



Identifying the Constraints to Budget Execution in the Infrastructure Sector

DIPA Tracking Study

Printed in May 2012.

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Acknowledgements

Budget execution remains a challenge in Indonesia. Weak budget disbursements and back-loaded spending patterns toward the end of fiscal year in 2010 and 2011 highlight ongoing challenges and raise a particular concern over the absorptive capacity and quality of budget implementation. This study identifies factors constraining budget execution and assesses the effectiveness of policies that have been introduced to accelerate budget execution and aims to support the Government of Indonesia, in particular the Fiscal Policy Office, in exploring reforms to improve line ministries' budget execution in the infrastructure sector. The findings and policy recommendations of this study are expected to provide informed policy options which can help the Government of Indonesia to continuously improve budget execution in the short and medium term.

This report was a result of a collaborative effort between the Center for Budget Policy (PK-APBN) of the Fiscal Policy Office (FPO), the Institute for Economic and Social Research Faculty of Economics University of Indonesia (LPEM- FEUI), and the World Bank. The field survey was led by LPEM-FEUI. The core team was led by Wahyu Utomo (FPO), Isfandiarni (LPEM-FEUI), and Ahya Ihsan (World Bank) and comprised Roni Parasian, Mahpud Sujai, Ilham Satriyo, Adista L, Pipin P, Risyaf F and Chairunnizah (FPO), Niniek L. Gyat, M. Shauqie Azar, Yusuf Sofiyandi, Safyra Primadhyta, and Pitri Hutagaol (LPEM-FEUI), and Hari Purnomo, Dwi Endah Abriningrum, and Dhanie Nugroho (World Bank).

The team would like to thank all stakeholders who provided support and valuable inputs during the process, particularly the staff of the Satker (work units), line ministries, the Regional and Local Offices of the Directorate General Treasury, Ministry of Finance (Kanwil Dirjen Perbendaharaan and KPPN) in Jakarta, West Java, North Sumatra, and South Sulawesi, and those who kindly shared their insights and information during the survey. The team would also like to extend its appreciation to participants who attended and provided inputs in a series of focus group discussions and disseminations.

The team also benefited from valuable inputs provided by a larger group to which the team would like to express its gratitude, in particular to: Amnu Fuady, Agunan P. Samosir, Evi Subardi dan Sri Lestari (FPO), Andrew Blackman, Jonas Fallov, Enda Ginting, Anna Gueorguieva, Suresh Gummalam, Retno Sri Handini, Yuliya Makarova, Ashley Taylor, Unggul Suprayitno, Widya Wijayanti, and Soekarno Wirokartono (World Bank).

Peter Milne, Arsianti, Indra Irnawan, Titi Ananto, Sylvia Nyotomihardjo provided editing, formatting, and overall support.

The team is grateful to overall guidance provided by Bapak Askolani, Luky Alfirman (Former Heads of Center of Budget Policy of FPO), Rofyanto Kurniawan (Head of Center of Budget Policy of FPO), Widyono Soetjipto (Research Director of Regional and Infrastructure of LPEM-FEUI), Shubham Chaudhuri (Lead Economist World Bank Jakarta), Enrique Blanco Armas (Senior Economist World Bank Jakarta), and Theo Thomas (Senior Public Sector Management Specialist World Bank Jakarta).

Finally, the team would like to acknowledge the generous contributions of AusAID through the Support for Enhanced Analysis and Monitoring of the Indonesia Economy (SEAMIE) and Support for Enhanced Macroeconomic and Fiscal Policy Analysis (SEMEFPA) programs as well as the Multi-Donor Trust Fund for Public Financial Management (with contributions from the European Commission, USAID, and the Dutch and Swiss Governments).

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Abbreviations and Acronyms

APBD	: Anggaran Pendapatan dan Belanja Daerah (Provincial or Local Government Budget)
APBN	: Anggaran Pendapatan dan Belanja Negara (Central Government Budget)
Bappenas	: Badan Perencanaan Pembangunan Nasional (National Development Planning Board)
BPKP	: Badan Pengawasan Keuangan dan Pembangunan (Financial and Development Supervisory Agency)
DIPA	: Daftar Isian Pelaksanaan Anggaran (Budget Warrant)
DG	: Directorate General
ESDM	: Energi dan Sumber Daya Mineral (Energy and Mineral Resources)
FGD	: Focus Group Discussion
FPO	: Fiscal Policy Office (Badan Kebijakan Fiscal or BKF)
Kanwil	: Kantor Wilayah Direktorat Jenderal Perbendaharaan (Regional Representative Office of DG-Treasury of Ministry of Finance)
DJPB	
K/L	: Kementrian dan Lembaga (Line Ministry)
Kepdirjen	: Keputusan Direktur Jenderal (Directorate General Decree)
Keppres	: Keputusan Presiden (Presidential Decree)
KPA	: Kuasa Pengguna Anggaran (BudgetProxy User)
KPK	: Komisi Pemberantasan Korupsi (Corruption Eradication Commission)
KPPN	: Kantor Pelayanan Perbendaharaan Negara (Local Treasury Office)
LPEM-FEUI	: Lembaga Penelitian Ekonomi dan Masyarakat Fakultas Ekonomi Universitas Indonesia (The Institute for Economic and Social Research Faculty of Economics University of Indonesia)
LKPP	: Lembaga Kebijakan Pengadaan Barang dan Jasa Pemerintah (National Procurement Policy Agency)
MOU	: Memorandum of Understanding
Perpres	: Peraturan Presiden (Presidential Regulation)
PFM	: Public Finance Management
PH	: Project Handover
PLN	: Perusahaan Listrik Negara (State Owned Electricity Company)
PMK	: Peraturan Menteri Keuangan (Ministry of Finance Regulation)
POK	: Petunjuk Operasional Kegiatan (Budget Details)
PP	: Peraturan Pemerintah (Government Regulation)
PPK	: Pejabat Pembuat Komitmen (Commitment Officer)
RAPBN	: Rancangan Anggaran Pendapatan dan Belanja Negara (Proposed Budget)
RM	: Rupiah Murni (Domestic Revenue)
Renstra	: Rencana Strategi (Strategic Plan)
RKA-KL	: Rencana Kerja Anggaran – Kementerian dan Lembaga (Budget Work Plan – Line Ministry)
RPJMN	: Rencana Pembangunan Jangka Menengah Nasional (Medium-Term Development Plan)
Satker	: Satuan Kerja (Work Unit)
SMS	: Short Messages
SPAN	: Sistem Perbendaharaan Anggaran Negara (State Budget and Treasury Financial Information System)
SPM	: Surat Perintah Membayar (Payment Order)
SPP	: Surat Permintaan Pembayaran (Request for Payment)
TEPPA	: Tim Evaluasi dan Pengawasan Penyerapan Anggaran (Evaluation and Supervisory Team for Budget Absorption)
UKP4	: Unit Kerja Presiden bidang Pengawasan dan Pengendalian Pembangunan (Presidential Work Unit for Development Monitoring)
ULP	: Unit Layanan Pengadaan (Procurement Service Unit)

Executive Summary

a. Budget execution remains a challenge

Weak disbursements of the budget in 2010 and 2011 highlight ongoing challenges with budget execution. In both 2010 and 2011, less than 85 percent of the revised capital expenditure budget was disbursed, notwithstanding an increase in nominal terms of 44 percent in actual capital expenditure between 2010 and 2011. In addition, more than 50 percent of total disbursements occurred in the last quarter of those two years. This raises a particular concern over the absorptive capacity and quality of budget implementation, particularly in view of the Government's stated priority of significantly increasing infrastructure spending. There needs to be a significant improvement in budget execution if the substantial budget increases in capital and infrastructure spending, and the medium-term development targets outlined in the RPJMN 2010-2014, are to be fully materialized.

This study aims to support the Government of Indonesia, in particular the Fiscal Policy Office, in exploring reforms to improve line ministries' budget execution in the infrastructure sector. The study covers an assessment of factors constraining budget execution by analyzing and evaluating each step of the budget execution process, from budget preparation through to the completion of the project. The study also included surveys or field visits to gather information from key stakeholders, such as Satker personnel, the local treasury offices (KPPNs) and contractors covering four sample provinces, namely DKI Jakarta (as a pilot), West Java, North Sumatra and South Sulawesi. Thirty-six Daftar Isian Pelaksanaan Anggaran (DIPA or budget warrant) in fiscal years 2010 and 2011 were selected as samples within three line ministries: the Ministry of Public Works, the Ministry of Transport, and the Ministry of Energy and Mineral Resources. This study poses some limitations in terms of the limited sample size and the scope of analysis, which mainly focuses on the budget execution process and does not look into the quality of spending. The study was conducted through data and information collection, in-depth interviews, and focus group discussions (FGDs). Finally, policy recommendations were formulated by drawing upon the analysis from the field survey and inputs from preliminary dissemination, as well as ongoing and broader analysis undertaken by the Fiscal Policy Office (FPO) and the Public Financial Management (PFM) team in the World Bank Office Jakarta.

b. Efforts to accelerate budget execution are underway

The Government recognizes the above challenges and has introduced a number of measures to accelerate budget execution performance. The Government has recently established a task force known as TEPPA (Tim Evaluasi dan Pengawasan Penyerapan Anggaran) to monitor and help accelerate budget execution in 2012. The Government has also carried out some policy measures, including streamlining the budget preparation and payment process, the implementation of a new regulation on procurement (Perpres No. 54/2010), and the implementation of guidance on budget execution (Perpres No. 53/2010, a second revision of Keppres No. 42/2002), which provides flexibility on Satker (work unit) personnel appointments. In addition, the Government is currently preparing a government regulation (PP) on budget execution that is also expected to improve the process. Some key features of this draft regulation include re-emphasizing policies that have already been introduced, such as the appointment of Satker personnel no longer being bound to one fiscal year, together with early procurement and cash management. This forthcoming regulation also provides flexibility on applying for multi-year contracts for activities that are likely to require more than one fiscal year to complete. The draft regulation also anticipates the implementation of the Integrated Treasury and Budget Information System (SPAN).

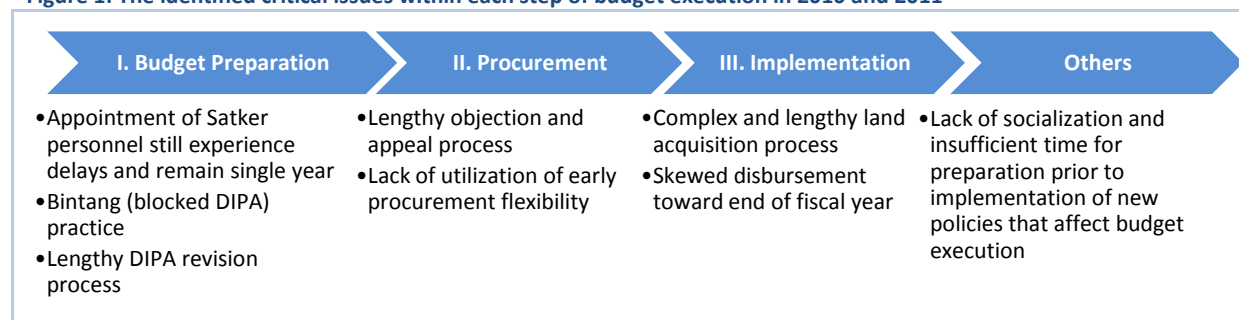
Reforms in the payment system/disbursement process have made progress. The payment process has improved given that now most KPPNs have been modernized. Payments can now be made in a single day once the required documents have been completed. The revision of DIPA due to administrative errors can now be done at the Regional Treasury Office (Kanwil). The simplification of the code of account in DIPA from four digit to two digit economic classification, and the harmonization of line ministries' working budgets (RKA-KL/RK-Satker) and the DIPA format have helped to accelerate the issuance of DIPA.

However, reforms in the area of budget preparation and procurement are still not fully effective, hindered by policy and regulatory inconsistencies and a lack of socialization. Although progress has been made as described above, significant challenges remain. Flexibility in the appointment of Satker personnel who are no longer bound to one fiscal year is not yet effective due to regulatory inconsistencies. The DG Treasury's regulation (Perdirjenben No. 66/2005), which states that Satker personnel are appointed annually, is still referred to by the line ministries and has not yet been revised. The flexibility to start the procurement process before the start of the fiscal year as regulated by Perpres No. 54/2010 to accelerate procurement is still not fully effective.

c. Delays during budget preparation are the main bottleneck, although issues during procurement and implementation also require urgent attention

Delays and complexities during budget preparation appear to be the most critical issues constraining budget execution, more so than the procurement and implementation stages (Figure 1). Although the procurement and implementation stages are also important, delays during budget preparation significantly affect subsequent activities. The performance of budget execution also depends on the nature of the project, such as project duration (single or multi-year), source of funds, project characteristics (maintenance and operation, or construction), influences from internal factors within Satker or the respective line ministry as well as influences from external factors such as other line ministries, lower-level governments, parliament, and other institutions.

Figure 1: The identified critical issues within each step of budget execution in 2010 and 2011



Long-standing issues remain the primary reasons for delays during budget preparation. These persistent issues include: administrative delays in the Satker receiving the DIPA (although the DIPA are approved before the fiscal year); delays in appointing Satker personnel; the lengthy process of DIPA revision and unblocking blocked (*bintang*) DIPA; poor planning and budgeting due to weak capacity of the Satker and limited time leading to DIPA/POK revisions and blocked DIPA. The survey indicated that two thirds of respondents received Satker personnel appointment letters in January and February, although the letters were signed in December of the previous year. Sixteen out of 36 DIPA in the sample were blocked due to incomplete documents and principle permits on multi-year warrants and land certificates. Furthermore, almost 90 percent of Satker indicated that they revised their DIPA and about 40 percent mentioned that they needed more than 4 weeks to do so.

Delays in budget preparation were partly caused by a high degree of deviation between the proposed and approved activities in DIPA. More than 50 percent of Satker respondents indicated that the approved DIPA was less than initially proposed. In addition, some approved activities were new and not in the initial proposed activities. Therefore, most Satker had to make revisions to the DIPA or to the budget details (Petunjuk Operasional Kegiatan, POK) before they can proceed on to the procurement stage. DIPA revisions are often required for administrative errors (e.g., the code of account), revisions of the budget details (POK), and reallocation of activities that involve several related institutions, such as the planning division in each line ministry, DG Budget, and DG Treasury. In addition, many new activities or changes proposed during budget discussions between the Government and parliament in November each year leave very little time for the planning or revision process, which often leads to blocked DIPA or conditional approvals due to incomplete supporting documents.

The Budget details appropriation process (approval by parliament) introduces rigidities and contributes to delays in the DIPA revision process. The current budget appropriation process requires parliamentary approval for

spending at a highly disaggregated level - i.e. not only at the ministry and project level, but also the activity as well as by type of expenditure. These highly disaggregated spending allocations are stipulated through a Presidential Decree (or as attachment 4 in the Presidential Decree) as part of the approval process. These rigidities reduce budget flexibility and delay budget preparation. As a result, DIPA revisions down to the activity level have to be approved by parliament.

The procurement process also faces challenges and delays. The procurement process is largely influenced by the objections and appeal process, the nature of the project, and the potential number of qualified bidders. The study indicates that the procurement process ranged from 1.5 months (mostly non-construction projects) to about 5 months (mostly construction projects). The new procurement regulation (Perpres No. 54/2010, a revision of Keppres No. 80/2003) was effective in 2011. This new procurement regulation aims to improve efficiency, transparency, and accountability, as well as accelerate the procurement process. It also introduces some new features, such as the requirement to establish procurement units (Unit Layanan Pelelangan, or ULP) within every line ministry, e-procurement, and objection-and-appeal procedures on awarded contracts. However, this new regulation has brought with it new challenges, as 2011 was still a transition year. Most Satker are still new to the system and point out that socialization of this regulation was lacking, resulting in multi-interpretations, rendering personnel overly cautious in the procurement process. The objection-and-appeal procedures were introduced with no clear time limit, significantly affecting the procurement process because procurement had to be postponed until the objection-and-appeal procedure had been completed. The lack of human resources (certified procurement specialists as required by the law) and inadequate infrastructure to support e-procurement (e.g., limited bandwidth) were also often raised as constraints by Satker personnel. In addition, delays in administrative budget preparation such as the prolonged process to remove blocked DIPA also delayed the start of the procurement process, even though procurement committees had already been established. As mentioned above, the flexibility to conduct early procurement before the fiscal year has also not been effective.

A weak incentive structure for Satker personnel, coupled with growing concerns over the heightened level of fiduciary (audit) control, also discourages Satker personnel performance in project implementation. Satker personnel indicate that the incentive structure or honorariums for civil servants who are appointed as Satker personnel fail to reflect the scale or complexity of the projects. This is coupled by the recent emphasis on increased fiduciary (audit) control, discouraging Satker personnel from taking pro-active steps in budget execution. This heightened level of fiduciary control also discourages civil servants from applying for certification as procurement specialists, reflected in the lack of human resources in establishing procurement committees.

The lengthy and complex land acquisition process is the main constraint during the implementation stage. Although the progress of project implementation depends on the nature of the project -, i.e. duration (single or multi-year), source of funds (rupiah- or foreign-funded), and project characteristics (maintenance and operation, or construction), large-scale projects that have a land acquisition component often experienced delays due to the lengthy and complex process, coupled with coordination issues. About 70 percent of respondents indicated that they faced problems in land acquisition. Additional requirements by development partners, such as higher levels of safeguard criteria, also slowed down project implementation of foreign-funded projects. On the other hand, the non-construction projects (maintenance and operation) were mostly implemented as expected.

Financial disbursement is heavily skewed towards the end of the fiscal year caused by delays in starting implementation, delays at the Satker in processing payments, and the preference of many contractors for submitting invoices for payment at the end of the fiscal year. The first disbursements generally occur at the end of the first quarter and vary by the nature of the project. There are inconsistencies when comparing disbursement plans against actual spending and physical progress plans against actual implementation. The inconsistencies are driven by challenges during preparation, procurement and implementation outlined above. For single-year and non-construction projects (i.e., projects that do not involve land acquisition) Satker can start disbursements for advanced payment between March - May, while for multi-year and construction projects (e.g., large-scale and complex procurement that requires pre-qualification, bank guarantees, etc) the first disbursements start as late as August or September. There are also differences when comparing physical and financial progress. This is caused by contractors' preference to hold back the submission of invoices until the last quarter, as many feel that the payment procedures are cumbersome. Some contractors also have limited resources and capacity to prepare the

required documents for claiming payment. In addition, delays in financial progress against physical progress can also be due to delays in processing in the Satker. There is still no clear monitoring system and a lack of enforcement to monitor the process by which the Satker issue payment orders to the KPPNs. In addition, the gaps can also be caused by the budget principle whereby payment can only be made after the installation is completed or goods/services are received.

The implementation of some policies in 2011 (e.g., budget efficiency, budget optimalization, and the new requirement to fully complete land acquisition process for multiyear projects) had an adverse impact on budget execution. While these new policies may have their own objectives and are expected to enhance the quality of spending, a lack of socialization and insufficient time for preparation prior to implementation negatively affected budget execution (e.g., through multiple DIPA revisions). Presidential Instruction (Inpres) No. 7/2011 on Budget Efficiency requires all line ministries to cut/reduce their budgets by a minimum 10 percent. Meanwhile, Ministry of Finance Regulation PMK No. 38/2011 regarding budget optimalization aimed to provide rewards and punishments to line ministries based on efficiencies in procurement in 2010. Most Satker had to revise their DIPA and budget details (POK). The utilization of budget optimalization and reallocation of the 10 percent savings were decided in March, which had a distracting effect on Satker performance and left insufficient time for proper planning. As a result, new initiatives/activities for budget optimalization were blocked and were not fully spent. In addition, the Ministry of Finance regulation on multi-year projects which was effective immediately in 2011 requires that land acquisition must be fully completed in order to obtain a multi-year warrant from the Minister for Finance. This also delayed the execution of some multi-year projects.

Despite the challenges described above, some promising initiatives have been implemented by the line ministries, regional treasury offices (Kanwil DJPB) and local treasury offices (KPPNs) in order to ease some of the bottlenecks at different stages of budget execution. In order to accelerate the procurement process, PLN (the state-owned electricity provider) signed an MOU with the LKPP and the Anti-Corruption Commission (KPK) to avoid multi-interpretations of Perpres No. 54/2010. The Ministry of Public Works has utilized the flexibility of advance procurement by employing binding clauses for early procurement before DIPA issuance. Some Satker have also taken proactive steps to encourage the timely submission of invoices for payments by setting up a short-message service (SMS). In North Sumatra and South Sulawesi, contractors no longer have to queue in KPPNs if they submit their invoices on time.

Agenda for Implementation

Addressing budget execution challenges is critical for Indonesia. The Government recognizes the current weak budget execution and has taken some necessary measures to address the issue. For example, to accelerate budget execution in 2012, the President has established a task force TEPPA (Tim Evaluasi dan Pengawasan Penyerapan Anggaran, Evaluation and Supervision of Budget Absorption Team) to closely monitor and de-bottleneck the constraints in budget absorption this year. TEPPA is led by the UKP4, and co-led by the Ministry of Finance and the State Development Audit Agency (BPKP). The current high-level of Ministerial and public interest also provides an opportunity to undertake broader improvements in order to accelerate budget execution. In addition to addressing the immediate constraints in the short term, this momentum also provides an opportunity to undertake broader improvements, which may involve institutional and regulatory changes and part of broader Public Financial Management (PFM) reforms. Policy recommendations are presented under three categories: steps that may have an impact on 2012 budget implementation; preparation and implementation action for the 2013 budget; and medium- to long-term actions. Table 2 at the end of this section summarizes policy recommendations based on budget execution stages and issues.

a. Immediate actions to assist in the implementation of the 2012 budget

Intensive monitoring and providing coordinated and targeted assistance to identified high-risk projects may be warranted. Some of the challenges to budget execution discussed above are likely to recur in 2012. Efforts to improve budget execution may need to take into account these constraints and work within the current regulatory and institutional frameworks. While addressing overall constraints would be preferable in the medium term,

focusing on high-risk projects that are likely to experience delays- such as large capital and priority projects and those that have issues during preparation- through close monitoring and by providing targeted support to selected line ministries and Satker can have a positive impact on budget execution in the short term (Table 1).

Table 1: Suggested actions and institutions to improve budget execution in 2012

No	Institution	Suggested measures and targeted assistances
1	TEPPA	<ul style="list-style-type: none"> Monitor the performance of K/Ls with the largest budget Coordinate and harmonize policies and regulations that affect execution of DIPA
2	DG Budget (Ministry of Finance)	<ul style="list-style-type: none"> Monitor the performance of Satker with the largest budget Provide targeted support to K/L to remove all blocked DIPA (<i>bintang</i>) (at least big or politically prioritized projects) with a clear immediate time line Closely track & accelerate DIPA revision process that needs to be approved by DG-Budget/MoF/Parliament Closely track and accelerate multi-year contracts proposal submitted by K/L for MoF approval as pre-requisite to start implementation or extension to next fiscal year if delay is unavoidable
3	DG Treasury	<ul style="list-style-type: none"> Closely monitor DIPAs with high allocation for capital expenditure Monitor Satker with low and slow capital exp disbursements in previous fiscal years Monitor and assist Satker that have not received appointment letter (SK) for FY 2012 Enforce the implementation of PMK No. 170/2010 on billing settlements and PMK No. 192/2009 on cash planning by the spending units
4	Line Ministries (K/L)	<ul style="list-style-type: none"> Take pro-active role and expedite internal procedures in DIPA revisions process/virements Conduct training and capacity building on procurement, planning, budgeting, project management and accounting and reporting of K/L officials
5	LKPP	<ul style="list-style-type: none"> Monitor and assist procurement process—at least for large and priority programs Establish monitoring system to oversee the implementation of Perpres No. 54/2010 Improve dissemination of Perpres No. 54/2010 to line ministries, Satker, and contractors
6	Bappenas	<ul style="list-style-type: none"> Monitor and assist large and politically prioritized activities/programs
7	BPKP	<ul style="list-style-type: none"> Monitor and provide targeted assistance at least to large and complex projects to comply with the procedures

The introduction of any new policies should take into account potential adverse impacts on budget execution and allow enough time for socialization and preparation prior to implementation. As shown by experience in 2011, the implementation of policies that affect budget execution (e.g., through revisions) such as budget efficiency, budget optimization, and the new requirement to fully complete land acquisition process for multiyear projects could exacerbate an already complex budget execution process. This is of particular concern if the policy is effective immediately within the current fiscal year and without adequate attention given for socialization and preparation prior to implementation.

b. Preparation and implementation actions for the 2013 budget

Streamline and accelerate the budget preparation process by integrating work plan and budget documentation, minimizing the application of blocked DIPA (*bintang*), and addressing delays in the appointment of Satker personnel. Addressing delays in budget preparation is critical as it has an impact on subsequent activities (e.g., procurement and implementation). Actions which could help to resolve these delays include:

- Implement the new State Budget and Treasury Financial Information System (SPAN) and the Financial Application System at the line ministries (SAKTI) for the 2013 budget. These systems are expected to integrate and synchronize budget documentation and disbursements and accelerate DIPA revision approval through an online process;
- Streamline procedures for giving "*bintang*". There should be more clarity on procedures, such as criteria, institution who can give *bintang*, steps and time limits for removing *bintang* (e.g., all *bintang* must be removed from DIPA by certain month), and clear procedures if *bintang* are not removed, e.g. the budget may be reduced if it has passed the deadline; and,
- Implement a new government regulation (PP) on budget execution. This new regulation is expected to be issued by second half of 2012, and will address some of the constraints and regulatory inconsistencies in budget preparation and execution such as re-appointment of Satker personnel, advance procurement. For this regulation to be effective, it must be immediately followed by revisions related to implementing regulations, such as presidential regulations (Perpres), ministerial regulations (PMK), DG regulations (Perdirjen), and proper socialization.

Improve the implementation of Perpres No. 54/2010 on Procurement. The implementation of Perpres No. 54/2010 on Procurement in 2011 was less effective than hoped due to the implications of some of the new policies, inadequate preparation, and a lack of dissemination. Some areas in which procurement can be improved in 2013 include: (i) simplifying and streamlining the objection-and-appeal procedure (e.g., increasing the fee for submitting an objection and introducing clear limits on the number and duration of appeals and objections); (ii) allocating sufficient budget for IT infrastructure to support the implementation of e-procurement; (iii) linking performance of the procurement committee members to Key Performance Indicators (KPIs); and (iv) improving the socialization of the Perpres across the country.

Enforce and improve the effectiveness of the new land acquisition law and disbursement procedures during the project implementation. There are two major issues identified as constraints during the implementation stage: the complex land acquisition process and the skewed disbursement towards the end of fiscal year. Although laws and regulations to improve project implementation have already been issued, their effectiveness can be further enhanced through the following actions:

- Accelerate the finalization and revision of technical regulations on land acquisition in order for the newly approved law to be effective. The Law on Land Acquisition was approved in December 2011. However, technical regulations are still being developed, delaying the implementation of the law. In line with this, the MoF has issued PMK No. 194/2011 on multi-year contracts (a revision of PMK No. 56/2010), which provides an exception for large infrastructure projects to start implementation even though land acquisition has not been fully completed;
- To address skewed disbursement at the end of the fiscal year, several steps can be considered: (i) improve MoF regulations on rewards and punishments by linking budget disbursement performance to the line ministries' Key Performance Indicators (KPIs) and provide more authority to the line ministries to conduct self-assessment; (ii) establish a monitoring system to oversee and expedite the claim-for-payment process by contractors; (iii) optimize PMK No. 194/2011 on multi-year contracts to smooth the rush in disbursements at the end of the fiscal year (2012) by carrying them over (multi-year) into the next fiscal year (2013), particularly for the highest capital expenditure and goods and services budgets. If delays in project completion seem unavoidable (by early December 2012 at the latest), requesting MoF approval to convert the original single-year contract into a multi-year contract; and (iv) relax the 100-percent physical completion requirement by year-end. Incomplete activities in the current year (2012), but nonetheless those that are likely to be finalized at the beginning of following year (2013), can be allowed to continue for a limited period on the condition that the contractor provides a bank guarantee for an amount equal to the final payment made.

Provide capacity building to Satker personnel on multi-year project management. Given the likelihood of an increasing number of multi-year contracts going forward, particularly for large capital-intensive projects, building the capacity of Satker personnel to handle multi-year project management would help to improve overall project implementation. By using multi-year project management planning, the line ministries or Satker staff can take more time to reduce administrative hurdles in preparation and procurement, and will have sufficient time for implementation.

c. Medium- to long-term actions

In the medium term, efforts to accelerate budget execution can be focused on further improvements in budget preparation and the overall planning and budgeting process as part of broader Public Financial Management (PFM) reforms. The suggested actions include:

- **Improve consistency between workplans (Renja KL) and budgets (RKA-KL) by synchronizing the planning and budgeting between Bappenas and DG Budget.** The preparation of workplans (Renja KL) and budgets (RKA-KL) is currently conducted separately by Bappenas and DG-Budget although with close coordination. In reality, since both applications are still not integrated, inconsistencies between the two planning documents delay budget preparation. Therefore, it is important to synchronize and consolidate workplans (Renja KL) and budget (RKA-KL) format documents into one integrated document by using similar applications so that the two sets of data are interchanged seamlessly.

- **Discontinue the practice of using *bintang*.** The practice of using *bintang* is unique to Indonesia and used to accommodate new priorities or changes in the budget. As discussed, this practice leads to delays in implementation since project preparation cannot be started prior to the removal of *ex-ante* requirements. To accelerate implementation while ensuring a sound fiduciary environment, *ex-post* controls should be enhanced while the practice of using *bintang* and other *ex-ante* controls should be gradually reduced. Responsibility for the adequacy of supporting documents should be taken over by the K/Ls subject to audit.
- **Budget appropriation (approval by parliament) should be at a more aggregated level.** As mentioned, the current budget appropriation process approves spending down to the activity level, reducing budget flexibility and delaying budget preparation. In addition, this process is no longer in line with the current reform towards performance-based budgeting. These line ministry budget details are stipulated through a Presidential Decree (as attachment 4 in the Presidential Decree) as part of the budget approval process. Thus, to minimize rigidities in budget appropriation and DIPA revisions, attachment 4 of Presidential Decree (Keppres) is no longer necessary.
- **Automation of the allocation process.** Currently, although DIPA are officially issued before the fiscal year, some Satker still experience delays in receiving their DIPA because the Satker staffs are waiting for signed hard copies. Going forward, the issuance of DIPA as signed hard copies should be gradually discontinued and replaced with an automated allocation process.
- **Provide more flexibility/authority to line ministries (Echelon 1) for conducting DIPA revisions.** The complex and detailed budget revision process was identified as one factor constraining budget preparation, as Satker have to go through a multi-level approval process. Further streamlining of DIPA revision procedures by giving more flexibility/authority to line ministries (Echelon 1) would speed up budget preparation, with the following conditions:
 - K/Ls should approve final budget allocations for each individual Satker, while DG Budget should control against the ceilings of a program;
 - The revision of a “single” DIPA below a certain threshold should be done by the K/Ls;
 - Approval from DG Budget is required only if: (i) the revision requires parliament/MoF approval; (ii) the revision impacts multiple Satker; or (iii) the revision requires the issuance of a new DIPA; and
 - DG Treasury to process any changes in DIPA without approval authority.

Table 2: Summary of issues and recommendations for improving budget execution

No	Stages	Issues	Recommendations		
			2012	2013	Medium terms
1	Budget preparation	Satker personnel are still appointed annually and with delays	Closely monitor DIPA that has not appointed Satker personnel and remind respective K/Ls for their action	Appointment of Satker personnel should no longer bound to fiscal year (Perpres No. 53/2010): <ul style="list-style-type: none"> • Revise Perdirjenben No. 66/2005 • Implement government regulation (PP) on budget execution 	
		Bintang (blocked DIPA)	<ul style="list-style-type: none"> • Develop guideline with clear timeline to remove <i>bintang</i> • Provide targeted assistance to remove <i>bintang</i> for large and politically prioritized projects 	Minimize the application of <i>bintang</i> (blocked DIPA) and develop clear procedures and criteria in giving and removing <i>bintang</i>	<ul style="list-style-type: none"> • Discontinue <i>bintang</i>-practice. • Reduce ex-ante controls and increase ex-post controls of documents. K/L should responsible for the adequacy of supporting documents subject to audit.
		Lengthy DIPA revision	<ul style="list-style-type: none"> • Provide targeted support to large and politically prioritized projects through “One Stop Service” • Accelerate overall DIPA revision by increasing assistantship at DG Treasury Regional Office (Kanwil DJPB) 	<ul style="list-style-type: none"> • Expedite the preparation and revision of DIPA by integrating and synchronizing budget documentation and disbursements between MoF and K/Ls through integrated IT system (SPAN and SAKTI). • Apply a “One-Stop Service” for revising DIPA of a single Satker in the regions (Kanwil) 	<ul style="list-style-type: none"> • Provide more authority to line ministries (Echelon 1) in reallocation and DIPA revision within activity • Gradually discontinue the issuance of DIPAs as signed in hard copies and replace them with an automated system
		Poor planning and budgeting		Improve capacity of Satker in planning and budgeting, and multi-year project management	Synchronize planning and budgeting between Bappenas and DG-Budget by synchronizing and integrating the format of work plan (Renja KL) and budget (RKA-KL)
		Rigidities and details budget discussion			Appropriation should be at higher level – remove the existing attachment 4 in the Keppres RKA-KL
2	Procurement	Lack of understanding of Perpres No. 54	<ul style="list-style-type: none"> • Improve dissemination of Perpres No. 54/2010 • Create MOU between K/L, Procurement Agency (LKPP), Anti-Corruption Commission (KPK), to have assistantship 		
		Lengthy procurement process		Streamline the objection-and-appeal procedure (e.g., increasing the value of the deposit & introducing clear limits on the number, duration of appeals- objections)	
		Lack of incentive to participate in procurement committee		<ul style="list-style-type: none"> • Link performance of the procurement committee to the Key Performance Indicators • Consider risk-based incentive structure for Satker personnel and procurement committee 	
		Lack of infrastructure to support e-procurement		Allocate sufficient budget for IT infrastructure to support e-procurement	

No	Stages	Issues	Recommendations		
			2012	2013	Medium terms
3	Implementation	Lengthy and complex land acquisition	Closely monitor and provide targeted support to large infrastructure project and politically prioritized projects and coordinate closely with provincial/LGs land acquisition team (Panitia 9)	Accelerate the finalization and revision of technical regulations on land acquisition in order for the newly approved Law to be effective.	
		Lack of coordination (e.g., special license)	Facilitate expedited process in coordination e.g., issuing permission letter/license		
		Skewed disbursement toward end of fiscal year (due to contractor preference to claim at the end of fiscal year and slow processing at Satker)	Socialization and enforcement of PMK 170 on the schedule of payment	<ul style="list-style-type: none"> • Link performance of disbursement to Satker's Key Performance Indicators • Establish electronic monitoring system at Satker to process the invoice submit by contractors • Optimize PMK No. 194/2011 on multi-year contracts to smooth the rush in disbursements at the end of the fiscal year by carrying them over into the next fiscal year. • Encourage K/Ls to submit requests for multi-year contracts for large capital projects in the newly allocated APBN-P 2012. • Relax the 100-percent physical completion requirement by year-end by allowing selective incomplete activities in the current year to continue for a limited period with condition that contractor provides a bank guarantee for an amount equal to the final payment made 	
4	Others	Some new policies (e.g., budget efficiency, budget optimization, and the new requirement to fully complete land acquisition process for multiyear projects) introduced in 2011 had an adverse impact on budget execution	Take into account potential adverse impact of new policies on budget execution and allow enough time for socialization and preparation for implementation		

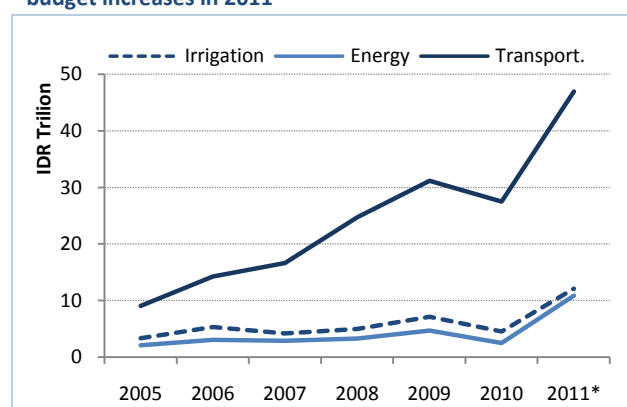
I. Introduction

1. Background

The Government of Indonesia has outlined its commitment in the Medium-Term Development Plan (RPJMN 2010-2014) to improving infrastructure service provision and significantly boosting infrastructure spending. The current low levels of infrastructure development are holding back Indonesia's growth potential and poverty reduction progress. Indonesia ranks poorly among other countries with regards to the quality of infrastructure, while the inadequate supply of infrastructure is consistently identified by firms as a constraint on their operations and investments. To address these challenges, the Government has set ambitious development targets to be achieved by 2014, including the construction of 1,900 km of new highway, connecting more households to electricity grid, and increasing access to clean water. Realizing such budget increases and development targets will require improved public financial management (PFM) systems and institutions.

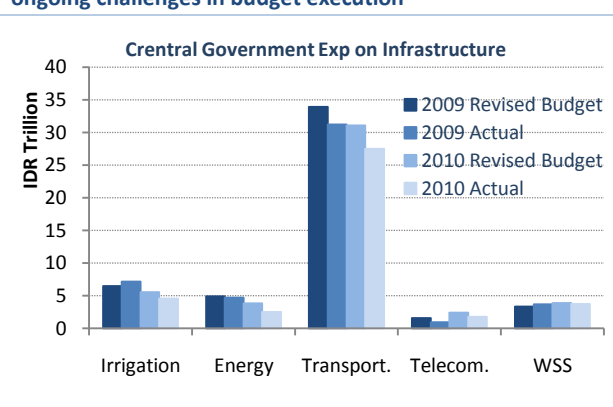
In line with the Medium-Term Development Plan, the Government significantly increased budget allocations for key infrastructure sub-sectors in 2011. Budget allocated for transportation increased by 47 percent, spending on irrigation increased by 140 percent, and spending on energy increased by 175 percent (Figure 1.1). By economic classification, capital expenditure increased 28 percent on the 2010 spending level.

Figure 1.1: Key infrastructure sectors received significant budget increases in 2011



Source: Ministry of Finance and World Bank staff calculations

Figure 1.2: But low 2010 budget outcomes highlighted the ongoing challenges in budget execution



Source: Ministry of Finance and World Bank staff calculations

However, low budget disbursements in core spending programs such as capital expenditure in 2010 and 2011 highlight that challenges remain. Capital expenditure was disbursed at less than 80 percent of the revised budget, while more than 50 percent of total disbursements occurred in the last quarter of the year. Low disbursement rates were also seen in the infrastructure sector, where spending on transport, irrigation, and energy were below the 2010 revised budget (Figure 1.2). Low absorptive capacity coupled with skewed spending patterns towards the end of the fiscal year raise particular concerns as these could hinder the achievement of development targets and affect the quality of the infrastructure being built.

Although reforms to accelerate budget execution have been put in place, some long-standing issues remain. The reforms include the flexibility for line ministries to conduct early procurement before the start of the new fiscal year (Perpres No. 54), while the appointment of personnel to the implementing units (Satker) is no longer bound to one fiscal year (Perpres No. 53). But despite this progress, planning and implementation capacity of line ministry Satker still needs improvement, the appointment of Satker personnel is still delayed, and budget revision processes are still complex and cumbersome.

In light of recent developments and government priorities, the Fiscal Policy Office at the Ministry of Finance, the Institute of Economic and Social Research, Economics Faculty, University of Indonesia (LPEM-UI), and the World

Bank jointly carried out a DIPA¹ (Daftar Isian Pelaksanaan Anggaran, or budget warrant) tracking study to better understand the causes of these ongoing challenges in budget execution and offer policy recommendations to accelerate budget implementation.

2. Objectives and Scope of the Study

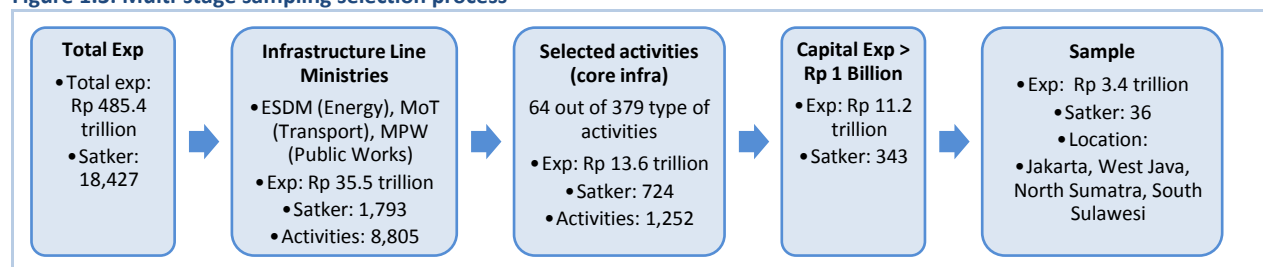
The main objective of this study is to support the Government of Indonesia, in particular the Fiscal Policy Office, in exploring reforms to improve line ministries' budget execution in the infrastructure sector. The specific objectives are as follows: (i) to identify the constraints to budget execution in the infrastructure sector, focusing on 2010 budget execution (ii) to assess the effectiveness of the reforms that have been introduced to accelerate budget execution in 2011; and (iii) to offer policy recommendations on ways to improve budget execution particularly within the infrastructure sector.

The scope of work for the study includes an assessment of factors constraining budget execution by following through every step of the budget execution process, from budget preparation through to the completion of the project. It covers an assessment of factors constraining 2010 budget implementation at each stage, analysis of the effectiveness of reforms that have been introduced recently to improve budget execution in 2011, and the formulation of policy recommendations to accelerate budget execution going forward. The study also involves surveys and field visits to gather information from key stakeholders, such as Satker personnel, the local treasury offices (KPPN) and contractors covering four sample provinces, namely DKI Jakarta (as a pilot), West Java, North Sumatra and South Sulawesi. Thirty-six DIPA were selected as samples within three line ministries: the Ministry of Public Works, the Ministry of Transport, and the Ministry of Energy and Mineral Resources. The field survey activities included: in-depth interviews, focus group discussions, and field observations.

3. Methodology

Thirty-six DIPA were selected as samples in the study. The selection process consisted of several steps. First, DIPA were selected within ministries that implement infrastructure projects, such as the Ministry of Public Works, the Ministry of Energy and Mineral Resources, and the Ministry of Transportation. At this stage, there were about 1,800 Satker with a total budget of Rp 35 trillion. Second, within these ministries a limited number of DIPA that were considered to be core infrastructure activities were selected. Activities such as training or other administrative activities were excluded. As a result, the sample size became 724 Satker with a total budget of Rp 13.6 trillion. Third, DIPA with budgets of less than Rp 1 billion were excluded, which left 343 Satker with budgets of Rp 11 trillion. Then, expenditure data by Satker were sorted by the size of capital expenditure by province. Finally, Satker were selected within 4 provinces that have the largest capital expenditure which include DKI Jakarta (as a pilot area), West Java, North Sumatra and South Sulawesi. The 36 selected sample DIPA had a total budget value of Rp 3.4 trillion (Figure 1.3). More detailed information on the DIPA sample can be found in Annex 1.

Figure 1.3: Multi-stage sampling selection process



¹ DIPA (Daftar Isian Pelaksanaan Anggaran) or budget warrants are prepared by line ministries and approved by DG Treasury or the Head of the Regional Treasury Office (Kanwil Perben) as a basis for guiding implementation and usage of the budget.

The samples were analyzed based on their characteristics. Sample characteristics were distinguished based on the nature of the projects, i.e. length of projects (single- or multi-year), source of funds (domestic or foreign-funded), and type of activity (operations and maintenance, or construction). Single-year projects are usually funded in rupiah and characterized as operations and maintenance projects and do not involve land acquisition. On the other hand, multi-year projects are usually mega-projects and projects funded by loans or mixed financing. Most multi-year projects are construction projects that require land acquisition. In addition, sample characteristics were also distinguished based on the number of activities. Distribution samples according to the characteristics can be seen in Table 1.1.

Table 1.1: Distribution of sample by province, sector, source of funding, and length of contract

Province	Fiscal year		Infrastructure Sector			Source of Funding		Length of Contract		TOTAL
	2010	2011	Public Works	Energy & Mining	Transportation	Domestic	Foreign	Single Year	Multi Year	
DKI Jakarta	5	1	1	1	4	2	4	3	3	6
West Java	7	3	8	1	1	2	8	5	5	10
North Sumatra	7	3	3	3	4	9	1	5	5	10
South Sulawesi	5	5	4	4	2	8	2	4	6	10
TOTAL	24	12	16	9	11	21	15	17	19	36

A pilot survey was implemented in DKI Jakarta between July and August, 2011, while the actual survey was conducted between September and October, 2011. As part of the pilot survey, the team interviewed related directorates in each line ministry. An important part of this initial step was to understand each ministry's internal policies and procedures for providing guidance to the Satker. Early visits to line ministries were also important in connecting the team to the Satker at the provincial level. Letters from related directorates general were also crucial in facilitating the field survey. Intensive discussions with staff of DG Budget, DG Treasury and the treasury offices in charge of loan projects (KPPN V and KPPN VI) were also conducted. Endorsement letters from the Fiscal Policy Office (BKF) and DG Treasury were crucial in facilitating the focus group discussions (FGDs) and accessing secondary data.

Figure 1.4: Selected provinces as survey areas



As discussed above, the activity of this study involved tracking the constraints in budget execution at every stage of the process, from budget and work plan preparation through to project completion (Figure 1.5). The review included the assessment of both financial and physical progress of the 36 DIPA selected. Financial progress was assessed by comparing actual monthly disbursements against monthly cash planning outlined in the budget (DIPA). Physical progress was reviewed by focusing on the largest activity or package carried out by the Satker, by comparing the actual physical progress with implementation schedule outlined in the contract. In addition, the analysis also included budget composition based on economic classifications, source of funding, and expenditure

composition. This study does not include oversight and audit on infrastructure quality, which is related to the monitoring and provision of infrastructure.

Both financial and physical progress were compared against the benchmark timeline based on the DIPA, contract documents, and government regulations. The gaps that may exist between the benchmark timeline and actual implementation at every stage of the implementation process indicate challenges in budget execution (Figure 1.5 and Figure 1.6). This analysis was carried out based on 24 DIPA implemented in 2010.

Figure 1.5: Schematic example of financial progress

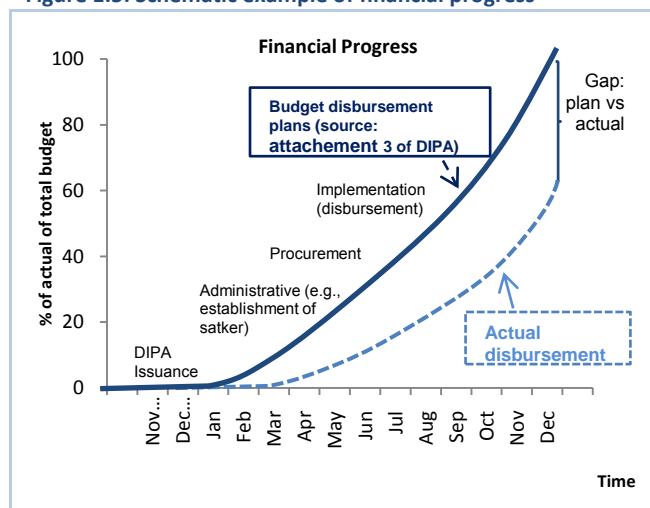
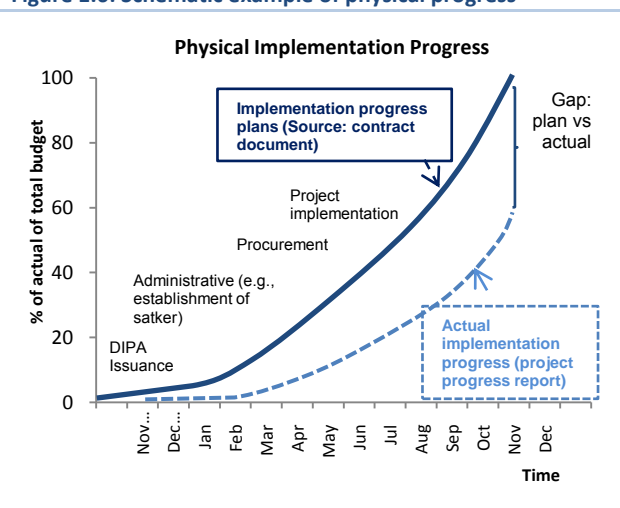


Figure 1.6: Schematic example of physical progress



In order to analyze the effectiveness of reforms that have been introduced to accelerate budget execution, this study focused on 12 out of the 36 sampled DIPA in 2011. The analysis includes the impact of regulations on DIPA implementation in terms of timing, procedures, and cost. In addition, the consistency among regulations was also assessed. The new regulations that affected budget execution in 2011 included Ministry of Finance Decree on Multi-year Contracts (PMK No. 56/2010), Presidential Regulation on Procurement (Perpres No. 54/2010), Presidential Regulation on Satker Re-appointments (Perpres No. 53/2010), Presidential Instruction on Budget Efficiency (Inpres No. 7/2011), Ministry of Finance Decree on Warning Letters from Satker to Contractors (PMK No. 170/2010), Ministry of Finance Decree on Rewards for Line Ministries in terms of extra budget allocations (PMK No. 38/2011), and other technical guidance issued by the Ministry of Finance.

Finally, policy recommendations were formulated by drawing upon the analysis from the field survey and inputs from preliminary dissemination, as well as ongoing analysis undertaken by the Public Financial Management (PFM) team in the World Bank Office Jakarta. To take into account the broader and long-term PFM agenda, policy recommendations also incorporate on-going analysis undertaken by the FPO team and the PFM team within the World Bank. The analysis from the survey includes quantitative analysis and focus group discussions with relevant stakeholders. It also incorporates the latest developments such as the implementation of PMK No. 194/2011 on multi-year contracts (revision of PMK No. 56/2010) and inputs during preliminary dissemination.

4. Limitations of the Study

This study has some limitations, such as the relatively small sample size, the scope of the analysis, the key respondents, and the completeness of the secondary data. The sample size of this study covers only 36 DIPA within the infrastructure sector and may not be statistically representative. However, it is hoped that the study can gather policy and qualitative information and illustrate common patterns of the issues to inform policy discussion. Due to these constraints, the study focuses more on qualitative analysis rather than quantitative analysis. For instance, in addition to focus group discussions, in-depth interviews were conducted with Satker personnel, local treasury offices (KPPNs), and contractors. In addition, several in-depth interviews were carried out with senior officials at selected ministries, e.g., DG Bina Marga, DG Water Resources, DG Air Transportation, DG Sea

Transportation, DG Railways, DG Electricity, and relevant directorates general in the Ministry of Finance, such as DG Budget and DG Treasury.

The study only covers line ministry spending of the central government budget (APBN), excluding sub-national government budgets (APBD). The study only focused on budget implementation processes, and did not cover the quality of spending or the post-implementation stage (i.e., audit).

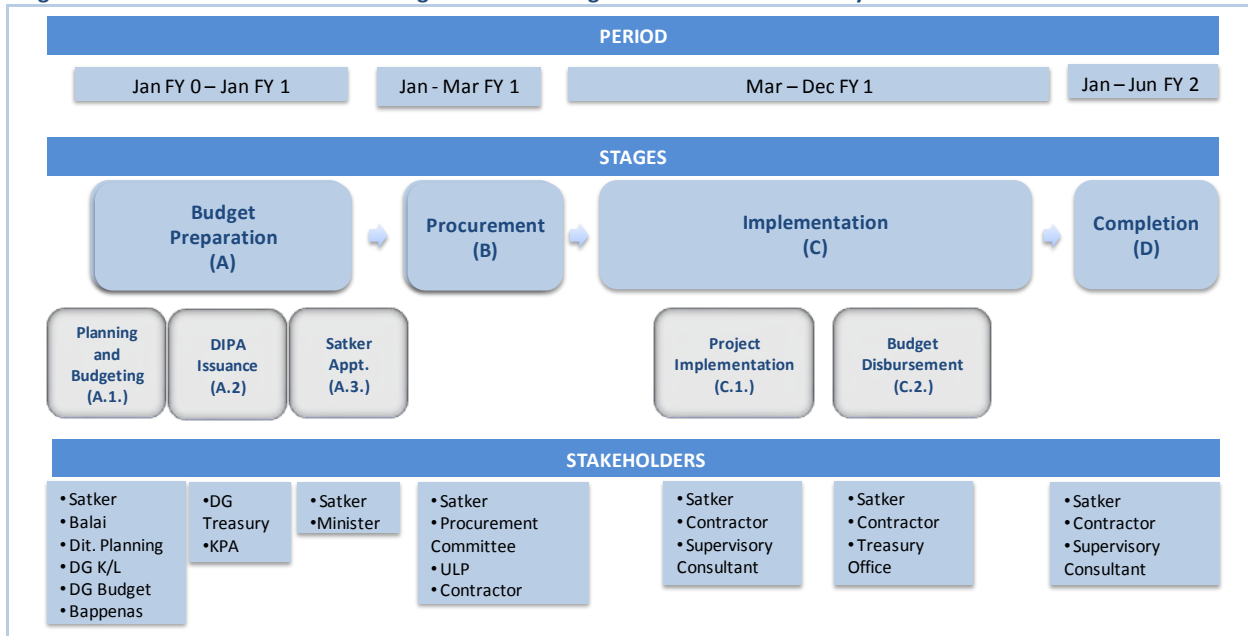
Some respondents, particularly those who implemented 2010 DIPA, were very difficult to track down. Many Satker personnel involved in DIPA implementation have left or been transferred to other directorates. For example, reorganization within line ministries that took place in 2010 (e.g., the Ministry of Public Works) created additional challenges as most Satker personnel were restructured. Therefore, some important information could not be obtained during the survey as the respondents were new personnel assigned on behalf of Satker 2010. For DIPA 2011, respondents were sometimes unavailable at the time of the survey.

Secondary data collected from the field were less adequate than expected. For instance, there are only few contractors that record their physical progress each month, unless they would like to submit claims for payment. Many Satker relied on consultants to prepare progress reports, while some Satker also recorded data in a non-standardized format. In addition, some contractors were also reluctant to share the data. Therefore, data on physical progress was difficult to collect during the survey, and only 10 out of the 36 DIPA had physical progress data.

II. Framework of Analysis

The assessment of budget execution is divided into four stages: budget preparation, procurement, implementation, and completion. In order to provide in-depth understanding of the processes and challenges at every step, each stage is analyzed independently as each has distinctive characteristics and procedures. This approach is used throughout the report in synthesizing the findings and the policy recommendations. This section outlines the ideal process and procedures of budget execution as governed by regulations and laws. This theoretical approach is then compared with the findings in Section III. A schematic illustration of the budget implementation stages, timing, and stakeholders involved during the process is outlined below (Figure 2.1).

Figure 2.1: Schematic illustration of budget execution stages and framework of analysis



Note: Period is indicative estimate of ideal process

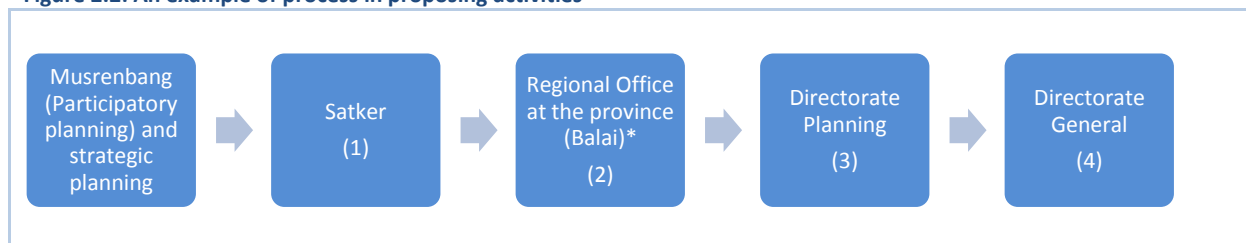
1. Budget Preparation

Budget preparation in this analysis focuses on the administrative and technical processes involved in translating priorities—which may have been identified in the strategic planning document—into programmatic activities and budget details until the DIPA is ready to be implemented. Therefore, the policy level budget preparation process, such as setting up macroeconomic assumptions and strategic priorities, is beyond the scope of this study. Hence, the administrative and technical aspects of budget preparation can be classified into: (i) planning and budgeting, (ii) DIPA issuance, and (iii) Satker personnel appointments.

a. Planning and Budgeting

Preparation of planning and budgeting (i.e. proposing activities) generally starts at the Satker level. The Satker play a critical role at this stage since they have better information and technical knowledge on the needs at the local level (Figure 2.2). Higher-level institutions such as the regional offices, directorates of planning at the central level, and directorates general at the central level can also initiate and propose activities directly. The Satker: (i) propose activities based on strategic direction from higher-level officials or based on planning documents to the Balai/regional offices at the provincial level; (ii) and/or the directorate of planning; (iii) the regional offices and/or directorates of planning consolidate, review, and synchronize the proposed activities with the strategic plan of the line ministries (as well as the RPJM); and (iv) the consolidated list of activities is then proposed/ recommended to directorates general within the line ministries.

Figure 2.2: An example of process in proposing activities



Source: Discussion with Satker and analyzed by LPEM FEUI, 2011.

Note: *This is the case for the Ministry of Public Works.

Following the planning process at the DGs of the line ministries, the budgeting process is carried out in close coordination with DG Budget at the Ministry of Finance and Bappenas through a tri-lateral meeting. The meeting discusses and proposes the budget ceilings for each line ministry. Line ministries formulate budgets based on the recommended activities contained in the budget ceiling. The Satker work closely with DG Budget by providing the required documents for the DIPA, such as detailed budget proposals (POK) and technical proposals. After the Satker have completed all the required documents and submitted them to DG Budget, DG Budget reviews the proposed DIPA within five working days.

The President submits the Financial Note, the Proposed Budget (RAPBN) and its attachment (line ministries' annual work plans and budgets (RKA-KL)), to parliament. The proposed budget (RAPBN) is discussed with parliament to set national and line ministry priorities (RKA-K/L). After approval by parliament, the Government announces the definitive budget ceiling. Based on the definitive ceiling, line ministries complete the necessary documents and detailed budgets for every proposed activity (See Annex 3 for detailed process of planning and budgeting).

DIPA that do not contain complete information during the planning and budgeting process receive conditional approval, and are blocked (*bintang*). There are several reasons that cause DIPA to be blocked with *bintang*: (i) incomplete required documents; (ii) source of funds is unclear (especially in the case of loans); (iii) land acquisition is unresolved; and (iv) new or additional activities proposed at the end of budget approval process that do not have adequate time for planning.

b. Issuance of DIPA

After the budget (APBN) is approved and the RKA-KL is finalized, the President issues a presidential decree (Keppres) outlining details of budget (RKA-KL) as the basis for line ministries (K/L) to prepare a budget warrant (DIPA). A DIPA is similar to the RKA-KL format. The DIPA is approved by DG Budget for Satker in Jakarta and by Kanwil Perben (DG Regional Treasury Offices) for Satker outside Jakarta. DIPA have to be issued by the Ministry of Finance by 31 December (before the start of the new fiscal year). The DIPA issuance process covers the stages from when the President officially announces the handover of the DIPA to the Satker up to when the DIPA is received by the Satker (Annex 4).

The accuracy of the information recorded in a DIPA is critical, as it serves as a document for payment. DIPA comprise detailed information on types, targets, values and sources of budget for each activity. It is important to note that DIPA also records the designated Satker (identified by code and name of the Satker), directorates general, ministry, and location. A DIPA also records the outputs, performance targets, whether it is blocked or not, and the local treasury office. These specific details are very important, as minor typing errors can lead to the need for later revisions (See Annex 6 for a sample of a DIPA).

If there are differences between the proposed activities in RKA-KL and the approved activities in the DIPA, the Satker has to immediately formulate or revise the budget details (POK) and submit them to DG Treasury. The DIPA can only be executed if the POK has been completed and is in line with the approved activities in the DIPA. The differences between the proposed and approved activities often arise during discussions with parliament in the form of additions or deletions to the activities or changes in outputs.

c. Appointment and Establishment of Satker

Satker are work units established by line ministries to implement and supervise specific activities. A Satker work unit consists of four officers who each have specific roles in the budget execution process:²

- Budget Controller (Kuasas Pengguna Anggaran, KPA). The KPA is an officer who has been delegated authority by a minister or agency head to act as a budget controller. KPAs are mostly Echelon 2 officials in the K/L organization (central) or Echelon 3 at the provincial office level. The KPA is responsible for the assets and activities of his or her Satker.
- Commitment Officer (Pejabat Pembuat Komitmen, PPK). The PPK is an officer who has authority to make a commitment or undertake an activity that has an impact on budget realization. The PPK signs and approves the documents that form the basis for the disbursement of funds based on the DIPA.
- SPM Issuing and Validation Officer (Pejabat Pembuat & Pemverifikasi SPM, PPSPM). The PPSPM is an officer who is responsible for reviewing and verifying payment requests from the PPK. The PPSPM officer issues a payment order (SPM) and submits it to the KPPN.
- Treasurer (*bendahara*). The treasurer is an officer who has responsibility for managing petty cash in the Satker and managing cash for self-managed activities, i.e., travels, internal workshops, etc.

The Budget Controller (KPA) proposes the personnel of the Satker to higher-level offices to be processed at the relevant directorate general in each ministry. Based on the proposal, a minister issues a letter of Satker Personnel Appointment. For assistance tasks (Tugas Pembantuan, TP), such as road preservation, projects are implemented by SKPDs (agencies) at the district/city level. Heads of the SKPDs (provincial or local government technical agencies) send the proposed personnel appointment letter to head of districts/governor/head of *balai* (regional office), which then send the letters to the relevant directorate general in each line ministry. The appointment letter is also signed by the minister. In the case of limited human resources, Satker personnel are assigned from the local and/or central office in Jakarta. An example of the Satker appointment process at the Ministry of Public Works takes more than 20 steps (Annex 8).

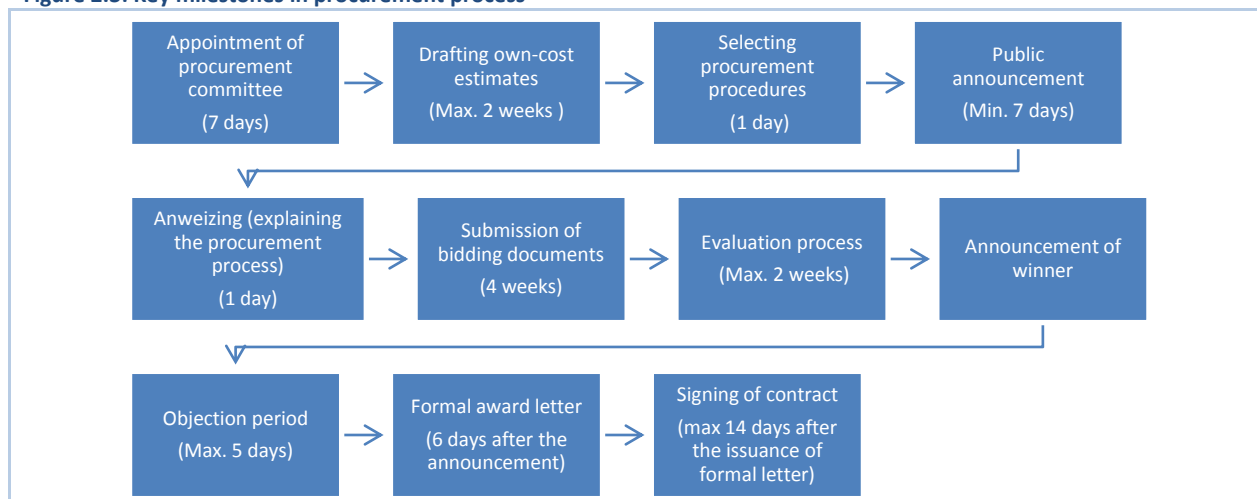
2. Procurement

Satker are ready to execute the DIPA and start the procurement process after the final POK is approved and submitted to the Regional Treasury Office and the Procurement Committee is established. The procurement process is regulated by Presidential Regulation (Perpres) No. 54/ 2010, a revision to Presidential Decree (Keppres) No. 80/ 2003, and is effective from January 1, 2011. The procurement process starts from appointing the Procurement Committee until the signing of contract. In theory, the process will take no less than 45 working days, which is slightly longer than the estimated time in Keppres No. 80/2003 of 40 working days. The steps and estimated times in the procurement process³ are shown below.

² DIPA for Dummies, World Bank, 2009.

³ It refers to general procurement process for construction projects valued at more than Rp 100 million.

Figure 2.3: Key milestones in procurement process



Source: Presidential Regulation No. 54/2010 and Satker.

Note: The time estimates within each step are indicative.

Perpres No. 54/2010 provides flexibility for Satker to conduct early procurement before the DIPA is issued in late November to December. This early procurement is conducted with a binding clause for the nominated contractors, i.e. the decision is subject to the issuance of the DIPA in December and contractors cannot sue the Government if there is a change in the DIPA. Perpres No.54/2010 also specifies requirements for selection to the Procurement Committee, such as a certificate issued by the LKPP (National Procurement Agency) and a bachelor's degree. If there is a shortage of personnel, Satker can be recruited from other institutions, such as local government technical agencies (SKPDs) or the headquarters office (ministry office).

3. Implementation

Implementation can be divided into two stages: (i) project implementation, and (ii) disbursement.

a. Project Implementation

A project can be executed by a contractor after the signing of a contract. Based on the complexity of the project, the Satker can also contract a supervisory consultant, who is selected either by a procurement process or by direct appointment. The supervisory consultant is responsible in assisting and supervising project implementation, while the contractor conducts project implementation. The Satker monitors the progress and disbursements.

Implementation progress is measured based on the progress schedule outlined in the contract signed by the Satker and the contractor. The project implementation schedule outlines the implementation progress to be achieved by type of work and month (See Annex 9 for example of an implementation progress schedule).

The progress of project implementation depends on the nature of the project. Implementation progress of a DIPA may vary among line ministries or sectors, and generally depends on: the length of the project (single- or multi-year), the source of funds (domestic, foreign-funded, or mixed), and the type of activity (non-construction [operation and maintenance] or construction). Foreign-funded projects (although partially funded) generally follow donor policy, which requires additional conditionality during the implementation stage. Construction projects such as new road construction are likely to face more difficulties than non-construction projects. The nature of the projects within the sample can be classified as below (see Annex 2 for details classification of sample).

Table 2.1: Classification of nature of project which may affect implementation

Nature of Project		Duration		
		Single-year		Multi-year
		Non-construction (Operation and Maintenance)	Construction	Construction
Source of Funds	Domestic funded (Rupiah Murni/RM)	<ul style="list-style-type: none"> Project's duration ≤ 12 months Mostly operational and maintenance activities Funded by RM 	<ul style="list-style-type: none"> Project's duration ≤ 12 months Heavy construction activities Funded by RM 	<ul style="list-style-type: none"> Project's duration ≥ 12 months → conducted with several DIPAs Mostly construction activities Funded by RM
	Foreign funded (full/mix)	<ul style="list-style-type: none"> Project's duration ≤ 12 months Source of funds consists of: pure loan/grant or mix of loan and RM (RM >80% and loan <20% or RM >20% and loan > 80%). Consists of both OM and Construction 		<ul style="list-style-type: none"> Project's duration ≥ 12 months → conducted with several DIPAs Source of funds consists of: pure loan/grant or mix of loan and RM (RM >80% and loan <20% or RM >20% and loan > 80%). Mostly construction activities

During implementation DIPA can be revised several times within the fiscal year. The required documents, the institutions that approve the revision, and the estimated processing time vary depending on the type of revision. Based on Ministry of Finance Regulation PMK No.49/2011, DIPA revisions can be grouped into four categories: (i) revision of inputs (shifting of budget items but does not add honorarium items), which takes less than three days to process; (ii) revision of activities (reallocation of values within activities), which take up to one week; (iii) revision of outputs (additional budget, typing errors) may take less than one month; (iv) revision of national priorities (change of program), which may take up to three months (See Annex 10 for various types of revisions and estimated times needed).

b. Budget Disbursement

The terms of payment of the contract are regulated by Perpres No. 54/2010. Upon the signing of a contract, contractors are eligible to submit invoices for advance payment. The terms of payment depend upon the agreement in the contract. Based on the State Finance Law, a payment for physical progress can only be made after the goods and services have been received or installed. Based on Perpres No. 54/2010, the payment schedule to contractors can be classified as follows:

- Advance payment.** The sums that can be withdrawn at the beginning of implementation amount to 30 percent for small businesses and 20 percent for non-small businesses of the total value of the contract. Advance payment will be given if the contractor provides a down payment guarantee, the value of which exactly matches the advance payment. The down payment guarantee will be returned to the contractor in stages, depending on the progress of the project.
- Payment for physical progress.** This payment can be made monthly or based on the agreed terms in line with physical progress. The payment amounts to 75 percent or 65 percent of the total contract value. In claiming payment for progress, contractors should submit: (i) all the invoices of the sub-contractors, (ii) a progress report, and (iii) a summary contract. The payment is made based on the progress and after the product is installed on site.
- Maintenance guarantee.** The maintenance guarantee amounts to 5 percent of the total contract value that can only be withdrawn after the maintenance period ends (up to 3 months for semi-permanent projects, or 6 months for permanent projects). Maintenance guarantees should be submitted after the completion of the project, by submitting: (i) a report on physical progress of 100 percent, (ii) a report on the Project Handover 1 (PH1), (iii) a maintenance warranty, and (iv) an invoice.

The payment process from the treasury office to the contractor is regulated by Ministry of Finance Regulation PMK No. 170/2010. Based on the agreed terms of payment and after completing activities to a certain level, contractors have to submit their invoice along with supporting documents (e.g., progress reports and summaries of contract) to the PPK (commitment controller) within five days of completing the project. If the documents are complete, the PPK will send the request for payment to the PPSPM (assigned treasurer) within five days for review who will then issue a SPM (payment request) within five days. If the documents are complete, the KPPN (treasury

office) will transfer the payment to contractor within two days and issue a SP2D (payment order) to inform the Satker that payment has been made.

4. Completion

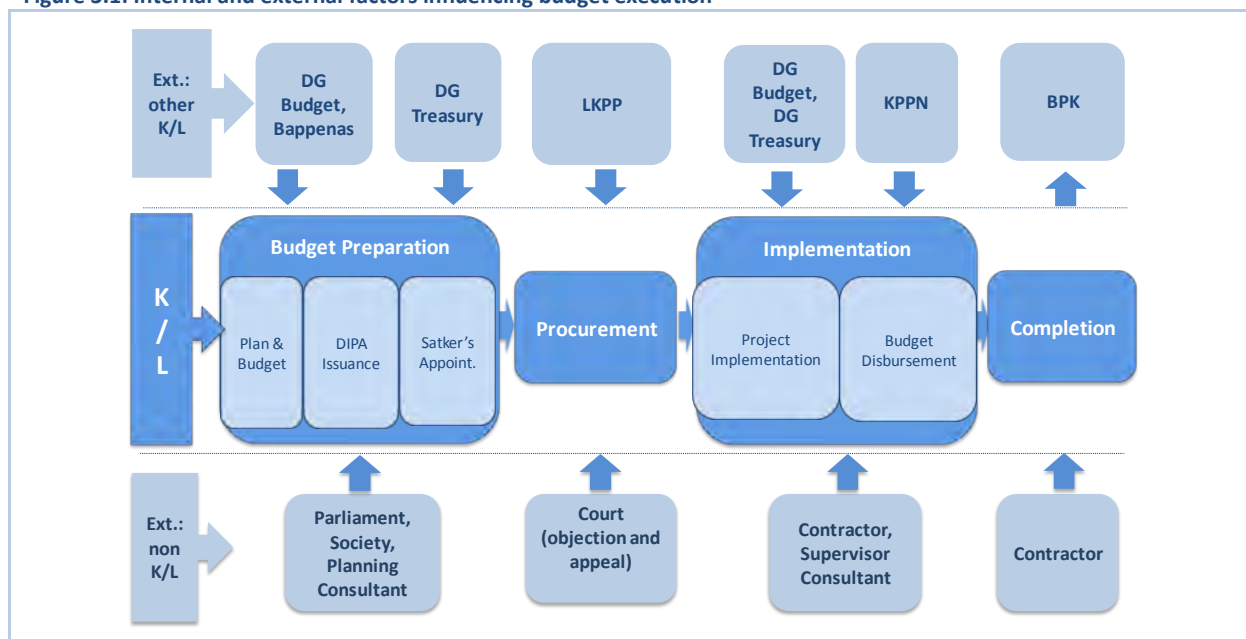
Project completion is the final phase of DIPA implementation covering activity completion until the maintenance guarantee period. As regulated by Perpres No. 54/2010, after 100 percent project completion (based on the contract), contractors submit a completion of activity report to the Satker. The project acceptance personnel/committee within the Satker will assess the completed project. If there is a shortage/incompleteness, the Satker (PPK) will ask the contractor to complete the work. If the project is completed, the Satker will receive documents of the Project Handover 1 (PH1) and a maintenance guarantee from contractor that shows that the project has been completed. The contractor is obliged to maintain the asset within the maintenance guarantee period, which is determined based on agreement between the Satker and the contractor as stated in the contract (6 months for construction, and 3 months for semi-construction). After the maintenance period is completed, the contractor has to submit a Project Handover 2 (PH2) document to the Satker. In return, the Satker will return the maintenance guarantee to the contractor.

New Ministry of Finance Regulation PMK No. 194/2011 on multi-year contracts provides the flexibility to carry over activities that cannot be completed in one fiscal year into the next fiscal year. This regulation provides flexibility for the Satker to complete projects, even though the budget has to be allocated annually. Prior to the issuance of this regulation, the incomplete activity in one fiscal year could not be continued to the next fiscal year. Therefore, there was a tendency to rush in completing the work at end of fiscal year which may compromise the quality.

III. Main Findings

The performance of DIPA implementation is influenced by both internal and external factors of the line ministries/Satker. At every stage of the process, there are both internal and external factors at play that affect the DIPA implementation, some of which are beyond the Satker's control. For example, Satker do not have control over new regulations or policies introduced by the Ministry of Finance or the LKPP. Neither do they have control over the significant role of Parliament in the budget process, such as the proposing of new activities or revisions to the DIPA. Therefore, attempts to improve DIPA implementation need to take into account all the various stakeholders, including line ministries, contractors, local communities, and Parliament.

Figure 3.1: Internal and external factors influencing budget execution



Source: Ministry of Finance, Satker, and KPPN Office, and analyzed by LPEM-FEUI

Reforms in the disbursement process have made progress. The payment process at local treasury offices (KPPNs) has improved given that now most KPPNs have now been modernized. Payments can now be made in a single day once the required documents have been completed (Kepdirjen Perben No.KEP-185/PB/2010 on Standard Operating Procedures of DG Treasury). The revision of DIPA due to administrative errors can now be done at the Regional Treasury Office (Kanwil) (Perdirjen No. 22/2011 on Procedures for Revisions of DIPA 2011 Article 20). The simplification of the code of account in DIPA from four digits to just two economic classifications and the harmonization of the line ministries' working budgets (RKA-KL/RK-Satker) and the DIPA format (PMK No. 104/2010 on RKA-KL Formulation and Analysis [Appendix 1: Budget Preparation Approach]) have all helped to accelerate the issuance of DIPA. In order to speed up the transfer of DIPA to the Satker in the regions, DIPA are now signed by the Head of the Regional Treasury Office (Kepala Kanwil) on behalf of the Ministry of Finance (PMK No. 192/ 2010 on Procedures on Drafting and Approving DIPA 2011 Article 9).

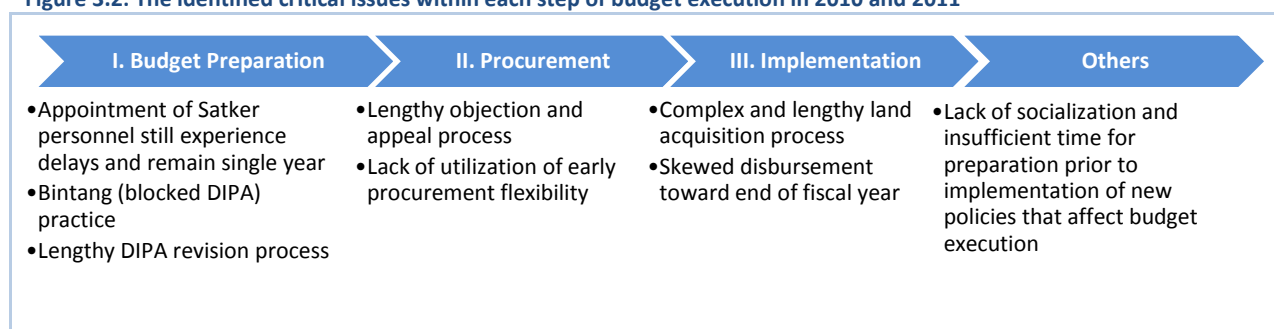
Reforms in the area of budget preparation and procurement introduced in 2010 are still not fully effective, hindered by policy and regulatory inconsistencies and a lack of socialization. Flexibility in the appointment of Satker personnel who are no longer bound to one fiscal year is not yet effective due to regulatory inconsistencies. The DG Treasury's regulation (Perdirjenben No. 66/2005), which states that Satker personnel are appointed annually, is still referred to by the line ministries and has not yet been revised. As a result, in practice the appointment of Satker personnel is still conducted annually. This means that the flexibility to start the procurement process before the start of the fiscal year as regulated by Perpres No. 54/2010 is not fully effective, because Satker personnel are still appointed annually and budgets for early procurement activities have not yet

been allocated. In addition, even some of the Satker personnel themselves indicated that they were unaware of some of the new policies.

The implementation of some policies in 2011 (e.g., budget efficiency, budget optimalization, and the new requirement to fully complete the land acquisition process for multiyear projects) had an adverse impact on budget execution. While these new policies may have their own objectives in enhancing the quality of spending, a lack of socialization and insufficient time for preparation prior to implementation negatively affected budget execution (e.g., through multiple DIPA revisions). Presidential Instruction (Inpres) No. 7/2011 on Budget Efficiency requires all line ministries to cut/reduce their budgets by a minimum 10 percent, particularly by cutting unproductive spending on items such as official travel, seminars, workshops, and other operational expenditure. Although the Inpres set some criteria on the types of expenditure to be cut, some Satker indicated that this policy also led to a reduction in capital expenditure. Ministry of Finance Regulation PMK No. 38/2011 regarding the optimalization of the budget for FY 2010 aimed at providing rewards and punishments to line ministries based on budget optimalization and resulted in efficiencies in procurement. Satker that were able to save from the 2010 budget were given rewards in the form of additional budget in 2011 to the value of the savings made in 2010. Most Satker had to revise their DIPA and budget details (POK). The utilization of budget optimalization and the reallocation of the 10 percent savings were decided in March, which had a distracting effect on Satker performance and left insufficient time for proper planning. As a result, new initiatives/activities for budget optimalization were blocked (*bintang*) and were not fully spent. The new Ministry of Finance regulation on multi-year projects (PMK No. 56/2010, Article 5) requires that land acquisition must be fully completed in order to obtain a multi-year warrant from the Minister for Finance, which was effective immediately in 2011. However, a new PMK No. 194/2011 on multi-year projects (a revision of PMK No. 56/2010) provides an exception for large and complex infrastructure projects where land acquisition can be conducted simultaneously with construction activities within a multi-year contract.

Critical constraints are identified in each step of budget execution. As mentioned previously, the performance of budget execution depends on the nature of the project, such as the length of project, the source of funding, and project characteristics (maintenance and operation, or construction). The implementation is not only influenced by internal factors within Satker or the respective line ministry, but also by external factors such as other line ministries, lower-level governments, parliament, and other institutions. Thus, issues identified in budget implementation vary widely from technical, capacity, policy and regulation, and institution. Nonetheless, some critical issues commonly emerge and are raised as constraints during budget execution (Figure 3.2). More detailed issues are discussed in each budget execution step below.

Figure 3.2: The identified critical issues within each step of budget execution in 2010 and 2011



The section below discusses further issues within each stage of the budget implementation process.

1. Budget Preparation

Activities during budget preparation are critical to the overall stages of DIPA implementation. DIPA that experience problems during the preparation stage are likely to experience delays in implementation. As discussed in Section II, budget preparation includes activities from the planning and budgeting of projects, the issuance of the DIPA, and the appointment of Satker personnel. In 2011, there was an improvement in the DIPA issuance

process, as DIPA were issued on December 20, 2010, before the end of the fiscal year. However, delays in the subsequent steps within budget preparation reflect ongoing problems.

Delays and complexities during budget preparation appear to be the main factors constraining budget execution, more so than the procurement and implementation stages. Although there are some issues within the procurement and implementation stages, delays during the budget preparation stage significantly affect subsequent activities. Long-standing issues during budget preparation include: administrative delays in the Satker receiving the DIPA (although the DIPA have been approved before the beginning of fiscal year); delays in appointing Satker personnel; poor planning and budgeting due to weak capacity of the Satker and limited time leading to DIPA/POK revisions and blocked (*bintang*) DIPA; and the lengthy process of DIPA revision and unblocking of blocked (*bintang*) DIPA. Satker personnel indicate that the process of revising DIPA or removing *bintang* takes longer if it involves Parliament and DG Budget, as both may need more time to understand and review large infrastructure projects, such as power plants and power transmission, airports, railways, and dams.

a. Planning and Budgeting

Satker play an important role in proposing and preparing activities and budget details of DIPA for the next fiscal year. Some Satker are also involved in preparing the budget details (POK). The survey results indicate that 80 percent of the sampled Satker were involved in the planning and budgeting process. This means that Satker personnel carry out an implementation and monitoring function, while also proposing activities for the next fiscal year. The Kuasa Pengguna Anggaran (KPA) or budget controller and Pejabat Pembuat Komitmen (PPK) or Commitment Officer are the two personnel who prepare and formulate proposed activities and are key in determining DIPA implementation. Although in theory the proposed activities should be in line with the ministry's strategic planning (Renstra), only 11 percent of Satker personnel indicated that they had intensive discussions (more than 6 times) with higher-level officials. About 19 percent stated that discussions were conducted 4-6 times, while less than 60 percent of Satker mentioned that discussions with line ministries were conducted 1-3 times. However, more than 80 percent of Satker personnel stated that their proposals were always accepted, despite the varying level of discussions with higher-level officials.

Procedures for Satker to propose activities vary by line ministry/institution. These procedures depend on the institutional structure and internal policy within each line ministry/institution. Below are examples of the steps in each line ministry:

- **Rural electrification activity (Ministry for Energy and Mineral Resources):** proposed activities are suggested by external stakeholders such as heads of local government, and are submitted to regional offices at the provincial level after which they are sent to the Planning Directorate of PT PLN. The Directorate of Planning discusses and synchronizes them with PLN's national plan and proposes recommended activities to DG Electricity and Renewable Energy at the Ministry of Energy and Mineral Resources.
- **Airport, Port and Railway activities (Ministry of Transportation):** activities are proposed by each Directorate of Planning to related DGs. Satker are not involved in planning and are appointed to execute DIPA only.
- **Road and Water Resource activities (Ministry of Public Works):** activities are proposed by Satker to the Planning Section of the regional office (Balai). Balai finalize and submit the recommended activities to Bina Program (Directorate of Planning) at each DG, where they are synchronizes with the strategic plan of the Ministry of Public Works and the RPJM. Finally, the recommended activities are submitted to the related DGs.

Stakeholders who formulate budget details (POK) also vary by line ministry. POK are prepared by Satker in the case of water resources, railways, ports, and airports. For non-construction activities such as road preservation and rural electrification, POK are prepared by the Planning Division of the Balai (regional office) or the Directorate of Planning of the related DG. The time spent preparing POK also varied. Nineteen percent of the Satker mentioned that they needed less than 1 week to formulate POK, while 47 percent took 1-2 weeks, 11 percent needed 3-4 weeks and 8 percent required more than 4 weeks to prepare and formulate their POK. Satker Road Preservation,

for instance, as POK was prepared by the Planning Division of the Balai and followed a regular pattern. Formulation of POK was relatively fast and took less than one week.

The weak planning and budgeting process in proposing activities contributes to delays in budget preparation.

Examples include the poor planning and budgeting of activities being proposed, changes in priority at the end of budget preparation, and incompleteness of the necessary documents such as terms of reference (TOR), feasibility studies, and budget details. These issues lead to blocked (*bintang*) DIPA and many revisions during the implementation. Changes in priority at the end of the budget process leave limited time for finalizing DIPA after the budget is approved, especially for new activities proposed during the budget discussions between parliament and the Government, which leave very limited time for line ministries and Satker to prepare the necessary supporting documents. In addition, the lack of capacity on the part of the Satker in planning and budgeting adds to the number of revisions necessary.

Line ministries only have about 6-8 weeks to finalize DIPA after the budget is approved at the end of October.

This limited time is only sufficient to finalize the necessary documents for the proposed activities. However, in some cases new activities are added during budget deliberation between parliament and the Government. This leaves very limited time for line ministries and Satker to properly prepare planning and budget details. In these cases, many DIPA are approved with *bintang* (blocked) or can only be disbursed upon meeting the conditions.

In addition to internal factors, the planning and budgeting process is also influenced by external factors. These external factors that are beyond the control of line ministries include new activities proposed by parliament and other principle licenses issued by other ministries, such as multi-year contracts from the Ministry of Finance.

b. DIPA Issuance

DIPA are now issued before the start of the fiscal year. The 2011 DIPA was issued or officially handed over by the President to the ministers on December 20, 2010, earlier than the issuance of 2010 DIPA on December 31, 2009. Following approval from parliament at the end of October, line ministries and Satker finalize the DIPA based on the definitive budget.

However, some Satker indicate that they still experience delays in receiving DIPA. Since the official DIPA document is still in the form of a hard copy, the DIPA has to be distributed to all Satker in Indonesia (including those in the provinces and districts by the secretary general's office of the respective line ministry. This process also takes time particularly for line ministries that have a large number of Satker and are understaffed. Some ministries distribute DIPA based on priority (e.g., size of budget and nature of project). The survey indicates that selected Satker still receive DIPA with significant delays as late as February or March. For example, Satker Power Plants and Transmission North Sumatra-Aceh only received its 2011 DIPA in March 2011 and Satker SNVU National Road Development Area II in North Sumatra received its 2011 DIPA on February 5, 2011. However, other DIPA in the sample were received by the Satker at the end of December or in early January (Table 3.1)

On receiving their DIPA, Satker personnel still need to wait for their personnel appointment letters before moving ahead to formulate budget details (POK) and prepare for procurement. Satker indicate that they need the official appointment letter as a legal basis for their subsequent actions.

Table 3.1: The time lag between DIPA issuance and their receipt by the Satker

DIPA/Satker by Line Ministry	Fiscal Year	DIPA Issuance (as in DIPA document)	DIPA received by Satker (Survey)	Gaps (number of days)
Ministry of Energy and Mineral Resource				
Rural Electrification West Java	2010	31-Dec-09	1-Feb-10	32
Directorate General of Electricity and Renewable Energy	2010	31-Dec-09	5-Jan-10	5
Power Plants and Transmission North Sumatra, Aceh	2011	20-Dec-10	1-Mar-11	71
Power Plants and Transmission Sulawesi Maluku Papua	2011	20-Dec-10	28-Dec-10	8
Ministry of Public Works - Road				
Local Office - Delegation of Highway Construction and Maintenance West Java	2010	31-Dec-09	8-Jan-10	8
SNVU National Road Development Area II Province of North Sumatra	2011	20-Dec-10	5-Feb-11	47
Ministry of Public Works - Water Resources				
SNVU Control and Utilization Water Resources Citarum West Java Province	2010	31-Dec-09	2-Jan-10	2
SNVU Development of Water Resources Network Pompengan - Jeneberang	2010	31-Dec-09	2-Jan-10	2
SNVU Jatigede Dam Development Project	2011	20-Dec-10	31-Dec-10	11
SNVU Development of Water Resources Network Pompengan - Jeneberang	2011	20-Dec-10	1-Jan-11	12
SNVU For Development Water Resources Network Ciliwung - Cisadane	2011	20-Dec-10	31-Dec-10	11
Ministry of Transportation - Railway				
Development of Northern Line in Java Railway	2010	31-Dec-09	11-Jan-10	11
Development of Double Track Tanah Abang - Serpong	2010	31-Dec-09	31-Dec-09	0
Development of Double Double Track	2010	31-Dec-09	31-Dec-09	0
Development of Double Double Track	2011	20-Dec-10	20-Dec-10	0
Ministry of Transportation - Airport				
Hasanuddin Airport Authority of Makassar	2011	20-Dec-10	5-Jan-11	16
Airport of Medan Baru	2011	20-Dec-10	1-Jan-11	12
Ministry of Transportation - Port				
Port Office Tanjung Tiram	2010	31-Dec-09	12-Jan-10	12
Development of Tanjung Priok Port - Jakarta	2010	31-Dec-09	1-Jan-10	1

Source: Satkers and KPPN Office

c. Satker Appointments

The appointment of Satker personnel is conducted annually and also experiences delays. Although the majority of Satker personnel are appointed in late December (25 out of 36 Satker in the survey), the appointment letters are only received in January and February. As a consequence, many Satker personnel are reluctant to start executing their DIPA until they receive their appointment letter. For example, Satker Port Office Tanjung Tiram received its DIPA 2010 in December 2009. However, since Satker personnel did not receive their appointment letter until late February 2010, the project was not executed until March 2010. The survey indicated that more than two thirds of the Satker in the sample only started working effectively (such as formulating POK, preparing advance procurement) after they received appointment letters from their K/L. In addition, some officials wait for their reappointment letters even though they already know they will be reappointed to the same post as the previous year.

The flexibility introduced by Perpres No. 53/2010⁴ which specifies that the appointment of Satker is no longer bound to one fiscal year is not yet effective. Although Satker are aware of the flexibility allowed by Perpres No. 53/2010, most Satker personnel still assume that their appointment letter is only effective for one year and are reluctant to execute new DIPA in order to avoid future problems with auditors. One major reason for this is the inconsistency in the regulations, in particular DG Treasury Regulation (Perdirjenben) No. 66/2005 regarding the payment mechanism, which still states that Satker personnel are appointed every year.

The lack of incentives given to Satker personnel was also mentioned as one of the issues behind poor performance. This is coupled with increased attention on fiduciary (audit) checks during implementation, which discourage Satker from taking pro-active steps during implementation. This also contributes to difficulties in

⁴ Article 1 of Perpres No. 53/2010 states that the appointment of Satker Committees (KPA, PPK, PPSPM, *bendahara*) are not tied to one fiscal year.

establishing procurement committees. The incentives (honorarium) are considered low and not based on the risks and complexities of the project (scale of project). Although they are important, salaries/honorariums are not always budgeted as a part of the DIPA budget composition. This is due to many Satker being established in an ad hoc way, particularly those used to develop national priority projects. Instead, honorariums were financed from other sources, such as (i) local budgets (Local Office, Deconcentration Task of Highway Construction and Maintenance, West Java), (ii) the internal PLN budget (Rural Electrification and Power Plants and Transmission), (iii) the routine budget of the APBN but are not part of the DIPA being implemented (Water Resources and National Roads) from the Ministry of Public Works, and (iv) part of capital expenditure (Ministry of Transportation [railways, airports, and ports]). In contrast, for permanent Satker established to implement regular ministry functions, salaries/honorariums are included in the DIPA, for example in the cases of Hasanuddin Airport Authority, Port Office Tanjung Tiram, and DG Electricity and Renewable Energy. In general, the amount set aside for salaries/honorariums is less than 5 percent of the DIPA value.

d. Bintang (Blocked) Practice on DIPA

Sixteen out of 36 DIPA in the sample were blocked. Most of these blocked (*bintang*) DIPA were categorized as construction and multi-year projects, and funded from domestic revenue. The main reasons for these DIPA being blocked were incomplete documents such as terms of reference, technical designs, budget details, supporting letters from institutions such as the local government, multi-year warrants, self-price estimations, land certificates, and also sometimes development partner requirements and procedures. These deficiencies were usually caused by poor planning and budgeting processes due to inadequate time and a lack of planning capacity, as well as new additional projects proposed at the end of the planning process. An example of a blocked DIPA due to incomplete documentation is discussed in Box 3.1. Detail reasons for blocked DIPA can be seen in Table 3.2.

Table 3.2: DIPA that was blocked (*bintang*) in 2010 and 2011

No	DIPA	FY	Type of exp	Blocked Value (in %)	Reason for Blocked DIPA (According to Original DIPA)	Natures of Project		
						Single/Multi Year	RM/Mix	M&O/Const'n
1	Directorate General of Electricity and Energy Renewable	2010	Goods	1.8	Incomplete documents i.e. supporting letter from local government	S	RM	M&O
			Capital	65.6				
2	Power Plants and Transmission Sulawesi Maluku Papua	2010	Capital	0.2	- Incomplete documents i.e. multiyear warrant - Land acquisition	M	RM	C
3	Power Plants and Transmission Sulawesi Maluku Papua	2011	Capital	0.2	- Incomplete documents i.e. multiyear warrant - Land acquisition	M	RM	C
4	Preservation and Construction of Road and Bridge Metropolitan Bandung	2010	Salary	0	No detail information since Satker personnel no longer exist.	S	RM	M&O
5	SNVU National Road Development Area II Province of North Sumatra	2011	Capital	1.2	Incomplete documents i.e. self price estimation (HPS) due to price escalation	M	RM	C
6	SNVU Jatigede Dam Development Project	2011	Capital	21.2	- Incomplete documents i.e. price approval for land compensation - Land acquisition - Source of loan: clearance from DJPU (Loan Management Office) concerning additional financing - Price escalation i.e. needs auditor's opinion	M	Mix	C
7	SNVU Jatigede Dam Development Project	2010	Capital	45.4	- Incomplete documents i.e. price approval for land compensation - Land acquisition	M	Mix	C
8	Water Resources Management Sumatera II Province Of North Sumatra	2010	Capital	9.3	Incomplete documents i.e. list of recipient of land compensation	S	Mix	R & C
9	SNVU Development Water Resources Network Ciliwung-Cisadane	2010	Goods	0.01	- Incomplete documents i.e. land certificate - Land acquisition	M	Mix	C
			Capital	12.7				

10	Development of Double Double Track	2010	Goods	0.1	Tight donor requirement i.e. 100% land acquisition, re-tracking people's welfare after land acquisition	M	Mix	C
11	Development of Double Double Track	2011	Goods	0.00	Blocked value is approximately zero. Tight donor requirement i.e. 100% land acquisition, re-tracking people's welfare after land acquisition	M	Mix	C
			Capital	1.3				C
12	Hasanuddin Airport	2010	Goods	0.04	Blocked value is very small. Detail information is not available due to Satker personnel 2010 is no longer existing	M	RM	C
			Capital	61.2				
13	Hasanuddin Airport Authority of Makassar	2011	Goods	2.9	Incomplete documents i.e. land certificate	S	RM	C
			Capital	3.				
14	Airport of Medan Baru	2010	Goods	0.04	Change of <i>Satker</i> personnel	M	RM	C
15	Port Office Tanjung Tiram	2010	Goods	2.5	Incomplete document, i.e. technical proposal and design	S	RM	C
16	Development of Tanjung Priok Port-Jakarta	2010	Capital	99.9	Complicated donor administration and procedure	M	Loan	C

Source: Ministry of Finance, Satkers and KPPN Office

Note: M: Multiyear, M&O: Maintenance and Operation, RM: Rupiah Murni (Indonesian Rupiah), S: Single Year, C: Construction

Particularly in the case of large infrastructure projects, most blocked DIPA are caused by the 100 percent land acquisition requirement, which prevents a multi-year warrant from being issued by the MoF. For example, the *Satker* of the Jatigede Dam Project faced difficulties in completing land acquisition. It was not able to provide formal documents of the price approval, although the price had been agreed 30 years previously. In addition, the land clearance required for this project in 2011 covered forest area that needed a principle authorization from Perhutani, taking time and involving a complicated bureaucratic process.

For foreign- or mixed-source funded projects, the *Satker* have to fulfill additional requirements. For instance, the Double-Double Track Project was 80 percent financed by loans and had to meet the requirement for 100 percent land acquisition together with compensation for people whose land was needed for the project. This blocked DIPA affected the whole project as the main construction could not be started until the requirement was fulfilled. Similar problems regarding development-partner administration requirements occurred in the Tanjung Priok Port Project. As a consequence, the *Satker* could only conduct small activities financed by rupiah.

Box 3.1: Blocked DIPA due to incomplete documentation

The practice of blocked (*bintang*) DIPA or conditional approval arises for a number of reasons discussed above. This box provides two examples of incomplete information: the lack of a multi-year warrant from the Ministry of Finance (Power Plant and Transmission (PPT) North Sumatra-Aceh and Sulawesi-Maluku-Papua) and incomplete documentation (Tanjung Tiram Port).

The Power Plant and Transmission project (PPT) is a multi-year project running from 2011 to 2013. The project is implemented by two *Satker*: PPT North Sumatra Aceh with the value of project amounts Rp 720 billion and PPT Sulawesi-Maluku-Papua amounting to Rp 1,663 billion. As regulated by Article 16 (1) and (2) of Presidential Regulation No. 53/2010, a multi-year project that exceeds Rp 10 billion requires a multi-year warrant from the Ministry of Finance. The *Satker* indicated that the multi-year warrant had been requested since November 2010 but was only issued in December 2011, due to the land not being fully acquired as stipulated in PMK No. 56/2010. As a consequence, the DIPA was marked and procurement could not be conducted as this warrant is a prerequisite for signing contracts with third parties.

Another example is the *Satker* Port Office of Tanjung Tiram. The DIPA was marked due to incomplete documentation, such as terms of reference, technical designs, and technical proposals. These required documents were not prepared because the budget to hire planning consultants had not been budgeted in the DIPA. The *Satker* decided to hire additional temporary staff to prepare these incomplete documents. The *Satker* Port Office of Tanjung Tiram was finally able to remove the *bintang* by July 2010. Procurement was then conducted in August 2010.

e. DIPA Revision

Almost 90 percent of the Satker indicate that they revised their DIPA and that more than 60 percent of the revisions were done up to three times. This DIPA revision decelerated budget execution. The most frequent reasons of revising DIPA were administrative typing errors, such as the account code and the names of the Satker personnel, the reallocation of activities, price escalations, divergence between proposed and approved DIPA, and incomplete documentation. About half of the revised DIPA within the sample were revised due to the reallocation of activities. About 40 percent of the Satker stated that they needed more than 4 weeks to revise their DIPA, including waiting time. For regular projects, revising the DIPA because of the reallocation of activities took less than a week. In line with DIPA revisions, technical details (POK) also needed to be revised up to three times and each revision required 1-2 weeks. For example, DIPA for the Power Plant and Transmission North Sumatra-Aceh Project had to return to parliament for approval due to changes in the budget ceiling. Detail reasons of DIPA revisions can be seen in the Table 3.3.

The Budget details appropriation process (approval by parliament) introduces rigidities and contributes to delays in the DIPA revision process. The current budget appropriation process is conducted up to the activity level and by type of expenditure. The details of line ministry budgets up to the activity level are stipulated through a Presidential Decree (as attachment 4) as part of the approval process. These rigidities reduce budget flexibility and delay budget preparation. As a result, DIPA revisions up to the activity level have to be approved by parliament.

Table 3.3: DIPA that experienced revisions in 2010 and 2011

No	DIPA	Type *	Reasons for revision	Estimated Time **	Related institutions for approval
	Ministry for Energy and Mineral Resource (ESDM)				
1	Power Plants and Transmission North Sumatra, Aceh (2010)	C	Reallocation activities, followed by POK Revision	1 week	PT PLN, DG Electricity – ESDM (as Head of Satker), DG Treasury
			Unmatched documents	3 days	DG Treasury
			Reallocation budget ceiling. Required discussion with DG Budget and took longer, and followed by POK revision	2.5 months	PT PLN, DG Electricity Ministry ESDM , DG Budget,DG Treasury
2	Power Plants and Transmission North Sumatra, Aceh (2011)	C	Reallocation of activities, followed by POK Revision	1 week	PT PLN,DG Electricity - ESDM (as Head of Satker), DG Treasury
	Ministry of Public Work				
3	Preservation and Construction of Road and Bridge Metropolitan Bandung (2010)	M	Typo error i.e. incorrect document referred by Kanwil DJPB	1 day	DG Treasury
4	Preservation of Road and Bridge Metropolitan Jakarta (2010)	M	Budget optimization, followed by POK revision	1 month	Balai Besar Pelaksana Jalan IV (Regional Office), Planning Bureau at DG Highway, DG Budget, DG Treasury
5	Local Office- Highway Construction and Maintenance West Java Province (2010)	M	Budget optimization, followed by POK Revision	1 month	Balai Besar Pelaksana Jalan IV (Regional Office),Planning Bureau at DG Highway, DG Budget, DG Treasury
6	SNVU National Road Development Metropolitan Bandung (2011)	C	Budget optimization, followed by POK Revision	1 month	Balai Besar Pelaksana Jalan IV (Road Regional Office), Planning Bureau at DG Highway, DG Budget, DG Treasury
7	SNVU National Road Development Metropolitan Makassar (2011)	C	Reallocation activities, followed by POK revision	10 days	DG Treasury
8	SNVU National Road Development Area II Prov of North Sumatera (2011)	C	Reallocation activities, followed by POK revision	10 days	DG Treasury
9	SNVU for Control and Utilization Water Resources Citarum West Java Province (2010)	C	- Typo error i.e. incorrect account code (MAK)	3 days	DG Treasury
			- Budget optimization, followed by POK Revision	1 month	Citarum River Regional Office(Balai Besar), Planning Bureau at DG Water Resource, DG Budget, DG Treasury
10	SNVU Development of Water Resources Network Pompengan-Jeneberang (2010)	C	Reallocation activities, followed by POK Revision	10 days	DG Treasury

11	Water Resources Management Sumatera II Province of North Sumatra (2010)	C	Change of Satker personnel	15 days	Sumatera River II Regional Office(Balai Besar), Planning Bureau at DG Water Resource, DG Budget, DG Treasury
12	SNVU Development of Water Resources Network Pompengan-Jeneberang (2011)	C	Reallocation activities, followed by POK Revision	10 days	DG Treasury
13	SNVU Development Water Resources Network Ciliwung-Cisadane (2011)	C	- Typo error i.e. incorrect account code (MAK)	3 days	DG Treasury
			- Reallocation activities, followed by POK Revision	10 days	
	Ministry of Transport				
14	Development of Northern Line in Java Railway (2010)	C	- Typo error i.e. incorrect account code (MAK)	3 days	DG Treasury
			- Budget optimization, followed by POK Revision	20 days	Directorate of Railways Infrastructure at DG Railways, Planning Bureau Secretary General Railways at DG Railways, DG Budget, DG Treasury
15	Airport of Medan Baru (2011)	C	Typo error i.e. incorrect name of Satker personnel.	3 days	DG Treasury

Source: Ministry of Finance, Satkers and KPPN Office

Note: * Type of project: C = construction, M=maintenance. ** Day refers to working day

The implementation of Inpres No. 7/2010 and budget efficiency led to significant DIPA revisions. The implementation of Inpres No. 7/2010⁵ on budget efficiency requiring line ministries to save 10 percent from material expenditures (e.g., official travel, meetings, and seminars) led to multiple budget revisions in most Satker at different levels. Five Satker within the sample revised their DIPA because of additional activities resulting from budget optimization. Those Satker were the National Road Metropolitan Bandung Project, the Preservation of Roads and Bridges Metropolitan Jakarta Project, the Highway Construction and Maintenance West Java Project, the Citarum Water Resource Project, and the Northern Line in the Java Railway Project.

2. Procurement

Since 2011, the procurement process has been guided by Presidential Regulation (Perpres) No. 54/2010 on procurement, replacing Presidential Decree (Keppres) No. 80/2003. This new regulation was effective from January 1, 2011. Some major differences compared with Keppres No. 80/2003 include the requirement to establish a procurement unit (ULP) and the requirement to use e-procurement. For projects that were procured using Keppres No. 80/2003 (before Perpres No. 54/2010 was effective) this regulation was still valid until the end of the contract. Within the sample survey, some projects followed the previous regulation or international bidding processes for foreign-funded projects. For example, the procurement process of the Jatigede Dam Project relied on Keppres No. 80/2003, as it is a multi-year project and had started in 2007. Meanwhile, the Northern Line Java Railway Improvement Project, which is financed partly by loans, was procured using international competitive bidding.

⁵ The enactment of Inpres No. 7/2011 complicates the task of line ministries determining which activities should be abandoned in FY 2011. The reason is because Inpres No. 7/2011 was enacted in 2011 and should be applied in 2011. Conversely, all projects to implement in 2011 have been planned and set up in 2010 or even before 2010. Although the Inpres No. 7/2011 put emphasis on saving travel costs, meeting and seminar costs and other routine operational costs, the share of these costs in each line ministry budget is not always 10 percent. As a result, K/Ls have to decide which activities to be dropped, including expenses related to construction or physical projects, in order to achieve the 10 percent saving from their 2011 budget. This process requires a little longer since each DG already has its own priority projects to be implemented in 2011. Besides, it also takes time to coordinate with DG Budget (DJA) when it wants to revise the budget. Nonetheless, the implementation of Inpres No. 7/2011 in general does not have a significant impact on multi-year projects, foreign-loan-funded projects, or counterpart funding (*dana pendamping*), since it has been previously authorized by the Ministry of Finance.

Although Perpres No. 54/2010 introduced higher transparency and competition in the procurement process, there were still some challenges in the implementation as 2011 was a transition year. Although it was enacted in August 2010, the new presidential regulation was only effective from January 1, 2011. There are some substantial changes introduced in the new regulation as opposed to Keppres No. 80/2003, such as the requirement that each line ministry/institution establishes a procurement service unit (ULP)⁶ by 2014, the new requirement that the members of the procurement committee all need to be certified, the responsibilities of the Satker, the requirement that advertisements need to be on the internet, and the implementation of e-procurement. In addition to some new rules, the new regulation also introduces some changes in the procurement practices that require Satker to adequately prepare the necessary infrastructure (e-procurement). For example, the ULP under the Ministry of Public Works was the only one that was effective in conducting the procurement process in 2011, while the Ministry of Energy and Mineral Resources and the Ministry of Transportation have established ULP and also set up their own procurement committees as required by Keppres No. 80/2003.

Many objections and appeals have arisen since the enactment of Perpres No. 54/2010, which have impeded the procurement process. The new regulation provides a mechanism for the contractor to object or appeal the result of the process. However, the relaxed procedures for submitting an appeal (0.2 percent of the contract value, or a maximum Rp 50 million) have led to a significant number of objections and appeals. The objections and appeals also interrupt the procurement process. For example, in 2011 Satker of Ciliwung-Cisadane Water Resources admitted they received several objection letters only for one project during the procurement process. However, there are some anecdotal arguments that contractors were using this complaint mechanism on purpose only to delay the procurement and to have more bargaining power. In general, Satker complain that they need to provide more time to clarify all the objections received. The delay will be even longer if the objection goes to appeal since the procurement process must be suspended until the minister gives clarification on the dispute. According to the survey results, most Satker needed more than 40 days to conduct procurement of the highest value projects. However, they also mentioned that there was no strong relationship between the value of the project and the duration of procurement process.

The Satker indicate that the dissemination of the new regulation has been inadequate. About 75 percent of Satker personnel admit that they only received 1-3 disseminations of Perpres No. 54/2010 from other institutions. In contrast, only half of the sampled Satker conducted dissemination 1-3 times to the service providers/contractors, while 39 percent of Satker personnel mentioned that they conducted no dissemination of Perpres No. 54/2010. Even so, some of the Satker criticized the contractors' ignorance on various updated rules and practices in Perpres No. 54/2010. In their view this ignorance contributed to the increase in the number of objections and appeals, delaying the procurement process and hampering the entire project implementation.

There were additional constraints in appointing the procurement committee due to the lack of human resources, such as the requirement for a certificate of competency and a minimum level of bachelor degree (S1) education. About 80 percent of sampled Satker personnel indicated that it was difficult to meet these requirements, particularly for those Satker outside Jakarta. There is also anecdotal evidence that civil servants are discouraged from applying for procurement certificates due to weak incentives and the heightened fiduciary environment.

Most e-procurement systems provided by the line ministries are still unreliable. Around 40 percent of Satker reported that they used e-procurement in conducting the procurement of goods and construction services for their projects. Most of them began using e-procurement in Jan 2011 although several Satker under the Ministry of Public Works and PT PLN started using e-procurement earlier in 2010. However, almost all Satker, and also most contractors, complained that the greatest obstacle to using e-procurement was the difficulties in assessing the e-proc server, especially when deadlines for document submissions were approaching. The limited bandwidth capacity of the e-proc server impedes potential bidders from participating in the procurement process. In addition, the contractors also mentioned that sometimes they had difficulty in understanding all tender requirements if

⁶ ULP consists of different working groups for different projects and each working group has an odd number of members or at least three members who are responsible in selecting the service providers/contractors.

these were only shown on the website. They preferred to have a local contact for discussing issues they faced during procurement preparation.

In some cases, there were not enough qualified contractors competing in the procurement process. Some potential bidders cancelled the submission of their proposal since the Satker's own price estimates were too low. According to the survey results, all the Satker admitted that they prepared own-price estimates (HPS) for all activity packages to be tendered. HPS was estimated using the current market price, the inflation rate, previous contract values, engineering cost estimates, and other relevant information. However, some contractors complained that a number of own-price estimates were no longer valid since there had been a sharp increase in the market price. In addition, the survey also found that the average time needed by the Satker to prepare own-price estimates was about two weeks. If the preparation of HPS could be shortened, the entire procurement process would become faster.

The procurement process for large infrastructure projects (mixed source of funds) applies to international bidding, as well as Perpres No. 54/2010. It requires much longer time to find qualified candidates for certain infrastructure projects because these require higher levels of qualification (e.g., expertise and capital). The potential bidders need to establish a consortium for the sources of finance. For example, electrical substation development projects in 2010 and 2011 consist of two main activities: (i) physical development of new buildings, maintenance of heritage sites and drainage (accounting for 40 percent of the total project); and (ii) electrical substation development (accounting for 60 percent of the total project). Another example is the Development of Tanjung Priok Port, which requires complicated loan procedures and administration, and for which it has been very difficult to find potential bidders. Procurement process was conducted up to three times to select the winner. Consequently, this process delayed the entire project implementation.

The survey found that newspapers were still the main media for advertising procurement plans. Although Perpres No. 54/2010 requires all line ministries to put procurement information on their websites, almost 70 percent of Satker said that their first choice was still newspapers, followed by internet and electronic media. During the transition period, Satker are allowed to advertise procurement on newspapers, as long as the Satker have an ongoing contract after Perpres No. 54/2010 was implemented. In terms of readiness of websites for procurement advertising, not all line ministries' websites are functioning adequately for the placing of procurement advertisements.

With exception of the Ministry of Public Works, the flexibility to conduct advance procurement before the fiscal year starts has not been effective. The Ministry of Public Works issued a ministerial decree regarding early procurement that allows the procurement process to start in November prior to the issuance of DIPA, with a binding clause for the nominated contractors, i.e. the decision is subject to DIPA issuance in December and contractors cannot sue the Government if there is a change in DIPA value. This decree applies to all Satker under the Ministry of Public Works, including Satker at local offices (Dinas Bina Marga). This decree has been very effective in accelerating the procurement process. However, other line ministries have not used this early procurement flexibility optimally.

Table 3.4: Date of appointment of procurement committee and announcement of procurement for public

<i>Satker</i>	Fiscal Year	Appointment of Procurement Committee	Announcement of Procurement for Public	No. of Day	Length of Project
Development of Double Double Track	2010	12 Dec 2009	05 Jan 2010	24	Multi Years
Development of Northern Line in Java Railway	2010	01 Jan 2010	22 Jan 2010	21	Multi Years
Development of Tanjung Priok Port-Jakarta	2010	10 Feb 2010	20 Feb 2010	10	Multi Years
Directorate General of Electricity and Energy Utilization	2010	05 Feb 2010	06 Jun 2010	121	Single Year
Hasanuddin Airport	2010	29 Dec 2009	18 Mar 2010	79	Multi Years
Port Office Tanjung Tiram	2010	04 Aug 2010	10 Aug 2010	6	Single Year
Power Plants and Transmission Sulawesi Maluku Papua	2010	18 Feb 2010	22 Mar 2010	32	Multi Years
Preservation and Construction of Road and Bridge Metropolitan Makassar	2010	Dec 2009	Jan 2010	n.a.	Single Year
Rural Electrification North Sumatra	2010	18 Feb 2010	11 May 2010	82	Single Year
SNVU For Control and Utilization Water Resources Citarum West Java Province	2010	07 Jan 2010	01 Jul 2011	175	Single Year
SNVU For Development of Water Resources Network Pompengan-Jeneberang	2010	15 Jan 2010	22 Jan 2010	7	Multi Years
Water Resources Management Sumatra II Province of North Sumatra	2010	25 Feb 2010	19 Mar 2010	22	Single Year
Development of Double Double Track	2011	10 Dec 2010	03 Jan 2011	24	Multi Years
Power Plants and Transmission North Sumatra, Aceh	2011	Apr 2011	May 2011	n.a.	Multi Years
Power Plants and Transmission Sulawesi Maluku Papua	2011	12 Jan 2011	16 Feb 2011	35	Multi Years
Rural Electrification South Sulawesi	2011	Mar 2011	16 Apr 2011	n.a.	Single Year
SNVU For National Road Development Metropolitan Makassar	2011	27 Dec 2010	20 Jan 2011	24	Single Year
SNVU For Development Water Resources Network Ciliwung-Cisadane	2011	03 Jan 2011	14 Mar 2011	70	Multi Years
SNVU National Road Development Area II Province of North Sumatra	2011	17 Dec 2010	20 May 2011	154	Multi Years

Source: Ministry of Finance, Satkers and KPPN Office

Although procurement committees were established early in the fiscal year, the procurement process is still delayed due to blocked (*bintang*) DIPA and other administrative requirements, such as multi-year warrants from the MoF. In general, the procurement process for 2010 DIPA started between January and March. However, there are Satker that started procurement in May, June or even as late as September (Tanjung Tiram Port). These delays were caused by the prolonged process of removing blocked (*bintang*) DIPA. In 2011, there were some projects that started early procurement in October 2010 (SNVU National Road Development Metropolitan Makassar) and November 2010 (SNVU National Road Development Metropolitan Bandung). In contrast, some Satker were as late as May 2011 in starting the procurement process due to the uncertainty of multi-year warrant availability from the Ministry of Finance, such as the SNVU National Road Development Area II North Sumatra, the Power Plant and Transmission Sulawesi-Papua-Maluku, and the Power Plant and Transmission North Sumatra-Aceh.

The procurement process (from the announcement until the signing of the contract) is influenced by the objection and appeal process, potential qualified bidders, and the nature of the project. The study case findings indicated that the procurement process ranged from 1.5 months to about 5 months (Table 3.5). The announcement usually starts in December to February, and contract signing mostly in April or May, except for the Satker of the Port Office Tanjung Tiram FY 2010, which began its announcement in August and signed a contract in September. Satker indicated that in some cases there were not enough potential bidders submitting bids so that they had to re-inform the public and wait for more tender participants before going forward to the next procurement stage. An increased number of objections and appeals also extended the procurement process, as the Satker need to suspend the procurement process until there is a decision on the unsettled issues requested by bidders. In the case of an appeal, it may take longer because the clarification should be given at ministry level.

Table 3.5: Selected procurement milestones of DIPA samples

Satker	Fiscal Year	Appointment of Committee	Public Announcement	Annweizing	Submissions of Documents	Evaluation Process	Objection/appeal period	Contract Award	Contract Signing
Development of Double Double Track	2010	Dec	Jan	Jan	Jan	Apr	Apr	Apr	Apr
Development of Northern Line in Java Railway	2010	Jan	Jan	Apr	Apr	Apr	May	May	May
Local Delegation of Highway Construction and Maintenance West Java Province	2010	Nov	Dec	Dec	Dec-Jan		Feb	Feb	Mar
Port Office Tanjung Tiram	2010	Aug	Aug	Aug	Aug	Aug	Aug-Sep	Aug	Sep
Power Plants and Transmission Sulawesi Maluku Papua	2010	Feb	Mar	Mar	Mar	Apr	May	Jun	Jun
Preservation and Construction of Road and Bridge Metropolitan Makassar	2010	Dec	Jan	Jan	Jan		Feb		Mar
Railways Development of North Sumatra	2010	Jan	Feb	Mar	Mar		Apr	Apr	Apr
Rural Electrification North Sumatra	2010	Feb	May	May	Jun	Jun	Jun-Jul	Jul	Jul
Development of Double Double Track	2011	Dec	Jan	Mar			Apr	Apr	Apr
Hasanuddin Airport Authority of Makassar	2011	Dec	Mar	Apr	May	May	May	May	May
Power Plants and Transmission Sulawesi Maluku Papua	2011	Jan	Feb	Mar	Mar	Mar	Apr-May	May	May
SNVU for Development Water Resources Network Ciliwung-Cisadane	2011	Jan	Mar	Mar	Apr	Apr	May		May
SNVU for National Road Development Metropolitan Makassar	2011	Dec	Jan	Jan	Jan		Mar		

Source: Ministry of Finance, Satkers and KPPN Office

Box 3.2: Example of procurement stages

The procurement process conducted by the Satker for the Development of Double Double Track in FY 2011 was among the fastest compared with other sampled Satker. The information about procurement was published on January 3, and was followed by registration and submission of qualification documents in the same month. The bid invitation was started on March 1 and after 45 days it was able to appoint the service provider. Accordingly, it was followed by contract signing on April 28. In FY 2010, one example of a procurement process that started at the beginning of year was implemented by the Satker for the Development of a Northern Line in Java Railway. It was announced on Jan 22, registration was on Jan 25, and the qualification result was in February. After the objection-appeal period ended, the Satker started the bid invitation on April 9 and in about one month it could select the qualified contractor to carry out the project.

Stages of Procurement Process	Satker Name	
	Development of Northern Line in Java Railway - FY 2010	Development of Double Double Track - FY 2011
Procurement's Announcement	22 Jan 10	3 Jan 11
Registration/Pick Up Documents	25 Jan – 2 Feb 2010	3 – 13 Jan 2011
Deadline of Submission for Qualification Document	5 Feb 10	13 Jan 11
Objection Period of Qualification Result	30 Mar – 6 Apr 2010	22 – 28 Feb 2011
Bid Invitation/Selection of Qualification Winner	9 Apr 10	1 Mar 11
Pick Up Document of Selection	12 – 28 Apr 2010	2 – 14 Mar 2011
Annweizing	20 – 21 Apr 2010	8-Mar-11
Submission of Document of Offer	22 – 29 Apr 2010	9 – 15 Mar 2011
Objection Period for The Winner Result	6 – 12 May 2010	7 – 12 Apr 2011
Contract Award	12 May 10	15 Apr 11

3. Implementation

a. Project Implementation

The progress of project implementation depends on the nature of the projects, i.e. length of projects (single or multi-year), the source of funds (rupiah or foreign funded), and project characteristics (maintenance and operation, or construction). In general, the samples are classified into two groups: (i) construction, multi-year and funded by domestic revenue (rupiah) or foreign (mix/loan), (ii) maintenance and operation, single-year and financed by domestic revenue. The former is normally a large-scale project that requires land acquisition and more complex procurement process. The second group normally does not have a land-acquisition component and less complex procurement process (Table 3.6). More detail classification of samples is provided in Annex 2.

Table 3.6: Number of DIPA based on project classification

No	Project Classification	Number of DIPAs
1	Single-year, Construction, (Rp)	7
2	Single-year, Operation and Maintenance, (Rp)	7
3	Single-year, Operation and Maintenance, Construction, Mix	2
4	Multi-year, Construction, (Rp)	9
5	Multi-year, Construction, Mix	10
6	Multi-year, Construction, Loan	1

Land acquisition is identified as a major constraint in project implementation, particularly for large infrastructure projects. The problem with complex land acquisition applies to both domestic and foreign-funded projects. One of the main issues in land acquisition is agreeing a fair price both for the Government, which refers to the tax value (NJOP), and the community, which refers to the market price. The land acquisition process depends on a local committee called “Panitia 9” coordinated by the head of local government. The local government needs to establish Panitia 9 in order to acquire more than 2 hectares of land, and comprises the National Land Agency (BPN), NGOs, representatives of the local people, and other stakeholders. In addition, both the local government and the community often face issues in completing the necessary documents related to land acquisition, such as land certification, price approval for land compensation, and a list of recipients for land compensation.

The implementation of multi-year projects is also constrained by the multi-year warrant requirement from the Ministry of Finance. This requirement is linked to land acquisition, where the multi-year warrant requires that the land necessary for the project be acquired 100 percent. Some DIPA are blocked (*bintang*) because of this and as a result procurement is delayed until the warrant is obtained (see Box 3.1). This regulation was introduced in 2011.

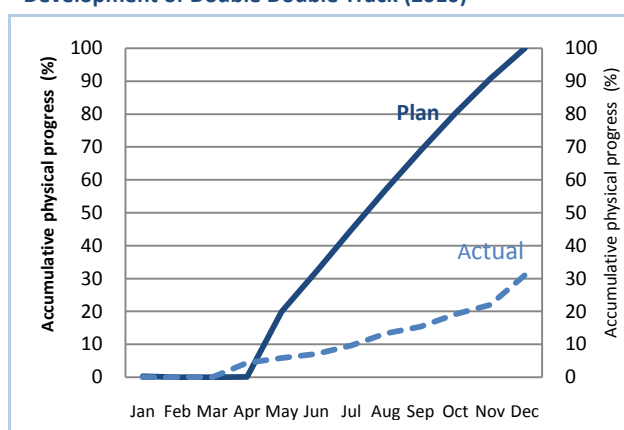
Loan-financed (or mixed-source financing) projects often face slow execution due to additional requirements. For example, the Development of Double Double Track Project, which is a construction, mixed source of funding, and multi-year project. This project has to comply with lender requirements. Some strict rules imposed by development partners include the 100 percent completion of land acquisition before the loan can be disbursed and strict safeguards such as monitoring the future welfare of the local community whose land is being utilized for the project. Satker are required to monitor local people who have been moved to a new location to establish whether or not their welfare is better or at least at the same level as prior to their relocation. Although this project was started in 2002, physical progress had only reached 31 percent in 2010.

The implementation of non-construction and routine projects is relatively smooth (less complicated). The familiarity of the Satker/regional offices with the project makes the budget preparation more accurate, and there are fewer DIPA revisions, and the RKA/KL can be converted into the budget details (POK). Non-construction projects normally do not have a land acquisition component. In the case of rural electricity, the small amount of land required creates fewer complications, and also since electricity is very important for the local community, land for electricity generation and poles is often provided voluntarily. The time to complete the activity is on average around 3 to 6 months.

b. Physical Progress⁷

There are gaps between planned and actual physical progress, but the levels vary between DIPA. The gaps depend on the nature of the project, resource availability, and problems encountered in the field, such as bad weather, social issues, and principal licenses from other institutions. In general, acquiring equipment and material and remoteness of location are less of an issue. As mentioned above, for construction project, gaps between planned and actual physical progress were mainly driven by delays in land acquisition process. Almost 70 percent of the Satker indicated that they faced problems in land acquisition. Examples of this challenge include the Double Double Track Project, which showed gaps between the DIPA plans and the realization of physical output progress in 2010 due to incomplete land acquisition, partly on account of development partner requirements to be fully completed before project could be implemented, together with some technical difficulties (e.g., the electrical substation had to be imported) (Figure 3.3). In addition, gaps are also caused for other reasons, such as lengthy budget revisions and the process of removing *bintang* (blocked DIPA).

Figure 3.3: Planned vs realization of physical progress: Development of Double Double Track (2010)



Source: Satkers and KPPN Office

Figure 3.4: Planned vs realization of physical progress: Jatigede Dam Development Project (2010)

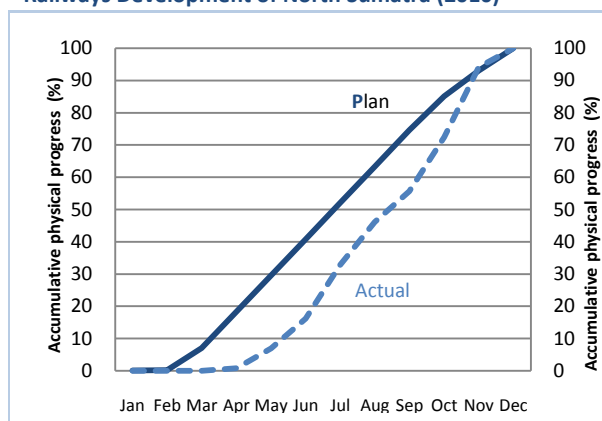


Source: Satkers and KPPN Office

As mentioned before, the execution of non-construction (operation and maintenance) projects does not seem to face major challenge in the implementation. The realized physical project progress closely follows the planned progress outlined in the contract. For example, the Railways Development of North Sumatra and the Highway Construction and Maintenance West Java (Figure 3.5 and Figure 3.6).

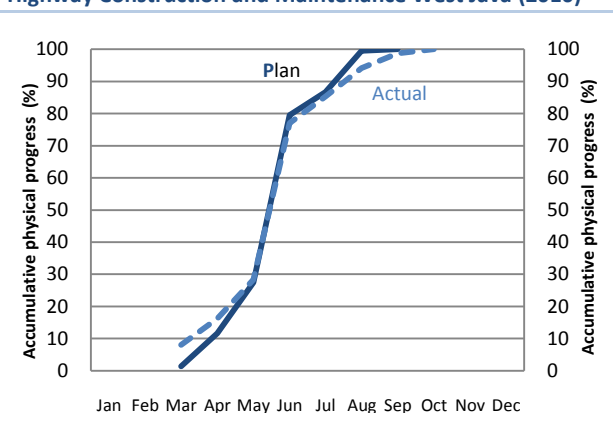
⁷ Physical progress is indicated by the realization of project. Physical progress information is gathered from both the Satker and the contractor. The actual physical progress is provided by the Satker, and drawn from monthly reports, while the plan of physical progress is obtained from the contract signed by both the contractor and the Satker. However, not all DIPA samples provided physical progress data during the field survey, with only 9 DIPA being available. Below is the detailed physical progress for each of the 9 DIPA.

Figure 3.5: Planned vs realization of physical progress: Railways Development of North Sumatra (2010)



Source: Satkers and KPPN Office

Figure 3.6: Planned vs realization of physical progress: Highway Construction and Maintenance West Java (2010)

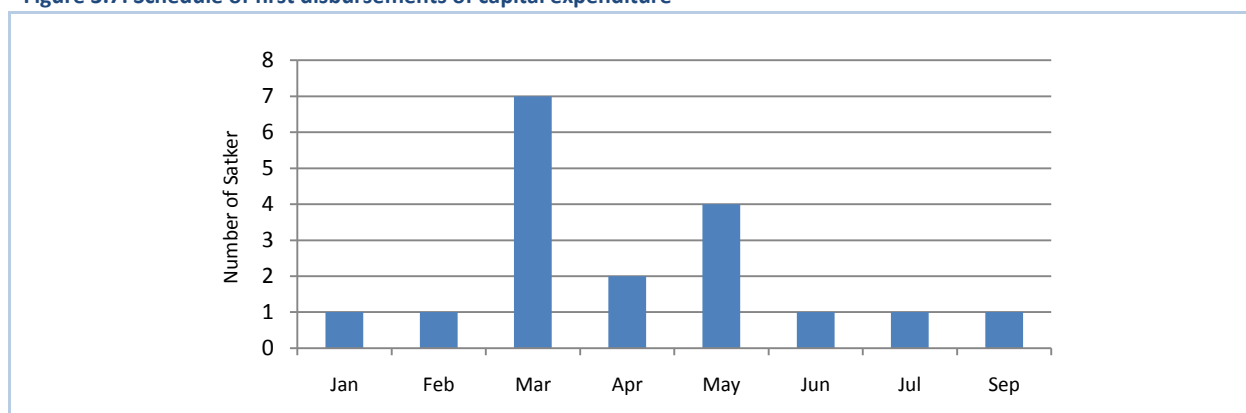


Source: Satkers and KPPN Office

c. Budget Disbursement

The first disbursements generally occur at the end of the first quarter, and disbursement patterns are predominantly skewed toward the last quarter of the fiscal year, particularly in December. Delays in first disbursement were mainly driven by delays in the budget and work plan preparation stage. As indicated in the physical progress, the single-year and non-construction projects disbursed advance payment in March and May. While multi-year and construction projects (e.g., large-scale and complex procurement that requires pre-qualification, bank guarantees, etc.) the first disbursements start as late as August or September, such as the Power Plant and Transmission of Sumatra-Aceh and the Power Plant and Transmission Sulawesi-Maluku-Papua (Figure 3.7).

Figure 3.7: Schedule of first disbursements of capital expenditure



Source: Ministry of Finance, Satkers and KPPN Office

Almost half of the sampled Satker in FY 2010 had very low disbursement rates, ranging from 10 to 74 percent, driven by constraints in project implementation. The reasons for low disbursement rates in 2010 were mainly related to project implementation in each Satker as already discussed in the previous section. Satker with low absorption rates include large-scale projects with foreign financing, such as Tanjung Priok Port, Jatigede Dam, Double-double Track, and Northern Line Java Railway (Table 3.7).

Table 3. 7: Rates of disbursement of the 2010 DIPA in selected Satker

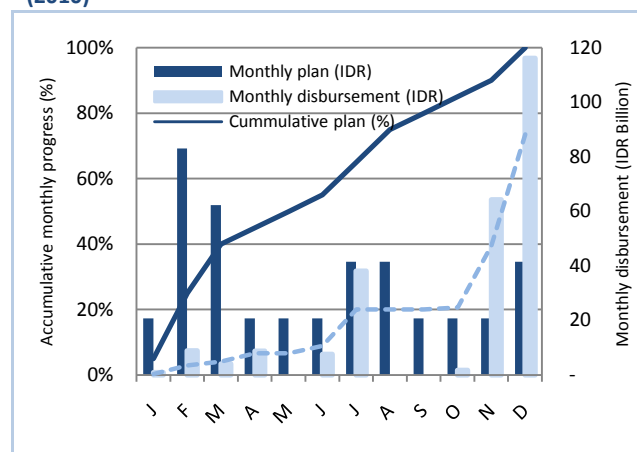
No	Satker's Name	Nature of Project	Budget (IDR Billion)	Actual Disbursement (IDR Billion)	Rate of Disbursement (%)
1	Hasanuddin Airport	RM, MY	54.0	20.5	38.0
2	Power Plants and Transmission North Sumatra, Aceh	RM, MY	185.5	137.5	74.1
3	Power Plants and Transmission Sulawesi Maluku Papua	RM, MY	340.9	250.6	73.5
4	SNVU For Jatigede Dam Development Project	Mix, MY	642.4	337.5	52.5
5	Water Resources Management Sumatra II (North Sumatra)	Mix, SY	251.8	178.8	71.0
6	Airport of Medan Baru	RM, MY	300.0	111.4	37.2
7	Hasanuddin Airport Authority	RM, SY	21.2	14.3	67.3
8	Power Plants and Transmission North Sumatra, Aceh	RM, MY	720.2	10.3	1.4
9	Power Plants and Transmission Sulawesi Maluku Papua	RM, MY	1,663.1	54.4	3.3
10	Rural Electrification South Sulawesi	RM, SY	163.4	47.7	29.2
11	SNVU For Development of Water Resources Network Pompengan - Jeneberang	Mix, MY	247.3	166.0	67.1
12	SNVU For Jatigede Dam Development Project	Mix, MY	538.3	393.8	73.2
13	SNVU For National Road Development Metro Makassar	RM, SY	66.6	28.9	43.3
14	SNVU National Road Development Area II Province of North Sumatra	RM, MY	241.6	100.5	41.6

Source: Ministry of Finance, Satkers and KPPN Office.

Note: RM = Rupiah Murni or domestic source, Mix = Mix source of financing from domestic and foreign loan, MY = Multi year, SY = single year

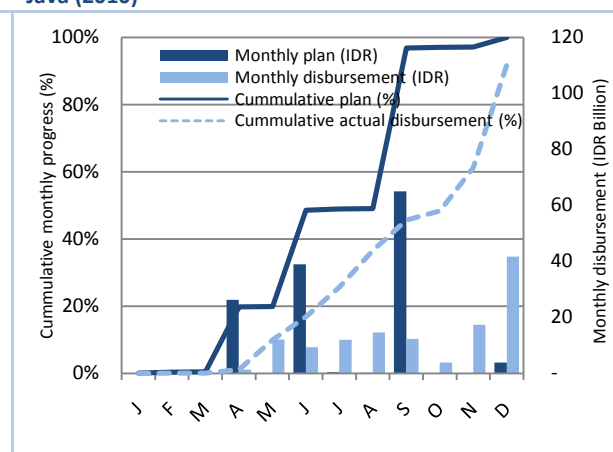
There is a gap between planned and actual financial disbursements which is caused by the preference of some contractors to submit claims for payment at the end of fiscal year and delays in the administrative process on the Satker side (Figure 3.8 and Figure 3.9). In some cases contractors do not fully comply with the plan in the contract (both in terms of the schedule and the number of claims) when claiming payment. The survey indicated that some contractors tend to hold back on disbursements until the end of the project because they felt that payment procedures were too burdensome. They have to prepare many documents, such as summaries of contracts, copies of ID, copies of tax ID (NPWP), invoices accompanied by all original receipts, physical progress reports, project hand-over reports, and maintenance warranties. In some cases, contractors have to pay frequent visits to the Satker office to ensure that the required documents to withdraw money have been approved and that the Satker has issued the SPM (payment order) to the KPPN.

Figure 3.8: Planned vs realization of financial progress: Power Plant and Transmission Sulawesi-Maluku-Papua (2010)



Source: Satkers and KPPN Office

Figure 3.9: Planned vs realization of financial progress: Control and Utilization of Water Resources Citarum West Java (2010)



Source: Satkers and KPPN Office

The delays in the administrative process on the Satker side are due to a lack of staff as well as poor performance of the Satker. Most Satker do not have sufficient staff to process claims for payment submitted by contractors even when submitted in a timely manner. Before issuing payment orders (SPM), Satker have to verify and ensure all the requirements have been met. Satker personnel indicated that they also received incomplete documents on

average 1 to 3 times from contractors. In general, Satker indicated that it takes 1-5 days to process a request for payment from contractors (from SPP to SPM). However, some contractors also indicated that on some occasions the Satker intentionally try to delay document processing in the expectation of receiving an unofficial payment to speed the processing up. In addition, these delays in processing is also partly due to lack of a monitoring system to track the payment process at the Satker, although Ministry of Finance Regulation (PMK No. 170/2010) specifies some clear timeline for payment processing (Box 3.3).

Box 3.3: Contractors' Experience with the Payment Request Procedure at the Satker

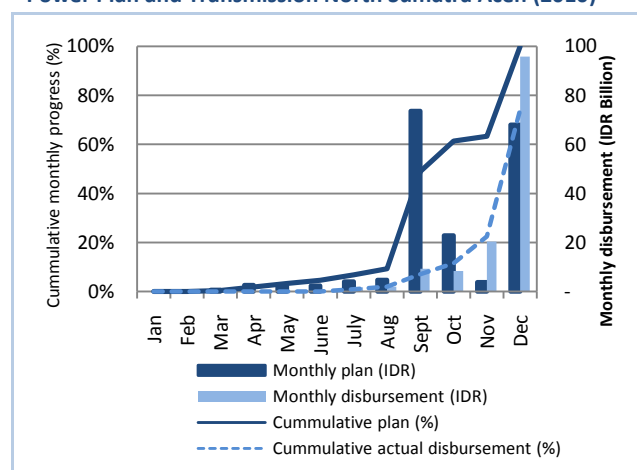
According to one of contractors, his/her project has three terms of payments in 2011 i.e. June, October, and December. For the first payment, all required documents have been submitted since end of June 2011. However, the payment was only received by August 2011. Similar problems occurred when the second payment was submitted end of October and the contractor was paid by mid-December 2010. Thus, it took two months to process the payments. Satker provided several reasons regarding the delay such as trouble in computer system, authorized persons are unavailable when documents submitted, lack of Satker personnel, reluctance in going back and forth to KPPN, preference to process all documents at once or at least after they gather a certain number of payment requests from other contractors before submitting them to KPPN.

Although the payment process is regulated by PMK No. 170/2010, the enforcement is still lacking especially processing on the Satker side. The payment process sometime cannot be predicted; sometime it takes two months while other time it takes two weeks. For example, the Satker indicated the last payment which was submitted on the first week of December 2011 was received by the third week of December 2011, or it took only two weeks to receive the payment. This shows that Satker can actually process payment requests much faster compared to the first two payments. Such phenomenon is common since Satker will quickly process payment requests during December to reach high disbursement at the end of fiscal year.

The delay in processing payment requests (SPP) and issuing SPM to be sent to KPPN by the Satker was not monitored. Anecdotal stories also indicated that sometime Satker intentionally delay the process and tend to end up in an open negotiation with the contractors to speed up the process, particularly at the end of the fiscal year. This process discourages the contractors from submitting the invoice for payment as planned.

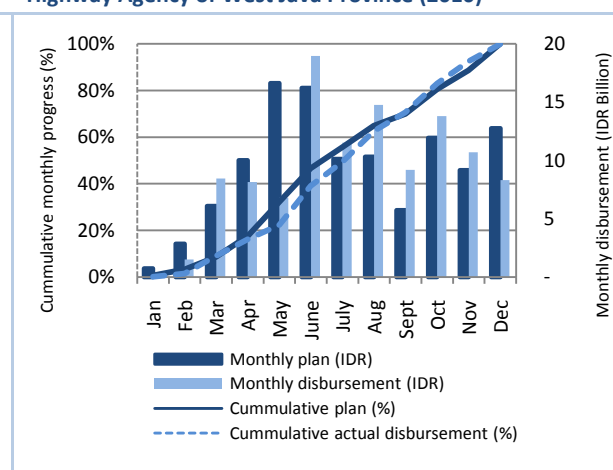
In certain cases, skewed patterns of disbursement can also be caused by the disbursement planning itself. For example, Satker Power Plants and Transmission North Sumatra and Aceh, where 80 percent of the activity is procuring materials and the other 20 percent are for construction activities. The Satker planned disbursements for the March to August period at less than 10 percent, rising to 50 percent by September, 61 percent by October, and 100 percent by December (Figure 3.10).

Figure 3.10: Planned vs realization of financial progress: Power Plan and Transmission North Sumatra Aceh (2010)



Source: Satkers and KPPN Office

Figure 3.11: Planned vs realization of financial progress: Highway Agency of West Java Province (2010)



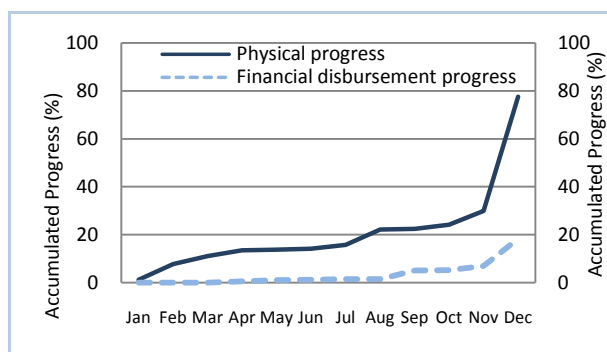
Source: Satkers and KPPN Office

The disbursement process at the KPPNs has improved and is relatively fast. Satker and contractors indicated that the disbursement process at the KPPNs has significantly improved compared with several years ago. Once the required documents are complete, the payment process at the KPPN takes only a maximum of one working day. The transaction process is conducted transparently through a service counter and computerized. However, some minor challenges still exist such as changes in application, and typos and errors in filling out the form.

d. Actual Physical Progress and Financial Disbursement

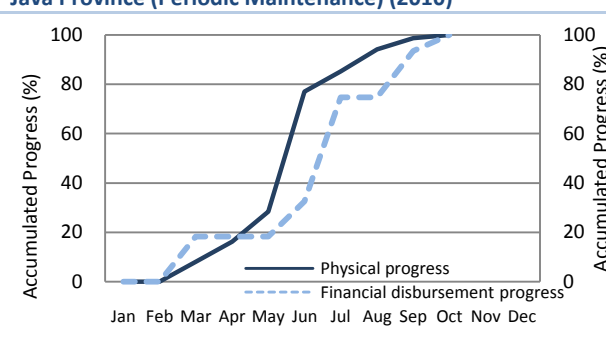
Similar to other patterns, gaps between the progress in physical project completion and financial disbursement depend on the nature of the project. For construction projects the gaps show a more diverging trend driven by factors such as complexity of the procurement process (e.g., objections and appeals process), land acquisition process, and the payment procedures where payment can only be made after the installation of the equipment (Figure 3.12) The physical and financial progress of non-construction project (maintenance and operation) are relatively close as it most likely to face less problem during implementation (Figure 3.13).

Figure 3.12: Physical progress vs financial disbursement progress: Jatigede Dam Development Project (2010)



Source: Satkers and KPPN Office

Figure 3.13: Physical progress vs financial disbursement progress: Highway Construction and Maintenance West Java Province (Periodic Maintenance) (2010)



Source: Satkers and KPPN Office

4. Completion⁸

The Satker and a supervisory consultant are responsible for monitoring and evaluation during the project implementation and the completion of the project. For the project completion stage, contractors have to submit the required documents called Project Handover 1 (PH1), which consists of Physical Progress Report of 100 percent, Handover Report I, a Maintenance Guarantee and the invoice. Project Handover 2 (PH2) is conducted after the maintenance period has finished.

After PH 1, a maintenance guarantee for 5 percent of project value will be applied. In general, the maintenance period is 6 months although this can vary for some projects. About 66 percent of Satker indicated that maintenance periods are about 6 months. The maintenance period is based on value of the project, and not based on length of the project. For example, the Railways of West Java and Road of South Sulawesi (6 months), the Double Double Track of DKI Jakarta (7 months), and the Water Resources of Jati Gede – West Java (12 months). After the maintenance period, Project Handover 2 (PH2) will be carried out. It means that the relationship between contractor and Satker has come to an end.

For multi-year contracts, if the completion is less than 100 percent then the Satker can carry over the activities into the next fiscal year. Some examples are shown in Table 3.8, including the Development of Northern Line in Java Railway (91.8 percent), SNVU for Jatigede Dam Development Project (77.5 percent) and the Development of Double Double Track (31.1 percent). The Satker propose the remaining activities and the required budget to the

⁸ Only seven Satker in 2010 filled out the completion stage, and only three Satker showed that the physical progress almost reached 100 percent.

regional office (Balai), and then follow a similar procedure as in proposing new activities every year. The new PMK No. 194/2011 on Multi-year Contracts provides flexibility to convert single-year projects to multi-year projects if the project cannot be completed in one fiscal year.

In some cases, the Satker and the contractor use an informal agreement (illegal) to complete the project beyond the fiscal year. In some cases, where contractors have not fully completed the project, the Satker still counts the progress as 100 percent at the end of the fiscal year so that the payment can be claimed from the KPPN. Then, based on an informal agreement between the Satker and the contractor, the contractor will usually finish the project by January at the latest. This issue usually emerges when the delay is caused on the Satker's side rather than the contractor's delay, for example a delay in the procurement process, such as late announcement, or a prolonged objection-and-appeal process.

Table 3. 8: Planned vs realization of physical progress

No	Satker Code	Satker	Fiscal Year	Physical Realization
1	447064	Rural Electrification West Java	2010	100%
2	026219	Local Office - Delegation of Highway Construction and Maintenance West Java Province	2010	98.7%
3	467365	Development of Northern Line in Java Railway	2010	91.8%
4	498366	SNVU For Jatigede Dam Development Project	2010	77.5%
5	498304	SNVU For Development of Water Resources Network Pompengan – Jeneberang	2010	100%
6	467303	Railways Development North Sumatra	2010	100%
7	467453	Development of Double Double Track	2010	31.1%
8	498366	SNVU For Jatigede Dam Development Project	2010	57.5%
9	498304	SNVU For Development of Water Resources Network Pompengan - Jeneberang	2010	44.6%
10	467453	Development of Double Double Track	2010	6.4%

Source: Satkers and KPPN Office

IV. Positive Initiatives Conducted by Stakeholders to Accelerate Budget Execution

Many initiatives have been conducted by the ministries and the Satker, together with the Regional Treasury Offices (Kanwil DJPB) and Local Treasury Offices (KPPNs) to enhance DIPA implementations. These initiatives and recommendations should be used as lessons learned and then discussed and further disseminated to other Satker, so they can reap the benefits from them. Below are several examples of the initiatives from different institutions. More detailed initiatives and objectives can be seen in Annex 12.

The Ministry of Public Works implemented early procurement before the fiscal year starts (e.g., binding clauses for early procurement before DIPA issuance and budget allocation for early procurement). The binding clause initiative has been effective in speeding up the start of the procurement process by providing the flexibility to adjust the value of the contract after the issuance of the DIPA. The Ministry of Public Works also prepares budget allocation for early procurement so that the procurement for next year's projects can be started in the current fiscal year.

PLN signed an MOU with LKPP and KPK in order to avoid multi-interpretation of Perpres No. 54/2010 on Procurement. Because Perpres No. 54/2010 was immediately implemented after its issuance in August 2010, there was little time for line ministries to disseminate its contents to the Satker. PLN took the initiative of asking the LKPP and the KPK for their assistance and consultancy on procurement issues. PLN provided office space at its headquarters for representatives of the LKPP to give their advice on specific procurement processes. In addition, PLN can directly contact the KPK to make sure that the procurement process is not in violation of any laws on corruption.

Several initiatives to accelerate disbursements have also been introduced at the KPPN office such as SMS center and a reward system. KPPN Sumedang has introduced an SMS center to communicate with all Satker so that the Satker can inform any requests for money at least three days prior to document submission. The KPPN in North Sumatra has introduced a reward system i.e. "Satker of the month" who can submit SPM without queuing if their performance on payment requests is good (cash planning, on time and completed documents).

V. Policy Recommendations

Addressing budget execution challenges is critical for Indonesia. The Government recognizes the current weak budget execution and has taken some necessary measures to address the issue. For example, to accelerate budget execution in 2012, the President has established a task force TEPPA (Tim Evaluasi dan Pengawasan Penyerapan Anggaran, Evaluation and Supervision of Budget Absorption Team) to closely monitor and de-bottleneck the constraints in budget absorption this year. TEPPA is led by the UKP4, and co-led by the Ministry of Finance and the State Development Audit Agency (BPKP). The current high-level of Ministerial and public interest also provides an opportunity to undertake broader improvements in order to accelerate budget execution. In addition to addressing the immediate constraints in the short term, this momentum also provides an opportunity to undertake broader improvements, which may involve institutional and regulatory changes and part of broader Public Financial Management (PFM) reforms. Policy recommendations are presented under three categories: steps that may have an impact on 2012 budget implementation; preparation and implementation action for the 2013 budget; and medium- to long-term actions. Table 5.2 at the end of this section summarizes policy recommendations based on budget execution stages and issues.

a. Immediate actions to assist in the implementation of the 2012 budget

Intensive monitoring and providing coordinated and targeted assistance to identified high-risk projects may be warranted. Some of the challenges to budget execution discussed above are likely to recur in 2012. Efforts to improve budget execution may need to take into account these constraints and work within the current regulatory and institutional frameworks. While addressing overall constraints would be preferable in the medium term, focusing on high-risk projects that are likely to experience delays—such as large capital and priority projects and those that have issues during preparation—through close monitoring and by providing targeted support to selected line ministries and Satker can have a positive impact on budget execution in the short term (Table 5.1).

Table 5. 1: Suggested actions and institutions to improve budget execution in 2012

No	Institution	Suggested measures and targeted assistances
1	TEPPA	<ul style="list-style-type: none"> Monitor the performance of K/Ls with the largest budget Coordinate and harmonize policies and regulations that affect execution of DIPA
2	DG Budget (Ministry of Finance)	<ul style="list-style-type: none"> Monitor the performance of Satker with the largest budget Provide targeted support to K/L to remove all blocked DIPA (<i>bintang</i>) (at least big or politically prioritized projects) with a clear immediate time line Closely track & accelerate DIPA revision process that needs to be approved by DG-Budget/MoF/Parliament Closely track and accelerate multi-year contracts proposal submitted by K/L for MoF approval as pre-requisite to start implementation or extension to next fiscal year if delay is unavoidable
3	DG Treasury	<ul style="list-style-type: none"> Closely monitor DIPAs with high allocation for capital expenditure Monitor Satker with low and slow capital exp disbursements in previous fiscal years Monitor and assist Satker that have not received appointment letter (SK) for FY 2012 Enforce the implementation of PMK No. 170/2010 on billing settlements and PMK No. 192/2009 on cash planning by the spending units
4	Line Ministries (K/L)	<ul style="list-style-type: none"> Take pro-active role and expedite internal procedures in DIPA revisions process/virements Conduct training and capacity building on procurement, planning, budgeting, project management and accounting and reporting of K/L officials
5	LKPP	<ul style="list-style-type: none"> Monitor and assist procurement process—at least for large and priority programs Establish monitoring system to oversee the implementation of Perpres No. 54/2010 Improve dissemination of Perpres No. 54/2010 to line ministries, Satker, and contractors
6	Bappenas	<ul style="list-style-type: none"> Monitor and assist large and politically prioritized activities/programs
7	BPKP	<ul style="list-style-type: none"> Monitor and provide targeted assistance at least to large and complex projects to comply with the procedures

The introduction of any new policies should take into account potential adverse impacts on budget execution and allow enough time for socialization and preparation prior to implementation. As shown by experience in 2011, the implementation of policies that affect budget execution (e.g., through revisions) such as budget efficiency, budget optimization, and the new requirement to fully complete land acquisition process for multiyear projects could exacerbate an already complex budget execution process. This is of particular concern if

the policy is effective immediately within the current fiscal year and without adequate attention given for socialization and preparation prior to implementation.

b. Preparation and implementation actions for the 2013 budget

Streamline and accelerate the budget preparation process by integrating work plan and budget documentation, minimizing the application of blocked DIPA (*bintang*), and addressing delays in the appointment of Satker personnel. Addressing delays in budget preparation is critical as it has an impact on subsequent activities (e.g., procurement and implementation). Actions which could help to resolve these delays include:

- Implement the new State Budget and Treasury Financial Information System (SPAN) and the Financial Application System at the line ministries (SAKTI) for the 2013 budget. These systems are expected to integrate and synchronize budget documentation and disbursements and accelerate DIPA revision approval through an online process;
- Streamline procedures for giving "*bintang*". There should be more clarity on procedures, such as criteria, institution who can give *bintang*, steps and time limits for removing *bintang* (e.g., all *bintang* must be removed from DIPA by certain month), and clear procedures if *bintang* are not removed, e.g. the budget may be reduced if it has passed the deadline; and,
- Implement a new government regulation (PP) on budget execution. This new regulation is expected to be issued by second half of 2012, and will address some of the constraints and regulatory inconsistencies in budget preparation and execution such as re-appointment of Satker personnel, advance procurement. For this regulation to be effective, it must be immediately followed by revisions related to implementing regulations, such as presidential regulations (Perpres), ministerial regulations (PMK), DG regulations (Perdirjen), and proper socialization.

Improve the implementation of Perpres No. 54/2010 on Procurement. The implementation of Perpres No. 54/2010 on Procurement in 2011 was less effective than hoped due to the implications of some of the new policies, inadequate preparation, and a lack of dissemination. Some areas in which procurement can be improved in 2013 include: (i) simplifying and streamlining the objection-and-appeal procedure (e.g., increasing the fee for submitting an objection and introducing clear limits on the number and duration of appeals and objections); (ii) allocating sufficient budget for IT infrastructure to support the implementation of e-procurement; (iii) linking performance of the procurement committee members to Key Performance Indicators (KPIs); and (iv) improving the socialization of the Perpres across the country.

Enforce and improve the effectiveness of the new land acquisition law and disbursement procedures during the project implementation. There are two major issues identified as constraints during the implementation stage: the complex land acquisition process and the skewed disbursement towards the end of fiscal year. Although laws and regulations to improve project implementation have already been issued, their effectiveness can be further enhanced through the following actions:

- Accelerate the finalization and revision of technical regulations on land acquisition in order for the newly approved law to be effective. The Law on Land Acquisition was approved in December 2011. However, technical regulations are still being developed, delaying the implementation of the law. In line with this, the MoF has issued PMK No. 194/2011 on multi-year contracts (a revision of PMK No. 56/2010), which provides an exception for large infrastructure projects to start implementation even though land acquisition has not been fully completed;
- To address skewed disbursement at the end of the fiscal year, several steps can be considered: (i) improve MoF regulations on rewards and punishments by linking budget disbursement performance to the line ministries' Key Performance Indicators (KPIs) and provide more authority to the line ministries to conduct self-assessment; (ii) establish a monitoring system to oversee and expedite the claim-for-payment process by contractors; (iii) optimize PMK No. 194/2011 on multi-year contracts to smooth the rush in disbursements at the end of the fiscal year (2012) by carrying them over (multi-year) into the next fiscal year (2013), particularly for the highest capital expenditure and goods and services budgets. If delays in project completion seem unavoidable (by early December 2012 at the latest), requesting MoF approval to convert the original single-year contract into a multi-year contract; and (iv) relax the 100-percent physical

completion requirement by year-end. Incomplete activities in the current year (2012), but nonetheless those that are likely to be finalized at the beginning of following year (2013), can be allowed to continue for a limited period on the condition that the contractor provides a bank guarantee for an amount equal to the final payment made.

Provide capacity building to Satker personnel on multi-year project management. Given the likelihood of an increasing number of multi-year contracts going forward, particularly for large capital-intensive projects, building the capacity of Satker personnel to handle multi-year project management would help to improve overall project implementation. By using multi-year project management planning, the line ministries or Satker staff can take more time to reduce administrative hurdles in preparation and procurement, and will have sufficient time for implementation.

c. Medium- to long-term actions

In the medium term, efforts to accelerate budget execution can be focused on further improvements in budget preparation and the overall planning and budgeting process as part of broader Public Financial Management (PFM) reforms. The suggested actions include:

- **Improve consistency between workplans (Renja KL) and budgets (RKA-KL) by synchronizing the planning and budgeting between Bappenas and DG Budget.** The preparation of workplans (Renja KL) and budgets (RKA-KL) is currently conducted separately by Bappenas and DG-Budget although with close coordination. In reality, since both applications are still not integrated, inconsistencies between the two planning documents delay budget preparation. Therefore, it is important to synchronize and consolidate workplans (Renja KL) and budget (RKA-KL) format documents into one integrated document by using similar applications so that the two sets of data are interchanged seamlessly.
- **Discontinue the practice of using *bintang*.** The practice of using *bintang* is unique to Indonesia and used to accommodate new priorities or changes in the budget. As discussed, this practice leads to delays in implementation since project preparation cannot be started prior to the removal of *ex-ante* requirements. To accelerate implementation while ensuring a sound fiduciary environment, *ex-post* controls should be enhanced while the practice of using *bintang* and other *ex-ante* controls should be gradually reduced. Responsibility for the adequacy of supporting documents should be taken over by the K/Ls subject to audit.
- **Budget appropriation (approval by parliament) should be at a more aggregated level.** As mentioned, the current budget appropriation process approves spending down to the activity level, reducing budget flexibility and delaying budget preparation. In addition, this process is no longer in line with the current reform towards performance-based budgeting. These line ministry budget details are stipulated through a Presidential Decree (as attachment 4 in the Presidential Decree) as part of the budget approval process. Thus, to minimize rigidities in budget appropriation and DIPA revisions, attachment 4 of Presidential Decree (Keppres) is no longer necessary.
- **Automation of the allocation process.** Currently, although DIPA are officially issued before the fiscal year, some Satker still experience delays in receiving their DIPA because the Satker staffs are waiting for signed hard copies. Going forward, the issuance of DIPA as signed hard copies should be gradually discontinued and replaced with an automated allocation process.
- **Provide more flexibility/authority to line ministries (Echelon 1) for conducting DIPA revisions.** The complex and detailed budget revision process was identified as one factor constraining budget preparation, as Satker have to go through a multi-level approval process. Further streamlining of DIPA revision procedures by giving more flexibility/authority to line ministries (Echelon 1) would speed up budget preparation, with the following conditions:
 - K/Ls should approve final budget allocations for each individual Satker, while DG Budget should control against the ceilings of a program;
 - The revision of a “single” DIPA below a certain threshold should be done by the K/Ls;
 - Approval from DG Budget is required only if: (i) the revision requires parliament/MoF approval; (ii) the revision impacts multiple Satker; or (iii) the revision requires the issuance of a new DIPA; and
 - DG Treasury to process any changes in DIPA without approval authority.

Table 5. 2: Summary of issues and recommendations for improving budget execution

No	Stages	Issues	Recommendations		
			2012	2013	Medium terms
1	Budget preparation	Satker personnel are still appointed annually and with delays	Closely monitor DIPA that has not appointed Satker personnel and remind respective K/Ls for their action	Appointment of Satker personnel should no longer bound to fiscal year (Perpres No. 53/2010): <ul style="list-style-type: none"> • Revise Perdirjenben No. 66/2005 • Implement government regulation (PP) on budget execution 	
		Bintang (blocked DIPA)	<ul style="list-style-type: none"> • Develop guideline with clear timeline to remove <i>bintang</i> • Provide targeted assistance to remove <i>bintang</i> for large and politically prioritized projects 	Minimize the application of <i>bintang</i> (blocked DIPA) and develop clear procedures and criteria in giving and removing <i>bintang</i>	<ul style="list-style-type: none"> • Discontinue <i>bintang</i>-practice. • Reduce ex-ante controls and increase ex-post controls of documents. K/L should responsible for the adequacy of supporting documents subject to audit.
		Lengthy DIPA revision	<ul style="list-style-type: none"> • Provide targeted support to large and politically prioritized projects through “One Stop Service” • Accelerate overall DIPA revision by increasing assistantship at DG Treasury Regional Office (Kanwil DJPB) 	<ul style="list-style-type: none"> • Expedite the preparation and revision of DIPA by integrating and synchronizing budget documentation and disbursements between MoF and K/Ls through integrated IT system (SPAN and SAKTI). • Apply a “One-Stop Service” for revising DIPA of a single Satker in the regions (Kanwil) 	<ul style="list-style-type: none"> • Provide more authority to line ministries (Echelon 1) in reallocation and DIPA revision within activity • Gradually discontinue the issuance of DIPAs as signed in hard copies and replace them with an automated system
		Poor planning and budgeting		Improve capacity of Satker in planning and budgeting, and multi-year project management	Synchronize planning and budgeting between Bappenas and DG-Budget by synchronizing and integrating the format of work plan (Renja KL) and budget (RKA-KL)
		Rigidities and details budget discussion			Appropriation should be at higher level – remove the existing attachment 4 in the Keppres RKA-KL
2	Procurement	Lack of understanding of Perpres No. 54	<ul style="list-style-type: none"> • Improve dissemination of Perpres No. 54/2010 • Create MOU between K/L, Procurement Agency (LKPP), Anti-Corruption Commission (KPK), to have assistantship 		
		Lengthy procurement process		Streamline the objection-and-appeal procedure (e.g., increasing the value of the deposit & introducing clear limits on the number, duration of appeals- objections)	
		Lack of incentive to participate in procurement committee		<ul style="list-style-type: none"> • Link performance of the procurement committee to the Key Performance Indicators • Consider risk-based incentive structure for Satker personnel and procurement committee 	
		Lack of infrastructure to support e-procurement		Allocate sufficient budget for IT infrastructure to support e-procurement	

No	Stages	Issues	Recommendations		
			2012	2013	Medium terms
3	Implementation	Lengthy and complex land acquisition	Closely monitor and provide targeted support to large infrastructure project and politically prioritized projects and coordinate closely with provincial/LGs land acquisition team (Panitia 9)	Accelerate the finalization and revision of technical regulations on land acquisition in order for the newly approved Law to be effective.	
		Lack of coordination (e.g., special license)	Facilitate expedited process in coordination e.g., issuing permission letter/license		
		Skewed disbursement toward end of fiscal year (due to contractor preference to claim at the end of fiscal year and slow processing at Satker)	Socialization and enforcement of PMK 170 on the schedule of payment	<ul style="list-style-type: none"> • Link performance of disbursement to Satker's Key Performance Indicators • Establish electronic monitoring system at Satker to process the invoice submit by contractors • Optimize PMK No. 194/2011 on multi-year contracts to smooth the rush in disbursements at the end of the fiscal year by carrying them over into the next fiscal year. • Encourage K/Ls to submit requests for multi-year contracts for large capital projects in the newly allocated APBN-P 2012. • Relax the 100-percent physical completion requirement by year-end by allowing selective incomplete activities in the current year to continue for a limited period with condition that contractor provides a bank guarantee for an amount equal to the final payment made 	
4	Others	Some new policies (e.g., budget efficiency, budget optimization, and the new requirement to fully complete land acquisition process for multiyear projects) introduced in 2011 had an adverse impact on budget execution	Take into account potential adverse impact of new policies on budget execution and allow enough time for socialization and preparation for implementation		

Annexes

Annex 1: List of Samples Satkers

No	Fiscal Year	Province	Ministry *	Satker Code	Satker's Name	Activity Code	Activity's Name	Total Budget in (Billion IDR)	Source of Funds		Types of Expenditure		
									Domestic (IDR)	Foreign (Loan/Grant)	Salary	Goods	Capital
1	2010	DKI Jakarta	MEMR	412565	Directorate General of Electricity and Renewable Energy	2137	Rural Electrification	873.2	96%	4%	2%	24%	74%
2	2010	DKI Jakarta	MOT	439381	Development of Tanjung Priok Port - Jakarta	2250	Development of Port Facilities and Infrastructures	145.1	0%	100%	0%	0%	100%
3	2010	DKI Jakarta	MOT	445589	Development of Double Track Tanah Abang-Serpong	2230	Development of Double Double Track	219.5	100%	0%	0%	0%	100%
4	2010	DKI Jakarta	MOT	467453	Development of Double Double Track	2230	Development of Double Double Track	353.6	25%	75%	0%	0%	100%
5	2010	DKI Jakarta	MPW	482300	Preservation of Road and Bridge Metropolitan Jakarta	4326	Rehabilitation of National Road	175.7	100%	0%	0%	19%	81%
6	2010	DKI Jakarta	MPW	498128	SNVU For Development Water Resources Network Ciliwung-Cisadane	4418	Rehabilitation of Dam, Basin, and other Water Reservoirs	223.8	91%	9%	0%	2%	98%
7	2011	DKI Jakarta	MOT	467453	Development of Double Double Track	2230	Development of Double Double Track	453.6	21%	79%	0%	0%	100%
8	2011	DKI Jakarta	MPW	498128	SNVU For Development Water Resources Network Ciliwung-Cisadane	4418	Rehabilitation of Dam, Basin, and other Water Reservoirs	789.1	99%	1%	0%	1%	99%
9	2010	West Java	MEMR	447064	Rural Electrification West Java	2137	Rural Electrification	10.6	100%	0%	0%	0%	100%
10	2010	West Java	MOT	467365	Development of Northern Line in Java Railway	2232	Development of Railway	319.1	41%	59%	0%	0%	100%
11	2010	West Java	MPW	26219	Local Office-Delegation of Highway Construction and Maintenance West Java	4327	National Road Routine Maintenances	112.5	100%	0%	0%	50%	50%
12	2010	West Java	MPW	495565	Preservation and Construction of Road and Bridge Metropolitan Bandung	4326	Rehabilitation of National Road	99.8	72%	28%	1%	7%	93%
13	2010	West Java	MPW	498134	SNVU For Control and Utilization Water Resources Citarum West Java Province	4445	Rehabilitation of Raw Water Intake Infrastructure	136.1	90%	10%	0%	2%	98%
14	2010	West Java	MPW	498366	SNVU For Jatigede Dam Development Project	4417	Rehabilitation of Dam, Basin, and other Water Reservoirs	642.4	30%	70%	0%	0%	100%
15	2011	West Java	MPW	495565	SNVU For National Road Development Metropolitan Bandung	2409	Rehabilitation of National Road	89.0	69%	31%	0%	17%	83%
16	2011	West Java	MPW	498366	SNVU For Jatigede Dam Development Project	4417	Rehabilitation of Dam, Basin, and other Water Reservoirs	538.3	24%	76%	0%	1%	99%
17	2010	North Sumatra	MEMR	447027	Power Plants and Transmission North Sumatra , Aceh	2136	Power Plants and Transmission Unit	185.5	100%	0%	0%	0%	100%
18	2010	North Sumatra	MEMR	447115	Rural Electrification North Sumatra	2137	Rural Electrification	13.8	100%	0%	0%	0%	100%
19	2010	North Sumatra	MOT	449463	Airport of Medan Baru	2270	Development of Urban Settlement Area	1,035.3	100%	0%	0%	0%	100%
20	2010	North Sumatra	MOT	467303	Railways Development North Sumatra	2225	Improvement of Railways and Its Infrastructures	100.8	100%	0%	0%	1%	100%
21	2010	North Sumatra	MOT	521438	Port Office Tanjung Tiram	2245	Port Development	2.6	100%	0%	21%	15%	64%
22	2010	North Sumatra	MPW	471157	Preservation of Road and Bridge Province of North Sumatra	4326	Rehabilitation of National Road	232.5	100%	0%	1%	27%	72%

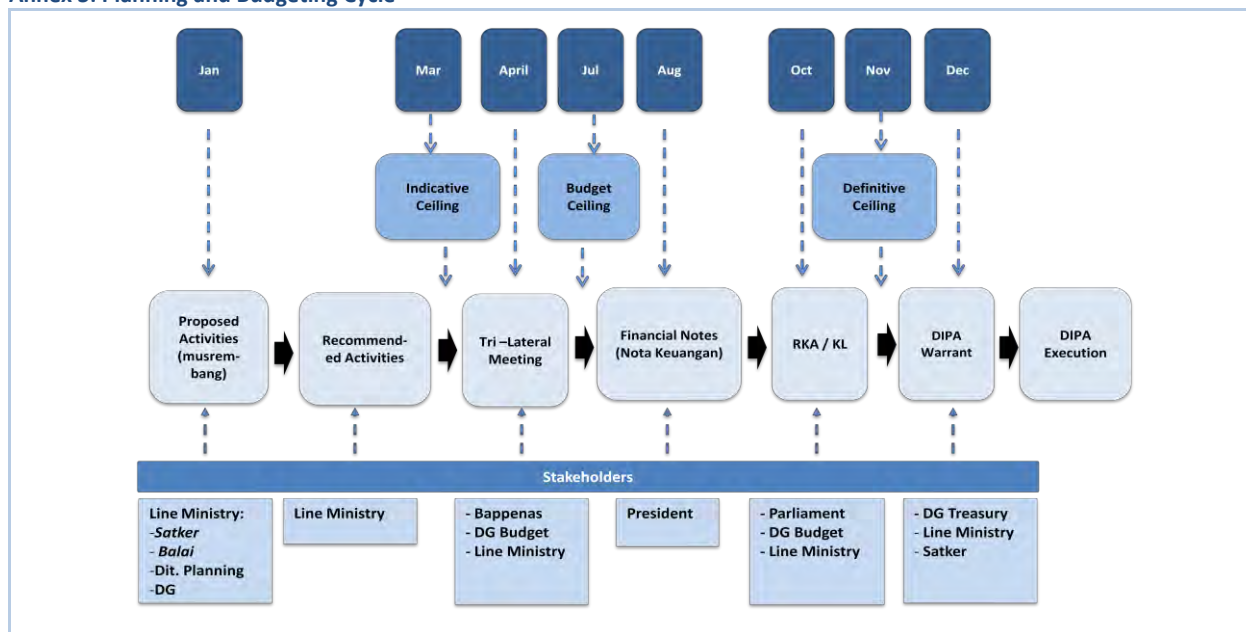
23	2010	North Sumatra	MPW	498021	Water Resources Management Sumatera II Province of North Sumatra	4422	Development and Improvement of Irrigation Network	251.8	36%	64%	0%	1%	99%
24	2011	North Sumatra	MEMR	447027	Power Plants and Transmission North Sumatra , Aceh	2136	Power Plants and Transmission Unit	720.2	100%	0%	0%	0%	100%
25	2011	North Sumatra	MOT	449463	Airport of Medan Baru	2270	Development of Urban Settlement Area	300.0	100%	0%	0%	1%	99%
26	2011	North Sumatra	MPW	471157	SNVU National Road Development Area II Province of North Sumatra	4326	Rehabilitation of National Road	241.6	100%	0%	0%	21%	79%
27	2010	South Sulawesi	MEMR	447058	Power Plants and Transmission North Sulawesi Maluku Papua	2136	Power Plants and Transmission Unit	340.9	100%	0%	0%	0%	100%
28	2010	South Sulawesi	MEMR	447265	Rural Electrification South Sulawesi	2137	Rural Electrification	30.8	100%	0%	0%	0%	100%
29	2010	South Sulawesi	MOT	465575	Hasanuddin Airport	2271	Development and Improvement of Airport	54.0	100%	0%	0%	2%	98%
30	2010	South Sulawesi	MPW	488275	Preservation and Construction of Road and Bridge Metropolitan Makassar	4326	Rehabilitation of National Road	63.6	100%	0%	1%	9%	91%
31	2010	South Sulawesi	MPW	498304	SNVU For Development of Water Resources Network Pompengan-Jeneberang	4417	Rehabilitation of Dam, Basin, and other Water Reservoirs	409.5	49%	51%	0%	1%	99%
32	2011	South Sulawesi	MEMR	447058	Power Plants and Transmission North Sulawesi Maluku Papua	2136	Power Plants and Transmission Unit	1,663.1	100%	0%	0%	0%	100%
33	2011	South Sulawesi	MEMR	447265	Rural Electrification South Sulawesi	2137	Rural Electrification	163.4	100%	0%	0%	0%	100%
34	2011	South Sulawesi	MOT	465575	Hasanuddin Airport Authority of Makassar	2271	Development and Improvement of Airport	21.2	100%	0%	12%	26%	61%
35	2011	South Sulawesi	MPW	488275	SNVU For National Road Development Metropolitan Makassar	4326	Rehabilitation of National Road	66.6	100%	0%	1%	16%	84%
36	2011	South Sulawesi	MPW	498304	SNVU For Development of Water Resources Network Pompengan-Jeneberang	4417	Rehabilitation of Dam, Basin, and other Water Reservoirs	247.3	73%	27%	0%	1%	99%

Note: MEMR = Ministry of Energy and Mineral Resource, MOT = Ministry of Transportation, MMPW = Ministry of Public Works

Annex 2: Sample DIPA based on Project Classification

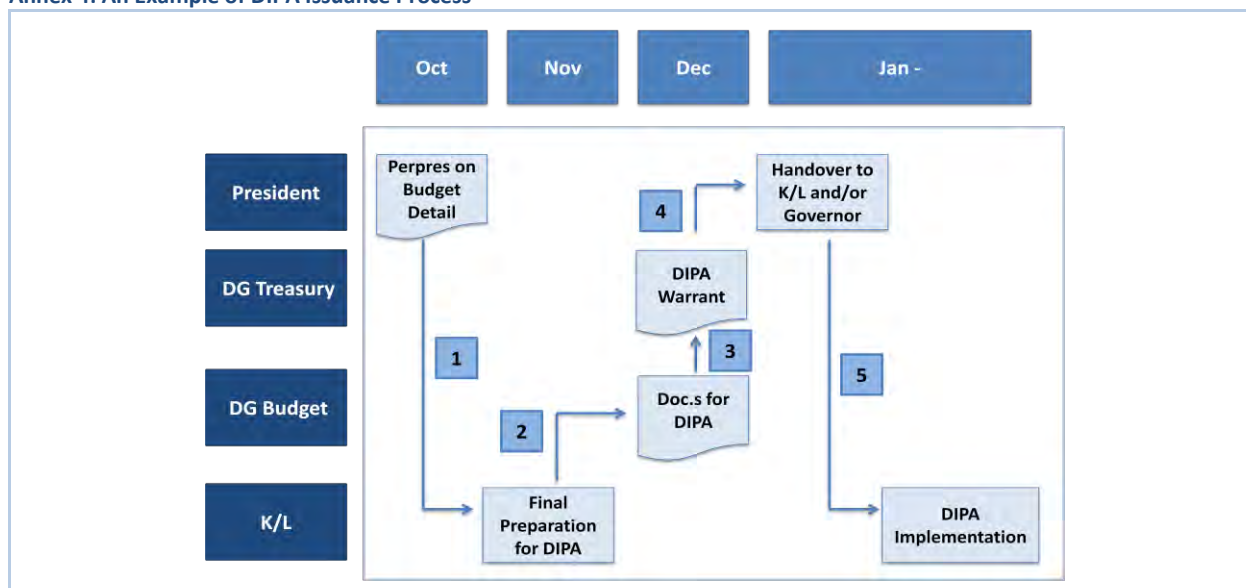
Nature of Project		Length of Project		
		Single Year Project		Multi Year Project
		Operation and Maintenance (non-construction)	Construction	Construction
Source of Funds	Domestic revenue (<i>Rupiah Murni</i> - RM)	<ol style="list-style-type: none"> 1. Road and Bridge Preservation of Metropolitan Jakarta (482300) – FY 2010 2. Directorate General of Electricity and Renewable Energy (412565) – FY 2010 3. Preservation of Road and Bridge Province of North Sumatra (471157) – FY 2010 4. Railways Development North Sumatra (467303) – FY 2010 5. Local Office-Delegation of Highway Construction and Maintenance West Java Province (026219) - FY 2010 6. Preservation and Construction of Road and Bridge Metropolitan Makassar (488275) – FY 2010 7. Preservation and Construction of Road and Bridge Metropolitan Bandung (495565) – FY 2010 	<ol style="list-style-type: none"> 1. Development of Double Track Tanah Abang – Serpong (445589) – FY 2010 2. Rural Electrification North Sumatra (447115) – FY 2010 3. Port Office Tanjung Tiram (521438) – FY 2010 4. Rural Electrification West Java (447064)- FY 2010 5. Hasanuddin Aiport Authority of Makassar (465672) – FY 2011 6. SNVU for Development of National Road Metropolitan Makassar (488275) – FY 2011 7. Rural Electrification South Sulawesi (447265) – FY 2010 and FY 2011 	<ol style="list-style-type: none"> 1. Power Plants and Transmission North Sumatera, Aceh (447027) – FY 2010 & 2011 2. Airport of Medan Baru (449463) – FY 2010 & 2011 3. SNVU Development of Nasional Road Area II Province of North Sumatra (498577) – FY 2011 4. Power Plants and Transmission Sulawesi Maluku Papua (447058) – FY 2010 & 2011 5. Hasanuddin Airport (465575) – FY 2010
	Mix		<ol style="list-style-type: none"> 1. Water Resources Management Sumatra II Province of North Sumatra (498021) – FY 2010 2. Special Non Vertical Unit for Control and Utilization Water Resources Citarum West Java Province (498134) – FY 2010 	<ol style="list-style-type: none"> 1. Development of Double Double Track (467453) – FY 2010 & 2011 2. SNVU for Development of Water Resources Network Ciliwung – Cisadane (498128) – FY 2010 & 2011 3. Development of Northern Line in Java Railway (467365) – FY 2010 4. SNVU for Jatigede Dam Developmet Project (498366) – FY 2010 & 2011 5. SNVU for Development of Water Resources Network Pompengan – Jeneberang (498304) – FY 2010 & 2011 6. SNVU for National Road Development Metropolitan Bandung (495565) – FY 2011
	Loan			<ol style="list-style-type: none"> 1. Development of Tanjung Priok Port – Jakarta (439381) – FY 2010

Annex 3: Planning and Budgeting Cycle



Source: PP 20 on government work plan and PP 90/2010 on formulation of work plan and budgeting of line ministry revision of PP 21/2004 and LPEM-FEUI analysis.

Annex 4: An Example of DIPA Issuance Process



Source: PP 20 on government work plan and PP 90/2010 on formulation of work plan and budgeting of line ministry revision of PP 21/2004 and LPEM-FEUI analysis.

Notes:

1. After the President issues the Presidential Regulation on Budget Detail (RKA-KL) in October, K/L will conduct final preparation to complete DIPA requirements.
2. All the necessary documents for DIPA will be submitted to DG Budget, who will verify the completeness of DIPA requirements (TOR, details budget, feasibility study, etc). If the documents are complete, the documents are ready to be signed by DG Budget. However, if the documents are not complete, DG Budget will put mark (Bintang) to the DIPA, which indicates that DIPA is approved with conditional and can only be implemented after the required documents are complete.
3. After being verified by DG Budget, DIPAs are submitted to DG Treasury to be issued before 31 December.
4. Officially, DIPA will be handed over by President to K/L or Governor.
5. Line ministries (K/Ls), through Secretary General Office, will deliver the documents to their respected Satkers. Head of Satker will send proposal for Satker's personnel to be approved by the Minister. Once the appointment letter of Satker's personnel received, Satkers can start implementation by preparing or revising the POK (term of reference) or completing the required documents for "blocked" DIPA.

Annex 5: Sample of DIPA (Budget Warrant)

KEMENTERIAN KEUANGAN REPUBLIK INDONESIA
LAMPIRAN : 1 (SATU) SET DAFTAR ISIAN PELAKSANAAN ANGGARAN (HALAMAN I S.D.IV)

**SURAT PENGESAHAN DAFTAR ISIAN PELAKSANAAN ANGGARAN
TAHUN ANGGARAN 2011
NOMOR : 0433/022-03.1.01/01/2011**

A. Dasar :

- UU No. 17 Tahun 2003 tentang Keuangan Negara
- UU No. 1 Tahun 2004 tentang Pembendaharaan Negara
- UU NO. 10 Tahun 2010 tentang APBN TA 2011
- Keputusan Presiden No.26 Tahun 2010 tentang Rincian ABPP dan SPRKAKL No. STAP-022.03.06-0/AG/2011
- Dasar lain

B. Dengan ini disahkan Alokasi Anggaran :

1. Kementerian Negara / Lembaga : (022) KEMENTERIAN PERHUBUNGAN
2. Unit Organisasi : (03) DITJEN PERHUBUNGAN DARAT
3. Provinsi : (06) NANGROE ACEH DARUSSALAM
4. Kode>Nama Satker : (466612) PENGEMBANGAN LLAJ NANGROE ACEH DARUSSALAM

Sebesar : Rp.34.244.136.000 (**TIGA PULUH EMPAT MILYAR DUA RATUS EMPAT PULUH EMPAT JUTA SERATUS TIGA PULUH ENAM RIBU RUPIAH**)

Untuk fungsi sub fungsi dan kegiatan-kegiatan sebagai berikut :

Kode dan Nama Fungsi dan Sub Fungsi :
04 EKONOMI
04.08 TRANSPORTASI
Kode dan Nama Program dan Kegiatan :
022.03.06 Program Pengelolaan dan Penyelenggaraan Transportasi Darat
022.03.06.1951 Pembangunan dan Pengelolaan Prasarana dan Fasilitas Lalu Lintas Angkutan Jalan

Rp 34.244.136.000
Rp 34.244.136.000

Output	Target Kinerja	Jumlah	Sumber Dana	Blokir	Kantor Bayar
1951.01 Layanan Perkantoran Bidang LLAJ	12.00 Bulan	378.875.000	RM		(001) KPPN Banda Aceh
1951.02 Pengadaan dan Pemasangan Fasilitas Keselamatan LLAJ	1.000,00 Unit	17.533.500.000	RM		(001) KPPN Banda Aceh
1951.03 Penataan Manajemen Rekayasa Lalu Lintas	1.00 Paket	616.500.000	RM		(001) KPPN Banda Aceh
1951.04 Pembangunan Terminal Angkutan Penumpang	1.00 Kegiatan	13.254.409.000	RM	12.004.409.000	(001) KPPN Banda Aceh
1951.12 Subsidi Operasional Angkutan Jalan	1.00 Kegiatan	905.602.000	RM		(001) KPPN Banda Aceh
		1.000.000.000	PNP		
1951.43 Sosialisasi dan Promosi Bidang LLAJ		505.250.000	RM		(001) KPPN Banda Aceh
1951.45 Pengembangan Sistem Informasi dan komunikasi LLAJ		50.000.000	RM		(001) KPPN Banda Aceh
T O T A L		33.244.136.000	RM	12.004.409.000	(001) KPPN Banda Aceh
		1.000.000.000	PNP		

E. Surat Pengesahan ini berlaku sebagai dasar pencairan / pengesahan bagi Bendahara Umum Negara / Kuasa Bendahara Umum Negara.
Tanggung jawab terhadap penetapan dan perhitungan biaya serta penggunaan dana yang tertuang dalam DIPA sepenuhnya berada pada Pengguna Anggaran/Kuasa Pengguna Anggaran.
Setiap pejabat dilarang melakukan tindakan yang berakibat pengeluaran atas beban APBN jika anggaran untuk membiayai pengeluaran tersebut tidak tersedia atau tidak cukup tersedia.

F. DIPA ini berlaku sejak tanggal 1 Januari 2011 sampai dengan 31 Desember 2011

Banda Aceh, 20 Desember 2010
A.N. MENTERI KEUANGAN R.I.
KEPALA KANWIL DITJEN PERBENDAHARAAN PROV.NAD

AGUS SANTOSO
NIP. 195504121975071001

Source: DIPA, Ministry of Transportation

Annex 6: Sample of POK (Budget Details)

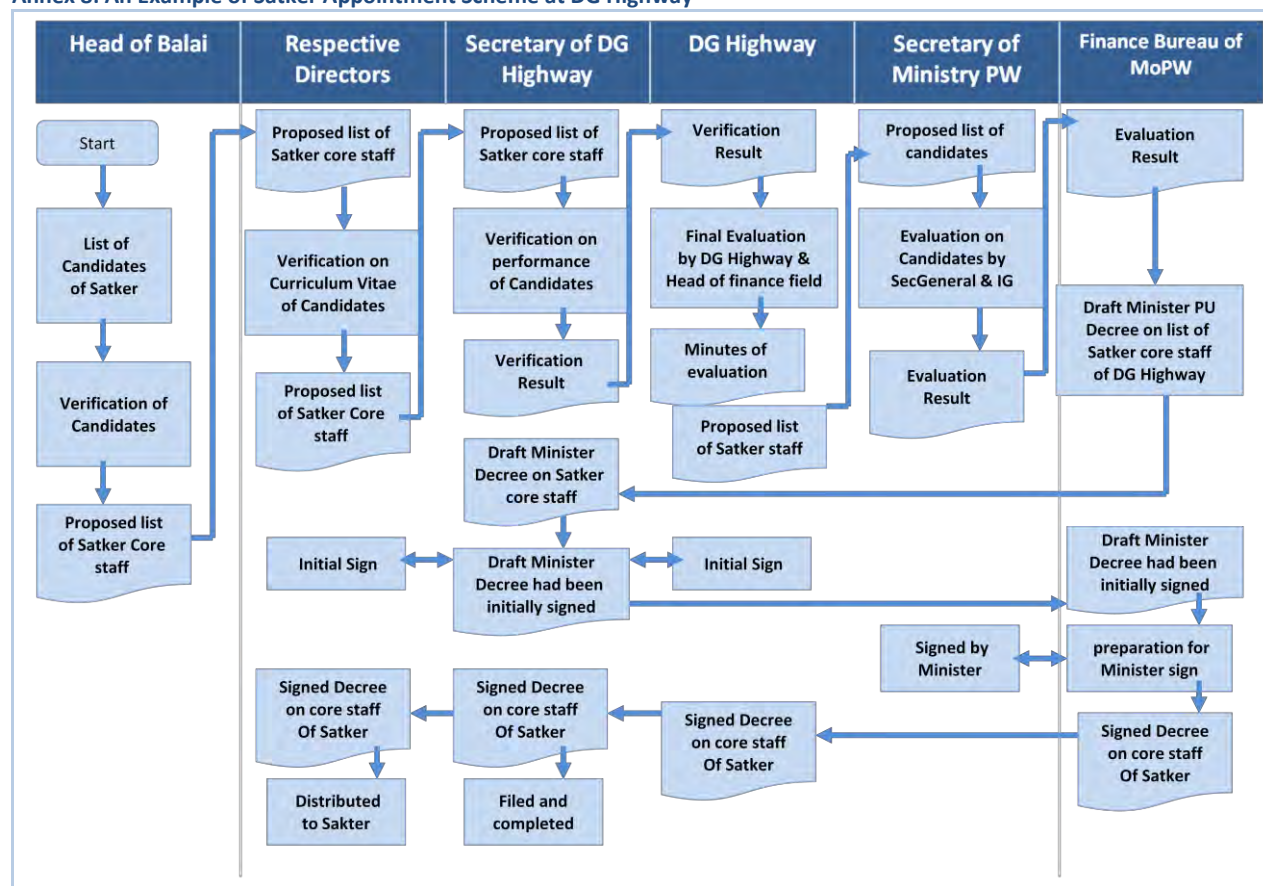
Index of sample

Source: POK Double Double Track, Ministry of Transportation

Annex 7: The Procedure of Bintang (blockedDIPA) based on Regulation

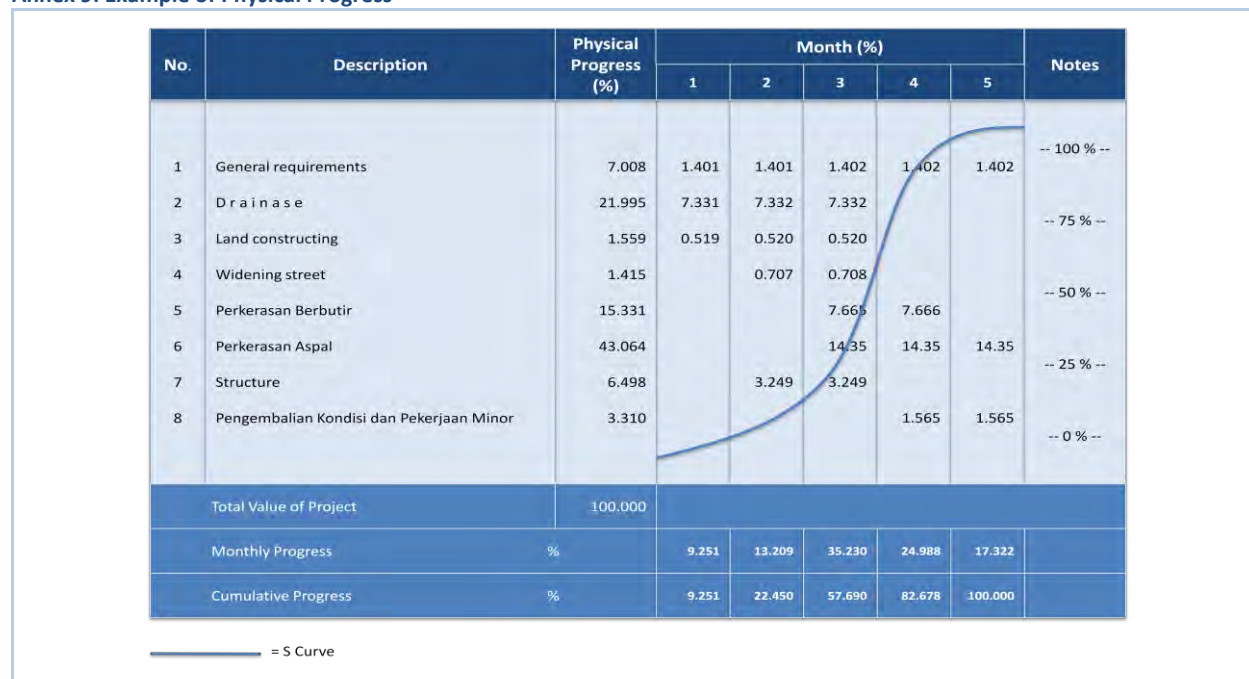
No.	Description	Reason of Blocked DIPA	Activities and/or Documents Needed to Remove Blocked DIPA	Respected Institution for Approval	Estimate Time Needed
1	Incomplete documents	<ul style="list-style-type: none"> TOR Design Price Escalation Budget Multiyear warrant 	<ul style="list-style-type: none"> Discussion with Planning Consultant Discussion with BPKP Discussion with DG Budget Submit required documents Submit revised POK 	DG Budget, MoF	More 1 month
2	New activities	<ul style="list-style-type: none"> Proposed by Parliament on Definitive Budget Proposed by Parliament on APBN-P (change of national budget) 	<ul style="list-style-type: none"> Completing required documents (TOR, price escalation, design, budget, etc.) Discussion with DG Budget Submit required documents Submit revised POK 	DG Budget, MoF	More 3 month
3	Unclear source of funds	Especially DIPA funded by loan, while the loan has not been registered at DG Debt Management (Pengelolaan Utang)	<ul style="list-style-type: none"> Discussion with DG Pengelolaan Utang Discussion with DG Budget Submit required documents Submit revised POK 	DG Budget, MoF	Unclear, depends on the loan agreement
4	Incomplete land acquisition	Not 100% land clearance	<ul style="list-style-type: none"> Progressing land acquisition (discussion with local government unit, society, etc.) Discussion with DG Budget Submit documents Submit revised POK 	DG Budget, MoF	Unclear, depends on varied local/ national conditions

Source: PMK no. 49/2011 and Perdirjenperben No. 22/2011

Annex 8: An Example of Satker Appointment Scheme at DG Highway

Source: MMPW Regulation and analyzed by the World Bank

Annex 9: Example of Physical Progress



Source: LPEM-FEUI's calculation

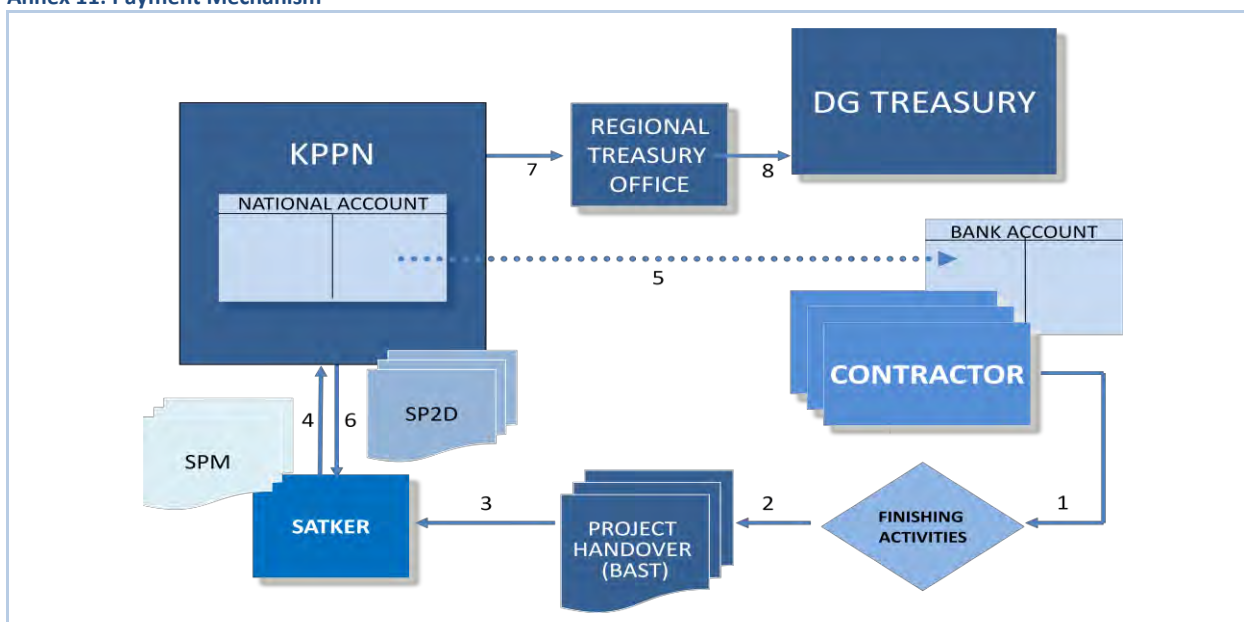
Annex 10: DIPA Revision Process

No	Type of Revision	Reasons of Revision	Activities and/or Documents Needed	Respected Institution for Approval	Estimate Time Needed
1	Revision of inputs	<ul style="list-style-type: none"> shifting Input for operational expense; shifting Input in one output as long as it does not to add new honorarium amount and components and at the same economic classification; shifting Input among different outputs in one activity and within one economic classification 	<ul style="list-style-type: none"> Spending Unit as KPA revise RKA-SATKER based on their authority Submitted document to DG Treasury: <ul style="list-style-type: none"> RKA-SATKER POK (activity operating guideline) Draft revised DIPA (if changes) Output documents: <ul style="list-style-type: none"> Revised POK Revised and ratified DIPA 	Satker/K/L authority	Less than 3 days
2	Revision of activities	Typo error Re-allocation of values within activities	<ul style="list-style-type: none"> Spending Unit as KPA submits proposal to DG Treasury Submitted document: <ul style="list-style-type: none"> Budget revision proposal RKA-SATKER Draft revised DIPA Output documents: <ul style="list-style-type: none"> Revised and ratified DIPA 	DG Treasury	Less than 1 week
3	Revision of output	Typo error on the name of activity, or Local Treasury Office, source of funds Receive additional budget (budget optimization) Change of Satker personnel	<ul style="list-style-type: none"> K/L (Echelon 1 as KPA) submits proposal to MOF (c.q. DG Budget) Submitted documents: <ul style="list-style-type: none"> Budget revision proposal RKA-KL RKA-SATKER Latest revised DIPAs (Multiple) Output documents: <ul style="list-style-type: none"> S/P RKA-KL (detailed per spending units) DRA (daftar revisi anggaran/ list of budget revision) revised and ratified DIPA 	DG Budget, MoF	Within 1 month

4	Revision of program /national priorities	Change of master plan that revise national priority	<ul style="list-style-type: none"> • K/L (Echelon 1 as KPA) submits proposal to MOF (c.q. DG Budget) • Submitted documents: <ul style="list-style-type: none"> • Budget revision proposal • RKA-KL • RKA-SATKER • Latest revised DIPAs (Multiple) • Output documents: <ul style="list-style-type: none"> • S/P RKA-KL (detailed per spending units) • DRA (daftar revisi anggaran/ list of budget revision) • revised and ratified DIPA 	3 level of reviewer and approval: DG Budget/ Finance Minister and Parliament	Within 2-3 month
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Source: PMK No. 49/2011 and Perdirjenperben No. 22/2011

Annex 11: Payment Mechanism



Source: PMK No. 170/2010

Notes:

1. Contractor finishes the progress and/or project;
2. Within 5 days, Contractor should prepare all required documents in order to claim the payment: (i) progress report (BA/BAST), (ii) invoices, and (iii) summary contract;
3. Those required documents should be submitted to Satker within 5 days after finishing progress/project,
4. PPK in Satker will check the required documents. If documents are not correct or incomplete, PPK should return those documents to Contractor within 2 days after receiving. If documents are correct and complete, within 5 days PPK will transfer all documents to PP SPM in Satker. PP SPM will check the required documents. If documents are not correct or incomplete, PP SPM should return those documents to PPK within 2 days after receiving. If documents are correct and complete, within 5 days after receiving documents, PP SPM will issue SPM. KPA should submit SPM to KPPN within 2 days after SPM is issued.
5. KPPN will check SPM received from KPA (Satker). Within 2 days after all required documents are submitted, KPPN will transfer the payment to Contractor's account.
6. At the same time, KPPN will issue SPD2 to Satker that informed that payment has been made.
7. KPPN will update data on payment to Regional Treasury Office, and
8. Regional Treasury Office will update data to DG Treasury.

Annex 12: Positive Initiatives Conducted by Stakeholders to Accelerate DIPA Implementation

No	Institution	Initiatives	Objective(s)	Notes
1	State Owned Electricity Company (PLN)	MOUs with LKPP and KPK to have close assistantships during the procurement process	To avoid any mistake/ disagreement on procurement process to accelerate DIPA implementation	Efforts conducted to remove blocked DIPA usually take long time; as a result <i>Satker</i> has very limited time to implement DIPA. Procurement should be conducted immediately and without any mistake. Therefore, assistantship from LKPP and KPK are most needed
		MOU with BPKP to have close assistantship during the procurement process for determining price escalation	To avoid any mistake/ disagreement in price escalation to accelerate DIPA implementation	<i>Satker</i> should submit a new price (<i>Harga Perkiraan Sendiri -- HPS</i>) legalized by BPKP if the price escalation stated on DIPA is different with the actual price during the procurement.
		An agreement with DG Budget and DG Treasury to utilize unrealized DIPA 2010 (quarter II and III) to be implemented in quarter I and II of fiscal year 2011	To optimize DIPA 2010 since the process of removing blocked DIPA 2010 has not finished until August 2010	In 2010, activities of quarter II and III could not be implemented during that year since there was no settlement on the effort of removing blocked DIPA.
		Close discussion on procedures and documents needed with DG Budget staff before submitting POK revision	To avoid long, bureaucratic systems in revising POK at DG Budget which will impede DIPA implementation	Many proposed and revised activities and limited number of staff in DG Budget has influenced delay on POK revision. Therefore, <i>Satker</i> should be very specific and precise in preparing documents to be submitted in order to avoid any delay.
2	Ministry of Public Works	Binding clause for early procurement before DIPA issuance.	To avoid claim by contractor if value of DIPA issuance is different with value tendered	It is common that value of DIPA issued is different with the value of DIPA proposed by <i>Satker</i> .
		Allocated funds for additional and emergency activities	To avoid re-arrangement of activities and re-allocation of budget, if there is new activity proposed at last minutes	It is common that activities (and values) of DIPA issuance can be different with activities and values proposed by <i>Satker</i> . New activity proposed by Parliament on October will crowd out values of activity proposed by <i>Satker</i> /line Ministry
3	Satker of the State Owned Electricity Company (PLN)	<ul style="list-style-type: none"> <i>Satker</i> Rural Electrification socializes the importance of grid electricity and persuades local people to grant their land to build the electricity pole or electrical sub-station. Produce legal document which show cooperation of local people in this activity by granting their land to be utilized by PLN 	To avoid conflict in term of land availability between <i>Satker</i> PLN and local people.	As local people only receive " <i>upah tebang</i> " as their compensation from rural electrification activity, many are not satisfied and can set conflict with <i>Satker</i> which will impede the progress of activities.
		PLN has established its own server at procurement unit (ULP) at headquarter office, hence, the procurement proceed smoothly	To anticipate low capacity at local level which may cause traffic overload during the e-procurement process	In order to follow <i>Perpres</i> No. 54/2010 that procurement should be conducted with e-proc.
4	<i>Satker</i> Preservation Road and Bridge - Medan	<i>Satker</i> Preservation Road and Bridge in Medan sends a text reminder (sms) to vendors to encourage them sending their invoices periodically on time.	To avoid disbursement at the end of the budget year	One reason of late disbursement is that Contractors are not used to file or document their daily progress regularly. As a result, much works should be done in order to prepare their claim documents. Finally, Contractors tend to postpone their claims and disbursement is packed at the end of the budget year
5	Regional Treasury	<i>Kanwil</i> DJPB West Java applies	To speed up DIPA revision	<i>Satker</i> has to finalize budget revision before

No	Institution	Initiatives	Objective(s)	Notes
	Office – West Java	new software for checking the old and new POK on DIPA revision.	at <i>Kanwil</i> level. It will save two days compared to manual checking	starting to execute DIPA. The sooner the POK can be finalized and submitted to <i>Kanwil</i> , the sooner <i>Satker</i> can execute DIPA
6	Regional Treasury Office – South Sulawesi	Intensification of the socialization of PMK No. 170 / 2010 on warning from KPA to vendor	To speed up the payment request from Contractor.	Contractors used to be late in filing their claim documents. As a result, disbursement is packed at the end of the budget year
7	Treasury Office – Sumedang	KPPN Sumedang has introduced SMS center to communicate with all <i>Satkers</i> so <i>Satker</i> could inform the request of cash at least 3 days prior document submission	To speed up budget disbursement.	This is very easy to be implemented, as there is no requirement for particular application and or skill as required by AFS.
8	Treasury Office – Makassar	KPPN Makassar 1 has upgraded its application software to speed up the process of disbursement and to minimize human errors	To speed up budget disbursement.	
9	Treasury Office – Medan	KPPN in North Sumatera has introduced reward system i.e. “ <i>Satker</i> of the month” could submit SPM without queuing if they have good performance on payment request (cash planning, on time and completed documents)	To speed up budget disbursement.	

Source: *Satkers* and KPPN Offices, analyzed by LPEM-FEUI