ASIAN DEVELOPMENT BANK **TAR:INO 32517-02**

TECHNICAL ASSISTANCE
(Financed from the Asian Currency Crisis Special Fund)

TO THE

REPUBLIC OF INDONESIA

FOR

COMMERCIALIZATION OF PUBLIC SERVICE OBLIGATIONS

September 2001

CURRENCY EQUIVALENTS
(as of 17 September 2001)

Currency Unit	-	Rupiah (Rp)
Rp1.00	=	$0.000110
$1.00	=	Rp9,100

The exchange rate of the rupiah is under a system of free float.

ABREVIATIONS

ACCSF	–	Asian Currency Crisis Support Facility
ADB	–	Asian Development Bank
DG BUMN	–	Directorate General for State-Owned Enterprises
IMF	–	International Monetary Fund
LOI	–	letter of intent
MOF	–	Ministry of Finance
MSOE	–	Ministry of State-Owned Enterprises
PSO	–	public service obligation
SCI	–	statement of corporate intent
SOE	–	state-owned enterprise
TA	–	technical assistance

NOTES

(i) The fiscal years (FY) of the Government end on 31 December.

(ii) In this report, “$” refers to US dollars.

I. INTRODUCTION

1. The Government of Indonesia has requested technical assistance (TA) for developing a strategy to separate public service obligations (PSOs) from commercially viable operations in state-owned enterprises (SOEs). This TA will (i) help identify the PSOs of SOEs; (ii) establish their cost to the SOEs; (iii) develop proposals for their commercialization; and, in case this is not possible, (iv) separate PSOs from commercial operations, which is a key condition for the successful restructuring and privatization of SOEs. Originally, the TA was to be attached to the proposed State-Owned Enterprises Governance and Privatization Program (SOEGPP)[1] loan. However, the processing of the loan has been delayed due to frequent changes in administration and the somewhat difficult overall domestic environment for processing policy-based loans. Since there is a need to actively pursue further reforms in the SOE sector, it is advantageous to process the TA on a stand alone basis. The TA will build on the work undertaken under a previous successful TA,[2] and another TA[3] that developed a strategy for restructuring public services, including those provided by SOEs. The Fact-Finding Mission, fielded on 11-19 April 1999, reached an understanding with the Government on the TA's objectives, scope, cost estimates, and implementation arrangements.[4] The TA framework is in Appendix 1.

II. BACKGROUND AND RATIONALE

2. Although established to serve economic and social goals, SOEs in Indonesia have been inefficient in meeting them. SOEs have provided social services and contributed to regional development objectives at considerable cost to society. Indiscriminate subsidies to SOEs and policies to protect them from competition have resulted in huge economic and financial losses. In several cases, vested interests have manipulated the SOEs to secure illegal payoffs through corruption and collusion or outright fraud. The neglect of governance in the Government's sphere of direct influence has encouraged violation of rules and regulations in the private sector, to the detriment of creditors and minority shareholders.

3. Since the onset of the economic crisis in 1997, the Government has adopted privatization as a cornerstone of its industrial strategy with a view to accelerate economic liberalization and generate revenues for a resource-strapped budget burdened with the costs of bank recapitalization. However, poor planning, weak public relations, and opposition from vested political and bureaucratic interests have delayed privatization. The continued provision of PSOs by SOEs to alleviate social dislocation during the crisis years has delayed their privatization. The Government took some time to develop its capacity to deal with SOE restructuring and privatization as a crucial part of crisis management and a master plan for SOE reform was announced in June 2000. In support of the master plan, the Government has implemented a corporate governance policy to align management incentives with shareholder objectives and interests. The Government also plans to financially and operationally restructure viable SOEs and liquidate nonviable ones, while forging ahead with the privatization of commercially successful enterprises.[5] Resolution of problems with PSOs is a key to SOE reform.

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[1] The SOEGPP is being processed for approval in 2001.

[2] TA 3149-INO: *Corporate Governance and Enterprise Restructuring*, for $2.47 million, approved on 29 December 1998.

[3] TA 3233-INO: *Strategy for Restructuring Public Services*, for $488,000, approved on 30 July 1999.

[4] The TA was first listed in *ADB Business Opportunities* in May 2000.

[5] These activities will be supported by a proposed TA, Corporate Restructuring and Privatization, for $2.6 million.

4. Systematic privatization of SOEs had commenced in the 1990s but failed to gather momentum. The first phase of privatization, from October 1994 to December 1996, which preceded the economic crisis, involved the sale on domestic and international capital markets of minority stakes, ranging from 10 to 35 percent, in six of Indonesia's largest SOEs.[6] The Ministry of Finance (MOF) was the legal owner of SOEs and, in principle, was supposed to exercise its control rights by setting up specific performance targets for SOE operations and issuing guidelines for dividends. In practice, the power of SOE management, administration, and supervision rested with the respective sector ministries. This institutional arrangement created confusion between MOF and the sector ministries concerning the oversight of SOEs. The sector ministries frequently interfered in the commercial operations of SOEs and burdened them with PSOs in pursuit of regional or social development objectives, irrespective of their commercial viability.

5. The second phase of SOE reform, triggered by the economic crisis, started in early 1998, when the Government changed the institutional arrangement for the oversight of SOEs. As a first step, presidential decrees 12 and 13 transferred the power of SOE management, administration, and supervision from the sector ministries to MOF. SOEs were delinked from the administrative control of sector ministries to remove their interference in SOEs' commercial operations and to revert them to their primary function of sector policymaking, regulation, and supply of public goods. In May 1998, presidential decrees 50 and 64 transferred the management responsibility of SOEs from MOF to the newly established Ministry of State-Owned Enterprises (MSOE), to provide SOEs with more managerial autonomy. In December 1999, four state-owned banks and 14 financial institutions were transferred from MSOE back to MOF. To improve efficiency of public administration and to rationalize administration of SOEs, MSOE was dissolved on 26 August 2000, and oversight of the 130 SOEs was transferred to the Directorate General for SOEs (DG BUMN) in MOF.[7] On 10 August 2001, the new President reversed the decision and reestablished MSOE.

6. These changes have streamlined institutional arrangements for SOEs. MOF continues to oversee the financial aspects of SOEs, including share custody, financial audits, and receipt of dividends and revenues from the sale of shares. All other property rights are now exercised by MSOE: (i) dividend payments; (ii) appointment and termination of contracts of SOE commissioners and directors; (iii) merger, consolidation, sale, and liquidation of SOEs; and (iv) granting of Government guarantees for SOE debt. However, the process of SOE restructuring and privatization will continue to require close interdepartmental coordination between MSOE and the sector ministries, particularly in PSO-related matters. The Government has therefore established the minister-level Privatization Consultative Committee to coordinate the reform process.

7. The Government has often used SOEs to provide public and merit goods and services ranging from transportation in remote areas to vocational education and health care. SOEs are also entrusted with PSOs such as reforestation in Sumatra and Kalimantan, supply of vaccines at below cost prices to the public health system, maintenance of unprofitable but socially desirable air and shipping services, and operation of remote air and seaports. Political interference in pricing and inadequate accountability in SOEs has resulted in inefficient delivery of these services. They are either cross-subsidized by SOEs' profitable business units or subsidized by the Government. This practice diverts resources from profitable activities, lowers

[6] PT Telkom, PT Indosat, PT Semen Gresik, PT Tambang Timah, PT Amka Tambang, and PT Bank Negara Indonesia.

[7] Presidential Decree 89 of 10 October 2000.

overall returns and impairs growth potential of SOEs, while eliminating incentives for efficient provision of PSOs. To overcome these inefficiencies, PSOs should be contracted out transparently to ensure the lowest cost by the service provider. Pure public goods and services, should be provided free by government departments and agencies. The Government has corrected some tariff and other fiscal distortions as part of the structural adjustment program, but subsidies and cross-subsidies within SOEs continue. To increase transparency, prepare them for eventual privatization and achieve full management accountability for commercial operations, the Government needs to separate PSOs from commercial activities in SOEs. Otherwise, SOEs will not achieve a sufficient profitability to attract private investors.

8. To separate PSOs from the commercial activities of SOEs, MSOE will (i) identify PSOs in all SOEs, (ii) estimate PSO costs and social (including environmental) impact for 15 SOEs, and (iii) develop rules and regulations for contracting such services through competitive bidding to allow participation by private companies. The objective is to establish a transparent process with due consultation of all stakeholders. A precondition for its achievement is to introduce cost accounting in the SOEs covered by the program, helping not only to quantify the costs of providing PSOs, but also to allow estimation of the value of SOE's commercial operations, thus facilitating privatization.

9. MSOE will cooperate closely with relevant sector ministries to introduce necessary rules and regulations, required to support the contracting out of the provision of selected PSOs to the most competitive bidder, which may or may not be the SOE that previously provided the services. The contracting process will require compliance with environmental legislation in technical specifications.

10. International experience has demonstrated that PSOs can be most efficiently provided in a competitive environment where they are estimated and packaged as concessions or service contracts and offered in public tender to the most competitive bidder. This process will allow the Government to accurately measure the cost of PSOs and ensure that their provision is contracted to the most efficient supplier. It will also facilitate the creation of a transparent system of (i) subsidies for socially desirable, but economically nonviable, services whose cost is fully quantifiable and can be financed directly from the Government budget; and (ii) bidding for the provision of such services by private companies through predefined and transparent rules and procedures.

11. The Government, with a TA financed by the ADB (footnote 2), has so far identified 15 SOEs with significant PSOs (Appendix 2). Among them are Indonesia's ports, which are operated by four SOEs (PT Pelindo I to IV), each with one potentially profitable port combined with 8-15 smaller unprofitable regional ports. Similarly, all airports are operated by two SOEs (PT Angkasa Pura I and II). Each of these has a profitable international airport (Jakarta and Denpasar) packaged with a set of loss-making regional airports. Privatization options for these six SOEs are to sell them entirely, which involves the risk that the new owners might close down the loss-making regional operations later, with unacceptable political and socioeconomic consequences. Another option, currently pursued by the Government for the airports and already applied to the Jakarta and Surabaya container terminals, is to separate the profitable operations from the SOE and either sell them to private operators or form joint ventures with private investors to operate them separately. This option has the risk that the SOEs will no longer generate sufficient profits to cross-subsidize the loss-making ports and airports, with rapid deterioration of operational assets and accumulation of debt in these as a consequence. A third possibility, to be pursued under the TA, is to separate the loss-making operations, often PSOs, from the commercial operations, and find alternative delivery systems for the loss-

making operations, including transparent subsidization. The commercial operations can thus be sold without endangering the future provision of PSOs.

12. Under the Government's economic recovery program, supported by IMF, World Bank, and ADB, MOF was tasked with formulating recommendations to restructure public services. The Government agreed to undertake a comprehensive study of the public services under ADB's Financial Governance Reform: Sector Development Program.[8] ADB provided TA (footnote 3) for restructuring public services, including PSOs of SOEs, which recommended reforms entailing rationalization of tariffs and financial devolution, incorporation of public service providers currently part of Government departments, and privatization modes ranging from licensing to outright divestment. Due to its severe budgetary constraints, the Government gives priority to separation of PSOs from the commercial activities of SOEs to improve their privatization prospects. Building on the earlier background work undertaken by ADB, this TA will estimate the financial burden on SOEs from PSOs and develop proposals for their commercialization or separation from commercial operations of SOEs.

III. THE TECHNICAL ASSISTANCE

A. Objective

13. The objective of this TA is to identify and separate PSOs from SOEs, and to identify alternative, more efficient provision mechanisms, including opening of business opportunities for private sector companies to provide PSOs. As private companies enter into contracts to supply PSOs previously exclusively supplied by SOEs, the latter's profitability would improve as they either terminate supply of PSOs or are adequately compensated for continued provision of PSOs.

B. Scope

14. The TA will conduct a survey of SOEs, including interviews with management and officials in sector ministries, to identify PSOs, including the (i) production of goods and services and their supply at below cost, (ii) loss incurred from implementing public sector infrastructure projects as directed by Government at below cost prices, (iii) provision of services without compensation, and (iv) provision of social services such as education and health. The TA will assess the impact of PSOs on the financial performance of selected SOEs. It will also assess whether the accounting systems of SOEs are capable of allocating their general cost components such as capital costs, licenses, and overhead costs to individual operational activities, and, in case of inadequate systems, help improve them or provide estimates for the true costs of providing PSOs. The TA will establish and implement measures to separate PSOs from commercially viable activities of SOEs, which may include (i) establishing separate profit centers; (ii) creating a subsidiary or an independent companies; or (iii) returning the activities to the relevant government department or a provincial authority. The TA will require outlining PSOs' expected (i) operations, (ii) company operational structure, and (iii) proposed initial financial structure. The TA will define the rules and regulations for tendering the supply of PSOs to private companies, and, for a limited number of SOEs with PSOs, to be determined by ADB in consultation with the Executing Agency and consultants after the midterm report, estimate these regulations' financial impact on the SOEs and fiscal impact on the budget.

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[8] Loan 1618-INO: *Financial Governance Reform: Sector Development Program*, for $1400.000 million, approved on 25 June 1998.

C. Cost Estimates and Financing Plan

15. The total cost of the TA is estimated to be $1.25 million equivalent, comprising a foreign exchange cost of $690,000 and a local currency cost of $560,000. The Government has requested ADB to finance $1.00 million equivalent, covering the entire foreign exchange cost and $310,000 equivalent of the local currency cost. The TA will be financed by ADB on a grant basis from the Asian Currency Crisis Support Facility (ACCSF), funded by the Government of Japan. The Government will provide $250,000 equivalent in the form of counterpart staff, office facilities, and workshops (Appendix 3).

D. Implementation Arrangements

16. MSOE will be the Executing Agency. International consultants (including individual consultants) will provide 21 person-months of consulting services. The services will be in the areas of financial analysis and modeling, cost accounting, industrial economics, and public finance. Domestic consultants will provide 32 person-months of consulting services in the areas of financial analysis, cost accounting, and public finance. The international and domestic consultants will be recruited in accordance with ADB's *Guidelines on the Use of Consultants* and other arrangements satisfactory to ADB. The outline terms of reference for the consultants are in Appendix 4. The TA will commence in November 2001 and be completed by December 2002. The consultants will submit an inception report four weeks after TA commencement, an interim report after four months, and a final report after seven months.

IV. THE PRESIDENT'S DECISION

17. The President, acting under the authority delegated by the Board, has approved the provision of technical assistance on a grant basis to the Government of the Republic of Indonesia in an amount not exceeding the equivalent of $1,000,000, for Commercialization of Public Service Obligations, and hereby reports such action to the Board.

TECHNICAL ASSISTANCE FRAMEWORK

Design Summary	Performance Indicators and Targets	Monitoring Mechanisms	Assumptions and Risks
Goal • Secure and improve public service provision and strengthen operations of state-owned enterprises (SOEs). Open business opportunities for private sector companies in the provision of public service obligations (PSOs)	• Supply by private companies of PSOs previously exclusively supplied by SOEs • Improved SOE profitability due to termination of supply of PSOs or adequate compensation for the continued supply of PSOs	• Regular reports MSOE; annual reports from SOEs; successive statements of corporate intent (SCIs)	• Delayed economic recovery • Hindering or even derailing of PSO commercialization by affected interest groups • Weak Government commitment, particularly of relevant line ministries, to undertake reform
Purpose • Identify and separate PSOs from SOEs and identify more effective provision mechanisms, including opening of business opportunities for private sector companies	• Identification of all PSOs through a survey of SOE activities • Identification of the costs of PSOs through cost accounting or application of the avoidable cost approach • Separation of PSOs from commercial activities in selected SOEs • Development of rules and regulations for tendering PSOs	• Review by steering committee and Asian Development Bank (ADB) of reports from consultants, and SCIs from SOEs	• Cooperative SOEs and line ministries
Output • Survey of all nonfinancial SOEs in the portfolio of the MSOE, including management interviews, and identification of PSOs	• Survey of SOEs and line ministries • Identification of all PSOs, including regularly provided services and occasional delivery of projects at a price below cost (directed work) • Preliminary assessment of PSO impact on SOEs' financial performance • Report of survey findings and analysis	• Steering committee review; ADB oversight; regular progress reports from team leader	• Delays in mobilizing experts; uncooperative line ministries; opposition from SOE management and supervisory agents (board of commissioners)
• Assessment of the PSO impact on SOEs' financial performance	• Assessment of the adequacy of the accounting system, in particular cost accounting, to identify the true costs of	• Steering committee review; ADB oversight; regular progress reports from team leader	• Resistance from SOE management and board of commissioners • Uncooperative government agencies

(Reference in text: page 1, para. 1)

Design Summary	Performance Indicators and Targets	Monitoring Mechanisms	Assumptions and Risks
	supplying public services • Assistance to SOEs with inadequate accounting systems to establish a system allowing a true allocation of all costs to each business within each SOE • Estimation of current costs of PSO delivery and potential cost savings of alternative delivery mechanisms, and assessment of employment impact		and regional authorities
• Measures for separating PSOs from SOEs' commercial activities	• Recommendations to separate supply of PSOs (to a new department, subsidiary, etc.) from selected SOEs • Recommendations to consider the business strategy of SOEs as well as the strategic, rather than intrinsic, value of the PSOs for the SOEs	• Steering Committee review; ADB oversight; regular progress reports from team leader.	• Resistance from SOE management and Board of Commissioners; • Uncooperative government agencies and regional authorities
• Rules and regulations for tendering the supply of PSOs to private companies	• A transparent system for tendering the supply of selected PSOs under a cost-efficient subsidy system • Estimation of the fiscal impact of these regulations for selected PSOs • Identification of the social objectives for providing these services through SOEs • Assessment of the impact of suggested alternative delivery systems on social objectives	• Steering committee review of all SCIs and contracts; ADB oversight; regular progress reports from the team	• Resistance and obstruction from SOE management, boards of commissioners, regional authorities, and line ministries

(Reference in text: page 1, para. 1)

Design Summary	Performance Indicators and Targets	Monitoring Mechanisms	Assumptions and Risks
Activities • Recruitment of international and domestic consultants to implement the technical assistance (TA). • At least two workshops presenting the results of consultants' assignments to Government staff, nongovernment organizations, and international development agencies	**Inputs** • 21 person-months of consulting services by international consultants • 32 person-months of consulting services by domestic consultants • Fulltime counterpart staff	▪ Progress report from TA consultants ▪ Review missions	• Availability of counterpart staff to support consultants

(Reference in text: page 1, para. 1)

Appendix 2

STATE-OWNED ENTERPRISES WITH PUBLIC SERVICE OBLIGATIONS

State-Owned Enterprise	Number of Employees (1999)	Assets (Rp billion, 1999)	Industry
PT Inhutani I	2,144	514.5	Forestry
PT Inhutani II	1,948	275.7	Forestry
PT Inhutani III	1,762	302.2	Forestry
PT Inhutani IV	500	99.0	Forestry
PT Inhutani V	555	118.9	Forestry
PT Bio Farma	562	131.4	Pharma
PT Pelindo I	1,542	1,171.9	Seaport
PT Pelindo II	5,175	3,903.3	Seaport
PT Pelindo III	3,444	1,379.1	Seaport
PT Pelindo IV	1,459	615.2	Seaport
PT Angkasa Pura I	1,542	1,171.9	Airport
PT Angkasa Pura II	5,555	2,149.1	Airport
PT Merpati Nusantara	11,530	849.2	Airline
PT Pelayaran Nasional	6,089	2,005.9	Shipping
PT Angkutan Sungai	3,119	206.0	Shipping

(Reference in text: page 3, para. 11)

Appendix 3

COST ESTIMATES AND FINANCING PLAN
($ '000)

Item	Foreign Exchange	Local Currency	Total Cost
A. Asian Development Bank Financing			
1. Consultants			
a. Remuneration and Per Diem			
(i) International (21 person-months)	567.00	0.00	567.00
(ii) Domestic (32 person-months)	0.00	160.00	160.00
b. International and Domestic Travel	24.00	30.00	54.00
2. Resource Personnel (secretaries, conference organizers)	0.00	15.00	15.00
3. Office Equipment[a] (printers, copiers, computers)	0.00	20.00	20.00
4. Printing, Communications, etc.	5.00	10.00	15.00
5. Workshops	0.00	35.00	35.00
6. Negotiations	5.00	0.00	5.00
7. Contingency	89.00	40.00	129.00
Subtotal (A)	**690.00**	**310.00**	**1,000.00**
B. Government Financing			
1. Counterpart Staff	0.00	130.00	130.00
2. Office Facilities and Support	0.00	100.00	100.00
3. Local Transportation	0.00	20.00	20.00
Subtotal (B)	**0.00**	**250.00**	**250.00**
Total	**690.00**	**560.00**	**1,250.00**

[a] After completion of the Technical Assistance office equipment will be disposed of in accordance with para. 26 of Project Administration Instruction 5.11.

(Reference in text: page 5, para. 15)

OUTLINE TERMS OF REFERENCE FOR CONSULTING SERVICES

1. The consultants will develop time-phased action plans for the separation of public service obligations (PSOs) from the commercial operations of selected state-owned enterprises (SOEs). PSOs include the (i) production of goods and services and their mandatory supply at below cost, (ii) contracting of public sector infrastructure projects at below cost prices, (iii) provision of services without compensation, and (iv) provision of social services such as education and health for nonemployees. After surveying the SOE portfolio under the supervision of the Ministry of State-Owned Enterprises (MSOE), consultants, together with MSOE, will select 10 SOEs best suited to be model cases and easily copied by other SOEs.

2. PSOs are the non-commercial programs and activities of SOEs designed to meet community and social objectives determined by the Government. The following three criteria are suggested as a basis for defining PSOs: (i) the PSO is provided for some identifiable community or social benefit; (ii) the PSO is the result of a specific government directive to a SOE regarding the provision of the PSO and the conditions (e.g. price) of its supply; and (iii) the PSO would not be supplied, or would not be supplied on the same conditions by the SOE, if it were acting primarily in its own commercial interest. Instances of "good corporate citizenship", such as sponsorship are not included as PSOs.

3. The consultants are required to assess whether the avoidable cost approach is the appropriate basis to estimate the cost of PSO provision and for negotiations with Government about adequate levels of subsidization. The principle is to establish all the costs that would be avoided if the PSOs were not carried out. The avoidable cost approach identifies all costs associated with providing an additional or incremental range of output, inclusive, where appropriate, of capital costs. In principle, this will include all capital costs resulting from a government requirement to provide a PSO, including those costs which may subsist after a PSO has been discontinued. This approach shall only be applied if it ensures that all the relevant costs of providing the specific PSO are recognized, and therefore is an appropriate identification of the economic costs associated with PSO delivery.

A. Public Finance Expert and Team Leader (international, 7 person–months)

4. The public finance expert will lead the regulation team and deliver the terms of reference outlined in para. 7. The team leader will perform the following additional tasks:

(i) Review previous Asian Development Bank (ADB) assistance for public service reform, in particular the output from the technical assistance (TA) project, "Strategy for Restructuring Public Services".[1]
(ii) In cooperation with MSOE and the team of consultants for the TA on SOE privatization and restructuring,[2] identify SOEs to be included in the survey.
(iii) Supervise the design and implementation of the survey.
(iv) Identify SOEs with PSOs to be separated from commercial operations, and supervise the assessment of the accounting system.
(v) Supervise and participate in the design of rules for tendering the supply of PSOs.
(vi) Prepare and supervise preparation of reports as outlined in para. 6.

[1] TA 3233-INO: *Strategy for Restructuring Public Services*, for $488,000, approved on 30 July 1999.
[2] Proposed TA to the Republic of Indonesia for privatization and restructuring of state-owned enterprises, processed parallel to this TA.

(vii) Undertake other assignments agreed to by ADB, the Government, and consultants from time to time, in pursuit of the TA objective.
(viii) Coordinate and supervise the work of the international and domestic consultants.
(ix) Liaise with the MSOE, other relevant ministries, and SOEs.

B. Survey Experts (international, 2 person-months; domestic, 6 person–months)

5. The team of industry economists will work closely with the team of accountants or can be part of the accounting team. The objective is to identify three classes of PSOs. The first class (Class I) of PSOs have clear characteristics of public goods and services and have to be supplied by government authorities. Examples could be the management of natural parks or marine reserve areas which involves law enforcement duties. The second class (Class II) of PSOs are those which, in the long-term could be outsourced to the private sector. However, due to political or economic circumstances the respective SOE is the only potential supplier in the near-term. Examples are the supply of traffic services in the outer reaches of the archipelago. The third class (Class III) comprises PSOs which can be outsourced to the private sector if an efficient system of subsidization can be implemented. Examples are the management of smaller ports and airports. The survey experts tasks will include but not limited to the following:

(i) Prepare the survey of SOEs to identify PSOs in cooperation with the team leader, accounting team, and team of consultants working on Privatization and Restructuring SOE.
(ii) Assess (based on interviews with SOE management as well as staff in the relevant ministries) all selected SOEs to identify all PSOs and their beneficiaries. Provide first assessment of the impact of the PSOs on the financial performance of each SOE. The PSOs are to include regularly provided services and occasional delivery of projects at a price below cost (directed work).
(iii) Prepare a report of survey findings.

B. Accounting Team (international, 6 person-months; domestic, 16 person–months)

6. The team of accountants and/or financial analysts will work closely with the regulation team as well as with the team of consultants fielded under the TA Privatization and Restructuring of SOEs. The team’s tasks will include but not be limited to the following:

(i) Help develop the survey (see para. 5).
(ii) Assess the accounting system in at least 10 SOEs, in particular cost accounting, to identify the true costs of the delivery of public services.
(iii) Help SOEs with inadequate accounting systems establish a system allowing a true allocation of all costs to each business within each SOE.
(iv) Provide sets of financial accounts that clearly separate the supply of PSOs from the commercial operations in terms of balance sheet, profit-and-loss statement, and cash-flow statement.
(v) Identify the economic costs and revenues of delivering the public services by applying the avoidable cost approach;
(vi) Help SOEs’ management prepare statements of corporate intent (SCIs) clearly identifying the PSOs, their rationale, objectives and beneficiaries. The SCIs should assess PSO impact on the SOEs’ financial performance and outline alternative delivery options.
(vii) Prepare a report of findings.

(Reference in text: page 5, para. 16)

C. Public Finance Experts and Regulation Team (international, 6 person-months; domestic, 10 person–months)

7. The tasks of the team of public finance economists will include but not be limited to the following:

(i) Help develop the survey (para. 5).
(ii) For Class I type of PSOs develop recommendations as to their continuing efficient supply as a public good or public service. The recommendation will include organizational changes in the SOEs as well as the relevant governmental department, and will enhance the transparency, accountability and equity aspects of PSO provision by clearly identifying the costs to the community of providing the social and community programs. Estimate the fiscal impact of the recommendation.
(iii) For Class II type of PSOs define the rules and regulations for costing, funding, monitoring, external consultation and implementation of a transparent and cost efficient subsidy system for the continuous supply of PSOs by SOEs. If adequate, give due consideration for the current decentralization process, including the appropriate ownership structure. For a selected number of such PSOs, estimate the fiscal impact of implementing these rules and regulations.
(iv) For Class III type of PSOs define the rules and regulations for tendering the supply of PSOs under a transparent and cost efficient subsidization system by either public or private enterprises, with due consideration for decentralization where appropriate. For a selected number of such PSOs, estimate the fiscal impact of implementing these rules and regulations.
(v) Implement these new systems for delivery of PSOs in a few cases covering all three types.
(vi) Prepare a report of findings.

D. Reporting

8. The team leader will prepare an inception report within four weeks of commencement of their services, providing a time-bound work program. In addition to any reports required for the individual components, the following reports will be required for the overall TA: (i) an interim report to be submitted four months after the commencement of consulting services; and (ii) a final report to be submitted by the end of the seventh month, incorporating the comments of ADB and the Government on the draft final report which will have been submitted three weeks earlier. The final report will include a draft policy statement on the treatment of PSOs.

F. Workshops

9. The consultants will conduct at least two workshops to present the results of the consultants' assignment to officials from line ministries and MSOE, as well as for SOE staff, and representatives of international development agencies.

G. Domestic Consultants

10. The domestic consultants will work within the TOR provided above. The team leader will be responsible to assign individual and specific TOR.

(Reference in text: page 5, para. 16)