I. Introduction and Context

Country Context
The country strategy aims to support government priorities to enhance investments in infrastructure, improve the quality of service delivery (notably in health and education), and increase revenue collection as a share of GDP. The proposed program is aligned with the Bank’s engagement strategy for Indonesia to strengthen the public sector by enhancing public financial management. The program complements the Bank’s lending projects such as GFMRAP, which aim to support strategic allocation of budget resources and transparency in public financial management.

Sectoral and Institutional Context
The proposed program is consistent with the Ministry of Finance's Medium Term Strategy Note, as updated in 2013, which aims to 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 shared with other public institutions other than the MOF, the program may support coordination with these institutions who share a common reform agenda. This may include the state planning ministry (Bappenas), the supreme audit institution (BPK), the national procurement agency (LKPP), the state anti-corruption agency (KPK), and others as required.
Since the General Election in October 2014, the new government of President Jokowi has emphasized its priorities to collect more revenue and to improve the quality of expenditures. It has requested the Bank's assistance to support this agenda through both AAA and investment lending operations.

**Relationship to CAS/CPS/CPF**

The upcoming country CPF will be closely aligned with the government's development objectives. Many of activities to promote equitable growth in the new CPF are expected to cut across sectors, including initiatives that will improve connectivity, competitiveness, public financial management, financial sector regulation, investment in infrastructure, as well as the delivery of public services. The CPF is expected to be completed by end-2015.

**II. Project Development Objective(s)**

**Proposed Development Objective(s)**

To support the Ministry of Finance to improve its capacity for more efficient, timely, and transparent public financial management in order to contribute to improved public service delivery.

**Key Results**
- Greater timeliness of financial reporting on public expenditures within the year and after the fiscal year
- Enhanced capacity to support the implementation of accrual accounting across Treasury offices
- Better information on the expenditures and results at the subnational level
- Greater capacity for managing ICT integration as part of the MOF’s overall institutional transformation

**III. Preliminary Description**

**Concept Description**

The proposed activities are part of the PFM MDTF Phase II - a continuation of PFM MDTF I - to provide support to the Government's medium term public finance management reform agenda. The program will address issues across a broad range of public financial management related areas that emerge from on-going PFM Reform dialog in Indonesia and as ones that are reflected in the Medium Term Strategy Note (MTSN). It provides continued support to GoI through improved accountability, collection, allocation, usage and transparency of public resources, with a focus on supporting reforms at the central level.

The PFM MDTF II includes BETF and RETF through which PFM activities are executed across eight components. The proposed RETF part of the MDTF covers most components under the proposed Strengthening Revenue and Budget Management PA of BETF program. The proposed RETF would initially receive $2.7 million or about 15% of total MDTF resources, a figure extrapolated from the actual level of demand expressed during the 2014 Management Committee meeting. Though the overwhelming majority of MDTF activities are Bank-executed, the establishment of the RETF is an important step to enhance government ownership and ultimately to improve the quality of the program implementation. It also functions to support the implementation of activities that are mandatory implemented by the RETF. The proposed RETF builds on the experience MOF gained from implementing an RETF during MDTF Phase I.

In line with the evolution of the Government's reform strategies and the findings of the 2011 repeat
PEFA, the MTSN reflects a transition away from the control and compliance framework and systems, and greater focus on improving the technical efficiency of spending and the performance orientation of the budget process. There is also increasing interest among donors to give priority to activities that will strengthen PFM at the subnational level. Enhancing tax administration remains an issue of importance to both donors and Government, despite the absence of an investment project in the sector. Substantial progress made in the past year in the implementation of the Government's financial management information system (SPAN) will enable some reallocations away from budget execution activities during the life of the trust fund. On the other hand, institutional transformation and bureaucracy reform will become a relatively small share of the MDTF activities. Prioritization among activities is reflected in the indicative resource allocations to the eight MDTF components, as agreed by the Policy Advisory Committee of the MDTF. The proposed RETF will be focused on activities that World Bank Trust Fund guidelines describe as best suited for recipient execution, in particular training activities, workshops, and studies or consultancies for which the beneficiary will assume primary responsibility for the quality and supervision of the work. All eight components of the MDTF will be eligible for funding under the RETF, but it is anticipated that in practice the RETF will be focused toward support for components related to budget execution (IV), subnational PFM (VII), and institutional transformation (VIII). This will enable the government implementation of accrual accounting, refinements in the implementation of the financial management information system (SPAN), ICT governance within the institutional transformation program, and improving effectiveness of inter-governmental fiscal transfers. In addition to the above, the RETF may also support smaller engagements in components I, III, V, and VI. MOF is interested to improve the capacity to monitor progress on PFM reforms (I), continue progress in implementing budget reforms such as PBB and MTEF (III), enhancing capacity of the Inspectorate General (V), and improving capacity in revenue forecasting and analysis (VI). The RETF will initially begin the activities under Component I, III, IV and VIII. New proposals are immediately anticipated for the fifth component on Support to Revenue Administration.

The RETF program would be implementing over three years, coinciding with the end-date for the MDTF as a whole. First year activities - under Components I, III, IV and VIII - have already been drafted and endorsed by the previous Management Committee totaling an amount of approximately $1,100,000. Any future RETF activities will follow the same review process as those for the BETF, with endorsement by the Management Committee upon presentation of an activity proposal prior to the Meeting. The MOF will assume responsibility for prioritizing activities across directorates and related components before they are submitted to the Management Committee. As many of the activities will likely pertain to training and consulting studies, the results indicators have been designed to reflect this.

### IV. Safeguard Policies that Might Apply

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V. **Financing (in USD Million)**

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<td>Indonesia - Support Public Financial Management</td>
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