Improving Expenditure Management for Better Quality of Spending

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<th>Brief overview of achievement and present stage of development</th>
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Overview of achievement and present stage of development
Indonesia has made commendable progress in many aspects of public financial management (PFM) over the past 20 years. Nevertheless, systemic constraints on expenditure management in achieving high-quality spending are still observed in all sectors and need to be addressed in order to achieve better outcomes.
Areas of strength in PFM

Much improved legal and regulatory frameworks have been established for PFM

Strong fiscal discipline has come about through better budget formulation, a clear fiscal and debt-management strategy, and fiscal rules on the annual budget deficit

Expenditure control systems – the roll out of financial management information system in particular – have improved considerably and financial reporting has been strengthened
However, there remain some weak links to be strengthened to direct money to priorities and results.

Program design, intervention logic, standardized Chart of Accounts ensure adequate accountability for performance.

1. Plan-linked MTEF provides predictable multi-year ceilings to LMs
2. National priorities in the plan aligned with budget
3. Money follows programs
4. Tools to challenge LMs’ requests based on performance & spending reviews
5. Tools to improve performance of SNGs

Financial, output & outcome data informs resource allocation decisions & feedback.
The identified challenges
Indonesia has a well-developed planning framework that provides strategic direction for medium-term development, but this has not yet been adequately integrated with the budget planning process, creating challenges to meet the performance result. Some of the challenges are:
Complex relationship between planning and budgeting

There are large deviations between Renstra (line ministry medium-term strategy) and the annual budget (APBN), suggesting that there are:

- Weaknesses in costing underpinning original planning, and/or
- The outcome targets are unlikely to be met

Examples: DG Water Resources (MPWH), MoH, and MoF
Operational disconnect on “money follows program” approach

Different program definitions under planning and budgeting document

Priority Programs under Health National Priority in Government Work Plan 2018
Matched
- Priority Program for disease prevention and control
Not matched
- Priority Program for Promotive and Preventive Strengthening of the "Community Movement for Healthy" Living
- Priority Program for improving maternal and child health

Programs under Ministry of Health in State Budget (APBN) 2018
Matched
- Disease Prevention and Control Program
Not matched
- Community Health Development Program
- Health Service Development Program
- Program for Management Support and Implementation of Other Technical Tasks of the Ministry of Health
- Pharmaceuticals and Medical Equipment Program
- Health Research and Development Program
- Health Human Resources Development and Empowerment Program
- National Health Insurance Implementation Strengthening Program
- Program for Improving the Monitoring and Accountability of Apparatus of the Ministry of Health
## Poor intervention logic

Line ministries (i.e MoH and MoEC) have limited control in achieving their performance targets - many targets such as nutrition and maternal health depend on services delivered by LGs., where the input and intervention are not fully under their control.

Outputs are currently determined at the discretion of line ministries and often look like inputs.

<table>
<thead>
<tr>
<th>Ministry</th>
<th>Program</th>
<th>Outcome</th>
<th>Activity</th>
<th>Output</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ministry of Health</td>
<td>Nutrition and Maternal Child Health Program</td>
<td>1. % of Birth in Health Facilities</td>
<td>Health Operational Grant (BOK)</td>
<td>1. % of Community Health Centres receiving Health Operational Grant</td>
</tr>
<tr>
<td>DG of Community Health</td>
<td>Ministry of Health</td>
<td>2. % of Pregnant Women with Chronic Energy Deficiency</td>
<td>Secretariat General for Nutrition and Maternal and Child Health</td>
<td><strong>Ministry of Health</strong></td>
</tr>
<tr>
<td>Community Nutrition Improvement Development</td>
<td>Ministry of Health</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Directorate for Nutrition Development</td>
<td>Local Government</td>
<td>2. % of early initiation of breastfeeding</td>
<td></td>
<td></td>
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<tr>
<td>Other activities</td>
<td><strong>Activity level Indicators 3-23</strong></td>
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Applying the results chain to the Nutrition and Maternal and Child Health Program
Lack of reliable and good quality data constrains efficient and effective resource allocation

There are severe data gaps - what doesn’t get measured doesn’t get managed

Indonesia follows international standards (COFOG) in classifying Central Government spending; however, subnational governments follow ‘Urusans.’ Both need to be harmonized to have a consolidated general government account.

→ cannot easily track detailed infrastructure, human capital or other classification of expenditure at aggregate national level.

Data related with performance information is fragmented across multiple departments of same Ministry; not shared across Ministries and agencies

→ different definitions, lack of quality assurance; difficult to design and monitor objective performance and criteria of incentives
Recommendations to improve PFM in Indonesia
There are five priority areas for PFM improvements that could raise the quality and effectiveness of government spending and where changes may be most needed and could be most effective.
First, strengthen medium-term perspective in planning and budgeting and challenge function

01 Issue indicative budget ceilings for two years following budget year to each line ministry

02 Line ministries to submit its estimates of MTEF only at a strategic level

03 Conduct frequent spending reviews to ensure continuous improvement in policy design and implementation

Indicates Fiscal Space, including possible scope for “New Spending”
Second, MOF and BAPPENAS need to work together better

Improve business processes and using common program coding and budget classification structure to fully implement Performance-based Budgeting.

Roll out the SAKTI to all spending units (Satkers) of line ministries.

Achieve seamless data exchange and interoperability between:
- Krisna and SAKTI: reduce gap between plan and budget allocations
- eMonev and SMART KL systems: align outputs with planned outcomes
- OM-SPAN and Krisna: report progress to Planning

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Planning | Budget | Execution | Monitoring & Evaluation

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1. KRISNA
2. SAKTI (Budgeting Module)
3. SPAN
4. OM SPAN (Reporting Module)

API’s

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Indonesia Public Expenditure Review 2020
## Third, money should follow program

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<tbody>
<tr>
<td>01</td>
<td>Improved compliance of budget tagging of expenditure and outputs by Line Ministries in FMIS for measuring results achieved under national priority programs.</td>
<td>02</td>
<td>Improve APBN Transparency and Accountability by tracking allocation, expenditure, and results, including of COVID-19. by launching a i) Mobile App to provide access on government expenditure information to external general public, and ii) Digital Dashboard to provide real-time information for improved decision making by internal government officials.</td>
</tr>
</tbody>
</table>
Fourth, strengthen implementation of “Intervention Logic”
concept in program or performance design

01
Define intervention logic at two levels:
- Whole-of-government level including CG and SNGs
- Simpler results chain where intermediate outcomes are more proximate to the ministry itself, and for which it is reasonable to hold its managers accountable

02
Improve budget challenge function by strengthening quality control on intervention logic designed by LMs

03
Strengthen managerial linkages between policy objectives, programs, activities and outputs by providing capacity building on overall implementation of intervention logic process
### Fifth, improve data collection, harmonization and standardization

<table>
<thead>
<tr>
<th>Central</th>
<th>Inputs (fiscal data)</th>
<th>Outputs</th>
<th>Outcomes</th>
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<tbody>
<tr>
<td>• Include Capital Project ID in SPAN data structure</td>
<td>• Establish common definition and data structure of outputs, at least in the key sectors (health, housing)</td>
<td>• Better integrate performance information monitoring systems, linking outcomes with outputs.</td>
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<tr>
<td>• Better define <strong>programs &amp; activities</strong> by detaching them from organizational structure</td>
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</table>
Thank you!
Terima kasih!

For further information please visit:

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