Technical Assistance Cluster for Sustainable Infrastructure Assistance Program Subproject

Project Number: 46380-009
Cluster Capacity Development Technical Assistance - Subproject (C-CDTA)
May 2016

Republic of Indonesia: Strengthening Fiscal Risk Management of Accelerated Infrastructure Delivery
Subproject No.9
(Financed by the Government of Australia)

CURRENCY EQUIVALENTS
(as of 11 May 2016)

Currency unit	–	rupiah (Rp)
Rp1.00	=	$0.000075
$1.00	=	Rp13,295

ABBREVIATIONS

ADB	–	Asian Development Bank
BAPPENAS	–	National Development Planning Ministry (Badan Perencanaan Pembangunan Nasional)
DGSIF	–	Directorate of Government Support and Infrastructure Financing
DPFS	–	Directorate of Portfolio and Financing Strategy
DSFRM	–	Directorate of State Financial Risk Management
GDP	–	Gross Domestic Product
IIGF	–	Indonesia Infrastructure Guarantee Fund
ISOE	–	Indonesia State Owned Enterprises
MOF	–	Ministry of Finance
SOE	–	State Owned Enterprises
RPJMN	–	Indonesia’s National Midterm Development Plan
PPI	–	Private Participation in Infrastructure (PPI)
PSC	–	Project Steering Committee

TECHNICAL ASSISTANCE CLASSIFICATION

Type	–	Cluster capacity development technical assistance subproject (C-CDTA)
Targeting classification	–	General Intervention
Sector (subsector)	–	Public Sector Management (Public Administration)
Themes (subthemes)	–	**Economic growth** (promoting economic efficiency and enabling business environment), private sector development (public sector goods and services essential for private sector development, promotion of private sector investment)
Location (impact)	–	National (high)
Partnership	–	Government of Australia

NOTE

(i) In this report, "$" refers to US dollars.

Director General	J. Nugent, Director General, Southeast Asia Regional Department (SERD)
Director	S. Tabor, Indonesia Resident Mission, SERD
Team leader	A. Haydarov, Infrastructure Economist, SERD
Team members	E. Allen, Country Economist, SERD R. Hattari, Public Management Economist (Fiscal Management and Social Security), SERD D. Simanjuntak, Senior Project Officer, SERD E. Susilawati, Executive Assistant, SERD

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I. INTRODUCTION

1. The Ministry of Finance (MOF) of Indonesia requested the Asian Development Bank (ADB) to provide technical assistance (TA) to strengthen MOF's capacity to manage fiscal risks arising from the accelerated delivery of infrastructure projects.[1] The TA is a subproject under cluster technical assistance on sustainable infrastructure assistance program (SIAP),[2] and is included in the Indonesia's country operations business plan (COBP), 2015–2017.[3] The TA's objective, scope, implementation arrangements, and financing plan were approved by the MOF on 23 March 2016. The SIAP's steering committee endorsed the TA on 21 April 2016.[4] The subproject's design and monitoring framework is in Appendix 1.

2. **Progress of SIAP**. As of 31 March 2016, seven subprojects have been approved worth a total amount of $9.6 million, of which $7.3 million has been committed and $4.1 has been disbursed. ADB has received total of AU$15 million or 75% of the total financing of the Government of Australia for the SIAP. The available balance for approval of new subprojects is $3 million.

II. ISSUES

3. **Significant increase of infrastructure investment.** Historically low public and private investment in infrastructure resulted in a growing inadequacy of infrastructure provision in Indonesia. This has severely affected the costs of doing business, and critically constrained economic growth and poverty reduction.[5] To address infrastructure inadequacy, , 2015-2019, identifies a need for infrastructure financing worth approximately $363 billion, of which $150 billion (41%) is to be sourced from the state budget, $133 billion (37%) from the private sector, and $80 billion (20%) from the state-owned enterprises (SOEs). To achieve the RPJMN's objectives in the energy sector, total investment need is estimated at $70 billion, of which $7 billion (10%) is expected to be sourced from the state budget, $32 billion (46%) from state-owned enterprises (mainly from the state-owned energy company, PLN), and $31 billion (44%) through private participation in infrastructure (PPI).[6] Overall, infrastructure investments are expected to rise from 3–4% of gross domestic product (GDP) in 2010–2014 to 8–9% of GDP by 2019.

4. **Reforms to accelerate infrastructure delivery.** The successful reform of the fuel subsidy in January 2015 has created more space for infrastructure investment.[7] Against this

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[1] Letter of the MOF's directorate on state financial risk management dated 7 January 2016.

[2] ADB. 2013. *Cluster Technical Assistance to the Republic of Indonesia: Sustainable Infrastructure Assistance Program. Manila*. (C-TA0013-INO). This technical assistance cluster amounting AU$20 million is financed by the Government of Australia, through the Department of Foreign Affairs and Trade, and administered by ADB.

This TA was included as subproject "Support for Public Private Partnership" in Appendix 2 of SIAP's TA Report.

[3] ADB. 2015. *Indonesia: Country Operations Business Plan, 2015–2017*. Manila. In the COBP, the TA is included in Table A4.2 under the title "Supporting Accelerated Delivery of Priority Infrastructure Projects" with $4.1 million indicated as the funding amount from the Government of Australia.

[4] The TA first appeared in the business opportunities section of ADB's website on 19 April 2016.

[5] Larger infrastructure investment in 2001-2011 may have (i) raised average GDP growth from actual 5.3% to 5.8%–7%, and (ii) reduced poverty rate in 2011 from actual 11.4% to 6.9%–9.9%. World Bank. 2013. *Continuing Adjustment. Indonesia Economic Quarterly: October 2013*. Jakarta.

[6] The term PPI covers power purchase agreements with individual power producers (IPP) done based on the PLN's legal framework, business-to-business contracts, joint-ventures, public-private partnerships (PPP) following under the Presidential Regulation no. 38 of 2015, and other types of contractual relationships between the government contracting agencies and private sector for provision of public infrastructure and services in Indonesia.

[7] Initially, the 2015 state budget envisaged the fuel subsidy allocation at the level of 2.5% of GDP. The fuel subsidy reform enabled reduction of this allocation to 0.6% of GDP in 2015. The new policy includes (i) introduction of semi-

backdrop, the government has initiated reforms to accelerate delivery of infrastructure projects. Many of the infrastructure investments are expected to be delivered by infrastructure state-owned enterprises (ISOEs) directly or through PPI arrangements, especially in the energy sector. In 2015, the capital of major ISOEs was increased by a total of Rp. 18.5 trillion ($1.4 billion) and the government directly assigned selected ISOEs with the delivery of large road, transport, and energy projects. In 2016, the government is to provide an additional capital injection in ISOEs, totaling Rp. 15.6 trillion ($1.15 billion).[8] In 2015–2016, the government raised the capital of (i) PT SMI, government-owned infrastructure financing company, by Rp. 22.6 trillion ($1.6 billion); and (ii) the government-owned Indonesia Infrastructure Guarantee Fund (IIGF) by Rp. 2.5 trillion ($0.185 billion).[9] In 2015, the government also allowed ISOEs and PT SMI to directly borrow from international financial institutions against government guarantees.[10] In January 2016, the Presidential Regulation No. 3/2016 entitled 225 national strategic projects (NSPs) to government guarantees.[11] Also in January 2016, the government entitled all energy projects falling under the 35GW program to guarantees, in addition to the projects under the 1st and 2nd Fast Track Programs.[12,13]

5. **Growing fiscal exposure.** The exposure under the government guarantees for infrastructure projects (GGIPs) has so far been limited: the total value of GGIPs grew from $14.2 billion in 2014 (1.6% of GDP) to $14.8 billion in 2015 (1.8% of GDP).[14] Specifically, the guaranteed debt of SOEs and the guarantees for PPP projects are estimated to be at 0.8% of GDP and 0.3% of GDP, respectively, per annum into 2019.[15] This is well within the threshold of 2.57% of GDP that is set for government guarantees under the midterm debt management strategy, 2014–2017. Currently, the largest exposure is under the energy projects of the 1st and 2nd Fast Track Programs amounting to $11.6 billion in 2015 (78% of all GGIPs). The infrastructure acceleration reforms highlighted above will likely cause a rapid growth of the portfolio of GGIPs. This, together with rising external debt and weakening SOE performance, may pose a serious risk to fiscal sustainability.[16] To illustrate, if half of projects under the 35GW program and half of NSPs were to receive government guarantees, the total value of such guarantees would be approximately 10% of GDP in 2015. Hence, it is critical to ensure adequate management of the fiscal risk arising from infrastructure delivery acceleration.

6. **Constraints in fiscal risk management**. The function of managing fiscal risks related to GGIP liabilities is performed by the directorates on state financial risk management (DSFRM) and portfolio and financing strategy (DPFS) of MOF's directorate general on financing and risk

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automatic price adjustment, allowing gasoline and diesel prices to track the movement in international oil prices and the exchange rate every two weeks, (ii) removal of the subsidy for gasoline (RON 88, "Premium"), and (iii) introduction of a fixed per liter subsidy at a maximum level of IDR 1,000 for diesel.

[8] For publicly listed SOEs, capital injection will be through the rights issues. The capital in 2016 injection has been put on hold until the completion of the revised 2016 budget in May-June 2016.

[9] The IIGF has co-guaranteed the for independent power producer PPP project for the 2GW Central Java Power Plan. Under this project, the total guarantee exposure is $3.2 billion. Currently, expansion of the scope of IIGF is considered to enable it to provide guarantees to ISOEs and non-PPP PPI projects. The government is also considering establishing a liquidity facility to enable the IIGF to immediately honor its guarantor obligations.

[10] Presidential Regulation no. 82 of 2015 and Regulation of MOF 189/PMK.08/2015. The first guarantee was issued in December 2015 against PLN borrowing from ADB for the Electricity Grid Strengthening—Sumatra Program.

[11] Total investment cost of NSPs is estimated at $100 billion. Most NSPs are expected to be delivered via ISOEs

[12] Presidential Regulation no. 4 of 2016. It enables provision of credit guarantees to PLN, and guarantees on PLN performance under power purchase agreements with joint ventures between PLN and foreign state-owned enterprises, and IPPs. Total investment cost of $35GW program is estimated at $80 billion.

[13] The government will also continue supporting state-owned water utilities through (i) extending the period and streamlining the approval process for credit guarantees and interest subsidies, and (ii) writing off debt of regional water supply companies vis-à-vis government (Rp 3.2 trillion) via debt-to-equity swaps. As of 31 December 2015, the government issued 11 credit guarantees for state-owned water utilities' borrowing amounting Rp. 328.3 billion.

management (DGFRM). The DSFRM tends to focus on appraising and negotiating GGIPs (upstream phase), while the DPFS tends to focus on monitoring, valuation, budgeting and reporting on contingent liabilities of GGIPs (downstream phase).[17] In addition to the credit risk analysis, the infrastructure acceleration reforms require the DSFRM–a new directorate established upon MOF reorganization in end 2014–to evaluate the technical, economic, financial, legal, and safeguards aspects of infrastructure projects.[18] These areas are new to DSFRM. Despite improvements, the frameworks on credit scoring, credit risk quantification and pricing, valuation, budgeting and funding of contingent liabilities, institutional set-up for credit risk decision-making, and fiscal risk assessment of PPIs, remain insufficient. All this will constrain the MOF's ability to timely evaluate guarantee requests and adequately manage the fiscal risk of a rapidly growing, more complex and diverse portfolio of infrastructure projects.

7. **ADB support and lessons learned.** ADB has a long record of supporting infrastructure development through policy-based loans and TAs on private participation in infrastructure, connectivity, and investment climate reforms. Support for the management of fiscal risks arising from infrastructure projects was provided to MOF's then Fiscal Policy Office in 2007–2013 under a TA on enhancing private sector participation in infrastructure provision (TA 4872-INO). The salient lessons learned include the need to (i) have sufficient fiscal space to realize well-intended infrastructure reforms, (ii) have some level of legal and institutional maturity for managing private participation in infrastructure, and (iii) focus capacity building through on-the-job advisory assistance to enable knowledge and skill transfer without distracting the government staff from delivering their work programs. All these lessons have been incorporated in the proposed TA. Going forward, the proposed TA subproject will synergize with ADB's on-going policy-based loans on Stepping Up Investment for Growth Acceleration Program and Sustainable and Inclusive Energy Program and associated TAs.

8. **Development partner coordination.** The TA subproject will be coordinated with the World Bank's Swiss-funded support to DPFS on government debt and risk management that focuses on portfolio-level analytical support, training, and assisting DPSF in the credit scoring of selected ISOEs.[19] Given the conceptual closeness of ISOE's PPI projects with PPPs, the TA activities will be coordinated with the support of the World Bank (financed by the Government of

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[14] The term GGIP includes government guarantees, business viability guarantee letters, guarantees issued by the IIGF, and other forms of government undertakings provided to infrastructure projects.

[15] IMF. 2016. *Indonesia: Selected Issues*. Washington DC. See section Infrastructure Development in Indonesia, pp. 41–51. IMF Country Report 16/82.

[16] External debt has steadily risen from 25.2% of GDP in 2011 to 33.1% of GDP in 2014. In 2015 and 2016 it is estimated to reach 36.6% of GDP. The ratio of SOE total liabilities to assets has remained high at more than 75% in 2010–2014, while the return on assets has steadily decreased from above 4 in 2010 to less than 3.5 in 2014. IMF. 2015. *Indonesia: Selected Issues*. Washington DC. See section on Managing Fiscal Risks in Indonesia. IMF Country Report No. 15/75.

[17] The DPFS' capacity has grown in the past years. See (i) Bachmair, F. F. 2016. *Contingent Liabilities Risk Management: A Credit Risk Analysis Framework for Sovereign Guarantees and On-Lending. Country Experiences from Colombia, Indonesia, Sweden, and Turkey*. Policy Research Working Paper no. 7538. World Bank: Washington DC; and (ii) IMF. 2015. *Malaysia: Selected Issues*. Washington DC. Indonesia's case is discussed on pages 38-39 in section on Country Cases of Fiscal Risk Management and Disclosure.

[18] MOF Regulation no. 206/PMK.01/2014. Facilitation of preparation, transaction, and approval of budget support to PPP projects (viability gap funding, availability payments) is led by the directorate on government support and infrastructure financing, which is also a new directorate at MOF.

[19] The support is through the Swiss-World Bank Global Partnership on Fiscal Risk Management. It focuses on supporting DPSF staff in credit risk analysis of PLN, water utilities (PDAMs), municipalities, PT Hutama Karya (state-owned construction company), and PT Kereta Api Indonesia (state-owned railway company). The World Bank conducts regular WebEx sessions with DPSF staff.

Canada)[20] and the Japanese International Cooperation Agency to the MOF's Directorate on government support and infrastructure financing (DGSIF; PPP Unit).[21]

III. THE TECHNICAL ASSISTANCE

A. Impact and Outcome

9. The impact of the TA will be the increased and fiscally sustainable public and private investments in infrastructure by 2019 (Indonesia's National Midterm Development Plan, 2015–2019).[22] The outcome will be strengthened government capacity to manage fiscal risks due to acceleration of infrastructure delivery.

B. Methodology and Key Activities

10. **Output 1: Management of infrastructure related fiscal risks strengthened.** This output will strengthen the capacity of DGFRM through (i) development of a single regulatory framework on management of fiscal risks arising from infrastructure investments via ISOEs, PPIs, government-owned infrastructure finance or guarantee vehicles, joint ventures, and other arrangements supported by the government; (ii) improving implementation guidelines for GGIPs required under the Presidential regulations on direct lending, NSP, and 35GW program schemes; (iii) enhancing the DGFRM's frameworks on credit and project risk scoring, risk quantification and pricing, budgeting, financing, and institutional arrangements; [23] (iv) strengthening management of contingent liabilities arising from government's infrastructure guarantee and stand-by facilities; (v) supporting development of a framework on financial sustainability reports;[24] and (vi) strengthening skills of DSFRM staff in credit risk analysis and risk allocation in energy PPI projects, including through trainings and internships at credit rating agencies and peer government institutions in the region.[25]

11. **Output 2: Provision of GGIPs strengthened.** This output will provide on-call advisory assistance to DGFRM for the timely and efficient evaluation,[26] negotiation, issuance, monitoring, budgeting, financing, and disclosure of GGIPs as per the Presidential regulations on direct lending, NSP, and the 35GW program schemes.[27]

12. **Risks**. Continuous government commitment for the acceleration of infrastructure delivery, socioeconomic stability, legal certainty, stable regulatory and institutional frameworks, and the sustained interest of investors and lenders, are important assumptions for the proposed

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[20] The project will support improvement of PPP enabling environment, preparation of PPP projects, and strengthening of contingent liability management arising from PPPs. Total funding is estimated at some $11.7 million.

[21] JICA's support focuses on preparation and transaction of selected PPP projects, such as a hospital in Medan city, Province of North Sumatra.

[22] The plan envisages (i) the government investment to increase from 3.1% of GDP in 2014 to 6.2% in 2019, (ii) the budget deficit to decrease from 2% of GDP in 2014 to 1% in 2019, and (iii) the ratio of debt stock to decline from 23.9% of GDP in 2014 to 19.3% in 2019.

[23] The MOF has drafted regulation on managing risks related to government guarantees. Among others, this regulation is expected to establish a credit committee and a credit scoring methodology for selected ISOEs.

[24] This will also cover support to completion of the work on risk assessment of the sovereign balance sheet and improvement of fiscal risk statement in the financial notes on the annual state budget.

[25] The DSFRM is committed to ensure that staffs who attend training or internships under this TA will stay at the DSFRM for at least 2 years after completion of the training or internships.

[26] If MOF assigns evaluation of a GGIP request to PT SMI, then the TA consultants will support PT SMI to evaluate GGIP requests in timely and comprehensive manner and submit such evaluation to DGFRM for consideration.

[27] Since 2013, the unused amount of the state budget's allocation for guarantee liabilities is transferred to the government guarantee fund account maintained at the Bank of Indonesia. As of end 2015, the total of Rp2,513.6 billion has been accumulated at this account.

TA. The likely risks pertain to the weakening of political will, deterioration of the government's fiscal condition, staff turnover or organizational change at MOF, SMI and IIGF, and government agencies' delayed submission of required documents for GGIP provision. The ADB will closely monitor these risks during implementation to take pro-active measures through suitable adjustments to the TA's outputs, inputs, activities or implementation arrangements.

C. Cost and Financing

13. The TA subproject is estimated to cost $1,100,000, of which $1,000,000 will be financed from the TAC on a grant basis by the Government of Australia and administered by ADB. The government will provide counterpart support in the form of staff, office accommodation and supplies, and other in-kind contributions. The detailed cost estimate and financing plan is provided in Appendix 2.

D. Implementation Arrangements

14. The DGFRM, through the DSFRM, will be the executing agency. For coordination purposes, the DGFRM will establish a project steering committee (PSC) comprising of directors of DSFRM (chair), DPFS, and DGSIF. A technical working group comprising of the heads of relevant sub-directorates of DSFRM (chair), DPFS and DGSIF will support the PSC, including on review of outputs of the consultants.[28] As required, outputs arising from the TA may be elevated for consideration of DGFRM leadership. The TA implementation period is from June 2016 to December 2017.

15. To deliver TA's outputs, a consulting firm will be engaged following the quality-based selection method on the basis of a full technical proposal. The firm will be engaged under an indefinite delivery contract for 1.5 years (July 2016 – December 2017). The estimated budget for the firm's contract is $0.85 million for 13 person-months of international and 32 person-months of national consultant inputs. The firm will allocate 50% of its time to output 1, and 50% should be spent for on-call advisory assistance under output 2.[29] The firm will report to DSFRM and ADB based on an agreed work program and business processes. The outline of the consultants' terms of reference is in Appendix 3.

16. All consultants will be selected by ADB in accordance with ADB Guidelines on the Use of Consultants (2013, as amended from time to time). Goods and equipment will be procured by the firm in accordance with ADB's Procurement Guidelines (2015, as amended from time to time). Disbursement under the TA will be done in accordance with ADB's *Technical Assistance Disbursement Handbook* (May 2010, as amended from time to time). TA funds for workshops, training, seminars, and internships will be expended only in ADB member countries.

17. The ADB will conduct TA administration missions twice a year. The representatives of the Department of Foreign Affairs and Trade of the Government of Australia will join the administration missions, based on availability. During the missions, consultations with relevant development partners will be conducted under the guidance of MOF. The TA's intermediate and final results will be disseminated through knowledge sharing events. Relevant TA outputs will be made publicly available on the websites of ADB and DGFRM.

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[28] If needed, DSFRM will co-opt representatives of PT SMI and IIGF to the PSC and the technical working group.

[29] If the allocated consultant inputs are absorbed in advance of the contract completion date, the ADB may consider adding the required number of consultant inputs under the firm's contract. This will be contingent on the satisfactory performance of the firm, the MOF's request for additional financing under the TA, availability of funds under SIAP, concurrence of the SIAP steering committee, and approval by ADB Management.

DESIGN AND MONITORING FRAMEWORK

Impacts the Project is aligned with:

Public and private investments in infrastructure increased and made fiscally sustainable by 2019 (Indonesia's National Medium-Term Development Plan, 2015–2019)

Project Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting Mechanisms	Risks
Outcome Government capacity strengthened to manage fiscal risks due to acceleration of infrastructure delivery	By December 2017: a. Expenditures on materialized contingent liabilities arising from SOE and PPI projects do not exceed the government's guarantee reserve fund account (2015 baseline: Rp2,513.6 billion) b. Sovereign credit rating unaffected by an increased portfolio of SOE and PPI projects (January 2016 baseline: S&P rating BBB+)	MOF's financial note of annual budgets Sovereign credit rating reports of S&P, Fitch, and Moody's	Deterioration of the government's fiscal situation Weakening of the government's political support for SOE and PPI infrastructure investments
Outputs **1.** Strengthened management of infrastructure related fiscal risks	By June 2017: 1a. Regulatory framework on management of fiscal risks arising from infrastructure investments adopted (2015 baseline: N/A) 1b. Implementation guidelines on the appraisal of requests for government guarantees for direct lending and PPI projects adopted (2015 baseline: N/A) By December 2017: 1c. Fiscal risks, guarantees, and contingent liabilities related to GGIP reflected in annual fiscal risk statements (2015 baseline: N/A) 1d. Financial sustainability report developed and disclosed annually (2015 baseline: N/A) 1e. All DSFRM staff trained on credit risk analysis based on developed guidelines and methodologies (2015 baseline: N/A)	Websites of MOF Websites of MOF and SMI Financial notes of the state budget disclosed on MOF website Websites and reports of MOF	Inadequate capacity or staff turnover at MOF, SMI, or IIGF Change in government or MOF's organization structure related to infrastructure program or financing
2. Provision of GGIPs strengthened	By December 2017: 1a. At least 5 requests for government guarantees for direct lending, national strategic and PPI projects evaluated annually (2015 baseline: 1)	Reports of DSFRM	MOF staff turnover Insufficient capacity of SOEs and GCAs to provide required

Project Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting Mechanisms	Risks
	1b. Credit committee's analysis of risk mitigation plans of SOEs submitted to DGFRM for endorsement (2015 baseline: N/A)	Reports of DSFRM	information to MOF

Key Activities with Milestones

Outputs 1: Management of infrastructure related fiscal risks strengthened

1.1 Implement MOF regulation on credit committee on GGIP (Q3 2016 – Q4 2017)
1.2 Develop and adopt SOPs for assignment of (i) evaluation of SOE government guarantee requests to SMI, and (ii) guarantee provision to IIGF (Q3 2016)
1.3 Develop regulation on types and size of SOE infrastructure projects financed by SMI under direct lending scheme (Q3 2016)
1.4 Review existing regulations and develop a single regulatory framework on management of fiscal risks arising from infrastructure investments facilitated through various modalities and arrangements supported by the government (Q4 2016)
1.5 Based on review of best practices, develop framework for financial sustainability reports to cover assessment of risks to the consolidated sovereign balance sheet, including SOEs (Q4 2016)
1.6 Develop operational frameworks on management of contingent liabilities related to government's infrastructure guarantee and stand-by facilities, including the liquidity support to IIGF (Q4 2016)
1.7 Conduct review of government requirements for public investment and PPI projects' economic, social, poverty, financial, risk, and safeguards analyses and criteria (Q4 2016)
1.8 Review the definition of default, credit risk quantification, and risk pricing of GGIP (Q4 2016)
1.9 Enhance MOF's credit scoring methodologies of SOEs, and SOE and PPI projects (Q4 2016)
1.10 Develop manual on evaluation of SOEs and infrastructure projects (including PPI) for provision of government guarantees, including templates of guarantee and recourse agreements covering provisions on guarantee fee, scope of risk coverage, and use of collateral (Q4 2016)
1.11 Capacity building on requirements of major IFIs on appraisal and legal agreement frameworks of sovereign and non-sovereign loans to SOEs for infrastructure projects (Q4 2016)
1.12 Conduct capacity building on guarantees and stand-by liquidity facility of IIGF (Q1 2017)
1.13 Review fiduciary arrangement of the guarantee reserve fund account to allow other sources of revenues (guarantee fees, collected receivables, investment returns) (Q2 2017)
1.14 Conduct review of risk allocation in energy PPI contracts and develop operational frameworks on government undertakings to ensure bankability of renewable energy projects (Q1 2017)
1.15 Conduct capacity building on government undertakings for energy PPI projects (Q2 2017)
1.16 Develop and implement model on PPI fiscal risk assessment and valuation of contingent liabilities under PPI projects (Q3 2017)
1.17 Develop and conduct capacity building on in-house credit risk model based on government specific risks and actual performance of beneficiaries (Q3 2017)
1.18 Capacity building of DSFRM staff in credit risk analysis through trainings, study tours, and internships (Q3 2016 – Q4 2017)

Output 2: Provision of GGIPs strengthened

2.1. Evaluate requests for GGIP and review draft loan and guarantee agreements (Q3 2016 – Q4 2017)
2.2. Monitor SOE and project performance through quarterly risk mitigation plans (Q3 2016 – Q4 2017)
2.3. Monitor IIGF exposure under guarantees and stand-by liquidity facility (Q3 2016 – Q4 2017)
2.4. Monitor and update valuation of contingent liabilities arising from direct lending, national strategic and PPI projects, provision financing for the guarantee reserve fund account, and reflect associated risks and aggregate exposure in annual fiscal risk assessments (Q3 2016 – Q4 2017)

Inputs

Government of Australia[a]: $1,000,000

Assumptions for Partner Financing

Swiss State Secretariat of Economic Affairs (through the World Bank): $1,320,000[b]

ADB = Asian Development Bank, DGFRM = directorate general of financing and risk management, DSFRM = directorate of state financial risk management, GCA = government contracting agency, GGIP = government guarantees for infrastructure projects, IIGF = PT Penjaminan Infrastruktur Indonesia (government-owned Indonesia infrastructure guarantee fund), MOF = Ministry of Finance, PPI = private participation in infrastructure, SMI = PT Sarana Multi Infrastruktur (government-owned infrastructure financing company), SOE = state-owned enterprise, SOP = standard operating procedures, TA = technical assistance.

[a] Administered by ADB.

[b] Total financing for Indonesia from the Swiss-World Bank Partnership on Fiscal Risk Management supporting MOF in (i) government debt and risk management, and (ii) disaster risk and financing insurance.

Source: Asian Development Bank.

COST ESTIMATES AND FINANCING PLAN

Item	Amount
Government of Australia[a]	
1. Consultants	
a. Remuneration and per diem	
i. International consultants	390,000.0
ii. National consultants	290,000.0
b. International and local travel	55,000.0
c. Reports and communications	10,000.0
2. Equipment[b]	20,000.0
3. Training, seminars and conferences	
a. Training programs, study tours and internships[c]	50,000.0
b. Seminars and conferences[d]	50,000.0
4. Miscellaneous administration and support costs[e]	75,000.0
5. Contingencies	60,000.0
Total	**1,000,000.0**

Note: The subproject 9 is estimated to cost $1,100,000, of which contributions amounting to $1,000,000 from the cluster technical assistance on sustainable infrastructure assistance program (C-TA0013-INO) funded by the Government of Australia are presented in the table above. The Government of Indonesia will provide counterpart support in the form of counterpart staff, office accommodation and supplies, furniture, equipment, utilities, internet connection, and other miscellaneous support. The value of government contribution is estimated to account for 9% of the total cost of subproject 9.

[a] Administered by the Asian Development Bank.

[b] Equipment includes hardware (laptops, printers, routers, scanners) and software. Equipment will be procured by the consultants in accordance with the *ADB Procurement Guidelines* (2015, as amended from time to time) and will be used by the MOF for TA implementation purposes. The hardware and software will become the property of the MOF after completion of the consultant's contract. Equipment not in working condition will be disposed of in accordance with ADB procedures.

[c] Funds under this category will be administered by ADB and will be expended only in ADB member countries. Any advances provided for these purposes are to be liquidated within a 30-day period.

[d] Includes rent of venue and other facilities, food and beverages (excluding alcoholic beverages), promotion and training materials, and other related costs. This cost will be included in the contract of the consultant firm.

[e] Miscellaneous administration and support costs are direct and identifiable costs associated with the work of the consultants or in support to government staff involved in TA implementation. Such costs may include stationery, paper for office needs, printer cartridges, internet and other office communication expenses, and refreshments served during TA-related office meetings.

Source: Asian Development Bank estimates.

OUTLINE TERMS OF REFERENCE FOR CONSULTANTS

1. For delivery of outputs 1 and 2, a consulting firm will be recruited under an indefinite delivery contract to provide capacity building and advisory support to Ministry of Finance (MOF) of Indonesia to strengthen management of fiscal risk related to infrastructure investments and to support provision of government guarantees for infrastructure projects (GGIP) delivered through the direct lending scheme, national strategic projects framework, and private participation in infrastructure (PPI).[1] Overall, the consultant firm will report to the MOF and the Asian Development Bank (ADB). On daily basis, the consultant firm will work directly with the Directorate of state financial risk management (DSFRM) of the MOF's Directorate general of financing and risk management (DGFRM). The consultant firm's team will be supervised by an experienced project manager. The consultant firm will ensure its team members have their own basic equipment and software (e.g., computers, office and internet software) and will ensure adequate consultations on each capacity building-related deliverable in the form of one-on-one meetings, focus group meetings, or broad stakeholder consultations. The capacity building outputs will be disclosed on the MOF's website. The MOF will provide information for developing project and/or case-based trainings envisaged below.

A. Infrastructure Project Appraisal Advisors (firm, 13 international and 32 national person-months, intermittent for 1.5 years)

1. **Project Manager and Team Leader** (international, 2 person-months, intermittent)

2. The project manager represents the consulting firm in all contract-related matters, such as contractual, personnel, scheduling, and technical performance issues. He or she will attend meetings with the MOF and ADB, as required, to discuss the status of contract implementation, provide general direction and support to the consultant team, and assist in the quality assurance of project deliverables. The consultant will have a postgraduate degree in business administration, economics, finance, or related field and at least 10 years of work experience in managing official development assistance projects in the Asia and Pacific region. The consultant must have very good analytical skills and be excellent in writing and presenting in English. Experience of working in Indonesia on fiscal management issues will be a merit. The project manager's duties, include, but are not limited to:

(i) liaising with the MOF and keeping ADB apprised of any issues or concerns that could impact project performance and/or completion, and ensuring direction of the consultant's work toward achieving the intended objectives and timelines;
(ii) coordinating the MOF inputs per agreed work plans, advising team members of changes to the work plans, and monitoring team members' other project commitments to ensure priority attention is given to the project;
(iii) ensuring outputs of team members are in accordance with the contract's terms of reference and MOF quality expectations, and reviewing, commenting on, and approving such outputs, as needed;
(iv) ensuring all contracted deliverables are prepared in a timely manner, and managing project scheduling;

[1] PPI term refers to all privately funded and delivered public infrastructure projects. These include public-private partnership projects done under Presidential Regulation 38 of 2015, as well as water, road and energy business-to-business projects done based on relevant sector's legal frameworks. "Private" counterparty may be both a private entity and a central or local state-owned enterprise.

(v) briefing team members on (a) quality management, (b) safety and security issues, and (c) integrity and professional conduct, and keeping the team updated on changes in the operating environment or procedures;
(vi) approving timesheets and expense claims of team members, managing any emerging issues, and leading the firm's work on contract administration;
(vii) developing and submitting quarterly contract status reports in accordance with agreed formats and based on inputs by the team members as well as other information on the contract and the consultant team as required by ADB and the MOF;
(viii) submitting the inception mission report, business protocol (assignment operations manual), and completion report to ADB and MOF for approval. The completion report shall include lessons learned, a sustainability plan, and other recommendations that would ensure that the gains achieved from the TA are fully institutionalized.

2. **Advisory Team** (11 international and 32 national person-months, intermittent)

3. The team will be a mix of international[2] and national[3] consultants in (i) risk analysis and management of utilities, corporate entities, and projects; (ii) analysis of infrastructure projects (economic, financial, technical, social and environmental safeguards, and institutional); (iii) management of fiscal risks, including infrastructure related contingent liabilities; (iv) PPI project finance (guarantees and other credit enhancements, structuring, modeling, contractual framework); (v) selected sectors (footnote 2).[4] International consultants should have 10 years and national consultants 5 years of relevant work experience in the areas above having done relevant work on at least five state-owned enterprise (SOE) and/or PPI projects. The consultants should have university degree in a related field and good skills in writing and presenting in English. One of national consultants will be assigned to coordinate the team's work and report to the project manager. The national consultants will ensure that advice given by the international experts is consistent with Indonesian laws, rules, and regulations.

a. On-call advisory support (50% of time)

4. The consultants will provide on-call advisory assistance to the MOF in (i) evaluating requests for GGIP,[5] (ii) reviewing drafts of loan and guarantee agreements, (iii) monitoring state-owned enterprise and project performance through quarterly risk mitigation plans submitted by SOEs, (iv) monitoring Indonesia Infrastructure Guarantee Fund's (IIGF) exposure under guarantees and stand-by liquidity facility, and (v) monitoring and updating valuation of contingent liabilities, provisioning of financing for the guarantee reserve fund account, and reflecting associated risks and aggregate exposure in annual fiscal risk assessments. In performing the on-call advisory assistance, the consultants will focus on the following areas:

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[2] Specialists in the following areas of expertise: credit risk analysis, project finance, credit and investment guarantees, and fiscal risk management. For each area of expertise at least two specialists must be provided who would normally be available during the whole assignment.

[3] The national consultants will comprise of thematic and sector specialists. Thematic specialist will be in the following areas of expertise: credit rating, project economic and financial analysis, project finance (various types of PPIs), public finance (non-debt liabilities and fiscal risk), land acquisition and resettlement, and environment areas. The sector specialists will be in energy, oil/ gas, road, telecommunication, rail, port, and airport sectors. For each area of expertise and sector at least two specialists must be provided who would normally be available during the whole assignment.

[4] International and national consultants should be permanent employees or fixed-term consultants of the firms. For a fixed-term consultant, the employment contract must cover the period of this assignment and be enclosed in the technical proposal.

[5] If MOF assigns appraisal to PT SMI, then the consultant will support PT SMI in appraising the submitted government guarantee request.

a. **Credit risk analysis.** This includes credit scoring of SOEs and projects based on own score cards or those of third parties (credit rating agencies); quantification of credit risk through market prices differentials (for entities with traded debt) or calculation of expected losses based on probability of default, exposure at default, and loss given default; risk pricing taking into account beneficiary performance, scope of guarantee coverage, posted collateral, and government subsidy.
b. **Technical analysis.** This includes reviewing the feasibility study's technical analysis to confirm the technical viability of the project; verifying quantities and rates for major civil works, equipment, construction and supervision consulting and other input items; verifying and developing projected operation and maintenance costs for the project cycle on a whole-of-life basis; reviewing and quantifying costs and benefits from the project and confirmation of the project design on a least-cost basis in financial and economic terms; and supporting financial and economic analysis with inputs on project rationale, project costs (capital expenditures, operations, maintenance), required contingency levels, and any other information as requested.
c. **Economic analysis.** This includes reviewing sector assessments, demand–supply for public services, opportunity cost implications, and expected project costs, benefits and impacts; assessing project economic rationale in comparison with alternative options and reviewing indicators for project performance monitoring; and assessing the reasonableness of economic rates of return for the project under various scenarios.
d. **Financial analysis.** This covers financial modeling on the basis of the selected delivery modality; projected financial statements (balance sheet, cash flow, income statement, key ratio analysis) and sensitivity scenarios; potential acceptability of the recommended financing structure from investors and potential lenders; bankability of the financing plan for the recommended financing structure, including appropriate debt equity ratios, loan tenures and rates for project viability, and required government grant support; diligence documents for potential lenders; robustness of key assumptions against financial model outputs, including the financial internal rate of return and debt service coverage ratio; the project's risk analysis and suitability of mitigation strategies; the project's financial management capacity; and bidding documentation.
e. **Environmental safeguards.** This includes reviewing the adequacy of project environmental impact assessment (AMDAL/UKL/UPL) and its compliance with the Indonesian requirements and legislation, including assessing the cost of an environmental management plan and funding sources and their inclusion in the total project cost; reviewing compliance with environmental clearance, required permits, and approvals; and including an environmental management plan in the bidding documents, along with the requirement to comply with mitigation measures.
f. **Social safeguards and impact.** This includes reviewing the project's social impact assessment for consistency with the country's social and gender policies; reviewing poverty and social analyses; reviewing analyses of likely social and gender impacts, designed measures, and implementation arrangements for maximizing project social and gender benefits and minimizing or avoiding social and gender risks; assessing the poverty reduction and social strategy (using gender action plans, resettlement plans, and indigenous peoples development plans, for example) with recommendations for involuntary resettlement and indigenous peoples; and assessing the project's overall compliance with the Indonesian land acquisition and involuntary resettlement framework.
g. **Risk allocation analysis**. This involves reviewing the proposed project's risk identification, assessment, allocation and mitigation, and monitoring adequacy. In doing so, attention will be paid to assessing whether risk allocation has followed the value for money maximizing rule: risks have been allocated to the party best able to (a) control the likelihood of the risk event occurring, (b) control the impact of the risk on project outcomes, and (c) absorb the

risk at the lowest cost. In terms of documents, the consultant will review the project's risk allocation matrix and the risk management report.

h. **Institutional analysis.** This involves reviewing the policy and institutional assessment to ascertain the validity and viability of the proposed project structure; assessing the project proponent agency's capacities to manage the project; reviewing "bankability" measures for the proposed project structure, such as fee payment mechanisms, preconditions for the operator to meet service obligations, default and risk clauses, and step-in rights of the government; reviewing project contractual and legal documentation for compliance with the Indonesia's legislation, including the Presidential regulations on direct lending, national strategic projects, first and second fast track energy programs, 35GW program, PPPs, MOF regulations on government financial and guarantee support to infrastructure projects, as well as land acquisition legislation.
i. **Contingent liability management.** This involves reviewing and verifying contingent liability valuation models, reports, and management plans of projects; reviewing draft contracts to properly define contingent liability monitoring requirements and compliance with budgeting and payment policies of the government; reviewing consistency with approved risk allocation prior to contract signing or issuance of a performance undertaking; reviewing the implementing agency's annual submissions on the risk and contingent liability status of infrastructure projects under implementation; developing the infrastructure projects' part of the fiscal risk statement and preparing an annual report on contingent liabilities arising from infrastructure projects; preparing the annual budget to cover contingent liabilities from ongoing projects and projects expected to be awarded during the fiscal year for which the budget is prepared; and conducting project-based clinics on contingent liability valuation and reporting for implementing agencies, as required.

5. To implement the on-call advisory nature of the assignment, the following general steps will be followed:

a. Upon receipt of project documentation from the project agency, the MOF will internally review and consolidate the request for advisory assistance from the consultant on that particular project's appraisal. The topics and questions (in concrete and narrowed-down form) for advisory assistance shall be grouped following areas in para 4 above.
b. MOF's focal point shall email the consultant's team leader calling for a video or audio conference to agree on (a) the questions the consultant's advisory assistance is requested for, (b) timeline and inputs for the consultant to provide the required support, and (c) type of output to be provided by the consultant [briefs, comments in a file, amendments in track-change mode, memos, graphs, etc.].
c. At the audio or video conference, the MOF's focal point and staff and relevant team members of the consultant shall take part. After such audio or video conference, the consultants commence their work immediately using their international and national experts per the time inputs agreed with MOF during the audio/video conference call.
d. In parallel, the MOF will finalize the work order reflecting the scope of work, timeline, inputs, and outputs for the advisory assistance on a given infrastructure project. Such work order shall be endorsed by the Director of state financial risk management and then sent to the consultant for records (with copy to ADB project officer).
e. Per the agreed time-line, the consultant will submit the agreed outputs to MOF's project team lead, with copy to Director of state financial risk management, MOF's focal point and ADB project officer.
f. The consultant will have video or audio conference call with MOF focal point and management of DSFRM every second week to discuss work agenda and implementation issues. Such communication by the consultant shall be at no cost to the TA.

6. Based on advisory work on real-life projects in the first six months of the assignment, the consultant will conceptualize and deliver three learning-by-doing trainings involving the evaluation and structuring of guarantees for new infrastructure projects submitted for MOF appraisal, with a focus on energy projects. These trainings will be primarily designed for the staff of MOF, PT SMI, IIGF, and relevant sector agencies and SOEs (e.g., PLN and Pertamina).

b. Capacity building support (50% of time)

7. In parallel to assisting the MOF with appraising and monitoring of GGIPs, the consultants will provide institutional strengthening and capacity building to MOF to improve policy, legal, and implementation frameworks on GGIPs. The assistance with be in the following areas:

a. Carrying out a review of existing government requirements and criteria that the public infrastructure projects delivered through SOEs and PPI schemes need to comply with. The requirements and criteria pertain to economic and financial analyses, assessment of social and poverty impact, risk allocation, and environmental and social safeguards.[6]
b. Based on the review above, development of a manual on evaluation of SOEs and infrastructure projects (including PPI) for provision of government guarantees, including templates of required internal reports as well as guarantee and recourse agreements covering provisions on guarantee fee, scope of risk coverage, and use of collateral.[7]
c. Carrying out a review and suggest improvements on the MOF's credit scoring methodologies of entities and infrastructure projects (done through SOEs or PPI schemes),[8] the definition of default under GGIP, the credit risk quantification, the risk pricing of GGIP,[9] the availability of data for risk quantification, and government capacity constraints for GGIP management.
d. Development and conduct of capacity building on in-house credit risk model based on government specific risks and actual performance of beneficiaries
e. Enhancing fiduciary arrangements of the guarantee reserve fund account to allow other sources of revenues, such as guarantee fees, collected receivables, investment returns.
f. Capacity building on requirements of major international financial institutions (IFIs) on project appraisal and legal frameworks of sovereign and non-sovereign loans to SOEs for infrastructure projects.[10]
g. Development of standard operating procedures (SOPs) for assignment of (i) the evaluation of SOE government guarantee requests to SMI, and (ii) guarantee provision to IIGF, and

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[6] Examples of guidelines for project appraisal or cost-benefit analysis issued in other countries can be found on page 78 of Rajaram, Anand, Tuan Minh Le, Kai Kaiser, Jay-Hyung Kim, and Jonas Frank, Editors. 2014. *The Power of Public Investment Management: Transforming Resources into Assets for Growth. Directions in Development*. Washington, DC: World Bank. For a regional example, the consultants can refer to *Reference manual on project development and evaluation* of the Philippines National Economic and Development Authority (NEDA).

[7] Example of evaluation of SOE infrastructure projects can be found in the Guidelines for Assessment of Projects of State Significance of the Treasury of New South Wales, Australia. On a regional example of guidelines and templates for review and approval of public investment projects, the consultants may refer to the webpage of the Philippines NEDA's Investment Coordination Committee at http://www.neda.gov.ph/investment-coordination-committee. On an example of evaluation and approval of PPP projects, the consultants may refer to the Philippines PPP Center's web-site at http://ppp.gov.ph/?page_id=26135.

[8] In improving the credit scoring methodology, the consultants may refer to the utilities and project credit rating methodologies of major credit rating agencies, such as Moody's and S&P.

[9] An example of government approach guarantee fees for GGIP can be found in the government businesses can be found in the Government Guarantee Fee Policy for Government Businesses: Policy and Guidelines Paper of the Treasury of New South Wales, Australia.

[10] If SOE borrowing from the IFI is guaranteed by MOF, then IFI would normally apply sovereign lending requirements to the project. If SOE borrowing from IFI is guaranteed by IIGF based on MOF assignment, then IFI would normally apply non-sovereign lending requirements to the project.

regulation on types and size of SOE infrastructure projects financed by SMI as a borrower under direct lending scheme.

h. Enhancement of policy and operational framework on liquidity support to IIGF and capacity building on issuance of guarantees by IIGF and its liquidity facility.
i. Develop frameworks on management of contingent liabilities related to government's infrastructure guarantee and stand-by facilities, including on the liquidity support to IIGF.
j. Based on the review of existing regulations, develop a single regulatory framework on management of fiscal risks arising from infrastructure investments via ISOEs, PPIs, infrastructure financing or guarantee vehicles fully or partially owned by the government, joint ventures, and other arrangements supported by the government.
k. Based on review of best practices, develop framework for financial sustainability reports to cover assessment of risks to the consolidated sovereign balance sheet, including SOEs
l. Carrying out a review of risk allocation in energy PPI contracts, and development of proposals, operational frameworks and delivery of capacity building on government undertakings for renewable energy SOE and PPI projects.
m. Development and implementation of the model on PPI fiscal risk assessment and valuation of contingent liabilities under PPI projects.
n. Conduct, if needed, capacity building for the MOF's credit committee on GGIP.

8. While working on the capacity building activities highlighted above and in accordance with the request of the DSFRM, the consultant firm will conduct consultations with relevant MOF directorates/offices, government agencies, and other stakeholders through roundtables, workshops, and seminars. The consultant firm's contract will have dedicated budget for this purpose.

9. If needed, the MOF will enter into a confidentiality agreement with the consultant given the sensitivity of the information to be worked with. A detailed business protocol for the assignment will be developed by the consultant and agreed with MOF during the inception mission. For proper management of the inputs, the MOF will assign staff to be a single window for advice requests, recording the origin and substance of all requests to the firm, as well as time of request and deliverable submission. The firm's timesheets will have to be confirmed by MOF prior to submission to ADB for payment.

10. The consultant will submit quarterly reports and a completion report that should conceptually reflect issues, value addition by the consultant, lessons learned and proposed measures on each project the consultant will have provided an advisory support. The quarterly and completion reports must also include discussion on and have as attachments most recent drafts of guidelines, notes, concepts, plans, and reports, as well minutes of workshops and trainings (including presentations done and training materials) arising from the consultant's capacity building work.

11. The MOF will provide the consultant with furnished office space at DGFRM with a working telephone line. If possible, MOF will also provide the consultant with access to Internet and MOF's intranet and databases. Other equipment required by the consultants, including computers with appropriate software, scanners, printers, and a photocopier are to be procured by the consultant, and will be handed over to the DOF upon completion of the consultant's contract in accordance with ADB policies on turn-over of equipment. Counterpart staff will be assigned by MOF to work closely with the consultants. MOF will provide the consultant with all available data relevant and necessary for the consultant to perform under the contract.