

June 2009



THE WORLD BANK

**MINISTRY OF FINANCE
REPUBLIC OF INDONESIA**

**GOVERNMENT FINANCIAL MANAGEMENT AND
REVENUE ADMINISTRATION PROJECT
(GFMRAP)**

[MID-TERM REVIEW SUMMARY]

30 JUNE 2009

GFMRAP MIDTERM REVIEW

Summary

BACKGROUND

1. GFMRAP is being undertaken by the Government of Indonesia (GOI) through the Ministry of Finance to support policy and process reforms aimed at strengthening efficiency, governance and accountability in public financial management. The project is funded through a combination of IBRD Loan of \$55M (Number 4762-IND), IDA Credit of \$5M (Number 4026-IND), and PHRD Japan Grant of \$5M (Number TF053556) which were signed in December 2004. Implementation activities started in October 2005.

2. The project mainly serves as a reform tool for the Government in pursuing landmark initiatives in line with a comprehensive PFM reform strategy comprising: reforms in policies and regulations, reorganization of the Ministry of Finance, modernization of the budget preparation and budget execution processes, computerization of budget and treasury operations, modernization of government accounting and reporting systems, reforming procedures for public sector procurement, and modernization of customs and tax administration processes and organizational structure.

3. Using an Adaptable Program Loan (APL), GFMRAP was originally designed to be implemented in *three* phases as a multi-agency project under the coordination of the MOF DG Treasury. The first phase (2005-2009)¹ would focus on improving public financial management covering policy capacity development, budget planning and development, budget implementation and treasury modernization, and public procurement reform. It would also provide limited technical support to set the stage for broader revenue administration reforms (targeting the DG Tax and DG Customs) in subsequent phases of the project. Phase-1 also aimed to enhance PFM governance and accountability by strengthening the budget oversight function of Parliament (DPR), the capacity of the MOF Tax Court to resolve revenue disputes, and internal audit capability. Based on this scope, the Phase-1 activities were grouped into components and sub-components, as shown below with their respective Project Implementing Units (PIU):

- A. Public Financial Management
 - A.1 Policy Capacity Development: Fiscal Policy Office
 - A.2 Budget Planning and Development: BAPPENAS and DG Budget
 - A.3 Budget Implementation and Treasury Modernization: DG Treasury
 - A.4 Procurement Reforms: BAPPENAS
- B. Resource Mobilization
 - B.1 Customs Modernization: DG Customs
 - B.2 Tax Administration Modernization: DG Taxes
- C. Governance and Accountability
 - C.1 Legislative Oversight: DPR Secretariat-General
 - C.2 Resolution of Tax Disputes: MOF Tax Court
 - C.3 Internal Accountability: MOF Inspectorate-General
- D. Project Governance and Implementation: DG Treasury/MOF Secretariat-General

4. The GFMRAP loan agreement included a provision for a mid-term review of the project to be done in 2006. However, this did not prove feasible because of delays in implementation.

¹ It was subsequently decided to abandon the APL approach; hence, Phase II was dropped while Phase II was spun off to become a separate loan for the Program for Indonesian Tax Administration Reform (PINTAR).

Subsequently, it was agreed with the Government that the mid-term review would be undertaken when the SPAN contract was signed, as this would effectively constitute the mid-term of the project. However, the signing of the SPAN contract has taken longer than expected. Under the expectation that the SPAN contract would be signed by mid 2009, it was agreed that the mid-term review be done in the first semester of 2009. The mid-term review also coincided with the recent agreement reached between the World Bank and the Government to re-structure and extend the term of the GFMRAP loan.

5. This mid-term review builds on the previous semi-annual Monitoring and Evaluation (M&E) reports prepared through the Project Support and Services Unit and the various PIUs. The review also incorporates World Bank's assessment of project performance derived from two supervision missions that were carried out in October to December 2008, as well as the assessment of PFM reform progress described in the Program Document for the *Fifth Development Policy Loan* (DPL) dated November 2008.

6. Even as the primary purpose of the review is to assess implementation progress and results under GFMRAP, the assessment was also conducted within the framework of the overall PFM reform agenda of the Government – insofar it was the intent for GFMRAP to be used as a reform tool and to also serve as an umbrella for coordinating reform efforts and donor support. As such, the assessment below begins with an overall review of the Government's progress and accomplishments in specific PFM reform areas, and makes reference to general PFM-related performance indicators (so-called "triggers") used in the DPL series. The report discusses the role or contribution by GFMRAP to the various reform objectives. Also discussed is the role played by the PFM-MDTF (which is funded by the European Commission and the Government of the Netherlands, and managed by the World Bank). The Trust Fund has been providing technical and advisory services primarily to enhance and complement GFMRAP.

BUDGET PLANNING AND DEVELOPMENT

7. The GOI's key budget reforms combine approaches in unified budgeting, performance and program-based budgeting (PBB), and use of a medium-term expenditure framework (MTEF) -- as mandated by Law No. 17 (2003) on Public Finance. Unified budgeting, which is aimed at combining the recurrent and development (capital) components of the budget, has been implemented. Progress of the budget reform is now advancing toward implementing Performance Based Budgeting (PBB) under a Medium Term Expenditure Framework (MTEF), initially as a pilot activity involving six line ministries.

8. MOF and Bappenas have worked together in developing a road map for implementing PBB and MTEF as required in the State Finance Law. The 2008 and 2009 budgets already included a preliminary MTEF with projection of aggregate state revenue and expenditure for two years. In line with the shift toward PBB and MTEF, the budget submission templates (RKA-KL) are currently being revised with a view to simplifying budget submissions and to ensure alignment of organizational structures and programs with the budget. Performance indicators for the budget are being devised as well as tools for estimating multi-year projections of the budget. MOF is also in the process of building its capacity to manage strategic performance management using a Balanced Scorecard (BSC) system. The possibility of interfacing some BSC indicators with corresponding PBB indicators for program performance monitoring is being explored.

9. Ongoing work is focused on finalizing the manual on MTEF and PBB, as well as the guidelines for program re-structuring. These will be issued under a joint circular by Bappenas and MOF, and will be used to orient and train staff in the various ministries beginning in 2009. Socialization and training needs for implementing the integrated template on MTEF and PBB in the pilot ministries are anticipated to be substantial.

10. Re-structuring of programs to conform to MTEF and PBB is being tested for the MOF, including use of an integrated budget template. It did not prove feasible to start introducing the new template to the six pilot line ministries in 2008 for the budget preparation for 2009, as earlier planned, due to the need to first re-structure the agencies' respective programs, i.e., to align these with national government priorities. The projected timetable for transition to the integrated budget system has been revised as follows: (a) 2009 – restructuring of programs of the various line ministries using the PBB and MTEF methodologies developed; (b) 2010 – the six pilot ministries begin using the integrated budget template; (c) 2011 – other line ministries follow.

11. GFMRAP has been supporting the strengthening of the budget system reforms through a sub-component (A.2) on budget planning and development implemented by both BAPPENAS and DG Budget. The sub-component objective is to facilitate the shift to a transparent budget development system that more effectively links policy, planning and the budgeting process—using PBB and MTEF. Under this sub-component, the project has mainly supported: (a) study visits for BAPPENAS and MOF officials to observe the implementation of similar budget system reforms in other countries (e.g., South Africa and South Korea) and to gather lessons learned in implementing PBB and MTEF; (b) training-workshops on concepts and operational aspects of PBB and MTEF; (c) technical assistance involving budget planning consultants; and (d) socialization activities to promote understanding of the budget reforms.

12. Complementing the GFMRAP support above, the PFM-MDTF has provided key advisory services to support the development and testing of PBB and MTEF. Two international consultants under the Bank-executed portion of the Trust Fund worked with the DG Budget in developing a preliminary programmatic MTEF for MOF in the 2008 budget, paving the way for the development of procedures and manuals by the DG Budget, which was also supported by the Australian government. The two advisers assisted in preparing a road map for reforming the budget planning system and strengthening coordination between BAPPENAS and DG Budget. The advisers also helped disseminate lessons from the South Africa study visit on MTEF-PBB implementation. The fund also provided technical assistance to the newly established risk management unit at the BKF in the preparation of a Fiscal Risk Statement for the 2008 budget and for subsequent years as an instrument for increased fiscal transparency.

13. Implementation of MTEF in the MOF is also receiving significant support from the GPF-AIP program of the Australian government through provision of advisory services, workshops, staff exchanges and consultancies mainly related to the Australia's experience in MTEF (the Australian government is also providing GOI capacity-strengthening in macro-economic forecasting and fiscal policy analysis).

14. Moving forward, coordination between BAPPENAS (for guidance on program restructuring) and DG Budget (for using the integrated template) will require further strengthening. The mission report from the South Africa study vision recommended the designation of a high-level budget reform Coordinator. MOF has appointed two expert staff (*Staff Ahli*) to monitor the budget system reform process. As activities progress in introducing PBB and MTEF methodologies, it will also be important to align reform agenda expectations with need to strengthen overall institutional capacity and to generate strong ownership among the line ministries including the Parliament.

15. The Project has also been assisting the MOF in enhancing policy research capacity in support of the budget process and the overall public financial management reforms through a sub-component (A.1) under the Fiscal Policy Office (BKF). GFMRAP has been supporting BKF primarily through funding for post-graduate scholarship programs. Three staff members are currently pursuing PhD programs, and four more have been selected for PhD programs beginning 2009. Two MS scholars have completed their studies and have returned to the BKF, while two others have recently begun studies in Japan and Australia. Six new MS scholars have been selected for study programs in Indonesian universities.

BUDGET EXECUTION AND TREASURY MODERNIZATION

16. The integrated financial management information system referred to as the *Sistem Perbendaharaan dan Anggaran Negara* (SPAN) is a core element of the government's PFM reform program. It will specifically support the modernized budget preparation and state treasury operations. SPAN's three main objectives are: (a) to facilitate the preparation of the unified state budget, (b) to control budget execution, including the assets and liabilities of the central government, and (c) to provide comprehensive and timely information on the government's financial position.

17. SPAN implementation was delayed due to initial delays in the procurement process, as well as limited support from key stakeholders. An internal review by the MOF on whether or not to continue with the SPAN Project was completed in February 2008 and it affirmed SPAN's importance as a foundation for the PFM reforms. Since then, progress in the procurement of the SPAN turnkey solution has accelerated. Bid evaluation for the SPAN procurement was completed in February 2009, and it is anticipated that the SPAN contract will be signed by July 2009. SPAN is projected to become operational in the central treasury beginning 2011, and then rolled out to the KPPNs and pilot line ministries starting 2012.

18. The agencies responsible for SPAN implementation are DG Budget and DG Treasury. A Treasury Reformation Directorate (DTP) under the DG Treasury has been established. The unit, alongside the DG Budget, will focus on SPAN implementation. Key personnel of the DTP, including its Director, have been appointed. Although there is some concern about the adequacy of staff assigned to the DTP, its teams are now documenting current business processes in preparation for improvements to be introduced under SPAN. A technical assistance contract for business process improvements was signed in May 2009. Work on the GOI chart of accounts to ensure future compatibility with the SPAN solution has also been started. Business processes have already been streamlined in the reorganized KPPN *Percontohans* (model Treasury offices) to reduce turn-around time of payment documents.

19. The 2004 Treasury Law mandated the establishment of a Treasury Single Account (TSA). All government cash receipts are to be transmitted into this account at the end of each business day, and all payments will be made from this account. In 2007, government regulations were passed that authorized the MOF to bring all government bank accounts under the TSA. Since then, the TSA for expenditure has been made operational in all Treasury offices of the MOF. Pilots to extend the TSA to cover all revenue bank accounts of the government are expected to be rolled out in the coming months. The system will ensure that government cash balances in government accounts are transferred to the TSA at the end of each day, e.g., a day after tax payments are remitted in any of the authorized collecting bank branches. The MOF and Bank Indonesia (BI) have signed an agreement providing for the payment of interest on government cash balances held in the TSA with BI.

20. Treasury regulations have been draft and some have been issued in preparation for the full implementation of the State Finance and State Treasury Laws, in particular the regulations for implementing full accrual accounting.

21. A significant part of GFMRAP support has concentrated on SPAN. Through sub-subcomponent (A.3) on budget implementation and treasury modernization, the project's main support activities have been: (a) provision of training, orientation and socialization activities for MOF staff on the technical and functional aspects of SPAN; (b) advisory assistance on project and procurement management; (c) funding for an independent verification and validation (IVV) team to support the SPAN procurement process; (d) funding for TA packages in business process improvement and change management; and (d) funding for the contract cost of the SPAN turnkey solution including the ICT help desk to follow (SPAN accounts for nearly 80% of the GFMRAP funding).

22. The SPAN contract was originally planned to be awarded in 2006. However, the MOF re-organization during that period resulted in re-deployment of the procurement team members and the designated SPAN counterpart team members, which delayed the procurement activities. After the first-stage bidding was completed in early 2007, the WB was compelled to review the process to ascertain that procedures were followed in response to concerns raised by the MOF. The WB review was completed in March 2007 with favorable findings, and the procurement process obtained the go-signal to proceed to the second stage.

23. The second-stage bid opening was scheduled for November 2007, but had to be postponed to allow for completion of a review of SPAN itself which was initiated by the MOF at around that period. In part, the review was motivated by perceptions about lack of senior management involvement and commitment to SPAN. The MOF review was completed in February 2008, and it affirmed the SPAN's importance for the PFM reform agenda and MOF's commitment to its implementation. The Director of DG Treasury was designated to lead the effort. Following this, second-stage bids were opened in April 2008, with two bidders participating. However, both bids had to be disqualified for being non-responsive. Steps were then initiated to conduct a "re-do" of the second-stage bidding and to amend the bidding documents to take into consideration concerns raised by DG Budget on the implementation arrangements.

24. The "re-do" of the SPAN second-stage bidding proceeded smoothly. Two bids, from the same firms that participated in the previous stages, were received in October 2008. The MOF procurement team and the Independent Verification and Validation (IVV) team conducted parallel evaluations of the bids, and the Bid Evaluation Report (BER) was completed in February 2009. Clarifications by the Bank on the BER were resolved by late April 2009, and the NOL for the BER was issued on 8 May 2009. Allowing for a review by the MOF of the draft SPAN contract, the negotiation with the preferred bidder, legal review of the contract terms and conditions, and final review and no-objection from the Bank, it is expected that the SPAN contract will be signed on or before 10 July 2009.

25. Complementary SPAN support under the PFM MDTF has been through advisory services currently being provided, in particular with regard to technical aspects and review of business processes in the DG Treasury and DG Budget. The PFM MDTF is also funding a major technical assistance contract, already underway, aimed at strengthening PUSINTEK's capability to serve as a central ICT services provider for MOF, with a view to its important role during SPAN implementation. The Fund also sponsored an overseas mission for senior MOF officials who visited the Russian Treasury Department to study budget and treasury reform implementation activities similar to SPAN's scope and intent. Lessons pointed to the importance of involving users, the need for closer attention to design requirements, and need to take into consideration the country's existing legal and regulatory framework.

26. Overall, previous concerns about lack of senior management ownership of SPAN within MOF have been addressed. Ministerial decrees establishing a *Tim Reformasi* (steering committee) and *Tim Koordinasi* (coordinating committee), focused on overall reform implementation and SPAN, are evidence of top management commitment. Also, previous concerns about rapid turnover among designated staff members who make up the MOF SPAN counterpart team have been addressed with the establishment of the Directorate for Treasury Transformation; it will focus on SPAN implementation with dedicated personnel.

27. To pave the way for SPAN implementation, the DG Budget foresees a need to improve the chart of accounts with particular reference to the linkage with PBB and MTEF, as well as a review of the existing financial regulations to determine if these are comprehensive enough to address all aspects of the State Finance Law (No. 17/2003) and the State Treasury Law (No. 1/2004), and to determine if additional regulations are needed to enable full implementation of the modernized budget and treasury system under SPAN.

PUBLIC PROCUREMENT REFORMS

28. The reform of the government procurement system that was initiated by BAPPENAS has given rise to the establishment of the *Lembaga Kebijakan Pengadaan Pemerintah (LKPP, or National Public Procurement Office)* as a separate entity under the Office of the President. This has been a major GOI achievement. The legal framework for the reform of the public procurement system has been established, and it assigns to the LKPP the responsibility for coordinating the planning and execution of strategies and policies associated with government procurement activities. The LKPP is expected to be a priority for organizational development and establishment of systems and procedures in the coming months.

29. The original design of the GFM RAP had a sub-component (A.4) on support to the procurement reforms, with BAPPENAS as the implementing agency. However, except for funding the participation of some BAPPENAS staff in a number of overseas training-workshops, no major technical assistance activities were provided under the project. In April 2008, BAPPENAS requested a cancellation of the GFM RAP sub-component in support of the procurement reforms. Bappen as explained that the GFM RAP procedure for utilization of program funds was not able to respond quickly to the agency's needs and current priorities. BAPPENAS had also been receiving support from other donors for its public procurement reform program. The cancellation of the sub-component has been agreed with the World Bank.

30. Following the establishment of the LKPP, and as mandated by Presidential Decree, there is now a need to establish a Procurement Unit in every line ministry including the MOF. A recent initiative is a proposed establishment of an e-Procurement unit under the MOF Secretary-General's office. Given the increasing demand for e-Procurement services, both internally within MOF and externally among line agencies, it is necessary to review and re-evaluate existing e-Procurement systems at BAPPENAS and MOF, especially with regard to compliance with international standards for e-Procurement.

TAX ADMINISTRATION MODERNIZATION

31. The Government has made significant strides in modernizing the tax administration system. The 2007 Tax Administration Law provided a better balance between the rights and obligations of taxpayers and the powers of tax officials. As of September 2008, all supporting regulations clarifying administrative procedures have been promulgated. The DG Tax has been continuously improving taxpayer services and also monitoring the performance of tax offices. Over the past few years, the DG Tax has been modernizing its organizational structure; it has significantly improved its compliance management approach that balances quality of taxpayer services and enforcement strategies. Response times for the main taxpayer services are being closely monitored. The implementation of modernized tax offices has been completed in 31 regional offices, 4 large taxpayer offices, 28 medium taxpayer offices, and 299 small taxpayer offices.

32. The modernization of tax offices and improvement of taxpayer services constituted the first phase of tax administration reforms started in 2002. It continues to be guided by a strategic plan prepared by DG Tax which was recently updated, and which also adopts a balanced scorecard concept that specifies performance indicators and measures. This nearly-completed first phase of the tax administration reform process has been undertaken largely with minimal donor assistance.

33. GFM RAP has a sub-component (B.2) on support to tax administration reforms, with DG Tax as implementing agency. The first phase of GFM RAP was actually not intended to provide any financing for the reform activities under DG Tax. GFM RAP (phase-1) activities were confined to monitoring the DG's reform efforts and assisting preparations for possible financing of major tax administration

reforms in the second phase of the project, thereby coinciding also with the next phase of the overall tax administration reforms.

34. Mainly because of the delay in SPAN implementation, the major activity under GFM RAP phase-1, key “triggers” in the GFM RAP results framework for the progression to phase-2 on tax administration reforms could not be met in time to support the next round of tax administration reforms. Hence, the latter has been funded under a separate WB investment loan, recently approved, that will support *the Project for Indonesian Tax Administration Reform* (PINTAR). The latter is a four-year project of the DG Tax designed to enhance taxpayer services, improve tax payer registration, facilitate electronic audit of tax returns, set up an electronic national tax ledger, and improve taxpayer compliance.

35. A project preparation TA contract for PINTAR was signed in October 2008, funded through the PFM MDTF and the Japan PHRD Grant. Through an advisor, the PFM MDTF has also provided support to DG Tax in developing an information technology strategy. Supplementary advisory assistance to the DG Tax in preparing for the next phase of tax administration reforms is being supported by the PFM MDTF under two newly-established child trust funds. To facilitate the implementation of PINTAR, DG Tax has developed a transformation roadmap focused on streamlining business processes, modernizing IT systems, and re-aligning human resources.

CUSTOMS MODERNIZATION

36. DG Customs is pursuing a reform agenda which is focused on improving business processes and modernizing its information and communication systems. Trade facilitation reforms which are closely allied with the operations of DG Customs have been given importance, in particular the establishment of the Indonesian National Single Window (NSW), an electronic system for expediting Customs clearance which is currently recognized as most important trade facilitation initiative underway in Indonesia. The government expects to move as quickly as possible to establish a viable NSW facility, and support is being provided by the donor community. A government team to implement the National Single Window has been established by a decree of the Coordinating Minister for Economy, and is composed of several inter-ministerial working groups that are tasked with preparation of NSW roadmap, development of an electronic single window for port and customs clearance, legal and regulatory requirements, socialization, technical assistance, and testing of the NSW in various locations.

37. A sub-component (B.1) of GFM RAP was originally intended to support DG Customs in enhancing organizational capacity, improving revenue collection, and supporting trade facilitation initiatives. However, DG Customs and the World Bank subsequently agreed that this subcomponent be cancelled. The project’s support to the DG Tax was limited to funding of two capacity-building workshops for personnel of DG Customs.

38. Under PFM MDTF, technical assistance to MENKO is being provided to support the establishment of the Indonesia national Single Window (NSW). A TA package financed by the Trust Fund to assist the Indonesian NSW team in developing an operational NSW model has been procured and implementation started in January 2009.

PUBLIC FINANCIAL MANAGEMENT GOVERNANCE AND ACCOUNTABILITY

39. A sound legal and administrative framework for a modern public financial management system in Indonesia has largely been established. Improvements in PFM governance is moving toward implementing specific solutions and institutionalizing improvements in the governance system.

40. GFMRAP has three sub-components that were intended to strengthen specific government entities in functioning as strategic checks and balances in support of PFM governance reforms. These entities included the Parliament through its budget oversight function, the Tax Court through its role in tax administration, and the MOF Inspectorate-General through its role in investigating corruption cases within the Ministry, particularly those involving tax and customs personnel.

41. The Secretary-General's office of the DPR implemented GFMRAP's sub-component (C.1) on legislative oversight. The sub-component aims to strengthen parliamentary capacity for budget analysis and review. Project funding for the DPR activities were taken from the PHRD grant. Initial activities supported under this subcomponent involved funding overseas study visits (e.g., US and South Korea) for the DPR budget committee members, technical assistance on information technology and database management, and procurement of references. However, in May 2007, it was clarified that the PHRD funding under GFMRAP could not be used for study visits and procurement of goods. This necessitated a major re-programming of the sub-component's activities and funding source, which was finalized in September 2007. Subsequent activities were re-focused on capacity development, and funding was shifted to the PFM MDTF. The project implementing unit at the DPR indicated difficulty with scheduling availability of Parliament members for planned study visits and seminars, some of had to be postponed or cancelled.

42. Continuing support to the DPR budget committee in analyzing budget proposals, indirectly through support to the DPR secretariat's capacity building needs, remains important. In particular, there is need to strengthen the DPR legislative budget review capacity in the context of modern budgeting techniques that are being introduced, such as PBB and MTEF.

43. Subcomponent C.2 on support to the Tax Court administration aimed to strengthen the effectiveness of the agency in resolving tax disputes and giving access to the public on tax court decisions. The activities under this sub-component covered: (a) training for Tax Court staff on tax and customs operation; (b) setting up of a website to provide public access to Tax Court decisions and trial schedules; (c) procurement of computer equipment; (d) technical assistance for developing functional specifications for a Court Administration and Case Management System (CMCAS); and (e) assistance in procuring and implementing the CMCAS turnkey solution through funding for an independent verification and validation team.

44. The CMCAS is envisioned to be able to automatically track the time taken to process and resolve revenue disputes. To assess improvements in system efficiency, it will use (as baseline) the result of a "time-and-motion" study that the Tax Court conducted in 2007. However, procurement of the CMCAS has been delayed due the need to first engage the IVV team, which took up to December 2008 to be completed due to the protracted negotiations. It was reported that the security of the database on tax court decisions, containing 3,000 case records, was breached and resulted in considerable loss or corruption of data. Improved database security procedures, including larger server capacity to store database backup files, are needed. The ongoing TA for PUSINTEK (as ICT services provider for the Tax Court) will address data security requirements as part of strategic and operational improvements. This TA is funded by the PFM MDTF.

45. Sub-component C.3 on support to the MOF Inspectorate-General capacity strengthening aimed to establish and train a special investigation unit to pro-actively pursue allegations of misconduct and corruption in the MOF. The activities funded under this sub-component consisted mainly of training courses for the IG staff and procurement of basic office equipment.

46. The special investigation unit in the MOF-IG is now fully operational and has adequate legal powers (under the country's administrative law) for investigating allegations of corruption against MOF staff, including tax officers. All planned activities funded by GFMRAP under this subcomponent have been completed and almost all the allocated budget was utilized.

PROJECT MANAGEMENT

47. The Project Support and Services Unit (PSSU), which at the same time served as the project implementing unit for the SPAN subcomponent (A.3), was originally housed in the DG Treasury and its personnel were drawn from the DG's sub-directorate for administrative support. Even though the staff was adequate in number, many had limited experience in project management, including procurement which was the bulk of the PSSU's activities, and had to be trained. The routine re-deployment of personnel within the MOF resulted in a frequent turnover among PSSU staff and need for re-training on procurement methods, in particular the WB procurement guidelines. Also, procurement activities were usually performed after office hours since these activities were not part of the assigned personnel's "structural" functions. Consequently, procurement activities often experienced delays.

48. Procurements under the other sub-components are the responsibility of their respective PIUs, with the PSSU mainly providing support. However, most of the other PIUs often relied on the more experienced PSSU staff sitting in their procurement committees. Unfortunately, even the more experienced PSSU staff members were eventually re-deployed.

49. Current procurement teams have generally become well-versed in procurement processes. However, delays have stemmed from issues which are generally non-procedural, for example, those related to interpretation of tax clauses and liabilities, as well as negotiation of costs and rates proposed by consultants. In particular, varying interpretations of local income tax provisions in the procurement documents (i.e., request for proposals) caused some delays in recent procurements.

50. Beginning 2009, the MOF Secretariat-General will function as the GFMRAP Executing Agency and the PSSU will be placed under this office with its own staff, separate from the DG Treasury where it was originally based. A new PIU under DG Treasury has been formed and it will take over the project management for sub-component A.3 including SPAN, i.e., Directorate for Treasury Transformation. The transfer of the PSSU to the Secretariat-General will necessitate revision of project management guidelines and procedures, in particular the Project Management Manual. The GFMRAP work program will also have to be revised in view of the termination of a number of sub-components, and the procurement plan will be updated after the loan agreement has been amended.

51. GAAP implementation was reviewed in October 2008. As a result of this review, the following actions have been initiated: (a) formal establishment of a new SPAN coordinating team which will include a change management and communication team; (b) revision of the M&E results indicators in line with the re-structuring of GFMRAP; (c) publication in the GFMRAP website of the identity of contractors/consultants and M&E reports; (d) invitation of civil society representatives to the SPAN bid opening; and (e) designation of the MOF Inspectorate-General to receive and handle program-related complaints. Further action is need on: a) review of the guidelines and procedures in the Project Management Manual in line with Project re-structuring; (b) recruitment of a senior procurement adviser; (c) involvement of civil society representatives in Steering Committee meeting; and (d) optimization of use of the GFMRAP website

52. Two senior advisers (Staff *Ahli*) were appointed by the MOF Minister to be part of the project governance structure; they are currently co-chairing the regular SPAN meetings. The MOF Secretary General, as chairperson of the steering committee, continues to be actively involved in providing project oversight. The PUSHAKA (*Pusat Analisis dan Harmonisasi Kebijakan*) which is under the office of the MOF Secretary-General is tasked to monitor progress of all ongoing PFM reforms. In addition, it acts as the MOF's "delivery unit" for the analysis and review of reform policies, reporting of progress on the implementation of key policy reforms and action plans, and harmonization of activities among the various MOF units. Through PUSHAKA, a balanced scorecard system is being established for monitoring key performance indicators of the top level echelon units of the MOF in line with the PFM reform program. PUSINTEK is currently developing an integrated strategy for

providing shared services to the various MOF units (including SPAN, the tax court case management system, and an envisioned future MOF “nerve center”). Under the MOF Secretary-General, civil service reforms aimed at transforming the organization through better performance incentives, and institutional design are also continuing.

Assessment of GFMRAP Project Performance Indicators
(Based on Schedule 6 of the Original Loan Agreement)

Part A of the Project		
A.2	<p>First medium term expenditure framework endorsed by Government of Indonesia and forward estimates presented to DPR</p>	<ul style="list-style-type: none"> • The 2008 budget included a preliminary projection of aggregate state revenue and expenditure for two out-years. • In the 2009 budget, MTEF tables for six pilot ministries were included in the budget Financial Notes (which is not officially presented to DPR for approval). • The Law on State Finances does not require that MTEF be submitted to DPR for approval. • An integrated budget template and a manual for implementing MTEF and PBB are being finalized, along with guidelines for program re-structuring.
A.3	<p>SPAN Stage 1 (as such is described in the invitation for bids for the contract for the procurement thereof) evaluated with user input with respect to content, timeliness and verifiability; specified financial reports prepared for concerned entities</p> <p><i>(Note: The term SPAN Stage 1 above refers to implementation, not the two-stage procurement process for the SPAN contract.)</i></p>	<ul style="list-style-type: none"> • The first stage of the procurement process for the SPAN contract was completed in February 2007. Progression to the second stage was delayed due to a WB review of the first stage bidding process and subsequent MOF review of the SPAN Project itself. • The second stage of the procurement process is almost complete, and contract signing with the SPAN turnkey solution provider is expected in July 2009. • Assuming that SPAN contract implementation starts in mid-2009, the system is preliminarily projected to become operational in central treasury starting 2011, and then rolled out to the KPPNs and pilot line ministries starting 2012. Final timeline will be set when the SPAN contractor is mobilized. • Evaluation of SPAN Stage 1 implementation may be possible in 2012.
	<p>Treasury Single Account (TSA) system functioning with acceptable parameters: all on-budget central government bank accounts and own-revenue bank accounts of line ministries brought into the Treasury Single Account system</p>	<ul style="list-style-type: none"> • TSA for expenditure has been in operation since October 2007. TSA now covers expenditure accounts of all treasury offices nationwide. • To support the TSA revenue side, a review of the electronic revenue system (MPN) was initiated beginning 2009 and the MOF has designated two teams that will develop an improved version of the MPN. • Cash management regulation enacted in 2007 continues to provide legal basis for the TSA, including bringing into compliance all off-budget accounts, i.e., the closing of existing miscellaneous accounts of line ministries and the opening of new accounts only after MOF authorization.
	<p>Central government financial statements meet Government Accounting Standards promulgated by MOF and the consolidated management reports produced by the DG Treasury include financial assets and liabilities, and cash-based reports of</p>	<ul style="list-style-type: none"> • Per government regulation on accounting standards (#25 issued in 2005), the accounting basis applied in government financial statements is cash basis for recognition of revenues and expenditures in the Statement of Budget Realization. In the Statement of Financial Position, however, accrual basis is partly used for recognition of assets, liabilities and equity. This system has been labeled

	extra-budgetary funds	<p>“cash-leading-to-accrual.”</p> <ul style="list-style-type: none"> • Target date for implementation of full accrual accounting needs to be adjusted, as implementation starting 2008 which was mandated by Law was not deemed feasible. The standards for accrual based accounting are being prepared and will be issued as government regulations.
A.4	An evaluation of MOF e-procurement pilot is completed and an action plan is adopted by MOF for wider rollout; a survey of procurement prices relative to international benchmarks is completed	<ul style="list-style-type: none"> • BAPPENAS which is responsible for implementing subcomponent A.4, decided to withdraw from GFM RAP in April 2008. • Oversight for government procurements has been transferred to the recently established National Public Procurement Office, i.e., the LKPP. • An e-procurement system which was endorsed by LKPP is being implemented for MOF. A new Echelon 2 unit responsible for e-procurement has been established under the MOF Secretary General.
Part B of the Project		
B.1	DGCE has (a) adopted a comprehensive and consultatively prepared modernization action plan with inputs from stakeholders; (b) institutionalized an annual survey of stakeholders, and annual publishes a summary of the results, and (c) implemented web-based filing for approximately 75% of trade transactions	<ul style="list-style-type: none"> • The DGCE which is responsible for implementing subcomponent B.1 has decided to withdraw from the Project.
B.2	DGT has adopted a results-oriented modernization strategy and plan with measurable performance indicators, aimed at the eventual redesign of processes along single taxpayer account lines and based on the results of the pilot re-engineering of one representative district office	<ul style="list-style-type: none"> • DG Tax’s initial reform of its tax administration system (mainly the rollout of modernized tax offices and formulation of a strategic plan) was pursued without GFM RAP funding. • An ongoing project preparation TA contract in support of the new <i>Program for Indonesian Tax Administration Reform</i> (PINTAR) is funded through the Japan PHRD 2 Grant (TF 058019) and the PFM MDTF. • PINTAR’s implementation is being funded under a separate WB loan -- not as a second phase of GFM RAP as envisioned in the original program design.
Part C of the Project		
C.1	Survey verifies strengthened capacity of the Budget Committee of DPR	<ul style="list-style-type: none"> • Surveys to verify strengthened DPR capacity for budget analysis and oversight have not yet been conducted. • Under the re-structured Project, the indicator has been changed to “Verification of strengthened basis for ICT development in the DPR.”
C.2	Annual surveys of stakeholder satisfaction with tax court administration and case management have been established; an action plan has been adopted to address system weaknesses; Tax Court decisions are accessible to the public through the Tax	<ul style="list-style-type: none"> • The first survey on user satisfaction with tax court administration and case management system was completed in December 2008. Sixty eight percent of the survey respondents indicated satisfaction with the Tax Court services. • The publicly accessible database on Tax Court decisions

	Court database	(with about 3,000 records) was hacked, resulting to considerable data loss/corruption. Improved data security and backup procedures are being instituted.
Part D of the Project		
D	<p>Periodic reviews verify that: (a) Project governance and all Project activities are consistent with the GAAP and Project procurement is consistent with the procurement plan; (b) the PSC is strengthening project governance and oversight; and (c) an investigation unit is established and fully operational in the Office of the Inspector General of MOF, including the establishment of the necessary legal powers to investigate fully allegations of misconduct and/or corruption against MOF staff</p>	<ul style="list-style-type: none"> • GAAP implementation was reviewed in October 2008. As a result of this review, the following actions have been initiated: (a) formal establishment of a new SPAN coordinating team which will include a change management and communication team; (b) revision of the M&E results indicators in line with the re-structuring of GFM RAP; (c) publication in the GFM RAP website of the identity of contractors/consultants and M&E reports; (d) invitation of civil society representatives to the SPAN bid opening; and (e) designation of the MOF Inspectorate-General to receive and handle program-related complaints. Further action is need on: a) review of the guidelines and procedures in the Project Management Manual in line with Project re-structuring; (b) recruitment of a senior procurement adviser; (c) involvement of civil society representatives in SPAN Steering Committee meeting; and (d) optimization of use of the GFM RAP website. • The investigation unit of MOF Inspectorate General is operational and has adequate legal powers (under administrative law) to investigate allegations of corruption against MOF staff. • Under the re-structured Project, the indicator has been changed to “Periodic reviews verify that: (a) Project governance and all Project activities are consistent with the GAAP and Project procurement is consistent with the procurement plan; and (b) the PSC (A.3) and the Secretary General of the MOF are strengthening project governance and oversight.”