



SNAPSHOT ASSESSMENT
of
INDONESIA'S
PUBLIC PROCUREMENT SYSTEM

as at JUNE, 2007

**Piloting OECD/ DAC Procurement JV
Baseline Indicator (BLI) Benchmarking Methodology
Version 4**

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EXECUTIVE SUMMARY

1. Having regard to the stage of its national public procurement reforms, the Government of Indonesia (GOI) agreed that it is an appropriate time to conduct a self-assessment “snapshot” comparison of its existing system against the international standards that the BLIs represent and accepted an invitation to pilot test the benchmarking methodology as per the OECD/DAC Procurement Joint Venture paper Version 4 July 2006. This will lay the foundation for a subsequent Country Procurement Assessment Review (CPAR). Since public procurement utilizes public funds it is linked not only to Public Financial Management (PFM), but also to wider Policy and Institutional, Financial Accountability, and Public Expenditure and Financial Accountability assessments.

2. Indonesia has embarked on a new age, the era of reforms including implementation of regional autonomy (decentralization) measures in 2001 when about one third of central government expenditure was transferred to the regions. Regional autonomy laws dramatically increase districts’ authority as well as their responsibilities. With decentralization the number and type of stakeholders involved in procurement utilizing public funds has become more complex. Economic indicators are signaling a strong pickup in economic growth. Fiscal policy has been characterized by low deficits and declining debt ratios with Indonesia now experiencing significant financial resources or “fiscal space”.

3. An interim “Center for Development of Public Procurement Policy” within the National Development Planning Agency (Bappenas) has been GOI’s central focal point and driver for ongoing public procurement reform initiatives. In adopting the above methodology the following assumptions were made: (i) Each of the four pillars is considered to be of equal status and assigned 25%; (ii) The macro-indicators contained within each pillar were considered to be of equal status within that Pillar and assigned percentages accordingly; (iii) The score for each of the 12 macro-indicators was obtained by averaging the scores of the various baselines or sub-indicators contained within the macro-indicator; and (iv) The macro-indicator score was then expressed as various percentages in terms of either the macro-indicator as a whole or its maximum percentage value in terms of the Pillar it is contained within.

4. With respect to ***Legislative and Regulatory Framework (PILLAR I)*** the Indonesian system achieved 62.5%. The current national regulation is Presidential Decree 80/2003, which, for NCB, promotes basic principles of procurement being transparency, open and fair competition, efficiency (value for money), effectiveness, non-discrimination, and accountability. Indonesia’s legal framework for public sector procurement can best be strengthened by anchoring it with an overarching consolidated and comprehensive national public sector procurement law at the highest level with subordinate regulations not only relating to implementation and procedural details not included in the law, but also regulations pertaining to procurement monitoring, e-Procurement and emergency situations brought about by natural disasters. Model bidding documents need to be made mandatory and supporting manuals relating to aspects such as the Procurement Process, Consultant Recruitment, Contract Administration, Quality Control etc need to be produced.

5. With respect to ***Institutional Framework and Management Capacity (PILLAR II)*** the Indonesian system achieved 55.5%. Procurement Planning needs to be better integrated into

GOI's budget process. A new Presidential Decree has been drafted that, when executed, will establish a fully independent *Goods/Services Procurement Policy Development Institution (Lembaga Pengembangan Kebijakan Pengadaan Pemerintah [LPKPP])*. It is expected to be signed by the President of the Republic within the next few weeks. Some training documentation has been produced and GOI will introduce a Certification system from January 2008 so as to ensure that procurers/ users from GOI contracting entities achieve a basic level of competency commensurate with their responsibilities.

6. With respect to *Procurement Operations and Market Practices (PILLAR III)* the Indonesian system scored 59.3 percent. There can still be some segmentation in the market, which may, in part, be as a result of decentralization but may also result from private sector behavior. Less than five percent of private sector suppliers/ providers participate in public sector procurement and their capacity is weak and could be strengthened through involvement of the private sector in any Professional Training and Certification Board and integrating capacity building programs for both public and private sector.

7. With respect to *Integrity and Transparency of the Public Procurement System (PILLAR IV)* the Indonesian system scored 69 percent. The current audit structure is complex and confusing with blurred and overlapping jurisdictions, resulting in inefficiency, high overhead costs, while being ineffective due to weak capacity. In the light of this, GOI is currently in the process of reforming its audit functions at all levels of government as well as utilizing technical assistance to build audit capacity. Currently, complaints must be routed to user line agencies. While the complainant/ plaintiff can raise the issue through higher levels up to the Minister, there are potential conflicts of interest. GOI will consider establishing an independent appeals body, possibly comprising persons from private sector professional organizations as well as civil servants, that will be dedicated to receiving and arbitrating/ resolving reasonable appeals/ complaints/ grievances. If established, it would be provided with sufficient authority, through any future high-level procurement law, to both publish the decisions reached and enforce them. Despite Indonesia being near the bottom of the Transparency International Corruption perceptions Index, the reason why it scored so well in respect of ethics and anti-corruption measures is because the appropriate anti-corruption provisions are included, not only in wider anti-corruption legislation, but also in Presidential Decree 80/2003. However, while the provisions may be in place, so long there continues to be weak capacity, low salaries with no satisfactory career path for government procurement practitioners, no credible independent complaints handling mechanism, and weak enforcement with no sanctions for corrupt behavior, then corrupt behavior is likely to continue to flourish.

8. GOI is still deciding (i) what compliance/ performance indicators (CPIs) should be collected and (ii) how should they be collected, aggregated, and analyzed. Consideration is being given to concentrating on collection of quantitative indicators initially for which historic data may already be available and later utilize either civil society or tertiary educational institutions to obtain qualitative indicators by means of surveys. With decentralization, consideration is being given to adopting a sampling approach initially. The collection and aggregation of quantitative CPI data would need to have regard to ongoing reforms in e-Procurement and integrate with the same.

SECTION 1: INTRODUCTION

1.1 ASSESSMENT BACKGROUND

1. At the heart of public sector accountability and responsibility for development are issues related to financial management, not only with respect to the budget process, but also the processes by which funds are allocated, disbursed, and monitored. Public sector financial management needs to be placed upon a sound regulatory and institutional footing that encourages transparency and accountability in operations and provides for an efficient use of public funds. The need to increase the effectiveness, efficiency and transparency of Indonesia's public procurement system, which utilizes public funds, including those provided through official development assistance (ODA) routed through the budget process, is of concern to the Government of Indonesia (GOI). Public procurement can be subject to abuse, resulting in "leakage" of public funds during the procurement process, and investments that are of substandard quality and often lacking the proper quantity. Therefore, as one of its many reforms since recovering from the Asian financial crisis of the late 1990s, GOI embarked on the reform of its national public procurement system in the context of a decentralized government system.

2. Under the auspices of the joint World Bank and OECD Development Assistance Committee (DAC) Procurement Round Table initiative, developing countries and bilateral and multilateral donors worked together to develop a set of tools and standards that provide guidance for improvements in procurement systems and the results they produce. The Round Table initiative culminated with the December 2004 adoption of the "Johannesburg Declaration" including a commitment for the adoption of the Baseline Indicators (BLI) Tool as the agreed international standard for assessment of national procurement systems. Following the conclusion of the Round Table initiative, under the coordination of the Working Party on Aid Effectiveness of the OECD/DAC, the Joint Venture for Procurement was created and has further advanced the development of the methodology for application of the baseline indicators and associated compliance and performance indicators.

3. Having regard to the stage of its national public procurement reforms, GOI agreed that it is an appropriate time to conduct a self-assessment "snapshot" comparison of its existing system against the international standards that the BLIs represent, in order to determine the strengths and weakness of its current system i.e. to benchmark it, using this BLI tool. Therefore, GOI accepted an invitation to be one of the selected countries to pilot the new methodology having regard to its commitments to the Paris Declaration. This snapshot assessment of Indonesia's current procurement system using the BLI tool is most timely, because it will form the foundation, and become a key element of, an updated Country Procurement Assessment Review (CPAR), which GOI proposes to undertake with donors in the near future.

1.2 ASSESSMENT LIMITATIONS

4. In the aftermath of the financial crisis, Indonesia undertook rapid decentralization with reallocation of some powers and transfer of substantial public expenditures to regions (provinces, cities, and districts) from 2001 as described in Section 2.1 below. This resulted in regional governments being able to develop their own procurement regulations to a certain extent at that time. To overcome this, GOI issued a national regulation or standard

(Presidential Decree 80/2003) on public procurement which, in theory, takes precedence over any regionally developed regulations. Despite this, it is possible that there maybe inconsistencies in either the interpretation and/or application of the national regulations within some regions.

5. Having bench-marked the current status of its public procurement system, GOI will need to monitor its performance and, in particular, measure the impact of reforms to its system. Having regard to the nature of the country being a scattered archipelago, but with a large population, and substantial powers and public expenditures transferred to regions through its decentralization reforms, the task of monitoring its public procurement system is huge and far more complex than in countries with a more centralized government. In its decentralized environment, public procurement can occur at central (oversight and line agencies), provincial, city, and district levels. In view of the immensity, complexity and size of the task, GOI has still to decide on its compliance/ monitoring strategy and approach.

SECTION 2: INFORMATION ON INDONESIA

2.1 DECENTRALIZATION

6. Learning from the lessons of the Asian financial crisis of 1997, Indonesia has embarked on a **new age**, the **era of reforms**. Decentralization, public administration and financial reform, reallocation of government power, and judicial reform are just a few of its many wide-ranging and radical reforms. **Decentralization**, for example, has been undertaken at a rapid pace. Being an archipelago of 17,000 islands (6,000 inhabited with diverse cultures) straddling the equator over an area of 1,919,440 sq km, these changes are clearly driven by a desire to achieve higher economic growth and sustainable development, as well as poverty reduction, which can be achieved only if governance structures within the various regions are sound.

7. Administratively, Indonesia now consists of thirty-three provinces, four of which have special status. Each province has its own political legislature and governor. The provinces are subdivided into regencies (*kabupaten*) and (*kota*), which are further subdivided into subdistricts (*kecamatan*), and again into village groupings (either *desa* or *kelurahan*). Following the implementation of **regional autonomy (decentralization)** measures in 2001, the regencies and cities have become the key administrative units, responsible for providing most government services. The village administration level is the most influential on a citizen's daily life, and handles matters of a village or neighborhood through an elected *lurah* or *kepala desa* (village chief). Aceh, Jakarta, Yogyakarta, and Papua provinces have greater legislative privileges and a higher degree of autonomy from the central government than the other provinces. Jakarta is the country's special capital region.

8. In **2001 one third** of central government expenditure was **transferred to the regions**. In terms of spending, Indonesia is now one of the **most decentralized countries in the world**. The current transfer system will guarantee that this remains the case for years to come. The 2006 increase in transfers to sub-national governments, for example, is as great as during the "big bang decentralization" of 2001. In 2006, the **total inter-governmental transfers** increased nominally by **47 percent** mainly to the benefit of the **poorest regions** of Indonesia. Remote provinces with high levels of poverty, including Aceh, Papua and Maluku saw their allocations increase by more than 100 percent, compared with 2005 levels.

Indonesia's **provinces and districts** now spend a record **40 percent** of total public funds. This represents a **level of fiscal decentralization higher than the OECD average** and higher than any other East Asian country except China.

9. The **regional autonomy** laws dramatically increase districts' authority as well as their responsibilities. These laws exacerbated further a procurement system that was already being guided by a number of overlapping laws, national Presidential decrees and implementing regulations. In addition, there was concern that there could be a risk of overlapping jurisdictions due to the rapid decentralization process, thereby resulting in potential segmentation of both the procurement market and the procurement legal framework.

2.2 ECONOMIC BACKGROUND

10. **Ten years after the East Asian financial crisis, Indonesia's post-crisis period is over and the country now has sufficient financial resources to address its development needs.** Prudent fiscal and macroeconomic policies, particularly extremely low budget deficits, were instrumental in Indonesia's recovery. Despite several shocks during the past three years (e.g., the December 2004 tsunami, terrorist strikes in Bali, global fuel price increases, a large earthquake in central Java, and major floods in Jakarta) and notable risks (e.g., avian flu epidemic), the economy has fared reasonably well and overcome the aftermath of the large fuel price hikes, resultant inflation, high interest rates, and economic slowdown. Having achieved this satisfactory degree of macroeconomic stability, the Government is now focusing on spending Indonesia's financial resources **effectively and efficiently**. Indonesia has now the opportunity to improve the quality of education, expand healthcare, and to close critical infrastructure gaps in order to further improve the investment climate, reduce poverty, and build a sustainable and globally competitive economy. **Economic indicators are signaling a strong pickup in economic growth at the end of 2006 and first quarter of 2007.** Growth is recovering from a slowdown in the last quarter of 2005 and the first half of 2006 caused by the removal of fuel subsidies and the accompanying increase in fuel prices (an average of 114 percent) and interest rates (up 400 basis points). **Inflation rates have decelerated as Bank Indonesia (BI) continues gradual policy rate cuts.** The impact of the floods in Jakarta and its surrounding areas proved to be limited. In light of declining inflationary pressure, Bank Indonesia has eased monetary policy since May 2006. **Rupiah, stock prices, and yield curve continue to improve.** Despite recent instability, the trend since mid-2006 has been toward increasing confidence in financial markets due to Indonesia's **improving macroeconomic and political stability**. In response to the continuous improvement in macroeconomic stability, two international rating agencies (Fitch and Moody's) recently upgraded their rating prospects from stable to positive. **Over the medium-term, assuming good progress in Indonesia's reforms and a favorable global environment, the opportunity exists for economic growth to exceed 6 percent in 2007.**

2.3 PUBLIC FINANCIAL MANAGEMENT

11. Over the past ten years, there has been a remarkable transformation in the way public resources are managed and allocated. Substantial progress has been made in establishing the regulatory framework for improved PFM by the issue and development of appropriate implementing regulations under the troika of laws that were passed by Parliament during 2003 and 2004, and the other complementary laws on Planning and Procurement that were passed during the same period.

12. **The Law on State Finances (No. 17/ 2003), although at a high level of generality, underpins the reform of the Government budgeting process and is currently under implementation.** It provides for the first time for such basic budget processes as developing a macro-economic and fiscal framework, establishing a budget timetable, setting out the budget information to be supplied to Parliament and the use of internationally recognized classification standards (GFS) in developing the budget. Reforms being undertaken in the budget formulation area include the unification of the previous two separate budgets, the development of an MTEF system and the introduction of performance based budgeting. A complementary piece of legislation has also been passed, viz., *the State Development Planning System Law* (2004), which provides the legal basis for the national development planning process, and for the linking of planning with budgeting.

13. **The State Treasury Law (No. 1/ 2004) provides the basis for modernizing budget execution and reporting.** Treasury reforms being undertaken include steps to rationalize the current proliferation of government bank accounts and to centralize cash management, simplify and speed up the payments system, and to improve reporting on budget execution. Government financial reporting will also be improved through the implementation of government accounting standards on a modified accrual basis, with an eventual move to full accrual accounting.

14. **The State Audit Law (No. 15 / 2004) lays out the broad legal framework for the operation on the country's supreme audit institution, BPK¹ to reinforce its position and mandate as an external audit institution reporting to Parliament.** While the audit's law takes the important step of establishing BPK, as the only external auditor and the Supreme Audit Institution in the country, the mentioned Law does not adequately resolve some remaining conflicts. The conflict is BPK's role nor does it remove restrictions on its scope as articulated in some older legislation, for example with respect to BPK's access to records of Tax Revenues department. In addition, the State Audit Law did not cover the institutional arrangements for the management and oversight of BPK, for which a separate law (BPK Law) has recently been passed and is awaiting the President's approval.

15. During 1997-98 the **"economic crisis"** occurred with the economy contracting, public expenditure falling, development spending declining and debt and subsidies increasing. In the aftermath of the crisis, **"big bang" decentralization** occurred in 2001. Indonesia can expect to have significant additional fiscal resources or **"fiscal space"** due to increasing revenues and decreasing fuel subsidies – almost to the level or magnitude of the revenue windfall seen during the oil-boom of the mid-1970s. Since the reduction in fuel subsidies in 2005, Indonesia has freed up US\$ 10 billion to spend on development programs. An additional US\$ 5 billion is available due to a combination of increasing revenues and declining debt service. **Fiscal policy** in recent years has been characterized by **low deficits** and rapidly **declining debt ratios**. By 2006, the space for additional spending has resulted in debt levels dropping below 40 percent of GDP, aggregate expenditure increasing by 20 percent and transfers to sub-national governments growing by 28 percent. Similar space is expected to be available in 2007 and beyond even if global oil prices should drop sharply. Indonesia's fiscal position could be further improved by removing subsidies that still place a heavy burden on its budget. Despite the reduction in fuel subsidies, total subsidies still account for US\$ 10 billion (15 percent) of total expenditure in 2006). However, **the current expenditure mix across sectors is less than optimal** in addressing Indonesia's development challenges. Indonesia has substantially increased education spending but it is still **investing too little in infrastructure and health**. Today, Indonesia's main development challenge is not to transfer

¹ *Badan Pemeriksa Keuangan (The Audit Board of the Republic of Indonesia)*

significant additional resources to poor areas, but to make sure that **existing resources are spent effectively**.

SECTION 3: INDONESIA'S PUBLIC PROCUREMENT SYSTEM

BACKGROUND

16. Important steps in the public sector procurement legal reform process were, first, Presidential Decree (Keppres) 18/2000, which superseded a Keppres that had been in existence, albeit with amendments, since 1994. Second, a higher level Construction Law was enacted in 1999 which, among other aspects, governs the procurement of civil works and related consulting services. New directives for this Construction Law were also issued in 2000. In addition, other laws, either enacted or in draft, in respect to State Finance, Treasury, Audit, and Small Scale Business all make reference to, and impact on, public procurement.

17. Following the financial crisis of the late 1990s, events that provided an impetus to the procurement reform process in Indonesia were (i) its prioritization by the Consultative Group on Indonesia (CGI) in 2000, (ii) the release of a Country Procurement Assessment Report (CPAR) for Indonesia in 2001 with some initial recommendations, and (iii) a commitment by GOI to the CGI in 2001 to create a National Public Procurement Office (NPPO). Until now, the National Development Planning Agency (Bappenas) has been responsible for procurement reform. Initially it established a steering committee, supported by a secretariat and three working groups responsible for legal and policy, institutional, and human resource development. Stemming from this Steering Committee, and have regard to the consequences of decentralization, Presidential Decree 80/2003 was issued as a national standard regulation (i) promoting basic principles of procurement: viz. transparency, open and fair competition, efficiency (value for money), non-discrimination, and accountability, and (ii) committing to the future establishment of an NPPO. Over the intervening years since the promulgation of Presidential Decree 80/2003, the National Development Planning Agency established within its organization an interim "Center for Development of Public Procurement Policy". This Center not only focused on the future establishment of an NPPO, but also became both GOI's central focal point and driver for ongoing public procurement reform initiatives across what are now known as the OECD/DAC four Pillars. More detailed information on these initiatives is provided in Section 4 "Benchmarking Assessment" under the various Pillar and Macro-Indicator headings.

3.2 STAKEHOLDERS

18. It is suggested that the actual stakeholders involved in public procurement are no different from country to country. What is different in Indonesia is that the number and type of stakeholders has become more complex as a result of its decentralized government structure. Table 1 gives an indicative idea of stakeholder involvement in public procurement across the various levels of Government. It should be noted that procurement can occur under each level of government be it National, Provincial, City, or District.

TABLE 1: Potential Stakeholders in Indonesia's Decentralized Environment

STAKEHOLDERS IN PUBLIC PROCUREMENT	NATIONAL (CENTRAL)	PROVINCIAL	CITY	DISTRICT
OVERSEAS DEVELOPMENT AID (DONORS – MULTI AND BI-LATERAL)	•			
LAWMAKERS (POLITICAL – PARLIAMENTARIANS)	•	•	•	•
ISSUERS OF DECREES, INSTRUCTIONS (President, Ministers, Governors, Mayors, District Heads etc)	•	•	•	•
POLICY MAKERS (Civil Service)	•	•	•	•
TRAINERS (Training Boards, Tertiary Educational Institutions, Academia)	•	•		
PROCURERS/ USERS (Government Entities at all levels)	•	•	•	•
SUPPLIERS/ PROVIDERS (Business community, Private Sector suppliers of goods, construction companies, consultants etc.)	•	•	•	•
MONITORS (Inspectorates General, Audit Offices)	•	•	•	•
JUDICIAL AND ADJUDICATORS (Ministry of Justice, Ombudsman, Courts etc)	•			
GOVERNMENT ANTI-CORRUPTION AGENCIES	•	•		
BUSINESS PROFESSIONAL ASSOCIATIONS (Chambers, Associations, Institutes)	•	•	•	•
PUBLIC WATCHDOGS (NGOs, Academia)	•	•	•	•
MEDIA/ PRESS	•	•	•	•
THE PUBLIC	•	•	•	•

SECTION 4: BENCHMARKING ASSESSMENT

4.1 APPROACH AND METHODOLOGY

19. Under the auspices of the joint World Bank and OECD Development Assistance Committee (DAC) Procurement Round Table initiative, developing countries and bilateral and multilateral donors have worked together to develop a set of tools and standards in the form of Base-Line Indicators (BLIs) and Compliance/Performance Indicators (CPIs) that assist in determining the relative strengths and weaknesses of a country's public procurement system. Irrespective of the size of a country and its economy, it is considered appropriate to

“benchmark” it in accordance with the generally accepted international standard “model system”. The assessment of the BLIs presents a “snapshot” comparison of the actual system against the international standards or “model system” that the BLIs represent.

20. In the light of the potential circumstances that may have arisen in some regions due to decentralization (Refer Section 1.2 above), and in the interests of efficiency, the interim “Center for Development of Public Procurement Policy” within the National Development Planning Agency (Bappenas) decided that it would be best if the assessment was carried out by a relatively small inter-departmental working group comprised of suitable persons from **central government** oversight and line agencies, including a representative from the military, rather than a larger group including representatives from the regions. It was decided also that the assessment should focus primarily on the **national regulation** (Presidential Decree 80/2003) while having cognizance of other relevant **national** legal instruments.

21. Following on from the OECD/DAC regional seminar held in Jakarta in February 2007 to explain the Version 4 methodology to pilot countries in the Asia region, GOI arranged an internal workshop for potential members of the benchmarking working group (WG) and their bosses. The objective of this workshop was to both remind and clarify for potential members of the WG the purpose of the BLI “tool” and explain in more detail the revised Version 4 methodology. Prior to the WG commencing the assessment the following documentation was prepared:

- (i) score sheets for each Baseline or Sub-indicator that (1) summarized its purpose; (2) detailed Scoring Criteria exactly as per Version 4; (3) provided space for the Score assigned by the WG; and (4) allowed space to provide a summary of the justification for the score assigned together with any other relevant comments; and
- (ii) a template spreadsheet that summarized the results. Assumptions in preparing the template were:
 - Each of the four pillars is considered to be of equal status and assigned 25%;
 - The macro-indicators contained within each pillar were considered to be of equal status within that Pillar and assigned percentages accordingly;
 - The score for each of the 12 macro-indicators was obtained by averaging the scores of the various baselines or sub-indicators contained within the macro-indicator
 - The macro-indicator score was then expressed as various percentages in terms of either the macro-indicator as a whole or its maximum percentage value in terms of the Pillar it is contained within.

The assumptions made can be readily changed on the spreadsheet. From the percentages obtained, the following charts are produced:

- A “radar” or diamond chart that depicts the strengths and weaknesses of Indonesia’s public procurement system in comparison with each of the four Pillars,
- A Pillar Bar Chart;
- An Indicator Bar Chart; and
- An Indicator Bar Chart in comparison with the maximum weights applied to each indicator.

4.2 LEGISLATIVE AND REGULATORY FRAMEWORK (PILLAR I)

22. The Legislative and Regulatory Framework (together with the Institutional Framework - see 4.3 below) set the basic conditions for the manner in which procurement may be undertaken procedurally, including the results that can be expected and potential efficiency gains that can be achieved. In quantitative terms, the Indonesian system achieved **62.5 per cent** in comparison with “model” baseline requirements for *Legislative and Regulatory Framework (Pillar I)*.

23. Indonesia is a republic with a presidential system. Indonesian political and governmental structures have undergone major reforms since 1998 including rapid decentralization and reallocation of some power to its various regions (For details on the various provinces and regencies – see Section 2.1 above). Four amendments to the 1945 Constitution of Indonesia have revamped the executive, judicial, and legislative branches. The president of Indonesia is the head of state, commander-in-chief of the Indonesian Armed Forces, and the director of domestic governance, policy-making, and foreign affairs. The president appoints a council of ministers. Ministers are not required to be elected members of the legislature. The 2004 presidential election was the first in which the people directly elected the president and vice president. The president serves a maximum of two consecutive five-year terms. The highest representative body at national level is the People's Consultative Assembly (MPR). Its main functions are supporting and amending the constitution, inaugurating the president, and formalizing broad outlines of state policy. It has the power to impeach the president. The MPR comprises two houses; the People's Representative Council (DPR), with 550 members, and the Regional Representatives Council (DPD), with 168 members. The DPR passes legislation and monitors the executive branch; party-aligned members are elected for five-year terms by proportional representation. Reforms since 1998 have markedly increased the DPR's role in national governance. The DPD is a new chamber for matters of regional management.

Achievement with Standards and Compliance with Obligations (BLI-1) (58.3%)

24. Stemming from decentralization, an improved national public procurement regulation or standard, being Presidential Decree 80/2003, was issued, superseding 18/2000. It promotes the basic principles of procurement: transparency, open and fair competition, efficiency (value for money), effectiveness, non-discrimination, and accountability. It covers all areas of procurement (goods, works, and services [including consulting services]) that use public funds irrespective of value, and is supposedly to cover contracting entities (government procurers) at all levels. It meets most of what is generally regarded as accepted international practice. It is assessed to fully meet the criteria of Sub-Indicators 1(c), *Advertising rules and time limits*; 1(e), *Tender documentation and technical specifications*; and 1(g), *Submission, receipt and opening of tenders*. For Sub-Indicator 1(b), *Procurement methods*, a score of 2 was assessed on the basis that the Decree currently only regulates provisions related to NCB. For Sub-Indicator 1(h), *Complaints*, it was decided to award a score of 2 on the basis that the regulations do make provision for appeals/ complaints to both the procuring agency and its Minister with the right for judicial review, even though they do not allow for administrative review by an independent body with authority to grant remedies.

25. In theory, national Presidential Decrees should take precedent over regional laws, decrees and Instructions. However, with the rapid decentralization, the situation became complicated. The plethora of decrees, regulations, and instructions ranging from Ministers, Governors, Bupati(s) (Mayors) etc that contain conflicts and inconsistencies as well as not

meeting currently accepted international practice, **could create confusion**. In addition, as mentioned in Section 2.1, the rapid change to decentralization has created the risk of overlapping jurisdictions thereby resulting in potential segmentation of both the procurement market and the procurement legal framework. Such conflicts/ inconsistencies and overlapping jurisdictions could enable both local governments and individual persons to manipulate these to their advantage. Therefore, despite there being some degree of hierarchy associated with a Presidential Decree, and despite Presidential Decree 80/2003 meeting most of what is generally regarded as being accepted international procurement practice, Sub-Indicator 1(a) *Application and coverage of the legislative and regulatory framework* was assessed to be zero because Presidential Decree 80/2003 is not a law, and its precedence could NOT be clearly established. This interpretation should be checked to ensure it is correct, and has been uniformly applied across all Pilot Countries. Indonesia's legal framework for public sector procurement can best be strengthened by anchoring it with ***an overarching consolidated and comprehensive national public sector procurement law at the highest level***. GOI has been aware of this for several years and, as a consequence, the interim "Center for Development of Public Procurement Policy" within the National Development Planning Agency has been working on a draft Procurement Law with several subordinate regulations. It is likely that the promulgation of such a law and regulations may be one of the first tasks of the new NPPO when it is established.

26. Based on the requisite scoring criteria, Sub-indicator 1(d), *Rules on Participation*, was assessed to be zero on the basis that the regulation makes no mention of foreign participation. Although the regulation only focuses on domestic participation, it is still largely open to anyone domestically. Any new legislative framework will also have regard to foreign participation.

Implementing Regulations and Documentation (BLI-2) (66.7%)

27. Presidential Decree 80/2003 is assessed as fully meeting the criteria of Sub-Indicators 2(c), *Procedures for Pre-qualification*; 2(d), *Procedures suitable for contracting of services or other requirements in which technical capacity is a key criterion*; and 2(f), *General conditions of contract (GCC) covering goods, works, and services consistent with national and, when applicable, international requirements*. In the case of the latter, although not in the form of SBDs, the general GCC requirements and their mandatory use are specified in the regulations.

28. Sub-indicator 2(a), *Implementing regulation defines processes and procedures not included in higher level legislation*, was awarded a score of 1 on the basis that Presidential Decree 80/2003 exists. However, since there is no procurement law with subordinate regulations at present, this Presidential Decree is the national standard by default and it is not easily updated. Sub-indicator 2(e), *User's guide or manual for contracting entities*, was also awarded a score of 1 on the basis that no formal manual for all GOI contracting entities currently exists, although some line ministries may have recorded their own internal procedures in the form of a manual.

29. Sub-indicator 2(b), *Model Tender Documents*, was also awarded a score of 1 on the basis that the use of model documents is not yet mandatory but mandatory requirements are promulgated in Presidential Decree 80/2003. Despite this, GOI has produced draft national standard bidding documents (National Procurement Model Documents) based on Presidential decree 80/ 2003 including (1) An Explanatory Guide, (2) Goods with Prequalification, (3) Goods with Post-qualification, (4) Works with Prequalification, (5) Works with Post-

qualification, (6) Other Services with Prequalification, (7) Other Services with Post-qualification, and (8) Consulting Services. There was little stakeholder consultation during their preparation but, subsequently, about 300 participants from various stakeholders attended a workshop to discuss them. As a result of the various inputs, comments, etc received, the interim "Center for Development of Public Procurement Policy" has completed the documents for broader acceptability. These model documents have now been uploaded onto the National Planning Agency website and other government agencies are now progressively adopting their use. The English translation of the model documents is ongoing and is expected to be completed during 2007 when copies will be provided to all donor agencies. As a consequence, GOI expects the score for Sub-indicator 2(b) to increase to 3 when the use of model documents is made mandatory.

4.3 INSTITUTIONAL FRAMEWORK AND MANAGEMENT CAPACITY (PILLAR II)

30. Modernizing and maintaining a country's public procurement system is an ongoing and complicated process that benefits strongly from the existence of focal points in government administration with sufficient capacity and qualifications to manage the procurement system, and the public funds utilized by it, and monitor procurement implementation. In quantitative terms, the Indonesian system achieved approximately **55.5 per cent** in comparison with "model" baseline requirements for *Institutional Framework and Management Capacity (Pillar II)*.

Mainstreaming and Integration into Public Sector Governance System (BLI-3) (58.3%)

31. Public sector procurement within Indonesia implies the use of public funds that are, by definition, "*on the Government's budget*". Sub-indicator 3(a), *Procurement planning and associated expenditures are part of the budget formulation process and contribute to multi-year planning*, was awarded a score of 1 on the basis that while some procurement plans are prepared, their links with the budget planning process are weak, and there are currently no formal requirements to submit procurement plans in order to assist in preparing the budget. i.e. Currently, procurement planning and data on costing is not really part of the budget process.

32. Up until FY2005 there had been dual budgeting in Indonesia with separate routine and development budgets that created operational problems when GOI was forced to change its spending priorities or make cuts. While GOI has now adopted a unified budget, which was a key recommendation of the Country Financial Accountability Assessment (CFAA) dated April 2001, some problems in integrating procurement into the budget process still exist. The National Development Planning Agency (Bappenas) and the Ministry of Finance (MOF), each have separate responsibilities - Bappenas in preparing both the five year plan and the annual sectoral consolidated allocations, and MOF in preparing the total annual budget. Even though the bulk of public expenditure in development projects relate to the procurement of goods, works, and services, it is not yet the norm for sector line agencies to use project procurement plans to develop anticipated costs and disbursement schedules and consolidate for Bappenas to then present on a sector allocation basis for national budget purposes. In addition, while Bappenas has built up expertise in sector programming, it has little incentive to critically review project costings or anticipated disbursement schedules and their correlation with procurement plans since Bappenas does not directly determine annual budget

program allocations. Likewise, GOI standard electronic accounting system (Standar Akuntansi Pemerintah [SAP]) is itemized according to type of expenditures and not according to procurement packages/ activities.

33. Through this report, it is suggested that the OECD/DAC procurement joint venture needs to clarify further the definition of what it means by “procurement plans” and what it considers to be best practice in terms of the Procurement Plan level, and phase/ timing (where and when) such Procurement Plan(s) is/are included in the budget planning process.

34. Sub-indicator 3(b), *Budget law and financial procedures support timely procurement, contract execution, and payment*, was awarded a score of 3 because the legislated framework related to Indonesia’s budget process does support timely procurement, contract execution and payment. According to law, entitlement to funds should be released to line agencies for development projects at the commencement of the fiscal year². Whereas, previously, the issue of warrants allowing release of such entitlements was often delayed until quite late in the year, this matter has now been substantially resolved with release of entitlements occurring in January, albeit with some categories being tagged for deferment until later in the year for cash planning purposes. While a score of 3 is correct on the basis of law, actual disbursements are often less than anticipated due to a number of factors such as weak procurement capacity, and, in an era where there are a number of anti-corruption watchdogs, staff in project management units not wanting to take responsibility in case of subsequent prosecution.

35. Sub-indicator 3(c), *No initiation of procurement actions without existing budget appropriations*, was also awarded the full score of 3 because there can be no initiation of procurement actions without an existing budget allocation and contract execution is subject to budgetary controls to ensure sufficient contract funding.

36. Sub-indicator 3(d) scored 0 because, while completion reports are usually required for donor-assisted projects, there is currently no legal requirement for *systemic completion reports either for certification of budget execution or for reconciliation of delivery with budget programming*.

Functional Normative Regulatory Body (BLI-4) (66.7%)

37. Since the commitment by GOI to the CGI in 2001 to create a National Public Procurement Office (NPPO), GOI officials have attended seminars on the subject in UK and Italy as well as undertaking study tours to examine national procurement policy bodies in other countries such as Poland. Following on from this, a National Workshop of all stakeholders including the Indonesia Chamber of Commerce and Industry (Kadin), and the Construction Services Industries Board (LPJK) etc discussed the establishment of the National Public Procurement Office and what its structure might be.

38. Sub-indicator 4(a), *The status and basis for the normative/ regulatory body is covered in the legislative and regulatory framework*, was awarded a score of 2 on the basis that, first, an interim “Center for Development of Public Procurement Policy” exists within the National Development Planning Agency and, second, Presidential Decree 80/2003 stipulates the future establishment of a National Public Procurement Office.

² Indonesia’s FY is the same as the calendar year

39. The interim "Center for Development of Public Procurement Policy" has drafted a new Presidential Decree that, when executed, will establish a fully independent *Goods/Services Procurement Policy Development Institution (Lembaga Pengembangan Kebijakan Pengadaan Pemerintah [LPKPP])*. The draft is in the final stages of processing and is expected to be forwarded to the State Secretariat for signing by the President within the next few weeks. The Institution will report directly to the President of the Republic of Indonesia and will be chaired by an appointee from the civil service (non-political), who may be assisted by a Committee comprised of procurement experts sourced from both inside and outside government. There will be two Deputies responsible for (1) Strategy/ Policy Development, and (2) Monitoring and Evaluation, as well as a Center/ Directorate of Information Systems and a Secretariat that will each report directly to the Chairman. Each Deputy shall have a maximum of three Centers/ Directorates. The establishment of LPKPP will be coordinated by the Minister of Planning.

40. Sub-indicator 4(b), *The body has a defined set of responsibilities*, was awarded a score of 2 on the basis that most of the functions listed will be assigned to LPKPP when established. Sub-indicator 4(c), *Organization, staffing, level of independence, and authority are sufficient and consistent with responsibilities*, was awarded a score of 1 on the basis that, while it will have the requisite independence and authority, as a newly established fledgling entity, its initial financing may be inadequate for the proper discharge of its responsibilities. Sub-indicator 4(c), *Separation and avoidance of conflicts of interest*, was awarded the full score of 3 because the proposed functions of LPKPP are such that it will not be responsible for undertaking procurement operations directly.

Institutional Development Capacity (BLI-5) (41.7%)

41. Sub-indicator 5(a), *National system for collecting/ disseminating procurement information*, was awarded a score of 2 on the basis that there is an integrated procurement information system in the form of an electronic bulletin board, which is available for advertising GOI/ public sector procurement. However, its availability needs to be better advertised, and its access and use is still limited. Sub-indicator 5(b), *Systems and procedures for monitoring procurement*, was awarded a score of 1 on the basis that there is a limited system in operation for collecting some data, but such data has not been analyzed in depth and its reliability has not been assessed. GOI appreciates that the collection of performance data will help track whether changes in actual performance are occurring as a result of its reforms to strengthen the public procurement system. Therefore, GOI is developing a strategy for the collection of compliance/ performance indicators (CPIs) (see Section 6 of this report).

42. Sub-indicator 5(c), *A sustainable strategy and training capacity exists*, was awarded a score of 2 on the basis that there are training programs of suitable quality and content available, but there is currently no national advisory service/ "help desk" and no periodic adjustments to the programs are made. About 4-5 years ago, a procurement training program was developed, including training manuals, and the provision of workshops to train trainers. Unfortunately, a lot of this work was premature because the training materials now need to be updated and revised as a result of subsequent developments including the issuance of Presidential Decree 80/2003.

43. Sub-indicator 5(d), *Quality control standards*, was awarded a score of zero on the basis that Indonesia currently does not have quality assurance or staff performance evaluation systems. Despite this, Presidential Decree 80/2003 initially required that all GOI project managers and members of tender committees nationwide must hold a procurement practitioner's proficiency certificate by 1 Jan 2006. Unfortunately, this target date was somewhat ambitious, bearing in mind the need to (i) develop a nationwide training system

including the training of either public or private training providers, (ii) amend and improve training modules and materials produced previously, (iii) develop and design a testing and certification system for procurement practitioners, and (iv) undertake workshops. Because of the ambitious time constraint for national certification imposed, there was insufficient time to prepare training materials, conduct training, and undertake testing of prospective procurement practitioners. Therefore, while at first glance it might seem to be putting the “cart before the horse” to undertake testing before any training has taken place, a decision was taken to prepare computerized (multiple choice questions) for a basic level test. The questions test practical knowledge of procurement from “hands-on” experience, as well as basic knowledge of Presidential Decree 80/2003, being the national regulation. Prior to taking the test for basic level certification, all applicants are also required to sign a form confirming that they will abide by a code of ethics. Computerization enables the test to have built-in security safe guards, and prompt evaluation and tallying of results. In effect, the basic level test enables prospective procurement practitioners to be screened. Those who pass will be certified, whereas those who fail will be required to undertake further training. This is likely to be more efficient because training will focus on the needy and not waste the time of those who do not need it. Subsequently, this requirement for basic level certification was postponed until 1 Jan 2008.

44. One of the roles of the future LPKPP will be to support/ develop the capacity of primary stakeholders involved in procurement. GOI (LPKPP) will consider providing three levels of certification as follows:

- a. *Basic Level:* Knowledge of national regulations and practical experience in undertaking procurement
- b. *Intermediate Level:* In addition to Level 1, knowledge of international procurement procedures such as those of the World Bank, ADB, WTO etc
- c. *High Level:* In addition to levels 1 and 2, broad overview of more complex contracts, e-procurement, trends in “green” procurement etc. Consideration is being given to utilizing procurement modules from the International Trade Center (ITC) and blending them with local modules. The advantage is that, depending on cost, the High Level Certification would be internationally recognized.

45. Decisions have still to be made as to whether the high level tests would blend procurement modules from ITC with local modules or not. With the training and certification process being centralized, the initial role of training providers for the basic level test would be to provide venues, computer equipment, and oversight only. Decisions have yet to be made with respect to out-sourcing subsequent training to suitable providers. While some providers have been accredited by ITC, or have achieved ISO standards, others have not. However, it is expected that whatever body becomes responsible for developing procurement capacity (either LPKPP itself or a Professional Training and Certification Board created by LPKPP) will adopt a fair and equitable approach to selecting providers. Currently, the Certification System follows Law No 13/2001 under the auspices of the National Body for Professional Certification (BNSP).

4.4 PROCUREMENT OPERATIONS AND MARKET PRACTICES (PILLAR III)

46. Public procurement requires performance not only from the public sector but also from private sector participants, who are, in most instances, the suppliers/ providers. Therefore, a functioning and competitive private sector market is a key partner to GOI across all levels of Government if its procurement system is to function well. To be an effective partner, the market must also have confidence in the Indonesian system and the competence and integrity of the various contracting entities in implementing and administering the system in accordance with the regulations. In quantitative terms, the Indonesian system achieved approximately **59.3 per cent** in comparison with “model” baseline requirements for *Procurement Operations and Market Performance (Pillar III)*.

Efficiency of Procurement Operations (BLI-6) (66.7%)

47. Sub-indicator 6(a), *Level of procurement competence among GOI officials is consistent with their procurement responsibilities*, was awarded a score of 1 on the basis that there are defined skill and knowledge profiles for specialized procurement jobs but there is no systematic matching of skills against requirements and currently there is no guarantee that staff undertaking procurement on an ad hoc basis either have the necessary knowledge to undertake the activity or have access to staff that have the skill. However, with the requirement that staff undertaking such procurement be certified as having basic-level knowledge, this situation would change from 1 January 2008. Sub-indicator 6(b), *Procurement training and information programs for government officials and private sector participants are consistent with demand*, was also awarded a score of 1 on the basis that, while there are training programs they are unlikely to meet demand, particularly with respect to GOI officials who are required to be certified to a basic level by 1 January 2008.

48. Sub-indicator 6(c), *Established norms for record keeping*, was awarded the maximum score of 3 because there are established procedures/ protocols in law that require all such records to be kept and protected for twenty years or more. Likewise, Sub-indicator 6(d), *Delegation of authority*, was also awarded the maximum score of 3 on the basis that both Presidential Decree 80/2003 and other laws and regulations relating to the civil service include provisions for delegating authority to others who have the capacity to exercise such responsibilities. Of course, after 1 January 2008, the capability of possessing such capacity (i.e. level of competence) will be measured through the certification process.

Functionality of the Public Procurement Market (BLI-7) (33.3%)

49. Sub-indicator 7(a), *Effective partnership mechanisms between public and private sectors*, was awarded a score of 1 on the basis that GOI does encourage dialogue with the private sector and its various professional associations. Despite this, GOI currently does not have capacity building programs for suppliers/ providers and, apart from the contractual relationships between procurer/ user and supplier/ provider (contractor), GOI does not have well established mechanisms for public/ private partnerships.

50. The focus of GOI, quite correctly, is currently on assessing that the competency/ proficiency of its own officials is consistent with their procurement responsibilities and, where it is found to be lacking, to provide the necessary training. However, GOI as the procurer/ user enters into contracts with suppliers/ providers (contractors). While, in accordance with Presidential Decree 80/2003, government officials may seek to either pre- or

post-qualify providers based on (i) their technical competency and capacity to carry out a contract, (ii) experience in providing the goods, works, or services, and (iii) financial capacity to enter into a contract, little may be known as to the competency of the various suppliers/providers in undertaking the actual procurement processes themselves. This will be rectified by not only providing capacity building programs for private sector suppliers/providers, but also by implementing suitable monitoring mechanisms (see Section 6 below).

51. With the introduction of Presidential Decree 80/2003, a previous Certification (“Pre-qualification”) process for the suppliers/providers of goods and services was, in most instances, abandoned by GOI because of conflicts of interest arising from the fact that the administrators of that certification system were supplier/provider professional associations, themselves. Certification was carried out by the Construction Services Development Board (LPJK) for civil works contractors and by the Chamber of Commerce (KADIN) for suppliers, others contractors, and consultants. The certification criteria were not made public and there was no transparency in the process. In addition, it focused more on pre-qualification (initial lists of firms) and less on quality. i.e. it was driven by business associations whose members had vested interests. While the abandonment of such certification and pre-qualification schemes was generally applauded by those that did not have vested interests, the downside is that it may have exacerbated the lack of knowledge by suppliers/providers in actual procurement processes. If LPKPP, on behalf of GOI, decides to establish a National Procurement Professional Training and Certification Board (LSP) it would mark a major step in integrating training in procurement processes and ensuring that there are similar standards both in the public and private sectors. Indeed the fact that a computerized basic level test has been developed for government officials means that, in the longer term, it could readily be applied to private sector providers as well.

52. Sub-indicator 7(b), *Private sector institutions are well organized and are able to facilitate access to the market*, was awarded a score of 1 not so much on the basis that the private sector is weak (apart from weak capacity) but more from the fact that competition can be limited owing to monopolistic or oligopolistic features that can limit competition in a market that can be segmented due to other factors including decentralization.

53. A well functioning procurement regime should be market driven and self policing, based on the primary objective of getting best value for money for public funds. While questions of capacity and capability of providers are a separate issue, Indonesia does have sufficient numbers of providers to enable competition and comparative pricing when compared to prices for similar requirements in local, regional, and international markets. However, despite this, while Indonesia has several million potential suppliers/providers, less than 5 percent are actually involved in government procurement. Several factors have either influenced the market in the past, or continue to do so now. These are (i) Decentralization, (ii) Previous Certification (Pre-qualification), and (iii) Collusive Rings. Mention has been made in Section 2.1 that rapid decentralization has resulted in some instances in overlapping jurisdictions with potential segmentation of both the procurement market and the procurement legal framework. Such conflicts/inconsistencies and overlapping jurisdictions can enable both local governments and individual persons to manipulate these to their advantage and restrict suppliers/providers to only those within their regions thereby segmenting the market. The old Certification system for suppliers/providers was anti-competitive and also created market segmentation without fair and equal opportunity for all. Its abandonment by GOI in 2003 removed this impediment. The issue of collusive rings relates more to Pillar IV (See Section 4.5 below). However, it is a factor that impacts on the market. If competition is controlled by the entities that would stand to gain from such

collusion, and where there is no credible complaints handling mechanism, and no sanctions are applied when evidence of collusion is found, then collusive rings will continue to abound.

54. Sub-indicator 7(c), *Systemic constraints that inhibit the private sector's capacity to access the procurement market*, was awarded a score of 1 on the basis that competition levels are affected due to multiple constraints that inhibit private sector access to the public procurement market. It was stated above that less than 5 percent of private sector entities are actually involved in public sector procurement. While one constraint, being certification, has been eliminated, others already mentioned are possible regional segmentation of the market due to the impact of rapid decentralization, potential collusion, and weak capacity of some SEs and SMEs both in terms of knowledge of public procurement requirements and their financial situation. Depending on a company's financial situation, access to credit does not appear to be a major constraint in the current economic climate (see Section 2.2).

Contract Administration and Dispute Resolution Provisions (BLI-8) (77.8%)

55. Sub-indicator 8(a), *Defined procedures for undertaking contract administration*, was awarded a score of 2. While no GOI officially sanctioned generic contract administration manual formally exists, both Presidential Decree 80/2003 to some extent (framework) and the model bidding documents do stipulate procedures relating to important aspects of contract administration.

56. Sub-indicator 8(b), *Contracts include dispute resolution procedures that provide an efficient and fair process*, was awarded the maximum score of 3 on the basis that Indonesia has an arbitration Law that is consistent with the generally accepted practices of neutrality, due process etc., and international arbitration is acceptable to GOI for ICB.

57. Sub-indicator 8(c), *Procedures exist to enforce the outcome of the dispute resolution process*, was awarded 2 on the basis that procedures exist through the judicial system to enable the winner of any dispute to seek enforcement of the outcome. However, there is no formal monitoring process of dispute resolution and its enforcement.

4.5 INTEGRITY AND TRANSPARENCY OF THE PUBLIC PROCUREMENT SYSTEM (PILLAR IV)

58. A public procurement system will only function well when it operates with integrity (i.e. is fair, transparent, and credible). Mechanisms should be available for the independent control and audit of its operations. Therefore, to ensure accountability and compliance, and for participants to lodge complaints/ appeals and challenge decisions through administrative and judicial review bodies having appropriate levels of independence and the legal power to impose corrective measures and remedies against participants, be they GOI contracting entities (at all levels of Government) or providers/ suppliers that are in breach of the regulatory framework. The regulatory framework should also address issues such as fraud, corruption, nepotism, and conflicts of interest, so as to ensure that the system will operate in a fair environment. In quantitative terms, the Indonesian system achieved just over **69 per cent** in comparison with "model" baseline requirements for *The Integrity of the Public Procurement System (Pillar IV)*.

Control and Audit Systems (BLI-9) (60%)

59. Sub-indicator 9(a), *Legal framework, organization, policy, procedures for internal and external audit of public procurement operations is in place*, was awarded a score of 1 on the basis that Indonesia does have control and audit mechanisms and institutions to oversee the procurement function as part of a wider audit of utilization of public funds, but controls are unduly burdensome and time-consuming thereby hindering efficient decision making.

60. Indonesia has both external and internal audit functions within the public sector as follows:

- (1) *External Audit.* The Audit Board of the Republic of Indonesia (BPK) is the Supreme Audit Institution (SAI) and, following a 2003 constitutional amendment, is the only *external auditor* of Government at both the central and regional level. It has sole authority to investigate state financial management and accountability, and to provide an audit opinion to central and regional governments;
- (2) *Internal Audit.* The internal audit system is more complex.
 - (i) BPKP, established under Presidential Decree 103/2001, carries out internal audits at the central level of Government. Since decentralization, BPKP no longer has any mandate to audit regional levels of government;
 - (ii) Each line ministry has a unit responsible for conducting internal audits within that ministry headed by an Inspector General (IG) who reports to the line Minister; and
 - (iii) At the regional level (province or district) of Government each local Government has an internal audit function called the Bawasda formed under the decentralization laws.

61. An independent and well-functioning external audit function and efficient internal audit functions within line ministries are an important means to detect fraud and corruption. Although there has been auditing of the public sector for several decades, it suffers from a lack of accountability which leads to corruption. Likewise, the legal framework is unclear and, possibly, inappropriate for the new decentralized environment. A good example is the potential overlapping mandates and unclear roles not only between BPK and BPKP, but also between BPKP and the various IGs. Given the role of the IGs in the line ministries, the specific mandate of BPKP on their ability to audit line ministries is blurred and they tend now to do special audits on demand. The capacity across BPK, BPKP, line ministry IGs, and regional Bawasdas is weak with lack of oversight. In addition to these deficiencies, there has also been inadequate funding for the audit systems through the budget in the past leading to rent-seeking, i.e., corrupt practices by public auditors, themselves. Also, in Indonesia, the public audit function is not designed in line with international good practice. In summary, the current audit structure is complex and confusing, resulting in inefficiency, high overhead costs, while being ineffective due to weak capacity. In the light of this, GOI is currently in the process of reforming its audit functions at all levels of government as well as utilizing technical assistance to build audit capacity.

62. The weaknesses in the current audit structure are further exacerbated by the current ad hoc approach to monitoring the performance and collection of data/ statistics related to public procurement (see Section 4.3 Sub-indicator 5(b) and Section 6) and, the lack of official supporting documentation such as national model bidding documents (Section 4.2 Sub-indicator 2(b)) (recently produced), contract documents, and manuals/ guidelines that would provide standard reference controls.

63. Official internal and external procurement audits, usually on behalf of external donor agencies, are currently carried out on an ex-post basis. Currently, little is done to monitor the actual procurement process itself up to award of contract or, indeed, of the implementation of the contract to ensure that standards, and hence quality, are maintained.

64. As mentioned in Section 4.3, an interface problem exists between GOI's standard accounting system (SAP), which is itemized according to type of expenditures, and the implementation of procurement packages/ activities. Auditors insist that payments must comply strictly with, and relate exactly to, the budget categories/ documentation even though these may not bear any relation to the actual procurement contract(s).

65. Sub-indicator 9(b), *Enforcement and follow-up on findings and recommendations*, was awarded a score of 2 on the basis that, while audits are carried out annually, it can take up to one year to either respond to, or implement, the auditor's recommendations.

66. Sub-indicator 9(c), *The internal control system provides timely information on compliance*, was awarded the maximum score of 3 on the basis that there are established standards and reporting procedures for conveying issues to management depending on their urgency. On the other hand, sub-indicator 9(d), *Internal control systems are sufficiently defined to allow performance audits to be conducted* was awarded a score of 2 on the basis that there are internal control procedures, but there can be omissions and there are practices that could be improved. In awarding this score, it was borne in mind also that (i) the jurisdictions/ responsibilities of BPKP and the IGs within line agencies are blurred and may overlap, and (ii) only some IGs may have internal audit control manuals specific to their respective line agency.

67. Sub-indicator 9(d), *Auditors sufficiently informed about procurement requirements* was awarded a score of 1 on the basis that while it is required auditors have a general knowledge of procurement regulations, principles and procedures, their capacity is generally weak in this area and they are not supported by specialists in procurement. The weak capacity of those either in line ministry IGs or other internal and external institutions that audit public sector procurement needs to be addressed. It is mentioned in Section 4.3 Indicator 5 that GOI is implementing a national capacity building and certification system for procurement at all levels of government. While it is targeted initially at GOI procurers/ users (procurement practitioners), either LPKPP, or any Professional Certification Board created by it, may also consider including and certifying, at least to the basic level, those required to audit procurement processes so that they understand them and the controls that are currently in place.

Appeals Mechanisms (BLI-10) (40%)

68. Sub-indicator 10(a), *Decisions are deliberated on the basis of available information, and the final decision can be reviewed and ruled upon by a body (or authority) with enforcement capacity under the law*, was awarded a score of zero on the basis that, while Presidential Decree 80/2003 specifies a complaints mechanism, there is currently no independent appeals body. The failing of the current mechanism is that complaints must be routed to the user line agency and usually to the Project Manager responsible for the procurement in the first instance. While the complainant/ plaintiff can raise the issue through higher levels up to the Minister of the Line Agency, there are potential conflicts of interest with the entity handling the complaint also being the user agency or the Minister of that agency. In view of this potential conflict of interest, the current system cannot be considered

to operate in a fair and balanced manner with due process. As a result, the complainant often has no option, depending on the nature of the complaint, but to resort to either contacting an attorney or the police so that the complaint may eventually be ruled upon in a court of law.

69. Despite sub-indicator 10(a) being awarded a score of zero, sub-indicator 10(b), *Capacity to handle complaints efficiently and enforce remedies imposed*, was awarded the maximum score of 3 because, although the current complaints mechanism is not considered to be independent, precise and reasonable conditions and time-frames with clear enforcement authority are specified in Presidential Decree 80/2003.

70. Sub-indicator 10(c), *The system operates in a fair manner with balanced outcomes*, was awarded a score of 2 on the basis that the current system does make decisions on the basis of information relevant to the case, which can be subject to higher review (the Minister). However, due to the fact that the process is not independent of the procuring agency, it was acknowledged that decisions might not be balanced and could be biased.

71. Sub-indicator 10(d), *Decisions are published and made available*, was awarded a score of 1 on the basis that the current mechanism, as specified in Presidential Decree 80/2003, does not require publication to be mandatory, but rather leaves it to the discretion of the procuring agency. This means the current system is not fully transparent and access to information could be difficult.

72. Sub-indicator 10(e), *Full authority and independence*, was awarded a score of zero on the basis that the current mechanism is not independent and autonomous with regard to resolving complaints. Therefore, upon the establishment of LPKPP, another of its priority tasks will be to consider setting up an independent appeals mechanism. GOI is not considering that LPKPP should resolve grievances or complaints directly itself, in view of its proposed monitoring role, which could create a conflict of interest. i.e. LPKPP should not be handling complaints stemming from its own monitoring functions. In addition, LPKPP may be required to be the arbiter of its own regulations and their interpretation. As a consequence, LPKPP may consider setting up a self-contained independent complaints authority under its "umbrella", possibly comprised of suitable persons from both public and private sector organizations. Ideally, resolution of grievances should be resolved mutually through the process of arbitration. However, if there is an inability to apply enforceable remedies/sanctions then corruption will breed. Therefore, LPKPP should time the processing of any new public sector procurement law, which would include penalties for criminal conduct, such that the new law will empower any independent body set up to handle/ resolve complaints with the means to enforce its decisions/ remedies and publish them.

Access to Information (BLI-11) (100%)

73. Sub-indicator 11(a), *Information is published and distributed through available media*, was awarded the maximum score of 3 on the basis that a system has already been set up in the form of an electronic bulletin board that consolidates and advertises full and relevant information relating to public sector procurement across all levels of government (National, Provincial, City and District (Regency)). However, while the system is accessible to those with computers and access to the internet, it is currently not being utilized to the fullest extent.

Ethics and Anti-corruption Measures (BLI -12) (76.2%)

74. Sub-indicator 12(a), *The legal and regulatory framework, including tender and contract documents, include provisions addressing corruption, fraud, conflict of interest, unethical behavior and set outs actions that can be taken with regard to such behavior*, was awarded a score of 2 on the basis that both Presidential Decree 80/2003 and the model bidding documents specify the requirement, but it is left up to the procuring agencies on how to incorporate the matter. In other words, the tender documents generally do cover the requirement but without consistency.

75. Sub-indicator 12(b), *The legal system defines responsibilities, accountabilities, and penalties for individuals and firms found to have engaged in fraudulent or corrupt practices*, was awarded a score of 2. While Presidential Decree 80/2003 addresses the issues as stated in sub-indicator 12(a), it is not a high-level law and, in the main, currently relies on other general anti-corruption legislation to deal with the matter and the consequences.

76. Sub-indicator 12(c), *Evidence of enforcement of rulings and penalties exists*, was awarded a score of 2. However, this score was based on some cases, which may have related in some way to fraudulent, corrupt, or unethical behavior associated with public procurement, but which were prosecuted and sentenced under general anti-corruption legislation.

77. Sub-indicator 12(d), *Special measures exist to prevent and detect fraud and corruption in public procurement*, was also awarded a score of 2 on the basis that GOI does have in place a wider anti-corruption program, only part of which relates to public procurement. Studies that specifically relate to public procurement have been undertaken. One, in particular, examined the various stages of GOI's public procurement process and highlighted where and how opportunities for fraudulent and corrupt practices could occur at each stage of the process.

78. GOI questions the appropriateness of sub-indicator 12(e), *Stakeholders support the creation of a procurement market known for its integrity and ethical behaviors*, due to the way it is currently worded. Even those stakeholders that may indulge in clandestine or surreptitious fraudulent, corrupt, or unethical behavior, would undoubtedly state publicly that they support such a market known for its integrity and ethical behavior! Sub-indicator 12(e) was also awarded a score of 2 on the basis that since the era of reforms, there are now several civil society organizations that act as "watch dogs" and are in dialogue both with GOI and keep the public informed through the media. While such organizations are having some impact, it is still currently limited.

79. Sub-indicators 12(f), *There are secure mechanisms for reporting fraudulent, corrupt, or unethical behavior*, and 12(g), *Existence of codes of conduct or ethics for participants that provide for disclosure*, were both awarded the maximum score of 3. Having regard to the wider general anti-corruption legislation, there is a secure, accessible and confidential system to enable the public to report cases of fraud, unethical behavior and corruption. Likewise, prior to taking the test for basic level certification, it is mandatory for all applicants to sign a form confirming that they will abide by a code of ethics contained therein. This Code of Ethics relates specifically to public procurement, defines accountabilities for decision-makers, and also subjects them to specific financial disclosure requirements with either administrative or criminal consequences for failure to comply.

80. It may come as a surprise that Indonesia has scored so well for macro-indicator BLI-12 (76% is a substantial achievement) with respect to its ethics and anti-corruption measures when, in the 2006 Transparency International (TI) Corruption Perceptions Index, Indonesia

came equal 130th out of 163 countries measured with a score of 2.4. The TI scores range from ten (squeaky clean) to zero (highly corrupt). A score of 5.0 is the number TI considers the borderline figure distinguishing countries that do and do not have a serious corruption problem. Despite the TI Index indicating that Indonesia still has a serious corruption problem, the reason why Indonesia scored so well in respect of macro-indicator BLI-12 is because the *appropriate anti-corruption provisions are included*, not only in wider anti-corruption legislation, but also in its current public procurement regulatory framework (Presidential Decree 80/2003) addressing the issues of corruption, fraud, conflict of interest, and unethical behavior or, as it is commonly known in Indonesia, corruption, collusion, and nepotism or Korupsi, Kolusi, dan Nepotisme (KKN). However, while the provisions may be in place, *so long there continues to be weak capacity, low salaries with no satisfactory career path for government procurement practitioners, no credible independent complaints handling mechanism, and weak enforcement with no sanctions for corrupt behavior, then corrupt behavior is likely to continue to flourish.*

81. Eradication of corruption is indeed a complex and long-term task requiring fundamental changes. As mentioned above, numerous studies have been carried out and reports written on the subject of corruption and its prevention in public sector procurement in Indonesia. While Indonesia does have a wider anti-corruption strategy in place, aspects relating to public procurement that are either already being addressed, are being proposed, or may be recommended are as follows:

- (i) to incorporate appropriate controls it is necessary to understand the opportunities where corruption can occur at the various stages of the procurement process,
- (ii) ensure that the procurement process is transparent,
- (iii) empower procurement users and communities to assist in the control process,
- (iv) strengthen the capacity of all stakeholders, including users, providers, auditors and the community,
- (v) build a partnership with civil society and the media in monitoring procurement processes,
- (vi) establish policies that will mitigate against collusive rings such as transparency, good complaints mechanisms, and good enforcement, and
- (vii) ensure that credible and enforceable sanctions are in place

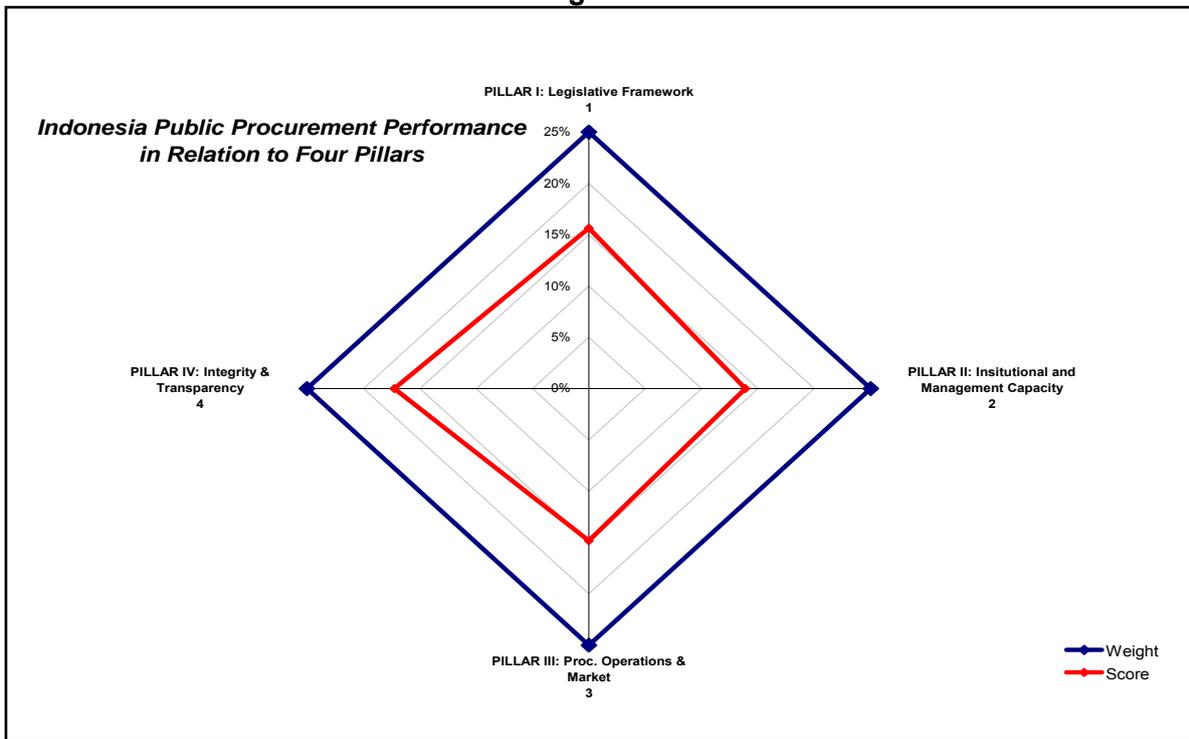
82. This report makes little reference to ongoing reforms in Indonesia with respect to e-Procurement. There is a misconception that e-Procurement will automatically reduce corruption. E-Procurement, in itself, is not the panacea to correct all ills. Governance reforms are not generated by the technology, but rather by the institutional changes that arise out of them. However, e-Procurement can offer transparency and substantial improvement in process efficiencies and, by enabling truly competitive markets, can reduce prices.

SECTION 5: OUTSTANDING WEAKNESSES AND RISK ANALYSIS

83. Annex 2 summarizes the snapshot assessment as at June 2007 in the form of a spreadsheet with associated charts. The radar diamond chart (Figure 1) indicates the performance of the current public procurement system in comparison with each Pillar. Performance ranges from 55.6% to 69%. It is anticipated that the performance of the weakest

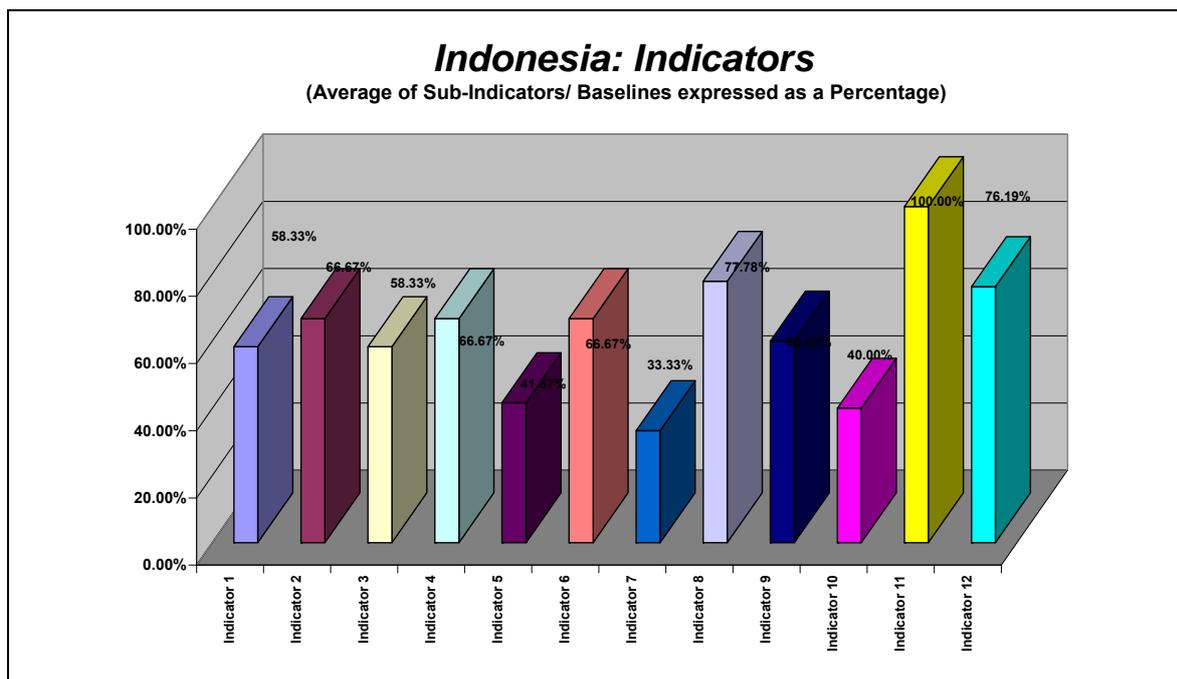
Pillar, Institutional Framework and Management Capacity, will improve in a matter of a few weeks with the formal establishment of LPKPP.

Figure 1



84. Two bar charts show the performance of the macro-indicators (BLI 1-12) in comparison with each other (Figure 2) and in comparison with their applied weightings (currently all indicators within a Pillar are assumed to carry the same weight).

Figure 2



85. A quick analysis of the weaker macro-indicators (below 60%) is provided below.

BLI -7 Functionality of the Procurement Market (33.3%)

86. The achievement for this macro-indicator indicates that the capacity of private sector stakeholders (the suppliers/ providers) is weak, they are not well organized, the market might be segmented, and competition might be affected. In addition to considering other factors that might be affecting market performance, the future LPKPP will need to consider integrating the capacity building of both procurers/ users (government officials) and suppliers/ providers (generally private sector) within the public sector procurement domain. One approach to achieve this could be the creation of a Professional Training and Certification Board inclusive of both the public and private sectors. In addition, it is expected that data relating to the performance of the market will improve once systematic monitoring is undertaken (Section 6 below).

BLI-10 Efficiency of the Appeals Mechanism (40%)

87. In order to improve this macro-indicator, a priority task of the future LPKPP will be to consider the establishment of a body either under its “umbrella” but independent of it, or totally independent, possibly comprising persons from private sector professional organizations as well as civil servants with expertise in public sector procurement and procurement law that will be dedicated to receiving reasonable appeals, complaints, grievances and arbitrating/ resolving them, and being provided with sufficient authority, through any future high-level procurement law, to both publish the decisions reached and enforce them.

BLI-5 Existence of Institutional Development Capacity (41.7%)

88. Improvements to this macro-indicator can be made by:

- (i) Establishing a monitoring system (collection, aggregation and analysis of CPIs) (Section 6 below);
- (ii) the future LPKPP, in addition to the comments made with respect to BLI-7, considering the development of a cost-effective capacity building plan that (i) is inclusive of all stakeholders being users, supplier/ providers and auditors, (ii) realistically assesses and has regard to current stakeholder capacity level, (iii) describes the processes in accordance with the legal framework and any associated supporting documentation, (iv) is implemented in the appropriate form, such as workshops, with supporting training material, (v) provides for monitoring so as to ensure that the capacity building (in association with the revised instructions and supporting documents) is actually having an effect on improving procurement performance, and (vi) has flexibility so it can be readily revised to ensure that it is meeting its objective of improving procurement capacity and performance; and
- (iii) ensuring the level of competence of procurers/ users is consistent with their level of responsibilities through the Certification process that will come into being in 2008.

BLI-1 Legislative and Regulatory Framework achieves standards and complies with obligations (58.3%)

89. Drafts of a new high-level public sector procurement law and associated subordinate regulations are being finalized. An immediate improvement to both this macro-indicator and also BLI-2 will occur when:

- (i) The Indonesian parliament enacts an overarching consolidated national public sector procurement law that (i) establishes the fundamental principles and procedures applicable to all public sector procurement, (ii) allows for the imposition of sanctions where the principles and procedures, and particularly those relating to good governance and ethics, are not met, (iii) amends other laws that refer to public sector procurement, and (iv) ensures that such a law will have the necessary authority in a decentralized environment;
- (ii) The future LPKPP, having been empowered by the new law to issue subordinate regulations, proceeds to issue them. Such regulations may include (i) details contained within Presidential Decree 80/2003 and its associated annexes that are not already enshrined in the law, (ii) a regulation on procurement monitoring (CPIs), (iii) a regulation on e-Procurement and (iv) a regulation on emergency procurement where reduced timeframes may be applied when GOI declares an emergency in a particular region when it has been affected by a natural disaster; and
- (iii) The future LPKPP formally issues (i) National Model (Standard) Bidding and Contract Documents and (ii) National Procurer/ User's and Supplier/ Provider's Guides or Manuals explaining the various procedures.

BLI -3 Mainstreaming and Integrating into the Public Sector Governance System (58.3%)

90. This macro-indicator will improve when procurement planning is better integrated into the budget process and the adoption of completion reports for NCB is made mandatory.

Risk Assessment

91. Indonesia's public sector procurement system scored **61.6%** in comparison with the generally accepted "standard" model system. On the basis of this, the general assessment is that *public procurement risks in Indonesia are currently perceived to be average*. Table 2 below indicates the potential risks that need to be managed, the effect of these risks, their cause, and mitigation measures, which have been suggested above.

Table 2 : Management of Risks associated with Indonesia's Public Procurement System

RISK TO BE MANAGED	EFFECT	CAUSE (and Link to Baseline Indicator)	MITIGATION
Inefficient and uneconomic procurement	Award may not be to the lowest responsive bidder May not represent the	<ul style="list-style-type: none"> • Regulations and supporting documentation insufficient to describe how process should be implemented (Indicators 1 & 2) • Lack of central public procurement policy office 	Short-term <ul style="list-style-type: none"> • Create National Public Procurement Office (LPKPP) • Mandatory use of SBDs, and contract documents. Produce supporting

	<p>best value for money</p> <p>Excessive time to solicit and award</p>	<p>(LPKPP) (Indicator 4)</p> <ul style="list-style-type: none"> • Lack of capacity (trained participants) from both contracting entities Procurers/ users) and suppliers/ providers. Level of proficiency of procurers questionable (Indicators 5 & 6) • Lack of systems to monitor performance of the procurement system (Indicator 6 & 11) • Lack of competition in market (Indicator 7) • Improve access to information (Indicator 11) 	<p>manuals that specify implementation procedures including publication of information</p> <ul style="list-style-type: none"> • Create capacity building programs for all participants (contracting entities and suppliers/ providers) that explain processes/ procedures <p>Medium Term</p> <ul style="list-style-type: none"> • Setup system to monitor public procurement performance • Set up e-Procurement systems and ensure mandatory use for advertising so as to improve information
<p>Lack of integrity and inequitable treatment of suppliers/ providers</p>	<p>Contracting Entities engage in double standards and unacceptable behavior that is not ethical</p>	<ul style="list-style-type: none"> • Lack of standard contracts with appropriate administration and dispute resolution provisions (Indicator 8) • Improve effectiveness of Control and Audit system (Indicator 9) • Lack of any independent mechanism to handle complaints/ appeals within an administrative and judicial framework with power to enforce decisions (Indicator 10) • Improve access to information (Indicator 11) • Low salaries of civil service in comparison with some in Private Sector 	<p>Short Term</p> <ul style="list-style-type: none"> • Mandatory use of SBDs, and contract documents and production of manuals that specify implementation procedures including publication of information, unacceptable behavior, contract dispute procedures etc • Strengthening of the audit system is currently ongoing <p>Medium Term</p> <ul style="list-style-type: none"> • Set up independent mechanism to handle complaints/ appeals, with power to enforce decisions • Set up e-Procurement systems and ensure mandatory use for advertising so as to improve information <p>Other</p> <ul style="list-style-type: none"> • Improve effectiveness auditors through inclusion in procurement capacity building programs • GOI to review salary structures

SECTION 6: COLLECTION OF COMPLIANCE/ PERFORMANCE INDICATOR DATA

92. As there are currently no agreed standards for performance across all countries, the short term objective is to find out the degree to which the Indonesian public procurement system is following its own regulations or what the perception of compliance is in those cases where an indicator cannot be measured quantitatively.

93. A simple, yet efficient, system to monitor the performance of public sector procurement in Indonesia is necessary, not just to improve the availability of information on performance, but also to ensure that capacity building programs continue to be correctly focused and the quality of the system is either maintained or increased. In addition, a good monitoring system will help the future LPKPP assess the performance of all stakeholders (i.e. the various “actors”) and instill confidence of both the private sector and the international donor community in the system. As stated in Sections 1.2 “Assessment Limitations”, 2.1 “Decentralization”, and 3.2 “Stakeholders”, the situation in Indonesia is further compounded by its rapid decentralization with procurement occurring across all levels of government from central agencies to individual districts involving numerous stakeholders. In considering a monitoring system for Indonesia that is simple, yet efficient, in its decentralized environment, two questions need to be answered:

- (i) What compliance/ performance indicators (CPIs) should be collected? and
- (ii) How should they be collected, aggregated, and analyzed?

Selection of Compliance Performance Indicators (CPIs)

94. To be effective, performance monitoring indicators, which are different to the BLIs used for benchmarking, must be simple, practical, and structured around key features of the Indonesian system. Also, their application should be applied across the entire system irrespective of modes of procurement, thresholds, and contracting entities, be they central government oversight or line agencies, provincial governments, cities or districts (regencies). When establishing suitable data for collection in order to monitor the performance of the Indonesian system, either the interim “Center for Development of Public Procurement Policy” or LPKPP, if established, would first consider the wording and appropriateness of the 29 CPIs proposed in the Methodology Paper V4 July 2006. It is noted that a number of these cannot be measured in quantitative (“concrete”) terms but would result in qualitative/ subjective assessment based on surveys. Bearing in mind the immensity of the task in collecting data in Indonesia’s decentralized environment, one approach being considered would be to put aside for now those qualitative CPIs requiring surveys, and concentrate initially on those CPIs where quantitative data would be available and can be collected. This, in effect, would reduce the number of CPIs to be considered initially to about 12 or 13, which would be similar to those recommended in an earlier OECD/DAC paper on monitoring the performance of public procurement systems. Once a system for the collection and analysis of these quantitative CPIs is up and running, surveys can then be conducted to include the more qualitative CPIs.

Collection and analysis of CPI data

95. GOI has still to decide on a strategy for the collection of quantitative CPIs in its decentralized environment, and its aggregation for analysis by the future LPKPP. Bearing in

mind the number of central government oversight and line agencies, provincial governments (33), and districts (over 400), it may be reasonable to adopt a sampling approach for piloting the collection of quantitative CPIs. In the first instance line agencies that are heavily involved in procurement and that are likely to have historic procurement data readily available would be selected as pilots. Two line ministries under consideration are the Ministry of Public Works and the Ministry of Education. In addition, one or two provinces, and selected cities and districts within those provinces, would be included in the pilot project. In addition to the collection and analysis of quantitative CPIs, the resources of civil society and tertiary education institutions could be utilized at a later stage to collect data for the qualitative CPIs by means of simple surveys.

96. As was briefly mentioned in Section 4.5 of this report, GOI's ongoing reforms include the introduction of e-Procurement and preparation of a regulatory framework for the same. The term e-Procurement is a generic one that is often used in the market to encompass a number of activities from electronic bulletin boards that simply disseminate/ disclose information in respect of procurement opportunities for eligible suppliers, through online purchasing including reverse auctions, to full electronic tendering. Most advancement in e-Procurement in Indonesia at present has occurred in the oil and gas sector. Likewise, Garuda airline, as an SOE, undertakes some e-purchasing. There are currently e-Procurement systems to different levels of sophistication being piloted by the Government of Surabaya, the Ministry of Public Works and the National Planning Agency with studies underway to implement e-Procurement in selected regions. The collection and aggregation of quantitative CPI data would need to have regard to ongoing reforms in e-Procurement and integrate with the same.

SECTION 7: LINKAGES AND INTEGRATION WITH OTHER REFORM PROGRAMS

97. In March 2005, more than 100 countries made a firm commitment in the Paris Declaration to measure their success, or failure, in making aid more effective. The main tenets of the Declaration are that developing countries take ownership of their policies, with donors aligning with these, harmonizing among themselves, and both the developing countries and donors orientating their activities so as to achieve desired results with mutual accountability.

98. The Declaration also encouraged donors to increasingly use strengthened country systems for (i) public financial management (PFM), (ii) public sector procurement (of which this BLI snapshot assessment is part), (iii) environment, and (iv) monitoring and evaluation. In particular, reforming a country's public sector procurement system is very much linked with its PFM. Since procurement should be an integral part of its budget planning process, and initiation of procurement actions, which utilize public funds, should not take place without existing budget appropriations or allocations, and contract execution should be subject to budgetary controls, so as to ensure sufficient contract funding.

99. A number of documents for which the World Bank originally took ownership have now become joint exercises with GOI. These include the Country Procurement Assessment Review (CPAR) of which this benchmarking report lays the foundation, the Country Policy and Institutional Assessment (CPIA), the Country Financial Accountability Assessment (CFAA) and the Public Expenditure and Financial Accountability (PEFA) Assessment. All

these are very much inter-linked. The PEFA assessment exercise is now getting underway in Indonesia. The PEFA PFM Performance Measurement Framework includes a set of high level indicators one of which (PI-19) relates to whether there is open competition in a county's procurement system with value for money, and whether there are controls such as the existence and operation of a procurement complaints mechanism.

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