



# Transformasi Kelembagaan Kementerian Keuangan

## *Ministry of Finance Institutional Transformation*

Final submission

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Final report – Treasury

CONFIDENTIAL AND PROPRIETARY

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# Vision and Mission of DJPB

**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 to accommodates public’s interest



# Vision and Mission of DGs performing treasury functions

DJPB	DJPU	DJKN
<p><b>Vision:</b> “To be a world-class state treasury manager”</p> <p><b>Mission:</b></p> <ul style="list-style-type: none"> <li>▪ To achieve prudent, efficient, and optimum cash and fund investment management</li> <li>▪ To support timely, effective, and accountable budget execution</li> <li>▪ To achieve accountable, transparent, and timely state finance accounting and reporting</li> <li>▪ To develop reliable, professional, and modern treasury support systems</li> </ul>	<p><b>Vision:</b> “To be a professional unit that supports financing of the state budget and public investment efficiently while managing risk and ensuring fiscal sustainability”</p> <p><b>Mission:</b></p> <ul style="list-style-type: none"> <li>▪ To ensure effective, transparent, and accountable management of government debt portfolio</li> <li>▪ To manage debt issuance through debt capacity target that support fiscal stability</li> <li>▪ To promote domestic financing sources and to develop efficient and stable domestic financial markets</li> <li>▪ To obtain alternative sources of financing, as well as support the regional financial market stability</li> <li>▪ To ensure government sovereign financial risk is managed prudently and holistically</li> </ul>	<p><b>Vision:</b> “To manage state assets in a professional and accountable way, for the greatest welfare of the people”</p> <p><b>Mission:</b></p> <ul style="list-style-type: none"> <li>▪ To achieve an optimized government revenue, efficient government expenditure, and effective state asset management</li> <li>▪ To safeguard physical, administrative, and legal aspects of state assets</li> <li>▪ To improve governance and value add of government investment management</li> <li>▪ To conduct state asset valuation to convey a value which is fair and dependable as a reference for various purposes.</li> <li>▪ To manage state claims in an effective, efficient, transparent, and accountable manner</li> <li>▪ To uphold auctions in effective, efficient, transparent, accountable, fair, and competitive manner as a trade instrument that accommodates public’s interest</li> </ul>

# Treasury functions performing at a level comparable with other emerging economies, meeting the operational needs of the Indonesian government

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

# Treasury transformation will revolve around eight transformation themes

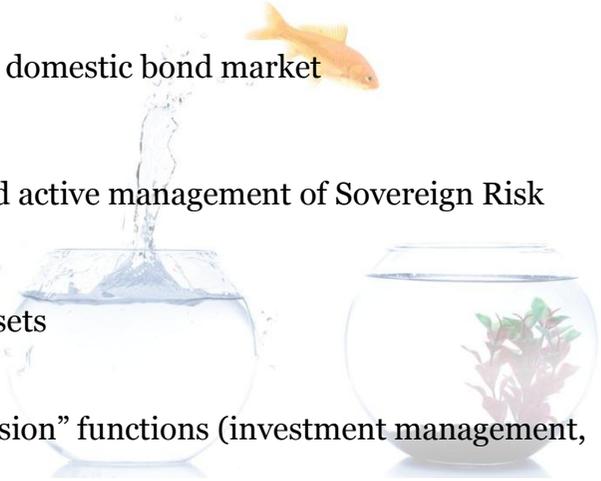
## Four key levers driving transformation themes

■ For discussion today



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

- 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 and active management of Sovereign Risk
- V Optimizing Indonesia's assets
- VI Rationalizing "Special Mission" functions (investment management, economic development)
- VII Ensuring accountability and transparency
- VIII Developing a high performing organization and human resources



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

■ Cross-cutting

	From ... Focused on administrative roles and compliance	To ... Automate administrative roles to focus on strategic / analytical functions
<b>I</b> Creating an efficient, accurate and low-cost disbursement and receipts system	<ul style="list-style-type: none"> <li>▪ Efficient but tedious, manual and labor intensive</li> </ul>	<ul style="list-style-type: none"> <li>▪ IT-enabled, automated and electronic</li> </ul>
<b>II</b> Integrating liquidity management to ensure cash availability while optimizing cost of funds	<ul style="list-style-type: none"> <li>▪ High cash balances earning below market rates</li> </ul>	<ul style="list-style-type: none"> <li>▪ Advanced and coordinated liquidity management with front office capabilities</li> </ul>
<b>III</b> Building a liquid and deep domestic bond market	<ul style="list-style-type: none"> <li>▪ Small and illiquid market from fragmented issuances, limited demand and simple infrastructure</li> </ul>	<ul style="list-style-type: none"> <li>▪ Liquid and deep market concentrated in a few benchmark services</li> </ul>
<b>IV</b> Ensuring transparency & active management of Sovereign Risk	<ul style="list-style-type: none"> <li>▪ Incomplete and fragmented view of risk</li> </ul>	<ul style="list-style-type: none"> <li>▪ Integrated ALM view of risk informing financial decision</li> </ul>
<b>V</b> Optimizing Indonesia's assets	<ul style="list-style-type: none"> <li>▪ Limited asset view resulting in sub-optimal asset usage</li> </ul>	<ul style="list-style-type: none"> <li>▪ Optimal and strategic usage of assets</li> </ul>
<b>VI</b> Rationalizing "special mission"	<ul style="list-style-type: none"> <li>▪ Multiple special mission vehicles scattered across MOF</li> </ul>	<ul style="list-style-type: none"> <li>▪ Clear definition of MOF's special mission and where they sit</li> </ul>
<b>VII</b> Ensuring accountability and transparency	<ul style="list-style-type: none"> <li>▪ Transitional accounting standards with qualified audit findings</li> </ul>	<ul style="list-style-type: none"> <li>▪ Highest integrity full-country financial statements adhering to international standards</li> </ul>
<b>VIII</b> Developing a high performing organization and HR	<ul style="list-style-type: none"> <li>▪ Process breakdowns at organizational boundaries</li> </ul>	<ul style="list-style-type: none"> <li>▪ Seamless coordination across organizational boundaries</li> </ul>

# Changes in operational model to shift focus to analytical/strategic roles

	<u>From...</u>	<u>To...</u>
<b>I</b> Creating an efficient, accurate and low-cost disbursement and receipts system	<ul style="list-style-type: none"> <li>Fragmented IT systems that do not communicate</li> <li>Need for physical verification and processing</li> <li>Cash payments with accompanying infrastructure</li> </ul>	<ul style="list-style-type: none"> <li>Integrated IT systems allowing for quick information flows (SPAN, SAKTI, MPN-G2)</li> <li>Electronic commitment, verification &amp; reconciliation</li> <li>Use of electronic payments as much as possible</li> </ul>
<b>II</b> Integrating liquidity management to ensure cash availability while optimizing cost of funds	<ul style="list-style-type: none"> <li>Successful TSA implementation for most cash accounts</li> <li>Limited coordination between cash and debt management</li> <li>High cash balances yielding below-market rates</li> </ul>	<ul style="list-style-type: none"> <li>Expanded placement/TSA account</li> <li>Integrated cash and debt management process revolving (fully functional ALM committee)</li> <li>Enough cash balances earning fair market rates</li> </ul>
<b>III</b> Building a liquid and deep domestic bond market	<ul style="list-style-type: none"> <li>Small bond market (11% of GDP) with low liquidity (20% daily turnover)</li> <li>Small repo market/derivatives market</li> <li>Fragmented bond issuances</li> </ul>	<ul style="list-style-type: none"> <li>Liquid and deep market concentrated in a few benchmark services</li> <li>Active primary dealers serving as market-makers</li> <li>Fully functioning secondary market</li> </ul>
<b>IV</b> Ensuring transparency and active management of Sovereign Risk	<ul style="list-style-type: none"> <li>Fragmented financial risk management (focus on debt, fiscal, SOE and infrastructure risk)</li> <li>No single view of Sovereign risk exposure</li> </ul>	<ul style="list-style-type: none"> <li>Integrated ALM view of risk informing financial decision</li> <li>Risk mitigation on the most critical risks</li> </ul>
<b>V</b> Optimizing Indonesia's assets	<ul style="list-style-type: none"> <li>Incomplete view of Indonesia's assets</li> <li>Limited strategies to optimize portfolio usage</li> <li>Multiple small "Special mission" units across MOF</li> </ul>	<ul style="list-style-type: none"> <li>Complete view of assets and asset optimization activities</li> <li>Consolidate "Special mission" units</li> </ul>
<b>VI</b> Rationalizing special missions	<ul style="list-style-type: none"> <li>Multiple special mission vehicles scattered across the MOF</li> <li>Sub-optimal structure for key units (e.g., PIP as BLU)</li> <li>Unclear mandate and inconsistent management processes</li> </ul>	<ul style="list-style-type: none"> <li>Single special mission unit responsible for performance management and coordination</li> <li>Clear ownership rationale for each special missions vehicle</li> <li>Comprehensive processes to manage special mission vehicles</li> </ul>
<b>VII</b> Ensuring accountability and transparency	<ul style="list-style-type: none"> <li>Accounting system in place but no single inter-face that covers all central and local government</li> <li>Qualified audit opinion by BPK</li> </ul>	<ul style="list-style-type: none"> <li>Highest integrity full-country financial statements adhering to international standards</li> </ul>
<b>VIII</b> Developing a high performing organization and HR	<ul style="list-style-type: none"> <li>Lack of coordination across organizational lines and confusion on roles (e.g., spending reviews, uncoordinated liquidity management)</li> <li>Generalist organization focused on treasury tasks</li> </ul>	<ul style="list-style-type: none"> <li>Clear delineation of roles across directorates and coordination across organizational lines</li> <li>Functional and sector capabilities across organization (e.g., infrastructure, energy)</li> </ul>

# Portfolio of initiatives for treasury functions

Functions	QUICK WINS 2013 – 2014 Automate administrative roles	MEDIUM TERM (2015-2019) Introduce advanced capabilities	LONG TERM (2020-2025) Reach Best Practice
I Efficient, accurate and low-cost disbursement and receipts system	<ul style="list-style-type: none"> <li>1 Electronic and centralized fund submission system, verification and payment, through modern payment channels</li> <li>2 database with modern payment channels</li> <li>3 "Shared service" functions of back office for all K/Ls, centralized at MoF</li> </ul>		
II Integrated liquidity management	<ul style="list-style-type: none"> <li>4 Improve overall liquidity management processes</li> <li>5 Assess TDR capabilities and ensure prudence within TDR operation</li> <li>6 To achieve cash planning with defined reserve balance cash</li> <li>7 Improve spending forecast from satkers</li> <li>8 Develop tools for management liquidity coordination with the Central Bank</li> </ul>	<ul style="list-style-type: none"> <li>9 Expand TSA coverage</li> <li>10 Develop forex holding strategy</li> </ul>	
III Liquid and deep domestic bond market	<ul style="list-style-type: none"> <li>11 Launch trading platform for bonds</li> <li>12 Review primary dealer framework</li> <li>13 Review bond stabilization framework</li> </ul>	<ul style="list-style-type: none"> <li>14 Reduce government benchmark series</li> <li>15 Strengthen investor relations function</li> <li>16 Support OJK in developing the repo market</li> <li>17 Increase domestic demand for government securities by working with relevant regulatory agencies</li> </ul>	
IV Transparent and active management of Sovereign Risk	<ul style="list-style-type: none"> <li>18 Create a consolidated risk governance system centered on the ALM committee and an institutionalized ALM secretariat</li> <li>19 Create a holistic risk framework with a common set of risks, advanced analytical tools as well as supporting policies and technologies</li> </ul>	<ul style="list-style-type: none"> <li>20 Start and deepen risk management for key areas</li> </ul>	
V Optimized assets		<ul style="list-style-type: none"> <li>21 Establish and socialize policies for inventORIZATION and valuation</li> <li>22 Make asset inventORIZATION and records digital</li> <li>23 Establish and socialize improved policies and guidelines for asset management</li> <li>24 Optimize select asset types under direct MOF responsibility</li> <li>25 Maximize asset utilization and return on assets</li> <li>26 Implement annual portfolio review of assets</li> </ul>	
VI Rationalized "Special Mission" functions	<ul style="list-style-type: none"> <li>27 Clarify the mandate and strategy of special missions vehicles</li> <li>28 Put clear governance, reporting, and legal structures in place</li> <li>29 Improve processes for managing special missions vehicles</li> </ul>		
VII Accountability and transparency	<ul style="list-style-type: none"> <li>30 Implement strategy road map for accrual accounting</li> </ul>	<ul style="list-style-type: none"> <li>31 Develop and integrate accounting systems used by central and local government entities</li> <li>32 Improve K/Ls and BUNs financial management</li> <li>33 Improve internal control systems in K/Ls and BUNs</li> </ul>	

# Overview of Treasury Initiatives (1/6)

Functions	Initiative	Objective	Key actions
I Efficient, accurate and low-cost disbursement and receipts system	1 Electronic, centralized submission, verification and payment system with modern payment channels	<ul style="list-style-type: none"> <li>To disburse budget efficiently and accurately through modern channels</li> </ul>	<ul style="list-style-type: none"> <li>Full implementation of SPAN, SAKTI</li> <li>Direct deposit to final recipient accounts for all salary payments</li> <li>Payment to overseas satkers' accounts direct from Treasury's RKUN at Central Bank</li> <li>Use of plastic cards to replace petty cash</li> <li>Introduce cashless choices for benefit payments</li> </ul>
	2 Integrated receipt database with modern collection channels	<ul style="list-style-type: none"> <li>To collect government receipts efficiently and accurately</li> </ul>	<ul style="list-style-type: none"> <li>Full implementation of MPN G-2 and other enhancement, including the utilization of major channeling for revenue collection</li> </ul>
	3 "Shared service" back office function for all K/Ls, centralized at the MOF	<ul style="list-style-type: none"> <li>To provide back office functions to satkers and K/Ls, in particular in central-ization of commitment, invoicing and settlement</li> </ul>	<ul style="list-style-type: none"> <li>Launch and improvement of vendor database</li> <li>Centralize employee payroll system for all government employees</li> <li>Centralize invoicing, payment and settlement for routine payments (e.g. electricity, water, posts etc.)</li> <li>Launch centralized procurement center that centralizes commitment and settlement process for common spending items (e.g. air travel, etc)</li> </ul>
II Integrated liquidity management	4 Improve end-to-end liquidity management processes	<ul style="list-style-type: none"> <li>To facilitate coordination between all related stakeholders in order to achieve optimized management of state cash</li> </ul>	<ul style="list-style-type: none"> <li>Improve HR capability at Dir. PKN and at contributors of CPIN (DJP, DJA, DJBC, DJPU, DJKN, DJPK)</li> <li>Improve CPIN</li> <li>Improve flexibility in issuing short term T-bills / SPN to smooth cash planning</li> <li>Detail out ALM process</li> <li>Develop daily coordination between CMO-DMO-BI</li> <li>Develop IT-enabled CPIN data sharing</li> <li>Integrate CPIN/IT ALM into SPAN</li> </ul>
	5 Assess TDR capabilities and ensure prudence in its operations	<ul style="list-style-type: none"> <li>To build capabilities to invest excess cash balance linked to overall cash and debt planning, through a single face to the market</li> </ul>	<ul style="list-style-type: none"> <li>Ensure prudence in placement in central bank</li> <li>Create a full TDR roadmap</li> </ul>
	6 Guide cash planning with clearly defined reserve balance targets	<ul style="list-style-type: none"> <li>To set a new cash reserve balance target including total cash balance target to guide cash/debt planning</li> </ul>	<ul style="list-style-type: none"> <li>Analyze and select methodology to set reserve balance target</li> <li>Calculate an appropriate reserve balance target based on historical pattern and future policies and assumptions</li> <li>Propose the reserve balance target to ALM committee and formalize it in a policy</li> </ul>
	7 Improve spending forecasting from satkers	<ul style="list-style-type: none"> <li>To improve spending forecasting from satkers</li> </ul>	<ul style="list-style-type: none"> <li>Introduce new AFS</li> <li>Enforce submission of forecast data of major satkers prior to payment date according to amount of payment order</li> <li>Track satkers' compliance and accuracy in submitting data and report it in a score card format</li> <li>Link SAKTI to AFS when SAKTI is enabled</li> </ul>
	8 Tighten liquidity management coordination with the Central Bank	<ul style="list-style-type: none"> <li>To tighten coordination between cash management and the Central Bank</li> </ul>	<ul style="list-style-type: none"> <li>Develop MOU with BI to include them on daily cash calls and facilitate data sharing</li> <li>Coordination with BI terms and maximum volume of placement in commercial bank by TDR</li> <li>Develop coordination mechanism with BI on forex trades</li> <li>Sharing of CPIN data with BI</li> <li>Sharing of daily cash forecast data with BI</li> </ul>

# Overview of Treasury Initiatives (2/6)

Functions	Initiative	Objective	Key actions
II Integrated liquidity management contd.	9 Expand TSA coverage	<ul style="list-style-type: none"> <li>To expand TSA coverage to include currently illiquid / less liquid accounts</li> </ul>	<ul style="list-style-type: none"> <li>Analyze probability of including different accounts currently not covered in the TSA, including legal and regulatory hurdles of the inclusion and ease of inclusion</li> <li>Develop mechanism to tap into selected accounts</li> <li>Propose policy changes to include the accounts in the TSA</li> </ul>
	10 Establish short term foreign exchange management strategy and guidelines for liquidity management	<ul style="list-style-type: none"> <li>To enable forex trading guided by clear strategy and policy, and with coordination with the Central Bank</li> </ul>	<ul style="list-style-type: none"> <li>Analyze the different strategies and instruments that can be used to actively manage forex</li> <li>Propose active forex management policy and seek approval by ALM committee</li> <li>Formalize it in regulation</li> <li>Propose to BI to allow better terms of MOF's forex trades against BI</li> <li>Coordination with BI in amount of forex traded and overall direction of BI's monetary policy and forex reserve strategy</li> </ul>
	11 Introduction of an electronic trading platform	<ul style="list-style-type: none"> <li>Develop and launch an ETP as a supplement to OTC trading to improve price transparency and enhance liquidity</li> </ul>	<ul style="list-style-type: none"> <li>Add ability to reconfirm quotations</li> <li>Revisit current e-trading platform with BI and primary dealers</li> <li>Ensure platform adopts straight through processing</li> <li>Ensure platform automatically links to reporting systems</li> <li>Finalize agreement with ETP operator (e.g., Indonesia Stock Exchange)</li> <li>Conduct market consultations to obtain feedback</li> </ul>
III Liquid and deep domestic bond market	12 Launch a new primary dealer system	<ul style="list-style-type: none"> <li>Develop and launch a refined primary dealer system that is benchmarked to global standards and customized to local needs</li> </ul>	<ul style="list-style-type: none"> <li>Conduct benchmark study of primary dealer best practices</li> <li>Launch new PD framework with revised incentives and responsibilities</li> <li>Create annual review of incentives/privileges and obligations</li> </ul>
	13 Continuously improving bond stabilization framework	<ul style="list-style-type: none"> <li>Build confidence that domestic market can withstand market shocks;</li> <li>Create mechanism to support market during shocks</li> </ul>	<ul style="list-style-type: none"> <li>Review current bond stabilization framework</li> <li>Conduct annual simulations with BSF parties</li> </ul>
	14 Debt management: Consolidation of domestic benchmark securities	<ul style="list-style-type: none"> <li>Increase liquidity of government securities by consolidating debt in a few on-the-run series</li> </ul>	<ul style="list-style-type: none"> <li>Develop an optimal issuance strategy covering key design elements (i.e., target issuance size, number of tenors, life-cycle, procedures for reopening series)</li> <li>Create systems to manage maturity profile</li> <li>Explore defeasance as a means to simplifying buybacks</li> </ul>
	15 Strengthening Investor Relations (IR)	<ul style="list-style-type: none"> <li>Implement a targeted IR strategy to diversify the investor base and to focus on investors whose risk appetite aligns with Indonesia's financial situation</li> </ul>	<ul style="list-style-type: none"> <li>Create a dedicated DJPU investor relations team;</li> <li>Determine target investors;</li> <li>Create communication and roadshow calendar</li> <li>Formulate investor communication</li> <li>Strengthen internal reporting and decision making</li> <li>Provide communication equipment (VC systems) with OpEx and CapEx budget</li> </ul>

# Overview of Treasury Initiatives (3/6)

Functions	Initiative	Objective	Key actions
<b>III</b> Liquid and deep domestic bond market contd.	<b>16</b> Support OJK in developing a deep and liquid repo market	<ul style="list-style-type: none"> <li>Develop a deep and liquid repo market which supports higher liquidity in the bond market</li> </ul>	<ul style="list-style-type: none"> <li>Work with Indonesian Accounting Association on general repo</li> <li>Work with APK to enact standards for securities lending in the govt.</li> <li>Educate stakeholders on usage and treatment of repos</li> </ul>
	<b>17</b> Increase domestic participation from key investors	<ul style="list-style-type: none"> <li>Obtain policy support to increase domestic bond market participation from key investors, both public and private</li> </ul>	<ul style="list-style-type: none"> <li>Coordination and involvement in the OJK's Government Securities Market Development team</li> </ul>
<b>IV</b> Transparent and active management of Sovereign Risk	<b>18</b> Risk governance for overall sovereign risk	<ul style="list-style-type: none"> <li>To have a body that compiles a comprehensive view on risk, and a channel in which risk issues are discussed</li> </ul>	<ul style="list-style-type: none"> <li>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</li> <li>Propose unit to Menpan</li> <li>Staff the unit with qualified personnel</li> </ul>
	<b>19</b> Holistic risk framework	<ul style="list-style-type: none"> <li>To develop a holistic risk framework through a balance sheet approach to aggregate individual risk data</li> </ul>	<ul style="list-style-type: none"> <li>Start aggregating information from risk owners into a presentable format for ALM committee decision making</li> <li>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</li> <li>Formalize the new ALM committee format / agenda into regulation (KMK)</li> <li>Define framework of aggregating information from risk owners (e.g. balance sheet approach) and include policies and SOPs into regulation (PMK)</li> <li>Develop a list of common data to track and develop mechanism to distribute it to MOF stakeholders</li> <li>Improve IT ALM to accommodate broader set of risks</li> </ul>
	<b>20</b> Active risk management on key risk areas	<ul style="list-style-type: none"> <li>To develop a holistic risk framework through a balance sheet approach to aggregate individual risk data</li> </ul>	<ul style="list-style-type: none"> <li>Initiate insurance on government key assets</li> <li>Initiate risk management on key natural resources</li> <li>Review and monitor pension liability</li> <li>Analyze pension scheme options and recommend a new pension scheme</li> <li>Review selected SOEs that have significant fiscal impact and recommend on how to best manage their risks</li> <li>Review of selected "special missions", e.g. infrastructure funds, PPP units, etc., and recommendation on how to best manage their risks</li> <li>Improve medium-term revenue and spending projections to calculate present value of fiscal portion of assets and liabilities</li> <li>Review social obligation liabilities</li> <li>Formulate Debt Sustainability Framework</li> <li>Initiate communication on foreign reserve holding / debt portfolio between MOF / Central Bank</li> </ul>

# Overview of Treasury Initiatives (4/6)

Functions	Initiative	Objective	Key actions
<b>V</b> Optimized assets	<b>21</b> Establishing policies on inventorization and valuation	<ul style="list-style-type: none"> <li>Improve inventorization and valuation policies to improve accuracy of asset records</li> </ul>	<b>Natural resources</b> <ul style="list-style-type: none"> <li>Create guidelines for valuation for natural resources (only exists for some)</li> <li>Create regulation for line ministries to cooperate for valuation and inventorization</li> <li>Work with accounting to create accounting standards and guidelines for natural resources</li> <li>Build valuation capability in MOF/line ministry</li> <li>Add natural resources data to national accounting report</li> </ul> <b>Ex-IBRA assets</b> <ul style="list-style-type: none"> <li>Identify and map IBRA's asset for period 2004-2009</li> <li>Collect document to support the mapping</li> <li>Value ex-PT PPA (Persero) properties (fixed assets)</li> <li>Work with accounting to comply accounting standards and guidelines for IBRA's asset</li> </ul>
	<b>22</b> Making asset management and portfolio management digital	<ul style="list-style-type: none"> <li>Make asset management and portfolio management digital</li> </ul>	<ul style="list-style-type: none"> <li>Assess additional IT infrastructure needed</li> <li>Integrate KND and KNL applications</li> <li>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</li> <li>Implement SIMAN through a phased approach</li> <li>Develop SMART which digitalizes DJKN asset management processes</li> <li>Implement SMART through a phased approach</li> <li>Evaluate if additional IT infrastructure needed</li> <li>Develop and implement additional IT infrastructure, if needed, to support active asset management and portfolio management</li> </ul>
	<b>23</b> Putting regulations, guidelines and processes in place to ensure assets fully optimized by K/Ls	<ul style="list-style-type: none"> <li>Put regulations, guidelines and processes in place to manage assets through K/Ls</li> </ul>	<ul style="list-style-type: none"> <li>Identify key levers of asset utilization through policy by asset class</li> <li>Feasibility study for solutions for asset</li> <li>Create regulation (presidential decree) to put responsibility of asset optimization to K/Ls</li> <li>Improve existing guidelines for asset needs (new and expansion) - line ministries will have to propose asset needs and meet guidelines on asset usage</li> <li>Create new guidelines for asset optimization e.g building usage</li> <li>Socialize new regulations and guidelines with K/Ls</li> <li>Work with K/L internal auditors to monitor and control asset and report to MOF</li> <li>Feedback for new policies, guidelines and process</li> </ul>
	<b>24</b> Optimizing select asset types under direct MOF responsibility	<ul style="list-style-type: none"> <li>Optimize select asset types under direct MOF responsibility</li> </ul>	<ul style="list-style-type: none"> <li>Identify and classify asset types</li> <li>Create and seek approval for ownership strategy for each asset type (assess if MOF is natural owner of asset); possible strategies include:</li> <li>Refine policies, guidelines and regulations to implement strategy</li> <li>For new and existing assets: work with the MOF accounting team to change regulations and allow MOF to accept discrepancies in records between:               <ul style="list-style-type: none"> <li>Previous owner of asset and MOF</li> <li>Private and public accounting standards</li> </ul> </li> <li>Implement asset management strategy (dispose of most assets under direct MOF responsibility)</li> </ul>

# Overview of Treasury Initiatives (5/6)

Functions	Initiative	Objective	Key actions
<b>V</b> Optimized assets contd.	<b>25</b> Maximizing asset utilization and return on assets	<ul style="list-style-type: none"> <li>Implement annual portfolio review of assets to ensure that asset portfolio is optimized</li> </ul>	<b>Active asset management starting with real estate</b> <ul style="list-style-type: none"> <li>Conduct feasibility study to assess possible impact / capital raised by actively managing real estate</li> <li>Initiate hiring of real estate planners and policy makers</li> <li>Conduct scan of real estate portfolio to identify key issues</li> <li>Implement solution pilot with K/Ls for land and buildings</li> <li>Initiate active management for other asset classes</li> </ul> <b>Outsource asset management to another agency</b> <ul style="list-style-type: none"> <li>Evaluate if a state owned land and building management agency is needed</li> <li>Create state owned land and building management agency</li> <li>Create laws and regulations to give land and building management rights to real estate management agency</li> </ul> <b>State claims</b> <ul style="list-style-type: none"> <li>Evaluate entire state claim portfolio and identify key improvement areas to increase benefit from collaterals and to maximize proceeds/recoveries</li> <li>Create regulation (presidential decree) for K/Ls to better manage their receivables</li> </ul>
	<b>26</b> Implementing an annual portfolio review of assets	<ul style="list-style-type: none"> <li>Implement annual portfolio review of assets to ensure that asset portfolio is optimized</li> </ul>	<ul style="list-style-type: none"> <li>Initiate overview of all assets under management by MOF including off balance sheet items e.g. ex-IBRA assets</li> <li>Create ownership strategy for each asset class starting with the largest asset type</li> <li>Evaluate each asset class against the ownership strategy starting with the largest asset type (evaluate if government should own the asset)</li> <li>Initiate annual evaluation of overall portfolio structure               <ul style="list-style-type: none"> <li>Include assessment of portfolio structure risk with risk team in MOF</li> <li>Include country's strategic plans by working with budget, debt and BAPPENAS (RPJP and RPJM)</li> </ul> </li> <li>Change portfolio structure if needed by adding or divesting in assets</li> </ul>
<b>VI</b> Rationalized "Special Mission" functions	<b>27</b> Clarify the mandate and strategy of special missions vehicles	<ul style="list-style-type: none"> <li>Clarify strategy and improve performance of special missions vehicles</li> </ul>	<ul style="list-style-type: none"> <li>Initiate strategy refresh for all vehicles and implement annual strategy refresh process</li> <li>Understand quality of current ownership processes</li> <li>Identify key levers for performance improvement</li> <li>Evaluate levers to manage BLUs, especially through performance based budgeting</li> </ul>
	<b>28</b> Put clear governance, reporting, and legal structures in place	<ul style="list-style-type: none"> <li>Put in place improved governance, reporting and legal structures for special missions vehicles</li> </ul>	<b>Governance</b> <ul style="list-style-type: none"> <li>Appoint E2 leader who will head future special missions unit and lead transformation process</li> <li>Create transformation team led by Seditjen (DJKN, DJPB, BKF and KaRo Organta) comprising of E2 and E3 members from DJKN, DJPB, Sek Jen and BKF to propose and implement transition process which will be approved by treasury steerco</li> <li>Design organization transition plan for special missions</li> <li>Implement organization transition plan</li> </ul> <b>Risks</b> <ul style="list-style-type: none"> <li>Identify scope of risk to be assessed by PPRF</li> <li>Identify person in charge for interacting with PPRF (to communicate with and send data to team)</li> <li>Set up SOPs</li> </ul> <b>Policies and laws</b> <ul style="list-style-type: none"> <li>Change policies and laws identified as impeding the vehicle from meeting objectives e.g.</li> <li>Assess internally if PIP should be a PT</li> <li>Write proposal to change PIP to PT</li> <li>Seek parliament approval for PT PIP investment budget</li> <li>Prepare regulation to change PIP to PT</li> </ul>

# Overview of Treasury Initiatives (6/6)

Functions	Initiative	Objective	Key actions
VI Rationalized "Special Mission" functions	29 Improve processes for managing special missions vehicles	<ul style="list-style-type: none"> <li>Get the right processes in place for managing special missions vehicles</li> </ul>	<p><b>Set clear performance targets and processes</b></p> <ul style="list-style-type: none"> <li>Establish an updated strategic perspective</li> <li>Set clear targets and goals/KPIs and ensure rigorous performance monitoring</li> <li>Establish good communication processes</li> <li>Establish good processes for board member inauguration, evaluation and renewal</li> <li>Establish portfolio management process</li> <li>Build strong processes to execute on potential acquisitions, divestments and equity investments</li> <li>Coordinate funds across special missions</li> </ul> <p><b>Implement systematic portfolio management process</b></p> <ul style="list-style-type: none"> <li>Create annual process for clarifying ownership rationale for each portfolio company</li> <li>Conduct annual review of all vehicles to identify vehicles that do not require long-term government ownership</li> <li>Assess vehicles against MOF special mission performance management criteria</li> <li>Create criteria for why MOF performance manages a special mission vehicle</li> </ul>
	30 Implementing the strategy road map for accrual accounting	<ul style="list-style-type: none"> <li>Implement strategy road map for accrual accounting</li> </ul>	<ul style="list-style-type: none"> <li>Create standards based on accrual accounting</li> <li>Formulate regulation, guidelines, and policy for accrual accounting</li> <li>Secure high-level commitment from leaders</li> <li>Implement change of IT systems for accrual accounting</li> <li>Build capabilities in K/Ls to transition to accrual accounting</li> <li>Rollout pilot project</li> </ul>
VII Accountability and transparency	31 Integrating accounting system between central and regional government	<ul style="list-style-type: none"> <li>Integrated accounting system between central and regional government</li> </ul>	<ul style="list-style-type: none"> <li>Create coordinated task force to assess need to integrate and implement integrated accounting systems and IT systems e.g.</li> <li>Develop integrated accounting systems</li> <li>Put new integrated accounting system in place through IT system</li> <li>Pilot new integrated accounting system with regional government</li> <li>Roll out integrated accounting system</li> <li>High level agreement from MOHA to integrate accounting systems</li> <li>Create regulation to integrate accounting systems</li> </ul>
	32 Improving K/Ls and BUNs financial management	<ul style="list-style-type: none"> <li>Improve K/Ls and BUNs financial management</li> </ul>	<ul style="list-style-type: none"> <li>Encourage committee to evaluate audit findings</li> <li>Improve audit process with line ministries to catch potential audit issues</li> <li>Improve coordination with BPK</li> <li>Create IT systems to warn of impending audit findings and track audit findings</li> <li>Build capabilities for improved audit monitoring process – non IT (e.g. processes)</li> <li>Build capabilities for improved audit monitoring process – IT</li> <li>Rollout pilot program</li> </ul>
	33 Improving internal control systems	<ul style="list-style-type: none"> <li>Improve internal control systems</li> </ul>	<ul style="list-style-type: none"> <li>Commence communication with BPKP on reform strategy for internal control system for audit findings</li> <li>Encourage BPKP to assess typical problems with internal control systems</li> <li>Work with BPKP to improve guidelines for internal control systems, especially for audit findings</li> <li>Encourage BPKP to create criteria for assessing and tracking quality of internal control systems for audit findings</li> <li>Encourage BPKP to educate K/Ls on improving internal control systems for audit findings</li> </ul>

# These initiatives will specifically address the following business processes

Business process	Description of change	Transformation Theme
Disbursement	<ul style="list-style-type: none"> <li>Satkers submit payment orders electronically; documents will be verified and approved remotely without need for physical visit</li> <li>Funds will be transferred via direct deposits and other electronic methods (e.g. prepaid cards, etc.) to final recipients</li> </ul>	<ul style="list-style-type: none"> <li>Disbursement and receipt, (initiative 1)</li> </ul>
Receipt	<ul style="list-style-type: none"> <li>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</li> <li>Receipt and receivable database integrated</li> </ul>	<ul style="list-style-type: none"> <li>Disbursement and receipt, (initiative 2)</li> </ul>
End-to-end liquidity management	<ul style="list-style-type: none"> <li>ALM meetings will be held quarterly and will include both liquidity and risk discussions</li> <li>CPIN meetings will be held biweekly and outputs of meetings will be official forecast numbers used for ALM meetings</li> <li>Daily call between CMO-DMO-BI will be set up</li> </ul>	<ul style="list-style-type: none"> <li>Liquidity management, (initiative 4)</li> </ul>
Debt issuance	<ul style="list-style-type: none"> <li>Consolidation of debt issuances in fewer on-the-run series</li> </ul>	<ul style="list-style-type: none"> <li>Government securities market development, (initiative 14)</li> </ul>
Risk management	<ul style="list-style-type: none"> <li>Risk management will be done in a framework based on balance sheet approach, and VaR will be the methodology to quantify risk</li> <li>ALM committee meetings to be held quarterly and will discuss risk</li> </ul>	<ul style="list-style-type: none"> <li>Risk management, (initiative 28)</li> </ul>
Asset management	<ul style="list-style-type: none"> <li>All asset management data and asset management business processes will be recorded or done digitally</li> <li>Real estate management agency to actively manage government real estate</li> <li>Asset portfolio systematically reviewed based on asset class structure, risk exposure and economic strategy</li> </ul>	<ul style="list-style-type: none"> <li>Asset management, (initiative 22, 25B and 26)</li> </ul>
Special missions	<ul style="list-style-type: none"> <li>Systematic processes in place to monitor special missions vehicles e.g. standard KPI monitoring milestones, communication processes</li> <li>Systematic and holistic portfolio management processes in place which will review vehicles and identify those that do not require long-term government ownership</li> </ul>	<ul style="list-style-type: none"> <li>Special missions, (initiative 29)</li> </ul>

- »» 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

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# I KPPNs are efficient in disbursing fund on time and satkers are satisfied with Treasury services

Select Dir. PA's KPIs relating to disbursement	2012 Target	2012 Actual	2013 Target
▪ Average user satisfaction index on treasury services <sup>1</sup>	3.1	3.2 <sup>2</sup>	3.1

Select KPPN KPIs relating to disbursement	Description	2012 Q4 targets	Average performance
% On time fund disbursement from BOI (operational bank)	<ul style="list-style-type: none"> <li>Fund disbursed to account by               <ul style="list-style-type: none"> <li>– <b>12NN:</b> SP2D (fund disbursement order) received before 12PM</li> <li>– <b>3:30PM:</b> SP2D received before 3PM</li> </ul> </li> </ul>	95%	99%
Satker satisfaction index	<ul style="list-style-type: none"> <li>Overall satker satisfaction level towards different KPPN services</li> </ul>	3.00	3.09
% On time issuance of SP2D (fund disbursement order)	<ul style="list-style-type: none"> <li>SP2D issued within one hour of SPM (payment order) received at counter</li> </ul>	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

# I Efficiency will be much improved through electrification 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”

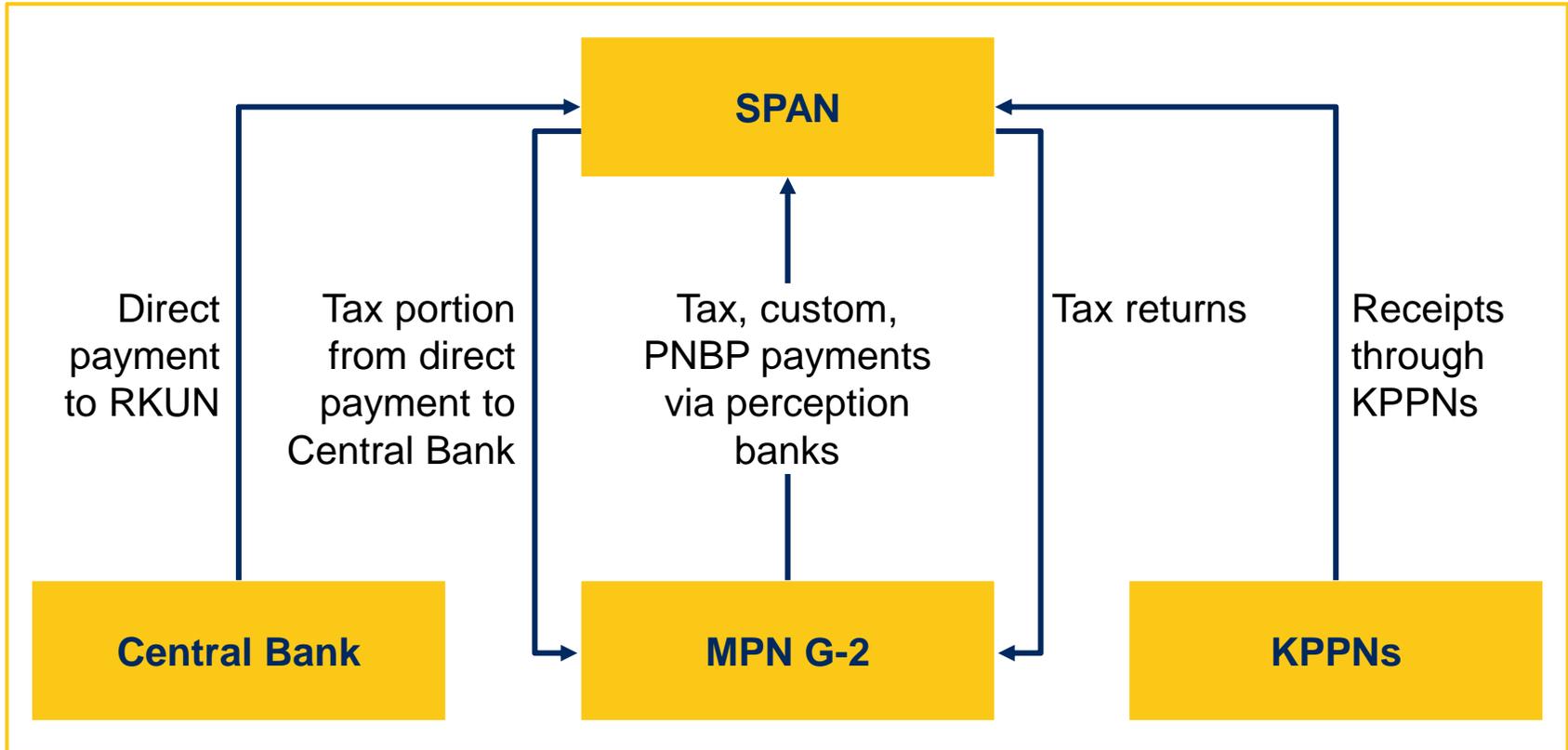
– Staff of KPPN 1 Surabaya



## 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

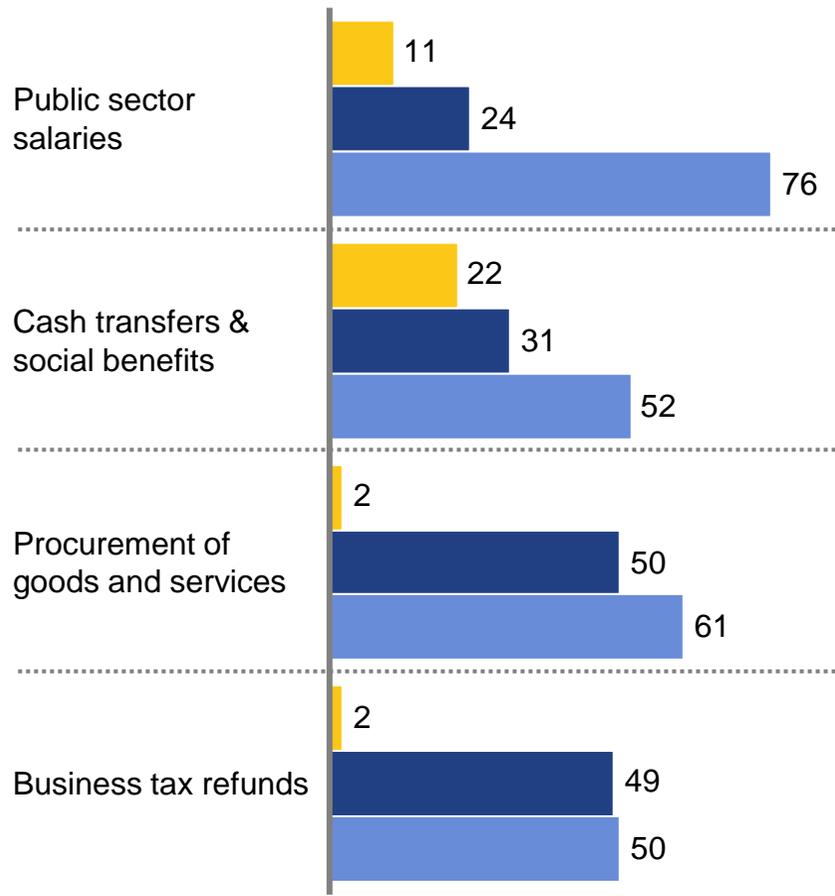
**I** SPAN will integrate all receipts data under one database while MPN G-2 will connect receivable database with modern payment channels



# Many forms of G2P payments are mostly distributed by satkers in cash while other countries have moved to electronic payments

■ Cash  
■ Paper-based  
■ Electronic

## Global practice, method used for government payments



## Indonesia

- ~50% of central government salaries are paid through bank transfer directly to final recipient
- ~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)
- Paid through satkers, to be distributed mostly via cash
- Paid via bank transfer to final recipient, with the exception of minor spending using petty cash
- Paid via bank transfer

**SP2Ds (physical checks) are used to instruct banks to transfer funds to satkers/ final recipient**

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

# I 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)

# I 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

# I There are five critical areas for governments to make the transition to digital

Increasing value chain

## 1 Disbursements and Collections

### Description

- Electronic EBT and collections platforms that handle processing, distribution, program management, spend controls etc.

### Direct benefits

- Faster, cheaper and more reliable payments flows
- Reduced fraud/leakage

### Global best practices



## 2 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)



## 3 Digital enablement

- Multi-channel with web, mobile and retail PoS interfaces

- Increased convenience
- Improved targeting efficiency
- Better social outcomes from spend control



## 4 Financial inclusion

- New unbanked and under-banked segments integrated into the financial system

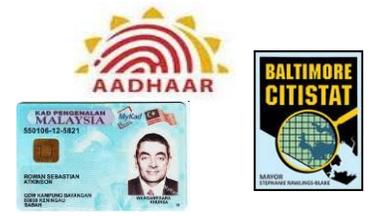
- Economic development impact
- New customer acquisition



## 5 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



# I 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

# I Improvements in disbursement and receipt core processes resulting from key initiatives

Initiatives	Current State	End state business processes (2025)
<p><b>1</b> Electronic, centralized submission, verification and payment system with modern payment channels</p>	<ul style="list-style-type: none"> <li>Manual processes at multiple check points— submission, verification and payment</li> <li>For certain types of disbursement, fund is not directly transferred to final recipients, but disbursed by satkers in cash</li> <li>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</li> </ul>	<ul style="list-style-type: none"> <li><b>Electronic submission and verification</b> of payment orders, as well as electronic payment to the correct final recipient</li> <li><b>Electronic payment</b> for payments direct to final receipts through <b>various channels</b>, e.g. ATM, prepaid cards, scheduled direct deposits etc.</li> </ul>
<p><b>2</b> Integrated receipt database with modern collection channels</p>	<ul style="list-style-type: none"> <li>Manual processes at multiple check points</li> <li>Disjointed databases; no real-time linkage between receipt and receivable data</li> <li>Collection enabled through visit to perception banks and direct deposit to Central Bank and limited modern options (internet banking enabled for certain banks)</li> <li>MPN G-2 is to be launched next year to enable integrated database and various payment channels</li> </ul>	<ul style="list-style-type: none"> <li><b>One integrated platform</b> (e.g. through widened coverage of MPN G-2) to administer all receipts electronically that <b>links receipt collection and receivable database</b> at collection agencies (DJP, DJBC, DJA etc.) with all government receipts linked to a unique billing ID</li> <li><b>Modern, electronic channels</b> (e.g. internet banking, mobile banking ATMs, etc.) widely available for all kinds of government receipts</li> </ul>
<p><b>3</b> “Shared service” back office function for all K/Ls, centralized at the MOF</p>	<ul style="list-style-type: none"> <li>Disjointed databases at K/Ls</li> <li>Each satker logs in commitment and submits payment orders for each spending item</li> <li>Initiation of vendor database</li> </ul>	<ul style="list-style-type: none"> <li><b>Single accounting database</b> maintained by MOF that includes both transaction and asset database</li> <li><b>Centralized commitment process</b> by Treasury for <b>payroll and common spending items</b></li> <li>Centralized <b>vendor database</b> to optimize satkers’ procurement</li> <li>Enlarge <b>centralized settlement</b> function done by Treasury</li> </ul>

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# 1 Electronic, centralized submission, verification and payment system with modern payment channels

**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

## 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

## 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

## 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

## 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

# 1 Electronic, centralized submission, verification and payment system with modern payment channels – changes in operational model

## 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

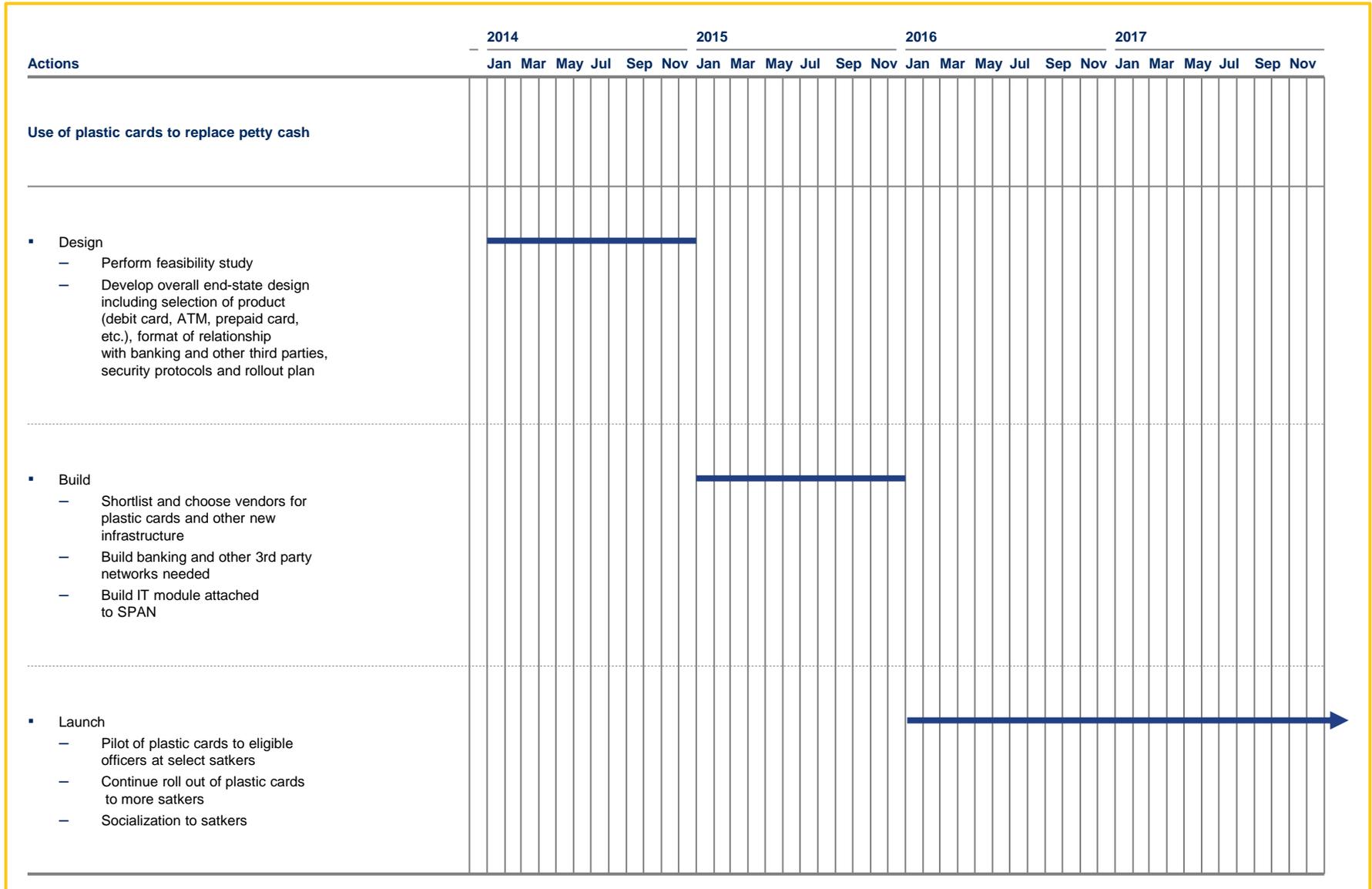
## Target state

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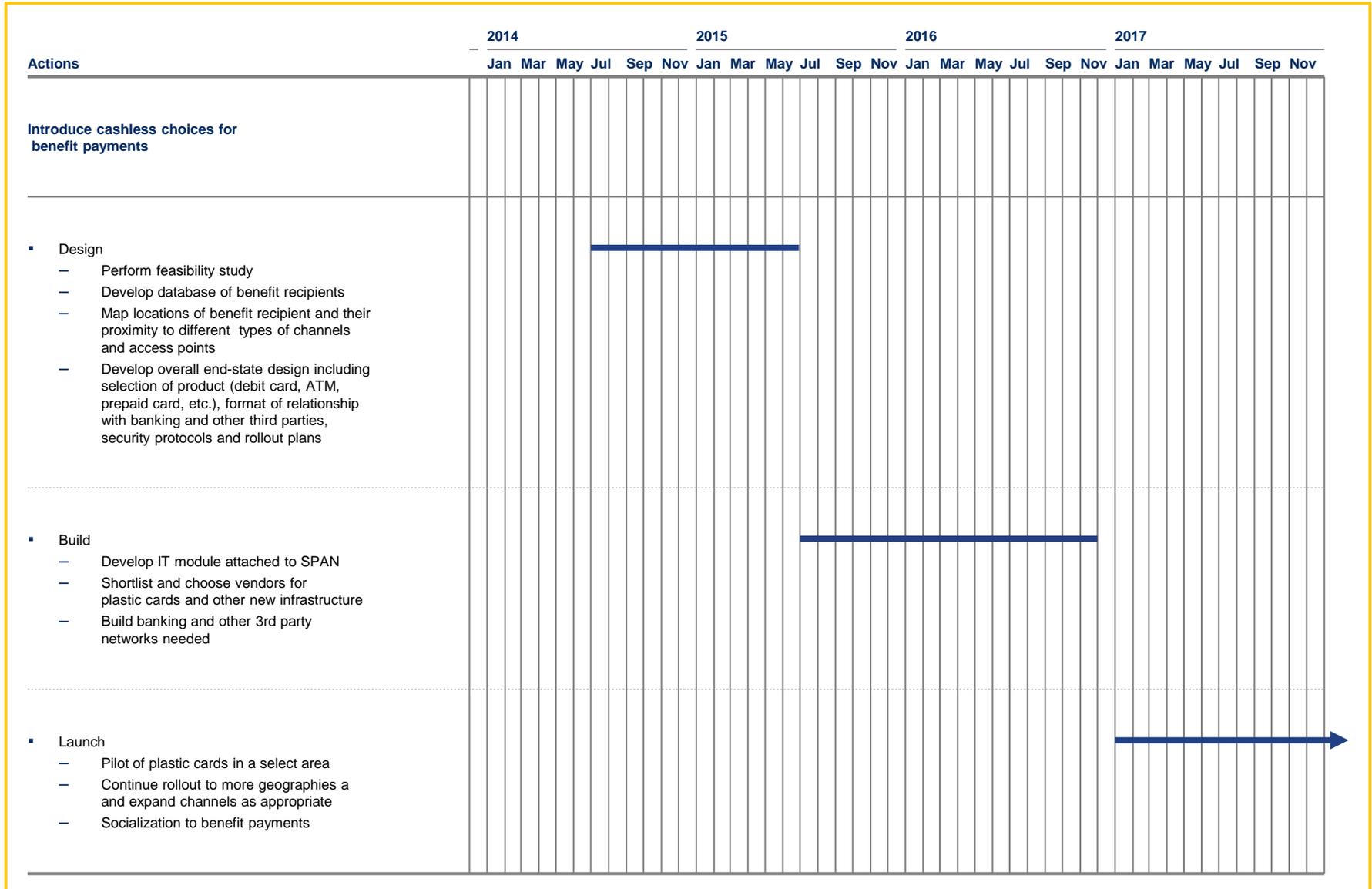
- **Electronic submission and verification** of payment orders, as well as electronic payment to the correct final recipient, supported through **a link with the banking system**
- **Electronic payment** for payments direct to final receipts through **various channels**, e.g. ATM, prepaid cards, replenishment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



# 1 Electronic, centralized submission, verification and payment system with modern payment channels – workplan (2/3)



# 1 Electronic, centralized submission, verification and payment system with modern payment channels – workplan (3/3)



# 1 Electronic, centralized submission, verification and payment system with modern payment channels – potential regulatory and legal risk

## Risks

- Current regulations not supporting some modern methods of disbursement
- Banking infrastructure and regulations not supporting high-volume G2P payments; banking fees not supporting advancement of government disbursement

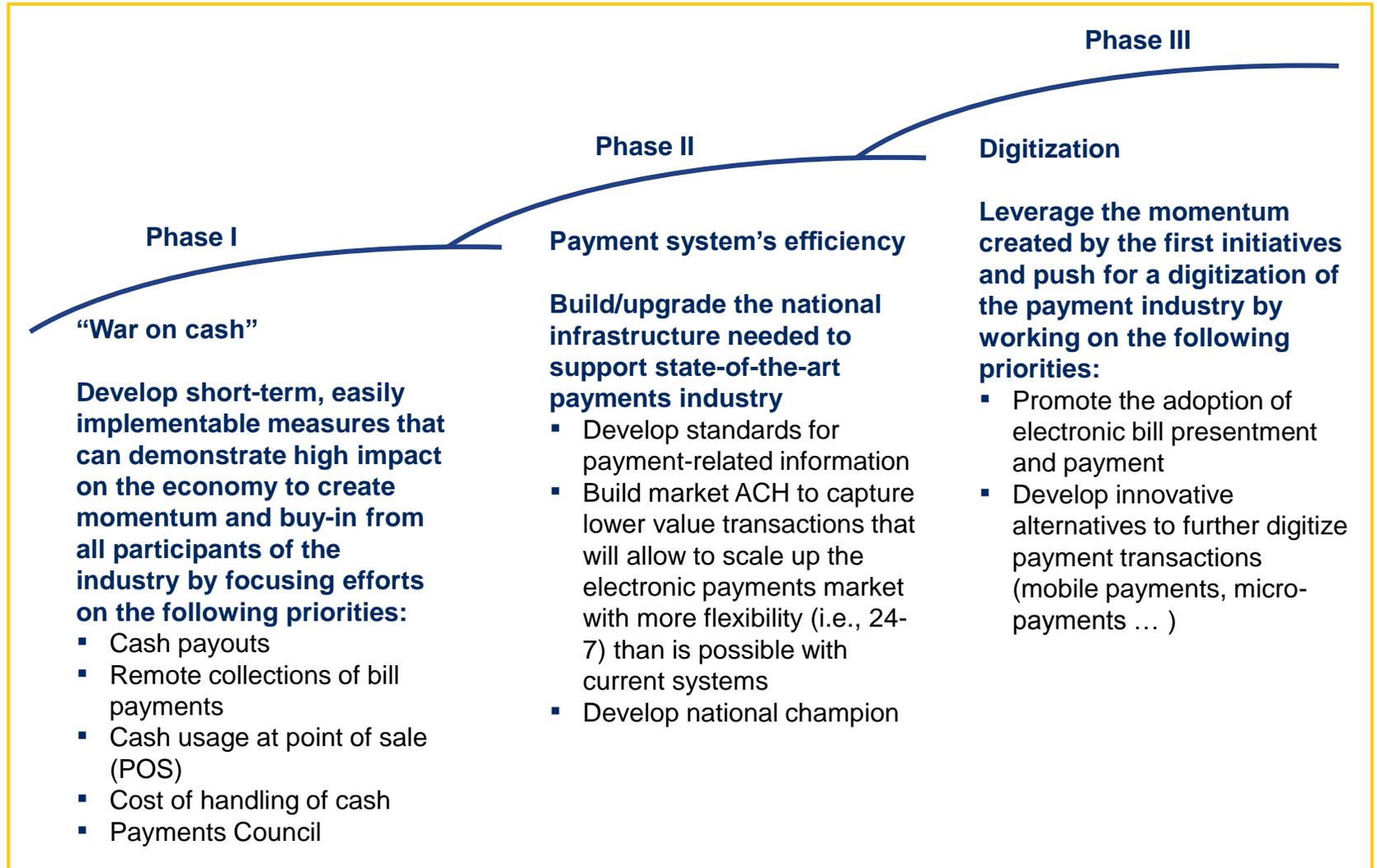
## Mitigation

- Comprehensive list of regulations needed when designing detailed end-state of each action
- Early start in approaching regulatory bodies
- Approach to various government stakeholders including Central Bank
- Clear value proposition to banking counterparts, e.g. potential to tap the currently unbanked

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- Debt market development

# 1 Government plays an important role in developing a national payment strategy especially in the early phase by shifting transactions away from cash



# I 1 Phase I: 'War on cash' can be addressed through 5 main levers. Treasury can push electrification of government payments and receipts

	Description	Examples
1 Reduce cash payouts	<ul style="list-style-type: none"> <li>Pay all salaries, social benefits, and pensions through bank accounts or prepaid cards at government and corporate level</li> </ul>	<ul style="list-style-type: none"> <li>Italy, Brazil, and Mexico</li> </ul>
2 Reduce remote collections of bill payments	<ul style="list-style-type: none"> <li>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</li> </ul>	<ul style="list-style-type: none"> <li>Brazil and Saudi Arabia</li> </ul>
3 Reduce cash usage at POS	<ul style="list-style-type: none"> <li>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 ... )</li> </ul>	<ul style="list-style-type: none"> <li>Korea, Mexico, Italy, Greece, the U.S., Netherlands, Sweden, and Norway</li> </ul>
4 Encourage efficient and transparent cash handling	<ul style="list-style-type: none"> <li>Increase transparency of cost drivers for cash handling, including externalities and strengthen standard requirements for the transport and storage of cash</li> </ul>	<ul style="list-style-type: none"> <li>Finland, Canada, Australia, France, and Belgium</li> </ul>
5 Build Payments Council	<ul style="list-style-type: none"> <li>Involve the different market participants, develop standards for the industry, and encourage innovation and development of national infrastructures</li> </ul>	<ul style="list-style-type: none"> <li>The U.K., the U.S., Canada, Mexico, South Africa, and Australia</li> </ul>

# 1 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

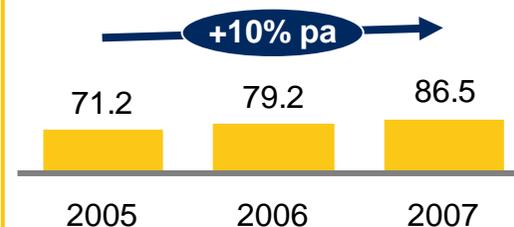
- Beneficiaries get a personal identification number (**PIN**) **coded magnetic card**, free of charge
- Banks facilitate the payment of the benefits. The rights are given through an auction sale
- Opportunity for banks to increase their client bases**
- Other offerings are negotiated between bank and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

\$ bn<sup>1</sup>



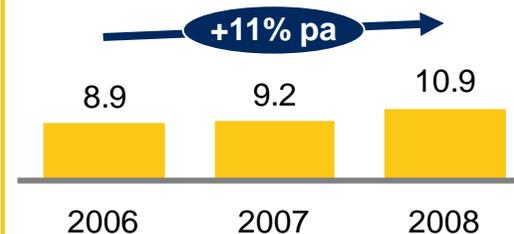
- Government direct fund transfer to families below poverty line** (income of BRL 60/month) that fulfill certain conditions, e.g.,:
  - Kids/teenagers in school
  - Vaccination calendar for kids 0-6 years old
- Total benefit varies from BRL 20-BRL 182 per month**, depending on family income and number 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

- 11mn families reached (22% of households)
- 50% in the northeast region

### Value of cashless transactions

\$ bn



1 Laborer meal program

SOURCES: Web site; press clippings

# I 1 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<sup>1</sup> 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<sup>2</sup> 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”<sup>3</sup>, 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

1 Public social security agency

2 Indicator of household equivalent economic situation

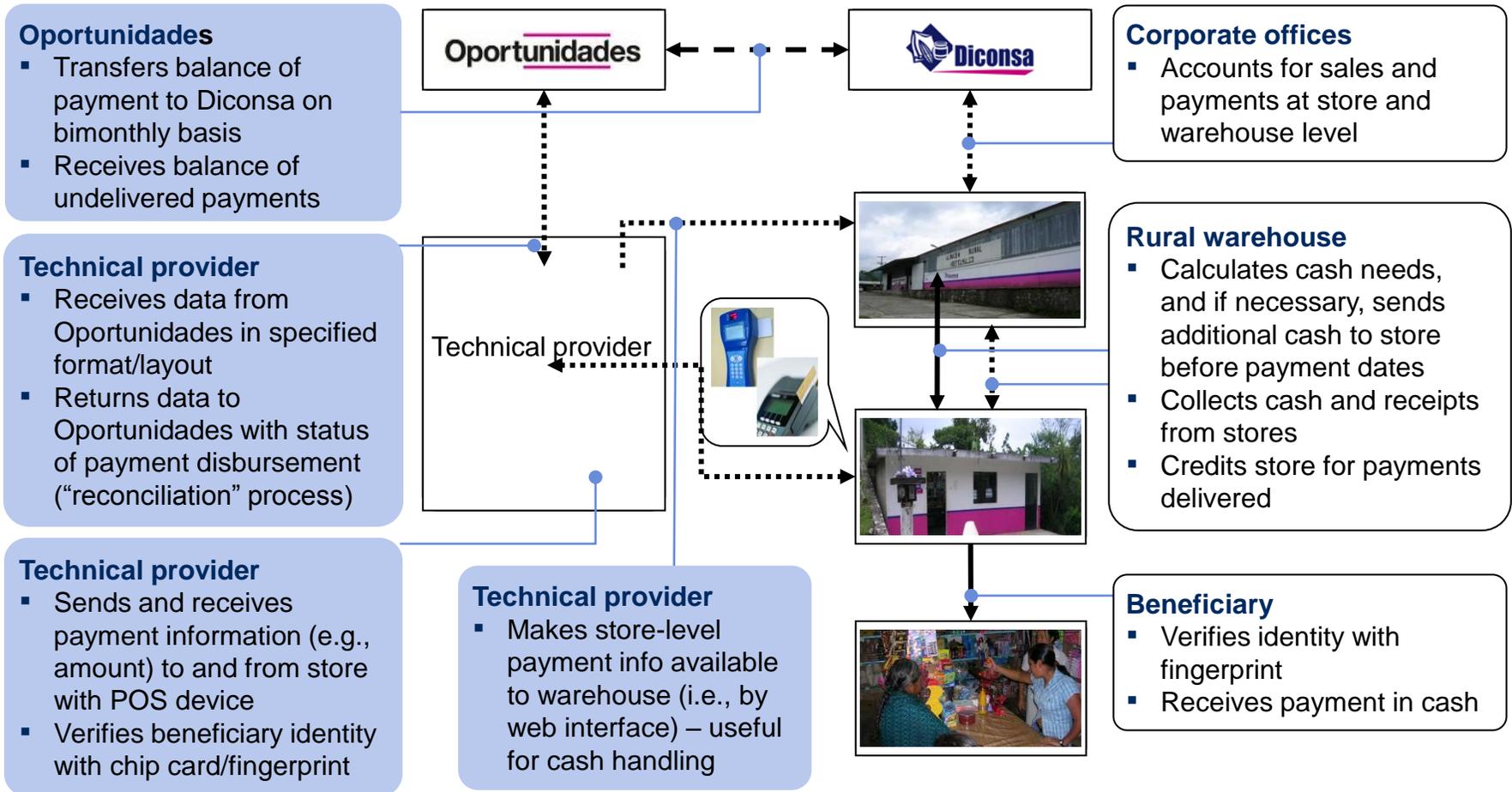
3 Parliamentarians’ commission for investigation of Italian government stimulus packages

# 1 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

■ Electronic payments □ Cash management



# 1 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 electronic channel



- 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

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## 2 Integrated receipt database with modern collection channels

### 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

### Key outcomes

- 2014:
- Launch of MPN G-2
  - Start of socialization program to tax payers to migrate to electronic channels
- 2015:
- Full integration of payer database with MPN and major collection channels
- 2018:
- Pilot launch of government receipt website enabling credit card payment and other payments

### Impact and KPIs

#### Payer database

- 2015 – 100% payer database for PNBPN 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<sup>1</sup> taxpayers adopt electronic channels<sup>2</sup>
- 2015 – 100% perception banks enable ATM payments, 100% enable internet banking (for those with internet banking)
- 2015 – 25% of major<sup>1</sup> taxpayers adopt electronic channels<sup>2</sup>
- 2019 – 20% of major<sup>1</sup> PNBPN 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
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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

## 2 Integrated receipt database with modern collection channels – changes in operational model

### Current State

---

- Process improvement by shifting from multiple systems to record and administer receipt with manual processing in multiple checkpoints, to one electronic platform

### Target state

---

- **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
- Continuous effort to **migrate payers into electronic channels**



## 2 Integrated receipt database with modern collection channels – potential regulatory and legal risk

### Risks

---

- NA

### Mitigation

---

- NA

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

Most addressable	Common pain point	Description
↑	1 Lack of awareness and inefficient communication	<ul style="list-style-type: none"> <li>▪ Payers are not aware of their choices of payment methods and some payers don't read the communication</li> </ul>
	2 Unable to find electronic options on websites	<ul style="list-style-type: none"> <li>▪ Payers can't find online payment options on agency websites</li> </ul>
	3 No benefit or incentive to pay electronically	<ul style="list-style-type: none"> <li>▪ Payers are pleased with status quo; don't see any benefit to changing current payment method</li> </ul>
	4 Too expensive to use electronic options	<ul style="list-style-type: none"> <li>▪ Small businesses or small proprietors want to keep float of funds</li> <li>▪ Payers reluctant to use Wire because of costs</li> </ul>
↓	5 Difficult to use electronic options	<ul style="list-style-type: none"> <li>▪ Payer has too many steps to complete</li> <li>▪ Payer not technologically savvy</li> <li>▪ Payer has to re-set up same info every month, frustrating</li> </ul>
Less addressable		

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



Most addressable	Common pain point	Description
	<b>6</b> Lack of trust for personal information protection	<ul style="list-style-type: none"> <li>▪ Payers are worried that government will use the personal information for other purposes such as levy a bank account or increase taxes</li> </ul>
	<b>7</b> Afraid of missing payment/Fear of forgetting to pay	<ul style="list-style-type: none"> <li>▪ Payers are sensitive to missing payments and facing penalties due to perceived seriousness of government payments</li> </ul>
	<b>8</b> No easy link between paper statement and electronic payment	<ul style="list-style-type: none"> <li>▪ More difficult to remember to make electronic payments with receipt of paper statement (e.g. no link to website as an email would)</li> </ul>
	<b>9</b> Lack of channels for my transaction	<ul style="list-style-type: none"> <li>▪ Payers are unable to pay electronically due to channel availability, e.g. no credit card POS</li> </ul>
Less addressable	<b>10</b> Lack of internet access	<ul style="list-style-type: none"> <li>▪ Individual payers such as disaster loan payers have no access to internet</li> </ul>

# 2 Examples of public and private best practice interventions in migrating payors to electronic channels ILLUSTRATIVE

Interventions	Company/Agency	Examples/Details
<p><b>A</b> Charge additional fee for non-electronic filing/paper statement</p>	 	<ul style="list-style-type: none"> <li>PTO's utility patent applications charge \$400 more for non-electronic filing, trademark filing is \$100 more if not fully electronic</li> <li>Banks charge fee (~\$3) per paper statement</li> </ul>
<p><b>B</b> Require to use electronic payment methods/Get rid of paper payment methods</p>	  <p style="font-size: small; text-align: center;">UNITED STATES MINT</p>	<ul style="list-style-type: none"> <li>U.S. Mint only accepts credit card for online catalog purchase</li> <li>TTB requires customers with liability over \$5M to pay electronically</li> </ul>
<p><b>C</b> Set expectation for shorter service time/better service</p>	 	<ul style="list-style-type: none"> <li>NPS is looking to provide fast lanes in the future for online entrance fee payers</li> <li>PTO customers expect online filing gets the application into the queue faster</li> </ul>
<p><b>D</b> Incentivize customers with enhanced functionality</p>	 	<ul style="list-style-type: none"> <li>Financial intuitions provide functionality such as historical statements and tax documents to online customers</li> </ul>
<p><b>E</b> Provide incentives and rewards to customers to increase conversion</p>	 	<ul style="list-style-type: none"> <li>Financial institutions and city government provide rewards and prize on websites to incentivize customers go electronically</li> </ul>
<p><b>F</b> Communicate through paper bill and educate customers on paying electronically</p>	 	<ul style="list-style-type: none"> <li>USDA-RD, APHIS, DFAS, FCC all have "pay via Pay.gov" on their bills</li> <li>USDA-RD sends instructions to customers on online payment</li> </ul>

SOURCE: Agency interviews; Website research

# 1 2 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

Provided by the US Department of the Treasury

Home

05/31/2013  
Attention VA Medical Care Copayment customers. If you do not know your username, or do not have one, you can still make a payment on our website. To make your payment, go to the right side of the screen and look for Frequently Used Forms. Click on the link titled Department of Veterans Affairs. On the next screen, click on the VA Medical Care Copayment link. Complete the required information and submit the form. [More Information](#)

**What is Pay.gov?**  
Pay.gov can be used to make secure electronic payments to Federal Government Agencies. Payments can be made directly from your bank account or by credit/debit card.

**How Do I Make a Payment?**  
Find the Agency Form you need to fill out. Complete the required information and submit the Form. Enter payment information and Submit your payment.

**What Federal Agencies Can I Pay?**  
[Agency List](#)

**Should I Register?**  
Will you use Pay.gov often?  
Do you want to save your Profile?  
Do you track your payments or set up recurring payments?  
Do you have an access code?  
[Click here to Register](#)

**Information for Government Agencies**

**Frequently Used Forms**

**SBA Payments**  
Borrower and Lender Payments  
Administrative Payments from Employees, SGB

**Department of Veterans Affairs**  
VA Medical Care Copayment

**U.S. Courts**  
Pay a violation notice received on Federal property.

**Department of Justice**  
DAOJ/CDCS Accounts

[All other Forms](#)

You have accessed a United States Government computer. Unauthorized use of this computer is a violation of federal law and may subject you to civil and criminal penalties. This computer and the automated systems which run on it are monitored. Individuals are not guaranteed privacy while using government computers and should, therefore, not expect it. Communications made using this system may be disclosed as allowed by federal law.

- **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

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### 3 “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

#### 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)

#### Impact and KPIs

- Vendor database**  
**2014** – 100% vendors with major<sup>1</sup> 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

#### 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
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### 3 “Shared service” back office function for all K/Ls, centralized at the MOF – changes in operational model

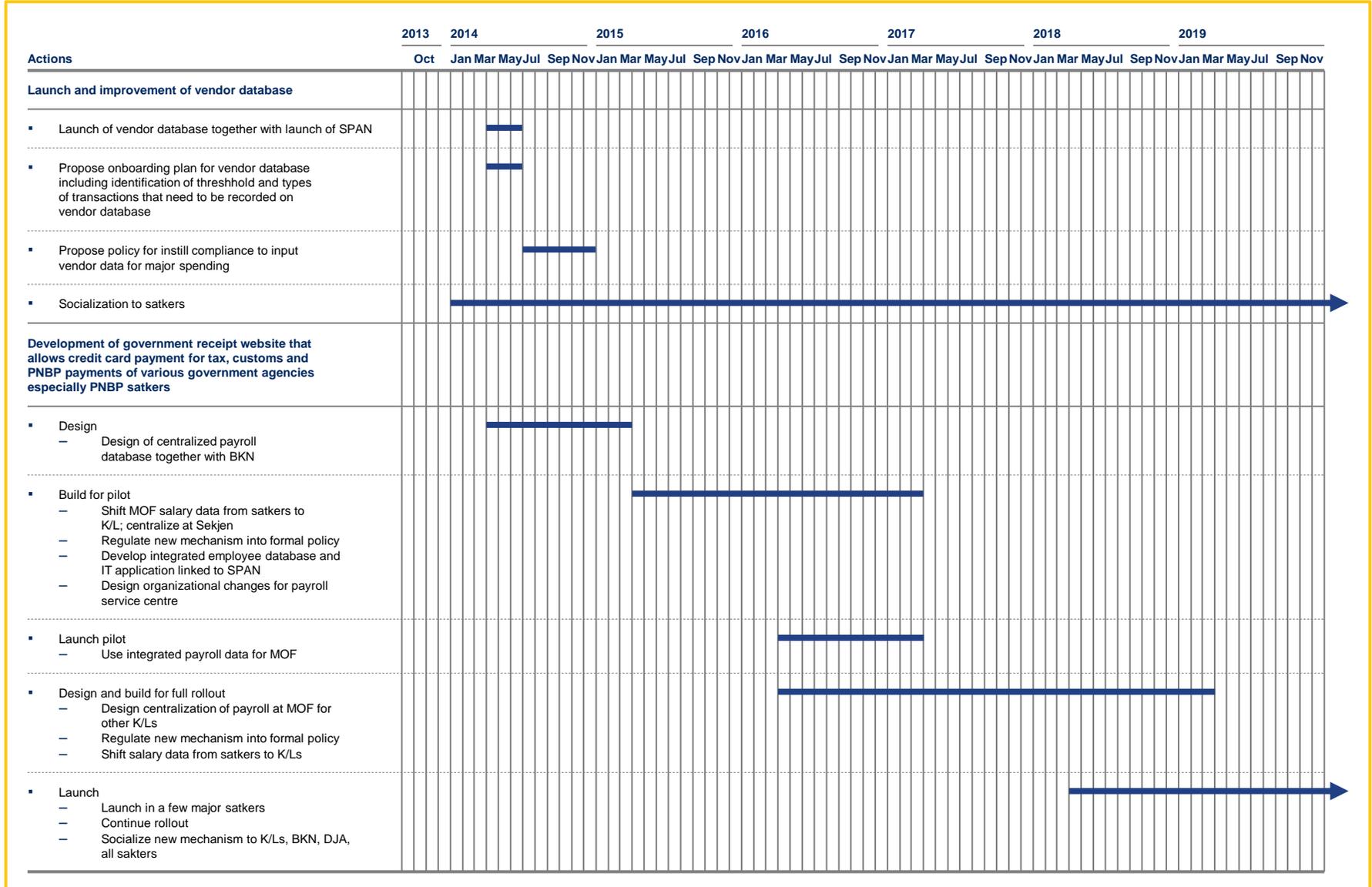
#### Current State

- 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)

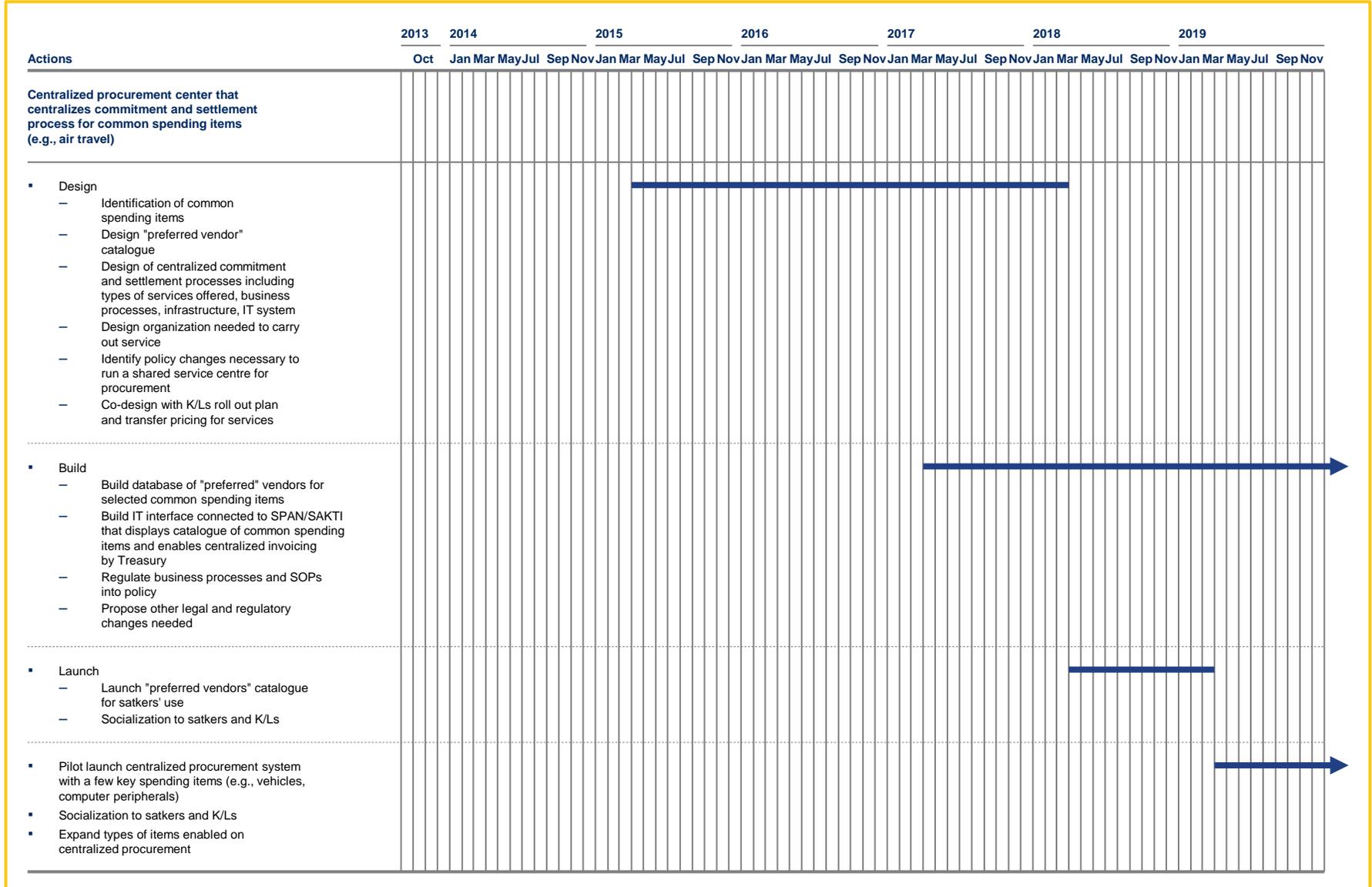
- **Single accounting database** maintained by MOF that includes both transaction and asset database
- **Centralized commitment process** by Treasury for **payroll and common spending items**
- Centralized **vendor database** to optimize satkers' procurement
- Enlarge **centralized settlement** function done by Treasury including for **routine payments** (e.g. electricity, water, etc.)

# 3 “Shared service” back office function for all K/Ls, centralized at the MOF – workplan (1/3)





# 3 “Shared service” back office function for all K/Ls, centralized at the MOF – workplan (3/3)



### 3 “Shared service” back office function for all K/Ls, centralized at the MOF – potential regulatory and legal risk

#### Risks

- Shared service with centralized commitment, invoicing and settlement process not in line with current disbursement regulations
  - Regulations needed to enforce K/Ls to utilize shared services offered due to potential reluctance of K/Ls in shifting to a new practice
- 
- Current MOF structure not accommodating shared service center

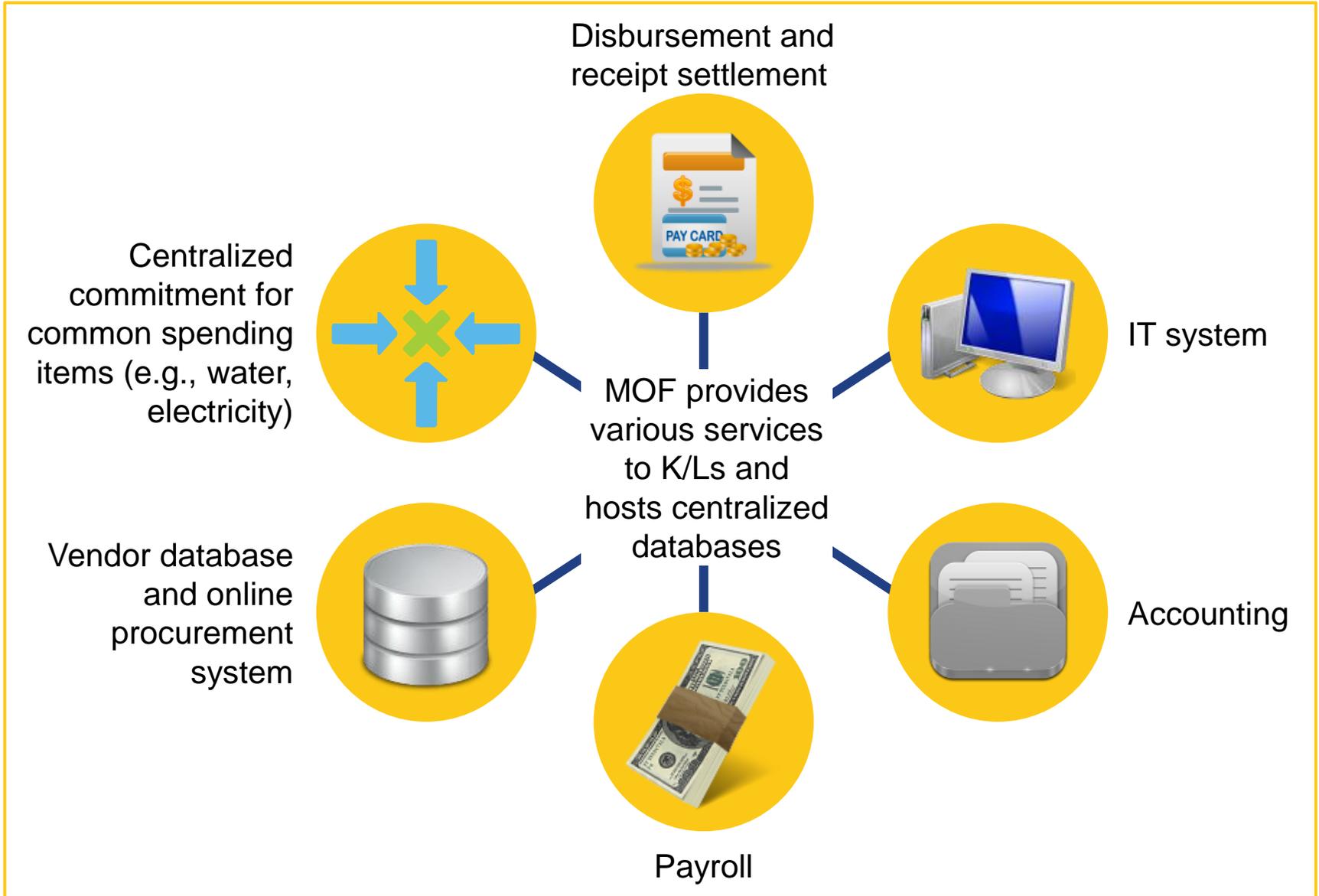
#### Mitigation

- Approach to major K/Ls, and potentially to President / Vice President level to illustrate whole-government benefit in utilizing shared services
  - Propose regulations to enforce K/Ls to shift to shared service center, potentially in stages
  - Socialization plan of new features and associated government-wide benefits
  - Piloted on one or two major K/Ls as beachheads
- 
- Proposal to Menpan in early stage to accommodate change in organization structure needed to enable shared service center

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# 3 By 2025, MOF will be the centralized “shared service” back office for K/Ls



# 3 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

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- Context and introduction
- **Disbursement and receipts**
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  - 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

# 1 3 Appendix: Diconsa Case Study



# 3 The Gates Foundation engaged client to design & pilot a basic financial services offering through a network of 22,000 stores in rural Mexico

## 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

## 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

# 1 3 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**; Disconsa'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

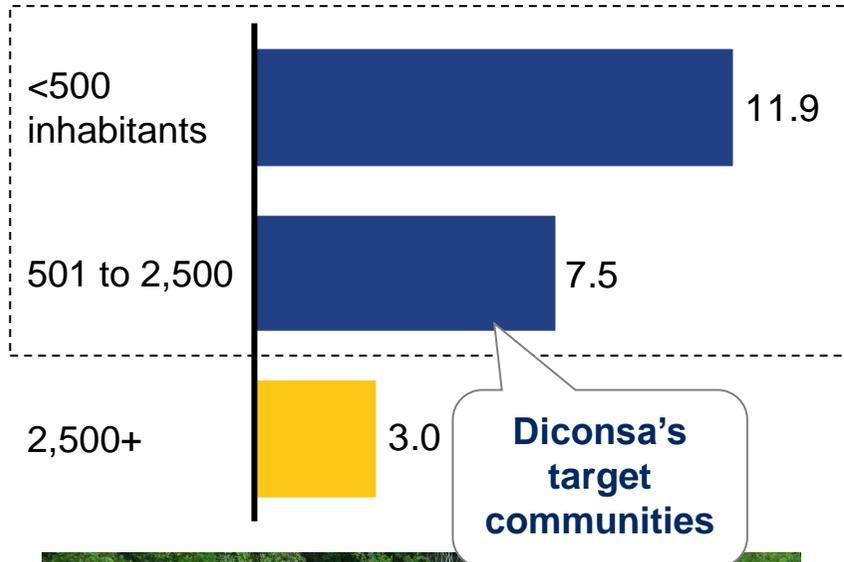
Support mechanism for the distribution of other social assistance programs (e.g., State of Mexico)

### 5. Safety net for the basic grains markets

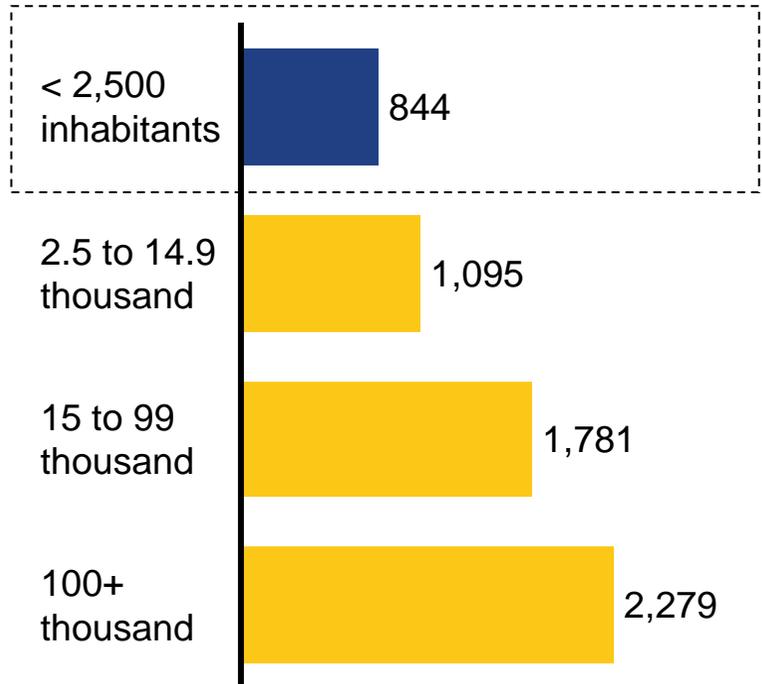
Guarantee supply during periods of scarcity and establish standard prices in the rural markets

# 3 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  
Thousands



Median per-capita annual income by population of community  
U.S. Dollars



Note: Population and store data available only for subsample of 16.3 thousand stores that have "window" service

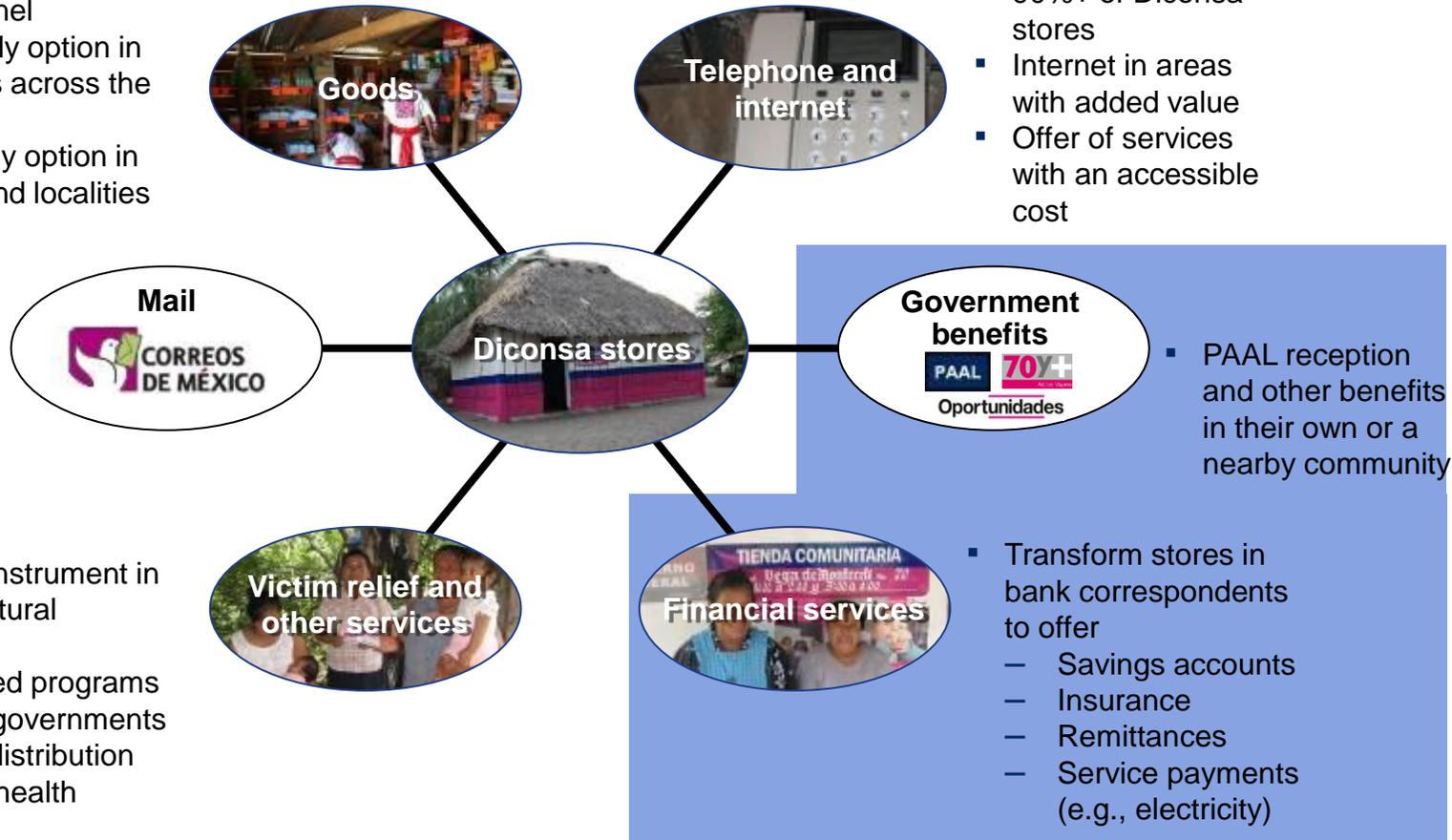
# 3 The government can take advantage of Diconsa's vast infrastructure converting stores into complete goods & services distribution centers

## Communities and Diconsa stores in 2009

Detailed ahead

- 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)

# 1 3 Diconsa seeks to offer different financial services through its network of stores



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

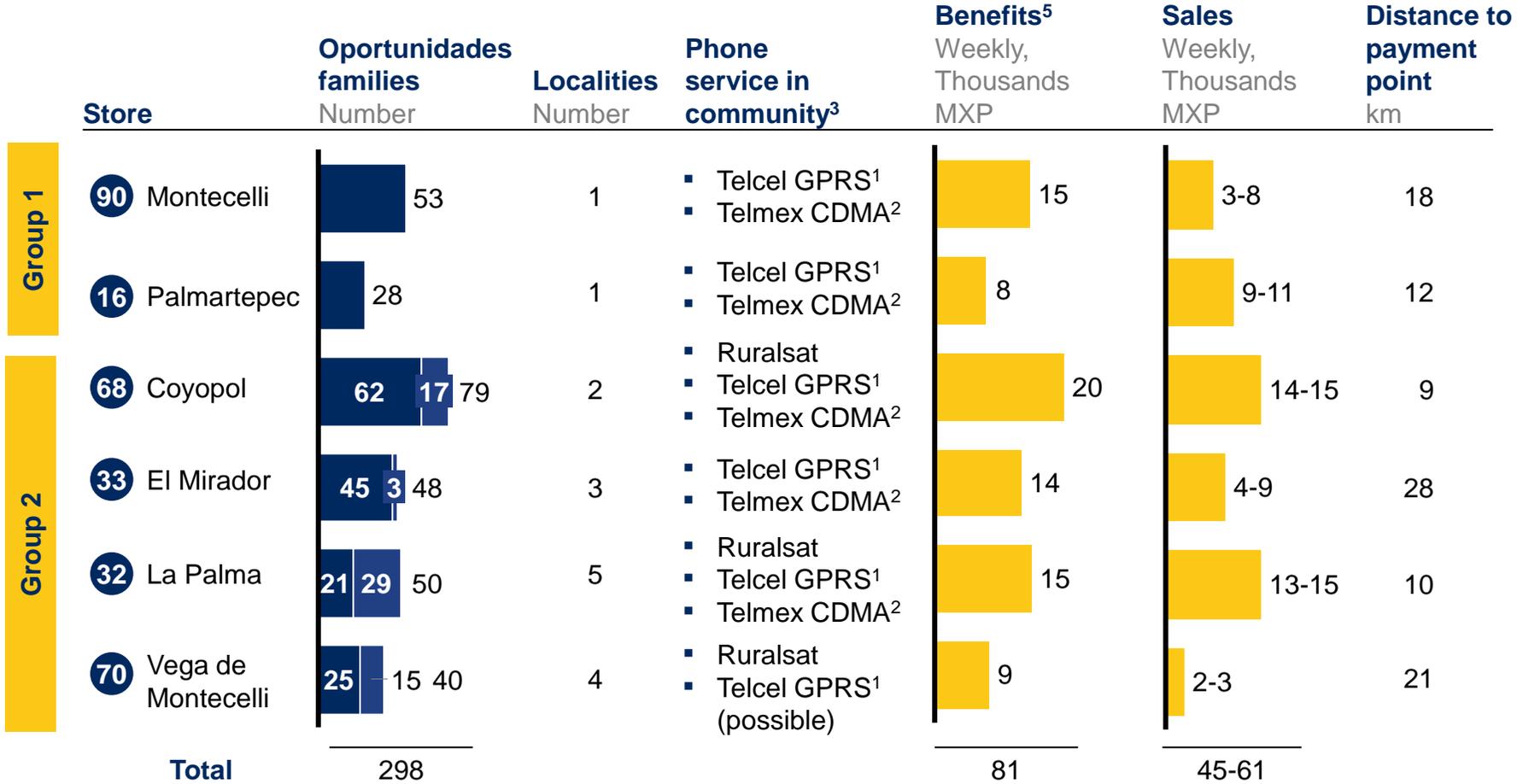
- Deposit government payments in savings accounts to encourage savings
- Payments of utilities and other services (e.g., electricity, telephone)

- Use platform to introduce new products and financial services
- Verify that the model works on larger scale

- Offer full suite of financial solutions that fit the needs of low-income clients

# 3 The 6 selected stores for the pilot were located in small, rural communities with limited connectivity

■ Families in store community  
■ Families in nearby communities



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

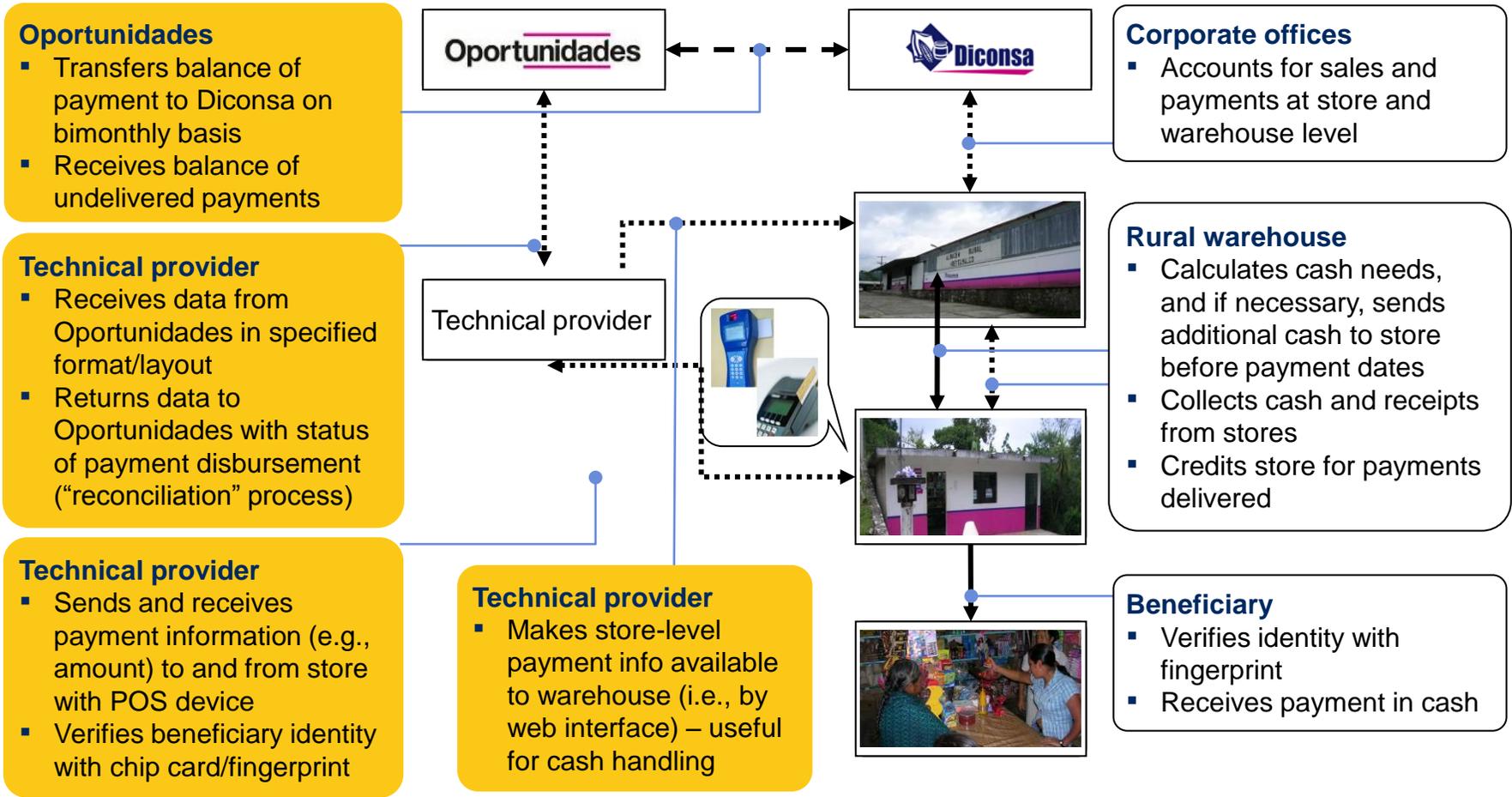
4 To this date, no mobile reception has been detected in that community

5 Ventas semanales en la tienda (rango de: promedio de ventas promedio en Almacén y ventas registradas por tiendas en Septiembre)

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

- Electronic payments
- Cash management

## Operating model



Note: More detailed information about this and other processes is available in the annexes

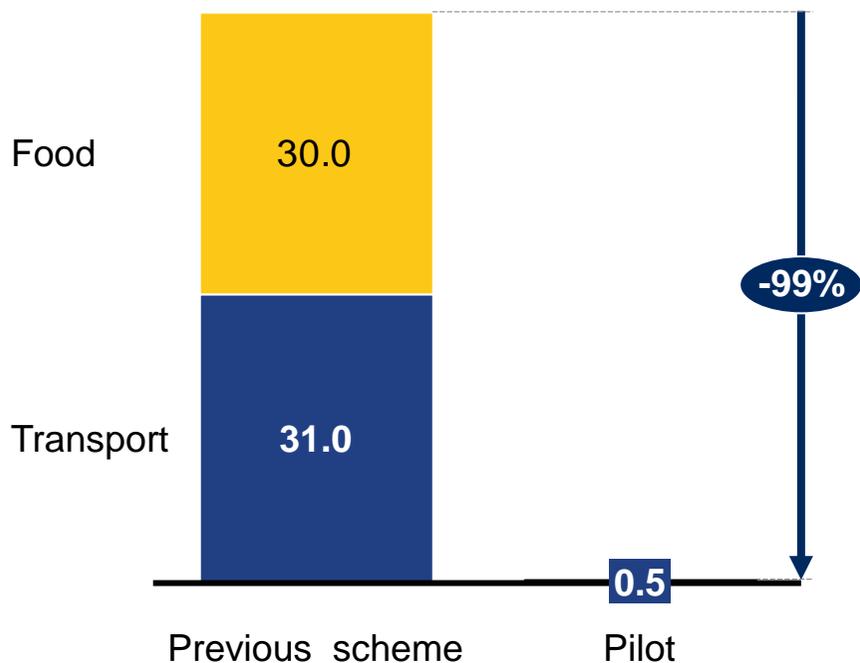
# ① ③ Oportunidades beneficiaries receive cards tied to savings accounts; full correspondent functionality will be enabled in the future



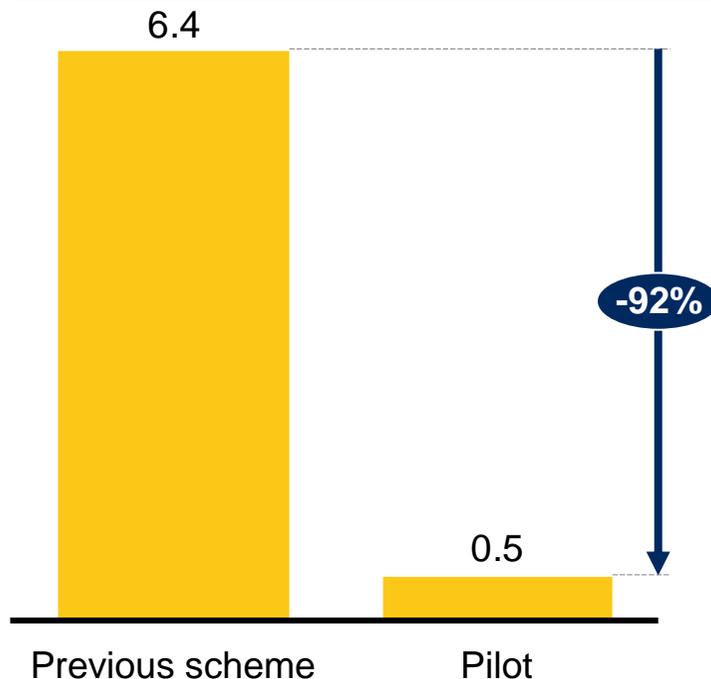
- The card's chip stores information on the beneficiaries and “substitutes” (e.g., identification data, digital fingerprints)
- The card could be used for banking transactions in the future (e.g., 16-digit BIN number)
- Partnership with Bansefi to open savings accounts to cardholders

# 3 The pilot in Hueytamalco demonstrated significant benefits for the beneficiaries of Oportunidades...

Total costs to families of receiving Oportunidades  
\$ pesos



Required time to receive Oportunidades  
Hours

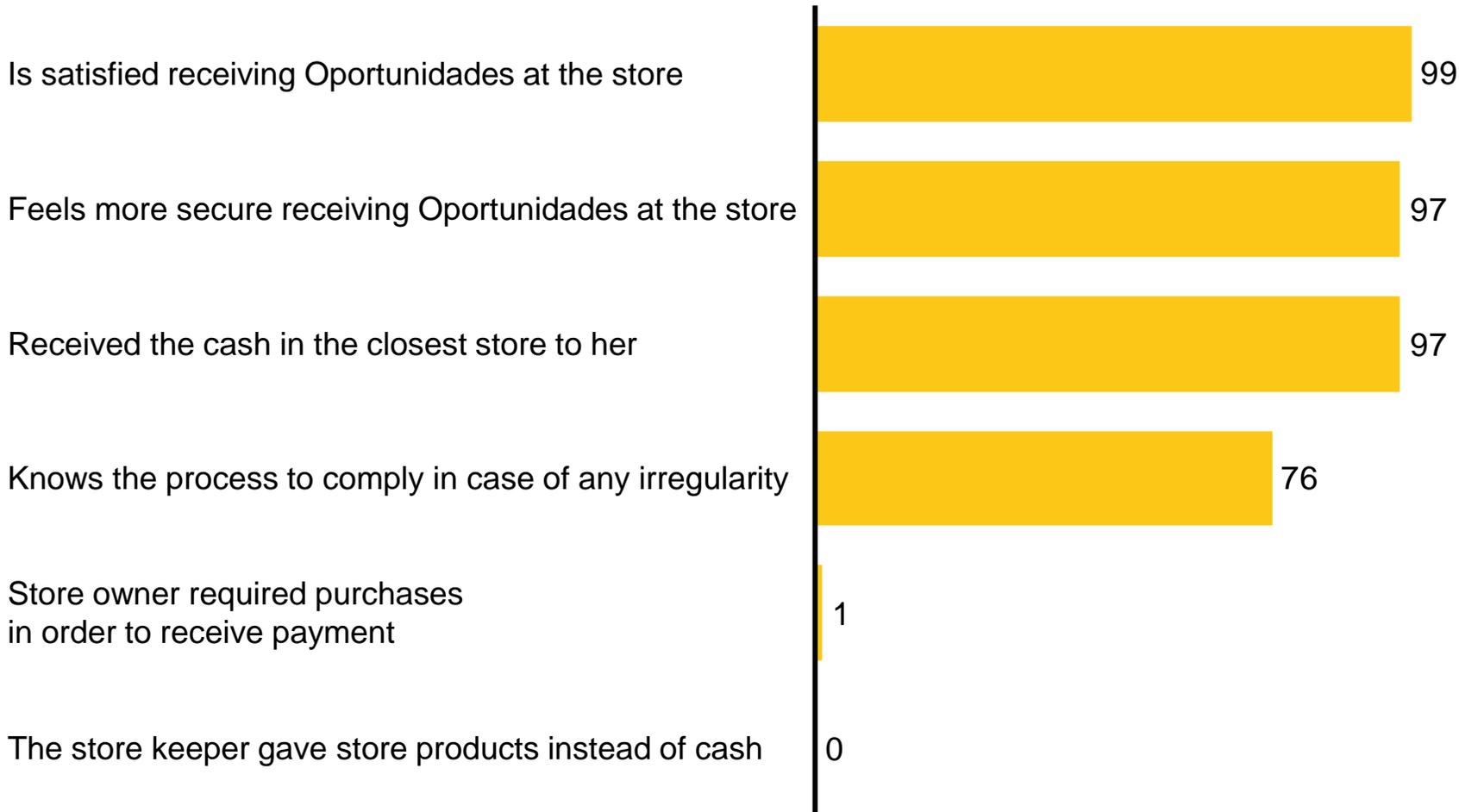


~2.5 million Oportunidades families could save up to \$1.5 billion pesos in food and transportation

# 1 3 ... and generated a positive response to the pilot from beneficiary families

## Responses of the beneficiaries interviewed

Percentage

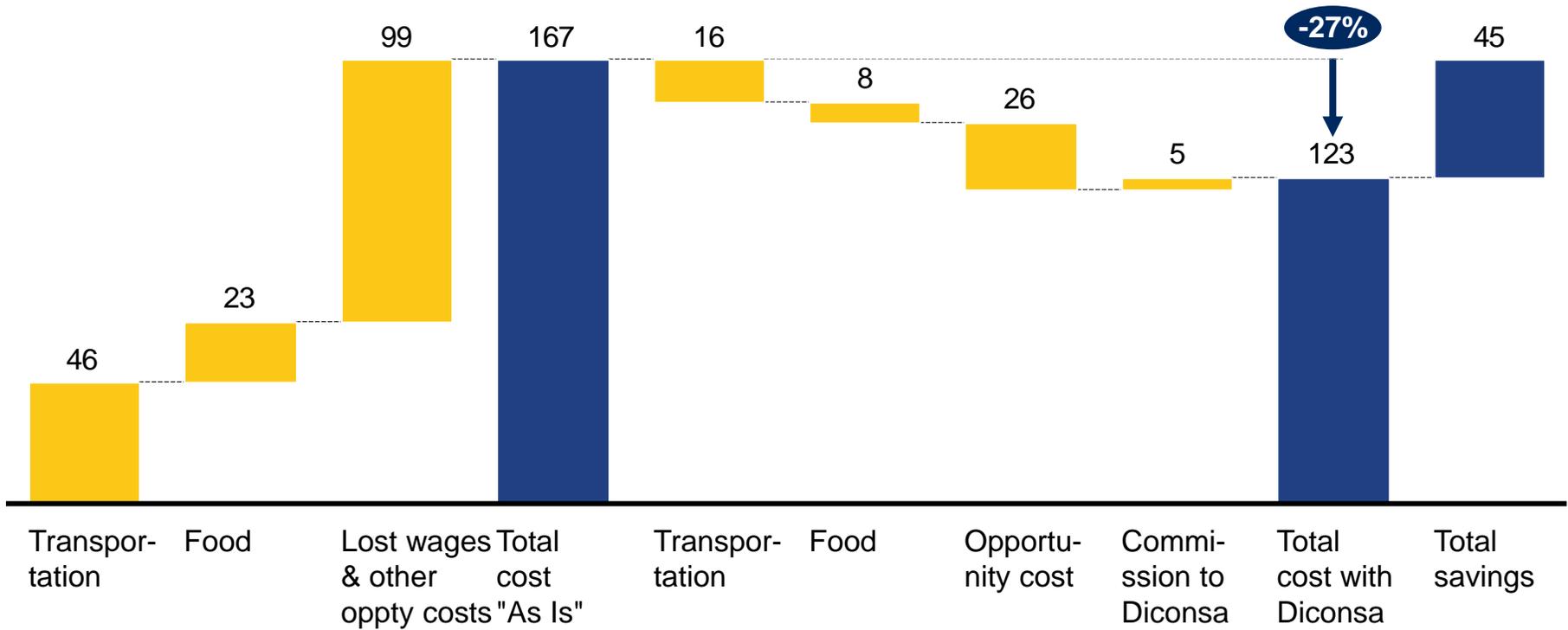


# 3 Beneficiaries could save ~U.S. \$45 million if payments were delivered through Diconsa stores

PRELIMINARY

## Net benefit/cost for beneficiaries

USD Millions



### Costs today

**3.4 million** beneficiaries have to **travel** to receive payments

### Savings with new model

**Of the 3.4 million** beneficiaries that had to travel, **45% reduce** their total **travel time** to receive payments

**-27%**

123

45

SOURCE: Field visits (Oportunidades and 70y+ payments)

## I 3 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

# 1 3 After the pilot, there were two more expansion waves, increasing target families to ~ 350,000

Pilot phase

First wave

Second wave



298

35,000

350,000

Families, total number



6

135

890

Shops, total number

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

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# II Many cash management best practices being implemented though potential to focus on managing idle cash

- Not on par with best practice
- Almost on par with best practice
- At par with best practice

Roles	Objectives	Practices	Performance
<p><b>1</b> Ensure adequate cash to serve obligations</p>	<ul style="list-style-type: none"> <li><span style="color: green;">●</span> Availability of cash for disbursement</li> <li><span style="color: green;">●</span> Cash planning accuracy</li> <li><span style="color: green;">●</span> RKUN balance forecasting accuracy</li> </ul>	<ul style="list-style-type: none"> <li><span style="color: green;">●</span> TSA effectively implemented to centralize all government accounts</li> <li><span style="color: yellow;">●</span> TSA does not cover 100% government accounts</li> <li><span style="color: green;">●</span> &gt;90% Short term forecasting to ensure enough cash is dropped in operational banks</li> </ul>	<ul style="list-style-type: none"> <li><span style="color: green;">●</span> Fund always available for routine disbursements with no history of overdraft</li> <li><span style="color: yellow;">●</span> Subsidy payments sometimes delayed to manage cash</li> </ul>
<p><b>2</b> Lower government cost of borrowing by keeping idle cash at a minimum</p>	<ul style="list-style-type: none"> <li><span style="color: red;">●</span> Optimum cash balance target</li> </ul>	<ul style="list-style-type: none"> <li><span style="color: red;">●</span> Cash plan and RKUN cash target established but not optimized for cost and risk; target not necessarily followed</li> <li><span style="color: green;">●</span> Cash position regularly reconciled and calculated automatically</li> <li><span style="color: yellow;">●</span> Establishment of CPIN for early cash planning coordination efforts but long term forecasting is still with &lt;80% accuracy</li> <li><span style="color: yellow;">●</span> Cash held in multiple currencies but converted in adhoc manner; forex strategy being developed and rolled-out</li> <li><span style="color: yellow;">●</span> Formation of ALM committee but further coordination with DJPU needed</li> </ul>	<ul style="list-style-type: none"> <li><span style="color: red;">●</span> High and fluctuating cash balances resulting in additional interest cost of up to IDR 2 trn</li> </ul>
<p><b>3</b> Maximize risk-adjusted return on idle cash</p>	<ul style="list-style-type: none"> <li><span style="color: green;">●</span> Return from excess cash management</li> </ul>	<ul style="list-style-type: none"> <li><span style="color: yellow;">●</span> Placement of excess cash in Central Bank yielding 65% of prevailing BI rates</li> <li><span style="color: yellow;">●</span> Development of TDR; to be online later this year</li> </ul>	<ul style="list-style-type: none"> <li><span style="color: yellow;">●</span> Cash balances earning 65% of BI rates</li> </ul>

## II Cash management has been effective in meeting high disbursement service obligations

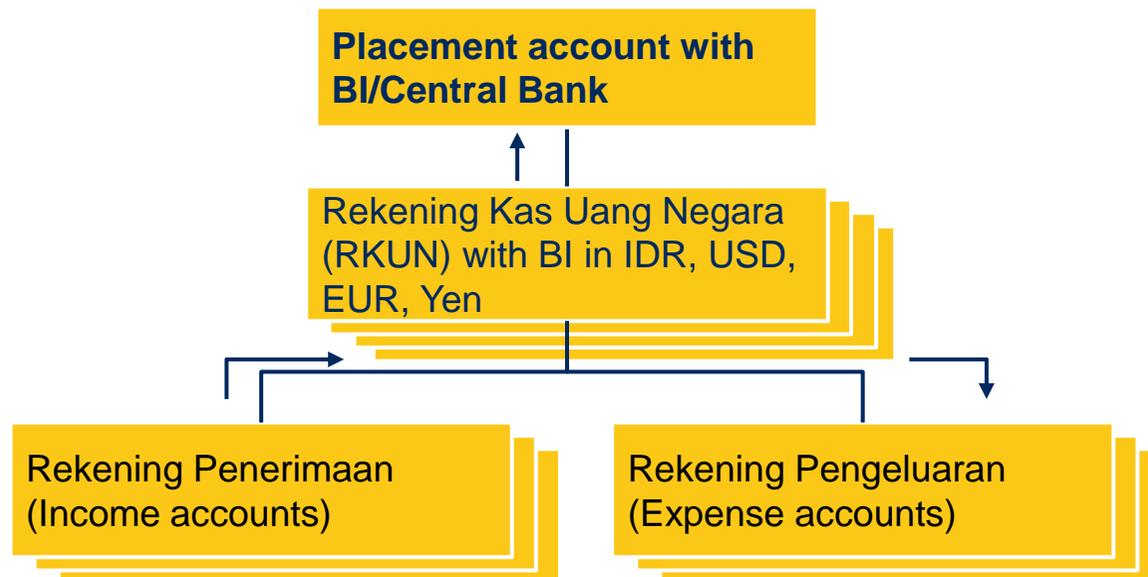
### Good service obligations meeting expectations

- MOF has always been able to provide **adequate cash** for disbursement
  - 95% accuracy in daily cash planning enabling adequate dropping in operational banks
  - In 2012, 97.85% of fund needs of KPPNs have been accurately provided by Dir. KPN, facilitated by e-kirana application
  - No history of overdraft with mechanisms to avoid a low balance (~5 Trillion in RKUN & placement accounts):
    - Shift back select spending, e.g. subsidy payments
    - Shift forward select revenues
    - Borrow short-term from SAL
    - Fine tune through debt-issuance (limited use so far)
- Fund is **disbursed** to final recipient **on time**
  - In 2012, 99% of KPPNs reached their KPIs on standard time of disbursement by BO I from RKUN account to final recipient account

## II Treasury has been effective in implementing a Treasury Single Account

**TSA has been implemented to consolidate all government accounts within RKUN accounts<sup>1</sup>**

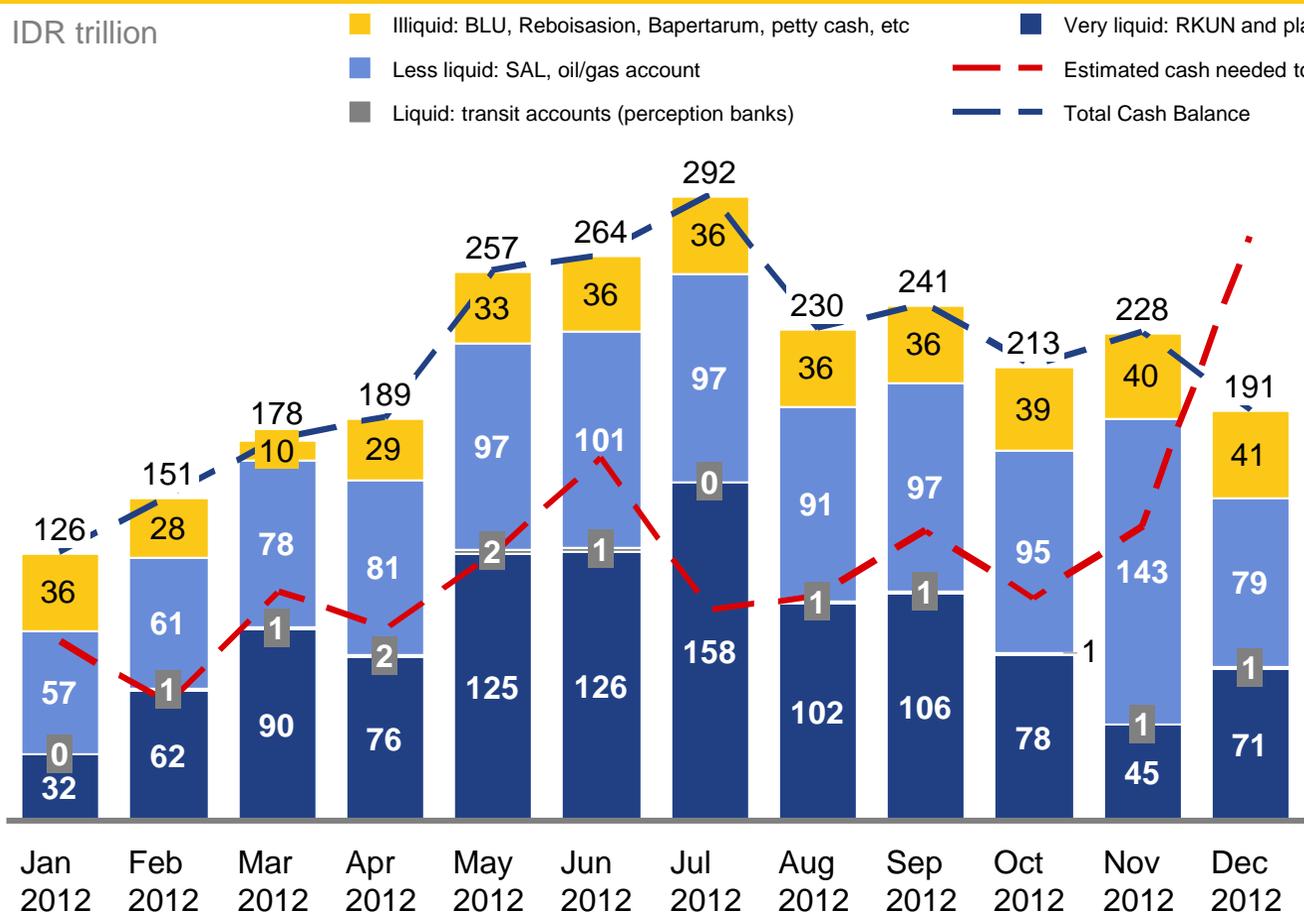
- 4 RKUNs (State Cash Accounts) are kept with a certain amount of buffer (i.e. IDR 2 trn in RKUN IDR and the equivalent if USD 1 mn in other accounts), consolidating all cash balances from numerous income and expense accounts
- All excess cash above RKUN's buffer is transferred to a placement account 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



<sup>1</sup> There are other accounts aside from income and expense accounts, e.g. special accounts for loans, etc.

# II 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**

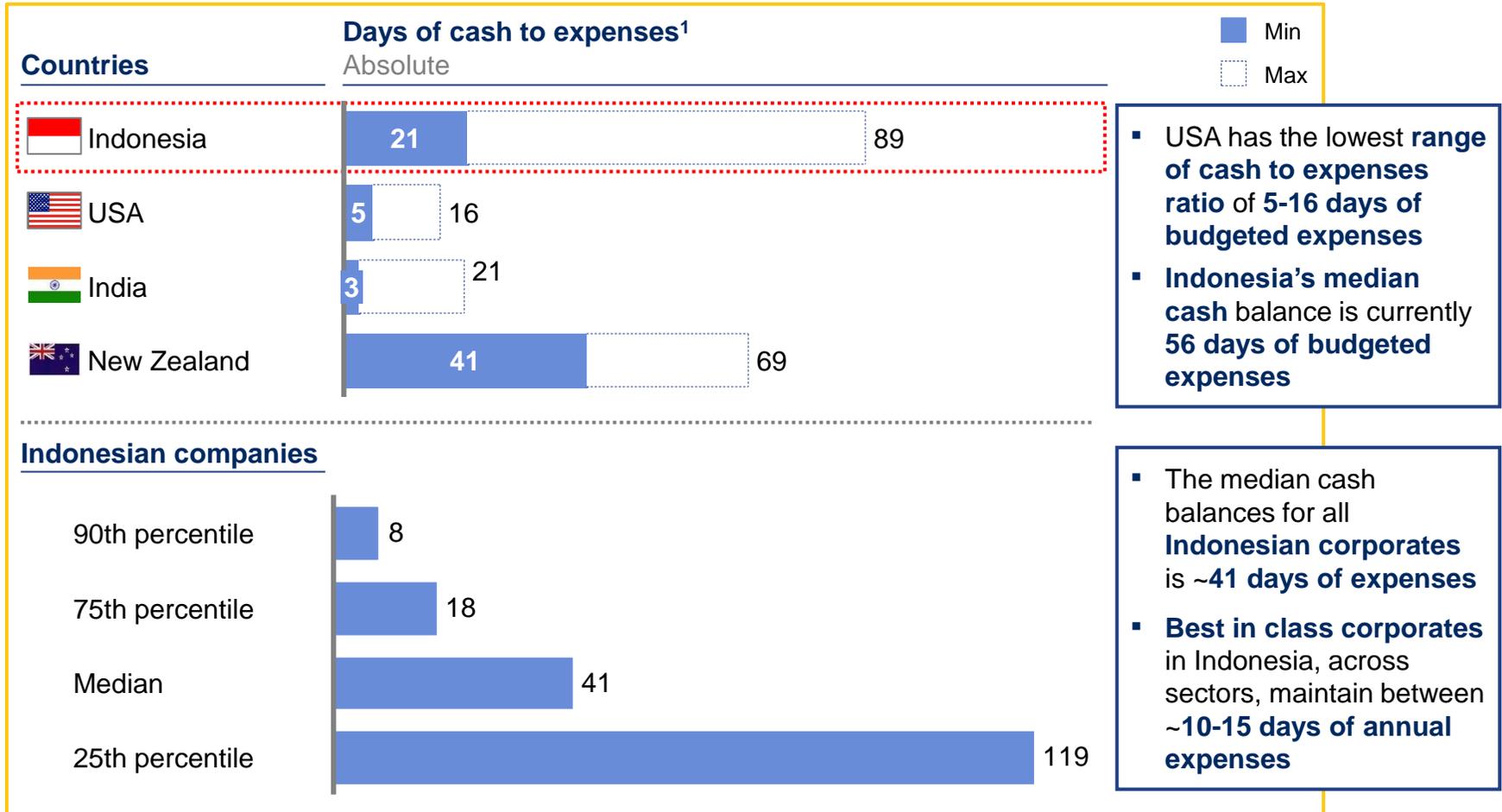


- Average excess cash holdings of IDR 90 trn over the course of the year
- Very liquid cash holdings sufficient for ~24 days of expenses
- In December, total cash balance sufficient for ~21 days of expenses
- Estimated cost of funds on excess cash is IDR 2 trn (assuming 2.2%2 negative float)

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

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

## II Indonesia has a higher cash balance relative to other countries and Indonesian companies



<sup>1</sup> 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

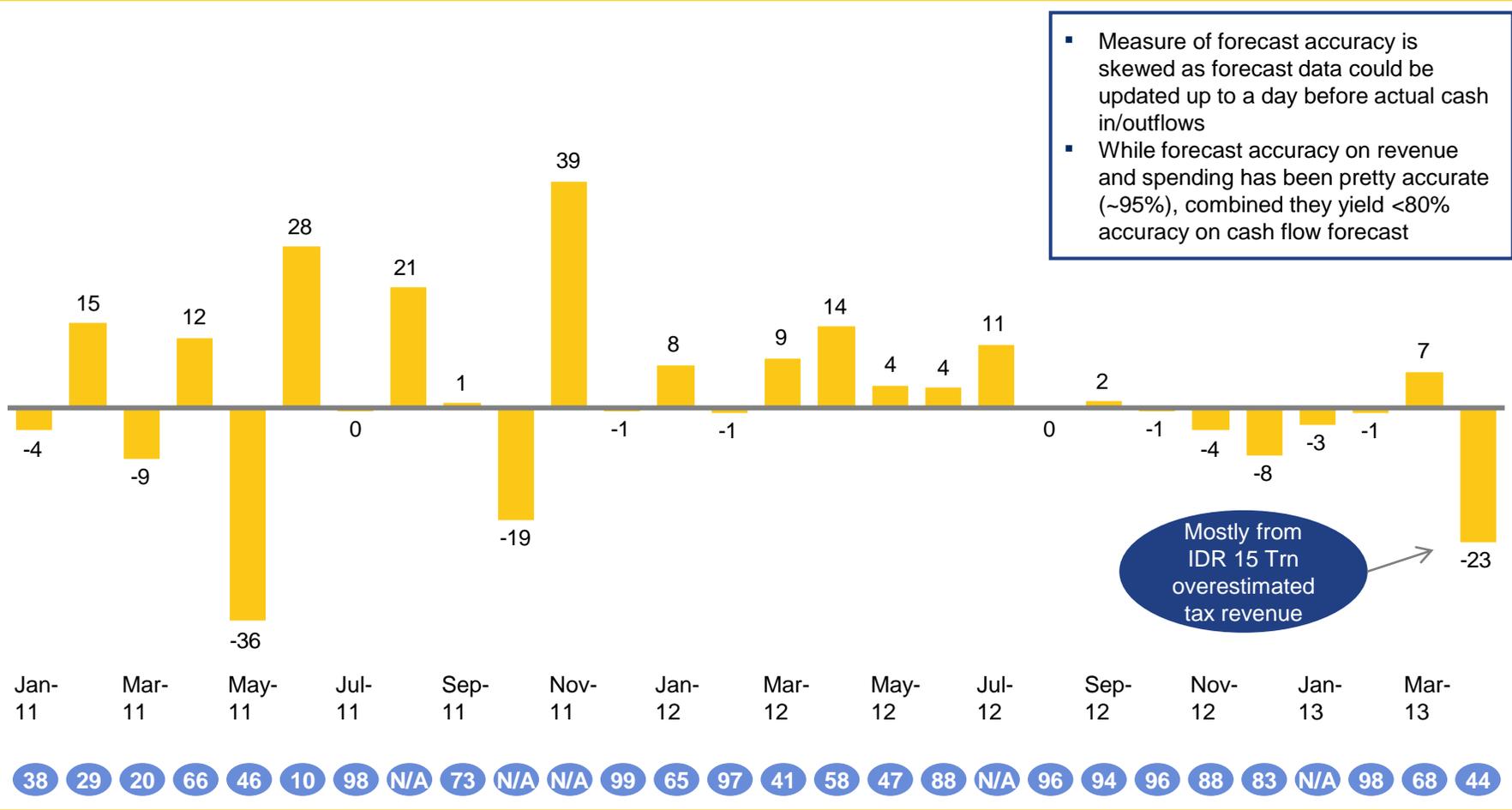
CONFIDENTIAL

# Inaccurate estimates show wide deviations from actual cash flows

IDR trillion

 % accuracy

Realization of cash inflow over estimate<sup>1</sup>, Jan 2011 to April 2013

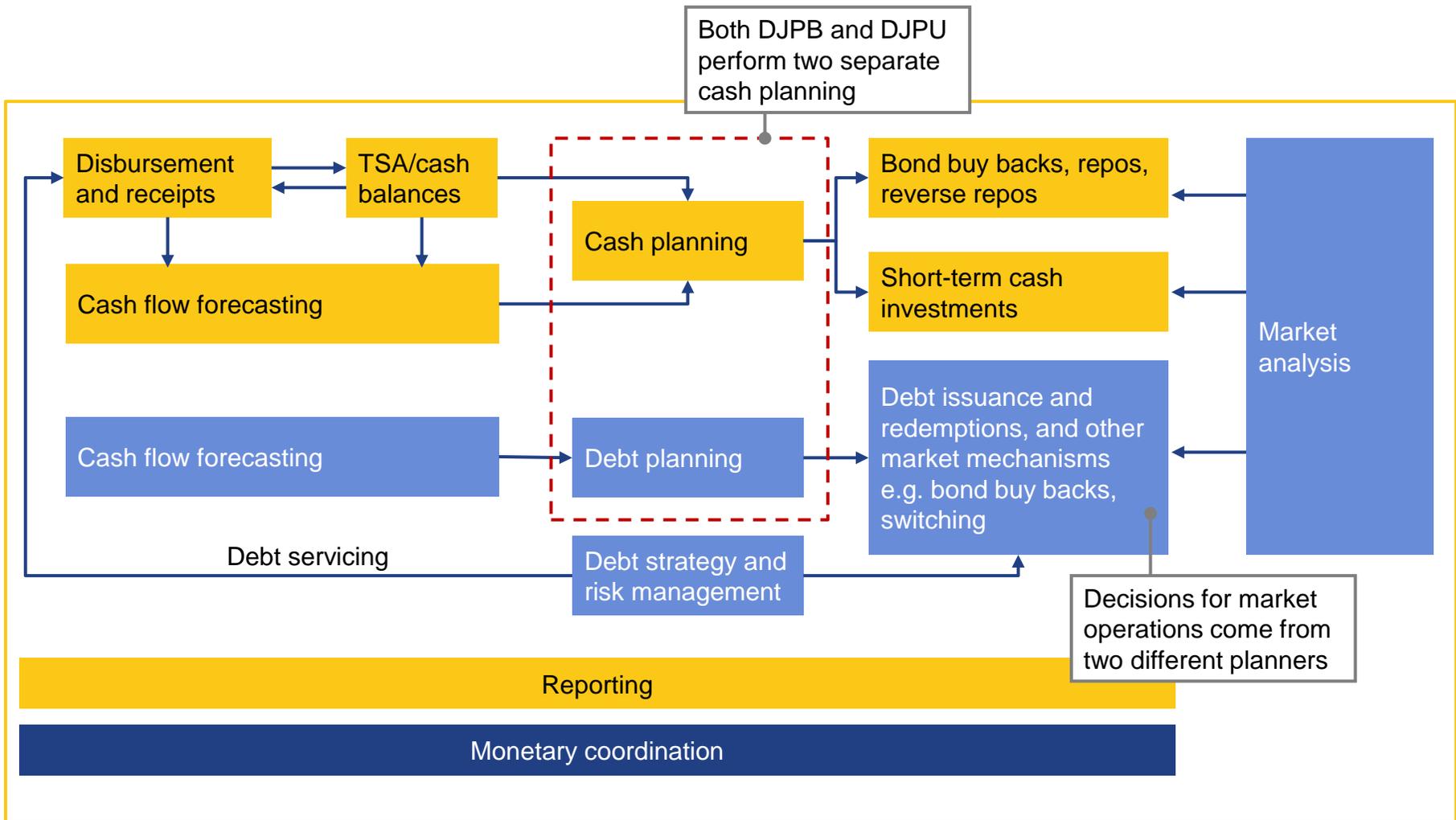


- Measure of forecast accuracy is skewed as forecast data could be updated up to a day before actual cash in/outflows
- While forecast accuracy on revenue and spending has been pretty accurate (~95%), combined they yield <80% accuracy on cash flow forecast

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

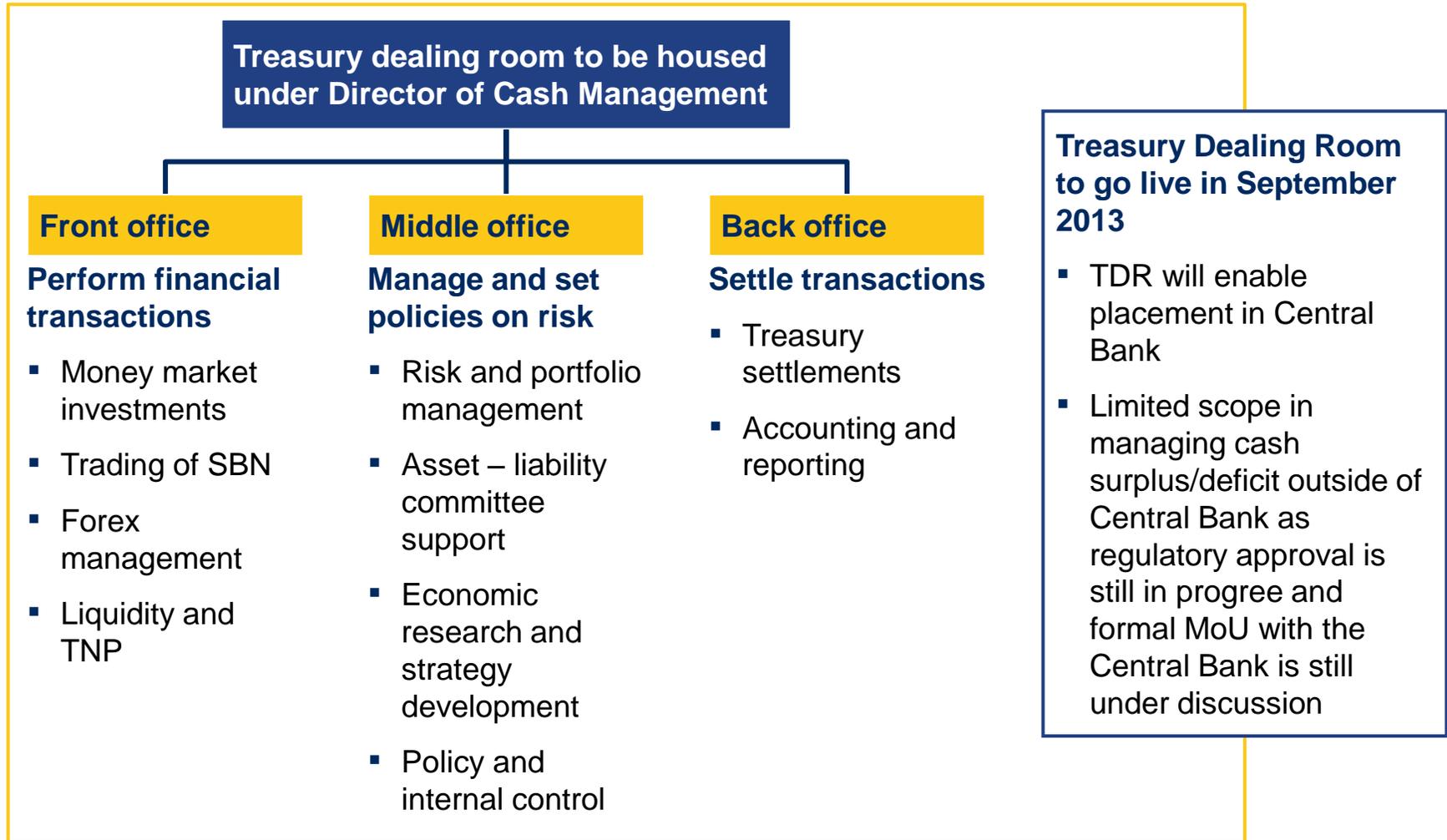
## II Currently there are duplicative processes by DJPU and DJPB leading to suboptimal cash planning



## II While there are many mechanisms that have been approved to deal with idle cash, cash remains idle at the Central Bank

	<b>Mechanisms available</b>	<b>Status</b>
<b>Management of excess cash</b>	<ul style="list-style-type: none"><li>▪ Placement in Central Bank</li><li>▪ Placement in commercial banks (Demand Deposit, Overnight, Deposit on Call, Time Deposit)</li><li>▪ Purchase of SBN from secondary market</li><li>▪ Reverse repo</li></ul>	<ul style="list-style-type: none"><li>▪ Practiced</li><li>▪ Practiced for select illiquid accounts</li><li>▪ Not practiced</li><li>▪ Not practiced</li></ul>
<b>Management of cash shortage</b>	<ul style="list-style-type: none"><li>▪ Withdrawal from Central Bank</li><li>▪ Withdrawal from commercial banks</li><li>▪ Sale of SBN at secondary market</li><li>▪ SBN repo</li><li>▪ RPN issuance at primary market</li></ul>	<ul style="list-style-type: none"><li>▪ Not practiced</li><li>▪ Not practiced</li><li>▪ Not practiced</li><li>▪ Not practiced</li><li>▪ Not practiced</li></ul>

## Plans for a TDR are being put in place which would give Indonesia trading capabilities possessed in other front offices

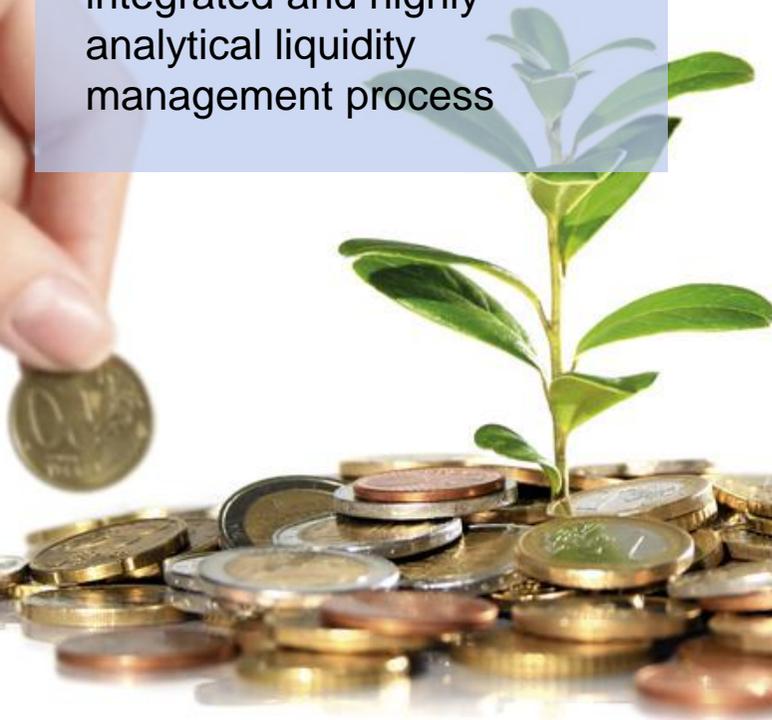


## II Liquidity management end state vision

By 2025, Indonesia's cash balance will be enough serve government obligations while minimizing 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



## II Improvements in core processes resulting from key initiatives

Initiatives	Current State	End state business processes
1 Improve end-to-end liquidity management processes	<ul style="list-style-type: none"> <li>Limited linkage between debt issuance and cash balances with two parallel cash planning; different forecast data submitted to CPIN meetings and ALM meetings</li> <li>Newly-established ALM committee with monthly meeting to link debt issuance and cash planning</li> </ul>	<ul style="list-style-type: none"> <li>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</li> <li>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)</li> </ul>
2 Assess TDR capabilities and ensure prudence in its operations	<ul style="list-style-type: none"> <li>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</li> </ul>	<ul style="list-style-type: none"> <li>Prudent active investment of cash coordinated with the Central Bank and through a single face to the market</li> </ul>
3 Expand TSA coverage	<ul style="list-style-type: none"> <li>TSA does not cover certain less liquid and illiquid accounts (e.g. BLU, petty cash, oil &amp; gas, SAL accounts)</li> </ul>	<ul style="list-style-type: none"> <li>Mechanisms to potentially tap money in accounts currently not integrated to the TSA</li> </ul>
4 Guide cash planning with clearly defined reserve balance targets	<ul style="list-style-type: none"> <li>RKUN reserve balance target is set at IDR 2 Trillion to optimize cash holding while ensuring liquidity for disbursements, with no overall cash target</li> </ul>	<ul style="list-style-type: none"> <li>A new reserve balance target at RKUN and overall level to guide cash planning including debt issuance</li> </ul>
5 Improve spending forecasting from satkers	<ul style="list-style-type: none"> <li>Poor cash forecasting for spending needs due to low compliance from satkers to send spending forecasts, low accuracy of forecasts, and ad hoc spending</li> </ul>	<ul style="list-style-type: none"> <li>100% compliance from major satkers in sending high-quality spending forecasts, and more predictable major disbursement needs from advanced commitment information</li> </ul>
6 Tighten liquidity management coordination with the Central Bank	<ul style="list-style-type: none"> <li>Coordination with Central Bank on an ad-hoc basis</li> </ul>	<ul style="list-style-type: none"> <li>Clear set of Central Bank interactions and formalized information sharing processes</li> </ul>
7 Expand foreign exchange management strategy and guidelines for liquidity management	<ul style="list-style-type: none"> <li>Limited forex strategy and usage of forex hedging instrument; DJPB's TDR will enable forex trading</li> </ul>	<ul style="list-style-type: none"> <li>Clear set of foreign exchange mechanisms allowed and forex strategy</li> </ul>

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# 4 Improve end-to-end liquidity management processes

**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

**Enablers for success**

- Commitment from MOF-wide leaders to support CPIN and ALM meetings
- Development of IT platform for data sharing
- Compliance to follow scheduled coordination mechanisms
- Dedicated high-quality analytical team
- Coordination with BI on issuance of SPN and other liquidity processes

**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

## 4 Improve end-to-end liquidity management processes – changes in operational model

### Current State

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- 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)

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- 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

# 4 Improve end-to-end liquidity management processes – workplan

Actions	2013				2014				2015				2016				2017				2018				2019							
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4				
<b>Improve HR capability at Dir. PKN and at contributors of CPIN</b>					[Gantt bar spanning Q1 2014 to Q4 2016]																											
<b>Improve CPIN</b>																																
▪ Develop a policy to outline new CPIN process and list CPIN members					[Gantt bar spanning Q3 2014 to Q2 2015]																											
▪ Develop SOP link to outline processes in great detail as well as other compliance mechanisms					[Gantt bar spanning Q3 2014 to Q2 2015]																											
▪ 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					[Gantt bar spanning Q3 2014 to Q2 2015]																											
▪ Propose extra budget for more frequent CPIN meetings					[Gantt bar spanning Q4 2014 to Q1 2015]																											
<b>Improve flexibility in issuing short term T-bills/SPN to smooth cash planning</b>																																
▪ Propose change to business process to allow 30-day T-bills					[Gantt bar spanning Q1 2015 to Q3 2015]																											
▪ Socialization to primary dealers and Central Bank									[Gantt bar spanning Q3 2017 to Q4 2018]																							
<b>Detail out ALM process</b>																																
▪ Develop a policy outlining structure of ALM committee as well as agenda and frequency meetings in greater detail					[Gantt bar spanning Q3 2014 to Q2 2015]																											
▪ Develop an ALM meeting agenda including what kind of inputs and decisions needed, and clear separation between items discussed during CPIN and ALM					[Gantt bar spanning Q3 2014 to Q2 2015]																											
<b>Develop daily coordination between CMO-DMO-BI</b>																																
▪ Develop policy and SOP to outline daily cash call to be hosted by CMO and attended by DMO and BI					[Gantt bar spanning Q3 2014 to Q2 2015]																											
<b>Develop IT-enabled CPIN data sharing</b>																																
▪ Grant access to different stakeholders to CPIN					[Gantt bar spanning Q1 2015 to Q2 2015]																											
▪ Display IT ALM data on CPIN interface					[Gantt bar spanning Q3 2015 to Q4 2015]																											
▪ Develop mechanism to track, measure and report data accuracy submitted by member to E1s					[Gantt bar spanning Q1 2015 to Q2 2015]																											
<b>Integrate CPIN/IT ALM into SPAN</b>																																
▪ Develop additional module in SPAN that houses historical transactions, CPIN-submitted forecast, IT ALM modeled forecast data					[Gantt bar spanning Q3 2016 to Q4 2019]																											

## 4 Improve end-to-end liquidity management processes – potential regulatory and legal risk

### Risks

- Difficulties in onboarding BI to daily cash call
- Short term T-bills might affect monetary condition
- Detailed mechanisms of using 30-day T-bills to smooth out cash balances are not yet outlined in policy

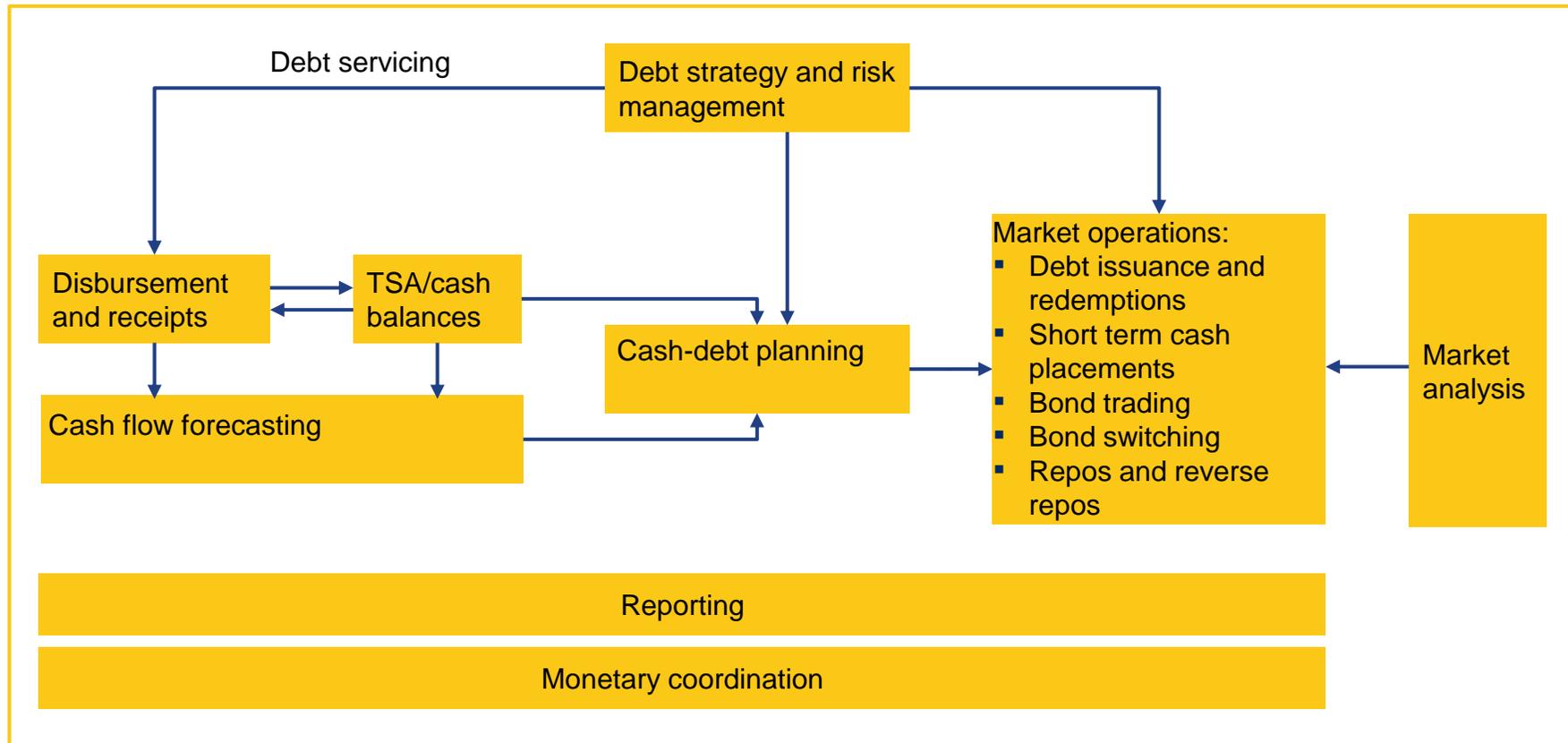
### Mitigation

- Staged approach to BI and development of MOF-BI MOU that outlines different coordination mechanisms for liquidity and risk management purposes
- Coordination with BI
- Propose policy to guide operations

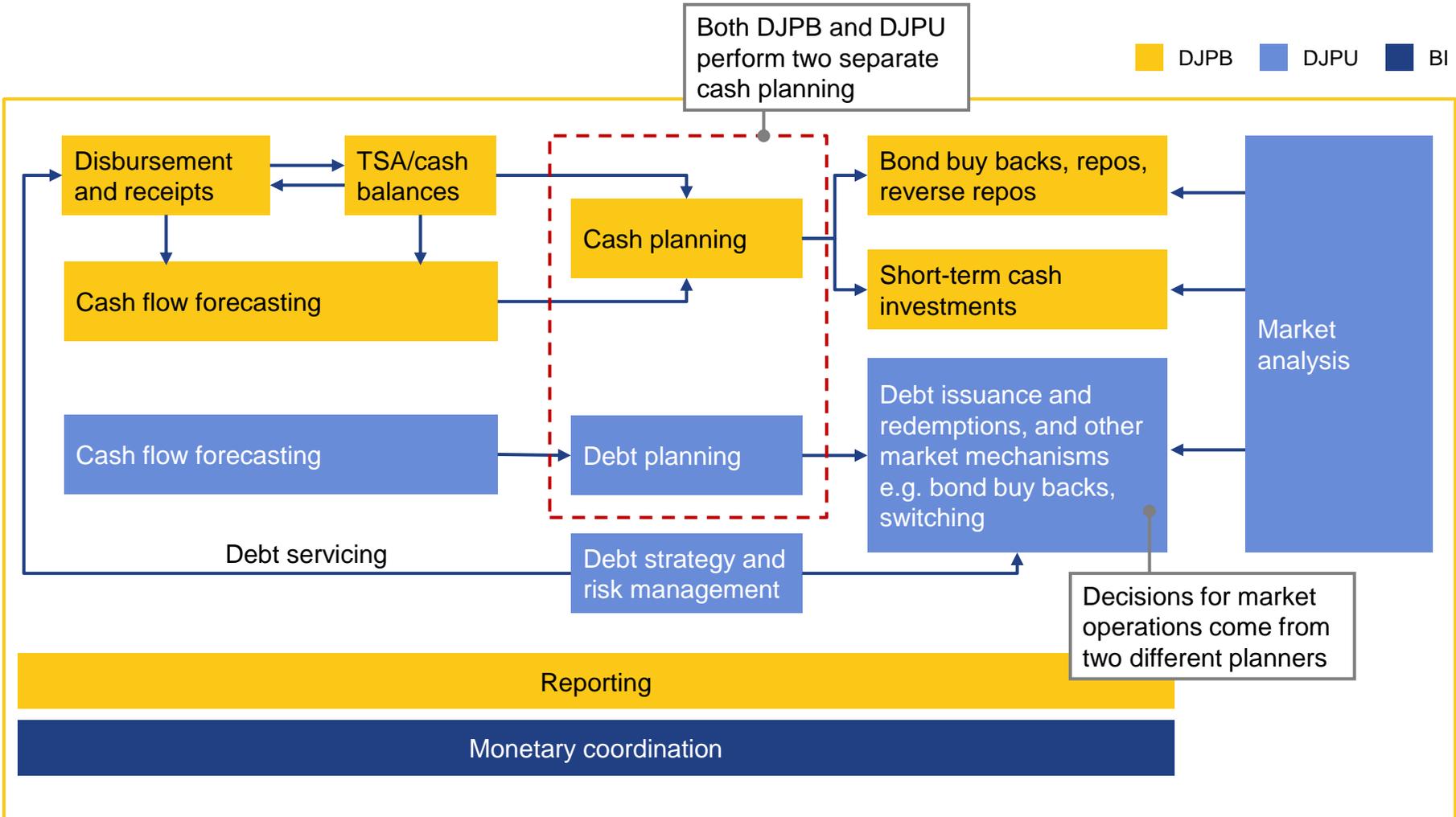
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## II 4 Best practice liquidity management requires robust cash planning that gets inputs on cash operations, and leads on operations mechanisms to deal with cash shortages and excesses



# II 4 Currently there are duplicative processes by DJPU and DJPB leading to suboptimal cash planning



## II 4 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

## II 4 Four main actions to facilitate end-to-end liquidity management

### Improved CPIN



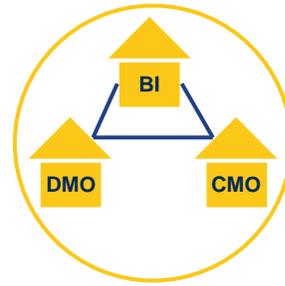
- CPIN will be held bi-weekly to guide debt issuance and short-term cash investments
- CPIN will be fixed as part of member's job description and linked to their KPIs to ensure commitment and enhance data quality

### More detailed ALM process



- ALM will be held quarterly and will make major decisions on debt/cash strategies and risk mitigation actions
- A clearer ALM process will be defined further in a policy and an institutionalized ALM might be formed to strengthen process

### Daily CMO-DMO-BI coordination



- Daily cash call will be outlined in SOP to facilitate information sharing between CMO and DMO
- BI will be part of the call to assist monetary operations

### IT enabled CPIN data sharing



- An IT platform will be developed to share CPIN and other cash forecasts data with all related parties including BI
- In the long run, both CPIN and IT ALM will be integrated with SPAN

## II 4 We propose the following coordination mechanisms to coordinate cash-debt planning



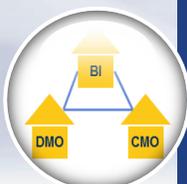
### More detailed ALM process

Frequency	Coordination mechanism	Objectives / key decisions
Annual	<ul style="list-style-type: none"> <li>Annual strategic ALM meeting</li> </ul>	<ul style="list-style-type: none"> <li>Review on target cash balance</li> <li>Annual debt strategy</li> <li>Annual investment strategy</li> <li>Review on long term policy</li> </ul>
Quarterly	<ul style="list-style-type: none"> <li>ALM Committee meeting</li> </ul>	<ul style="list-style-type: none"> <li>Quarterly debt strategy and limits</li> <li>Quarterly investment strategy</li> </ul>
Monthly	<ul style="list-style-type: none"> <li>ALM Secretariat meeting</li> </ul>	<ul style="list-style-type: none"> <li>Materials for ALM committee; for meeting and/or for distribution (if no meeting that month)</li> <li>Discussion on cash outlook for the rest of the year</li> <li>Decision to call contingent ALM meeting</li> </ul>
	<ul style="list-style-type: none"> <li>Contingent ALM committee meeting</li> </ul>	<ul style="list-style-type: none"> <li>Risk mitigation / contingency planning decisions, incl. withholding funds</li> <li>Proposal to budget changes</li> </ul>



### Improved CPIN

Bi-weekly	<ul style="list-style-type: none"> <li>CPIN meeting</li> </ul>	<ul style="list-style-type: none"> <li>Cash position outlook, focusing on the next 2 weeks and one month</li> </ul>
Daily/continuous	<ul style="list-style-type: none"> <li>IT-enabled CPIN data sharing</li> </ul>	<ul style="list-style-type: none"> <li>Cash position outlook for the rest of the year</li> </ul>



### CMO-DMO-BI coordination

Bi-weekly	<ul style="list-style-type: none"> <li>CMO-DMO-BI meeting prior to indicative debt issuance announcement</li> </ul>	<ul style="list-style-type: none"> <li>Indicative amount and type of debt to be announced</li> <li>Investments for the next two weeks and one month</li> <li>Monetary coordination with BI</li> </ul>
Daily/continuous	<ul style="list-style-type: none"> <li>Cash-debt data sharing and daily call of cash position and daily cash flow forecast</li> </ul>	<ul style="list-style-type: none"> <li>Daily monitoring and change in debt/investment strategy as needed</li> </ul>

## II 4 Closer cash-debt coordination needed to guide biweekly debt and later on investment decisions

	Mon	Tues	Wed	Thurs	Fri
Week 1	CPIN meeting  ALM Committee meeting	CMO-DMO-BI meeting	<div style="border: 1px solid black; padding: 5px;">                     CMO-DMO-BI meeting guides cash planning incl. debt issuance and investment for the next one month                 </div>	Debt issuance indicative announcement	
	<div style="border: 1px solid black; padding: 5px;">                     CPIN meetings held bi-weekly preceeding CMO-DMO-BI meetings                 </div>	Debt auction		<i>Revises previously planned debt issuance as necessary</i>  <i>Decides on issuance for the next two weeks</i>	
Week 2	CPIN meeting	CMO-DMO-BI meeting		Debt issuance indicative announcement	
		Debt auction		ALM Secretariat meeting	

# II 4 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

Cash flow forecast for the next quarter



- 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

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# 5 Assess TDR capabilities and ensure prudence in its operations

**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

## Enablers for success

- Coordination with the Central Bank
- Highly capable personnel

## 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

## Key outcomes

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

## Impact and KPIs

NA

## 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

## 5 Assess TDR capabilities and ensure prudence in its operations – changes in operational model

### Current State

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- 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)

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- 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

# 5 Assess TDR capabilities and ensure prudence in its operations – workplan

Actions	2013				2014			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<b>Ensure prudence in placement outside of the Central Bank</b>								
<ul style="list-style-type: none"> <li>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)</li> </ul>				[Progress bar spanning Q4 2013 to Q2 2014]				
<ul style="list-style-type: none"> <li>Coordinate with central bank the maximum volume of placement and type of placement allowed</li> </ul>				[Progress bar spanning Q4 2013 to Q2 2014]				
<ul style="list-style-type: none"> <li>Formalize planned date for TDR to start placement in commercial banks</li> </ul>				[Progress bar spanning Q4 2013 to Q2 2014]				
<b>Assess overall TDR capabilities and stage instruments that can be used</b>				[Progress bar spanning Q4 2013 to Q2 2014]				

## 5 Assess TDR capabilities and ensure prudence in its operations – potential regulatory and legal risk

### Risks

- There is a PMK that already outlines TDR capabilities that includes SBN trading, repo/reverse repo

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- Potential BPK audit due to costs involved in building TDR capacity that might not be utilized

### Mitigation

- Proposal to amend PMK as necessary
  
- Transition equipment to DJPU TDR and for other uses

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## II 5 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

## II 5 Currently, MOF keeps excess cash in the Central Bank earning 65% of prevailing BI Rates

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

#### Back-ground

- 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.

## II 5 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)

### Peraturan Pemerintah NO.39 TAHUN 2007 pengelolaan uang negara/daerah

- International and Domestic Borrowing
- Sale of Sovereign Bond and Treasury Bill
- Government money placement in Central Bank or Commercial Bank
- Buy Back of Treasury Bill

### Peraturan Menteri Keuangan No.03/PMK.05/2010 tentang Pengelolaan Kelebihan/ Kekurangan Kas

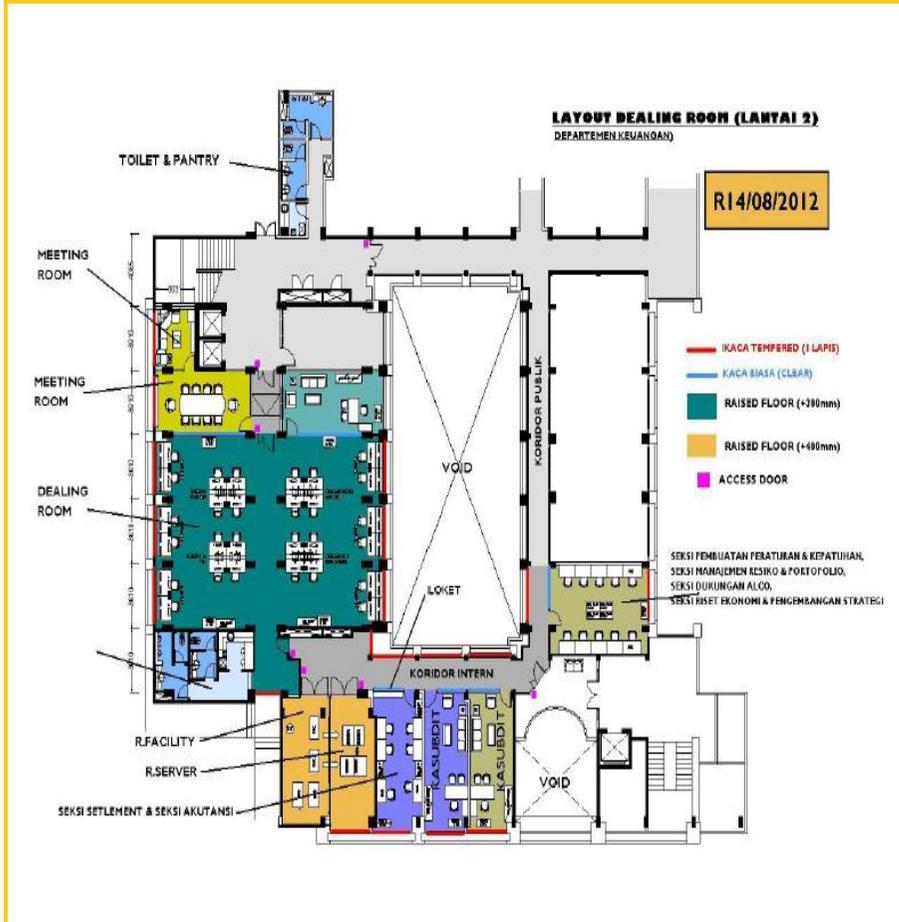
- Article 4 governs options for idle cash management:
  - Placement in Central Bank RKUN
  - Placement in Commercial Bank
  - Purchase of SBN from secondary market
  - Reverse Repo
- Article 15 governs options for insufficient cash management
  - Withdrawal from Central Bank
  - Withdrawal from Commercial Bank
  - Sale of SBN
  - Repo
  - Issuance of SPN in primary market

### Foreign Exchange

- Cash management
- Sell/Buy : Spot, Forward & Swap

## II 5 DJPB is building the capabilities for a TDR

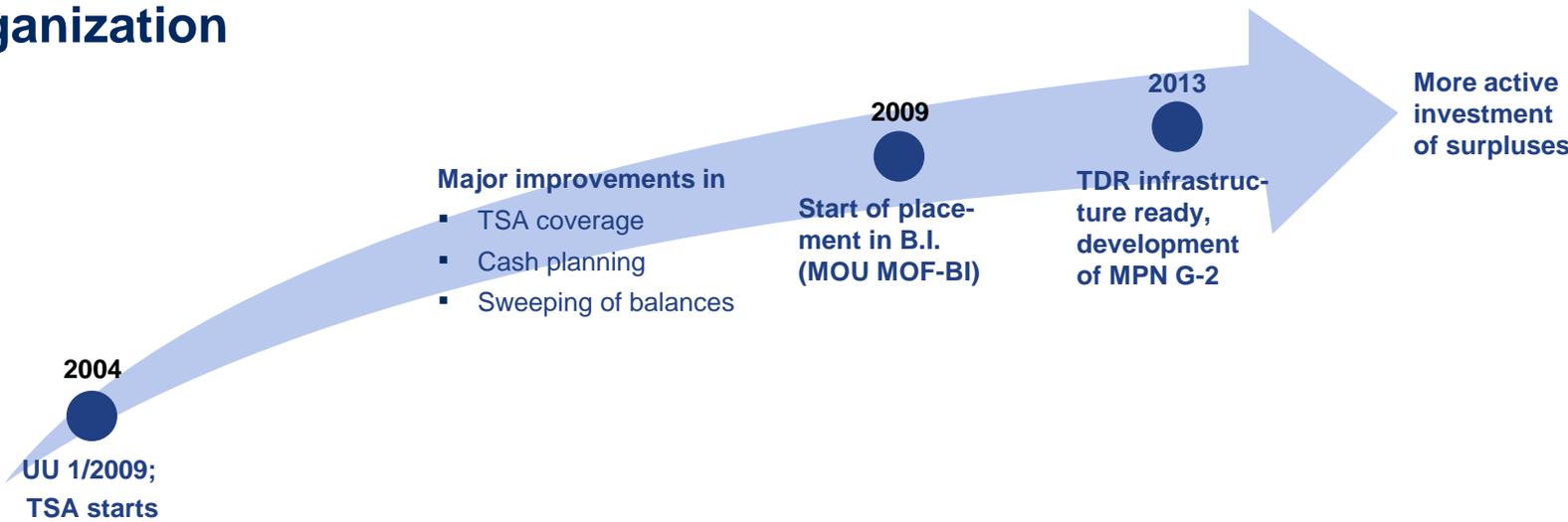
### TDR's Infrastructure Layout



- 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

# 5 Having a TDR to perform investments is in line with Treasury's transformation in cash management in becoming a best-practice organization

MOF  
Indonesia's  
journey



Sequencing of  
cash manage-  
ment reforms

### Addressing fundamentals

- Regulatory framework
- Governance
- Operational TSA
- Less physical cash
- Government accounting
- Less cash advances

### Preparing cash plans and developing cash management skills

- Short-term cash flow projections
- Information-sharing arrangements
- Cash planning

### Going beyond prerequisites and basic cash planning

- Limited "lumpiness"/ seasonality in cash flow
- Minimum cash balances
- Remuneration of idle balances
- Expansion of TSA coverage
- Cash-debt management coordination
- Clear relationship with the central bank
- Efficient payment systems
- Formalized relationship with commercial banks

### Introducing active cash management

- Active investment of surpluses in financial markets
- Banking sweeping arrangements
- Security of short term placements
- Refined projections
- Strengthen coordination

# II 5 There are various mechanisms through which countries invest their surplus cash, with varying degree of risks

■ Lowest ■ Highest

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

## II 5 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 Mai 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

## II 5 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**

## II 5 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**

## II 5 MOF will have two faces in the market leading to inefficiency and conflicting signals

### Challenges with Current Situation

**1 The TDRs might trade with each other**  
The two TDRs might bid against market instrument issued by the other party, entirely failing the issuance purpose

**2 Uncoordinated pricing**  
Different pricing to DJPU's bond operations might be arbitrated by a third party

**3 Send conflicting signal to market**  
Opposing operations done by DJPU and DJPB could confuse the market

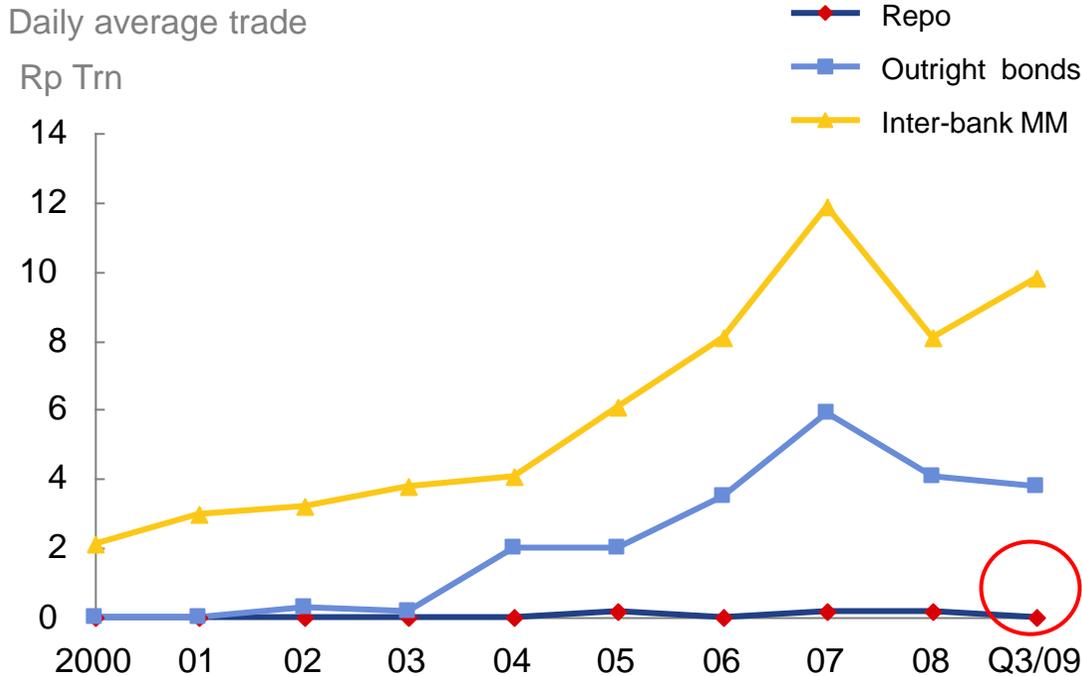
*"I am horrified to know that Indonesia is planning to set up another TDR as it will result in three market interfaces which will complicate everything"*

**– 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**

## II 5 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



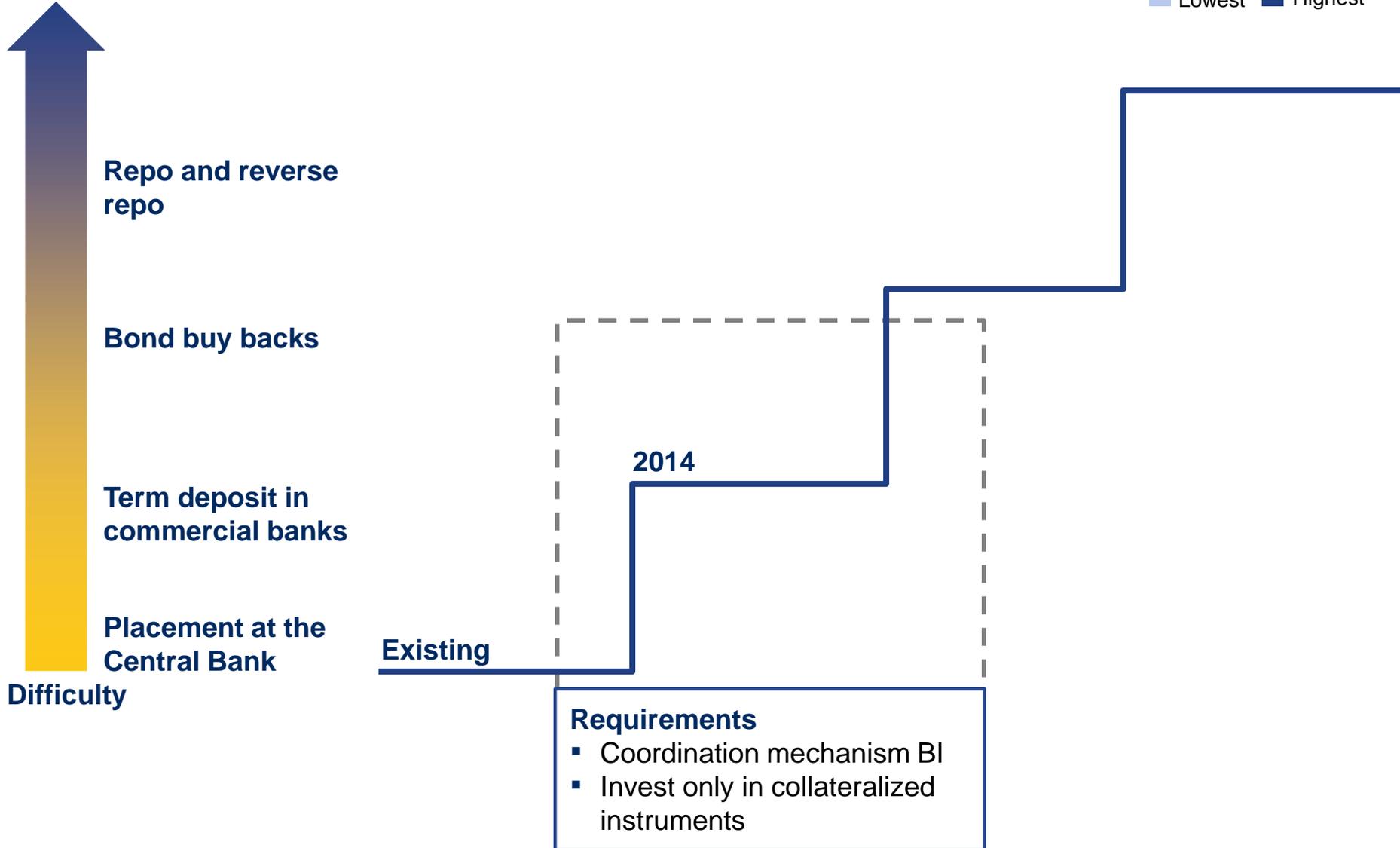
MoF is in talks with OJK, the Indonesian regulator, on the regulator's ongoing review and proposed revision of the Master Repo agreement

### 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)

# II 5 TDR should start with placement in commercial banks; two strict conditions need to be fulfilled before this capability is enabled

Lowest Highest



## II 5 If MOF were to enable placement in commercial banks in January 2014, some coordination issues need to be resolved quickly

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



## II 5 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**

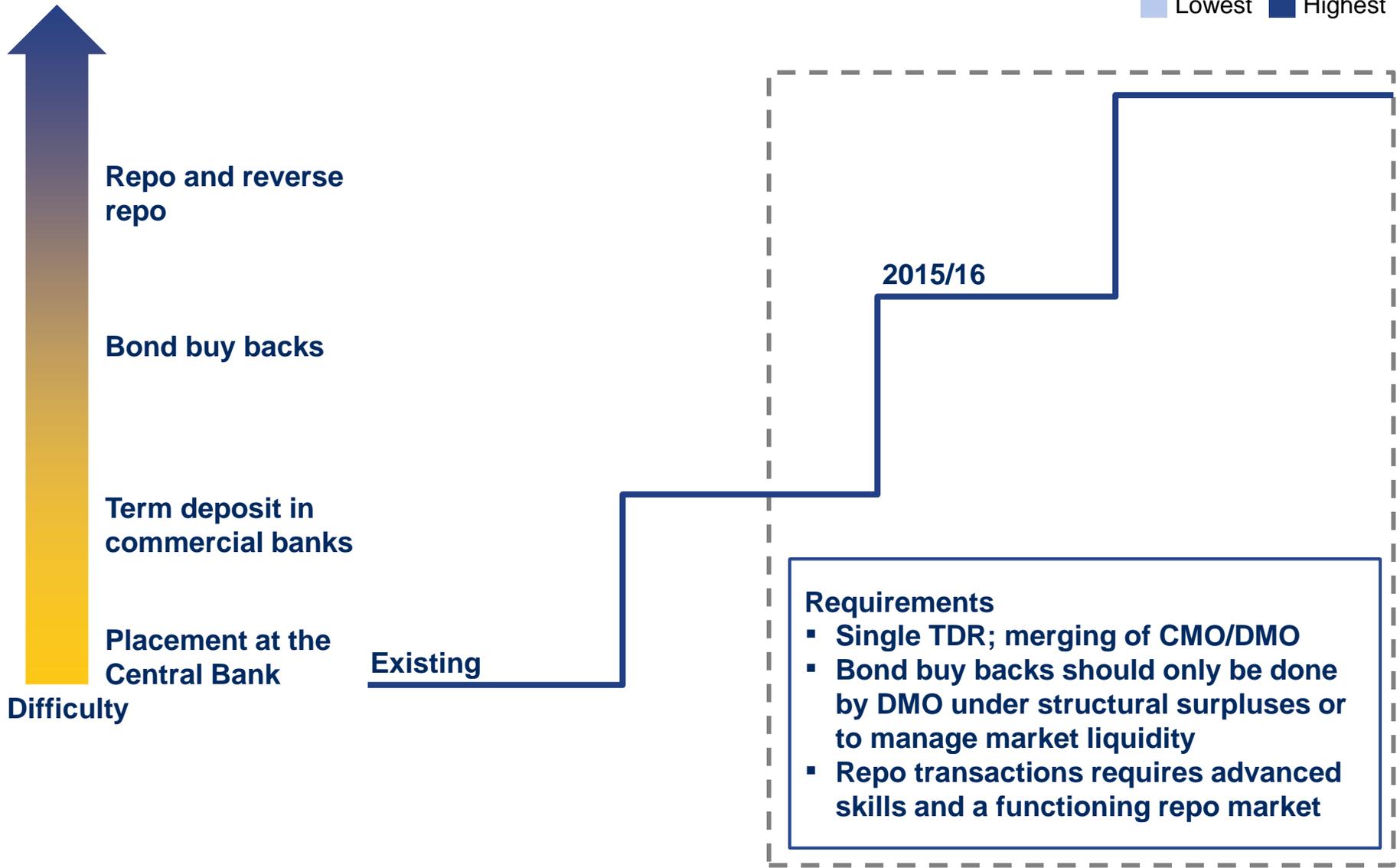
### Australia has ceased to invest in unsecured term deposits due to its high risks

- 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



# II 5 Before using any more sophisticated investment mechanisms, MOF has to merge its two TDRs to ensure a single face to the market

■ Lowest ■ Highest



# II 5 Bond buy backs should only be done in case of structural cash surpluses or to promote market liquidity

Not advised

## Role of bond buy backs in debt and cash management

### Reduce cash surplus

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

### Promote market liquidity

- 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

### Smooth cash balances

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

## It is not advisable to use bond buybacks as a tool to smoothen cash balances

- *“Bond buy back is irreversible and it should only be done in time of structural cash excesses. However this could be very damaging – **unhelpful in development of market**”* – Bond market expert
- Cash management buybacks also have two unique disadvantages:
  - The need to replace, at some later date, the notes bought back would increase month-to-month **variation in note issuance**
  - The Treasury would **suffer economic loss** if replacement notes are sold at yields higher than the yields on the notes bought back
- *“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. **This distorts the working of the market. Repo is the much preferred option**”* – Bond market expert

## II 5 MOF needs to build capabilities needed to perform repos and reverse repos

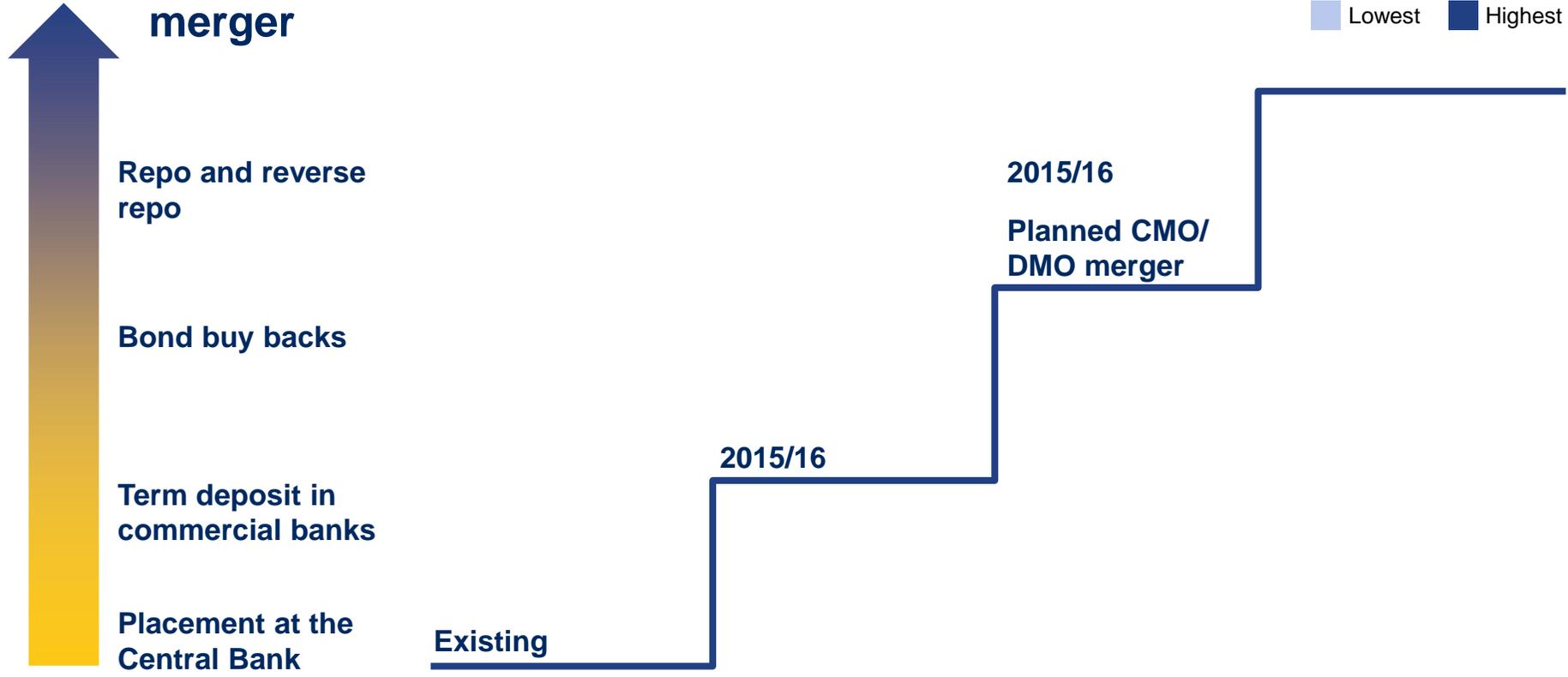
### Prerequisites for repos and reverse repos

- Competent, skillful staff
- Settlement system
- Banking sector counterpart
- Legislative framework
- Liquid enough market to handle collateral
- Liquid repo market (helpful but not necessary)



**II 5 Investments need to be prudent, and development of TDR capabilities needs to take into consideration planned CMO/DMO merger**

Lowest Highest



- 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

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## 6 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

### Background

- RKUN reserve balance target is set at IDR 2 Trillion to optimize cash holding while ensuring liquidity for disbursements, with no overall cash target

### Enablers for success

- Analytical skills to model total cash needed on hand

### Changes in operational models

- 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

### Summary of proposed actions

- 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

### Key outcomes

2014:

- New targets set

### 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

## 6 Guide cash planning with clearly defined reserve balance targets – changes in operational model

### Current State

---

- RKUN reserve balance target is set at IDR 2 Trillion to optimize cash holding while ensuring liquidity for disbursements, with no overall cash target

### End state business processes (2025)

---

- 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

## 6 Guide cash planning with clearly defined reserve balance targets – workplan

Actions	2014			
	Q1	Q2	Q3	Q4
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				

## 6 Guide cash planning with clearly defined reserve balance targets – potential regulatory and legal risk

### Risks

- Current policies set reserve target at IDR 2 Trillion for cash in IDR and USD 1 Million for foreign currency

### Mitigation

- Proposal to amend set targets and define a total target

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# 7 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 AFS<sup>1</sup>
- 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

## 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

## Impact and KPIs

### 2014 :

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

## 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

<sup>1</sup> AFS stands for Aplikasi Forecasting Satker (Satker Forecasting Application)

## 7 Improve spending forecasting from satkers – changes in operational model

### Current State

- All satkers required to send forecast data via AFS
- Low compliance from satkers to send spending forecast
- Low accuracy of forecast data sent
- Many ad hoc spending
- Satkers input data separately to AFS and to SPM application

### End state business processes (2025)

- Only major satkers required to send forecast data via an improved AFS
- 100% compliance from major satkers in sending high-quality spending forecasts
- 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

1 AFS stands for Aplikasi Forecasting Satker (Satker Forecasting Application)

# 7 Improve spending forecasting from satkers – workplan

Actions	2014				2015				2016			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
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							■	■	■	■	■	■

1 AFS stands for Aplikasi Forecasting Satker (Satker Forecasting Application)

## 7 Improve spending forecasting from satkers – potential regulatory and legal risk

### Risks

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- NA

### Mitigation

---

- NA

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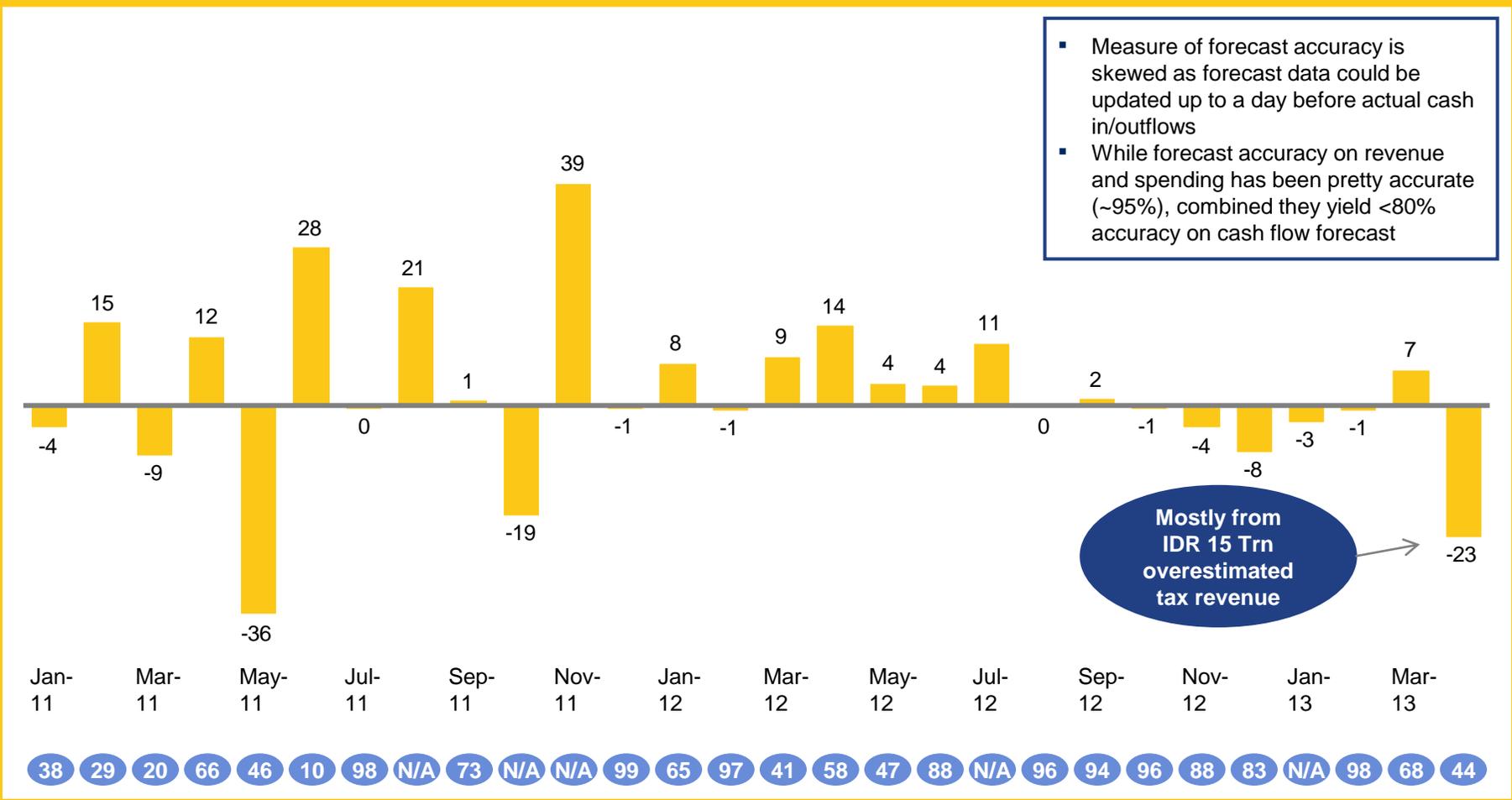
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# 7 Inaccurate estimates show wide deviations from actual cash flows

IDR trillion

● % accuracy

Realization of cash inflow over estimate<sup>1</sup>, Jan 2011 to April 2013



<sup>1</sup> Calculated as realization minus estimate of (revenue + net financing - spending)

<sup>2</sup> 2012 shows a larger deviation from 2011 due to different methodology of measuring accuracy

# II 7 Potential practices that can be implemented in spending forecasting



US EXAMPLE

	Description of practice	Potential implementation in Indonesia
Large Dollar Notification (LDN)	<ul style="list-style-type: none"> <li>Agencies must submit all deposits or disbursements of \$50m or more                             <ul style="list-style-type: none"> <li>Min. 2 business days in advance for transactions between \$50 and \$500m</li> <li>Min. 5 business days in advance for transactions above \$500m</li> </ul> </li> <li>LDN can be submitted via web (Cashtrack), email, fax, or by phone</li> <li>LDN scorecard was developed to measure LDN reporting accuracy                             <ul style="list-style-type: none"> <li>Red, yellow, green statuses given to agency based on their accuracy and</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>Satkers are obligated to submit all spending above Rp. XXX                             <ul style="list-style-type: none"> <li>Number of days: xxx</li> </ul> </li> <li>Could current AFS be improved to be more user-friendly and intuitive? Should more channels be used for satkers to submit forecast data?</li> <li>Can we implement a similar scorecard to ensure compliance?</li> </ul>
Reporting requirements for certain agencies	<ul style="list-style-type: none"> <li>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</li> <li>The need for such reporting generally is determined by the magnitude of dollar amounts and the volatility of timing                             <ul style="list-style-type: none"> <li>Treasury will work with both agency budget and financial office personnel to set up reporting schedules and forms</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>Which satkers / BUN entities could be obligated to submit more detailed forecast?</li> </ul>

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# 8 Tighten liquidity management coordination with the Central Bank

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

## Background

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

## Enablers for success

- Successful MOU established with the Central Bank

## Changes in operational models

- Daily cash call between CMO-DMO-BI
- Data sharing of forecasts between CMO and BI including sharing of CPIN data

## Summary of proposed actions

- Develop MOU with BI to include them on daily cash calls and facilitate data sharing
- Coordination with BI terms and maximum volume of placement in commercial bank by TDR
- Develop coordination mechanism with BI on forex trades
- Sharing of CPIN data with BI
- Sharing of daily cash forecast data with BI

## Key outcomes

2014:

- MOU with BI on coordination mechanisms
- Enablement of placement in commercial bank without disrupting monetary policy
- Enablement of forex trades by MOF without disrupting BI's overall forex holding strategy and monetary policy
- Sharing of CPIN and cash forecast data
- Sharing of market liquidity data by BI

## 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

## 8 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

# 8 Tighten liquidity management coordination with the Central Bank – workplan

Actions	2013				2014			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Develop MOU with BI to include them on daily cash calls and facilitate data sharing				■	■			
Coordination with BI terms and maximum volume of placement in commercial bank by TDR				■	■			
Develop coordination mechanism with BI on forex trades					■	■	■	■
Enable sharing of CPIN data with BI					■	■	■	
Start sharing daily cash forecast data with BI				■	■			

## 8 Tighten liquidity management coordination with the Central Bank – potential regulatory and legal risk

### Risks

---

- Difficulty in establishing MOU with BI due to other pending issues

### Mitigation

---

- Approach to Central Bank by higher management, and isolate coordination issues into one MOU if necessary

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## II 8 There are a few pending items that needs coordination with the central bank

### Issue

### Potential resolution

- |  |  |
|--|--|
| <ul style="list-style-type: none"><li>▪ BI needs to be aware of Treasury's <b>planned cash in/outflows</b> for monetary operations</li></ul>   | <ul style="list-style-type: none"><li>▪ MOF to <b>share forecast data incl. CPIN data</b> electronically with BI</li><li>▪ BI to sit in on <b>daily CMO-DMO cash call</b></li><li>▪ BI to sit in on <b>biweekly CMO-DMO meeting</b> prior to debt issuance</li></ul>   |
| <ul style="list-style-type: none"><li>▪ MOF <b>cash holdings</b> at the Central Bank is earning less than market rate, driving Treasury to explore options to invest in the banking sector</li></ul> | <ul style="list-style-type: none"><li>▪ <b>Potential re-negotiation to change remuneration</b> over MOF cash holding at BI vs. charges paid by MOF for services and other terms</li></ul>  |
| <ul style="list-style-type: none"><li>▪ BI and MOF needs to coordinate on amount of and type of <b>placement of excess cash outside of BI done by TDR</b></li></ul>                                  | <ul style="list-style-type: none"><li>▪ BI and MOF to co-develop <b>cost-benefit analysis</b> to justify investments in commercial banks</li><li>▪ BI and MOF to agree on <b>terms, limits and thresholds</b> of MOF's investment in commercial banks</li><li>▪ MOF to <b>share data</b> on planned placements with BI</li></ul> |
| <ul style="list-style-type: none"><li>▪ MOF sees BI offering unfavorable <b>forex rates and limited mechanism</b> to trade from one foreign currency to another</li></ul>                            | <ul style="list-style-type: none"><li>▪ BI and MOF to <b>revisit terms of forex trades</b> by MOF and agree on a solution that has net positive benefit for the state</li></ul>  |

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# 9 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

## Enablers for success

- Analytical skills to model total cash needed on hand
- Supporting banking system
- Supporting regulations

## 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

## 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

## 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

## 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

## 9 Expand TSA coverage – changes in operational model

### Current State

---

- TSA does not cover certain less liquid and illiquid accounts (e.g. BLU, petty cash, oil & gas, SAL accounts)

### End state business processes (2025)

---

- A wider TSA covering accounts currently not included, allowing for a lower overall cash balance

# 9 Expand TSA coverage – workplan

Actions	2015				2016				2017			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
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					████████████████████							

## 9 Expand TSA coverage – potential regulatory and legal risk

### Risks

---

- Legally prohibitive for tapping into some illiquid / less liquid accounts

### Mitigation

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- Analysis to include ease of implementation vs. potential impact (size of cash balance)
- Potential to propose change in regulations

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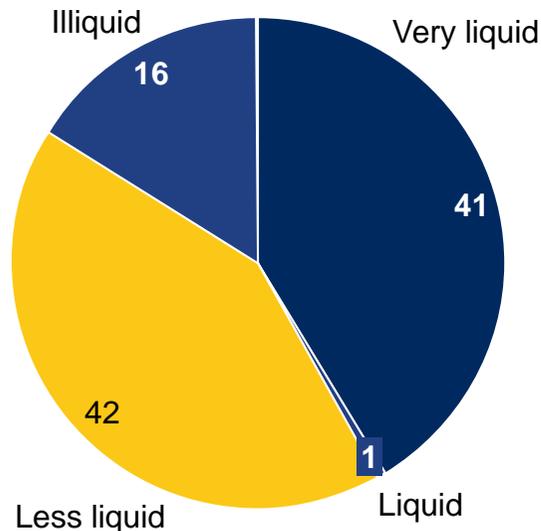
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- Debt market development

## II 9 Only 41% of Indonesia's cash is in the TSA resulting in higher overall balances

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

Percentage

100%= IDR 211 trn



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

## II 9 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**

## II 9 Including public corporations in the TSA is not advisable, unless they perform a government function

**Including public corporations in the TSA is not advisable**

- 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 they perform government functions, they should be included in the TSA**

- 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**

## II 9 International good practice to include as many government-controlled trust funds and EBFs<sup>1</sup> 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

<sup>1</sup> Extra budgetary funds

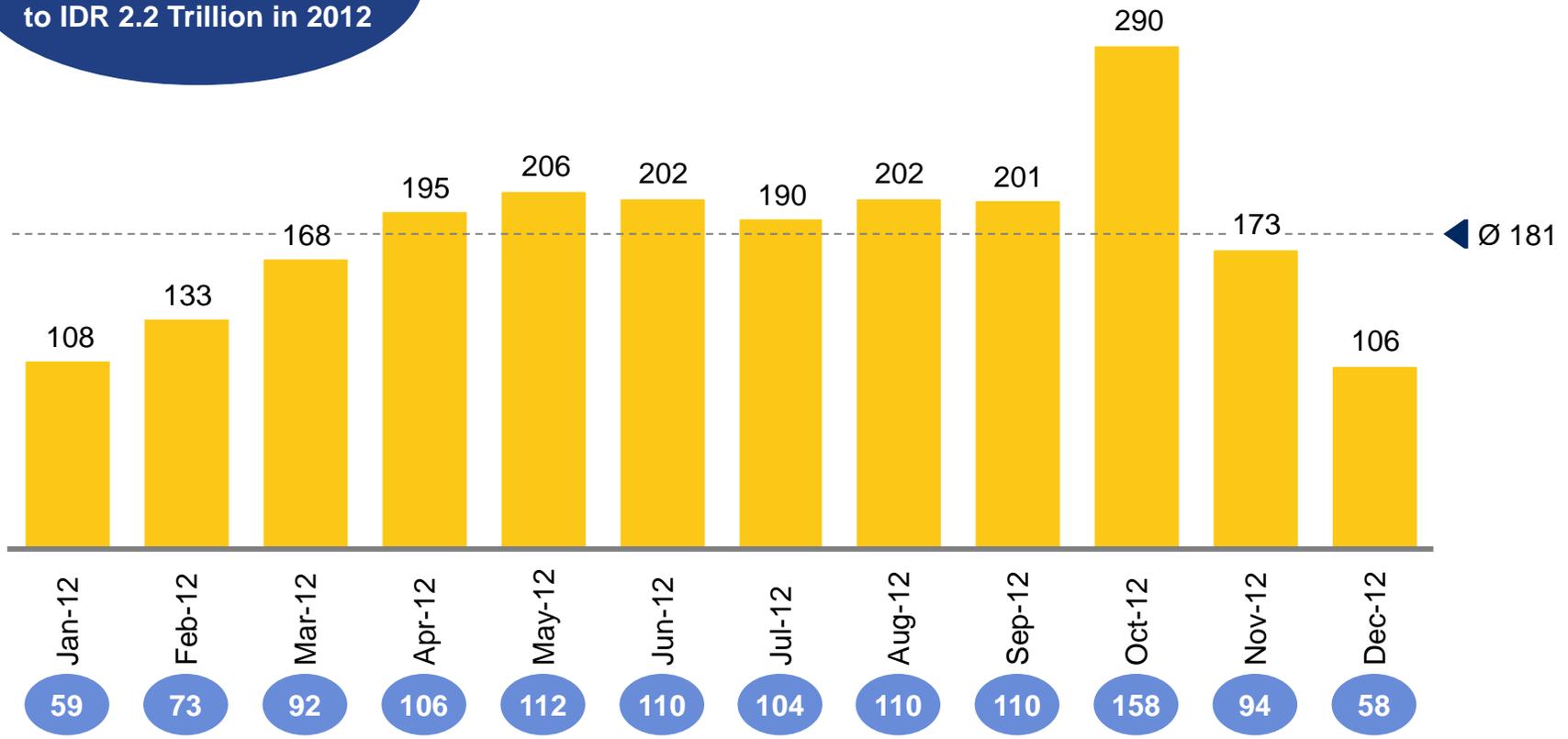
# 9 A substantial amount of savings could have been realized by tapping select accounts that are currently not consolidated with TSA

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

SIMPLIFIED

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

End-of-month balance in SAL, oil&gas and BLU accounts in IDR Trillion

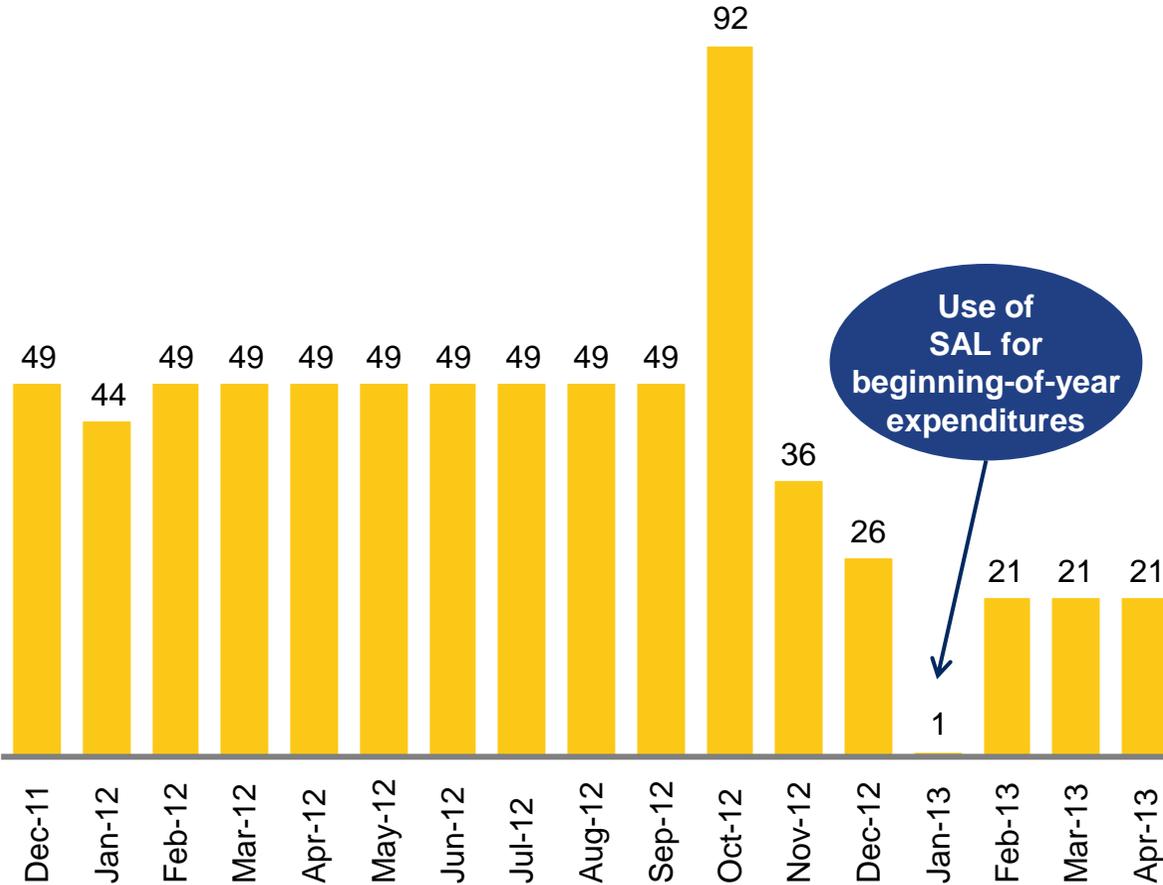


1 Assuming 2.2% negative float between cost of debt and BI remuneration on placement account

## II 9 MOF can borrow more aggressively from SAL to lower cash balances in government accounts

### End of month cash balances in SAL account

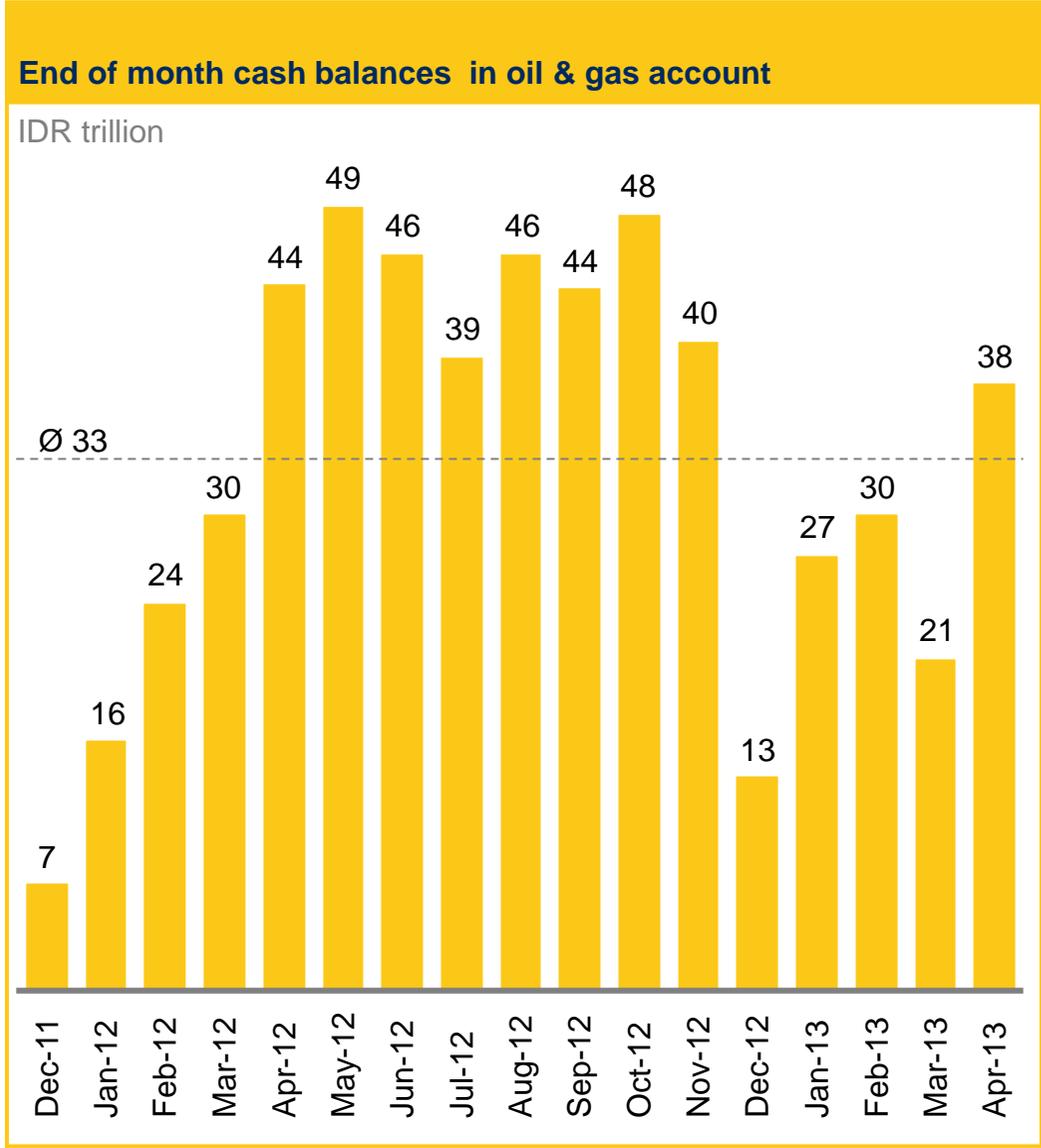
IDR trillion



### 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

# 9 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**

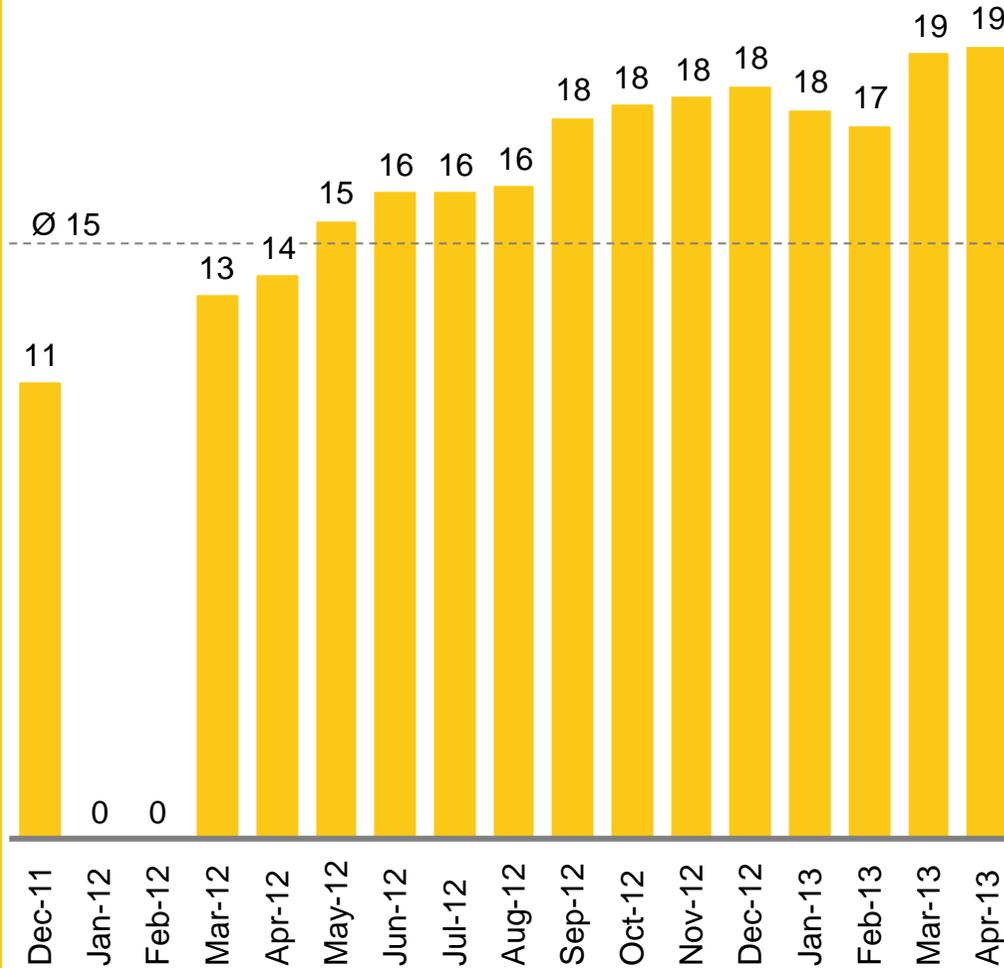
Opportunity to use "transit" money

- Accounting on payments done separately
- Regular reconciliation

## II 9 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

IDR trillion



### 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
    - PNPB 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 / PNPB authorization mechanism

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  - 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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    - Charter and implementation plan
    - Supporting analysis
- Debt market development

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# 10 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

## Enablers for success

- Forex strategy and guidelines agreed by ALM committee
- Coordination with the Central Bank

## 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

## Key outcomes

- 2015:
- Forex strategy and guidelines published

## 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

## 10 Establish short term foreign exchange management strategy and guidelines for liquidity management – changes in operational model

### Current State

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- Limited forex strategy & 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

### End state business processes (2025)

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- 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

# 10 Establish short term foreign exchange management strategy and guidelines for liquidity management – workplan

Actions	2014				2015			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
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	■							

## 10 Establish short term foreign exchange management strategy and guidelines for liquidity management – potential regulatory and legal risk

### Risks

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- BI might not be able to change its mechanisms in offering favorable rates to MOF

### Mitigation

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- Understanding root cause of current exchange mechanism
- Propose solution to achieve overall benefits to the state

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## II 10 Several instruments can be used to manage foreign currency exposure – however other inherent risks remain

		Description
Synthetic refinancing via Derivatives	Cross currency Swaps (CCY-Swaps)	<ul style="list-style-type: none"><li>▪ Agreement to exchange EUR/USD amounts</li><li>▪ Amounts are exchanged initially and at maturity of the contract</li><li>▪ CCY-Swaps are OTC derivatives</li></ul>
	Options	<ul style="list-style-type: none"><li>▪ Right to buy or sell a certain amount of USD at a certain future time for a certain price</li><li>▪ Options are traded both on exchanges and OTC</li></ul>
	Forwards/Futures	<ul style="list-style-type: none"><li>▪ Agreement to buy or sell a certain amount of USD at a certain future time for a certain price</li><li>▪ Forwards are OTC derivatives while futures are standardized and exchange traded</li></ul>
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

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## — **Context and introduction**

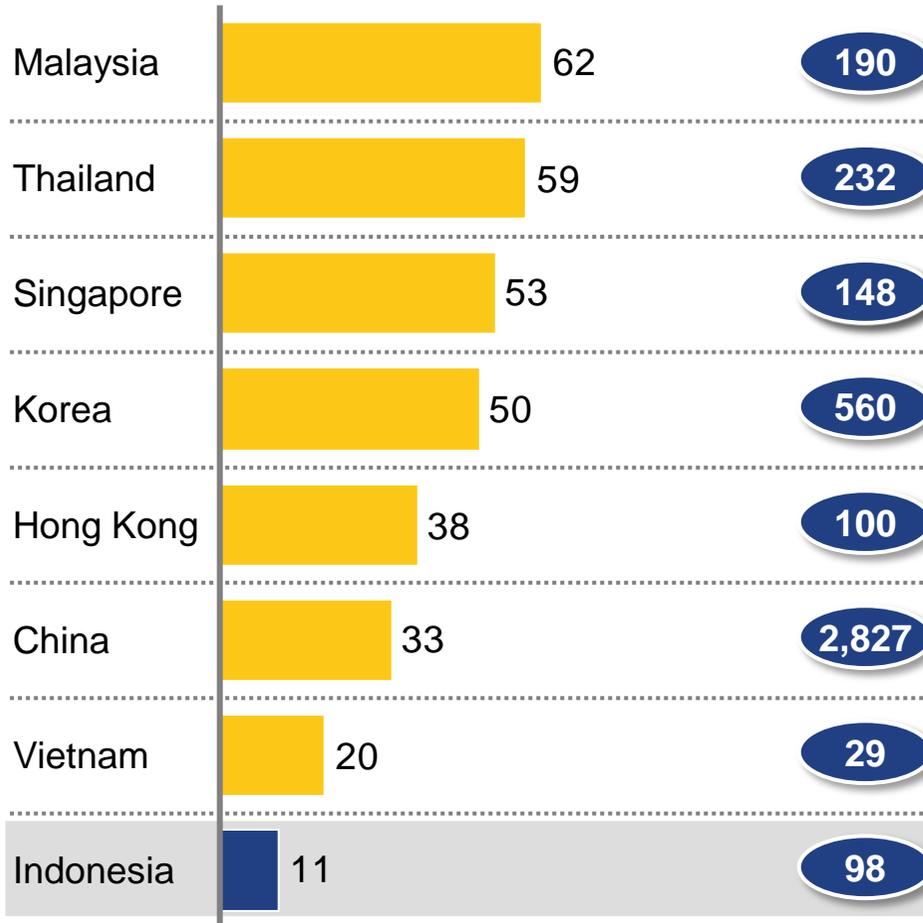
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# III The Indonesian domestic tradable bond market is under-developed and illiquid relative to other Asian countries

XX Market size, USD bn

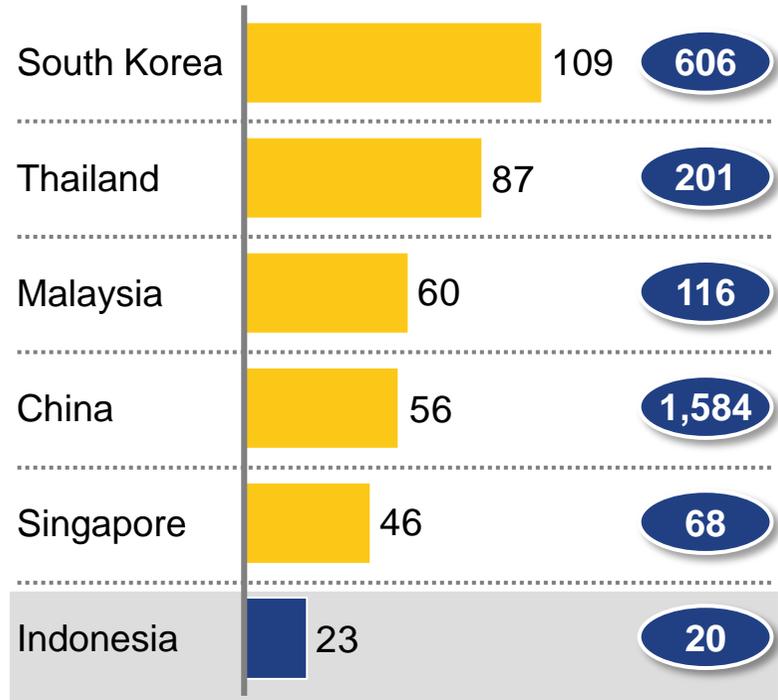
## The market size of Indonesian domestic tradable bonds at ~11% of GDP is low relative to Asian peers

% of GDP, Mar 2013



## However trading volumes are still low relative to Asian peers

% of outstanding bonds, Mar 2013



# III Government securities market development end-state vision



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

Initiatives	Current State	End State Business Processes
<b>1</b> Focus debt into a few large benchmark series	<ul style="list-style-type: none"> <li>Over 40 different outstanding series driven by annual issuance of new series across multiple tenors; minimum size per series</li> <li>Limited buy back or exchanges of old benchmark instruments</li> </ul>	<ul style="list-style-type: none"> <li>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)</li> <li>Introduce a systematic buy-back and exchange program to build up liquidity in benchmark series</li> </ul>
<b>2</b> Implement an electronic trading platform	<ul style="list-style-type: none"> <li>The Indonesian bond market currently employs a manual OTC system for bond trading             <ul style="list-style-type: none"> <li>Need to call all PDs to get price quote</li> <li>Currently quotes are announced through an Amstel machine with a time lag of 3-4 hours</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>Upgrade market infrastructure (i.e. electronic trading platform) to boost liquidity             <ul style="list-style-type: none"> <li>“Issuer to dealer” platform or “inter-dealer” platform for enhancing dealer related activity</li> <li>“Straight through processing” platform for increasing direct investor activity</li> </ul> </li> </ul>
<b>3</b> Target desired investors using proactive investor relations	<ul style="list-style-type: none"> <li>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</li> <li>Current process is to engage with a broad base of investors through             <ul style="list-style-type: none"> <li>Road shows timed around issuances</li> <li>Separate investor relations tab on DJPU website</li> <li>Investor conference every November</li> <li>Quarterly calls</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>Actively target specific segments ensuring diversified, stable and targeted investor base</li> <li>Engage in a range of IR activities to reach a targeted base of investors through             <ul style="list-style-type: none"> <li>Road shows independent of issuances</li> <li>Targeted IR website</li> <li>Conference calls</li> <li>Detailed investor report for leadership with investor breakdown</li> </ul> </li> </ul>
<b>4</b> Support OJK in developing the repo market	<ul style="list-style-type: none"> <li>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</li> </ul>	<ul style="list-style-type: none"> <li>Bolster the repo market by obtaining OJK support to revise the key terms of the Master Repo agreement</li> </ul>
<b>5</b> Continuously improve primary dealer system	<ul style="list-style-type: none"> <li>Does not pay commission to primary dealers</li> <li>Current process unable to systematically evaluate and drop non-performing primary dealers</li> </ul>	<ul style="list-style-type: none"> <li>Foster development of a strong set of Primary Dealers (PD) by developing specific obligations (e.g. detailed business plans) and introducing rigorous performance evaluation</li> <li>Create a clear incentive system to encourage PDs to sell new bonds and make markets in secondary markets</li> </ul>
<b>6</b> Stimulate domestic investment	<ul style="list-style-type: none"> <li>Small insurance / asset management industry size</li> <li>Limited participation in government securities</li> </ul>	<ul style="list-style-type: none"> <li>With OJK support, make key changes to regulation governing private investment industry size and investment allocations</li> <li>Government investment agencies/vehicles actively involved in government securities investing and trading</li> </ul>
<b>7</b> Continuously improve bond stabilization framework	<ul style="list-style-type: none"> <li>Identified actions to take in case of a market crisis</li> </ul>	<ul style="list-style-type: none"> <li>Clear set of actions from different parties</li> <li>Potential to explore creating a bond stabilization fund</li> </ul>

# III Key initiatives to achieve target end state

Areas	Initiatives
<b>1 Domestic benchmark securities</b>	<b>Focus debt into a few large benchmark series</b> <ul style="list-style-type: none"><li>▪ Ensure adherence to a calendar of issuance and focus liquidity on a limited set of large benchmark issues</li><li>▪ Reduce introduction of new series</li><li>▪ 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</li></ul>
<b>2 Electronic trading platform</b>	<b>Implement an electronic trading platform</b> <ul style="list-style-type: none"><li>▪ Introduce an electronic trading platform to provide investors more price transparency and spur liquidity</li></ul>
<b>3 Investor Relations (IR)</b>	<b>Target desired investors using proactive investor relations</b> <ul style="list-style-type: none"><li>▪ Create a dedicated investor relations team in the MOF</li><li>▪ Identify target investor base</li><li>▪ 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.</li></ul>
<b>4 Repo market</b>	<b>Support OJK in developing the repo market</b> <ul style="list-style-type: none"><li>▪ Understand reasons for low repo usage</li><li>▪ Strengthen the repo framework, in particular the legal framework; settlement and collateral system, “haircuts” and margin calls; and improve transparency</li><li>▪ Clarify tax status of repos</li></ul>
<b>5 Primary dealer system</b>	<b>Continuously improve primary dealer system</b> <ul style="list-style-type: none"><li>▪ Enhance the PD framework to include clear and rigorous obligations and compelling privileges</li><li>▪ Create process to systematically evaluate and drop non-performing primary dealers</li><li>▪ Create channels to communicate with primary dealers</li></ul>
<b>6 Domestic participation from key investors</b>	<b>Stimulate domestic investment in government securities</b> <ul style="list-style-type: none"><li>▪ Encourage regulators of government investment vehicles to support investment in government securities</li><li>▪ Determine mechanism for regional government investments</li><li>▪ Work with regulators of private investment funds to overcome barriers to investment in government securities</li></ul>
<b>7 Bond stabilization framework</b>	<b>Continuously improve bond stabilization framework</b> <ul style="list-style-type: none"><li>▪ Review current framework and conduct annual simulations</li><li>▪ Explore creating a bond stabilization fund</li></ul>

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# 11 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

## 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

## 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

## Key outcomes

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

## 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

## Governance structure

Initiative champion	DG unit
DG of Debt Management	DJPU
Initiative owner	DG unit
Director of Government Securities	DJPU
Team	DG unit
PPSUN – Dit. SUN	DJPU
PSUNEK - Dit. SUN	DJPU

# 11 Introduction of an electronic trading platform – changes in operational model

## Current State

- **Lack of transparency** on quotes (e.g. bid-ask spreads, firm vs. indicative) across dealers
- **Limited data and visibility** on trade information (i.e. counter-parties, executed pricing, firmness of quotes etc)
- OTC trades are executed largely **between primary dealers**
- Investors **do not have direct access** to the government bond markets

## Target state

- **Real time price transparency** leading to higher trade volumes per investor
- 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
- 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

# 11 Introduction of an electronic trading platform – workplan

Actions	2014						2015					
	Jan	Mar	May	Jul	Sep	Nov	Jan	Mar	May	Jul	Sep	Nov
<b>Finalize e-trading platform</b>												
▪ 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., Jakarta stock exchange)						████████████████						
▪ Finalize ETP platform												
<b>Revised SOPs &amp; internal regulations</b>												
▪ Revise PD obligations and incentives for transactions routed through ETP							██					
▪ Revise trading and reporting SOPs							██					
▪ Review internal regulations for trading and ensure these are compliant with ETP							██					
<b>Get OJK approval for e-trading platform</b>							██					
<b>Train MOF and PD personnel in system</b>							██					
<b>Formally launch ETP</b>												████████

# 11 Introduction of an electronic trading platform – potential regulatory and legal risk

## Risks

**A** OJK may not approve ETP

**B** PDs may not be open to ETP

## Mitigation

- Regular consultations with OJK on ETP design
- Change regulations to ensure ETP will be used
- Conduct regular consultations with PDs on use of ETP

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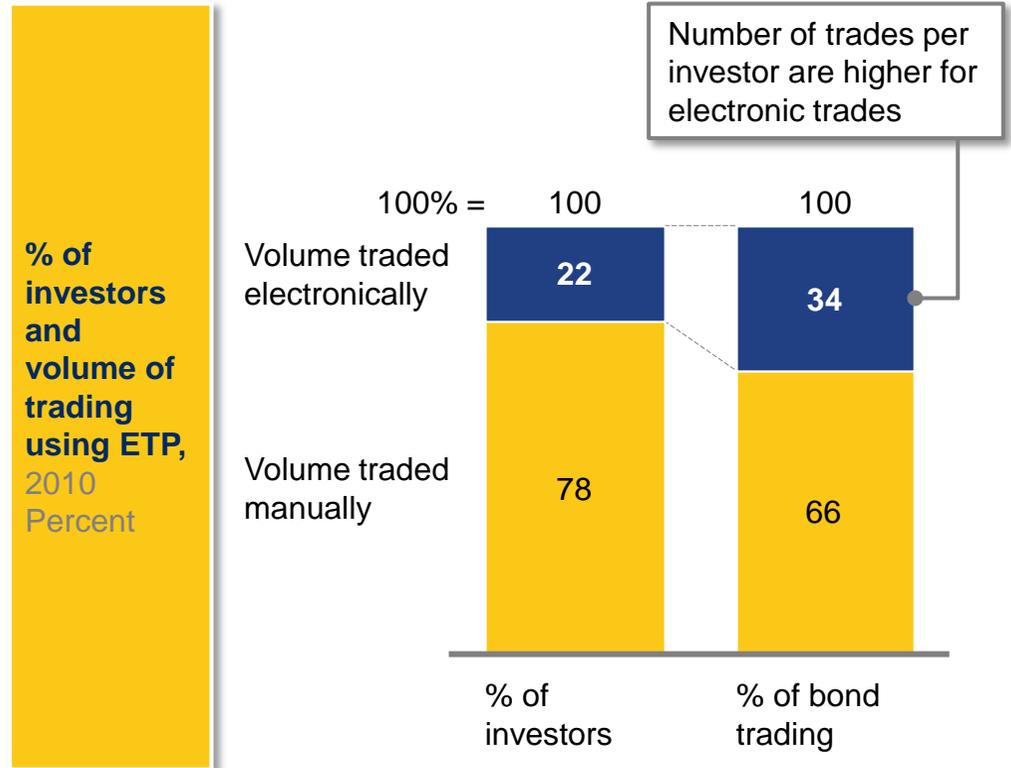
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- Liquidity management
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  - Initiative 17: Increase domestic demand for government securities by working with relevant regulatory agencies

# 11 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

# 11 Malaysia introduced an electronic trading platform in 2008 based on a collaboration with the Korean Exchange (“KRX”)

## Malaysia case example: Electronic Trading Platform



### Back-ground

- 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

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# 12 Launch a new primary dealer system

## 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

## Enablers for success

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

## 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

## 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

## Key outcomes

- June 2014 – Complete benchmark study of PD practice
- Dec 2016 – New PD framework implemented

## Impact and KPIs

- N/A

## Governance structure

Initiative champion	DG unit
DG of Debt Management	DJPU
Initiative owner	DG unit
Director of Government Securities	DJPU
Team	DG unit
PPSUN – Dit. SUN	DJPU
PSUNEK - Dit. SUN	DJPU
AKPSUN - Dit. SUN	DJPU

# 12 Launch a new primary dealer system – changes in operational model

## Current State

- **No systematic approach** for determining the number of PDs; currently there are 19 PDs

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- **Homogenous system** of PDs (i.e. all dealers have the same responsibilities) with **limited criteria for PD selection**

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- **Limited PD obligations** with only 2% target volumes defined for primary and secondary markets

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- **No explicit incentives** for PDs apart from privileged access to market and DMO information
- A **Securities Lending Facility (SLF) is being considered** in the new PD framework to be launched in Q3/Q4 2013

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- **No systematic approach for evaluating PD performance**; this is being revised in the new PD framework

## Target state

- **Number of PDs is systematically determined** based on parameters such as debt characteristic (i.e. issuance size, instruments etc) and PDs capabilities (i.e. customer reach, financial strength, product expertise)

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- **Partially tiered PD classification system** based on review of PDs unique capabilities with **minimum set of obligations and specific obligations/ incentives for certain PDs**

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- **Specific obligations**
  - **Primary market** (e.g. diversify distribution, successful bids target)
  - **Secondary market** (e.g. quality of firm quotes, market turnover across maturities)
  - **Advisory** (e.g. secondary market activity, investor feedback)

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- **Attractive incentives potentially including financial incentives**
  - **Primary market** (e.g. access to Non-competitive subscription, extra time to place bids, league tables)
  - **Secondary market** (e.g. SLF, right to strip bonds, access to exclusive borrowing line from central bank)

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- **Systematic evaluation framework** comprising a mix of **quantitative** (e.g. market share, successful bids, quote transparency) and **qualitative** (e.g. advice, investor satisfaction) performance criteria



## 12 Launch a new primary dealer system – potential regulatory and legal risk

### Risks

**A** PDs not fully aligned with changes

**B** Proposed privileges and obligations may not be effective in promoting desired PD behavior

### Mitigation

- Ensure communication with PDs
- Ensure new framework is aligned with PD interests

- Conduct comparative study
- Employ active feedback communication with market participants, PDs and regulators

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# 12 The Indonesian primary dealer framework has limited obligations and incentives to support DJPU's strategic objectives

Key clauses	 Key features of the Swedish Primary Dealer Framework	 Indonesia
# of primary dealers	<ul style="list-style-type: none"> <li>8 primary dealers</li> </ul>	<ul style="list-style-type: none"> <li>19 primary dealers</li> </ul>
Responsibilities	<ul style="list-style-type: none"> <li><b>Primary market target:</b> The PD shall maintain at Regular auctions in the Primary Market, for each calendar quarter, a <b>market share of &gt; 2.5 per cent of total issuance volume</b></li> <li><b>Secondary market targets:</b> The Primary Dealer shall maintain in the Electronic Interbank Market and the Client Market, for each calendar quarter, <b>market share of not less than 5 per cent and 2.5 per cent respectively</b> of the total market trading volume</li> <li><b>Marketing:</b> PD shall actively work towards enhancing client interest</li> <li><b>Business plan:</b> 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</li> <li><b>Marketing measures:</b> report in particular on measures it has implemented and plans to implement to promote the sale of Nominal Government Bonds</li> <li><b>Market feedback:</b> report views and proposals for the DMO to improve and develop the management of central government debt and the market for Government Bonds</li> </ul>	<ul style="list-style-type: none"> <li>Minimum PD obligations are:             <ul style="list-style-type: none"> <li>Primary market: 2% of govt. bond issuances</li> <li>Secondary market: 2% of average trading volume for a quarter</li> </ul> </li> </ul>
Commission/ Incentive	<ul style="list-style-type: none"> <li><b>Pre-requisite:</b> 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</li> <li><b>Basic:</b> A basic commission of SEK 600,000 is paid to each PD</li> <li><b>Primary market:</b> a commission amount of SEK 5 mn is shared among PDs in proportion to the volumes sold in connection with regular auctions</li> <li><b>Secondary market:</b> 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.</li> </ul>	<ul style="list-style-type: none"> <li>DJPU currently <b>does not pay a commission</b> to its Primary Dealers</li> </ul>

# 12 The Primary Dealer framework needs to be framed with specificity across 13 design elements

- Low priority
- High priority
- Detailed further

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

# III 12 PD selection should be based on a mix of quantitative and qualitative criterion

	Proof points	Select country example
Financial strength	<ul style="list-style-type: none"> <li>Evidenced by capitalization levels i.e. minimum net worth requirement</li> <li>Some countries set a minimum credit rating for certain activities e.g. swaps</li> </ul>	<ul style="list-style-type: none"> <li><b>India:</b> minimum net worth of INR 50 crores (i.e. USD 10 mn)</li> <li><b>Singapore:</b> minimum credit rating required for obtaining PD status</li> </ul>
Current activity levels	<ul style="list-style-type: none"> <li>Minimum market share on the primary and/or secondary market during a certain period</li> </ul>	<ul style="list-style-type: none"> <li><b>Japan:</b> minimum 3% of the bids and 1% of planned issue amount during last 2 quarters</li> <li><b>Greece:</b> secondary market volume &gt; total volume of 2 worst performing PDs</li> </ul>
Technological capacity	<ul style="list-style-type: none"> <li>Possess technological capabilities required for submitting bids at primary auctions, trading on secondary market and reporting activity</li> </ul>	
Commitment levels	<ul style="list-style-type: none"> <li>Evidence of long term commitment to the sovereign bond market</li> <li>Detailed business plans outlining bond market strategy</li> </ul>	<ul style="list-style-type: none"> <li><b>India:</b> banks are required to setup a separate subsidiary that is registered as a PD</li> <li><b>Canada, Sweden and Netherlands</b> require PDs to submit annual business plans</li> </ul>
Other	<ul style="list-style-type: none"> <li>Sufficient management capacity</li> <li>Suitable staffing and professional capabilities</li> </ul>	

# 12 DJPU may consider a tiered system of primary dealers to assign separate obligations for different tiers of dealers

Approach	Description	Rationale	Country examples
<b>Homogenous system</b>	<ul style="list-style-type: none"> <li>DMO subjects all primary dealers to the same obligations and privileges</li> </ul>	<ul style="list-style-type: none"> <li>Status of PD is more transparent</li> <li>Easier to manage</li> <li>Lack of any specific PD skills or markets</li> </ul>	<ul style="list-style-type: none"> <li>Belgium</li> <li>Finland</li> <li>France</li> <li>New Zealand</li> <li>USA</li> <li>Turkey</li> </ul>
<b>Market specialists for instruments</b>	<ul style="list-style-type: none"> <li>DMO creates a separate category of PDs for certain instruments e.g. treasury bills, repo etc</li> </ul>	<ul style="list-style-type: none"> <li>Status of PD is more transparent</li> <li>Easier to manage</li> <li>Lack of any specific PD skills or markets</li> </ul>	<ul style="list-style-type: none"> <li><b>Australia, Austria, Denmark, Portugal, UK</b> have <b>separate PDs for treasury bills</b></li> </ul>
<b>Market specialists for specific activities</b>	<ul style="list-style-type: none"> <li>A separate tier of “market specialists” is created with specific obligations defined</li> </ul>	<ul style="list-style-type: none"> <li>Leverage the unique skills or expertise of certain PDs</li> <li>Provide PDs incentive to maximize their efforts</li> </ul>	<ul style="list-style-type: none"> <li><b>Canada</b> has a separate category of “<b>primary dealers</b>” separate from “<b>jobbers</b>” who have a greater market making requirements</li> </ul>

# III 12 Primary market obligations should ensure that issuance volumes can be absorbed and that the investor base is diversified and healthy

Approach	Description	Country examples
<p><b>Placing minimum bids</b></p>	<ul style="list-style-type: none"> <li>▪ PDs are expected to place a minimum amount of               <ul style="list-style-type: none"> <li>– bids and/or</li> <li>– successful bids</li> </ul> </li> <li>▪ This helps reduce issuer’s execution risk</li> </ul>	<ul style="list-style-type: none"> <li>▪ <b>EU:</b> Discretionary limit set by DMO</li> <li>▪ <b>Austria:</b> function of appointed # of PDs</li> <li>▪ <b>Egypt:</b> function of the PDs balance sheet size</li> <li>▪ <b>UK:</b> function of the PD’s secondary market activity</li> </ul>
<p><b>Distribution of securities</b></p>	<ul style="list-style-type: none"> <li>▪ PDs are expected to distribute securities efficiently to a wide customer base</li> </ul>	<ul style="list-style-type: none"> <li>▪ <b>Sweden:</b> PDs are expected to market securities to their customer’s and submit marketing plans to the DMO</li> </ul>

# III 12 Secondary market obligations should focus on firm quotes, price transparency and meeting minimum market turnover levels

Element	Description	Country example
Quote volume	<ul style="list-style-type: none"> <li>▪ <b>Firm two way quotes:</b> PDs are expected to provide <b>firm two-way quotes</b> continuously</li> <li>▪ <b>Partially firm quotes:</b> emerging markets expect indicative quotes, but fix obligations to <b>provide quotes for the benchmark securities</b></li> <li>▪ <b>Quote allocation by maturities :</b> Securities of different maturities are allocated among PDs to spread the burden across dealers</li> </ul>	<ul style="list-style-type: none"> <li>▪ <b>Firm quotes:</b> <ul style="list-style-type: none"> <li>– <b>Developed countries:</b> Canada, Singapore, UK</li> <li>– <b>Developing countries:</b> India, Mexico</li> </ul> </li> </ul>
Quote transparency	<ul style="list-style-type: none"> <li>▪ Increasingly, DMOs expect PDs to quote prices for a minimum amount, for a minimum # of hours and with a maximum spread</li> </ul>	<ul style="list-style-type: none"> <li>▪ <b>EU countries:</b> In most EU countries, the assessment of quotes is done based on transparency (i.e. time, spread, quantity) and not just volumes</li> </ul>
Market turnover	<ul style="list-style-type: none"> <li>▪ PDs that are obliged to provide firm quotes are also <b>obliged to meet a minimum turnover</b></li> <li>▪ This is typically ranges from a % of total turnover, % of total PD turnover and finally in mature market, the requirement is waived</li> </ul>	<ul style="list-style-type: none"> <li>▪ <b>Korea:</b> 2% of total market turnover</li> <li>▪ <b>Sweden:</b> 2.5% of secondary market turnover, 5% of the ETP turnover</li> <li>▪ <b>Euro zone:</b> no market turnover requirement</li> </ul>

# III 12 Primary market privileges, especially NCS, are important to boost PD performance

Element	Description	Country example
<b>Participation in Auctions</b>	<ul style="list-style-type: none"> <li>▪ <b>Closed auctions</b> : Only PDs are given the exclusive right to participate so that they can obtain the volumes they need to support market making</li> </ul>	<ul style="list-style-type: none"> <li>▪ Australia, Netherlands, Belgium</li> </ul>
<b>Extra time to place bids</b>	<ul style="list-style-type: none"> <li>▪ Right to submit bids closer to the cut-off time can give PDs a commercial advantage</li> </ul>	<ul style="list-style-type: none"> <li>▪ Spain</li> </ul>
<b>Commissions</b>	<ul style="list-style-type: none"> <li>▪ PDs are paid a commission for successful bids</li> </ul>	<ul style="list-style-type: none"> <li>▪ <b>Commission for all bids:</b> India, Sweden</li> <li>▪ <b>Commission for customer bids:</b> Egypt</li> </ul>
<b>Noncompetitive subscriptions</b>	<ul style="list-style-type: none"> <li>▪ Exclusive right to second round of sales called NCS either at or post auction</li> <li>▪ The NCS can be granted to all PDs or to only the best performing PDs</li> <li>▪ Amount granted is typically a % of the PDs successful bids</li> </ul>	<ul style="list-style-type: none"> <li>▪ <b>At auction:</b> a separate amount is setup in advance for allocation to PDs to ensure they get a minimum allocation</li> <li>▪ <b>Post auction:</b> <ul style="list-style-type: none"> <li>– Korea offers 20% of the amount of successful bids as NCS</li> <li>– Italy (10%), Belgium (20%)</li> </ul> </li> </ul>
<b>League tables</b>	<ul style="list-style-type: none"> <li>▪ Top 5 PDs in terms of volume of successful bids are announced to the public to add marketing credibility for PDs</li> </ul>	

# III 12 Secondary market privileges could include a securities lending facility to help support PDs in fulfilling their market making obligations

Element	Description	Country example
<b>Securities lending facility</b>	<ul style="list-style-type: none"> <li>A SLF is provided to support PDs market making activities to cover their short trading positions</li> </ul>	<ul style="list-style-type: none"> <li>Mexico, Singapore, US and most EU countries</li> <li><b>Netherlands:</b> PDs have access to SLF for every bond till the bond size reaches Euro 10bn</li> <li><b>Belgium:</b> Maximum amount of Euro 100mn can be borrowed for each bonds and bills; rate charged is EONIA minus 25bps</li> <li><b>Denmark:</b> SLF at 20bps per annum</li> </ul>
<b>Right to strip &amp; reconstitute bonds</b>	<ul style="list-style-type: none"> <li>Exclusive right to strip bonds that creates new profit opportunities</li> </ul>	<ul style="list-style-type: none"> <li>Belgium, UK, Japan, France</li> </ul>
<b>Right to participate in bond exchange</b>	<ul style="list-style-type: none"> <li>Exclusive counter-party for the DMO for buy-back of government securities</li> </ul>	<ul style="list-style-type: none"> <li>Belgium, UK, Spain, Turkey , Denmark</li> </ul>
<b>Right to partner in OMO</b>	<ul style="list-style-type: none"> <li>PDs are the exclusive privileged partner of the central bank for open market operations</li> </ul>	<ul style="list-style-type: none"> <li><b>US:</b> only PDs are approved to conduct business directly with the Fed both for repo and for OMO</li> <li><b>UK:</b> PDs that have signed legal docs have access to special repo facilities</li> </ul>
<b>Borrowing line from CB</b>	<ul style="list-style-type: none"> <li>PDs can be given access to market financing if market financing is not readily available</li> </ul>	<ul style="list-style-type: none"> <li>Canada, India, Mexico</li> </ul>

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# 13 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

## Enablers for success

- Clear list of participants and guidelines for action

## 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

## Key outcomes

- Dec 2014 – Determine need to create a bond stabilization fund
- Dec 2015 – Determine full list of potential participant in bond stabilization framework
- June 2016 – Complete MOUs with new participants
- Jan 2019 – Bond stabilization fund completed (if need)

## Impact and KPIs

- N/A

## Governance structure

<b>Initiative champion</b>	<b>DG unit</b>
▪ DG of Debt Management	DJPU
<b>Initiative owner</b>	<b>DG unit</b>
▪ Director of Government Securities	DJPU
<b>Team</b>	<b>DG unit</b>
▪ PPSUN – Dit. SUN	DJPU
▪ PSUNEK - Dit. SUN	DJPU

## 13 Continuously improving bond stabilization framework – changes in operational model

### Current State

- Bond stabilization framework in place but potential to expand by including other players (e.g., regional governments)

- Annual simulations conducted to ensure all participants know their roles and can act swiftly

- N/A

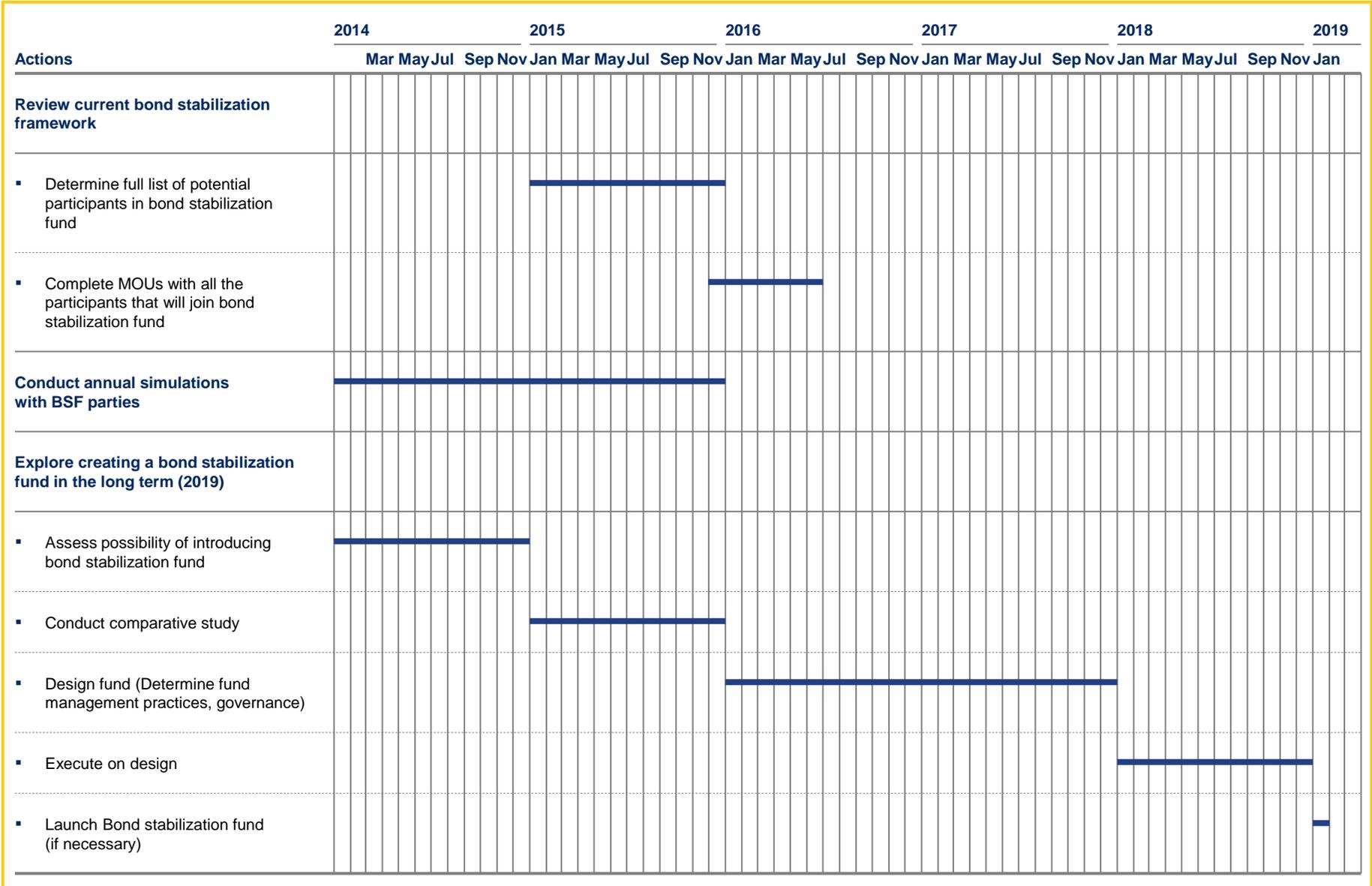
### Target state

- Fully incorporate all potential participants in the bond stabilization framework

- Annual simulations conducted to ensure all participants know their roles and can act swiftly

- Potentially set up a bond stabilization fund

# 13 Continuously improving bond stabilization framework – workplan



## 13 Continuously improving bond stabilization framework – potential regulatory and legal risk

### Risks

- Ⓐ Potential conflicting regulation for BSF participants may hinder their full participation

### Mitigation

- Close coordination with BSF participants and legal bureau

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# 14 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

## 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

## 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

## Key outcomes

- Dec 2014 - Defeasance bonds
- Dec 2015 - Bond issuance guidelines
- Dec 2015 - Many to many debt switch

## 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

<u>Initiative champion</u>	<u>DG unit</u>
<ul style="list-style-type: none"> <li>DG of Debt Management</li> </ul>	DJPU
<u>Initiative owner</u>	<u>DG unit</u>
<ul style="list-style-type: none"> <li>Director of Government Securities</li> </ul>	DJPU
<u>Team</u>	<u>DG unit</u>
<ul style="list-style-type: none"> <li>PPSUN – Dit. SUN</li> </ul>	DJPU
<ul style="list-style-type: none"> <li>PSU, PRU &amp; APU – Dit. SPU</li> </ul>	DJPU

# 14 Debt management: Consolidation of domestic benchmark securities – changes in operational model

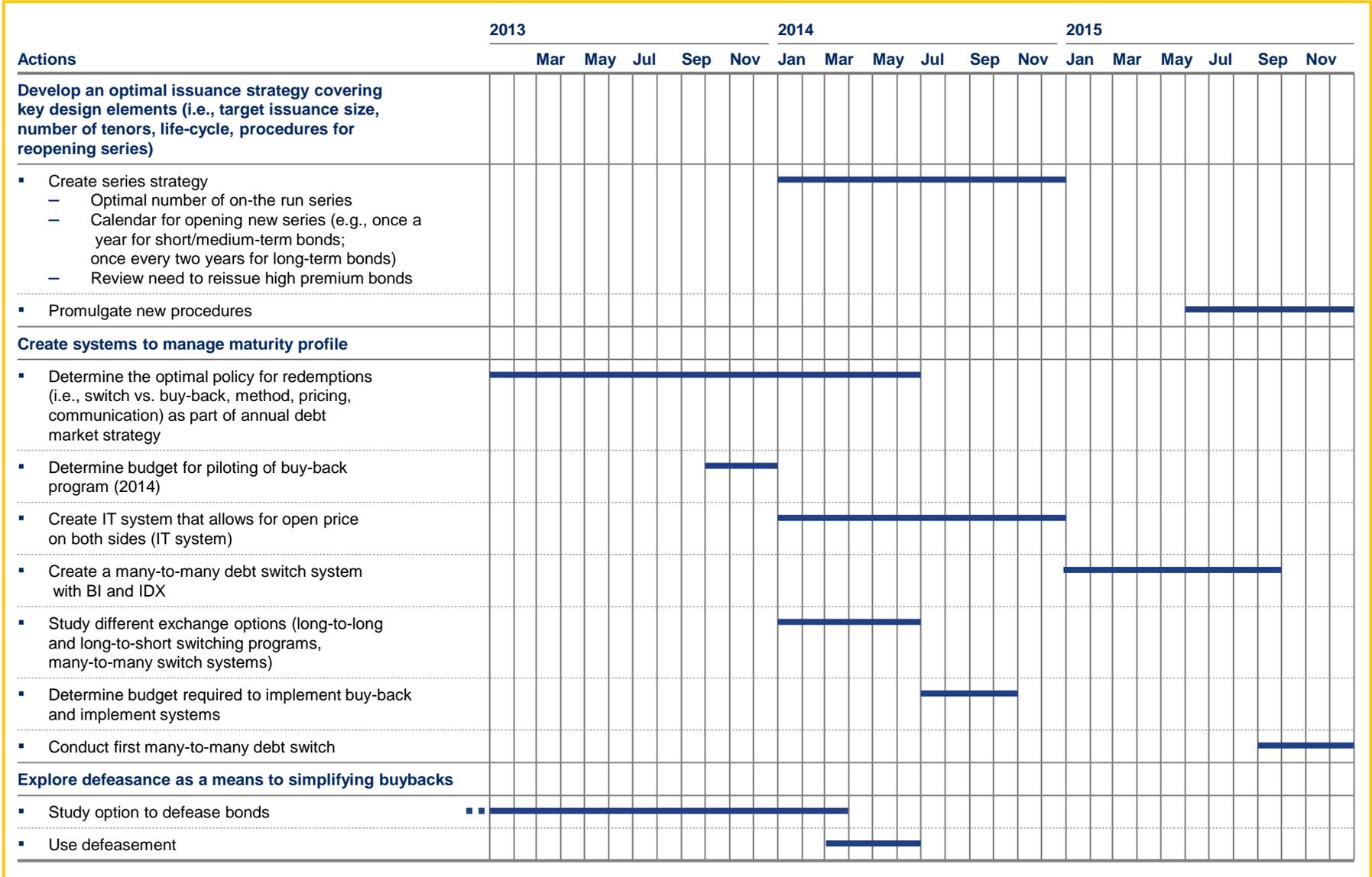
## Current State

- **On-the-run bonds currently form only 16% of total domestic local currency bonds**
- **Multiple types of instruments** (e.g. variable rate, fixed rate, retail) targeted at similar customer segments
- DJPU typically issues **5 tenors every year**; issued **only 4 tenors in 2013**
- The **lifecycle** of benchmark bonds is typically between 1-1.5 years
- **No systematic policy** for buy-back or switch or conversion
- **Choice** between switch and buy-back is **not planned or is event driven**
- **Pricing** for the buy-back is **based on auction with no profit share system**
- **No stated redemption plan** for buy-back or switches

## Target state

- Each on-the-run bond series at least USD 10 bn in size
- Issuances **concentrated in a few instrument types** that maximize penetration across investors segments
- Aim to issue only **3-4 tenors every year** to help build size
- If possible, reopen old series instead of issuing new series
- **Target lifecycle based on instrument tenor** (e.g. 1 year for short tenor and 2 years for long tenor bonds)
- **Introduce a systematic policy for**
  - **Buy-back of bonds** based on availability of treasury cash to help investors exit illiquid securities
  - **Bond switches** to reduce refinancing risk or increase liquidity in key benchmarks
  - **Full conversion** of off-the-run to benchmark bonds to increase benchmark liquidity
- **Systematically choose switch or buy-back** based on assessment of cash available, time to maturity of source bond, size of destination benchmark bond
- Consider **sharing any gains in pricing** from switches with investors **to motivate higher demand**
- Develop a **redemption plan that is communicated in advance**

# 14 Debt management: Consolidation of domestic benchmark securities – workplan



# 14 Debt management: Consolidation of domestic benchmark securities – potential regulatory and legal risk

## Risks

**A** Market unwilling to exchange/sell off-the-run bonds

**B** Defeasance is not yet fully developed

## Mitigation

- Improve communications with market
- Budget amount to incentivize bond holders to sell-back bonds
- Develop defeasance skills
- Conduct active communication with market participants

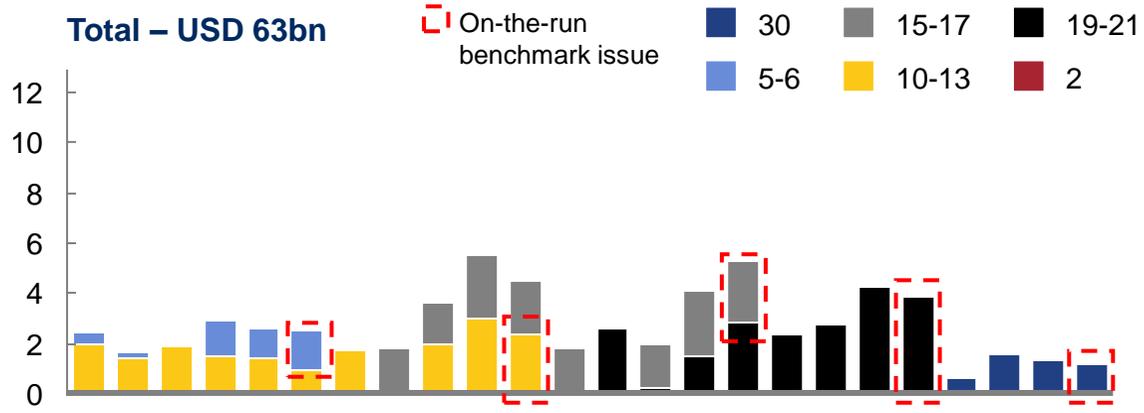
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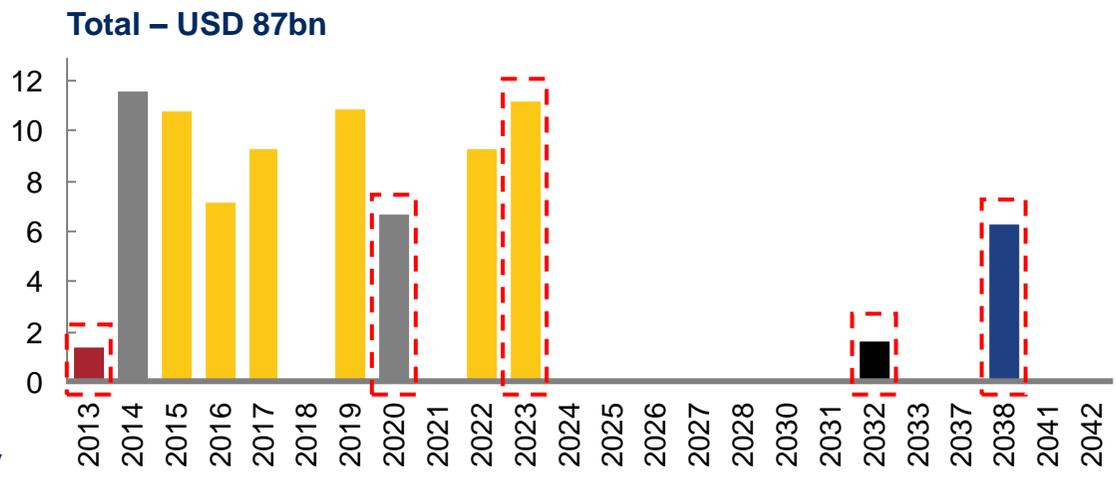
# 14 There are a number of small size benchmark issues; imperative to consolidate benchmarks and introduce systematic buy-back/exchange

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

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



- » 40 benchmark securities outstanding
- » DJPU has issued benchmark securities across tenors on an annual basis
- » Limited buy back or exchanges of old benchmark instruments



- » 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

# 14 Most OECD countries use bond buybacks and exchanges

Use of exchanges and buybacks in OECD countries

 Conducts buyback/switches  
 Do not conduct  
 N/A Not available

	<u>Bond exchange</u>	<u>Bond buyback</u>
1 Australia		
2 Austria		
3 Belgium		
4 Canada		
5 Chile		
6 Czech Republic		
7 Denmark		
8 Estonia		
9 Finland		
10 France		
11 Germany		
12 Greece		
13 Hungary		
14 Iceland		
15 Ireland		
16 Israel		
17 Italy		

	<u>Bond exchange</u>	<u>Bond buyback</u>
18 Japan		
19 Korea	N/A	N/A
20 Luxembourg		
21 Mexico		
22 Netherlands		
23 New Zealand		
24 Norway		
25 Poland		
26 Portugal		
27 Slovak Republic		
28 Slovenia		
29 Spain		
30 Sweden		
31 Switzerland		
32 Turkey		
33 U.K.		
34 U.S.		

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

# 14 For many, this is used to increase liquidity in the market Market development

## Selection criteria for buyback bonds

	<u>Nearing redemption</u>	<u>Off-the runs</u>	<u>Illiquid</u>	<u>High coupon</u>
Australia	×			
Austria	×			
Belgium	×			
Canada	×	×	×	×
Czech Republic	×			
Denmark	×	×		
France	×	×		
Greece	×			×
Hungary	×	×		
Iceland			×	
Ireland	×			×
Israel	×	×	×	×
Italy	×	×		
Japan		×	×	
Mexico	×			
Netherlands	×	×	×	×
New Zealand	×			
Norway	×			
Poland	×			
Portugal	×			
Slovak Republic	×			
Slovenia	×	×	×	×
Spain	×	×	×	×
Switzerland	×			
Turkey	×			
United Kingdom	×			
United States	×		×	
<b>Total</b>	<b>25</b>	<b>10</b>	<b>8</b>	<b>7</b>

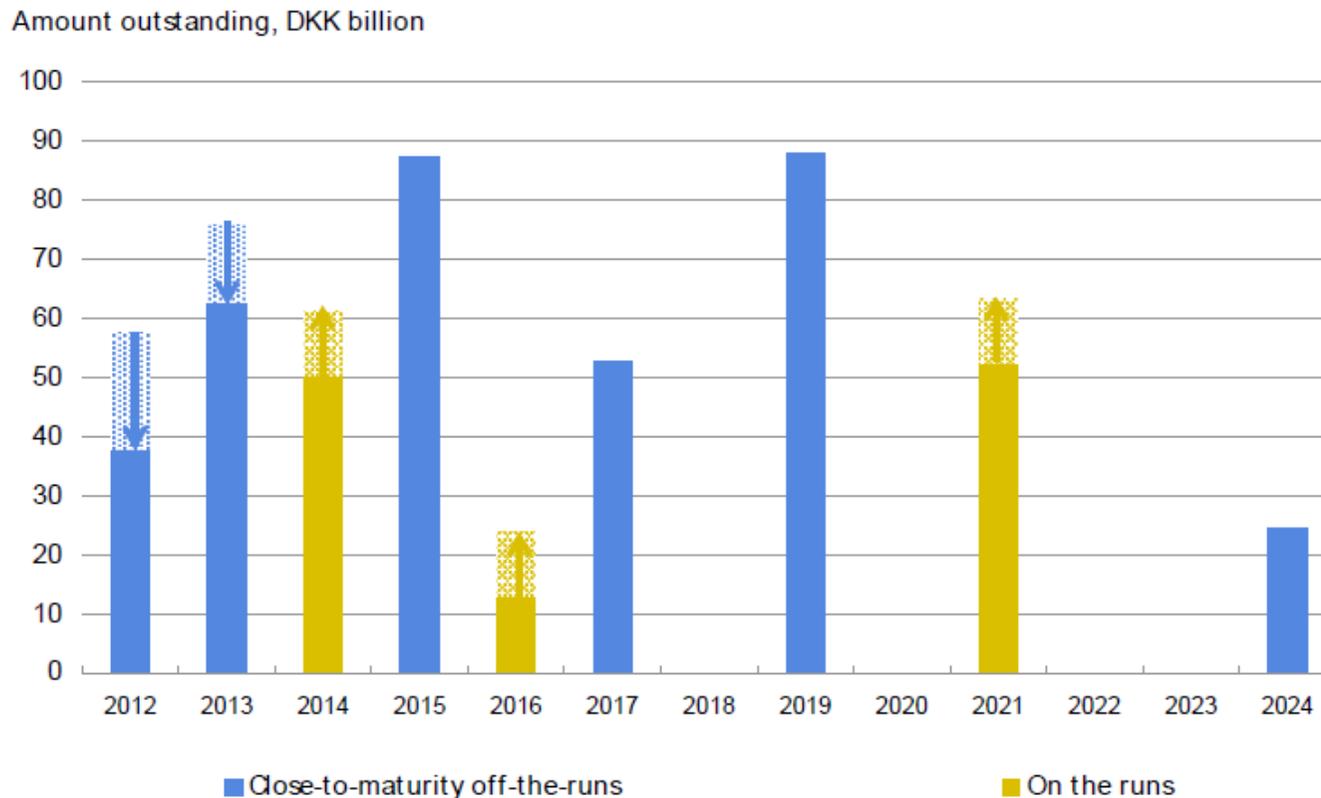
## Selection criteria for source bonds in switch operations

	<u>Nearing redemption</u>	<u>Off-the runs</u>	<u>Illiquid</u>	<u>High coupon</u>
Austria	×	×	×	×
Canada		×	×	×
Denmark	×	×		
Hungary	×	×		
Iceland	×		×	
Israel	×	×	×	×
Italy	×	×		
Mexico		×	×	
Norway	×			
Poland	×			
Slovenia	×	×	×	×
Sweden		×	×	
Turkey	×			
<b>Total</b>	<b>10</b>	<b>9</b>	<b>7</b>	<b>4</b>

SOURCE: OECD Working Papers on Sovereign Borrowing and Public Debt Management No. 5: Buyback and Exchange Operations

# 14 Denmark buys back near-maturity, off-the-run bonds with the proceeds of excess issuances of benchmark series

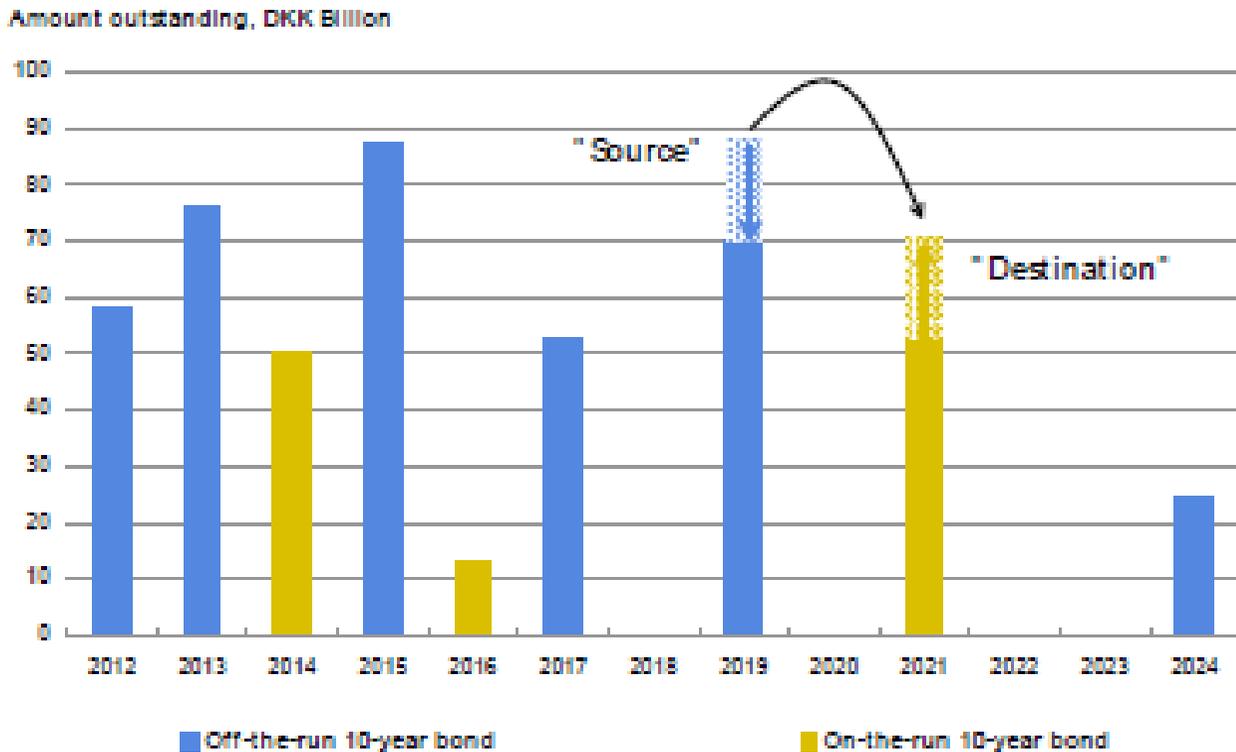
Chart 1: Buybacks combined with increased on-the-run issuance



Source: Government Debt Management, Danmarks Nationalbank.

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

Chart 2: A bond exchange operation



Source: Government Debt Management, Danmarks Nationalbank.

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# 15 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)

## 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

## 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

## Key outcomes

- Dec 2015 – establishment of DJPU’s IR Unit

## Governance structure

<b>Initiative champion</b>	<b>DG unit</b>
▪ DG of Debt Management	DJPU
<b>Initiative owner</b>	<b>DG unit</b>
▪ Under discussion	DJPU
<b>Team</b>	<b>DG unit</b>
▪ PP– Dit. SUN	DJPU
▪ Dit. PS, Dit. SPU, Dit. PH, Setditjen	DJPU

# 15 Strengthening Investor Relations (IR) – changes in operational model

## Current State

- **No clear policy** for identifying and targeting priority investors

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- **Homogenous coverage** approach through a mix of non-deal roadshows, investor calls and communications through the IR website

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- **Standardized investor presentations** used for discussions with all investors

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- **No standardized internal investor reports**

## Target state

- **Systematic policy** of screening, targeting and tiered classification of investors (both current and potential) with tailored IR objectives

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- **Tailored coverage** approach ranging from customized 1on1 meetings for priority investors to conference calls across investors

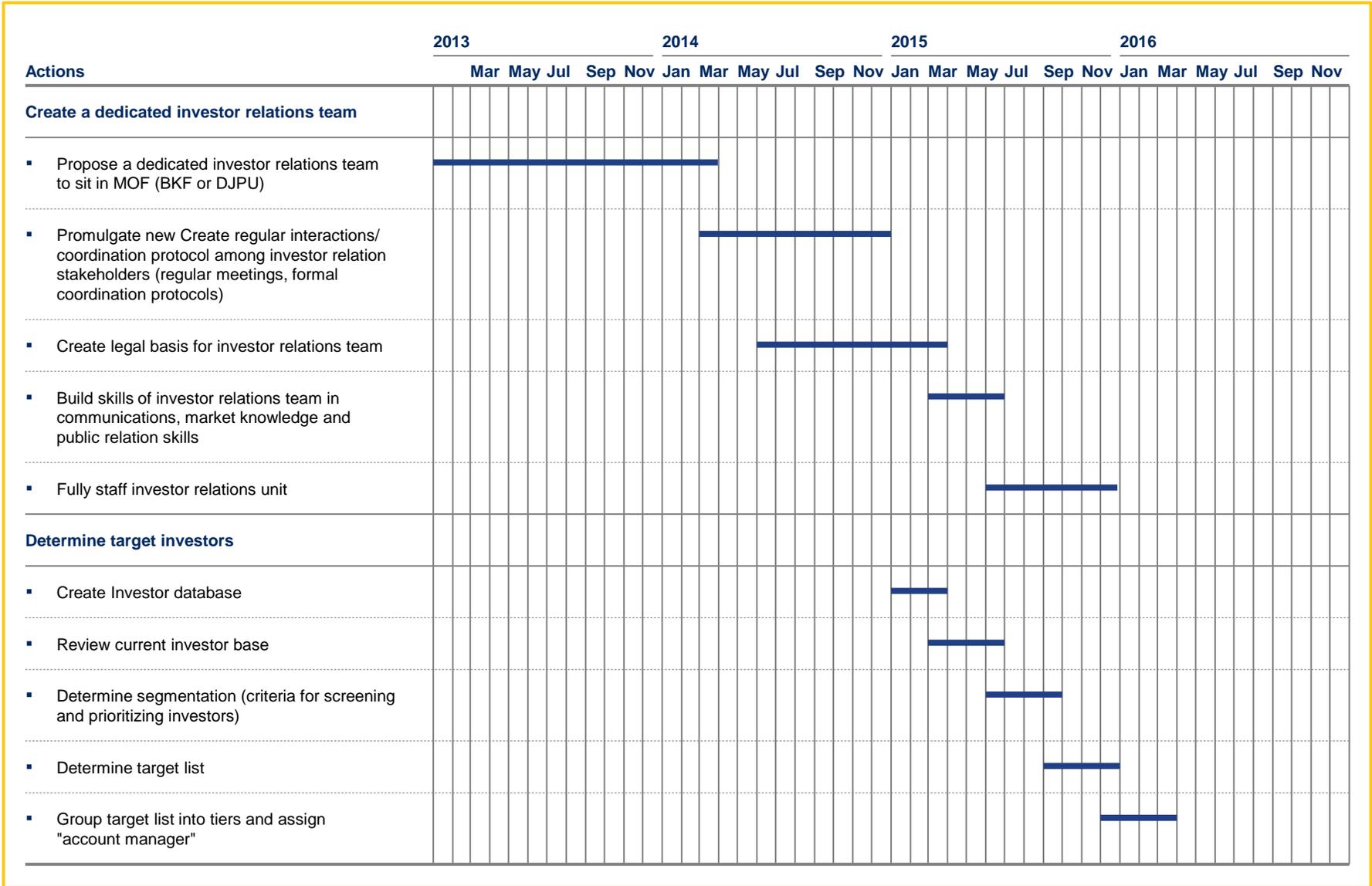
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- **Investment story** that outlines investment rationale and updates
- **Customized communication** for priority investor segments based on key needs and traits

---

- **Detailed investor report for leadership** with investor breakdown, key updates and interventions required

# 15 Strengthening Investor Relations (IR) – workplan (1/2)



# 15 Strengthening Investor Relations (IR) – workplan (2/2)

Actions	2013				2014				2015				2016										
	Mar	May	Jul	Sep	Nov	Jan	Mar	May	Jul	Sep	Nov	Jan	Mar	May	Jul	Sep	Nov	Jan	Mar	May	Jul	Sep	Nov
<b>Create communication and roadshow calendar</b>																							
▪ Determine appropriate channel of engagement for each investor group																							
▪ Define level of intensity of engagement for each investor group																							
▪ Develop an IR calendar with annual plan for investor activities per group (e.g., international roadshows, domestic roadshows)																							
▪ Determine budget for roadshows																							
<b>Formulate investor communication</b>																							
▪ Development investment story that explains the overall investment proposition (e.g., distinctiveness, strategy)																							
▪ Create mechanisms to update investor communication materials																							
<b>Strengthen internal reporting and decision making</b>																							
▪ Define features of a quarterly internal investors report covering key investor activities and holdings																							
▪ Determine Define and establish procedures for DMO leadership to analyze reports and provide advice on key actions																							
<b>Provide communication equipment (VC systems) with OpEx and CapEx budget</b>																							

# 15 Strengthening Investor Relations (IR) – potential regulatory and legal risk

## Risks

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- Ⓐ Unclear roles and coordination with other agencies involved in investor relations (e.g., BI)

## Mitigation

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- Regular coordination meetings and consultations with BI and other agencies on investor relation initiatives

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# III 15 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 investors 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



### SOUTH AFRICA EXAMPLE

#### Objective

- Achieve more influence on the composition of the investor base
- Stabilize foreign capital flows into the local bond markets

#### Strategy

- Identify a target group of investors, maintain strong relations and boost investor confidence

#### Performance

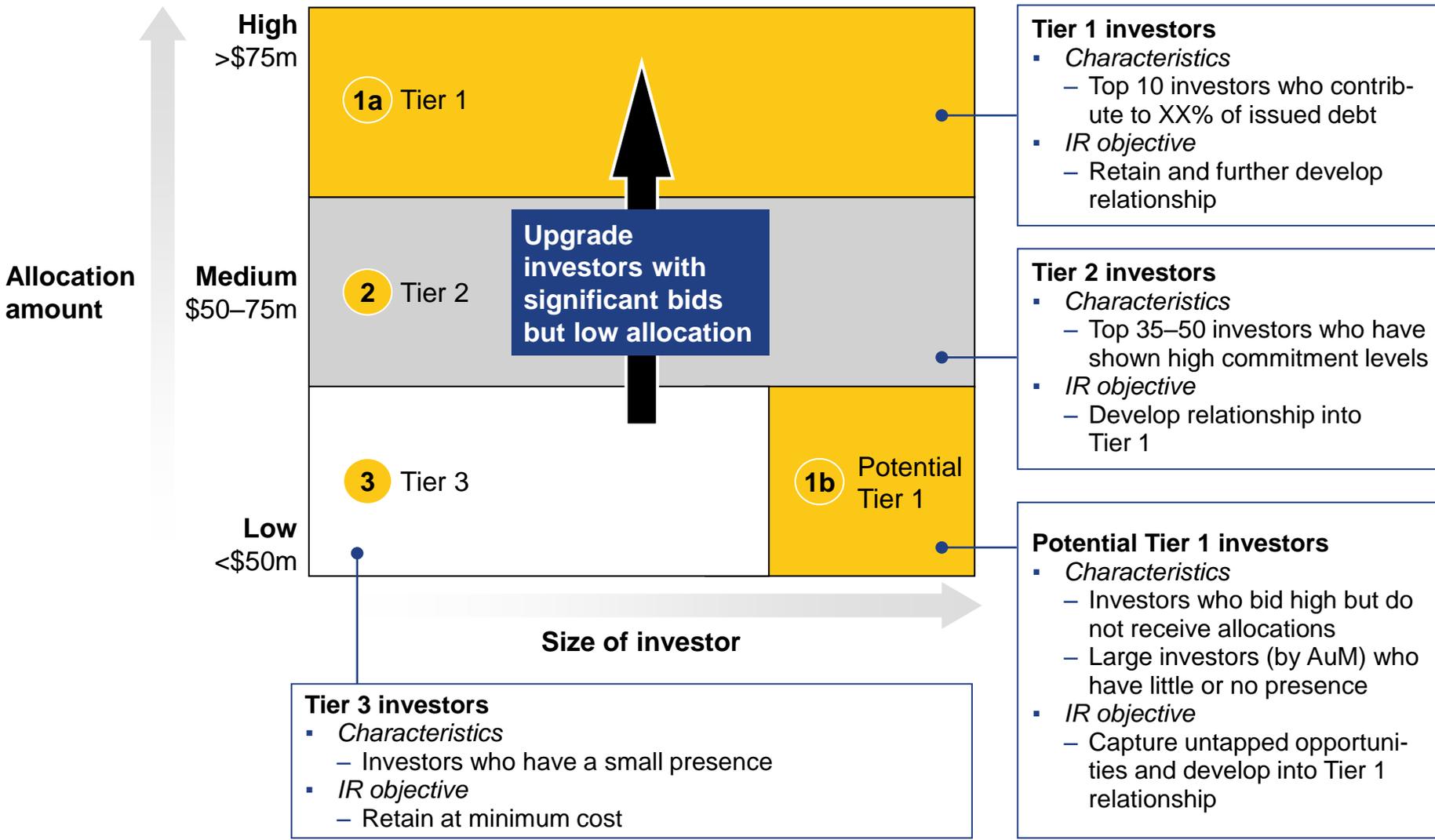
- **Robust capital inflows:** Since 2009, **inflows into local currency bond market** amounts to US\$25 billion with foreign ownership rising to 35 per cent
- **Diversified investor base:** Highlights from a recent global bond issuance include
  - Investor location : US (49%), UK (29%), Europe (20%)
  - 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



**15** The result is a prioritized set of investors to help develop tailored IR objectives and coverage approach ILLUSTRATIVE



# 15 DJPU should adopt varying levels of engagement across investor tiers and leverage multiple channels to build relationships ILLUSTRATIVE

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Deliverables	Objectives
<b>1-on-1 meetings</b>		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		<ul style="list-style-type: none"> <li>Prepare investor presentation</li> <li>Send out invites a month in advance</li> <li>Have answers ready for FAQ's</li> </ul>	<ul style="list-style-type: none"> <li>Understand investor and rating agency concerns</li> <li>Communicate cogent, consistent country story</li> <li>Strengthen existing relationships</li> </ul>
<b>Non deal road show</b>		Hong-kong			London			NY		Dubai			<ul style="list-style-type: none"> <li>Understand local investors' perceptions of country</li> <li>Prepare an agenda to address these concerns</li> </ul>	<ul style="list-style-type: none"> <li>Communicate country story</li> <li>Gauge investor interest levels in investing in country</li> </ul>
<b>Country DMO investor day</b>						▲							<ul style="list-style-type: none"> <li>Develop communication strategy for the event</li> </ul>	<ul style="list-style-type: none"> <li>Showcase country to key investors and rating agencies</li> <li>Facilitate interaction of key stakeholders with country leadership</li> </ul>
<b>Investor calls</b>				Q1			Q2			Q3			<ul style="list-style-type: none"> <li>Prepare presentation on economic and financial overview of country</li> <li>Collect 5-10 frequently asked questions and develop answers</li> </ul>	<ul style="list-style-type: none"> <li>Present economic and financial overview</li> <li>Facilitate management interaction with key investors through value adding discussions</li> </ul>
<b>Annual/ quarterly publications</b>	Q4			Q1			Q2			Q3			<ul style="list-style-type: none"> <li>Prepare reports</li> <li>Syndicate with DMO leadership</li> </ul>	<ul style="list-style-type: none"> <li>Share relevant reports with investors and rating agencies</li> </ul>
<b>Press releases</b>				Q1			Q2			Q3			<ul style="list-style-type: none"> <li>Prepare releases</li> <li>Liaise with communication agency</li> </ul>	<ul style="list-style-type: none"> <li>Communicate key highlights i.e. issuances, DMO news etc</li> </ul>

# 15 DJPU should create an internal investor report that helps provide leadership a synthesis of investor activities ILLUSTRATIVE

## Audience

- **Primary audience**
  - MoF leadership
  - DJPU leadership
- **Secondary audience**
  - Non MoF government entities
    - BI
    - OJK

## What it is...

- A **concise** report meant to help the DMO executive committee validate Tier 1, 2 and 3 investors
- A **quarterly report for leadership to engage and provide strategic input** on managing key investor relationships and attracting potential investors

## Specific content

- Provide an **overview of the investor base**
  - Geographical breakdown
  - Segment breakdown
  - Cross entity investment overlap
- **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

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## ▪ **Charter and implementation plan**

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

# 16 Support OJK in developing a deep and liquid repo market

**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 )

## Enablers for success

- Support from various regulating entities (APK, OJK, DJA/BKF) to remove/clarify regulations that hinder repo usage
- Educate potential uses of repos on mechanisms and risks
- More active repo usage by central bank and CMO

## 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

## Key outcomes

- Dec 2014 – Finalize master repo agreement

## Impact and KPIs

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

## Governance structure

### Initiative champion DG unit

- OJK OJK

### Initiative owner DG unit

- OJK OJK

### Team DG unit

- Monitored by Dir. Of Government Securities DJPU

# 16 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)

# 16 Support OJK in developing a deep and liquid repo market – workplan

Actions	2014					2015						
	Mar	May	Jul	Sep	Nov	Jan	Mar	May	Jul	Sep	Nov	
Understand reasons for low repo usage in Indonesia	█											
Prepare master repo agreement for OJK approval	█	█	█	█	█							
Change regulation that ban insurance and pension funds to invest in repo and lend instruments for repo	█	█	█	█	█							
Solve accounting issues regarding repos												
<ul style="list-style-type: none"> <li>Work with Indonesian Accounting Association on general repo</li> <li>Work with APK to enact standards for securities lending in the govt.</li> </ul>	█	█	█	█	█							
Work with BKF and OJK to clarify tax status of repos	█	█	█	█	█							
Educate stakeholders on usage and treatment of repos												
<ul style="list-style-type: none"> <li>Pension/insurance funds</li> <li>Regulators</li> <li>Primary dealers</li> <li>MOF members</li> </ul>						█	█	█	█			
Prepare master agreement for lending/borrowing of securities						█	█					
Develop IT system on government securities transactions to serve as an early warning system						█	█					

# 16 Support OJK in developing a deep and liquid repo market – potential regulatory and legal risk

## Risks

- Ⓐ Potential unfavourable regulations (on accounting, tax, others)

## Mitigation

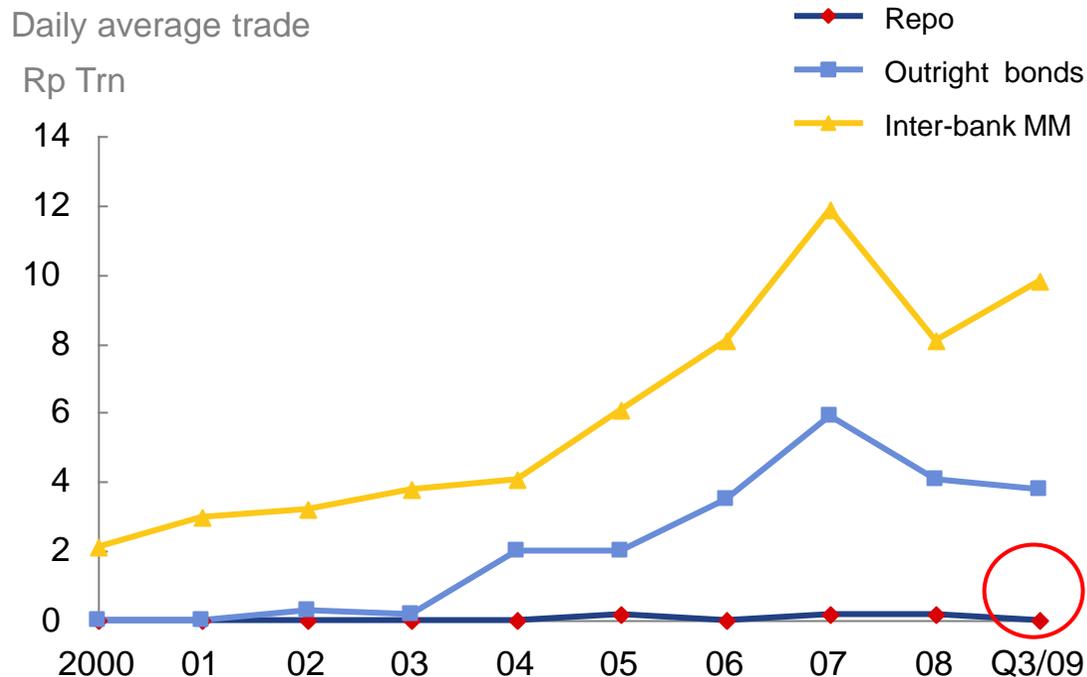
- Work closely with OJK, APK and other regulators to explain importance of an active repo market and to assuage fears

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# 16 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

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- Supporting analysis

# 17 Increase domestic participation from key investors

## 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

## Enablers for success

- Support from regulators to change regulations that support investment in government securities
- Budget/approval to create this team

## 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

## Summary of proposed actions

- Coordination and involvement in the OJK's Government Securities Market Development team

## Key outcomes

- Dec 2013 – Identified all potential government investment funds
- Dec 2014 – Change PMKs that hinder government investment funds from investing

## 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%

## Governance structure

Initiative champion	DG unit
▪ DG of Debt Management	DJPU
Initiative owner	DG unit
▪ Direktur SUN	DJPU
Team	DG unit
▪ PP– Dit. SUN	DJPU
▪ PPSBSN-Dit. PS	DJPU

## 17 Increase domestic participation from key investors – changes in operational model

### Current State

- Regulations on asset-liability matching not fully developed
- Some government investment funds not allowed to invest in government

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- Regional government hold large amounts of cash, but not always allowed to invest in government securities
- Regional governments do not actively consider government securities as investment options

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- Potential to improve ALM regulations requiring matching of asset liability durations
- Some funds make investment decisions based on absolute yields/ returns

### Target state

- Fully evolved ALM regulation encourages funds to regularly top government securities
- Regulations amended to allow investment in government securities where prudent

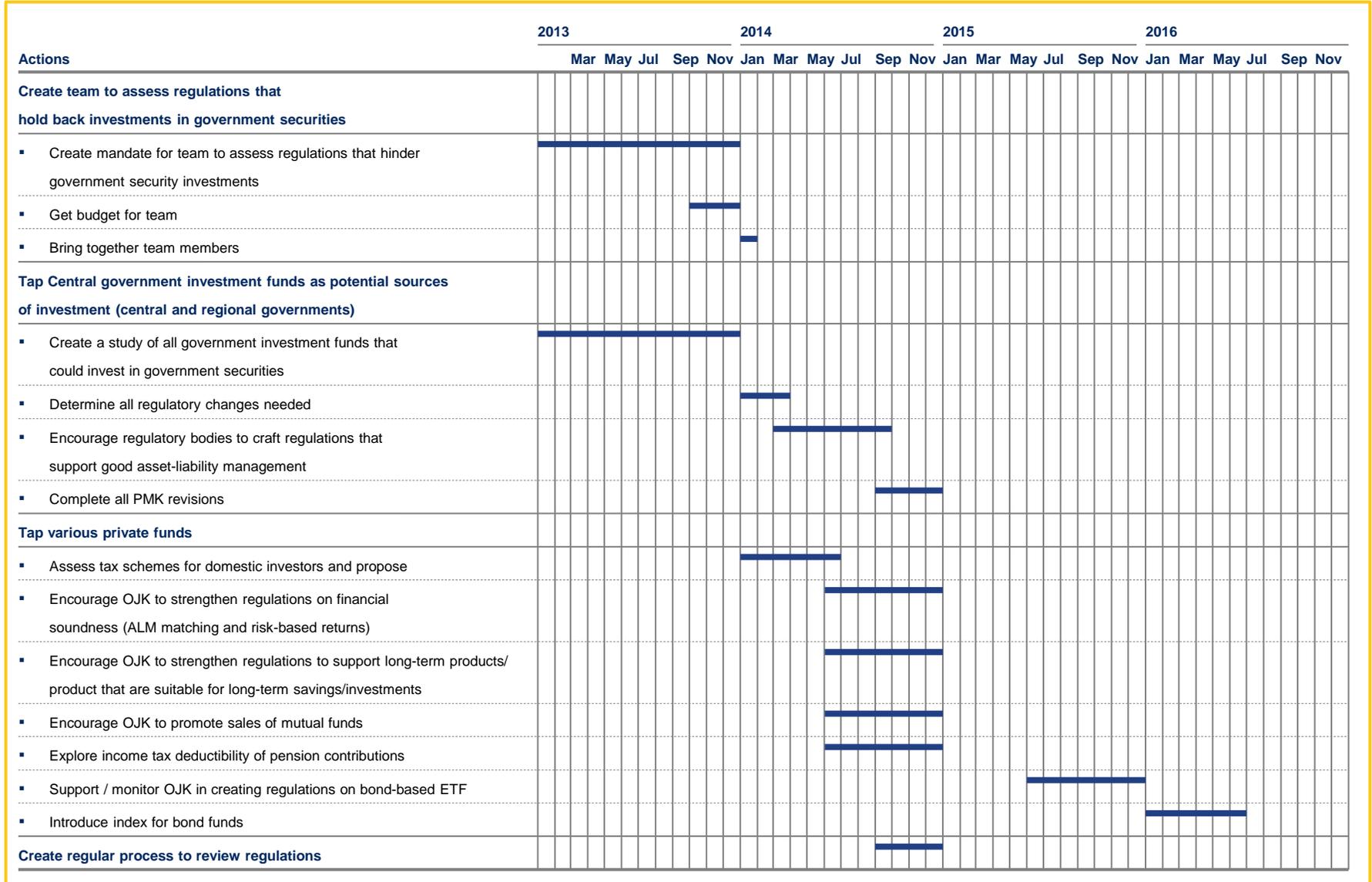
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- Regional governments actively invest in government securities

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- Introduce ALM regulations to ensure that long term liabilities are matched by risk free long term government bonds held in the portfolio
- Introduce need for funds to evaluate investments based on risk adjusted returns

# 17 Increase domestic participation from key investors – workplan



# 17 Increase domestic participation from key investors – potential regulatory and legal risk

## Risks

**A** Non-cooperation of regulators

**B** Lack of coordination with other agencies involved in developing government bond market

## Mitigation

- Active engagement with regulators to educate them about risk-adjusted returns and ALM as well as benefits of developing domestic market
- Actively involve in the OJK's Government Securities Market Development team

# Contents

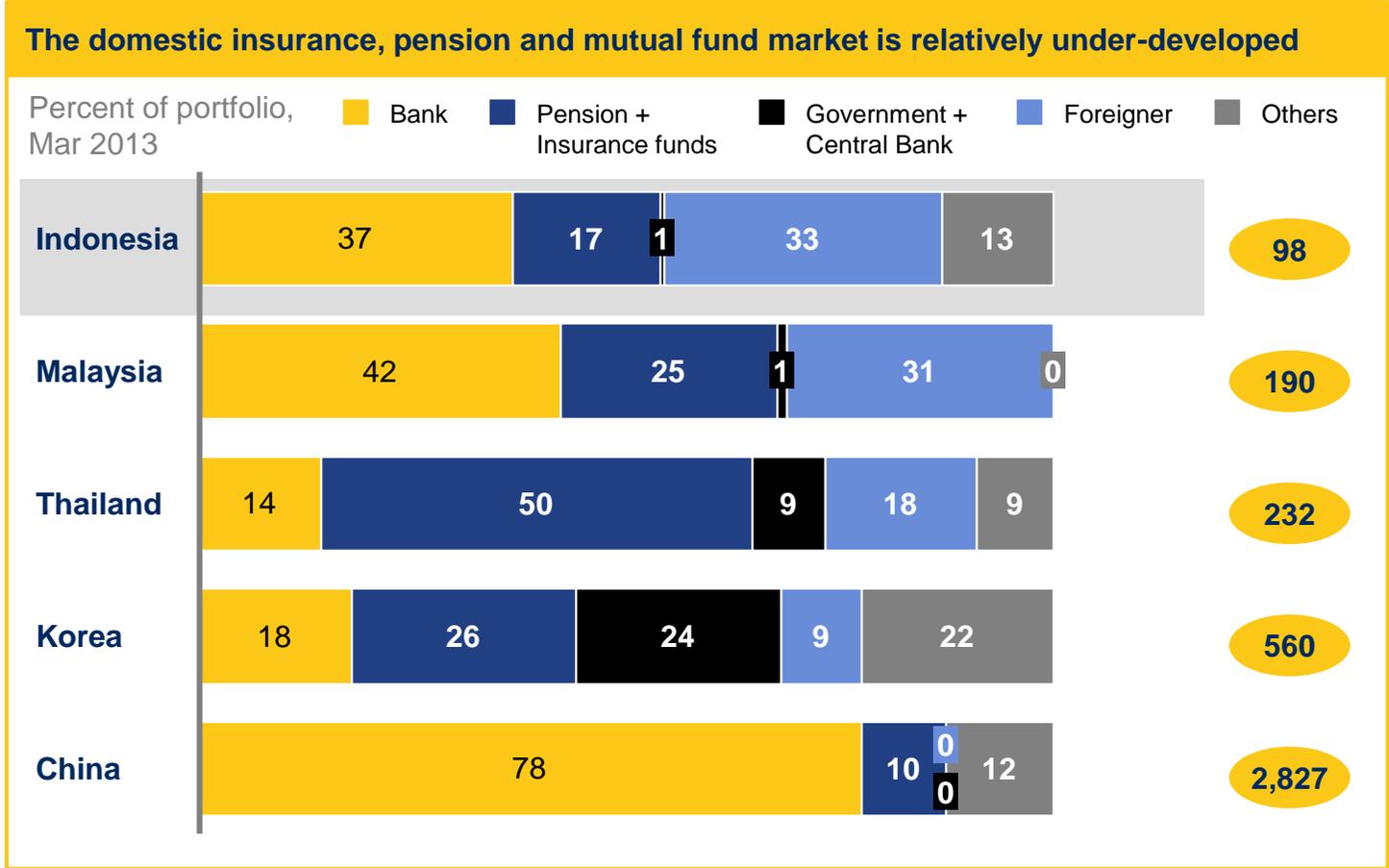
- Context and introduction
- Disbursement and receipts
- Liquidity management
- **Debt market development**
  - Context and introduction
  - Initiative 11: Launch trading platform for bonds
  - Initiative 12: Review primary dealer framework
  - Initiative 13: Review bond stabilization framework
  - Initiative 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**
    - Charter and implementation plan
    - **Supporting analysis**

# III 17 MoF to promote demand in government securities by working with regulators of different private and public investment funds

	Pool	Counterpart	Key activities
<b>Central government funds</b>	<ul style="list-style-type: none"> <li>Government social security</li> </ul>	<ul style="list-style-type: none"> <li>BPJSA – Employment</li> <li>BPJSA – Health</li> <li>DJA</li> </ul>	<ul style="list-style-type: none"> <li>Encourage regulatory bodies to craft regulations that support good asset liability management</li> <li>Work with regulators to create legal basis for investment in government bonds</li> </ul>
	<ul style="list-style-type: none"> <li>Civil service pensions</li> </ul>	<ul style="list-style-type: none"> <li>TASPEN</li> <li>ASABRI (Ministry of Defense)</li> <li>DJA</li> </ul>	
	<ul style="list-style-type: none"> <li>Public endowment funds</li> </ul>	<ul style="list-style-type: none"> <li>LPDP</li> <li>Hajj fund</li> <li>PIP</li> <li>IIGF</li> </ul>	
<b>Regional funds</b>	<ul style="list-style-type: none"> <li>Regional governments</li> </ul>	<ul style="list-style-type: none"> <li>Ministry of Home Affairs</li> <li>DJPK</li> </ul>	<ul style="list-style-type: none"> <li>Determine mechanism for regional governments to purchase Central Government bonds as an investment instrument</li> <li>Explore opportunities to provide regional transfers in the form of government securities</li> </ul>
<b>Private funds</b>	<ul style="list-style-type: none"> <li>Private funds</li> </ul>	<ul style="list-style-type: none"> <li>OJK</li> </ul>	<ul style="list-style-type: none"> <li>Assess tax schemes for domestic investors and propose tax incentives to enhance domestic participation</li> </ul>
	<ul style="list-style-type: none"> <li>Insurance funds</li> </ul>	<ul style="list-style-type: none"> <li>OJK</li> </ul>	<ul style="list-style-type: none"> <li>Encourage OJK to strengthen regulations on financial soundness (Asset-Liability matching and risk based returns)</li> <li>Encourage OJK to strengthen regulations to support long-term products / products that are suitable for long-term savings / investments (life annuity)</li> <li>Encourage OJK to promote sales of mutual funds</li> </ul>
	<ul style="list-style-type: none"> <li>Private pension funds</li> </ul>	<ul style="list-style-type: none"> <li>OJK</li> </ul>	
	<ul style="list-style-type: none"> <li>Mutual funds</li> </ul>	<ul style="list-style-type: none"> <li>OJK</li> </ul>	
	<ul style="list-style-type: none"> <li>Oil severance fund</li> </ul>	<ul style="list-style-type: none"> <li>TBD</li> </ul>	<ul style="list-style-type: none"> <li>Explore income tax deductibility of pension contributions</li> </ul>
	<ul style="list-style-type: none"> <li>ETF investors</li> </ul>	<ul style="list-style-type: none"> <li>TBD</li> </ul>	<ul style="list-style-type: none"> <li>Explore regulations on bond-based ETF</li> <li>Introduce index for bond funds</li> </ul>

# III 17 Domestic participation from insurance/pension funds and central bank is low relative to other markets while foreign holdings are relatively high

XX Market size, USD bn



**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

# 17 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



India

- **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



Malaysia

- **EPF:**
  - Regulations requires the **Employees Provident Fund (EPF)** to invest in Malaysian Govt. Securities
  - Of EPF's USD 148bn<sup>1</sup> 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

<sup>1</sup> as at end 2012

SOURCE: DJPU, press search, World Bank