

Program Implementation Document

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Perusahaan Listrik Negara
Electricity Grid Strengthening—Sumatra Program
(Guaranteed by the Republic of Indonesia)

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PURPOSE OF THE PROGRAM IMPLEMENTATION DOCUMENT

1. The developing member country (DMC) is wholly responsible for implementing the program supported by results-based lending (RBL). The Asian Development Bank (ADB) staff support the results-based lending program design and implementation.
2. The program implementation document (PID) consolidates the essential program implementation information. The PID is a management tool which supports effective program implementation, monitoring, and reporting. It is developed throughout the program processing, and should be discussed with the DMC at Loan Negotiations. It is a living document that should be refined and kept up to date during program implementation.

Abbreviations

ADB	=	Asian Development Bank
DLIs	=	disbursement-linked indicators
DMC	=	developing member country
EGSS	=	Electricity Grid Strengthening—Sumatra Program
FPR	=	financing for prior results
GW	=	gigawatts
GWh	=	gigawatt-hour
kV	=	kilovolt
M&E	=	monitoring and evaluation
MOF	=	Ministry of Finance
MSOE	=	Ministry of State-Owned Enterprises
MVA	=	megavolt-ampere
PAP	=	program action plan
PID	=	program implementation document
PLN	=	Perusahaan Listrik Negara (State Electricity Corporation)
RBL	=	results-based lending
RPJMN	=	Rencana Pembangunan Jangka Menengah Nasional (National Medium-Term Development Plan)
RPJPN	=	Rencana Pembangunan Jangka Panjang Nasional (National Long-Term Development Plan)
RRP	=	report and recommendation of the President
RUPTL	=	Rencana Usaha Penyediaan Tenaga Listrik (Electricity Power Supply Business Plan)
SAIDI	=	system average interruption duration index
SAIFI	=	system average interruption frequency index
SILM	=	Sistem Informasi Laporan Manajemen (Management Reporting Information System)
SPKK	=	Satuan Pengendalian Kinerja Korporat (Corporate Performance Control)
TWh	=	terawatt-hours

I. PROGRAM DESCRIPTION

1. Indonesia's gross domestic product growth averaged 5.8% during 2010–2014, and the per capital income was \$3,492 in 2014. During 2015–2019, the government seeks to significantly accelerate economic growth in order to reduce income inequality and further reduce poverty.¹ The government has prioritized infrastructure development especially in the power subsector as a key measure that will help increase incomes, reduce poverty, and foster improved connectively and inclusive growth in the country.

2. Expansion in the power subsector over the past decade has not kept up with increased power demand that averaged about 8% over the last five years. Generation capacity additions are delayed, and underinvestment and infrastructural deficits extend to the transmission and distribution systems. Indices for power system stability and reliability are showing deteriorating trends, and there have been recent incidences of blackouts, in Sumatra and Java. All of this severely constrains the country's ability to provide for growth in industrial and commercial power demand. For example, a study in 2013 concluded that to counter the lack of supply or the high costs of disruptions, the industrial and commercial sector in the country had set up nearly 17 gigawatt (GW) of captive generating capacity in the form of small coal or diesel-fired power plants, both of which are expensive and polluting. On the other hand, Indonesia continues to lag behind its regional peers in terms of access to electricity for its citizens. Increasing the electrification rate from the current 84% to nearly universal coverage will require substantial amounts of investment in transmission and distribution systems, along with associated generation capacity.

3. The government recognizes that business-as-usual will not lead to increased access to reliable and cost-effective supplies of electricity. The country's power subsector is dominated by the State Electricity Corporation (PLN), a vertically integrated utility, which owns and manages almost 75% of the total power generation whilst independent power producers (IPPs) and captive generation make up the balance. PLN owns and operates about 39,900 circuit-kilometer (ckm) of transmission lines, and 925,300 ckm of distribution lines. PLN under the guidance of the government has outlined a very ambitious expansion program in the power subsector. Its latest Electricity Power Supply Business Plan (RUPTL), 2015–2024 estimates that an additional 70 GW of new generation capacity is required. PLN and the government are to finance at least 21 GW of the new generation, and the associated transmission and distribution infrastructure whereas the private sector is expected to develop about 36 GW.² This expansion includes 60,000 circuit-kilometer (ckm) of new transmission lines and 304,000 ckm of distribution lines coupled with grid rehabilitation and strengthening. The overall 2015–2024 expansion program for the power subsector is expected to cost \$132 billion.

4. In the medium-term, during the first five years of the RUPTL and during the term of the National Medium Term Development Plan (RPJMN), 2015–2019, PLN plans to install 42 GW³ of the 70 GW, to achieve an electrification ratio of 97.4%. This medium-term program requires \$83.1 billion of which \$43.0 million is to be financed by the IPPs. The balance of \$40.1 billion is to be financed by PLN including \$15.6 billion for generation and \$24.5 billion for electricity grid rehabilitation and strengthening and the development of new transmission and distribution infrastructure. PLN's current estimates put the financing gap at \$30 billion for this five-year program.

¹ In 2014, around 11.3% of the population was considered to be living below the poverty line.

² About 13.5 GW of the new generation is classified as "unallocated".

³ This includes about 7 GW of capacity that is currently under construction.

5. The government has taken several measures to bolster PLN's ability to undertake this planned expansion, and to improve the investment climate for the private sector. In 2014, the government increased electricity tariffs, and in 2015, instituted cost-recovery-based tariffs and automatic price adjustment for all but the poorest households. Further, it has provided nearly \$500 million in equity injections to PLN in 2015, and budgeted \$1 billion for 2016. It is also seeking to move away from regulating PLN on a cost plus margin-based approach to one that is based on performance. This is intended to improve PLN's financial status and its ability to raise debt. The government also recently passed regulations that will allow PLN to borrow directly from bilateral and multilateral agencies against a sovereign-backed guarantee.

6. It is estimated that the broader PLN program for Sumatra will cost \$10.834 billion in total of which \$7.362 billion is the capital expenditure investment costs over the 2015 to 2019 period. The total financing of \$600 million is to support selected outcomes within the PLN's RBL program. However as this RBL adopts a programmatic approach, the size of the program can be scaled up to help achieve the intended outcome. The scope of this program compared with the PLN's broader program is listed in Table 1.

Table 1: Program Scope

Item	Broader PLN Program	RBL Program
Outcome	Enhanced energy security	Adequacy and reliability of power supply achieved for Sumatra
Key outputs	Sumatra's transmission backbone system developed and the Sumatra and Java-Bali grid interconnected	1. Existing transmission system strengthened and expanded 2. Existing distribution system strengthened and expanded 3. Performance management and implementation improved
Expenditure size	\$10,834.5 million ^a	\$600 million
Geographic coverage	Sumatra	Sumatra
Implementation period	2015–2019	2015–2019

PLN = Perusahaan Listrik Negara (State Electricity Corporation), RBL = results-based lending.

^a The program expenditure includes capital expenditure costs and those related to project implementation, taxes and duties, interest during construction, and so forth.

Sources: Asian Development Bank and PLN staff estimates.

7. The scope of the program during 2015–2019 covers (i) the strengthening and expansion of the transmission system; (ii) the strengthening and expansion of the distribution system; and (iii) the improvement of PLN's performance management and implementation arrangements. Activities include (i) reconditioning of existing 150 kilovolt (kV) transmission lines; (ii) extension of 150 kV and 275 kV substations; (iii) installation of 150 kV and 275 kV reactors and capacitors; (iv) expansion of outgoing 20 kV switchgears at existing 150 kV substations; and (v) expansion and reinforcement of the medium-voltage (20 kV) and low-voltage distribution networks.

II. RESULTS AND DISBURSEMENT

A. The RBL Program's Overall Results

8. **Country level results.** The Government of the Republic of Indonesia uses three kinds of results frameworks for national development planning. The National Long Term Development Plan (RPJPN), 2005–2025 covers a 20-year period and has qualitative targets. Within the RPJPN, there are four five-year RPJMNs that provide changing governments with programmatic

and political flexibility. Each RPJMN has quantitative and qualitative targets aligned with the long term RPJPN. The RPJMN then forms the framework for annual Government Work Plans (RKP) of ministries, line agencies and regional programs.⁴ The RPJMN has several results areas and sets out 31 national five-year goals (2015–2019), each with an Action Program.⁵

9. **Sector level results.** The Energy Sector Action Program is linked to the Infrastructure and Environment Action Programs. Its stated goal in the RPJMN is “*Enhanced energy security.*” Measures to achieve this include expanding energy infrastructure and investments, increasing energy efficiency and energy accessibility, diversifying the energy mix with new and renewable energy sources, reducing greenhouse gas emissions, and increasing private sector participation.

10. The longer-term goals of the energy sector are guided by a number of policies and plans including (i) Presidential Decree No 5/2006 on national energy policy; (ii) the government’s Vision 25/25 Program; (iii) the government’s twenty-year National Electricity Development Plan (RUKN), 2012–2031; and (iv) Electricity Law 30/2009, which ended the legal monopoly of PLN over Indonesia’s power subsector and provides a legal basis for increased private sector participation.

11. **Medium-term results.** The RUPTL provides a ten-year electricity development plan (2015–2024). The RUPTL also includes a five-year electricity development plan⁶ with specific targets for the period 2015–2019. The RUPTL assumes a growth rate of 6.7% in the economy and 8.8% growth in demand for electricity and on this basis, aims for (i) an increased national electrification ratio from 84% in 2014 to 96.6% by 2019;⁷ (ii) an additional 42 gigawatts (GW) coming online by 2019;⁸ (iii) increased electricity sales from 219 TWh in 2015 to 307 TWh in 2019;⁹ (iv) strengthened transmission networks, with additional transformer capacities by 2019 of 45,863 megavolt-ampere (MVA) and 62,926 MVA respectively for extra high-voltage and high-voltage substations;¹⁰ and (v) strengthened distribution network with additional transformer capacity of 20,751 MVA by 2019.¹¹ Of the additional electricity coming online, the share produced by the private sector is to increase from 15% in 2014 to 58% by 2019.¹²

12. **Results Areas in national electricity planning.** PLN has a series of Key Performance Indicators (KPIs) that it uses to track corporate results areas as follows:¹³

- (i) **Results Area 1: Enhanced customer focus and services.** Progress is tracked by KPIs relating to customer satisfaction, number of customers, recovery time, wait times for connections to medium and low-voltage (LV) networks, system average interruption duration index (SAIDI), and system average interruption frequency index (SAIFI).
- (ii) **Results Area 2: Increased product and process effectiveness.** Progress is

⁴ Armida S. Alisjahbana, 2014. *Presentation at the International Conference on Economic Modelling*, Bali, July 18, 2014.

⁵ Bappenas, 2015: *Executive Summary: Medium-Term National Development Plan 2015–2019*

⁶ Statel Electricity Corporation (PLN). *Program Pembangunan Ketenagalistrikan, 2015–2019 in RUPTL 2015–2024*

⁷ Around 42 million people still lack access to electricity in Indonesia. Electrification ratios are 97% in Malaysia, 100% in Singapore, 96% in Thailand and 98% in Viet Nam.

⁸ Government sources

⁹ Source; Table 6.7, RUPTL 2015–2024, for the whole of the country.

¹⁰ Source; Table 6.14, RUPTL 2015–2024.

¹¹ Source: calculated from Table 6.15, RUPTL 2015–2024.

¹² Source: RUPTL, 2015–2024.

¹³ Source: PLN: Key Performance Indicators.

- tracked by KPIs on electricity sales, distribution losses, frequency of interruptions per 100 km, and proportion of transformers that are non-operable/out of service.
- (iii) **Results Area 3: Enhanced human resources management.** KPIs relate to the productivity of employees, human capital readiness, and organization capital readiness.
- (iv) **Results Area 4: Improved financial management.** KPIs relate to operating expenditures, the basic cost of electricity production, the average selling price per kilowatt-hour (kWh), the accounts receivable collection period, inventory turnover, and progress in project and contract implementation.
- (v) **Results Area 5: Enhanced leadership performance.** This is tracked by progress in implementing leadership programs such as Enterprise Risk Management, K2 Leadership Development, Compliance Leadership, and the Criteria for Performance Excellence Initiative (KPKU).¹⁴

13. **Results-based lending program focus.** Indonesia comprises some 17,504 islands spread across three time zones, and has an energy system made up of separate island grids. Sumatra accounts for about 25% of Indonesia's gross domestic product (GDP) and has the second-largest electricity system in the country with an installed capacity of 6,000 megawatts (MW) in 2013. Areas in northern Sumatra are continuing to see power shortages (with an average deficit of 250 MW) and outages, with PLN struggling to meet the demand for increased electricity. The government is keen to boost Sumatra's productivity by strengthening its power grid and increasing the capacity to around 15,000 MW by 2022. However, financing needs are large. According to the RUPTL, 2015–2024, the capital expenditure investment needs for transmission and distribution for Sumatra from 2015–2019 total \$7.36 billion. Over the same period, PLN estimates that the overall program expenditure is approximately \$10.834 billion. The proposed RBL will focus on supporting the strengthening of the Sumatra power grid. The RBL modality is appropriate given (i) PLN's and the government's strong ownership of the generation expansion program; (ii) the government's desire to shift to direct lending for ease of efficiency and simplification of project approval process; (iii) the opportunity to improve institutional capacity and country fiduciary systems; and (iv) the presence of World Bank, Japan, KfW, and other development partners in the power subsector.

B. Country Level Results

1. Program Results Framework

14. **RBL program results framework.** At the impact level, the program is aligned with RUPTL's goal of enhancing the quality of life in Indonesian society by the sustainable use of electricity as a key driver of increased economic activity. The expected outcome of the RBL program is that the adequacy and reliability of power supply are achieved for Sumatra. This adequacy and reliability is defined by the outcome indicators, which are measured against realistically set targets in the Program Results Framework.¹⁵ Three output level results make up the results chain below the outcome level and if they are fully achieved, and if risks are well managed, then Sumatra will have an adequate and reliable power supply.

¹⁴ Source: PLN management information systems.

¹⁵ Program Results Framework (accessible from the list of linked documents in Appendix 2 of the report and recommendation of the President).

Table 2: RBL Program Results Framework
(as of November 2015)

Results Indicators	DLI (Yes/ No)	Baseline Value & Unit of Measurement	Baseline Year	Target Values of Results Indicators			
				2016	2017	2018	2019
Outcome							
1. Number of PLN customers in Sumatra increase by at least 3% each year	Yes/ DLI 1	11.18 m	2014	≥ 11.86 m	≥ 12.21 m	≥ 12.58 m	≥ 12.96 m
2. Residential energy sales grow by at least 3% each year from the preceding year	Yes/DLI 2	15,850 GWh	2014	≥ 16,848 GWh	≥ 17,421 GWh	≥ 18,048 GWh	≥ 18,734 GWh
3. Number of medium-voltage feeder permanent interruptions/100 km maintained at 2014 baseline level or improved ^a	Yes/DLI 3	21.22/100 km	2014	< 21.12	< 21.08	< 21.04	< 21.02
4. Technical complaints from PLN customers to Sumatra call center reduced	No	61 complaints/1000 customers/month	2014	< 59	< 57	< 54	< 52
Outputs							
5. Cumulative length of 150 kV transmission lines reconducted	Yes/ DLI 4	1,142 ckm	2014	≥ 1,242 ckm	≥ 1,367 ckm	≥ 1,543 ckm	≥ 1,743 ckm
6. Additional number of distribution transformer units installed annually	Yes/ DLI 5	80,130 units	2014	≥ 2,582	≥ 2,642	≥ 3,501	≥ 3,625
7. Additional length of medium-voltage distribution lines installed annually ^a	Yes/ DLI 6	92,716 ckm	2014	≥ 1,860 ckm	≥ 2,010 ckm	≥ 2,044 ckm	≥ 2,121 ckm
8. Percentage of PLN staff who are competency certified by PLN increased to at least 95% by 2019	No	87.5%	2014	> 89%	> 91%	> 93%	≥ 95%
9. Timely completion of implementation of distribution system contracts increased annually	No	<10%	2014	> 10%	> 14%	> 19%	> 24%
Other Results (Financing for prior results)							
10. FPR: At least 25% of the contracts for the strengthening and expansion of the transmission system of the Sumatra grid are made effective in 2015	FPR	NA	NA	NA	NA	NA	NA
11. FPR: Procurement monitoring system for EGSS implemented ^b	FPR	NA	NA	NA	NA	NA	NA

ckm = circuit-kilometer, DLI = disbursement-linked indicator, EGSS = Electricity Grid Strengthening—Sumatra Program, FPR = financing for prior results, GWh = gigawatt-hour, km = kilometer, kV = kilovolt, m = million, NA = not applicable, PLN = State Electricity Corporation.

^a PLN generally defines medium-voltage as 20 kV.

^b To achieve the FPR, the following have to be achieved, whereby: (i) PLN's procurement performance indicators agreed with ADB in line with PLN guidelines, (ii) procurement baseline data for the first half of 2015 collected and made available to ADB, and (iii) procurement performance measurement targets for 2016–2019 agreed with ADB.

Sources: Asian Development Bank estimates, PLN management information systems, and Electricity Power Supply Business Plan (RUPTL), 2015–2024.

15. The outcome is linked to all five Results Areas in the national electricity results framework. Progress in the RBL in Sumatra will contribute especially to the national Results Areas 1 and 2 (“Enhanced customer focus and services,” and “Increased product and process effectiveness”). The outcome level indicators in the Program Results Framework are identical or similar to the KPIs used by PLN in their own Results Areas (increase in number of customers, electricity sales and customer satisfaction). Table 2 shows the PLN results framework

16. Program Results Area 1. Existing transmission system strengthened and expanded. Output 1 will contribute to PLN’s efforts to strengthen and expand the existing transmission system by (i) reconductoring of existing 150 kilovolt (kV) transmission lines; (ii) extension of 150 kV and 275 kV substations; (iii) installation of 150 kV and 275 kV reactors and capacitors; and (iv) expansion of outgoing 20 kV switchgears at existing 150 kV substations. This Results Area addresses the lack of financing for transmission system expansion. Achieving this expansion for Sumatra will contribute to reducing bottlenecks in several major interconnection projects and to the government’s efforts to extend the transmission network, connect Sumatra to the Java-Bali grid by 2020 with a high-voltage direct current (HVDC) link with a capacity of 3,000 MW,¹⁶ and connect Sumatra to Peninsular Malaysia with another HVDC link with a proposed capacity of 600 MW.

17. The key performance indicator in this Results Area reflects infrastructure improvements to be brought about by the program, notably, the ckm of 150 kV transmission lines to be reconducted by the program. The number of medium-voltage feeder interruptions, measured as part of Results Area 2, also reflects improvements in the transmission system. This Program Results Area fits into PLN’s Results Area 1: “Enhanced customer focus and services.”

18. Program Results Area 2. Existing distribution system strengthened and expanded. Output 2 will contribute to PLN programs for expanding and reinforcing the existing medium-voltage (20 kV) and LV distribution network, the installation of distribution transformers, the installation of service connections and feeders, and the installation of customer meter boxes and circuit breakers. This Results Area addresses the lack of financing for distribution system expansion and the resulting negative impact on Sumatra’s population and businesses, which are encountering overloading and unreliability issues. PLN’s distribution network has begun to deteriorate for lack of upkeep, urgently requiring heavy network investment to ensure that additional generation capacity can actually translate into the delivery of more and better quality supply to consumers.

19. Key performance indicators in this Results Area include increase in the number of distribution transformer units installed annually, reduction in the number of medium-voltage (MV) feeder technical interruptions per 100 kilometer of line maintained at 2014 baseline level or improved, and the additional length of MV lines installed annually, all of which are tied to improvements in the distribution system. This second Results Area fits into PLN’s Results Areas 1 and 2: “Enhanced customer focus and services” and “Increased product and process effectiveness.”

20. Program Results Area 3. Performance management and implementation improved. Output 3 will focus on the acceleration of PLN staff training and certification programs, as well as on strengthening contract implementation processes. This will contribute to PLN’s overall efforts to increase staff productivity, improve human capital readiness and strengthen

¹⁶ ADB, 2015: Draft ‘Indonesia Energy Sector Assessment, Strategy, And Roadmap’ Condensed version, January 19, 2015.

institutional capacity. This Results Area also addresses some implementation-related issues. First, the proportion of competency-certified employees in PLN needs to increase, especially those in critical positions, such as substation operators. Second, only a small proportion (less than 10%) of implementation contracts is completed on schedule. PLN procurement system will also be strengthened with the development of a procurement monitoring framework needing quarterly reporting. Key performance indicators in this Results Area reflect these two issues. This Results Area fits into PLN's Results Areas 3 and 4: "Enhanced human resources management" and "Improved financial management."

21. **Flexibility and sustainability.** The results framework of the RBL program has been developed so that its results chains fit into the 10-year RUPTL and align with the broader national planning frameworks of the 5-year RPJMN. The program, being part of PLN's programs to strengthen Indonesia's power grid, should not be viewed in isolation but rather, as part of a long-term engagement by the ADB and its partners to contribute towards a reliable and uninterrupted provision of electricity, support inter-regional and intra-regional development, and improve the well-being and livelihoods of communities in Sumatra. Sufficient flexibility has been built into the program, notably in the formulation of outputs and outcome, and in the formulation and targets of the disbursement-linked indicators (DLIs), which will allow yearly progress to be made at PLN's own pace towards achievement of the final four-year target, instead of linear progress that is less flexible.

C. Disbursement-Linked Indicators and other indicators

22. Altogether, 11 indicators were carefully selected, refined, and sequenced to align with areas crucial for the successful implementation of the RBL program; six of the indicators are DLIs, which together with two financing for prior results (FPR), are directly linked to loan disbursements during implementation. The six DLIs comprise three outcome indicators and three output indicators. The following criteria was used for each DLI: (i) the indicator must be SMART;¹⁷ (ii) to the extent possible, the indicator should go beyond infrastructure and equipment to reflect the progress in meeting consumer needs; and (iii) the indicator should be easily available in the PLN system. In addition, two process indicators on strengthening PLN's procurement system and implementation capacity are for the financing of prior results (FPR) and are linked to disbursement in the preparatory phases of the program. The remaining three indicators are for performance monitoring only and not linked to loan disbursements. Overall, the DLIs and the other performance indicators provide robust and realistic measures of progress towards RBL's outputs and outcome.

23. **Focus.** Table 3 shows the DLIs that reflect the critical factors to achieve the overall program results.

¹⁷ SMART = specific, measurable, achievable, relevant, and time-bound. (Source: ADB. 2015. *Updated Design and Monitoring Framework Guidelines*. Manila).

Table 3: Disbursement-Linked Indicators
(as of November 2015)

Indicator		Disbursement Allocated (\$ million)	Share of Total ADB Financing (%)
Outcome			
DLI 1	Number of PLN customers in Sumatra increase by at least 3% each year	120.0	20.0
DLI 2	Residential energy sales grow by at least 3% each year from the preceding year	72.0	12.0
DLI 3	Number of medium-voltage feeder permanent interruptions/100 km maintained at 2014 baseline level or improved ^a	48.0	8.0
Outputs			
DLI 4	Cumulative length of 150 kV transmission lines recondored	180.0	30.0
DLI 5	Additional number of distribution transformer units installed annually	120.0	20.0
DLI 6	Additional length of medium-voltage distribution lines installed annually ^a	60.0	10.0
Total		600.0	100.0

DLI = disbursement-linked indicator, km = kilometer, kV = kilovolt, PLN = State Electricity Corporation.

^a PLN generally defines medium-voltage as 20 kV.

Sources: Asian Development Bank estimates, PLN management information systems, and Electricity Power Supply Business Plan (RUPTL), 2015–2024.

D. Managing Risks and Improving Capacity

24. The program is the first-ever energy sector RBL program. Introducing this new approach requires a paradigm shift among counterparts, especially in dealing with disbursement-linked indicators, and also brings some risks. Overall, the program risk is moderate to substantial. The risks related to program results include underestimations of growth trends in the economy and in the customer base (population and businesses), inadequate commitment and ownership among the counterparts due to a failure to understand the way RBL works, inadequate institutional capacity and insufficient staff competency, resulting in implementation delays and extra costs, undue delays in delivery and logistics, and increases in the prices of commodities, supplies, transportation and wages. There is also the risk that PLN's funding targets may not be met, which would undermine the program, since PLN will fund a significant portion of the Sumatra program, and finances most of the inputs. Measures to mitigate these and other risks have been integrated in the program. For instance, the risk that PLN's funding targets may not be met will be managed by having open lines of communication with the Ministry of Finance and PLN, and if necessary, scale-up the proposed program further in line with discussions with PLN, and by mobilizing additional financing from other partners, such as private sector partners. A fuller risk assessment is provided in the document on the Integrated Risk Assessment and Mitigating Measures.¹⁸

¹⁸ Risk Assessment and Mitigating Measures (accessible from the list of linked documents in Appendix 2 of the report and recommendation of the President).

E. Disbursement Linked Indicator Verification Protocols

1. Description of the Verification Protocols

25. PLN may submit a withdrawal application periodically, along with evidence verifying achievement of the DLIs. Disbursements are allowed for early or late achievement of DLIs. Verification mechanisms and protocols have been established and are clarified in the protocols and verification measures included in Table 4.

a. General Procedures

- (i) PLN will collect all reports and information necessary to verify *progress* of the DLI and prepare a draft Summary Progress Report (SPR) This report will be generated by the Corporate Performance Control Unit (SPKK) on a quarterly basis and provided to ADB within 30 days of draft completion. The SPR will be consistent with PLN monthly SPRs.
- (ii) PLN will collect all reports and information necessary to verify *accomplishment* of the DLIs and prepare a draft DLI Achievement Report. This report will be generated by SPKK on an annual basis.
- (iii) PLN Director of Corporate Planning or designee will assess the achievement of the DLIs and authorize the DLI Achievement Report to be shared with the Ministry of Finance (MOF) and ADB.
- (iv) During Review Missions, the findings of the progress of the DLIs will be discussed with the PLN counterparts and comments provided.
- (v) PLN counterpart(s) resolves any disagreements about DLI achievement. In case the DLI is not fully achieved, Steps 1 to 3 above will be applied.
- (vi) PLN submits the Withdrawal Application to ADB accompanied by the Review Mission's verification of DLI achievement and other supporting documents.
- (vii) Withdrawal application can be submitted in the same year the DLI is achieved or the following year depending upon PLN's financial needs.
- (viii) The DLI matrix will be reviewed during Mid-Term Review and restructured as necessary.

b. Verification Protocols

26. To avoid confusion about whether a DLI has been met, verification protocols have been agreed with PLN and are presented in Table 4.

Table 4: Disbursement-Linked Indicator Verification Protocols
(as of November 2015)

DLI	Baseline and Year	Prior Results (2015)	2016	2017	2018	2019
Outcome: Adequacy and reliability of power supply achieved for Sumatra						
DLI 1: Number of PLN customers in Sumatra increase by at least 3% each year	11.18 million customers in Sumatra (2014)		At least 11.86 million customers connected by end of 2016	At least 12.21 million customers connected by end of 2017	At least 12.58 million customers connected by end of 2018	At least 12.96 million customers connected by end of 2019
DLI 2: Residential energy sales grow by at least 3% each year from the preceding year	15,850 GWh sold to residential customers (2014)		At least 16,848 GWh or more of energy sales to residential customers in 2016	At least 17,421 GWh or more of energy sales to residential customers in 2017	At least 18,048 GWh or more of energy sales to residential customers in 2018	At least 18,734 GWh or more of energy sales to residential customers in 2019
DLI 3: Number of medium-voltage feeder permanent interruptions/100 km maintained at 2014 baseline level or improved ^a	21.22 interruptions/100 km (2014)		Medium-voltage feeder permanent interruptions reduced to less than 21.12 interruptions/100 km by end of 2016	Medium-voltage feeder permanent interruptions reduced to less than 21.08 interruptions/100 km by end of 2017	Medium-voltage feeder permanent interruptions reduced to less than 21.04 interruptions/100 km by end of 2018	Medium-voltage feeder permanent interruptions reduced to less than 21.02 interruptions/100 km by end of 2019
Outputs: (i) Existing transmission system strengthened and expanded; (ii) existing distribution system strengthened and expanded; and (iii) performance management and implementation improved						
DLI 4: Cumulative length of 150 kV transmission lines reconducted	Cumulative length of 1,142 ckm reconducted (2014)	At least 25% of the contracts for strengthening and expansion of the transmission system of the Sumatra grid are made effective in 2015	Cumulative length of 1,242 ckm or more of 150 kV transmission lines reconducted by end of 2016	Cumulative length of 1,367 ckm or more of 150 kV transmission lines reconducted by end of 2017	Cumulative length of 1,543 ckm or more of 150 kV transmission lines reconducted by end of 2018	Cumulative length of 1,743 ckm or more of 150 kV transmission lines reconducted by end of 2019
DLI 5: Additional number of distribution transformer units installed annually	A total of 80,130 distribution transformer units installed (2014)	Procurement monitoring system for the program implemented, whereby: (i) PLN's procurement performance indicators agreed with ADB in line with PLN guidelines; (ii) procurement baseline data for the first half of 2015 collected and made available to ADB; and (iii) procurement performance measurement targets for 2016-2019 agreed with ADB	At least an additional 2,582 or more of distribution transformer units installed in 2016	At least an additional 2,642 or more of distribution transformer units installed in 2017	At least an additional 3,501 or more of distribution transformer units installed in 2018	At least an additional 3,625 or more of distribution transformer units installed in 2019

DLI	Baseline and Year	Prior Results (2015)	2016	2017	2018	2019
DLI 6: Additional length of medium-voltage distribution lines installed annually ^a	A total of 92,716 ckm installed (2014)		At least an additional 1,860 ckm or more of MV distribution lines installed in 2016	At least an additional 2,010 ckm or more of MV distribution lines installed in 2017	At least an additional 2,044 ckm or more of MV distribution lines installed in 2018	At least an additional 2,121 ckm or more of MV distribution lines installed in 2019

ADB = Asian Development Bank, ckm = circuit-kilometer, DLI = disbursement-linked indicator, km = kilometer, kV = kilovolt, PLN = State Electricity Corporation.

^a PLN generally defines medium voltage as 20 kV.

Sources: Asian Development Bank estimates, PLN management information systems, and Electricity Power Supply Business Plan (RUPTL), 2015–2024.

F. Disbursement Allocation and Status

27. Financing under each loan will be disbursed over a period of 48 months (four years) on a pro-rata basis of 95.8% and 4.2% respectively subject to the achievement and verification of the agreed DLIs. PLN may submit a withdrawal application periodically, along with evidence verifying achievement of the DLIs. Disbursements are allowed for early or late achievement of DLIs. Verification mechanisms and protocols have been established using independent sources and are clarified in these protocols and verification measures.

28. Before the submission of the first withdrawal application, PLN will submit to ADB the evidence of achievement for such disbursement based on the verification protocols, and evidence of the authority of the person(s) who will sign the withdrawal applications on behalf of PLN, together with the authenticated specimen signatures of each authorized person.

G. Disbursement Principles

- a. **The disbursement amount allocated to each disbursement-linked indicator depends on its importance.** While the cost of achieving the DLI may be a factor for consideration, there is no one-to-one relationship between the allocation of disbursement and the costs required to achieve the results. Two or more development agencies can disburse against the same DLIs. Of the disbursements, 95.8% will be drawn from the A loan and 4.2% from the B loan (Table 5 and Table 6). The detailed allocation for each loan is at Appendix 1.
- b. **Advance financing.** ADB can provide up to 25% of its financing (i.e., \$150 million) as advance disbursement. Advances can be considered for initial and subsequent DLIs during the implementation period. The amount of advances will be recovered from subsequent disbursements when DLIs are achieved. Additional advances can be made once an earlier advance has been recovered or partially recovered. The recovered advance is then available, as needed, for additional advances (“revolving advances”), but the outstanding advance should not at any time exceed the ceiling of 25% of ADB financing. PLN will refund any advances (or portions of advances) if the DLIs have not been met or fully met by program completion no later than six months after program completion.
- c. **Financing for prior results.** Some results may need to be achieved before an RBL operation is approved. In such cases, ADB will be able to finance and disburse based on the DLIs achieved before the effectiveness of the results-based lending program. The total amount for such financing should not exceed 20% of the ADB financing (i.e., \$120 million). Financing of prior results achieved either not more than 12 months before loan signing will be allowed in order to support PLN to initiate actions required to achieve Year 1 DLIs. Prior results have been agreed with PLN, and the DLIs against which the amount of prior results financing will be made have been identified during program preparation. The program team is of the view that such results are within the scope of the program supported by RBL and are subject to the agreed verification protocols.
- d. **Ceilings for advance financing and financing for prior results.** Ceilings are (i) advance financing (25%), and (ii) financing for prior results (20%). The combined outstanding balance of advance financing and amount of financing for prior results should not exceed 30%.
- e. **Partial disbursements are allowed.** Partial disbursements are allowed for DLIs 1, 2, 3, 4, 5, and 6 and FPR 1 and the formulas for partial disbursement for those DLIs and the FPR are detailed in these protocols.

Table 5: Expected Disbursement Schedule

(\$ million)

(as of November 2015)

DLI	Total ADB Financing Allocation	Share of ADB Financing (%)	Financing for Prior Results	2015	2016	2017	2018	2019
Outcome								
DLI 1: Number of PLN customers in Sumatra increase by at least 3% each year	120.0	20.0	0	0	30.0	30.0	30.0	30.0
DLI 2: Residential energy sales grow by at least 3% each year from the preceding year	72.0	12.0	0	0	18.0	18.0	18.0	18.0
DLI 3: Number of medium-voltage feeder permanent interruptions/100 km maintained at 2014 baseline level or improved ^a	48.0	8.0	0	0	12.0	12.0	12.0	12.0
Outputs								
DLI 4: Cumulative length of 150 kV transmission lines reconducted	180.0	30.0	60.0	60.0	30.0	30.0	30.0	30.0
DLI 5: Additional number of distribution transformer units installed annually	120.0	20.0	60.0	60.0	15.0	15.0	15.0	15.0
DLI 6: Additional length of medium-voltage distribution lines installed annually ^a	60.0	10.0	0	0	15.0	15.0	15.0	15.0
TOTAL	600.0	100.0	120.0	120.0	120.0	120.0	120.0	120.0

ADB = Asian Development Bank, DLI = disbursement-linked indicator, km = kilometer, kV = kilovolt, PLN = State Electricity Corporation.

^a PLN generally defines medium-voltage as 20 kV.

Source: Asian Development Bank.

Table 6: Allocation of Loan Proceeds for the Disbursement-Linked Indicators
(\$ million)

	Amount Allocated for OCR Loan (A loan)	Amount Allocated for AIF Loan (B loan)
DLI 1	115.0	5.0
DLI 2	69.0	3.0
DLI 3	46.0	2.0
DLI 4	172.5	7.5
DLI 5	115.0	5.0
DLI 6	57.5	2.5
Total	575.0	25.0

AIF = ASEAN Infrastructure Fund, DLI = disbursement-linked indicator, OCR = ordinary capital resources.

Source: Asian Development Bank.

III. EXPENDITURE FRAMEWORK AND FINANCING

A. Expenditure Framework

29. **Program expenditure framework.** PLN's RUPTL 2015–2024 includes an overview of the projected transmission, distribution and generation investment needs for Sumatra which amount to \$17.9 billion. The proposed RBL is defined to cover transmission and distribution for 2015–2019, which in the RUPTL is estimated at \$7.362 billion. PLN's estimates cover engineering, procurement, and construction (EPC) costs and do not include other expenditure items required to make the program operational (e.g. land acquisition, permits, consultants, project management, and overhead). ADB has therefore estimated the total program costs, which are shown below.

Table 7: Projected Summary of Investment Needs for Broader Sumatra Grid Strengthening Program 2015–2019
(\$ million)

Item	2015	2016	2017	2018	2019	Total	Share (%)
Transmission	1,486.1	1,569.9	1,727.6	2,130.0	1,710.6	8,624.2	79.6
Distribution	390.0	393.5	443.4	471.0	512.5	2,210.3	20.4
Total	1876.1	1963.4	2,171.0	2,601.0	2,223.1	10,834.5	100.0
Share (%)	17.3	18.1	20.0	24.0	20.5	100.0	

Source: Electricity Power Supply Business Plan (RUPTL), 2015–2024.

30. Table 8 shows the total program costs estimated at \$10,834.5 million (consisting of \$7,362.4 million EPC costs¹⁹ and \$3,472.1 million additional expenditure items). Transmission costs accounts for 79.6% and distribution costs for 20.4%, while the total cost allocations per year vary between 17%–24%. The combination of EPC costs and additional expenditure items makes the full set of expenditures comprehensive and the RBL program fully operational.

¹⁹ Engineering, procurement and construction costs, or capital expenditure needs for transmission and distribution. No land acquisition will be undertaken under the program financed by ADB.

31. It is understood that PLN's EPC cost figures are based on detailed calculations regarding electricity demand and ensuing requirements for transmission and distribution. The technical design of the proposed program transmission and substation works has been carried out by PLN technical experts, generally in accordance with internationally accepted good practice. Based on a review of the methodology used in estimating the expenditures and benchmarking exercise against market prices, ADB considers the program expenditures to be realistic in terms of prioritization and coverage.

32. The key expenditure composition of the RBL estimated investment needs for transmission and distribution over the full five-year period is shown in the table below. The table shows that the largest expenditure component is equipment (51%), while other components include civil works (17%), taxes and duties (8%), and physical contingencies (8%).

**Table 8: Broader Sumatra Grid Strengthening Program Expenditure Framework
2015–2019**
(\$ million)

Components	Transmission		Distribution		Total	
	Amount	Share (%)	Amount	Share (%)	Amount	Share (%)
Civil works	1,480.6	17.2	360.0	16.3	1,840.6	17.0
Equipment	4,441.8	51.5	1,080.0	48.9	5,521.7	51.0
Taxes and duties	710.7	8.2	172.8	7.8	883.5	8.2
Land acquisition ^a	28.8	0.3	14.4	0.7	43.2	0.4
Project management	59.2	0.7	14.4	0.7	73.6	0.7
Monitoring and supervision	296.1	3.4	72.0	3.3	368.1	3.4
Environmental management	29.6	0.3	7.2	0.3	36.8	0.3
Interest	435.6	5.1	159.5	7.2	595.1	5.5
Physical contingencies ^b	703.2	8.2	173.5	7.8	876.8	8.1
Price contingencies ^c	435.6	5.1	159.5	7.2	595.1	5.4
Total	8,606.8	100.0	2,227.7	100.0	10,834.5	100.0

Note: numbers may not sum precisely because of rounding.

^a The RBL program does not cover activities requiring land acquisition.

^b Based on 10% estimated physical contingencies which is typical for this type of project.

^c Based on ADB forecast domestic and international cost escalation factors.

Source: Calculated based on Electricity Power Supply Business Plan (RUPTL), 2015–2024. Table 7.2, p. 145.

33. **Program financing.** PLN will finance at least \$5,136.3 million (47.4%) of the broader \$10,834.5 million PLN program for Sumatra and ADB will lend \$600 million (5.5%) to be followed by the World Bank in 2016 with \$500 million (4.6%). PLN and the government may request ADB and other development partners to provide additional financing during satisfactory implementation of the subsequent phases of EGSS to bridge any financing gap through to 2019.²⁰ For the EGSS, PLN has requested a loan to be guaranteed by the Republic of Indonesia in the amount of \$575 million from ADB's ordinary capital resources (A loan) and \$25 million from the AIF (B loan).

²⁰ Development Coordination (accessible from the list of linked documents in Appendix 2 of the report and recommendation of the President).

Table 9: Broader Program Financing Plan

Source	Amount (\$ million)	Share (%)
PLN	5,136.3	47.4
Asian Development Bank		
Ordinary Capital Resources	575.0	5.3
ASEAN Infrastructure Fund ^a	25.0	0.2
Others ^b	4,071.4	37.6
Unallocated	1,026.8	9.5
Total	10,834.5	100.0

ASEAN = Association of Southeast Asian Nations, PLN = State Electricity Corporation.

^a Administered by the Asian Development Bank.

^b The category includes \$500 million from the World Bank, also for the Sumatra program, and may include additional loans from the Asian Development Bank and also the World Bank; a two-step loan with the Japan International Cooperation Agency; and funding from an export credit agency, bilateral partners, and the Government of Indonesia's national budget.

Sources: Asian Development Bank and PLN staff estimates.

IV. PROGRAM SYSTEMS AND IMPLEMENTATION ARRANGEMENTS

34. Throughout the implementation period, the program will use PLN's established systems for key management functions.

A. Monitoring and Evaluation System

1. Description of the of Monitoring and Evaluation System

35. PLN is committed to continuous and comprehensive monitoring and evaluation (M&E). A thorough review of the existing M&E systems, processes and procedures and an assessment of the monitoring of program performance within PLN indicate extensive data generation, the ability to monitor transmission and distribution in real time, and a regular reporting system. The Management Reporting Information System (SILM) contains data on critical dimensions such as performance, electricity generation, energy sales, transmission and distribution, and projects and construction. This information will facilitate the monitoring of the DLIs for the program. Information about the M&E systems was obtained in conjunction with SPKK and the Generation, Transmission, and Distribution Divisions.

36. **M&E information systems.** The M&E in PLN at the corporate level is handled and managed by SPKK through SILM. SILM provides accurate, real-time, online data. In the effort to implement the M&E requirements, each department has and operates information technology (IT) applications that are developed together with the Information Technology Division. The IT applications generate data and provide information on current activities. This provides information for the M&E process.²¹ A monthly summary report is generated based on information provided by SILM, addressed to the Board of Directors (BOD) and to all Heads of Divisions. Based on this report, each division provides feedback on the condition of the field, addresses problems, or develops strategies to make forward progress. In addition the BOD and SPKK use the "BOD Dashboard" information system which contains comprehensive data in

²¹ PLN (2013). *Annual Report*. Jakarta.

real-time for (i) customer service; (ii) projects; (iii) corporate performance; and (iv) electricity condition.

37. Institutional arrangements for M&E. SPKK has been specifically created and given the task of monitoring, evaluating and de-bottlenecking process problems that arise in the implementation of tasks and business processes in the corporation. The SPKK coordinates with all divisions and units in PLN to obtain current and accurate data. It processes and evaluates data into clear information to facilitate BOD decision-making. In addition, each division has duties and responsibilities to perform monitoring duties in accordance with its field. Each division reports through IT systems appropriate to their respective areas. In each division, by region, including SPKK, there is dedicated staff responsible to carry out the monitoring and evaluation processes. SPKK has eleven staff with M&E responsibilities. Each division has an Operator to monitor and evaluate division activities. In addition, the division Supervisor (senior manager) and the Head of Division oversee M&E processes. SPKK organizes monthly meetings with each division and its units to monitor current actual conditions and action plans to solve the problems. All data required for M&E is available and ready to retrieve in real time online at corporate premises. PLN has extensive experience in monitoring and evaluation both large and smaller projects and programs. Over the past ten years PLN has (and is) successfully monitored programs and projects including strengthening the power grid in West Kalimantan (ADB), constructing the Sumatra-Java hydropower plant (World Bank), and constructing a submarine cable (PLN self-funded). PLN M&E experience, however, is in projects that are input-based. This RBL is the first program under PLN control. Management staff in each division and in SPKK monitors and evaluate PLN programs, projects, processes and procedures internally. However, little benchmarking, or comparison, to other companies with world-class experience and achievement has been accomplished. Capacity development within PLN needs be expanded to include professional development in comparative M&E practices in order to allow PLN to benchmark itself against the standards of other power companies that use international best practices in M&E.

38. Availability and quality of data. In most of the data collection applications, data indicators and targets have been established. The units responsible provide the necessary data. This responsibility has been designated as a KPI indicator for the related units. Units that do not fill in complete and accurate data will receive a low achievement of the KPI score. This mechanism ensures the availability and quality of the data. Quantitative data regarding the performance of PLN include data from PLN and data managed by subsidiaries. PLN also maintains historical data for analysis and reporting annually and for five year development plans.

39. Information sharing and arrangements for reporting. The data collected within IT applications is accessible by all Divisions and Units in PLN. This ensures proper information sharing. The Operations division works closely with the Strategic Programs division (supply chain, strategies program, planning procurement) and reports to SPKK. All units also report directly to their division. Internal operational reporting is “cascade up”—monthly/quarterly/semi-annual/annual from units to SPKK. Progress reports on achievement of KPI, progress reports of construction projects, and information about the problems that arise are routinely reported every month through SILM. Written reports are submitted to the BOD and Heads of Divisions in the form of Summary Progress Reports. These contain information based on detailed data for each indicator for each unit distribution / region and construction units, and detailed figure percentage progress of project implementation for each project generation, transmission and substations, complete with the status of the current problems.

2. Assessment of the Monitoring and Evaluation System

40. Under the RBL modality, DLIs consist of indicators for results at different levels: outcome, output and system performance indicators. A total of six DLIs have been identified that are directly linked to loan disbursements. The DLIs contain three outcome indicators and three output indicators. They have been selected based on PLN's SILM and do not require separate measurement efforts. The M&E system within PLN is sufficient and able to generate reliable, timely, and adequate information on results, including DLIs. The units responsible provide the necessary data. Data specific to DLIs and other indicators are collected, analysed, and monitored throughout the specific systems indicated above. Division Operators, Division Supervisors, and Heads of Division are responsible for carrying out M&E activities. Current PLN M&E processes are applicable to the program. Preliminary terms of reference are not needed for surveys, data collection, or data editing. The design and monitoring framework records the baselines of all DLIs for outcome and outputs. In order to make the status of specific DLIs available to all PLN-related parties (such as Divisions and PLN Units), and for M&E purposes, reporting should be provided through SILM. The program's progress data would therefore be easily accessed by and reported to all related parties. The reporting application should also be able to offer ways to provide feedback on the program progress reports. Other indicators solely for performance monitoring and not linked to loan disbursements were also identified. The table below shows an initial M&E framework with the inclusion of responsible division, expanded data sources and IT systems. Risks and mitigating actions are discussed in Section C of the assessment report.

3. Summary of Monitoring and Evaluation System

41. PLN will submit to ADB quarterly reports on; (i) the achievements of overall program results; (ii) DLIs and DLI verification protocols; (iii) covenants in the loan and program agreements; and (iv) PAP implementation.

B. Fiduciary Systems

1. Financial Management System

a. Summary of the Financial Management Systems

42. The proposed RBL program will use PLN's existing financial management (FM) system and procedures, which ADB considers adequate and will allow PLN to implement the proposed program effectively. PLN has significant experience in implementing development partner-financed projects and programs, including for ADB, other international organizations and commercial banks. Related procedures have generally been well-implemented, and the funds flow and disbursement arrangements for ADB-funded programs have been satisfactorily employed by PLN.

43. Indonesia has a relatively well-functioning public financial management (PFM) system, as evidenced by the 2012 PEFA-based assessment.²² It showed that performance had improved in many areas—including comprehensiveness and transparency, predictability and control in budget execution, and external scrutiny and audit—but also that some specific areas continued to be very weak. These include the extent of unreported government operations,

²² Government of Indonesia and Development Partners. 2012. *Indonesia: Repeat Public Expenditure and Financial Accountability (PEFA) Report & Performance Indicators*. Jakarta.

transparency of inter-governmental fiscal relations, multi-year budgeting, implementation of internal controls for payroll and non-salary expenditure, the internal audit function, the quality and timeliness of in-year budget reports, and the legislature's scrutiny of external audit reports. The government has been carrying out PFM reforms with donor support for a number of years.

44. Indonesia's state-owned enterprises (SOEs) are not, as such, part of the PFM sector, given that they are governed by Boards and follow private sector legislation and regulations. However, PLN and other large SOEs are fully government-owned, which implies financial accountability and a relationship vis-à-vis the government budget since significant subsidies are allocated via the budget, and a subsidiary loan agreement (SLA) is approved by Parliament as a separate budget line. SOEs are required to submit quarterly financial statements to the Ministry of SOEs (MSOE) and to produce audited financial statements as part of their annual report. There is also a requirement that SOEs undertake regular assessments of their financial "health". SOEs generally comply with reporting requirements and the Ministry of Finance (MOF) encourages compliance further by following up on their preparation of fiscal risk statements.

45. **Funds flow arrangements.** ADB will, based on a guarantee from the Republic of Indonesia, sign a loan agreement directly with PLN. It will thus be PLN that prepares withdrawal applications for submission to ADB, and disbursements will accordingly be made directly to PLN's general account with a commercial bank. ADB's loan funds will in PLN's account merge with other resources and there will be no requirement to identify transactions or payments related to any specific funding source. The management of funds will be based on PLN's ordinary system for budget preparation, funds release, execution and accountability. Given PLN's financial management systems, this arrangement is adequate and acceptable to ADB.

46. A description of PLN's FM systems is briefly presented below.

47. **Planning and budgeting.** PLN has clearly defined budgeting procedures. PLN's annual budget is determined by the head office based on the proposals submitted by the units, which also formulate multi-year investment programs. PLN's annual work plan and budget (RKAP) is approved by the shareholders in a General Meeting of Shareholders (RUPS) represented by the MSOE. PLN's investment program funded through the SLA is approved by Parliament as a separate budget line in the Government of Indonesia's (GOI) annual budget (APBN). Amendments to the budget composition may occur if there are changes in the GOI's revised budget (APBN-P), fluctuations in the dollar exchange rate or the Indonesian Crude Price (ICP) for oil, or external policy developments that affect the macro-economic assumptions underlying the RKAP. Budget amendments are made once a year and require approval. PLN's planning and budget function is deemed acceptable.

48. **Accounting and internal control.** PLN applies the Indonesian Financial Accounting Standards (PSAK) which is being converged gradually with the International Financial Reporting Standards (IFRS). There exist a number of differences, including on the interpretations of the standards, but Indonesia strives to minimize significant differences. According to the external auditor, PLN had, as of end-2013, adopted all new and revised Financial Accounting Standards and Interpretations relevant to its operations and effective for accounting. PLN has manuals for the PSAK that are updated regularly, and also internal rules and regulations on FM and accounting.

49. PLN's accounting system is computerized and incorporated in a SAP-based Enterprise Resource Planning (ERP) system. As 7 out of 10 PLN subsidiaries are not yet using ERP, the consolidated financial statements of PLN are still being generated using a spreadsheet.

However, checks and balance are in place to mitigate the risk of human error in the manual consolidation. Present controls include that adjustment to entries require clearance from a supervisor and that all adjustments are logged. In addition, PLN's external auditors perform the consolidation function independently and thus, are able to catch any errors in consolidation during the annual audit. PLN is working to transition to full computerization in the near term.

50. Accounting and finance staff are trained to apply the ERP system and understand it well. The system has safeguards in place to maintain the confidentiality and integrity of the accounting and financial data, including segregation of duties, level of authorization in line with duties and functions, and dedicated user password to restrict unauthorized access. PLN has an effective cash management system, and the Finance Department is authorized to investigate reconciliation deviations, if detected.

51. The SOEs are required to establish a system of internal control and supervision, and PLN has pursued the development of an internal control system based on the approach developed by the Committee of Sponsoring Organizations of the Treadway Commissions (COSO). There is appropriate segregation of duties within the accounting and finance functions. The processing of invoices is generally appropriate, and earlier issues with slow payment processes have been resolved. PLN has a documents retention policy based on the accounting regulations.

52. A new asset management system is used by most of entities and contains detailed records of fixed assets kept that are reconciled with the control account. A physical inventory check is conducted annually and checked by the external auditor. However, there no guidelines and procedures to ensure that assets are recorded immediately after acquisition, and delays in recognizing and recording the transfer of fixed assets from construction-in-progress accounts has been frequently noticed by the external auditor.

53. **Financial reporting.** The ERP system is used for financial reporting and is generally well-functioning, but among other challenges, the system cannot automatically compare budgets and actual expenditures year-end, and does not produce lender-specific reports (which are instead prepared manually). PLN does not ordinarily prepare separate financial reports for each funding source, but it does prepare separate reports on program transactions to development partner on a quarterly basis using Interim Financial Reports (IFRs). PLN's reports do not include physical targets. PLN has in 2014 started implementing Internal Control over Financial Reporting (ICOFR) as a pilot project, which indicates potential spending-related risks.

54. **Internal audit.** PLN's internal audit is governed by a charter and carried out by the Internal Supervisory Unit. It is responsible directly to the President Director, and works closely with the Audit Committee of the Board of Commissioners. The Internal Supervisory Unit has offices in all 13 PLN regions and 184 personnel (although an external quality assurance review had recommended a total of 220 auditors). Most internal auditors have the Qualified Internal Auditor (QIA) qualification. Internal audit is undertaken following a risk-based annual work program monitoring, which generally includes development partner-supported programs/projects. PLN's management usually takes prompt follow-up action on internal audit issues. The internal audit function in PLN is deemed acceptable.

55. **External audit.** PLN's financial statements are subject to external audit by a private firm, which is rotated as part of PLN's audit policy. External audit is conducted based on the national audit standards issued by the Indonesian Institute of Public Accountants. The focus of the external audit is to obtain reasonable assurance about the quality of the financial statement and

whether it matches with the books of accounts. No significant accountability issues have been brought out in recent audit reports, and the audit opinion for 2012, 2013, and 2014 has been unqualified. Also, there are no outstanding audit reports under existing ADB operations. The State Audit Agency audits only the subsidy calculations of PLN.

56. **Human resources capacity.** PLN's Finance Department has five main divisions, which appears to be an appropriate structure. The functional lines of responsibility are suitable, and the divisions are adequately staffed. The accounting and finance staff are generally well-qualified with most officers, particularly the senior staff members, holding relevant degrees and having extensive experience in business accounting, program accounting and financial management. Some accounting and finance staff have participated in training on and have experienced with ADB loan disbursement procedures. PLN has formulated a human resource strategic plan and roadmap that is being implemented up to 2016.

57. **Program financial reporting and external audit arrangements.** PLN will apply its ordinary financial reporting procedures for program implementation, which includes mandatory quarterly financial reporting. PLN's annual consolidated financial statements will be audited by a private firm to international standards, and audit opinions shall be issued in accordance with International Standards on Auditing (ISA).²³ A separate program disclosure will be prepared by the external auditor to certify: 1) actual program expenditure,²⁴ and 2) procurement eligibility computation.²⁵ The annual audited financial statements will be submitted by PLN to ADB within three months after the close of PLN's financial year. PLN publishes its Consolidated Financial Statements and the Independent Auditors' Report in its Annual Report.

b. Financial Management System Related Actions

58. The actions recommended to be undertaken in order to address identified FM challenges and related fiduciary risks are shown in Table 10.

Table 10: Financial Management Program Action Plan

	Risk Description	Risk	Action Item	Period	Responsibility
1	<u>Accounting and internal control:</u> Manual consolidation using spreadsheets is applied to prepare PLN's consolidated financial statements, which implies the risk of human error.	Moderate	All entities to transition to computerization (ERP).	2017	Information System Division
	<u>Financial reporting:</u> Consolidated financial statements are not system-generated, but prepared through spreadsheets.	Moderate			

²³ The detailed financial reporting and external audit requirements for the Electricity Grid Strengthening—Sumatra Program will be agreed between ADB and PLN at loan negotiations and documented in the Program Implementation Document (PID).

²⁴ The amount of program expenditures for the previous year(s), current year and cumulative.

²⁵ That net procurement from ADB member countries is at least equal to the value of ADB disbursements.

	Risk Description	Risk	Action Item	Period	Responsibility
2	Financial reporting: ERP system cannot automatically produce budget tables and compare these with actual expenditures year-end.	Low	Develop the ERP system to produce budget tables with comparisons to actual expenditures at year-end.	2016	Information System Division

ERP = Enterprise Resource Planning, PLN = Perusahaan Listrik Negara.

Source. ADB staff estimates.

59. The FM Program Action Plan will be discussed and agreed between ADB and PLN prior to loan negotiations. The final agreed plan will thereafter be applied as a rolling plan and will hence be regularly reviewed for progress, and updated if and when required. This will include addressing any new issues that are identified.

60. **Conclusion.** The FM assessment indicates a moderate level of fiduciary risk. While some FM weaknesses and shortcomings have been identified for PLN, these are, as such, relatively minor and can be effectively addressed through the proposed mitigation measures and actions. Based on these being fully and properly implemented, the FM arrangements are considered adequate.

2. Procurement System

a. Summary of the Procurement System and Actions

61. The in-depth procurement assessment of PLN was guided by the Supplementary Appendix No. 5 of the RBL Guidelines, which presents indicative questions for assessing RBL program fiduciary systems, to ensure that an adequate procurement system exists to support a principle-based program. These guidelines had to be adapted to special circumstances since this RBL is the first in Indonesia, it is the first in the power subsector by any of the MDBs and it the first time that an RBL will be with a state-owned enterprise as the executing agency. The assessment utilized the Indonesia draft Country Procurement and Sector Report, information obtained from PLN staff using the questionnaires provided in the Staff Guidance, and by performing a desk study on PLN's procurement system including review of procurement data provided by PLN.

62. The procurement for the program will include equipment for transmission and distribution networks as well as civil works and installation services. PLN will use a variety of procurement methods, which include open competitive bidding, framework contracts and direct contracting through open book. The procurement of large transformers has been excluded from the RBL since the contracts in will exceed the limits for goods contracts of \$30 million.

63. It is this assessment's finding that the procurement framework as expressed in PLN's Board of Directors (BOD) Decree no. 0620.K/DIR/2013 on PT PLN (Persero) General Guidelines for Procurement is appropriate and follows best practices used by utility companies around the world. The framework provides the overall principles for procurement, a procurement strategy as well as detailed procedures. The overall objective of the procurement strategy is to increase value for money (VfM) for the organization, which are identified as the correct balance of the six Rights (Rs)—quality, quantity, location, time, social-economic impact, and price. The right price is only considered once the other 5 Rs have been complied with. The social economic goals of the procurement process may include social, environmental or other strategic objectives and can also include building national capacity to supply PLN by utilizing domestic

products, suppliers and contractors. A key for PLN in implementing their procurement strategy is to conduct extensive market research and to identify appropriate sourcing strategies depending on the supply market, the overall expenditure for different spending categories and the importance of those goods and services to PLN operations. As an analytical framework PLN uses the Kraljic Portfolio Purchasing Model²⁶ to categorize spend and classifies its procurements in Strategic, Bottleneck, Leverage and Routine categories to develop the appropriate sourcing strategy. PLN have implemented a number of framework contracts for equipment to improve efficiency, security of supply and achieve better value for money through fostering economies of scale. For works and engineering, procurement, and construction (EPC) contracts open competitive bidding is the default procurement method. To ensure quality of supply and of contractors, PLN has a list of pre-approved vendors, which meet the financial and technical requirements set out by PLN.

64. There are two key issues for ADB to consider for implementing an RBL using PLN's procurement system—local content requirements and direct contracting through open book, which are integral parts of PLN's procurement system. It is recommended that ADB accept these conditions when deciding to use the RBL modality because RBL policy clearly states that implementation rely on country systems not ADB Procurement Guidelines. More specifically:

- a. **Local content requirements.** The requirement for local content for equipment means that only suppliers with manufacturing facilities in Indonesia are eligible to bid for and receive contracts. It should be noted that several multinational firms do have manufacturing facilities in Indonesia²⁷ and PLN is actively encouraging foreign firms to either open facilities or expand the line of equipment they manufacture in Indonesia.
- b. **Direct contracting through open book.** For direct contracting, only those suppliers who are pre-selected by PLN are eligible to supply goods and services. Although competition is sacrificed, open book contracting brings other benefits such as security of supply and according to PLN also value for money. Overall, it is only 6-6.5 % of the procurement spending for distribution equipment anticipated under the program will go through the open book system.

65. While PLN's overall procurement framework is appropriate, PLN will face a number of risks in managing procurement under this program. ADB's procurement assessment has identified the following procurement risks:

- a. **Procurement and market capacity.** As the investment in distribution and transmission will be significantly increased in the implementation period, it may strain the capacity both internally in PLN as well in the supply markets. Not only is ADB processing a RBL, other partners are likely to support the distribution and transmission program and PLN is investing heavily to meet the ambitious goals of the power subsector development program. The absorptive capacity of PLN and perhaps more importantly the private sector capacity to deliver needs to be carefully monitored. The increase in investment in both transmission and distribution may result in (1) lack of qualified contractors to carry out installation and works contracts and (2)

²⁶ Developed by Peter Kraljic and first published in the Harvard Business Review in 1983.

²⁷ This includes e.g. ABB, Siemens, Alstrom, Schneider, Crompton Greave who all have contracts with PLN

supply risk for equipment categories especially where only limited suppliers exist. A procurement monitoring and spending pattern system should be actively used by PLN to identify capacity issues (whether internally or externally) and to develop mitigating measures and action plans should capacity issues arise.

- b. **Anti-corruption measures.** All large scale procurements must include suitable safeguards against fraud and corruption. PLN has, over the last three to four years, has taken a number of important initiatives to curb corruption within the organization and has significantly strengthened internal controls. To further strengthen the PLN's oversight and detection mechanism the program action plan includes a procurement monitoring framework and spending pattern of the program. PLN will report every quarter to their board/Value for Money Committee and to ADB on the indicators in the procurement monitoring framework and provide the updated spend profile.

66. The key to manage procurement risk in this and subsequent RBLs with PLN is to have all procurement monitored at a corporate level. PLN's procurement guidelines require that PLN introduce a procurement monitoring system, including an expenditure analysis of their procurement. A procurement monitoring framework is at Appendix 2. If this is implemented for the program both PLN and ADB can adequately manage procurement risks and take corrective action if and when necessary (Table 11).

Table 11: Risk Profile and Mitigation Measures

Risk Description	Risk Assessment	Mitigation Measures
Market capacity and supply risk issues may cause price fluctuations	Substantial	A procurement monitoring and spend profile will be developed by ADB and PLN for the program and used actively to identify lack of competition or above normal contract prices due to market failure.
PLN procurement is subject to systemic delays	Moderate	Upgrade the e-procurement function and improve the capacity of PMO and the procuring entities. ADB and PLN have developed a procurement monitoring framework to provide early warnings if procurement under the program experience systemic delays.
The large investments in the sector are likely to stretch existing institutional capacity	Moderate	Accelerate PLN's ongoing programs and initiatives to improve institutional capacity and professional development for key staff. PLN already has eight corporate strategic initiatives to accomplish this.
Despite PLN initiatives to curb corruption and strengthen internal controls, risks persist.	Substantial	Upgrade the capacity of the internal auditor and use the procurement monitoring framework to detect red flags and suspicious patterns in contract awards.

ADB = Asian Development Bank, PLN = Perusahaan Listrik Negara (State Electricity Corporation), PMO = project management office.

Source: Asian Development Bank.

3. Anticorruption System

a. Summary of Anticorruption System

67. Since the program is part of PLN's overall overarching generation expansion program, it will be implemented in accordance with the legal framework and through institutions designed to protect PLN from corruption risks whilst aiming to become a continuously growing and competitive state-owned enterprise. PLN has developed a structure and system of good corporate governance (GCG) by adhering to its principles in accordance with the rules and the regulations, as well as the best practices. The background to GCG implementation is a follow-up to Decree of the Minister of State-Owned Enterprise BUMN No. KEP- 117/M-MBU/2002 dated 31 July 2002 which was subsequently amended by Regulation of the Minister of State-Owned Enterprise No. PER-01/MBU/2011 dated 1 August 2011 concerning the Implementation of Good Corporate Governance in State-Owned Enterprises, which states, "SOE shall carry out its operations by adhering to GCG principles of transparency, accountability, responsibility, independence, and fairness".

68. The inclusion of GCG in its daily operations is PLN's determination to become a company that continues to grow and improve with quality services and working processes and a strong code of conduct. The objectives of GCG include:

- a. Controlling and directing the relationship between the structures of the company, employees, customers, business partners, as well as the community and environment properly in which the interest of all parties are fulfilled.
- b. Encouraging and supporting the development of PLN.
- c. Managing the resources with strong fiduciary oversight.
- d. Managing the risks better.
- e. Enhancing accountability to the stakeholders.
- f. Preventing any deviations in the management of PLN.
- g. Improving the working culture of PLN.
- h. Improving PLN's image to become better.

69. PLN is fully committed to realizing these objectives. It is, therefore consistent in enforcing GCG implementation and the following regulations are the basis of GCG implementation in PLN:

- a. Law 31/1999 on the Eradication of the Criminal Act of Corruption and Law 20/2001 on the Amendment to Law 31/1999.
- b. Law 19/2003 concerning SOEs.
- c. Regulation of No. PER-01/MBU/2011 concerning the Implementation of Good Corporate Governance in SOEs as amended by Decree of MSPE No. PER-09/MBU/2012 dated 6 July 2012 which states:
 - (i) Transparency is openness in decision making process and disclosing material and relevant information about the company.
 - (ii) Accountability is clarity of function, implementation, and responsibility of the company so that corporate governance shall be implemented effectively.
 - (iii) Responsibility is the suitability of corporate governance against laws and regulations as well as principles of a healthy corporation.
 - (iv) Independence is condition in which the company is professionally managed without any conflict of interests and influence/pressure from any parties that is not in accordance with the laws and principles of a healthy corporation.

- (v) Fairness is justice and equality in fulfilling the rights of stakeholders that are based on agreements and laws.
- d. Decree of the Secretary of MSOE No. SK-16/S.MBU/2012 dated 6 June 6 2012 concerning Indicator/Parameter for Assessment and Evaluation of Good Corporate Governance Implementation in State-owned Enterprises.
- e. Laws No. 1/1995 concerning Limited Liability Company as amended by Law No. 40/2007 dated August 16, 2007.
- f. PLN Board Manual of December 2010 outlining the relationship and working framework between the Board of Commissioners and the Board of Directors signed by all members.

70. ADB has a fiduciary responsibility to ensure that its loans and other forms of financing are used only for the purposes for which they were granted, in accordance with the Agreement Establishing the Asian Development Bank. To uphold that obligation, ADB developed guidelines to prevent or mitigate fraud, corruption, and other prohibited activities in RBL operations financed in whole or in part by ADB (Appendix 3). These guidelines have been discussed with PLN.

b. Anticorruption System Related Program Actions Status

71. No program actions specifically related to anticorruption have been identified.

C. Satisfying Procurement Member Country Eligibility Restrictions

72. ADB member country procurement eligibility restrictions have been discussed with PLN.

D. Safeguard Systems

1. Summary of Safeguard System and Actions

73. **Safeguards systems.** A program safeguard systems assessment (PSSA) of the program was undertaken and confirmed the categorization for environment as B, because the potential adverse environmental impacts are site-specific and mitigation measures can be readily designed.

74. The PSSA also confirmed the categorization for involuntary resettlement as B, because the program's impacts are not deemed significant. The program's activities related to extension of substations, installation of reactors and capacitors, and expansion of switchgears will take place in the existing substations' premises owned and managed by PLN, and will not require any involuntary resettlement. These activities which require land acquisition, if any, will be excluded from the program. The expansion of the distribution network (including installation of distribution transformers) will require (i) use of no more than 0.2 m² of land for installation of concrete poles; and (ii) possible removal of non-land assets (primarily trees) for stringing of conductors.

75. The categorization for indigenous peoples is C, since none of the program's activities is expected to have an impact on indigenous peoples. Although Sumatra is inhabited by a variety of ethnic groups, the program will not be in areas with indigenous peoples' presence. PLN

confirmed that all the existing substations in Sumatra are not located in an area (land or territory) occupied, owned, or used by indigenous peoples, and/or claimed as ancestral domain. The program will exclude activities which directly or indirectly affect the dignity, human rights, livelihood systems, or culture of indigenous peoples or affect the territories or natural or cultural resources that indigenous peoples own, use, occupy, or claim as an ancestral domain or asset.

76. Gaps identified by the assessment include weak management of industrial waste, the procedure for negotiated settlements or voluntary donation. Actions to address safeguard system gaps are included in the program action plan (PAP).

E. Gender and Social Dimensions

77. Although expanding and strengthening the electricity grid has no gender-specific actions, women will be able to draw specific benefits from the program. Having a reliable and affordable supply of electricity in the household will reduce the time and energy women spend in gathering wood for cooking. It will also enable women to run income generating activities such as sewing and food processing from their own homes. Replacing polluting wood and kerosene stoves with electric stoves will reduce respiratory disease and other health risks for women. Having well-lighted communities, schoolrooms, toilets and streets will deter crime and reduce incidences of violence against girls and women. Electricity supply in health centers and at the village midwife's home will especially benefit pregnant women and women giving birth. Electricity will even facilitate access to water supplies by making it easier for households to pump and store water, thus alleviating the women's traditional burden of carrying water.

F. Communication and Information Disclosure Arrangements

78. PLN has consulted with stakeholders, including government officials, during program design and preparation stage. Local communities will be consulted by PLN as part of the social and environmental study to gather their views on the proposed projects under the program.

79. ADB's disclosure requirements have been discussed with PLN.

G. Development Coordination

80. Cooperation and harmonization of development partner's activities in the energy sector have been generally fluid, with regular invitations from each of the key development partners including the AFD, JICA, KfW, and World Bank to participate in meetings or missions and exchanges of information and documents. ADB also joined the above key development partners in holding policy dialogue with the government on several occasions, which was well received by the government in light of the Paris Declaration.

81. The portfolio and sector work of the ADB is well coordinated in Indonesia through the active involvement of the Indonesia Resident Mission. Since 2005, ADB, the Japan International Cooperation Agency (JICA), and the World Bank have been the government's principal development partners in the energy sector. Given the importance of power subsector reforms for the medium- and long-term plans of the government, the three development partners joined forces to work on the Infrastructure Reform Sector Development Program, which was initiated in 2005 and completed in 2010. The Program focused on key policy action items harmonized into a common agenda covering a review of tariffs, targeted subsidies, the possibility of a proper regulator, and transparency in public-private partnerships for independent power producer contracts.

V. INTEGRATED RISKS AND MITIGATING MEASURES

A. Key Risks and Mitigating Measures

Table 12: Integrated Risk Assessments and Mitigating Measures

(as of November 2015)

Risks	Rating without the Mitigating Measures	Key Mitigating Measures
Results-related risks		
The rates of growth for the population and new businesses in Sumatra could be underestimated. This would stretch PLN's capacity to meet the needs as planned and make it difficult to achieve the outcome of an adequate and reliable power supply for Indonesia.	Moderate	Private sector partners are being encouraged to expand investment in the sector. Discussions have taken place with the Ministry of Finance on the issue of the government's contribution to the program.
Inadequate institutional capacity could be a barrier to program implementation and progress. Currently a very low proportion of PLN projects are completed on time.	Substantial	The program will monitor this risk with an indicator on the timely completion of implementation of distribution system contracts. Development partners will jointly monitor progress for corrective actions and consider technical assistance if required.
PLN staff are not always certified for their work responsibilities, leading to the risk that costly mistakes could be made.	Low	Capacity building through technical assistance may be considered at a later program stage.
Undue delays are experienced in PLN's Sumatra program, and in the delivery and logistics component of supplies and equipment.	Moderate	PLN and ADB will closely monitor the progress of the Sumatra program and the supply, logistics, and delivery issues during the program, and work to streamline the logistical processes.
The use of averages to monitor indicators, i.e., duration and frequency of outages, may not capture the situation of the population in isolated and disadvantaged areas.	Moderate	PLN has an extensive data system, which is disaggregated into geographic locations. The key is to plan and target the interventions effectively to maximize inclusiveness.
Overall results risks	Moderate	
Expenditure and financing related risks		
PLN may not be able to meet its own funding targets.	Substantial	PLN's Finance and Budgeting Division and Treasury Division track data for funding targets and investments. SPKK can generate special condition reports, if needed, to report to the Board of Directors and request development partners for additional program financing.
The expenditure framework for the program may be unrealistic if estimates for expenditure items (such as permits, consultant fees, project management costs, overhead expenses, etc.) are too conservative which could lead to program cost underruns and overruns.	Moderate	PLN's EPC cost figures are based on detailed calculations of electricity demand and ensuing requirements for transmission and distribution. PLN technical experts, generally in accordance with internationally accepted good practice, have carried out the technical program design. Appropriate physical and price contingencies are incorporated in the expenditure framework for the program.

Risks	Rating without the Mitigating Measures	Key Mitigating Measures
Financial management risks		
Inherent risks^a		
The overall weak country financial management system, especially for budget execution, accounting and reporting, and budget credibility.	Moderate	Continuation of PFM reforms in line with the GFM RAP, the RPJMN, and other line ministry and agency plans, and supported where relevant by the PFM MDTFA new PEFA-based PFM performance assessment in 2016 will take stock of the PFM reform progress and develop a new reform action plan on that basis.
Some of PLN's procedures for accounting and financial reporting have weaknesses, including the lack of computerization across all entities.	Low	Design and implement a financial management action plan to address identified weaknesses and risks.
Control risks^b		
Accounting and internal control To prepare consolidated financial statements, PLN staff use manual methods to consolidate spreadsheets.	Moderate	PLN is working to transition to ERP in the near term. Present controls include that adjustment to entries require clearance from a supervisor and that all adjustments are logged.
Financial reporting The ERP system cannot automatically produce budget tables and compare these with actual expenditures at year-end.	Low	ICOFR is being implemented as a pilot project and will provide a quarterly report per organizational unit, including mitigating actions where relevant.
Consolidated financial statements are not system-generated, but prepared through spreadsheets.	Moderate	PLN is working to transition to full ERP in the near term.
Overall financial management risk	Moderate	
Procurement risks		
Market capacity and supply risk issues may cause price fluctuations.	Substantial	A procurement monitoring and spend profile will be developed by ADB and PLN for the program and used actively to identify lack of competition or above normal contract prices due to market failure.
PLN procurement is subject to systemic delays.	Moderate	Upgrade the e-procurement function and improve the capacity of PMO and the procuring entities. ADB and PLN have developed a procurement monitoring framework to provide early warnings if procurement under the program experience systemic delays.
The large investments in the sector are likely to stretch existing institutional capacity.	Moderate	Accelerate PLN's ongoing programs and initiatives to improve institutional capacity and professional development for key staff. PLN already has eight corporate strategic initiatives to accomplish this.
Despite PLN initiatives to curb corruption and strengthen internal controls, risks persist.	Substantial	Upgrade the capacity of the internal auditor and use the procurement monitoring framework to detect red flags and suspicious patterns in contract awards.
Overall procurement risk	Substantial	

Fraud and corruption-related risks		
P LN has taken several initiatives to curb corruption and strengthened internal controls. Nonetheless, these risks persist.	Substantial	To strengthen PLN's oversight and detection mechanism, the program action plan includes a procurement monitoring framework and spending pattern for the program. PLN will report every quarter to its Board of Directors and value for money committee and to ADB on the indicators in the procurement monitoring framework and provide the updated spending profile.
Safeguard-related risks		
Poor control of oil spills from operating transformers at substations and leaking transformers at temporary storage sites may cause land pollution.	Low	PLN will ensure consistent compliance with the government's environmental requirements and improve the current system of waste management and oil spill control measures.
Resettlement impact may affect the income and livelihood status of the affected persons.	Low	PLN will monitor the resettlement outcomes and their impacts on the living standards of displaced persons, and take necessary actions if the impacts are found to affect the income and livelihood status of the affected persons.
Overall safeguard risk	Low	
Operating environment-related risks		
Sumatra is part of a disaster-prone area. Earthquake and/or disasters could have a negative impact on the progress of the program and on the energy infrastructure.	Moderate	Earthquake safety standards and disaster management procedures will be discussed with PLN and improved if necessary before the infrastructure work begins for the program.
OVERALL RBL PROGRAM RISK	Substantial	

ADB = Asian Development Bank, AP = affected person, EPC = engineering, procurement, and construction, ERP = enterprise resource planning, FM = financial management, GFM RAP = Government Financial Management and Revenue Administration Project, ICOFR = Internal Control over Financial Reporting, MDTF = multi-donor trust fund, PEFA = public expenditure and financial accountability, PFM = public financial management, PLN = State Electricity Corporation, PMO = project management office, RBL = results-based lending, RPJMN = National Medium-Term Development Plans, SPKK = Corporate Performance Control Unit.

Note: The definitions of the ratings are as follows: low = low likelihood of occurring and low impact; moderate = substantial or high likelihood, but low or moderate impact; substantial = low or moderate likelihood, but substantial or high impact; high = high likelihood and high impact.

^a Inherent Risk is the susceptibility of the program FM system to factors arising from the environment in which it operates, such as country or sector-level rules and regulations as well as the agency's working environment (assuming absence of any counter-checks or internal controls).

^b Control Risk is the risk that the programs accounting and internal control framework are inadequate to ensure program funds are used economically and efficiently and for the purpose intended, and that the use of funds is properly reported.

Source: Asian Development Bank.

VI. PROGRAM ACTION PLAN

A. Status of Program Action Plan

82. The actions included in the PAP will be reflected in PLN's annual performance reports.

Table 13: Status of Program Action Plan
(as of November 2015)

Actions	Responsible Agency^a	Time Frame for Implementation^b
Technical		
1. Accelerate the process for advancing the effective dates of contracts for transmission system strengthening and expansion.	P3BS DIV PR SUM	2015
2. Assess PLN staff development needs by area and sector.	DIV TLN DIV SDM	from 2016
3. Accelerate PLN staff training and certification programs	DIV TLN	from 2016
4. Conduct analysis of bottlenecks in work process flows relating to the timely completion of distribution contracts. Use the solutions coming from this process to accelerate the implementation and completion of distribution contracts.	DIV SCM (MDU) DIV PR SUM (PLN <i>wilayah & distribusi</i> for works contracts)	2016
5. Plan and finalize the selection of locations and components for strengthening/expansion of transmission system, and criteria for sequencing of related interventions under the EGSS.	P3BS DIV RET DIV SIS DIV PR SUM	2016
6. Plan and finalize the selection of locations and components for strengthening/expansion of distribution system, and criteria for sequencing of EGSS interventions in the distribution system.	DIV PR SUM PLN <i>wilayah</i>	2016
7. Review and improve as necessary PLN standards and criteria for earthquake and disaster resistant in transmission and distribution infrastructure and preparedness.	DIV MUM	2016
Monitoring and evaluation		
8. Establish tracking, reporting and verification systems for DLIs: (i) incorporate DLIs into the SILM and set up mechanisms to produce regular DLI reports so that corrective action is possible; and (ii) based on these internal DLI reports, set up mechanisms to produce the Annual DLI Achievement Report, to be shared with MOF and ADB.	SPKK DIV PR SUM	from end 2015
9. Implement or update the measurement and recording of indicator baselines, with a view to (i) conducting effective performance monitoring; and (ii) reporting on DLIs.	SPKK DIV PR SUM	from December 2015 to December 2016
10. Strengthen PLN's regular M&E system for reporting DLIs and other key performance indicators in real time, including the generation of monthly Summary Progress Reports (SPR) on all EGSS indicators, which will become the basis for annual DLI and EGSS reporting.	SPKK DIV PR SUM	2015-2016
11. Assess the achievement of the DLIs and authorize the DLI Achievement Report to be shared with MOF and ADB. Submit the withdrawal application directly to ADB and copy the MOF, accompanied by the Review Mission's verification of DLI achievement and other supporting documents.	Director Corporate Planning SPKK DIV RKO DIV PR SUM DIV TRE	2016 onwards

Financing and partnerships		
12. Monitor funding allocations from the government and all financing partners against agreed funding and investment targets, using existing systems run by PLN's Finance and Budgeting Division and Treasury Division.	DIV TRE DIV AKT DIV ANG DIV KEU	2016 onwards
13. Strengthen communication channels among all financing partners, including private sector, other multilateral and bilateral partners, in order to ensure sufficient investments in the sector.	MOF PLN ADB	2016 onwards
Financial management		
14. Transition all PLN entities/subsidiaries to ERP to allow the system to generate PLN's consolidated financial statements, instead of being manually prepared using spreadsheets.	DIV STI DIV AKT	2017 ^b
15. Develop the ERP system to produce budget tables with comparison to actual expenditures at year-end.	DIV STI DIV ANG DIV AKT	2016
Procurement		
16. Procurement monitoring report prepared and submitted quarterly.	DIV PR SUM (PLN <i>wilayah & distribusi</i>) P3BS DIV DAS DIV SCM	From the third month after program commencement
17. Enhance PLN capacity to produce data and information required for PAP 16.	DIV SCM DIV DAS P3BS DIV PR SUM (PLN <i>wilayah & distribusi</i>)	Within the first six months of program commencement
18. Incorporate detailed guidelines for Open Book in the Board of Directors (BOD) Decree No: 0620.K/DIR/2013 on PT PLN (Persero) General Guidelines for Procurement including provisions to increase transparency.	DIV DAS SHK	Within 24 months of program commencement
19. Develop strategies to move from open book to limited biddings for selected equipment categories.	DIV DAS SHK	Within 24 months of program commencement
Safeguards		
20. PLN HQ issues a guidance on the screening criteria for selecting locations and components to ensure that the program will exclude: (a) activities that would be classified as environment category A in the ADB SPS; (b) activities related to extension of substations, installation of reactors and capacitors and expansion of switchgears that require land acquisition; and (c) activities that directly or indirectly affect the dignity, human rights, livelihood systems, or culture of indigenous peoples or affect the territories or natural or cultural resources that indigenous peoples own, use, occupy, or claim as an ancestral domain or asset. PLN Wilayahs, UIPs, and P3BS submit to PLN HQ a list	DIV K3L DIV PR SUM DIV KR SUM PLN <i>wilayahs</i> UIPs P3BS	Prior to the first disbursement and 2016 onwards

of activities excluded from the program following the guidance issued through this program action annually.		
21. Equip transformers with oil retention facilities at substations extended under the program.	UIPs	2016 onwards
22. Improve the management of industrial waste.	PLN <i>wilayahs</i>	Within a year of program commencement
23. Monitor the resettlement ^c outcomes and their impacts on the living standards of displaced persons through reviewing complaints received and conducting consultations with community, and take necessary actions if the impacts are found to affect the income and livelihood status of the APs. The implementation of this program action will be reported to relevant divisions semi-annually.	DIV K3L DIV PR SUM PLN <i>wilayahs</i> P3BS	2016 onwards
24. Appoint focal persons for implementing environmental and social safeguards activities.	DIV K3L PLN <i>wilayahs</i> DIV PR SUM UIPs P3BS	4 th quarter 2015
25. Build capacities of relevant field personnel at related Divisions, Wilayahs, UIPs, P3BS, PIU, and contractors, on environmental and social safeguards focusing on the safeguards program actions.	DIV K3L PLN <i>wilayahs</i> DIV PR SUM UIPs P3BS	Every 4 th quarter starting from 2015 onwards
26. Monitor and ensure the implementation of program actions 21 and 22 and report the results quarterly to DIV K3L through the <i>Environmental Performance Report</i> .	DIV K3L PLN <i>wilayahs</i> UIPs	2016 onwards

ADB = Asian Development Bank, AP = affected persons, distribusi = distribution unit, DIV AKT = Accounting Division, DIV ANG = Budget Division, DIV TRE = Treasury Division, DIV DAS = Strategic Procurement Division, DIV KEU = Finance Division, DIV K3L = Health, Safety, and Environment Division, DIV KR SUM = Sumatra Construction Division, DIV MUM = General Affairs Division, DIV RET = Engineering/Procurement Planning Division, DIV RKO = Corporate Planning Division, DIV SCM = Supply Chain Management Division, DIV SDM = Human Resource Division, DIV STI = Information Technology Division, DIV SIS = System Planning Division, DIV TLN = Talent Division, DLI = disbursement-linked indicator, EGSS = Electricity Grid Strengthening – Sumatra Program, ERP = enterprise resource planning, HQ = headquarters, MDU = General Distribution Materials, MOF = Ministry of Finance, P3BS = Sumatra Load Dispatch Centre, PIU = program implementation unit, PLN = State Electricity Corporation, PMO = project management office, SHK = Legal Division, SILM = Information System for Management Reporting, SPKK = Corporate Performance Control Unit, SPS = Safeguard Policy Statement (2009), UIP = Development Unit, wilayah = regional office

^a In view of the announced restructuring plan of PLN on 7 August 2015, the agencies listed herein as responsible for delivering on the program actions may need to be revised/updated as the new organizational structure evolves.

^b The timeframe may need to be revised for this program action due to PLN's reorganization.

^c Resettlement means removal or damage of non-land assets and use of private land for installation of concrete poles.

Sources: Asian Development Bank and PLN.

VII. TECHNICAL ASSISTANCE

A. Summary

83. No technical assistance loans or grants are associated at start-up of the program. The World Bank will be providing technical assistance to strengthen the reporting and verification systems of SPKK who will be tasked with the measurement of the DLI targets. Any additional technical assistance required to strengthen PLN capacity, if any, will be procured by PLN using ADB or government procedures and guidelines for the procurement of services. The World

Bank and ADB have agreed to have only one technical assistance to avoid unnecessary replication of activities.

VIII. MONITORING OF KEY PROGRAM COVENANTS

IX. SUMMARY OF KEY OUTSTANDING ISSUES

X. ACCOUNTABILITY MECHANISM

84. People who are or may in the future be adversely affected by the program may submit complaints through ADB's accountability mechanism. The accountability mechanism provides an independent forum and process whereby people adversely affected by ADB-assisted operations can voice their problems and seek a resolution of these problems, as well as report alleged violations of ADB's operational policies and procedures.

85. Before submitting a complaint to the Accountability Mechanism, affected people should make a good faith effort to solve their problems and/or issues by working with the concerned ADB operations department. Only after doing that, and if they are still dissatisfied, should they make use of the accountability mechanism.²⁸

86. RBL operations will be subject to the Accountability Mechanism Policy.²⁹ The RBL will not alter ADB's role in problem solving. Because no operations manual on RBL will be produced during the piloting stage, the compliance review will be carried out in accordance with the Accountability Mechanism Policy and the RBL policy.

XI. CHANGES IN PROGRAM SCOPE AND IMPLEMENTATION MECHANISMS

87. Changes of scope and implementation arrangement during the course of implementation (including both major and minor changes) are to be recorded in this section to provide a chronological history of changes in scope and implementation arrangement for the program (see Table 14).

Table 14: Changes in Scope and Implementation Arrangements
(as of October 2015)

Number	Changes	Date	Names of Documents
1			
2			

XII. PROGRAM ORGANIZATIONAL STRUCTURE AND FOCAL STAFF

A. Organizational Structure

88. Overall responsibility for the development and mainstreaming of the program rests with PLN and therefore PLN's head office, operating units, subsidiaries, and field level personnel responsible for implementing the program will also be responsible for achieving results associated with it. The program will be implemented from December 2015 to December 2019. PLN will be both the executing and implementing agency, which will implement this program

²⁸ For further information see: ADB. Accountability Mechanism. <http://www.adb.org/site/accountability-mechanism/main> (accessed 12 November 2014).

²⁹ ADB. 2012. *Review of the Accountability Mechanism Policy*. Manila.

through its head office as well as its regional offices and divisional offices. PLN will assign staff to oversee implementation of the program. It will set policy guidelines and strategic directions for the program, be headed by the PLN Director for Corporate Planning, and members from the divisions under the directorate. The SPKK unit of PLN will monitor and report on progress in achieving the DLIs.

89. Actions to advance government-wide reforms to mitigate fiduciary risks in an incremental and sustainable manner are included in the PAP. This PAP is a living document that can be refined, improved, and updated during implementation, as needed.

Table 15: Program Officers and Focal Persons

(as of November 2015)

Number	Key PLN Staff and Positions	Key ADB Staff and Positions
1.	Nicke Widyawati Director Corporate Planning	Chong Chi Nai Director, Southeast Asia Energy Division
2.	Syofvi Roekman Head, Planning Division	Rehan Kausar Unit Head Project Administration, Southeast Asia Energy Division
3.	Anggraini Ika Dewi Senior Manager of Foreign Loan and Grant, Planning Division	Said Zaidansyah Senior Counsel Office of the General Counsel
4.	Noor Rahmania Staff of Foreign Loan and Grant Planning Division	Aloha Samoza Senior Project Officer, Southeast Asia Energy Division

B. Changes during Implementation

Table 16: Changes in Key Executing Agency Staff and ADB Mission Leader

(as of November 2015)

Number	Changes	Date	Reasons for the Change
1.			
2.			

Sources: Asian Development Bank and PLN.

OCR Loan Agreement ALLOCATION AND WITHDRAWAL OF LOAN PROCEEDS (Electricity Grid Strengthening—Sumatra Program)						
DLIs	Total Amount Allocated for OCR Financing (\$ '000)					
	Financing for Prior Results	2016	2017	2018	2019	TOTAL
DLI1		28,750	28,750	28,750	28,750	115,000
DLI2		17,250	17,250	17,250	17,250	69,000
DLI3		11,500	11,500	11,500	11,500	46,000
DLI4	57,500	28,750	28,750	28,750	28,750	172,500
DLI5	57,500	14,375	14,375	14,375	14,375	115,000
DLI6		14,375	14,375	14,375	14,375	57,500
TOTAL	115,000	115,000	115,000	115,000	115,000	575,000

DLI = disbursement-linked indicator, OCR = ordinary capital resources
Source: Asian Development Bank

AIF Loan Agreement ALLOCATION AND WITHDRAWAL OF LOAN PROCEEDS (Electricity Grid Strengthening—Sumatra Program)						
DLIs	Total Amount Allocated for AIF Financing (\$ '000)					
	Financing for Prior Results	2016	2017	2018	2019	TOTAL
DLI1		1,250	1,250	1,250	1,250	5,000
DLI2		750	750	750	750	3,000
DLI3		500	500	500	500	2,000
DLI4	2,500	1,250	1,250	1,250	1,250	7,500
DLI5	2,500	625	625	625	625	5,000
DLI6		625	625	625	625	2,500
TOTAL	5,000	5,000	5,000	5,000	5,000	25,000

AIF = ASEAN Infrastructure Fund, DLI = disbursement-linked indicator
Source: Asian Development Bank

**PROCUREMENT MONITORING FRAMEWORK
QUARTERLY REPORTING TEMPLATE**

Procurement Performance Measurement	Indicator	Reporting
Spend profile (in excel)	Name of contractor Contract/PO value Procurement method Category of equipment/works Procuring entity	To be provided in excel
Efficiency from the competition process	1a. Percentage of procurement spend using open competitive processes	Reporting format to be determined by PLN
	1b. Percentage of procurement spend using limited bidding	Reporting format to be determined by PLN
	2a. Number of bids received in open competitive bidding (average)	Reporting format to be determined by PLN
	2b. Number of bids received for framework/umbrella/long-term contracts (average)	Reporting format to be determined by PLN
	3. Number of goods/commodities under open book*	Reporting format to be determined by PLN
	4. Procurement process lead time - number of days from advertisement to contract award (average)	Reporting format to be determined by PLN
	5. % of procurement cases where 2 or less substantially compliant bids received	Reporting format to be determined by PLN
Positive cost reduction/improvement	1. Level/amount of cost saving/reduction that is achieved with budget compared to realized contract value*	Reporting format to be determined by PLN
	2a. Amount of centralized procurement spend due to aggregation of spend	Reporting format to be determined by PLN
	2b. Delivery time on framework contracts from purchase order to delivery on site – number of days	Reporting format to be determined by PLN
	3. Percentage of unsatisfactory goods, services and works*	Reporting format to be determined by PLN
Supplier management	1. Number of new suppliers that enter the DPT*	Reporting format to be determined by PLN
	2. % of Project delivery/contracts that is delivered late (% both in terms of value and number of projects)	Reporting format to be determined by PLN
	3. The percentage (%) of suppliers/contractors where satisfactory quality level is achieved*	Reporting format to be determined by PLN
System efficiency and internal process	1. Total number and value of low value < Rp500 million) transaction	Reporting format to be determined by PLN
	2. Total number and value of purchase/work orders on umbrella or framework contracts	Reporting format to be determined by PLN
Procurement management	1. Percentage of certified procurement staff*	Reporting format to be determined by PLN
	2. The total number of days of procurement training*	Reporting format to be determined by PLN
Complaints handling	1. Number of complaints received*	Reporting format to be determined by PLN
	2. The number of valid complaints, where the ruling was in favor of the complainant*	

^a Indicators marked with a (*) need to be manually collected by PLN. Other indicators are available from procurement monitoring databases.

DPT = selected vendors list, PLN = State Electricity Corporation.

Sources: Asian Development Bank and PLN.

A. Spend Profile—Non-Framework Contracts

The spend profile shall as a minimum include the following information:

1. Contract number
2. Date of contract signing
3. Name of supplier/contractor
4. Address of supplier/contractor
5. Contract value at signing
6. Contract value realized (when is closed)
7. Procurement method
8. Category of equipment/works
9. Procuring entity
10. Number of compliant bids received
11. Date of advertisement
12. Contract completion date at signing
13. Contract completion date realized (when contract is closed)

B. Spend profile—Framework/Umbrella Contracts

The spend profile shall as a minimum include the following information:

1. Contract number
2. Name of supplier/contractor
3. Address of supplier/contractor
4. PO number
5. Purchase order value
6. Purchase order date
7. Category of equipment/works
8. Procuring entity
9. User unit
10. Delivery date on site

C. Establishment of Framework/Umbrella Contracts

This should include as a minimum the following information:

1. Contract number
2. Date of contract signing
3. Name of supplier/contractor
4. Address of supplier/contractor
5. Procurement method
6. Category of equipment/works
7. Procuring entity
8. Number of compliant bids received
9. Date of advertisement
10. Estimated contract value

D. Complaints Database

This should include as a minimum the following information:

1. Contract number
2. Name of complainant
3. Address of complainant
4. Nature of complaint
5. Resolution of complaint

PROPOSED GUIDELINES TO PREVENT OR MITIGATE FRAUD, CORRUPTION, AND OTHER PROHIBITED ACTIVITIES IN RESULTS-BASED LENDING FOR PROGRAMS

A. Purpose and General Principles

1. The developing member country (DMC) is responsible for the implementation of programs supported by results-based lending (RBL). The Asian Development Bank (ADB) has a fiduciary responsibility to ensure that its loans and other forms of financing are used only for the purposes for which they were granted, in accordance with the Agreement Establishing the Asian Development Bank (the Charter).¹ To uphold that obligation, ADB presents these guidelines to prevent or mitigate fraud, corruption, and other prohibited activities in RBL operations financed in whole or in part by ADB. These guidelines build upon the legal obligations presented in the loan agreement and apply to operations funded by the RBL (the programs).²
2. These guidelines do not limit any other rights, remedies, or obligations of ADB or the DMC under the loan agreement or any other agreement to which the ADB and the DMC are both parties.
3. All persons and entities participating in the programs must observe the highest ethical standards; take all appropriate measures to prevent or mitigate fraud, corruption, and other prohibited activities; and refrain from engaging in actions described in these guidelines in connection with such programs.

B. Definitions

4. These guidelines address the following practices as defined by ADB:
 - (i) A “corrupt practice” is the offering, giving, receiving, or soliciting, directly or indirectly, anything of value to influence improperly the actions of another party.
 - (ii) A “fraudulent practice” is any act or omission, including a misrepresentation, that knowingly or recklessly misleads, or attempts to mislead, a party to obtain a financial or other benefit, or to avoid an obligation.³
 - (iii) A “collusive practice” is an arrangement between two or more parties designed to achieve an improper purpose, including to improperly influencing the actions of another party.
 - (iv) A “coercive practice” is impairing or harming, or threatening to impair or harm, directly or indirectly, any party or the property of the party to influence improperly the actions of a party.
5. In addition, ADB may investigate conflicts of interest, obstruction, and retaliation:
 - (i) A “conflict of interest” is a situation in which a party has interests that could improperly influence a party’s performance of official duties or responsibilities, contractual obligations, or compliance with applicable laws and regulations. To

¹ ADB. 1966. *Agreement Establishing the Asian Development Bank*. Manila.

² ADB may support a part (or a slice) of a government program or the entire government program through RBL. The program or the part that is supported by the RBL is the RBL operation. The term “program” in these guidelines refers to the RBL operation as defined unless otherwise specified.

³ To act “knowingly or recklessly,” the fraudulent actor must either know that the information or impression being conveyed is false, or be recklessly indifferent as to whether it is true or false. The inaccuracy of such information or impression, committed through negligence, is not enough to constitute a fraudulent practice.

the extent that conflicts of interest may provide an unfair competitive advantage or compromise the integrity of financial and governance systems, conflicted persons and entities must be excluded from participating in relevant program activities.

- (ii) An “obstructive practice” includes deliberately destroying, falsifying, altering, or concealing evidence material to an investigation; making false statements to investigators in order to materially impede an investigation; threatening, harassing, or intimidating any party to prevent it from disclosing its knowledge of matters relevant to the investigation or from pursuing the investigation; or materially impeding ADB’s contractual rights of audit or access to information.
- (iii) Retaliation against whistleblowers or witnesses is any detrimental act, direct or indirect, recommended, threatened or taken against a whistleblower or witness or person associated with a whistleblower or witness in a manner material to a complaint because of the report or cooperation with an investigation by the whistleblower or witness.

C. Developing Member Country’s Actions to Prevent Fraud, Corruption, and Other Prohibited Activities in Results-Based Lending for Programs

6. Unless otherwise agreed in writing by the DMC and ADB, the DMC will take timely and appropriate measures to

- (i) ensure that the program is carried out in accordance with these guidelines;
- (ii) avoid conflicts of interest in the program;
- (iii) prevent fraud, corruption, and other prohibited activities from occurring in the program, including adopting, implementing, and enforcing appropriate fiduciary and administrative practices and institutional arrangements to ensure that the proceeds of the loan are used only for the purposes for which the loan was granted;
- (iv) promptly inform ADB of allegations of fraud, corruption, and other prohibited activities found or alleged related to a program;
- (v) investigate allegations of fraud, corruption, and other prohibited activities and report preliminary and final findings of investigations to ADB;
- (vi) respond to, mitigate, and remedy fraud, corruption, or other prohibited activities that are found to have occurred in a program and prevent its occurrence;
- (vii) cooperate fully with ADB in any ADB investigation into allegations of fraud, corruption, and other prohibited activities related to the program, and take all appropriate measures to ensure the full cooperation of relevant persons and entities subject to the DMC’s jurisdiction in such investigation, including, in each case, allowing ADB to meet with relevant persons and to inspect all of their relevant accounts, records and other documents and have them audited by or on behalf of ADB; and
- (viii) ensure that persons or entities sanctioned by ADB do not participate in RBL supported activities in violation of their sanction.

D. ADB’s Actions to Prevent Fraud, Corruption, and Other Prohibited Activities in Results-Based Lending for Programs

7. Unless otherwise agreed in writing by the DMC and ADB, ADB will

- (i) inform the DMC of credible and material allegations or other indications of fraud, corruption, and other prohibited activities related to a program, consistent with ADB’s policies and procedures;

- (ii) have the right to investigate allegations independently or in collaboration with the DMC;
- (iii) inform the DMC of the outcome of any investigation, consistent with ADB policies and procedures;
- (iv) have the right to sanction any individual or entity for engaging in practices defined above in accordance with ADB's prevailing sanctions policies and procedures; sanctions may result in that party's exclusion from participating in an RBL-financed activity indefinitely or for a stated period of time;⁴ and
- (v) recognize sanctions determined by other multilateral development banks (MDB) in accordance with the agreement for the mutual enforcement of debarment.

⁴ Participation does not include the performance under contracts entered into or other engagements begun before the date of the loan agreement.