



# **Ninth UNCTAD Debt Management Conference**

Geneva, 11 - 13 November 2013

## **Contingent Liabilities**

by

**Mr. Scenaider Siahaan**

Director of Debt Strategy and Portfolio

Ministry of Finance

Indonesia

The views expressed are those of the author and do not necessarily reflect the views of UNCTAD

# Contingent Liabilities: Government Guarantee

**Scenaider Siahaan**  
**Director of Debt Strategy and Portfolio**

Ministry of Finance of The Republic of Indonesia  
Directorate General of Debt Management

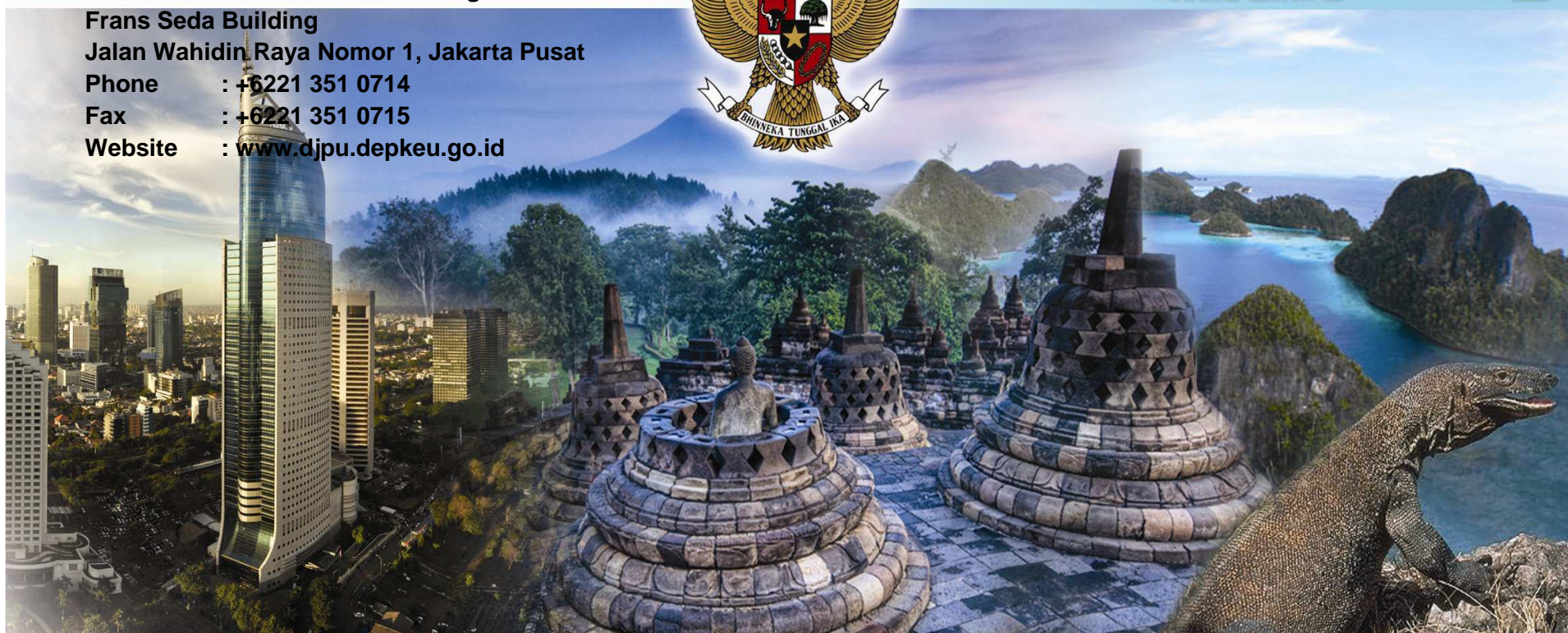
Frans Seda Building

Jalan Wahidin Raya Nomor 1, Jakarta Pusat

Phone : +6221 351 0714

Fax : +6221 351 0715

Website : [www.djpu.depkeu.go.id](http://www.djpu.depkeu.go.id)



UNCTAD – Ninth Debt Management Conference and DMFAS Advisory Group  
in Geneva, Switzerland , 11-15 November 2013

# Outline

---

1. Contingent Liabilities : Definitions and Classification

2. Contingent Liabilities – Indonesia Case

3. Contingent Liability Management in Indonesia Under DGDM

- Government Guarantee Policy Improvement
- Government Guarantee Program
- Guarantee Issuance Mechanism
- Risk Management for Government Guarantee
- Government Guarantee Outstanding



# Contingent Liabilities : Definitions and Classification

## Definition

- ❖ Potential obligations arising from past events which may become a direct liability depending on the outcome of some future events which are not under the control of the government

## Classification

- ❖ **Explicit**  
Obligations of the government which are stated under regulations or contracts  
(e.g. guarantee on SOE's debt)
- ❖ **Implicit**  
The obligations are not stated under current regulations or contracts but the government has a moral obligations to take actions.  
(e.g. defaults on non-guaranteed debt of SOEs; a bail-out of "too big to fail" institutions)



# Contingent Liabilities – Indonesia Case

No	Type of Contingent Liabilities	Legal Basis	Unit in charge
1	Government guarantees	<ol style="list-style-type: none"> <li>1. FTP I (Presidential Decree no. 71/2006)</li> <li>2. Clean Water Availability (Presidential Decree No. 29/2009)</li> <li>3. FTP II (Presidential Decree no. 4/2010)</li> <li>4. PPP (Presidential Decree no. 78/2010)</li> </ol>	MoF and IIGF
2	Obligation of Maintaining Minimum Capital of Bank Indonesia (BI) and Deposit Insurance Agency (LPS) and Indonesia Export Financing Agency (LPEI)	<ul style="list-style-type: none"> <li>• Law No. 3/2004 concerning BI</li> <li>• Law No. 24/2004 concerning LPS</li> <li>• Law No. 2/2009 concerning LPEI</li> </ul>	BI, LPS, LPEI and MoF
3	The Emergency Fund Facility	<ul style="list-style-type: none"> <li>• Law No. 3/2004 concerning BI</li> <li>• Law No. 21/2011 concerning The Indonesia Financial Services Authority (OJK)</li> </ul>	BI, OJK, and MoF
4	Government support on electricity projects through IPP scheme	Support letter and Confirmation letter	MoF



# Contingent Liabilities – Indonesia Case

## Explicit....(2)

No	Type of Contingent Liabilities	Legal Basis	Unit in charge
5	Systemic bank failures	Law No. 3/2004 concerning BI Law No. 24/2004 concerning LPS	BI, LPS, and MoF
6	Obligations arising from government support to SOEs (such as PSO, Subsidy, Capital Investment)	Law No.19/2003 concerning SOE	Ministry of SOE and MoF
7	Government commitments to provide contribution and capital participation as member of International Financial Organizations/Institutions	Organization's Charter	MoF
8	Legal Claims to the Government (litigations)	Court decisions and Government policy/decisions	Line Ministry





**Contingent Liability Management  
in Indonesia Under DGDM**





# Government Guarantee Policy Improvement

Guarantee Issuance	1994-2003	2008-2010	2008 – present	2010 - present
Guaranteed Project	Independent Power Producer (IPP) Project	IPP Project	<ol style="list-style-type: none"> <li>1. Fast Track Program phase 1 (FTP 1)</li> <li>2. Clean Water Availability Programs</li> <li>3. Fast Track Program phase 2 (FTP 2)</li> </ol>	PPP Project
Form of Guarantee	Support Letter	Confirmation Note	Letter of Guarantee	Guarantee Agreement
Coverage Guarantee	Blanket Guarantee	Blanket Guarantee	Specific risk guarantee	Specific risk guarantee
Exposure to the state budget (APBN)	Direct	Direct	Direct	Indirect , through Indonesia Infrastructure Guarantee Fund (IIGF)



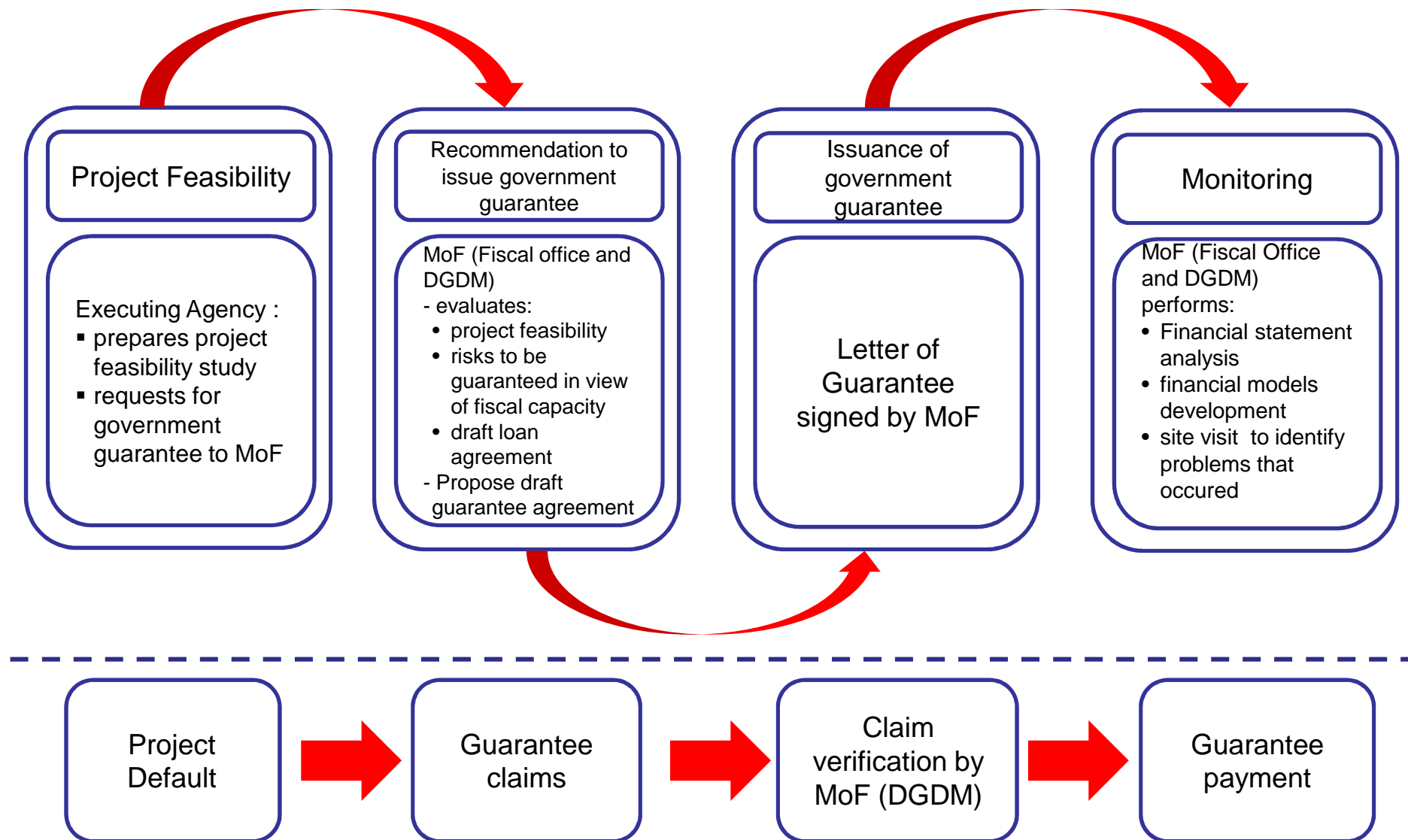


# Government Guarantee Program

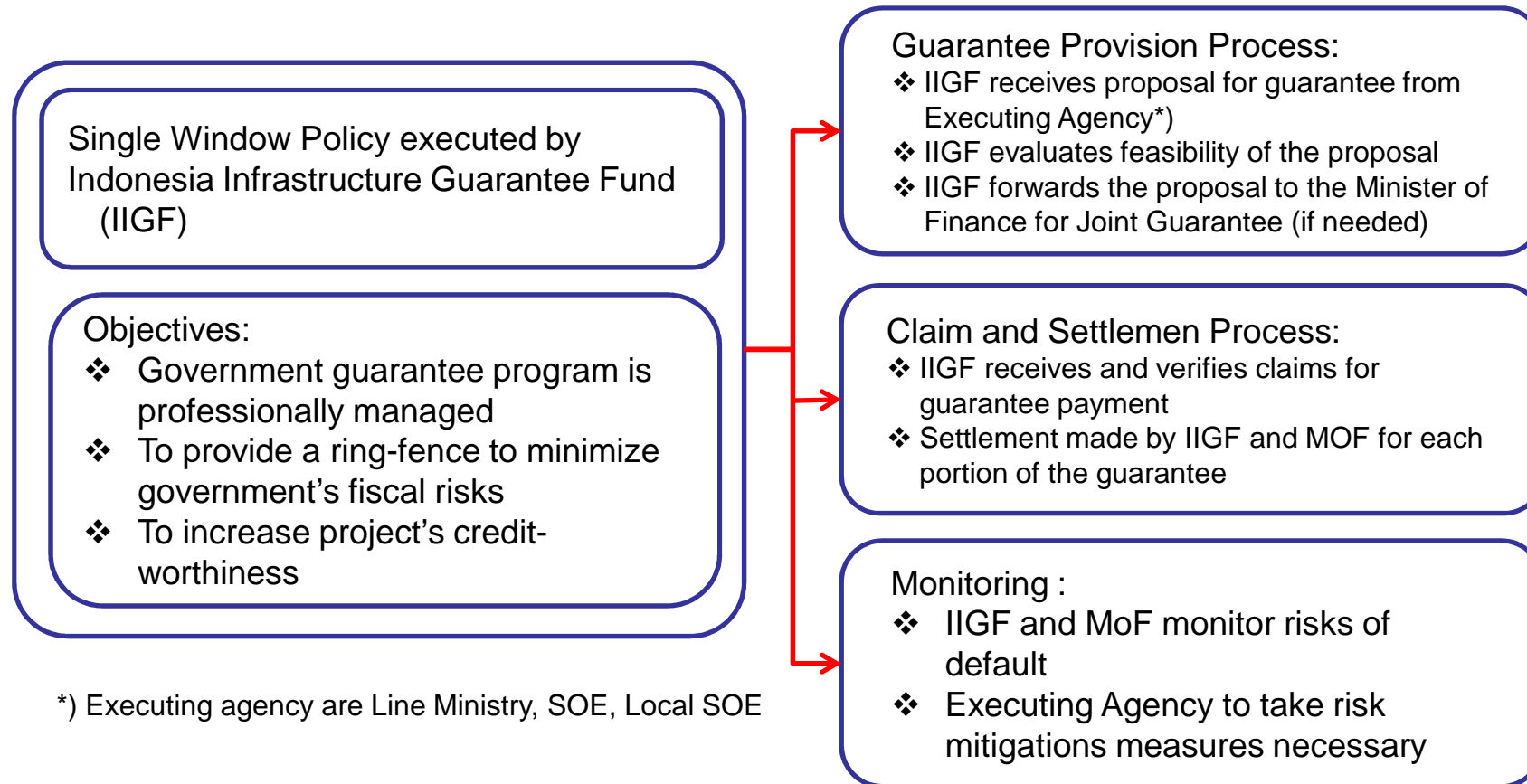
	Sector	Type
<p><b>Fast Track Program Phase 1 (FTP 1)</b></p> <ul style="list-style-type: none"> <li>• Full credit guarantee – Government will directly pay to creditor(s) of PLN when PLN fails to service its financial obligation</li> </ul>	Power	Credit Guarantee
<p><b>Clean Water Availability Program</b></p> <ul style="list-style-type: none"> <li>• Guarantees 70% of repayment of PDAM to creditor(s)</li> </ul>	Water	
<p><b>Fast Track Program Phase 2 (FTP 2)</b></p> <ul style="list-style-type: none"> <li>• Business Viability Guarantee – Guarantee on the viability of PLN to fulfill its obligation in Purchase Contract of Electricity with Private Developer and guarantee against political risk</li> </ul>	Power	Investment Guarantee
<p><b>Public and Private Partnership (PPP)</b></p> <ul style="list-style-type: none"> <li>• Guarantees the obligation of Ministry/Agency, Local Government, SOEs/Local SOEs to an entity in accordance to the Agreement</li> </ul>	Power, Water, Toll Roads, Railways, Bridges, Ports, and Others	



# Guarantee Issuance Mechanism - MoF



# Guarantee Issuance Mechanism - IIGF



# Risk Management for Government Guarantee

No	Risk Management	Mitigation	Information
1	Risk is absorbed entirely by the Government	a) Guarantee limit	Firstly set on the Mid-Term Debt Strategy Document for 2013-2016
		b) Recourse to guaranteed party	Has been implemented on guarantee program for FTP-1, Clean Water Availability Program and PPP.
		c) Guarantee reserve fund	Accumulation of guarantee fund provided in the state budget.
2	Risk sharing / risk transfer	a) Guarantee Fee	Government charges fee to beneficiary of the guarantee (for PPP projects).
		b) Partial risk guarantee	Has been implemented on guarantee for Water Availability Program, Government only guarantee 70% principal payment of guaranteed loan.
		c) Risk allocation according to the type of the risks	Government bears political risk
		d) Limiting the period covered by the guarantees	On FTP-2 and PPP, periods covered by guarantee is based on payback period of the project and not covering all the concessions period.
		e) Transfer the risk to the another party (insurance)	On FTP-2 and PPP, government does not guarantee risks that can be covered by insurance/market.



# Government Guarantee Outstanding

Program	Project	Letter of Guarantee	Guaranteed Amount		Outstanding Per September '13
FTP 1	37 *	11	USD	3.958.718.574	3.223.622.734
		23	IDR	36.105.992.211.891	22.157.879.454.242
Clean Water Availability Program	5	5	IDR	205.161.000.000	120.645.640.854
FTP 2	5	5	USD	3.503.701.488	-
PPP	1	1	USD	3.200.000.000	-
<b>Total</b>			USD	10.662.420.062	3.223.622.734
			IDR	36.311.153.211.891	22.278.525.095.096

\*) 37 = 33 Power Plant + 4 Package Transmission



# Thank You



Ministry of Finance of The Republic of Indonesia  
Directorate General of Debt Management  
Frans Seda Building  
Jalan Wahidin Raya Nomor 1, Jakarta Pusat  
Phone: +6221 351 0714  
Fax: +6221 351 0715  
Website: [www.djpu.depkeu.go.id](http://www.djpu.depkeu.go.id)