



Project Information Document/ Identification/Concept Stage (PID)

Concept Stage | Date Prepared/Updated: 08-Dec-2020 | Report No: PIDC212863



BASIC INFORMATION

A. Basic Project Data

Project ID	Parent Project ID (if any)	Environmental and Social Risk Classification	Project Name
P173429		Low	The PFM MDTF III Support to Government of Indonesia
Region	Country	Date PID Prepared	Estimated Date of Approval
EAST ASIA AND PACIFIC	Indonesia	08-Dec-2020	
Financing Instrument	Borrower(s)	Implementing Agency	
Investment Project Financing	Republic of Indonesia	Ministry of Finance	

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PROJECT FINANCING DATA (US\$, Millions)

SUMMARY

Total Project Cost	3.42
Total Financing	3.42
Financing Gap	0.00

DETAILS

Non-World Bank Group Financing

Trust Funds	3.42
Indonesia - Support Public Financial Management	3.42

B. Introduction and Context

Country Context

1. Economic fundamentals underlying the Indonesian economy have increasingly gained strength over recent years. Economic growth has been averaging around 5 percent year-on-year since 2016 and the current account deficit narrowed to a six-year low of 1.7 percent of GDP in 2017, from 2.0 percent in 2015. The country continues to make progress on reducing poverty and has begun to reverse inequality. Poverty rates have steadily declined, reaching the lowest on record at 9.4 percent in March 2019 with the Gini



coefficient now standing at 38.9. However, poverty is significantly higher in Indonesia's rural and lagging regions, and the rural poor are particularly vulnerable to sliding back into poverty.

2. The ongoing outbreak of the novel coronavirus ("COVID-19") as of today could unravel some of this progress and increase the challenges faced by the economy and society to unprecedented levels. The pandemic has had an immediate impact on the economy through both domestic and external transmission channels. Domestic channels include physical restrictions on many types of private consumption due to containment measures, aggravated by a decline in consumer and investor sentiment. Sharp declines in financial markets compound this effect through a negative wealth effect to households and a freeze in credit to businesses. External channels include weaker global demand, lower commodity prices, plunging tourism flows, and supply chain disruptions. The overall growth outlook has been deteriorating rapidly, and the range for Indonesia's GDP growth in 2020 currently extends from -3.5 percent to 2.5 percent based on varying assumptions on the domestic containment measures and the severity of the global slowdown.

3. Both before and during the COVID -19 crisis, Indonesia's public spending on priority areas in support of growth and shared prosperity objectives remains low. Finding fiscal space to finance important priorities cannot be achieved without mobilizing more public revenue, given that Indonesia has one of the lowest and falling revenue-to-GDP ratios which stood at 14.89 percent in 2018. Low revenues coupled with a ceiling of budgetary deficit and a floor of education expenditure leave little fiscal space for other development expenditure. Return to higher economic growth depends on the successful implementation of the government's ambitious infrastructure development plans. However, that is constrained by Capital Expenditure from the state budget, which has consistently remained low over the past decade.

Sectoral and Institutional Context

4. Indonesia has made commendable progress in many aspects of public financial management (PFM) in the last decade. The span and depth of reforms successfully implemented in the past decade are significant: modernization of the budget preparation and budget execution processes, integration of routine and development budgets, inclusion in the fiscal budgets of various activities that were previously off-budget; computerization of budget and treasury operations through Government Financial Management Information System or Sistem Perbendaharaan dan Anggaran Negara (SPAN), introduction of a Treasury Single Account (TSA), adoption of government accounting standards that are substantially aligned with international standards, improvement of public procurement policies and practices to enhance transparency and competition, a performance and medium term orientation in budgeting and modernization of customs and tax administration and processes.

5. Nevertheless, while the trajectory of reforms seems well set with a high level of senior commitment, there is broad acknowledgement that there is more work to be done. The Ministry of Finance's vision for the next five years is to be the main institutional driver of the country's inclusive economic growth in the 21st century. In line with this vision, the Ministry of Finance (MOF) has a 'prime mover' role, as regulator and



manager of state finances. Through optimization of state revenues, ensuring expenditures and efficient and effective, prudent fiscal policies and careful management of the central balance sheet with minimum risk, the Ministry of Finance moves and directs the country's economy towards the future. It expects to achieve this through solid coordination between stakeholders in government and through effective policy setting.

6. With this in view, the Ministry of Finance has recently prepared a strategic Roadmap for PFM Reform for the next 5 years. This Roadmap was prepared with support from the PFM MDTF and provides a comprehensive framework for planning, implementing and monitoring progress of PFM reforms. The proposed MDTF operation is broadly consistent with the Roadmap as well as Ministry of Finance's Medium Term Strategy Note, which aims to further strengthen capabilities of the Government in budget preparation, budget execution, accounting, financial reporting and auditing, public procurement, ICT integration, tax administration, change management and inter-governmental fiscal relations. To the extent that some public finance management functions are performed by other public institutions than the MOF, the program will support coordination with these institutions that share a common reform agenda. This includes the Ministry of National Development (Bappenas), the Government Internal Auditor (BPKP), Ministry of Home Affairs and others as may be required.

7. The government's own budgetary resources (APBN) is the main source of financing the PFM reform agenda while the donors' funding supports technical assistance grants to enhance staff capacity, improve business processes and apply PFM systems that comply with the international best practices and standards. Indonesia's PFM MDTF was established in 2007 with the objective to provide complementary and flexible support to GFM RAP and to support government's public financial management reform initiatives, focusing at the central government. PFM MDTF entered Phase II in August 2014 with the objective of supporting Government of Indonesia in improving efficiency, effectiveness, capacity and accountability of revenue and expenditure management. This program follows on from the successful completion of the preceding phases 1 and 2 of the PFM MDTF, which were administered by the World Bank on behalf of participating donors.

8. In this phase 3 the proposed RETF grant supplements and complements interventions to be financed through a separate BETF grant, which is being structured into the same components. This proposed RETF grant represents 20.7% of the total MDTF financing that is currently available.

Relationship to CPF

9. The proposed project is aligned with the momentum of Indonesia's National Medium-Term Development Plan (RPJMN) 2020-2024, which includes a strategy to facilitate the achievement of development goals that the President Jokowi decided to focus his term on. These include strengthening economic resilience for quality growth, developing regions to reduce inequality, increasing the quality and competitiveness of human resource, strengthening infrastructure to support economic development and



basic services, building the environment, enhancing disaster resilience and climate change, and public service transformation.

10. The project also contributes to the implementation of PFM MDTF Phase III Program in Indonesia that contributes to improved public financial management in Indonesia. This will be aimed at: improving the performance orientation of revenue and expenditure policy and management, at both central and subnational level, to support higher revenue collections and improve the effectiveness of public spending, including through adoption of digital technology.

11. The project is well-aligned with World Bank Group’s Country Partnership Framework (CPF) for FY21-FY25. It will contribute to the implementation of its Supporting Beam of “Collecting more; spending and governing better with objectives of improving policies and administration to support higher revenue collections and fiscal/debt sustainability and improve policies and institutions to increase the efficiency, equity and effectiveness of public spending.

12. Fiscal policy, in its revenue mobilization and quality of spending functions, were identified as key to poverty reduction and shared prosperity. To ensure a resilient recovery from the COVID crisis and to ensure macroeconomic stability, it will be vital to raise revenues sustainably and to manage the ensuing greater debt burden efficiently. Indonesia’s tax-to-GDP ratio is significantly below that of similar emerging economies and is projected to fall further as a consequence of COVID effects; the country collects less than half of the potential tax revenue. Low revenue mobilization leads to a squeeze on public expenditures – public spending in relation to GDP amounted to 17.5 percent in 2015 and 16.7 percent in 2020, less than half the average of similar emerging economies, with public investment spending being exceptionally low.

13. Public financial management is bedeviled by inadequacies in the budget planning process, poor links to performance results, misallocations of spending to badly targeted subsidies and lack of reliable, quality data. There are also significant challenges in budget execution and achieving planned outcomes. Government seeks to raise revenues, transform tax collection administration and improve the composition and effectiveness of public spending. The proposed project – complementing the Bank’s analytical and advisory services and support the government in following 4 areas: improving revenue policy and administration, improving the expenditure policy and management, improving the subnational public resource management, and facilitating the digital transformation vision of Ministry of Finance.

C. Project Development Objective(s)

Proposed Development Objective(s)

The proposed PDO for this task is to inform government policy and regulations and improve capacity of government for better quality of revenue and expenditure policy and management at the central and sub-national levels, including through adoption of digital technology.



Key Results

The key results that will be measured by the achievement of a set of indicators are the following. Corresponding intermediate outcome indicators are given in the Theory of Change (to be included in the Project Paper).

Component I: Improved Revenue Policy and Management

1. Strengthened tax compliance through enhanced capacity in handling digital evidence, efficient tax investigations and enforcement to support increased collection of taxation revenues.
2. Strengthened organization and human resource competency through targeted capacity building in tax administration.

Component II: Improved Expenditure Policy and Management

3. Strengthened planning and budgeting through improved analysis and evaluation of national budget documents, including Public Private Partnerships (PPP), national priority and major projects.
4. Efficient and effective budget execution and treasury management systems, operations and practices, aligned with international standards.
5. Strengthened governance at public service agencies (“BLUs”).
6. Modernized internal audit practice through the use of technology for enhancing performance and accountability.

Component III: Improved Subnational Public Resource Management

7. Improved efficiency and equity of inter-governmental fiscal transfers.
8. Improved quality of information on sub-national fiscal accounts to enable central monitoring.
9. Subnational revenue collection is strengthened.

Component IV: Digital Foundations and Platforms



10. Increased use of data analytics to underpin operational decision making at Ministry of Finance.

11. Improved efficiency, effectiveness and decision making in the area of human resource management by integrating all HR applications within the Ministry of Finance

These key results reflect outcomes expected from all components under this proposed grant and are derived from indicators that are set in Government's PFM Reform Roadmap. They are assumed to be achieved through implementation of activities that are already endorsed by the program's governance structure. Some of these results may be attributed to both Bank-executed (BETF) and recipient-executed (RETF) components and activities where these are complementary in nature. The activities under this proposal however are not limited to these indicators and are expected to contribute in other ways to the achievement of PDO.

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D. Preliminary Description

Activities/Components

The proposed activities under this task are part of the PFM MDTF Phase III and provide support to the Government's medium-term public finance management reform agenda. The project will address issues across a broad range of public financial management areas that emerge from on-going PFM reform dialog in Indonesia and the ones that are reflected in the Government's PFM Reform Roadmap. It provides continued support to Government of Indonesia (GoI) through improved accountability, collection, allocation, usage and transparency of public resources, with a focus on supporting reforms at the central and sub-national level. The MDTF will fund activities across four components for which the MDTF support is being channeled through a combination of BETF and RETF financing, with the latter representing about 21% of the total funding. These components build upon the progress made through implementation of on-going reforms over the last decade, including those supported by the PFM MDTF phase I and II, as well as other donors and Government's own resources.

The task will comprise of the following components:

Component I: Revenue Policy and Management, with key activities include the following:

Support to the on-going tax administration reform agenda focusing on three major groups of activities: (i) just-in-time policy advice; (ii) compliance management, and (iii) organization and human resources competency with ultimate objective '*to improve effectiveness and efficiency of tax administration system in collecting tax revenue*'. The activities will include:

- i. *Workshop for implementation strategy of new core tax IT COTS system.*
- ii. *Technical training and certification on electronic evidence handling.*
- iii. *Establishment of an internal control mechanism and compliance unit.*
- iv. *Technical training for objection analyst in handling cases*
- v. *Technical training and certification on risk management*



- vi. *Technical training on strengthening capacities of heads of tax offices in the context of core tax IT implementation*
- vii. *Technical training and certification on User Experience (UX)*
- viii. Capacity Building for MoF officials in understanding Non Tax Revenue Law and its implementing regulations

Component II: Expenditure policy and management which include capacity building support across the complete budget cycle for state expenditures, from planning and budgeting (at Bappenas and DG Budget), Budget execution, cash management and budget systems (DG Treasury) and strengthening of internal audit capacity at BPKP as a key accountability institution. The overall objectives are to i) streamline budgeting procedures to allocate resources consistent with Government economic priorities as reflected in National Plan through streamlined and efficient budgeting processes, and ii) arrange efficient use of public resources and delivery of services through better budget execution transparency and accountability at the central government.

Component III Subnational Resource Management which will provide support to both DG Fiscal Balance at MOF and to MOHA to (i) strengthen the inter-governmental finance system, to (ii) strengthen subnational PFM; and to (iii) strengthen subnational revenue collection. The RETF activities will complement the BETF funded analytical and advisory activities under the corresponding Pillars of the Subnational Finance and Management for Results (SEMAR) PASA.

Component IV Digital Technology Foundations & Platform has an objective to equip the current MOF digital transformation working group with required knowledge and skills to enhance ministry's data exchange and analytics capabilities to leverage "data-as-an asset" to make informed decisions, and improve the capacity of the MOF team that is in charge for managing and operating the data center of MOF and ensure their capability are in accordance with the prevailing standards. Activities will include capacity building to enhance the Finance Ministry's Data Exchange and Analytics Capabilities; and boot camps on design thinking and design sprint in relation with MOF Digital Service, to expose MOF team to design thinking approach in developing digital solutions. Also, the activity will include establishing data exchange between central and subnational FMIS and establishing unified revenue account (covering tax, customs and non-revenue account) and linked to citizen's unique ID.

Support Component: Program administration and management will include, but may not be limited to consultancy services, trainings, workshops, incremental operating cost, and purchasing goods. This activity will provide technical assistance including expert advice, guidance, and support to GOI officials, the PSSU and PIUs on program planning, implementation, financial management and coordination to ensure efficient utilization of MDTF resources for intended purposes.

Environmental and Social Standards Relevance

E. Relevant Standards



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ESS Standards		Relevance
ESS 1	Assessment and Management of Environmental and Social Risks and Impacts	Relevant
ESS 10	Stakeholder Engagement and Information Disclosure	Relevant
ESS 2	Labor and Working Conditions	Relevant
ESS 3	Resource Efficiency and Pollution Prevention and Management	Not Currently Relevant
ESS 4	Community Health and Safety	Not Currently Relevant
ESS 5	Land Acquisition, Restrictions on Land Use and Involuntary Resettlement	Not Currently Relevant
ESS 6	Biodiversity Conservation and Sustainable Management of Living Natural Resources	Not Currently Relevant
ESS 7	Indigenous Peoples/Sub-Saharan African Historically Underserved Traditional Local Communities	Not Currently Relevant
ESS 8	Cultural Heritage	Not Currently Relevant
ESS 9	Financial Intermediaries	Not Currently Relevant

Legal Operational Policies

Safeguard Policies

Triggered

Explanation (Optional)

Projects on International Waterways OP 7.50

No

Projects in Disputed Areas OP 7.60

No

Summary of Screening of Environmental and Social Risks and Impacts

Considering the type, locations, nature and magnitude of project activities under RETF, the environmental and social risk ratings for the operation are assessed as low. The project seeks to strengthen public revenue and expenditure policy and management in line with international standards, promote government capacity as well as adoption of digital technology to improve efficiency. Downstream implications as a result of policy and regulatory advisory are expected to be positive. Hence, the project is expected to benefit the broader public through enhanced PFM systems across government levels and is not envisaged to result in any environmental implications. Financing under the RETF is limited to policy and regulatory advisory services and capacity building. No physical investments, nor direct community engagement, including with vulnerable groups are envisaged under the operation. The project does not finance feasibility or design of any future investments in specific footprints with potential downstream adverse impacts, both for the environment and people. In terms of institutional capacity assessment, familiarity with the World Bank's Safeguards Policies and/or Environmental and Social Standards across MOF agencies is likely limited since previous operations were of low risk categories (Category C ? TBD) where environmental and social risk requirements were minimal. However, similar to its predecessors, no adverse environmental and social risks and impacts are envisaged for this operation and hence, capacity requirements for risk management are of less relevance for this operation. Focus will be on enhancing stakeholder engagement across project activities. Public participation will be sought through stakeholder engagement to promote transparency, citizen feedback, and



equitable access to participation for activities related to government capacity building. Relevant measures to promote public participation will be addressed as part of project design and implementation, guided by a Stakeholder Engagement Plan (SEP) to be prepared by MOF.

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