Transformasi Kelembagaan Kementerian Keuangan

Ministry of Finance Institutional Transformation

Final submission
3 December 2013
Final report – Treasury
Contents

- Context and introduction
  - Disbursement and receipts
  - Liquidity management
  - Debt market development
Vision: “To be a world-class state treasury manager”

Mission:

- To achieve prudent, efficient, and optimum cash and fund investment management
- To support timely, effective, and accountable budget execution
- To achieve accountable, transparent, and timely state finance accounting and reporting
- To develop reliable, professional, and modern treasury support systems
Vision and Mission of DJPU

Vision: “To be a professional unit that supports financing of the state budget and public investment efficiently while managing risk and ensuring fiscal sustainability”

Mission:

▪ To ensure effective, transparent, and accountable management of government debt portfolio
▪ To manage debt issuance through debt capacity target that support fiscal stability
▪ To promote domestic financing sources and to develop efficient and stable domestic financial markets
▪ To obtain alternative sources of financing, as well as support the regional financial market stability
▪ To ensure government sovereign financial risk is managed prudently and holistically
Vision and Mission of DJKN

Vision: “To manage state assets in a professional and accountable way, for the greatest welfare of the people”

Mission:
- To effectively manage state assets for state revenue optimization and spending efficiency
- To safeguard physical, administrative, and legal aspects of state assets
- To improve governance and value add of government investment management
- To conduct state asset valuation to convey a value which is fair and dependable as a reference for various purposes.
- To manage state claims in an effective, efficient, and accountable manner
- To uphold auctions in a transparent, fair, and competitive manner as a trade instrument that accommodates public’s interest
## Vision and Mission of DGs performing treasury functions

<table>
<thead>
<tr>
<th>DJPB</th>
<th>DJPU</th>
<th>DJKN</th>
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</thead>
<tbody>
<tr>
<td><strong>Vision:</strong> “To be a world-class state treasury manager”</td>
<td><strong>Vision:</strong> “To be a professional unit that supports financing of the state budget and public investment efficiently while managing risk and ensuring fiscal sustainability”</td>
<td><strong>Vision:</strong> “To manage state assets in a professional and accountable way, for the greatest welfare of the people”</td>
</tr>
<tr>
<td><strong>Mission:</strong></td>
<td><strong>Mission:</strong></td>
<td><strong>Mission:</strong></td>
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<tr>
<td>- To achieve prudent, efficient, and optimum cash and fund investment management</td>
<td>- To ensure effective, transparent, and accountable management of government debt portfolio</td>
<td>- To achieve an optimized government revenue, efficient government expenditure, and effective state asset management</td>
</tr>
<tr>
<td>- To support timely, effective, and accountable budget execution</td>
<td>- To manage debt issuance through debt capacity target that support fiscal stability</td>
<td>- To safeguard physical, administrative, and legal aspects of state assets</td>
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<tr>
<td></td>
<td>- To ensure government sovereign financial risk is managed prudently and holistically</td>
<td>- To manage state claims in an effective, efficient, transparent, and accountable manner</td>
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<td>- To uphold auctions in effective, efficient, transparent, accountable, fair, and competitive manner as a trade instrument that accommodates public’s interest</td>
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</table>
Treasury functions performing at a level comparable with other emerging economies, meeting the operational needs of the Indonesian government

<table>
<thead>
<tr>
<th>Practice</th>
<th>Excellent</th>
<th>Good</th>
<th>Fair</th>
<th>Poor</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Disbursement</td>
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<td>• Prepayment</td>
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<td></td>
<td></td>
<td>- Systems not integrated, requiring physical trips to KPPN for verification</td>
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<td>- Timely payments, but high proportion of manual payments</td>
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<td>Receipts management</td>
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<td>• Payment</td>
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<td></td>
<td></td>
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<td></td>
<td>- Timely payments, but high proportion of manual payments</td>
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<tr>
<td>Cash management</td>
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<td></td>
<td></td>
<td>• Receipts</td>
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<td></td>
<td>- Payments done primarily through banks (minimal MOF cash handling) but complex and time consuming reconciliation process</td>
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<tr>
<td>Debt management</td>
<td></td>
<td></td>
<td></td>
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<td>• Cash accounts</td>
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<td></td>
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<td>- Successfully implemented TSA, though multiple extra budgetary accounts not integrated</td>
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<td>- High cash balances; low forecast accuracy; limited coordination with debt</td>
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<td>- Investment with BI at 65% BI rate; no front-office capabilities</td>
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<td>• Cash balances</td>
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<td></td>
<td>- Underdeveloped and low liquidity domestic bond market driven by weak demand, fragmented issuances, weak market infrastructure</td>
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<td></td>
<td>- Fiscal sustainability/risk</td>
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<td>- Clear debt strategy from analytical work, though not linked with fiscal risk/other risks</td>
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<td>- Availability of financing</td>
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<td></td>
<td>- Regularly meets financing targets at lower cost than target (same risk), potential for better coordination with cash</td>
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<tr>
<td>Asset management</td>
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<td>• Bond market development</td>
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<td>- Comprehensive list of assets covering key areas; potential to expand coverage of non-tangible/non-produced assets</td>
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<td>- Fiscal sustainability/risk</td>
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<td>- Good guidelines for management but ad hoc identification of underutilized assets</td>
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<td></td>
<td></td>
<td></td>
<td>- Availability of financing</td>
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<td></td>
<td></td>
<td>- No system in place to review asset portfolio holistically and against opportunity cost</td>
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<tr>
<td>Risk management</td>
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<td>• Valuation and inventorization</td>
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<td></td>
<td>- Key risks (fiscal and liabilities) are managed but SOE, pension contingent liabilities not fully measured and managed</td>
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<td></td>
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<td></td>
<td></td>
<td></td>
<td>- Asset management</td>
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<td>- Limited coordination between different risk areas to create holistic risk view</td>
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<td>- Portfolio management</td>
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<td>- Move to global standard; clear systems for central government. No integrated interface for accounting with regional government, consolidation manually done</td>
</tr>
<tr>
<td>Accounting and reporting</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>• Individual risk areas</td>
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<td></td>
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<td></td>
<td></td>
<td></td>
<td>- Fragmented, small investment management units spread across different directorate-generals; no clear overall vision</td>
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<tr>
<td>Special Missions</td>
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<td></td>
<td>• Holistic risk management</td>
</tr>
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<td></td>
<td></td>
<td></td>
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<td></td>
<td>- Fragmented, small investment management units spread across different directorate-generals; no clear overall vision</td>
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</tbody>
</table>
Treasury transformation will revolve around eight transformation themes

Four key levers driving transformation themes

- **Leveraging IT** to increase efficiency of key processes
- Adopting **advanced accounting, financial and analytical practices**
- Ensure processes work across organizational lines
- Building human resources

<table>
<thead>
<tr>
<th>Transformation Themes</th>
<th>Details</th>
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<tbody>
<tr>
<td>I</td>
<td>Creating an efficient, accurate and low-cost disbursement and receipts system</td>
</tr>
<tr>
<td>II</td>
<td>Integrating liquidity management to ensure cash availability while optimizing cost of funds</td>
</tr>
<tr>
<td>III</td>
<td>Building a liquid and deep domestic bond market</td>
</tr>
<tr>
<td>IV</td>
<td>Ensuring transparency and active management of Sovereign Risk</td>
</tr>
<tr>
<td>V</td>
<td>Optimizing Indonesia’s assets</td>
</tr>
<tr>
<td>VI</td>
<td>Rationalizing “Special Mission” functions (investment management, economic development)</td>
</tr>
<tr>
<td>VII</td>
<td>Ensuring accountability and transparency</td>
</tr>
<tr>
<td>VIII</td>
<td>Developing a high performing organization and human resources</td>
</tr>
</tbody>
</table>

For discussion today
Changes in operational model to focus on automating administrative functions and building capabilities for analytical/strategic roles

<table>
<thead>
<tr>
<th></th>
<th>Cross-cutting</th>
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<tbody>
<tr>
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<td>Ensuring transparency &amp; active management of Sovereign Risk</td>
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<td>V</td>
<td>Optimizing Indonesia’s assets</td>
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<tr>
<td>VI</td>
<td>Rationalizing “special mission”</td>
</tr>
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<td>VII</td>
<td>Ensuring accountability and transparency</td>
</tr>
<tr>
<td>VIII</td>
<td>Developing a high performing organization and HR</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>From … Focused on administrative roles and compliance</th>
<th>To … Automate administrative roles to focus on strategic / analytical functions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Efficient but tedious, manual and labor intensive</td>
<td>IT-enabled, automated and electronic</td>
</tr>
<tr>
<td>High cash balances earning below market rates</td>
<td>Advanced and coordinated liquidity management with front office capabilities</td>
</tr>
<tr>
<td>Small and illiquid market from fragmented issuances, limited demand and simple infrastructure</td>
<td>Liquid and deep market concentrated in a few benchmark services</td>
</tr>
<tr>
<td>Incomplete and fragmented view of risk</td>
<td>Integrated ALM view of risk informing financial decision</td>
</tr>
<tr>
<td>Limited asset view resulting in sub-optimal asset usage</td>
<td>Optimal and strategic usage of assets</td>
</tr>
<tr>
<td>Multiple special mission vehicles scattered across MOF</td>
<td>Clear definition of MOF’s special mission and where they sit</td>
</tr>
<tr>
<td>Transitional accounting standards with qualified audit findings</td>
<td>Highest integrity full-country financial statements adhering to international standards</td>
</tr>
<tr>
<td>Process breakdowns at organizational boundaries</td>
<td>Seamless coordination across organizational boundaries</td>
</tr>
</tbody>
</table>

From …
Focused on administrative roles and compliance

To …
Automate administrative roles to focus on strategic / analytical functions

I
Creating an efficient, accurate and low-cost disbursement and receipts system

II
Integrating liquidity management to ensure cash availability while optimizing cost of funds

III
Building a liquid and deep domestic bond market

IV
Ensuring transparency & active management of Sovereign Risk

V
Optimizing Indonesia’s assets

VI
Rationalizing “special mission”

VII
Ensuring accountability and transparency

VIII
Developing a high performing organization and HR
## Changes in operational model to shift focus to analytical/strategic roles

<table>
<thead>
<tr>
<th>From...</th>
<th>To...</th>
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</thead>
<tbody>
<tr>
<td>Creating an efficient, accurate and low-cost disbursement and receipts system</td>
<td>Integrated IT systems allowing for quick information flows (SPAN, SAKTI, MPN-G2)</td>
</tr>
<tr>
<td>• Fragmented IT systems that do not communicate</td>
<td></td>
</tr>
<tr>
<td>• Need for physical verification and processing</td>
<td></td>
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<tr>
<td>• Cash payments with accompanying infrastructure</td>
<td></td>
</tr>
<tr>
<td>• Successful TSA implementation for most cash accounts</td>
<td></td>
</tr>
<tr>
<td>• Limited coordination between cash and debt management</td>
<td></td>
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<tr>
<td>• High cash balances yielding below-market rates</td>
<td></td>
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<tr>
<td>• Expanded placement/TSA account</td>
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</tr>
<tr>
<td>• Integrated cash and debt management process revolving (fully functional ALM committee)</td>
<td></td>
</tr>
<tr>
<td>• Enough cash balances earning fair market rates</td>
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</tr>
<tr>
<td>Integrating liquidity management to ensure cash availability while optimizing cost of funds</td>
<td>Building a liquid and deep domestic bond market</td>
</tr>
<tr>
<td>• Fragmented financial risk management (focus on debt, fiscal, SOE and infrastructure risk)</td>
<td></td>
</tr>
<tr>
<td>• No single view of Sovereign risk exposure</td>
<td></td>
</tr>
<tr>
<td>• Small bond market (11% of GDP) with low liquidity (20% daily turnover)</td>
<td></td>
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<tr>
<td>• Small repo market/derivatives market</td>
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<tr>
<td>• Fragmented bond issuances</td>
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<tr>
<td>• Liquid and deep market concentrated in a few benchmark services</td>
<td></td>
</tr>
<tr>
<td>• Active primary dealers serving as market-makers</td>
<td></td>
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<tr>
<td>• Fully functioning secondary market</td>
<td></td>
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<tr>
<td>Ensuring transparency and active management of Sovereign Risk</td>
<td>Optimizing Indonesia’s assets</td>
</tr>
<tr>
<td>• Fragmented financial risk management (focus on debt, fiscal, SOE and infrastructure risk)</td>
<td></td>
</tr>
<tr>
<td>• No single view of Sovereign risk exposure</td>
<td></td>
</tr>
<tr>
<td>• Incomplete view of Indonesia’s assets</td>
<td></td>
</tr>
<tr>
<td>• Limited strategies to optimize portfolio usage</td>
<td></td>
</tr>
<tr>
<td>• Multiple small “Special mission” units across MOF</td>
<td></td>
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<tr>
<td>• Complete view of assets and asset optimization activities</td>
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</tr>
<tr>
<td>• Consolidate “Special mission” units</td>
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<tr>
<td>Rationalizing special missions</td>
<td>Ensuring accountability and transparency</td>
</tr>
<tr>
<td>• Multiple special mission vehicles scattered across the MOF</td>
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<tr>
<td>• Sub-optimal structure for key units (e.g., PIP as BLU)</td>
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<tr>
<td>• Unclear mandate and inconsistent management processes</td>
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<tr>
<td>• Single special mission unit responsible for performance management and coordination</td>
<td></td>
</tr>
<tr>
<td>• Clear ownership rationale for each special missions vehicle</td>
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<tr>
<td>• Comprehensive processes to manage special mission vehicles</td>
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<tr>
<td>• Highest integrity full-country financial statements adhering to international standards</td>
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</tr>
<tr>
<td>Developing a high performing organization and HR</td>
<td>From…To…</td>
</tr>
<tr>
<td>• Lack of coordination across organizational lines and confusion on roles (e.g., spending reviews, uncoordinated liquidity management)</td>
<td></td>
</tr>
<tr>
<td>• Generalist organization focused on treasury tasks</td>
<td></td>
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<tr>
<td>• Clear delineation of roles across directorates and coordination across organizational lines</td>
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<tr>
<td>• Functional and sector capabilities across organization (e.g., infrastructure, energy)</td>
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</tbody>
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## Portfolio of initiatives for treasury functions

<table>
<thead>
<tr>
<th></th>
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<tbody>
<tr>
<td>Efficient, accurate and low-cost disbursement and receipts system</td>
<td>Automate administrative roles</td>
<td>Introduce advanced capabilities</td>
<td>Reach Best Practice</td>
</tr>
<tr>
<td></td>
<td><strong>1.</strong> Electronic and centralized fund submission system, verification and payment,</td>
<td><strong>9.</strong> Expand TSA coverage</td>
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<td></td>
<td>through modern payment channels</td>
<td><strong>10.</strong> Develop forex holding strategy</td>
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<td></td>
<td><strong>2.</strong> Database with modern payment channels</td>
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<td><strong>3.</strong> “Shared service” functions of back office for all K/Ls, centralized at MoF</td>
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<tr>
<td>Integrated liquidity management</td>
<td><strong>4.</strong> Improve overall liquidity management processes</td>
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<tr>
<td>Liquid and deep domestic bond market</td>
<td><strong>5.</strong> Assess TDR capabilities and ensure prudence within TDR operation</td>
<td><strong>14.</strong> Reduce government benchmark series</td>
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<td><strong>6.</strong> To achieve cash planning with defined reserve balance cash</td>
<td><strong>15.</strong> Strengthen investor relations function</td>
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<td><strong>7.</strong> Improve spending forecast from satkers</td>
<td><strong>16.</strong> Support OJK in developing the repo market</td>
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<td><strong>8.</strong> Develop tools for management liquidity coordination with the Central Bank</td>
<td><strong>17.</strong> Increase domestic demand for government securities by working with relevant</td>
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<tr>
<td>Transparent and active management of Sovereign Risk</td>
<td><strong>11.</strong> Launch trading platform for bonds</td>
<td>regulatory agencies</td>
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<td></td>
<td><strong>12.</strong> Review primary dealer framework</td>
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<td><strong>13.</strong> Review bond stabilization framework</td>
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<tr>
<td>Optimized assets</td>
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<tr>
<td>Rationalized “Special Mission” functions</td>
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<tr>
<td>Accountability and transparency</td>
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<td><strong>18.</strong> Create a consolidated risk governance system centered on the ALM committee and</td>
<td><strong>20.</strong> Start and deepen risk management for key areas</td>
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<td>an institutionalized ALM secretariat</td>
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<td><strong>19.</strong> Create a holistic risk framework with a common set of risks, advanced</td>
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<td>analytical tools as well as supporting policies and technologies</td>
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# Overview of Treasury Initiatives (1/6)

<table>
<thead>
<tr>
<th>Functions</th>
<th>Initiative</th>
<th>Objective</th>
<th>Key actions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Efficient, accurate and low-cost disbursement and receipts system</td>
<td>Electronic, centralized submission, verification and payment system with modern payment channels</td>
<td>To disburse budget efficiently and accurately through modern channels</td>
<td>Full implementation of SPAN, SAKTI</td>
</tr>
<tr>
<td></td>
<td>Integrated receipt database with modern collection channels</td>
<td>To collect government receipts efficiently and accurately</td>
<td>Full implementation of MPN G-2 and other enhancement, including the utilization of major channeling for revenue collection</td>
</tr>
<tr>
<td></td>
<td>“Shared service” back office function for all K/Ls, centralized at the MOF</td>
<td>To provide back office functions to satkers and K/Ls, in particular in centralization of commitment, invoicing and settlement</td>
<td>Launch and improvement of vendor database</td>
</tr>
<tr>
<td></td>
<td>Improve end-to-end liquidity management processes</td>
<td>To facilitate coordination between all related stakeholders in order to achieve optimized management of state cash</td>
<td>Improve HR capability at Dir. PKN and at contributors of CPIN (DJP, DJA, DJBC, DJPU, DJKN, DJPK)</td>
</tr>
<tr>
<td></td>
<td>Assess TDR capabilities and ensure prudence in its operations</td>
<td>To build capabilities to invest excess cash balance linked to overall cash and debt planning, through a single face to the market</td>
<td>Ensure prudence in placement in central bank</td>
</tr>
<tr>
<td></td>
<td>Guide cash planning with clearly defined reserve balance targets</td>
<td>To set a new cash reserve balance target including total cash balance target to guide cash/debt planning</td>
<td>Analyze and select methodology to set reserve balance target</td>
</tr>
<tr>
<td></td>
<td>Improve spending forecasting from satkers</td>
<td>To improve spending forecasting from satkers</td>
<td>Calculate an appropriate reserve balance target based on historical pattern and future policies and assumptions</td>
</tr>
<tr>
<td></td>
<td>Tighten liquidity management coordination with the Central Bank</td>
<td>To tighten coordination between cash management and the Central Bank</td>
<td>Propose the reserve balance target to ALM committee and formalize it in a policy</td>
</tr>
</tbody>
</table>

- **Integrate liquidity management**
  - Improve HR capability at Dir. PKN and at contributors of CPIN (DJP, DJA, DJBC, DJPU, DJKN, DJPK)
  - Improve CPIN
  - Improve flexibility in issuing short term T-bills/SPN to smooth cash planning
  - Detail out ALM process
  - Develop daily coordination between CMO-DMO-BI
  - Develop IT-enabled CPIN data sharing
  - Integrate CPIN/IT ALM into SPAN
  - Develop MOU with BI to include them on daily cash calls and facilitate data sharing
  - Develop coordination mechanism with BI on forex trades
  - Sharing of CPIN data with BI
  - Sharing of daily cash forecast data with BI

- **Guide cash planning**
  - Introduce new AFS
  - Enforce submission of forecast data of major satkers prior to payment date according to amount of payment order
  - Track satkers’ compliance and accuracy in submitting data and report it in a score card format
  - Link SAKTI to AFS when SAKTI is enabled
## Overview of Treasury Initiatives (2/6)

<table>
<thead>
<tr>
<th>Functions</th>
<th>Initiative</th>
<th>Objective</th>
<th>Key actions</th>
</tr>
</thead>
</table>
| **Integrated liquidity management contd.** | **Expand TSA coverage 9** | To expand TSA coverage to include currently illiquid / less liquid accounts | - Analyze probability of including different accounts currently not covered in the TSA, including legal and regulatory hurdles of the inclusion and ease of inclusion  
- Develop mechanism to tap into selected accounts  
- Propose policy changes to include the accounts in the TSA |
| | **Establish short term foreign exchange management strategy and guidelines for liquidity management 10** | To enable forex trading guided by clear strategy and policy, and with coordination with the Central Bank | - Analyze the different strategies and instruments that can be used to actively manage forex  
- Propose active forex management policy and seek approval by ALM committee  
- Formalize it in regulation  
- Propose to BI to allow better terms of MOF’s forex trades against BI  
- Coordination with BI in amount of forex traded and overall direction of BI’s monetary policy and forex reserve strategy |
| **Liquid and deep domestic bond market** | **Introduction of an electronic trading platform 11** | Develop and launch an ETP as a supplement to OTC trading to improve price transparency and enhance liquidity | - Add ability to reconfirm quotations  
- Revisit current e-trading platform with BI and primary dealers  
- Ensure platform adopts straight through processing  
- Ensure platform automatically links to reporting systems  
- Finalize agreement with ETP operator (e.g., Indonesia Stock Exchange)  
- Conduct market consultations to obtain feedback |
| | **Launch a new primary dealer system 12** | Develop and launch a refined primary dealer system that is benchmarked to global standards and customized to local needs | - Conduct benchmark study of primary dealer best practices  
- Launch new PD framework with revised incentives and responsibilities  
- Create annual review of incentives/privileges and obligations |
| | **Continuously improving bond stabilization framework 13** | Build confidence that domestic market can withstand market shocks;  
- Create mechanism to support market during shocks | - Review current bond stabilization framework  
- Conduct annual simulations with BSF parties |
| | **Debt management: Consolidation of domestic benchmark securities 14** | Increase liquidity of government securities by consolidating debt in a few on-the-run series | - Develop an optimal issuance strategy covering key design elements (i.e., target issuance size, number of tenors, life-cycle, procedures for reopening series)  
- Create systems to manage maturity profile  
- Explore defeasance as a means to simplifying buybacks |
| | **Strengthening Investor Relations (IR) 15** | Implement a targeted IR strategy to diversify the investor base and to focus on investors whose risk appetite aligns with Indonesia’s financial situation | - Create a dedicated DJPU investor relations team;  
- Determine target investors;  
- Create communication and roadshow calendar  
- Formulate investor communication  
- Strengthen internal reporting and decision making  
- Provide communication equipment (VC systems) with OpEx and CapEx budget |
## Overview of Treasury Initiatives (3/6)

<table>
<thead>
<tr>
<th>Functions</th>
<th>Initiative</th>
<th>Objective</th>
<th>Key actions</th>
</tr>
</thead>
</table>
| **III** Liquid and deep domestic bond market contd. | 16 Support OJK in developing a deep and liquid repo market | ▪ Develop a deep and liquid repo market which supports higher liquidity in the bond market | ▪ Work with Indonesian Accounting Association on general repo  
▪ Work with APK to enact standards for securities lending in the govt.  
▪ Educate stakeholders on usage and treatment of repos |
| 17 Increase domestic participation from key investors | ▪ Obtain policy support to increase domestic bond market participation from key investors, both public and private | ▪ Coordination and involvement in the OJK’s Government Securities Market Development team |
| **IV** Transparent and active management of Sovereign Risk | 18 Risk governance for overall sovereign risk | ▪ To have a body that compiles a comprehensive view on risk, and a channel in which risk issues are discussed | ▪ Design a risk unit, an E-3 unit under PPRF in DJPU as Subdir. ALM in charge of aggregating risk data and propose policies and recommendation for risk; develop roles, activities, SOPs and KPIs  
▪ Propose unit to Menpan  
▪ Staff the unit with qualified personnel |
| 19 Holistic risk framework | ▪ To develop a holistic risk framework through a balance sheet approach to aggregate individual risk data | ▪ Start aggregating information from risk owners into a presentable format for ALM committee decision making  
▪ Define a more fixed agenda / format of ALM committee on risk management, including inputs needed and decisions to be made; include major risk items (e.g. pension, social obligation) into ALM committee discussion  
▪ Formalize the new ALM committee format / agenda into regulation (KMK)  
▪ Define framework of aggregating information from risk owners (e.g. balance sheet approach) and include policies and SOPs into regulation (PMK)  
▪ Develop a list of common data to track and develop mechanism to distribute it to MOF stakeholders  
▪ Improve IT ALM to accommodate broader set of risks |
| 20 Active risk management on key risk areas | ▪ To develop a holistic risk framework through a balance sheet approach to aggregate individual risk data | ▪ Initiate insurance on government key assets  
▪ Initiate risk management on key natural resources  
▪ Review and monitor pension liability  
▪ Analyze pension scheme options and recommend a new pension scheme  
▪ Review selected SOEs that have significant fiscal impact and recommend on how to best manage their risks  
▪ Review of selected "special missions", e.g. infrastructure funds, PPP units, etc., and recommendation on how to best manage their risks  
▪ Improve medium-term revenue and spending projections to calculate present value of fiscal portion of assets and liabilities  
▪ Review social obligation liabilities  
▪ Formulate Debt Sustainability Framework  
▪ Initiate communication on foreign reserve holding / debt portfolio between MOF / Central Bank |
## Overview of Treasury Initiatives (4/6)

<table>
<thead>
<tr>
<th>Functions</th>
<th>Initiative</th>
<th>Objective</th>
<th>Key actions</th>
</tr>
</thead>
</table>
| Optimized assets | Establishing policies on inventorization and valuation | Improve inventorization and valuation policies to improve accuracy of asset records | **Natural resources**  
- Create guidelines for valuation for natural resources (only exists for some)  
- Create regulation for line ministries to cooperate for valuation and inventorization  
- Work with accounting to create accounting standards and guidelines for natural resources  
- Build valuation capability in MOF/line ministry  
- Add natural resources data to national accounting report  
| | Making asset management and portfolio management digital | Make asset management and portfolio management digital | **Ex-IBRA assets**  
- Assess additional IT infrastructure needed  
- Integrate KND and KNL applications  
- Develop SIMAN which connects MOF with K/L’s asset management system e.g. K/Ls purchase or disposal of an asset will be recorded in SIMAK  
- Implement SIMAN through a phased approach  
- Develop SMART which digitalizes DJKN asset management processes  
- Implement SMART through a phased approach  
- Evaluate if additional IT infrastructure needed  
| | Putting regulations, guidelines and processes in place to ensure assets fully optimized by K/Ls | Put regulations, guidelines and processes in place to manage assets through K/Ls |  
- Identify key levers of asset utilization through policy by asset class  
- Feasibility study for solutions for asset  
- Create regulation (presidential decree) to put responsibility of asset optimization to K/Ls  
- Improve existing guidelines for asset needs (new and expansion) - line ministries will have to propose asset needs and meet guidelines on asset usage  
- Create new guidelines for asset optimization e.g building usage  
- Socialize new regulations and guidelines with K/Ls  
- Work with K/L internal auditors to monitor and control asset and report to MOF  
- Feedback for new policies, guidelines and process  
| | Optimizing select asset types under direct MOF responsibility | Optimize select asset types under direct MOF responsibility |  
- Identify and classify asset types  
- Create and seek approval for ownership strategy for each asset type (assess if MOF is natural owner of asset); possible strategies include:  
- Refine policies, guidelines and regulations to implement strategy  
- For new and existing assets: work with the MOF accounting team to change regulations and allow MOF to accept discrepancies in records between:  
  - Previous owner of asset and MOF  
  - Private and public accounting standards  
- Implement asset management strategy (dispose of most assets under direct MOF responsibility)  

**Ex-IBRA assets**
- Identify and map IBRA’s asset for period 2004-2009  
- Collect document to support the mapping  
- Value ex-PT PPA (Persero) properties (fixed assets)  
- Work with accounting to comply accounting standards and guidelines for IBRA’s asset
### Overview of Treasury Initiatives (5/6)

<table>
<thead>
<tr>
<th>Functions</th>
<th>Initiative</th>
<th>Objective</th>
<th>Key actions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Optimized assets contd.</td>
<td>Maximizing asset utilization and return on assets</td>
<td>Implement annual portfolio review of assets to ensure that asset portfolio is optimized</td>
<td><strong>Active asset management starting with real estate</strong>&lt;br&gt;▪ Conduct feasibility study to assess possible impact / capital raised by actively managing real estate&lt;br&gt;▪ Initiate hiring of real estate planners and policy makers&lt;br&gt;▪ Conduct scan of real estate portfolio to identify key issues&lt;br&gt;▪ Implement solution pilot with K/Ls for land and buildings&lt;br&gt;▪ Initiate active management for other asset classes <strong>Outsource asset management to another agency</strong>&lt;br&gt;▪ Evaluate if a state owned land and building management agency is needed&lt;br&gt;▪ Create state owned land and building management agency&lt;br&gt;▪ Create laws and regulations to give land and building management rights to real estate management agency <strong>State claims</strong>&lt;br&gt;▪ Evaluate entire state claim portfolio and identify key improvement areas to increase benefit from collaterals and to maximize proceeds/recoveries&lt;br&gt;▪ Create regulation (presidential decree) for K/Ls to better manage their receivables</td>
</tr>
<tr>
<td></td>
<td>Implementing an annual portfolio review of assets</td>
<td>Implement annual portfolio review of assets to ensure that asset portfolio is optimized</td>
<td><strong>Put clear governance, reporting, and legal structures in place</strong>&lt;br&gt;▪ Clarify strategy and improve performance of special missions vehicles</td>
</tr>
<tr>
<td>Rationalized “Special Mission” functions</td>
<td>Clarify the mandate and strategy of special missions vehicles</td>
<td>Clarify strategy and improve performance of special missions vehicles</td>
<td><strong>Rationalized “Special Mission” functions</strong>&lt;br&gt;▪ Put in place improved governance, reporting and legal structures for special missions vehicles</td>
</tr>
</tbody>
</table>
## Overview of Treasury Initiatives (6/6)

<table>
<thead>
<tr>
<th>Functions</th>
<th>Initiative</th>
<th>Objective</th>
<th>Key actions</th>
</tr>
</thead>
</table>
|           | 29 Improve processes for managing special missions vehicles | Get the right processes in place for managing special missions vehicles | **Set clear performance targets and processes**  
- Establish an updated strategic perspective  
- Set clear targets and goals/KPIs and ensure rigorous performance monitoring  
- Establish good communication processes  
- Establish good processes for board member inauguration, evaluation and renewal  
- Establish portfolio management process  
- Build strong processes to execute on potential acquisitions, divestments and equity investments  
- Coordinate funds across special missions  
**Implement systematic portfolio management process**  
- Create annual process for clarifying ownership rationale for each portfolio company  
- Conduct annual review of all vehicles to identify vehicles that do not require long-term government ownership  
- Assess vehicles against MOF special mission performance management criteria  
- Create criteria for why MOF performance manages a special mission vehicle |
|           | 30 Implementing the strategy road map for accrual accounting | Implement strategy road map for accrual accounting | **Create coordinated task force to assess need to integrate and implement integrated accounting systems and IT systems e.g.**  
- Develop integrated accounting systems  
- Put new integrated accounting system in place through IT system  
- Pilot new integrated accounting system with regional government  
- Roll out integrated accounting system  
- High level agreement from MOHA to integrate accounting systems  
- Create regulation to integrate accounting systems |
|           | 31 Integrating accounting system between central and regional government | Integrated accounting system between central and regional government | **Implement strategy road map for accrual accounting**  
- Formulate regulation, guidelines, and policy for accrual accounting  
- Secure high-level commitment from leaders  
- Implement change of IT systems for accrual accounting  
- Build capabilities in K/Ls to transition to accrual accounting  
- Rollout pilot project |
|           | 32 Improving K/Ls and BUNs financial management | Improve K/Ls and BUNs financial management | **Encourage committee to evaluate audit findings**  
- Improve audit process with line ministries to catch potential audit issues  
- Improve coordination with BPK  
- Create IT systems to warn of impending audit findings and track audit findings  
- Build capabilities for improved audit monitoring process – non IT (e.g. processes)  
- Build capabilities for improved audit monitoring process – IT  
- Rollout pilot program |
|           | 33 Improving internal control systems | Improve internal control systems | **Commence communication with BPKP on reform strategy for internal control system for audit findings**  
- Encourage BPKP to assess typical problems with internal control systems  
- Work with BPKP to improve guidelines for internal control systems, especially for audit findings  
- Encourage BPKP to create criteria for assessing and tracking quality of internal control systems for audit findings  
- Encourage BPKP to educate K/Ls on improving internal control systems for audit findings |
These initiatives will specifically address the following business processes

<table>
<thead>
<tr>
<th>Business process</th>
<th>Description of change</th>
<th>Transformation Theme</th>
</tr>
</thead>
</table>
| Disbursement                      | ▪ Satkers submit payment orders electronically; documents will be verified and approved remotely without need for physical visit  
                                       ▪ Funds will be transferred via direct deposits and other electronic methods (e.g. prepaid cards, etc.) to final recipients                                                                                           | ▪ Disbursement and receipt, (initiative 1)                 |
| Receipt                           | ▪ There will be widened choice of modern electronic channels (e.g. ATM, debit/credit card, direct debits, etc.) for payers to pay for more types of government receipts  
                                       ▪ Receipt and receivable database integrated                                                                                                                                            | ▪ Disbursement and receipt, (initiative 2)                 |
| End-to-end liquidity management   | ▪ ALM meetings will be held quarterly and will include both liquidity and risk discussions  
                                       ▪ CPIN meetings will be held biweekly and outputs of meetings will be official forecast numbers used for ALM meetings  
                                       ▪ Daily call between CMO-DMO-BI will be set up                                                                                                                                         | ▪ Liquidity management, (initiative 4)                     |
| Debt issuance                     | ▪ Consolidation of debt issuances in fewer on-the-run series                                                                                                                                                               | ▪ Government securities market development, (initiative 14) |
| Risk management                   | ▪ Risk management will be done in a framework based on balance sheet approach, and VaR will be the methodology to quantify risk  
                                       ▪ ALM committee meetings to be held quarterly and will discuss risk                                                                                                                                 | ▪ Risk management, (initiative 28)                        |
| Asset management                  | ▪ All asset management data and asset management business processes will be recorded or done digitally  
                                       ▪ Real estate management agency to actively manage government real estate  
                                       ▪ Asset portfolio systematically reviewed based on asset class structure, risk exposure and economic strategy                                                                          | ▪ Asset management, (initiative 22, 25B and 26)            |
| Special missions                  | ▪ Systematic processes in place to monitor special missions vehicles e.g. standard KPI monitoring milestones, communication processes  
                                       ▪ Systematic and holistic portfolio management processes in place which will review vehicles and identify those that do not require long-term government ownership                                                  | ▪ Special missions, (initiative 29)                       |
Impact expected from Treasury transformation

100% of key public sector payments (salaries, pensions and non-petty cash procurements) paid through electronic channels

Integrated back-office operation in all of K/Ls and satkers in shared services unit at MoF, which supported by modern and efficient information processes

Payer can pay obligation through various modern payment channels, and integrated with payer data

Minimal deviation from cash reserve balance target

USD 10 Bn outstanding government debt for each on-the-run series bond

Comprehensive asset-liability risk management framework and governance

Process to measure asset utilization fully in place

Full implementation of accrual accounting and WTP status for government reports
Contents

- Context and introduction
- **Disbursement and receipts**
  - Context and introduction
  - Initiative 1: Electronic and centralized fund submission system, verification and payment, through modern payment channels
  - Initiative 2: Integrated receipt database with modern collection channels
  - Initiative 3: “Shared service” functions of back office for all K/Ls, centralized at MOF
- Liquidity management
- Debt market development
Contents

- Context and introduction

- Disbursement and receipts

  - Context and introduction
    - Initiative 1: Electronic and centralized fund submission system, verification and payment, through modern payment channels
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    - Initiative 3: “Shared service” functions of back office for all K/Ls, centralized at MOF

- Liquidity management

- Debt market development
KPPNs are efficient in disbursing fund on time and satkers are satisfied with Treasury services

<table>
<thead>
<tr>
<th>Select Dir. PA’s KPIs relating to disbursement</th>
<th>2012 Target</th>
<th>2012 Actual</th>
<th>2013 Target</th>
</tr>
</thead>
<tbody>
<tr>
<td>▪ Average user satisfaction index on treasury services¹</td>
<td>3.1</td>
<td>3.2²</td>
<td>3.1</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Select KPPN KPIs relating to disbursement</th>
<th>Description</th>
<th>2012 Q4 targets</th>
<th>Average performance</th>
</tr>
</thead>
</table>
| ▪ % On time fund disbursement from BOI (operational bank) | Fund disbursed to account by  
  ▪ **12NN**: SP2D (fund disbursement order) received before 12PM  
  ▪ **3:30PM**: SP2D received before 3PM | 95%         | 99%         |
| ▪ Satker satisfaction index | Overall satker satisfaction level towards different KPPN services | 3.00         | 3.09         |
| ▪ % On time issuance of SP2D (fund disbursement order) | SP2D issued within one hour of SPM (payment order) received at counter | 100%         | 99%         |

1 Based in survey to external stakeholders (satkers) as well as internal stakeholders (employees within Dir. PA that were recipients of services of the subdirectorates)  
2 Score of 3.16 for external stakeholders and 3.02 for internal stakeholders
Efficiency will be much improved through electronification of verification and payment process

Physical trips are still required under current system

1. Satkers still need to physically visit a KPPN office and get documents in soft and hard copy both verified to submit SPM (payment order)
   "We have satkers from very remote areas in Indonesia who will travel long distance to a KPPN, and their travel costs could exceed amount of their payment order"
   – DJPB staff

2. Verification process on ADK (soft copy data) done manually, and each SP2D (fund disbursement order) needs to be individually printed and signed
   "We have smart young people who perform very administrative jobs at the KPPNs while they could be doing analytical role at the Kanwils"
   – Kanwil Head of Surabaya

3. All hard copy documents need to be kept despite having soft copy
   The biggest issue that we face now is that we don’t have enough rooms for our boxes – we have to build more storage for all this paperwork. There needs to be a IT-enabled paperless system for some processes"
   – Head of KPPN 2 Jakarta
   “The whole floor is dedicated to store paperwork”
   – Staff of KPPN 1 Surabaya

SAKTI and SPAN will integrate data from satkers and KPPNs eliminating physical trips

- Two different applications currently used by satkers and KPPNs will be replaced by SAKTI and SPAN that share one web-enabled database
- All transactions will be recorded immediately in the single database with minimum manual reconciliation needed
- Select satkers (~20%) of satkers with no web connectivity will still need to visit KPPNs

SOURCE: DJPB; interviews; visits to Kanwils and KPPNs in Jakarta, Surabaya, Medan
SPAN will integrate all receipts data under one database while MPN G-2 will connect receivable database with modern payment channels.
Many forms of G2P payments are mostly distributed by satkers in cash while other countries have moved to electronic payments.

<table>
<thead>
<tr>
<th>Global practice, method used for government payments</th>
<th>Indonesia</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public sector salaries</td>
<td>▪ ~50% of central government salaries are paid through bank transfer directly to final recipient</td>
</tr>
<tr>
<td></td>
<td>▪ ~50% are paid to the satkers, to be distributed to employees via bank transfer or cash (especially for small, remote satkers, and for honorarium/travel)</td>
</tr>
<tr>
<td>Cash transfers &amp; social benefits</td>
<td>▪ Paid through satkers, to be distributed mostly via cash</td>
</tr>
<tr>
<td></td>
<td>▪ Paid via bank transfer to final recipient, with the exception of minor spending using petty cash</td>
</tr>
<tr>
<td>Procurement of goods and services</td>
<td>▪ Paid via bank transfer</td>
</tr>
<tr>
<td>Business tax refunds</td>
<td>▪ Paid via bank transfer</td>
</tr>
</tbody>
</table>

1 Method of pension payment within authority of PT. Taspen and PT. Asabri

SOURCE: The 2010 World Bank Global Payment Systems Survey, DJPB
Benefits of digital government payments will be felt across the economy

### Direct benefits to governments
- **Lower cost of operations:** Reduced labor and operating costs
- **Improved tax collection:** Better tracking and collection rates
- **Reduced fraud costs:** Lower fraud capacity
- **Increased transparency:** Improved tracking, data analytics
- **Minimized improper payments:** Improved control of disbursements
- **Workforce management:** Solution for retiring workforce

### Broad social and economic benefits
- **Financial inclusion** of under-/unbanked
- **Greater domestic capital stock** could improve **economic growth and incomes**
- **Reduced costs** for businesses with e-invoicing and tax acctng
- **Better security and identity management** (e.g., undocumented populations)
- **Higher productivity** of national workforce
- **Environmental benefits** of reduced paper usage

### Enablement of innovation
- **Improved cross-border trade**
- **Enablement of e-government services** (e.g., digital health cards, online voting)
- **Setting standards** for the rest of the country (e.g., B2B, mobile payments)
Many countries around the world are starting the journey to digitize electronic payments

- **US**: Mandated in 2011 that all benefits disbursements be electronic
  - Currently pushing for an “all electronic Treasury”, including collections

- **Canada**: Considering eliminating G2C cheques and slowly requiring all G2B and B2G payments and invoices to be electronic

- **Finland**: In 2010, mandated that all **invoices and payments** to governments be electronic
  - Created **free-of-charge service** for sending e-invoices to the State

- **Belgium**: Introduced government e-invoicing in 2004
  - Government aiming for 50/50 paper/paperless invoice split by 2015

- **Brazil**: Late 2000s, mandated e-invoicing for all shipping-related trade to ensure proper tax payments

- **Russia**: 2010, tax regulations adjusted to ease the way towards e-invoicing with federal government

**While some countries have tried and failed and need help to do it right**

- **UK**: Set a date to eliminate 100% of checks from UK
  - Poor stakeholder management, lack of alternatives and lacking communication strategy resulted in Payments Council having to retreat
There are five critical areas for governments to make the transition to digital

<table>
<thead>
<tr>
<th>Increasing value chain</th>
<th>Description</th>
<th>Direct benefits</th>
<th>Global best practices</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Disbursements and Collections</strong></td>
<td>Electronic EBT and collections platforms that handle processing, distribution, program management, spend controls etc.</td>
<td>Faster, cheaper and more reliable payments flows</td>
<td>[Image 1]</td>
</tr>
</tbody>
</table>
| **Infrastructure modernization** | Infrastructure and system upgrades  
- Operations improvement  
- Organizational streamlining | Lower redundancies and greater economies of scale  
- Greater system flexibility and new capabilities (e.g., prepaid) | [Image 2] |
| **Digital enablement** | Multi-channel with web, mobile and retail PoS interfaces | Increased convenience  
- Improved targeting efficiency  
- Better social outcomes from spend control | [Image 3] |
| **Financial inclusion** | New unbanked and underbanked segments integrated into the financial system | Economic development impact  
- New customer acquisition | [Image 4] |
| **Information-based services** | Combined payments and identity media (e.g., drivers license cum payments card)  
- Analysis of spend and behavior data | New revenue streams  
- Better security and identity management (e.g., undocumented pops)  
- Better customer segmentation | [Image 5] |
Disbursement and receipts end state vision

By 2025, MOF will have a fully automated, centralized, accurate and low-cost disbursement and receipts system that utilizes most major modern payment channels and is integrated with related supporting systems in a “shared service environment”

Key initiatives

1. Implement fully electronic and centralized commitment, submission and verification payment systems linked to modern payment channels to improve efficiency, customer experience and security

2. Implement fully electronic receipt system integrated to receivables database, that enables various collection channels to ensure efficiency, customer experience and security

3. Implement a “shared service environment” in which various back office functions of the K/Ls are hosted by the MOF
## Improvements in disbursement and receipt core processes resulting from key initiatives

<table>
<thead>
<tr>
<th>Initiatives</th>
<th>Current State</th>
<th>End state business processes (2025)</th>
</tr>
</thead>
</table>
| **Electronic, centralized submission, verification and payment system with modern payment channels** | - Manual processes at multiple check points—submission, verification and payment  
- For certain types of disbursement, fund is not directly transferred to final recipients, but disbursed by satkers in cash  
- SPAN is currently being piloted and SAKTI is under development as reforms to move towards more electronic and accurate disbursement, with one single database at Treasury | - **Electronic submission and verification** of payment orders, as well as electronic payment to the correct final recipient  
- **Electronic payment** for payments direct to final receipts through various channels, e.g. ATM, prepaid cards, scheduled direct deposits etc.                                                                 |
| **Integrated receipt database with modern collection channels**               | - Manual processes at multiple check points  
- Disjointed databases; no real-time linkage between receipt and receivable data  
- Collection enabled through visit to perception banks and direct deposit to Central Bank and limited modern options (internet banking enabled for certain banks)  
- MPN G-2 is to be launched next year to enable integrated database and various payment channels | - **One integrated platform** (e.g. through widened coverage of MPN G-2) to administer all receipts electronically that links receipt collection and receivable database at collection agencies (DJP, DJBC, DJA etc.) with all government receipts linked to a unique billing ID  
- **Modern, electronic channels** (e.g. internet banking, mobile banking ATMs, etc.) widely available for all kinds of government receipts |
| **“Shared service” back office function for all K/Ls, centralized at the MOF** | - Disjointed databases at K/Ls  
- Each satker logs in commitment and submits payment orders for each spending item  
- Initiation of vendor database | - **Single accounting database** maintained by MOF that includes both transaction and asset database  
- **Centralized commitment process** by Treasury for payroll and common spending items  
- Centralized vendor database to optimize satkers’ procurement  
- Enlarge centralized settlement function done by Treasury |
Contents

- Context and introduction

- **Disbursement and receipts**
  - Context and introduction
  - Initiative 1: Electronic and centralized fund submission system, verification and payment, through modern payment channels
    - Charter and implementation plan
    - Supporting analysis
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- Liquidity management
- Debt market development
Contents

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- **Disbursement and receipts**
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- Liquidity management
- Debt market development
# Introduction

**Objective:** To disburse budget efficiently and accurately through modern channels

**Background**
- Manual processes at multiple check points—submission, verification and payment
- For certain types of disbursement, fund is not directly transferred to final recipients, but disbursed by satkers in cash
- SPAN is currently being piloted and SAKTI is under development as reforms to move towards more electronic and accurate disbursement, with one single database at Treasury

**Changes in operational models**
- **Electronic submission and verification** of payment orders, as well as electronic payment to the correct final recipient, supported through a link with the banking system
- **Electronic payment** for payments direct to final receipts through various channels, e.g. ATM, prepaid cards, replenishment of accounts etc.

**Summary of proposed actions**
- Full implementation of SPAN, SAKTI
  - Develop database of recipient and transactions (number of and total amount)
  - Direct deposit to final recipient accounts for all salary payments
  - Payment to overseas satkers’ accounts direct from Treasury’s RKUN at Central Bank
  - Use of plastic cards to replace petty cash
  - Introduce cashless choices for benefit payments

**Impact and KPIs**

**Electronic submission, verification, payment system**
- **2014:** 100% SPAN implementation
- **2015:** 75% satkers use SAKTI

**Cashless disbursement**
- **2014:** 95% salary payments via direct deposit from Treasury
- **2015:** 50% of overseas payments via deposit directly from Treasury’s RKUN at Central Bank
- **2017:** 95% of eligible officers are equipped with plastic card for petty cash
- **2018:** 25% of recipients receive benefit payments through cashless choices

**Governance structure**
- **Champion:** Direktur Transformasi Perbendaharaan
- **Owner:** Subdit Transformasi Proses Bisnis Eksternal, Subdit Transformasi Proses Bisnis Internal dan Organisasi
- **Member:**
  - Kasubdit Dabantek, Dit. PA
  - Kasubdit Penerimaan, Dit. PKN
  - Kasubdit Pengelolaan Basis Data dan Dukungan TI, Dit. SP
  - Kasubdit Peraturan dan Standardisasi Teknis BLU, Dit. PPK BLU
  - Kasi Transformasi Proses Bisnis Eksternal I, Dit. TP
  - Kabag OTL

**Enablers for success**
- Development of supporting IT systems and associated budget necessary to deliver programs
- Leadership support to drive external relations especially banking system, K/LS and payment channels
- Dedicated, highly capable teams to deliver sophisticated IT projects
- Data and statistics on transactions of government payments, e.g. employees, benefit recipients etc.
- Relationship and coordination mechanisms (incl. IT systems) with banking providers

**Key outcomes**
- **2014:**
  - Full implementation of SPAN
  - Piloting of SAKTI
  - 95% direct deposit for salary payments
  - Pilot of direct disbursement from Treasury to overseas banks through Central Bank
  - Design of payment scheme to overseas satkers’ accounts direct from Treasury’s RKUN at Central Bank
- **2015:**
  - Full implementation of SAKTI
- **2016:**
  - Launch of plastic cards for petty cash at select satkers
- **2017:**
  - Launch of cashless choice for benefit payments
### Current State

- Manual processes at multiple check points—submission, verification and payment
- For certain types of disbursement, fund is not directly transferred to final recipients, but disbursed by satkers in cash
- SPAN is currently being piloted and SAKTI is under development as reforms to move towards more electronic and accurate disbursement, with one single database at Treasury

### Target State

- **Electronic submission and verification** of payment orders, as well as electronic payment to the correct final recipient, supported through **a link with the banking system**
- **Electronic payment** for payments direct to final receipts through **various channels**, e.g. ATM, prepaid cards, replenishment of accounts etc.
## Electronic, centralized submission, verification and payment system with modern payment channels – workplan (1/3)

### Actions

<table>
<thead>
<tr>
<th>Full implementation of SPAN, SAKTI</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Full implementation of SPAN</td>
</tr>
<tr>
<td>• Full implementation of SAKTI</td>
</tr>
<tr>
<td>• Develop database of recipient and transactions (number of and total amount)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Direct deposit to final recipient accounts for all salary payments</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Identify satkers whose employees do not get direct deposits, and identify reasons on why direct deposits have not been done</td>
</tr>
<tr>
<td>• Problem solve with satkers way to facilitate direct deposits to all employees</td>
</tr>
<tr>
<td>• Get employees without bank account to sign up for one</td>
</tr>
<tr>
<td>• All satkers to have computerized database of employees’ bank account details</td>
</tr>
<tr>
<td>• 100% deposit to employees bank accounts for salary payments</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Payment to overseas satkers’ accounts direct from Treasury’s RKUN at Central Bank</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Design</td>
</tr>
<tr>
<td>– Mapping of overseas disbursement (location, type of payment, type of satker, volume, value etc.)</td>
</tr>
<tr>
<td>– Selection of types of overseas disbursement that needs to be done via direct deposit</td>
</tr>
<tr>
<td>– Prioritization of locations to pilot based on ease of implementation vs. impact, including cost-benefit analysis of roll-out</td>
</tr>
<tr>
<td>• Build and launch:</td>
</tr>
<tr>
<td>– Launch pilot with satkers within a chosen location</td>
</tr>
<tr>
<td>– Build banking relationship needed to deliver service</td>
</tr>
<tr>
<td>– Socialization to satkers</td>
</tr>
<tr>
<td>– Expand services to other geographies</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
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<tbody>
<tr>
<td>Jan</td>
<td>Mar</td>
<td>May</td>
<td>Jul</td>
<td>Sep</td>
</tr>
</tbody>
</table>

Full implementation of SPAN, SAKTI

Direct deposit to final recipient accounts for all salary payments

Payment to overseas satkers’ accounts direct from Treasury’s RKUN at Central Bank
### Electronic, centralized submission, verification and payment system with modern payment channels – workplan (2/3)

#### Actions

<table>
<thead>
<tr>
<th>Use of plastic cards to replace petty cash</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Design</strong></td>
</tr>
<tr>
<td>- Perform feasibility study</td>
</tr>
<tr>
<td>- Develop overall end-state design</td>
</tr>
<tr>
<td>including selection of product</td>
</tr>
<tr>
<td>(debit card, ATM, prepaid card, etc.)</td>
</tr>
<tr>
<td>format of relationship</td>
</tr>
<tr>
<td>with banking and other third parties,</td>
</tr>
<tr>
<td>security protocols and rollout plan</td>
</tr>
<tr>
<td><strong>Build</strong></td>
</tr>
<tr>
<td>- Shortlist and choose vendors for</td>
</tr>
<tr>
<td>plastic cards and other new</td>
</tr>
<tr>
<td>infrastructure</td>
</tr>
<tr>
<td>- Build banking and other 3rd party</td>
</tr>
<tr>
<td>networks needed</td>
</tr>
<tr>
<td>- Build IT module attached</td>
</tr>
<tr>
<td>to SPAN</td>
</tr>
<tr>
<td><strong>Launch</strong></td>
</tr>
<tr>
<td>- Pilot of plastic cards to eligible</td>
</tr>
<tr>
<td>officers at select satkers</td>
</tr>
<tr>
<td>- Continue roll out of plastic cards</td>
</tr>
<tr>
<td>to more satkers</td>
</tr>
<tr>
<td>- Socialization to satkers</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Actions</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Jan</td>
<td>Mar</td>
<td>May</td>
<td>Jul</td>
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<tr>
<td>Design</td>
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<td></td>
</tr>
<tr>
<td>Build</td>
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<tr>
<td>Launch</td>
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**Electronic, centralized submission, verification and payment system with modern payment channels – workplan (3/3)**

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<tr>
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<th>2015</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Jan</td>
<td>Mar</td>
<td>May</td>
<td>Jul</td>
</tr>
<tr>
<td>Introduce cashless choices for benefit payments</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Design</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>– Perform feasibility study</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>– Develop database of benefit recipients</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>– Map locations of benefit recipient and their proximity to different types of channels and access points</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>– Develop overall end-state design including selection of product (debit card, ATM, prepaid card, etc.), format of relationship with banking and other third parties, security protocols and rollout plans</td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>• Build</td>
<td></td>
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<td></td>
</tr>
<tr>
<td>– Develop IT module attached to SPAN</td>
<td></td>
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<td></td>
</tr>
<tr>
<td>– Shortlist and choose vendors for plastic cards and other new infrastructure</td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>– Build banking and other 3rd party networks needed</td>
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<td></td>
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</tr>
<tr>
<td>• Launch</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>– Pilot of plastic cards in a select area</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>– Continue rollout to more geographies and expand channels as appropriate</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>– Socialization to benefit payments</td>
<td></td>
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</tr>
</tbody>
</table>
Electronic, centralized submission, verification and payment system with modern payment channels – potential regulatory and legal risk

<table>
<thead>
<tr>
<th>Risks</th>
<th>Mitigation</th>
</tr>
</thead>
<tbody>
<tr>
<td>▪ Current regulations not supporting some modern methods of disbursement</td>
<td>▪ Comprehensive list of regulations needed when designing detailed end-state of each action</td>
</tr>
<tr>
<td>▪ Banking infrastructure and regulations not supporting high-volume G2P payments; banking fees not supporting advancement of government disbursement</td>
<td>▪ Early start in approaching regulatory bodies</td>
</tr>
<tr>
<td>▪ Approach to various government stakeholders including Central Bank</td>
<td>▪ Clear value proposition to banking counterparts, e.g. potential to tap the currently unbanked</td>
</tr>
</tbody>
</table>
Contents

- Context and introduction

- Disbursement and receipts
  - Context and introduction
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    - Charter and implementation plan

Supporting analysis

- Initiative 2: Integrated receipt database with modern collection channels
- Initiative 3: “Shared service” functions of back office for all K/Ls, centralized at MOF

- Liquidity management
- Debt market development
Government plays an important role in developing a national payment strategy especially in the early phase by shifting transactions away from cash.

Phase I

“War on cash”

Develop short-term, easily implementable measures that can demonstrate high impact on the economy to create momentum and buy-in from all participants of the industry by focusing efforts on the following priorities:
- Cash payouts
- Remote collections of bill payments
- Cash usage at point of sale (POS)
- Cost of handling of cash
- Payments Council

Phase II

Payment system’s efficiency

Build/upgrade the national infrastructure needed to support state-of-the-art payments industry
- Develop standards for payment-related information
- Build market ACH to capture lower value transactions that will allow to scale up the electronic payments market with more flexibility (i.e., 24-7) than is possible with current systems
- Develop national champion

Phase III

Digitization

Leverage the momentum created by the first initiatives and push for a digitization of the payment industry by working on the following priorities:
- Promote the adoption of electronic bill presentment and payment
- Develop innovative alternatives to further digitize payment transactions (mobile payments, micro-payments … )
Phase I: ‘War on cash’ can be addressed through 5 main levers. Treasury can push electronification of government payments and receipts

<table>
<thead>
<tr>
<th>Phase</th>
<th>Description</th>
<th>Examples</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Reduce cash payouts</td>
<td>Pay all salaries, social benefits, and pensions through bank accounts or prepaid cards at government and corporate level</td>
<td>Italy, Brazil, and Mexico</td>
</tr>
<tr>
<td>2. Reduce remote collections of bill payments</td>
<td>Promote use of cards at all state organizations and encourage direct debit for utility bill payments, in addition to motivating electronic payments for corporate bills</td>
<td>Brazil and Saudi Arabia</td>
</tr>
<tr>
<td>3. Reduce cash usage at POS</td>
<td>Increase acceptance rate and promote usage of cards at POS through a combination of incentives (fund for payment innovation, value-added tax decrease … ) and legal obligations (obligation of card acceptance for merchants of a certain size, cap on maximum amount for cash payments … )</td>
<td>Korea, Mexico, Italy, Greece, the U.S., Netherlands, Sweden, and Norway</td>
</tr>
<tr>
<td>4. Encourage efficient and transparent cash handling</td>
<td>Increase transparency of cost drivers for cash handling, including externalities and strengthen standard requirements for the transport and storage of cash</td>
<td>Finland, Canada, Australia, France, and Belgium</td>
</tr>
<tr>
<td>5. Build Payments Council</td>
<td>Involve the different market participants, develop standards for the industry, and encourage innovation and development of national infrastructures</td>
<td>The U.K., the U.S., Canada, Mexico, South Africa, and Australia</td>
</tr>
</tbody>
</table>
Brazil has pushed prepaid social cards to reduce cash payouts

**Brief description**
- Through **Previdencia Social**, the Brazilian government manages the **social security program**
- Formal workers contribute monthly and are eligible for benefits in case of retirement, disease, accident, death, and/or imprisonment

**How it works**
- Beneficiaries get a personal identification number (**PIN** coded magnetic card), free of charge
- Banks facilitate the payment of the benefits. The rights are given through an auction sale
- **Opportunity for banks to increase their client bases**
- Other offerings are negotiated between bank and client, including debit and credit cards

**Main indicators**
- 26.6mn beneficiaries (14% of population)
- 0.4mn to be added in 2010
- 21 banks facilitate the payments

**Value of cashless transactions**

<table>
<thead>
<tr>
<th>Year</th>
<th>Value ($bn)</th>
<th>+10% pa</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>71.2</td>
<td></td>
</tr>
<tr>
<td>2006</td>
<td>79.2</td>
<td></td>
</tr>
<tr>
<td>2007</td>
<td>86.5</td>
<td></td>
</tr>
</tbody>
</table>

**Government direct fund transfer to families below poverty line** (income of BRL 60/month) that fulfill certain conditions, e.g.,:
- Kids/teenagers in school
- Vaccination calendar for kids 0-6 years old

**Total benefit varies from BRL 20-BRL 182 per month, depending on family income and number of kids**

- Families get a **PIN coded magnetic card**, free of charge
- **The card’s only feature is to withdraw the benefit**
- The full benefit must be withdrawn at once
- Caixa Economica Federal facilitates the payments through its branches, ATM network, and lottery houses

**Value of cashless transactions**

<table>
<thead>
<tr>
<th>Year</th>
<th>Value ($bn)</th>
<th>+11% pa</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>8.9</td>
<td></td>
</tr>
<tr>
<td>2007</td>
<td>9.2</td>
<td></td>
</tr>
<tr>
<td>2008</td>
<td>10.9</td>
<td></td>
</tr>
</tbody>
</table>

1 Laborer meal program

SOURCES: Web site; press clippings
Italian government has taken initiatives to boost cashless transactions through prepaid social cards

**Overview**
- The social prepaid card is a magnetic prepaid credit card distributed by the Poste Italiane SpA
- The INPS\(^1\) deals with the verification of eligibility req.
- The program was launched in December 2008
- The card can be used in grocery stores, supermarkets, pharmacies, or to pay energy bills at post offices
- The benefit amounts to €80 charged every two months
- Beneficiaries are absolutely poor individuals (ISEE\(^2\) less than about €6,200) that meet the following age criteria:
  - People older than 65
  - Children aged less than three years
- Positive aspects:
  - It is the first Italian pro-poor social intervention to be maintained in the long term
  - According to a research by “Commissione Revelli”\(^3\), 98% of all spending successfully targets the first four deciles of the income distribution
- Negative aspects:
  - It does not target households with many children (regardless of children’s age) and single parent ones
  - Only 4% of absolutely poor households manage to escape absolute poverty
  - Non-EU citizens, even if regularly registered, are not eligible

**Budget**
- €1.07mn, financed as follows:
  - €820mn of public funds
  - €250mn in private donations (€200mn provided by ENI, €50mn by Enel)

**Outcome**
- About 630,000 are active

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1 Public social security agency
2 Indicator of household equivalent economic situation
3 Parliamentarians’ commission for investigation of Italian government stimulus packages

SOURCES: Press search; “Revelli Commission” report; Italian government Web site; Ministry of Economy and Finance
Mexico delivers Oportunidades, its social benefit program to a third of Mexican families, through a network of Diconsa stores.

Payments are delivered through a POS device that reads chip cards and fingerprints; cash is managed through the warehouse.

Operating model:

**Oportunidades**
- Transfers balance of payment to Diconsa on bimonthly basis
- Receives balance of undelivered payments

**Technical provider**
- Receives data from Oportunidades in specified format/layout
- Returns data to Oportunidades with status of payment disbursement (“reconciliation” process)

**Technical provider**
- Sends and receives payment information (e.g., amount) to and from store with POS device
- Verifies beneficiary identity with chip card/fingerprint

**Technical provider**
- Makes store-level payment info available to warehouse (i.e., by web interface) – useful for cash handling

**Corporate offices**
- Accounts for sales and payments at store and warehouse level

**Rural warehouse**
- Calculates cash needs, and if necessary, sends additional cash to store before payment dates
- Collects cash and receipts from stores
- Credits store for payments delivered

**Beneficiary**
- Verifies identity with fingerprint
- Receives payment in cash

Note: More detailed information about this and other processes is available in the annexes.
US Treasury’s Go-Direct campaign is one example of migration effort to electronic channel

The Go-Direct program obligates electronic payments for Social Security and other federal benefit payments

- Go-Direct campaign started in 2004 to encourage federal benefit check recipients to **switch to direct deposit**
- As of March 1, 2013, all federal benefit payments were **required by law to be made electronically**, via:
  - Direct deposit to bank accounts
  - Direct Express **Debit MasterCard**
- This rule affects people who get Social Security, VA, Supplemental Security Income (SSI), Railroad Retirement Board, Department of Labor (Black Lung) and Office of Personnel Management benefit checks
- In the meantime, Treasury will still continue check payments, but will:
  - Contact recipients who are not in compliance with the law
  - Send beneficiaries a Direct Express card

Direct Express Debit MasterCard issuance further accelerates electronification

- Money is deposited **automatically** to the card account on payment dates
- Card has **no sign-up nor monthly fees**
- Card can be used to **make purchases at merchants** and **withdraw cash from ATMs** with MasterCard logo

**SOURCE:** Go Direct Website
Contents

- Context and introduction

- **Disbursement and receipts**
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Contents

- Context and introduction

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  - Initiative 1: Electronic and centralized fund submission system, verification and payment, through modern payment channels
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[ Charter and implementation plan

- Supporting analysis
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- Liquidity management
- Debt market development
## Objective:
To collect government receipts efficiently and accurately through implementation of MPN G-2 and other enhancement, including the utilization of major channeling for revenue collection.

### Background
- Manual processes at multiple check points
- Disjointed databases; no real-time linkage between receipt and receivable data
- Collection enabled through visit to perception banks and direct deposit to Central Bank and limited modern options (internet banking enabled for certain banks)
- MPN G-2 is to be launched next year to enable integrated database and various payment channels

### Enablers for success
- Successful launch of MPN G-2
- Improved payer database linked to MPN G-2 and SPAN
- Dedicated effort to approach and onboard new collection channels such as widened internet banking options, ATMs, etc.

### Changes in operational models
- **One integrated platform** (e.g. through widened coverage of MPN G-2) to administer all receipts electronically that links receipt collection and receivable database at collection agencies (DJP, DJBC, DJA etc.) with all government receipts linked to a unique billing ID
- **Modern, electronic channels** (e.g. internet banking, mobile banking, ATMs, etc.) widely available for all kinds of government receipts with continuous effort to migrate payers into electronic channels
- **Government receipt website** enabling electronic payment for wide ranges of receipts

### Summary of proposed actions
- Full implementation of MPN G-2 and other enhancement, including the utilization of major channeling for revenue collection
  - Improvement of payer database
  - Full integration of payer database with MPN and major collection channels
  - Approach to various access points to enable payment of government receipts
  - Socialization to payers to migrate them into electronic channels
  - Development of government receipt website that allows credit card and other electronic payments for tax, customs and PNBP payments of various government agencies

### Impact and KPIs
- **Payer database**
  - 2015 – 100% payer database for PNBP developed
  - 2015 – 100% payer database integrated to MPN G-2
- **MPN G-2 adoption**
  - 2015 – 100% collection agents adopting MPN G-2
- **Opening of modern payment channels**
  - 2014 – 50% perception banks enable ATM payments, 25% enable internet banking
  - 2014 – 10% of major taxpayers adopt electronic channels
  - 2015 – 100% perception banks enable ATM payments, 100% enable internet banking (for those with internet banking)
  - 2015 – 25% of major taxpayers adopt electronic channels
  - 2019 – 20% of major PNBP transactions done via government receipt website

### Governance structure
- **Champion**: Direktur Transformasi Perbendaharaan
- **Owner**: Subdit Transformasi Proses Bisnis Eksternal, Subdit Transformasi Proses Bisnis Internal dan Organisasi
- **Member**
  - Kasubdit Dabantek, Dit. PA
  - Kasubdit Penerimaan, Dit. PKN
  - Kasubdit Pengelolaan Basis Data dan Dukungan TI, Dit. SP
  - Kasubdit Peraturan dan Standardisasi Teknis BLU, Dit. PPK BLU
  - Kasi Transformasi Proses Bisnis Eksternal I, Dit. TP
  - Kabag OTL

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1. As selected during design phase.
2. E.g. internet banking, mobile banking, credit/debit card/ATM payments and other channels not requiring physical visits to perception banks
## Integrated receipt database with modern collection channels – changes in operational model

<table>
<thead>
<tr>
<th>Current State</th>
<th>Target state</th>
</tr>
</thead>
<tbody>
<tr>
<td>Process improvement by shifting from multiple systems to record and administer receipt with manual processing in multiple checkpoints, to one electronic platform</td>
<td><strong>One integrated platform</strong> (e.g. through widened coverage of MPN G-2) to administer all receipts electronically that links receipt collection and receivable database at collection agencies (DJP, DJBC, DJA etc.) with all government receipts linked to a unique billing ID</td>
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<td></td>
<td><strong>Modern, electronic channels</strong> (e.g. internet banking, mobile banking ATMs, etc.) widely available for all kinds of government receipts</td>
</tr>
<tr>
<td></td>
<td>Continuous effort to migrate payers into electronic channels</td>
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</table>
## 2. Integrated receipt database with modern collection channels – workplan

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<td>Introduce cashless choices for benefit payments</td>
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<td>- Improvement of payer database (DG Tax and K/L-Satkers)</td>
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<td>- Full integration of payer database with MPN and major collection channels</td>
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<td>- Approach to various access points to enable payment of government receipts</td>
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<td>- Socialization to payers to migrate them into electronic channels, together with DJP, DJA and DJBC</td>
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### Development of government receipt website that allows credit card payment for tax, customs and PNBP payments of various government agencies especially PNBP satkers

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<td>- Detailed design and development of product from user interface to back-end systems</td>
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<td>- Build interface with MPN G-2 and receivables database</td>
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<td>- Pilot launch of website for select government receipts</td>
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<td>- Broaden types of receipts and number of agencies using the system</td>
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</table>
2 Integrated receipt database with modern collection channels – potential regulatory and legal risk

<table>
<thead>
<tr>
<th>Risks</th>
<th>Mitigation</th>
</tr>
</thead>
<tbody>
<tr>
<td>NA</td>
<td>NA</td>
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</tbody>
</table>
Contents

- Context and introduction

- **Disbursement and receipts**
  - Context and introduction
  - Initiative 1: Electronic and centralized fund submission system, verification and payment, through modern payment channels
  - Initiative 2: Integrated receipt database with modern collection channels
    - Charter and implementation plan

- **Supporting analysis**
  - Initiative 3: “Shared service” functions of back office for all K/Ls, centralized at MOF

- Liquidity management

- Debt market development
## Common payor pain points for migrating from paper to electronic (1/2)

<table>
<thead>
<tr>
<th>Common pain point</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1. Lack of awareness and inefficient communication</strong></td>
<td>Payers are not aware of their choices of payment methods and some payers don’t read the communication</td>
</tr>
<tr>
<td><strong>2. Unable to find electronic options on websites</strong></td>
<td>Payers can’t find online payment options on agency websites</td>
</tr>
<tr>
<td><strong>3. No benefit or incentive to pay electronically</strong></td>
<td>Payers are pleased with status quo; don’t see any benefit to changing current payment method</td>
</tr>
<tr>
<td><strong>4. Too expensive to use electronic options</strong></td>
<td>Small businesses or small proprietors want to keep float of funds</td>
</tr>
<tr>
<td><strong>5. Difficult to use electronic options</strong></td>
<td>Payer has too many steps to complete, Payer not technologically savvy, Payer has to re-set up same info every month, frustrating</td>
</tr>
</tbody>
</table>

**SOURCE:** Agency interviews; Website research
Common payor pain points for migrating from paper to electronic (2/2)

<table>
<thead>
<tr>
<th>Most addressable</th>
<th>Common pain point</th>
<th>Description</th>
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</thead>
<tbody>
<tr>
<td>6</td>
<td>Lack of trust for personal information protection</td>
<td>Payers are worried that government will use the personal information for other purposes such as levy a bank account or increase taxes.</td>
</tr>
<tr>
<td>7</td>
<td>Afraid of missing payment/Fear of forgetting to pay</td>
<td>Payers are sensitive to missing payments and facing penalties due to perceived seriousness of government payments.</td>
</tr>
<tr>
<td>8</td>
<td>No easy link between paper statement and electronic payment</td>
<td>More difficult to remember to make electronic payments with receipt of paper statement (e.g. no link to website as an email would).</td>
</tr>
<tr>
<td>9</td>
<td>Lack of channels for my transaction</td>
<td>Payers are unable to pay electronically due to channel availability, e.g. no credit card POS.</td>
</tr>
<tr>
<td>10</td>
<td>Lack of internet access</td>
<td>Individual payers such as disaster loan payers have no access to internet.</td>
</tr>
</tbody>
</table>

**SOURCE:** Agency interviews; Website research
Examples of public and private best practice interventions in migrating payors to electronic channels

<table>
<thead>
<tr>
<th>Interventions</th>
<th>Company/Agency</th>
<th>Examples/Details</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>A</strong> Charge additional fee for non-electronic filing/paper statement</td>
<td></td>
<td>▪ PTO's utility patent applications charge $400 more for non-electronic filing, trademark filing is $100 more if not fully electronic</td>
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<td>▪ Banks charge fee (~$3) per paper statement</td>
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<tr>
<td><strong>B</strong> Require to use electronic payment methods/Get rid of paper payment methods</td>
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<td>▪ U.S. Mint only accepts credit card for online catalog purchase</td>
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<td>▪ TTB requires customers with liability over $5M to pay electronically</td>
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<td><strong>C</strong> Set expectation for shorter service time/better service</td>
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<td>▪ NPS is looking to provide fast lanes in the future for online entrance fee payers</td>
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<td>▪ PTO customers expect online filing gets the application into the queue faster</td>
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<tr>
<td><strong>D</strong> Incentivize customers with enhanced functionality</td>
<td>charles SCHWAB, AMERICAN EXPRESS</td>
<td>▪ Financial intuitions provide functionality such as historical statements and tax documents to online customers</td>
</tr>
<tr>
<td><strong>E</strong> Provide incentives and rewards to customers to increase conversion</td>
<td>Vanguard, University of Chicago</td>
<td>▪ Financial institutions and city government provide rewards and prize on websites to incentivize customers go electronically</td>
</tr>
<tr>
<td><strong>F</strong> Communicate through paper bill and educate customers on paying electronically</td>
<td></td>
<td>▪ USDA-RD, APHIS, DFAS, FCC all have “pay via Pay.gov” on their bills</td>
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<tr>
<td></td>
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<td>▪ USDA-RD sends instructions to customers on online payment</td>
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</tbody>
</table>

SOURCE: Agency interviews; Website research
US government enables credit and debit card payments to multiple government agencies via pay.gov

Pay.gov is a shared service provided by US Treasury to enable collection of government receipt electronically

- **Government collection portal** that allows payers of federal agencies to complete forms, make payments, and submit queries electronically 24 hours a day

- Four services modularly offered:
  - **Collections**—Enabling end-users to authorize electronic transaction funds transfers over the Internet that will be settled through a number of methods (Automated Clearing House (ACH), credit card, or debit card)
  - **Forms acceptance and direct billing**—Accepting agency forms submitted by end-users over the Internet and presenting agency bills to end-users over the Internet
  - **Reporting**—Maintaining, processing, and providing online financial information and database documents for Treasury, agencies, and the public about transactions
Contents

- Context and introduction

- **Disbursement and receipts**
  - Context and introduction
  - Initiative 1: Electronic and centralized fund submission system, verification and payment, through modern payment channels
  - Initiative 2: Integrated receipt database with modern collection channels
  - Initiative 3: “Shared service” functions of back office for all K/Ls, centralized at MOF
    - Charter and implementation plan
    - Supporting analysis
    - Appendix: Diconsa case study

- Liquidity management

- Debt market development
Contents

- Context and introduction

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  - **Initiative 3**: “Shared service” functions of back office for all K/Ls, centralized at MOF

- **Charter and implementation plan**
  - Supporting analysis
  - Appendix: Diconsa case study

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### “Shared service” back office function for all K/Ls, centralized at the MOF

#### Objective:
To provide back office functions to satkers and K/Ls, in particular in centralization of commitment, invoicing and settlement

#### Background
- Disjointed databases at K/Ls
- Separate commitment and payment submission process done by each satker for all spending
- Vendor database is being launched together with SPAN

#### Changes in operational models
- **Single accounting database** maintained by MOF that includes both transaction and asset database
- **Centralized commitment process** by Treasury for payroll and common spending items
- Centralized **vendor database** to optimize satkers’ procurement
- Enlarge **centralized settlement** function done by Treasury

#### Impact and KPIs
- **Vendor database**
  - 2014 – 100% vendors with major transactions registered on vendor database
- **Shared service center for payroll**
  - 2018 – 100% MOF payroll centralized
  - 2020 – 100% payroll at all K/Ls centralized
- **Shared service center for procurement**
  - 2020 – 75% MOF satkers use shared service for items that are listed there

#### Summary of proposed actions
- Launch and improvement of vendor database
- Centralize employee payroll system for all government employees enabling centralization of commitment and settlement processes for salary payments with a centralized employee database
- Centralize invoicing, payment and settlement for routine payments (e.g. electricity, water, posts etc.)
- Launch centralized procurement center that centralizes commitment and settlement process for common spending items (e.g. air travel, etc)

#### Enablers for success
- Successful adoption of vendor database
- Robust IT procurement database attached to SPAN
- Development of centralized payroll database for all government employees
- Support from K/Ls and satkers
- Support for organizational changes to enable shared service centers

#### Key outcomes
- **2014:**
  - Vendor database launched and stable
- **2016:**
  - Pilot centralized payroll for MOF employees
- **2017:**
  - Pilot centralized invoicing, payment and settlement for one type of routine payment
- **2018:**
  - Launch centralized payroll for select K/Ls at MOF
  - Launch of preferred vendor catalogue for satkers’ use
- **2019:**
  - Launch shared service center for payroll for all government employees at MOF
  - Launch shared service center for procurement commitment and settlement process at MOF

#### Governance structure
- **Champion:** Direktur Transformasi Perbendaharaan
- **Owner:** Subdit Transformasi Proses Bisnis Eksternal, Subdit Transformasi Proses Bisnis Internal dan Organisasi

#### Member
- Kasubdit Dabantek, Dit. PA
- Kasubdit Penerimaan, Dit. PKN
- Kasubdit Pengelolaan Basis Data dan Dukungan TI, Dit. SP
- Kasubdit Peraturan dan Standardisasi Teknis BLU, Dit. PPK BLU
- Kasi Transformasi Proses Bisnis Eksternal I, Dit. TP
- Kabag OTL

---

1 To be defined
### Current State
- Disjointed databases at K/Ls
- Separate commitment and payment submission process done by each satker for all spending
- Initiation of vendor database

### End state business processes (2025)
- **Single accounting database** maintained by MOF that includes both transaction and asset database
- **Centralized commitment process** by Treasury for payroll and common spending items
- Centralized **vendor database** to optimize satkers’ procurement
- Enlarge **centralized settlement** function done by Treasury including for **routine payments** (e.g. electricity, water, etc.)
“Shared service” back office function for all K/Ls, centralized at the MOF – workplan (1/3)

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<td>Launch and improvement of vendor database</td>
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<td>▪ Launch of vendor database together with launch of SPAN</td>
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<td>▪ Propose onboarding plan for vendor database including identification of threshold and types of transactions that need to be recorded on vendor database</td>
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<td>▪ Propose policy for instill compliance to input vendor data for major spending</td>
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<td>▪ Socialization to satkers</td>
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Development of government receipt website that allows credit card payment for tax, customs and PNBP payments of various government agencies especially PNBP satkers

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<tr>
<td>▪ Design of centralized payroll database together with BKN</td>
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<tr>
<td>Build for pilot</td>
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<tr>
<td>▪ Shift MOF salary data from satkers to K/L; centralize at Sekjen</td>
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<tr>
<td>▪ Regulate new mechanism into formal policy</td>
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<tr>
<td>▪ Develop integrated employee database and IT application linked to SPAN</td>
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<tr>
<td>▪ Design organizational changes for payroll service centre</td>
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<tr>
<td>Launch pilot</td>
<td></td>
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<tr>
<td>▪ Use integrated payroll data for MOF</td>
<td></td>
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<tr>
<td>Design and build for full rollout</td>
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<tr>
<td>▪ Design centralization of payroll at MOF for other K/Ls</td>
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<td></td>
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<td>▪ Regulate new mechanism into formal policy</td>
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<tr>
<td>▪ Shift salary data from satkers to K/Ls</td>
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<td>Launch</td>
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<tr>
<td>▪ Launch in a few major satkers</td>
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<tr>
<td>▪ Continue rollout</td>
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<tr>
<td>▪ Socialize new mechanism to K/Ls, BKN, DJA, all satkers</td>
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</tbody>
</table>
“Shared service” back office function for all K/Ls, centralized at the MOF – workplan (2/3)

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</thead>
<tbody>
<tr>
<td>Centralize invoicing, payment and settlement for routine payments (e.g. electricity, water, posts etc.)</td>
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<tr>
<td>Design</td>
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<tr>
<td>- Identification of routine payments and vendors</td>
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<tr>
<td>- Co-design roll out plan with K/Ls and vendors</td>
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<tr>
<td>- Design processes for enable service</td>
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<tr>
<td>- Identify policy changes necessary</td>
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<td>Build</td>
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<tr>
<td>- Build IT interface connected to SPAN/SAKTI to enable centralized invoicing and settlement</td>
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<tr>
<td>- Regulate business processes and SOPs into policy</td>
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<td></td>
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<tr>
<td>- Propose other legal and regulatory changes needed</td>
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<td>Launch</td>
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<tr>
<td>- Pilot first centralized invoicing, payment and settlement with a vendor</td>
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<tr>
<td>- Socialization to satkers and K/Ls</td>
<td></td>
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<tr>
<td>- Expand service to other vendors</td>
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</tbody>
</table>
“Shared service” back office function for all K/Ls, centralized at the MOF – workplan (3/3)

<table>
<thead>
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</thead>
<tbody>
<tr>
<td>Centralized procurement center that centralizes commitment and settlement process for common spending items (e.g., air travel)</td>
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<tr>
<td>• Design</td>
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<td></td>
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<tr>
<td>– Identification of common spending items</td>
<td></td>
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<tr>
<td>– Design “preferred vendor” catalogue</td>
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<tr>
<td>– Design of centralized commitment and settlement processes including types of services offered, business processes, infrastructure, IT system</td>
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<tr>
<td>– Design organization needed to carry out service</td>
<td></td>
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</tr>
<tr>
<td>– Identify policy changes necessary to run a shared service centre for procurement</td>
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<tr>
<td>– Co-design with K/Ls roll out plan and transfer pricing for services</td>
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<td>• Build</td>
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<tr>
<td>– Build database of “preferred” vendors for selected common spending items</td>
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<tr>
<td>– Build IT interface connected to SPAN/SAKTI that displays catalogue of common spending items and enables centralized invoicing by Treasury</td>
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<tr>
<td>– Regulate business processes and SOPs into policy</td>
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<tr>
<td>– Propose other legal and regulatory changes needed</td>
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<td>• Launch</td>
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</tr>
<tr>
<td>– Launch “preferred vendors” catalogue for satkers’ use</td>
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<tr>
<td>– Socialization to satkers and K/Ls</td>
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<tr>
<td>• Pilot launch centralized procurement system with a few key spending items (e.g., vehicles, computer peripherals)</td>
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<tr>
<td>• Socialization to satkers and K/Ls</td>
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<tr>
<td>• Expand types of items enabled on centralized procurement</td>
<td></td>
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</tbody>
</table>
“Shared service” back office function for all K/Ls, centralized at the MOF – potential regulatory and legal risk

<table>
<thead>
<tr>
<th>Risks</th>
<th>Mitigation</th>
</tr>
</thead>
<tbody>
<tr>
<td>▪ Shared service with centralized commitment, invoicing and settlement process not in line with current disbursement regulations</td>
<td>▪ Approach to major K/Ls, and potentially to President / Vice President level to illustrate whole-government benefit in utilizing shared services</td>
</tr>
<tr>
<td>▪ Regulations needed to enforce K/Ls to utilize shared services offered due to potential reluctance of K/Ls in shifting to a new practice</td>
<td>▪ Propose regulations to enforce K/Ls to shift to shared service center, potentially in stages</td>
</tr>
<tr>
<td>▪ Current MOF structure not accommodating shared service center</td>
<td>▪ Socialization plan of new features and associated government-wide benefits</td>
</tr>
<tr>
<td></td>
<td>▪ Piloted on one or two major K/Ls as beachheads</td>
</tr>
<tr>
<td></td>
<td>▪ Proposal to Menpan in early stage to accommodate change in organization structure needed to enable shared service center</td>
</tr>
</tbody>
</table>
Contents

- Context and introduction

- **Disbursement and receipts**
  - Context and introduction
  - Initiative 1: Electronic and centralized fund submission system, verification and payment, through modern payment channels
  - Initiative 2: Integrated receipt database with modern collection channels
  - Initiative 3: “Shared service” functions of back office for all K/Ls, centralized at MOF
    - Charter and implementation plan

- **Supporting analysis**
  - Appendix: Diconsa case study

- Liquidity management

- Debt market development
By 2025, MOF will be the centralized “shared service” back office for K/Ls

MOF provides various services to K/Ls and hosts centralized databases.

- Centralized commitment for common spending items (e.g., water, electricity)
- Vendor database and online procurement system
- IT system
- Accounting
- Disbursement and receipt settlement
- Payroll
US Treasury’s ARC provides various shared administrative services to federal agencies

Administrative Resource Center (ARC)

- Administrative services for various federal agencies delivered by Treasury’s Bureau of Fiscal Service
- Started in 1996
- Does not receive direct appropriated government funds; funding comes from customers in exchange for the services provided

Total of 78 active customers

Service lines

Financial Management

- Internet-based financial management system with complete system administration and help desk support
- Functioning suite of standard interfaces to a number of government-wide applications and feeder systems
- Transaction processing
- Reporting and reconciliation
- Implementation and conversion services
- Budget services, including reporting and payroll projections

Investment Accounting

- Cost-efficient Investment Processing
- SF 224 reporting to reflect monthly investment activity to the Financial Management Service
- Calculation and preparation of accrual and amortization reports
- Submission of Intergovernmental Fiduciary Confirmation System (IFCS) data
- Preparation of FACTS I and II reporting for investment transactions
- Audit assistance with funds maintained by ARC

Travel

- Travel Document Processing
- Travel Management Center
- Citibank Charge Card Program Administration
- Employee Relocation

Human Resources

- Position Classification
- Staff Acquisition
- Personnel Actions Processing and Record Keeping
- Pay and Leave Administration
- Employee Benefits
- Labor and Employee Relations
- Workers’ Compensation
- Personnel Security

IT

- Newest technologies
- Consulting Services
- Hosting Services
- Security Services
- IT Service Desk availability
Contents

- Context and introduction

- **Disbursement and receipts**
  - Context and introduction
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  - Initiative 2: Integrated receipt database with modern collection channels
  - Initiative 3: “Shared service” functions of back office for all K/Ls, centralized at MOF
    - Charter and implementation plan
    - Supporting analysis

  - **Appendix: Diconsa case study**

- Liquidity management

- Debt market development
Appendix: Diconsa Case Study
The Gates Foundation engaged client to design & pilot a basic financial services offering through a network of 22,000 stores in rural Mexico

This project is unique in its social impact...

- **In Mexico**, the project will improve access to affordable financial services in Mexico’s poorest, most isolated communities. ~5 million families (~20% of Mexico’s population) live in small, rural communities of fewer than 2,500 inhabitants and are eligible to receive services from Diconsa

- **Outside of Mexico**, this project will help public, private and social sector institutions to understand best practices for promoting financial inclusion in poor, rural communities

...and in its involvement of key stakeholders from the private, public and social sectors

The project convenes...

- ...the world’s leading foundation...
- ...telcos...
- ...financial institutions...
- ...and Mexican government agencies...

... to offer affordable financial services to Mexico’s poorest, most isolated citizens

---

**What is Diconsa?**

- Diconsa is a government distribution network supplying 22.4 thousand community-owned stores with food and other basic goods in rural Mexico
- Diconsa’s reach, history and community-ownership structure afford it unique trust and support in Mexico’s poorest communities

**What is client’s role?**

- To analyze the feasibility of and to carry out pilots offering government payments, savings accounts and other financial services through Diconsa stores to improve the welfare of the rural poor
Diconsa is Latin America’s largest distribution and supply network, and it serves Mexico’s rural poor in 5 different ways

**What is Diconsa?**

Diconsa is a **government distribution network** supplying **22.4 thousand community-owned** stores with food and other basic goods in rural Mexico.

Its **predecessors date to the 1930s;** Diconsa’s Programa de Abasto Rural was launched in 1979.

Some Diconsa stores offer **additional services** such as telephone calls, medicine, bill payment and government aid in addition to basic goods.

---

**What are Diconsa’s responsibilities?**

1. **Food supply**
   - Only source of purchased food in 4 thousand locations (~20% of stores)
   - Coverage in 99 of the 100 municipalities with the lowest level of human development
   - Typical prices less than market by 5-7%

2. **Nutritional assistance**
   - Delivery of ~2 million in-kind food benefits, to ~140 thousand families that do not receive other assistance

3. **Response to natural disasters**
   - Instrument of immediate attention to populations affected by natural disasters

4. **Support to vulnerable groups**
   - Programs coordinated with other state and municipal agencies for health and nutrition
   - Support mechanism for the distribution of other social assistance programs (e.g., State of Mexico)

5. **Safety net for the basic grains markets**
   - Guarantee supply during periods of scarcity and establish standard prices in the rural markets
Most Diconsa stores are located in small, rural communities with fewer than 2,500 inhabitants, where most of Mexico’s poorest citizens live.

Diconsa stores by population of community

<table>
<thead>
<tr>
<th>Population of Community</th>
<th>Thousands</th>
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</thead>
<tbody>
<tr>
<td>&lt;500 inhabitants</td>
<td>11.9</td>
</tr>
<tr>
<td>501 to 2,500</td>
<td>7.5</td>
</tr>
<tr>
<td>2,500+</td>
<td>3.0</td>
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</tbody>
</table>

Diconsa’s target communities

Median per-capita annual income by population of community

<table>
<thead>
<tr>
<th>Population of Community</th>
<th>U.S. Dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt; 2,500 inhabitants</td>
<td>844</td>
</tr>
<tr>
<td>2.5 to 14.9 thousand</td>
<td>1,095</td>
</tr>
<tr>
<td>15 to 99 thousand</td>
<td>1,781</td>
</tr>
<tr>
<td>100+ thousand</td>
<td>2,279</td>
</tr>
</tbody>
</table>

Note: Population and store data available only for subsample of 16.3 thousand stores that have “window” service.
The government can take advantage of Diconsa’s vast infrastructure converting stores into complete goods & services distribution centers

Communities and Diconsa stores in 2009

- Annual sales of ~6,600 million pesos through rural channel
- Main supply option in rural areas across the country
- Only supply option in ~4 thousand localities
- Telephone service in 90%+ of Diconsa stores
- Internet in areas with added value
- Offer of services with an accessible cost
- Mail boxes and stamps in all stores
- Continue refining logistics and marketing to increase usage
- PAAL reception and other benefits in their own or a nearby community
- Attention instrument in case of natural disasters
- Coordinated programs with local governments
- Medicine distribution and other health products
- Transform stores in bank correspondents to offer
  - Savings accounts
  - Insurance
  - Remittances
  - Service payments (e.g., electricity)
Diconsa seeks to offer different financial services through its network of stores

1) Government payments
   - Pilot payments in 6 Diconsa stores and 272 Oportunidades families
   - Test Diconsa’s ability to operate as a bank correspondent

2) Savings accounts and other payments
   - Deposit government payments in savings accounts to encourage savings
   - Payments of utilities and other services (e.g., electricity, telephone)

3) Remittances, credit and insurance
   - Use platform to introduce new products and financial services
   - Verify that the model works on larger scale

Full suite of financial services
   - Offer full suite of financial solutions that fit the needs of low-income clients
The 6 selected stores for the pilot were located in small, rural communities with limited connectivity.

<table>
<thead>
<tr>
<th>Store</th>
<th>Oportunidades families</th>
<th>Localities</th>
<th>Phone service in community</th>
<th>Benefits Weekly, Thousands MXP</th>
<th>Sales Weekly, Thousands MXP</th>
<th>Distance to payment point km</th>
</tr>
</thead>
<tbody>
<tr>
<td>Montecelli</td>
<td>53</td>
<td>1</td>
<td>Telcel GPRS¹, Telmex CDMA²</td>
<td>15</td>
<td>3-8</td>
<td>18</td>
</tr>
<tr>
<td>Palmartepec</td>
<td>28</td>
<td>1</td>
<td>Telcel GPRS¹, Telmex CDMA²</td>
<td>8</td>
<td>9-11</td>
<td>12</td>
</tr>
<tr>
<td>Coyopol</td>
<td>62, 17</td>
<td>2</td>
<td>Ruralsat, Telcel GPRS¹, Telmex CDMA²</td>
<td>20</td>
<td>14-15</td>
<td>9</td>
</tr>
<tr>
<td>El Mirador</td>
<td>45, 3</td>
<td>3</td>
<td>Telcel GPRS¹, Telmex CDMA²</td>
<td>14</td>
<td>4-9</td>
<td>28</td>
</tr>
<tr>
<td>La Palma</td>
<td>21, 29</td>
<td>5</td>
<td>Ruralsat, Telcel GPRS¹, Telmex CDMA²</td>
<td>15</td>
<td>13-15</td>
<td>10</td>
</tr>
<tr>
<td>Vega de</td>
<td>25, 15</td>
<td>4</td>
<td>Ruralsat, Telcel GPRS¹ (possible)</td>
<td>9</td>
<td>2-3</td>
<td>21</td>
</tr>
<tr>
<td>Montecelli</td>
<td>53</td>
<td>1</td>
<td>Telcel GPRS¹, Telmex CDMA²</td>
<td>15</td>
<td>3-8</td>
<td>18</td>
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<tr>
<td>Total</td>
<td>298</td>
<td></td>
<td></td>
<td>81</td>
<td>45-61</td>
<td></td>
</tr>
</tbody>
</table>

1 An outdoor antenna needs to be installed for reception
2 Land line service is about to be installed in the stores
3 Could be either a land line or mobile telephony
4 To this date, no mobile reception has been detected in that community
5 Ventas semanales en la tienda (rango de: promedio de ventas promedio en Almacén y ventas registradas por tiendas en Septiembre)

SOURCE: Interviews with Diconsa, Diconsa, Oportunidades and CONAPO store keepers, 2005 Count
Payments are delivered through a POS device that reads chip cards and fingerprints; cash is managed through the warehouse.

**Operating model**

**Oportunidades**
- Transfers balance of payment to Diconsa on bimonthly basis
- Receives balance of undelivered payments

**Technical provider**
- Receives data from Oportunidades in specified format/layout
- Returns data to Oportunidades with status of payment disbursement (“reconciliation” process)
- Sends and receives payment information (e.g., amount) to and from store with POS device
- Verifies beneficiary identity with chip card/fingerprint

**Technical provider**
- Makes store-level payment info available to warehouse (i.e., by web interface) – useful for cash handling

**Corporate offices**
- Accounts for sales and payments at store and warehouse level

**Rural warehouse**
- Calculates cash needs, and if necessary, sends additional cash to store before payment dates
- Collects cash and receipts from stores
- Credits store for payments delivered

**Beneficiary**
- Verifies identity with fingerprint
- Receives payment in cash

Note: More detailed information about this and other processes is available in the annexes.
Oportunidades beneficiaries receive cards tied to savings accounts; full correspondent functionality will be enabled in the future

- The card’s chip stores information on the beneficiaries and “substitutes” (e.g., identification data, digital fingerprints)
- The card could be used for banking transactions in the future (e.g., 16-digit BIN number)
- Partnership with Bansefi to open savings accounts to cardholders

SOURCE: Pagatodo technical submission
The pilot in Hueytamalco demonstrated significant benefits for the beneficiaries of Oportunidades...

Total costs to families of receiving Oportunidades

<table>
<thead>
<tr>
<th></th>
<th>Previous scheme</th>
<th>Pilot</th>
</tr>
</thead>
<tbody>
<tr>
<td>Food</td>
<td>30.0</td>
<td>0.5</td>
</tr>
<tr>
<td>Transport</td>
<td>31.0</td>
<td>0.5</td>
</tr>
</tbody>
</table>

-99% decrease in costs

~2.5 million Oportunidades families could save up to $1.5 billion pesos in food and transportation

Required time to receive Oportunidades

<table>
<thead>
<tr>
<th></th>
<th>Previous scheme</th>
<th>Pilot</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hours</td>
<td>6.4</td>
<td>0.5</td>
</tr>
</tbody>
</table>

-92% decrease in time

SOURCE: IDEA 2009
... and generated a positive response to the pilot from beneficiary families

Responses of the beneficiaries interviewed

| Percentage |
|------------------|------------------|------------------|------------------|
| Is satisfied receiving Oportunidades at the store | 99 |
| Feels more secure receiving Oportunidades at the store | 97 |
| Received the cash in the closest store to her | 97 |
| Knows the process to comply in case of any irregularity | 76 |
| Store owner required purchases in order to receive payment | 1 |
| The store keeper gave store products instead of cash | 0 |

SOURCE: IDEA 2009
Beneficiaries could save ~U.S. $45 million if payments were delivered through Diconsa stores

Net benefit/cost for beneficiaries
USD Millions

<table>
<thead>
<tr>
<th>Costs today</th>
<th>Transportation</th>
<th>Food</th>
<th>Lost wages &amp; other oppty costs &quot;As Is&quot;</th>
<th>Total cost &quot;As Is&quot;</th>
</tr>
</thead>
<tbody>
<tr>
<td>46</td>
<td>23</td>
<td>99</td>
<td>167</td>
<td>306</td>
</tr>
<tr>
<td>3.4 million beneficiaries have to travel to receive payments</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Savings with new model</th>
<th>Transportation</th>
<th>Food</th>
<th>Opportunity cost</th>
<th>Commission to Diconsa</th>
<th>Total cost with Diconsa</th>
<th>Total savings</th>
</tr>
</thead>
<tbody>
<tr>
<td>45</td>
<td>16</td>
<td>8</td>
<td>26</td>
<td>5</td>
<td>123</td>
<td>-27%</td>
</tr>
<tr>
<td>Of the 3.4 million beneficiaries that had to travel, 45% reduce their total travel time to receive payments</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

SOURCE: Field visits (Oportunidades and 70y+ payments)
Lessons learned from our work with Diconsa

1. **Use of existing networks** – Potential to reach 15-20m low-income, otherwise, unserved people without building any new retail outlets or hiring large amounts of additional staff.

2. **Product bundling/economies of scope** – believe there are significant cost savings and increased rates of uptake by bundling financial services with government transfer payments.

3. **Technology** – Low-income people can effectively use a range of technologies. And biometric technology in particular offers great promise to overcome identity/fraud-related challenges.

4. **Convening power** – Primary challenge in establishing this project has been building and managing the partnerships among different players (government, telcos, banks, technology providers). The concepts are not radically new, but the level of coordination is
After the pilot, there were two more expansion waves, increasing target families to ~ 350,000

<table>
<thead>
<tr>
<th></th>
<th>Pilot phase</th>
<th>First wave</th>
<th>Second wave</th>
</tr>
</thead>
<tbody>
<tr>
<td>Families, total number</td>
<td>298</td>
<td>35,000</td>
<td>350,000</td>
</tr>
<tr>
<td>Shops, total number</td>
<td>6</td>
<td>135</td>
<td>890</td>
</tr>
</tbody>
</table>

1 2nd expansion in progress: 86 correspondent stores start operations in April 2012 and 55 correspondent stores pending to start operations

SOURCE: Bansefi
Contents

- Context and introduction
- Disbursement and receipts

**Liquidity management**

- Context and introduction
- Initiative 4: Improve overall liquidity management processes
- Initiative 5: Assess TDR capabilities and ensure prudence in its operations
- Initiative 6: Guide cash planning with clearly defined reserve balance targets
- Initiative 7: Improve spending forecasting from Satkers
- Initiative 8: Tighten liquidity management coordination with the Central Bank
- Initiative 9: Expand TSA coverage
- Initiative 10: Establish short-term foreign exchange management strategy and guidelines for liquidity management

- Debt market development
Contents

- Context and introduction
- Disbursement and receipts
- **Liquidity management**

  - **Context and introduction**
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- Debt market development
Many cash management best practices being implemented though potential to focus on managing idle cash

1. **Roles**
   - **Ensure adequate cash to serve obligations**
   - **Lower government cost of borrowing by keeping idle cash at a minimum**
   - **Maximize risk-adjusted return on idle cash**

2. **Objectives**
   - Availability of cash for disbursement
   - Cash planning accuracy
   - RKUN balance forecasting accuracy

   **Practices**
   - TSA effectively implemented to centralize all government accounts
   - TSA does not cover 100% government accounts
   - >90% Short term forecasting to ensure enough cash is dropped in operational banks
   - Optimum cash balance target established but not optimized for cost and risk; target not necessarily followed
   - Cash position regularly reconciled and calculated automatically
   - Establishment of CPIN for early cash planning coordination efforts but long term forecasting is still with <80% accuracy
   - Cash held in multiple currencies but converted in adhoc manner; forex strategy being developed and rolled-out
   - Formation of ALM committee but further coordination with DJPU needed
   - Return from excess cash management
   - Placement of excess cash in Central Bank yielding 65% of prevailing BI rates
   - Development of TDR; to be online later this year

3. **Performance**
   - Fund always available for routine disbursements with no history of overdraft
   - Subsidy payments sometimes delayed to manage cash
   - High and fluctuating cash balances resulting in additional interest cost of up to IDR 2 trn

4. **Executives Summary**
   - At par with best practice
   - Almost on par with best practice
   - Not on par with best practice
Cash management has been effective in meeting high disbursement service obligations

<table>
<thead>
<tr>
<th>Good service obligations meeting expectations</th>
</tr>
</thead>
<tbody>
<tr>
<td>▪ MOF has always been able to provide <strong>adequate cash</strong> for disbursement</td>
</tr>
<tr>
<td>— 95% accuracy in daily cash planning enabling adequate dropping in operational banks</td>
</tr>
<tr>
<td>— In 2012, 97.85% of fund needs of KPPNs have been accurately provided by Dir. KPN, facilitated by e-kirana application</td>
</tr>
<tr>
<td>— No history of overdraft with mechanisms to avoid a low balance (~5 Trillion in RKUN &amp; placement accounts):</td>
</tr>
<tr>
<td>□ Shift back select spending, e.g. subsidy payments</td>
</tr>
<tr>
<td>□ Shift forward select revenues</td>
</tr>
<tr>
<td>□ Borrow short-term from SAL</td>
</tr>
<tr>
<td>□ Fine tune through debt-issuance (limited use so far)</td>
</tr>
<tr>
<td>▪ Fund is <strong>disbursed</strong> to final recipient <strong>on time</strong></td>
</tr>
<tr>
<td>— In 2012, 99% of KPPNs reached their KPIs on standard time of disbursement by BO I from RKUN account to final recipient account</td>
</tr>
</tbody>
</table>
Treasury has been effective in implementing a Treasury Single Account

TSA has been implemented to consolidate all government accounts within RKUN accounts

- 4 RKUNs (State Cash Accounts) are kept with a certain amount of buffer (i.e. IDR 2 trn in RKUN IDR and the equivalent if USD 1 mn in other accounts), consolidating all cash balances from numerous income and expense accounts
- All excess cash above RKUN’s buffer is transferred to a placement account with the Central Bank, yielding an interest rate of 65% of prevailing Central Bank accounts
- Some less liquid excess cash remains in income and expense accounts

1 There are other accounts aside from income and expense accounts, e.g. special accounts for loans, etc.
Fluctuating cash balances throughout the year resulting in high cost of funds and periods at risk of not meeting disbursement needs

Start of month cash balances and monthly cash needs

<table>
<thead>
<tr>
<th>IDR trillion</th>
<th>Illiquid: BLU, Reboisasion, Bapertarum, petty cash, etc</th>
<th>Very liquid: RKUN and placement accounts</th>
<th>Less liquid: SAL, oil/gas account</th>
<th>Estimated cash needed to cover next 30 days of expenses</th>
<th>Liquid: transit accounts (perception banks)</th>
<th>Total Cash Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jan 2012</td>
<td>36</td>
<td>0</td>
<td>61</td>
<td>28</td>
<td>126</td>
<td>151</td>
</tr>
<tr>
<td>Feb 2012</td>
<td>28</td>
<td>1</td>
<td>62</td>
<td>28</td>
<td>151</td>
<td>178</td>
</tr>
<tr>
<td>Mar 2012</td>
<td>78</td>
<td>0</td>
<td>90</td>
<td>28</td>
<td>178</td>
<td>189</td>
</tr>
<tr>
<td>Apr 2012</td>
<td>81</td>
<td>2</td>
<td>78</td>
<td>28</td>
<td>178</td>
<td>97</td>
</tr>
<tr>
<td>May 2012</td>
<td>257</td>
<td>1</td>
<td>97</td>
<td>28</td>
<td>97</td>
<td>101</td>
</tr>
<tr>
<td>Jun 2012</td>
<td>264</td>
<td>1</td>
<td>101</td>
<td>28</td>
<td>101</td>
<td>33</td>
</tr>
<tr>
<td>Jul 2012</td>
<td>292</td>
<td>0</td>
<td>0</td>
<td>28</td>
<td>0</td>
<td>36</td>
</tr>
<tr>
<td>Aug 2012</td>
<td>230</td>
<td>1</td>
<td>91</td>
<td>28</td>
<td>1</td>
<td>36</td>
</tr>
<tr>
<td>Sep 2012</td>
<td>241</td>
<td>1</td>
<td>97</td>
<td>28</td>
<td>1</td>
<td>36</td>
</tr>
<tr>
<td>Oct 2012</td>
<td>213</td>
<td>1</td>
<td>95</td>
<td>28</td>
<td>1</td>
<td>39</td>
</tr>
<tr>
<td>Nov 2012</td>
<td>228</td>
<td>1</td>
<td>143</td>
<td>28</td>
<td>1</td>
<td>40</td>
</tr>
<tr>
<td>Dec 2012</td>
<td>191</td>
<td>1</td>
<td>79</td>
<td>28</td>
<td>1</td>
<td>41</td>
</tr>
</tbody>
</table>

- Average excess cash holdings of IDR 90 trn over the course of the year
- Very liquid cash holdings sufficient for ~24 days of expenses
- In December, total cash balance sufficient for ~21 days of expenses
- Estimated cost of funds on excess cash is IDR 2 trn (assuming 2.2%2 negative float)

1 IDR 2 trn target cash balance in RKUN account
2 Difference between cost of debt and remuneration of excess cash from the Central Bank

Does not include IDR 100-200 trn in cash balances of regional governments
Indonesia has a higher cash balance relative to other countries and Indonesian companies

<table>
<thead>
<tr>
<th>Countries</th>
<th>Days of cash to expenses</th>
<th>Absolute</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Indonesia</td>
<td>21</td>
<td>89</td>
<td></td>
</tr>
<tr>
<td>USA</td>
<td>5</td>
<td>16</td>
<td></td>
</tr>
<tr>
<td>India</td>
<td>3</td>
<td>21</td>
<td></td>
</tr>
<tr>
<td>New Zealand</td>
<td>41</td>
<td>69</td>
<td></td>
</tr>
</tbody>
</table>

- USA has the lowest range of cash to expenses ratio of 5-16 days of budgeted expenses
- Indonesia’s median cash balance is currently 56 days of budgeted expenses
- The median cash balances for all Indonesian corporates is ~41 days of expenses
- Best in class corporates in Indonesia, across sectors, maintain between ~10-15 days of annual expenses

<table>
<thead>
<tr>
<th>Percentile</th>
<th>Min</th>
<th>Max</th>
</tr>
</thead>
<tbody>
<tr>
<td>90th percentile</td>
<td>8</td>
<td></td>
</tr>
<tr>
<td>75th percentile</td>
<td>18</td>
<td></td>
</tr>
<tr>
<td>Median</td>
<td>41</td>
<td></td>
</tr>
<tr>
<td>25th percentile</td>
<td>119</td>
<td></td>
</tr>
</tbody>
</table>

1 Data is for Jan-Dec 2012 for Indonesia and Apr-12-Mar-13 for India, New Zealand and USA and for CY 2012 for Indonesian corporates

SOURCE: Press search, Bloomberg, DG Treasury
Inaccurate estimates show wide deviations from actual cash flows

Realization of cash inflow over estimate¹, Jan 2011 to April 2013

- Measure of forecast accuracy is skewed as forecast data could be updated up to a day before actual cash in/outflows
- While forecast accuracy on revenue and spending has been pretty accurate (~95%), combined they yield <80% accuracy on cash flow forecast

1 Calculated as realization minus estimate of (revenue + net financing - spending)
2 2012 shows a larger deviation from 2011 due to different methodology of measuring accuracy
Currently there are duplicative processes by DJPU and DJPB leading to suboptimal cash planning.

Both DJPB and DJPU perform two separate cash planning.

- **Disbursement and receipts**
- **TSA/cash balances**
- **Cash flow forecasting**
- **Cash planning**
- **Bond buy backs, repos, reverse repos**
- **Short-term cash investments**
- **Debt planning**
- **Debt strategy and risk management**
- **Debt issuance and redemptions, and other market mechanisms e.g. bond buy backs, switching**

Decisions for market operations come from two different planners.

**Reporting**

**Monetary coordination**
While there are many mechanisms that have been approved to deal with idle cash, cash remains idle at the Central Bank.

<table>
<thead>
<tr>
<th>Management of excess cash</th>
<th>Mechanisms available</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>▪ Placement in Central Bank</td>
<td>▪ Practiced</td>
</tr>
<tr>
<td></td>
<td>▪ Placement in commercial banks (Demand Deposit, Overnight, Deposit on Call, Time Deposit)</td>
<td>▪ Practiced for select illiquid accounts</td>
</tr>
<tr>
<td></td>
<td>▪ Purchase of SBN from secondary market</td>
<td>▪ Not practiced</td>
</tr>
<tr>
<td></td>
<td>▪ Reverse repo</td>
<td>▪ Not practiced</td>
</tr>
<tr>
<td></td>
<td>▪ Withdrawal from Central Bank</td>
<td>▪ Not practiced</td>
</tr>
<tr>
<td></td>
<td>▪ Withdrawal from commercial banks</td>
<td>▪ Not practiced</td>
</tr>
<tr>
<td></td>
<td>▪ Sale of SBN at secondary market</td>
<td>▪ Not practiced</td>
</tr>
<tr>
<td></td>
<td>▪ SBN repo</td>
<td>▪ Not practiced</td>
</tr>
<tr>
<td></td>
<td>▪ RPN issuance at primary market</td>
<td>▪ Not practiced</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Management of cash shortage</th>
<th>Mechanisms available</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>▪ Placement in Central Bank</td>
<td>▪ Practiced</td>
</tr>
<tr>
<td></td>
<td>▪ Placement in commercial banks (Demand Deposit, Overnight, Deposit on Call, Time Deposit)</td>
<td>▪ Practiced for select illiquid accounts</td>
</tr>
<tr>
<td></td>
<td>▪ Purchase of SBN from secondary market</td>
<td>▪ Not practiced</td>
</tr>
<tr>
<td></td>
<td>▪ Reverse repo</td>
<td>▪ Not practiced</td>
</tr>
<tr>
<td></td>
<td>▪ Withdrawal from Central Bank</td>
<td>▪ Not practiced</td>
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<tr>
<td></td>
<td>▪ Withdrawal from commercial banks</td>
<td>▪ Not practiced</td>
</tr>
<tr>
<td></td>
<td>▪ Sale of SBN at secondary market</td>
<td>▪ Not practiced</td>
</tr>
<tr>
<td></td>
<td>▪ SBN repo</td>
<td>▪ Not practiced</td>
</tr>
<tr>
<td></td>
<td>▪ RPN issuance at primary market</td>
<td>▪ Not practiced</td>
</tr>
</tbody>
</table>

Note: Governed under Ministerial Decree 03/PMK.05/2010
Plans for a TDR are being put in place which would give Indonesia trading capabilities possessed in other front offices.

Treasury dealing room to be housed under Director of Cash Management

Front office
- Perform financial transactions
  - Money market investments
  - Trading of SBN
  - Forex management
  - Liquidity and TNP

Middle office
- Manage and set policies on risk
  - Risk and portfolio management
  - Asset – liability committee support
  - Economic research and strategy development
  - Policy and internal control

Back office
- Settle transactions
  - Treasury settlements
  - Accounting and reporting

Treasury Dealing Room to go live in September 2013
- TDR will enable placement in Central Bank
- Limited scope in managing cash surplus/deficit outside of Central Bank as regulatory approval is still in progress and formal MoU with the Central Bank is still under discussion

SOURCE: Dit. PKN, DJPB
Liquidity management end state vision

By 2025, Indonesia’s cash balance will be enough to serve government obligations while minimizing the cost of funds through an integrated and highly analytical liquidity management process.

### Key initiatives

- Improve end-to-end liquidity management processes
- Assess TDR capabilities and ensure prudence in its operations
- Expand TSA coverage
- Guide cash planning with clearly defined reserve balance targets
- Improve spending forecasting from satkers
- Tighten liquidity management coordination with the Central Bank
- Expand foreign exchange management strategy and guidelines for liquidity management
## Improvements in core processes resulting from key initiatives

<table>
<thead>
<tr>
<th>Initiatives</th>
<th>Current State</th>
<th>End state business processes</th>
</tr>
</thead>
</table>
| **1** Improve end-to-end liquidity management processes | ▪ Limited linkage between debt issuance and cash balances with two parallel cash planning; different forecast data submitted to CPIN meetings and ALM meetings  
▪ Newly-established ALM committee with monthly meeting to link debt issuance and cash planning | ▪ Integrated liquidity management process between cash and debt management with one cash plan to drive decisions on financing, investments and other market mechanisms; CPIN meetings to be empowered to consolidate forecast data  
▪ Strengthened ALM committee process at each level, incl. frequency and outputs of meetings for each level (technical/E-3, deputy/E-2, committee/E1-level) |
| **2** Assess TDR capabilities and ensure prudence in its operations | ▪ Money invested by placement at the Central Bank earning 65% of BI rate with plan to move into more active cash investments in the market | ▪ Prudent active investment of cash coordinated with the Central Bank and through a single face to the market  
▪ Mechanisms to potentially tap money in accounts currently not integrated to the TSA |
| **3** Expand TSA coverage | ▪ TSA does not cover certain less liquid and illiquid accounts (e.g. BLU, petty cash, oil & gas, SAL accounts) | ▪ A new reserve balance target at RKUN and overall level to guide cash planning including debt issuance |
| **4** Guide cash planning with clearly defined reserve balance targets | ▪ RKUN reserve balance target is set at IDR 2 Trillion to optimize cash holding while ensuring liquidity for disbursements, with no overall cash target | ▪ 100% compliance from major satkers in sending high-quality spending forecasts, and more predictable major disbursement needs from advanced commitment information |
| **5** Improve spending forecasting from satkers | ▪ Poor cash forecasting for spending needs due to low compliance from satkers to send spending forecasts, low accuracy of forecasts, and ad hoc spending | ▪ Clear set of Central Bank interactions and formalized information sharing processes |
| **6** Tighten liquidity management coordination with the Central Bank | ▪ Coordination with Central Bank on an ad-hoc basis | |
| **7** Expand foreign exchange management strategy and guidelines for liquidity management | ▪ Limited forex strategy and usage of forex hedging instrument; DJPB’s TDR will enable forex trading | ▪ Clear set of foreign exchange mechanisms allowed and forex strategy |
Contents

▪ Context and introduction

▪ Disbursement and receipts

▪ Liquidity management
  – Context and introduction

  – Initiative 4: Improve overall liquidity management processes
    ▫ Charter and implementation plan
    ▫ Supporting analysis
  – Initiative 5: Assess TDR capabilities and ensure prudence in its operations
  – Initiative 6: Guide cash planning with clearly defined reserve balance targets
  – Initiative 7: Improve spending forecasting from Satkers
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▪ Debt market development
Contents

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        – Initiative 10: Establish short-term foreign exchange management strategy and guidelines for liquidity management
  ▪ Debt market development
**Objective:**

To facilitate coordination between all related stakeholders in order to achieve optimized management of state cash.

**Background**

- There is limited linkage between debt issuance and cash balances with two parallel cash planning driving different market mechanisms leading to excessive cash balances.
- CPIN has been established to consolidate cash forecasts, but with low commitment from members leading to low quality data submitted.
- ALM committee is newly established to link debt issuances to cash balances, but it is still in its infancy with opportunity to be more focused on most critical issues on hand.

**Changes in operational models**

- Strengthened ALM committee process at each level, incl. frequency & outputs of meetings for each level (technical/E-3, deputy/E-2, committee/E1-level)
- Integrated liquidity management process between cash and debt management with one cash plan to drive decisions on financing, investments and other market mechanisms, with the following coordination mechanisms:
  - Strengthened CPIN process
  - IT enabled data sharing
  - Daily cash call between CMO and DMO to further link debt and cash planning

**Summary of proposed actions**

- Improve HR capability at Dir. PKN and at contributors of CPIN (DJP, DJA, DJBC, DJPU, DJKN, DJPK)
- Improve CPIN
  - Develop a policy to outline new CPIN process and list CPIN members
  - Develop SOP link to outline processes in great detail as well as other compliance mechanisms
  - Propose changes to job description of CPIN members including linkage to KPI
  - Propose extra budget for more frequent CPIN meetings
- Improve flexibility in issuing short term T-bills / SPN to smooth cash planning
  - Propose change to business process to allow 30-days T-bills
  - Socialization to primary dealers and Central Bank
- Detail out ALM process
  - Develop a policy outlining structure of ALM committee and meetings for liquidity in greater detail
  - Develop an ALM meeting agenda including what kind of inputs and decisions needed, and clear separation between items discussed during CPIN and ALM
- Develop daily coordination between CMO-DMO-BI
  - Develop policy and SOP to outline daily cash call
- Develop IT-enabled CPIN data sharing
  - Grant access to different stakeholders to CPIN and schedule automatic data update
  - Display IT ALM data on CPIN interface
  - Develop mechanism to track, measure and report data accuracy submitted by member to E1s
- Integrate CPIN/IT ALM into SPAN
  - Develop additional module in SPAN that houses historical transactions, CPIN-submitted forecast, IT ALM modeled forecast data

**Key outcomes**

2014
- New and improved CPIN and ALM processes
- Daily CMO-DMO-BI cash call running
- First issuance of 30-day T-bills (as necessary)

2015
- Internet portal showing CPIN and IT ALM

2019
- IT ALM and CPIN integrated in SPAN

**Impact and KPIs**

**CPIN meetings**

- 2014 – 95% CPIN data accuracy (biweekly total cash flow)
- 2014 – 95% average attendance
- 2015 – 95% data submitted prior to CPIN meetings

**Daily cash call**

- 2014 – 100% daily cash call held
- 2014 – 100% attendance by CMO, DMO, BI

**Governance structure**

**Champion:** Direktur Pengelolaan Kas Negara

**Owner:** Subdit Perencanaan dan Pengendalian Kas (DJPB) dan Subdit Portofolio dan Risiko Utang (DJPU)

**Member**

- Kasi Penyusunan Strategi Pengelolaan Kas dan Penyediaan Dana
- Kasi Perencanaan Kas
- Kepala Sub Direktorat Analisis Keuangan dan Pasar SUN
Improve end-to-end liquidity management processes – changes in operational model

Current State

- There is limited linkage between debt issuance and cash balances with two parallel cash planning driving different market mechanisms leading to excessive cash balances
- CPIN has been established to consolidate cash forecasts, but with low commitment from members leading to low quality data submitted
- ALM committee is newly established to link debt issuances to cash balances, but it is still in its infancy with opportunity to be more focused on most critical issues on hand

End state business processes (2025)

- Strengthened ALM committee process at each level, incl. frequency & outputs of meetings for each level (technical/E-3, deputy/E-2, committee/E1-level)
- Integrated liquidity management process between cash and debt management with one cash plan to drive decisions on financing, investments and other market mechanisms, with the following coordination mechanisms:
  - Strengthened CPIN process
  - IT enabled data sharing
  - Daily cash call between CMO and DMO to further link debt and cash planning
# Improve end-to-end liquidity management processes – workplan

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<tbody>
<tr>
<td>Improve HR capability at Dir. PKN and at contributors of CPIN</td>
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<tr>
<td>Improve CPIN</td>
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<td>• Develop a policy to outline new CPIN process and list CPIN members</td>
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<td>• Develop SOP link to outline processes in great detail as well as other compliance mechanisms</td>
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<td>• Propose changes to job description of CPIN members and linking KPIs of members to quality of data forecasts submitted and level of participation in CPIN meetings</td>
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<td>• Propose extra budget for more frequent CPIN meetings</td>
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<td>Improve flexibility in issuing short term T-bills/SPN to smooth cash planning</td>
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<tr>
<td>• Propose change to business process to allow 30-day T-bills</td>
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<td>• Socialization to primary dealers and Central Bank</td>
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<td>Detail out ALM process</td>
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<td>• Develop a policy outlining structure of ALM committee as well as agenda and frequency meetings in greater detail</td>
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<td>• Develop an ALM meeting agenda including what kind of inputs and decisions needed, and clear separation between items discussed during CPIN and ALM</td>
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<td>Develop daily coordination between CMO-DMO-BI</td>
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<tr>
<td>• Develop policy and SOP to outline daily cash call to be hosted by CMO and attended by DMO and BI</td>
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<td>Develop IT-enabled CPIN data sharing</td>
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<td>• Grant access to different stakeholders to CPIN</td>
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<td>• Display IT ALM data on CPIN interface</td>
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<td>• Develop mechanism to track, measure and report data accuracy submitted by member to E1s</td>
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<td>Integrate CPIN/IT ALM into SPAN</td>
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<tr>
<td>• Develop additional module in SPAN that houses historical transactions, CPIN-submitted forecast, IT ALM modeled forecast data</td>
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</tbody>
</table>
## Improve end-to-end liquidity management processes – potential regulatory and legal risk

<table>
<thead>
<tr>
<th>Risks</th>
<th>Mitigation</th>
</tr>
</thead>
<tbody>
<tr>
<td>▪ Difficulties in onboarding BI to daily cash call</td>
<td>▪ Staged approach to BI and development of MOF-BI MOU that outlines different coordination mechanisms for liquidity and risk management purposes</td>
</tr>
<tr>
<td>▪ Short term T-bills might affect monetary condition</td>
<td>▪ Coordination with BI</td>
</tr>
<tr>
<td>▪ Detailed mechanisms of using 30-day T-bills to smooth out cash balances are not yet outlined in policy</td>
<td>▪ Propose policy to guide operations</td>
</tr>
</tbody>
</table>
Contents

▪ Context and introduction

▪ Disbursement and receipts

▪ Liquidity management
  – Context and introduction
  – Initiative 4: Improve overall liquidity management processes
    ▪ Charter and implementation plan
  – Initiative 5: Assess TDR capabilities and ensure prudence in its operations
  – Initiative 6: Guide cash planning with clearly defined reserve balance targets
  – Initiative 7: Improve spending forecasting from Satkers
  – Initiative 8: Tighten liquidity management coordination with the Central Bank
  – Initiative 9: Expand TSA coverage
  – Initiative 10: Establish short-term foreign exchange management strategy and guidelines for liquidity management

▪ Debt market development
Best practice liquidity management requires robust cash planning that gets inputs on cash operations, and leads on operations mechanisms to deal with cash shortages and excesses.

- Debt servicing
- Debt strategy and risk management

- Disbursement and receipts
- TSA/cash balances
- Cash flow forecasting
- Cash-debt planning

- Market operations:
  - Debt issuance and redemptions
  - Short term cash placements
  - Bond trading
  - Bond switching
  - Repos and reverse repos

- Market analysis

- Reporting

- Monetary coordination
Currently there are duplicative processes by DJPU and DJPB leading to suboptimal cash planning.

Both DJPB and DJPU perform two separate cash planning processes.

- **Disbursement and receipts**
- **TSA/cash balances**
- **Cash flow forecasting**
- **Debt strategy and risk management**
- **Debt planning**
- **Cash planning**
- **Bond buy backs, repos, reverse repos**
- **Short-term cash investments**
- **Debt issuance and redemptions, and other market mechanisms e.g. bond buy backs, switching**

Decisions for market operations come from two different planners.
ALM committee has been set up to improve coordination; need to shift focus to making strategic decisions on risk and liquidity

An ALM committee has been formed to perform overall risk mitigation involving key stakeholders within MOF

- ALM committee has been formed in 2013
  - Minister of Finance as chair, all Ec. 1 MOF as members
  - Secretariat (working group) consisting of select Ec. 2 across different MOF’s DGs
- ALM has been mandated to take decisions on risk mitigation policies for liquidity risk, financing risk, investment portfolio, and balance sheet
- The main ALM committee conducts monthly meeting while the Secretariat have bi-weekly meetings and continuous data exchange
- The Secretariat provides supporting role by:
  - Provide projection on cash / financing needs based on forecast from ALM IT application and relevant stakeholders
  - Analyze market development and macroeconomic conditions
  - Analyze off-balance sheet items
  - Propose recommendations for risk management government investment – short term through short-term cash placement and medium/long term including through SLA

ALM meetings need to shift focus to making strategic decisions on liquidity management and discussing sovereign risks

- Current ALM meetings have been very focused on discussing macroeconomic outlook and cash forecasts
  - Lengthy discussions on macro and market outlook take away focus from making crucial decisions
  - Discussions on forecasts should have been done earlier on CPIN meetings
- Need to shift focus of ALM discussions to a more comprehensive view on risk and better cash-debt coordination, with two main goals:
  - Approve strategic annual and quarterly liquidity management decisions on: cash reserve target, debt raising strategy, investment strategy and propose liquidity risk mitigation actions under liquidity crises
  - Decide on overall sovereign risk exposure and risk threshold per key risk area, as well as risk mitigation actions as necessary
- ALM meetings to be run quarterly instead of monthly
### Four main actions to facilitate end-to-end liquidity management

<table>
<thead>
<tr>
<th>Improved CPIN</th>
<th>More detailed ALM process</th>
<th>Daily CMO-DMO-BI coordination</th>
<th>IT enabled CPIN data sharing</th>
</tr>
</thead>
<tbody>
<tr>
<td>- CPIN will be held bi-weekly to guide debt issuance and short-term cash investments</td>
<td>- ALM will be held quarterly and will make major decisions on debt/cash strategies and risk mitigation actions</td>
<td>- Daily cash call will be outlined in SOP to facilitate information sharing between CMO and DMO</td>
<td>- An IT platform will be developed to share CPIN and other cash forecasts data with all related parties including BI</td>
</tr>
<tr>
<td>- CPIN will be fixed as part of member’s job description and linked to their KPIs to ensure commitment and enhance data quality</td>
<td>- A clearer ALM process will be defined further in a policy and an institutionalized ALM might be formed to strengthen process</td>
<td>- BI will be part of the call to assist monetary operations</td>
<td>- In the long run, both CPIN and IT ALM will be integrated with SPAN</td>
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</tbody>
</table>
We propose the following coordination mechanisms to coordinate cash-debt planning:

<table>
<thead>
<tr>
<th>Frequency</th>
<th>Coordination mechanism</th>
<th>Objectives / key decisions</th>
</tr>
</thead>
</table>
| Annual    | Annual strategic ALM meeting | Review on target cash balance  
|           |                        | Annual debt strategy  
|           |                        | Annual investment strategy  
|           |                        | Review on long term policy |
| Quarterly | ALM Committee meeting | Quarterly debt strategy and limits  
|           |                        | Quarterly investment strategy |
| Monthly   | ALM Secretariat meeting | Materials for ALM committee; for meeting and/or for distribution (if no meeting that month)  
|           |                        | Discussion on cash outlook for the rest of the year  
|           |                        | Decision to call contingent ALM meeting |
|           | Contingent ALM committee meeting | Risk mitigation / contingency planning decisions, incl. withholding funds  
|           |                        | Proposal to budget changes |
| Bi-weekly | CPIN meeting | Cash position outlook, focusing on the next 2 weeks and one month |
| Daily/ continuous | IT-enabled CPIN data sharing | Cash position outlook for the rest of the year |
| Bi-weekly | CMO-DMO-BI meeting prior to indicative debt issuance announcement | Indicative amount and type of debt to be announced  
|           |                        | Investments for the next two weeks and one month  
|           |                        | Monetary coordination with BI |
| Daily/ continuous | Cash-debt data sharing and daily call of cash position and daily cash flow forecast | Daily monitoring and change in debt/investment strategy as needed |
Closer cash-debt coordination needed to guide biweekly debt and later on investment decisions

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<tr>
<th>Mon</th>
<th>Tues</th>
<th>Wed</th>
<th>Thurs</th>
<th>Fri</th>
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<tbody>
<tr>
<td>CPIN meeting</td>
<td>CMO-DMO-BI meeting</td>
<td>CMO-DMO-BI meeting guides cash planning incl. debt issuance and investment for the next one month</td>
<td>Debt issuance indicative announcement</td>
<td>Revises previously planned debt issuance as necessary</td>
</tr>
<tr>
<td>ALM Committee meeting</td>
<td>Debt auction</td>
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<td>Decides on issuance for the next two weeks</td>
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</table>

**Week 1**
- CPIN meetings held bi-weekly preceding CMO-DMO-BI meetings

**Week 2**
- Debt auction
- Debt auction
- ALM Secretariat meeting
Proposed ALM meeting agenda: approve MOF’s liquidity strategy for the next 3 months

ALM committee will be presented with inputs to quarterly liquidity strategy

- Previous quarter’s budget realization (revenue, expenditure, financing) vs. forecast
- Resulting cash balance positions
- Reasons for deviations
- Scorecard for forecast accuracy by different CPIN members
- Forecast of revenue, expenditure, and resulting cash balances
- Flagging major in/outflows and items with high uncertainty presented under different scenarios as necessary
- Also includes high-level forecast for the rest of the year
- Outlook on macro-variables and market conditions
- Projections for seven key macro variables and market factors, e.g. interest rate, forex rate, etc.
- Details prepared as back-up but not part of main presentation

ALM committee will discuss and make decisions on quarterly cash-debt strategy and liquidity risk mitigation

- Quarterly cash-debt strategy:
  - Debt issuance plan, incl. amount, currency mix, duration, debt raising plan
  - Investment on excess cash
  - Change in reserve target, if necessary
- Risk mitigation actions under times of liquidity crisis/shortage, including proposal for change in budget/debt limit
Contents

▪ Context and introduction

▪ Disbursement and receipts

▪ Liquidity management
  – Context and introduction
  – Initiative 4: Improve overall liquidity management processes
  – Initiative 5: Assess TDR capabilities and ensure prudence in its operations
    ▫ Charter and implementation plan
    ▫ Supporting analysis
  – Initiative 6: Guide cash planning with clearly defined reserve balance targets
  – Initiative 7: Improve spending forecasting from Satkers
  – Initiative 8: Tighten liquidity management coordination with the Central Bank
  – Initiative 9: Expand TSA coverage
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▪ Debt market development
Contents

▪ Context and introduction
▪ Disbursement and receipts

▪ Liquidity management
  – Context and introduction
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▪ Debt market development
## Objective:
To build capabilities to invest excess cash balance linked to overall cash and debt planning, through a single face to the market

### Background
- Excess cash is currently invested at the central bank at a placement account earning 65% * BI rate
- DJPB has built a TDR that will be enabled to invest cash in commercial bank, trade SBN, and perform repo/excess repo
  - Having these capabilities built within DJPB’s TDR is risky and therefore a thorough assessment needs to be performed on what are the imperatives before each capability is enabled
  - There is no formal roadmap that outlines when each capability will be enabled

### Changes in operational models
- Road map of TDR including:
  - Re-assessment of all the possible mechanisms, and when each mechanism will be enabled
  - List of capabilities and imperatives required to start each mechanism
  - Operational guidelines
- Cost benefit analysis of investment outside of Central Bank is thoroughly done; Central Bank fully informed of Treasury commercial placement activities, and both MOF and the Central Bank coordinate on maximum amount of investment allowed

### Summary of proposed actions
- Ensure prudence in placement in central bank
  - Develop cost benefit analysis to model total return to whole government by company excess return vs. cost of monetary policy; to include various scenarios (base case, worst case)
  - Coordinate with central bank the maximum volume of placement and type of placement allowed
  - Formalize planned date for TDR to start placement in commercial banks
- Create a full TDR roadmap

### Impact and KPIs
- NA

### Enablers for success
- Coordination with the Central Bank
- Highly capable personnel

### Key outcomes
- **2013**
  - Cost benefit analysis model of placement in commercial banks
- **2014**
  - Full TDR roadmap
  - Proposal to enable DJPU transact SBN

### Governance structure
- **Champion**: Direktur Pengelolaan Kas Negara
- **Owner**: Subdit Perencanaan dan Pengendalian Kas (DJPB) dan Subdit Portofolio dan Risiko Utang (DJPU)
- **Member**
  - Kasi Penyusunan Strategi Pengelolaan Kas dan Penyediaan Dana
  - Kasi Perencanaan Kas
  - Kepala Sub Direktorat Analisis Keuangan dan Pasar SUN
Assess TDR capabilities and ensure prudence in its operations – changes in operational model

**Current State**

- No TDR road map that outlines what investment mechanisms will be enabled when, and what capabilities need to be in place to perform those.
- Planned investments in commercial banks is to be started, but coordination mechanism with the Central Bank has not been developed, with risky consequences.

**End state business processes (2025)**

- Road map of TDR including:
  - Re-assessment of all the possible mechanisms, and when each mechanism will be enabled.
  - List of capabilities and imperatives required to start each mechanism.
  - Operational guidelines.
- Cost benefit analysis of investment outside of Central Bank is thoroughly done; Central Bank fully informed of Treasury commercial placement activities, and both MOF and the Central Bank coordinate on maximum amount of investment allowed.
Assess TDR capabilities and ensure prudence in its operations – workplan

<table>
<thead>
<tr>
<th>Actions</th>
<th>2013 Q1</th>
<th>2013 Q2</th>
<th>2013 Q3</th>
<th>2013 Q4</th>
<th>2014 Q1</th>
<th>2014 Q2</th>
<th>2014 Q3</th>
<th>2014 Q4</th>
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<tr>
<td>Ensure prudence in placement outside of the Central Bank</td>
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<td>▪ Develop cost benefit analysis to model total return to whole government by company excess return vs. cost of monetary policy; to include various scenarios (base case, worst case)</td>
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<td>▪ Coordinate with central bank the maximum volume of placement and type of placement allowed</td>
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<tr>
<td>▪ Formalize planned date for TDR to start placement in commercial banks</td>
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<td>Assess overall TDR capabilities and stage instruments that can be used</td>
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Assess TDR capabilities and ensure prudence in its operations – potential regulatory and legal risk

<table>
<thead>
<tr>
<th>Risks</th>
<th>Mitigation</th>
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<tr>
<td>▪ There is a PMK that already outlines TDR capabilities that includes SBN trading, repo/reverse repo</td>
<td>▪ Proposal to amend PMK as necessary</td>
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<tr>
<td>▪ Potential BPK audit due to costs involved in building TDR capacity that might not be utilized</td>
<td>▪ Transition equipment to DJPU TDR and for other uses</td>
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</tbody>
</table>
Contents

- Context and introduction
- Disbursement and receipts
- Liquidity management
  - Context and introduction
  - Initiative 4: Improve overall liquidity management processes
  - Initiative 5: Assess TDR capabilities and ensure prudence in its operations
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- Debt market development
TDR Executive Summary

- Currently **MOF is placing excess cash holding at BI**, earning 65% BI rate; DJPB is building TDR capabilities in the hope of earning higher returns
- There are **various mechanisms through which countries** invest their surplus cash, with varying degree of risks and skill required (Central Bank placement, commercial bank placements, bond buy-backs, repos)
- MOF's **current TDR situation is problematic** for a few reasons:
  - MOF and BI have not finalized the mechanisms by which MOF can use this TDR without affecting **monetary policy**
  - MOF has **two faces in the market** (DJPU doing bond issuances, redemptions and exchange)
  - **Undeveloped market** (no counterpart, no legislative framework, no system)
  - Lack of trading **skills**
  - Two TDRs are redundant and are more **costly** than necessary
- After Central Bank Placements, MOF should start with placement in **commercial banks** under two strict conditions
  - MOF needs to build **coordination mechanism** with the Central Bank to ensure that investments do not disrupt monetary policy
  - MOF should only invest in **secured collateralized instruments**
- Before using more sophisticated investment mechanisms, MOF has to **merge its two TDRs** to ensure a single face to the market
  - **Bond buy backs** should only be done under **structural surpluses or to manage market liquidity**
  - **Repo transactions requires advanced skills and a functioning repo market**
- Therefore, we should develop TDR capabilities taking into consideration planned CMO/DMO merger
Currently, MOF keeps excess cash in the Central Bank earning 65% of prevailing BI Rates

**Cash management through 100% investment in Central Bank**

**Background**
- Currently, cash management function is done by Dir. of Cash Management in accordance to *Keputusan Bersama antara Menkeu dan Gubernur BI no 17/KMK.05/2009 and 11/2/KPE.GBI/2009 of Cash Management Coordination*
- Excess cash currently placed with Central Bank

**Key benefits**
- Guaranteed returns without need for sophistication
- Easier for Central Bank to issue monetary policy
- Consistent market signal as actions taken by Central Bank is coordinated
- Cost efficiency with only one TDR to handle

**Key adverse Points**
- Passive management of excess cash not developing trading expertise at Treasury
- Fixed return on cash holdings; potential to yield higher return in the market untapped

- Balances investment in central bank is the norm for developing and emerging countries.
- The benefit is to only set up one structure of expertise.

**SOURCE:** MOF Transformation Team, Treasury Grand Design
DJPB is launching a TDR with the aim of earning more returns from excess cash

MOF’s right to set up TDR is regulated in Undang-undang No1/2004 tentang perbendaharaan negara (tbc)

<table>
<thead>
<tr>
<th>Peraturan Pemerintah No.39 TAHUN 2007 pengelolaan uang negara/daerah</th>
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<tbody>
<tr>
<td>▪ International and Domestic Borrowing</td>
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<tr>
<td>▪ Sale of Sovereign Bond and Treasury Bill</td>
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<tr>
<td>▪ Government money placement in Central Bank or Commercial Bank</td>
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<tr>
<td>▪ Buy Back of Treasury Bill</td>
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</tbody>
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<thead>
<tr>
<th>Peraturan Menteri Keuangan No.03/PMK.05/2010 tentang Pengelolaan Kelebihan/ Kekurangan Kas</th>
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<tbody>
<tr>
<td>▪ Article 4 governs options for idle cash management:</td>
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<tr>
<td>– Placement in Central Bank RKUN</td>
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<tr>
<td>– Placement in Commercial Bank</td>
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<tr>
<td>– Purchase of SBN from secondary market</td>
</tr>
<tr>
<td>– Reverse Repo</td>
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<tr>
<td>▪ Article 15 governs options for insufficient cash management</td>
</tr>
<tr>
<td>– Withdrawal from Central Bank</td>
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<tr>
<td>– Withdrawal from Commercial Bank</td>
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<tr>
<td>– Sale of SBN</td>
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<tr>
<td>– Repo</td>
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<td>– Issuance of SPN in primary market</td>
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<tr>
<th>Foreign Exchange</th>
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</thead>
<tbody>
<tr>
<td>▪ Cash management</td>
</tr>
<tr>
<td>▪ Sell/Buy: Spot, Forward &amp; Swap</td>
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</tbody>
</table>

SOURCE: Treasury Dealing Room Presentation 2013, Grand Design Treasury Dealing Room
DJPB is building the capabilities for a TDR

- Formal MoU with Central Bank, finalization on regulation and organizational structure design is still in progress
- New TDR would require 24 employees
- Planned to go live in September 2013 and launched in October 2013
- Dealing Room infrastructure includes
  - Direct Dealing System and Communication System
  - Monetary Market Information System (Reuters and Bloomberg)
  - Treasury Application
- Contractual set up cost reaches IDR 33 billions
- Trainings for TDS operators has been completed and operators are currently sent on internship programs in various State Owned Commercial Banks Trading Rooms

SOURCE: Treasury Dealing Room Presentation 2013, Grand Design Treasury Dealing Room
Having a TDR to perform investments is in line with Treasury’s transformation in cash management in becoming a best-practice organization.

**Sequencing of cash management reforms**

<table>
<thead>
<tr>
<th>Addressing fundamentals</th>
<th>Preparing cash plans and developing cash management skills</th>
<th>Going beyond prerequisites and basic cash planning</th>
<th>Introducing active cash management</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regulatory framework</td>
<td>Short-term cash flow projections</td>
<td>Limited “lumpiness”/seasonality in cash flow</td>
<td>Active investment of surpluses in financial markets</td>
</tr>
<tr>
<td>Governance</td>
<td>Information-sharing arrangements</td>
<td>Minimum cash balances</td>
<td>Banking sweeping arrangements</td>
</tr>
<tr>
<td>Operational TSA</td>
<td>Cash planning</td>
<td>Remuneration of idle balances</td>
<td>Security of short term placements</td>
</tr>
<tr>
<td>Less physical cash</td>
<td></td>
<td>Expansion of TSA coverage</td>
<td>Refined projections</td>
</tr>
<tr>
<td>Government accounting</td>
<td></td>
<td>Cash-debt management coordination</td>
<td>Strengthen coordination</td>
</tr>
<tr>
<td>Less cash advances</td>
<td></td>
<td>Clear relationship with the central bank</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Efficient payment systems</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Formalized relationship with commercial banks</td>
<td></td>
</tr>
</tbody>
</table>

SOURCE: Modernizing Cash Management by I. Lieners of IMF; DJPB
There are various mechanisms through which countries invest their surplus cash, with varying degree of risks

<table>
<thead>
<tr>
<th>Complexity</th>
<th>Mechanism</th>
<th>Sample country</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Placement at the Central Bank</td>
<td>The AOFM invests in term deposits with the Reserve Bank of Australia as part of its cash management role.</td>
</tr>
<tr>
<td></td>
<td>Unsecured term deposit in commercial banks</td>
<td>France performs very short-term unsecured deposits that are highly liquid with primary dealers and Eurozone Treasuries</td>
</tr>
<tr>
<td></td>
<td>Collateralized term deposit in commercial banks</td>
<td>Prior to 2008 the US Treasury auction excess funds via Term Investment Option (TIO) that requires collateral—typically TT&amp;L collateral and commercial loans held in a Borrower-in-Custody (BIC) arrangement</td>
</tr>
<tr>
<td></td>
<td>Bond buy backs</td>
<td>Canada conducts cash-management bond buybacks (CMBBs)</td>
</tr>
<tr>
<td></td>
<td>Repo and reverse repo</td>
<td>Sweden conducts reverse repos in government securities or mortgage bonds, or use tri-party repos in times of cash surpluses</td>
</tr>
</tbody>
</table>
Risk level affects choices of countries in what kind of instruments they choose

The US Treasury ceased investment in the private sector post-crisis as it was deemed to volatile; currently excess cash is only kept at the Fed

- Prior to 2008, excesses above the TGA (TSA) were invested in TT&L accounts that could earn interests through 3 mechanisms:
  - Conventional Main Account, earning interests of federal funds rate minus 25bp
  - Term Investment Option (TIO) program; short term placement ranging from 1 to 21 days (mostly 1-3 days) at commercial banks, done through reverse auctions
    - Deemed very low risk
    - Interest rates 18bp above Main Account rates
    - Post-crisis risks looked too high and this ability is no longer used, with no future plan to return
  - Overnight investments in repurchase agreements (repo)
    - Fully secured and backed
    - Limited activities in low volume
    - Interest rates 21bp above Main Account rates
- However post crisis, all balances have been kept in the TGA as expenditure became extraordinarily volatile, demand of Treasury surpluses uncertain, higher risks and higher interests paid by the Fed for reserve balances of commercial sector
MOF will need to resolve a few key issues before it can launch the TDR

Key concerns in running MOF’s TDR

- MOF and BI have not finalized the mechanisms by which MOF can use this TDR without affecting monetary policy
- MOF will have two faces in the market (with DJPU doing bond issuances, redemptions and exchange)
- MOF has not yet fully built the skills and capabilities to effectively run the different mechanisms enabled by TDR
- Cost duplication incurred by having two TDRs
- Undeveloped market to perform more sophisticated operations (e.g. limited banking counterpart, missing legislative framework, no current system in place for some trades)

- MOF needs to reassess whether the added returns outweighs the risks of launching the TDR
- Additional returns from TDR will most likely be offset with increased costs for BI to conduct monetary operations
Placement of cash outside of the Central Bank risks disrupting the Central Bank’s monetary operations

“Costs will go up as banks bid to take government money, and this conflicts with Central Bank’s aim to lower cost of fund”

“Placement of excess cash in the market will distort the PUAP volatility – the market due to its volume”

“It is very costly for the Central Bank to absorb this much liquidity”

“TDR enables Treasury to place the money in the market for up to 90 days and this fund might not be used in the real sector”

“Central Bank have less flexibility in controlling / stabilizing forex”

“There might be conflicting signals in the market. For example, if the government floods the market with excess cash while there is tightening, the market will be confused”

Coordination with the Central Bank on all trades absolutely necessary to ensure that Treasury market operations do not affect monetary policy

SOURCE: Central Bank interview
5 MOF will have two faces in the market leading to inefficiency and conflicting signals

<table>
<thead>
<tr>
<th>Challenges with Current Situation</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 The TDRs might trade with each other</td>
</tr>
<tr>
<td>The two TDRs might bid against market instrument issued by the other party, entirely failing the issuance purpose</td>
</tr>
<tr>
<td>2 Uncoordinated pricing</td>
</tr>
<tr>
<td>Different pricing to DJPU’s bond operations might be arbitraged by a third party</td>
</tr>
<tr>
<td>3 Send conflicting signal to market</td>
</tr>
<tr>
<td>Opposing operations done by DJPU and DJPB could confuse the market</td>
</tr>
</tbody>
</table>

“I am horrified to know that Indonesia is planning to set up another TDR as it will result in three market interfaces which will complicates everything”

– Bond market expert

- **Debt and cash management offices will be merged in the medium term**
- **Prior to the merger:**
  - Need to revisit the prudence of launching DJPB’s TDR
  - At the very least, need to ensure that DJPB and DJPU are fully coordinated
Repo market liquidity levels are still low

The Indonesian repo market has significantly low volumes compared to inter-bank money market or bond market volumes

Key challenges

- Low counter-party limits for inter-bank repos: Low limits are driven by the regulation on single bank lending limits
- Limited access to central bank repos: Insurance companies do not have access to central bank repos for government bonds
- High repo charges: currently repo charges are ~200bps spread above the overnight rate for repos from the central bank and >200bps for repos from other counter-parties (e.g. banks)

MoF is in talks with OJK, the Indonesian regulator, on the regulator’s ongoing review and proposed revision of the Master Repo agreement

SOURCE: BIS, Central Banks, BI presentations, IMF, DJPU, market feedback
TDR should start with placement in commercial banks; two strict conditions need to be fulfilled before this capability is enabled.

Difficulty

- Placement at the Central Bank
- Term deposit in commercial banks
- Bond buy backs
- Repo and reverse repo

Existing

Requirements
- Coordination mechanism BI
- Invest only in collateralized instruments

2014
If MOF were to enable placement in commercial banks in January 2014, some coordination issues need to be resolved quickly.

<table>
<thead>
<tr>
<th>Action steps to ensure coordination with BI</th>
<th>Finish date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Developing cost benefit analysis to model total return to whole government</td>
<td>Nov 2013</td>
</tr>
<tr>
<td>Coordinating with BI the maximum volume of placement and type of placement allowed</td>
<td>Jan 2014</td>
</tr>
<tr>
<td>Designing coordination mechanisms and ensure involvement of BI, e.g. daily cash call, biweekly CMO-DMO-BI meeting</td>
<td>Jan 2014</td>
</tr>
<tr>
<td>Informing BI of all Treasury cash activities including investments in the banking sector</td>
<td>Continuing</td>
</tr>
</tbody>
</table>
MOF should only invest in secured collateralized investments

“Assuming no monetary issues, good practice is to have collateralized investment—reverse repo is the most ideal, compared to term deposit”

– Bond market expert

“Investment in commercial banks should not be in huge amounts. When you need cash badly, those commercial banks are probably under stress as well. You need to pressure test the returns against market shocks (e.g., the 1998 crisis, recent depreciation), and see how quickly you can adapt to the worst cases under stress. Use commercial banks as long as they are secured.

The US Treasury focused on repos pre-crises; they earned more than commercial bank rates.”

– US Treasury expert

Australia has ceased to invest in unsecured term deposits due to its high risks

- Prior to H1 2011, investments were done in two different instruments:
  - Term deposits at the RBA, earning interest rates based on Overnight Indexed swap Rates
  - Negotiable certificates of deposit (NCDs) issued by highly-rated Authorised Deposit-taking Institutions (ADIs), earning prevailing market rates

- However, unsecured lending to NCDs were ceased in July 2011 as the additional returns on this lending relative to returns on deposits at the RBA were insufficient to justify the additional risk at that time

SOURCE: AOFM, expert interviews
Before using any more sophisticated investment mechanisms, MOF has to merge its two TDRs to ensure a single face to the market.

- **Requirements**
  - Single TDR; merging of CMO/DMO
  - Bond buy backs should only be done by DMO under structural surpluses or to manage market liquidity
  - Repo transactions requires advanced skills and a functioning repo market

---

- **Difficulty**
  - Placement at the Central Bank: Existing
  - Term deposit in commercial banks
  - Bond buy backs
  - Repo and reverse repo

**2015/16**
Bond buy backs should only be done in case of structural cash surpluses or to promote market liquidity

<table>
<thead>
<tr>
<th>Role of bond buy backs in debt and cash management</th>
<th>It is not advisable to use bond buybacks as a tool to smoothen cash balances</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reduce cash surplus</td>
<td>“Bond buy back is irreversible and it should only be done in time of structural cash excesses. However this could be very damaging – <em>unhelpful in development of market</em>” – Bond market expert</td>
</tr>
<tr>
<td>Promote market liquidity</td>
<td>Cash management buybacks also have two unique disadvantages:</td>
</tr>
<tr>
<td></td>
<td>- The need to replace, at some later date, the notes bought back would increase month-to-month variation in note issuance</td>
</tr>
<tr>
<td>Smooth cash balances</td>
<td>- The Treasury would suffer economic loss if replacement notes are sold at yields higher than the yields on the notes bought back</td>
</tr>
<tr>
<td></td>
<td>“Temporary bond purchase will overhang the market. The price of bonds in the market will not go up because the market is uncertain when government will release more bonds in the market. <em>This distorts the working of the market. Repo is the much preferred option</em>” – Bond market expert</td>
</tr>
</tbody>
</table>

Enhance the ability of Treasury officials to limit the accumulation of large – and sometimes costly – Treasury cash balances

Give Treasury officials the ability to actively promote the liquidity of the new issue markets – by instituting a program of buying back outstanding debt on a regular basis and funding the purchases with larger offerings of new debt

Enhance the ability of Treasury officials to manage the liquidity of the new issue markets when deficits are declining – by allowing them to postpone a decision to discontinue a series without also being compelled to shrink new issue sizes

Enhance the ability of Treasury officials to smooth week-to-week fluctuations in Treasury cash balances

Enhance the ability of Treasury officials to limit the accumulation of large – and sometimes costly – Treasury cash balances

MOF needs to build capabilities needed to perform repos and reverse repos

Prerequisites for repos and reverse repos

- Competent, skillful staff
- Settlement system
- Banking sector counterpart
- Legislative framework
- Liquid enough market to handle collateral
- Liquid repo market (helpful but not necessary)
Investments need to be prudent, and development of TDR capabilities needs to take into consideration planned CMO/DMO merger.

Key recommendations:

- Start TDR with placement in commercial banks
- Build coordination with BI before placement of cash outside of BI
- All placement should be secured and collateralized

- Bond buy backs and repos should only be done post CMO-DMO merger
- Bond buy backs should only be done by DMO in structural cash excesses and in management of issuances
- Build capabilities to start repos
Contents

- Context and introduction
- Disbursement and receipts
- **Liquidity management**
  - Context and introduction
  - Initiative 4: Improve overall liquidity management processes
  - Initiative 5: Assess TDR capabilities and ensure prudence in its operations
  - Initiative 6: **Guide cash planning with clearly defined reserve balance targets**
    - Charter and implementation plan
    - Initiative 7: Improve spending forecasting from Satkers
    - Initiative 8: Tighten liquidity management coordination with the Central Bank
    - Initiative 9: Expand TSA coverage
    - Initiative 10: Establish short-term foreign exchange management strategy and guidelines for liquidity management
- Debt market development
Contents

- Context and introduction
- Disbursement and receipts

- Liquidity management
  - Context and introduction
  - Initiative 4: Improve overall liquidity management processes
  - Initiative 5: Assess TDR capabilities and ensure prudence in its operations
  - Initiative 6: Guide cash planning with clearly defined reserve balance targets

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    - Initiative 9: Expand TSA coverage
    - Initiative 10: Establish short-term foreign exchange management strategy and guidelines for liquidity management

- Debt market development
Guide cash planning with clearly defined reserve balance targets

**Objective:** To set a new cash reserve balance target including total cash balance target to guide cash/debt planning

<table>
<thead>
<tr>
<th>Background</th>
<th>Changes in operational models</th>
<th>Impact and KPIs</th>
</tr>
</thead>
</table>
| ▪ RKUN reserve balance target is set at IDR 2 Trillion to optimize cash holding while ensuring liquidity for disbursements, with no overall cash target | ▪ A new reserve balance target at RKUN and overall level to guide cash planning including debt issuance, taking into account:  
  – Risk tolerance  
  – Volatility in cash flow  
  – Accuracy of forecasting  
  – Capacity in raising fund  
  – Speed in raising fund  
  – Contingency plan in place | N/A |

<table>
<thead>
<tr>
<th>Enablers for success</th>
<th>Summary of proposed actions</th>
<th>Governance structure</th>
</tr>
</thead>
</table>
| ▪ Analytical skills to model total cash needed on hand | ▪ Analyze and select methodology to set reserve balance target  
 ▪ Calculate an appropriate reserve balance target based on historical pattern and future policies and assumptions  
 ▪ Propose the reserve balance target to ALM committee and formalize it in a policy | Champion : Direktur Pengelolaan Kas Negara  
 Owner : Subdit Perencanaan dan Pengendalian Kas (DJPB) dan Subdit Portofolio dan Risiko Utang (DJPU)  
 Member  
 ▪ Kasi Penyusunan Strategi Pengelolaan Kas dan Penyediaan Dana  
 ▪ Kasi Perencanaan Kas  
 ▪ Kepala Sub Direktorat Analisis Keuangan dan Pasar SUN |

<table>
<thead>
<tr>
<th>Key outcomes</th>
<th></th>
</tr>
</thead>
</table>
| 2014:  
 ▪ New targets set |  |
Guide cash planning with clearly defined reserve balance targets – changes in operational model

<table>
<thead>
<tr>
<th>Current State</th>
<th>End state business processes (2025)</th>
</tr>
</thead>
<tbody>
<tr>
<td>▪ RKUN reserve balance target is set at IDR 2 Trillion to optimize cash holding while ensuring liquidity for disbursements, with no overall cash target</td>
<td>▪ A new reserve balance target at RKUN and overall level to guide cash planning including debt issuance, taking into account:</td>
</tr>
<tr>
<td></td>
<td>– Risk tolerance</td>
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<td></td>
<td>– Volatility in cash flow</td>
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<tr>
<td></td>
<td>– Accuracy of forecasting</td>
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<td>– Capacity in raising fund</td>
</tr>
<tr>
<td></td>
<td>– Speed in raising fund</td>
</tr>
<tr>
<td></td>
<td>– Contingency plan in place</td>
</tr>
</tbody>
</table>
Guide cash planning with clearly defined reserve balance targets – workplan

<table>
<thead>
<tr>
<th>Actions</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Q1</td>
</tr>
<tr>
<td>Analyze and select methodology to set reserve balance target</td>
<td></td>
</tr>
<tr>
<td>Calculate an appropriate reserve balance target based on historical pattern and future policies and assumptions</td>
<td></td>
</tr>
<tr>
<td>Propose the reserve balance target to ALM committee and formalize it in a policy</td>
<td></td>
</tr>
</tbody>
</table>
**Guide cash planning with clearly defined reserve balance targets – potential regulatory and legal risk**

<table>
<thead>
<tr>
<th>Risks</th>
<th>Mitigation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current policies set reserve target at IDR 2 Trillion for cash in IDR and USD 1 Million for foreign currency</td>
<td>Proposal to amend set targets and define a total target</td>
</tr>
</tbody>
</table>
Contents

▪ Context and introduction

▪ Disbursement and receipts

▪ Liquidity management
  – Context and introduction
  – Initiative 4: Improve overall liquidity management processes
  – Initiative 5: Assess TDR capabilities and ensure prudence in its operations
  – Initiative 6: Guide cash planning with clearly defined reserve balance targets

  – **Initiative 7: Improve spending forecasting from Satkers**
    ▫ Charter and implementation plan
    ▫ Supporting analysis
  – Initiative 8: Tighten liquidity management coordination with the Central Bank
  – Initiative 9: Expand TSA coverage
  – Initiative 10: Establish short-term foreign exchange management strategy and guidelines for liquidity management

▪ Debt market development
Contents

▪ Context and introduction

▪ Disbursement and receipts

▪ **Liquidity management**
  – Context and introduction
  – Initiative 4: Improve overall liquidity management processes
  – Initiative 5: Assess TDR capabilities and ensure prudence in its operations
  – Initiative 6: Guide cash planning with clearly defined reserve balance targets
  – **Initiative 7: Improve spending forecasting from Satkers**

  ▪ **Charter and implementation plan**
    ▪ Supporting analysis
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▪ Debt market development
# Improve spending forecasting from satkers

## Objective:
To improve spending forecasting from satkers

### Background
- Poor cash forecasting for spending needs due to low compliance from satkers to send spending forecasts, low accuracy of forecasts, and ad hoc spending

### Changes in operational models
- Only major satkers required to send forecast data via an improved AFS¹
- 100% compliance from major satkers in sending high-quality spending forecasts; update on forecasts when payment terms changed
- Compliance and accuracy tracked by DJPB and reported to each K/Ls; potential to introduce recognition to best performing satkers
- More predictable major disbursement needs from advanced commitment information
- AFS integrated to SAKTI to avoid multiple interfaces for satkers

### Impact and KPIs

**2014:**
- 100% major satkers involved
- 95% weekly forecast data submitted by major satkers
- 90% weekly forecast data accuracy

### Summary of proposed actions
- Introduce new AFS
- Enforce submission of forecast data of major satkers prior to payment date according to amount of payment order
- Track satkers’ compliance and accuracy in submitting data and report it in a score card format
- Link SAKTI to AFS when SAKTI is enabled

### Enablers for success
- SPAN / SAKTI launch for commitment data submission
- Linkage of SAKTI to AFS
- Education to major satkers

### Key outcomes

**2014:**
- New AFS launched
- 100% major satkers send spending data
- Performance tracker for satker forecasts started

**2016 (TBD):**
- AFS linked to SAKTI

### Governance structure

**Champion:** Direktur Pengelolaan Kas Negara

**Owner:** Subdit Perencanaan dan Pengendalian Kas (DJPB) dan Subdit Portofolio dan Risiko Utang (DJPU)

**Member:**
- Kasi Penyusunan Strategi Pengelolaan Kas dan Penyediaan Dana
- Kasi Perencanaan Kas
- Kepala Sub Direktorat Analisis Keuangan dan Pasar SUN
- Kepala Sub Direktorat Transformasi Proses Bisnis Internal dan Organisasi

---

¹ AFS stands for Aplikasi Forecasting Satker (Satker Forecasting Application)
### Improve spending forecasting from satkers – changes in operational model

<table>
<thead>
<tr>
<th>Current State</th>
<th>End state business processes (2025)</th>
</tr>
</thead>
<tbody>
<tr>
<td>▪ All satkers required to send forecast data via AFS</td>
<td>▪ Only major satkers required to send forecast data via an improved AFS</td>
</tr>
<tr>
<td>▪ Low compliance from satkers to send spending forecast</td>
<td>▪ 100% compliance from major satkers in sending high-quality spending forecasts</td>
</tr>
<tr>
<td>▪ Low accuracy of forecast data sent</td>
<td>▪ Compliance and accuracy tracked by DJPB and reported to each K/Ls; potential to introduce recognition to best performing satkers</td>
</tr>
<tr>
<td>▪ Many ad hoc spending</td>
<td>▪ More predictable major disbursement needs from advanced commitment information</td>
</tr>
<tr>
<td>▪ Satkers input data separately to AFS and to SPM application</td>
<td>▪ AFS integrated to SAKTI to avoid multiple interfaces for satkers</td>
</tr>
</tbody>
</table>

1 AFS stands for Aplikasi Forecasting Satker (Satker Forecasting Application)
## Improve spending forecasting from satkers – workplan

<table>
<thead>
<tr>
<th>Actions</th>
<th>2014</th>
<th></th>
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<th></th>
<th>2015</th>
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<th>2016</th>
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</thead>
<tbody>
<tr>
<td>Introduce new AFS</td>
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<tr>
<td>Link SAKTI to AFS when SAKTI is enabled</td>
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</tbody>
</table>

1 AFS stands for Aplikasi Forecasting Satker (Satker Forecasting Application)
## Improve spending forecasting from satkers – potential regulatory and legal risk

<table>
<thead>
<tr>
<th>Risks</th>
<th>Mitigation</th>
</tr>
</thead>
<tbody>
<tr>
<td>NA</td>
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</tr>
</tbody>
</table>
Contents

▪ Context and introduction

▪ Disbursement and receipts

▪ Liquidity management
  – Context and introduction
  – Initiative 4: Improve overall liquidity management processes
  – Initiative 5: Assess TDR capabilities and ensure prudence in its operations
  – Initiative 6: Guide cash planning with clearly defined reserve balance targets
  – Initiative 7: Improve spending forecasting from Satkers
    ▪ Charter and implementation plan

▪ Supporting analysis
  – Initiative 8: Tighten liquidity management coordination with the Central Bank
  – Initiative 9: Expand TSA coverage
  – Initiative 10: Establish short-term foreign exchange management strategy and guidelines for liquidity management

▪ Debt market development
Inaccurate estimates show wide deviations from actual cash flows

Realization of cash inflow over estimate¹, Jan 2011 to April 2013

- Measure of forecast accuracy is skewed as forecast data could be updated up to a day before actual cash in/outflows
- While forecast accuracy on revenue and spending has been pretty accurate (~95%), combined they yield <80% accuracy on cash flow forecast

Mostly from IDR 15 Trn overestimated tax revenue

1 Calculated as realization minus estimate of (revenue + net financing - spending)
2 2012 shows a larger deviation from 2011 due to different methodology of measuring accuracy
Potential practices that can be implemented in spending forecasting

### Large Dollar Notification (LDN)
- Agencies must submit all deposits or disbursements of $50m or more
  - Min. 2 business days in advance for transactions between $50 and $500m
  - Min. 5 business days in advance for transactions above $500m
- LDN can be submitted via web (Cashtrack), email, fax, or by phone
- LDN scorecard was developed to measure LDN reporting accuracy
  - Red, yellow, green statuses given to agency based on their accuracy and

### Reporting requirements for certain agencies
- Certain agencies required to report routine daily, weekly, or monthly estimated deposit and disbursement activity as well as rolling forecasts for a 6-week period
- The need for such reporting generally is determined by the magnitude of dollar amounts and the volatility of timing
  - Treasury will work with both agency budget and financial office personnel to set up reporting schedules and forms

### Potential implementation in Indonesia
- Satkers are obligated to submit all spending above Rp. XXX
  - Number of days: xxx
- Could current AFS be improved to be more user-friendly and intuitive? Should more channels be used for satkers to submit forecast data?
- Can we implement a similar scorecard to ensure compliance?
- Which satkers / BUN entities could be obligated to submit more detailed forecast?
Contents

- Context and introduction
- Disbursement and receipts
- Liquidity management
  - Context and introduction
  - Initiative 4: Improve overall liquidity management processes
  - Initiative 5: Assess TDR capabilities and ensure prudence in its operations
  - Initiative 6: Guide cash planning with clearly defined reserve balance targets
  - Initiative 7: Improve spending forecasting from Satkers
  - **Initiative 8: Tighten liquidity management coordination with the Central Bank**
    - Charter and implementation plan
    - Supporting analysis
  - Initiative 9: Expand TSA coverage
  - Initiative 10: Establish short-term foreign exchange management strategy and guidelines for liquidity management
- Debt market development
Contents

- Context and introduction
- Disbursement and receipts
- **Liquidity management**
  - Context and introduction
  - Initiative 4: Improve overall liquidity management processes
  - Initiative 5: Assess TDR capabilities and ensure prudence in its operations
  - Initiative 6: Guide cash planning with clearly defined reserve balance targets
  - Initiative 7: Improve spending forecasting from Satkers
  - Initiative 8: Tighten liquidity management coordination with the Central Bank

**Charter and implementation plan**

- Supporting analysis
  - Initiative 9: Expand TSA coverage
  - Initiative 10: Establish short-term foreign exchange management strategy and guidelines for liquidity management

- Debt market development
**Tighten liquidity management coordination with the Central Bank**

**Objective:** To tighten coordination between cash management and the Central Bank

<table>
<thead>
<tr>
<th>Background</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Coordination with the Central Bank is done on an ad-hoc basis</td>
</tr>
<tr>
<td>- Central Bank is not fully informed of forecast disbursement/receipts of Treasury</td>
</tr>
<tr>
<td>- With Treasury enabling its TDR to place excess cash in commercial bank, coordination with the Central Bank is even more important to ensure that Treasury’s activities will not negatively impact monetary operations</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Changes in operational models</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Daily cash call between CMO-DMO-BI</td>
</tr>
<tr>
<td>- Data sharing of forecasts between CMO and BI including sharing of CPIN data</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Summary of proposed actions</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Develop MOU with BI to include them on daily cash calls and facilitate data sharing</td>
</tr>
<tr>
<td>- Coordination with BI terms and maximum volume of placement in commercial bank by TDR</td>
</tr>
<tr>
<td>- Develop coordination mechanism with BI on forex trades</td>
</tr>
<tr>
<td>- Sharing of CPIN data with BI</td>
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<tr>
<td>- Sharing of daily cash forecast data with BI</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Impact and KPIs</th>
</tr>
</thead>
<tbody>
<tr>
<td>N/A</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Governance structure</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Champion:</strong> Direktur Pengelolaan Kas Negara</td>
</tr>
<tr>
<td><strong>Owner:</strong> Subdit Perencanaan dan Pengendalian Kas (DJPB) dan Subdit Portofolio dan Risiko Utang (DJPU)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Enablers for success</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Successful MOU established with the Central Bank</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Key outcomes</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>2014:</strong></td>
</tr>
<tr>
<td>- MOU with BI on coordination mechanisms</td>
</tr>
<tr>
<td>- Enablement of placement in commercial bank without disrupting monetary policy</td>
</tr>
<tr>
<td>- Enablement of forex trades by MOF without disrupting BI’s overall forex holding strategy and monetary policy</td>
</tr>
<tr>
<td>- Sharing of CPIN and cash forecast data</td>
</tr>
<tr>
<td>- Sharing of market liquidity data by BI</td>
</tr>
</tbody>
</table>
## Tighten liquidity management coordination with the Central Bank – changes in operational model

### Current State
- Coordination with the Central Bank is done on an ad-hoc basis
- Central Bank is not fully informed of forecast disbursement/receipts of Treasury

### End state business processes (2025)
- Daily cash call between CMO-DMO-BI
- Data sharing of forecasts between CMO and BI including sharing of CPIN data
- Data sharing of monetary situation in the market from BI in enabling placement in commercial bank without disrupting monetary policy
Tighten liquidity management coordination with the Central Bank – workplan

<table>
<thead>
<tr>
<th>Actions</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Q1</td>
<td>Q2</td>
</tr>
<tr>
<td>Develop MOU with BI to include them on daily cash calls and facilitate data sharing</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Coordination with BI terms and maximum volume of placement in commercial bank by TDR</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Develop coordination mechanism with BI on forex trades</td>
<td></td>
<td></td>
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<tr>
<td>Enable sharing of CPIN data with BI</td>
<td></td>
<td></td>
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<tr>
<td>Start sharing daily cash forecast data with BI</td>
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<td></td>
</tr>
<tr>
<td>Risks</td>
<td>Mitigation</td>
<td></td>
</tr>
<tr>
<td>-------</td>
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</tr>
<tr>
<td>Difficulty in establishing MOU with BI due to other pending issues</td>
<td>Approach to Central Bank by higher management, and isolate coordination issues into one MOU if necessary</td>
<td></td>
</tr>
</tbody>
</table>
Contents

- Context and introduction
- Disbursement and receipts

- Liquidity management
  - Context and introduction
  - Initiative 4: Improve overall liquidity management processes
  - Initiative 5: Assess TDR capabilities and ensure prudence in its operations
  - Initiative 6: Guide cash planning with clearly defined reserve balance targets
  - Initiative 7: Improve spending forecasting from Satkers
  - Initiative 8: Tighten liquidity management coordination with the Central Bank
    - Charter and implementation plan

- Supporting analysis
  - Initiative 9: Expand TSA coverage
  - Initiative 10: Establish short-term foreign exchange management strategy and guidelines for liquidity management

- Debt market development
There are a few pending items that needs coordination with the central bank

<table>
<thead>
<tr>
<th>Issue</th>
<th>Potential resolution</th>
</tr>
</thead>
</table>
| ▪ BI needs to be aware of Treasury’s **planned cash in/outflows** for monetary operations | ▪ MOF to **share forecast data incl. CPIN data electronically with BI**  
▪ BI to sit in on **daily CMO-DMO cash call**  
▪ BI to sit in on **biweekly CMO-DMO meeting** prior to debt issuance |
| ▪ MOF **cash holdings** at the Central Bank is earning less than market rate, driving Treasury to explore options to invest in the banking sector | ▪ **Potential re-negotiation to change remuneration** over MOF cash holding at BI vs. charges paid by MOF for services and other terms |
| ▪ BI and MOF needs to coordinate on amount of and type of **placement of excess cash outside of BI** done by TDR | ▪ BI and MOF to co-develop **cost-benefit analysis** to justify investments in commercial banks  
▪ BI and MOF to agree on **terms, limits and thresholds** of MOF’s investment in commercial banks  
▪ MOF to **share data** on planned placements with BI |
| ▪ MOF sees BI offering unfavorable **forex rates and limited mechanism** to trade from one foreign currency to another | ▪ BI and MOF to **revisit terms of forex trades** by MOF and agree on a solution that has net positive benefit for the state |
Contents

- Context and introduction
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- Liquidity management
  - Context and introduction
  - Initiative 4: Improve overall liquidity management processes
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- Initiative 9: Expand TSA coverage
  - Charter and implementation plan
  - Supporting analysis
  - Initiative 10: Establish short-term foreign exchange management strategy and guidelines for liquidity management

- Debt market development
Contents

- Context and introduction
- Disbursement and receipts
- **Liquidity management**
  - Context and introduction
  - Initiative 4: Improve overall liquidity management processes
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  - Initiative 9: Expand TSA coverage

- **Charter and implementation plan**
  - Supporting analysis
    - Initiative 10: Establish short-term foreign exchange management strategy and guidelines for liquidity management

- Debt market development
## Expand TSA coverage

**Objective:** To expand TSA coverage to include currently illiquid / less liquid accounts

### Background
- TSA does not cover certain less liquid and illiquid accounts (e.g. BLU, petty cash, oil & gas, SAL accounts)
- There is opportunity to use idle balances in those accounts to lower overall cost of funds

### Changes in operational models
- Analysis of different illiquid/less liquid accounts and legal and regulatory hurdles of including them in the TSA
- Mechanisms to potentially tap money in accounts currently not integrated to the TSA

### Key outcomes
- 2014: Analysis of potential TSA expansion
- 2015: Regulatory proposal to include accounts into TSA
- 2017: Implementation of recommendation; new account inclusion into TSA

### Summary of proposed actions
- Analyze probability of including different accounts currently not covered in the TSA, including legal and regulatory hurdles of the inclusion and ease of inclusion
- Develop mechanism to tap into selected accounts
- Propose policy changes to include the accounts in the TSA

### Impact and KPIs
- N/A

### Enablers for success
- Analytical skills to model total cash needed on hand
- Supporting banking system
- Supporting regulations

### Governance structure
- **Champion:** Direktur Pengelolaan Kas Negara
- **Owner:** Subdit Perencanaan dan Pengendalian Kas (DJPB) dan Subdit Portofolio dan Risiko Utang (DJPU)
- **Member:**
  - Kasi Penyusunan Strategi Pengelolaan Kas dan Penyediaan Dana
  - Kasi Perencanaan Kas
  - Kepala Sub Direktorat Analisis Keuangan dan Pasar SUN

---

**TREASURY**

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**9**

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## Expand TSA coverage – changes in operational model

<table>
<thead>
<tr>
<th>Current State</th>
<th>End state business processes (2025)</th>
</tr>
</thead>
<tbody>
<tr>
<td>▪ TSA does not cover certain less liquid and illiquid accounts (e.g. BLU, petty cash, oil &amp; gas, SAL accounts)</td>
<td>▪ A wider TSA covering accounts currently not included, allowing for a lower overall cash balance</td>
</tr>
<tr>
<td>Actions</td>
<td>2015</td>
</tr>
<tr>
<td>------------------------------------------------------------------------</td>
<td>------</td>
</tr>
<tr>
<td></td>
<td>Q1</td>
</tr>
<tr>
<td>Analyze probability of including different accounts currently not covered in the TSA, including legal and regulatory hurdles of the inclusion and ease of inclusion</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>Develop mechanism to tap into selected accounts</td>
<td></td>
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<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>Propose policy changes to include the accounts in the TSA</td>
<td></td>
</tr>
</tbody>
</table>

**Actions**
- Analyze probability of including different accounts currently not covered in the TSA, including legal and regulatory hurdles of the inclusion and ease of inclusion
- Develop mechanism to tap into selected accounts
- Propose policy changes to include the accounts in the TSA
### Expand TSA coverage – potential regulatory and legal risk

<table>
<thead>
<tr>
<th>Risks</th>
<th>Mitigation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Legally prohibitive for tapping into some illiquid / less liquid accounts</td>
<td>Analysis to include ease of implementation vs. potential impact (size of cash balance)</td>
</tr>
<tr>
<td></td>
<td>Potential to propose change in regulations</td>
</tr>
</tbody>
</table>
Contents

- Context and introduction
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  - Initiative 9: Expand TSA coverage
    - Charter and implementation plan

- **Supporting analysis**
  - Initiative 10: Establish short-term foreign exchange management strategy and guidelines for liquidity management

- Debt market development
Only 41% of Indonesia’s cash is in the TSA resulting in higher overall balances

### Yearly average of end-of-month cash balances, 2012

<table>
<thead>
<tr>
<th>Percentage</th>
<th>100% = IDR 211 trn</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very liquid</td>
<td>41</td>
</tr>
<tr>
<td>Liquid</td>
<td>42</td>
</tr>
<tr>
<td>Less liquid</td>
<td>16</td>
</tr>
<tr>
<td>Illiquid</td>
<td>1</td>
</tr>
</tbody>
</table>

Does not include IDR 100-200 trn in cash balances of regional governments

### Description of accounts

- **Very liquid (IDR 87 Trillion)**
  - **IDR 84 Trillion**: Excess cash at the placement accounts
  - **IDR 3 Trillion**: Min. balance at the RKUN accounts

- **Liquid (IDR 1 Trillion)**
  - Cash in transit awaiting to be transferred back to RKUN/placement accounts or out to other accounts e.g. cash in income account in perception banks before pulled into RKUN

- **Less liquid (IDR 88 Trillion)**
  - Cash that can be used but only upon approval
  - **IDR 49 Trillion**: SAL / surplus account from budget financing surplus (SILPA) from previous year
  - **IDR 36 Trillion**: oil & gas account – income account from oil & gas activities incl. Inalum & KKKS
  - **IDR 3 Trillion**: reksus – grant revolving account

- **Illiquid (IDR 34 Trillion)**
  - Cash with limited use
  - **IDR 13 Trillion**: BLU cash account
  - **IDR 6 Trillion**: Escrow account for USDA grant
  - **IDR 6 Trillion**: Cash in operational banks (mostly admin. error)
  - **IDR 3 Trillion**: Bappertarum / civil pension account
  - **IDR 3 Trillion**: Petty cash
  - **IDR 3 Trillion**: Forest rehabilitation account, SME loan account, return account, other accounts
Best practice according to experts is to have a comprehensive TSA with all central government transactions with potential to include subnational accounts when the system is in place.

At a minimum, the TSA should cover all central government entities and their transaction:
- These include accounts managed by social security funds and other trust funds, extra-budgetary funds (EBFs), and autonomous government entities, and loans from the multilateral institutions and donor aid resources.

One TSA for both central and subnational governments could be set up, but it would require a well-developed accounting system and adequate checks and balances:
- Inclusion of subnational accounts will probably involve an agreement to remunerate their surplus resources.
- If such agreement involves an obligation to finance the short-term liquidity needs of subnational governments, it could increase the fiscal risks for the central government, which manages the TSA.
- However, if the arrangement is considered desirable and agreed upon, setting up one TSA for the central and subnational governments could also be done through the use of correspondent accounts.
- This has the advantage of consolidating the surpluses and deficits of all correspondent, and therefore, helps smooth out the overall gap between cash inflows and outflows in the general government sector and to that extent the cost of general government borrowing is minimized.
- Even when the central TSA does not cover subnational governments in a federal system, TSAs should be established at each subnational government level.

Including public corporations in the TSA is not advisable, unless they perform a government function

- Including public corporations is generally not advisable, because it could limit their operational independence and blur the boundary between the government sector and the broader public sector. Public corporations provide market-based goods and services and including them in the TSA could hamper their autonomy to implement commercially oriented strategies.

- However, if a public corporation is discharging a government function, it should be designated as a government unit (in line with the definition of government sector in the GFSM 2001) and its activities and resources should be integrated with the budget and TSA, respectively.

International good practice to include as many government-controlled trust funds and EBFs\(^1\) within the TSA as legally possible

Each EBF account needs to be analyzed on whether inclusion in the TSA makes sense

- As long as the government can clearly demonstrate that its accounting systems are fully reliable, and capable of accurately distinguishing trust assets in the ledger accounts, there should be no compelling reason to exclude trust funds from the TSA.
- Including an EBF within the TSA may be difficult to achieve in cases where it has a separate legal status, or has a public standing (e.g., health funds).
  - Although an indirect approach to bringing them under the TSA coverage, e.g., through the use of entity-specific correspondent accounts, may be appropriate in such cases, a balance needs to be struck between such entities/EBFs’ legitimate claim to autonomy (in their operations) and the potential costs/risks arising from fragmented management of public funds.

Possible to include EBFs with a special arrangement

- One possible arrangement is where the treasury has access to the EBF’s cash on an arms-length basis
  - Treasury could even pay interest on the cash it borrows if that is necessary to discharge the EBF’s fiduciary obligations
  - The EBF must be able to notify the treasury in advance of its liquidity requirements

---

1 Extra budgetary funds

A substantial amount of savings could have been realized by tapping select accounts that are currently not consolidated with TSA.

Potential savings from consolidation of select less liquid/illiquid accounts in the TSA, 2012

Total cost of cash in these select accounts amounted to IDR 2.2 Trillion in 2012

1 Assuming 2.2% negative float between cost of debt and BI remuneration on placement account
End of month cash balances in SAL account

<table>
<thead>
<tr>
<th>Month</th>
<th>Cash Balance (IDR trillion)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dec-11</td>
<td>49</td>
</tr>
<tr>
<td>Jan-12</td>
<td>44</td>
</tr>
<tr>
<td>Feb-12</td>
<td>49</td>
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<tr>
<td>Mar-12</td>
<td>49</td>
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<tr>
<td>Apr-12</td>
<td>49</td>
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<tr>
<td>May-12</td>
<td>49</td>
</tr>
<tr>
<td>Jun-12</td>
<td>49</td>
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<tr>
<td>Jul-12</td>
<td>49</td>
</tr>
<tr>
<td>Aug-12</td>
<td>49</td>
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<tr>
<td>Sep-12</td>
<td>92</td>
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<tr>
<td>Oct-12</td>
<td>36</td>
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<td>Nov-12</td>
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<td>Dec-12</td>
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<td>Jan-13</td>
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<td>Feb-13</td>
<td>21</td>
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<tr>
<td>Mar-13</td>
<td>21</td>
</tr>
<tr>
<td>Apr-13</td>
<td>21</td>
</tr>
</tbody>
</table>

Use of SAL for beginning-of-year expenditures

Description of SAL account

- SAL account kept at the Central Bank in IDR and the accumulation of SILPA / SIKPA (excess / shortage of budget financing) or previous budgetary periods
- Permanent use of SAL:
  - To lessen deficit for current budget year and/or other uses according to APBN regulations
  - Use of SAL needs parliamentary approval and is outlined in APBN
- Temporary use of SAL:
  - To be transferred to RKUN cover mismatched spending when revenue/financing is insufficient, especially in the beginning of the budget year
  - Fund needs to be transferred back to SAL account before end-of-year

MOF can borrow more aggressively from SAL to lower cash balances in government accounts
There is also a potential to virtually use the transit cash in oil & gas account that will ultimately flow into RKUN

### Description of oil & gas account

- **Transitory USD account** to house all receipts and payments relating to upstream oil & gas activities
  - Receipts include PPh (income tax), government share of revenue (PNBP) from crude & gas sale and other revenues
  - Payments include other taxes (PPN, PBB, local government tax), non-tax payments and transfer of government share of revenue to RKUN

- All receipts are kept within the transitory account before corresponding payments are made into the RKUN and other accounts (back to KKKS, to local government etc) **upon DJA’s transfer order**

### End of month cash balances in oil & gas account

<table>
<thead>
<tr>
<th>Month</th>
<th>Cash Balance (IDR trillion)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dec-11</td>
<td>7</td>
</tr>
<tr>
<td>Jan-12</td>
<td>16</td>
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<tr>
<td>Feb-12</td>
<td>24</td>
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<tr>
<td>Mar-12</td>
<td>30</td>
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<tr>
<td>Apr-12</td>
<td>44</td>
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<td>May-12</td>
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<td>Jun-12</td>
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<td>Feb-13</td>
<td>21</td>
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<td>Mar-13</td>
<td>21</td>
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<tr>
<td>Apr-13</td>
<td>38</td>
</tr>
<tr>
<td><strong>Ø</strong> 33</td>
<td></td>
</tr>
</tbody>
</table>

Opportunity to use “transit” money

- Accounting on payments done separately
- Regular reconciliation
There is also an opportunity to lessen cash at the BLUs that are not within the TSA

### End of month cash balances in BLU accounts

<table>
<thead>
<tr>
<th>IDR trillion</th>
<th>Dec-11</th>
<th>Jan-12</th>
<th>Feb-12</th>
<th>Mar-12</th>
<th>Apr-12</th>
<th>May-12</th>
<th>Jun-12</th>
<th>Jul-12</th>
<th>Aug-12</th>
<th>Sep-12</th>
<th>Oct-12</th>
<th>Nov-12</th>
<th>Dec-12</th>
<th>Jan-13</th>
<th>Feb-13</th>
<th>Mar-13</th>
<th>Apr-13</th>
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<tr>
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<td>0</td>
<td>0</td>
<td>13</td>
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<td>18</td>
<td>18</td>
<td>18</td>
<td>17</td>
<td>19</td>
<td>19</td>
</tr>
</tbody>
</table>

### Description of BLU accounts

- BLUs are allowed to keep separate accounts that house their receipts and expenses upon approval by DJPB
  - Receipts include:
    - Disbursement from APBN,
    - Revenue from BLU services
    - Other receipts such as grants
    - PNBP revenue from interest on short term investments
  - Payments include all expenses incurred to operate
- Every three months BLU accounts are reconciled with KPPNs
- BLUs are allowed to manage their cash including short-term investment
- Keeping BLU accounts independent are crucial for sound management of BLU

### Evaluation of BLU cash balances need to be done:

- Potential consolidation of BLU account in the TSA
- Different APBN disbursement / PNBP authorization mechanism
Contents

▪ Context and introduction

▪ Disbursement and receipts

▪ **Liquidity management**
  
  – Context and introduction
  
  – Initiative 4: Improve overall liquidity management processes
  
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  – Initiative 6: Guide cash planning with clearly defined reserve balance targets
  
  – Initiative 7: Improve spending forecasting from Satkers
  
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  – Initiative 9: Expand TSA coverage
  
  – **Initiative 10: Establish short-term foreign exchange management strategy and guidelines for liquidity management**
    
    ▪ Charter and implementation plan
    
    ▪ Supporting analysis

▪ Debt market development
Contents

- Context and introduction
- Disbursement and receipts
- Liquidity management
  - Context and introduction
  - Initiative 4: Improve overall liquidity management processes
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  - Initiative 10: Establish short-term foreign exchange management strategy and guidelines for liquidity management

  ▪ Charter and implementation plan
    ▪ Supporting analysis
  ▪ Debt market development
## Establish short term foreign exchange management strategy and guidelines for liquidity management

### Objective:
To enable forex trading guided by clear strategy and policy, and with coordination with the Central Bank

### Background
- Limited forex strategy and usage of forex hedging instrument
- No outlined forex management guidelines
- Forex trades are done on an ad-hoc basis according to perceived cash needs
- Forex trades done against BI with less favorable rates and limited mechanism to exchange one foreign currency with another

### Key outcomes
2015:
- Forex strategy and guidelines published

### Changes in operational models
- Outlined forex strategy
- Clear forex management guidelines including set of foreign exchange mechanisms allowed and risk tolerance
- Coordination with the Central Bank to ensure that forex trades are not contradictory to reserve management policies
  - Information from BI on overall reserve management and monetary policy objectives communicated to MOF
- Mechanisms to trade forex against BI with more favorable rates and with ability to exchange one foreign currency with another

### Summary of proposed actions
- Analyze the different strategies and instruments that can be used to actively manage forex
- Propose active forex management policy and seek approval by ALM committee
- Formalize it in regulation
- Propose to BI to allow better terms of MOF’s forex trades against BI
- Coordination with BI in amount of forex traded and overall direction of BI’s monetary policy and forex reserve strategy

### Impact and KPIs
N/A

### Governance structure
- **Champion:** Direktur Pengelolaan Kas Negara
- **Owner:** Subdit Perencanaan dan Pengendalian Kas (DJPB) dan Subdit Portofolio dan Risiko Utang (DJPU)
- **Member:**
  - Kasi Penyusunan Strategi Pengelolaan Kas dan Penyediaan Dana
  - Kasi Perencanaan Kas
  - Kepala Sub Direktorat Analisis Keuangan dan Pasar SUN

### Enablers for success
- Forex strategy and guidelines agreed by ALM committee
- Coordination with the Central Bank
Establish short term foreign exchange management strategy and guidelines for liquidity management – changes in operational model

<table>
<thead>
<tr>
<th>Current State</th>
<th>End state business processes (2025)</th>
</tr>
</thead>
<tbody>
<tr>
<td>▪ Limited forex strategy &amp; usage of forex hedging instrument</td>
<td>▪ Outlined forex strategy</td>
</tr>
<tr>
<td>▪ No outlined forex management guidelines</td>
<td>▪ Clear forex management guidelines including set of foreign exchange mechanisms allowed and risk tolerance</td>
</tr>
</tbody>
</table>
| ▪ Forex trades are done on an ad-hoc basis according to perceived cash needs   | ▪ Coordination with the Central Bank to ensure that forex trades are not contradictory to reserve management policies
| ▪ Forex trades done against BI with less favorable rates and limited mechanism to exchange one foreign currency with another |   |
Establish short term foreign exchange management strategy and guidelines for liquidity management – workplan

<table>
<thead>
<tr>
<th>Actions</th>
<th>2014</th>
<th></th>
<th>2015</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Q1</td>
<td>Q2</td>
<td>Q3</td>
<td>Q4</td>
</tr>
<tr>
<td>Analyze the different strategies and instruments that can be used to</td>
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<tr>
<td>actively manage forex</td>
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<tr>
<td>Propose active forex management policy and seek approval by ALM</td>
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<tr>
<td>committee</td>
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<tr>
<td>Formalize it in regulation</td>
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<tr>
<td>Propose to BI to allow better terms of MOF's forex trades against BI</td>
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<tr>
<td></td>
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<td></td>
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<tr>
<td>Coordination with BI in amount of forex traded and overall direction of</td>
<td></td>
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<tr>
<td>BI's monetary policy and forex reserve strategy</td>
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<td></td>
</tr>
</tbody>
</table>
Establish short term foreign exchange management strategy and guidelines for liquidity management – potential regulatory and legal risk

<table>
<thead>
<tr>
<th>Risks</th>
<th>Mitigation</th>
</tr>
</thead>
<tbody>
<tr>
<td>▪ BI might not be able to change its mechanisms in offering favorable rates to MOF</td>
<td>▪ Understanding root cause of current exchange mechanism</td>
</tr>
<tr>
<td>▪ BI might not be able to change its mechanisms in offering favorable rates to MOF</td>
<td>▪ Propose solution to achieve overall benefits to the state</td>
</tr>
</tbody>
</table>
Contents

- Context and introduction
- Disbursement and receipts
- **Liquidity management**
  - Context and introduction
  - Initiative 4: Improve overall liquidity management processes
  - Initiative 5: Assess TDR capabilities and ensure prudence in its operations
  - Initiative 6: Guide cash planning with clearly defined reserve balance targets
  - Initiative 7: Improve spending forecasting from Satkers
  - Initiative 8: Tighten liquidity management coordination with the Central Bank
  - Initiative 9: Expand TSA coverage
  - Initiative 10: Establish short-term foreign exchange management strategy and guidelines for liquidity management
    - Charter and implementation plan

- **Supporting analysis**
  - Debt market development
Several instruments can be used to manage foreign currency exposure – however other inherent risks remain.

**Description**

- **Cross currency Swaps (CCY-Swaps)**
  - Agreement to exchange EUR/USD amounts
  - Amounts are exchanged initially and at maturity of the contract
  - CCY-Swaps are OTC derivatives
  - Right to buy or sell a certain amount of USD at a certain future time for a certain price
  - Options are traded both on exchanges and OTC
  - CCY-Swaps are OTC derivatives

- **Options**
  - Agreement to buy or sell a certain amount of USD at a certain future time for a certain price
  - Options are traded both on exchanges and OTC

- **Forwards/Futures**
  - Agreement to buy or sell a certain amount of USD at a certain future time for a certain price
  - Forwards are OTC derivatives while futures are standardized and exchange traded

- **Direct refinancing in foreign currency**
  - Borrowing via deposits, loans, bonds or other debt instruments referenced to USD

- Successful hedging strategies immunize against losses in value from FX-changes
- Present value of cash flows used to derive open position
- Using derivatives, only the primary impact on cash value can be neutralized but secondary risks remain
Contents

▪ Context and introduction
▪ Disbursement and receipts
▪ Liquidity management

▪ Debt market development
  ▪ Context and introduction
  ▪ Initiative 11: Launch trading platform for bonds
  ▪ Initiative 12: Review primary dealer framework
  ▪ Initiative 13: Review bond stabilization framework
  ▪ Initiative 14: Reduce government benchmark series
  ▪ Initiative 15: Strengthen investor relations function
  ▪ Initiative 16: Support OJK in developing the repo market
  ▪ Initiative 17: Increase domestic demand for government securities by working with relevant regulatory agencies
Contents

- Context and introduction
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- Debt market development

- Context and introduction
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  - Initiative 13: Review bond stabilization framework
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  - Initiative 17: Increase domestic demand for government securities by working with relevant regulatory agencies
The Indonesian domestic tradable bond market is under-developed and illiquid relative to other Asian countries.

The market size of Indonesian domestic tradable bonds at \(~11\%\) of GDP is low relative to Asian peers.

<table>
<thead>
<tr>
<th>Country</th>
<th>% of GDP, Mar 2013</th>
<th>Market size, USD bn</th>
</tr>
</thead>
<tbody>
<tr>
<td>Malaysia</td>
<td>62</td>
<td>190</td>
</tr>
<tr>
<td>Thailand</td>
<td>59</td>
<td>232</td>
</tr>
<tr>
<td>Singapore</td>
<td>53</td>
<td>148</td>
</tr>
<tr>
<td>Korea</td>
<td>50</td>
<td>560</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>38</td>
<td>100</td>
</tr>
<tr>
<td>China</td>
<td>33</td>
<td>2,827</td>
</tr>
<tr>
<td>Vietnam</td>
<td>20</td>
<td>29</td>
</tr>
<tr>
<td>Indonesia</td>
<td>11</td>
<td>98</td>
</tr>
</tbody>
</table>

However trading volumes are still low relatively to Asian peers.

<table>
<thead>
<tr>
<th>Country</th>
<th>% of outstanding bonds, Mar 2013</th>
<th>Market size, USD bn</th>
</tr>
</thead>
<tbody>
<tr>
<td>South Korea</td>
<td>109</td>
<td>606</td>
</tr>
<tr>
<td>Thailand</td>
<td>87</td>
<td>201</td>
</tr>
<tr>
<td>Malaysia</td>
<td>60</td>
<td>116</td>
</tr>
<tr>
<td>China</td>
<td>56</td>
<td>1,584</td>
</tr>
<tr>
<td>Singapore</td>
<td>46</td>
<td>68</td>
</tr>
<tr>
<td>Indonesia</td>
<td>23</td>
<td>20</td>
</tr>
</tbody>
</table>

SOURCE: ADB
By 2025, Indonesia will have a liquid and deep domestic government securities market.

**Key reforms**

- Focus debt into a few large benchmark series
- Implement an electronic trading platform
- Target desired investors using proactive investor relations
- Support OJK in developing the repo market
- Continuously improve primary dealer system
- Stimulate domestic investment from key investor pools
- Continuously improve bond stabilization framework
### 7 key initiatives to develop the government securities market

<table>
<thead>
<tr>
<th>Initiatives</th>
<th>Current State</th>
<th>End State Business Processes</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Focus debt into a few large benchmark series</strong></td>
<td>▪ Over 40 different outstanding series driven by annual issuance of new series across multiple tenors; minimum size per series ▪ Limited buy back or exchanges of old benchmark instruments</td>
<td>▪ Focus issuances in large benchmark series through consolidation of series (e.g., only 3-4 tenors every year to help build size; new series every 2 years) ▪ Introduce a systematic buy-back and exchange program to build up liquidity in benchmark series</td>
</tr>
<tr>
<td><strong>Implement an electronic trading platform</strong></td>
<td>▪ The Indonesian bond market currently employs a manual OTC system for bond trading – Need to call all PDs to get price quote – Currently quotes are announced through an Amstel machine with a time lag of 3-4 hours</td>
<td>▪ Upgrade market infrastructure (i.e. electronic trading platform) to boost liquidity – “Issuer to dealer” platform or “inter-dealer” platform for enhancing dealer related activity – “Straight through processing” platform for increasing direct investor activity</td>
</tr>
<tr>
<td><strong>Target desired investors using proactive investor relations</strong></td>
<td>▪ DJPU does not actively target specific segments of investors (e.g. by industry or country), only has a team of ~5 people in the Front Office for government debt securities who focus on investors relations ▪ Current process is to engage with a broad base of investors through – Road shows timed around issuances – Separate investor relations tab on DJPU website – Investor conference every November – Quarterly calls</td>
<td>▪ Actively target specific segments ensuring diversified, stable and targeted investor base ▪ Engage in a range of IR activities to reach a targeted base of investors through – Road shows independent of issuances – Targeted IR website – Conference calls – Detailed investor report for leadership with investor breakdown</td>
</tr>
<tr>
<td><strong>Support OJK in developing the repo market</strong></td>
<td>▪ Processes to improve repo liquidity is hindered by low counter party limits for inter-bank repos, limited access to central bank repos and the high repo charges</td>
<td>▪ Bolster the repo market by obtaining OJK support to revise the key terms of the Master Repo agreement</td>
</tr>
<tr>
<td><strong>Continuously improve primary dealer system</strong></td>
<td>▪ Does not pay commission to primary dealers ▪ Current process unable to systematically evaluate and drop non-performing primary dealers</td>
<td>▪ Foster development of a strong set of Primary Dealers (PD) by developing specific obligations (e.g. detailed business plans) and introducing rigorous performance evaluation ▪ Create a clear incentive system to encourage PDs to sell new bonds and make markets in secondary markets</td>
</tr>
<tr>
<td><strong>Stimulate domestic investment</strong></td>
<td>▪ Small insurance / asset management industry size ▪ Limited participation in government securities</td>
<td>▪ With OJK support, make key changes to regulation governing private investment industry size and investment allocations ▪ Government investment agencies/vehicles actively involved in government securities investing and trading</td>
</tr>
<tr>
<td><strong>Continuously improve bond stabilization framework</strong></td>
<td>▪ Identified actions to take in case of a market crisis</td>
<td>▪ Clear set of actions from different parties ▪ Potential to explore creating a bond stabilization fund</td>
</tr>
</tbody>
</table>
Key initiatives to achieve target end state

<table>
<thead>
<tr>
<th>Areas</th>
<th>Initiatives</th>
</tr>
</thead>
</table>
| **Domestic benchmark securities** | Focus debt into a few large benchmark series  
▪ Ensure adherence to a calendar of issuance and focus liquidity on a limited set of large benchmark issues  
▪ Reduce introduction of new series  
▪ Systematically buy-back or exchange off-the-run issues to ensure that benchmark debt is focused on a few large, liquid, on-the-run issues |
| **Electronic trading platform** | Implement an electronic trading platform  
▪ Introduce an electronic trading platform to provide investors more price transparency and spur liquidity |
| **Investor Relations (IR)** | Target desired investors using proactive investor relations  
▪ Create a dedicated investor relations team in the MOF  
▪ Identify target investor base  
▪ Proactively engage in a range of IR activities to reach a targeted base of investors through conducting conference calls, road shows, establishing a IR website etc. |
| **Repo market** | Support OJK in developing the repo market  
▪ Understand reasons for low repo usage  
▪ Strengthen the repo framework, in particular the legal framework; settlement and collateral system, “haircuts” and margin calls; and improve transparency  
▪ Clarify tax status of repos |
| **Primary dealer system** | Continuously improve primary dealer system  
▪ Enhance the PD framework to include clear and rigorous obligations and compelling privileges  
▪ Create process to systematically evaluate and drop non-performing primary dealers  
▪ Create channels to communicate with primary dealers |
| **Stimulate domestic investment in government securities** | Continuously improve bond stabilization framework  
▪ Review current framework and conduct annual simulations  
▪ Explore creating a bond stabilization fund |
| **Domestic participation from key investors** | |
Contents

- Context and introduction
- Disbursement and receipts
- Liquidity management
- **Debt market development**
  - Context and introduction
  - Initiative 11: Launch trading platform for bonds
    - Charter and implementation plan
    - Supporting analysis
  - Initiative 12: Review primary dealer framework
  - Initiative 13: Review bond stabilization framework
  - Initiative 14: Reduce government benchmark series
  - Initiative 15: Strengthen investor relations function
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  - Initiative 17: Increase domestic demand for government securities by working with relevant regulatory agencies
Contents

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        - Initiative 17: Increase domestic demand for government securities by working with relevant regulatory agencies

- Initiative 15: Reduce government benchmark series
- Initiative 16: Support OJK in developing the repo market
Introduction of an electronic trading platform

**Objective:**
- Develop and launch an ETP as a supplement to OTC trading to improve price transparency and enhance liquidity

**Background**
- The Indonesian bond market currently employs a manual OTC system for bond trading
- Other countries such as Malaysia, Thailand, US and most EU nations have ETPs that operate concurrently with the OTC market while India and Vietnam are in the process of launching ETPs
- An Electronic Trading Platform will help to
  - Remove inefficiencies in the manual OTC system
  - Boost price transparency
  - Enhance liquidity

**Changes in operational models**
- Finalize e-trading platform currently under development
- Revise SOPs and internal procedures
- Get OJK approval
- Train MOF and PD personnel

**Summary of proposed actions**
- Add ability to reconfirm quotations
- Revisit current e-trading platform with BI and primary dealers
- Ensure platform adopts straight through processing
- Ensure platform automatically links to reporting systems
- Finalize agreement with ETP operator (e.g., Indonesia Stock Exchange)
- Conduct market consultations to obtain feedback

**Impact and KPIs**
- Dec 2017 – 100% of PD trading for 1 benchmark series on platform
- Dec 2018 – 100% of PD trading for 2 benchmark on-the-run series platform
- Dec 2019 – All PD trading for benchmark series on ETP platform

**Enablers for success**
- Effective collaboration with Indonesia Stock Exchange to create, support, and run the ETP
- OJK approval for ETP
- Support from primary dealers and other market participants

**Key outcomes**
- Dec 2014 – Final design approval
- Dec 2015 – Received OJK approval
- Dec 2016 – E-trading platform launched

**Governance structure**

<table>
<thead>
<tr>
<th>Initiative champion</th>
<th>DG unit</th>
</tr>
</thead>
<tbody>
<tr>
<td>DG of Debt Management</td>
<td>DJPU</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Initiative owner</th>
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<tr>
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</table>

<table>
<thead>
<tr>
<th>Team</th>
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</tr>
</thead>
<tbody>
<tr>
<td>PPSUN – Dit. SUN</td>
<td>DJPU</td>
</tr>
<tr>
<td>PSUNEK - Dit. SUN</td>
<td>DJPU</td>
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</tbody>
</table>
## Introduction of an electronic trading platform – changes in operational model

<table>
<thead>
<tr>
<th>Current State</th>
<th>Target state</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Lack of transparency</strong> on quotes (e.g. bid-ask spreads, firm vs. indicative) across dealers</td>
<td><strong>Real time price transparency</strong> leading to higher trade volumes per investor</td>
</tr>
</tbody>
</table>

**Limited data and visibility** on trade information (i.e. counter-parties, executed pricing, firmness of quotes etc)

**Trade information is recorded electronically and can be leveraged by DJPU for reporting / analysis** and can also be made available to market participants

**ETPs also help to evaluate primary dealer performance** relating to quality of firm quotes

**OTC trades are executed largely between primary dealers**

**Investors do not have direct access** to the government bond markets

**Implement one or a combination of ETP platforms**

- “Issuer to dealer” platform or “inter-dealer” platform for enhancing dealer related activity
- A “straight through processing” platform for increasing direct investor activity
# Introduction of an electronic trading platform – workplan

<table>
<thead>
<tr>
<th>Actions</th>
<th>2014</th>
<th>2015</th>
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<tbody>
<tr>
<td></td>
<td>Jan</td>
<td>Mar</td>
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<tr>
<td>Finalize e-trading platform</td>
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<tr>
<td>- Add ability to reconfirm quotations</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Revisit current e-trading platform with BI and primary dealers</td>
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<td></td>
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<tr>
<td>- Ensure platform adopts straight through processing</td>
<td></td>
<td></td>
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<tr>
<td>- Ensure platform automatically links to reporting systems</td>
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<tr>
<td>- Finalize agreement with ETP operator (e.g., Jakarta stock exchange)</td>
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<tr>
<td>- Finalize ETP platform</td>
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<tr>
<td>Revised SOPs &amp; internal regulations</td>
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<tr>
<td>- Revise PD obligations and incentives for transactions routed through ETP</td>
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<td></td>
</tr>
<tr>
<td>- Revise trading and reporting SOPs</td>
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<td></td>
</tr>
<tr>
<td>- Review internal regulations for trading and ensure these are compliant with ETP</td>
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<td></td>
</tr>
<tr>
<td>Get OJK approval for e-trading platform</td>
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<td></td>
</tr>
<tr>
<td>Train MOF and PD personnel in system</td>
<td></td>
<td></td>
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<tr>
<td>Formally launch ETP</td>
<td></td>
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</tbody>
</table>
## Introduction of an electronic trading platform – potential regulatory and legal risk

<table>
<thead>
<tr>
<th>Risks</th>
<th>Mitigation</th>
</tr>
</thead>
<tbody>
<tr>
<td>A OJK may not approve ETP</td>
<td>▪ Regular consultations with OJK on ETP design</td>
</tr>
<tr>
<td>B PDs may not be open to ETP</td>
<td>▪ Change regulations to ensure ETP will be used</td>
</tr>
<tr>
<td></td>
<td>▪ Conduct regular consultations with PDs on use of ETP</td>
</tr>
</tbody>
</table>
Contents

▪ Context and introduction

▪ Disbursement and receipts

▪ Liquidity management

▪ Debt market development
  – Context and introduction
  – Initiative 11: Launch trading platform for bonds
    ▫ Charter and implementation plan
  – Initiative 12: Review primary dealer framework
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  – Initiative 17: Increase domestic demand for government securities by working with relevant regulatory agencies
The introduction of an electronic trading platform could help to boost price transparency and to enhance liquidity

Indonesian bonds are traded on a manual inter-dealer platform

- The Indonesian bond market currently employs a manual OTC system for bond trading
  - Need for a primary dealer to tele-call each of the 18 other PDs to find the best possible trade quote
  - Currently quotes are announced through an Amstel machine with a time lag of 3-4 hours
- An Electronic Trading Platform will help remove inefficiencies in the manual OTC system
- DJPU is in talks with OJK to launch an “issuer to dealer” ETP on the Indonesia Stock Exchange but no clear timelines have been defined

A survey of investors in Asia shows that investors using the ETP execute more electronic trades compared to the manual trades

### Countries such as Malaysia, Thailand, Korea, US and other countries in EU zone have ETPs that operate concurrently with the OTC markets; India and Vietnam are in the process of launching ETPs

1 Based on responses from 1,121 fixed income investors in Asia in 2011

SOURCE: Press search, DJPU, 2011 Fixed Income study by Greenwich Associate
Malaysia introduced an electronic trading platform in 2008 based on a collaboration with the Korean Exchange (“KRX”)

**Malaysia case example: Electronic Trading Platform**

- **Background**
  - Launched the Electronic Trading Platform (“ETP”) in 2008 to run concurrently with the OTC market
  - ETP developed in collaboration with Korean Exchange (“KRX”) over a 12 month timeframe

- **Key functions**
  - Order matching, negotiation, trade reporting, indicate quotes advertisement for benchmark stocks, price advertisement

- **Key benefits**
  - **For investors**
    - Boost real time price transparency and reduce dealer transaction costs
  - **For regulator**
    - Increase liquidity and bring in efficiency in bond trading
    - Facilitates the trading and reporting of all secondary market activities

SOURCE: Press search
Contents

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      – Initiative 16: Support OJK in developing the repo market
      – Initiative 17: Increase domestic demand for government securities by working with relevant regulatory agencies
**Objective:**
- Develop and launch a refined primary dealer system that is benchmarked to global standards and customized to local needs

**Background**
- The Primary Dealer (PD) system was launched in 2008
- The existing PD framework does not have obligations and incentives that optimize primary dealer performance particularly in secondary market-making
- A revamped PD framework would help to improve market liquidity and development by
  - Enhancing PD performance
  - Diversifying the investor base

**Changes in operational models**
- Number and mix of PDs to help meet issuance targets and enable market making
- Specific obligations and privileges to leverage PD capabilities and motivate performance
- Transparent and effective performance evaluation frameworks

**Impact and KPIs**
- N/A

**Summary of proposed actions**
- Conduct benchmark study of primary dealer best practices
- Launch new PD framework with revised incentives and responsibilities
- Create annual review of incentives/privileges and obligations

**Enablers for success**
- Cooperation of primary dealers with new PD system and willingness to participate
- Budget for financial incentives if this will be included

**Governance structure**

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</tr>
<tr>
<td>AKPSUN - Dit. SUN</td>
<td>DJPU</td>
</tr>
</tbody>
</table>

**Key outcomes**
- June 2014 – Complete benchmark study of PD practice
- Dec 2016 – New PD framework implemented
# Launch a new primary dealer system – changes in operational model

<table>
<thead>
<tr>
<th>Current State</th>
<th>Target state</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>No systematic approach</strong> for determining the number of PDs; currently there are 19 PDs</td>
<td><strong>Number of PDs is systematically determined</strong> based on parameters such as debt characteristic (i.e. issuance size, instruments etc) and PDs capabilities (i.e. customer reach, financial strength, product expertise)</td>
</tr>
<tr>
<td><strong>Homogenous system</strong> of PDs (i.e. all dealers have the same responsibilities) with <strong>limited criteria for PD selection</strong></td>
<td><strong>Partially tiered PD classification system</strong> based on review of PDs unique capabilities with <strong>minimum set of obligations and specific obligations/ incentives for certain PDs</strong></td>
</tr>
<tr>
<td><strong>Limited PD obligations</strong> with only 2% target volumes defined for primary and secondary markets</td>
<td><strong>Specific obligations</strong></td>
</tr>
<tr>
<td></td>
<td>– <strong>Primary market</strong> (e.g. diversify distribution, successful bids target)</td>
</tr>
<tr>
<td></td>
<td>– <strong>Secondary market</strong> (e.g. quality of firm quotes, market turnover across maturities)</td>
</tr>
<tr>
<td></td>
<td>– <strong>Advisory</strong> (e.g. secondary market activity, investor feedback)</td>
</tr>
<tr>
<td><strong>No explicit incentives</strong> for PDs apart from privileged access to market and DMO information</td>
<td><strong>Attractive incentives potentially including financial incentives</strong></td>
</tr>
<tr>
<td></td>
<td>– <strong>Primary market</strong> (e.g. access to Non-competitive subscription, extra time to place bids, league tables)</td>
</tr>
<tr>
<td></td>
<td>– <strong>Secondary market</strong> (e.g. SLF, right to strip bonds, access to exclusive borrowing line from central bank)</td>
</tr>
<tr>
<td>A <strong>Securities Lending Facility (SLF)</strong> is being <strong>considered</strong> in the new PD framework to launched in Q3/Q4 2013</td>
<td><strong>Systematic evaluation framework</strong> comprising a mix of <strong>quantitative</strong> (e.g. market share, successful bids, quote transparency) and <strong>qualitative</strong> (e.g. advice, investor satisfaction) performance criteria</td>
</tr>
<tr>
<td><strong>No systematic approach for evaluating PD performance</strong>; this is being revised in the new PD framework</td>
<td></td>
</tr>
</tbody>
</table>
Launch a new primary dealer system – workplan

<table>
<thead>
<tr>
<th>Actions</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Conduct benchmark study of primary dealer best practices</td>
<td></td>
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</tr>
<tr>
<td>Create revision of PD regulations including new evaluation process for PD performance to encourage competition</td>
<td></td>
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<td></td>
</tr>
<tr>
<td>▪ Determine optimal number of PDs</td>
<td></td>
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</tr>
<tr>
<td>▪ Review criteria for PDs including whether securities companies may serve as PDs</td>
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</tr>
<tr>
<td>▪ Evaluate feasibility of a tiered PD model</td>
<td></td>
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</tr>
<tr>
<td>▪ Determine revised PD selection criteria for each tier of PDs</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Create annual review of incentives/privileges and obligations</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>▪ Review removing info privileges</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>▪ Review second round auction privileges</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>▪ Review adding financial incentives</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Strengthen performance evaluation measures</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>▪ Identify quantitative and qualitative criteria linked to revised PD obligations</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>▪ Determine information requires and create systems to gather required information</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>▪ Conduct first review</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Create channels/mechanisms to communicate with PDs</td>
<td></td>
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<td></td>
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</tr>
<tr>
<td>Get feedback on new PD system</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Implement new PD regulation</td>
<td></td>
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</tr>
</tbody>
</table>
**Launch a new primary dealer system – potential regulatory and legal risk**

<table>
<thead>
<tr>
<th>Risks</th>
<th>Mitigation</th>
</tr>
</thead>
<tbody>
<tr>
<td>A  PDs not fully aligned with changes</td>
<td>▪ Ensure communication with PDs</td>
</tr>
<tr>
<td></td>
<td>▪ Ensure new framework is aligned with PD interests</td>
</tr>
<tr>
<td>B  Proposed privileges and obligations may not be effective in promoting desired PD behavior</td>
<td>▪ Conduct comparative study</td>
</tr>
<tr>
<td></td>
<td>▪ Employ active feedback communication with market participants, PDs and regulators</td>
</tr>
</tbody>
</table>

<data-data></data-data>
Contents

- Context and introduction
- Disbursement and receipts
- Liquidity management

**Debt market development**

- Context and introduction
- Initiative 11: Launch trading platform for bonds
- **Initiative 12: Review primary dealer framework**
  - Charter and implementation plan

**Supporting analysis**

- Initiative 13: Review bond stabilization framework
- Initiative 14: Reduce government benchmark series
- Initiative 15: Strengthen investor relations function
- Initiative 16: Support OJK in developing the repo market
- Initiative 17: Increase domestic demand for government securities by working with relevant regulatory agencies
The Indonesian primary dealer framework has limited obligations and incentives to support DJPU’s strategic objectives

Key features of the Swedish Primary Dealer Framework

- **8 primary dealers**

- **Primary market target**: The PD shall maintain at Regular auctions in the Primary Market, for each calendar quarter, a market share of > 2.5 per cent of total issuance volume

- **Secondary market targets**: The Primary Dealer shall maintain in the Electronic Interbank Market and the Client Market, for each calendar quarter, market share of not less than 5 per cent and 2.5 per cent respectively of the total market trading volume

- **Marketing**: PD shall actively work towards enhancing client interest

- **Business plan**: provide at least once per year a written business plan regarding sales and marketing for the forthcoming calendar year and on operations concerning the business plan for the preceding calendar year

- **Marketing measures**: report in particular on measures it has implemented and plans to implement to promote the sale of Nominal Government Bonds

- **Market feedback**: report views and proposals for the DMO to improve and develop the management of central government debt and the market for Government Bonds

- **Pre-requisite**: Commission is paid to PDs that comply with requirements of being a market maker, promoting secondary market trade, quoting bid and ask rates, achieving market share

- **Basic**: A basic commission of SEK 600,000 is paid to each PD

- **Primary market**: a commission amount of SEK 5 mn is shared among PDs in proportion to the volumes sold in connection with regular auctions

- **Secondary market**: A commission amount per year of SEK 5mn per year will be shared by PDs in proportion to the share of achieved during the past year of the total turnover in the Client Market.

SOURCE: Swedish cash management team, DJPU

**Indonesia**

- **19 primary dealers**

- Minimum PD obligations are:
  - Primary market: 2% of govt. bond issuances
  - Secondary market: 2% of average trading volume for a quarter

- DJPU currently does not pay a commission to its Primary Dealers
The Primary Dealer framework needs to be framed with specificity across 13 design elements

<table>
<thead>
<tr>
<th>Elements</th>
<th>Importance</th>
<th>Why?</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Streamlining # of PDs</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1 Selection criteria and duration</td>
<td></td>
<td>Selection criteria should be specific to ensure that only capable and healthy banks/non-banks are selected; Appointment should be for a fixed time period</td>
</tr>
<tr>
<td>2 Number of dealers</td>
<td></td>
<td>Finalize an optimum number of dealers that ensures PDs are motivated as they have access to a share of volumes and incentives</td>
</tr>
<tr>
<td>3 Mix of dealers</td>
<td></td>
<td>Tap a diverse customer base by shaping a PD mix that is balanced between banks and non-banks, foreign and local entities etc</td>
</tr>
<tr>
<td>4 PD classification</td>
<td></td>
<td>A tiered system of dealer status may be useful to optimally leverage the specific capabilities of PDs</td>
</tr>
<tr>
<td><strong>Enhancing PD obligations</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5 Primary market</td>
<td></td>
<td>Duties such as successful bids, retail distribution etc are crucial to ensure adequate demand for bond auctions from a diversified customer base</td>
</tr>
<tr>
<td>6 Secondary market</td>
<td></td>
<td>Specific obligations such as firm quotes, minimum thresholds, market turnover help to ensure quality of market turnover and of quotes</td>
</tr>
<tr>
<td>7 Advisory and reporting</td>
<td></td>
<td>PDs can play a key advisory role by providing feedback on the debt management strategy and on the secondary market activities</td>
</tr>
<tr>
<td><strong>Introducing PD privileges</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>8 Primary market</td>
<td></td>
<td>Introduce privileges to incentive PDs such as access to non-competitive subscriptions (NCS) post auction, extra time to submit bids</td>
</tr>
<tr>
<td>9 Secondary market</td>
<td></td>
<td>Introduce privileges to support PDs (e.g. Securities Lending Facility) while others help to motivate PDs (e.g. right to participate in bond exchanges)</td>
</tr>
<tr>
<td>10 Others</td>
<td></td>
<td>Other measures such as publication of league tables, line of credit from central bank, OMO counterparty etc help to support PD development</td>
</tr>
<tr>
<td><strong>Strengthening PD relationships</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>11 Communication</td>
<td></td>
<td>A standardized approach to PD interactions including frequency of meetings, extent of consultations will help to build trust with the PDs</td>
</tr>
<tr>
<td>12 Monitoring</td>
<td></td>
<td>Rigorous and standardized reporting will help monitor the quality of performance and to track status of strategic objectives (e.g. retail distribution)</td>
</tr>
<tr>
<td>13 Performance evaluation</td>
<td></td>
<td>Critical to develop a prioritized inventory of quantitative and qualitative performance criteria</td>
</tr>
</tbody>
</table>
**PD selection should be based on a mix of quantitative and qualitative criterion**

<table>
<thead>
<tr>
<th>Proof points</th>
<th>Select country example</th>
</tr>
</thead>
<tbody>
<tr>
<td>Evidenced by capitalization levels i.e. minimum net worth requirement</td>
<td><strong>India</strong>: minimum net worth of INR 50 crores (i.e. USD 10 mn)</td>
</tr>
<tr>
<td>Some countries set a minimum credit rating for certain activities e.g. swaps</td>
<td><strong>Singapore</strong>: minimum credit rating required for obtaining PD status</td>
</tr>
<tr>
<td>Minimum market share on the primary and/or secondary market during a certain period</td>
<td><strong>Japan</strong>: minimum 3% of the bids and 1% of planned issue amount during last 2 quarters</td>
</tr>
<tr>
<td>Possess technological capabilities required for submitting bids at primary auctions, trading on secondary market and reporting activity</td>
<td><strong>Greece</strong>: secondary market volume &gt; total volume of 2 worst performing PDs</td>
</tr>
<tr>
<td>Evidence of long term commitment to the sovereign bond market</td>
<td><strong>India</strong>: banks are required to setup a separate subsidiary that is registered as a PD</td>
</tr>
<tr>
<td>Detailed business plans outlining bond market strategy</td>
<td><strong>Canada, Sweden and Netherlands</strong> require PDs to submit annual business plans</td>
</tr>
<tr>
<td>Sufficient management capacity</td>
<td></td>
</tr>
<tr>
<td>Suitable staffing and professional capabilities</td>
<td></td>
</tr>
</tbody>
</table>

**SOURCE:** World Bank GEMLOC white paper
DJPU may consider a tiered system of primary dealers to assign separate obligations for different tiers of dealers

<table>
<thead>
<tr>
<th>Approach</th>
<th>Description</th>
<th>Rationale</th>
<th>Country examples</th>
</tr>
</thead>
<tbody>
<tr>
<td>Homogenous system</td>
<td>▪ DMO subjects all primary dealers to the same obligations and privileges</td>
<td>▪ Status of PD is more transparent&lt;br&gt;▪ Easier to manage&lt;br&gt;▪ Lack of any specific PD skills or markets</td>
<td>▪ Belgium&lt;br&gt;▪ Finland&lt;br&gt;▪ France&lt;br&gt;▪ New Zealand&lt;br&gt;▪ USA&lt;br&gt;▪ Turkey</td>
</tr>
<tr>
<td>Market specialists for instruments</td>
<td>▪ DMO creates a separate category of PDs for certain instruments e.g. treasury bills, repo etc</td>
<td>▪ Status of PD is more transparent&lt;br&gt;▪ Easier to manage&lt;br&gt;▪ Lack of any specific PD skills or markets</td>
<td>▪ Australia, Austria, Denmark, Portugal, UK have separate PDs for treasury bills</td>
</tr>
<tr>
<td>Market specialists for specific activities</td>
<td>▪ A separate tier of “market specialists” is created with specific obligations defined</td>
<td>▪ Leverage the unique skills or expertise of certain PDs&lt;br&gt;▪ Provide PDs incentive to maximize their efforts</td>
<td>▪ Canada has a separate category of “primary dealers” separate from “jobbers” who have a greater market making requirements</td>
</tr>
</tbody>
</table>

SOURCE: World Bank GEMLOC white paper
Primary market obligations should ensure that issuance volumes can be absorbed and that the investor base is diversified and healthy.

<table>
<thead>
<tr>
<th>Approach</th>
<th>Description</th>
<th>Country examples</th>
</tr>
</thead>
<tbody>
<tr>
<td>Placing minimum bids</td>
<td>▪ PDs are expected to place a minimum amount of</td>
<td>▪ <strong>EU</strong>: Discretionary limit set by DMO</td>
</tr>
<tr>
<td></td>
<td>– bids and/or</td>
<td>▪ <strong>Austria</strong>: function of appointed # of PDs</td>
</tr>
<tr>
<td></td>
<td>– successful bids</td>
<td>▪ <strong>Egypt</strong>: function of the PDs balance sheet size</td>
</tr>
<tr>
<td></td>
<td>▪ This helps reduce issuer’s execution risk</td>
<td>▪ <strong>UK</strong>: function of the PD’s secondary market activity</td>
</tr>
<tr>
<td>Distribution of securities</td>
<td>▪ PDs are expected to distribute securities efficiently to a wide customer base</td>
<td>▪ <strong>Sweden</strong>: PDs are expected to market securities to their customer’s and submit marketing plans to the DMO</td>
</tr>
</tbody>
</table>

SOURCE: World Bank GEMLOC white paper
Secondary market obligations should focus on firm quotes, price transparency and meeting minimum market turnover levels

<table>
<thead>
<tr>
<th>Element</th>
<th>Description</th>
<th>Country example</th>
</tr>
</thead>
</table>
| Quote volume           | **Firm two way quotes**: PDs are expected to provide firm two-way quotes continuously | **Firm quotes**:  
  - **Developed countries**: Canada, Singapore, UK  
  - **Developing countries**: India, Mexico |
|                        | **Partially firm quotes**: emerging markets expect indicative quotes, but fix obligations to provide quotes for the benchmark securities |                                                                                |
|                        | **Quote allocation by maturities**: Securities of different maturities are allocated among PDs to spread the burden across dealers |                                                                                |
| Quote transparency     | Increasingly, DMOs expect PDs to quote prices for a minimum amount, for a minimum # of hours and with a maximum spread | **EU countries**: In most EU countries, the assessment of quotes is done based on transparency (i.e. time, spread, quantity) and not just volumes |
| Market turnover        | PDs that are obliged to provide firm quotes are also **obliged to meet a minimum turnover**  
  This is typically ranges from a % of total turnover, % of total PD turnover and finally in mature market, the requirement is waived | **Korea**: 2% of total market turnover  
 **Sweden**: 2.5% of secondary market turnover, 5% of the ETP turnover  
 **Euro zone**: no market turnover requirement |

SOURCE: World Bank GEMLOC white paper
Primary market privileges, especially NCS, are important to boost PD performance

<table>
<thead>
<tr>
<th>Element</th>
<th>Description</th>
<th>Country example</th>
</tr>
</thead>
<tbody>
<tr>
<td>Participation in Auctions</td>
<td><strong>Closed auctions</strong>: Only PDs are given the exclusive right to participate so that they can obtain the volumes they need to support market making</td>
<td>Australia, Netherlands, Belgium</td>
</tr>
<tr>
<td>Extra time to place bids</td>
<td>Right to submit bids closer to the cut-off time can give PDs a commercial advantage</td>
<td>Spain</td>
</tr>
<tr>
<td>Commissions</td>
<td>PDs are paid a commission for successful bids</td>
<td><strong>Commission for all bids</strong>: India, Sweden</td>
</tr>
<tr>
<td></td>
<td></td>
<td><strong>Commission for customer bids</strong>: Egypt</td>
</tr>
<tr>
<td>Noncompetitive subscriptions</td>
<td>Exclusive right to second round of sales called NCS either at or post auctionon</td>
<td><strong>At auction</strong>: a separate amount is setup in advance for allocation to PDs to ensure they get a minimum allocation</td>
</tr>
<tr>
<td></td>
<td>The NCS can be granted to all PDs or to only the best performing PDs</td>
<td><strong>Post auction:</strong></td>
</tr>
<tr>
<td></td>
<td>Amount granted is typically a % of the PDs successful bids</td>
<td>– Korea offers 20% of the amount of successful bids as NCS</td>
</tr>
<tr>
<td></td>
<td></td>
<td>– Italy (10%), Belgium (20%)</td>
</tr>
<tr>
<td>League tables</td>
<td>Top 5 PDs in terms of volume of successful bids are announced to the public to add marketing credibility for PDs</td>
<td></td>
</tr>
</tbody>
</table>

SOURCE: World Bank GEMLOC white paper
### Secondary market privileges could include a securities lending facility to help support PDs in fulfilling their market making obligations

<table>
<thead>
<tr>
<th>Element</th>
<th>Description</th>
<th>Country example</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Securities lending facility</strong></td>
<td>A SLF is provided to support PDs market making activities to cover their short trading positions</td>
<td>Mexico, Singapore, US and most EU countries</td>
</tr>
<tr>
<td></td>
<td><strong>Netherlands</strong>: PDs have access to SLF for every bond till the bond size reaches Euro 10bn</td>
<td></td>
</tr>
<tr>
<td></td>
<td><strong>Belgium</strong>: Maximum amount of Euro 100mn can be borrowed for each bonds and bills; rate charged is EONIA minus 25bps</td>
<td></td>
</tr>
<tr>
<td></td>
<td><strong>Denmark</strong>: SLF at 20bps per annum</td>
<td></td>
</tr>
<tr>
<td><strong>Right to strip &amp; reconstitute bonds</strong></td>
<td>Exclusive right to strip bonds that creates new profit opportunities</td>
<td>Belgium, UK, Japan, France</td>
</tr>
<tr>
<td><strong>Right to participate in bond exchange</strong></td>
<td>Exclusive counter-party for the DMO for buy-back of government securities</td>
<td>Belgium, UK, Spain, Turkey, Denmark</td>
</tr>
<tr>
<td><strong>Right to partner in OMO</strong></td>
<td>PDs are the exclusive privileged partner of the central bank for open market operations</td>
<td>US: only PDs are approved to conduct business directly with the Fed both for repo and for OMO</td>
</tr>
<tr>
<td></td>
<td><strong>UK</strong>: PDs that have signed legal docs have access to special repo facilities</td>
<td></td>
</tr>
<tr>
<td><strong>Borrowing line from CB</strong></td>
<td>PDs can be given access to market financing if market financing is not readily available</td>
<td>Canada, India, Mexico</td>
</tr>
</tbody>
</table>

**SOURCE**: World Bank GEMLOC white paper
Contents

- Context and introduction
- Disbursement and receipts
- Liquidity management
- **Debt market development**
  - Context and introduction
  - Initiative 11: Launch trading platform for bonds
  - Initiative 12: Review primary dealer framework
  - Initiative 13: Review bond stabilization framework
    - Charter and implementation plan
    - Initiative 14: Reduce government benchmark series
    - Initiative 15: Strengthen investor relations function
    - Initiative 16: Support OJK in developing the repo market
    - Initiative 17: Increase domestic demand for government securities by working with relevant regulatory agencies
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## Continuously improving bond stabilization framework

### Objective
- Build confidence that domestic market can withstand market shocks;
- Create mechanism to support market during shocks

### Background
- Large outward capital flows may destabilize the government securities market and overall debt market
- 30% foreign ownership of bonds pose a risk to market stability
- Need to ensure there is a framework in place to react in case bond markets are destabilized

### Changes in operational models
- Review of current framework to ensure that it could withstand most shocks
- Ensure participants now their roles are ready to act
- Potential to create a bond stabilization fund

### Summary of proposed actions
- Review current bond stabilization framework
- Conduct annual simulations with BSF parties

### Impact and KPIs
- N/A

### Enablers for success
- Clear list of participants and guidelines for action

### Changes in operational models

<table>
<thead>
<tr>
<th>Year</th>
<th>Outcomes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dec 2014</td>
<td>Determine need to create a bond stabilization fund</td>
</tr>
<tr>
<td>Dec 2015</td>
<td>Determine full list of potential participant in bond stabilization framework</td>
</tr>
<tr>
<td>June 2016</td>
<td>Complete MOUs with new participants</td>
</tr>
<tr>
<td>Jan 2019</td>
<td>Bond stabilization fund completed (if need)</td>
</tr>
</tbody>
</table>

### Governance structure

<table>
<thead>
<tr>
<th>Initiative champion</th>
<th>DG unit</th>
</tr>
</thead>
<tbody>
<tr>
<td>DG of Debt Management</td>
<td>DJPU</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Initiative owner</th>
<th>DG unit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Director of Government Securities</td>
<td>DJPU</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Team</th>
<th>DG unit</th>
</tr>
</thead>
<tbody>
<tr>
<td>PPSUN – Dit. SUN</td>
<td>DJPU</td>
</tr>
<tr>
<td>PSUNEK - Dit. SUN</td>
<td>DJPU</td>
</tr>
</tbody>
</table>
### Continuously improving bond stabilization framework – changes in operational model

<table>
<thead>
<tr>
<th>Current State</th>
<th>Target state</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bond stabilization framework in place but potential to expand by including other players (e.g., regional governments)</td>
<td>Fully incorporate all potential participants in the bond stabilization framework</td>
</tr>
<tr>
<td>Annual simulations conducted to ensure all participants know their roles and can act swiftly</td>
<td>Annual simulations conducted to ensure all participants know their roles and can act swiftly</td>
</tr>
<tr>
<td>N/A</td>
<td>Potentially set up a bond stabilization fund</td>
</tr>
</tbody>
</table>
# Continuously improving bond stabilization framework – workplan

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Review current bond stabilization framework</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>▪ Determine full list of potential participants in bond stabilization fund</td>
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<td></td>
</tr>
<tr>
<td>▪ Complete MOUs with all the participants that will join bond stabilization fund</td>
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<td></td>
</tr>
<tr>
<td>Conduct annual simulations with BSF parties</td>
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<tr>
<td>Explore creating a bond stabilization fund in the long term (2019)</td>
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<tr>
<td>▪ Assess possibility of introducing bond stabilization fund</td>
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<tr>
<td>▪ Conduct comparative study</td>
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<tr>
<td>▪ Design fund (Determine fund management practices, governance)</td>
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<tr>
<td>▪ Execute on design</td>
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<tr>
<td>▪ Launch Bond stabilization fund (if necessary)</td>
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</tbody>
</table>
### Continuously improving bond stabilization framework – potential regulatory and legal risk

<table>
<thead>
<tr>
<th>Risks</th>
<th>Mitigation</th>
</tr>
</thead>
<tbody>
<tr>
<td>A Potential conflicting regulation for BSF participants may hinder their full participation</td>
<td>▪ Close coordination with BSF participants and legal bureau</td>
</tr>
</tbody>
</table>
Contents

- Context and introduction
- Disbursement and receipts
- Liquidity management

- **Debt market development**
  - Context and introduction
  - Initiative 11: Launch trading platform for bonds
  - Initiative 12: Review primary dealer framework
  - Initiative 13: Review bond stabilization framework

  - **Initiative 14: Reduce government benchmark series**
    - Charter and implementation plan
    - Supporting analysis
  - Initiative 15: Strengthen investor relations function
  - Initiative 16: Support OJK in developing the repo market
  - Initiative 17: Increase domestic demand for government securities by working with relevant regulatory agencies
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**Charter and implementation plan**

- Supporting analysis
- Initiative 15: Strengthen investor relations function
- Initiative 16: Support OJK in developing the repo market
- Initiative 17: Increase domestic demand for government securities by working with relevant regulatory agencies
Debt management: Consolidation of domestic benchmark securities

Objective: Increase liquidity of government securities by consolidating debt in a few on-the-run series

Background:
- Indonesia currently has 40 local currency domestic bonds outstanding (5 benchmark bonds) with the largest issuance size of USD 4.3bn compared to Sweden which has 11 benchmark series outstanding with a size of ~USD 10bn each.
- Consolidation of local currency domestic bonds will help to increase the size of the benchmark series thereby improving liquidity.

Changes in operational models:
- Reduce the introduction of new series
- Create a program to systematically buy-back or exchange off-the-run bonds into on-the-run bonds

Summary of proposed actions:
- Develop an optimal issuance strategy covering key design elements (i.e., target issuance size, number of tenors, life-cycle, procedures for reopening series)
- Create systems to manage maturity profile
- Explore defeasance as a means to simplifying buybacks

Impact and KPIs:
- By 2019 On-the-run bonds aimed at minimum 25% of total tradable local currency bonds
- By 2025, each on-the-run series has USD5010 bn in issuance size

Governance structure:
- **Initiative champion**: DG of Debt Management
- **Initiative owner**: Director of Government Securities
- **Team**:
  - PPSUN – Dit. SUN
  - PSU, PRU & APU – Dit. SPU

Enablers for success:
- Bond structuring expertise in case bond terms changed (e.g., defeasance)
- Review of market reaction to high coupons, consolidation, buy-backs/exchanges
- Debt-switch systems
- Buy-back/exchange budget

Key outcomes:
- Dec 2014 - Defeasance bonds
- Dec 2015 - Bond issuance guidelines
- Dec 2015 - Many to many debt switch
## Debt management: Consolidation of domestic benchmark securities – changes in operational model

<table>
<thead>
<tr>
<th>Current State</th>
<th>Target State</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>On-the-run bonds currently form only 16% of total domestic local currency bonds</strong></td>
<td><strong>Each on-the-run bond series at least USD 10 bn in size</strong></td>
</tr>
<tr>
<td><strong>Multiple types of instruments</strong> (e.g. variable rate, fixed rate, retail) targeted at similar customer segments</td>
<td><strong>Issuances concentrated in a few instrument types that maximize penetration across investors segments</strong></td>
</tr>
<tr>
<td><strong>DJPU typically issues 5 tenors every year; issued only 4 tenors in 2013</strong></td>
<td><strong>Aim to issue only 3-4 tenors every year to help build size</strong></td>
</tr>
<tr>
<td></td>
<td><strong>If possible, reopen old series instead of issuing new series</strong></td>
</tr>
<tr>
<td><strong>The lifecycle of benchmark bonds is typically between 1-1.5 years</strong></td>
<td><strong>Target lifecycle based on instrument tenor</strong> (e.g. 1 year for short tenor and 2 years for long tenor bonds)**</td>
</tr>
<tr>
<td><strong>No systematic policy</strong> for buy-back or switch or conversion</td>
<td><strong>Introduce a systematic policy for</strong></td>
</tr>
<tr>
<td></td>
<td>– <strong>Buy-back of bonds</strong> based on availability of treasury cash to helps investors exit illiquid securities</td>
</tr>
<tr>
<td></td>
<td>– <strong>Bond switches</strong> to reduce refinancing risk or increase liquidity in key benchmarks</td>
</tr>
<tr>
<td></td>
<td>– <strong>Full conversion</strong> of off-the-run to benchmark bonds to increase benchmark liquidity</td>
</tr>
<tr>
<td><strong>Choice between switch and buy-back is not planned or is event driven</strong></td>
<td><strong>Systematically choose switch or buy-back</strong> based on assessment of cash available, time to maturity of source bond, size of destination benchmark bond</td>
</tr>
<tr>
<td><strong>Pricing for the buy-back is based on auction with no profit share system</strong></td>
<td><strong>Consider sharing any gains in pricing from switches with investors to motivate higher demand</strong></td>
</tr>
<tr>
<td><strong>No stated redemption plan</strong> for buy-back or switches</td>
<td><strong>Develop a redemption plan that is communicated in advance</strong></td>
</tr>
</tbody>
</table>
# Debt management: Consolidation of domestic benchmark securities – workplan

<table>
<thead>
<tr>
<th>Actions</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
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<tbody>
<tr>
<td>Develop an optimal issuance strategy covering key design elements</td>
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<tr>
<td>(i.e., target issuance size, number of tenors, life-cycle, procedures</td>
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<tr>
<td>for reopening series)</td>
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<tr>
<td>▪ Create series strategy</td>
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<tr>
<td>- Optimal number of on-the run series</td>
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<tr>
<td>- Calendar for opening new series (e.g., once a year for short/medium-term bonds; once every two years for long-term bonds)</td>
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<tr>
<td>- Review need to reissue high premium bonds</td>
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<td></td>
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<tr>
<td>▪ Promulgate new procedures</td>
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<td></td>
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<tr>
<td>Create systems to manage maturity profile</td>
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<td></td>
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<tr>
<td>▪ Determine the optimal policy for redemptions</td>
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<tr>
<td>(i.e., switch vs. buy-back, method, pricing, communication) as part of annual debt market strategy</td>
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<tr>
<td>▪ Determine budget for piloting of buy-back program (2014)</td>
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<tr>
<td>▪ Create IT system that allows for open price on both sides (IT system)</td>
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<tr>
<td>▪ Create a many-to-many debt switch system with BI and IDX</td>
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<tr>
<td>▪ Study different exchange options (long-to-long and long-to-short switching programs, many-to-many switch systems)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>▪ Determine budget required to implement buy-back and implement systems</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>▪ Conduct first many-to-many debt switch</td>
<td></td>
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<tr>
<td>Explore defeasance as a means to simplifying buybacks</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>▪ Study option to defease bonds</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>▪ Use defeasement</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
### Debt management: Consolidation of domestic benchmark securities – potential regulatory and legal risk

<table>
<thead>
<tr>
<th>Risks</th>
<th>Mitigation</th>
</tr>
</thead>
</table>
| **A** Market unwilling to exchange/sell off-the-run bonds | ▪ Improve communications with market  
▪ Budget amount to incentivize bond holders to sell-back bonds |
| **B** Defeasance is not yet fully developed | ▪ Develop defeasance skills  
▪ Conduct active communication with market participants |
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There are a number of small size benchmark issues; imperative to consolidate benchmarks and introduce systematic buy-back/exchange.

**DJPU has issued benchmark series across tenors on an annual basis**

Benchmark domestic tradable govt. bonds by tenor and year of maturity, USD bn

**Indonesia**

- Indonesia has issued benchmark series across tenors on an annual basis.
- DJPU has issued benchmark securities across tenors on an annual basis.
- Limited buy back or exchanges of old benchmark instruments.

**Sweden**

- Sweden has 11 outstanding Swedish government bonds.
- Strategy is to issue 10 year government bonds every 2 years.
- Systematically run exchanges from old to new benchmark series to build up liquidity.

**SOURCE:** DJPU outstanding debt portfolio, May 2013, Interview with Swedish Cash Management office
Most OECD countries use bond buybacks and exchanges
Use of exchanges and buybacks in OECD countries

<table>
<thead>
<tr>
<th></th>
<th>Bond exchange</th>
<th>Bond buyback</th>
</tr>
</thead>
<tbody>
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<td>1</td>
<td>Australia</td>
<td>yes</td>
</tr>
<tr>
<td>2</td>
<td>Austria</td>
<td>yes</td>
</tr>
<tr>
<td>3</td>
<td>Belgium</td>
<td>no</td>
</tr>
<tr>
<td>4</td>
<td>Canada</td>
<td>yes</td>
</tr>
<tr>
<td>5</td>
<td>Chile</td>
<td>yes</td>
</tr>
<tr>
<td>6</td>
<td>Czech Republic</td>
<td>yes</td>
</tr>
<tr>
<td>7</td>
<td>Denmark</td>
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<tr>
<td>8</td>
<td>Estonia</td>
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<tr>
<td>9</td>
<td>Finland</td>
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</tr>
<tr>
<td>10</td>
<td>France</td>
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<tr>
<td>11</td>
<td>Germany</td>
<td>yes</td>
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<tr>
<td>12</td>
<td>Greece</td>
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<tr>
<td>13</td>
<td>Hungary</td>
<td>yes</td>
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<tr>
<td>14</td>
<td>Iceland</td>
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<tr>
<td>15</td>
<td>Ireland</td>
<td>yes</td>
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<tr>
<td>16</td>
<td>Israel</td>
<td>yes</td>
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<tr>
<td>17</td>
<td>Italy</td>
<td>yes</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Bond exchange</th>
<th>Bond buyback</th>
</tr>
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<tbody>
<tr>
<td>18</td>
<td>Japan</td>
<td>no</td>
</tr>
<tr>
<td>19</td>
<td>Korea</td>
<td>N/A</td>
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<tr>
<td>20</td>
<td>Luxembourg</td>
<td>yes</td>
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<tr>
<td>21</td>
<td>Mexico</td>
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<tr>
<td>22</td>
<td>Netherlands</td>
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<tr>
<td>23</td>
<td>New Zealand</td>
<td>yes</td>
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<tr>
<td>24</td>
<td>Norway</td>
<td>yes</td>
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<tr>
<td>25</td>
<td>Poland</td>
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<tr>
<td>26</td>
<td>Portugal</td>
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<td>27</td>
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<td>29</td>
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<tr>
<td>30</td>
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<tr>
<td>31</td>
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<tr>
<td>32</td>
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<tr>
<td>33</td>
<td>U.K.</td>
<td>yes</td>
</tr>
<tr>
<td>34</td>
<td>U.S.</td>
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</tr>
</tbody>
</table>

**SOURCE:** 2012 Survey on Buyback and Switches by OECD WPDM; OECD Working Papers on Sovereign Borrowing and Public Debt Management No. 5: Buyback and Exchange Operations

**CONFIDENTIAL**
For many, this is used to increase liquidity in the market

### Selection criteria for buyback bonds

<table>
<thead>
<tr>
<th>Country</th>
<th>Nearing redemption</th>
<th>Off-the runs</th>
<th>Illiquid</th>
<th>High coupon</th>
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</thead>
<tbody>
<tr>
<td>Australia</td>
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<td>Austria</td>
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<td>Canada</td>
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<td>Czech Republic</td>
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<td>Denmark</td>
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<td>France</td>
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<td>Greece</td>
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<td><strong>Total</strong></td>
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<td><strong>8</strong></td>
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</tr>
</tbody>
</table>

### Selection criteria for source bonds in switch operations

<table>
<thead>
<tr>
<th>Country</th>
<th>Nearing redemption</th>
<th>Off-the runs</th>
<th>Illiquid</th>
<th>High coupon</th>
</tr>
</thead>
<tbody>
<tr>
<td>Austria</td>
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<td><strong>Total</strong></td>
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<td><strong>9</strong></td>
<td><strong>7</strong></td>
<td><strong>4</strong></td>
</tr>
</tbody>
</table>

**SOURCE:** OECD Working Papers on Sovereign Borrowing and Public Debt Management No. 5: Buyback and Exchange Operations
Denmark buys back near-maturity, off-the-run bonds with the proceeds of excess issuances of benchmark series

Chart 1: Buybacks combined with increased on-the-run issuance

Source: Government Debt Management, Danmarks Nationalbank.

There has a program to exchange off-the-run bonds for on-the-run bonds.

Source: Government Debt Management, Danmarks Nationalbank.
Contents

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**Debt market development**

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  - Supporting analysis
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## Strengthening Investor Relations (IR)

### Objective
Implement a targeted IR strategy to diversify the investor base and to focus on investors whose risk appetite aligns with Indonesia’s financial situation.

### Background
- DJPU has a team of ~5 people in the Front Office for government debt securities focusing on investors relations.
- The IR team does not actively target specific segments of investors (e.g. by industry or country).
- A more targeted IR strategy would help to diversify the investor base and to achieve more stable and predictable capital flows.

### Changes in operational models
- Targeted approach to screening and prioritization of investors.
- Tailored coverage model with differentiated IR objectives.
- Tailored investor communication.
- Systematic information reports on investors to support leadership actions.
- Dedicated IR team housed in the MOF coordinating with other agencies.

### Impact and KPIs
- Breakdown of investors in accordance with IR strategy (to be determined as part of initiative implementation plan).

### Summary of proposed actions
- Create a dedicated DJPU investor relations team.
- Determine target investors.
- Create communication and roadshow calendar.
- Formulate investor communication.
- Strengthen internal reporting and decision making.
- Provide communication equipment (VC systems) with OpEx and CapEx budget.

### Enablers for success
- Investor relations/communications capabilities within the MOF (may need to build internal capabilities or hire external help).
- Additional budget for communications:
  - Road shows
  - Collaterals
  - Communication systems (VC).
- Strong coordination with BI and BKF who also do investor communications.

### Governance structure

<table>
<thead>
<tr>
<th>Initiative champion</th>
<th>DG unit</th>
</tr>
</thead>
<tbody>
<tr>
<td>DG of Debt Management</td>
<td>DJPU</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Initiative owner</th>
<th>DG unit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Under discussion</td>
<td>DJPU</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Team</th>
<th>DG unit</th>
</tr>
</thead>
<tbody>
<tr>
<td>PP– Dit. SUN</td>
<td>DJPU</td>
</tr>
<tr>
<td>Dit. PS, Dit. SPU, Dit. PH, Setditjen</td>
<td>DJPU</td>
</tr>
</tbody>
</table>

### Key outcomes
- Dec 2015 – establishment of DJPU’s IR Unit.
Strengthening Investor Relations (IR) – changes in operational model

<table>
<thead>
<tr>
<th>Current State</th>
<th>Target state</th>
</tr>
</thead>
<tbody>
<tr>
<td>▪ No clear policy for identifying and targeting</td>
<td>▪ <strong>Systematic policy</strong> of screening, targeting and tiered classification of</td>
</tr>
<tr>
<td>priority investors</td>
<td>investors (both current and potential) with tailored IR objectives</td>
</tr>
<tr>
<td>▪ <strong>Homogenous coverage</strong> approach through a</td>
<td>▪ <strong>Tailored coverage</strong> approach ranging from customized 1on1 meetings for</td>
</tr>
<tr>
<td>mix of non-deal roadshows, investor calls and</td>
<td>priority investors to conference calls across investors</td>
</tr>
<tr>
<td>communications through the IR website</td>
<td>▪ <strong>Investment story</strong> that outlines investment rationale and updates</td>
</tr>
<tr>
<td>▪ <strong>Standardized investor presentations</strong> used for</td>
<td>▪ <strong>Customized communication</strong> for priority investor segments based on key</td>
</tr>
<tr>
<td>discussions with all investors</td>
<td>needs and traits</td>
</tr>
<tr>
<td>▪ No standardized internal investor reports</td>
<td>▪ <strong>Detailed investor report for leadership</strong> with investor breakdown, key</td>
</tr>
<tr>
<td></td>
<td>updates and interventions required</td>
</tr>
</tbody>
</table>
### Strengthening Investor Relations (IR) – workplan (1/2)

<table>
<thead>
<tr>
<th>Actions</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Create a dedicated investor relations team</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Propose a dedicated investor relations team to sit in MOF (BKF or DJPU)</td>
<td>Mar May Jul Sep Nov</td>
<td>Mar May Jul Sep Nov</td>
<td>Mar May Jul Sep Nov</td>
<td>Mar May Jul Sep Nov</td>
</tr>
<tr>
<td>- Promulgate new Create regular interactions/coordination protocol among investor relation stakeholders (regular meetings, formal coordination protocols)</td>
<td>Mar May Jul Sep Nov</td>
<td>Mar May Jul Sep Nov</td>
<td>Mar May Jul Sep Nov</td>
<td>Mar May Jul Sep Nov</td>
</tr>
<tr>
<td>- Create legal basis for investor relations team</td>
<td>Mar May Jul Sep Nov</td>
<td>Mar May Jul Sep Nov</td>
<td>Mar May Jul Sep Nov</td>
<td>Mar May Jul Sep Nov</td>
</tr>
<tr>
<td>- Build skills of investor relations team in communications, market knowledge and public relation skills</td>
<td>Mar May Jul Sep Nov</td>
<td>Mar May Jul Sep Nov</td>
<td>Mar May Jul Sep Nov</td>
<td>Mar May Jul Sep Nov</td>
</tr>
<tr>
<td>- Fully staff investor relations unit</td>
<td>Mar May Jul Sep Nov</td>
<td>Mar May Jul Sep Nov</td>
<td>Mar May Jul Sep Nov</td>
<td>Mar May Jul Sep Nov</td>
</tr>
<tr>
<td><strong>Determine target investors</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Create Investor database</td>
<td>Mar May Jul Sep Nov</td>
<td>Mar May Jul Sep Nov</td>
<td>Mar May Jul Sep Nov</td>
<td>Mar May Jul Sep Nov</td>
</tr>
<tr>
<td>- Review current investor base</td>
<td>Mar May Jul Sep Nov</td>
<td>Mar May Jul Sep Nov</td>
<td>Mar May Jul Sep Nov</td>
<td>Mar May Jul Sep Nov</td>
</tr>
<tr>
<td>- Determine segmentation (criteria for screening and prioritizing investors)</td>
<td>Mar May Jul Sep Nov</td>
<td>Mar May Jul Sep Nov</td>
<td>Mar May Jul Sep Nov</td>
<td>Mar May Jul Sep Nov</td>
</tr>
<tr>
<td>- Determine target list</td>
<td>Mar May Jul Sep Nov</td>
<td>Mar May Jul Sep Nov</td>
<td>Mar May Jul Sep Nov</td>
<td>Mar May Jul Sep Nov</td>
</tr>
<tr>
<td>- Group target list into tiers and assign “account manager”</td>
<td>Mar May Jul Sep Nov</td>
<td>Mar May Jul Sep Nov</td>
<td>Mar May Jul Sep Nov</td>
<td>Mar May Jul Sep Nov</td>
</tr>
</tbody>
</table>
# Strengthening Investor Relations (IR) – workplan (2/2)

<table>
<thead>
<tr>
<th>Actions</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Create communication and roadshow calendar</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>▪ Determine appropriate channel of engagement for each investor group</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>▪ Define level of intensity of engagement for each investor group</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>▪ Develop an IR calendar with annual plan for investor activities per group (e.g., international roadshows, domestic roadshows)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>▪ Determine budget for roadshows</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Formulate investor communication</strong></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>▪ Development investment story that explains the overall investment proposition (e.g., distinctiveness, strategy)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>▪ Create mechanisms to update investor communication materials</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Strengthen internal reporting and decision making</strong></td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>▪ Define features of a quarterly internal investors report covering key investor activities and holdings</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>▪ Determine Define and establish procedures for DMO leadership to analyze reports and provide advice on key actions</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Provide communication equipment (VC systems) with OpEx and CapEx budget</strong></td>
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<td></td>
</tr>
</tbody>
</table>
## Strengthening Investor Relations (IR) – potential regulatory and legal risk

<table>
<thead>
<tr>
<th>Risks</th>
<th>Mitigation</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>A</strong> Unclear roles and coordination with other agencies involved in investor relations (e.g., BI)</td>
<td>▪ Regular coordination meetings and consultations with BI and other agencies on investor relation initiatives</td>
</tr>
</tbody>
</table>
Contents

- Context and introduction
- Disbursement and receipts
- Liquidity management
- **Debt market development**
  - Context and introduction
  - Initiative 11: Launch trading platform for bonds
  - Initiative 12: Review primary dealer framework
  - Initiative 13: Review bond stabilization framework
  - Initiative 14: Reduce government benchmark series
  - Initiative 15: Strengthen investor relations function
    - Charter and implementation plan

**Supporting analysis**

- Initiative 16: Support OJK in developing the repo market
- Initiative 17: Increase domestic demand for government securities by working with relevant regulatory agencies
The current IR strategy is not systematic and targeted; opportunity to diversify investor base and to stabilize flows

DJPU current approach to investor relations

- DJPU has a team of ~5 people in the Front Office for government debt securities who focus on investor relations
- DJPU does not actively target specific segments of investors (e.g. by industry or country)
- Current approach is to engage with a broad base of investors through
  - Non Deal Roadshows (NDR) for global bond issuances
  - Investor conference every November
  - Quarterly calls
  - Separate investor relations tab on DJPU website

A more targeted investor strategy can help ensure stable capital flows from a diversified investor base

| Objective | Achieve more influence on the composition of the investor base  
Stabilize foreign capital flows into the local bond markets |
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Strategy</td>
<td>Identify a target group of investors, maintain strong relations and boost investor confidence</td>
</tr>
</tbody>
</table>
| Performance | Robust capital inflows: Since 2009, inflows into local currency bond market amounts to US$25 billion with foreign ownership rising to 35 per cent  
Diversified investor base: Highlights from a recent global bond issuance include  
  - Investor location: US (49%), UK (29%), Europe (20%)  
  - Investor type: Asset managers (77%), Banks (9%), Insurance (8%)  
Issuances without roadshows: Government able to issue global bond (Issuance of 2020, 2041 and 2024) without engaging in roadshows |
| Approach | Embark on local and international road shows  
  - Timing: Post budget in February and Medium-Term Budget in October  
  - Location: Visit major financial centers in  
    - Europe (i.e. London and Frankfurt, recently extended to Amsterdam Zurich)  
    - USA (New York, Boston and Los Angeles);  
    - Asia: covered last year during World bank and IMF meetings  
Create an IR website for open communication  
  - Publish information such as bond auctions results, calendars, legal documents, policy documents, economic indicators, market data and upcoming events  
Other measures  
  - Quarterly conference calls with investors  
  - Annual Debt Report in 2012  
  - Senior Treasury officials are frequently invited to make presentations in various investor conference |

SOURCE: DJPU, OECD presentations
DJPU may prioritize investors based on a 3-step approach.

**Identification of potential and current investors**
- **Current**
  - Deal book analysis
  - Sovereign
- **Potential**
  - Market analysis
  - Top investors

**Screening and prioritisation**
- Issued amount
- Bid amount
- Level of participation
- Tenor demand

**Classification of investor tiers**
- Tier 1
- Tier 2
- Tier 3

- Potential Tier 1
  - Large untapped investors across geographies and investor types
The result is a prioritized set of investors to help develop tailored IR objectives and coverage approach.

**Tier 1 investors**
- **Characteristics**
  - Top 10 investors who contribute to XX% of issued debt
- **IR objective**
  - Retain and further develop relationship

**Tier 2 investors**
- **Characteristics**
  - Top 35–50 investors who have shown high commitment levels
- **IR objective**
  - Develop relationship into Tier 1

**Tier 3 investors**
- **Characteristics**
  - Investors who have a small presence
- **IR objective**
  - Retain at minimum cost

**Potential Tier 1 investors**
- **Characteristics**
  - Investors who bid high but do not receive allocations
  - Large investors (by AuM) who have little or no presence
- **IR objective**
  - Capture untapped opportunities and develop into Tier 1 relationship

**Upgrade investors with significant bids but low allocation**

**Size of investor**
- High >$75m
- Medium $50–75m
- Low <$50m
DJPU should adopt varying levels of engagement across investor tiers and leverage multiple channels to build relationships

<table>
<thead>
<tr>
<th>Deliverables</th>
<th>Objectives</th>
</tr>
</thead>
<tbody>
<tr>
<td>▪ Prepare investor presentation</td>
<td>▪ Understand investor and rating agency concerns</td>
</tr>
<tr>
<td>▪ Send out invites a month in advance</td>
<td>▪ Communicate cogent, consistent country story</td>
</tr>
<tr>
<td>▪ Have answers ready for FAQ’s</td>
<td>▪ Strengthen existing relationships</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>1-on-1 meetings</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Jan  Feb  Mar  Apr  May  Jun  Jul  Aug  Sep  Oct  Nov  Dec</td>
<td>Tier 1 US investors  Tier 1 Europe investors  Tier 1 Asia investors  Tier 1 US investors  Tier 1 Europe investors  Tier 1 ME investors  Key Asian investors</td>
</tr>
<tr>
<td>1-on-1 meetings</td>
<td></td>
</tr>
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</table>

<table>
<thead>
<tr>
<th>Non deal road show</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Jan  Feb  Mar  Apr  May  Jun  Jul  Aug  Sep  Oct  Nov  Dec</td>
<td>Hong-kong  London  NY  Dubai</td>
</tr>
<tr>
<td>Non deal road show</td>
<td></td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Country DMO investor day</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Jan  Feb  Mar  Apr  May  Jun  Jul  Aug  Sep  Oct  Nov  Dec</td>
<td></td>
</tr>
<tr>
<td>Country DMO investor day</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Investor calls</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Jan  Feb  Mar  Apr  May  Jun  Jul  Aug  Sep  Oct  Nov  Dec</td>
<td>Q1  Q2  Q3</td>
</tr>
<tr>
<td>Investor calls</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Annual/quarterly publications</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Jan  Feb  Mar  Apr  May  Jun  Jul  Aug  Sep  Oct  Nov  Dec</td>
<td>Q4  Q1  Q2  Q3</td>
</tr>
<tr>
<td>Annual/quarterly publications</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Press releases</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Jan  Feb  Mar  Apr  May  Jun  Jul  Aug  Sep  Oct  Nov  Dec</td>
<td>Q1  Q2  Q3</td>
</tr>
<tr>
<td>Press releases</td>
<td></td>
</tr>
</tbody>
</table>
**DJPU should create an internal investor report that helps provide leadership a synthesis of investor activities**

<table>
<thead>
<tr>
<th>Audience</th>
<th>What it is…</th>
<th>Specific content</th>
</tr>
</thead>
</table>
| **Primary audience**  
  - MoF leadership  
  - DJPU leadership | **A concise** report meant to help the DMO executive committee validate Tier 1, 2 and 3 investors | **Provide an overview of the investor base**  
  - Geographical breakdown  
  - Segment breakdown  
  - Cross entity investment overlap |
| **Secondary audience**  
  - Non MoF government entities  
    ▫ BI  
    ▫ OJK | **A quarterly report for leadership to engage and provide strategic input** on managing key investor relationships and attracting potential investors | **Segmentation** of Tier 1 and 2 investors  
  ▫ Latest updates and feedback from key investors  
  ▫ **Feedback from PDs** on investor activity and concerns |

**Objective**
- Provide leadership latest updates on investor activity
- Obtain leadership interventions to deepen priority investor relationships and to better pursue potential investors
Contents

▪ Context and introduction
▪ Disbursement and receipts
▪ Liquidity management

▪ Debt market development
  ▪ Context and introduction
  ▪ Initiative 11: Launch trading platform for bonds
  ▪ Initiative 12: Review primary dealer framework
  ▪ Initiative 13: Review bond stabilization framework
  ▪ Initiative 14: Reduce government benchmark series
  ▪ Initiative 15: Strengthen investor relations function

  ▪ Initiative 16: Support OJK in developing the repo market
    ▫ Charter and implementation plan
    ▫ Supporting analysis
  ▪ Initiative 17: Increase domestic demand for government securities by working with relevant regulatory agencies
Contents

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- **Initiative 16: Support OJK in developing the repo market**

- **Charter and implementation plan**
  - Supporting analysis
    - Initiative 17: Increase domestic demand for government securities by working with relevant regulatory agencies
**Objective:** Develop a deep and liquid repo market which supports higher liquidity in the bond market

### Background

- The Indonesian repo market has significantly low volumes compared to inter-bank money market or bond market volumes.
- Repo market liquidity levels are low primarily due to:
  - Low counter-party limits driven by regulation on single bank lending limits.
  - Insurance funds having no access to central bank repos and
  - High charges (i.e. 200bps spread above the overnight rate).

### Changes in operational models

- Remove barriers that hinder repo usage
  - Taxation issues
  - Accounting issues
  - Regulations that ban repo usage
- Educate stakeholders on usage of repo

### Summary of proposed actions

- Work with Indonesian Accounting Association on general repo
- Work with APK to enact standards for securities lending in the govt.
- Educate stakeholders on usage and treatment of repos:
  - Pension/insurance funds
  - Regulators
  - Primary dealers
  - MOF members

### Impact and KPIs

- Size of repo market (to be aligned with OJK objectives)

### Governance structure

<table>
<thead>
<tr>
<th>Initiative champion</th>
<th>DG unit</th>
</tr>
</thead>
<tbody>
<tr>
<td>OJK</td>
<td>OJK</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Initiative owner</th>
<th>DG unit</th>
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<tbody>
<tr>
<td>OJK</td>
<td>OJK</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Team</th>
<th>DG unit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Monitored by Dir. Of Government Securities</td>
<td>DJPU</td>
</tr>
</tbody>
</table>
Support OJK in developing a deep and liquid repo market – changes in operational model

**Current State**
- Multiple regulatory hurdle for repos
  - Double taxation
  - Unclear accounting treatment
  - Bans on repo usage
- Master repo agreement lack clarity on key terms (e.g. counter party default obligations)
- Limited central bank participation in repo market (i.e. in terms of trade volumes)
- CMO not using repos
- Repo users not fully aware of repo mechanisms, risks and benefits

**Target state**
- Revised repo regulations retaining only the most necessary controls
- Clarified tax/accounting treatment of repos
- Clearly defined repo master contract (e.g. legal right vis-à-vis counterparts in case of default)
- Tight settlement procedures to include Delivery vs Payment (DvP) to limit credit exposure
- Active involvement of Central Bank (i.e. utilize repos for monetary policy)
- Potential usage by CMO
- Clear market structure features including counterparty risk awareness, adequacy of repo instruments, custody rules etc
- Define guidelines for market conduct including code of conduct and strategic initiatives (e.g. clearing through CCP)
Support OJK in developing a deep and liquid repo market – workplan

<table>
<thead>
<tr>
<th>Actions</th>
<th>2014</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Understand reasons for low repo usage in Indonesia</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Prepare master repo agreement for OJK approval</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Change regulation that ban insurance and pension funds to invest in repo and lend instruments for repo</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Solve accounting issues regarding repos</td>
<td></td>
<td></td>
</tr>
<tr>
<td>▪ Work with Indonesian Accounting Association on general repo</td>
<td></td>
<td></td>
</tr>
<tr>
<td>▪ Work with APK to enact standards for securities lending in the govt.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Work with BKF and OJK to clarify tax status of repos</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Educate stakeholders on usage and treatment of repos</td>
<td></td>
<td></td>
</tr>
<tr>
<td>▪ Pension/insurance funds</td>
<td></td>
<td></td>
</tr>
<tr>
<td>▪ Regulators</td>
<td></td>
<td></td>
</tr>
<tr>
<td>▪ Primary dealers</td>
<td></td>
<td></td>
</tr>
<tr>
<td>▪ MOF members</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Prepare master agreement for lending/borrowing of securities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Develop IT system on government securities transactions to serve as an early warning system</td>
<td></td>
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</tr>
</tbody>
</table>
Support OJK in developing a deep and liquid repo market – potential regulatory and legal risk

<table>
<thead>
<tr>
<th>Risks</th>
<th>Mitigation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Potential unfavourable regulations (on accounting, tax, others)</td>
<td>▪ Work closely with OJK, APK and other regulators to explain importance of an active repo market and to assuage fears</td>
</tr>
</tbody>
</table>
Contents

- Context and introduction
- Disbursement and receipts
- Liquidity management

- Debt market development
  - Context and introduction
  - Initiative 11: Launch trading platform for bonds
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  - Initiative 14: Reduce government benchmark series
  - Initiative 15: Strengthen investor relations function
  - Initiative 16: Support OJK in developing the repo market
    - Charter and implementation plan

- Supporting analysis
  - Initiative 17: Increase domestic demand for government securities by working with relevant regulatory agencies
Repo market liquidity levels are low primarily due to low counter-party limits, limited access to central bank repos and high charges.

The Indonesian repo market has significantly low volumes compared to inter-bank money market or bond market volumes.

Key challenges:

- Low counter-party limits for inter-bank repos: Low limits are driven by the regulation on single bank lending limits.
- Limited access to central bank repos: Insurance companies do not have access to central bank repos for government bonds.
- High repo charges: Currently repo charges are ~200bps spread above the overnight rate for repos from the central bank and >200bps for repos from other counter-parties (e.g. banks).

MoF is in talks with OJK, the Indonesian regulator, on the regulator’s ongoing review and proposed revision of the Master Repo agreement.

SOURCE: BIS, Central Banks, BI presentations, IMF, DJPU, market feedback
Contents

- Context and introduction
- Disbursement and receipts
- Liquidity management

**Debt market development**

- Context and introduction
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- **Initiative 17: Increase domestic demand for government securities by working with relevant regulatory agencies**
  
  ▪ Charter and implementation plan
  ▪ Supporting analysis
Contents

- Context and introduction
- Disbursement and receipts
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**Debt market development**

- Context and introduction
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- Initiative 12: Review primary dealer framework
- Initiative 13: Review bond stabilization framework
- Initiative 14: Reduce government benchmark series
- Initiative 15: Strengthen investor relations function
- Initiative 16: Support OJK in developing the repo market
- **Initiative 17: Increase domestic demand for government securities by working with relevant regulatory agencies**

- Charter and implementation plan
- Supporting analysis
### Objective:
Obtain policy support to increase domestic bond market participation from key investors, both public and private

### Background
- Limited participation from key domestic investors namely insurance and pension funds and foreign ownership is high (~33%) and tends to be volatile source of debt
- Holdings by insurance and pension funds are low due to the relatively small size of the industry and lower allocations to government bonds. An increase in allocations by insurance and pension funds can help provide a stable source of demand for government bonds
- Potential to tap government investment vehicles (both central and regional) as potential investors in government securities

### Changes in operational models
- Create a team to regularly review regulations that hinder market development
- Tap central government investment vehicle as a source of investments
- Tap regional government funds
- Tap private funds as potential source of investments

### Impact and KPIs
- Amount of government securities held by each targeted group (to be determined as part of initiative)
- 2013 – increasing domestic investor participation by 7%

### Summary of proposed actions
- Coordination and involvement in the OJK's Government Securities Market Development team

### Governance structure

<table>
<thead>
<tr>
<th>Initiative champion</th>
<th>DG unit</th>
</tr>
</thead>
<tbody>
<tr>
<td>DG of Debt Management</td>
<td>DJPU</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Initiative owner</th>
<th>DG unit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direktur SUN</td>
<td>DJPU</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Team</th>
<th>DG unit</th>
</tr>
</thead>
<tbody>
<tr>
<td>PP– Dit. SUN</td>
<td>DJPU</td>
</tr>
<tr>
<td>PPSBSN-Dit. PS</td>
<td>DJPU</td>
</tr>
</tbody>
</table>

### Key outcomes
- Dec 2013 – Identified all potential government investment funds
- Dec 2014 – Change PMKs that hinder government investment funds from investing in government securities

### Enablers for success
- Support from regulators to charge regulations that support investment in government securities
- Budget/approval to create this team
## Increase domestic participation from key investors – changes in operational model

<table>
<thead>
<tr>
<th>Current State</th>
<th>Target state</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regulations on asset-liability matching not fully developed</td>
<td>Fully evolved ALM regulation encourages funds to regularly top government securities</td>
</tr>
<tr>
<td>Some government investment funds not allowed to invest in government securities</td>
<td>Regulations amended to allow investment in government securities where prudent</td>
</tr>
<tr>
<td>Regional government hold large amounts of cash, but not always allowed to invest in government securities</td>
<td>Regional governments actively invest in government securities</td>
</tr>
<tr>
<td>Regional governments do not actively consider government securities as investment options</td>
<td></td>
</tr>
<tr>
<td>Potential to improve ALM regulations requiring matching of asset liability durations</td>
<td>Introduce ALM regulations to ensure that long term liabilities are matched by risk free long term government bonds held in the portfolio</td>
</tr>
<tr>
<td>Some funds make investment decisions based on absolute yields/returns</td>
<td>Introduce need for funds to evaluate investments based on risk adjusted returns</td>
</tr>
</tbody>
</table>
## Increase domestic participation from key investors – workplan

<table>
<thead>
<tr>
<th>Actions</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Mar</td>
<td>May</td>
<td>Jul</td>
<td>Sep</td>
</tr>
<tr>
<td></td>
<td>Nov</td>
<td>Jan</td>
<td>Mar</td>
<td>May</td>
</tr>
<tr>
<td></td>
<td>Jul</td>
<td>Sep</td>
<td>Nov</td>
<td>Jan</td>
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<tr>
<td></td>
<td>Mar</td>
<td>May</td>
<td>Jul</td>
<td>Sep</td>
</tr>
<tr>
<td></td>
<td>Nov</td>
<td>Jan</td>
<td>Mar</td>
<td>May</td>
</tr>
<tr>
<td>Create team to assess regulations that hold back investments in government securities</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>▪ Create mandate for team to assess regulations that hinder government security investments</td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>▪ Get budget for team</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>▪ Bring together team members</td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>Tap Central government investment funds as potential sources of investment (central and regional governments)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>▪ Create a study of all government investment funds that could invest in government securities</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>▪ Determine all regulatory changes needed</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>▪ Encourage regulatory bodies to craft regulations that support good asset-liability management</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>▪ Complete all PMK revisions</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tap various private funds</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>▪ Assess tax schemes for domestic investors and propose</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>▪ Encourage OJK to strengthen regulations on financial soundness (ALM matching and risk-based returns)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>▪ Encourage OJK to strengthen regulations to support long-term products/product that are suitable for long-term savings/investments</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>▪ Encourage OJK to promote sales of mutual funds</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>▪ Explore income tax deductibility of pension contributions</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>▪ Support / monitor OJK in creating regulations on bond-based ETF</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>▪ Introduce index for bond funds</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Create regular process to review regulations</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
## Increase domestic participation from key investors – potential regulatory and legal risk

<table>
<thead>
<tr>
<th>Risks</th>
<th>Mitigation</th>
</tr>
</thead>
<tbody>
<tr>
<td>A Non-cooperation of regulators</td>
<td>▪ Active engagement with regulators to educate them about risk-adjusted returns and ALM as well as benefits of developing domestic market</td>
</tr>
<tr>
<td>B Lack of coordination with other agencies involved in developing government bond market</td>
<td>▪ Actively involve in the OJK’s Government Securities Market Development team</td>
</tr>
</tbody>
</table>
Contents

- Context and introduction
- Disbursement and receipts
- Liquidity management

**Debt market development**

- Context and introduction
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  - Charter and implementation plan

**Supporting analysis**
MoF to promote demand in government securities by working with regulators of different private and public investment funds

<table>
<thead>
<tr>
<th>Pool</th>
<th>Counterpart</th>
<th>Key activities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Government social security</td>
<td>BPJSA – Employment, BPJSA – Health, DJA</td>
<td></td>
</tr>
</tbody>
</table>
| Civil service pensions | TASPEN, ASABRI (Ministry of Defense), DJA | ▪ Encourage regulatory bodies to craft regulations that support good asset liability management  
▪ Work with regulators to create legal basis for investment in government bonds |
| Public endowment funds | LPDP, Hajj fund, PIP, IIGF |  |
| Regional governments | Ministry of Home Affairs, DJPK | ▪ Determine mechanism for regional governments to purchase Central Government bonds as an investment instrument  
▪ Explore opportunities to provide regional transfers in the form of government securities |
| Private funds | OJK | ▪ Assess tax schemes for domestic investors and propose tax incentives to enhance domestic participation  
▪ Encourage OJK to strengthen regulations on financial soundness (Asset-Liability matching and risk based returns)  
▪ Encourage OJK to strengthen regulations to support long-term products / products that are suitable for long-term savings / investments (life annuity)  
▪ Encourage OJK to promote sales of mutual funds  
▪ Explore income tax deductibility of pension contributions  
▪ Explore regulations on bond-based ETF  
▪ Introduce index for bond funds |
| Insurance funds | OJK |  |
| Private pension funds | OJK |  |
| Mutual funds | OJK |  |
| Oil severance fund | TBD |  |
| ETF investors | TBD |  |
The domestic insurance, pension and mutual fund market is relatively under-developed

<table>
<thead>
<tr>
<th>Percent of portfolio, Mar 2013</th>
<th>Bank</th>
<th>Pension + Insurance funds</th>
<th>Government + Central Bank</th>
<th>Foreigner</th>
<th>Others</th>
</tr>
</thead>
<tbody>
<tr>
<td>Indonesia</td>
<td>37</td>
<td>17</td>
<td>1</td>
<td>33</td>
<td>13</td>
</tr>
<tr>
<td>Malaysia</td>
<td>42</td>
<td>25</td>
<td>1</td>
<td>31</td>
<td>0</td>
</tr>
<tr>
<td>Thailand</td>
<td>14</td>
<td>50</td>
<td>9</td>
<td>18</td>
<td>9</td>
</tr>
<tr>
<td>Korea</td>
<td>18</td>
<td>26</td>
<td>24</td>
<td>9</td>
<td>22</td>
</tr>
<tr>
<td>China</td>
<td>78</td>
<td>10</td>
<td>0</td>
<td>12</td>
<td>0</td>
</tr>
</tbody>
</table>

**Low domestic participation:**
- Investments by insurance and pension funds and government / central bank is low relative to other markets; insurance and pension

**Foreign holdings potentially volatile**
- Foreign holdings of government bonds is high at 28% of bond portfolio compared to regional peers and relatively volatile (4% fall in holdings in June 2013)

"Coupon stripping is an option that could enable the Central Bank to become a more active participant in the bond market, increase liquidity in benchmarks and provide stability”

Senior Indonesia market expert

SOURCE: ADB AsianBondsOnline, Mar 2013
DJPU should consider working with OJK to shape regulatory changes to increase participation from key domestic investors

**DJPU is working with OJK on potential policy changes governing domestic investors**

- DJPU is currently working with OJK to revise policies to increase demand from pension funds and insurance companies:
  - **Shift** from targets returns to **target risk adjusted returns**
  - Require insurance funds to follow **Asset Liability Management approach** to investment portfolio allocations
  - **Set tighter limits on the extent of risks** that can be taken on local institutional investors’ investment
  - Set minimum thresholds for investment into the bond market

**In other Asian countries, regulations prescribes minimum investment in sovereign bonds by insurance and pension funds**

- **IRDA, the Indian regulator** has stipulated that the following investment norms
  - **Life insurance companies:** invest not less than 25% in Central Government securities
  - **Pension funds:** not less than 40% of fund value in government bonds
  - **ULIP funds:** not less than 30% of fund value to be invested in government securities

- **EPF:**
  - Regulations requires the **Employees Provident Fund (EPF)** to invest in Malaysian Govt. Securities
  - Of EPF’s USD 148bn\(^1\) of assets, **USD 40bn (~26%)** has been invested in Malaysian govt. bonds

  The asset portfolio of Malaysian insurance companies as at 2012 is as follows:
  - **Life insurance:** invested ~15% to government paper and 62% to corporate/debt securities
  - **General insurance:** invested ~20% to government paper and ~25% to corporate debt / securities

---

1 as at end 2012

SOURCE: DJPU, press search, World Bank