

ASIAN DEVELOPMENT BANK

TAR:INO 35122

TECHNICAL ASSISTANCE

TO THE

REPUBLIC OF INDONESIA

FOR

**FACILITATING PRIVATE SECTOR PARTICIPATION
IN PORTS INFRASTRUCTURE UNDER DECENTRALIZATION**

July 2003

CURRENCY EQUIVALENTS

(as of 9 June 2003)

Currency Unit	–	rupiah (Rp)
Rp1.00	=	\$0.000123
\$1.00	=	Rp8,135

ABBREVIATIONS

ADB	–	Asian Development Bank
DGSC	–	Directorate General of Sea Communications
EKON	–	Coordinating Ministry for Economic Affairs
JICA	–	Japan International Cooperation Agency
MOC	–	Ministry of Communications
PSP	–	private sector participation
SBD	–	standard bidding documents
TA	–	technical assistance

NOTE

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

This report was prepared by M. Rehman (team leader).

I. INTRODUCTION

1. The Government of Indonesia, under the 2002–2004 Country Strategy and Program Update, requested advisory technical assistance (TA) from the Asian Development Bank (ADB) to promote private sector participation (PSP) in the ports sector. Although the maritime freight traffic has grown substantially, given the competitive edge of its costing vis à vis other modes of transport, the state of the ports sector and the associated shipping industry impedes full exploitation of the installed infrastructure. Given the archipelagic character of the country, nearly 90% of Indonesia's international trade goes through ports. The 5-year development plan (2001–2005) for Indonesia places high priority on the development of ports infrastructure.¹

2. There are some 2,133 ports scattered around the Indonesian archipelago, comprising 977 public ports and 1,156 special purpose ports. Of the 977 public ports, 725 are seaports and the remaining are river/lake and ferry ports. The seaports are further divided into 111 commercial and 614 noncommercial ports.² Under the functional hierarchy, ports are divided into trunk ports (international-hub, international, and national) and feeder ports (regional and local). The 111 public commercial ports (trunk and feeder) are managed by the four ports corporations called PT Pelindos or IPC (Indonesia Ports Corporation). The 614 noncommercial ports are at present directly managed by the Ministry of Communications (MOC), but about 320 of them will be devolved to the regional and district governments in the near future.

3. A number of studies for the development of and investment in the ports sector have been undertaken in the recent years under the auspices of the Directorate General of Sea Communications (DGSC) of MOC. While this study and the TA framework are aimed at providing a coherent relation to previously completed studies for the development of and investment in the ports sector, the earlier studies concluded were strategy directed and with less focus on the investment aspect. This study is specifically focused to prepare a ports infrastructure project through PSP.

4. The ports sector suffers from a number of issues, including lack of financing sources, poor operational and financial performance, weak legal and regulatory framework, and weak multimodal linkages. The growing budgetary pressures facing Indonesia in the post-Asian crisis phase, as well as the move towards regional fiscal and administrative decentralization introduced in 1999, have together further aggravated the problem of ports development. PSP will help supplement the funding requirements, while inducing greater commercialization and efficiency in services offered. A Fact-Finding Mission fielded in November 2002 reached an understanding with the Government on the goal, purpose, scope, cost, time frame, financing, implementation arrangements, and terms of reference for consulting services for the TA.³ The TA framework is in Appendix 1.

II. ISSUES

5. Previous ADB-financed ports development projects were faced with challenges, and this TA recognizes the lessons learned. These include (i) strengthening management and

¹ ADB's assistance for ports development amounts to \$312 million for 10 loans and \$3 million for 13 TAs. The latest ADB-financed ports project, L-1559-INO: Belawan, Banjarmasin, and Balikpapan Ports Project, for \$100 million, approved on 30 September 1997, was cancelled in May 1999 as a result of the financial crisis.

² Some of the commercial ports are not profitable and are, in fact, providing public service obligations, which is cross-subsidized by profitable ports. This aspect has been investigated under ADB. 2001. *Technical Assistance to the Republic of Indonesia for Commercialization of Public Service Obligations*. Manila.

³ The TA first appeared in *ADB Business Opportunities* (internet edition) on 23 July 2002.

operations of commercial and noncommercial ports; (ii) developing the domestic shipping industry and renewing the ageing shipping fleet; (iii) developing a sustainable funding mechanism for pioneer shipping services; (iv) improving cargo consolidation for long distance international shipping; (v) optimizing the current level of tariffs, which are low in the case of noncommercial ports and high for commercial ports; (vi) improving the existing legal and regulatory framework for PSP; (vii) improving maritime transport safety; and (viii) improving road access, planning, and traffic management at major ports and multimodal interchanges.

6. **Legal and Regulatory Framework.** The decentralization process currently under way in Indonesia is aimed at bringing decision-making and resource management responsibilities to the district and city levels, and promoting a new approach to governance at both the central and the regional government levels, thus introducing new mechanisms for service delivery. The two decentralization laws—No. 22/1999 on Regional Governance and No. 25/1999 on Central Regional Fiscal Balance—cover all major aspects of fiscal and administrative decentralization of the existing government structure, consisting of 30 provinces and 425 districts and cities spread over 13,000 islands. Under law 22/1999, the district (kabupaten) and city (kota) governments will become fully autonomous in the long term. The district/city heads will no longer report to the governor of the province but to a locally elected assembly (Dewan Perwakilan Rakyat Daerah) and to the President of the Republic.

7. Indonesia's political and fiscal decentralization program has called for extensive legal reforms and adoption of a subsequent regulatory framework to operationalize new laws governing the central and local governments. To attract PSP, it is imperative that the existing weak regulatory system be replaced by a comprehensive legal and regulatory framework to guide managers/decision makers to assess the solutions offered by the private sector and to evaluate PSP proposals systematically. Potential investors should be able to assess the risks attached to investment opportunities, and to get comfort from the regulatory framework that risks can be mitigated to an acceptable level. Similarly, regulatory barriers to competition must be removed from the districts/local government system wherever they exist. The legal framework enacted to date requires review and amendments where necessary to make it compatible with the laws governing local administrations. For example, President's decree Keppres 7, issued in 1998, on the cooperation between the Government and private enterprise for development and/or management of infrastructure, is under revision to bring it in line with the decentralization laws.

8. **Availability of Long-Term Financing for Ports Development.** The private sector investment in the infrastructure sector over the 5-year period prior to the Asian crisis (1991–1996) was about \$91 billion: power generation, \$60 billion; telecommunication, \$9 billion; transportation, \$7 billion; and toll roads, \$15 billion. Since 1997, due to the financial crisis, public sector funding for infrastructure has been sharply compressed to ensure fiscal prudence, while accommodating the cost of financial sector restructuring, and strengthening social safety nets. Therefore, in the years to come, the private sector is expected to shoulder a major share of the projected investments in the transport infrastructure sector. However, the political and economic uncertainties following the crisis affected the investment climate, and private flows sharply declined, resulting in a fall in modernization, operation, and maintenance of existing infrastructure. Investors have also been facing difficulty raising capital locally, given the weaknesses in the capital market stemming from the absence of an alternate long-term financing and debt market. Imprudent bank lending has resulted, in the past, in currency and maturity mismatches. Reviving private sector interest in infrastructure will help ease the budgetary burden as well as improve the economic efficiency and quality of service delivery.

9. **Risk Allocation and Mitigation.** Infrastructure projects involve large investments for which cost recovery is achievable only over long periods of time. In general, the risks associated with these investment projects force potential private investors to be more cautious than in the case of other types of investments. Furthermore, the projects have to be “bankable,” i.e., technically feasible, financially viable, and able to deliver acceptable returns to investors. But most often, the necessary tools to mitigate project risks such as adequate contractual arrangements, insurance policies, and guarantees are not available. The important principle that the risks should be assumed by the parties most suited to control them is not necessarily adopted.

10. **Standard Bidding Documents (SBDs).** Efficient and transparent competitive bidding for PSP is essential to encourage investor participation. SBDs are useful tools to facilitate the bidding process. However, no standard bidding documents have been designed specifically for PSP in ports infrastructure. There is therefore a need to develop SBDs to promote a competitive bidding process for PSP consistent with the new legislation, local procurement rules, and international procedures. Mobilizing PSP in ports infrastructure may take different forms: decentralizing the ports management authority, corporatizing, semiprivatizing, converting to a landlord ports model, capitalizing or restructuring of assets and liabilities, etc. The SBDs need therefore to be comprehensive and should offer options that can be applied to various port models depending on characteristics and specific PSP requirements.

III. THE TECHNICAL ASSISTANCE

A. Purpose and Output

11. The purpose of the TA is to assist the Government in promoting PSP in the ports sector under local government jurisdiction. The TA will explore avenues to select priority representative port locations, types, and functions most suitable for PSP initiatives, considering legal, financial, and institutional requirements. After identifying representative priority ports for PSP, the TA output will include (i) identifying port infrastructure and operation components that will be eligible for private sector participation; (ii) recommending amendments to the local rules and regulations, and other initiatives to facilitate PSP; (iii) assessing the scope of local financing mechanisms, such as bond market development/capacity, and identifying prospective PSP sponsors as well as developing selection criteria; (iv) developing standard guidelines and bidding documents for PSP transactions for the selected pilot public ports; and (v) recommending further action to implement PSP in the selected ports, using the tools developed under the TA.

B. Methodology and Key Activities

12. The TA will prepare a long list of ports, representative of all types of ports in Indonesia that could attract PSP, including commercial and noncommercial ports under the existing national and regional/local systems of government. The list will preferably include ports that have been previously studied for improvements, so that substantial data and blueprints of development plans are already available. For example, the study on the Development Scheme for Principal River Ports in Indonesia by the Japan International Cooperation Agency (JICA) prepared development plans in May 2002 for seven priority ports that could be considered under this TA.

13. The TA consultants will develop PSP qualification criteria to which the long list of selected ports will be subjected. The criteria will be based on such factors as strategic location,

existing infrastructure and development needs, potential investors' expectations, and the respective local government's requirements in line with the Central Government infrastructure development strategy. As a result, a shortlist of priority ports, thereafter called pilot ports, will be generated, which will become the focus of this study for promoting PSP under the new system of regional autonomy. The other components included in the TA study will be looked into only for the shortlisted pilot ports.

14. More specifically, the consultants are expected to carry out the following key activities to produce the output of the TA study. Outline terms of reference are in Appendix 2.

- (i) In consultation with DGSC and other relevant stakeholders, including private sector operators, prepare a long list of 8–12 ports for which substantial data and future development plans are available; and group them according to their physical infrastructure, size, demand characteristics, and growth projections. Prioritize the list following selection criteria agreed upon with all stakeholders, based on port type, commercial or noncommercial, physical infrastructure and size, technical aspects, financial viability, demand characteristics and growth potential, options for unbundling services, and assets. Propose a short list of 3–5 pilot ports to be approved by ADB and the Executing Agency for implementation of the PSP study under the TA.
- (ii) Identify the legal and regulatory requirements after reviewing the current status and the deficiencies that must be overcome to attract PSP for the pilot ports.
- (iii) Assess the availability of short- and long-term financing and the scope for local bond markets (or other relevant financing mechanisms), investment opportunities, and risk allocation mechanisms; and identify prospective sponsors for PSP.
- (iv) Develop a set of SBDs and guidelines to be applied to the pilot ports, to be used for PSP initiatives in ports infrastructure subsequent to decentralization.
- (v) Propose an action plan to apply the developed documents and guidelines to the pilot ports, leading to successful PSP transactions.

C. Cost and Financing

15. The total cost of the TA is estimated at \$395,000 equivalent, comprising \$256,000 in foreign exchange costs and \$139,000 equivalent in local currency costs. The Government has requested ADB to finance \$315,000 equivalent covering the entire foreign exchange cost and \$59,000 equivalent of the local currency cost. The TA will be financed on a grant basis by ADB's TA funding program. The Government will finance the remaining \$80,000 equivalent of the local currency costs. The cost estimates and financing plan are presented in Appendix 3.

D. Implementation Arrangements

16. The TA study will be implemented by a consulting firm to be recruited by ADB using the simplified technical proposal procedure, in accordance with ADB's *Guidelines on the Use of Consultants (Quality and Cost-Based Selection—April 2002 version)* and other arrangements satisfactory to ADB for the engagement of domestic consultants.

17. The TA will require a total of about 27 person-months of consulting services, including about 10 person-months of international and about 17 person-months of domestic consultants. The team of international and domestic consultants will have expertise in the areas of legal and regulatory regimes, financial markets, project finance, ports infrastructure technology, and preparation of procurement and bidding documents. The TA is expected to last 6 months commencing in October 2003 and will be completed in April 2004.

18. The Coordinating Ministry for Economic Affairs (EKON) will be the Executing Agency for the TA. EKON will facilitate the work of the TA consultant by providing close coordination with other agencies to be involved in the TA, such as the National Development Planning Agency, DGSC, the State-Owned Enterprises Bureau, and the Ministry of Home Affairs. An interdepartmental team will be established under the auspices of EKON to interact with stakeholders in addition to guiding and monitoring the progress of the TA.

19. Suitable counterpart staff from EKON will be assigned to the day-to-day implementation of the TA. EKON will provide administrative and technical support to the consultants, including office accommodation and communications facilities, and will ensure that all documents, data, maps, and information relevant to the TA are provided to the consultants in a timely manner. The equipment needed for the TA will be procured by the consultants in accordance with ADB's *Guidelines for Procurement* and turned over to EKON upon completion of the TA.

20. This TA will build on the output of previously completed work, and the results of those studies will be synthesized in the output of this TA (Appendix 2, para. 2). The consultants may also draw upon best practices in public-private partnerships in similar size ports in other countries. Furthermore, the TA will coordinate with and complement studies planned in the near future, such as ADB's interisland transport project preparatory TA, and the World Bank's TA for private provision of infrastructure; both are planned to start in mid-2003. The Fact-Finding Mission held meetings with other multilateral institutions/agencies to avoid any duplication, and this TA effectively complements their initiatives. Such coordination will be maintained during the implementation of the TA.

21. The consultants will prepare an inception report for consideration by ADB and the Government one month after commencement of the TA. A brief interim report on the progress of each of the main tasks and highlighting key issues will be prepared at the end of the third month. The draft final report will be submitted at the end of the fifth month after commencement of the TA. Tripartite meetings among the Government, ADB, and the TA consultants will be held at appropriate times after submission of the reports. The final report incorporating all comments made by the Government through EKON and ADB will be issued before the end of the sixth month.

IV. THE PRESIDENT'S DECISION

22. The President, acting under the authority delegated by the Board, has approved the provision of technical assistance not exceeding the equivalent of \$315,000 on a grant basis to the Government of the Republic of Indonesia for Facilitating Private Sector Participation in Ports Infrastructure under Decentralization, and hereby reports this action to the Board.

TECHNICAL ASSISTANCE FRAMEWORK

Design Summary	Performance Indicators	Monitoring Mechanisms	Assumptions
<p>Goal</p> <p>To facilitate private sector participation in ports infrastructure under fiscal and administrative decentralization</p>	<p>Statistics of Central Bank of Indonesia and commercial banks show increased private sector investment in infrastructure projects.</p>	<p>Number of potential investors recorded through their responses to the prospective infrastructure development/maintenance initiatives</p> <p>More PSP transactions planned, solicitations evidenced for ports infrastructure projects</p>	<p>Government keeps improving macroeconomic policies; stable economic and political environment in the country</p>
<p>Purpose</p> <p>Assist the Government in attracting private sector participation in selected priority ports.</p>	<p>Recommendations to promote private sector participation are implemented in selected ports.</p>	<p>Technical Assistance Completion Report and continued policy dialogue with governments</p>	<p>Political stability, economic recovery, sound banking system, proper regulatory mechanisms and implementation procedures</p>
<p>Outputs</p> <p>1. Long list of priority ports suitable for private sector participation and short list of pilot ports that will be eligible for private sector participation</p> <p>2. Regulatory and legal reforms—barriers and gaps identified and requirements listed for the shortlisted ports</p> <p>3. Capacity of capital and financial markets development assessed for the selected pilot ports</p> <p>4. Standard bidding and guideline documents prepared for the PSP pilot ports</p> <p>5. Action plan for PSP implementation in the pilot project proposed</p>	<p>8–12 ports identified as representative priority ports, and 3–5 pilot ports selected for further TA work, wherein at least half of the port components are to be managed by the private sector</p> <p>Regulatory and legal amendments proposed in the draft final report, all accepted by the Government</p> <p>Development of project financing mechanisms, bonds, securities</p> <p>A set of operational procedures and standard bidding documents attached to the draft final report</p> <p>Proposed action plan accepted by the Government</p>	<p>TA review missions and reports</p>	<p>Government agencies provide necessary data; existing development plans</p> <p>Government agencies, local and central, interact and participate in the development of workable documents applicable to all selected pilot ports</p> <p>Government agencies at both the center and local levels provide required information to the consultant in a timely manner. The Government is willing to implement needed regulatory changes.</p> <p>Safe environment for the TA team to go around the country as necessary</p> <p>Government willing to accept the TA recommendations</p>

TA= technical assistance.

Design Summary	Performance Indicators	Monitoring Mechanisms	Assumptions
<p>Inputs</p> <p>1. International consultants, 10 person-months (\$200,000)</p> <p>2. Domestic consultants, 17 person-months, (\$34,000)</p> <p>3. Travel, office equipment, and miscellaneous administration and support costs (\$34,000)</p> <p>4. Reports and communication (\$5,000)</p> <p>5. Government counterpart staff and facilities (\$80,000)</p>	<p>Consultants recruited</p> <p>Consultants recruited</p> <p>Related activities implemented and equipment procured</p> <p>Reports printed and fax/letter generated</p> <p>Staff nominated and facilities provided</p>	<p>Evaluation of consultants' proposals, negotiations, and award of contract</p> <p>Evaluation of consultants' proposals, negotiations, and award of contract</p> <p>Invoicing, tripartite meetings, and reports</p> <p>Invoicing, tripartite meetings, and reports</p> <p>Tripartite meetings</p>	<p>Availability of qualified international consultants</p> <p>Availability of qualified domestic consultants</p> <p>The Government will provide counterpart staff, support services, facilities, information, and data as required by the consultants and in a timely manner.</p> <p>Acceptable peace and order situation</p> <p>Timely and efficient interaction with the TA consultants</p>

OUTLINE TERMS OF REFERENCE FOR CONSULTING SERVICES

A. Scope of work

1. The consultants will carry out required tasks outlined under this advisory technical assistance (TA), adopting a sequence most suitable to achieve the objectives within the given time period, specialists (international and domestic), and budget.

2. The consultants will establish a baseline status for this TA after consulting with the concerned agencies, reviewing all relevant studies, and collecting the needed data. For ready reference some of the studies are (i) report on the local government finance and bond market financing in Indonesia—November 2002; (ii) regulatory framework for private and public water supply and wastewater enterprises (Asian Development Bank [ADB] TA 3761-INO); (iii) private sector participation for urban infrastructure projects (ADB TA 3804-INO); (iv) sustainable capacity building for decentralization project (under preparation); (v) support to the partnership for governance reform in Indonesia (ADB TA 3813-INO); (vi) managing regional disparities in economic and poverty programs under decentralization (ADB-ADTA); (vii) World Bank regulatory program framework and sector reform initiative on private sector participation 2000; (viii) Japan International Cooperation Agency (JICA) study on ports development strategy in Indonesia, 1999; (ix) Japan Bank for International Cooperation's ongoing study on the small ports development project in East Indonesia; (x) Private Sector Participation in the Transport Sector Project—ADB TA: 2527-INO, 1998; (xi) Transport Sector Strategy Study for Indonesia—ADB Loan 1089-INO, 2000; and (xii) reports on ADB Loan 1511-INO. Further, the consultants will coordinate with ADB's TA on interisland transport project (to be commenced by mid-2003) and with the other upcoming studies such as one planned by the World Bank to share relevant data and information. This is necessary to take advantage of the latest data available and to ensure that efforts will complement and not duplicate. Furthermore, the consultants will maintain regular interaction with the local governments and other stakeholders through meetings to insure their participation with the assistance of the Executing Agency.

B. Sequence of Tasks

3. The consultants' tasks include, but are not limited to the following:

- (i) Develop a program and methodology to carry out the TA including criteria for (a) a long list of 8–12 representative target ports, and (b) a shortlist of 3–5 pilot ports wherein at least half of the port components are to be managed by the private sector. The selection of the ports comprising the long list can be done through reviewing the hierarchy of the ports system in Indonesia, types and functions, demand characteristics, and growth projections. The ports for which data are available, such as those in the May 2002 JICA study on the development scheme (data and development scenarios of seven ports are presented) can be considered.
- (ii) Establish a baseline status of the prioritized ports, to be selected following agreement upon criteria as described above, and in the TA paper. This will be presented in the inception report.

- (iii) Meet with the central/local government agencies and stakeholders to review the criteria for the long list of representative ports and of the short list of pilot ports.
- (iv) Obtain additional/missing information/data through field visits as necessary to prepare a short list of 3–5 pilot ports in accordance with the qualification criteria established by the consultant and approved by ADB and the Executing Agency. Thus, the selected pilot ports will be the focus of the implementation of the following TA tasks.
- (v) Review the availability of sustainable financing including status of the bond markets under the Central Government’s newly issued decrees, and policies on the issuance of long-term bonds. More specifically, investigate the prospects for capital market development and the requirements of the local governments in the districts of the pilot ports. Also, identify potential sponsors and their requirements.
- (vi) Review and identify legal and regulatory requirements to promote PSP for the pilot ports. This activity would further emphasize the need to complete legislature at the central and local levels to fulfill the Government’s plans to decentralize fiscal and administrative machinery through regional autonomy.
- (vii) Consult relevant stakeholders such as government officials, private sector port operators, freight forwarders, shipping companies, trucking industries, port based industries and non-government organizations.
- (viii) Prepare the interim report and conduct the tripartite meeting.
- (ix) Prepare standard bidding documents for PSP for the pilot ports which should be applicable to various PSP modalities under regional autonomy, such as unbundling options for facilities, services, and categories by size, type (commercial and noncommercial), and various physical infrastructure conditions. Coordinate with ADB procurement unit officials and the central and local governments. The documents are to be made available in the CD-ROM format.
- (x) Propose an action plan for implementation of the activities recommended under this TA for PSP transactions using the outputs of this study.
- (xi) Arrange meetings with the Government, stakeholders, and ADB to review the final output of the study and get comments.
- (xii) Prepare the draft final report and submit it to the Government and ADB for review.
- (xiii) Revise and complete the final report, incorporating all the comments received.

C. Overview of Main Tasks

1. Regulatory and Legal Reforms—Requirements

4. The scope will include determining and outlining adequate legal requirements to encourage PSP in the ports sector through (i) reviewing relevant existing laws and regulations

of the Central Government and regional governments (for example: dispute resolution, foreign investment law, bankruptcy law, concession law, commercial arbitration law, private international law, intellectual property laws, adequate competition, and risk sharing), and identifying gaps and incompatibilities; (ii) assessing the legal aspects of the selection criteria of the PSP infrastructure projects under the government policy; and (iii) addressing any procedures under regional autonomy laws necessary to manage any involuntary resettlement.

5. The deficiencies in the existing laws/decrees need to be overcome. For example, the clarity in the Autonomy Law No. 22/2001, regarding the local governments sharing of revenue from nonnatural resources, and Regulation 69/2001 regarding promoting PSP in seaports. Similarly, the transfer mechanism of ports to provinces and local governments has to be clarified.

2. Long-Term Finance

6. The study will identify requirements of potential sponsors and the steps involved in structuring PSP transactions subsequent to devolution of ports after the introduction of regional autonomy. This effort will involve but not limited to (i) assessing the current status of market capitalization and the prospects of private sector recapitalization of private banks in the districts of the pilot ports; (ii) reviewing the Government's current decrees to reinvigorate the domestic bond market in the near future and in the long term; (iii) evaluating the Government's plans to issue domestic debt securities, the absence of which was seen as an impediment to the development of the bond market in the past; (iv) assessing the possibilities of foreign direct investment in the districts of the pilot ports in the foreseeable future, taking into account project financing and risk sharing options under different PSP scenarios; (v) assessing the issue of ownership of port assets between the private entity and the local government; and (vi) recommending changes to tariff levels for the pilot ports considering cost recovery, subsidies, and social service objectives.

7. The consultants will discuss the role of ADB and other multilateral institutions in promoting private sector investment through guarantee operations, sovereign loans to complement capital investments, and financing for the adjustment costs that promote PSP and sector restructuring. Similarly, they will discuss the availability of other means such as the provision of a mixture of equity and debt, funding terminal concessions through loans and equity, and also lending loan syndicates.⁴

3. Ports Infrastructure Analysis—Scenarios and Priorities

8. Review of the ports' functional analysis will be based on the data available and the priorities, including ports recently studied, the seven ports by JICA, in particular. They will be grouped based on their physical condition, size, growth, potential, etc. and prioritized in the order of their prospects for PSP interventions. Therefore, the task will involve (i) reviewing various types of ports (commercial, noncommercial) and locations in kabupatens or kotas; (ii) studying the existing ports operation and management systems under the Directorate General of Sea Communications, and State Owned Company (BUMN) and proposing preferred modes of reforms, such as decentralization of management control, commercialization, corporatization, semiprivatization, etc., and immediate changes; and (iii) classifying 3–5 models of ports representing size, functions, and physical and operational conditions.

⁴ See ADB.2000. *Developing Best Practices for Promoting Private Sector Investment in Infrastructure-Ports*.

9. Ports physical infrastructure analysis would include study of berths; facilities; and service-related activities, generally divided between services to the vessels (pilotage, towage, mooring, dredging, utilities, ship repair, environmental services) and services to cargo (stevedoring, wharf-handling, transfer to land transport, storage, processing, cargo tracking, security, rental of specialized equipment, etc.). The Consultants should review existing studies and reports on port operation and management and identify port operation components that will be viable with private sector management. The Consultants may also draw upon best practices in public-private partnership of similar size ports in other countries.

4. Preparation of Standard Bidding Documents for Private Sector Participation

10. The consultants will prepare a standard set of documents and guidelines following ADB's best practice guidelines required for transparent and competitive procurement (local and international) applicable to PSP transactions for the selected pilot ports, which subsequently can also be applied to any prospective port locations or models.

11. The PSP guidelines should encourage unbundling of facilities, services within the ports, and the navigational channels. Therefore, the bidding documents/guidelines must cover such aspects adequately to promote fair and transparent competition among the potential investors.

12. The standard bidding documents are to be prepared in conformity with international practices: instructions to bidders, general and special conditions of the contract, specifications.

D. Reporting Requirements

13. The consultants, in full consultation with the Coordinating Ministry for Economic Affairs, will prepare the required reports in English and Bahasa Indonesia including all necessary backup documentation relating to each of the above-mentioned tasks for timely submission. The consultants will submit the inception report after 1 month from the commencement of the TA to the Government and ADB, a brief interim report at the end of month 3 of the TA, and the draft final report at the end of month 5 from the start of the TA for ADB and government comments. The comments made by the Government and ADB will be incorporated in the final report before the end of month 6.

COST ESTIMATES AND FINANCING PLAN
(\$'000)

Item	Foreign Exchange	Local Currency	Total Cost
A. Asian Development Bank Financing^a			
1. Consultants			
a. Remuneration and Per Diem			
i. International Consultants	200	0	200
ii. Domestic Consultants	0	34	34
b. International and Local Travel	12	5	17
c. Reports and Communications	3	2	5
2. Equipment ^b	5	0	5
3. Miscellaneous Administration and Support Costs	4	3	7
4. Representative for Contract Negotiations	5	0	5
5. Contingencies	27	15	42
Subtotal (A)	256	59	315
B. Government Financing			
1. Office Accommodation and Transport	0	35	35
2. Remuneration and Per Diem of Counterpart Staff	0	45	45
Subtotal (B)	0	80	80
Total	256	139	395

^a Financed on a grant basis from the Technical Assistance Special Fund.

^b Includes desk top computer/ office equipment to be transferred to the Executing Agency at the completion of the TA.
Source: Asian Development Bank estimates.