

RISK ASSESSMENT AND RISK MANAGEMENT PLAN

Risk Description	Risk Assessment	Mitigation Measures or Risk Management Plan
Public Financial Management		
<p>Government funding for the program may be lacking due to the inadequacy of the government's medium-term expenditure framework. The government's performance-based budgeting needs to be improved with regard to its capital and recurrent cost implications, as well as how budget ceilings are determined for future years.</p>	<p>Medium</p>	<p>The Government's Financial Management and Revenue Administration Project, under implementation since 2004, supports reforms aimed at strengthening efficiency, governance, and accountability in PFM, especially in budget execution, together with treasury modernization and revenue administration. In addition, the government's 2012 medium-term strategy note seeks to improve PFM reform oversight, including strengthening the process of allocating the budget resources of priority sectors, linking planning and budgeting, and strengthening the results orientation of the budget. PFM reforms are also increasingly aligned with the priorities identified in Indonesia's medium-term development plan for 2015–2019.</p> <p>The 2012 PEFA point to a well-functioning PFM system in Indonesia. It concluded that continuous progress had been made in several areas, albeit incrementally, and that these had resulted in tangible improvements in the quality of PFM. Increased transparency and independent oversight of public expenditures have also been achieved. Substantive improvements were identified in five of the six PEFA categories.</p> <p>ADB will continue to engage in policy dialogue and provide analytical support to the government's efforts to improve budget formulation and execution.</p>
Anticorruption		
<p>Vested interests oppose reform within state-owned energy enterprises. Other risks to development management and program success are posed by the inadequate institutional accountability in these enterprises and within local government. Further, there are threats emanating from a weakening of the country's Corruption Eradication Commission, and judicial system.</p>	<p>Medium</p>	<p>The central government internal auditor has been given a new role as the monitoring and evaluating agency for government programs. ADB will continue to monitor developments.</p> <p>The government indicated in November 2014 that it is keen to tackle corruption within SOEs in the energy sector. For example, it has changed the board of directors of Pertamina and PLN to remove individuals that have been there a long time, in an effort to strengthen governance.</p> <p>The presidential working unit for supervision and management of development has been monitoring government programs to reduce impediments, including in governance. A high-profile special task force under the country's president has been created to identify issues, coordinate with relevant government</p>

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		<p>ministries, and recommend solutions to judicial corruption. And in the case of the country's corruption Eradication Commission, the government selected a new chair and four other Commissioners in 2014 for 4 years, which is expected to strengthen the institution. ADB will continue to monitor developments.</p> <p>All ADB projects and programs will be effectively insulated from corruption risks in accordance with ADB's Anticorruption Policy (1998, as amended to date).</p>
Country Risks		
<p>The program could be adversely affected by macroeconomic instability resulting from the decline in commodity prices, a global economic slowdown, crisis within the Eurozone, and a tapering of quantitative easing by developed countries.</p>	Medium	<p>Growth is projected to slow down in 2015 due to external and domestic factors, and external and fiscal imbalances are expected to widen. Accommodative monetary and fiscal policies are being pursued. Bank Indonesia has announced or implemented a series of measures aimed at reducing macroeconomic imbalances, neutralizing inflation pressures, and maintaining financial stability, as well as containing employment losses. Net external debt and other liabilities amount to about 20% of GDP. The IMF's assessment of debt sustainability indicates that the country's debt profile leaves it resilient to standard shocks (Article IV 2015). Any shocks to the economy will affect foreign direct investment. This will be mitigated under the program through structural reforms to boost productivity and employment in non-resource sectors.</p>
<p>Coordination by government ministries and agencies may be lacking in policy formulation and program implementation.</p>	Medium	<p>MEMR has set up the program delivery unit and a team of advisers that work across the different directorate generals and coordinate policy reform and monitor program delivery. CMEA director general for energy and environment is charged with coordinating energy sector issues across the MEMR and other related ministries, such as the Ministry of Finance and Bappenas. The committee for the acceleration of priority infrastructure projects within the CMEA is charged with removing bottlenecks obstructing infrastructure projects of national interest, including large energy sector projects.</p>
Others		
<p>Planned legislation may not be promulgated because the legislative process may be slowed by resistance from vested interests that favor an increased role for the public sector.</p>	Medium	<p>The program is based on the government's own policy and reform initiative and is backed by its strong political will and commitment. Monitoring units will be in place to report on the progress of the reforms to CMEA. The program is strongly supported by the donor community and TA will be provided to assist the government.</p>

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Regulatory backsliding and action by the constitutional court to annul enacted regulations in part or in full could obstruct the program. A 2015 annulment of the 2004 water resources law and an earlier annulment of sections of the 2007 energy law illustrate this risk.	Medium	ADB is providing technical assistance to ensure that the draft regulations are fully aligned with broad sector objectives, tenets of the constitution, and prior judgments of the constitutional court.
Reforms could stall because of the reluctance of stakeholders.	Medium	Transparency measures and information and education campaigns will increase stakeholders' understanding of how the reforms will benefit them.
Overall	Medium	These risks will be mitigated through sustained and ongoing policy dialogue over the period of the subprograms and targeted technical assistance.

ADB = Asian Development Bank, Bappenas = Ministry of National Development Planning, CMEA = Coordinating Ministry for Economic Affairs, GDP = gross domestic product, MEMR = Ministry of Energy and Mineral Resources, PEFA = Public Expenditure and Financial Accountability, PFM = public financial management, PLN = State Electricity Corporation, SOE = state-owned enterprise, TA = technical assistance.