

Box 1. Indonesia: The Economic Program for Sustaining Recovery

Reform Area	2000-2002 Strategic Objective	2000		
		Main Objectives	Measures Implemented Since May MEFP	Main Areas of Progress Expected in August-September
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 fiscal consolidation 	<ul style="list-style-type: none"> Agreed on mechanisms to protect low-income families against fuel tariff increases. Established task force on civil service reform. Prepared plan for bond market development. 	<ul style="list-style-type: none"> Seek Parliamentary approval of tax laws. Prepare recommendations for civil service reform. Adopt medium-term program for energy prices.
<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"> Issued regulation to implement law 22/99 for the devolution of functions.¹ 	<ul style="list-style-type: none"> Operationalize RAAC and Coordinating Team. Specify positive list of functions to be devolved. Hold consultations with provinces/districts on devolution of functions in line with capacity. Complete drafting of regulations for Law 25/99 and prepare draft revision of Law 18/97.
B. Financial Sector Reforms				
<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"> Issued final tranche of BNI's recapitalization Issued first tranche of BRI's recapitalization, after installation of new management and agreement on interim performance contract. Developed strategy for recapitalizing BTN. 	<ul style="list-style-type: none"> Complete BRI recapitalization and divestment plan.
		<ul style="list-style-type: none"> Recapitalize BTO banks Begin privatization of BTO banks 	<ul style="list-style-type: none"> 22.5% of IBRA's BCA holdings sold at IPO. Recapitalized/integrated Danamon. Recapitalized Bank Niaga. 	<ul style="list-style-type: none"> Engage financial advisors to privatize BCA/Niaga.
<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"> Made fully operational governance and oversight unit at MOF for state banks. 	<ul style="list-style-type: none"> Set supervisory presence at state banks. Prepare Mandiri corrective action plan based on BI examination and MoF performance review. Prepare MoF plan to upgrade state bank management and governance.
		<ul style="list-style-type: none"> Increase BI transparency/accountability Resolve all problems in BI Audit 	<ul style="list-style-type: none"> Published reserves data in line with Reserves Template. Published BI audited 1999 financial accounts. 	<ul style="list-style-type: none"> Strengthen information and internal control systems. Submit to BPK interim BI June balance sheet. Complete due diligence and divestment plan for BI subsidiaries.
		<ul style="list-style-type: none"> Improve IBRA oversight/transparency Improve asset disposition capacity Establish new procedures for claims under the guarantee. 	<ul style="list-style-type: none"> Published procedures for guarantee claims. Adopted governance framework for IBRA. Appointed members of new IBRA Board. Published IBRA's audited 1999 accounts. 	<ul style="list-style-type: none"> Adopt plan to address issues in IBRA audit report. Publish IBRA's 1999 Annual Report.

¹ Implementation plan for decentralization has been rephased to end-September 2000.

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		Main Objectives	Measures Implemented Since May MEFP	Main Areas of Progress Expected in August-September
<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"> • Completed loan outsourcing (Rp 5 to 50 bill.). 	<ul style="list-style-type: none"> • Complete comprehensive review of IBRA's legal powers. • Adopt action plan to enhance control over pledged assets.
		<ul style="list-style-type: none"> • Restructure debt of 21 largest obligors • Complete shareholder settlement agreements/ asset transfers 	<ul style="list-style-type: none"> • Concluded negotiations with 12 out of 16 shareholders of the 1998 BTO/closed banks. • Finalized restructuring term sheets or took legal action on 35 percent (in value) of 21 top obligors. • Established Recalcitrant Debtor Committee. 	<ul style="list-style-type: none"> • Take successive legal actions against noncooperative debtors and bank shareholders failing to reach or implement settlement agreements with IBRA.
		<ul style="list-style-type: none"> • Begin disposing assets 	<ul style="list-style-type: none"> • Published detailed program to meet Rp 18.9 trillion recovery target for FY2000, including written commitments from asset owners. 	<ul style="list-style-type: none"> • Sell by open tender all small SME and retail loans. • Engage international firms to conduct due diligence on all enterprises scheduled for sale in 2000.
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"> • Completed staffing of JITF. • Initiated survey of progress in restructuring. • Referred additional 8 companies by FSPC to JITF. 	<ul style="list-style-type: none"> • Complete survey of progress in debt restructuring. • Work to build JITF's case load to the \$15 b Dec target. • Refer non-cooperating debtors to Attorney General.
		<ul style="list-style-type: none"> • Make tax/regulatory framework fully supportive of restructuring 	<ul style="list-style-type: none"> • Completed review of tax and other incentives to debtors and creditors for debt restructuring. 	<ul style="list-style-type: none"> • Introduce specific incentives for JITF restructurings. • Issue MoF decree regarding treatment of subordinated debt for regulated finance companies. • Issue decree for IBRA to support JITF-led restructurings.
<i>Legal Reforms</i>	<ul style="list-style-type: none"> • Increase deterrent of Bankruptcy law 	<ul style="list-style-type: none"> • Improve Commercial Court functioning 	<ul style="list-style-type: none"> • Appointed new ad hoc judges by President. 	<ul style="list-style-type: none"> • Assign ad hoc judges to IBRA cases. • Submit new law to allow publication of dissenting opinions.
	<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"> • Formed Joint Investigative Team under AG. 	<ul style="list-style-type: none"> • Start JIT investigations into court corruption. • Make operational (appoint members) the Commission for the Audit of State Officials.
<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"> • Developed initial set of recommendations for public companies accounting standards. • Tightened enforcement of existing governance regulations. 	<ul style="list-style-type: none"> • Review implementation of framework.

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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"> Submitted law on foundations to Parliament. Completed first review of off-budget funds. Issued letter by Defense Minister to BPKP to audit the military. 	<ul style="list-style-type: none"> Work toward approval of law on foundations. BPKP to verify reports by ministries and agencies. Develop recommendations regarding integration of the off-budget funds, and sanctions on misreporting.
<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"> Initiated audits of five more state enterprises. 	<ul style="list-style-type: none"> Issue 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"> Published 2000 list of enterprises to privatize Issued formal guidelines on privatization. Updated and published medium term privatization plan. Established inter-ministerial team to prepare restructuring of telecommunication sector. 	<ul style="list-style-type: none"> Issue new tariff policy, network interconnection rules, model operator licenses, and a charter for plant regulation agency. Telecom and Indosat to divest stakes in non-core businesses. Issue implementing regulations for 1999 Telecommunications Law and prepare action plan.
		<ul style="list-style-type: none"> Improve competition in selected sectors, especially energy. 	<ul style="list-style-type: none"> Made operational Commission for Business Competition. Finalized draft Electricity/Oil and Gas laws. 	<ul style="list-style-type: none"> Submit Electricity/Oil and Gas laws to Parliament. Reduced negative list for FDI.
		<ul style="list-style-type: none"> Make progress with IPPs. 		<ul style="list-style-type: none"> Advance negotiation of agreements in respect of projects that have not reached financial closing.
<i>Agriculture and SME reform</i>	<ul style="list-style-type: none"> Improve food security Restructure sugar industry 	<ul style="list-style-type: none"> Reform rice intervention Rationalize sugar mills 	<ul style="list-style-type: none"> Initiated restructuring plan for BULOG. Initiated restructuring of sugar processing. 	<ul style="list-style-type: none"> Reassess rice procurement price and import tariff. Prepare to implement consolidation plan for sugar mills.
	<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 strategy to improve rural credit. Announced corrective actions in response to interim KUT audit. 	<ul style="list-style-type: none"> Announce shift for farmers' working capital credit from KUT channeling mechanism to commercial basis.
	<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"> Approved new resource royalties rate. Finalized government regulation on the utilization of the Reforestation Fund. 	<ul style="list-style-type: none"> Prepare an area-based system for assessment of PSDH and reforestation fund levies.

Box 2. Decentralization Preparation Timetable

Task/Output	Responsibility	Timeframe
Management of Process		
Operationalize RAAC and assign full-time staff to service CT.	CT and RAAC	Mid-July
Issue guidelines to line ministries to work with districts and provinces to specify functions (tasks/activities, work units and assets) to be devolved.	CTWG on Devolution of Functions, Ministry of Finance, and BPKP	Mid-July
Complete, for each district and province, identification and costing of functions to be decentralized.	CT, Line Ministries, Districts, and Provinces	End of September
Approval by Cabinet of an implementation plan that devolves functions with commensurate financial transfers to each district and province.	CT	End of September
Transfer of Personnel		
Issue government regulations to relocate personnel, including regulations on: payroll management; personnel management and employment conditions; and including transitional arrangements during the process of decentralization.	BKN/MenPan	End of September
Financial Regulations		
Issue regulations on: fiscal balance, specifying the formula for distributing the General Allocation Fund including transitional arrangements to ensure finance follows function; local government accountability and financial management; borrowing by subnational governments; financial information systems; and asset transfers.	CTWG on Fiscal Balance and Assets	End of September
Submit to Parliament revision of Law 18/97 to redefine local tax bases and provide rate flexibility.	CTWG on Fiscal Balance and Assets	End of September
Budget management, transparency and accountability		
Agree with provinces and districts: projects to be transferred, and domestic borrowing rules; estimates of shared revenues and of their share of the General Allocation Fund.	Ministry of Finance	End of November
Instruct districts and provinces on standards of reporting to the public and Ministry of Finance and auditing requirements.	Ministry of Finance	End of November

Abbreviations :

- CT : Coordinating Team
CTWG : Coordinating Team Working Group
BKN : Civil Service Board
MenPan : Ministry of State Apparatus and Administrative Reform

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

	Jan. Actual	Feb. PC 2/ Actual	Mar. Actual	Apr. PC 2/ Actual	May Actual	Jun. PC 2/ Actual	Jul. IT	Aug. PC	Sep. IT	Oct. PC	Nov. IT	Dec. PC			
(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	-22.2	-4.1	-19.8	-10.8	-20.7	-20.1	-19.4	-18.7	-18.0
Base money (indicative target) 3/	86.5	85.8	85.9	88.4	86.4	87.9	90.1	88.1	94.1	88.7	89.4	90.0	90.7	91.4	92.1
Fiscal targets															
Overall central government balance 4/	-7.0	-40.9	-5.3	-30.2	-6.0	5.7	10.2	-18.1	...	-23.8	-24.8	-28.2	-33.9	-38.7	-45.4
(In billions U.S. dollars)															
External targets															
Net international reserves (NIR) of Bank Indonesia 5/	16.9 (14.1)	15.2 ...	17.0 (14.6)	18.3 (15.9)	15.2 ...	18.3 (16.2)	16.0	13.2	16.3	14.2	15.7	15.7	15.7	15.7	15.7
Contracting or guaranteeing of new nonconcessional external debt 6/	0.0	3.1	0.0	3.5	0.5	0.0	0.0	0.5	0.0	0.8	1.0	1.1	1.2	1.3	1.5
Stock of short-term external debt outstanding 3/	0.0	2.5	1.0	0.5	2.5	0.5	...	2.5	...	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	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 Reserves Data Template (broadly equivalent to the concept of liquid reserves reported by Bank Indonesia since end-1998). The NDA targets are 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 the 10-day average of SDDS reserves, centered at end month. Starting in May, figures for both targets and actual outcomes are based on the Reserves Data Template.

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

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

End-August 2000

- Submit to BPK BI's interim balance sheet and income statement for end-June 2000.

End-September 2000

- *Sign term sheets or initiate legal action for 70 percent of loan value of IBRA's 21 largest obligors.*
- *Collect at least Rp 12.0 trillion in cash by IBRA.*
- *Refer by the FSPC a cumulative total of at least 12 cases, accounting for at least \$7.5 billion in debt, to the JITF.¹*
- *Approval by Cabinet of an implementation plan that devolves functions with commensurate financial transfers to each district and province.*

End-October 2000

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

End-December 2000

- *Complete the privatization of banks Niaga and BCA.¹*
- *Collect Rp 18.9 trillion in cash by IBRA.*
- *Complete and publicize the special audits on the national airline, the toll road operator, and the domestic telecommunications company.¹*
- *Sign term sheets or initiate legal action for 100 percent of loan value of IBRA's 21 largest obligors.*
- *Refer by the FSPC a cumulative total of at least 17 cases, accounting for at least \$10 billion in debt, to the JITF.¹*

¹ Performance criterion.