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Report No: ICR00006421

IMPLEMENTATION COMPLETION AND RESULTS REPORT

IBRD LOAN NUMBER 9384-ID

ON A

LOAN

IN THE AMOUNT OF US$750 MILLION

TO THE

REPUBLIC OF INDONESIA

FOR THE

INDONESIA FISCAL REFORM DEVELOPMENT POLICY LOAN (P177726)

Macroeconomics, Trade And Investment Global Practice
East Asia And Pacific Region

CURRENCY EQUIVALENTS

(Exchange Rate Effective, November 29, 2022)

Currency Unit =	Indonesia Rupiah (IDR)
US$ 1 =	IDR 15,743

FISCAL YEAR
July 1 - June 30

Regional Vice President:	Manuela V. Ferro
Country Director:	Carolyn Tuck
Regional Director:	Lalita M. Moorty
Practice Manager:	Lars Christian Moller
Task Team Leader(s):	Ralph Van Doorn, Arun Arya, Jaffar Al Rikabi, Rong Qian
ICR Main Contributor:	Indira Maulani Hapsari, Alief Aulia Rezza

ABBREVIATIONS AND ACRONYMS

ASA	Advisory Services and Analytics
BAPPENAS	Ministry of National Development Planning
CCDR	Country Climate Development Report
DAU	*Dana Alokasi Umum* (General Allocation Grant)
DG Tax	Directorate General of Tax
DPL	Development Policy Loan
ETS	Emission Trading System
GDP	Gross Domestic Product
ICR	Implementation Completion and Results
KL	*Kementrian dan Lembaga* (Line Ministries)
LGST	Luxury-Goods Sales Tax
MoF	Ministry of Finance
NDC	Nationally Determined Contributions
PA	Prior Action
PDO	Program Development Objectives
PIT	Personal Income Tax
PSO	Public Service Obligation
SINERGIS	Strengthening Intergovernmental Transfers and Subnational Finance for Service Delivery in Indonesia
SNG	Subnational Government
THL	Tax Harmonization Law
VAT	Value Added Tax

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DATA SHEET

BASIC INFORMATION

Product Information

Project ID	Program Name
P177726	Indonesia Fiscal Reform Development Policy Loan
Country	Financing Instrument
Indonesia	Development Policy Lending

DPF Options

Programmatic	Regular Deferred Drawdown Option	Catastrophic Deferred Drawdown Option
No	No	No
Crisis or Post Conflict	Sub-National Lending	Special Development Policy Lending
No	No	No

Organizations

Borrower	Implementing Agency
Ministry of Finance	Ministry of National Development Planning (Bappenas), Ministry of Finance

Program Development Objective (PDO)

Program Development Objective (PDO)

The objectives of this operation are to increase tax revenue and improve equity of the tax system, and to strengthen institutions for planning and budgeting, and fiscal transfers.

PROGRAM FINANCING DATA (USD)

	Approved Amount	Actual Disbursed
World Bank Administered Financing		

IBRD-93840	750,000,000	752,919,940
Total	**750,000,000**	**752,919,940**

KEY DATES

Concept Review	Decision Review	Approval	Effectiveness	Original Closing	Actual Closing
15-Dec-2021	25-Mar-2022	17-Jun-2022	05-Dec-2022	30-Jun-2023	30-Jun-2023

RATINGS SUMMARY

Program Performance

Overall Outcome	Relevance of Prior Actions	Achievement of Objectives (Efficacy)
Moderately Satisfactory	Satisfactory	Moderately Satisfactory

Bank Performance

Satisfactory

RATINGS OF PROJECT PERFORMANCE IN ISRs

No.	Date ISR Archived	DO Rating	IP Rating	Actual Disbursements (US$M)

SECTORS AND THEMES

Sectors

Major Sector/Sector	(%)	Mitigation Co-benefits (%)	Adaptation Co-benefits (%)
Public Administration	**100**	**18.66**	**0.00**
Central Government (Central Agencies)	83	2	0
Other Public Administration	17	100	0

Themes

Major Theme/ Theme (Level 2)/ Theme (Level 3)	(%)

Economic Policy	**67**
Fiscal Policy	67
Tax policy	50
Subnational Fiscal Policies	17
Public Sector Management	**50**
Public Finance Management	50
Public Expenditure Management	33
Domestic Revenue Administration	17
Human Development and Gender	**17**
Gender	17
Environment and Natural Resource Management	**18**
Climate change	18
Mitigation	18
Energy	17
Energy Efficiency	17

ACCOUNTABILITY AND DECISION MAKING

Role	At Approval	At ICR
Regional Vice President:	Manuela V. Ferro	Manuela V. Ferro
Country Director:	Satu Kristiina Jyrintytar Kahkonen	Carolyn Turk
Director:	Hassan Zaman	Lalita M. Moorty
Practice Manager:	Lars Christian Moller	Lars Christian Moller
Task Team Leader(s):	Ralph Van Doorn	Rong Qian, Arun Arya, Jaffar Al Rikabi

I. PROGRAM CONTEXT AND DEVELOPMENT OBJECTIVES

A. Context at Appraisal

Context

1. **The preparation of the DPO was initiated as Indonesia was recovering from the pandemic in 2022.** GDP growth rebounded from -2.1 percent in 2020 to 3.7 percent in 2021 (**Table 1**), supported by public consumption and exports. Concurrently, the COVID vaccine rollout reached critical mass, with 60.4 percent of the population fully vaccinated by early 2022. A gradual reopening of the economy spurred economic recovery across most sectors. Despite this progress, a significant negative output gap has persisted. Bank Indonesia maintained an accommodative monetary policy at the time.

2. **Russia's invasion of Ukraine impacted Indonesia through global commodity and financial markets.** Prices of top export commodities such as coal and palm oil soared, contributing to a current account surplus in 2022 (1 percent of GDP). At the same time, rising commodity prices led to inflation in fuel and food prices. Government policies aimed at curbing consumer prices for electricity and transport fuel posed risks of escalating fiscal pressures. Sovereign credit risk saw a slight increase, but sound macroeconomic fundamentals provided policy space to counter limited shocks (moderate external financing needs, robust foreign exchange reserves, low government debt levels).

3. **The government temporarily suspended its fiscal deficit limit during COVID, but was able to consolidate quickly thanks to broad-based increase in revenues**. Spending increased strongly with the implementation of a COVID fiscal package focusing on health, social assistance, and firm support. However, a recovery in revenues led to a narrowing of the fiscal deficit in 2021. Revenues were driven by larger-than-expected value-added tax (VAT), tobacco excise, trade tax and non-tax revenues. The tax-to-GDP ratio was nevertheless still 2.7 percentage points of GDP below pre-pandemic levels as of September 2021. After peaking at 6.1 percent of GDP in 2020, the fiscal deficit narrowed to 4.6 percent of GDP in 2021 (**Table 1**).

4. **The COVID pandemic exacerbated the country's human capital and infrastructure gaps.** In the two decades preceding the pandemic, the country made progress in poverty reduction, with poverty rates declining from 19.1 percent in 2000 to 9.4 percent in 2019 (national poverty line) while life expectancy increased from 66 to 69 years. However, the pandemic reversed some of these gains, with poverty rising to 10.1 percent in 2021. Human capital outcomes were already lower than those of peer countries, and school closures further reduced learning outcomes. Reallocation of infrastructure spending to respond to the crisis has led to delays in infrastructure projects.

Table 1. Key Macroeconomic Indicators and Projections at DPO Approval

	2019	2020	2021	2022	2023	2024	2025
	Actual		Est.	Projections at Project Approval			
Real economy							
Real GDP (% change)	5.0	-2.1	3.7	5.1	5.3	5.3	5.3
Consumer Price Inflation (CPI) (year-average, %)	2.8	2.0	1.6	2.7	3.1	3.3	3.3
Fiscal accounts, central government, percent of GDP							

Revenues	12.4	10.7	11.8	12.4	12.1	12.1	12.5
of which Tax Revenue	9.8	8.3	9.1	9.9	9.8	10.0	10.5
Expenditures	14.6	16.8	16.4	16.1	15.1	15.1	15.5
Primary Balance	-0.5	-4.1	-2.6	-1.5	-0.6	-0.5	-0.4
Fiscal Balance	-2.2	-6.1	-4.6	-3.7	-3.0	-3.0	-3.0
Central Government Debt	30.2	39.3	40.7	42.9	43.2	43.4	43.8
Balance of Payments, percent of GDP unless indicated otherwise							
Current Account Balance	-2.7	-0.4	0.3	-0.9	-1.4	-1.9	-2.3
Exports, Goods and Services	17.9	16.8	20.8	22.1	21.7	21.7	21.6
Imports, Goods and Services	-18.3	-15.1	-18.4	-20.5	-20.8	-21.2	-21.7
Net Foreign Direct Investment	1.8	1.3	1.4	1.6	1.8	1.9	1.9
Gross Reserves (months of imports of goods and services)	9.7	7.5	7.1	7.5	7.6	7.6	7.2
Memorandum items							
Nominal GDP (IDR trillion)	15,832	15,434	16,971	17,843	19,186	20,557	21,878
Per Capita GDP (US$)	3,877	3,757	3,856	...	...	...	...
Nominal GDP (US$ billion)	1,119	1,058	1,186	...	...	...	...

Note: the fiscal numbers are World Bank projections as of December 2021 during the time of the DPO Approval
Source: Ministry of Finance, BI, World Bank staff projections.

5. **Low and volatile fiscal revenues present challenges in closing these gaps and financing development.** Central government revenue collection (tax and non-tax) has been low and declining from 17.2 percent of GDP in 2001 to 12.4 percent in 2019. Although more than 80 percent of total revenues come from taxes, a significant share comes from natural resources revenue, which are exposed to the risk of fluctuating commodity prices. General government revenues were 12 percent of GDP in 2020, less than half the emerging market average of 27 percent of GDP. Moreover, taxes amounted to just 9.1 percent of GDP in 2021, well below the estimated tax potential of around 16 percent of GDP. A narrow tax base due to high tax thresholds, exemptions, and low health, wealth and environmental taxes contributed to the tax gap.

6. **Indonesia also faces challenges in the level and efficiency of government spending.** Spending averaged around 15 percent of GDP during 2015-2019, below the emerging market average of 35 percent of GDP. Moreover, spending on priority sectors has been low and there were challenges in the accuracy and timeliness of the release of central government financial statements. It was also difficult to issue multi-year procurement contracts, and budget execution was backloaded. The government, however, has been able to reduce energy subsidies, from over three percent of GDP to less than one percent of GDP over the past decade. Despite this, subsidies remained a significant share of the budget and suffered from poor targeting.

7. **Indonesia's low-carbon transition is challenged by policies that incentivize fossil fuel consumption, though efforts are underway to address these.** Incentives are driven by low taxation of, and subsidies for, fossil fuels. Support for fossil fuels as a share of tax revenue in Indonesia has declined, with a sharp drop in 2015. This drop was driven by ambitious transport fuel subsidy reform in 2014-2015. Subsidies benefit better-off households because they are more significant fuel consumers than the poor. In the power sector, electricity tariffs are set below cost recovery under a Public Service Obligation (PSO) arrangement. Approximately 45 percent of the PSO is used to subsidize households that do not fall within the database for poor and vulnerable households. The

government has recently adjusted fuel and electricity prices, as well as introduced carbon pricing to tackle these challenges.

8. **Reforms supported under this DPO aimed to support Indonesia's low carbon transition, in addition to creating more fiscal space.** Besides taxing emissions through the introduction of a carbon tax, the operation also supported reducing price distortion that favored fossil fuels by phasing out VAT exemptions on mining and drilling products, including oil and gas. This is important given Indonesia has substantial financing needs to meet its Nationally Determined Contributions (NDCs). Further reforms to improve the efficiency and implementation of climate-related spending will improve climate mitigation and adaptation efforts.

9. **The government has pursued ambitious structural reforms to attract more investment and increase government revenues.** Between 2020 and 2022, the government issued several important laws to support priority reforms: the Omnibus Law on Job Creation 11 of 2020, the Tax Harmonization Law 7 of 2021 (THL), the Law on Intergovernmental Finance 1 of 2022. Meanwhile, the Financial Sector Omnibus Law was being prepared during the preparation of this DPL and was approved in 2023. The Tax Harmonization Law (THL) and the Law on Intergovernmental Transfers represent two major reforms that reflect the various TAs provided by the Bank in early years.[1] These laws were pivotal, providing the basis for four out of the six Policy Actions (PAs) supported by the DPF with the operations commencing only after the approval of both laws.

10. **The proposed DPL series supported the National Medium-Term Development Plan 2020-2024 and aligned with government's climate commitments in its National Determined Contributions (NDCs).** The objective of Pillar 1 of the DPL, to increase tax revenue and improve equity of the tax system, is aligned with MoF Policy Directions (1), sound and sustainable fiscal management, and (2), optimum state revenues. The objective of Pillar 2 of the DPL, to strengthen institutions for planning and budgeting, and fiscal transfers, is aligned with MoF Policy Direction (3), management of quality state expenditures. Furthermore, prior actions in both pillars support Indonesia's efforts to mobilize resources more effectively towards mitigation and adaptation actions in line with its 2030 climate commitments.

11. **The operation is designed as a single operation for three reasons.** First, a single operation was considered as instrument that works best to validate policy reforms in Indonesia, as discussed by the Board on May 2021, after extensive engagement with the government. Second, the window of opportunity for reforms was closing due to the run-up to the 2024 election. Processing a second DPL based on the previous DPL might be too close to election and risking the sustainability of the operation. Third, several politically sensitive prior actions (related to the Income Tax Law, Value-Added Tax Law, and the Fiscal Decentralization Law) risk a change in the policy matrix for series DPL. This follows a lesson learned from the DPL series is that the preparation of DPLs should start after key legislation has been approved by parliament, so that the operations can focus on supporting the implementation. Therefore, the preparation of the proposed operation of the 2022 DPL started after parliament had approved the Tax Harmonization Law (THL) and the Law on Intergovernmental Finance 1 of 2022 in late 2021.[2]

12. **Sustained public dialogue and engagement from the Bank with the Government on fiscal reforms have also contributed the release of the THL and the Law on Intergovernmental Transfers.** Four prior actions included in

[1] See Para 56
[2] The THL supported by this DPL was approved well ahead of the 2024 presidential and parliamentary elections, while its provisions will be introduced gradually over the course of 2022 and later to reduce any potential negative impact the reforms may have on the recovery from the pandemic.

both laws had strong analytical underpinnings by the Bank together with the government, which was established on the long-standing engagement by the Bank to the government, particularly MoF and the Ministry of Planning (Bappenas). The Bank has supported the government in providing various technical assistance and advice on these reforms, including the just-in time analysis on the distributional impact of the VAT rate increase.

13. **During the preparation of the operation, the team received broadly positive feedback from the government on the proposed design of the DPL.** The team discussed with officials in a series of meetings the key features of the operation and proposed reform actions. The team received suggestions to also consider alternative reform actions. The officials provided more details about the reforms including their objectives and expected results. They also provided the expected timelines for issuing the implementing regulations.

14. **Indonesia's macroeconomic fundamentals during the preparation of the DPL were sound despite the challenging global environment**. Indonesia's direct exposure to Russia and Ukraine is limited, although increasing energy and food prices have led to higher inflation and food and fuel subsidies. Fiscal and monetary policies continued to support a nascent recovery from COVID, whilst avoiding over expansion that could have created major external imbalances. The authorities were committed to keeping the central bank's financing of the fiscal deficit time-bound (ending in 2022) and to maintaining monetary and exchange rate policy credibility. Tax reforms were in line with the authorities' commitment to returning to the 3 percent of GDP fiscal deficit ceiling.

Original Program Development Objective(s) (PDO) (as approved)

15. The objectives of this operation are to increase tax revenue and improve equity of the tax system, and to strengthen institutions for planning and budgeting, and fiscal transfers.

Original Policy Areas/Pillars Supported by the Program (as approved)

16. The stand-alone DPL supported two pillars:

   1. **Pillar 1: Increase Tax Revenue and Improve Equity of the Tax System**
      To support the PDO, prior actions in Pillar 1 specifically aim to increase VAT revenue and improve its efficiency, increase personal income tax revenue from high-income earning individuals and limit greenhouse gas emissions through the introduction of carbon tax.

   2. **Pillar 2: Strengthen Institutions for Planning and Budgeting, and Fiscal Transfers**
      To support the PDO, prior actions in Pillar 2 specifically aim to allocate fund transfers more equitably across subnational entities, increase spending efficiency and effectiveness through strengthened link between planning and budgeting, and improve its budget execution.

B. Significant Changes During Implementation

None.

II. ASSESSMENT OF KEY PROGRAM DESIGN AND OUTCOMES

Prior Actions	**Results Indicators (original and revised)**
PILLAR 1: Increase Tax Revenue and Improve Equity of the Tax System	
Prior Action 1: To increase VAT revenue and improve its efficiency, the Borrower has (a) increased the statutory VAT rate (effective from April 1, 2022) to 11 percent, and (b) adopted a legal framework to remove the statutory VAT exemption status of several goods and services, including those for mining and drilling products taken directly from their sources, as evidenced by the Tax Harmonization Law 7/2021.	Result Indicator 1: Achieved Value -Added Tax and Luxury Goods Sales Tax revenue (percent of GDP). *Baseline (2021): 3.2 percent* *Target (year) (2023): ≥ 3.4 percent* *Current status (2023): 3.7 percent*
Prior Action 2: To increase personal income tax revenue from high income earning individuals, the Borrower has added a new personal income tax bracket for individuals with annual incomes higher than five billion Indonesian Rupiah, as evidenced by the Tax Harmonization Law 7/ 2021.	Result Indicator 2: Achieved Personal Income Tax revenue collected from individuals with income over five billion Indonesian Rupiah as a share of total PIT revenue. *Baseline (2020): 15.9 percent* *Target (2023): 18.0* *Current status (2022): 18.8 percent*
Prior Action 3: To limit greenhouse gas emissions, the Borrower has introduced a carbon tax regime initially applicable to the coal-fired power plants sector, as evidenced by the Tax Harmonization Law 7/2021	Result Indicator 3: Not Achieved Percent of total emissions from grid connected coal powerplants that is accounted for by powerplants that are subject to a carbon tax. *Baseline (2020): 0 percent* *Target (2023): 75 percent* *Current status (2023): 0 percent (carbon tax is not applied yet)*
PILLAR 2: Strengthen Institutions for Planning and Budgeting, and Fiscal Transfers	
Prior Action 4: To allocate fund transfers more equitably across subnational entities, the Borrower has adopted a legal framework for allocating the General Allocation Fund based on the per unit fiscal needs and potential revenues of subnational governments, as evidenced by the Law Concerning Financial Relationship Between the Central Government and Subnational Governments No. 1/2022.	Result Indicator 4: Achieved Ratio of national median revenues per capita over the most populous district quintile. *Baseline (2020): 2.07* *Target (2023): 2.02* *Current status (2022): 2.02*

Prior Action 5: To increase spending efficiency and effectiveness, the Borrower, through BAPPENAS and the MOF jointly, has provided the guidelines for strengthening the link between planning and budgeting, as evidenced by the Joint Letter No. S-122/MK.2/2020 and B 517/M.PPN/D.8/PP.04.03/05/2020 jointly issued by BAPPENAS and the MOF.	Result Indicator 5: **Achieved** Number of programs in the budget. *Baseline (2020): > 600* *Target (2023): < 120* *Current status (2023): 102*
Prior Action 6: To improve its budget execution, the Borrower, through BAPPENAS and the MOF jointly, has directed the budget allocating ministry or institution to consolidate the spending units that are regional/vertical offices or regional government offices/work units, in each case, receiving budget allocations from different Echelon I units but within the same ministry or institution, as evidenced by the Joint Letter No. S-353/MK.02/2021 and B.301/M.PPN/D.8/PP.04.02/04/2022 jointly issued by BAPPENAS and the MOF.	Result Indicator 6: **Not Achieved** Number of spending units in districts and cities (percent share of 2021). *Baseline (2021): 100 percent* *Target (2023): 54 percent*[3] *Current status (2023): 80 percent*

A. Relevance of prior actions

Rating: Satisfactory

17. **Nearly all the prior actions had a strong and direct link to the achievement of the PDOs**. The PAs were designed to increase tax revenues and improve equity of the tax system, as well as to strengthen institutions for planning and budgeting and fiscal transfers. All PAs had strong analytical underpinnings, which were comprehensively elaborated in Table 6 of Section 4.2 of the Project Document. The PDO itself was appropriately expressed at a feasible level, in a way that it was not too general but also not overly detailed (specific revenue components for example). This was given the strength of the underlying PAs and was highly relevant to country priorities and World Bank Group strategy. PA3, however, appeared to have a more subtle linkage to the PDO. This is primarily because the introduction of a carbon tax is unlikely to be a major source of revenue, at least in the short term. However, the tax base for the carbon tax is large and the rate could be increased as stated in the law. Eventually, the policy which initially aimed to support the transition to a low-carbon economy, could generate substantial revenue in the medium-to long term.

18. **The PAs complemented each other to achieve the PDO, though the impact of some is likely to occur beyond the life of the operation**. The reform actions under Pillar 1 complemented each other by focusing on increasing tax revenues, particularly value-added and luxury goods and sales taxes, as well as new sources of tax revenues

[3] The dates are based on the year when the budget implementation document (DPIA) with the number of spending units is issued (e.g., late 2023) and will apply to the following fiscal year (e.g., 2024).

from the carbon tax. Despite the potential impact of the rate hike on increased prices and lower consumption, the commodity windfall effect that raises household incomes somewhat offsets the lower demand due to higher prices, resulting in higher VAT collection. The PAs also aimed to make the tax system more progressive and equitable by imposing a new higher tax for top income bracket or ultra-high-net-worth individuals (UHNWIs). These reforms contributed to the first part of the PDO. While both PA1 and PA2 have seen impacts on the increase of revenues, PA3 will likely have an impact beyond the life of the DPO as the implementation of the carbon tax is new for Indonesia and it will take some time to be fully implemented. The reforms under Pillar 2 were designed to strengthen institutions for planning and budgeting. The prior actions included reforming the General Allocation Grant (DAU) formula to be more equitable, streamlining the number of programs in the budget, and consolidating budget units to improve execution and coordination between planning and budgeting. However, the full implementation of DAU reformulation is expected to realize in 2027 due to the 'hold harmless' period. Therefore, the impact will also be limited up to 2023. Moreover, while PA6 addresses one of the issues in budget execution, other issues are likely to persist, contributing to the low and slow execution of the capital budget.

- Pillar 1: Increase Tax Revenue and Improve Equity of the Tax System
  PA1: Increase VAT revenue and improve its efficiency

19. **This prior action had two distinct actions.** First, it increased the VAT statutory rate from 10 percent to 11 percent, effective from April 1, 2022, in accordance with Tax Harmonization Law 7/2021 (UU HPP). Second, it removed several statutory exemptions, including for goods and services associated with mining and drilling products.

20. **Increasing the VAT statutory rate**: This prior action had a direct link to the PDO. Indonesia's VAT collections are low compared to peers and have been declining for several years, falling from 4.0 percent of GDP in 2013 to 3.4 percent in 2019. This is linked to a low statutory rate and low efficiency of collection. Previously, Indonesia's VAT rate was 10 percent while the global average of VAT including the OECD countries stood at 15 percent.[4] With a 1 percentage point increase in 2022 to 11 percent, the rate remains low compared with other emerging countries, averaging between 13-16 percent; but a greater increase would have been difficult and ill-advised at a time of economic recovery from the pandemic. The increase in the statutory rate will directly increase the VAT revenues. A simulation conducted by the World Bank estimated that the VAT rate increase could boost the VAT and LGST revenues by approximately 0.3 percent of GDP in 2022 after taking into account a small negative impact on consumption.[5]

21. **Removing the statutory VAT exemption status**: The Bank has persistently recommended to the Government of Indonesia that the VAT exemption on specific products be rescinded through numerous analytical studies and engagements. These reforms have targeted the removal of certain exemptions, including for mining and drilling products, with the potential to bolster tax revenues in the long term. The 2021 THL began incorporating these products into the VAT system which were previously classified as "VAT non-taxable". The old classification exempted these products from the VAT system. This will correct tax system distortions affecting energy prices and facilitating a shift away from fossil fuel reliance. However, while a significant number of products that were

[4] Cabinet Secretariat of The Republic of Indonesia, March 2022.

[5] From the Program Document of Fiscal DPL. Estimated using a sample of data received from the Directorate General of Taxes, and using an estimated short run elasticity of -1.11 percent, which was derived from the academic literature (Alm & El-Ganainy, 2012; Miki, 2011; and Adegbite, 2018).

previously VAT-exempt have now been reclassified as 'VAT payable, they are not yet being collected'. While this new category has switched their exempt status without mandating them to pay the VAT (zero collection), it provides the Ministry of Finance with the latitude to revoke these zero-collection policy in the future if deemed appropriate. This reclassification introduces a degree of uncertainty in terms of broadening the tax base but is nonetheless positive. Businesses that once sold tax-exempt goods, and were not required to register for VAT, are now mandated to do so. This adjustment enables the Government to potentially widen the tax base, which could, in turn, enhance tax compliance monitoring in the future.

PA2: Increase personal income tax revenue from high-income earning individuals

22. **Indonesia taxable income distribution is highly skewed to the right, which is not reflected in the distribution of PIT payers as two-thirds of PIT payers are in the lowest tax brackets.** Using the tax bracket income classification, more than 99 percent of PIT payers have taxable income below IDR 5 billion (the highest tax bracket) and only less than 1 percent of the PIT payers come from highest income group of more than IDR 5 billion. However, this highest income group contributes around 12.3 percent of the total PIT collection.

23. **This prior action, which was highly relevant to the PDO, not only increased the tax revenue collection, but more importantly improved the equity of the tax system.** The PIT collection in Indonesia is low and progressive. The PIT accounted for 2.1 percent of GDP in 2022, or around 20 percent of total tax revenues, relatively low compared to other countries. This reform consists of adding a new bracket for the income group above IDR 5 billion and at the same time widening the lowest tax bracket from IDR 0-50 million to IDR 0-60 million. This will reduce the PIT burden of the lower taxable income bracket (at least two-thirds PIT payers) though the total gain and loss will create a revenue-neutral policy impact. This reduction in the PIT burden reflects improved progressivity of the PIT.

24. **The revenue gain from this reform, the new PIT bracket for the top income, is expected to be small in the short-term.** PIT payers coming from the income group above IDR 5 billion were less than 1 percent of the total PIT payers and contributed to 12.3 percent of the total PIT collections.[6] World Bank simulation results showed that the reform is expected to be likely revenue neutral in the short term as the additional revenue raised from the top income bracket will be offset by the decrease in revenue from widening the lowest tax bracket. Along with this reform, the MoF also implemented other reforms complementary to the new PIT bracket which are expected to generate higher revenues over the medium term. This consisted of (i) replacement of the Tax Identification Number with the National ID; (ii) reform of fringe benefits taxation; (iii) introduction of a new core tax IT system at the Directorate General of Tax; and (iv) expansion of Medium Taxpayer Offices for tax base expansion. While the reform is expected more to improve equity of the tax system in the short-term, it also expects to generate higher revenues over the medium-term with the estimated growth of the ultra-high net worth individuals by 67 percent in the next five years.[7]

PA3: Limit greenhouse gas emissions (GHG)

[6] Using 2017 anonymized PIT data.
[7] the 2021 Wealth Report by Knight Frank

25. **This prior action had a somewhat weaker link to the PDO in part because the carbon tax design does not target higher revenue collection per se but aims to limit the GHG emissions.** The THL included the introduction of a carbon tax to tackle greenhouse gas (GHG) emissions. The carbon tax itself is to be applied as part of a broader Emissions Trading Scheme, which has been operating initially in the power sector. The ETS has been implemented since February 2023. Companies participating in the ETS will have an initial allocation of emission permits (cap) for each reporting period. Those that emit above the cap and cannot purchase offsetting credits will have a carbon tax on the excess emission. Therefore, the carbon tax works mostly like a penalty rather than a flat levy on carbon emissions. Whilst this is an important reform in the context of Indonesia's climate commitments, the PA's impact on the PDO is likely to be very limited. Moreover, the implementation of the carbon tax has been delayed.[8]

- Pillar 2: Strengthen Institutions for Planning and Budgeting, and Fiscal Transfers

PA4: Allocate fund transfers more equitably across subnational entities

26. **This prior action had a strong link to the PDO, particularly in terms of strengthening institutions for fiscal transfers.** The government, through the Law Concerning Financial Relationship Between the Central Government and Subnational Governments No. 1/2022, reformed the framework for intergovernmental transfers. The law reforms the General Allocation Grant (Dana Alokasi Umum or DAU, which is part of the transfers to subnational government) to make it more equitable, using improved measures of fiscal needs and capacity of subnational jurisdictions. The old formula had several challenges; for example, it favored less populated districts (in 2018, the least populous 20 percent of districts received about five times more revenues per citizen than the most populous 20 percent). Moreover, fiscal capacity was measured based on actual revenues, which disincentivized SNGs to collect their own source revenues in favor of transfers.

27. **The law reformed the measurement of the SNGs fiscal needs and capacity which could strengthen fiscal incentives for SNGs.** SNGs will be encouraged to collect their own source revenues and underperforming SNGs will not be rewarded by transfers. Fiscal needs will now be measured on a per-client basis. Fiscal needs for education, for example, can be determined by multiplying the number of school-aged students (the "clients") with a per-student spending norm. Moreover, fiscal capacity will be measured based on potential revenues instead of actual revenues.

28. **These were important reforms and politically challenging reforms that help redress prior inequities.** Over 40 percent of general government spending is implemented by subnational governments, and on average, more than 40 percent of that spending is financed by DAU allocations. The reforms are based on significant analytical work that assessed the impact of different formula on the distribution of transfers. The PA therefore supports a substantive and potentially high impact reform founded on strong analytics.

PA5: Increase spending efficiency and effectiveness

29. **This prior action had relevant for the PDO component on better alignment between planning and budgeting.** The reform was implemented through the Redesign of Planning and Budgeting Systems (RSPP) reform. Through RSPP reforms, the government has restructured its planning and budget classification structures based on the

[8] Initially the THL established a carbon tax which would commence in April 2022 before being delayed to July 2022. The implementation is then delayed again to unspecified period due to challenging global economic conditions.

principle of the 'Money Follows Programs' that establishes a more programmatic classification which cuts across administrative/ organizational boundaries. A 'program' can now be aligned with multiple deputy-level officials under multiple ministries and make them accountable together for achieving a common objective based on their individual unit accountability and performance. As a result, the government is expected to reduce the number of programs since some of these programs are cross-institutions programs, implemented by multiple line ministries. These new and harmonized classifications of programs and activities are now used consistently in the annual plan and budget documents, contributing to harmonization and stronger linkages between budget expenditure and planned outcomes that supports accountability.

PA6: Improve budget execution

30. **This prior action supported the PDO component on improving the link between planning and budgeting, particularly for capital spending, though the target number of spending units is dynamic and should be carefully determined, taking into account the nature of government programs.** The government intends to improve capital budget execution by merging spending units, mostly the small ones. Such merger is also expected to improve the efficiency of budget preparation. Fragmentation of capital expenditure by spending units also serves as a binding constraint for an efficient and effective execution of capital budget since it requires coordination with many spending units. As a result, public capital spending disbursement in Indonesia has been low and slow within fiscal years.[9] Year-end bunching has been common as spending units rush to spend close to the end of the year. Moreover, from the 2019 data, there were more than 10,000 spending units, and 88 percent of these units executed a budget of less than IDR 10 billion (around USD 650,000). Large infrastructure budgets of more than IDR 100 billion were executed by less than 3 percent of the total spending units. However, the number of budget spending units should be carefully determined to avoid other issues in budget execution such as coordination issues and possibility of corruption.

31. **This PA is critical and well-coordinated with other components of the program.** It is anticipated that a reduction in the number of spending units will streamline the preparation of capital budget proposals, the procurement process, and the project implementation, resulting in reduced time and costs. Moreover, consolidating fewer programs under fewer spending units is likely to expedite the procurement process. In turn, the consolidation can enhance the efficiency of planning and budgeting, including budget execution, as targeted by the PDO.

[9] Institutional Diagnostic of Low and Slow Central Government Capital Budget Execution, World Bank (2021)

Input and Distinct Actions	Output	Outcome
Prior Action 1		
Increase of the statutory VAT rate to 11 percent Adoption of a legal framework to remove the statutory VAT exemption of several goods	Increase VAT revenues and improve its efficiency	Increased share of Value - Added Tax and Luxury Goods Sales Tax revenue (percent of GDP).
Prior Action 2		
Addition of a new personal income tax bracket for individuals with annual income higher than IDR 5 billion	Increase PIT revenues from high-income earning individuals	Increased share of personal income tax revenue collected from individuals with income ≥ 5 billion to total PIT revenue
Prior Action 3		
Introduction of a carbon tax regime initially applicable to the coal-fired power plants sector	Limit greenhouse gas emissions	Shared of total emissions from grid-connected coal powerplants that is accounted for by powerplants that are subject to a carbon tax
Prior Action 4		
Adoption of a legal framework for allocating the General Allocation Fund based on the per unit fiscal needs and potential revenues of subnational governments	Allocate fund transfers more equitably across subnational entities	Decreased ratio of national median revenues per capita over the most populous district quintile
Prior Action 5		
Introduction of guidelines for strengthening the link between planning and budgeting	Increase spending efficiency and effectiveness	Decreased number of programs in the budget
Prior Action 6		
Consolidation of the spending units that receives budget allocation from different Ech 1 units but within the same ministry or institution.	Improve budget execution	Decreased number of spending units in districts and cities

PDO
Increase tax revenue and improve equity of the tax system, and to strengthen institutions for planning and budgeting, and fiscal transfers.

B. Achievement of Objectives (Efficacy)

Rating: Moderately Satisfactory

32. **Most of the RIs were attributable to the PAs and most of the targets were set at an appropriate level, though some could be more ambitious.** The results indicators were closely attributable to the PAs, except for RI6 which partially reflects the impact of the PA, since other factors could contribute to the improvement of RI6. The reform for PA1 to increase the VAT revenue also included a removal of VAT exemptions for mining and drilling products. While no tax revenue is estimated to be collected from the removal of exemptions, this action will potentially broaden the tax base in the future. RI2 also fully captured the impact of the PA which aims to improve the progressive nature of the PIT. RI3 was attributable to the PA, though the target was not achieved. RI4 was also a practical indicator of distributional fiscal capacity between highly populated cities and the national average. RI5 represented the objective of the PA where a smaller number of programs will ease budget coordination within and across ministries and improve budget efficiency. Most of the targets were set at appropriate levels though the target for PA1 could be more ambitious, based on the two simulations that estimated the impact of the PA.

33. **Most of the targets were achieved with some shortcomings, but these unmet targets did not compromise the achievement of the overall program.** The target for PA3 is not achieved as the implementation of the reform itself is delayed due to challenging global economy and as implementing regulations are being finalized though the law has been issued and implementation period has been set. Moreover, the target for PA6 is not achieved as the pace of spending unit consolidation was slowed due to reorganization within line ministries.[10] This is despite the target that was set by the Government during the preparation of the DPO. However, there was progress on the consolidation which contributed to the strengthened institution for the budgeting, as stated in the PDO.

PA1: Increase VAT revenue and improve its efficiency

RA1: Value -Added Tax and Luxury Goods Sales Tax revenue (percent of GDP). Baseline 3.2 percent, target (2023) *≥ 3.4 percent. Current status (2023): 3.7 percent.*

34. **RI 1 demonstrated relevance and measurability with a well-established baseline though the target set could be more ambitious.** PA 1 contained two distinct actions: increasing the VAT rate and broadening the VAT base. The target for this indicator was set at 3.4 percent of GDP in 2023, or around 0.2 percent of GDP higher than the baseline in 2021. However, results from a microsimulation[11] to estimate the impact of the rate increase provide a VAT revenue gain of at least 0.4 percent of GDP, *ceteris paribus*.[12] This means the target could reach at least 3.6 percent of GDP in 2022 and higher in 2023. The revenue gain could be higher if the C-efficiency ratio[13] improved to at least the level that is equal to regional peers.[14] Therefore, simply increasing the statutory

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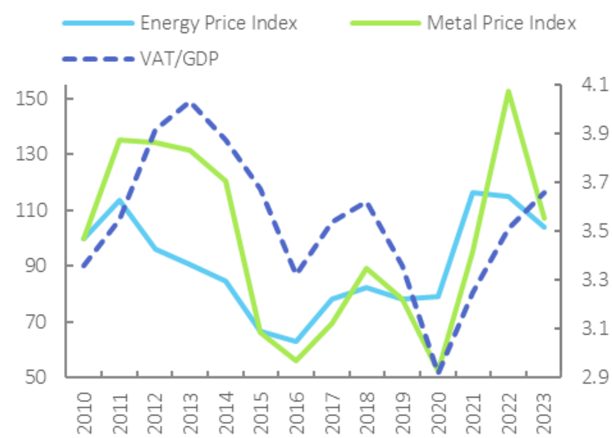
[10] Explained by the Directorate General of Budget through letter addressed to the World Bank.
[11] Assessing the VAT in Indonesia: Insights using Administrative Data, internal document
[12] Another simulation using the Fiscal Sustainability Analysis model also gave similar result.
[13] The ratio reflects the comparison between actual tax collection to what could have been obtained if the standard VAT rate is applied to all domestic final consumption.
[14] Returns from the VAT rate hike could be up to 32 percent higher on top of current gains if C-efficiency ratio is improved from 0.53 to 0.7 (average peers).

rate will only have limited impact in raising VAT collection unless complemented by a broader tax base and enhanced compliance measures.

35. **While the target set for RI 1 was met in 2023[15], this was partly attributed to economic recovery and a commodity windfalls effect.** Indonesia's VAT averaged 3.6 percent of GDP ten years before the pandemic, peaking at 4.0 percent of GDP during the end period of the 2012-2013 commodity boom (**Figure 1**). Since the implementation of the 2021 Tax Harmonization on April 2022, VAT collection rose to 3.5 percent in 2022 and continued to climb to 3.7 percent in 2023. However, 2021-2023 was a period of commodity boom when energy and metal prices climbed to record highs. Both the rate hike and commodity windfalls drove the increase of VAT collections through rising incomes, which helped to offset the increase in price from the higher VAT rate. This leads to higher collection of VAT revenues than if the VAT rate had been not increased.[16]

Figure 1. Commodity Price Index and VAT collection
(Index, 2010=100, LHS; percent of GDP, RHS)



Source: Pink Sheet and MoF; World Bank staff calculation

36. **To fully leverage the impact of increased statutory VAT rate, the reform should be complemented by policies that broaden the tax base which will improve the c-efficiency ratio.** The low and declining tax collections in Indonesia stem from several main factors. The first one is the tax policy design, characterized by low rates, high thresholds, and numerous exemptions, resulting in a narrow tax base. Tax compliance is low due to challenges of enforcement, prevalence of tax evasion, and low tax morale[17] among taxpayers. Additionally, Indonesia's economy is characterized by high informality, which excludes many businesses from the tax system. A shallow financial sector limits firms' access to formal financing, which leads to firms having to rely on retained earnings to finance business operations, incentivizing tax evasion. While raising tax rates addresses part of the needed reforms from the policy design, it must be coupled with measures to broaden the tax base and enhance compliance. Otherwise, the impact of VAT rate increases will be limited by the narrow tax base and exacerbated

[15] Unaudited budget realization figures, MoF (2023)

[16] A simulation using Fiscal Sustainability Analysis Tool (FSAT) showed that VAT collection would have increased to 3.2 percent (2022) and 3.3 percent (2023) if the VAT rate is kept unchanged at 10 percent (no hike), while holding other macroeconomic indicators at the same level with historical figures in 2022 and 2023.

[17] Tax morale is generally defined as the intrinsic motivation to pay taxes, which significantly influence the level of tax compliance as many tax systems depends on the self-reporting mechanism of incomes/revenues, OECD Library.

by low compliance. For example, in the case of Romania, despite the significant increase in the VAT rate (from 19 to 24 percent), revenue gains were limited. The gains from increased rate were offset by low VAT compliance with the C-efficiency of the VAT collection dropping by 5 percentage points after the rate increase. As a result, the VAT revenue to GDP ratio broadly stayed flat compared to the pre-hike period.

37. **The removal of certain VAT exemptions does not contribute to revenue gains in the short-term, though it has the potential to bolster tax revenues in the long term**. In the near term many of the previously exempt products are now classified as VAT payable but not collected (**Table 1**); this means that they do not need to incur tax liabilities or deduct input VAT. While these products currently do not generate additional revenues, it opens opportunity for the government to switch it to be collected. Moreover, the government can now collect data and estimate potential increases in the tax base. In the future, policy changes to regarding these temporary VAT exemptions could lead to these products generating additional revenues.

Table 1. List of VAT Exempt Goods and Services:

VAT and LGST Law 42/2009		THL 7/2021	Status
Goods			
a.	Mining and drilling products taken directly from source	Removed	Not collected except coal, which applied standard rate
b.	Staple goods of which are mostly required by people	Removed	Not collected
c.	Food and beverage of which are served in the hotel, restaurant, food shop, shop, or the similar is desired, including dine in and take out food, including food and beverage of which are presented by catering company	Stay exempted	
d.	money, gold bullion, and securities.	Stay exempted	
Services			
a.	Medical services	Removed	Not collected for services under national health insurance
b.	Social services	Removed	Not collected
c.	Courier services with stamp	Removed	Not collected
d.	Financial services	Removed	Not collected
e.	Insurance services	Removed	Not collected
f.	Religious affair services	Stay exempted	
g.	Education services	Removed	Not collected
h.	Art and Entertainment services	Stay exempted	
i.	Non advertisement broadcasting services	Removed	Not collected
j.	Land and water transportation services as well domestic air transport services of which is the integral part of the international air transport services	Removed	Not collected
k.	Employment services	Removed	Not collected
l.	Hospitality services	Stay exempted	
m.	services of which are provided by the Government in the framework of the implementation of general administration		

n.	parking services	Stay exempted	
o.	public telephone service that uses coins	Removed	Not collected
p.	remittance service by postal money order	Removed	Not collected
q.	catering services	Stay exempted	

Source: Author's compilation

PA2: Increase personal income tax revenue from high-income earning individuals.

RA2: Personal Income Tax (PIT) revenue collected from individuals with income over five billion Indonesian Rupiah as a share of total PIT revenue. *Baseline 15.9 percent, target (2023): 18.0 percent. Current Status (2022 data): 18.7 percent.*

38. **The RI for PA 2 was a relevant output indicator and attributable to PA 2 and adequately measure the impact of the PA.** The 2021 THL implemented a reform for PIT by introducing a new tax bracket for the highest group of taxable income, those above IDR 5 billion annually, with a corresponding 35 percent tax rate. This entails a 5-percentage point rate (from a previously 30 percent) increase for that income group, with the aim of boosting PIT revenue collection from this segment Concurrently, the government also extended the taxable income range for the lowest tax bracket (5 percent) from IDR 0 – 50 million to IDR 0 – 60 million annually. The target set for this result indicator is realistic, comparable to a simulation conducted by the World Bank using social economic survey data, though the baseline and target was set using actual PIT collection (administrative data). It is estimated from the simulation that there is a 1.35 percentage point (from 12.3 to 13.7 percent or l10.6 percent) increase in the PIT contribution from the high-income group (**Figure 2**). Using the same impact magnitude on administrative data, the policy impact will increase the PIT contribution from high-income group from 16 percent to 17.7 percent.

39. **However, a more comprehensive historical dataset on RI could be beneficial to better assess the impact of the reforms.** Although the PIT collected from individuals earning over five billion Indonesian Rupiah has increased as a proportion of total PIT revenue, this level was nearly achieved even in 2017. Variations in PIT revenue shares by income group might also result from structural shifts in overall population income levels, such as general increases in average income. Therefore, an extensive historical dataset is essential to meticulously discern changes in the average RI without policy interventions, thus isolating changes in the share of PIT revenue collected from the highest income group that are directly attributable to policy impacts.

40. **The target for RI2 was achieved in 2022, ahead of the 2023 target year.** The share of PIT revenue from the highest income group rose from 15.7 percent in 2020 (baseline) to 18.7 percent in 2022, surpassing the target of RI2 of 18 percent in 2023. The share of PIT revenue from the highest group of income also reached the peak in the last 5 years. Despite the reform, the proportion of PIT payers from this income bracket remained relatively stable, from 0.03 to 0.04 percent of total PIT payers, and there has been no evidence of the behavioral change of taxpayers[18] (**Table 2**). The increase in the PIT revenue to GDP has so far been marginal. Despite increasing to 2.12 percent of GDP in 2022 from 1.99 percent in 2020 (baseline year), it remained below the pre-pandemic (2015-2019) average of 2.36 percent (**Figure 3**). In the short term, it is estimated that gains from the additional tax bracket were offset by revenue losses from the broader taxable income range of the lowest

[18] Interview with the authorities suggested that there has been no evidence that taxpayers are reporting less of their income, to evade tax due to the introduction of the new tax bracket.

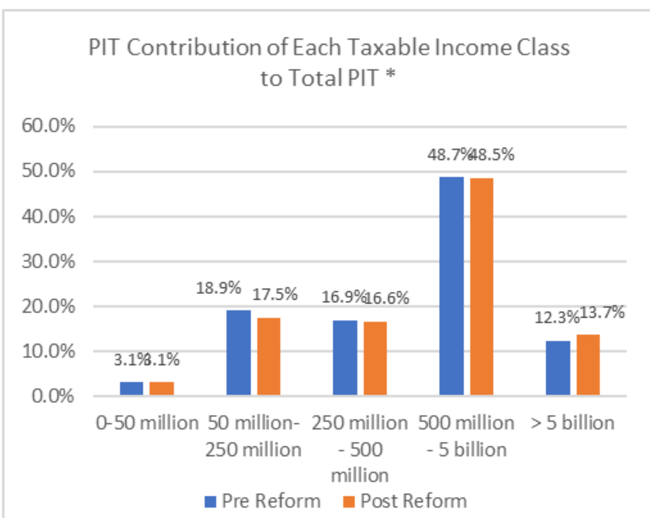
tax bracket. Over time, with effective tax enforcement, Indonesia's ultra-high net worth individuals are projected to grow by 67 percent, potentially leading to higher PIT revenues, particularly from the highest income group, in the medium term.

Table 2. Share of PIT Revenue and Payers by Group of Income

Income Group (IDR)	Share of PIT Revenue by Group of Income						Share of PIT Payers by Group of Income					
	2017	2018	2019	2020	2021	2022	2017	2018	2019	2020	2021	2022
0-60 million	3.9	3.9	5.5	4	3.9	3.2	88.71	87.51	86.55	88.09	87.86	85.87
60-250 million	14.7	15.2	15	15.9	16.3	13.8	8.03	8.97	9.66	8.63	8.76	10.07
250-500 million	14.3	14.4	14.3	15	15.1	14.1	1.88	2.04	2.19	1.91	1.96	2.32
500 million - 5 billion	49.6	49.1	48.6	49.4	48.7	50.3	1.35	1.45	1.56	1.33	1.39	1.69
above 5 billion	17.6	17.4	16.6	15.7	16	18.7	0.03	0.04	0.04	0.03	0.03	0.04

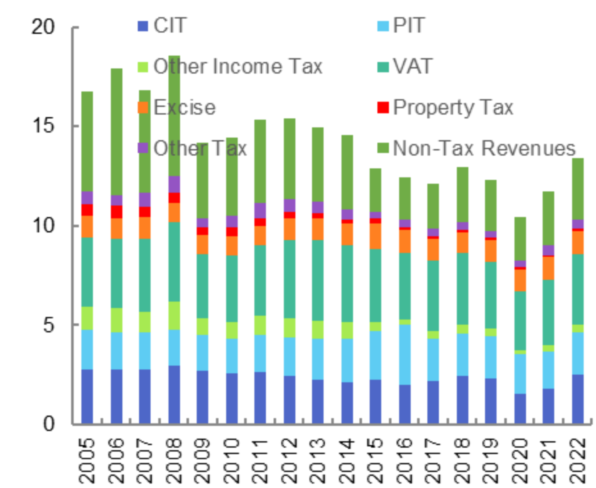
Source: DG Tax, MoF (not available for public)

Figure 2. Simulation result of the additional income bracket for the highest income group using social economic survey data
(PIT contribution of Each Taxable Income Class to Total PIT)



Source: Ministry of Finance, World Bank staff calculation

Figure 3. Revenues to GDP by type of revenue
(percent to GDP)



Source: Susenas March 2017, World Bank staff calculations
Note: Total PIT refers to the pre reform total PIT

PA3: Limit greenhouse gas emissions

RI3: Percent of total emissions from grid connected coal powerplants that is accounted for by powerplants that are subject to a carbon tax. Baseline 0 percent. Target: 75 percent (2023). Current Status: 0 percent.

41. **RI3 was a relevant indicator and measurable, and the target was realistic with appropriate assumptions regarding expected emissions.** The purpose of the RI was to determine the size of the tax base subject to carbon

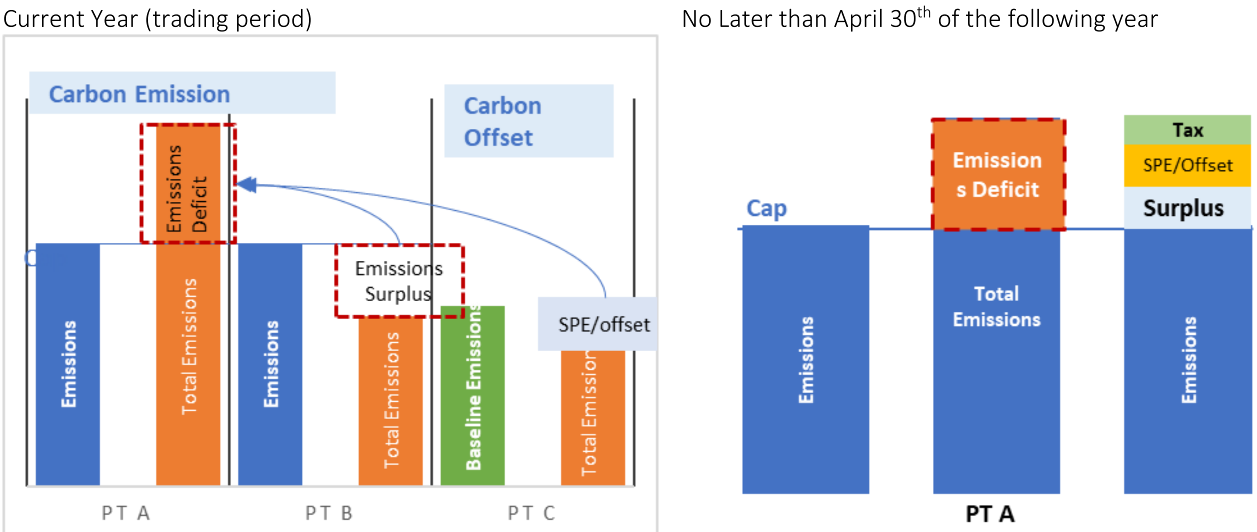
taxation under the reform supported by the PA. The carbon tax was expected to work alongside an Emissions Trading System (ETS) for the power sector. Under the ETS emitters are given an emission cap for each reporting period. Entities emitting beyond their cap (deficit) must purchase additional permits from those emitting below the cap (surplus) or acquire emission reduction certificates (SPE/carbon offsets).[19] If an entity emits above the cap and cannot acquire emission reduction certificates, then they can either obtain carbon offsets or be subjected to the carbon tax for the excess emission (**Figure 4**). The RI was measurable and well defined with clear data source, directly linked to the PA. The target was set at an appropriate level based on a simulation conducted jointly with the government. Emissions were estimated based on the installed capacity of coal-fired power plants, with at least the larger plants subject to this tax. The coal-generated grid capacity is still assumed to reach the PLN electricity provision plan (RUPTL) by 2023. Moreover, it is assumed that 40.5 percent of the electricity generation would come from large-carbon emitting power plants, based on the historical data. It is expected that the carbon tax will elevate the cost of emissions, discouraging power plants from exceeding their caps and ultimately reducing emissions.

42. **The target for the RI was not achieved as the implementation of the carbon tax has been delayed**.[20] Despite enacting a law on carbon tax introduction in 2021, the government postponed implementation.[21] However, implementing regulations have been prepared, reaffirming its commitment to this instrument. The government cited challenging global economic conditions, including high inflation and commodity prices, as factors contributing to the delay. Carbon taxation will increase the price of carbon, thereby raising production input costs and consequently impacting product prices for emitters, leading to broader economic implications.

43. **However, another indicator could reflect a policy reform in limiting the carbon emissions which was supposed to work in tandem with the carbon tax, namely the Emissions Trading Scheme (ETS).** The ETS is a non-fiscal carbon pricing instrument that, if implemented broadly and effectively, can significantly expand the disincentives to GHG emissions across the Indonesian economy.[22] The pilot ETS became operational in 2021, with mandatory participation since February 2023, covering approximately 80 percent of GHG emissions from coal-fired grid-connected power plants.[23,24] In tandem, the government launched the Indonesia Carbon Exchange (IDXCarbon) in September 2023 to facilitate this emissions trading system. The ETS, therefore, is designed to implement a cap-trade-and-tax system, where emission deficits could be offset through carbon tax credits up to a specific limit, with the remainder paid through carbon taxation (**Figure 4**).

[19] Namely the cap-and-trade mechanism
[20] https://www.pajakku.com/read/634fc1a2b577d80e8007d08e/Pajak-Karbon-Ditunda-Lagi-Hingga-2025-Mengapa
[21] https://amro-asia.org/cap-first-and-then-tax-carbon-pricing-in-indonesia/
[22] Green Economic Growth in Indonesia, A background paper to Indonesia CCDR, World Bank (2023)
[23] Ibid.
[24] Currently, 99 coal fired power plants are participating, representing 86 percent of Indonesia's power generation capacity (Kemenko, 2024)

Figure 4. Mechanism of the Emissions Trading System (ETS)



Source: Coordinating Ministry of Economic Affairs, Carbon Pricing Implementations in Indonesia, 2024

44. **The initially proposed carbon tax rate was very low and estimated to have small revenue impact and emission reduction in the short term, but the policy is an important step towards reducing GHG emissions**. The carbon tax will be imposed on coal-related emissions generated by coal-fired power plants but will not tax most of Indonesia's coal production. About 80 percent of its coal is exported, and companies will avoid the tax on exports.[25] Most of the remainder will be consumed domestically within the power sector. Moreover, Indonesia's carbon tax rate is among the lowest in the world. The carbon price is set at a minimum of IDR 30,000 (USD 2,00) per tCO2e, which is much lower compared to, for instance, Singapore at USD 25 per tCO2e, though there are potential for the rate to be higher.[26] The estimated revenue gains from the carbon tax in the first full year is IDR 200 billion (0.0 percent of GDP). This policy also aims to provide signal that Indonesia is committed to achieve its 2030 Nationally Determined Contribution (NDC) and 2060 net zero target.

PA4: Allocate fund transfers more equitably across subnational entities.
RI4: Ratio of national median revenues per capita over the most populous district quintile. Baseline 2.07 percent. Target: 2.02 percent (2023). Current Status (2022): 2.02 percent.

45. **The RI4 is a practical indicator of fiscal capacity, particularly during the "hold harmless" period and the target was set at a realistic level.** This reform aims to ensure that the General Allocation Fund (DAU)[27] effectively balances the SNG's ability to finance their operational needs and the provision of public services.[28] The RI4

[25] Green Economic Growth in Indonesia, A background paper to Indonesia CCDR, World Bank (2023)
[26] World Bank. 2023. State and Trends of Carbon Pricing
[27] The General Allocation Fund, a non-earmarked, general-purpose block grant, represents the most substantial portion of intergovernmental transfers. Subnational governments heavily rely on these transfers as their primary source of revenue. In 2020, the Fund accounted for approximately 60 percent of total revenues for districts and 55 percent for provinces.
[28] Chatta, et.al. (2024), Refining Indonesia's Intergovermental Transfers Mechanism. World Bank

method involves comparing the revenue of the average SNG across the country with the revenue of SNGs in the most densely populated areas. A lower target indicator implies a reduction in the fiscal disparity between the average SNG and those in densely populated areas, demonstrating the formula's effectiveness in rectifying the previous bias in the allocation process, which benefited less populated, yet financially disadvantaged districts. The target itself is based several scenarios with different weights of fiscal gap applied for Nusa Tenggara, Maluku and Papua, which later determined the amount of the DAU pool is determined (the sum of fiscal gap for each region based on their weights). The historical trend of the ratio was linear averaging at 2.07 since 2018, which gives an estimated ratio of 2.07 if there is no policy change. Hence, the lower target at 2.02 is set realistic to reflect policy change.

46. **The target was achieved in 2022,[29] earlier than the target year, but there has been slow progress in the implementation of the hold harmless period, posing a risk to the full implementation of the reform.** The ratio of national median to median of the populous district was 2.02 in 2022, lower than its baseline year of 2.07 in 2020. The hold harmless period ensures no district will receive reduced DAU compared to baseline levels. Indeed, in 2022, around 43 percent of total districts did not receive increased DAU allocation. However, in 2023, the outcome of parliamentary discussion suggested that all regions should receive a minimum of 3 percent increase in DAU allocation.[30] Increase in the DAU allocation to all cities will risk the sustainability of the reform to achieve the target in 2027 where all cities will receive transfers based on their operational needs (which potentially will lead to reduction in transfers) and no more hold harmless mechanism will be implemented.

47. **Therefore, the World Bank is supporting the government in effectively transitioning the implementation of the new, more equitable DAU formula through the SINERGIS Program for Results operation.** The Strengthening Intergovernmental Transfers and Subnational Finance for Service Delivery in Indonesia (SINERGIS) PforR is supporting the reform in three ways. First, it supports the inclusion of a new adjustment factor in the DAU formula that captures interregional cost differences more comprehensively. This will reflect the higher costs of delivering services per capita in remote, thinly populated areas, and increase their allocations. Second, it encourages the government to continue measuring SNGs' fiscal capacity based on sound potential revenue estimates, in view of motivating SNGs to exert more own-source revenue effort. Third, it supports transitioning to the new formula at the fastest politically feasible pace, while holding all SNGs harmless at nominal baseline DAU levels. It will do so by incentivizing the use of a large share of the annual DAU pool growth in 2024–28 for enhanced equalization and by tracking progress in total per capita revenue equalization for the most populous district quintile.

PA5: Increase spending efficiency and effectiveness
RI5: Number of programs in the budget. Baseline (2020): > 600. Target (2023): <120. Current status: 102

48. **The RI was closely attributed to the PA and the indicator in the 2023 was closely exceeded the target despite set at an ambitious level.** One of the actions through the Redesign of Planning and Budgeting Systems (*Redesain Sistem Perencanaan dan Penganggaran or RSPP*) reform is enabling government programs to be mapped and aligned with multiple deputy-level officials across various ministries. The reform introduced an initial batch of

[29] Data of subnational government budget is lagging generally a year or two. 2023 data is expected to be available closer to the end of 2024.
[30] Interview with DG Fiscal Balance. If all cities received at least a 3 percent increase and the ratio improved in 2022, this implies that the increase of the allocation in most populated cities are higher than national average, which had implication on a large increase in the DAU pool.

17 "cross-agency" programs that are implemented by multiple line ministries. The system allows the cross-ministerial programs to be enhanced to support national priorities such as climate, stunting, gender, and others as needed. It has also introduced 84 programs that are each implemented by one specific ministry and one generic program for managerial support that is used by all ministries. Consequently, the number of programs in the budget reduced from 428 in 2021 to 102 programs in 2023[31]. Unfortunately, at the writing of the ICR draft, limited information is found on how the target level is set. But the target is set at a level that is 80% lower than the baseline level, indicating an ambitious target but has been achieved, nevertheless.

49. **Nevertheless, challenges persist during the implementation of the planning and budgeting system redesign.** There are at least three main challenges in the implementation of the RSPP: 1) Coordination challenges in formulating indicators and targets among ministries, 2) Formulating / determining the appropriate output that has common objectives for multiple ministries; and 3) Linking these outputs to the target of the individual units implementing them. Therefore, there remains room for improvement in the implementation of this reform in the upcoming year. As a part of accountability and monitoring system of this reform, the government has always reported the progress of the implementation in the financial note of the budget each year.

PA6: Improve budget execution.

RA6: Number of spending units in districts and cities (percent share of 2021). Baseline (2021): 100 percent, Target (2023): 54 percent. Current Status (2023): 80.0 percent

50. **The RI was linked to the PAs but reflected only partially the factors contributing to the challenging execution of the capital budget.** The slow pace and low level of capital budget execution performance is somewhat caused by interrelated factors. One of the major reasons is the delay in the completion of the procurement process as not all spending units are initiating the early procurement process before the start of the fiscal year. Another reason is the limited time for spending units to prepare the budget and that required supporting documentation were not ready and completed on time. The RI addresses one factor contributing to the low and slow capital budget execution, namely the fragmentation of the capital budget, leading to inefficiencies and execution delays due to numerous spending units managing very small capital budgets. The government, through the MoF, is institutionalizing criteria that must be fulfilled by line ministries for establishing spending units with the authority to execute state budget transactions. With this reform, it is expected that the number of spending units based in districts and cities is expected to decline to 54 percent of its 2021 level.

51. **While significant progress was made in 2022, the pace of consolidation of the spending units slowed in 2023, and the target is not achieved though the target is set an appropriate level.** In 2022, there was a reduction in the number of spending units to 80.1 percent of their total in 2021. However, this reduction plateaued in 2023, remaining at a similar level and thus falling short of the target to reduce to 54 percent of the 2021 levels.[32] The government attributed this slowdown mainly to the reorganization of the Line Ministries and Institutions (Kementerian dan Lembaga/KL) in 2023. The number of spending units corresponds to the number of KLs, and there was a notable decline in the number of ministries and institutions in 2022. Yet, in 2023, the addition of one KL (**Figure 5**) maintained a relatively high number of spending units, higher than if the number of institutions had not increased. In general, the target number of spending units is dynamic and should be carefully determined, taking into account the nature of government programs. For example, a central government program deployed at the sub-national levels may require the creation of more spending units,

[31] Financial Note of 2024 Budget, MoF

[32] The target was set based on the internal analysis conducted by DG Treasury, MoF.

both for reasons of accountability and practicality, particularly in a geographically expansive country like Indonesia.

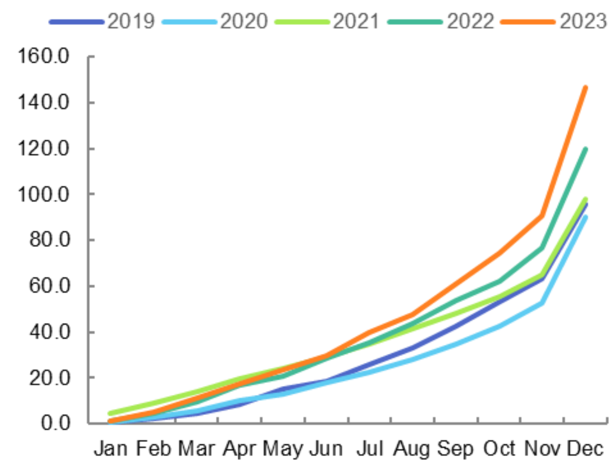
52. **Despite slowing reduction in the spending units, central government budget disbursement showed improvement over the past few years.** The monthly disbursement of capital spending has shown improvement over the years, exceeding the allocated budget in the last two years (2022-2023). However, it generally follows a similar pattern, with capital budgets largely spent in December and picking up in the second half of the year (**Figure 6**).

Figure 5. Number of ministries and institutions over the last 4 years
(*number*)

Budget Year	Number of Line Ministries and Institution
2020	87
2021	87
2022	82
2023	83

Source: Data request to DG Budget, 2024

Figure 6. Monthly disbursement rate of capital spending for the central government
(*percent to allocated budget*)



Source: Ministry of Finance, Budget Data, various years

C. Overall Outcome Rating and Justification

Rating: Moderately Satisfactory

53. **A combination of satisfactory rating for relevance of prior actions and moderately satisfactory rating for the efficacy resulted in the overall rating of this operation as moderately satisfactory.** Almost all prior actions proved significantly relevant, featuring measurable and pertinent indicators, although there is room for improvement in better aligning them with the PDO**.** The increase in revenue and enhanced equity within the tax system (Pillar 1) is evident through the rise in VAT collection and fairer Personal Income Tax (PIT) revenues from the highest income group. However, despite having the potential to raise revenues, the carbon tax has a weaker link to the PDO, where its primary significance lies in supporting the transition to a low-carbon economy and enhancing carbon pricing, a facet that could be better emphasized within the PDO framework. The redesigning of the planning and budgeting system, reform of DAU formulation and the consolidation of spending unit to reduce capital budget fragmentation have contributed to the strengthening institution of planning, budgeting, and fiscal transfers (Pillar 2).

54. **Most of the targets were achieved with minor shortcomings.** While there may be deviations and delays from a few of the anticipated results indicators, most objectives were substantially met, and any objectives unmet do

not compromise the achievement of the overall program through interconnected linkages. Some of the targets were achieved earlier than the target year, but other factors also contributed to the achievements. The VAT target achieved in 2022 and continued to exceed the target in 2023, partly due to the commodity windfalls.[33] The PIT target also achieved in 2022, but data in 2023 has not yet been released to monitor the progress. The ratio of the national median per capita revenue with the most populous city was also achieved but there are minor shortcomings in the implementation/decision of DAU allocation, such as the minimum increase of 3 percent of DAU allocation for all districts, which risks the achievement of the full reform in 2027. The carbon tax has not been achieved due to the delayed implementation from the government, noting the period of challenging global economic condition and the delayed preparation of the implementing regulations. However, the implementation of ETS has started and covered most grid-connected power plant, which was the target of the first phase of implementation. For pillar 2, on better aligning between planning and budgeting, one target is not achieved as the progress in the consolidation of spending units slowed down due to increase in the number of ministries and institutions itself. However, data on monthly disbursement rate of the aggregate capital expenditure suggested improvement in the execution of spending with higher rate of capital spending disbursement occurring in the earlier months of the year.

III. OTHER OUTCOMES AND IMPACTS

A. Poverty, Gender and Social Impacts

55. **The reform actions under the operations are anticipated to yield positive overall social and poverty outcomes.** Prior actions focusing on taxes will increase the ability of government to increase revenues while actions that strengthen the institutions of expenditure will improve the efficiency and effectiveness of spending. The DPL program is designed for government to sustainably finance its development agenda. In turn, greater fiscal stability benefits the poor and vulnerable by ensuring the stability of public service delivery in the long term. In the short term, however, managing the distributional impacts of these reforms appropriately will be crucial.

56. **Most reform actions are poised to enhance basic service delivery and positively impact the poor.** Introduction of a new personal income tax bracket for high incomes (Prior Action #2) will have limited impacts on poverty and inequality as the new tax bracket for high-net worth individuals increases progressivity but is offset by the widening and lowering of the lowest taxable income bracket. Although the introduction of a carbon tax (Prior Action #3) is not expected to directly affect the poor in the short term given current electricity tariffs, potential tariff liberalization in the future could marginally reduce household purchasing power. Reform of the General Allocation Grant (DAU) (Prior Action #4) will direct more resources to populous districts with more poor people while strengthening the link between budgeting and planning (Prior Action #5) should improve basic service delivery and benefit the poor. Lastly, consolidating spending units (Prior Action #6) has the potential to improve the effectiveness of capital expenditure for basic infrastructure which will benefit the poor.

57. **The increase of the VAT rate and removal of selected exemptions (Prior Action #1) is projected to have negative impact on the poor and vulnerable but can be mitigated while maintaining most of the fiscal gains of the VAT reform.** The reform was expected to generate additional revenue of 0.23 percent of GDP in 2019 but poverty was estimated to increase by 0.27 percentage points (or about 0.7 million people) relative to its pre-reform

[33] The previous ICR on the Indonesia Fiscal DPL series also note this issue where tax-to-GDP in general is significantly influenced by commodity price fluctuations.

condition. Despite the increase in poverty., the additional revenue generated from the VAT reform substantially exceeds the financial burden on the poorest 40 percent of the population. A per capita transfer accounting for 30 percent of the generated revenue can fully compensate the poorest 40 percent. Indonesia has an effective social protection system with a targeting mechanism in place. As past experience shows, the system was able to successfully mitigate adverse impacts of energy subsidy reforms for the poor and vulnerable.

58. **The removal of VAT exemptions on mining products can have mixed gender impacts**. On one hand, the reform generates additional government revenues, and it encourages economic diversification. The increased revenue can be allocated to social programs, particularly those that would encourage female labor participation, such as childcare facilities, education, and fiscal support for female-owned business. On the other hand, the policy may also reduce household incomes if male-dominated mining jobs are affected, and it could negatively impact related industries where women are employed.

B. Environmental, Forests, and Natural Resource Aspects

59. **The operation is expected to positively impact the environment with five of the prior actions poised to enhance environmental quality and natural resource management**. Eliminating VAT exemptions on fossil fuel extraction (Prior Action #1) will address fossil fuel underpricing, thereby lowering emissions and mitigating the environmental impact of extractive industries.[34] Introduction of a carbon tax (Prior Action #3) aims to decrease greenhouse gas emissions and promote investments in renewable energy. Revising the General Allocation Grant (DAU) (Prior Action #4) will positively influence environmental management budgets at the local level. Improving the integration of budgeting and planning processes (Prior Action #5) ensures alignment with climate change goals across ministries. Streamlining spending units (Prior Action #6) will enhance the efficiency of capital budgets for essential infrastructure, improving water management, climate adaptation, and environmental monitoring.

60. **While specific prior actions have the potential for adverse environmental impacts, systems are in place to address such concerns.** Enhanced capital budget management (Prior Action #6) may inadvertently increase the number of projects that negatively affect the environment. Additionally, the implementation of a carbon tax (Prior Action #3) is designed to stimulate investments in renewable energy sources, which, while beneficial for reducing greenhouse gas emissions, may also pose environmental challenges associated with the development of such projects. However, it is important to note that Indonesia's comprehensive environmental protection framework, codified in Law 32 of 2009, provides a robust mechanism for mitigating such impacts. This legislation is deemed more than adequate to address and manage the potential environmental ramifications associated with these actions.

C. Institutional Change/Strengthening

61. **Strengthening institutional frameworks is one of the development objectives of operations.** Particularly under its second pillar, the operation is dedicated to enhancing institutions responsible for planning, budgeting, and fiscal transfers. TA plays a crucial role in reforming planning and budgeting systems and implementing

[34] Producers of fossil fuels might pass on input tax credit benefits to consumers, but the final impact on prices depends on market competition and producers' pricing strategies. In competitive markets, prices might decrease due to cost savings, while in less competitive markets, these savings might not be fully passed on. Additionally, VAT revenues can fund renewable energy projects, and a uniform tax system can reduce market distortions, promote fair competition, and encourage investment in cleaner energy sources.

Performance-Based Budgeting. Beyond this pillar, the operation has benefitted from extensive technical assistance projects provided to the MoF over a significant period. The timing of the operation is particularly opportune, aiming to accelerate post-pandemic recovery through essential institutional reforms.

D. Other Unintended Outcomes and Impacts

Not Applicable.

IV. BANK PERFORMANCE

Rating: Satisfactory

Preparation

62. **The design of the operation was extensively underpinned by World Bank's analytical work and strong engagement with the Government.** The analytical underpinnings include the Support for Enhanced Macro and Fiscal Policy Analysis (2012 – 2016), Programmatic Macro and Fiscal Policy Engagement (2012-2020), Fiscal Programmatic PASA (2020-2024), the Knowledge-based Solutions for Poverty Reduction & Mobility in Indonesia PASA (2020-2023) provided analytical work and technical assistance to the MoF underpinning the revenue pillar, in particular on the carbon tax (Prior Action #3), and the distributional impact of VAT and PIT reforms (Prior Actions #1 and #2). Two flagship reports, the PER (2020) and the CEQ (2020) also provided the solid analytical framework for PA #1 and #2. The preparation of CCDR flagship report, done in 2021, also supported the PA #3. Technical Assistance to the MoF also facilitated the redesign of planning and budgeting system (RSPP). The Subnational Finance and Management for Results (SEMAR, 2020 -2025) project and its predecessor Decentralization that Delivers PASA offered extensive support to the MoF on subnational fiscal relations and financial management (Prior Action #4).

63. **The operation strongly aligned with government's priorities, particularly the Ministry of Finance (MoF) Strategic Plan.** DPL Pillar 1, aimed at increasing tax revenue and improving the equity of the tax system, aligns with MoF Policy Directions, emphasizing sound and sustainable fiscal management and optimizing state revenues. DPL Pillar 2, focusing on strengthening institutions for planning and budgeting, and fiscal transfers, is consistent with MoF Policy Direction, emphasizing the management of quality state expenditures. These reforms are expected to bolster post-pandemic recovery efforts and foster long-term growth.

64. **The DPO integrated lessons from the previous Fiscal Reform DPO series and provided a candid analysis and mitigation actions of some of the major risks associated with the operation.** Drawing from lessons learned, the operation's preparation commenced after key legislation was approved by parliament, enabling a focus on supporting implementation. Nevertheless, the operation also considered major risks, particularly in the design and institutional capacity of the government. The implementation of the carbon tax (Prior Action #3) alongside an emissions trading scheme is technically demanding, requiring a substantial set of regulations and establishment of institutions. However, the resulting risk is partly mitigated by the strong support of the World Bank and other development partners to the government for these policies.

Implementation

65. **World Bank continued to provide technical assistance in areas supported by the DPO and closely supervised its implementation.** The Fiscal PASA facilitated public dialogue and provided analytical evidence on how fiscal policies can support long term growth. It delved deeper on the factors that cause the low revenue collection from three elements: policy design, compliance/administrative and structure of the economy. The SINERGIS Program incentivized the use of a large share of the annual DAU pool growth in 2024–28 for enhanced equalization, tracking progress in total per capita revenue equalization for the most populous district quintile. Moreover, the World Bank's for Partnership for Market Implementation (PMI) aims to consolidate the assessment and support the implementation of envisaged carbon pricing policies. The focus was on aiding the design and gradual implementation of the domestic ETS and a domestic offset program, including its compatibility with international carbon trade.

66. **The implementation of at least one reform experienced delays, while several reforms may take some time to generate tangible results.** The introduction of carbon tax (PA #3) was postponed due to challenges in developing regulations and institution that coordinates these policies, exacerbated by weakened global economic conditions during the post-pandemic recovery. Moreover, the full implementation of DAU allocation with the new formula faced risks of delay due to push back from parliament. The reform aimed at reducing the number of programs, although it achieved its target, encountered other challenges such as formulating appropriate outputs that align with collective.

V. RISK TO SUSTAINABILITY OF DEVELOPMENT OUTCOMES

67. **The sustainability of development outcomes from the operations is potentially at risk from macroeconomic instabilities.** Post the deployment of the DPL, elevated interest rates environment could dampen global demand, increase borrowing costs, and restrict access to external financing. The deterioration in global conditions, driven by geopolitical uncertainties and climate-related shocks, and slowing global demand disrupt global value chains and negatively affect trade terms. A deterioration in global conditions, fueled by geopolitical uncertainties and climate-related shocks, coupled with a slowdown in global demand, can disrupt global value chains and adversely affect trade terms. These challenging global economic conditions, transmitted domestically, may threaten the continuity of reforms. For instance, the implementation of a carbon tax could increase energy production costs and, more broadly, production costs, thereby diminishing consumer purchasing power. Furthermore, the proposal to increase the Value Added Tax (VAT) rate to 12 percent necessitates an assessment of the inflation impact and eventually to consumer purchasing power, even if the new administration possesses a political opportunity to enact this change.

68. **The recent elections in February 2024 pose political and governance risks.** Potential changes in government administration could alter policy priorities and impact the sustainability of development outcomes. Certain policy commitments may be deferred, especially if they are politically sensitive, leading to a significant risk that the reforms supported by the DPO may not be effectively sustained to achieve the anticipated results.

VI. LESSONS AND NEXT PHASE

A. Lessons Learned

69. **The Bank's engagements have been instrumental in prioritizing reforms during the COVID-19 crisis, underscoring the necessity of a robust fiscal foundation to support the economy during challenging times.** The operation has encouraged the government to explore innovative revenue sources with minimal adverse effects on the economy as well as the poor and vulnerable. Analytical underpinnings have facilitated policy prioritization and the formulation of optimal reform packages, taking into account both fiscal and social considerations.

70. **Effective communication of policy reforms that entails benefits of the reforms as well as the compensation for those adversely affected by the government is essential for ensuring public understanding and support.** Despite advanced announcements and intentions to implement reforms during the COVID recovery period, public concerns about the reforms' impact, particularly on increasing revenue collections, have led to additional price pressures.

71. **To ensure the achievement of the RI, the operation should consider PA which accounts for the full implementation of a policy, including the enactment of implementing regulations.** Introducing a carbon tax, crucial for limiting emissions and promoting sustainable development, faces significant challenges. In Indonesia, the implementation of Prior Action #3 on carbon tax is postponed amid difficult global economic conditions. Accurate measurement and verification of emissions for a carbon tax are technically demanding, and establishing an efficient and equitable tax system to ensure appropriate carbon pricing requires substantial administrative work. To mitigate the risk of unachieved targets for the RI, the inclusion of implementing regulations could have been considered as an integral part of the prior action, rather than solely focusing on the enactment of the law itself. This approach would have ensured the complete and effective implementation of the reform.

B. Next Phase

72. **Fiscal reform remains a critical priority for Indonesia, particularly in light of the need to improve revenue performance from its current low levels.** Without tangible progress in these reforms, achieving sustainability in public finances will prove to be elusive. It is crucial to continue engagement efforts to ensure that reforms instituted in the past are sustained and further advanced by subsequent administrations. The ASA/TA program, bolstered by substantial support from various development partners, has effectively laid the groundwork for these reforms.

ANNEX 1. RESULTS FRAMEWORK

RESULTS INDICATORS

Pillar: Pillar 1: Increase Tax Revenue and Improve Equity of the Tax System

Indicator Name	Unit of Measure	Baseline	Target	Actual Achieved at Completion
Value-Added Tax and Luxury Goods Sales Tax Revenue	Percentage	3.20 31-Dec-2021	3.40 29-Dec-2023	3.70 29-Dec-2023

Comments (achievements against targets):
achieved

Indicator Name	Unit of Measure	Baseline	Target	Actual Achieved at Completion
Personal Income Tax revenue collected from individuals with income over five billion IDR as a share of total PIT revenue	Percentage	15.90 31-Dec-2020	18.00 29-Dec-2023	18.80 30-Dec-2022

Comments (achievements against targets):
Achieved, latest data available is 2022.

Indicator Name	Unit of Measure	Baseline	Target	Actual Achieved at Completion
Percent of total emissions from grid connected coal powerplants that is accounted for by powerplants that are subject to a carbon tax	Percentage	0.00 31-Dec-2021	75.00 29-Dec-2023	0.00 29-Dec-2023

Comments (achievements against targets):
Not Achieved. The carbon tax implementation has been delayed. However, another reform action in limiting emissions has been initiated through the Emissions Trading Scheme (ETS), which was supposed to be implemented along with the carbon tax. The pilot ETS became operational in 2021, with mandatory participation since February 2023, covering approximately 80 percent of GHG emissions from coal-fired grid-connected power plants.

Pillar: Pillar 2: Strengthen Institutions for Planning and Budgeting, and Fiscal Transfers

Indicator Name	Unit of Measure	Baseline	Target	Actual Achieved at Completion
Ratio of national median revenues per capita over the most populous district quintile.	Percentage	2.07 31-Dec-2020	2.02 29-Dec-2023	2.02 30-Dec-2022

Comments (achievements against targets):
Achieved, latest data available is 2022

Indicator Name	Unit of Measure	Baseline	Target	Actual Achieved at Completion
Number of programs in the budget.	Number	600.00 31-Dec-2020	120.00 29-Dec-2023	102.00 29-Dec-2023

Comments (achievements against targets):
Achieved

Indicator Name	Unit of Measure	Baseline	Target	Actual Achieved at Completion
Number of spending units in districts and cities (percent share of 2021).	Percentage	100.00 31-Dec-2021	54.00 29-Dec-2023	79.90 29-Dec-2023

Comments (achievements against targets):
Not achieved

ANNEX 2. BANK LENDING AND IMPLEMENTATION SUPPORT/SUPERVISION PROCESSES

A. TASK TEAM MEMBERS

Name	Role
Preparation	
Ralph Van Doorn, Arun Arya, Jaffar Al Rikabi	Task Team Leader(s)
I Gusti Ngurah Wijaya Kusuma	Financial Management Specialist
Andhyta Firselly Utami	Environmental Specialist
Anissa Rahmawati	Team Member
Muhammad Khudadad Chattha	Team Member
Sheannal Anthony Manindha Obeyesekere	Team Member
Krisnan Pitradjaja Isomartana	Environmental Specialist
Indira Maulani Hapsari	Team Member
Yulita Sari	Team Member
Jurgen Rene Blum	Team Member
Hari Purnomo	Team Member
Dwi Endah Abriningrum	Team Member
Imam Setiawan	Team Member
Wael Mansour	Team Member
Habib Nasser Rab	Team Member
Ahmad Zaki Fahmi	Team Member
Bambang Suharnoko	Team Member
Thomas E. Walton	Environmental Specialist
Supervision/ICR	

Rong Qian, Arun Arya, Jaffar Al Rikabi	Task Team Leader(s)
Angelia B. Nurwihapsari .S, Manuela Da Cruz	Procurement Specialist(s)
I Gusti Ngurah Wijaya Kusuma	Financial Management Specialist
Andhyta Firselly Utami	Environmental Specialist
Anissa Rahmawati	Team Member
Muhammad Khudadad Chattha	Team Member
Sheannal Anthony Manindha Obeyesekere	Team Member
Krisnan Pitradjaja Isomartana	Environmental Specialist
Sandra Buana Sari	Team Member
Indira Maulani Hapsari	Team Member
Yulita Sari	Team Member
Jurgen Rene Blum	Team Member
Hari Purnomo	Team Member
Ralph Van Doorn	Team Member
Dwi Endah Abriningrum	Team Member
Imam Setiawan	Team Member
Wael Mansour	Team Member
Habib Nasser Rab	Team Member
Ahmad Zaki Fahmi	Team Member
Niltha Mathias	Team Member
Bambang Suharnoko	Team Member
Thomas E. Walton	Environmental Specialist

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B. STAFF TIME AND COST

Stage of Project Cycle	Staff Time and Cost	
	No. of staff weeks	US$ (including travel and consultant costs)
Preparation		

FY22	32.825	187,669.84
Total	**32.83**	**187,669.84**
Supervision/ICR		
FY23	0	0.00
FY24	26.234	85,399.50
Total	**26.23**	**85,399.50**

ANNEX 3. BORROWER, CO-FINANCIERS, AND OTHER DEVELOPMENT PARTNERS'/STAKEHOLDERS' COMMENTS

Comments from Fiscal Policy Agency:

1. Overall draft is well, small revisions needed as per suggested comments.
2. Suggest revising the sentence on the price of carbon to 'a minimum of USD 2' from 'USD 2'. Please also revise the chart on the ETS scheme, dropped the amount of tax rate subject to deficit of emissions.
3. Suggest revising the objective of carbon tax to address GHG emissions instead of raising revenue collections. The carbon tax is supposed to be a lever for the carbon trading itself. The lack of implementing regulations is not the reason why the carbon tax is delayed. Instead, it is challenging economic conditions, globally, that is the main reason of the delay. Suggest revising the sentence.
4. Please add the progress of ETS participation in the result matrix table in annex.

Comments from Directorate General of Budget (DG Budget):

1. No written comments sent to the team.
2. Consultation meetings recorded several points:
   a. Result indicator target is considered appropriate and based on the study done by Directorate General of Treasury (DG Treasury).
   b. The main reason for the slowdown in the spending unit consolidation is the increase in the number of ministries/institutions (especially in 2023).
   c. There should be an optimum number of spending units to implement budget. The number of spending units could be dynamic and should be carefully determined, taking into account the nature of government programs. For example, a central government program deployed at the sub-national levels may require the creation of more spending units, both for reasons of accountability and practicality, particularly in a geographically expansive country like Indonesia.

Comments from Directorate General of Tax (DG Tax):

1. Overall report okay, and 2 RIs in which DG Tax is involved are achieved.
2. There has been no change of behavior from the taxpayers due to the addition of the new tax bracket. So far there has been no evidence that taxpayers reporting less of income and assets to avoid paying the tax, particularly from the new top bracket of income above IDR 5 billions.

Comments from Directorate General of Debt Management and Risks:

NARATION	PAGE	COMMENTS
46. **The target was not achieved, as the number spending units was 1,349 or around 80 percent of the number of spending units in 2021.** The result indicator data is not publicly accessible and must be requested from the DG Budget. At the time of drafting the ICR, the DG Budget had not responded to this request. Hence, the ICR suggests an alternative indicator, comparing the monthly disbursement of capital spending over the years. The monthly disbursement of capital spending has shown improvement over the years, exceeding the allocated budget in the last two years (2022-2023). However, it generally follows a similar pattern, with capital budgets largely spent in December and picking up in the second half of the year (Figure 4).	22	Please provide a rationale explaining whether the unachieved targets still indicate progress. In the preceding paragraph (45), the rationale behind the indicators was discussed; therefore, there needs to be a connection to demonstrate how the expected outcomes or outputs can still be considered achieved within the range of the targets attained. Additionally, if feasible, it would be beneficial to provide a rationale for why reducing spending units remains a challenge for Indonesia.
(Others)		If possible, provide a disclaimer page, mentioning the purpose of the Implementation Completion Report

Comments from Directorate General of Fiscal Balance:

None.

ANNEX 4. SUPPORTING DOCUMENTS