

Terms of Reference

Public Finance Specialist

Program Background

The Kemitraan Indonesia Australia untuk Infrastruktur (KIAT) is a 10-year facility supported by the Australian Government and implemented by Cardno. KIAT's overarching goal is to support 'Sustainable and inclusive economic growth through improved access to infrastructure for all people'. To support this goal, KIAT works with the Government of Indonesia, Government of Australia, the private sector, Multilateral Development Banks and other development partners, as well as civil society to help achieve the following 'End-of-facility Outcomes' (EOFOs):

1. Improved GOI policy and regulatory framework for infrastructure development
2. High quality projects prepared and financed by GOI, the private sector and / or MDBs
3. High quality infrastructure delivery, management and maintenance by GOI

The initial focus of KIAT Facility is on the following areas: Water and Sanitation; Transport; Gender, Social Inclusion and Civil Society Engagement (GESI-CSE); and Infrastructure Financing.

Purpose of The Position

The purpose of the position is to inform the Road Preservation Fund (RPF) discussion forum on the capacity of various funding sources and of new taxation instruments to support the fund and consequently the road maintenance needs. Annex 1 provides background to the overall activity.

Objectives

The objective of this position is to investigate the scope and extent of funding sources and taxation instruments that can be used to support the RPF, including the scope of revenues that can be expected, the transfer mechanisms that can be used, the fiscal capacity and the administrative / institutional capacities of the organisations involved.

Key Activities

The Public Finance Specialist will:

1. Review the existing policy brief documents in relation to the RPF rationale and objectives, and reports related to road user charges, to RPF funding and to PHJD (Program Hibah Jalan Daerah) and DAK (Dana Alokasi Khusus) fund allocations for road maintenance.
2. Advise the RPF discussion forum on the RPF funding models used in other countries, elaborate their advantages and disadvantages and provide recommendations for introducing the RPF (possibly by piloting the RPF in separate regions, provinces or districts (PHJD or others – see Annex)).
3. Based on sound knowledge of contemporary economic issues in Indonesia, describe funding sources and taxation instruments that can be used for RPF (fuel tax, vehicle registration, urban congestion charges, vehicle overloading fines, toll road charges, etc.) and for each source, the range of possible contributions, extent of potential increases in charges, funds transfer mechanisms, administrative capacity of responsible organisations, timeframe for availability of funds and other considerations or hurdles that may impact their use for funding the RPF.
4. Develop internal guidelines/mechanism/regulations and related draft dissemination materials to deal with the economic/financial aspect of RPF, as requested by the RPF forum.
5. Provide specific recommendations on most effective funding sources to use in the short term from historical and capacity perspective and improvements needed to consider other sources incorporating best international

experience. Deliver the recommendations at workshops or seminars and summarize all discussion outcomes, assistance activities and findings in a final report.

6. Coordinate with the Transport Economist investigating the benefits and costs of introducing new charges to road users and with the RPF specialists and the legal specialist.
7. Liaise with KIAT at monthly meetings.
8. Ensure that consultations, meetings, and decision-making processes include representations of gender
9. Ensure that all key activities consider opportunities to strengthen Gender Equality and Social Inclusion (GESI) outcomes during implementation, and where relevant consider the feasibility of engaging with civil society to enhance these outcomes.

Key deliverables

Table 1: List of deliverables

No	Deliverables	Due Date
1	Draft report on revenue sources and taxation instruments	15 October 2021
2	Final report on revenue sources and taxation instruments	10 January 2021

All deliverables to be submitted in Bahasa Indonesia. KIAT will provide the English translations.

Selection criteria

Selection criteria for the Public Finance Specialist are:

Essential

- a. Master degree qualifications in public finance, economics or related fields.
- b. Minimum 10 years' experience in advising governments in financing or tariff setting or user charges
- c. Excellent report writing skills in Bahasa Indonesia.
- d. Ability to communicate with a range of stakeholders.
- e. Good knowledge of Indonesia's funding and financing framework, and of contemporary economic issues.

Preferred

- i. Experience in financing or tariff setting or user charges in the road transport sector
- j. Knowledge of transport sector financing needs.
- k. Knowledge of fiscal policy at the macro-economic level.
- l. Knowledge of financial sector policy both in terms of financial stability and development.
- m. Good verbal skills in English.

Position details

Reports to: Lead Adviser – Transport

Employment: Locally-Engaged Staff

Duration: 80 days intermittent inputs over 4 months

Contract: Short Term Consultancy Agreement

Commencement: July 2021

Location: Home based/Jakarta (subject to COVID-19 travel policies)

Remuneration: Based on the experience of the successful candidates and current market rates

Our Recruitment Policies

Cardno is an equal opportunity employer and KIAT is committed to promoting gender equality in the workplace. KIAT through its activities, and as an organisation, strives to advance gender equality and develop and implement policies and practices to strengthen women's leadership.

Cardno is committed to child protection and safeguarding the welfare of children in the delivery of our international development programs. Recruitment and selection procedures reflect this commitment and may include relevant criminal record checks.

Annex 1: Road Preservation Fund Design Background

The infrastructure sector is a key focus area underpinning Indonesia's economic recovery from COVID-19. There are clear indications that infrastructure projects that are employment intensive and help create jobs will be prioritised by the Ministry of Public Works and Housing and the Ministry of Finance as part of Indonesia's recovery phase. Maintenance of existing road infrastructure assets provides quick 'shovel-ready' options at relatively low-cost and helps generate economic activity and jobs for men and women. Indonesia's roads are essential to the economy and must be sustainably maintained. In 2012, road assets were valued at an equivalent of 15.6 per cent of GDP. The loss of asset value due to damage, mostly by vehicles, was estimated to be equivalent to 4.8 per cent of GDP. The cost to the economy of higher transport costs and lower mobility and accessibility is estimated to be even higher. Therefore, allocating funds to maintain road assets is crucial for economic activity.

Law 22/2009 on Road Traffic and Transport addresses the urgent need to improve road preservation through two key provisions: (i) Road Preservation Fund, managed by special units¹, to secure more reliable funding and accountability, and (ii) Road Traffic and Transport Forums (RTTFs), with representation by road users and others, to be established at all levels of government to strengthen scrutiny of road agency performance. In relation to the RPF provision, no implementing details were specified within Law 22/2009 other than an indication that the RPF can be capitalised from road user charges and that they must be managed by RPF management units.

In Indonesia, there is no link between the road damage caused by users and the levies they pay. Fuel use is heavily subsidised, and vehicle taxes are a source of general revenue with no explicit relation to road use or damage done by different classes of vehicle or expenditure on roads. Road preservation allocations compete with other uses of development budgets and are generally not sufficient to prevent deterioration and expensive reconstruction.

Road preservation funding in other countries is usually handled in three ways: (i) earmarked funding from road users which is sometimes channelled through dedicated road funds (drawn mainly from fuel taxes and annual truck fees, but also including direct distance-based charges in some countries); (ii) grants from national governments, sometimes conditional on output performance; and (iii) funding from general tax revenues collected at each level of government. In 2001, following a review of overseas practice and evaluation of options, detailed proposals were made for a system of road funds in Indonesia financed from:

- an additional fuel levy PBBKB² (distance-based), contributing two-thirds of the needed revenues (implying at the time a 12 per cent price increase for gasoline and 23 per cent increase for automotive diesel); and
- a restructured vehicle tax PKB³ (vehicle-based), contributing one-third of needed revenues, with trucks paying more based on the road damage they cause.

These recommendations were met with resistance due to their imposition of perceived additional user costs and their dedication of general tax revenues for specific purposes, as well as concern about the necessary legal and regulatory changes. Another effort to establish RPF in 2011 encountered similar resistance and failed. The Directorate General of Highways (DGH) requested KIAT support in 2019 to review the previous efforts and propose a way forward. KIAT conducted a short scoping study which came up with a range of findings including:

- The need to revise road-related provisions of Law 28/2009 on Regional Taxes and Levies, to allow additional fuel- and vehicle-based taxes to be levied as cost-recovery charges.
- DGH had embarked on two initiatives that offer significant improvements to governance and accountability in line with Law 22/2009. These are:
 - i) The Provincial Road Improvement and Maintenance (PRIM) and Program Hibah Jalan Daerah (PHJD) designed to improve the preservation of subnational roads with oversight from the RTTFs included in Law 22/2009. These initiatives are trialling increased engagement with civil society interest groups to play an oversight role for improved planning, design and delivery of road works (including increased employment opportunities for women, and design changes to increase accessibility for People with Disabilities), and

¹ Management units can be established at different levels of the government ie central, provincial and district with independent or linked governance structures using revenues from provincial tax receipts or earmarked collections, or benefitting from transfers from the central government for the maintenance of roads in the province.

² Pajak Atas Penggunaan Bahan Bakar Kendaraan Bermotor, Motor Vehicle Fuel Tax

³ Pajak Kendaraan Bermotor, Vehicle Tax

- ii) The availability-based PPP model for non-tolled road projects or subnetworks which could also be used to trial the use of an RPF.

The KIAT study in 2019 recommended that efforts should focus on demonstrating the effectiveness of ongoing PHJD and KPBU-AP⁴ initiatives as models of improved road preservation governance. The proposed next steps included:

- Drafting subordinate regulations under Law 22/2009 allowing RPF units to be structured as BLUs/BLUDs⁵ and permitting APBN⁶ and APBD⁷ funding as well as user tax revenues; RTTFs should scrutinise network preservation performance;
- Implementing a KPBU-AP pilot project on the national road network comprising at least 100 km with 10+ years' contract term (to benefit from economies of scale and life-cycle optimisation), and examining the option of using a BLU structure to manage the availability payments; and
- Continuing to roll out the PHJD pilot implementation on the sub-national networks, monitoring its impact on network preservation performance and examining the possible role of a central BLU to strengthen technical oversight and verification and regional BLUDs to assist regional agencies.

Phase 1 of KIAT's assistance on the design of an RPF was initiated in 2020 and focused on developing a high-level strategic policy brief for key decision-makers, on drafting national level regulations to operationalise an RPF, on preparing an academic paper on the regulations and on a draft plan to prepare and implement an RPF. A cross-ministerial meeting held in February 2021 concluded that:

- (1) RPF can be an instrument of structural transformation in terms of financing the maintenance of road infrastructure. It can be considered when Indonesia will later develop the RPJPN 2025-2045 as a policy and planning reform.
- (2) The leader and composition of a formal inter-ministerial RPF committee is yet to be agreed.
- (3) The proposed RPF draft design and future action plan was agreeable, and representatives of the relevant ministries were asked to report the results of this meeting to their superiors for further support.
- (4) The line ministries continue with inter-ministerial technical discussions in the context of finalizing the regulations and implementation plan.

Phase 1 was completed in mid-2021. Phase 2 assistance, under which this position is recruited, will support a newly created RPF discussion forum, comprising representatives of the Ministry of National Development Planning (Bappenas), the Ministry of Public Works and Housing the Ministry of Finance, the Ministry of Home Affairs, the Ministry of Transportation and other key stakeholders, in developing consensus to design and implement the RPF. Critical studies on the revenue sources and taxation instruments that can be used to fund the RPF, on the benefits and costs to road users incurred by the RPF initiative and a legal review will also be conducted during that second phase.

⁴ Kerjasama Pemerintah dengan Badan Usaha – Availability Payment, Public Private Partnerships (PPP) – Availability Payment (AP)

⁵ Badan Layanan Umum/Badan Layanan Umum Daerah, Public Service Agency, Regional Public Service Agency

⁶ National Budget

⁷ Regional Budget