



# Technical Assistance Report

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Project Number: 42461  
Policy and Advisory Technical Assistance  
December 2008

## Republic of Indonesia: Social Security Reform and Economic Modeling Capacity Building

Asian Development Bank

## CURRENCY EQUIVALENTS

(as of 24 October 2008)

Currency Unit	–	rupiah (Rp)
Rp1.00	=	\$0.000099
\$1.00	=	Rp10,035

## ABBREVIATIONS

ADB	–	Asian Development Bank
EWS	–	early warning system
FPO	–	Fiscal Policy Office
IRM	–	Indonesia Resident Mission
MOF	–	Ministry of Finance
RETA	–	regional technical assistance
RMU	–	Risk Management Unit
SJSN	–	National Social Security System
TA	–	technical assistance

## TECHNICAL ASSISTANCE CLASSIFICATION

<b>Type</b>	–	Policy and advisory technical assistance
<b>Targeting Classification</b>	–	Targeted intervention
<b>Sectors</b>	–	Multisector (finance; law, economic management, and public policy)
<b>Subsectors</b>	–	Pensions, insurance, social security, and contractual savings; public finance and expenditure management, economic management
<b>Themes</b>	–	Sustainable economic growth, capacity development
<b>Subthemes</b>	–	Promoting macroeconomic stability, institutional development

## NOTE

In this report, "\$" refers to US dollars.

<b>Vice-President</b>	C. Lawrence Greenwood, Jr., Operation 2
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## I. INTRODUCTION

1. The Asian Development Bank (ADB) has supported social security reform and preparation of the National Social Security System (SJSN) law in Indonesia through technical assistance (TA) and program support.<sup>1</sup> Currently, ADB is providing assistance to develop a draft white paper on the design of the social security system. The Government of Indonesia (the Government) has asked ADB to provide additional advisory TA to finalize the design of the system, including the contribution and benefit structure; and support key implementation aspects. Given the fiscal challenges facing the Government, fiscal implications of various social security schemes need to be assessed. In addition, the Government is enhancing its capacity to anticipate a range of shocks that could have significant poverty, macroeconomic, and fiscal implications. The Government has requested assistance to strengthen capacity in these areas.

2. The TA<sup>2</sup> was initially listed in the nonlending products and services of the country strategy program<sup>3</sup> and country operations business plan for 2009.<sup>4</sup> It is brought forward to be processed in 2008 to accommodate the Government's request. ADB fielded the Fact-Finding Mission in August 2008 and reached detailed understanding with the Government on the objectives and scope of the TA, the terms of reference for consultants, and the cost and implementation arrangements. The design and monitoring framework is in Appendix 1.

## II. ISSUES

3. The Government, through its medium-term development plan for 2005–2009, aims to reduce poverty significantly in 2009; and is dedicated to achieving the Millennium Development Goals by 2015. Improved economic growth together with increased support for the poor reduced poverty to about 17% of population in 2007, equivalent to the poverty level before the financial crisis.<sup>5</sup> Despite this encouraging success, persistent efforts are required to ensure that economic growth benefits the poor segment of the population. In 2007, about 37 million Indonesians were living below the poverty line; these figures are exacerbated by the fact that many nonpoor are clustered around the poverty line. This makes a large number of the population vulnerable to poverty when the economy is hit by economic shocks. Nonincome poverty is equally serious as many Indonesians lack access to basic services.

4. The Government recognizes that, while economic growth will remain fundamental to reducing poverty, improved social service delivery and better targeted public expenditure through modern systems of social protection are essential to counter income and nonincome poverty. The Government has undertaken several steps to improve social service delivery under the fiscal decentralization policy.<sup>6</sup> For social protection, the current publicly provided system is

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<sup>1</sup> ADB. 1998. *Technical Assistance to the Republic of Indonesia for the Reform of Pension and Provident Funds*. Manila (TA 3116-INO); ADB. 2002. *Report and Recommendation of the President to the Board of Directors on a Proposed Loan to the Republic of Indonesia for Financial Governance and Social Security Reform Program*. Manila; ADB. 2002. *Technical Assistance to the Republic of Indonesia for Financial Governance and Social Security Reform*. Manila (TA 4024-INO); and ADB. 2007. *Report and Recommendation of the President to the Board of Directors on a Proposed Loan and Technical Assistance Grant to the Republic of Indonesia for Capital Market Development Program Cluster (Subprogram 1)*. Manila (Loan 2379-INO).

<sup>2</sup> The TA first appeared in the business opportunities section of ADB's website on 30 October 2008.

<sup>3</sup> ADB. 2006. *Indonesia: Country Strategy Program 2006–2009*. Manila

<sup>4</sup> ADB. 2008. *Indonesia: Country Operations Business Plan 2009–2011*. Manila

<sup>5</sup> Based on data from the Central Bureau of Statistics (BPS).

<sup>6</sup> ADB has supported the Government with medium-term program loans and TAs on this area of reform. See ADB. 2005. *Report and Recommendation of the President to the Board of Directors on Proposed Loans and Technical Assistance Grant to the Republic of Indonesia for Local Government Finance and Governance Reform Sector Development Program*. Manila (Loans 2192-INO and 2193-INO[SF], and TA 4682-INO); and ADB. 2008. *Report*

based on two kinds of public intervention. The first includes targeted efforts to provide economic or social support for the poor, such as the ad hoc social safety net introduced after the crisis, cash transfer scheme, and other pro-poor programs. These programs have shown mixed results due to lack of targeting and leakages. The second intervention is through contributory social insurance and mandatory saving for civil servants (TASPEN and ASKES), armed forces (ASABRI), and formal sector employees (JAMSOSTEK). The system suffers from a number of significant weaknesses. The coverage of the existing contributory social insurance system is very low; only about 16 million workers out of more than 100 million are covered by fragmented schemes. The informal sector, employing more than 65% of the total workforce, is largely excluded from the existing system.

5. The enactment of Law 40/2004 for the SJSN provides an opportunity to bring about a comprehensive reform of the existing system. The objective of the law is to implement a viable, efficient, and transparent SJSN that serves the needs of all Indonesians. It requires the establishment of five social insurance programs—health, workers compensation, pension, old-age savings, and death benefits. The law envisages that the Government will pay for the social security contribution of the poor. The Government has formed a task force, headed by the Coordinating Ministry of People's Welfare, to work on introducing new regulations and harmonizing existing regulations. As stipulated in the law, the task force is required to complete all required implementing regulations by the legal deadline in October 2009.

6. The improvement of the existing system and gradual implementation of the SJSN will be a long-term process, covering different phases, starting with a policy debate among stakeholders and preparation of the system design, and followed by institutional development and capacity building leading to a new administrative system. International experience suggests that overall implementation efforts of the pension and old-age savings programs will require a minimum of 2–3 years. The law provides for a transition period of 5 years before the new system is expected to become operational. Efforts to prepare implementation of the SJSN have intensified since 2007 and ADB has supported the Government through staff analysis to prepare a series of background studies to review existing programs and compute the fiscal costs of the proposed programs envisaged under the SJSN Law. Currently, ADB is providing assistance to develop a draft white paper containing a design of all five social insurance programs. The white paper will provide a road map and inputs for the preparation of implementing regulations for the SJSN Law.

7. The new social security system under the SJSN will need to be affordable to workers, employers, and the Government. The SJSN Law outlines the broad structure of the new social insurance system but leaves many key elements, including contributions and benefits, to future laws and regulations. This will require agreement among stakeholders on program design, administration and governance, and the drafting of appropriate implementing laws and regulations. To support the process, a proper macroeconomic study will need to be conducted to determine the maximum contributions as a percent of wages that can be required from workers and their employers. Introduction of the SJSN programs must not undermine the regional and international competitiveness of Indonesian businesses and not increase unemployment or discourage the creation of new jobs, particularly for low-paid workers.

8. The new social security system will need to be affordable to the Government. Various options need to be carefully studied to ensure that the SJSN programs are affordable in the

short and medium term. This will require that programs are phased in carefully. In addition, social security reform will have two-way effects on the state budget. The payment of the social security contribution for the poor as mandated by the law will increase spending, while an improved security system will assist the Government's efforts in shifting large and volatile untargeted subsidies currently burdening the budget.

9. Concurrent to the higher priority given to the fiscal implications and sustainability of the social security program, the Government is planning to enhance its capacity to anticipate a range of shocks that could have significant poverty and fiscal implications. Continued improvement in macroeconomic stability is essential to the Government's effort to increase economic growth and reduce poverty. With many households clustered around the poverty line, experience suggests that a short period of economic instability can have an adverse impact on the poverty rate. For example, macroeconomic turbulence in 2006 increased the number of poor by more than 4 million. The recent increase in domestic inflation, driven by the surge in global food and fuel prices, has hampered Government poverty reduction efforts.

10. The Government has made significant progress in reducing vulnerabilities that make the country susceptible to economic instability. However, recent global economic developments clearly indicate that new challenges are emerging. Increased volume of short-term capital flows, rapid correction of global imbalance, and volatile fuel and commodity prices complicate macroeconomic management. The Government needs to be equipped with an up-to-date and comprehensive economic monitoring system to ensure that new potential sources of vulnerabilities are quickly detected and appropriate policy responses are developed in a timely manner. Presidential Instruction No. 6/2007, which aims to accelerate real sector development, includes the enhancement of the economic monitoring system as one of the policy actions to be implemented. Subsequently, the Fiscal Policy Office (FPO) established an internal team to work with the Financial Sector Stability Forum and significantly improved its data monitoring system. An improved capacity in analyzing the sources of economic vulnerabilities will not only help the Government develop appropriate policy responses, but also lead to better annual budget preparation, which is essential in increasing space for more efficient social protection.

### **III. THE TECHNICAL ASSISTANCE**

#### **A. Impact and Outcome**

11. The expected impact of the TA is more inclusive economic growth by supporting the Government in implementing a more efficient and sustainable social protection system. The expected outcome of the TA is to enhance the Government's social security reform and macroeconomic monitoring capacity.

#### **B. Methodology and Key Activities**

12. The key expected outputs are (i) final design of the social security system, including contribution and benefit structure, and support for key implementation aspects of the system; (ii) capacity building support to the Risk Management Unit (RMU) to enhance staff capacity in analyzing fiscal implications and economywide effects of alternative social security reform options; and (iii) support for the Government's initiative to enhance its economic monitoring system to anticipate a range of shocks that could have significant poverty, macroeconomic, and fiscal implications. To ensure sustainability, the consultants will provide (i) formal training for 10–15 staff of FPO and RMU; (ii) on-site training and mentoring for trainees; and (iii) assistance on repeated use of the models and economic monitoring system. An ADB team will monitor

progress on capacity building efforts and provide necessary feedback to achieve the intended results.

13. **Output 1: Social Security System is Finalized.** This will support the Insurance Bureau of Bapepam-LK at the Ministry of Finance (MOF) to facilitate consultations among stakeholders on the design of all five SJSN programs; finalize the detailed design of contributions and benefits of the programs; complete the white paper, which will include fiscal and financial analysis supporting the design of alternative options; and assist the Government with the drafting of all necessary implementing regulations for the SJSN system. This component will be closely coordinated with output 2 to ensure the reform options proposed in the final design are fiscally affordable in the short and long term.

14. **Output 2: FPO and RMU Provide Analytical Reports of Fiscal Implications and Economywide Effects of Social Security Reforms to Policy Makers.** This component will support RMU to develop a pension model and prepare financial analysis and fiscal costs of various reform options for the SJSN programs. The TA will assist RMU to refine the budget model to conduct fiscal sustainability analysis, assess the macroeconomic risks affecting the budget, and upgrade the computable general equilibrium model of the Indonesian economy previously built in FPO to quantify the economywide effects of introducing SJSN programs and other policy changes.

15. **Output 3: Government's Economic Monitoring System is Operating.** This component will provide medium-term support for FPO in its efforts to improve and maintain the macroeconomic monitoring system. The consultant will (i) identify areas where the current system can be improved, including data quality and coverage; (ii) enhance and develop the analytical framework for each macroeconomic sector; (iii) assist in developing an analytical macro model to produce a macroeconomic outlook; and (iv) support output 2 to enhance the existing budget model. This component will assist FPO in developing an analytical paper on strategic macroeconomic and fiscal issues as requested by MOF.

16. This TA will be complemented by a regional technical assistance (RETA),<sup>7</sup> which provides support for new and ongoing initiatives to social protection in developing member countries and capacity building through participation in international conferences, training, and knowledge exchange. The RETA will provide short-term consultant services to support efforts related to this TA. For the economic monitoring, a critical component of the system is the early warning system (EWS). The Office of the Regional Economic Integration (OREI) has provided assistance to develop a simple version of the EWS and train a number of government officials from relevant institutions through RETAs.<sup>8</sup> OREI has agreed to provide support in developing the information technology platform of the EWS and continue inviting Indonesian officials (from MOF and Bank Indonesia) to participate in OREI training programs on EWS. The Indonesia Resident Mission responded to an earlier request from FPO by providing short-term assistance in this area and is currently in the process of preparing a follow-up TA to customize the EWS. This TA will focus on macroeconomic and fiscal-related aspects of the monitoring system, while the resident mission will assist with the broader aspects of the EWS, including customizing the

<sup>7</sup> ADB. 2008. *Technical Assistance for Enhancing Social Protection Initiatives in Developing Member Countries*. Manila (TA 6480-REG).

<sup>8</sup> ADB. 2001. *Technical Assistance for an ASEAN+3 for the Development of Early Warning Systems*. Manila (TA 5986-REG). Manila; ADB. 2002. *Technical Assistance for Capacity Building for Implementing Early Warning System in ASEAN+3 Countries*. Manila (TA 6070-REG); ADB. 2005. *Technical Assistance for Strengthening Economic and Financial Monitoring in Selected ASEAN+3 Countries*. Manila; and ADB. 2007. *Enhancing the Capacity of Selected ASEAN+3 Countries for Assessing Financial Vulnerabilities*. Manila.

current EWS, conducting selected studies on certain indicators, and developing links with macroeconomic monitoring provided under this TA and other aspects of the EWS (Appendix 2). The two TAs will coordinate closely to ensure synergy. This TA will be supplemented by activities of other development partners, including the World Bank and German development cooperation (through Gesellschaft für Technische Zusammenarbeit [GTZ]), as well as other assistance from ADB. The World Bank has been providing assistance to MOF on civil servant pension and saving programs. German Development Cooperation through GTZ is providing assistance on old-age saving and has been supporting National Development Planning Agency on social security issues.

### **C. Cost and Financing**

17. The total cost of the TA is estimated at \$960,000 equivalent, of which ADB will provide \$800,000. The TA will be financed on a grant basis by ADB's TA funding program. The Government will provide in-kind contribution equivalent to \$160,000 through the provision of counterpart staff, office space and utilities, administrative services, and physical facilities. Appendix 3 gives the details of cost estimates and the financing plan.

### **D. Implementation Arrangements**

18. FPO of MOF will be the Executing Agency because of its mandate to (i) develop and enhance the economic monitoring and the early warning system, and (ii) improve fiscal risk management. Within MOF, the Insurance Bureau of Bapapem-LK will be responsible for implementing social security reform activities, coordinating closely with RMU on capacity building for the pension model. To facilitate advance disbursements for workshops, publications, and statistical software under the three components will require access to an advance payment facility. Disbursements under the TA will be done in accordance with ADB's *Technical Assistance Disbursement Handbook* (2008, as amended from time to time). Software, licenses, and other equipment needed during project implementation will be procured in accordance with ADB's *Procurement Guidelines* (2007, as amended from time to time). All equipment purchased by the consultants will be turned over to FPO according to ADB procedures after TA implementation.

19. The TA will be implemented over 24 months from January 2009 to December 2010. ADB will recruit international and national consultants on an individual basis to implement activities. Consultants will be engaged in accordance with ADB's *Guidelines on the Use of Consultants* (2007, as amended from time to time). A total of 42 (30 international and 12 national) persons-months of consultant services will be required. Appendix 4 presents outline terms of reference for the consultants.

20. The consultants will be responsible for providing reports and deliverables as required under their terms of references. Each component will produce a final report on activities. The ADB team leader will compile all deliverables and monitor the quality of the reports. The timing of each TA activity will be determined in consultation with MOF.

## **IV. THE PRESIDENT'S DECISION**

21. The President, acting under the authority delegated by the Board, has approved the provision of technical assistance not exceeding the equivalent of \$800,000 on a grant basis to the Government of Indonesia for Social Security Reform and Economic Modeling Capacity Building, and hereby reports this action to the Board.

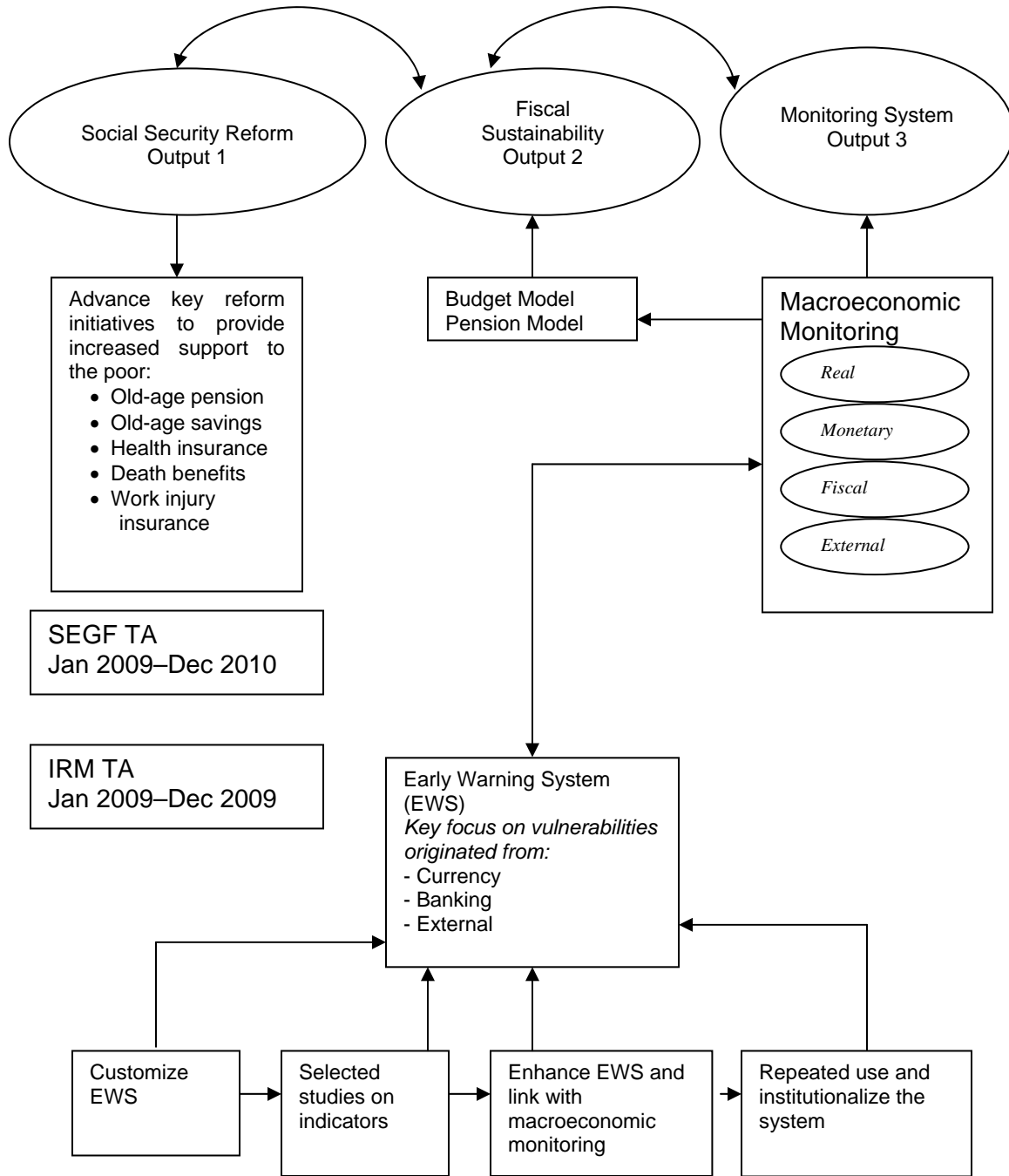
## DESIGN AND MONITORING FRAMEWORK

Design Summary	Performance Targets and/or Indicators	Data Sources and/or Reporting Mechanisms	Assumptions and Risks
<p><b>Impact</b> More inclusive growth through improved and sustainable social security system</p>	<p>i. Coverage of publicly provided social security system increased from 72 million persons in 2007 to 90 million by December 2012.</p>	<p>Feedback from stakeholders, i.e., the Government and development partners</p> <p>BPS and social security administrators' data</p> <p>Budget document</p>	<p><b>Assumption</b> Government is committed to social security reform to improve the existing system</p> <p><b>Risk</b> Negative economic shocks reduce Government's capacity to finance the social security system</p>
<p><b>Outcome</b> Government's social security system reformed and macroeconomic monitoring capacity enhanced</p>	<p>i. Budget allocation to reformed social security increased by at least 10% in 2009 over 2007 levels.</p> <p>ii. One analysis of economic and fiscal vulnerabilities undertaken in 2009 and regularly thereafter</p>	<p>Government website</p> <p>Research publications by FPO staff</p> <p>Budget document, policy dialogue, workshops, and review missions</p>	<p><b>Assumptions</b> Government stays on course with key social security reform</p> <p>Resources required in implementing reforms are available in timely manner</p> <p><b>Risk</b> Weak implementation capacity and coordination among Government agencies and stakeholders in implementing reforms</p>
<p><b>Outputs</b></p> <p>1. Social security system is finalized</p> <p>2. FPO and RMU staff provide analytical reports on the fiscal implications and economywide effects of social security reforms to policy makers</p> <p>3. Government's economic monitoring system is operating</p>	<p>i. White paper for social security reform finalized by mid 2009</p> <p>ii. Implementing regulations issued by the Government by end of 2009</p> <p>iii. Economic and pension model developed by mid-2009 and ready for use.</p> <p>iv. One analytical report on fiscal analysis produced by end of 2009 and updated regularly thereafter</p> <p>v. MOF's economic monitoring system fully developed and operational by 2009</p>	<p>White paper issued</p> <p>Government website and Government records</p> <p>Project review mission report</p> <p>Budget document</p> <p>ADB TA and review missions</p> <p>FPO staff research paper and documents</p> <p>Budget documents</p>	<p><b>Assumption</b> Government participates fully in implementation of the TA</p> <p><b>Risks</b> The champion of the social security reform and trained staff moved to other department</p> <p>Delay in the selection of consultants</p>

Activities with Milestones	Inputs
<p>1. Finalize design of the social security system and support for its implementation</p> <ol style="list-style-type: none"> <li>1.1 Recruit international consultant (January 2009)</li> <li>1.2 Finalize pension model (March 2009)</li> <li>1.3 Conduct consultation with stakeholders and finalize white paper (February–May 2009)</li> <li>1.4 Provide inputs on required implementing regulation (March–December 2009)</li> <li>1.5 Provide support for SJSN implementation (January–December 2010)</li> <li>1.6. Provide training on pension model and model enhancement (January–December 2010)</li> </ol> <p>2. Provide support for RMU to enhance its economic modeling capacity</p> <ol style="list-style-type: none"> <li>2.1 Recruit national consultant (January 2009)</li> <li>2.2 Finalize budget model with inputs from pension model developed by international consultant (March 2009)</li> <li>2.3 Complete analysis of fiscal implications of social security reform (March–May 2009)</li> <li>2.4 Provide inputs for required implementing regulation (March–December 2009)</li> <li>2.5. Conduct selected studies on fiscal vulnerabilities (January–December 2010)</li> <li>2.6 Provide training on budget and pension models and model enhancement (January–December 2010)</li> </ol> <p>3. Provide support for FPO to enhance its macroeconomic monitoring system</p> <ol style="list-style-type: none"> <li>3.1 Recruit international consultant (January 2009)</li> <li>3.2 Finalize macroeconomic model (March 2009)</li> <li>3.3 Develop interface between macroeconomic model and the EWS to be developed under IRM TA (May–December 2009)</li> <li>3.4 Conduct selected studies on macroeconomic vulnerabilities (May–December 2009)</li> <li>3.5 Provide training on the macroeconomic model and economic monitoring system (June–December 2009)</li> </ol>	<p>TA funded under TASF for the amount of \$800,000. Outputs include:</p> <p>Output 1: Social security system finalized: TA resources \$475,000 (consultants, seminars, data, and software)</p> <p>Output 2: Support for FPO and RMU: TA resources \$125,000 (consultants, data, and software)</p> <p>Output 3: Support to the Economic Monitoring System: TA resources \$200,000 (consultants, studies, data, and software)</p> <p>The three consultants will be recruited individually.</p> <p>Government Financing: \$160,000</p> <ul style="list-style-type: none"> <li>• Office Accommodation and transport -\$80,000</li> <li>• Remuneration and Per Diem of Counterpart Staff-\$50,000</li> <li>• Others - \$30,000</li> </ul>

ADB = Asian Development Bank, BPS = Central Bureau of Statistics, EWS = early warning system, FPO = Fiscal Policy Office, IRM = Indonesia Resident Mission, RMU = Risk Management Unit, SJSN = National Social Security System, TA = technical assistance.

### FRAMEWORK FOR ECONOMIC MONITORING SYSTEM



EWS = early warding system; IRM = Indonesia Resident Mission; SEGF = Southeast Asia Governance, Finance, and Trade Division; TA = technical assistance.  
 Source: Asian Development Bank.

**COST ESTIMATES AND FINANCING PLAN**  
(\$'000)

<b>Item</b>	<b>Total Cost</b>
<b>A. Asian Development Bank Financing<sup>a</sup></b>	
1. Consultants	
a. Remuneration and Per Diem	
(i) International	525.0
(ii) National	80.0
b. International and Local Travel	15.0
2. Equipment and Model License <sup>b</sup>	25.0
3. Training, Seminars, and Conferences	40.0
4. Surveys	40.0
5. Miscellaneous Administration and Support Cost	10.0
6. Contingencies	65.0
<b>Subtotal (A)</b>	<b>800.0</b>
<b>B. Government Financing</b>	
1. Office Accommodation and Transport	80.0
2. Remuneration and Per Diem of Counterpart Staff	50.0
3. Others	30.0
<b>Subtotal (B)</b>	<b>160.0</b>
<b>Total</b>	<b>960.0</b>

<sup>a</sup> Financed by the Asian Development Bank's technical assistance funding program.

<sup>b</sup> Mainly data, software, and model license.

Source: Asian Development Bank estimates.

## OUTLINE TERMS OF REFERENCE FOR CONSULTANTS

### A. International Consultant

#### 1. Social Security Specialist (international, 18 person-months)

1. The consultant will be engaged to support the Ministry of Finance (MOF) in finalizing the design of the pension and old-age saving reform and preparing for its implementation. The consultant will be an experienced social security policy expert with extensive knowledge of social security system in Indonesia. The consultant's terms of reference will include the following tasks:

- (i) facilitate consultations among stakeholders on all five programs under the National Social Security System (SJSN) Law;
- (ii) develop a pension model, and prepare financial analysis and fiscal costs of various reform options for the SJSN programs;
- (iii) finalize the detailed design of contributions and benefits of all five social insurance programs, and harmonize the existing program for civil servants and formal sector employees (JAMSOSTEK);
- (iv) complete the white paper, including fiscal and financial analysis supporting the design of alternative options;
- (v) assist the Government with the drafting of all necessary implementing regulations for the SJSN system;
- (vi) support the Government in preparing the legal structure for social security providers;
- (vii) support the Government with strategy for contributions, data collection, and enforcement of the system;
- (viii) assist MOF in developing an asset management model and strategy for an old-age savings program;
- (ix) provide support on a longer-term basis to prepare key aspects of pension and old-age savings implementation, including preparation of asset management strategy and business process for the program; and
- (x) design and deliver sustainable training and capacity building programs to the Risk Management Unit and other officials.

2. **Deliverables.** The international consultant will submit technical reports on SJSN design, pension model documentation, and asset management strategy; and provide training materials on social security systems and pension models.

#### 2. Macroeconomist (international, 12 person-months)

3. The consultant will provide consultancy service to enhance the existing economic monitoring system in the Fiscal Policy Office (FPO). The consultant will be an experienced macroeconomist with strong understanding of the Indonesian economy, preferably with market and policy experience. The consultant's main tasks include

- (i) identify areas where the current system can be improved, including data quality and coverage;
- (ii) enhance and develop an analytical framework for each macroeconomic sector, including real, monetary, external (balance of payments), and fiscal;
- (iii) based on (ii), develop an analytical macro model to produce a macroeconomic outlook;

- (iv) enhance the existing budget model incorporating pension system analysis developed by the social security policy expert, and produce a fiscal sustainability analysis;
- (v) support consultant working under the Indonesia Resident Mission technical assistance to enhance early warning system modeling techniques and improve its use in policy-making exercises in MOF;
- (vi) assist FPO and financial sector stability forum (FSSF) staff in developing an analytical paper on strategic issues as requested by MOF;
- (vii) establish link with reputable domestic research institutions through joint research and surveys; and
- (viii) design and deliver sustainable training and capacity-building programs to staff of FPO and other relevant departments.

4. **Deliverables.** The international consultant will submit technical reports on selected macroeconomic issues and macroeconomic model documentation, and provide training materials on economic model and macroeconomic monitoring.

## **B. National Consultant**

### **1. Fiscal Specialist** (national, 12 person-months)

5. The consultant will support the Risk Management Unit's ongoing efforts to strengthen its capacity and analytical tools for assessing fiscal risks and evaluating fiscal impact external shocks and future reforms. The consultant main tasks include

- (i) work with the international macroeconomist to refine the budget model to assess the macroeconomic risks affecting the budget;
- (ii) work with the social security policy specialist to develop pension models and analyze the fiscal impact of social security reform;
- (iii) upgrade the computable general equilibrium model of the Indonesian economy, previously built in FPO to quantify economywide effects of introducing SJSN programs and improved labor market flexibility;
- (iv) support the macroeconomist in analyzing the impacts of external economic shocks and other policy changes;
- (v) assist FPO staff in developing an analytical paper on strategic fiscal issues as requested by MOF; and
- (vi) develop in-house training and workshops for technical staff from MOF and relevant agencies on the application of computable general equilibrium and pension models.

6. **Deliverables.** The national consultant will submit technical reports on fiscal and macroeconomic impacts of social security reform, selected fiscal issues, and documentation of the budget model; and provide training materials on the budget and pension models.