Report Number: ICRR0022624

1. Program Information

Country
Indonesia

Practice Area (Lead)
Macroeconomics, Trade and Investment

Programmatic DPF

Planned Operations
0

Approved Operations
0

Operation ID
P156655

Operation Name
IDN Fiscal Reform DPL

L/C/TF Number(s)
IBRD-86180

Closing Date (Original)
31-Dec-2016

Total Financing (USD)
400,000,000.00

Bank Approval Date
31-May-2016

Closing Date (Actual)
31-Dec-2016

	IBRD/IDA (USD)	Co-financing (USD)
Original Commitment	400,000,000.00	0.00
Revised Commitment	400,000,000.00	0.00
Actual	400,000,000.00	0.00

Country
Indonesia

Practice Area (Lead)
Macroeconomics, Trade and Investment

Operation ID
P161475

Operation Name
Indonesia Fiscal Reform DPL 2 (P161475)

L/C/TF Number(s)	Closing Date (Original)	Total Financing (USD)
IBRD-86180,IBRD-87900	30-Jun-2018	300000000.00
Bank Approval Date	**Closing Date (Actual)**	
31-Oct-2017	30-Jun-2018	

	IBRD/IDA (USD)	Co-financing (USD)
Original Commitment	300,000,000.00	0.00
Revised Commitment	300,000,000.00	0.00
Actual	300,000,000.00	0.00

Country	Practice Area (Lead)
Indonesia	Macroeconomics, Trade and Investment
Operation ID	**Operation Name**
P167297	Indonesia Fiscal Reform DPL 3 (P167297)

L/C/TF Number(s)	Closing Date (Original)	Total Financing (USD)
IBRD-87900,IBRD-89560	31-Dec-2019	1020070896.04
Bank Approval Date	**Closing Date (Actual)**	
23-May-2019	31-Dec-2019	

	IBRD/IDA (USD)	Co-financing (USD)
Original Commitment	1,000,000,000.00	0.00
Revised Commitment	1,000,000,000.00	0.00
Actual	1,020,070,896.04	0.00

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2. Program Objectives and Pillars/Policy Areas

a. Objectives

The Indonesia Fiscal Reform Development Policy Loan (DPL) Series supported "the Government's overall objectives to collect more [revenue] and improve the quality of spending" (PD 1, para. 37), with a higher-level objective to "assist the Government of Indonesia (GOI) in achieving its medium-term economic development and poverty reduction goals" (ICR, p.2 and PD 3, p. 2), and the specific objectives of: (i) Improving composition of spending, budget execution rates and efficiency of spending; (ii) Increasing tax administration efficiency, compliance management and audit capability, and reducing the cost of paying taxes; and (iii) Increasing revenue potential and economic efficiency of tax policy. . For the purpose of this ICRR, the following two principal program development objectives (PDOs) are considered:

PDO 1: Improve the composition and efficiency of spending.

PDO 2: Strengthen efficiency of tax administration and policy to enhance domestic revenue mobilization potential.

b. Pillars/Policy Areas

All three operations were structured around three pillars: (i) Improving quality of spending; (ii) Strengthening revenue administration; and (iii) Enhancing tax policy. For the purpose of this ICRR, the following two principal pillars are considered:

Pillar 1: Improving quality of spending.

Pillar 2: Strengthening revenue administration and tax policy.

For the purpose of this ICRR, Pillar 1 was comprised of six clusters of policy actions supporting the following specific objectives under PDO 1:

- Improving central government budget allocation;
- Strengthening budget monitoring and management;
- Facilitating private sector infrastructure investment and multi-year contracts;
- Conducting early procurement;
- Strengthening subnational fiscal management;
- Improving risk management.

For the purpose of this ICRR, Pillar 2 consisted of four clusters of policy actions supporting the following specific objectives under PDO 2:

- Increasing tax administration efficiency and reducing cost of paying taxes;
- Improving compliance management and audit capability;
- Improving VAT, LGST, excise and income tax regimes (to reduce erosion and broaden the tax base);
- Improving international tax policy and tax transparency.

Table 1: Pillars, Objectives, and Prior Actions for Indonesia Fiscal Reform DPL Series

Primary Prior Actions	Follow-up Actions

Pillar 1: Improving quality of spending	
PDO 1: Improving composition of spending, budget execution rates and efficiency of spending	
PDO 1.1: Improving central government budget allocation	
PA 1 (DPL1): The Borrower has increased the share of the central government budget allocated to infrastructure, social assistance and health sectors, compared to pre-fuel subsidy reform years (2012-2014), as evidenced through the 2016 Budget Law, the Financial Note for 2016 State Budget and the Presidential Regulation 137/2015.	PA2 (DPL2): The Borrower has maintained the increased share of the central government budget allocated to infrastructure, social assistance and health sectors, compared to pre-fuel subsidy reform years (2012-2014), as evidenced through the 2017 Budget Law and the Presidential Regulation 97/2016. PA3 (DPL3) The Borrower has increased the shares of the central government budget allocated to infrastructure, social assistance and health sectors, compared to pre-energy subsidy reform years (2012-2014), as evidenced through the 2019 Budget Law and Presidential Regulation 129/2018.
PDO 1.2: Strengthening budget monitoring and management	
PA4 (DPL1): The DG Treasury has completed the roll-out of the financial management information system (SPAN) to all regional treasury offices, as evidenced through the issuance of the Certificate of Operational Acceptance to the service provider.	PA5 (DPL2): The Borrower has strengthened the preparation of the Medium Term Expenditure Framework (“MTEF”) by: (a) using a top-down approach to better align line ministries’ medium term spending with the resource envelope; (b) (i) simplifying types of expenditures in the MTEF to operating and non-operating expenditures at program and/or activity level and (ii) imposing restrictions on revisions; and (c) introducing the requirement that line ministries explain the deviations between a new budget and the earlier planned budget based on policy changes, all as evidenced through the Minister of Finance Regulation 163/2016
PDO 1.3: Facilitating private sector infrastructure investment and multi-year contracts	
PA6 (DPL1): The Borrower has enabled its ministries and agencies to engage in Availability Payment Contracts for infrastructure projects with the private sector, as evidenced through the Presidential Regulation 38/2015, Minister of Finance Regulation 190/2015, Head of Bappenas Regulation 4/2015 and Head of LKPP Regulation 19/2015.	
PA7 (DPL1): The Minister of Finance has reduced major barriers for ministries and agencies to issue multi-year contracts for government procurement by: (a) not requiring	

the land acquisition process, which remains necessary, to be completed prior to submission of multi-year contracts to the Minister of Finance; (b) eliminating the requirement for an external audit for no-cost contract extensions; and (c) increasing the flexibility of annual budget reallocation for multi-year contracts, as evidenced through the Minister of Finance Regulation 238/2015.	
PDO 1.4: Conducting early procurement	
PA8 (DPL1): The Borrower has enabled the increased usage of early procurement for capital projects listed in the 2016 State Budget, as evidenced through the Presidential Instruction 1/2015, Minister of Public Works and Housing Instruction 3/2015 and Minister of Finance Circular Letter S-577/2015.	PA9 (DPL2): The Borrower has continued to enable the increased usage of early procurement, for capital expenditure packages listed in the 2017 State Budget, as evidenced through the Secretary General of the Ministry of Public Works and Housing's Circular Letter No. PL-0206/Sj/606 dated August 18, 2016.
PDO 1.5: Strengthening subnational fiscal management *[introduced in DPL2]*	
PA10 (DPL2): The Borrower has strengthened subnational fiscal management by: (a) improving the composition of subnational spending by requiring sub- national governments to allocate a minimum 25 percent of DAU and revenue sharing for infrastructure; (b) disbursing DAK based on reports on achievements; and (c) improving DID allocation criteria, as evidenced through the 2017 Budget Law and the Minister of Finance Regulation 112/2017. PA12 (DPL2): The Borrower has issued consolidated DAK technical guidelines that were previously issued by separate line ministries to accelerate DAK implementation, as evidenced through Presidential Regulation 123/2016.	PA11 (DPL3): **Standardization of subnational budget chart of accounts.** The Borrower has adopted the framework for standardizing and harmonizing the subnational budget chart of accounts, as evidenced through the Government Regulation 12/2019.
PDO 1.6: Improving risk management *[introduced in DPL3]*	
PA13 (DPL3): **Disaster risk insurance.** The Borrower has enabled the purchase of disaster risk insurance for the Borrower's assets, as evidenced through the Minister of Finance Regulations 247/2016 and 142/2018.	
PA14 (DPL3): **Climate finance budget tagging.** The Borrower has expanded the climate finance budget tagging initiative from tagging only for climate change mitigation to	

climate change mitigation and adaptation, as evidenced through the Climate Budget Tagging Manual.	
Pillar 2: Strengthening revenue administration and tax policy	
PDO 2: Strengthening efficiency of tax administration and policy to enhance domestic revenue mobilization potential.	
PDO 2.1: Increasing tax administration efficiency and reducing cost of paying taxes	
PA15 (DPL1): The Directorate General of Taxes (DGT) has launched in July 2015 an electronic VAT invoice online application that ensures systematic submission of detailed information on taxable goods and services by taxpayer, as evidenced through DGT Decree 136/2014.	PA16 (DPL2): The DGT has strengthened VAT administration by: (a) requiring all corporate taxpayers to use the electronic invoice and electronic VAT returns; and (b) implementing a system that makes electronic VAT returns data available, within 72 hours after filing, for auditing and analysis of compliance risk, as evidenced through DGT Announcement No. Peng-04/PJ.09/2016 dated April 27, 2016. PA17 (DPL3): **VAT refunds.** The Borrower has broadened the coverage of taxpayers subject to a streamlined procedure for VAT refunds by: (a) increasing the refund value threshold; (b) expanding the criteria to be considered a low risk VAT taxpayer; and (c) allowing partial refunds, as evidenced through the Minister of Finance Regulation 39/2018.
PA18 (DPL1): DGT has reduced the burden of the Validation Process for individual e- filing by allowing tax officers to validate on the premises of employers with twenty or more employees, as evidenced through the DGT Regulation 41/2015.	PA19 (DPL2): The DGT has required the electronic filing of: (a) corporate income tax returns by companies that are VAT taxpayers; and (b) withholding tax returns by select withholding agents, as evidenced through DGT Regulations 3/2015 and 4/2017.
PA 20 (DPL1): DGT has abolished the statement of regional information in the taxpayer identification number so that taxpayers will not receive new tax IDs when they move to a different region as a major step in establishing a unique and permanent taxpayer identification system, as evidenced through the DGT Circular Letter SE 44/2015.	
PDO 2.2: Improving compliance management and audit capability	
PA21 (DPL1): DGT and National Land Office (BPN) have implemented an electronic data exchange to enable DGT to access taxpayers' land asset data held by BPN for compliance purposes in a systematic manner.	PA22 (DPL2): The Borrower has enabled the DGT increased access to financial data for audit purposes by requiring financial institutions to submit a report on financial data to DGT beginning with each individuals' account(s) with a balance of IDR 1 billion or more, as evidenced

	through the Government Law 9/2017 and the Minister of Finance Regulation 73/2017. PA23 (DPL3): **Compliance risk management.** The Borrower has created a risk management unit (Data Management Team) within the Directorate General of Taxes, as evidenced through the Minister of Finance Decree 67/2019
PDO 2.3: Improving VAT, LGST, excise and income tax regimes (to reduce erosion and broaden the tax base)	
PA 24 (DPL1): The Minister of Finance has submitted to the Ministry of Law and Human Rights the white paper (naskah akademik) for the revision of the VAT and LGST Law no. 42 of 2009 that recommends: (a) broadening the VAT base by rationalizing exemptions and limiting the Ministry of Finance's discretion in granting exemptions; (b) replacing vehicle LGST with a vehicle excise tax; and (c) incorporating remaining LGST goods into the VAT regime.	PA 25 (DPL3): **MSME presumptive tax regime.** The Borrower has enabled the expansion of the general income tax base, including by: (a) introducing sunset clauses for the MSME final tax; and (b) allowing MSME taxpayers to opt for taxation under the general regime, as evidenced through the Government Regulation 23/2018.
PA 26 (DPL 1): The Minister of Finance has established a maximum debt-to-equity ratio of 4:1 for calculating the allowable deduction from interest paid on debt to address thin capitalization, as evidenced through the Minister of Finance Regulation 169/2015.	PA 27 (DPL2): The Ministry of Finance has prevented tax base erosion and profit shifting by: (a) introducing a limitation of benefits clause to deter companies from using treaties for non-economic/business reasons; (b) signing the CBC MCAA, which obliges the Borrower to share tax information aimed at combating harmful tax practices by carrying out country-by-country reporting exchange; and (c) adopting a standardized set of documentation requirements for international taxation, all as evidenced through the Minister of Finance Regulation 213/2016, the CBC MCAA list of signatories and the DGT Regulation 10/2017.
PDO 2.4: Improving international tax policy and tax transparency *[introduced in DPLs 2 & 3]*	
PA 28 (DPL 2): The Ministry of Finance has: (a) enabled the implementation of APA and MAP9 dispute resolution mechanisms; and (b) created a sub- directorate dedicated to enable the Borrower to manage international tax disputes, as evidenced through the Minister of Finance Regulation 234/2015 and DGT Decree 36/2017.	PA 29 (DPL2): The Borrower has allowed the DGT to access information on – and tax – passive income held by Indonesian companies and citizens abroad, as evidenced through the Minister of Finance Regulation 107/2017. PA 30 (DPL3): **Model Tax Treaty.** The Borrower has strengthened measures against base erosion and profit shifting by developing a model tax treaty for use in double tax

	agreements, as evidenced through the Minister of Finance Official Note ND-471/KF/2018.
PA 31 (DPL3): **Tax expenditure.** The Borrower has increased fiscal transparency by: (a) identifying all the tax expenditure across its major taxes; (b) publishing its first tax expenditure statement; and (c) adopting its sustainability strategy, as evidenced through the Financial Note for 2019 Budget, Minister of Finance Official Note ND-315/KF/2018 and Indonesia tax expenditure report.	
Total: A total of 10 identifiable subobjectives 15 clusters of actions, with 53 individual actions/subactions. DPL1: 11 PAs with a total of 15 actions/subactions DPL2: 11 PAs with 22 actions/subactions DPL3: 9 PAs with 16 actions/subactions	

c. Comments on Program Cost, Financing and Dates

The Indonesia Fiscal Reform Development Policy Loan (DPL) series consisted of three single-tranche operations over a period of three years (2016-19), totaling USD 1.72 billion. DPL 1 for USD 400 million was approved on 31 May, 2016, and closed as expected on 31 December, 2016. DPL 2 for USD 300 million was approved on 31 October, 2017, and closed as expected on 30 June, 2018. DPL 3 for USD 1,000 million was approved on 23 May, 2019, and closed as expected on 31 December, 2019 (with a total of USD 1,020,070,896 actually disbursed).

3. Relevance of Design

a. Relevance of Objectives

Context and Government priorities: This Fiscal Reform DPL series was designed to support the Government's "National Medium-Term Development Plan (RPJMN) 2015-2019, which emphasized the need to: (i) strengthen revenue administration and improve tax policy to increase state revenues; and (ii) strengthen planning and budgeting institutions to improve budget execution, the composition of spending, and the effectiveness of public expenditure" (ICR, p.5). Despite a decade of "strong growth and job creation, supporting poverty reduction…the slowdown in growth and weakening of commodity prices had increased fiscal pressures significantly in 2015 and 2016" (PD 1, para. 2). Hence improving the effectiveness of fiscal policy was considered essential to enhance revenue mobilization and improve the quality of spending in order to maintain progress toward higher-level goals of growth and poverty reduction.

World Bank agenda: The central role of the fiscal reform agenda was embodied in the World Bank's Country Partnership Framework (CPF) 2016-2020 Engagement Area 6: "Collecting More and Spending Better." The CPF sought to provide support in the following areas, which were the stated objectives of the DPL series:

"Revenue: Supporting the revision of select tax policies…reforms to increase tax compliance and strengthen… non-tax revenue administration;

Spending through: energy subsidy reforms; improved allocative efficiency;… better budget execution…; and procurement and contract management…" (CPF, p. 37).

PDOs: The PDOs were directly relevant to implementing the fiscal reforms that were needed to counter rising fiscal pressures, consistent with the priorities articulated both in the Government's Medium-Term Development Plan and the World Bank's CPF. PDO 1 focused on spending (composition, budget execution, and efficiency). PDO 2 focused on tax administration efficiency and cost to users, as well as improving revenue potential and economic efficiency of tax policy. These objectives represented a comprehensive approach to the range of reforms needed in order to improve the fiscal situation in the near-to-medium term.

Results chain: Although the objectives of improving the quality of spending and tax efficiency may potentially promote the higher-level growth and poverty reduction goals, the causal links are assumed rather than articulated, making it difficult to project likely ultimate outcomes of achieving program-level objectives. With respect to spending, it would have been helpful to have information on the relationship between infrastructure spending and economic growth, and on the poverty orientation of social and health expenditures. On the revenue side, improving efficiency of both tax administration and tax policy is intended to increase revenue potential (as well as fairness), on the implicit assumption that additional revenues would be realized and spent so as to benefit both overall growth and the poor.

b. Relevance of Prior Actions

Rationale

The three DPLs had a total of 31 prior actions (PAs: 11 in DPL 1, 11 in DPL 2, and 9 in DPL 3), many of them with several components, yielding 53 specific actions and subactions. The programmatic series provided an opportunity to deepen progress in implementing reforms. However, only one cluster of PAs was carried out systematically across the full series (in support of PDO 1.1: Improving central government budget allocation). In only two other cases did a PA in DPL 2 specifically follow through on implementing what had been initiated in DPL 1 (PA 8-9 early procurement; PA 15-16 electronic VAT invoice and returns). In other cases, PAs in subsequent DPLs mainly extended the scope of reforms in a given area, rather than deepening implementation of what had been initiated in a previous DPL, while in some cases "due to political economy considerations and other reason, some of the DPL triggers were modified into different prior actions…consistent with the PDOs" (TTL response). This was particularly the case in DPL 3, which ventured into some new areas (tax treaties; disaster risk insurance and climate change finance, in response to several natural disasters in 2018) that were not foreseen in the original PD 1. While this indicated some flexibility in response to changing conditions, introduction late in the series meant that there was not a clear strategy for the continued implementation support needed to achieve the desired results.

Most PAs were directly linked to the PDOs through results chains whose rationale was articulated in the PD. Nevertheless, "some prior actions did not provide a strong contribution to the attainment of the PDOs – since their linkages were relatively weak" (ICR, p. 20 and footnote 11).

Relevance of PAs for Pillar 1 Improving quality of spending

Results chain: Indonesia "has persistently underspent on infrastructure, health and social assistance sectors" (PD1, para. 43). Increasing investment in infrastructure (both by the government and leveraged from the private sector through public-private partnerships) was needed to help raise the growth rate, and increasing allocations to social assistance and health to contribute to reducing poverty and inequality. Besides increasing revenue mobilization, better management of spending could enhance the effective availability of resources. Improving the alignment of ministries' budgets with planned budgets and the resource envelope was intended to support the priorities of the Medium Term Expenditure Framework, and strengthening budget monitoring and management through the financial management information system would likewise "help the government manage budget allocation, expenditure commitments, and spending limits" (PD1 para. 46), in line with its priorities. Early procurement and multi-year contracts could help reduce both delays and costs of contracting with the private sector, thus raising effectiveness and timeliness of government contracting.

PAs 1-3 (increase the share of central government budget allocated to infrastructure, social assistance and health sectors) was informed by World Bank public expenditure reviews (PERs: 2008-15, on roads, water, social assistance and health), economic and sector work on infrastructure and growth, and the medium-term fiscal framework model (PD 1, Table 4). The results chain clearly links the PA to changes in budget allocation, and in turn to outcomes in terms of growth and poverty reduction, although realization of increases in growth would depend on the nature and quality of spending, which is not addressed in these operations. Ratings: Satisfactory

PA 4 (roll out financial information system [SPAN] to regional treasury offices) was based on analysis of the Public Expenditure and Financial Accountability report, supervision of the Government Financial Management and Revenue Administration Project (GFMRAP), and a country study of Financial Management Information Systems. A reasonable results chain was based on the argument from GFMRAP that rolling out SPAN would "provide centralized databases of all government financial transactions, which, through real-time reporting and accounting, will help the government manage budget allocation, expenditure commitments, and spending limits" (PD1, para. 46), thereby presumably enhancing the efficiency of spending. Rating: Satisfactory.

PA 5 (strengthen preparation of the Medium Term Expenditure Framework [MTEF] by aligning ministries' spending with the resource envelope, simplifying types of expenditures, and requiring ministries to explain deviations) was introduced in DPL 2 to address "implementation challenges includ[ing] poor quality of forward estimates submitted by line ministries and a weak link between forward estimates and policies and the resource envelope. Improved implementation of the MTEF will help align expenditure with strategic plans and the resource envelope" (DPL 2, para. 39). However, the "indicative trigger on the MTEF…was dropped in DPL 3 due to lack of commitment for reform," (ICR, footnote 13). Rating: Moderately unsatisfactory.

PA 6 (enable government agencies to engage in Availability Payment Contracts with the private sector for infrastructure projects) was based on World Bank TA work to support the design and implementation of private-public partnerships (PPP) for infrastructure and analytical work on infrastructure contracting, as well as the 2012 Road PER, and the Government's recognition of "the critical role of the private sector in providing financing and valuable technical expertise and [a target of] 35 percent of the financing needs to be met

through PPP schemes" (PD 1, para. 49). This PA was a relevant first step toward leveraging more private investment in infrastructure; it could contribute toward, though not necessarily cause that desired result, which would depend on improvements in other determinants of private (especially foreign) investment that lie outside the focus of this DPL series. Rating: Moderately satisfactory.

PA 7 (reducing barriers to multi-year contracts, with respect to land acquisition, external audits for no-cost extensions, and more flexible budget reallocation) derived from the same analytical work as for PA 6, as well as the 2012 World Bank report on infrastructure budget execution. Multi-year contracts were considered to be "more efficient than a series of single year contracts for large, multi-year infrastructure ….[with] higher economies of scale for contractors thereby lowering average total project costs, increased quality of the project through better design and implementation, and increased efficiency from fewer procurement processes" (PD 1, para. 53). By reducing delays and costs of existing multi-year contracts and encouraging new ones, this PA could contribute importtantly to more efficient spending. Rating: Satisfactory.

PA 8-9 (enable increased usage of early procurement for capital expenditure projects) derived from a 2013 World Bank report on bottlenecks in the procurement of infrastructure projects in Indonesia. The DPL 1 PD (para. 56) notes that: "Currently budget execution is extremely back-loaded, particularly for capital expenditure ….line ministries are incentivized to prioritize spending based on ease of execution rather than development impact. …By starting the procurement process earlier based on the proposed Budget, line ministries should be in a position to sign contracts shortly after the Budget is approved." Earlier procurement would contribute to the objective of greater efficiency of spending. Rating: Satisfactory.

PA 10-11 (strengthening subnational fiscal management and budgeting) was introduced in DPL 2 based on updates to the World Bank PER and analytical inputs into revision of Law 33 (PD 2, Table 4). Given a three-fold increase in transfers to subnational governments over 2001-16, "the design of intergovernmental transfers … is an important policy tool for influencing better allocation of resources at the subnational level" (PD 2, para. 46). Hence improving "the design of intergovernmental transfers [was considered] an important policy tool for influencing better allocation of resources at the subnational level." Tightening up budget execution and monitoring at the subnational level was reasonably relevant to the objective of improving the composition and efficiency of spending at all levels. Rating: Moderately satisfactory.

PA 12 (issue consolidated technical guidelines for earmarked transfers [DAK] to subnational governments) responded to the observation in PD 2 (para. 46) that "the implementation of DAK is often delayed due to the late issuance of technical guidelines by line ministries, which contribute to under execution of DAK." While a relevant complement to PAs 10-11, issuing guidelines in itself bears only a tenuous relationship to achievement of the objective of spending efficiency. Rating: Moderately unsatisfactory.

PA 13 (disaster risk insurance) and **P 14** (climate finance budget tagging) were introduced in DPL 3 in response to natural disasters (earthquakes, tsunamis) in 2018. PD 3 (para. 51) observed that such shocks can have a significant impact on the budget, as well as the economy, and introduced these measures "to strengthen budget execution and effectiveness of spending by avoiding substantial reallocations of spending to disaster relief and reconstruction." While these measures were appropriate to help protect public assets and align budgets with climate change adaptation and mitigation, they were not so directly relevant to the DPL series objective of improving the efficiency of spending. Although they represented flexibility and a reasonable effort to respond to climate risk issues that arose, implementation would depend on follow-up actions to implement these reforms so as to enhance the quality of spending. Ratings: Moderately satisfactory.

Pillar 1 rating: Moderately satisfactory

Relevance of PAs for Pillar 2 Strengthening revenue administration and tax policy

Results chain: "Strengthening tax administration, through increasing the capacity of the Directorate General of Taxation (DG Taxes), is seen as key to raising revenue" (PD1, para. 34). Beginning in the early 2000s, DG Taxes had instituted a series of reforms to extend the tax base, improve audits and collection of late tax payments, and reform administration, which "were estimated to mobilize additional revenues of 1 percent of GDP over four years (Brandolo, J. et al. (2008). 'Tax Administration Reform and Fiscal Adjustment: The Case of Indonesia (2001-07)')," (cited in PD 1, footnote 20). However, it "had difficulties operationalizing the recommendations and prioritizing those that most directly contribute to revenue performance" (PD 1, para. 34), and the IMF Tax Policy and Administration Report (2014), as well as World Bank technical assistance missions under the Public Financial Management Multi-Donor Trust Fund, had recommended further reforms "to modernize their heavily outdated ICT and data management systems – one of the most significant hindrances to improving tax administration" (PD 1, para. 34). "Significant impacts on data quality, administrative cost and taxpayer compliance costs [would result from] reducing the return processing time from a few months to only days" (PD 2, para. 58). Additional reforms in tax policies (VAT, income tax, asset valuation, international income) were also expected to expand the tax base, and a tax amnesty program was intended to generate additional revenues in the short term before new regulations took effect (PD 1, para. 35-36). The expectation was that these reforms would increase tax revenues available for spending on infrastructure, social assistance, health and other priority areas for growth and poverty reduction.

PAs 15-16 (launch electronic VAT invoice online, enforce use of e-invoice, and ensure data availability for auditing and compliance risk analysis) were directly relevant to the objectives of improving the efficiency and lowering costs of tax administration, to the benefit of taxpayers as well as administrators, and PA 16 was expected to "dramatically reduce the costs of compliance management and improve the effectiveness of DGT to identify and target noncompliant taxpayers" (PD 2, para. 54). Rating: Satisfactory.

PA 17 (streamlined procedure for VAT refunds) was added in DPL 3 to reduce burdensome procedures, both on taxpayers with refund claims and in unnecessary audits of low-risk taxpayers. It was relevant to improving the efficiency and lowering costs of tax administration (though it would not necessarily "enhance domestic revenue mobilization potential"). Rating: Moderately satisfactory.

PAs 18-19 (allowing tax officers to validate on the premises of large employers and require electronic filing of returns by VAT taxpayers and selected withholding agents) was intended to build on PAs 15-16 by reducing the cost of paying taxes through greater use of e-filing. These measures were expected to lower the burden on taxpayers and hence lead to increased compliance and, presumably, revenues. Rating: Moderately satisfactory.

PA 20 (abolishing regional information in taxpayer identification to eliminate multiple tax IDs) was intended to complete the process of eliminating multiple IDs and filings, which complicated compliance monitoring and audits. The action was expected to reduce the number of taxpayers with duplicate IDs from 500,000 to under 3,000. While relevant to the process of streamlining tax administration, the implications for revenue objectives were modest. Rating: Moderately satisfactory.

PAs 21-22 (increasing access of DGT to land asset data and financial data for compliance purposes) were relevant to the objective of increasing revenue collection through enhanced compliance, by facilitating access to land asset data held by the National Land Office for audit purposes (given that "a large proportion of the

wealth of high-net worth individuals are held in fixed assets," PD 1, para. 68) and requiring financial institutions to submit financial data (especially on large accounts). These reforms would help make tax administration more efficient through more timely audits, with some (though likely modest) positive effects on revenue collection. Rating: Moderately satisfactory.

PA 23 (creation of a risk management unit within DGT) was introduced in DPL 3 in response to the observation that, "despite recent modernization actions, the overall tax compliance rate remains low" (PD 3, para. 71). As such it represents flexibility in the DPL series to adapt to circumstances in pursuit of the objective of improving the efficiency of tax administration. Establishing a specialized unit was considered necessary to take a systematic, comprehensive approach (PD 3, paras. 71-73), but by itself was only a first and modest step toward proposing reforms, let alone implementing "the needed mitigation actions to address underlying causes of non-compliance behavior," and it was not clear how implementation of the unit and subsequent proposed reforms would be assured or momentum maintained to achieve increased efficiency and revenue collection. Rating: Moderately unsatisfactory.

PA 24 (white paper re replacing the vehicle Luxury Goods Sales Tax [LGST] with an excise tax, broadening the tax base by rationalizing exemptions from the VAT, and incorporating the remaining LGST goods into the VAT regime) was intended to strengthen the VAT system and offset its low and declining ratio to GDP in terms of revenue generated. However, there was no clear path or follow-up toward implementation, and the associated results indicator was subsequently dropped due to limited impact and prospects for passage of the required legislation (ICR, footnote 11). Rating: Unsatisfactory.

PA 25 (introducing sunset clauses for micro, small and medium enterprises [MSMEs] to avoid taxation, and allowing them to opt for taxation under the general regime) was introduced in DPL 3 with the intention of expanding the general income tax base over time. However, there was no prospect for the impact of the sunset clauses to be realized within the DPL time frame (especially when introduced at the end of the series), and the very small baseline of MSME taxpayers opting for the general tax regime [2 percent] provided little prospect for significant impact on revenue generation. Rating: Moderately unsatisfactory.

PA 26 (establishing a maximum debt-to-equity ratio of 4:1 for the allowable deduction from interest on debt, to address the risk of thin capitalization) was intended to introduce regulation consistent with international practices, but offered "limited impact, and the respective results indicators were subsequently dropped" (ICR, footnote 11). Rating: Unsatisfactory.

PA 27 (introduce a limitation of benefits clause to deter companies from using treaties for non-economic/ business reasons, sign the Multilateral Competent Authority Agreement to share tax information across countries, and adopt standardized documentation requirements for international taxation) was introduced in DPL2 for Indonesia to enhance its international tax regime by following through on its participation in "the Global Forum for Tax Transparency and Exchange of Information, which will facilitate exchange of information for tax purposes between governments globally" (PD 2, para. 64). It was based on an inventory of laws and regulations that run counter to the OECD/G20 Base Erosion and Profit Shifting) project, and was expected to reduce base erosion and profit-shifting activities. It represented appropriate measures to tighten up international aspects of tax administration in such a way as to enhance the potential for revenue collection from international businesses. Rating: Moderately satisfactory.

PA 28 (implement dispute resolution mechanisms of the Advanced Pricing Arrangement (APA) and Mutual Agreement Process (MAP) and create a sub-directorate to manage international tax disputes) was introduced in DPL 2 to enhance Indonesia's ability to "assess tax liabilities linked to 'related party transactions,' including

for multinational corporations operating in Indonesia as well as Indonesian-owned corporations with subsidiaries abroad" (PD 2, para. 63). The expectation was that that the "newly enhanced international tax regime… will broaden the tax base to include more resident and non-resident multinationals, and will limit tax base erosion" (PD 2, para. 66). It was expected that "enhanced dispute resolution mechanisms [would] result in both more revenues and an improved investment climate, giving investors security that there are internationally accepted rules for dispute resolution" (PD 2, para. 68). This was a reasonable step toward participation in international taxation and information-sharing regimes, though with only long-term prospects for enhancing the ability to realize tax revenues from corporations that operate internationally. Rating: Moderately satisfactory.

PA 29 (allow DGT to access information on and tax passive income held by Indonesian companies and citizens abroad) was introduced in DPL 2 as part of measures to expand the tax base through the ability to tax international business and income arrangements. It provided a reasonable means of expanding the tax net. Rating: Moderately satisfactory.

PA 30 (developing a model tax treaty for use in double tax agreements) was introduced in DPL 3 to address the limitation on the effectiveness of the above reforms due to "the fact that Indonesia has a wide network of taxation treaties negotiated long before issues relating to BEPS had emerged" (PD 3, para. 84). This action was intended to provide a sound basis for renegotiation of treaties. As such, it represented an important link in the results chain to be able to realize the expected results of the other reforms, although it was unclear how it would be implemented beyond the end of the DPL series. Rating: Moderately satisfactory.

PA 31 (identify all tax expenditures across major taxes, publish a tax expenditure statement, and adopt a sustainability strategy) was introduced in DPL 3 to address the problem of "tax expenditures". The action was intended to improve fiscal transparency and eventually limit revenue losses and distortions cause by tax expenditures "by quantifying the costs of these incentives, and by making them public, increasing transparency and controls, with the end goal of supporting fiscal sustainability" (PD 3, para. 80). The action was relevant to the objectives of increasing efficiency and reducing losses in the revenue collection system, though only a first step toward eventually realizing these results (with unclear measures to ensure implementation beyond the DPL series). Rating: Moderately satisfactory.

Pillar 2 rating: Moderately satisfactory

On the whole, the prior actions were mutually consistent within a comprehensive overall framework, with a reasonable results chain articulated in the rationale given for each action. Nevertheless, some new measures were introduced in DPL 3 without a clear results chain of measures to ensure effective implementation and achievement of objectives within the time frame of the DPL series. Although the ICR (p. 20) stated that "prior actions and dropped triggers continued to be supported through non-lending TA, lending programs and analytical work," it was not clear to what extent complementary follow-on projects included implementation measures that would assure realization of expected results. The prior actions in both pillars were rated "Moderately satisfactory" on average.

Rating

Moderately Satisfactory

4. Relevance of Results Indicators

Rationale

Fourteen results indicators (RIs) were retained for the 14 PAs in Pillar 1, and 15 RIs for the 17 PAs in Pillar 2 (Table 2). All but three had quantitative targets, which were generally measurable (ICR, p. 24). Some changes were made to the RIs during the series, in some cases due to changing circumstances; several were dropped or modified because of weak progress toward the original indicators (see RI 1 below). Two RIs were dropped pertaining to PAs on which no further action was taken after DPL 1. It is not always clear to what extent dropped indicators reflected changing economic circumstances, overly ambitious expectations at the design stage, inadequate assessment of special interests and political factors that undermined reforms, or modifications to ensure that funds would continue flowing as originally scheduled. <<*further clarification from TTLs is being sought*>> Three RIs were purely qualitative (measure implemented or not). The results framework in the PD (Annex 1) did not state the sources of data for the indicators or assign responsibility for monitoring progress toward targets during the life of the series.

The RIs focused on changes in administrative and policy aspects that would increase the *potential* for revenue mobilization, rather than on the true objective of an actual increase in revenues, which presumably would result subsequent to completion of the DPL series. The results framework did not provide evidence on how achieving revenue objectives would ultimately lead to desired higher-level outcomes of economic development and poverty reduction.

Table 2: Results indicators by Pillar and PAs; baseline and target values, and status

Results indicator (RI): Name [when introduced]: **Indicator**	**Associated PA**	**Baseline** (2014)	**Target** (2020)	**Status**	**Achievement**
Pillar 1: Improving Quality of Spending					
RI 1a: Share of central government budget allocated to infrastructure, social assistance and health. (percent) [*DPL 1 & 2)*]	PA 1-3	12.3	≥ 19.5	2019: 16.4	56.9%
		2.7	≥ 4.5	4.3	88.9%
		4.0	≥ 7.4	6.8	82.4%
- Infrastructure		*[19.0}*	*[31.4]*	*[27.7]*	*[68.5]*
- Social assistance		86.4	93	2020: 96.8	152.9%
- Health					
[Total]					
[replaced by:]					
RI 1b: Number of PBI-JKN subsidized health insurance premium recipients. (million*)*					

[DPL 3]					
RI 2: Time taken for central government monthly budget realization data to be publicly available. [*on average, time after the end of the month*]	PA 4	2 months	2016-18: 15 days	2019: 12.7 days	105.1%
RI 3: Deviation between indicative line ministry expenditure ceiling in a new budget and the forward estimate in the earlier planned budget. [*percent*]	PA 5	2016: 22	< 22	2020 –4.3	Negative
RI 4: Availability of enabling regulatory framework for Availability Payment Contracts for infrastructure projects with the private sector	PA 6	No	2016: Yes	2016: Yes	Yes
RI 5: Increase in the number of PPP projects supported by the PDF	PA 6	2015: 0	2017: 3	2017: 3	100%
RI 6: Proportion of Ministry of Public Works and Housing budget (total) delivered through multi-year contracts. [*percent*]	PA 7	7	2016-17: >17	2018: 41.7	347%
RI 7: Proportion of the value of contractual package for the budget year being procured by the Ministry of Public Works and Housing in the first semester. [*percent*]	PA 8-9	70	2018: >90	2018: 80	50%
RI 8: Proportion of districts meeting the requirement to spend 25% of DAU and revenue sharing allocations on infrastructure. [percent]	PA 10	42	2019: 60	2020: 66	133.3%
RI 9: Percentage of DAK physical realization in infrastructure sectors at the end of fiscal year. [percent]	PA 10	60.5	2019: 70	2019: 88.6	295.8%
RI 10: Average improvement in NER for Junior Secondary School for Districts that received DID (compared to the year before). [percentage points]	PA 10	0.06	2019: 0.08	2018: 0.17	950%

RI 11: Number of districts and provinces piloting the new chart of accounts during the 2021 budget preparation (out of 542)	PA 11	2018: 0	10	2020: 0	0%
RI 12: Proportion of contracted value of DAK by July of each year. [*percent*]	PA 12	67	80	2019-20: 93	200%
RI 13: Share of ministries and agencies covered by disaster risk insurance (out of 87). [*percent*]	PA 13	2018: 0	6	2020: 11	183.3%
RI 14: Share of ministries and agencies undertaking budget tagging for climate change adaptation (out of 87). [percent]	PA 14	9	14	2020: 14	100%
Pillar 2: Strengthening revenue administration and tax policy					
RI 15: Share of monthly VAT returns filed electronically. [percent]	PA 15-16	0	2018: 90	2018: 100	111.1%
RI 16: Share of VAT refund requests subject to the streamlined refund procedure, from total VAT refund requests. [percent]	PA 17	2017: 14.17	30.6	2020: 87.5	463.2%
RI 17: Share of annual individual income tax income tax returns filed electronically. [*percent*]	PA 18	27	2016: 48	2017: 77.1	238.6%
RI 18: Share of annual corporate income tax returns filed electronically. [*percent*]	PA 18	2	2016: 57	2017: 64.4	113.5%
RI 19: Number of taxpayers with multiple/duplicate IDs that can be used to file returns.	PA 20	500,000	2018: <3000	2019: 799	100.4%
RI 20: Average time taken to receive land asset data requested by DGT for audit use.	PA 21	5	2018: 1	2018: 1	100%
RI 21: Average time taken to access financial information requested by DGT for audit use.	PA 22	No data	All FIs submit automatically	All FIs submit annually	Substantial
RI 22: Status of creation of	PA 23	Non-existent	DMT created	DMT up &	Yes

the new risk management unit (Data Management Team, Directorate level).				running	
RI 23: Share of 2017 MSME taxpayers who are filing as part of the general income tax regime. [*percent*]	PA 25*	2	3	2020: 4	200%
RI 24: The Income Tax regime is revised to reduce tax base erosion and broaden the tax base.	PA 27	Few measures in place	2019: Specified measures in place	2019: Specified measures in place	Yes
RI 25: Number of new APA concluded under new rules	PA 28	3	2018: 7	2020: 32	725%
RI 26: Number of new MAPs concluded under new rules	PA 28	33	2018: 70	2020: 62	78.4%
RI 27: Access to information on passive income improved. [Rate of growth of nominal NO&G Income Tax revenues, percent]	PA 29	8.3	2017-9: 14.2	2017-8: 14.2	100%
RI 28: Number of treaties negotiated based on model tax treaty.	PA 30	0	4	2020: 6	150%
RI 29: Share of tax expenditures by regulation whose revenues foregone are estimated in the Budget Financial Notes out of the identified total number. [*percent*]	PA 31	0	30	2020: 74.2	247

Note: Two RIs were dropped due to lack of progress in tax reforms (relating to PAs 24 and PA 26).

Relevance of RIs for Pillar 1 Improving quality of spending

The original RI 1a (share of central government budget allocated to infrastructure, social assistance and health) was a direct measure of the desired result, with a clear results chain to potential achievement of ultimate outcomes of growth and poverty reduction. The baseline data and targets were credible with data available on a regular basis – although it was not clear how achievement of the sectoral targets should be aggregated to give an overall rating of achievement (a logical overall indicator would have been the aggregate allocation to the three targeted sectors). However, this indicator was replaced in DPL 3 by the number of subsidized health insurance premium recipients, "in response to OPCS comments at the time of the decision meeting in 2019" "to adopt a more outcome-oriented indicator" (TTL response and ICR, footnote 30), though without a clear explanation in the PD 3. The ICR (p. 24) noted that progress toward the original indicators was lagging at the time. While this indicator RI 1b may have been farther along the results chain than the budget allocation to health, it represented only one category of health expenditures, was not directly related to health outcomes, and omitted any results for the infrastructure and social assistance sectors (for which the team was unable to identify a suitable outcome-related indicator). Rating: Unsatisfactory.

RI 2 (time for central government monthly budget realization data to be publicly available) was clearly defined, and a reasonable indicator of the extent to which SPAN was in fact working as expected to "streamline the government payment process, to provide transparency… in expenditure reporting, to provide timely information to budget…." (PD 1, para. 46). Nevertheless, it at best only partly captured progress toward the objective of improved quality of spending. The baseline data and target were credible with data available on a regular basis. Rating: Moderately unsatisfactory.

RI 3 (deviation between indicative line ministry expenditure ceiling and the forward estimate in the earlier planned budget) was intended to measure "the convergence between forward estimates and indicative budget of line ministry spending" (PD 2, para. 42). The link to the PDO of improved quality of spending was indirect at best, through improvement in budget management to better align line ministry spending with overall priorities and the resource envelope. Furthermore, it was not clear, however, how deviations from forward estimates would be aggregated across line ministries, Furthermore, the shortfall in indicative budgets implied by the negative result reported for 2020 appears to indicate a reduced rather than improved level of spending. Rating: Moderately unsatisfactory.

RI 4 (enabling regulatory framework for Availability Payment Contracts for infrastructure projects with the private sector) and RI 5 (increase in number of PPP projects supported) reflected improvement in the conditions for government to engage private contractors and the result in terms of number of PPP projects. These represented credible measures toward the objective of increasing private investment in infrastructure to complement increased allocation of government budget toward the sector. The indicators were straightforward measures of steps forward from the baseline of nil, but as noted in the ICR (p. 34), "a more relevant results indicator could have been used, such as the volume of private investments incentivized."

Ratings: Moderately unsatisfactory.

RI 6 (proportion of Ministry of Public Works and Housing budget delivered through multi-year contracts) measured the effectiveness of actions to reduce barriers to multi-year contracts, as part of a results chain leading to greater efficiency and lower cost in contracting to implement public spending. The baseline and target were credible with data available on a regular basis. Rating: Satisfactory.

RI 7 (proportion of Ministry of Public Works and Housing contractual package procured during the first semester) measured the extent to which elimination of bottlenecks and early start on procurement were being achieved, as steps on the path toward greater efficiency in spending. A positive impact on development spending was expected, although this indicator related to the enabling conditions rather than achievement of the desired result. The baseline and target were credible with data available on a regular basis. Rating: Moderately satisfactory.

RI 8 (proportion of districts spending 25 percent of DAU and revenue sharing allocations on infrastructure), RI 9 (percentage of DAK physical realization in infrastructure sectors) and RI 10 (average improvement in NER for Junior Secondary School districts that received DID) represented different aspects of PA 10, which was intended to strengthen subnational fiscal management. RI 8 and RI 9 were directly related to the objective of increasing expenditure on infrastructure, and RI 10 attempted to go farther downstream by measuring improvement in educational performance expected to result from reallocation of government transfers [although the "NER" and how it is measured are not defined]. The baseline data and targets were credible with data available on a regular basis. Rating: Moderately satisfactory.

RI 11 (number of districts and provinces piloting the new chart of accounts) was introduced in DPL 3 as an indicator of progress in standardizing the subnational budget chart of accounts. Although such harmonization may be a desirable enhancement in budget administration, the relationship to the objective of improving the quality of spending was tenuous at best, and "piloting" was only a preliminary step toward implementation. Rating: Unsatisfactory.

RI 12 (proportion of contracted value of DAK by July of each year) measured progress toward accelerating implementation of transfers to subnational governments, which would enhance the timeliness of spending at the local level. The baseline and target were credible with data available on a regular basis. Rating: Satisfactory.

RI 13 (share of ministries and agencies covered by disaster risk insurance) was introduced in DPL 3 along with measures to respond to environmental disasters in 2018. It was oriented toward offsetting losses in the value of assets, which would have only an indirect relationship to the objective of improving the quality of spending or maintaining the level by minimizing budget cuts to offset losses. Rating: Moderately unsatisfactory.

RI 14 (share of ministries and agencies undertaking budget targeting for climate change adaptation) likewise was a DPL 3 response, measuring only a very preliminary step in a very long-term process of shifting budgets in the direction of accommodating the effects of climate change. It represented a measure that would only "allow subnational governments to respond more rapidly to natural disasters" (DP 3, para. 65), not indicate whether that result in terms of the quality of spending was actually being achieved (which would only materialize over a much longer period than the DPL series). Rating: Unsatisfactory.

Pillar 1 rating: Moderately Unsatisfactory

Relevance of RIs for Pillar 2 Strengthening revenue administration and tax policy

RI 15 (share of monthly VAT returns filed electronically) was directly linked to improving the efficiency and lowering the cost of tax administration, with a clear impact on the objective of increased revenue mobilization by making it much easier for taxpayers to file, thereby enlarging the base. The baseline prior to the DPL series was nil, and data were available and utilized on a regular basis. Rating: Highly satisfactory.

RI 16 (share of VAT refund requests subject to the streamlined refund procedure) was introduced in DPL 3 as an indicator of progress toward making tax administration more efficient and equitable with respect to certain categories of taxpayer who pay more taxes on purchases than they collect on sales, notably exporters. While the short-term impact on revenues would be negative, it was a reasonable indicator of efficiency and fairness in tax administration. Rating: Moderately satisfactory.

RI 17 (share of annual individual income tax returns filed electronically) and RI 18 (share of annual corporate income tax returns filed electronically) were directly linked to improving the efficiency and lowering the cost of tax administration, with a clear impact on the objective of increased revenue mobilization by making it much easier for taxpayers to file, thereby enlarging the base. The baseline and target were credible with data available on a regular basis. Rating: Highly satisfactory.

RI 19 (number of taxpayers with multiple/duplicate IDs that can be used to file returns) measured progress in the efficiency of tax administration by reducing problems and the scope for tax evasion due to some taxpayers having more than one ID as a result of moving to a different region. It was a reasonable indicator of improvements in the efficiency of tax administration. Rating: Moderately satisfactory.

RI 20 (average time taken to receive land asset data requested by DGT for audit use) and RI 21 (average time taken to access financial information requested by DGT for audit use) were reasonable measures of improvement in the efficiency of the audit process, intended to reduce delays in obtaining needed information. However, this represents only a very preliminary first step toward more effective auditing, and eventual impact on increased revenue collection through audits (a more appropriate long-term indicator), as DGT would "still need to improve its audit methodology and governance to reap the full benefits of timely access to third-party data" (PD 1, para. 70). Rating: Moderately unsatisfactory.

RI 22 (creation of a new risk management unit) was introduced in DPL 3 to track measures to address the persistent low compliance rate and the lack of a "systematic and comprehensive risk management framework" as well as inadequate "quality of internal and external data" (PD 3, para. 71). However, a new unit represented

only the first step in a long process, introduced at the end of the DPL series without a clear program of support to ensure that implementation would lead to the desired results in terms of increased compliance. Rating: Moderately unsatisfactory.

RI 23 (share of MSME taxpayers who are filing as part of the general income tax regime) can be considered as a leading indicator of progress toward the objective of broadening the tax base by including more MSMEs, but it is rather indirect since it only captures those who have voluntarily opted to be taxed under the general regime (before measures to force them to do so take effect). Although the baseline and target were clear with data available on a regular basis, both were very low (2 and 3 percent, respectively) and represented only a step toward the intended result of increased tax revenue from MSMEs. Rating: Moderately satisfactory.

RI 24 (revision of income tax regime to reduce tax base erosion and broaden the tax base) only tracked whether or not certain measures had been put in place (involving international taxation), rather than the actual change in revenue from the businesses affected. Although it indicated that a necessary first step had been taken on paper, it did not reflect the results. Rating: Moderately unsatisfactory.

RI 25 (number of new APA concluded under new rules) and RI 26 (number of new MAPs concluded under new rules) indicated whether steps to implement international tax dispute resolution mechanisms were being used. The expected results chain was that applying internationally accepted rules for dispute resolution would improve the investment climate and facilitate increased international investment, thereby broadening the tax base. The baseline data and targets were credible; though actual results would come only through a long-term process, this RI captured a necessary first step. Furthermore, it would have been more appropriate to frame the RI in terms of the proportion of requests received that were concluded under the new rules, rather than the absolute number (ICR, p. 26). Rating: Moderately satisfactory.

RI 27 (rate of growth in tax revenues from non-oil and gas income) was intended to reflect the impact of improved access to information on passive income. Although it directly measured the revenue mobilization objective, which was potentially linked to the prior action representing the necessary first step of improving information available to tax authorities on passive income. Although the results chain and data were credible, the indicator could not distinguish between the impact of the action and the effects of swings in commodity prices, making attribution difficult. (It is not clear why growth rather than level of revenues was chosen, or why the specific target chosen as of DPL 2 happened to be exactly the growth rate for 2017-18.) Rating: Moderately satisfactory.

RI 28 (number of treaties negotiated based on the model tax treaty) was introduced in DPL 3 to reflect progress against base erosion and profit shifting through double taxation agreements with other countries, based on the model tax treaty supported by PA 30. While the desired results chain was clear, negotiation of treaties was only a preliminary step toward the eventual intended result of limiting profit-shifting and evasion, and it was not clear what implementation steps would be needed and how supported to achieve that outcome. Rating: Moderately unsatisfactory.

RI 29 (share of tax expenditures whose revenues foregone are estimated) was introduced in DPL 3 as an indicator of improved fiscal transparency by estimating and publishing the amount of tax revenues lost through special exemptions. While reflecting increased transparency in tax administration, it was not clear how this would necessarily lead to the desired result of mobilizing tax revenues from those taxpayers currently receiving the exemptions. Rating: Moderately unsatisfactory.

Pillar 2 rating: Moderately Satisfactory.

Rating

Moderately Satisfactory

5. Achievement of Objectives (Efficacy)

OBJECTIVE 1

Objective

Improving the composition and efficiency of spending

Pillar 1 Improving quality of spending

Rationale

Objective 1.1: Improving central government budget allocation

PAs 1-3, RIs 1a and 1b

Although the final RI (1b) was fully achieved, it was highly limited as an indicator of the objective of reallocating government budgets toward infrastructure, social assistance and health (only the latter is partially captured by RI 1b). RI 1a was a more satisfactory indicator of achievement of the PDO, but was dropped (though substantially achieved).Recent evidence does show that central government spending as a percentage of GDP has increased for all three categories from the period before reforms (2012-14) to 2020: from 0.5 to 0.7 percent for health; 0.3 to 1.3 for social assistance; and 1.3 to 1.8 for infrastructure. The link between budget allocation percentages to higher-level objectives of economic development and poverty reduction was not well established.

Objective 1.2: Strengthening budget monitoring and management

PAs 4-5, RIs 2-3

Both targets were fully met, but the RIs were moderately unsatisfactory as indicators of the alignment of line ministries budgets with medium-term priorities for the composition of expenditures. Although the ICR did not indicate any progress on rollout of the SPAN financial management information system, the TTL reports that “SPAN now manages hundred percent of financial transactions of the central government in over 20,000 spending units,” with improved quality indicated by five consecutive years of unqualified audit opinions by the Supreme Audit Institution. While the shortfall in indicative budgets implied by the negative result reported for 2020 appears to indicate a *reduced* rather than an improved level of spending on infrastructure, social assistance and health, this is in largely due to a decreased overall budget to conform to lowered revenue expectations and the fiscal deficit ceiling of 3 percent of GDP. The government held the drop in line ministry spending (including health, social assistance and infrastructure) to -1.6 percent as against -11.6 percent for

other spending, and the "spending on these items has been consistently above the level of the pre-subsidy reform average (2012-14)" (TTL response).

Objective 1.3: Facilitating private sector infrastructure investment and multi-year contracts

PAs 6-7, RIs 4-6

All three RIs were fully achieved. However, no data were provided on the actual realization of increased volume of private investment and multi-year contracts leveraged through government contracts.

Objective 1.4: Conducting early procurement

PAs 8-9, RI 7.

The targeted increase of at least 20 percentage-points increase in the proportion of procurements in the first semester was only half achieved as of 2018. Although disaggregated data are not available, "a recently concluded WB analysis of the underlying reasons for low and slow execution in Indonesia supports empirically that the use of early procurement and multi-year contracting has indeed sped up budget execution…by 9 percent and 5 percent, respectively" (TTL response).

Objective 1.5: Strengthening subnational fiscal management

PAs 10-12, RIs 8-12

Although four of the five RIs were fully met, there was no progress with respect to piloting the new chart of accounts (which itself was not a satisfactory indicator of actual improvement in efficiency and budget allocation at the subnational level).

Objective 1.6: Improving risk management

PAs 13-14, RIs 13-14

Although both RIs were fully achieved, they were not satisfactory indicators of achievement of the objective of improved quality of spending. Although satisfactory in terms of progress in implementing the PAs, these RIs needed to be complemented by more direct data on how budgets are being managed to mitigate risk. Subsequently, "the World Bank team has undertaken a disaster spending review…showing that spending on disaster risk mitigation and recovery is underestimated in the budget, which means that spending in the event of disasters is diverted from routine purposes" (TTL response). This review "has fed into a World Bank project that supports the introduction of a disaster risk financing strategy" (Indonesia Disaster Risk Finance and Insurance [P173249]). Furthermore, climate budget tagging has enabled the government to issue sovereign green bonds to raise funding for climate investments, thereby improving spending for risk management, being carried forward under the World Bank project for Mainstreaming Climate Change in Governance [P172569] (TTL response).

Pillar 1 Rationale: The majority of RIs were fully achieved, although one indicator had negligible progress, and six of the fourteen indicators were not satisfactory in measuring achievement of the ultimate objectives (although they may have represented steps in implementing the PAs). As noted in the ICR (p. 25), "some of the RIs did not directly measure impacts pertaining to the efficiency of spending, which made it difficult to

assess the impact of reforms." Even if the results for unsatisfactory RIs are downrated (see Table 3), eleven out of fourteen indicators show Substantial or better achievement (also taking into account evidence of further progress since the ICR), with one Modest; however, one Negligible result precludes a Satisfactory rating.

Rating

Moderately Satisfactory

OBJECTIVE 2

Objective

Strengthen efficiency of tax administration and policy to enhance domestic revenue mobilization potential

Pillar 2 Strengthening revenue mobilization and tax administration

Rationale

Objective 2.1: Increasing tax administration efficiency and reducing the cost of paying taxes

PAs 15-20, RIs, 15-19

All RIs were fully achieved (in one case with a slight delay), and relevant to the objective of streamlining tax administration and making it easier and less costly to pay taxes, with a clear results chain to the ultimate objective of increasing revenue mobilization. Supplementary data from Doing Business (ICR Table 2) confirmed the expected outcomes of improvement in the time and score for paying taxes.

Objective 2.2: Improving compliance management and audit capability

PAs 21-23, RIs 20-22

Although the targets were met, they were not satisfactory as indicators that compliance was actually being improved and audits were actually being undertaken on a more timely basis due to improved access to information. (Also, financial institutions were reported to be submitting information annually, rather than "automatically" as stated in the RI.) Nor was it clear that creation of a new risk management unit has actually resulted in improved risk-based compliance strategies (the ICR, footnote 33, notes that "it may take some time for this reform to generate tangible results"). In the absence of complementary data on the actual application of the improvements indicated by the RIs, these actions represent only a start on the presumed results chain toward the desired results.

Objective 2.3: Improving VAT, LGST, excise and income tax regimes (to reduce erosion and broaden the tax base);

PAs 24-27, RIs 23-24

Although the two retained RIs were fully met, one was not satisfactory as an indicator of achievement of the objective, and "several RIs were dropped due to delays in implementing reforms" or lack of reform progress (ICR, p. 26) – implying negligible achievement of results as initially designed. Despite satisfactory progress in getting some MSME taxpayers under the general income tax regime and putting "specified measures in place" to improve the income tax regime, the uncompleted reforms "remain critical to raising tax revenues" (ICR, p. 26). The TTL has stated that progress has been made since the DPL series toward VAT reforms needed to achieve the revenue objectives, with the 2021 Tax Harmonization Law increasing the VAT rate, removing VAT exemptions and broadening the tax base to include e-commerce. Further direct evidence is needed to verify that the tax base has indeed been broadened and erosion reversed as a basis for achievement of the ultimate objective of increased revenue mobilization. Some supplementary data on income tax revenue as a percentage of GDP (ICR, Table 3) indicated improvement in 2018, but it is difficult to distinguish the impact of tax policy changes from a cyclical upswing of commodity prices. A decline in 2019 may have been due to a cyclical downswing in commodity prices, with further erosion in 2020 resulting from the Covid-19 pandemic effects on economic activity.

Objective 2.4: Improving international tax policy and tax transparency

PAs 28-31, RIs 25-29

One RI was substantially achieved and the rest fully, but the RIs were not satisfactory as indicators of the intended result of improved economic efficiency of tax policy. Nevertheless, despite weaknesses in formulation of the RIs, the objective of improving the tax dispute resolution mechanism appears to have been achieved, as a step toward increased efficiency in tax administration. Recent data show that the ratio of applications concluded to the number received rose substantially during the period 2017-20 under the new rules compared to the period up to 2016: from 0.08 to 1.19 for APAs and from 0.38 to 1.03 for MAPs (TTL response). Likewise, the ICR (p. 27) states that "several treaties" have been negotiated based on the model tax treaty supported by PA 30. In addition, the 2021 Tax Harmonization Law will remove a number of VAT exemptions (TTL response). Although these measures improved efficiency, it remains to be seen whether they will have any impact on revenues. Estimation of revenues foregone due to tax expenditures is expected to lead to improved monitoring of the net impact of special exemptions as incentives to influence economic behavior, but this is only a first step in that direction.

Pillar 2 Rationale: : Although the majority of retained targets were fully achieved, lack of progress in some actions that were critical to the ultimate objective of raising tax revenues led to the associated RIs being dropped (indicating Negligible achievement). Several of the retained indicators were less than satisfactory as evidence that the objectives were in fact being achieved.

Rating

Moderately Satisfactory

Overall Achievement of Objectives (Efficacy)

Rationale

Table 3: Relevance and Efficacy Ratings of RIs by Pillar

Results Indicator	Relevance rating	Efficacy rating (from RI or complementary evidence) Nominal	Adjusted*	Pillar Efficacy Rating	Overall Efficacy Rating
Pillar 1: Improving quality of spending				**Moderately Satisfactory** (“At least half of pillar RI targets rated Modest of better”; note: would qualify as Satisfactory, except that one is Negligible)	**Moderately Satisfactory** (both pillars MS)
RI 1a replaced by:	HS	S			
RI 1b	U	H	M		
RI 2	MU	H	S		
RI 3	MU	H	S		
RI 4	MU	H	S		
RI 5	MS	H			
RI 6	S	H			
RI 7	MS	M			
RI 8	MS	H			
RI 9	MS	H			
RI 10	MS	H			
RI 11	U	N	N		
RI 12	S	H			
RI 13	MU	H	S		
RI 14	U	H	M		
Pillar 2: Strengthening revenue and tax administration				**Moderately Satisfactory** (“At least half of pillar RI targets rated Modest of better”; note: would qualify as Satisfactory, except for Negligible progress on two of the original indicators, which were then dropped)	
RI 15	HS	H			
RI 16	MS	H			
RI 17	HS	H			
RI 18	HS	H			
RI 19	MS	H			
RI 20	MU	H	S		
RI 21	MU	S	M		
RI 22	MU	H	S		
RI 23	MS	H			
RI 24	MU	H	S		
RI 25	MS	H	S		
RI 26	MS	S	M		
RI 27	MS	H			
RI 28	MS	H	S		
RI 29	MS	H	S		

*Rating adjusted downward for lack of satisfactory relevance of the RI and lack of complementary data to confirm achievement of the objective.

Note: Two indicators were dropped for lack of progress in implementing the PAs (Negligible achievement).

Overall

Efficacy is assessed on the basis of information available at the time of the ICR, which was issued on May 23, 2021 *[to be supplemented by any additional information provided by the TTLs in an interview].* The actions focus on creating the conditions for improved quality of spending and the potential for increased mobilization. Efficacy will ultimately depend on the extent to which improvements are actualized and revenue increased, and how well expenditures and revenues are targeted toward higher-level development and poverty objectives.

Although 24 out of 29 retained RIs were substantially or fully achieved, nearly half were not fully satisfactory as indicators of progress toward objectives, and achievement on three actions was Negligible (including two RIs that were dropped for lack of progress). In some cases, evidence was lacking that the PAs could be expected to generate sustained implementation to achieve objectives, because “few prior actions were sustained throughout the DPL series….Instead of deepening reforms, new prior actions tended to expand the scope of the DPO program” (ICR, footnote 12). Nonetheless, even if the evidence from RIs with moderately unsatisfactory and unsatisfactory relevance is discounted (partly or fully), at least half the targets for each pillar are rated Modest or better, and hence both pillars are rated Moderately Satisfactory.

Overall Efficacy Rating

Moderately Satisfactory

6. Outcome

Rationale

With the relevance of PAs rated Moderately Satisfactory, and with overall efficacy rated Moderately Satisfactory, the overall outcome of the operation is rated as Moderately Satisfactory.

a. Rating

Moderately Satisfactory

7. Risk to Development Outcome

Risks to sustained implementation of reforms to achieve objectives over time have been recognized and are largely being addressed in the form of continued World Bank technical and policy support to the government.

Macroeconomic and Covid-19 risk: Gains in shifting expenditures toward infrastructure, social assistance and health could be undermined by the effect on revenue collection of continued economic slowdown due to the Covid-19 pandemic. Covid cases have diminished markedly from the surge in June-August, 2021, and the economy has been slowly recovering "thanks to policy support, gradual reopening and favourable global conditions," with GDP growth "projected to resume at around 5% annually in 2021 and 2022" (https://www.oecd.org/economy/indonesia-economic-snapshot/). However, despite an early start, Indonesia has faced significant challenges in rolling out vaccinations on a wide scale, which could affect the ability to continue opening up the economy and avoiding the effects of renewed surges of infections.

Institutional capacity: "Lack of commitment to reform in some parts of the government" (ICR, p. 33) could inhibit effective implementation of some measures initiated during the DPL series, such as creation of a risk management unit in DGT. Indeed, the third DPL was added to what was originally planned as two operations in part because more time was needed to meet the triggers. This risk is being mitigated through continued support by the World Bank team to the relevant ministries with respect to "improving the quality of tax policy and tax administration, as well as improving the quality of central government and subnational public spending" (ICR, footnote 52).

Political risk: Another reason for adding a third DPL was to allow more time to strengthen laws to reform the VAT and income tax regimes in the run-up to the 2019 general election. Nonetheless, "they were deemed to be too politically difficult to pass" (ICR, footnote 50), and it remains to be seen whether "private sector interests" can be overcome and these reforms, which are critical to increased revenue mobilization, can be achieved.

8. Assessment of Bank Performance

a. Bank Performance – Design

Rationale

Lessons from prior experience and analytical underpinnings: The design drew on extensive prior analytical work in the form of World Bank Public Expenditure Reviews, economic and sector work, Public Expenditure and Financial Accountability reviews, technical assistance, tax policy studies, and other reports; and an IMF Policy and Tax Administration report (2014), among others. However, the program document had no explicit reference to lessons from previous experience or clear links to findings from analytical work.

Risk identification and mitigation: The PD 1 (paras. 108-112) had a thorough discussion of the "substantial" risk to implementation of the planned measures, including: "(a) political and governance challenges; (b) macroeconomic (fiscal) risks, in particular revenue shortfalls relative to targets in 2016 and 2017; (c) sector strategies, in particular on tax policy; and (d) weak institutional capacity." It noted the lack of a "government-wide consensus on how to achieve these objectives and how to balance them with other objectives," as well as the high uncertainty and risk with respect to measures that required Parliamentary action. It noted that the speed of implementation could be affected "by special interests who benefit from weak tax administration and a slower pace of reform" (as indeed came to pass). These risks were to be mitigated in part by "ongoing parallel ASA support to DG Taxes on tax administration by the Bank."

It also noted the risk to enhancement of revenue administration and mobilization posed by other government efforts (outside the DPL series) to mobilize revenues in the short term (e.g., tax amnesty) and tax incentives for private investment. These were to be mitigated through ongoing technical assistance by the Bank on these other initiatives, as well as "ongoing parallel ASA support to DG Taxes on tax administration."

Stakeholder consultation: There was no indication of consultation with major domestic stakeholders with respect to the DPL series, apart from what may have occurred in the course of the underlying sector and analytical work. The ICR (p. 32) noted that "it would have been helpful to have built a more proactive and strategic engagement with other counterparts."

Coordination with Development Partners: On the other hand, there were extensive consultations with external development partners, starting with the development of the National Medium-term Development Plan (2015-2019). Other key partners with whom the Bank collaborated in supporting the government's Collecting More and Spending Better agenda included Australia (Australia-Indonesia Partnership for Economic Governance; Governance Partnership Facility), the IMF, and the US Treasury (PD 1, para. 85). The Agence Française de Développement provided parallel financing and TA, and regular consultations were held with the Asian Development Bank and the Japan International Cooperation Agency (ICR, p. 31).

Rating

Moderately Satisfactory

b. Bank Performance – Implementation

Rationale

Monitoring: The Bank had a strong team in the field of both core and sector staff to support and monitor implementation. Although the Ministry of Finance was to take the lead in monitoring progress on a quarterly basis, "in practice, the Bank supervised the operations while also being engaged in the preparation of successor operations" (ICR, p. 32). An Implementation Status and Results (ISR) report was prepared in 2018 to assess progress in implementation and with respect to the results indicators for DPLs 1 and 2.

Adaptation: There was substantial adaptation, especially in DPL 3, in response to shortfalls in implementation in some areas and to new circumstances (a series of natural disasters in 2018). On the negative side, some results indicators were dropped or modified because of stalled progress (especially failure to pass needed legislation). On the positive side, new initiatives in response to disasters included disaster risk insurance and climate finance budget tagging – although introduction of new reforms at the end of the series had the disadvantage of unclear support for continued implementation.

Rating

Satisfactory

c. Overall Bank Performance

Rationale

Although the design made strong use of a wide range of prior analytical work, there was no explicit application of lessons learned from previous experience, especially with respect to the design and implementation of a DPL series. Risks were well identified, with credible mitigation measures through complementary World Bank support with respect to technical and institutional concerns. Collaboration with development partners was strong, but negligible with domestic stakeholders. Monitoring was systematic (at least on the World Bank side), resulting in some adjustments to results indicators (though in some cases this yielded a gap between apparent meeting of targets and actual achievement of objectives).

Overall Bank Performance Rating

Moderately Satisfactory

9. Other Impacts

a. Social and Poverty

The ICR (p. 29) argues that the reforms to increase the share of government spending on infrastructure, social assistance and health have tended to have positive effects on poverty and equity (supported by a study prepared for DPL 1). But no further evidence was presented on the extent to which local government spending on infrastructure has in fact addressed spatial disparities by closing infrastructure gaps for poorer districts and providing better access to markets and economic opportunities. The measures to support disaster risk insurance and budget tagging for climate change adaptation were introduced only in DPL 3, and the ICR does not offer any evidence on their effects. The ICR notes that the Bank issued a study in 2020 on the distributional impact of government spending and taxes, but the findings could not be quantified specifically in relation to the reforms supported by the DPL series.

b. Environmental

The ICR (p. 30) argues that the environmental impacts of the fiscal reforms supported by the DPL series are likely to be positive, but does not offer any evidence on the ex post impacts.

c. Gender

Although the ICR (p. 29) indicates that an increase in social assistance spending tends to have a positive effect on gender, and that mitigating the effects of natural disasters and climate change would likely benefit vulnerable groups, including women, no specific evidence is provided. Gender was not an explicit concern in PD 1.

d. Other

Not applicable.

10. Quality of ICR

Rationale

The ICR provides a thorough and frank review of the context for the DPL series, its design and performance, consistent with the ICR guidelines. The relevance of prior actions to intended results is thoroughly and credibly discussed, as well as changes in triggers, actions and indicators. It focuses on the available evidence, with critical analysis of the extent to which nominal fulfillment of targets would have the desired impact on achievement of objectives. Some additional evidence is provided on relevant macroeconomic and fiscal variables, tax revenues, and Doing Business indicators. Complementary programs and technical assistance to support achievement of results are mentioned, although it would have been useful to have specific information on how actions introduced in DPL 3 would be supported going forward. The ICR only presented the expected poverty, social, environmental and other impacts, but ex post evidence was lacking, and it is not clear if studies to document longer-term impacts are being undertaken. The lessons learned are appropriate and well rooted in the experience and evidence.

a. Rating

High

11. Ratings

Ratings	ICR	IEG	Reason for Disagreement/Comments
Outcome	Moderately Satisfactory	Moderately Satisfactory	
Bank Performance	Moderately Satisfactory	Moderately Satisfactory	
Relevance of Results Indicators	---	Moderately Satisfactory	
Quality of ICR	---	High	

12. Lessons

The ICR (p. 34) offered the following lessons appropriately drawn from experience with this DPL series, with some adaptation by IEG:

DPLs should prudently consider political economy constraints, secure commitment at the highest levels, and consider the election cycle. While there was generally a strong technical understanding of the underlying political economy constraints and agreement on the proposed reforms, governance-related risks

were high and mitigating measures were unable to avert their materialization. Reforms often need cabinet support, thus requiring a coalition of stakeholders beyond the implementing agency. Strong continuous buy-in from the Ministry of Finance and line ministries, including delineation the responsibilities of each entity, also are key to facilitate the supervision and implementation of the operations, while reconciling their sometimes conflicting objectives. Finally, the pace of reforms typically slows during pre-election periods, while political transitions may also pose considerable risks for reversal of ongoing reforms. Although the government has retained its commitment to tax reforms and resumed them after the elections, the pace was "much more gradual [and] over a longer time horizon than initially expected…the strength of sector interests was underestimated" (TTL response).

The design of DPLs should rest on a vision and strategy that reflects high-impact priorities. Reforms that support existing government efforts with prior actions that are evidence-based are more likely to succeed**.** The policy actions included in this programmatic DPL series drew on government plans and were supported by a strong body of analytical evidence. However, some actions that would have been important to move forward along the results chain were avoided or mitigated due to "political and technical constraints (outside of the Bank's control)" (ICR, footnote 55). To minimize the impact of political and technical impediments, the design of a programmatic policy series should rest on high-impact priorities (in the short-run) and longer-term investment in institutions or capabilities.

The design of DPLs should also carefully consider the most appropriate sequencing of reforms. For instance, tax administration capabilities had to be built up before tax policy reforms could be attempted successfully. A key lesson from this DPL series is that preparation should probably start after key legislation is passed in Parliament, so that the operations can focus on implementation. Moreover, if prior actions are not followed up as intended and reforms are either delayed or dropped, it would be advisable to review the entire strategy, rather than postpone key actions (i.e. indicative triggers) to subsequent DPLs. Key reforms should not be backloaded, especially close to an election – since the latter often undermines strong prior actions. The most difficult reforms should be pursued in the first operations of a programmatic series, which can then be consolidated and deepened – rather than trying to build momentum with weaker reforms.

Some complex reforms may be better pursued with a results-based operation, rather than with a DPL. The DPL series enabled the Bank to support a wide range of key fiscal reforms, but it was sometimes challenging to define a clear result soon after the end of the DPL series. Some reforms, such as the introduction of a subnational chart of accounts, might better have been included in a results-based operation to reflect the complexity of the reform, with more and smaller reform steps and a longer time period to achieve results.

Building on these lessons, two further points can be made:

- **Be explicit on the results chain and implementation measures needed to carry forward reforms that have been initiated**. Although the ICR (p. 34) states that some "reforms that can no longer be pursued through the DPL series have been subsequently supported through other instruments (e.g. TA engagement) with positive results," necessary next steps were often unclear, nor was it clear from the documentation whether and what mechanisms were in place or expected to support implementation of some measures that were introduced later in the series (e.g., with respect to disaster mitigation and climate change).

- **Consultations with domestic stakeholders**: Failure to consult with domestic stakeholders in the course of design may have contributed to underestimation of the pushback from private interests and others that stalled Parliamentary passage of some of the key tax reforms.

13. Project Performance Assessment Report (PPAR) Recommended?

Yes

Please explain

Many of the reforms were only at the early stages of results chains that were expected to lead, eventually, to increased tax revenues and increased spending on infrastructure, social assistance and health. It would be useful for the design of DPL series to review whether and how continued implementation took place (through further tax reforms and budget allocations, as well as support through World Bank and other projects) and the extent of revenue increases that could be attributed to the reforms. It would also be helpful to have more explicit empirical verification of the expected positive impacts on poverty reduction and inequality of spending on infrastructure, social assistance and health, as well as the extent to which key tax reforms actually generated additional revenues.