

## RISK ASSESSMENT AND RISK MANAGEMENT PLAN

Risk Description	Rating	Mitigation Measures	Responsibility
<b>A. Technical</b>			
<p><b>Capacity gaps.</b> Gaps exist in areas which are under development, such as RIA, municipal bonds and PPP modality, improving public procurement.</p>	M	<p>The KKBP is leading work on municipal bonds and has requested ADB to support capacity building. The Joint PPP Office of Indonesia is also looking into capacity building across both central and local government. ADB is supporting capacity development for RIAs, and new procurement e-learning modules are strengthening capacities for line agencies.</p>	<p>KKBP and Joint PPP Office</p>
<p><b>Coordination on structural reform.</b> Economic packages can be ad hoc and politicized. This may become even more acute with the approach of the next general election scheduled for April 2019.</p>	S	<p>The government is committed to partnering with ADB on the use of RIA as tool for analyzing and deciding on economic packages. ADB has supported the KKBP in taking on a leadership role in the task force that oversees review and implementation of policy packages. The Ministry of Trade has started using RIA for trade-related regulations, and ADB is supporting capacity building for RIA within the KKBP and line agencies.</p>	<p>Office of the President and KKBP</p>
<b>B. Economic and Financial</b>			
<p><b>Macroeconomic.</b> Although commodity prices are recovering, the sharp decline in the late 2000s has exposed structural weaknesses in the economy. Economic growth is expected to be around 5.3% in 2018, which may not be sufficient to create sufficient jobs and meet government development targets in the RPJMN 2015-2019.</p>	M	<p>The government is committed to institute structural reform to attract investments; diversify sources of growth; and broaden the inclusive nature of growth, including through employment programs.</p>	<p>KKBP, MOF, OJK, and Bank Indonesia</p>

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<p><b>Financial stability.</b> Tapering and increasing of interest rates by the United States Federal Reserve may result in capital outflow, creating financial market instability because of the underdeveloped bond market.</p>	M	<p>The government recognizes that promoting financial stability, developing the capital market, and improving access to financial services for the poor are integral for economic growth and reducing poverty and inequality. The Law of the Republic of Indonesia 9/2016 on Crisis Prevention and Management also institutionalized the Financial System Stability Committee to oversee stability of the financial system.</p>	MOF, OJK, and Bank Indonesia
<b>C. Governance</b>			
<p><b>Public financial management.</b> The medium-term expenditure framework's performance-based budgeting needs improvements in relation to (i) capital and recurrent cost implications, (ii) determination of budget ceiling for future years, and (iii) baselines to strengthen allocative efficiency of the government budget.</p>	M	<p>Efficient utilization of overall resources through sound PFM continues to be a key priority of the government. PFM reforms are also increasingly aligned with the priorities identified in the RPJMN. ADB is providing a series of TA projects on improving PFM capacity and tax administration at the local level. ADB will continue to seek partnerships, through cofinancing for PFM reform, with other development partners. Lastly, ADB will provide budgetary support on improved PFM for better service delivery at local level.<sup>a</sup></p>	MOF
<p><b>Public procurement.</b> Slow and inefficient public procurement process has contributed to slow government budget execution.</p>	M	<p>The government has introduced advanced procurement as a key reform measure alongside mandating the adoption of an e-procurement system to expedite budget execution. The draft presidential regulations on procurement will bring forward the advance procurement cycle. ADB will work with the government in developing institutional capacity, including modernizing the PSU in key ministries.</p>	MOF and LKPP

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<p><b>Corruption.</b> Civil society has expressed about inadequate institutional accountability in the public sector.</p>	L	<p>The governance of PFM has been improved with the introduction of the National Financial Management Information System within the MOF. The national budget process has also been made more transparent with the MOF including the fiscal risk assessment in the financial note for the national budget. More transparency in Indonesia's budgeting process also improved Indonesia's score in the Open Budget Index (2017) to 64 out of 100, from a score of 51 in 2010. In the Asia region, it was ranked second after the Philippines (67 out of 100). Globally, Indonesia's score was higher than the global average (42). Indonesia's commitment to budget transparency and increased participation of citizens has mitigated corruption issues during the budget process.</p>	Government of Indonesia, Ministry of Finance and KPK
<b>Overall</b>	M		

<sup>a</sup> ADB. 2016. *Report and Recommendation of the President to the Board of Directors: Proposed Programmatic Approach and Policy-Based Loan for Subprogram 1 to the Republic of Indonesia for the Fiscal and Public Expenditure Management Program*. Manila.

ADB = Asian Development Bank, KKBP = Kementerian Koordinator Bidang Perekonomian (Coordinating Ministry for Economic Affairs), KPK = Komisi Pemberantasan Korupsi (Corruption Eradication Committee), L = low, LKPP = Lembaga Kebijakan Pengadaan Barang/Jasa Pemerintah (National Public Procurement Agency), M = medium, MOF = Ministry of Finance, OJK = Otoritas Jasa Keuangan (Financial Services Authority), PFM = public financial management, PPP = public-private partnership, PSU = procurement support unit, RIA = regulatory impact assessment, RPJMN = Rencana Pembangunan Jangka Menengah Nasional (National Medium-Term Development Plan), S = substantial, TA = technical assistance.

Source: ADB SIGAP Program team.