

Box 1. Indonesia: The Economic Program for Sustaining Recovery

Reform Area	2000-2002 Strategic Objective	2000		
		Main Objectives	Measures Implemented Since January MEFP	Further Progress Expected by end-June
A. Fiscal Sustainability				
<i>Public debt reduction</i>	<ul style="list-style-type: none"> Reduce debt ratio from 100 percent in 1999 to 80 percent 	<ul style="list-style-type: none"> Balance stimulus with laying the basis for consolidation 	<ul style="list-style-type: none"> Raised electricity tariffs by average of 29 percent with protection for small households/low-income families. Submitted to Parliament 5 amended tax laws. Implemented measures to rationalize fiscal incentives. Established debt management unit at MOF. Established system for bond trading. 	<ul style="list-style-type: none"> Prepare mechanisms to protect low-income families against fuel tariff increases. Work toward securing Parliamentary approval of tax laws. Establish task force on civil service reform. Prepare proposals for bond market development.
<i>Decentralization</i>	<ul style="list-style-type: none"> Implement with fiscal neutrality/regional equity 	<ul style="list-style-type: none"> Prepare to implement in 2001 	<ul style="list-style-type: none"> Established Regional Autonomy Advisory Council. Established Coordinating team to direct decentralization. 	<ul style="list-style-type: none"> Establish new timetable for implementing decentralization. Hold consultations with provinces/districts on devolution of functions in line with capacity. Draft assessments of the financial, civil service, and regulatory implications of decentralization. Draft all regulations for the devolution of functions
B. Financial				
<i>State and BTO banks</i>	<ul style="list-style-type: none"> Restructure Achieve 8 % CAR Reduce public ownership 	<ul style="list-style-type: none"> Recapitalize 4 state banks to 4% CAR 	<ul style="list-style-type: none"> Changed BNI top management. Issued first tranche of BNI's recapitalization bonds on the basis of agreed performance contract. Completed recapitalization of Bank Mandiri and signed final performance contract. 	<ul style="list-style-type: none"> Issue second and final tranche of BNI's recapitalization on the basis of due diligence audit, and signing of contracts for implementation of business plan and preparation for privatization. Issue first tranche of BRI recapitalization, after installation of new management and agreement on interim performance contract. Develop strategy for BTN/housing finance sector and decide timetable for BTN's recapitalization.
		<ul style="list-style-type: none"> Recapitalize BTO banks Begin privatization of BTO banks 	<ul style="list-style-type: none"> Launched public share offer for BCA. Initiated merger of Bank Danamon with 8 other BTO banks. 	

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<i>Bank and IBRA Governance</i>	<ul style="list-style-type: none"> • Bring supervision in line with Basel Core Principles • Safeguard government investment in private/state banks • Establish IBRA accountability and governance 	<ul style="list-style-type: none"> • Upgrade supervision 	<ul style="list-style-type: none"> • Revised masterplan for supervision to incorporate findings of BI audit. • Established governance and oversight units for banks. 	<ul style="list-style-type: none"> • Establish permanent presence at each state bank. • Make fully operational governance and oversight unit for banks.
		<ul style="list-style-type: none"> • Increase BI transparency/accountability • Resolve all problems in BI Audit 	<ul style="list-style-type: none"> • Prepared BI's end-1999 financial statements and submitted to BPK auditors. • Reconciled BI's foreign currency assets and liabilities with net foreign exchange reserves. • Established Financial Controller function at BI by decree specifying duties and responsibilities. 	<ul style="list-style-type: none"> • Publish BI reserves data in line with SDDS. • Complete due diligence and prepare plan for divestiture, or other resolution, of BI's subsidiaries. • Publish audited statement of BI financial accounts for end-1999.
		<ul style="list-style-type: none"> • Improve IBRA oversight/transparency • Establish new procedures for claims under the guarantee. 	<ul style="list-style-type: none"> • Launched study to develop new governance framework. • Commenced monthly publication on IBRA operations. • Settled eligible interbank claims. • Completed investigative audit of Bank Putera. 	<ul style="list-style-type: none"> • Publicize transparent procedures for processing claims under the guarantee on bank liabilities. • Adopt a new governance framework for IBRA. • Publish audited accounts for end 1999.
<i>IBRA Recovery</i>	<ul style="list-style-type: none"> • Complete settlement of shareholder assets • Complete the bulk of loan recovery • Meet budgetary recovery targets 	<ul style="list-style-type: none"> • Improve framework for IBRA restructuring 	<ul style="list-style-type: none"> • Issued decree specifying conditions for debt write-downs by IBRA. • Issued decree to protect IBRA staff from legal actions. 	<ul style="list-style-type: none"> • Complete outsourcing of loans (Rp 5 to 50 billion).
		<ul style="list-style-type: none"> • Restructure 20 largest obligors • Complete shareholder settlement agreements/asset transfers 	<ul style="list-style-type: none"> • Developed targets for making progress in restructuring with cooperating (categories A and B) debtors. • Transferred all remaining state bank category 5 loans as of September 1999 to IBRA. • IBRA filed additional legal actions and insolvency petitions against non-cooperating debtors in the commercial court. 	<ul style="list-style-type: none"> • Conclude negotiations with shareholders of the 1998 BTO/closed banks. • Finalize restructuring term sheets for at least 35% (in value) of 21 top obligors. • Take further legal actions against non-cooperative debtors and former shareholders of BTO/closed banks.
		<ul style="list-style-type: none"> • Begin disposing listed assets 	<ul style="list-style-type: none"> • Completed sale of 40 percent of IBRA's stake in Astra. 	<ul style="list-style-type: none"> • Finalize program for meeting Rp 18.9 trillion recovery target for FY2000.

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C. Corporate Restructuring and Legal Reforms				
<i>Non-IBRA led Restructurings</i>	<ul style="list-style-type: none"> • Make significant progress in debt and operational restructuring 	<ul style="list-style-type: none"> • Strengthen JITF • Exert pressure on debtors. 	<ul style="list-style-type: none"> • Issued decrees enabling FSPC to refer cases to the Attorney General, as well as to refer cases for JITF restructuring under time-bound mediation procedures. • Issued decree for expedited approval of regulatory filings under the JITF's one-stop shop. • Appointed Chairman, Chief Operating Officer, and key staff for JITF. • FSPC directed initial list of companies to JITF for debt restructuring under the new mediation framework. 	<ul style="list-style-type: none"> • JITF to complete staffing and retention of specialists. • FSPC to direct additional lists of companies for debt restructuring. • Initiate survey of progress in corporate debt restructuring.
		<ul style="list-style-type: none"> • Make tax/regulatory framework fully supportive of restructuring 	<ul style="list-style-type: none"> • Amended draft tax laws to contain provision for further tax incentives for restructuring. 	<ul style="list-style-type: none"> • Review need for additional tax incentives to debtors and creditors for restructuring.
<i>Legal Reforms</i>	<ul style="list-style-type: none"> • Increase deterrent of Bankruptcy law 	<ul style="list-style-type: none"> • Improve application of Bankruptcy law • Improve Commercial Court functioning 	<ul style="list-style-type: none"> • Criteria for appointment of ad-hoc judges finalized. • New inter-ministerial committee established to coordinate strategy for noncooperative debtors 	<ul style="list-style-type: none"> • New slate of ad hoc judges appointed by the President. • Assign <i>ad hoc</i> judges to bankruptcy cases pending before the Commercial Court.
	<ul style="list-style-type: none"> • Intensify Anti-Corruption Efforts 	<ul style="list-style-type: none"> • Introduce mechanisms to investigate court corruption 	<ul style="list-style-type: none"> • Appointed Chairman of the Joint Investigating Team (JIT) on corruption cases and the court system. 	<ul style="list-style-type: none"> • Make operational Commission for the Audit of State Officials. • Make JIT fully operational.
<i>Corporate Governance</i>	<ul style="list-style-type: none"> • Implement new framework 	<ul style="list-style-type: none"> • Adopt national strategy for corporate governance 	<ul style="list-style-type: none"> • New strategy adopted by NCCG. • Conducted comprehensive reviews of existing rules on governance. 	<ul style="list-style-type: none"> • Develop recommendations for public companies accounting standards consistent with International Accounting Standards. • Take specific steps to enforce existing governance regulations.
D. Transparency and Other Structural Reforms				
<i>Fiscal Transparency</i>	<ul style="list-style-type: none"> • Improve fiscal measurement and governance 	<ul style="list-style-type: none"> • Identify/start to consolidate off budget and bank accounts • Start to audit foundations/remaining off budget accounts (including military) 	<ul style="list-style-type: none"> • Integrated Reforestation Fund in the budget. • Draft law on private foundations finalized and submitted to President. • Established Task Force to prepare work program for improving treasury management and rationalizing bank accounts of government agencies. • Issued Presidential instruction to all ministries/agencies to report their off-budget accounts to MOF by June. 	<ul style="list-style-type: none"> • Submit law on private foundations to Parliament. • Complete review to identify remaining off-budget funds and establish time-table for their oversight or integration. • Establish timetable for improving Treasury management.

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<i>Key State Enterprises, Privatization, and Competition</i>	<ul style="list-style-type: none"> • Improve governance of enterprises 	<ul style="list-style-type: none"> • Target selected enterprises 	<ul style="list-style-type: none"> • Started implementation of program of remedial actions for BULOG, PLN, the Reforestation Fund, and Pertamina on the basis of their audit reports. 	<ul style="list-style-type: none"> • Initiate audits for five further state enterprises. • Prepare and publish quarterly reports on progress in implementing remedial actions in the four audited agencies.
	<ul style="list-style-type: none"> • Restructure key sectors • Improve competition 	<ul style="list-style-type: none"> • Update/start implementing medium-term master privatization plan. 	<ul style="list-style-type: none"> • Medium-term masterplan updated. • FY2000 privatization program finalized. 	<ul style="list-style-type: none"> • Issue guidelines on future privatization procedures. • Issue implementing regulations for 1999 Telecom Law. • Establish inter-ministerial team to prepare restructuring of telecommunication sector.
		<ul style="list-style-type: none"> • Improve competition in selected sectors, especially energy. 	<ul style="list-style-type: none"> • Advanced preparation of new energy sector laws. • Conducted review of investment policy. • Established Council for Business Competition. 	<ul style="list-style-type: none"> • Finalize proposal to reduce negative list for FDI. • Make operational Commission for Business Competition (CBC) and start implementing Competition Law. • Finalize draft Electricity and Oil and Gas laws.
		<ul style="list-style-type: none"> • Make progress with IPPs. 	<ul style="list-style-type: none"> • Established new framework for negotiated settlements by inter-ministerial task force. 	<ul style="list-style-type: none"> • Carry forward progress toward negotiated settlements.
<i>Agriculture and SME reform</i>	<ul style="list-style-type: none"> • Improve food security 	<ul style="list-style-type: none"> • Reform rice intervention policy 	<ul style="list-style-type: none"> • Removed all (nontariff) import restrictions on rice and sugar trade. 	<ul style="list-style-type: none"> • Prepare restructuring plans for the sugar processing industry and BULOG.
	<ul style="list-style-type: none"> • Improve access to credit 	<ul style="list-style-type: none"> • Rationalize existing credit schemes 	<ul style="list-style-type: none"> • Initiated audit of KUT credit scheme. 	<ul style="list-style-type: none"> • Prepare strategy to improve rural credit. • Announce corrective actions in response to interim KUT audit.
	<ul style="list-style-type: none"> • Reform forestry management 	<ul style="list-style-type: none"> • Develop National Forestry Program 	<ul style="list-style-type: none"> • Completed consultations with stakeholders. • Initiated corrective actions against illegal loggers. 	<ul style="list-style-type: none"> • Approve new resource royalties rate. • Finalize government regulation on the utilization of the Reforestation Fund.

Table 1. Indonesia: Quantitative Performance Criteria (PC) and Indicative Targets
Under Extended Arrangement, January–December 2000 1/

	2000										
	Jan. Actual	Feb. PC 2/ Actual		Mar. Actual	Apr. PC 2/ Actual		May	Jun. PC	Aug. PC	Sep.	Dec.
	(In trillions rupiah)										
Monetary targets											
Net domestic assets (NDA) of Bank Indonesia 3/	-32.0	-20.6	-32.8	-39.5	-20.0	-40.0	-12.7	-11.4	-10.1	-9.5	-7.4
Base money (indicative target) 3/	86.5	85.8	85.9	88.4	86.4	87.9	86.8	88.1	89.4	90.0	92.1
Fiscal targets											
Overall central government balance 4/	-7.0	-40.9	-5.3	-30.7	-6.0	...	-12.0	-18.1	-24.8	-28.2	-45.4
	(In billions U.S. dollars)										
External targets											
Net international reserves (NIR) of Bank Indonesia 5/	16.9 (14.7)	15.2 ...	17.0 (15.6)	18.3 (16.5)	15.2 ...	18.3 (16.1)	14.2	14.2	14.2	14.2	14.2
Contracting or guaranteeing of new nonconcessional external debt 6/	0.0	3.1	0.0	3.5	0.5	0.0	0.5	0.5	1.0	1.1	1.5
Stock of short-term external debt outstanding 3/	0.0	2.5	1.0	...	2.5	...	2.5	2.5	2.5	2.5	2.5
Public external arrears 3/	0.0	0.0	0.0	0.0	0.0	...	0.0	0.0	0.0	0.0	0.0

1/ Definitions are contained in Annexes I-IV of MEFP, January 20, 2000. The non-accumulation of external arrears is a continuous performance criterion throughout the program. From May onward, NIR is adjusted based on the SDDS definition of gross reserves (broadly equivalent to the concept of liquid reserves reported by Bank Indonesia since end-1998). The NDA target has been correspondingly adjusted.

2/ Adjusted program targets for NDA and NIR.

3/ Outstanding stocks (program limits).

4/ Cumulative balances from beginning of fiscal year (floor) (i.e., end-April 1, 1999 for January-March 2000, and April 1, 2000 for other months).

5/ Outstanding stocks (floor). Figures in parentheses are based on end-month SDDS definition of reserves.

6/ Cumulative amounts from beginning of fiscal year (ceilings).

Table 2. Structural Performance Criteria and Benchmarks, May–December 2000

End-May 2000

- Launch the share offer for BCA bank.¹

End-June 2000

- Adopt a new governance framework for IBRA.¹
- Publish audited IBRA accounts for December 1999.^{2,3}
- *Publish Bank Indonesia's audited financial accounts for end-1999.*

End-July 2000

- *Submit to BPK an interim balance sheet and income statement for end-June 2000 by Bank Indonesia*

End-September 2000

- *Complete operational merger of eight BTO banks with Bank Danamon.*

End-December 2000

- *Finalize resolution plan for Bank Niaga.*
- Complete and publicize the special audits on the national airline, the toll road operator, and the domestic telecommunications company.^{2,4}

¹ Delayed from March.

² Performance criterion.

³ Delayed from April.

⁴ Delayed from June.

Italics denote newly set or modified benchmarks.