

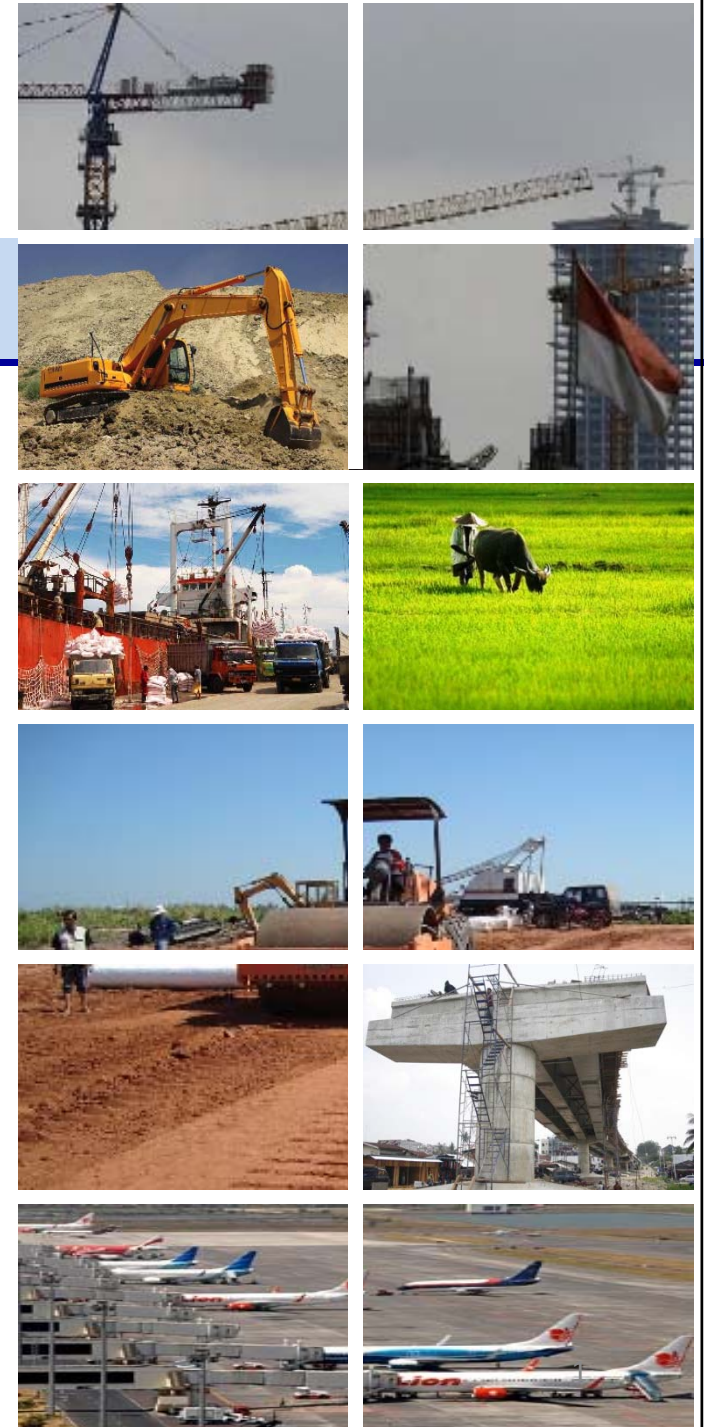


The Ministry of Finance
Republic of Indonesia

Financial Reform for Economic Development

**DAY 1
PLENARY B:
IMPROVING PUBLIC SECTOR MANAGEMENT
PUBLIC FINANCIAL MANAGEMENT RETROSPECTIVE STUDY
– INDONESIAN EXPERIENCE –**

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MINISTRY OF FINANCE REPUBLIC OF INDONESIA**





AGENDA

1. Roadmap of Public Financial Management (PFM) Reform in Indonesia
2. PFM Reform in Indonesia:
 - a. Budgeting (unified budget, performance budgeting)
 - b. Treasury management (cash management, spending review, integrated financial management information system)
 - c. Reporting (government accounting/finance statistics)
3. Lessons learned



Roadmap of Public Financial Management Reform in Indonesia

New Laws:

- 1999: Decentralization law
- 2003: White Paper of PFM reform
- 2003: State Finance Law
- 2004: State Treasury Law
- 2004: Audit of the management and accountability of the state finance

- PFM Reform is a long drawn process comprising of multiple initiatives affecting regulation, business process, IT systems and people. Thus, it needs resources and commitment, has high risk, but the benefit is not easily countable
- Some critical agendas in the PFM reform are commonly related to: Accrual Accounting, IFMIS, Cash Management, and Budget Execution

IT Integration, including:

- Integrated Financial Management Information System consist of (i) State Treasury and Budget System and (ii) Line Ministry/Agencies Accounting System.
- New Management of Revenue System (MPN)
- IT based Asset Liability Management
- Full centralized/integrated IT infrastructure in MoF

1999-2004

2005-2009

2009-2011 and beyond

Creation of new Directorate Generals :

- DG Budget (budget formulation and preparation)
- DG Treasury (budget execution and treasury mgt - 2005)
- DG Fiscal Balance (management of transfer funds to the local governments - 2006)
- DG Debt Management (management of foreign and domestic loans)
- DGSAM (management of state assets - 2006)

Some procedural improvements to support PFM reforms:

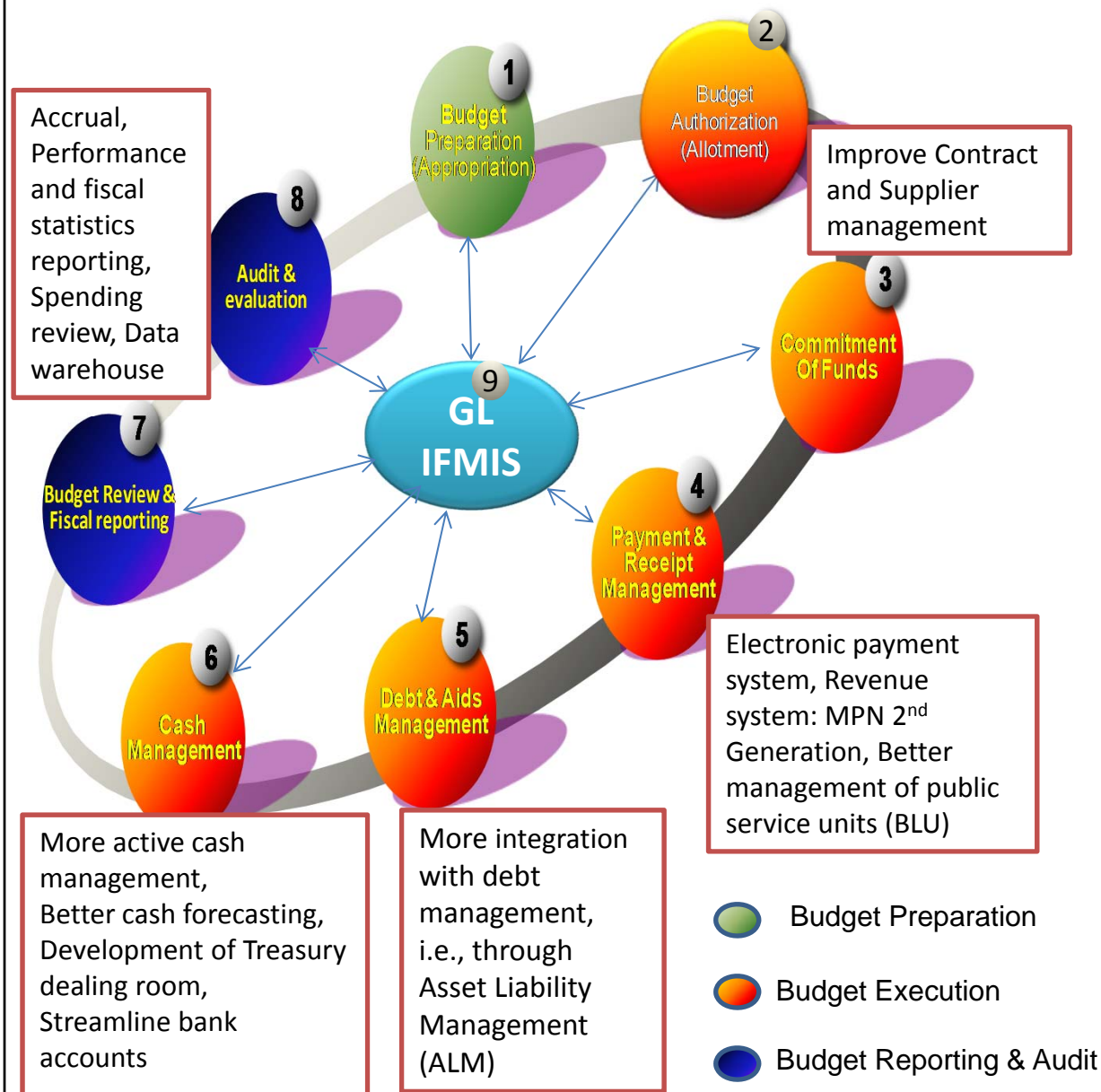
- Unified budget system: combined recurrent and development budget,
- The introduction of Performance Based Budgeting (PBB) and Medium Term Expenditure Framework (MTEF)
- Cash management reform, starting with the first implementation of Treasury Single Account (TSA) in 2009
- Establishing government accounting standards and reorienting the chart of accounts
- Reforming the government procurement process
- MOF as one of the selected ministries to implement bureaucratic reform (BR) program

Some continuous improvements to support PFM reforms:

- Implementation of PBB, and simplified budget process which focus on performance rather than detailed line item.
- Expanded coverage of the TSA and cash management, including deepening and stabilizing of TSA, cash plan, idle cash management, better coordination with debt and monetary management
- Spending review
- Implementation of Accrual Accounting
- Reliable Government Finance Statistics (GFS) report for general government and public sector
- Deepening bureaucratic reforms within MoF



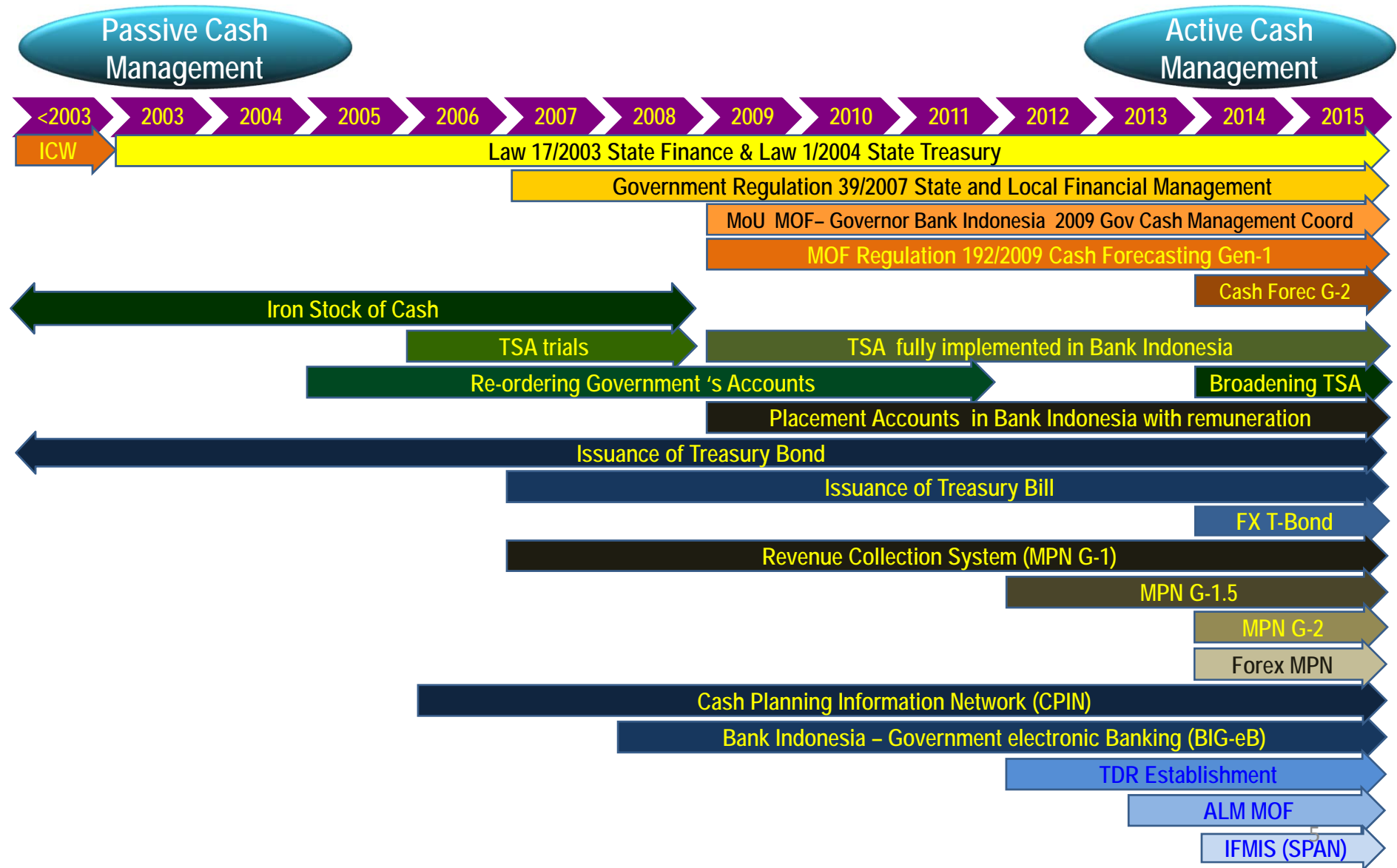
Public Financial Management within Budget Cycle in Indonesia



- Based on the public financial laws, MoF is the Chief of Financial Officer (CFO), while the Line Ministers are the Chief of Operating Officers (COO) responsible for the operation of their ministries to achieve the targeted output and outcome.
- Significantly improve cash management with more active cash management regime, streamline bank accounts, better cash forecasting, as well as greater integration with debt management and other economic policies.
- Improve efficiency and effectiveness of budget execution by spending review.
- Anchor reforms of accrual accounting and government finance statistics to improve transparency and fiscal management
- Improve efficiency of treasury services and financial data credibility by developing an IFMIS, focusing on electronic transactions and utilizing the most current technology in the financial sector.

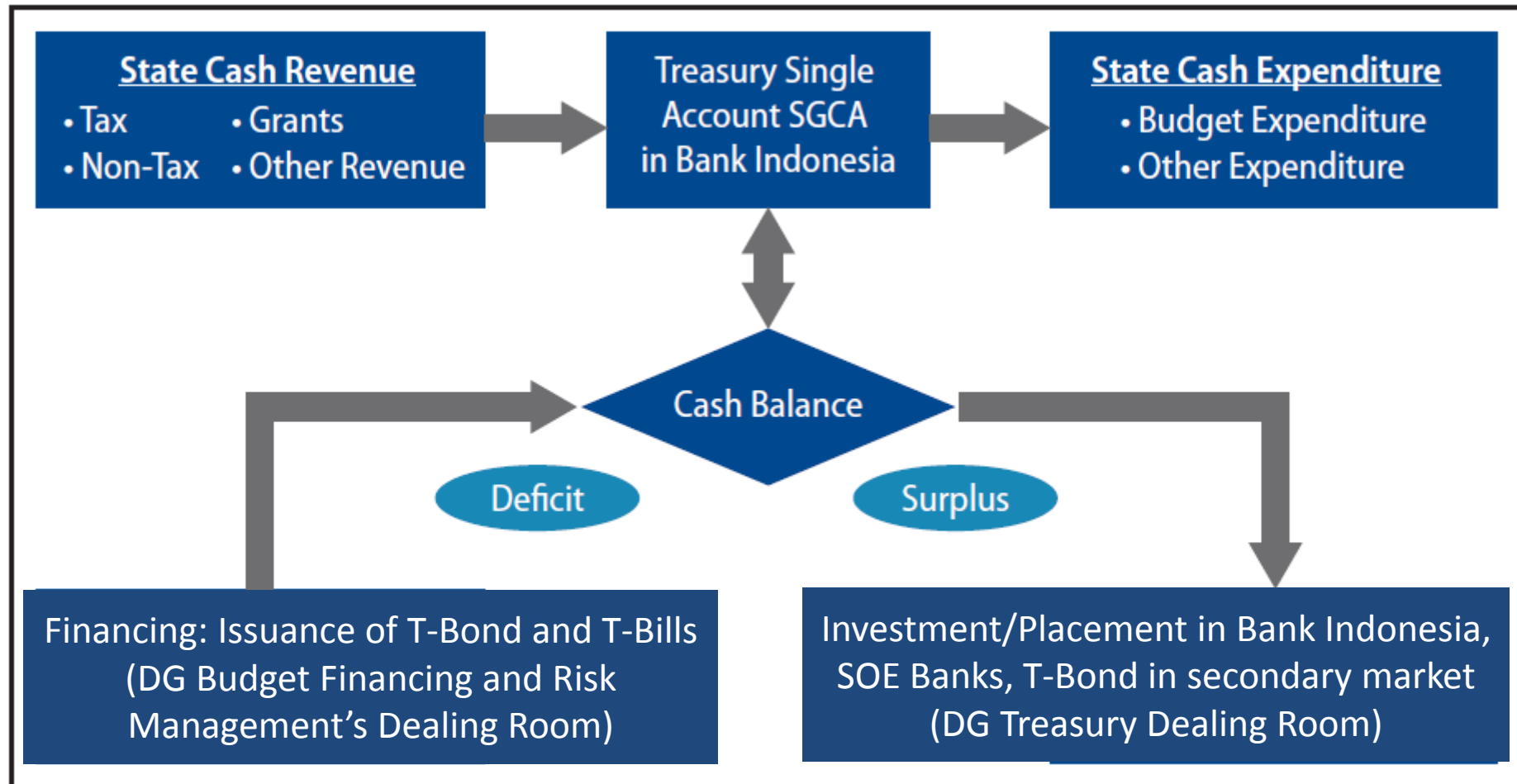


1. Indonesia Cash Management Transformation





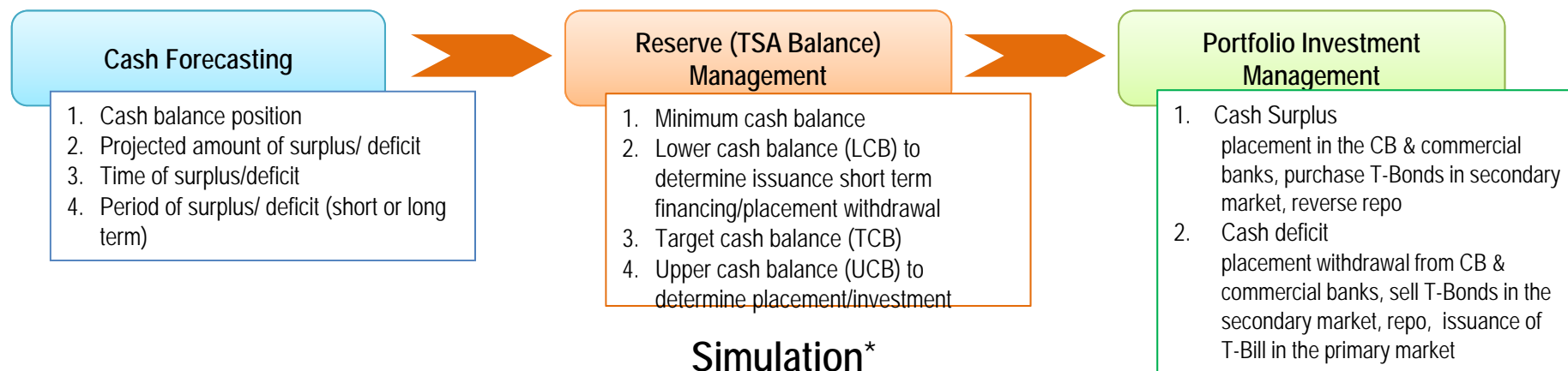
2. Linkages between Cash Management and TSA



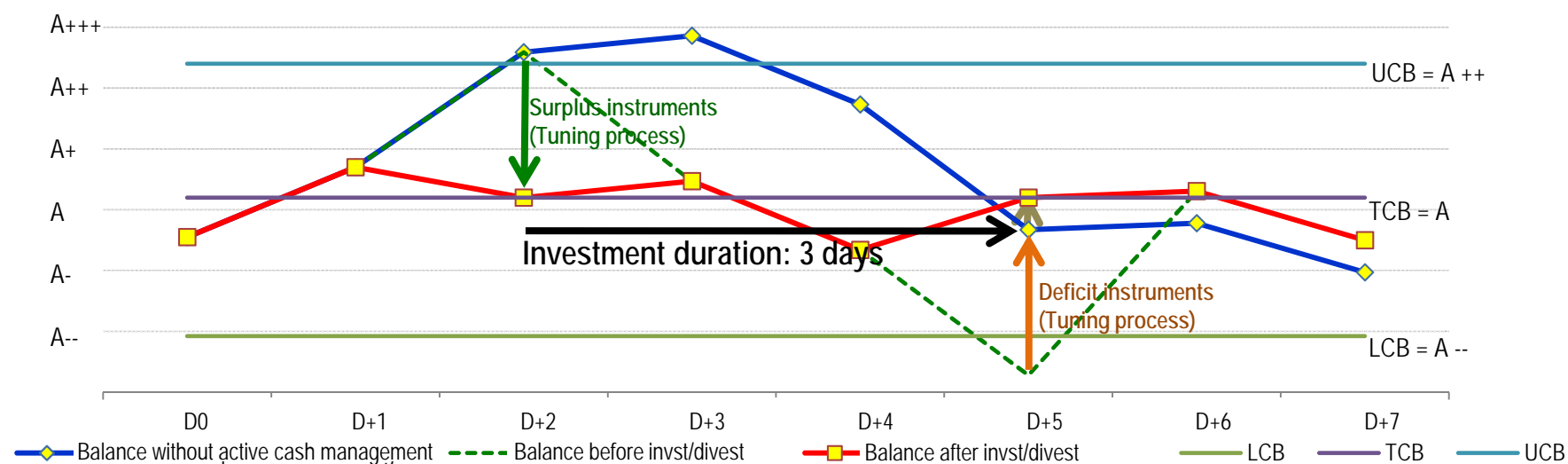
SGCA : State General Cash Account



3. Linkage of cash forecasting, TSA, short-term investment



Simulation*



In order to smooth cash balance. The surplus cash on H+2 is invested (→) so that cash balance lower, from above A++ to A. The cash deficit on H+5 is covered by divesting the investment (→) and issuing T-Bill or Repo (→), so that cash balance increases, from below USD A-- to A.



4. Asset Liability Management

Steering Committee (SC)

Chair: Minister of Finance; Vice-chair: Vice MoF

Members: DG Financing and Risk Management, DG Treasury, DG Budget, DG Fiscal Balance, Head of Fiscal Policy Office, DG Customs and Excise, DG Tax, DG State Assets, Secretary General, Inspector General, MoF experts in State Assets, MoF experts in State Revenues, MoF experts in State Expenditures, MoF experts in Macroeconomic and International Finance, MoF experts in IT, Bureaucracy,

- Determining liquidity risk and financing risk policy
- Determining risk mitigation of Government liability of on-balance sheet and off-balance sheet
- Determining portfolio risk of SLA, investment, cash placement, and deficit assessment
- Fund management of public service entities and SOIs
- Directing and Evaluating Executive Committee tasks

Executive Committee (EC)

Chair: Director of State Cash Management

Members: related Directors from: DG Financing and Risk Management, DG Budget, DG Tax, DG Customs and Excise, DG Fiscal Balance, Fiscal Policy Office, DG State Assets, Secretary General

- Preparing materials for SC's meetings
- Analyzing financial market, macro economic and its impact against Government balance sheet
- Analyzing off-balance sheet components to anticipate its risk in Government financial report
- Preparing policy alternatives for SLA portfolio risk, Government investment portfolio, and cash placement
- Directing committee secretary/working groups tasks

Committee Secretary/Working Groups

→ Macroeconomic Outlook and Bond Market (officers from DG Financing and Risk Management, Fiscal Policy Office, DG Treasury)

→ Revenues (officers from Fiscal Policy Office, DG Tax, DG Budget, DG Financing and Risk Management, DG Customs and Excise)

→ Expenditures (officers from DG Budget, DG Fiscal Balance, DG Financing and Risk Management, DG Customs and Excise)

→ Cash Planning and Financing (officers from DG Treasury, DG State Assets, DG Financing and Risk Management)

→ Legal Framework, IT, and Administration (officers from DG Treasury, DG Financing and Risk Management, Sec General)

- Analyzing and preparing economic outlook
- Analyzing and preparing outlook of global and domestic bond markets
- Monitoring macro economic indicators, market yield, daily trade of Government commercial papers
- Preparing cash projection and realization of revenues, expenditures, and cash financing
- Preparing risk mitigation recommendation of revenues, expenditures, financing, and cash forecasting
- Managing data, information, documentation
- Organizing ALM meetings

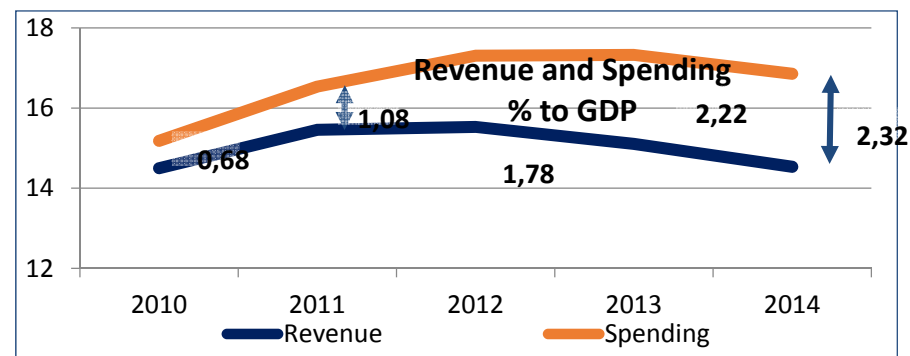


5. Spending Review (SR)

- The increasing trend of deficit raises government's concern on efficiency
- SR is a tool to improve the efficiency, effectiveness and value for money of government spending
- SR helps to identify and prioritize high priority programs.
- The decreasing findings, especially in terms of inefficient expenditure, is likely due to the use of previous spending review in budgeting process, increased quality of budget document/allocation, and more effective confirmation process



Increasing trend of deficit (2010 – 2014)



2013-2016 Indonesian Annual Spending Review in Trillion Rupiah

Year	Allocation	Inefficient expenditure	Non recurrent expenditure	Potential Fiscal Space*
2013	594.6	50.6	18.6	69.2
2014	638.0	18.7	8.3	27.0
2015	647.3	8.9	4.7	13.6
2016	784.1	9.6	12.3	21.9

* Suggestion for baseline cut/reallocation

KEY SUCCESS FACTORS

- political commitment
- ownership by the administration
- clear objectives and governance
- integration in the budgetary process
- anticipation of implementation
- building of transformation capability
- performance culture at all levels of public service

WAY FORWARD

- Strengthen mandate from top level officials
- Institutionalize SR process by integrating SR into the budget cycle
- Shift focus from budget document-based review to performance review
- Explore thematic (expenditure-specific types of) review
- Move to strategic dimension/conduct strategic review
- Leverage know-how and learning curve by establishing career path for SR



6. Indonesia Government Accounting Transformation

PRE-REFORM ACCOUNTING TRADITION (until 2003)

- No Government Accounting Standards
- Single-entry recording system
- Absence of integrated recording systems
- Irreconcilable data sources
- Significant time lag of recording and reporting
- Low demand for reliable financial reports
- Deficiency of competent accounting staffs
- Scattered IT supports

A MID WAY: THE CASH TOWARDS ACCRUAL BASIS (2004 – 2014)

- Implementation of Cash Towards Accrual Government Accounting Standards
- Maintaining daily transaction recording based on cash transaction events
- Creating corollary entries on transactions affecting the position of capitalized assets or liabilities
- Requiring year-end adjusting entries to reflect new balances of receivables, inventories, investments, and payables (periodical approach)
- Generating budget accountability reports in line with the cash-based budget model
- Producing accrual information wherefrom balance sheet is constructed

ACCRUAL ACCOUNTING (From 2015)

- Implementation of Accrual Government Accounting Standards,
- Maintaining transaction recording based on accrual basis
- Historical cost on assets measurement
- Depreciation on Fixed Assets
- Accrual Basis on revenues and expenses
- Cash basis on Budgetary report (LRA)
- Full Disclosure



7. The Government Accounting Rules

IMPLEMENTATION STRATEGIES

1. ACCOUNTING POLICY DEVELOPMENT
2. ACCOUNTING SYSTEM DEVELOPMENT
3. IT SUPPORT SYSTEM/ DEVELOPMENT OF INTEGRATED FINANCIAL MANAGEMENT INFORMATION SYSTEM*
4. LEGAL FRAMEWORK DEVELOPMENT
5. CAPACITY BUILDING



GOVERNMENT ACCOUNTING RULES

1. Every public spending agency (both central and local government, around 37.000) must administer accounting and present periodic financial statement.
2. Accounting standards to be established by an independent committee.
3. Ministry of Finance develops accounting system for the central government's line ministries/agencies.
4. Local governments develop accounting system for their own purposes, with guidance/assistance from Ministry of Home Affairs.
5. Spending minister/governor/major must present a Statement of Responsibility (SOR).
6. The Supreme Audit Board performs financial audit and render its opinion on the fairness of the financial statements.
7. The audited financial statement are to be submitted to the parliament in 6 month period after the budget-year end;
8. Once submitted to parliament, the audit report are opened for public access.
9. Government will implement cash based budgeting regardless the implementation of accrual accounting
10. The implementation of accrual accounting in Central Government will be aligned to the implementation of the Integrated Financial Management Information System (IFMIS)
11. Government of Indonesia has developed implementation stages, transition strategies and risk assessment of the implementation of accrual accounting
12. Ministry of Finance has prepared and issued General Guideline of Government Accounting System (PUSAP), after coordination with Ministry of Home Affairs, for the purpose of fiscal and government finance statistics consolidation. The objective of PUSAP is to provide a framework for fiscal and GFS consolidation of the General Government (i.e. Central and local governments)



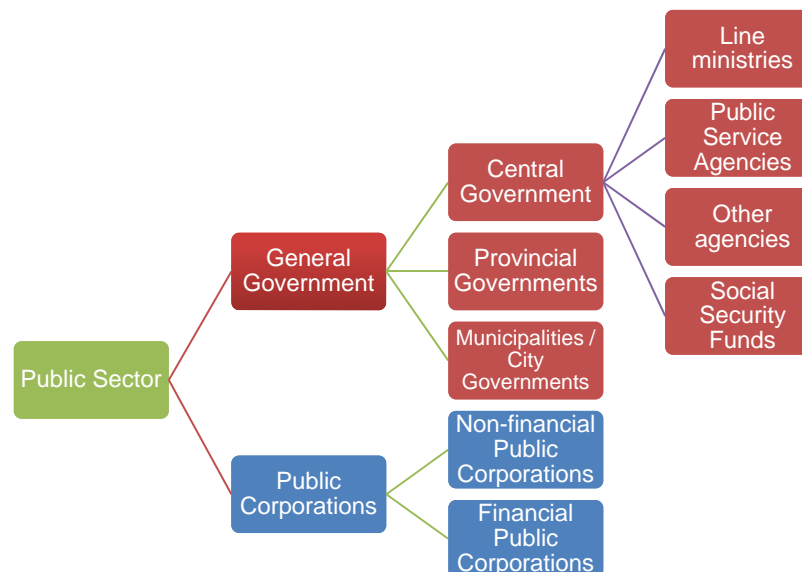
8. Government Finance Statistics (GFS) in Fiscal Policy & National Statistics

DEFINITION

- GFS is a reporting system in line with international economics and statistics standards in the context of fiscal policy and macroeconomic analysis. It is useful for Minister of Finance as fiscal manager

UTILIZATION

- Analysis of financial operations, position and liquidity of general government sector or public sector consistently and systematically.
- Analysis of sustainability and impact of fiscal policy on the economy for fiscal policy-making
- Analysis of public sector's contribution to the economy e.g. aggregates demand, savings and investment.



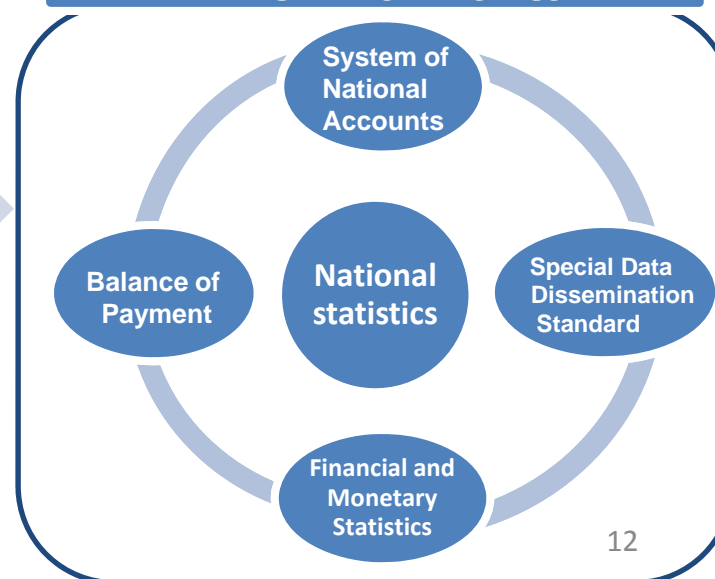
GOVERNMENT FINANCIAL MANAGEMENT



Accrual GFS

GFS is a bridge between accounting and fiscal decision making

NATIONAL STATISTICS

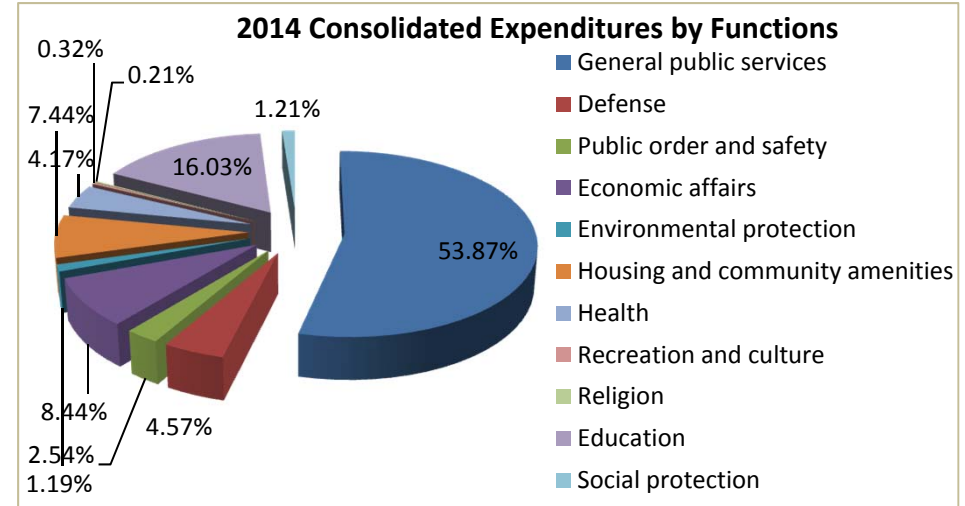




2008 – 2014 Consolidated General Government Revenue, Expenditure and Surplus/Deficit (in Trillion Rupiah)

Efficiency in financing is conducted by controlling national deficit to under 3%

In trillion Rupiah	2008	2009	2010	2011	2012	2013	2014
Pendapatan **	1.046	916	1.076	1.322	1.472	1.611	1.774
Belanja **	1.042	1.019	1.105	1.370	1.587	1.783	1.959
Surplus (Defisit) **	4	(103)	(28)	(48)	(115)	(172)	(185)
Surplus (Defisit) to GDP ratio (%)	0,09	-1,84	-0,44	-0,65	-1,40	-1,89	-1,83



EXPENDITURE	Current Price GDP Distribution (%)			
	2014**	2015**	Q1 2015**	Q1 2016**
Household consumption	55.99	55.92	56.73	56.86
NPISH Consumption	1.18	1.13	1.12	1.16
Government consumption	9.43	9.75	6.61	6.80
Gross fixed capital formation	32.58	33.19	32.85	33.16
Changes in Inventories	1.99	1.38	2.85	2.73
Export of goods and services	23.63	21.09	21.97	18.78
Import of goods and services	24.42	20.85	21.43	18.77

2008 - 2014 Consolidated General Government Expenditure

The chart illustrates the distribution of government spending across various sectors over a seven-year period. Wages and salaries consistently represent the largest portion of expenditure, followed by interest and capital expenditure. The use of goods and services also shows a significant share, while grants and social assistance represent smaller, relatively stable portions of the total. Subsidies and other categories make up the remaining percentages.

Year	Wages & Salaries	Use of goods and services	Capital expenditure	Interest	Subsidy	Grant	Social Assistance	Others
2008	27%	12%	15%	8%	27%	2%	4%	2%
2009	31%	16%	17%	9%	23%	2%	6%	2%
2010	33%	17%	16%	8%	27%	2%	4%	2%
2011	32%	18%	17%	7%	23%	2%	4%	2%
2012	31%	17%	17%	8%	23%	3%	4%	2%
2013	31%	18%	17%	7%	20%	4%	4%	2%
2014	30%	18%	17%	7%	20%	4%	4%	2%



10. Integrated Financial Management Information System (SPAN)

SPAN Program Management

Policy Reform

The preparation and implementation of changes brought about by SPAN to:

- Government regulations,
- The government accounting framework,
- The move to full accrual accounting.

Business Process Reform

Comprehensive business process improvements that will align the business processes in both DG Budget and DG Treasury through the application of an IT-based work processes.

IT System Reform

- Standardized & integrated IT architecture
- Structured IT Governance
- Resource optimization through Common Service Provision
- IT services through SLAs (Service Level Agreements)

Change Management & Communications

- Achievement of strong commitment and full support for the reform program
- Management of change brought about by SPAN through training, knowledge transfer, and consideration of MoF organizational policies

SPAN Projects (each by separate contracts)

Business Process Improvement

SPAN

SPAN Components

- *Data Center & Disaster Recovery Center*
- *Cabling Installation*
- *Wide Area Network*
- *Collaboration Environment*
- *COTS Solution*

Hyperion Planning & Budgeting for
Budget Preparation

Oracle e-Business Suite for Budget
Execution

SAKTI

ICT Shared Services Strategy

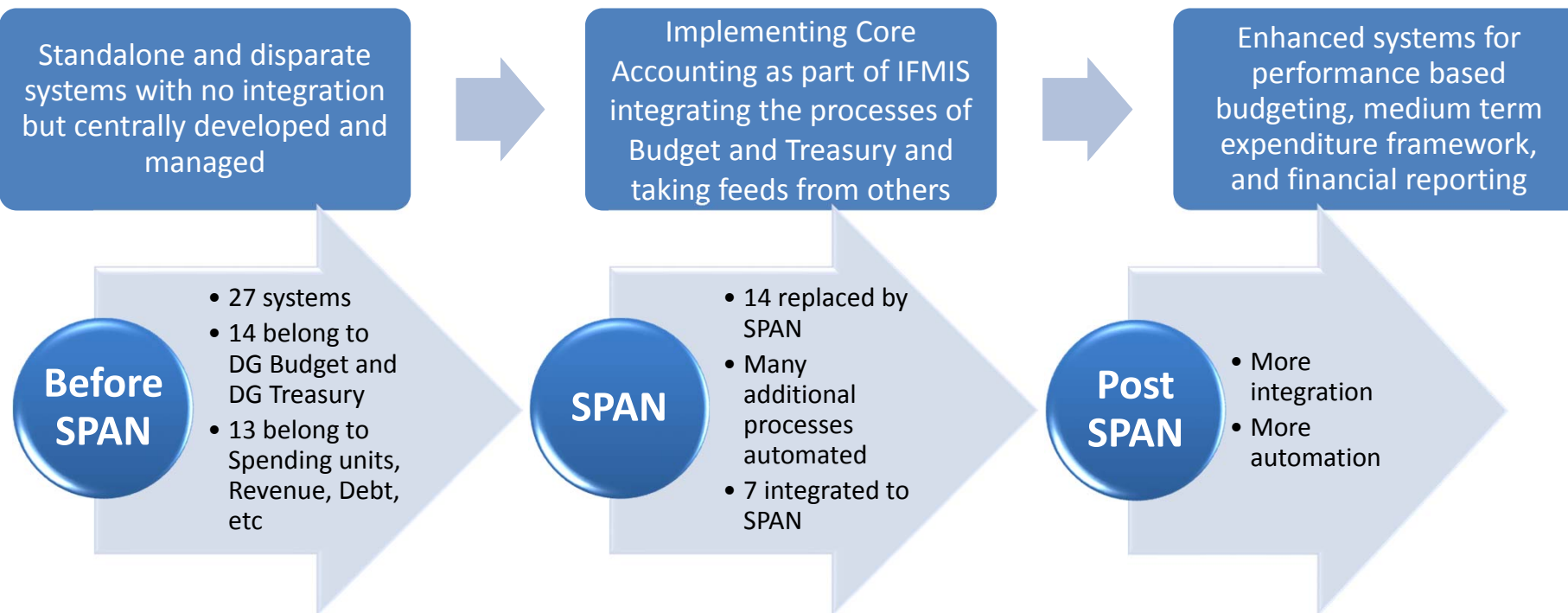
Service Desk for User Support

Change Management & Communications



11. Integrated Financial Management Information System (SPAN)

Before and after IFMIS (SPAN) Implementation ...



Governance

- Board of Leaders: Minister and all Echelon 1
- SPAN Technical Team
- SPAN Team Engagement with others: Project charters and Chart of Account (COA) was agreed and signed by involving all business owners
- Close collaboration with system implementers: 15 certificates was signed to reach full operational acceptance

Communication Channel

- Roadshow
- Established SPAN's agent at the Treasury offices in 2012
- SPAN's Media: News letter & SPAN's website
- International conferences: Pre-implementation (2010) and post-implementation (2015)



Lessons Learned

1. Public Financial Management (PFM) Reform is a long drawn process comprising of multiple change initiatives affecting regulations, processes, systems and people.
2. PFM reform may consist of reforms in whole budget cycle, which in Indonesian experience, critical PFM reform includes reforms in cash management, government spending, accounting, fiscal statistics and information system.
3. All those reforms are very difficult exercise. Challenges may occurs in term of assuring high level committment, management of diverse stakeholders, lack of dedicated staffs, capacity building of 28,927 spending units and other core users, the size of data and the number of transactions, data conversion from the legacy system, and costly IFMIS customizations.
4. There is no one-size-fits-all solutions for PFM reform. However, key success factors can be identified. They include development of a robust roadmap and implementation strategies, political commitment, ownership by the administration (leaders and staffs), policy formulation, clear objectives and governance, integration in the budgetary process, anticipation of implementation, building of transformation capability, information and comunication, integrated change and risk management, and performance culture at all levels of public service.

Thank You



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