. [Corruption Perceptions Index 2018](#).

<sup>3</sup> World Bank. 2018. *Indonesia Public Expenditure and Financial Accountability (PEFA) Assessment Report 2017*. Washington, DC.

<sup>4</sup> ADB. 2004. *Report and Recommendation of the President to the Board of Directors: Proposed Loans to the Republic of Indonesia for the State Audit Reform Sector Development Program*. Manila.

awareness and governance; and (ii) encouraging them to become more outward-looking and adopt more forward-thinking strategies supported by innovations in information and communication technology.