



Completion Report

Project Number: 36541
Loan Numbers: 2192 and 2193-INO (SF)
October 2012

Indonesia: Local Government Finance and Governance Reform Sector Development Program

Asian Development Bank

CURRENCY EQUIVALENTS

Currency Unit – rupiah (Rp)

| | At Appraisal (22 September 2005) | At Project Completion (31 December 2010) |
|----------|--|--|
| Rp1.00 = | \$0.000105 | \$0.0001113585 |
| \$1.00 = | Rp9,510 | Rp8,980 |

ABBREVIATIONS

| | | |
|----------|---|---|
| ADB | – | Asian Development Bank |
| BAKD | – | Bina Administrasi Keuangan Daerah (Regional Financial Management) |
| BAPPENAS | – | Badan Perencanaan Pembangunan Nasional (National Development Planning Agency) |
| BPK | – | Badan Pemeriksa Keuangan (Supreme Audit Board) |
| BPKP | – | Badan Pemeriksa Keuangan dan Pembangunan (Financial and Development Supervisory Board) |
| BTP | – | biodata technical proposal |
| BUMD | – | Badan Usaha Milik Daerah (region-owned enterprise) |
| COS | – | country operation strategy |
| CSP | – | country strategy and program |
| DAK | – | Dana Alokasi Khusus (special allocation grant) |
| DBI | – | Daerah Basis Implementasi (Regional Basis of Implementation) |
| DPOD | – | Dewan Pertimbangan Otonomi Daerah (Regional Autonomy Advisory Council) |
| FMIS | – | financial management information system |
| FTP | – | full technical proposal |
| GDP | – | gross domestic product |
| LGFR | – | Local Government Finance and Governance Reform |
| MDG | – | Millennium Development Goals |
| MOF | – | Ministry of Finance |
| MOHA | – | Ministry of Home Affairs |
| MSS | – | minimum service standards |
| MTEF | – | Medium Term Expenditure Framework |
| NAPFD | – | National Action Plan for Fiscal Decentralization |
| PCU | – | project coordination unit |
| PDAM | – | Perusahaan Daerah Air Minum (regional government-owned water enterprise) |
| PEFM | – | public expenditure and financial management |
| PERDA | – | Peraturan Daerah (regional regulation) |
| PPSC | – | program and project steering committee |
| RPJM | – | Rencana Pembangunan Jangka Menengah (National Medium-Term Development Plan) |
| SIKD | – | Sistem Informasi Keuangan Daerah (regional fiscal information system) |
| SIPKD | – | Sistem Informasi Pengelolaan Keuangan Daerah (regional financial management information system) |

| | | |
|------|---|--|
| SKPD | – | Satuan Kerja Pemerintah Daerah (local government unit of work) |
| SPM | – | Standar Pelayanan Minimum (minimum service standards) |
| STP | – | simplified technical proposal |
| TA | – | technical assistance |

NOTES

- (i) The fiscal year (FY) of the Government of Indonesia ends on 31 December. FY before a calendar year denotes the year in which the fiscal year ends, e.g., FY2005 ends on 31 December 2005.
- (ii) In this report, "\$" refers to US dollars.

| | |
|-------------------------|---|
| Vice-President | S. Groff, Operations 2 |
| Director General | K. Senga, Southeast Asia Department (SERD) |
| Director | S. Hattori, Public Management, Financial Sector and Trade Division, SERD |
| Team leader | R. Hattari, Public Management Economist (Fiscal Management and Social Security), SERD |
| Team member | L. Jovellanos, Senior Economics Officer, SERD |

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CONTENTS

| | Page |
|---|------|
| BASIC DATA | i |
| I. PROGRAM AND PROJECT DESCRIPTION | 1 |
| II. EVALUATION OF DESIGN AND IMPLEMENTATION | 1 |
| A. Relevance of Design and Formulation | 1 |
| B. Program and Project Outputs | 2 |
| C. Program and Project Costs | 5 |
| D. Disbursements | 6 |
| E. Program and Project Schedules | 6 |
| F. Implementation Arrangements | 7 |
| G. Conditions and Covenants | 7 |
| H. Related Technical Assistance | 7 |
| I. Consultant Recruitment and Procurement | 7 |
| J. Performance of Consultants, Contractors, and Suppliers | 8 |
| K. Performance of the Borrower and the Executing Agency | 9 |
| L. Performance of the Asian Development Bank | 9 |
| III. EVALUATION OF PERFORMANCE | 10 |
| A. Relevance | 10 |
| B. Effectiveness in Achieving Outcome | 10 |
| C. Efficiency in Achieving Outcome and Outputs | 10 |
| D. Preliminary Assessment of Sustainability | 11 |
| E. Impact | 11 |
| IV. OVERALL ASSESMENT AND RECOMMENDATIONS | 12 |
| A. Overall Assessment | 12 |
| B. Lessons | 12 |
| C. Recommendations | 13 |
| APPENDIXES | |
| 1. Design and Monitoring Framework | 15 |
| 2. Loan 2193-INO: Local Government Finance and Governance Project | 26 |
| Compliance with Loan Covenants | |
| 3. Development Policy Letter | 34 |
| 4. Totaled Cancelled Packages | 37 |
| 5. Annual Disbursements, 2006–2010 | 38 |
| 6. List of Regions that Implement SIPKD as of 30 July 2012 | 39 |

BASIC DATA

A. Loan Identification

| | | |
|----|----------------------------------|---|
| 1. | Country | Indonesia |
| 2. | Loan Number | 2192 and 2193-INO(SF) |
| 3. | Project Title | Local Government Finance and Governance Reform Sector Development |
| 4. | Borrower | Republic of Indonesia |
| 5. | Executing Agencies | Ministry of Finance and Ministry of Home Affairs |
| 6. | Amount of Loans | |
| | a. Program Loan | \$300,000,000 |
| | b. Project Loan | SDR20,697,000 (\$30 million equivalent) |
| 7. | Project Completion Report Number | PCR: INO 1358 |

B. Loan Data

| | | | |
|----|----------------------------------|-------------------|--|
| 1. | Appraisal | | |
| | – Date Started | 7 September 2005 | |
| | – Date Completed | 22 September 2005 | |
| 2. | Loan Negotiations | | |
| | – Date Started | 7 October 2005 | |
| | – Date Completed | 8 October 2005 | |
| 3. | Date of Board Approval | 3 November 2005 | |
| 4. | Date of Loan Agreement | 9 December 2005 | |
| 5. | Date of Loan Effectiveness | | |
| | – In Loan Agreement | 9 March 2006 | |
| | – Actual | 29 December 2005 | |
| | – Number of Extensions | 0 | |
| 6. | Closing Date | <u>Loan 2192</u> | <u>Loan 2193</u> |
| | – In Loan Agreement | 30 June 2007 | 30 June 2009 |
| | – Actual | 29 December 2005 | 14 January 2011 |
| | – Number of Extensions | 0 | 1 |
| 7. | Terms of Loan | | |
| | – Interest Rate | 0 | 1% per annum (grace period); 1.5% thereafter |
| | – Maturity (number of years) | 15 | 32 |
| | – Grace Period (number of years) | 3 | 8 |

8. Disbursements

a. Dates

1. Loan 2192-INO Local Government Finance and Governance Reform Program

| | | |
|-----------------------------|------------------------------|----------------------|
| Initial Disbursement | Final Disbursement | Time Interval |
| 29 December 2005 | 29 December 2005 | 0 (single tranche) |
| Effective Date | Original Closing Date | Time Interval |
| 29 December 2005 | 30 June 2007 | 18 months |

2. Loan 2193-INO Local Government Finance and Governance Reform Project

| | | |
|-----------------------------|------------------------------|----------------------|
| Initial Disbursement | Final Disbursement | Time Interval |
| 21 September 2007 | 14 January 2011 | 40 months |
| Effective Date | Original Closing Date | Time Interval |
| 29 December 2005 | 30 June 2009 | 42 months |

b. Amount

1. Loan 2192-INO: Program Loan (\$'000)

| | | |
|--------------------|-----------------------|-------------------------|
| Tranche No. | Date Disbursed | Amount Disbursed |
| First Tranche | 29 December 2005 | \$300,000 |

2. Loan 2193-INO: Project Loan (SDR'000)

| Category | Original Allocation | Last Revised Allocation | Amount Disbursed | Undisbursed Balance^a |
|--|----------------------------|--------------------------------|-------------------------|--|
| 01 IT System | 10,859 | 10,609 | 0 | 10,609 |
| 02 Office Equipment and Miscellany | 315 | 277 | 0 | 277 |
| 03 System Application and Development | 5,255 | 5,087 | 2,270 | 2,817 |
| 04 Studies, Assessments, and Materials | 334 | 84 | 0 | 84 |
| 05 Training/Fellowship | 1,284 | 434 | 0 | 434 |
| 06 Consulting Services | 1,186 | 924 | 639 | 287 |
| 07 Interest Charge | 255 | 255 | 27 | 228 |
| 08 Unallocated | 1,209 | 1,122 | 0 | 1,122 |
| Total | 20,697 | 18,792 | 2,936 | 15,856 |
| Total \$ Equivalent | 30,000 | 29,015 | 4,496 | 24,519 |

^a Second partial cancellation: 14 January 2011. First partial cancellation: 18 June 2009 (SDR1,905,103.07).

C. Program Data

1. Program Cost (\$million)

| Cost. | Appraisal Estimate | Actual |
|-----------------------|---------------------------|---------------|
| Foreign Exchange Cost | 300 | 300 |
| Local Currency Cost | 0 | 0 |
| Total | 300 | 300 |

2. Cost Breakdown by Tranche (\$million)

| Item | Appraisal Estimate |
|---------------|---------------------------|
| First Tranche | 300 |
| Total | 300 |

3. Program Performance Report Ratings (Loan 2192-INO)

| Implementation Period | Ratings | |
|---|-------------------------------|--------------------------------|
| | Development Objectives | Implementation Progress |
| From 30 November 2005 to 31 December 2005 | Satisfactory | Satisfactory |

D. Project Data

1. Project Cost (\$million)

| Cost | Appraisal Estimate | Actual |
|-----------------------|---------------------------|---------------|
| Foreign Exchange Cost | 19.4 | 0.6 |
| Local Currency Cost | 23.5 | 4.2 |
| Total | 42.9 | 4.8 |

2. Financing Plan (\$million)

| Cost | Appraisal Estimate | Actual |
|------------------------------|---------------------------|---------------|
| Implementation Costs | | |
| ADB Financed | 30.0 | 4.5 |
| Central Government Financed | 3.8 | 0.3 |
| Regional Government Financed | 9.1 | 0.0 |
| Total | 42.9 | 4.8 |

ADB = Asian Development Bank.

3. Cost Breakdown by Project Component (\$million)

| Component | Appraisal Estimate | Actual |
|--|--------------------|------------|
| 1. Upgrade and expand SIKD | 10.2 | 3.5 |
| 2. Computerize directorate general of BAKD to enhance oversight of public expenditure and financial management reforms | 1.6 | 0.0 |
| 3. Develop and implement SIPKD | 16.1 | 0.0 |
| 4. Establish review system for PERDA and/or draft PERDA within MOF | 0.5 | 0.0 |
| 5. Certification by MOF of regional financial administrators | 0.6 | 0.0 |
| 6. Project coordination | 1.0 | 1.0 |
| Total - ADB financed | 30.0 | 4.5 |

BAKD = Regional Financial Management, MOF = Ministry of Finance, PERDA = regional regulation, SIKD = regional fiscal information system, SIPKD = regional financial management information system.

4. Project Schedule

| Item | Appraisal Estimate | Actual |
|-----------------------------------|--------------------|--------------|
| Date of Contract with Consultants | | |
| PCU Consultants – original | | 7 April 2007 |
| – extension | | 11 Mar 2010 |
| SIPKD/Regional SIKD – original | | 19 Dec 2008 |
| – extension | | 11 Mar 2010 |

PCU = project coordination unit, SIKD = regional fiscal information system, SIPKD = regional financial management information system.

5. Project Performance Report Ratings (Loan 2193-INO)

| Implementation Period | Ratings | |
|---------------------------------|------------------------|-------------------------|
| | Development Objectives | Implementation Progress |
| From 30 Nov 2005 to 28 Feb 2010 | Satisfactory | Satisfactory |
| From 1 Mar 2010 to 31 Dec 2010 | Satisfactory | Partly Satisfactory |

D. Data on Asian Development Bank Missions

| Name of Mission^a | Date | No. of Persons | No. of Person-Days | Specialization of Members^b |
|--|-------------------|-----------------------|---------------------------|--|
| Fact-Finding 1/ Follow up discussions | 14–29 Apr 2004 | 5 | 80 | a,b,c,d,k |
| Additional Fact-Finding 2/ Consultation | 25–28 May 2004 | 1 | 4 | h |
| Appraisal | 14–24 Feb 2005 | 2 | 22 | b, b |
| Consultation | 3–14 Jul 2005 | 4 | 41 | b, b, h, c |
| Special Loan Administration | 7–21 Sep 2005 | 7 | 105 | b, c, i, j, d |
| Special Loan Administration | 4–6 Dec 2005 | 2 | 6 | b, e. |
| Special Loan Administration | 17–21 Apr 2006 | 1 | 4 | e |
| Special Loan Administration | 29 May–3 Jun 2006 | 1 | 5 | e |
| Review Missions | | | | |
| 1. Review | 5–12 Jul 2006 | 3 | 24 | e,g,j |
| 2. Review | 30 Oct–3 Nov 2006 | 1 | 5 | e |
| 3. Review | 11–17 Feb 2007 | 3 | 31 | e,f, m |
| 4. Review | 25 Apr–4 May 2007 | 3 | 30 | e, f, l |
| 5. Review | 20–31 Aug 2007 | 2 | 21 | e, f |
| 6. Midterm Review | 5–15 Aug 2008 | 2 | 22 | e, c |
| 7. Review | 23–24 Sep 2009 | 3 | 6 | e, i, n |
| 8. Review | 23–27 Mar 2009 | 2 | 8 | e, c |
| 9. Review | 9–14 Aug 2009 | 1 | 6 | e |
| 10. Review | 19–20 Aug 2010 | 2 | 4 | e, k |
| Project completion review ^c | 11–14 Jun 2012 | 2 | 10 | e,l |

^b a = governance specialist, b = financial sector specialist, c = economist, d = project implementation specialist, e = public sector management specialist, f = social sector specialist, g = procurement specialist, h = director, i = counsel, j = programs officer, k = senior economic officer Indonesia Resident Mission, l = national officer headquarters, m = national officer Indonesia Resident Mission, n = secondees.

I. PROGRAM AND PROJECT DESCRIPTION

1. On 3 November 2005, the Asian Development Bank (ADB) approved loans 2192 and 2193-INO Local Government Finance and Governance Reform Sector Development Program or LGFGR for \$330 million (\$300 million for the program loan and \$30 million for the project loan) to the Government of Indonesia.¹ The objectives of the LGFGR were to enhance the development effectiveness and public service delivery efficiency of local governments. This is crucial for Indonesia as the delivery of all major socioeconomic services has been devolved to local governments, while horizontal and vertical inequities in the resource allocation mechanism remain. Local governments have inherited enormous responsibilities without adequate preparation and capacity.

2. The program loan aimed to apply lessons learned from difficulties in the implementation of reforms and project interventions toward the supplementation of public services. Based on these lessons, the program is the first systematic and holistic effort structured after intensive dialogue to support fundamental long-term reforms in a phased manner. The program scope included:

- (i) Phase 1, an integrated package of support comprised of
 - (a) a program loan to support reforms that rationalize and strengthen the policy, legal, and regulatory framework;
 - (b) project support to strengthen local government financial management capacities; and
 - (c) technical assistance (TA) support to strengthen the capacity of the new institutional mechanism to coordinate decentralization reforms; and
- (ii) Phase 2, which was to be steered by the National Action Plan for Fiscal Decentralization (NAPFD) as endorsed by the government.

The project loan aimed to implement reforms in public expenditure and financial management under phase 1 through the development and upgrading of the related financial management information system.

II. EVALUATION OF DESIGN AND IMPLEMENTATION

A. Relevance of Design and Formulation

3. The program loan was designed and formulated in line with the government's 2004–2009 National Medium-Term Development Plan (RPJM), which elaborated the vision, mission, and programs of the President of the Republic of Indonesia for 5 years. These were further specified in the three items of the National Development Agenda 2004–2009: (i) realizing a safe and peaceful Indonesia, (ii) realizing a just and democratic Indonesia, and (iii) increasing the welfare of the people.

4. The second item of the National Development Agenda 2004–2009—realizing a just and democratic Indonesia—has the following targets: (i) enhanced justice and law enforcement, (ii) assured gender justice to increase the role of women in various development fields, (iii) enhanced public service delivery by promoting good local governance and maintaining consistent regulations issued by the central government and regional governments, (iv) an improved public service bureaucracy, and (v) the promotion of a fair and just democracy process.

¹ ADB. 2003. *Report and Recommendation of the President to the Board of Directors: Proposed Loans and Technical Assistance Grant to Indonesia for Local Government Finance and Governance Reform Sector Development Program*, Manila. (L2192/L2193-INO and TA4682-INO)

5. The regulatory environment on fiscal decentralization during the program design was still evolving. In effect, the program design focused on enabling more effective local government public services through an improved fiscal, budgetary, and financial management framework. Program implementation related issues, such as promoting gender mainstreaming and donor coordination, were left out from the design.

6. The goals of the 2004–2009 RPJM were consistent with ADB's country operation strategy (COS) for Indonesia, which was built around: (i) reducing poverty and improving governance, (ii) supporting decentralization, (iii) protecting the environment, (iv) promoting human development, and (v) strengthening the economy through infrastructure investment and private sector development.

7. The Indonesia Country Strategy and Program (CSP) 2006–2009 aimed to help the government achieve its 2005–2009 RPJM objectives of higher levels of pro-poor sustainable growth and achievement of the Millennium Development Goals (MDGs). Five areas of engagement were identified in the CSP to achieve these goals: (i) improved infrastructure and infrastructure services; (ii) a deepened financial sector; (iii) improved decentralization; (iv) accelerated MDG achievement; and (v) strengthened environmental and natural resource management, with a focus on governance and anticorruption measures in all operations. Consultations with the government confirmed the CSP's strategy and focus, and its alignment with RPJM priorities.

B. Program and Project Outputs

1. The Program Loan

8. The policy initiatives for the program loan are described in the policy matrix of the report and recommendation of the President (footnote 1) and in the development policy letter (Appendix 2). The expected outputs of the program loan were as follows: (i) establish an institutional mechanism to enhance intergovernmental coordination for implementing decentralization, (ii) develop an NAPFD, (iii) strengthen and harmonize the legal framework for regional autonomy, (iv) establish frameworks for developing minimum service standards (MSS), (v) strengthen the legal and regulatory framework for intergovernmental fiscal relations, (vi) strengthen and promote a more consistent framework for regional taxation, (vii) strengthen the regulatory framework for regional government borrowing, (viii) adopt and implement regulatory framework for workout of regional government and regional government-owned water enterprise (PDAM) debt arrears, (ix) strengthen and harmonize the legal and regulatory framework for government planning and budgeting, (x) strengthen the legal framework for budgeting and accounting, (xi) establish committee on government accounting standards under the new law on state finance, (xii) adopt regulations on government accounting standards under the new law on state finance, (xiii) strengthen and harmonize the regulatory framework on regional financial management, (xiv) develop plans to effectively implement fiscal decentralization in national and local governments, and (xv) modernize and expand access to regional financial information systems. The following were achieved within budget during the program period.

a. Enhanced Intergovernmental Coordination and Development of an NAPFD

9. ***Establish an institutional mechanism to enhance intergovernmental coordination for implementing decentralization.*** The biggest challenges in managing the fiscal decentralization process in Indonesia are coordinating the three main line ministries that are responsible for it—the Ministry of Home Affairs (MOHA), the Ministry of Finance (MOF), and the National Development Planning Agency (BAPPENAS)—and accommodating the aspirations of

the regional governments. The central government, through Presidential Regulation 28/2005, established the Regional Autonomy Advisory Council (DPOD), which was designed as the coordinating mechanism responsible for advising the President on decentralization reforms. The DPOD is composed of the MOHA, the MOF, BAPPENAS, at least three representatives of local governments, and at least three experts in decentralization. Unfortunately, the DPOD has not been very effective in coordinating the fiscal decentralization process; although it meets on a quarterly basis, high ranking officials, such as the minister or directorate general, rarely attend the meetings. Thus, there is no ownership among the members of the DPOD.

10. ***Develop an NAPFD.*** BAPPENAS, the MOF, and the MOHA had prepared and endorsed an NAPFD that provides a medium-term agenda on implementing the government's fiscal decentralization agenda. It included both time-bound actions and forward-looking reform measures aimed at (i) providing greater clarity in the assignment of functions between different levels of governments; (ii) ensuring adequate funding for obligatory and other sub-functions at the local government level; (iii) improving the quality of public service delivery; (iv) augmenting local own-source revenues; (v) providing greater horizontal and vertical balance in intergovernmental fiscal transfers; (vi) implementing greater fiscal prudence, effectiveness, discipline, and accountability; and (vii) enhancing national and local capacities for better financial management and monitoring and evaluation. The NAPFD was prepared and endorsed in October 2005 by the state minister of BAPPENAS and echelon level one officials from the MOF and the MOHA.

b. Strengthened and Harmonized Framework for Regional Autonomy

11. ***Strengthen and harmonize the legal framework for regional autonomy.*** A strong regional autonomy that features local government responsibility for public service delivery is the key to a successful deconcentration. The revised Law on Regional Administration (Law 32/2004) strengthens the legal framework for regional autonomy by (i) consolidating all legal provisions governing state finance and planning from recently adopted legislation as relevant to local governments; (ii) enhancing the role and authority of provinces in evaluating the budgets of local governments as well as their execution, and coordinating intergovernmental development initiatives; and (iii) paving the way for direct election of heads of districts to devolve additional authority to local governments.

12. ***Establish frameworks for developing MSS.*** The government issued an implementing regulation (Government Regulation 65/2005) under the revised Law on Regional Administration to guide sectoral ministries in developing MSS, including the need to consider local government conditions and capacities (e.g., fiscal, institutional, personnel), and local governments in implementing MSS.

c. Strengthened, Rationalized, and Harmonized Framework for Intergovernmental Fiscal Relations

13. ***Strengthen the legal frameworks for intergovernmental fiscal relations.*** The intergovernmental transfer system has been further equalized through revision of the Law on Fiscal Balance (Law 33/2004). It has strengthened the equalization aspect of transfers from the general allocation grant and has given more flexibility to the special allocation grant. The law also forces regional governments to not impose ad hoc local taxes and charges that would lead to a high-cost economy and also rationalize the system of regional borrowing with national government recourse.

14. ***Strengthen and promote a more consistent framework for regional taxation.*** Under LGFGR, the government empowers local governments to increase the buoyancy of their local

revenue. It revised the Law on Regional Taxes and Charges (Law 34/2000), which expands and clarifies the types of local taxes and charges that may be imposed to reduce or eliminate the proliferation of nuisance taxes and charges.

15. ***Strengthen the regulatory framework for regional government borrowing.*** Regional governments are now able to finance their development projects through capital markets or borrowing from banks.

16. ***Adopt and implement regulatory framework for workout of regional government and PDAM debt arrears.*** The government provided a framework for workout of regional government and PDAM debt arrears, which enables PDAM to settle its debt and provide better local service delivery.

d. Strengthened and Harmonized Framework for Planning, Budgeting, and Financial Management

17. ***Strengthen and harmonize the legal and regulatory framework for government planning and budgeting.*** The new Law on National Development Planning System (Law 25/2004) was enacted to strengthen the legal framework for national development planning by integrating national and local government planning and budgeting. The implementation regulations on the annual Government Work Plan and on budgeting were also issued to implement performance orientation in the public sector. Law 25/2004 and its implementing regulation provided a solid regulatory framework to assist the central and local governments in improving their planning and budgeting.

18. ***Strengthen the legal framework for budgeting and accounting.*** Central and regional governance of budget execution, asset and liability management, and accounting has been strengthened through the passing of the new Law on State Treasury (Law 1/2004). The new law provides (i) clarification of budget execution arrangements, including the establishment of a single general regional government treasury account to manage the overall local government budget; (ii) provision of a framework for making and receiving loans by local governments and recovery and writing off of receivables; and (iii) clarification of responsibilities and requirements for undertaking regional financial accounting, including the establishment of a committee on government accounting standards.

19. ***Establish a committee on government accounting standards under the new Law on State Finance.*** Improving accounting standards will have a ripple effect on improving governance and accountability at both national and local governments. Presidential Decree 2/2005 was issued under the new Law on State Finance to establish the Committee on Government Accounting Standards.

20. ***Adopt regulations on government accounting standards under the new Law on State Finance.*** A uniform central and regional government accounting standard strengthened governance of the country's public financial management. Government Regulation 24/2005 was issued, which conceptualized the framework for government accounting and improved the statement on government accounting standards.

21. ***Strengthen and harmonize the regulatory framework on regional financial management.*** The government was able to draft a regulation to implement reforms in financial management under the new laws on state finance, state treasury, and national development planning system as well as the revised laws on regional administration and fiscal balance. The government fell short in issuing the regulation under LGFGR phase 1.

e. Enhanced Awareness of Public Expenditure and Financial Management Reforms and Modernization of Financial Management Information Systems

22. ***Develop plans to effectively implement fiscal decentralization in national and local governments.*** This policy action was effective in improving coordination between the MOF and the MOHA nationally on regional financial management. In particular, it led to improved coordination in clarifying the regulatory requirements that local governments need to adopt in accordance with the new laws on state finance and state treasury. Locally, the policy action increased awareness of the need to develop transparent local budgets, and making the head of local government, rather than the provincial governors, responsible for local financial management.

23. ***Modernize and expand access to regional financial information systems.*** This policy action promotes increased governance and transparency among regional governments by introducing the regional financial management information system (SIPKD). The MOHA developed and adopted a plan for the SIPKD to be implemented in 71 local governments (12 provincial governments and 59 district governments within four of these provinces, chosen by the MOHA).

2. The Project Loan

24. The expected outputs of the project at appraisal were as follows: (i) computerization of Regional Financial Management (BAKD) at the MOHA to make access by BAKD to local government financial information more timely and widespread, and to improve the analytical capacity of BAKD to more effectively provide recommendations to the MOF regarding the allocation of budget resources; (ii) development and implementation of the SIPKD to improve the regularity, timeliness, and quality of local government financial information (i.e., planning, budgeting and financial reporting); (iii) upgrading and expansion of the regional fiscal information system (SIKD) to improve the timeliness, availability, and comparability of financial accountability and performance information on local governments; (iv) development and implementation of a certification program for regional financial administrators (treasury); and (v) establishment of a centralized and computerized database of regional taxation information to enable enhanced analysis for policy purposes and speedier processing times for meeting regulatory review requirements.

25. During project implementation, the packages for the project components that were envisioned at appraisal to provide the expected outputs for items i, iii, iv, and v in para. 23 were cancelled by the program implementing units responsible for their implementation. The cancelled activities were not replaced by other activities, and no amount allocated for the activities was used. The reasons for cancellation were (i) the long delay (up to 24 months) in the procurement of hardware, (ii) the lack of regional government interest in adopting regional SIKD, (iii) the overlap of activities with other donors and government agencies, and (iv) the proposed activities had already been funded by the government.

C. Program and Project Costs

26. **Program Cost.** ADB provided a program loan of \$300 million from ADB's ordinary capital resources that was disbursed as a single tranche.

27. **Project Cost.** The project cost was estimated at \$42.9 million equivalent, consisting of \$19.4 million (45% of the total) in foreign exchange and \$23.5 million equivalent (55%) in local currency cost. ADB was envisioned to finance about \$17.6 million equivalent (90.7%) of the

foreign exchange cost of the project and 52.8% of the local currency cost. The central government was envisioned to finance about \$1.7 million equivalent (8.8%) of the foreign exchange cost of the project and about \$2.1 million equivalent (8.9%) of the local currency cost. The regional governments were envisioned to finance about \$0.1 million equivalent (0.5%) of the foreign exchange cost of the project and about \$9.0 million equivalent (38.3%) of the local currency cost.

D. Disbursements

28. The loans were approved on 5 November 2005 and became effective on 29 December 2005. The loans were disbursed in accordance with ADB guidelines.

29. **Program Loan.** The loan disbursement for the program loan was a single tranche of \$300 million. The single tranche approach for phase 1 is justified by: (i) substantive compliance with 20 key policy actions, which institute fundamental reforms in local government finance and governance; (ii) the evolving nature of phase 2 based on the uncertain macroeconomic and political environment and emerging developments and requirements; and (iii) complexities and strong vested interests involved in implementing fiscal decentralization, which requires more time to ensure stronger support and consensus. Through the NAPFD, ADB and the government have agreed on the agenda for phase 2 dialogue and design.

30. **Project Loan.** The disbursement mechanism envisaged at appraisal followed ADB's standard loan agreement provisions. The project design anticipated full loan disbursement over a period of 36 months. However, during project implementation, government cancelled 11 out of the original 13 work packages in the amount of \$21.62 million (Appendix 4). The cancellation directly affects the project's disbursement profile as only \$4.086 million was disbursed under the loan (Appendix 5).

E. Program and Project Schedules

31. **Program Loan.** The original program lasted 2 years from January 2004 to December 2006, with a closing date of June 2009. The loan became effective and the single tranche of \$300 million was released in December 2005.

32. **Project Loan.** The project was originally scheduled to be implemented over 36 months commencing in 2006 with the recruitment of consultants for project coordination in the MOF and the MOHA. Actual implementation took about 48 months from January 2006 to December 2010. The implementation pace varied during the project period. After a very slow start, the project continued to lag considerably behind schedule until after 9 April 2007, when the consultants for the management of the project coordination unit (PCU) were mobilized. These consultants assisted the directorate general of BAKD during the evaluation of the technical proposal to expedite the recruitment of the SIPKD/regional SIKD consultants until the contract was signed on 19 December 2007. The SIPKD/regional SIKD consultants were mobilized in early January 2008.

33. The cancellation of the 11 work packages resulted in the non-implementation of the related project components. The delay in the issuance of a no-objection letter from ADB for the procurement of the hardware/software required to implement the SIPKD/regional SIKD system in the regional governments has hampered its implementation.

F. Implementation Arrangements

34. **Program Loan.** The implementation arrangements concerning the executing and implementing agencies of the program, including the project management organization, were the same at appraisal and during project implementation. The MOF was the executing agency, and the MOF, the MOHA, and BAPPENAS were the implementing agencies.

35. **Project Loan.** The MOHA was the executing agency, and the MOF and the MOHA were the implementing agencies. To implement the project loan, the MOHA created a project implementation team that was chaired by the director of regional financial management. A PCU and a project implementation unit were also established to ensure a smooth implementation.

G. Conditions and Covenants

36. **Program Loan.** The government satisfactorily fulfilled all 15 policy actions with 23 key triggers. The major loan conditions and covenants were realistic and were substantially complied with during project implementation.

37. **Project Loan.** The project loan had no delay in loan effectiveness. The major loan conditions and covenants were realistic and were substantially complied with during project implementation. The project's audited financial statements for fiscal years 2007, 2008, and 2009 were complied with and submitted to the ADB on a timely basis. The independent auditors rendered an unqualified opinion on the project's audited financial statements for the fiscal years ended 31 December 2007, 2008, and 2009.

H. Related Technical Assistance

38. Three TA grants were associated to this sector development project loan: (i) TA4682-INO, piggybacked TA (see footnote 1); (ii) TA4282-INO: Local Government Financing Project (approved on 18 December 2003); and (iii) TA4543-INO: Sustaining Decentralization and Local Governance Reforms (approved on 23 December 2004). The objective of TA4682-INO was to strengthen the DPOD secretariat's technical and analytical capacities for intergovernmental coordination to enhance policy, legal, and regulatory consistency on decentralization reforms, since the DPOD has a wide mandate in analyzing proposed decentralization reforms. The TA was rated "partly successful" because despite its good technical performance, institution building was not achieved due to a lack of follow-up by the executing agency in implementing recommendations of the TA and in furthering the DPOD's mandate. The TA completion report was circulated on 10 June 2009. The two other related TAs were managed jointly beginning in 2005 and the core objectives were (i) to support the meeting of all policy matrix conditions under the proposed program loan, (ii) to support preparation of the proposed project loan, and (iii) to eventually support early phases of implementation of the project loan. TA4282-INO was rated "partly successful" given the significant implementation delays that necessitated the restructuring of the TA in mid-2005 when it became jointly managed with TA4543-INO. The latter TA was rated "successful" because it effectively achieved its objectives of meeting all policy matrix conditions for the LGFGR program and supporting the preparation and implementation of the project loan. The TA completion report for TA4282-INO was circulated on 28 May 2008 while the TA completion report for TA4543-INO was circulated on 2 May 2008.

I. Consultant Recruitment and Procurement

39. The project financed a team of implementation consultants, whose recruitment was delayed due to the executing agency's unfamiliarity with ADB procedures. It took about 12 months after the loan became effective in December 2005 before the consultants were

mobilized. A total of 275 person-months of consultancy services were allocated at appraisal, but this allocation was reduced to 219 person-months during negotiations. Actual utilization was 232 person-months, resulting in lower costs than the budget at appraisal. Given the delays in project implementation and the 1-year extension of the loan closing date, in September 2009 ADB approved the extension of the consulting contract by 1 year to continue management support to the PCU and to help the government finalize its project completion report. The recruitment of the SIPKD/regional SIKD consultants took a total of 597 days from the time the shortlisted firms were submitted to ADB by the executing agency to the time the SIPKD/regional SIKD consultants were mobilized on 4 January 2008—a total of almost 20 months. Compared with the normal quality and cost-based selection schedule of 262 days, there was an overall delay of 335 days, or about 11 months. The reasons for the delay from ADB's side were: (i) a lack of available staff for discussion of documents submitted, (ii) indecision about changing the scope of the TA since all those shortlisted by the executing agency were national firms only, and (iii) a letter from an individual, which was forwarded to the executing agency for its response, complaining that the shortlisting process for one of the consulting packages under loan 2193-INO(SF) was conducted unfairly. The reason concerning the shortlisting of national firms only should have been irrelevant because the loan agreement states, "The services of domestic consultants shall be utilized for the purpose of meeting the requirements of Components 1, 2, 3, 4 and 5. The terms of reference of the consultants shall be determined as provided for in paragraph 1 of this Schedule 5." From the side of the executing agency, the delays were mainly caused by (i) delays in the sending of requests for proposals to the shortlisted firms and (ii) a long evaluation period of technical proposals, since clarifications on issues raised by ADB had to be made and sent to ADB before it issued the no-objection letter.

40. Procurement of SIPKD/regional SIKD hardware/software with an estimated value of \$14.614 million failed to assist the implementation of the program. Both ADB and the government underestimated the difficulty in procuring the hardware component. The procurement process took over 24 months after the specific notice was advertised by ADB owing to the lack of coordination and communication between the procurement committee in both ADB and the government. The problem on ADB's side arose from the delay in finalizing bidding documents on time, which had resulted from the delay in hiring consultants responsible for providing the required endorsement of the technical specifications of the SIPKD/regional SIKD hardware/software in BDs. As a result, the MOF could not advertise the BDs because ADB had not yet issued its relevant no-objection letter. Although ADB advertised the invitation to bid on the projects, no firms actually bid, owing to the lack of technical specification of the SIPKD/regional SIKD hardware/software.

J. Performance of Consultants, Contractors, and Suppliers

41. The initial recruitment of consultants was delayed due to the decision of the government to change the project executing agency. A firm was fielded as the consultant; its overall performance is assessed as satisfactory. The unsatisfactory performance of the original team leader and national capacity building advisor prompted early replacements. Communication and interaction among the consultants, the executing agency, and ADB noticeably improved after the change in the TA team leadership. Many of the team's national consultants served a facilitating role between the project and other donor and government agencies. Other inputs that were provided for field assessments, workshops, and training courses were also used.

42. The consultants for SIPKD/regional SIKD were accommodative and innovative in meeting the demands of the executing agency and implementing agencies, particularly the regional governments. Originally, the system was to be implemented in 171 regional governments and in 17 local government units of work (SKPDs) in each regional government.

However, this arrangement was not welcomed by the regional governments during project implementation because it would have resulted in difficulties in consolidating financial data for each concerned regional government. During project implementation, a total of 51 regional governments implemented the SIPKD/regional SIKD system in all their respective SKPDs. The SKPDs in the 51 regional governments totaled 2,331, with the number of SKPDs in each of the regional governments ranging from 26 to 99. This averaged out to about 46 SKPDs per regional government, which was an increase from the envisioned 17 SKPDs per regional government. In the implementation of SIPKD, the consultants divided areas of implementation into 7 regional areas in which regional coordinators were deployed to help provide solutions to problems encountered in accelerating data/information flow for reporting, optimizing systems application use, increasing the quality of activity results, and accelerating the regional government implementation of the SIPKD/regional SIKD system. This approach has proven to be very effective in accelerating the implementation of the SIPKD/regional SIKD system in the regional governments.

43. The work conducted by the project completion unit consultants was satisfactory. Given the difficulty of implementing the project components of the program, the project completion unit consultants provided assistance to the executing agency and project completion unit in (i) preparing an inception phase of the project, (ii) managing and coordinating all aspects of subsequent project implementation, and (iii) working with the MOF, the MOHA, and local governments to implement the project.

K. Performance of the Borrower and the Executing Agency

44. **Program loan.** The government was committed to the reform agenda under the program. The MOF as the executing agency for the program loan is rated satisfactory. There was demonstrable progress in policy and institutional reforms with the MOF, the MOHA, and BAPPENAS during and after the program. The intergovernmental transfer mechanism, transparency, and the ability of regional governments to increase their revenue have all been improved.

45. **Project loan.** The MOHA as the executing agency for the project loan is rated partly satisfactory. The establishment of a directorate general of BAKD in the MOHA is a show of commitment for the implementation of SIPKD. Although the directorate general of BAKD is relatively young with little experience in implementing foreign-funded projects, the executing agency was enthusiastic and capable of fulfilling its obligations and responsibilities per the loan agreement and the implementation plan. However, during project implementation, problems emerged as a result of the slow process, which in turn delayed the recruitment process for consulting services (tax regional regulation [PERDA] and BAKD IS components) and also the procurement of the SIPKD/regional SIKD hardware/software. This led to a decline in the program implementing units' commitment and support to implementing their respective procurement packages, resulting in the cancellation of these packages.

L. Performance of the Asian Development Bank

46. ADB's performance is rated satisfactory for the program loan and partly satisfactory for the project loan. During the processing of the program loan, ADB staff worked with their government counterparts at the MOF, the MOHA, and BAPPENAS on reform areas that needed to be included in the policy matrix. During implementation, they also worked together to ensure that the actions were accomplished in a timely manner and sustainable for future programs. For the project loan, ADB staff did not anticipate the complexities of ADB's procurement procedure. Further, there was no synergy between the ADB team and ADB's Indonesia Resident Mission in

the design and implementation the project, which robbed the project of the resident mission's local knowledge.

III. EVALUATION OF PERFORMANCE

A. Relevance

47. The **program** design was “highly relevant” to the local government’s reform agenda and its goals of fiscal decentralization and administration. The program loan is considered timely as it tried to meet higher demand for better local public service delivery, particularly after the 2001 “big bang” approach on deconcentration and decentralization that the government undertook. The program loan also supported the project loan by providing regulations requesting that regional governments prepare financial reports to account for financial management. As such, the introduction of SIPKD was based on MOHA regulation number 14/2006 on financial management guidelines, which details the financial cycle stages (e.g., planning, budgeting, administration, and accounting and financial accountability) and introduces regional financial systems and procedures along with examples of manual and digital forms that can be used by governments. The **project** loan, however, was “partly relevant.” While the impact and outcome of the project loan are consistent with the government’s development agenda and ADB COS for Indonesia at the time of approval and appraisal, the program design was not adequate. The main issue is the program design did not anticipate the difficulty of public procurement in Indonesia.

B. Effectiveness in Achieving Outcome

48. The **program loan** was “effective” as it met the principal objectives of the proposed program, which were to enhance the effectiveness and efficiency of the delivery of basic public services by strengthening the policy, legal, and regulatory frameworks for decentralization as well as developing local government capacities in Indonesia.

49. The **project loan** was “less effective.” Four things contributed to the rating: (i) four of the five outputs stated in the loan agreement were cancelled by the government; (ii) the design of the project did not foresee the complexities of the procurement process; (iii) the design did not take into account the weak capacity of the MOHA as the executing agency, which had no experience in managing and implementing a large loan from a donor; and (iv) the selection of stakeholders was not wide enough. For example, the Financial and Development Supervisory Board (BPKP)² was not included as one of the implementing agencies. This affected the implementation of SIPKD in the region because the BPKP, under its mandate, also introduced its own regional information system, which competed with SIPKD.

C. Efficiency in Achieving Outcome and Outputs

50. The **program loan** was assessed as “efficient” in achieving outcome and outputs. Phase 1 of the program aimed to increase accountability in the management of local government finances. The program loan under phase 1 was structured around five key outputs to achieve: (i) enhanced intergovernmental coordination and development of an NAPFD; (ii) a strengthened and harmonized framework for regional autonomy; (iii) a strengthened, rationalized, and harmonized framework for intergovernmental fiscal relations; (iv) a strengthened and harmonized framework for planning, budgeting, and financial management; and (v) an

² The BPKP’s main function is to act as the government’s internal auditor. It is responsible for conducting internal supervision over the state’s financials, reviewing the central government’s financial report submitted by the MOF to the President, and fostering the implementation of the government’s internal control system.

enhanced awareness of public expenditure and financial management reforms and the modernization of financial management information systems (FMIS).

51. The **project loan** was assessed as “inefficient” due to the project’s low economic internal rate of return and net present value after the cancellation made by the government. After the cancellation, the internal rate of return is conservatively estimated to be 16% while without the cancellation, it is estimated to be 35%. Regarding the net present value, at a 10% real discount rate (based on the average headline inflation rate in Indonesia from 2006 to 2011), the net present value after the cancellation is estimated to be \$3.4 million, while without the cancellation, it is \$22 million.

D. Preliminary Assessment of Sustainability

52. The **program** and **project loans** are assessed to be “most likely” sustainable. Under the program, laws, regulations, standards, systems, and supporting infrastructure were introduced to improve local public services and local public finances. These included procedures for planning, budgeting, accounting, and auditing to promote greater accountability and transparency in Indonesia’s decentralization. Under the project loans, the introduction of SIPKD to the regional governments has improved local financial management governance. These significant accomplishments require the continued commitment of the government to enforce and enhance compliance with their application, evidence of which is seen in the fact that 28 additional regional governments are preparing to or continue to use SIPKD following the completion of the project in December 2010. In addition, cancellation of the hardware component of the loan did not stop the government from improving local financial management. In fact, the government allocated Rp1 billion (\$100 million) for the procurement of hardware to support the implementation of SIPKD in 119 regional governments.

E. Impact

53. LGFGR SDP improved regional government spending to be more efficient, effective, and equitable through better public service delivery, enhanced the effectiveness of fiscal decentralization on regional economic growth, and improved the local government capacity in mobilizing their own resources. The impact on the ground is shown by improved satisfaction rating for health (58.1%) and education (50.3%) in the Governance Decentralization Survey 2007. Further, Center Bureau of Statistics shows 10,370,451 households served by water supply establishments in 2010, an increased of close to 15% from 2005. LGFGR SDP also assisted the government in enabling an efficient assignment of expenditure responsibilities to regional governments through better regulatory framework. With two thirds of central government civil servants and more than 16,000 service delivery facilities are assigned to the regional governments, clear assignment responsibilities is important to ensure an efficient basic service delivery at local level. Better regulatory framework under LGFGR SDP also improved (i) allocation of revenue transfers that increased regional government spending, which in turn has lifted economic growth, and (ii) improved state allocative efficiency, which in turn has increased regional economic growth. LGFGR SDP also assisted the regional government in raising their own revenue. Sustainable decentralization and delivery of basic services require local governments to mobilize own revenues in an efficient manner. Regional governments raise funds through an approved list of taxes, fees and levies. Before LGFGR SDP, many of these are inefficient taxes which have hurt poor families and impeded local economic growth. LGFGR SDP improves the capacity of regional government to raise their revenue through efficient taxes that do not interfere with regional economic development. Further, LGFGR assisted the government in improving their governance through a transparent public financial management system.

IV. OVERALL ASSESMENT AND RECOMMENDATIONS

A. Overall Assessment

54. The overall assessment of the LGFGR Sector Development Program is “successful.”

55. **Program loan.** The program was implemented as initially designed and was “successful” with regard to the government’s development strategy, ADB’s partnership strategy with the government, and ADB’s strategic objectives at the time of approval. The program loan is considered to be successful. Regulatory reform on decentralization in LGFGR became a foundation of future reform programs. For example, the work on the NAPFD is considered to be a success story of LGFGR since the NAPFD is synchronized with the Grand Strategy for Fiscal Decentralization that was later developed under LGFGR 2. LGFGR also recognizes the importance of strengthening local public financial management capacity. However, policy action that required strong coordination between the MOF, the MOHA, and BAPPENAS, such as the DPOD, was not successful. For the DPOD to be effective, a government agency with more responsibility will need to be the coordinator.

56. **Project loan.** The project loan is assessed as “partly successful.” Although the project loan at formulation was relevant to the development strategies and policies of both the government and ADB, the implementation experienced a major delay due to poor design, causing the project loan to be less effective and inefficient.

B. Lessons

1. Program Related

57. **Technical assistance inputs.** The TA work plan assumed that the policy and institutional reforms would be achieved early and that the remainder of the time would simply involve monitoring and evaluation of implementation. However, policy reforms take time, and continued monitoring and effort are required from the TA, the counterparts, the government, and ADB throughout the program to effect policy and institutional changes.

58. **Long-term perspective.** The adoption of a medium-term expenditure framework for the local government budget meant that the local government was equipped with a set of long-term objectives to guide and shape medium-term policy design and implementation. The close consultation involving the government, ADB, and other development partners strengthened the government’s ownership and increased the potential for funding agency buy-in.

59. **Flexibility in design.** A local government finance and governance reform program is complex and involves major changes in the legal and regulatory framework, institutional arrangements, local government financial infrastructure, and human capacity. Hence, sufficient time must be allocated to program implementation, and design flexibility must remain a key consideration.

60. **Time lag between adoption of reforms and effective enforcement.** The delays in the enforcement of minimum service standards were specifically mentioned.

61. **Coordination among stakeholders.** A key factor in the acceleration of local government finance and governance reform is coordination among stakeholders. Therefore, effective coordination and information sharing are essential to successfully implement a project involving government agencies and numerous stakeholders.

2. Project Related

62. **Full commitment from the regional governments.** The successful implementation of a project depends on the support and commitment of top level management, including provincial governors, Bupati, and Walikota at the Kepala Bagian/Dinas level, as well as Tim Admin and operators. Changes in personnel at the Kepala Bagian level who are in charge of implementing the SIPKD/regional SIKD system in the regional governments but without the commitment to the use of the SIPKD/regional SIKD system can discontinue the implementation of the SIPKD/regional SIKD system in the concerned regional government with smooth running system.

63. **Realistic outputs are the key to success.** The project was conceptualized and designed to cover 171 participating regional governments in the implementation of the SIPKD/regional SIKD in the regional governments. This was too wide a scope to cover over 36 months of implementation.

64. **Project design needs to incorporate regional governments' inputs.** It is the view of the participating regional governments that the concept and design of the project can be improved. The initial design, which envisioned the implementation of SIPKD in 17 regional government work units, could be expanded to accommodate all working units since these units are all interrelated. Implementation in all work units would provide a clearer picture on the benefits of SIPKD.

65. **Better design of procurement procedures.** Procurement thresholds should be more carefully considered, particularly for the procurement of information technology hardware/software, which requires a precise and timely procurement process due to the fast-changing pace of technology and the risk of obsolescence. In addition, an early consultant support should be provided to the executing agency to assist it in the design of procurement procedures.

66. **Better recruitment of consultants.** Projects that require the hiring of a consultant who is responsible for the recruitment of other project consultants should consider the following during the planning stage: (i) using advance contracting and a retroactive financing method that allows the borrower to proceed, with ADB's approval, with the selection (though not contracting) of consultants before the loan effectiveness or (ii) using ADB-provided funds for a TA covering the recruitment of project completion unit consultants, and later including this as part of the cost of the TA portion of the loan.

C. Recommendations

1. Program and Project Related

67. **Future Monitoring.** The progress of local government finance and governance reforms, as well as reform activities that have not yet been completed, will require close monitoring after LGFGR 1. ADB TA is guiding the completion of some key reforms activities beyond LGFGR 1. Continued implementation and stronger enforcement will ensure the achievement of the LGFGR 1 outcome and impact. Key reform initiatives will require sufficient human capital with the expertise and the will to strengthen surveillance and enforcement.

68. **Continuing regional government support.** To sustain and widen the usage of the SIPKD system, the MOHA and regional governments need to share information on the importance of having a financial information management system in place to manage the

finances of the regional governments. Further, for those regional governments that have implemented the SIPKD system, the MOHA will need to ensure that the SIPKD consultant provides the necessary maintenance support as stated in their 5-year warranty.

69. **Continuing support of the SIPKD system at the MOHA.** ADB needs to continue to coordinate and share information among all the directorates and the secretariat of the directorate general of regional finance. In turn, the MOHA will need to provide adequate annual budget funds for the implementation of the SIPKD and continue to implement the regional SIKD system at the directorates and the secretariat of the directorate general of regional finance.

70. **Improved synergy between ADB headquarters and the Indonesia Resident Mission.** During the design stage of the project loan, the involvement of resident mission staff, particularly the procurement officer, would facilitate implementation. Further, during implementation, the resident mission's procurement officer could be utilized as the backstop for any procurement concerns arising from the counterparts.

71. **Incorporating gender classification.** At the time of formulation of the LGFGR sector development project, gender mainstreaming was not yet emphasized. It is now included under LGFGR 2 to follow up on gender issues and incorporate gender considerations in policy formulation and regulatory developments for fiscal decentralization.

72. **Timing of the performance evaluation report.** The program performance evaluation report may be prepared in 2015, when the full ramifications of LGFGR policy reform activities are apparent.

2. General

73. **Sustainability.** To ensure sustainability of the SIPKD, measures are needed to develop to promote more synchronization between the SIPKD and the BPKP's regional information system, which will catalyze additional regional governments to adopt an FMIS.

74. **Strengthen donor coordination.** Future project-related engagement must be shared with other donors. An effective way to do so is through the already established donor working group on fiscal decentralization, which is currently chaired by the Deutsche Gesellschaft für Internationale Zusammenarbeit.

75. **Use the same executing agency for the program and project loans.** Having the same executing agency for both the program and project loans would improve the implementation of the program since the loans support one another's implementation. The executing agency should be equipped with the mandate and capacity to accomplish fiscal decentralization. Therefore, any future related program should be handled by the MOF, in particular the directorate general of fiscal balance. The directorate general of fiscal balance was established as the leading national agency for fiscal decentralization reforms, and it has led consultative mechanisms for policy and regulatory reforms with government agencies as well as aid coordination. The latter included the preparation, through the tim asistensi (assistance team), of the Grand Strategy for Fiscal Decentralization and the ongoing regulatory review of Law 33/2004, the main regulation governing fiscal decentralization. The directorate general of fiscal balance also co-chairs meetings of the DPOD and has provided leadership to ADB's LGFGR program (it has been the executing agency for several ADB TA projects) and other development partner programs, and has coordinated through formal and informal arrangements with key central ministries and regional governments. The current government regulatory review is assessing the central government's institutional framework for policy coordination and is reconsidering the role of all relevant stakeholders.

DESIGN AND MONITORING FRAMEWORK

| Design Summary | Performance Targets | |
|--|---|--|
| | Appraisal | Status |
| Impact More efficient, effective, and equitable regional government spending | More equitable and efficient fiscal transfers by 2007 in relation to the outcomes in 2005 | Governance Decentralization Survey 2007 shows 58.1% satisfaction rating for health and 50.3% for education. Center Bureau of Statistics shows 10,370,451 households served by water supply establishments in 2010 |
| | Increase in DAK through greater devolution of centrally sponsored and funded initiatives resulting in greater alignment between public services and local preferences | DAK in 2011 totaled 0.40% of GDP. Incorrect deconcentrated funds, allocated through adjustment fund, increased from 0.10% of GDP (2008) to 0.70% of GDP (2011). |
| | Increase in regional development spending between 2004 and 2007 | In 2010: health (8.8%), agriculture (2.0%), infrastructure (17.0%), and environment and special planning (2.0%). The share for government administration spending is 35.0% due to the increased number of local governments. |
| | Improvement in quality and consistency of local government financial reports | |
| | Enhanced access to local government financial information | At the end of 2010, an FMIS had been fully implemented in 53 regional governments, partially implemented in 41, and initiated in 25, with free software available for expansion to all regional governments. Work in this area has included FMIS training for 5,657 officials. |
| Outcome Increased accountability in management of local government finances | Enhanced intergovernmental coordination in implementing decentralization reforms | The Grand Strategy for Fiscal Decentralization and NAPFD are key documents outlining the decentralization steps. |
| | Participating local governments prepare regional budgets, work plans, and | In 2011, close to 50% of 473 regional governments submitted their regional |

| Design Summary | Performance Targets | |
|---|--|---|
| | Appraisal | Status |
| | <p>financial statements in accordance with legal and regulatory requirements.</p> <p>The time frame for consolidation of financial data from regional government is decreased by 25% between 2004 and 2007.</p> <p>Financial information filed by local governments increases by 50% between 2004 and 2007.</p> <p>Increase in public access to local government financial information between 2004 and 2007</p> <p>Increase in number of PERDAs on taxes and charges submitted to MOF and MOHA for review between 2004 and 2007</p> <p>50% of PERDAs on taxes and charges reviewed, and evaluations issued by the MOF and MOHA within mandated time frame</p> | <p>budgets to the MOF on time.</p> <p>In 2010, time delays in publishing consolidated regional government financial information had been progressively reduced to 1 year.</p> <p>In 2011, close to 50% of 473 regional governments submitted their regional budget to the MOF on time.</p> <p>In 2011, close to 50% of 473 regional governments submitted their regional budget to the MOF on time.</p> <p>In 2011, 9361 PERDAs were evaluated by the MOF and MOHA as compared to 810 in 2006.</p> <p>No data</p> |
| Outputs A. Program Loan (L2192-INO) 1. Establish an institutional mechanism to enhance intergovernmental coordination for implementing decentralization | Presidential Regulation 28/2005 issued establishing the DPOD to advise the President on decentralization reforms. The DPOD to comprise, among others, the MOHA, the MOF, BAPPENAS, at least three representatives of local governments, at least three experts in decentralization, and a secretariat to provide technical advice on and support for regional autonomy and fiscal balance | Presidential Regulation 28/2005 issued (March 2005) |

| Design Summary | Performance Targets | |
|---|---|---|
| | Appraisal | Status |
| 2. Develop a national action plan for fiscal decentralization | <p>MOHA regulations clarifying the operation of the DPOD and decrees establishing technical working groups and appointing members to these groups</p> <p>A NAPFD prepared and endorsed by the state minister of BAPPENAS and the ministers of the MOF and the MOHA. The NAPFD shall include time-bound actions with forward-looking reform measures aimed at: (i) providing greater clarity in the assignment of functions between different levels of government; (ii) ensuring adequate funding for obligatory and other sub-functions at the local government level; (iii) improving the quality of public service delivery; (iv) augmenting local own source revenues; (v) achieving greater horizontal and vertical balance in intergovernmental fiscal transfers; (vi) achieving greater fiscal prudence, effectiveness, discipline, and accountability; and (vii) enhancing national and local capacities for better financial management and monitoring and evaluation.</p> | <p>MOHA regulations 30/2005 and 31/2005 issued (July 2004) and MOHA decrees 118-888 and 118.05-914 issued (October 2005)</p> <p>NAPFD prepared and endorsed by state minister of BAPPENAS and echelon level one officials from the MOF and MOHA (October 2005).</p> |
| 3. Strengthen and harmonize the legal framework for regional autonomy | Revised Law on Regional Administration enacted to strengthen the legal framework for regional autonomy by (i) consolidating all legal provisions governing state finance and planning from recently adopted legislation as relevant to local governments; (ii) enhancing the role and authority of | Law 32/2004 adopted (September 2004) |

| Design Summary | Performance Targets | |
|---|---|--------------------------------------|
| | Appraisal | Status |
| | provinces in evaluating the budgets of local governments and their execution, and in coordinating intergovernmental development initiatives; and (iii) paving the way for direct election of heads of districts, to devolve further authority to local governments | |
| 4. Establish frameworks for developing minimum service standards | Government regulation issued under the revised Law on Regional Administration to guide sectoral ministries in developing minimum service standards, including the need to consider local government conditions and capacities (e.g., fiscal, institutional, personnel), and local governments in implementing minimum service standards. | Government regulation |
| 5. Strengthen the legal and regulatory framework for intergovernmental fiscal relations | Revised Law on Fiscal Balance enacted to strengthen the legal framework for intergovernmental fiscal relations by (i) stipulating that local governments shall not impose ad hoc local taxes and charges leading to a high-cost economy; (ii) adopting a more rational system of general-purpose transfers, which will be determined in line with fiscal needs and fiscal capacity; (iii) making the special-purpose transfers more flexible, to gradually move toward greater earmarked transfers and greater accountability; and (iv) rationalizing the system of regional borrowing with national government recourse. | Law 33/2004 adopted (September 2004) |

| Design Summary | Performance Targets | |
|---|---|---|
| | Appraisal | Status |
| 6. Strengthen and promote a more consistent framework for regional taxation | Government regulations issued under the revised Law on Fiscal Balance to (i) clarify and promote a more equitable framework for fiscal balance (special-purpose grants and general-purpose transfers), and (ii) clarify the framework for regional government information systems, including reporting requirements by local governments. | (i) The MOF submitted draft regulations to MLHR. Issuance pending submission by MLHR to the President for approval (ii) Issuance pending submission by MOF to MLHR for review and referral to the President for approval |
| | (i) Amendments to the Law on Regional Taxes and Charges (34/2000) submitted to the state secretariat to (a) expand and clarify the types of local taxes and charges that may be imposed, and (b) clarify the type of local taxes and charges that can be imposed to reduce or eliminate the proliferation of nuisance taxes and charges; (ii) review of PERDAs on taxes and charges, as of 31 March 2005, to ensure conformity with higher laws and regulations, prepared and submitted to the MOHA (MOF report); and (iii) adoption of plan, backed by technical proposal and costing, to computerize and streamline the system and processes for review of draft PERDAs on taxes and charges under the Revised Law on Regional Administration | (i) New Law on Regional Taxes and Charges (Law 28/2009) passed in 2009 (ii) The MOF submitted report to the MOHA (April 2005) (iii) The MOF adopted plan (September 2005) |
| | Based on the MOF report, PERDAs on taxes and charges that are deemed inconsistent with higher laws and regulations revoked by MOHA | The MOHA revoked PERDAs on inconsistent taxes and charges (August 2005) |

| Design Summary | Performance Targets | |
|--|---|---|
| | Appraisal | Status |
| 7. Strengthen the regulatory framework for regional government borrowing | Government regulation issued under the revised Law on Fiscal Balance to harmonize and clarify the regulatory framework on regional government borrowing | The MOF submitted draft regulation to MLHR. Issuance pending MLHR submission to the President for approval |
| 8. Adopt and implement regulatory framework for workout of regional government and PDAM debt arrears | (i) Government regulation issued under the new Law on State Treasury to provide a framework for workout of regional government and PDAM debt arrears; (ii) related ministerial decree issued to operationalize this new regulation; (iii) report prepared identifying and clarifying local government and PDAM loan portfolio status for regional government development account loans pursuant to subsidiary loan agreements with local governments and PDAMs as of 31 December 2004, including extent of arrears; and (iv) the MOF to enter into debt workout agreements with 7 local governments and/or PDAMs with arrears | (i) Government Regulation 14/2004 issued (March 2005) (ii) Government Regulation 30/2011 issued (iii) Report prepared (April 2005) (iv) The MOF initiates debt workout agreements (October 2005) |
| 9. Strengthen and harmonize the legal and regulatory framework for government planning and budgeting | New Law on National Development Planning System enacted to strengthen the legal framework for national development planning through integration of national and local government planning with budgeting | Law 25/2004 adopted (2004) |
| 10. Strengthen the legal framework for budgeting and accounting | Government regulations on government work plan and on budgeting issued to implement performance orientation in the public sector New Law on State Treasury enacted to strengthen the legal framework for budget | Government Regulations 20/2004 and 21/2004 issued (August 2004) Law 1/2004 adopted (January 2004) |

| Design Summary | Performance Targets | |
|---|---|---|
| | Appraisal | Status |
| | execution, assets, and liabilities management and accounting through (i) clarification of budget execution arrangements, including the establishment of a single general regional government treasury account to manage the overall local government budget; (ii) provision of a framework for making and receiving loans by local governments and recovery and writing off of receivables; and (iii) clarification of responsibilities and requirements for undertaking regional financial accounting, including the establishment of a committee on government accounting standards | |
| 11. Establish committee on government accounting standards under the new Law on State Finance | Presidential decree issued under new Law on State Finance to establish the Committee on Government Accounting Standards | Presidential Decree 2/2005 issued (January 2005) |
| 12. Adopt regulations on government accounting standards under the new Law on State Finance | Government regulation issued on the conceptual framework for government accounting and the statement on government accounting standards 1 to 11. | Government Regulation 24/2005 issued (June 2005) |
| 13. Strengthen and harmonize the regulatory framework on regional financial management | Government regulation issued to implement reforms in financial management under the new laws on state finance, state treasury, national development planning system, and the revised laws on regional administration and fiscal balance | The MOHA submitted draft regulation to the MLHR. Issuance pending submission by MLHR to the President for approval. |
| | The MOHA, in coordination with the MOF, to adopt a time-bound action plan to | MOHA adopted time bound action plan (October 2005). |

| Design Summary | Performance Targets | |
|--|---|---|
| | Appraisal | Status |
| 14. Develop plans to effectively implement fiscal decentralization in national and local governments | <p>implement the revised government regulation on regional financial management, including adoption of amendments related to the MOHA decree on regional financial management and a template PERDA on required financial management.</p> <p>The MOHA shall (i) adopt a plan, backed by technical proposal and costing, for a computerized FMIS to automate processes for the receipt and policy/regulatory evaluation of financial and performance data submitted by local governments; (ii) select 12 provinces to participate in the program, 4 of which shall identify up to 59 of their districts, based on objective criteria agreed upon with ADB; (iii) coordinate with the participating provinces, who will coordinate with the participating districts, on the institutional and regulatory arrangements to implement public expenditure and financial management reforms; and (iv) adopt a plan, in consultation with participating provinces and districts, backed by technical proposal and costing, for introduction of a computerized SIPKD and related infrastructure</p> | <p>The MOHA adopted the FMIS plan, participating provinces and districts were selected in coordination with ADB, the MOHA reached agreements with participating provinces and districts on arrangements for implementing public expenditure and financial management reforms, and the MOHA adopted the SIPKD plan (September 2005).</p> |
| 15. Modernize and expand access to regional financial information systems | <p>The MOF to adopt a plan, backed by technical proposal and costing, to expand the SIKD to an additional 100 local government locations, to be chosen based on objective criteria agreed upon with the</p> | <p>The MOF adopted plan for SIKD upgrade and expansion (September 2005).</p> |

| Design Summary | Performance Targets | |
|--|--|---|
| | Appraisal | Status |
| to enable enhanced analysis for policy purposes and speedier processing times for meeting regulatory review requirements. | | |
| Technical Assistance More effective intergovernmental coordination by the DPOD of the implementation of decentralization reforms | Enhanced technical and analytical capacity of the DPOD to enable the effective promotion of key fiscal decentralization policy reforms Support to DPOD technical working group members and staff, which includes preparing technical studies supporting the need for reforms, developing frameworks for analytical work, monitoring the DPOD's performance in promoting reforms, holding workshops and seminars to disseminate findings, and building consensus with key stakeholders | The piggybacked TA, (with support from TA4282-INO and TA4543-INO) was able to support the policy matrix for LGFGR. The TA produced the following: (i) a study and workshop on fiscal decentralization that outlined how to evaluate proposals using qualitative and analytical approaches without excessively relying on quantitative approaches, using the proposed general allocation grant formula changes as a case study; (ii) an introductory workshop that included DPOD members and line ministries, such as health and education, that highlighted key DAK issues; (iii) a technical paper on the importance of decentralization laws that provide for inter-jurisdictional service delivery; (iv) a site visit (organized together with the DPOD secretariat) to support information collection and a workshop on key recommendations. |
| Inputs ADB Financing Program Loan Project Loan Technical assistance | \$300.0 million \$30.0 million \$0.5 million | \$300.0 million \$4.5 million \$0.4 million |

| Design Summary | Performance Targets | |
|---|---|---------------|
| | Appraisal | Status |
| Government Contribution Project loan: Central government Local government Technical assistance | \$3.8 million \$9.1 million \$0.125 million | Not available |

ADB = Asian Development Bank, BAPPENAS = Badan Perencanaan Pembangunan Nasional (National Development Planning Agency), DAK = Dana Alokasi Khusus (Specific Allocation Fund), GDP = gross domestic product, DPOD = Dewan Pertimbangan Otonomi Daerah (Regional Autonomy Advisory Council), MOHA = Ministry of Home Affairs, MOF = Ministry of Finance; NAPFD = National Action Plan for Fiscal Decentralization, PDAM = Perusahaan Daerah Air Minum (regionally owned water supply company), PERDA = Peraturan Daerah (regional regulation), TA = technical assistance.

Source: Asian Development Bank.

LOAN 2193-INO: LOCAL GOVERNMENT FINANCE AND GOVERNANCE PROJECT

COMPLIANCE WITH LOAN COVENANTS

| No. | Reference | Covenant | Remarks |
|-----|----------------------------|--|---|
| | Article IV Section 4.01 | <u>Particular Covenants.</u> In carrying out of the Project, the Borrower shall perform, or cause to be performed, all obligations set forth in Schedule 6 to this Loan Agreement. | See comments below for obligations set forth in Schedule 6 to this Loan Agreement. |
| 1. | Schedule 6 (4) | <u>Project Implementation and Coordination</u> A PPSC shall be established, comprised of echelon one level officials from MOF, MOHA and BAPPENAS to provide overall coordination of both the <u>Project</u> and the <u>Program</u> as described in the Program Loan Agreement. | (a) Program PPSC already established on 27 December 2005 per MOF Decree No. 602/KMK.06/ 2005. (b) Project technical team established at MOHA level per MOHA Decree No. 900.05-102/2006. |
| 2. | Schedule 6 (5) | The Borrower shall ensure that, within three (3) months of the Effective Date, a PCU has been established within DG BAKD. | PCU within directorate general of BAKD already established on 21 March 2006 under MOHA Decree No. 900.05-023. |
| 3. | Schedule 6 (6) | The PCU shall assist with implementation of the Project including on procurement matters, and provide support to: (i) prepare the inception phase of the Project, (ii) coordinate subsequent Project implementation, and (iii) assist MOF or MOHA, as applicable, regional governments and regional coordinating committees to implement the Project. The PCU staff shall include a Project Coordinator, Project Manager, an accountant and other experienced and qualified personnel. | PCU consultants mobilized on 10 April 2007 per contract no. 175/Dit IV/IV/BAKD dated 9 April 2007 between the Government of Indonesia and AHT Group Consultants in association with PT. Cakra Hasta Konsultan. The contract was extended to 15 November 2010 per contract no. 193.2/BAKD dated 11 March 2010. |
| 4. | Schedule 6 (7) | In order to facilitate Project implementation, the Borrower shall ensure that a regional coordinating committee is established prior to the implementation of Components 1, 3, and 4 in each regional government participating in the | The executing agency set up a regional coordinating committee in the Directorate of Regional Finance to coordinate SIPKD's implementation in 171 regional governments. The working agreement is guided under the MOHA issued Instruction Letter |

| No. | Reference | Covenant | Remarks |
|-----|-----------------|--|--|
| | | Project. Each regional coordinating committee, composed of senior regional government representatives from the regional secretariat, finance bureau, legal bureau, planning agency, and if necessary, the health or education sector agency. | No. 900/1199/BAKD on the implementation of SIPKD and regional SIKD to all governors in Indonesia and <i>Bupati/Walikota</i> of Pemda participating in the SIPKD/regional SIKD LGFGR program. All regional government heads have agreed to participate in the program. New MOHA Instruction Letter No. 900/122/BAKD concerning the technical implementation guidelines for the SIPKD and regional SIKD issued on 13 February 2008. |
| 5. | Schedule 6 (8) | The Borrower shall ensure that, within nine (9) months of the Effective Date, recommendations from the Project Executing Agency have been made for the award of contracts for major consulting services that are to commence within the first year of Project implementation. | Only two consulting services were implemented in the LGFGR project up to the end of the loan closing date: (i) management of the PCU and (ii) contract for the SIPKD/regional consultants. The consulting services for the other packages were cancelled. |
| 6. | Schedule 6 (9) | For Component 1, the selection of participating regional governments shall be based on field assessments and workshops using criteria agreed upon by the Borrower and ADB, including: (a) willingness or commitment to participate; (b) quality and timeliness of SIKD submitted in the past; and (c) support for locations where complementarities exist with other development partner projects. | Implemented, see item 4. |
| 7. | Schedule 6 (10) | <u>Counterpart Contribution and Funds</u> Without prejudice to the generality of Section 6.06 of the Loan Regulations, the Borrower shall ensure that, budget approval documents for the first year of Project implementation shall have been issued as part of the Borrower's budget revision | Implemented, see item 4. |

| No. | Reference | Covenant | Remarks |
|-----|--------------------|---|--------------------------|
| | | process that occurs immediately following the Effective Date. | |
| 8. | Schedule 6 (11) | Borrower shall ensure that all necessary counterpart in-kind contributions (for example, staff, office space and recurrent costs) and funds for Project implementation at the national and regional government levels are provided in a timely manner and, to such end, the Borrower shall make timely submissions of annual budgetary appropriation requests and take all other measures necessary or appropriate for prompt disbursement of appropriated funds or in-kind contributions during each year of Project implementation, to: (i) MOF for Component 4 and Component 5, (ii) MOF and regional governments for Component 1, (iii) MOHA for Component 2, (iv) MOHA and regional governments for Component 3, and (v) MOHA for Project coordination and management. | Implemented, see item 4. |
| 9. | Schedule 6 (12) | The Borrower shall ensure that (i) regional governments participating in Component 1, Component 3 or Component 4 are aware of the need to provide counterpart funding or in-kind contributions for Project activities in each such participating regional government, and (ii) each participating regional government is informed that a failure to produce the required counterpart funding or in-kind contribution for a period in excess of one year since the commencement of the related component activities shall result in that regional government no longer being eligible for participation in the Project, unless otherwise agreed by ADB. | Implemented, see item 4. |

| No. | Reference | Covenant | Remarks |
|-----|--------------------|---|--|
| 10. | Schedule 6 (13) | <u>Governance</u> The Borrower shall ensure that Project coordination and management consultants assisting the PCU conduct independent reviews of implementation progress, procurement, disbursement, compliance with Loan Agreement covenants, and other relevant Project issues. The Borrower shall ensure that, subsequent to approval by the Project Executing Agency and ADB, the review is made available to the public or, in the event it is not approved by the Project Executing Agency, then the review shall be made public after approval by ADB with an indication that it has not been approved by the Project Executing Agency, and the Project Executing Agency shall then prepare its own review and make that review available to the public. | Implemented. The review was posted on MOHA's website. |
| 11. | Schedule 6 (14) | <u>Auditing and Financial Recordkeeping</u> Without prejudice to the generality of Sections 4.02(a) of this Loan Agreement, the Borrower shall ensure that MOF and MOHA maintain a separate accounting system for Project expenditures in accordance with sound accounting principles. All Project accounts, including financial statements, statement of expenditures and account records, shall be audited annually as part of the regular audit accounts and financial statements. The audit opinion shall include (i) an assessment of the adequacy of accounting and | The BPKP has issued its <u>unqualified opinion</u> ³ on the project's audited financial statements as of 31 December for fiscal years 2007, 2008, and 2009. |

³ The BPKP's classification of audit opinions, from strongest to weakest are as follows: (i) *Unqualified* (clean without exceptions) opinion, (ii) *Qualified* (clean with exceptions) opinion, (3) *Adverse* opinion, and (4) *Disclaimer* opinion.

| No. | Reference | Covenant | Remarks |
|-----|--------------------|--|-----------------------------|
| | | internal control systems with respect to Project expenditures and other financial transactions, specifically including the use of the imprest accounts; (ii) a determination as to whether the Borrower and the Project Executing Agency have maintained adequate documentation for the imprest account procedures; and (iii) confirmation of compliance with this Loan Agreement's financial covenants and ADB requirements for project management. The consolidated audit reports (in English and with each for MOF and MOHA) shall be submitted to ADB in accordance with the requirements and within the deadlines stated in Section 4.02(a) of this Loan Agreement. | |
| 12. | Schedule 6 (15) | <u>Reporting</u> The Borrower shall ensure that a reporting system is established to report financial and operational activities. Quarterly reports shall indicate, among others things, commitments and disbursements, implementation status of approved activities, progress made against established targets, problems encountered during the quarter, steps taken and proposed to resolve the problems, compliance with these Loan Agreement covenants, and proposed Project activities to be undertaken during the following quarter. The Project Executing Agency shall submit the quarterly consolidated reports, in English, to ADB within 20 working days after the end of each quarter using formats detailed in the Project Administration Manual. | Quarterly reports prepared. |
| 13. | Schedule 6 | <u>Project Performance and</u> | |

| No. | Reference | Covenant | Remarks |
|-----|-------------------------------|---|--------------|
| | (16) | <u>Monitoring System (PPMS)</u> The Borrower shall ensure that the PPMS, as agreed upon by the Borrower and ADB for inclusion in the Project Administration Memorandum, is implemented and managed effectively. | Implemented. |
| 14. | Article IV Section 4.02(a) | <u>Particular Covenants.</u> The Borrower shall (i) maintain, or cause to be maintained, separate accounts for the Project; (ii) have such accounts and related financial statements audited annually, in accordance with appropriate auditing standards consistently applied, by independent auditors whose qualifications, experience and terms of reference are acceptable to ADB; (iii) furnish to ADB, as soon as available but in any event not later than six (6) months after the end of each related fiscal year, certified copies of such audited accounts and financial statements and the report of the auditors relating thereto (including the auditor's opinion on the use of the Loan proceeds and compliance with financial covenants of this Loan Agreement as well as the use of the procedures for impress account/ statement of expenditures), all in the English language; and (iv) furnish to ADB such other information concerning such accounts and financial statements and the audit thereof as ADB shall from time to time reasonably request. | Implemented. |
| 15. | Article IV Section 4.02(b) | The Borrower shall enable ADB, upon ADB's request, to discuss the Borrowers financial statements for the Project and its financial affairs related to the | Implemented. |

| No. | Reference | Covenant | Remarks |
|-----|----------------------------|--|--|
| | | Project from time to time with the auditors appointed by the Borrower pursuant to Section 4.02(a) hereinabove, and shall authorized and require any representative of such auditors to participate in any such discussions requested by ADB, provided that any such discussion shall be conducted only in the presence of an authorized officer of the Borrower unless the Borrower shall otherwise agree. | |
| 16. | Article IV Section 4.03 | The Borrower shall enable ADB's representatives to inspect the Project, the goods financed out of the Loan, and any relevant records and documents. | Implemented. |
| 17. | Article VI Section 6.01 | <p>The following are specified as additional conditions to the effectiveness of this Loan Agreement for the purposes of Section 9.01(f) of the Loan Regulations.</p> <p>(a) the Program Loan Agreement shall have been duly executed and delivered on behalf of the Borrower, and all conditions precedent to its effectiveness (other than a condition requiring the effectiveness of this Loan Agreement) shall have been fulfilled; and</p> <p>(b) the PPSC shall have been established with the appointment of echelon one level officials from MOF, MOHA and BAPPENAS as described in paragraph 4 of Schedule 6 to this Loan Agreement.</p> | Implemented, see item 1. |
| 18. | Article VI Section 6.01 | The following is specified as an additional matter, for the purposes of Section 9.02(d) of the Loan Regulations, to be included in the opinion or opinions to be furnished to ADB: the Program | Program loan agreement executed by ADB and the Government of Indonesia on 9 December 2005. Sufficient legal opinion was submitted. |

| No. | Reference | Covenant | Remarks |
|-----|-----------|---|---------|
| | | Loan Agreement has been duly executed and delivered on behalf of and is legally binding upon the Borrower in accordance with its terms. | |

DEVELOPMENT POLICY LETTER



**Government of Indonesia
Letter of Development Policy for the
Local Government Finance and Governance Reform Sector Development Program**

Jakarta, 10th October, 2005

Mr. Haruhiko Kuroda
President
Asian Development Bank

Dear President Kuroda:

The Government of the Republic of Indonesia is committed to promoting sustainable economic growth, reducing regional disparities and facilitating balanced development, and enhancing social equity. Good governance has been a key pillar in our transition and reform agenda, and our efforts since the Asian Financial Crisis have focused on enhancing transparency and accountability in public as well as private sectors. To support the implementation of these policy goals, the Government is committed to sound economic management and continuing with reforms in key economic sectors.

Indonesia can testify to the challenges of public administration, given its vast size and diversity. In order to enhance the quality of public administration and effectively deliver public services, the country embarked on a major decentralization agenda in 1999 and devolved significant authority to local governments. Subsequently, following amendments to key decentralization laws in 2004, the heads of districts and provinces are directly elected by the people starting this year. While these and other reforms are underway, the present Government recognizes the multitude of challenges facing us. Given the speed with which decentralization has been introduced, reform measures need to be formulated and implemented in an iterative and dynamic manner.

The principal challenges we face relate to the need: (i) for strong inter-governmental coordination at central and local levels; (ii) to clarify functional roles and responsibilities of different levels of governments; (iii) to achieve proper balance in the distribution of fiscal resources between different levels of government, and ensure that adequate financing is provided at decentralized levels to meet basic as well as medium-to-long term development needs; and (iv) to ensure prudent financial management anchored on fiscal responsibility and accountability. At the heart of all of this is the need to revive development and growth in Indonesia, so that quality public services can be delivered with equity and efficiency.

Decentralization, in principle, is intended to bring government closer to our citizens and increase the availability of funding for much needed regional development. Despite our commitment to implementing decentralization, we have faced many constraints that have impeded balanced development. To promote greater access to funding, while ensuring accountability for managing these funds, the Government is strongly committed to much needed reforms in local government finance and governance. Greater access to funding and attendant accountability will help local governments meet their growing development needs from alternative sources and reduce excessive reliance on transfers from the central government.



The Asian Development Bank (ADB) has supported the Government since 1999 through various programs and advisory assistance in the area of decentralization. Given our common goals on ensuring good governance and poverty alleviation, the Government requested ADB's support to strengthen the foundations of regional autonomy over 2005-09.

The Government and ADB have formulated the proposed Local Government Finance and Governance Reform Sector Development Program (the Program) to strengthen the legal and regulatory framework for decentralization, streamline and clarify functional responsibilities between different levels of governments, enhance horizontal and vertical equity in the sharing of overall fiscal resources, establish sound institutional arrangements to facilitate effective inter-governmental coordination, and enhance governance in the planning, budgeting and public administration processes.

Given the complexity of the reform agenda in this area, we have requested that ADB support the Government through a series of self-contained single-tranche interventions through this Government's tenure. It is envisaged that the Program will be implemented in 2 or 3 phases over 2005-09. The phased approach will allow us to design and implement reforms in a gradual manner with adequate consultations with all stakeholders.

Working closely with the ADB from end-2003 to mid-2005, the Government has formulated and implemented a number of important actions under Phase One of the Program, which will also provide investment support to strengthen the national and regional financial management and information systems, aimed at enhancing governance.

The key achievements of Phase One of the Program, as outlined in the Policy Matrix of the Program (Attachment 1), include: (i) the adoption of four new Laws on Regional Administration, Regional Fiscal Balance, National Development Planning, State Treasury, and 0 key implementing regulations, in a harmonized and consistent manner, to promote reforms in state finance, planning, budgeting, and financial management; (ii) submission of amendments to the Law on Regional Taxation to the Minister of Laws and Human Rights to expand the local revenue base and address the proliferation of nuisance taxes and fees; (iii) establishment of the Intergovernmental Regional Autonomy Advisory Council (DPOD) to oversee decentralization reforms in a coordinated manner and operationalization of related technical working groups to provide research and recommendations on key pending issues (iv) firm commitment to an initiation of discussion with 7 regional water utility companies (PDAMs) regarding resolution of their outstanding debt arrears; and (v) development of plans to modernize management information systems to implement public expenditure and financial management reforms at the national and local level.

In summary, through Phase One of the Program, the Government has implemented a range of critical actions. As part of Phase One, we have also formulated a forward-looking National Action Plan on Fiscal Decentralization (NAPFD), presented in Attachment 2. As you would note, this Plan, prepared under the coordination of the State Minister of National Development Planning, has been endorsed by the Ministers of Finance and Home Affairs. It is the first attempt by the Government to reach consensus among key stakeholders on a range of critical issues and related actions in the area of fiscal decentralization, to be implemented in a phased and well-sequenced manner. The NAPFD provides a framework for reforms under Phase Two and Phase Three of the Program, building on the reforms implemented under Phase One.



The main emphasis of the future reforms as laid out in NAPFD will be on:

- (i) Clarification of expenditure assignments between different levels of Government;
- (ii) Ensuring adequate balance between expenditure responsibilities and funds available;
- (iii) Enhancing horizontal and vertical equity in the sharing of overall fiscal resources;
- (iv) Reviving public investments to meet core development priorities, through restructuring past loan arrears of local governments;
- (v) Enhancing fiscal effectiveness, discipline and accountability;
- (vi) Strengthening national and regional capacities for financial management and monitoring and evaluation; and
- (vii) Improving overall decentralization coordination through DPOD.

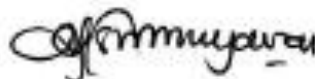
The implementation of Phase One, along with the formulation of NAPFD setting out the future reform direction, will help the Government in consolidating the gains achieved thus far under decentralization. The reform agenda adopted under the Program also reflects the Government's vision on decentralization, as laid out in the President's recent address in mid-August to the newly established Regional Representative Council (DPD). The President emphasized that continuous improvements are needed to ensure that the benefits of decentralization reach ordinary Indonesian citizens. We are confident that the proposed Program and ADB's commitment to help us in a phased manner will help us in realizing the goals we have set out to achieve.

Thank you.

Yours sincerely,



Jusuf Anwar
Minister of Finance



Sri Mulyani Indrawati
Minister of National Development Planning

Attachments :

1. Policy matrix
2. NAPFD

TOTAL CANCELLED PACKAGES
(\$'000)

| Pack- age | Name of Package | Before 30 June 2009 | Additional Cancellation in Year 2010 | Total |
|----------------------|---|--------------------------------|---|-------------------|
| 1 | Regional Financial Management Information System and Regional SIKD (Hardware, Software, etc) | | 16,924.002 | 16,924.002 |
| 2 | National SIKD - MOF Head Office (Hardware, Off the Shelf Software, Networking) | 270.000 | | 270.000 |
| 3 | Financial Management Information for DG BAKD (Hardware, Software, etc) | | 547.277 | 547.277 |
| 4 | SIKD System Development Application | 504.000 | | 504.000 |
| 5 | DG BAKD System Development Application | | 1,223.152 | 1,223.152 |
| 7 | Preparation of Budget Manuals / Training materials | 748.000 | | 748.000 |
| 8 | BUMD Financial Review | 213.000 | | 213.000 |
| 9 | Scheme for Financial Evaluators | 143.000 | | 143.000 |
| 10 | MOF Development of Systems to Review Local (Perdas) on Taxes and Charges | 343.000 | | 343.000 |
| 11 | MOF Hardware etc for System for Review of Local Regulations (Perdas) on Taxes and Charges (Hardware, Software, etc) | 150.000 | | 150.000 |
| 12 | MOF Certification of Regional Financial Administrators | 554.000 | | 554.000 |
| | TOTAL | 2,925.000 | 18,694.431 | 21,619.431 |

ANNUAL DISBURSEMENTS, 2006–2010
(\$'000)

| Year | Loan Disbursements | | |
|------|--------------------|---------|------------|
| | At Appraisal | Actual | |
| | Cumulative | Yearly | Cumulative |
| 2006 | 8,843.2 | 0.0 | 0.0 |
| 2007 | 19,586.6 | 323.0 | 323.0 |
| 2008 | 29,999.2 | 988.0 | 1,311.0 |
| 2009 | | 593.0 | 1,904.0 |
| 2010 | | 2,254.0 | 4,158.0 |
| 2011 | | 338.0 | 4,496.0 |

LIST OF REGIONS THAT IMPLEMENT SIPKD

As of 30 JULY 2012



☒ Running
☒ Preparation

| NO | NAME OF REGIONAL GOVERNMENT | REGULAR MODULE | | | | | | | | DEVELOPMENT MODULE | | | |
|-----------|---|-------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|--------------------|-----|-------|-----|
| | | MR | MA | MK | MB | MG | MFA | SIE | Reg.SIKD | MD | SPI | MONEV | BLU |
| A. | Implementation during L-2193 INO | | | | | | | | | | | | |
| 1 | Provinsi Nanggroe Aceh Darussalam | | <input checked="" type="checkbox"/> | | | | | | | | | | |
| 2 | Kab. Aceh Besar | | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | | | | | | | | |
| 3 | Kota Banda Aceh | | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | | | | | | | | |
| 4 | Provinsi Sumatera Utara | | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | | | | | | | | |
| 5 | Provinsi Sumatera Barat | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | | | | |
| 6 | Kab. Lima puluh Kota | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | | | | | | | |
| 7 | Kab. Agam | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | | <input checked="" type="checkbox"/> | | | | | | |
| 8 | Kab. Padang Pariaman | | <input checked="" type="checkbox"/> | | | | | | | | | | |
| 9 | Kab. Pasaman | | <input checked="" type="checkbox"/> | | | | | | | | | | |
| 10 | Kab. Pesisir Selatan | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | | <input checked="" type="checkbox"/> | | | | | | |
| 11 | Kab. Solok | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | | | | | | | | |
| 12 | Kota Bukit Tinggi | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | | | | | | | | |
| 13 | Kota Padang Panjang | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | | | | | | | | |
| 14 | Kota Padang | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | | <input checked="" type="checkbox"/> | | | | | | |
| 15 | Kota Payakumbuh | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | | | | | | | | |
| 16 | Kota Sawahlunto | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | | <input checked="" type="checkbox"/> | | | | | | |
| 17 | Kota Solok | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | | | | | | | | |
| 18 | Kota Pariaman | | <input checked="" type="checkbox"/> | | | | | | | | | | |
| 19 | Kab. Pasaman Barat | | <input checked="" type="checkbox"/> | | | | | | | | | | |

| | | | | | | | | | | | | | |
|----|---------------------------|--------------------------|-------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|---|--|--|--|--|--|
| 20 | Kab. Dharmasraya | | <input checked="" type="checkbox"/> | | | | | | | | | | |
| 21 | Kab. Solok Selatan | | ✓ | | | | | | | | | | |
| 22 | Kab. Sijunjung | | <input checked="" type="checkbox"/> | | | | | | | | | | |
| 23 | Provinsi Kepulauan Riau | <input type="checkbox"/> | ✓ | <input type="checkbox"/> | <input type="checkbox"/> | | | | | | | | |
| 24 | Provinsi Riau | ✓ | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | | | | | | | | |
| 25 | Kab. Kampar | ✓ | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | ✓ | ✓ | <input checked="" type="checkbox"/> | | | | | | |
| 26 | Kota Pekanbaru | ✓ | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | ✓ | ✓ | | | | | | |
| 27 | Provinsi Jambi | | ✓ | ✓ | | | | | | | | | |
| 28 | Kab. Muaro Jambi | | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | ✓ | ✓ | | | | | | |
| 29 | Provinsi Sumatera Selatan | | <input checked="" type="checkbox"/> | | | | | | | | | | |
| 30 | Kab. Musi Rawas | | <input checked="" type="checkbox"/> | | | | | | | | | | |
| 31 | Kota Palembang | | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | | | | | | | | |
| 32 | Provinsi Lampung | | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | ✓ | | | ✓ | | | | | |
| 33 | Kab. Lampung Barat | | ✓ | | | | | | | | | | |
| 34 | Kab. Lampung Selatan | ✓ | <input checked="" type="checkbox"/> | ✓ | <input checked="" type="checkbox"/> | ✓ | ✓ | | | | | | |
| 35 | Kab. Lampung Tengah | ✓ | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | ✓ | ✓ | | | | | | |
| 36 | Kab. Lampung Utara | ✓ | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | ✓ | ✓ | | | | | | |
| 37 | Kab. Lampung Timur | ✓ | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | ✓ | ✓ | | | | | | |
| 38 | Kota Bandar Lampung | | <input checked="" type="checkbox"/> | ✓ | ✓ | | | | | | | | |
| 39 | Kota Metro | | <input checked="" type="checkbox"/> | ✓ | ✓ | | | | | | | | |
| 40 | Provinsi DKI Jakarta | | | | | | | | | | | | |
| 41 | Provinsi Jawa Barat | ✓ | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | | ✓ | | | | | |
| 42 | Kab. Bandung | ✓ | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | | | | | | | | |
| 43 | Kab. Ciamis | ✓ | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | | | | | | | | |
| 44 | Kab. Cianjur | | | | | | | | | | | | |
| 45 | Kab. Cirebon | ✓ | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | | | | | | | | |
| 46 | Kab. Garut | ✓ | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | | | | | | | | |
| 47 | Kab. Indramayu | | | | | | | | | | | | |
| 48 | Kab. Subang | | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input type="checkbox"/> | | | | | | | | |

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|----|-----------------------------|-------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|---|-------------------------------------|-------------------------------------|---|---|--|-------------------------------------|---|
| 49 | Kab. Sumedang | | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | | | | | | | | |
| 50 | Kota Depok | ✓ | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | | <input checked="" type="checkbox"/> | | | | | <input checked="" type="checkbox"/> | ✓ |
| 51 | Kota Sukabumi | ✓ | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | | | | | | | | |
| 52 | Kota Tasikmalaya | ✓ | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | | <input checked="" type="checkbox"/> | | | | | | |
| 53 | Kota Cimahi | ✓ | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | | | <input checked="" type="checkbox"/> | | | | | |
| 54 | Provinsi Jawa Tengah | | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | | | <input checked="" type="checkbox"/> | | | | | |
| 55 | Kab. Demak | | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | | | <input checked="" type="checkbox"/> | | | | | |
| 56 | Kab. Kendal | | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | | | <input checked="" type="checkbox"/> | | | | | |
| 57 | Kab. Semarang | | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | | | <input checked="" type="checkbox"/> | | | | | |
| 58 | Provinsi DI Yogyakarta | | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | ✓ | | <input checked="" type="checkbox"/> | | | | | | |
| 59 | Kab. Gunung Kidul | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | | | | | | | | | |
| 60 | Kab. Sleman | | <input checked="" type="checkbox"/> | | | | | | | | | | |
| 61 | Kota Yogyakarta | | <input checked="" type="checkbox"/> | | | | | | | | | | |
| 62 | Kab. Gresik | | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | | | | | | | | | |
| 63 | Kab. Sidoarjo | | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | | | | | | | | |
| 64 | Kota Surabaya | | | | | | | | | | | | |
| 65 | Kab. Pontianak | | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | | | | | | | | |
| 66 | Kab. Sambas | | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | | | | | | | | |
| 67 | Kab. Sekadau | | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | | <input checked="" type="checkbox"/> | | | | | | |
| 68 | Kota Palangkaraya | | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | | | | | | | | |
| 69 | Kab. Katingan | | | | | | | | | | | | |
| 70 | Kab. Pulang Pisau | | | | | | | | | | | | |
| 71 | Provinsi Kalimantan Selatan | ✓ | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | ✓ | ✓ | | ✓ | | | | |
| 72 | Kota Banjar Baru | | | | | | | | | | | | |
| 73 | Kota Banjarmasin | | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | | | | | ✓ | | | |
| 74 | Kota Balikpapan | ✓ | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | | | | | | | | |
| 75 | Kab. Penajam Paser Utara | | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | | | | | | | | |

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|-----------|--|-------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|--------------------------|---|--|--|-------------------------------------|--|--|--|
| 101 | Provinsi Maluku | | <input checked="" type="checkbox"/> | | | | | | | | | | |
| 102 | Kota Ambon | | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | | | | | | | | |
| 103 | Provinsi Papua | | | | | | | | | | | | |
| 104 | Provinsi Maluku Utara | | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | ✓ | | | | | | | | |
| 105 | Kota Ternate | | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | ✓ | | | | | | | | |
| 106 | Provinsi Banten | | | | | | | | | | | | |
| 107 | Kab. Lebak | | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | | | | | | | | |
| 108 | Kab. Pandeglang | | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | | | | | | | | |
| 109 | Kab. Tangerang | | | | | | | | | | | | |
| 110 | Kota Tangerang | | <input checked="" type="checkbox"/> | ✓ | ✓ | | | | | | | | |
| 111 | Provinsi Bangka Belitung | | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | ✓ | | | | | | | | |
| 112 | Kab. Bangka | | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | ✓ | | | | | | | | |
| 113 | Kota Pangkal Pinang | | | | | | | | | | | | |
| 114 | Provinsi Gorontalo | | | | | | | | | | | | |
| 117 | Provinsi Sulawesi Barat | | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | | | | | | | | |
| 118 | Kab. Majene | | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | ✓ | | | | | | | | |
| 119 | Kab. Mamuju | | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | ✓ | | | | | | | | |
| B. | Implementation after L-2193 INO | | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | | | | | | | | |
| 1 | Kab. Dairi | | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | | | | | | | | |
| 2 | Kab. Nias | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input type="checkbox"/> | | | | | | | |
| 3 | Kab. Nias Selatan | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | | | | | | | | |
| 4 | Kab. Nias Utara | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | | <input type="checkbox"/> | | | | | | | |
| 5 | Kab. Nias Barat | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | | | | | | | | |
| 6 | Kab. Gunung Sitoli | <input type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | ✓ | ✓ | | | | | | | |
| 7 | Kab. Batanghari | ✓ | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | ✓ | ✓ | | | <input checked="" type="checkbox"/> | | | |
| 8 | Kab. Tebo | ✓ | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | ✓ | | | | | | | | |
| 9 | Kota Jambi | | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | | | | | | | | |

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|--------------|--------------------|-----------|------------|------------|-----------|-----------|-----------|----------|----------|----------|----------|----------|----------|
| 10 | Kab. Tulang Bawang | | ✓ | ✓ | ✓ | | | | | | | | |
| 11 | Kab. Pesawaran | | ✓ | ✓ | ✓ | ✓ | | | | | | | |
| 12 | Kab. Mesuji | | ✓ | | | | | | | | | | |
| 13 | Kab. Bogor | | ✓ | ✓ | | | | | | | | | |
| 14 | Kab. Magelang | | ✓ | ✓ | ✓ | | | ✓ | | | | | |
| 15 | Kab. Wonosobo | | ✓ | ✓ | ✓ | | | ✓ | | | | | |
| 16 | Kab. Pacitan | | ✓ | ✓ | ✓ | ✓ | | | | | | | |
| 17 | Kab. Sampang | | ✓ | ✓ | ✓ | | | | | | | | |
| 18 | Kab. Tulungagung | | ✓ | | | | | | | | | | |
| 19 | Kab. Kapuas Hulu | | ✓ | ✓ | ✓ | | | | | | | | |
| 20 | Kab. Sintang | | ✓ | ✓ | ✓ | | | | | | | | |
| 21 | Kota Singkawang | □ | ✓ | ✓ | ✓ | | | | | | | | |
| 22 | Kab. Seruyan | | ✓ | ✓ | ✓ | ✓ | ✓ | | | | | | |
| 23 | Kab. Balangan | | ✓ | ✓ | ✓ | | | | | | | | |
| 24 | Kab. Banggai | | ✓ | ✓ | ✓ | | | | | | | | |
| 25 | Kab. Lombok Utara | | ✓ | ✓ | ✓ | | | | | | | | |
| 26 | Kab. Kepulauan Aru | | ✓ | ✓ | | | | | | | | | |
| 27 | Kab. Boven Digoel | | ✓ | ✓ | ✓ | | | | | | | | |
| 28 | Kab. Mamuju Utara | | ✓ | ✓ | ✓ | | | | | | | | |
| Total | | 37 | 122 | 105 | 96 | 17 | 19 | 9 | 3 | 2 | - | 1 | 1 |

NOTES:

| | |
|-----------|---|
| MR | Planning Module |
| MA | Budgeting Module |
| MK | Implementation Module |
| MB | Reporting Module |
| MG | Payroll Module |
| MFA | Accounting Module |
| SIE | Executive Information System Module |
| Reg. SIKD | Regional Application Module |
| MD | Revenue Module |
| SPI | Internal Validation Module |
| MONEV | Monitoring and Evaluation Module |
| BLU | Management Module for Regional Owned Enterprise |