

AGENCY FOR INTERNATIONAL DEVELOPMENT

Washington, D.C. 20523

PROJECT PAPER

PROJECT PAPER SUPPLEMENT

INDONESIA: Financial Markets Project
(497-0360)

August 26, 1991

AGENCY FOR INTERNATIONAL DEVELOPMENT PROJECT DATA SHEET	1. TRANSACTION CODE <input type="checkbox"/> A = Add <input checked="" type="checkbox"/> C = Change <input type="checkbox"/> D = Delete	Amendment Number 1	DOCUMENT CODE 3
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2. COUNTRY/ENTITY Indonesia	3. PROJECT NUMBER 497-0360
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4. BUREAU/OFFICE Asia and Private Enterprise <input type="checkbox"/> 04	5. PROJECT TITLE (maximum 60 characters) Financial Markets Project <input type="checkbox"/>
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6. PROJECT ASSISTANCE COMPLETION DATE (PACD) MM DD YY 09 30 94	7. ESTIMATED DATE OF OBLIGATION (Under "B." below, enter 1, 2, 3, or 4) A. Initial FY <input type="checkbox"/> 8 <input type="checkbox"/> 8 <input type="checkbox"/> 9 <input type="checkbox"/> 0 B. Quarter <input type="checkbox"/> 1 <input checked="" type="checkbox"/> 2 <input type="checkbox"/> 3 <input type="checkbox"/> 4 C. Final FY <input type="checkbox"/> 8 <input type="checkbox"/> 9 <input checked="" type="checkbox"/> 0 <input type="checkbox"/> 1 <input type="checkbox"/> 2
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8. COSTS (\$000 OR EQUIVALENT \$1 =)						
A. FUNDING SOURCE	FIRST FY 88			LIFE OF PROJECT		
	B. FX	C. L/C	D. Total	E. FX	F. L/C	G. Total
AID Appropriated Total	4,147	-	4,147	14,000	-	14,000
(Grant)	(4,147)	(-)	(4,147)	(14,000)	(-)	(14,000)
(Loan)	(-)	(-)	(-)	(-)	(-)	(-)
Other U.S.						
1.						
2.						
Host Country	-	1,250	1,250	-	3,000	3,000
Other Donor(s)	-	-	-	-	1,700	1,700
TOTALS	4,147	1,250	5,397	14,000	4,700	18,700

9. SCHEDULE OF AID FUNDING (\$000)									
A. APPROPRIATION	B. PRIMARY PURPOSE CODE	C. PRIMARY TECH. CODE		D. Approved TO DATE		E. AMOUNT APPROVED THIS ACTION		F. LIFE OF PROJECT	
		1. Grant	2. Loan	1. Grant	2. Loan	1. Grant	2. Loan	1. Grant	2. Loan
(1) SDA				9,000	-	5,000	-	14,000	-
(2)									
(3)									
(4)									
TOTALS				9,000	-	5,000	-	14,000	

10. SECONDARY TECHNICAL CODES (maximum 5 codes of 3 positions each)	11. SECONDARY PURPOSE CODE
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12. SPECIAL CONCERNS CODES (maximum 7 codes of 4 positions each) A. Code B. Amount

13. PROJECT PURPOSE (maximum 480 characters)

The original Project purpose is expanded upon and is now twofold:

- a. To increase the number of debt and equity securities and commodity contracts available to investors, and to increase the transparent trading volume of these instruments; and
- b. To improve the efficiency of the public sector through restructuring and/or privatization of the ownership and management of SOEs.

14. SCHEDULED EVALUATIONS Interim MM YY MM YY Final MM YY 06 92 09 94	15. SOURCE/ORIGIN OF GOODS AND SERVICES <input checked="" type="checkbox"/> 000 <input type="checkbox"/> 941 <input checked="" type="checkbox"/> Local <input type="checkbox"/> Other (Specify)
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16. AMENDMENTS/NATURE OF CHANGE PROPOSED (This is page 1 of a _____ page PP Amendment.)

The purpose of this supplement is to finance: a) long-term; and b) short-term technical assistance; and c) training to assist the Government of Indonesia to rationalize its State-Owned Enterprise program.

I have reviewed the methods of implementation and financing in this Project Paper.

Curtis Christensen
Curtis Christensen
Controller

17. APPROVED BY	Signature 	Title Mission Director	Date Signed MM DD YY 08 26 94	18. DATE DOCUMENT RECEIVED IN AID/W, OR FOR AID/W DOCUMENTS, DATE OF DISTRIBUTION MM DD YY
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FINANCIAL MARKETS PROJECT (497-0360)

PROJECT PAPER SUPPLEMENT

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- G. Initial Environmental Examination with APRE Concurring Cable**
- H. USAID/Indonesia 1992 Annual Budget Submission Privatization Plan Narrative**
- I. GOI Regulation No. 55 of 1990 Regarding SOEs "Going Public"**

The following annexes, J through N, are available in USAID/Indonesia, Office of Private Enterprise Development

- J. USAID/Indonesia - Financial Markets Project Paper, Dated August 30, 1988**
- K. A.I.D. Policy Paper on Private Enterprise Development, March 1985**
- L. A.I.D. Policy Determination 14, Implementing A.I.D. Privatization Objectives, June 16, 1986**
- M. Financing and Commercializing The Private Provision of Public Services, March 1991**
- N. USAID/Indonesia's Role in the Government of Indonesia's Restructuring Program of State-Owned Enterprises**

FINANCIAL MARKETS PROJECT (497-0360)¹**GLOSSARY**

Indonesian Term	Abbreviation	Translation
	ADB	Asian Development Bank
	ADEF	Asian Development Equity Fund of the ADB
	ARSSP	Agricultural and Rural Sector Support Program
P.T. Bahana Pembinaan Usaha Indonesia	BAHANA	A GOI-owned Venture Capital Company with limited investments
Bank Pembangunan Indonesia	BAPINDO	National Development Bank. Provides "soft" loans to eligible development projects
Badan Pengawas Pasar Modal	BAPEPAM	Capital Market Supervising Board. Public agency responsible for supervising the operation of Indonesia's capital market institutions and the privatization of the Jakarta Stock Exchange.
Badan Koordinasi Penanaman Modal	BKPM	Investment Coordinating Board. Public agency charged with supervising private investments, domestic and foreign.
Badan Perencanaan Pembangunan Nasional	BAPPENAS	National Development Planning Agency
Badan Usaha Milik Negara	BUMN	Directorate for State-owned Assets
Badan Urusan Piutang Negara	BUPN	Directorate of State Claims
Bank Indonesia	BI	Bank Indonesia. The GOI central bank, with responsibilities similar to the U.S. Federal Reserve System.

¹ Covers original Project Paper and this Project Paper Supplement.

Indonesian Term	Abbreviation	Translation
Bank Pembangunan Daerah	BPD	Regional Development Bank
Bursa Paralel		Indonesia's over-the-counter market.
	CDSS	Country Development Strategy Statement, USAID/Indonesia
P.T. Danareksa	DANAREKSA	National Unit Trust. A mutual fund corporation established and owned by the GOI to assist the Indonesianization of companies by purchasing shares and issuing mutual fund certificates. Also acts as an underwriter of new share and bond issues.
	ESOP	Employee Stock Ownership Plan
Ficorinvest		A non-bank financial institution owned by Bank Indonesia
	GOI	Government of Indonesia
	ICE	The Indonesian Commodities Exchange
	IFC	International Finance Corporation, World Bank
	IGGI	Inter-governmental Group on Indonesia
	IIF	Institute of International Finance
Ikatan Wanita Pengusaha Indonesia	IWAPI	Indonesian Business Women's Association
Instruksi President	INPRES	A Presidential decree
Departemen Keuangan	MOF	Ministry of Finance
	NBFI	Non-bank financial institution
	OTC	Over-the-counter (market)
P.T. Jasa Marga		The GOI toll road authority

Indonesian Term	Abbreviation	Translation
P.T. Papan Sejahtera		A middle-income housing finance institution
Penanaman Modal Asing	PMA	Official designation for foreign private investments with a maximum foreign equity share of 95 percent.
Penanaman Modal Dalam Negeri	PMDN	Official designation for domestic private investments with a maximum foreign equity share of 49 percent.
Peraturan Pemerintah	PP	A GOI decree
Perserikatan Perdagangan Uang & Efek-Efek	PPUE	Association for Money & Securities Traders. Organization recently given the responsibility of organizing an over-the-counter securities market.
Pengembangan Usaha Swasta	PED	Office of Private Enterprise Development, USAID/Indonesia
Rencana Pembangunan Lima Tahun	REPELITA	National Five Year Development Plan
Sertifikat Bank Indonesia	SBI	Bank Indonesia (Central Bank) Certificates. A discount instrument, issued in various denominations and with maturities of 15, 30 and 90 days.
Surat Berharga Pasar Uang	SBPU	Money market certificates comprised of promissory notes and trade bills issued in various denominations and with maturities not exceeding 180 days.
	SOE(s)	State-owned enterprise(s)
	UPPINDO	A non-bank financial institution with development objectives.

DEFINITION OF FINANCIAL TERMS

Assets	Resources that have the potential for providing future benefits or other resources of a firm or which can be converted into cash and used to pay liabilities. Assets are equal to total liabilities plus net worth.
Bill	A security that represents short-term discount debt, usually issued by the government.
Bond	A security that represents long-term debt.
BOT	Build-operate-transfer. The process whereby a contractor agrees to build a facility, operate it for a period of time, then transfer ownership to another party, often, but not always, the government.
Broker/dealer	A firm that both buys and sells securities as an agent for customers (broker) and also buys and sells securities for its own account and risk (dealer).
Capital	Money or property. Also used to refer to net worth.
Capitalization	The total of a company's long-term debt and net worth.
Capital market	The sector of the financial markets for long-term securities.
Clearinghouse	An adjunct to a commodity exchange through which transactions executed on the floor of the exchange are settled.
Collateral	Assets that are given as security for a loan.
Commodity market	The sector of the financial markets for trading contracts representing goods, such as rubber and coffee.
Contract	See futures.
Crowding Out	A temporary excess in the supply of shares or bonds, causing an insufficient market interest in new issues.
Debt service	The total of the payments of principal and interest on debt during any one period.
Discount	To price a security at less than par value.
Dividend	A payment by a company to its stockholders.
Equity	The capital raised by a company through the sale of stock.

Face value	See par value.
Financial markets	The combination of the capital market, money market and commodity futures market.
Fixed investment	Investment in assets which are fixed, such as plant and equipment.
Floating-rate bond	A bond whose interest payment varies with the short-term interest rate.
FOB	Free-on-board. The cost of placing goods on board whatever shipment conveyance is being used.
Futures	Standardized contracts, wherein only the price and date of delivery must be specified, which cover the sale of commodities for delivery in the future. Futures contracts are usually satisfied by the sale or purchase of a separate contract which cancels the first contract and not by actual delivery of the commodity.
Go public	The act of selling equity, i.e., transferring full or partial ownership, to the public for the first time.
Hedging	A means of risk protection against extensive loss due to adverse price fluctuations. Usually accomplished by buying one security or good and selling another security or good in such a way as to result in a riskless position.
Interbank market	The process by which banks trade short-term securities or provide short-term loans among themselves in order to adjust their liquidity.
Intermediation	Investment through a financial institution.
Leverage	Use of debt to increase the expected return on equity. Leverage is measured by the ratio of long-term debt to long-term debt plus equity. Also called financial leverage or gearing.
Liabilities	Total value of financial claims on a company's assets. Equal to total assets minus net worth.
Liquidity	The resilience of the price of a security to buying and selling pressures. A market is liquid when there is a large enough number of traders to make entering and exiting the market easy. For banks, liquidity is also used to refer to the amount of cash on hand.
Liquidity ratio	Short-term assets divided by short-term liabilities.
Long-term	A security with a maturity of greater than five years.
Market maker	A securities firm that buys and sells securities for its own account and risk at specified prices.

Medium-term	A security with a maturity of from one to five years.
Money market	The sector of the financial markets for short-term securities.
Net present value	A project's net contribution to wealth, equal to the discounted value of future cash flows minus the initial investment.
Net worth	The value of a company's assets minus its liabilities.
Note	A security that represents debt, usually with a maturity less than 15 years. Often used to refer to such debt issued by a government.
OTC market	Over-the-counter market. A securities market which lacks a formal trading arena, such as a stock exchange. The trading occurs via telephone, computer or other types of contacts among brokers and dealers who generally maintain a supply of securities "in stock" to meet customer demands. The Bursa Paralel in Indonesia is an OTC market.
Paid-in capital	The amount contributed to a firm by stockholders in exchange for their shares of stock.
Par value	The value of a security shown on the security certificates itself, but having no relationship to current market value. Also called the face value.
Perfection	Establishing a legal right to a debtor's assets.
Physicals	Nonstandardized contracts, wherein all aspects of the transaction such a quantity, quality, price, date of delivery and place of delivery must be specified, which cover the sale of commodities for either current delivery or delivery in the future. Physicals contracts are usually satisfied by actual delivery of the commodity.
Premium	To price a security at more than par value.
Primary market	The initial distribution of securities by the underwriter.
Prime rate	The interest rate charged by banks to their biggest and most creditworthy customers. Other interest rates are scaled up from the prime rate.
Private placement	The private sale of securities, usually to a small number of investors and without advertising to the public.
Promissory note	A promise to pay.
Return on equity	Earnings before interest and tax payments divided by total equity.

Secondary market	Trading in a security after the initial distribution of the securities by the underwriter.
Security	A legal document which provides evidence of ownership or creditorship.
Semi-concessional	A level which is less than the current market price. Usually used to refer to interest rates that are lower than prevailing market interest rates. Also referred to as soft interest rates.
Serial bonds	A package of bonds that mature in successive years.
Short-term	A security with a maturity of less than one year.
Soft	See semi-concessional.
Stock	A security that represents ownership interest in a company.
Time deposit	An interest bearing deposit of funds with a bank for a certain period of time, like a savings account or a certificate of deposit (CD).
Underwriting	Buying an issue of securities from a company and reselling it to investors.

1. EXECUTIVE SUMMARY AND RECOMMENDATIONS

As a direct result of ongoing Government of Indonesia (GOI) deregulation and extraordinary private sector growth, the GOI has determined that the operations of State-Owned Enterprises (SOEs) represent a heavy and unnecessary drain on the Indonesian economy. It is now taking concrete steps to address this issue. The main objectives of the GOI are to improve economic efficiency and to reduce pressure on the national budget. Specifically, the GOI wishes to restructure and rationalize SOE individual firms, improve the quality of management, and create the capacity for greater self-generation of financial resources. USAID/Indonesia will assist the GOI in meeting its objectives through the provision of technical assistance (TA), training, and limited commodities in support of the government's privatization program.

A. Project Description

1. Privatization Defined

Privatization is defined as the transfer of a function, activity or organization from the public to the private sector (A.I.D. Policy Determination 14). Privatization may be implemented in a variety of forms, only some of which involve change of ownership status. Primary techniques for privatization include:

- **Complete Divestiture** -- the sale of an SOE operationally intact to a private sector entity;
- **Partial Divestiture** -- a joint venture, with the government retaining a minority equity position, or separating out discrete functions which can be carried out by the private sector;
- **Contracting Out** -- the responsibility to provide services, and in some cases ownership of assets, retained by government, but the implementation of certain functions by private entities;
- **Partial Privatization** -- reducing the public sector role through privatization of different activities, such as management;
- **Liquidation** -- the termination of business operations and selling off of assets; and
- **Commercialization** -- requiring SOEs to be self-sustaining and self-financing without government budgetary support.

2. **Project Supplement Objective**

The Financial Markets Project (FMP) purpose is modified. This Project Supplement will improve the efficiency of the public sector through restructuring and/or privatization of the ownership and management of SOEs. Recognizing the close relationship between capital markets and privatization, USAID/Indonesia views the privatization activities proposed in this Project Supplement as a means to broaden and deepen the Indonesian capital markets by increasing the supply of marketable equities. For this reason, and owing to the success of our capital market efforts described in the Financial Markets Project Paper (Annex J), we are taking this opportunity to expand upon the verifiable indicators originally proposed. This expansion should more accurately gauge the successes we anticipate in overall financial market development, coupled with new activities proposed in this document.

3. **Project Strategy**

Relationship to A.I.D. Policy

This project is fully in compliance with Agency policy guidance contained in the March 1985 "Policy Paper on Private Enterprise Development," which states that: "A.I.D. assistance to or through a parastatal should be given in the context of exposing the parastatal to market forces. This objective is more likely to be achieved through an evolutionary process rather than as a result of an A.I.D. insistence on the immediate and complete divestiture by sale to the private sector."

It is also fully in accordance with Policy Determination 14, dated January 1991, "Implementing A.I.D. Privatization Objectives." Consistent with this Policy Determination, USAID/Indonesia recognizes that in some instances it is possible for control of an enterprise to be transferred to the private sector without the transfer of ownership, e.g., through a management contract.

Given that the GOI's overriding objectives are to increase economic efficiency and reduce pressure on the national budget, a significant number of the action plans developed for the SOEs may include either immediate or eventual divestiture, if necessary. It is, however, recognized that the GOI may identify certain SOEs to remain indefinitely in the public sector. Project Supplement resources will not be allocated directly to such governmental enterprises.

Optional Approaches

The project approach to help the GOI deal with the large and inefficient public sector is extremely forthright. This approach is a direct result of established A.I.D. policy, limited funding resources, and USAID/Indonesia's successful reputation for providing expert long-term advisors to senior government decision makers.

Optional approaches considered and rejected were:

- Direct financial assistance to potential buyers. However, providing direct financial assistance to potential buyers is clearly beyond the means of this project. The project will, however, seek to encourage the participation of non-traditional buyers through innovative and parallel means, such as using the APRE/I Omnibus Guarantee Authority (pending U.S. Government approval) or the Loan Portfolio Guarantee (LPG) to promote the use of Employee Stock Ownership Plans (ESOPs) which allow workers to acquire equity in privatized firms;
- Funding severance payments and training for redundant workers; and
- Providing management or TA to recently privatized firms. However, technical and management assistance to recently privatized firms should be unnecessary. Private purchasers identified under the privatization program, who risk their own capital, should be capable of efficiently managing these firms.

4. Project Implementation

USAID/Indonesia has determined that the most effective way to assist the GOI in its privatization program is to provide TA and training to support the Ministry of Finance (MOF), Directorate for State-Owned Assets (Badan Usaha Milik Negara, BUMN) in developing and refining a coherent restructuring policy; in responding to specific requests from SOEs to undertake short-term TA assignments concerning specific privatization tasks; and in developing its internal capacity to implement the program.

On the policy side, specific outputs will include a clear statement of GOI goals and objectives for the privatization program, well defined criteria for analysis of SOE performance, and selection of appropriate methods for restructuring, divestiture or the private provision of public goods and services.

This Project Supplement will assist the GOI to develop the administrative capacity to implement its privatization program, to include:

- The development of privatization action plans for specific SOEs, in accordance with established policy and performance criteria;
- The establishment/refinement of appropriate legal authorities for the BUMN;
- The development and acceptance of clearly defined rules and procedures governing the privatization process; and,
- Privatization action plans completed on behalf of SOEs with project TA.

The Project Supplement will also support a GOI public education awareness program for key public and private sector groups.

Project Management

To assist the GOI at both the policy and implementation level, the Project Supplement will provide one long-term advisor to the Director of BUMN. This individual will be provided under a buy-in² to the APRE centrally-funded Privatization and Development (PAD) Project. Along with a number of other contracting options, the buy-in arrangement has been fully vetted as the optimal solution to the Project Supplement implementation needs. The long-term contractor will provide confidential technical assistance and advice to the Director of BUMN in a close, personal working relationship that he/she will need to develop, and with other MOF colleagues as well.

The long-term privatization consultant will, as in the case of the Financial Markets Project long-term Capital Markets Team (Price Waterhouse), report to the USAID/Indonesia Project Officer in the Office of Private Enterprise Development.

² A transfer of USAID Mission financial resources to an A.I.D./Washington-managed project, in order to obtain specific goods and/or services.

Technical Assistance Focus

As stated, USAID/Indonesia examined and rejected a number of options to assist the GOI in its privatization program, opting for a technical assistance approach. Under a buy-in arrangement with APRE's Privatization and Development (PAD) Project, a long-term TA consultant, whose scope of work is contained in Annex D, will assume the role of alter ego to the Director of BUMN in formulating the policies and plans for the GOI's privatization program. The long-term advisor will also be responsible for preparing scopes of work for the numerous short-term TA assistance assignments which, as in the case of certain training courses, will be required, often on a "target of opportunity" basis, in this very fast-breaking development area. Short-term TA, the bulk of which will also be provided through the buy-in, will be needed in a variety of areas, including valuation, marketing, investment banking, legal, and public education.

It is anticipated that the long-term consultant will cooperate closely with the Price Waterhouse (PW) Capital Markets Team of the Financial Markets Project. In fact, this Project Supplement also serves to update and refine the TA-generated outputs of the original Project Paper's Logical Framework, in light of the remarkable successes of the GOI in deregulating and undergirding the financial markets in 1988, 1989 and 1990. Specifically, that cooperation will include calling upon the PW team to assist in preparing training plans and uniformly coordinating quarterly and annual financial and management reporting. With specific reference to training plans, this Project Supplement proposes proportional funding of the PW Training Advisor for the remainder of the LOP.

B. Cost Estimates

The total cost for this Project Supplement is \$6.7 million, comprising \$5 million in A.I.D. grant funds and GOI contributions of \$1.7 million. Therefore, the total budget for the Financial Markets Project is now \$18.7 million, representing \$14 million in A.I.D. grant funding, and \$4.7 million in Indonesian funding.

TABLE 1
Financial Markets Project
Pre-Amendment Budget by Component (\$000)

<u>Component</u>	<u>Source of Funds</u>				
	AID	MOF ¹	BI	Private Sector	TOTAL
1. Technical Assistance	7,021	1,230	420	-	8,671
2. Training	1,428	450	150	450	2,478
3. Commodities	265	-	-	250	515
4. Evaluation/Audit	136	-	-	-	136
5. Contingency	150	50	-	-	200
Totals	\$9,000	\$1,730	\$570	\$700	\$12,000

TABLE 2
Financial Markets Project
Amendment Budget by Component (\$000)

<u>Component</u>	<u>Source of Funds</u>				
	AID	MOF ¹	BI	SOEs/Priv. Sector	TOTAL
1. Technical Assistance	3,500	650	-	-	4,150
2. Training	1,000	350	-	700	2,050
3. Commodities	250	-	-	-	250
4. Evaluation/Audit	100	-	-	-	100
5. Contingency	150	-	-	-	150
Totals	\$5,000	\$1,000	-	\$700	\$6,700

TABLE 3
Financial Markets Project
Summary of Total Project Funding by Component (\$000)

<u>Component</u>	<u>Source of Funds</u>				
	AID	MOF ¹	BI	SOEs/Priv. Sector	TOTAL
1. Technical Assistance	10,521	1,880	420	-	12,821
2. Training	2,428	800	150	1,150	4,528
3. Commodities	515	-	-	250	765
4. Evaluation/Audit	236	-	-	-	236
5. Contingency	300	50	-	-	350
Totals	\$14,000	\$2,730	\$570	\$1,400	\$18,700

1. The Ministry of Finance (MOF) includes BAPEPAM and BUMN

C. Status of Negotiations

We have obtained a formal request for assistance from the Government of Indonesia (Annex B); that request, which has been expanded upon by the GOI Financial Markets Project Manager, Drs. Marzuki Usman, Chairman of BAPEPAM, fully satisfies our requirements for a GOI formal request for assistance. Furthermore, the MOF Directorate of BUMN has agreed in principle to all of the general terms and conditions to this Project Supplement. As a result of negotiations with the BUMN, the scope of work for the long-term TA advisor will be used as input to prepare contracting documents for the Mission's direct contracting buy-in to APRE's Privatization and Development (PAD) Project. It is anticipated that final negotiation with the GOI of the Project Grant Agreement Amendment will proceed rapidly upon USAID authorization of this Project Supplement.

The AID/W Cable (Annex F) which approved our PID-like cable raised no substantive issues. In fact, the only issue raised concerned the appropriate scheduling of planned obligations, year by year, which is treated elsewhere in the 1990, 1991 and 1992 Annual Budget Submissions. AID/W urged the Mission to determine to what extent U.S. investment would be appropriate and be encouraged. In this regard, of the current total of 184 SOEs, approximately 75 may seek either joint venture partners, private sector management contracts or proceed directly to the equity market to sell shares. These privatization efforts can create opportunities for U.S. brokerage houses, mutual funds, legal, accounting, consulting and other service companies to market their goods and services, as well as for U.S. firms to make direct investments in Indonesia. Information on these marketing and investment opportunities will be readily available in Indonesian and international financial publications. Direct contacts with USAID/Indonesia and/or the U.S. Foreign Commercial Service can be made to explore U.S. business opportunities vis-a-vis the Indonesian privatization program.

D. Project Review Committee Recommendations

The Project Committee recommends that an obligation of \$5 million be authorized under the terms and conditions described in the following Project Supplement Authorization.

2. **PROJECT AUTHORIZATION AMENDMENT NO. 1**

**INDONESIA FINANCIAL MARKETS PROJECT
PROJECT NO. 497-0360**

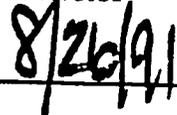
1. Pursuant to Section 106 of the Foreign Assistance Act of 1961, as amended, the Financial Markets Project (497-0360) was Authorized on August 30, 1988, involving planned obligations of not to exceed \$9,000,000 in grant funds over a six year period. The planned Government of Indonesia (GOI) contribution, representing both public and private sector funds, was the equivalent of \$3,000,000. The project authorization is hereby amended as follows: The total authorized life of project grant financing is hereby increased to \$14,000,000, and the total host country contribution, from both public and private sector sources, is \$4,700,000. Planned obligations will be subject to the availability of funds in accordance with the A.I.D. Operating Year Budget/allowance process, to help in financing foreign exchange and local currency costs for the Project.
2. The purpose of this Project Amendment is to assist the GOI to improve the efficiency of the public sector through restructuring and/or privatization of the ownership and management of State-Owned Enterprises (SOEs). A.I.D. financed inputs will include technical assistance, training and commodities.
3. Except as amended herein, the Project Authorization is unchanged and, as amended, remains in full force and effect.

Approved: _____



L. P. Reade
Director

Date : _____



A/PPS:NGreeley in draft Date 7/11/91
LA:PScott in draft Date 6/18/91
CM:MLStevenson in draft Date 7/12/91
FIN:CChristensen in draft Date 8/21/91
DD:LTtwentyman in draft Date 8/26/91

3. STATE-OWNED ENTERPRISE (SOE) RESTRUCTURING AND PRIVATIZATION IN INDONESIA

A. Background

The Ministry of Finance (MOF) stresses that the Government of Indonesia (GOI) accords a very high priority to achieving improved efficiency of state-owned enterprises (SOEs). Efficiency is sought for its own sake, as well as to permit a reduction in demands on the national budget for investment funds for SOEs. These two goals form the mainstay of the GOI's approach to the restructuring and privatization of the public sector.

The MOF also places a high priority on the development of a vigorous, broad-based capital market to create a broader range of investment options capable of mobilizing untapped investment funds. These two objectives - restructuring/privatization of the SOEs and strengthening of a broad-based capital market - are complementary. Both objectives address the issue of the need to rationalize resource mobilization and allocation. They also provide the basis and continued sound footing for the Financial Market Project (FMP), obligated in August 1988, which is making an important contribution to the vigorous growth of Indonesia's private sector.

During the preliminary stages of planning a pragmatic program of SOE restructuring and privatization in support of its broader economic development objectives, the GOI will require significant amounts and varied types of specialized technical assistance. USAID/Indonesia is in a unique position to be an important provider of such technical assistance. FMP can support the GOI in further planning and executing its SOE restructuring/privatization program and can be linked to the Government's capital market development program to rationalize resource mobilization.

The GOI's dominant role in the economy is deeply rooted in Indonesia for many reasons:

- **Historical**: The pre-independence regime in the Dutch East Indies organized and ran the economy largely through state monopolies, and that tradition was reinforced during the struggle for independence and subsequent programs for economic development.
- **Political**: The need to hold together a heterogeneous and far-flung archipelagic country.

- **Economic:** The need to accelerate development and to counter the power of economically strong minorities.

Over the past 25-30 years, there has been widespread public support for the GOI's active involvement in economic activity. However, pressures for economic reform have been mounting from within and without the GOI, particularly since the collapse of oil prices during the 1980s forced an end to relatively high levels of public spending and necessitated serious belt-tightening efforts.

The performance of the economy as a whole, and SOEs in particular, has since become the subject of intense deliberations at the highest levels of government. The result has been a long procession of economic deregulation measures brought about by the need to revitalize and diversify the economy, and to create the basis for growth and expansion necessary to accommodate the large number of entrants into the labor force.

The upsurge in oil prices in late 1990 did not dampen the GOI's determination to push ahead with its deregulation and restructuring efforts. It was recognized that such oil prices were an aberration and, therefore, of uncertain duration. More important, GOI policy makers are convinced by the response to their economic reform packages that the country's welfare is best served by developing as strong a non-oil sector as possible.

Note: The Sections of this Project Paper Supplement, 4B through 4D, summarize information which is provided in much greater detail in Annex N.

B. Current Status of the GOI's SOE Restructuring and Privatization Efforts

1. The GOI's Objectives in Developing an SOE Deregulation and Privatization Program

While the decisions and actions recommended in the early stages of the SOE restructuring and privatization process have been largely shaped by the single criterion of reduced pressure on the national budget, it is clear from both the public announcements and internal discussions that the GOI has a far broader range of objectives in mind.

Three immediate targets have been identified to support the achievement of these objectives:

- (a) **Capacity for Self-Financing:** To create the capacity to internally generate financial resources necessary for efficient operation of the enterprise, especially foreign exchange, and reduce the call on general GOI resources to meet these financing requirements.
- (b) **Quality of Management:** To improve the quality of management and to create attitudes necessary for running an efficient and profitable operation.
- (c) **Rationalization:** To merge or consolidate SOEs when doing so will create a more rational structure for the firms, permitting economies of scale.

2. **The Role of the MOF in SOE Restructuring and Privatization**

As set out in Government Regulation No. 3 of 1983, the MOF is the General Shareholder in any SOE on behalf of the GOI. The MOF appoints the relevant technical Minister as its proxy to promote, supervise, and control the activities of the SOE in coordination and consultation with the MOF [Article 7(1) (2)]. However, as General Shareholder, the MOF is vested with the management of the State Patrimony that is invested in the SOE [(Article 5(1)]. Under this charge, the MOF must approve the budget and accounts of the SOE. Moreover, under Article 13, the MOF must approve amendments of the total capital of an SOE; the sale or burdening of fixed assets; the capital participation or release of capital; the establishment of subsidiaries; partial or total release of shares; incurring medium- or long-term debt; and the liquidation, merger, or reorganization of an SOE.

This allocation of responsibilities between the MOF and the Technical Ministries gives the MOF a central role in initiating, approving, and implementing restructuring or privatization of SOEs. The MOF is therefore the agency primarily responsible for those aspects of ownership central to restructuring and carrying out the GOI's SOE program.

3. **The BUMN**

Within the MOF, the Directorate of State-Owned Assets (Badan Usaha Milik Negara, i.e., BUMN) is the key institutional interface in the GOI responsible for managing the process of designing and implementing the GOI's SOE restructuring and privatization program. This Directorate interfaces with BAPEPAM, the Capital Markets Supervisory Agency of the MOF, our counterpart for the day-to-day operations of the capital markets assistance

provided through the Financial Markets Project. Until recently, our day-to-day counterpart for the FMP was the MOF Directorate for Financial Institutions and Accountancy, reporting to the Directorate General of Monetary Affairs. Because the FMP has increasingly gained success in the capital market arena of the Jakarta Stock Exchange, the MOF deemed it more appropriate to name the Chairman of BAPEPAM as Project Manager, thus bringing project activities "closer to the action" of the stock exchange itself.

While the BUMN Directorate reports to the Directorate General of Monetary Affairs, which, in turn, reports to the Minister of Finance, BAPEPAM reports directly to the Minister of Finance. This hierarchical relationship both simplifies and synergistically reinforces our advisory role with the MOF in matters of financial markets development and privatization.

4. **Steps to Date: Analysis and Initial Decisions**

The GOI has defined the first phase of a program to increase the efficiency and productivity of its SOEs. A very significant increase in private sector participation in areas previously the domain of the public sector is a key element of this program. Market determination and discipline, with respect to prices and allocation and production decisions, are clearly recognized as important to the success of this program.

In response to Presidential Instruction (INPRES) No. 5 of 1988, and the follow-up guidelines laid down in The Decree of the Minister of Finance Number 740/KMK.00/1989 (28 June 1989), the financial performance of all SOEs, as reflected in their accounts as audited by the State Auditor, were evaluated.

Initially, three steps have been taken. First, as a measure of performance, three financial ratios were calculated for each of the 184 non-bank SOEs, the combined activity of which are estimated to contribute to 8% of GDP: profitability, liquidity, and solvency. A weighted average of these measures was determined and, on the basis of the average, all enterprise firms were assigned to one of four classes: very healthy, healthy, less healthy, sick.

Second, with this performance measure in hand, the MOF reviewed the situation of each SOE with its respective Technical Ministry. On the basis of this first round of discussions, the SOEs were divided tentatively into seven categories defined in terms of the next stage of action to be applied to the enterprise.

Third, a GOI Decree (Peraturan Pemerintah [PP] No. 55 of October 24, 1990) established the legal framework for SOE's that are "going public."

It is important to note two aspects of this exercise. First, there was no direct connection made between the performance criteria and assessment, on the one hand, and the action decisions taken with respect to individual enterprises on the other. The performance assessment and the decision to "go public," seek a joint venture partner, etc., are independent of each other. Second, the main objective addressed so far is minimizing future burdens on the national budget.

5. Indonesian Government's Implementation Plan

In addition to the three general groups described above, **the SOEs have been divided into seven preliminary categories:**

- (a) SOEs requiring changes in their legal status.
- (b) SOEs that are to seek management contracts or joint operations arrangements.
- (c) SOEs that are to be merged or consolidated.
- (d) SOEs that will float shares on the capital markets.
- (e) SOEs that will seek joint venture participation.
- (f) SOEs that will be sold or liquidated.
- (g) SOEs that are not to be changed in status at this time, but are to be subjected to major programs to increase their efficiency.

6. Legal Issues and Concerns

In most countries there are a number of problems that must be addressed before SOEs can be effectively privatized. One such area relates to the issues raised by the legal form of the SOEs at the time when it is decided that they should be restructured or privatized. Another range of issues that usually must be dealt with are the obligations to third parties such as creditors or employees (pension and termination rights). These issues are further discussed in depth in Annex N.

In the Indonesian context, these two issues should not pose too many problems in the choice of restructuring method or the implementation of the program. Those SOEs that have been selected for public share offering at this time, or for which formation of joint ventures will be sought, are already in a legal form (Persero, or limited liability companies) which should facilitate the desired restructuring, particularly given the authorities now vested in those SOEs by virtue of the recent GOI decree (PP No. 55 of 1990).

7. Operational Constraints

The MOF/BUMN is aware of the limitations of the work done to date. It is recognized that the initial review, based solely on current and recent financial results, will need to be supplemented by commercial and technical analyses, frequently requiring the input of sector-specific expertise, before detailed action programs can be prescribed and executed for most enterprises. It is also recognized that such further reviews may lead to modification of the initial remedies assigned to particular SOEs. The present assignment of the firms to the various action categories should therefore be taken as indicative at this time.

Further work may lead to selecting different solutions for a number of firms than those currently proposed. A number of next steps and issues requiring resolution will need to be identified and implemented to reorganize, strengthen, and improve the structure and functioning of many enterprises before they can be fully and effectively restructured or privatized.

C. Technical Assistance Requirements

In continuing its efforts to define and implement a comprehensive SOE restructuring and privatization program, the GOI will require significant amounts and varied types of specialized technical assistance over a fairly long period of time. This assistance can be generally categorized at the policy and implementation levels, and could include the following elements:

- (1) Policy Level: Assistance in designing the program and the policy framework within which it will be implemented. This includes assistance in defining the program's objectives, performance measures, restructuring criteria, and overall implementation strategy.

- (2) **Implementation Level:** Assistance in developing the institutional capacity of the GOI to design, implement, monitor and adjust the program on an ongoing, systematic basis. This includes assistance in:
- (a) Strengthening the capacity of the MOF/BUMN, from both an organizational and human resource perspective, to design, implement, monitor and adjust the program over time.
 - (b) Defining and institutionalizing within the GOI policies, guidelines and procedures required to carry out the program. This includes identifying the legal, regulatory and administrative changes required to implement the program; defining, testing and codifying the steps required to restructure and privatize individual SOEs; and defining guidelines and procedures to arrange and manage the private financing of public services.
 - (c) Designing and carrying out a consensus-building process to create an environment that supports and motivates the program both within and without the GOI.
 - (d) Providing case-by-case "work out" assistance of individual SOEs. For example, offering technical assistance to determine the condition of selected SOEs which the GOI decides to privatize, and providing the technical skills necessary to prepare an SOE for sale (e.g., financial, legal, asset valuation).

The process of carrying out the GOI's program, including the provision of outside technical assistance resources, will need to be phased over a considerable time period. This will be true not only because the volume of policy development and implementing activities will be so large as to stretch available staff to their limits, but also because implementation will entail major phasing considerations if the process is to be prudent and orderly. For example, generating an excess supply of new issues on the stock market may have the undesirable result of causing an undue weakening of prices or "crowding out" good new issues from the private sector, or both.

Assistance will be critically important at two managerial levels:

- Monitoring and managing the process of overall implementation of the SOE restructuring and privatization program (including close coordination with the GOI's objectives and strategy in financial market development);

- **Monitoring and managing the process of obtaining and utilizing specialized technical assistance as effectively and efficiently as possible.**

4. PROJECT DESCRIPTION

A. Project Rationale

1. Lessons Learned from other SOE Restructuring Programs

Sufficient developing country experience has been generated to begin to extract key lessons learned in the design and implementation of privatization programs which USAID has considered in developing this privatization strategy and project design in Indonesia. With respect to the current status of privatization efforts in A.I.D.-assisted countries, a number of lessons can be distilled. They are listed in their entirety in Annex N. For brevity's sake, we are summarizing here only the relevant recommendations which are gleaned from both USAID/Indonesia and A.I.D. worldwide experience.

2. Recommendations:

- USAID's assistance efforts should focus on ways to help the GOI sustain a continuity of commitment over time.
- SOE restructuring and privatization programs are most likely to succeed where the environment is conducive to private investment, growth and development. Successful restructuring and privatization therefore normally form part of a broader program of reform that includes macroeconomic adjustments, legal and regulatory reform and human resource development, all of which must be geared to promoting the conditions that encourage the private sector to prosper in a relatively free-market environment. The GOI has made great strides through various deregulation measures to create such an environment in Indonesia, and is committed to continuing efforts in this area.
- In addition to defining objectives, mechanisms should be put in place to monitor the government's progress in achieving these goals. USAID's own program design should, to the extent feasible, conform to the objectives of the GOI.
- Major privatization programs need to be carefully planned by policymakers.

- **Project design should consider how to incorporate ways in which to develop a clear-cut consensus within the GOI on the concept of market value for going business concerns, and provide training assistance to ensure that appropriate GOI staff are well-versed in the content and methodology of this subject matter.**
- **Keeping the privatization process as transparent as possible and in the public eye will reinforce safeguards of openness and promote public trust and support.**
- **As part of the privatization process, the GOI should ensure the fullest possible public access to information, including the positive experiences of privatization in other countries. The GOI must also design tailor-made strategies targeted toward potential opposition groups.**
- **The MOF, as the statutory holder of the state's assets, should be the lead entity in carrying out the program, coordinating with technical and other pertinent ministries as necessary. The BUMN is the entity within the MOF charged with the day-to-day responsibility of implementing the program.**

3. Premises Underlying Project Strategy and Design

The recommendations described above, combined with the review and analyses of the GOI's current objectives, point to a number of premises that can be used to guide the FMP implementation strategy. They are listed below and further expanded upon in Annex N.

- **The GOI is committed to carrying out an SOE restructuring and privatization program.**
- **The role of market forces and the private sector is viewed as important to carry out the program.**
- **A sound financial market is viewed as important to carry out the program.**
- **The SOE restructuring and privatization process will require significant amounts of technical assistance.**
- **USAID is strategically positioned to assist the GOI.**

- The GOI's goals provide a sound basis for developing a USAID project.
- USAID's strategy should focus on building indigenous capacity.

B. Project Goal and Purposes

The **goal** of the Financial Markets Project (FMP) is to increase the availability of long-term investment capital by supporting open financial markets. This is unchanged from the original goal of the FMP Project Paper. The project **purposes** are:

- To increase the number of debt and equity securities and commodity contracts available to investors and to increase the transparent trading volume of these instruments.
- To improve the efficiency of the public sector through restructuring and/or privatization of the ownership and management of SOEs.

C. Project Outputs

In order to achieve USAID/Indonesia's objectives, and in view of the anticipated technical assistance needs of the GOI, a number of project outputs can be identified to provide the basic framework for the project. Major project outputs in support of the GOI's overall SOE restructuring and privatization include the following:

1. **Improved Overall Policy Framework**: Further develop the overall policy framework which provides the fundamental direction of the Government's SOE program.
2. **Improved Policy Implementation and Procedural Framework**: Develop, coordinate, rationalize, and continuously revise a framework of policies and procedures that clearly define the process of carrying out the SOE program.
3. **Enhanced Institutional Capacity**: Develop within the GOI the institutional capacity to design, implement, monitor and revise the SOE program on a systematic, ongoing basis.

The sub-groupings of these major project output areas are briefly outlined in Annex C (the Project Logical Framework), and in very detailed terms in the body of Annex N.

D. Project Inputs

As in the case of the original Project Paper, inputs for this Project Supplement consist of technical assistance, training and commodities.

1. Technical Assistance (TA)

The long-term technical assistance advisor to be provided under the Project Supplement will be responsible for managing and coordinating all inputs including training and commodities. Likewise, this advisor will be responsible for the full range of project outputs, encompassing elements of policy implementation, institutional development and promotion. This advisor will report directly to the Director, BUMN, at the MOF. A complete job description for this advisor's responsibilities is contained in Annex D.

The long-term advisor will coordinate activities with the FMP-BAPEPAM Capital Markets TA Team (Price Waterhouse), particularly in terms of training. That team's training advisor is needed to support the SOE restructuring/privatization training plan; therefore it is proposed that funding from this Project Supplement will be used to pay for approximately 18 months of the costs of the training advisor (\$400 thousand). This will require a A.I.D. non-competitive procurement waiver. The privatization advisor will also be augmented by substantial short-term expertise. Some of the short-term assistance for this project supplement is anticipated to be procured through buy-ins to the APRE Privatization and Development Project. In all, long- and short-term technical assistance for this Project Supplement is estimated to cost approximately \$3.5 million.

2. Training

There will be a major training program under this project, comprised of short-term overseas programs and local workshops and seminars. The proposed content of these programs is as follows:

Short-term overseas training will be provided for approximately 850 training months over the life of the project supplement. This training will be targeted at the BUMN and individual SOEs.

The selection of trainees will be jointly decided by the BUMN and the long-term advisor, with annual training plans being prepared by the advisor with assistance from the FMP-BAPEPAM Capital Markets Team (Price Waterhouse) training advisor. In addition to the formal training plans, it is fully expected that, from time to time, there will be exceptional "targets of

opportunity" for privatization training. The GOI will be expected to finance a minimum of 25% of total training costs, including international air fare for all GOI employees. All SOE and/or private sector participants will be trained on a cost-sharing basis, with the SOE and/or private sector paying a minimum of 25% of total training costs, plus international air fare.

Local workshops and seminars will be especially important in terms of increasing public awareness of the benefits of privatization and reinforcing a positive image as changes are introduced, as well as informing and educating the public of the process and opportunities relating to new investments.

3. Commodities

There will be a relatively small commodity procurement program (\$250,000) under this project supplement, consisting of microcomputer hardware and software to assist the BUMN in managing its restructuring program. The method of procurement will be through PIO/C(s), utilizing an A.I.D.-approved procurement agent.

E. End of Project Status

By the end of this project, in September 1994, we anticipate that the results set forth in the revised Logical Framework (Annex C) will have been achieved. The plan for evaluating progress made toward achieving these results can be found in Section 6 (C).

Table 1: Anticipated End of Project Status

End of Project Status - Financial Markets Component	Current Status	Means of Verification
1. A permanent and long-range regulatory environment for stocks, bonds and commodities established with operational responsibilities separated from regulatory authority.	1. BAPEPAM and ICE both regulate and operate their respective markets. Private dealers have been listing securities successfully for 2 years. A new decree divides BAPEPAM's responsibilities, but not yet tested.	1. Operational charts for BAPEPAM and ICE. Operational statistics for brokers.
2. At least 50 private broker/dealers will be able to operate profitably from broker/dealer business alone.	2. Although there are more than 120 broker/dealers, it is not known how many are able to profit from broker/dealer business alone.	2. Income statements, Broker Association or BAPEPAM statistics.
3. At least 1 new stock and 2 new bond issues will be marketed each month, and average daily stock trading volume reaches 4,000,000/day; total stock and bond market capitalization increasing to at least Rupiah 25 trillion (US\$ 13.125 billion).	3. There are presently 138 stocks and bonds issued on the Jakarta Stock Exchange. Average daily trade is 600,000 shares. Total stock and bond assets are approximately Rp. 13 trillion.	3. BAPEPAM/MOF/BROKER statistics.
4. Commodity futures and at least two new commodities will be traded on ICE.	4. Commodity futures trading currently not authorized. Only rubber and coffee are traded.	4. ICE, Ministry of Trade (MOT) records.
5. Nationwide automated check-clearing system will be operational.	5. Checks are cleared manually through a central clearing house.	5. Bank Indonesia records.
6. Pension and insurance companies will grow by 50% and increase total stock and bond holdings to 30% of their portfolios, representing Rp. 3 trillion (US\$ 1.575 billion).	6. Stock and bonds now account for less than 10 percent of insurance and pension fund investments.	6. MOF records.
7. Danareksa will reduce the percentage of its portfolio which is unpledged and will restructure and increase the level of individually owned certificates.	7. Danareksa has released a large portion of its portfolio and will soon be offering new certificates.	7. Danareksa, MOF statistics.
End of Project Status - Privatization Component	Current Status	Means of Verification
8. Tested legal, financial and administrative procedures.	8. BUMN (MOF) is seeking to establish these procedures through this project supplement.	8. BUMN records.
9. Increased understanding of benefits.	9. As above.	9. BUMN records.
10. Privatization of 10 selected SOEs.	10. Three SOE cement companies preparing to "go public".	10. BUMN, BAPEPAM records.

11. Database of potential investors, sources of financing and TA.	11. Nothing done to date.	11. BUMN records.
12. Valuation procedures.	12. Nothing done to date.	12. BUMN records.
13. Core group of privatization specialists.	13. Nothing done to date.	13. BUMN records.
14. Dissemination of information.	14. Nothing done to date.	14. BUMN records.
15. An overall policy framework which provides the fundamental direction of the SOE program.	15. Nothing done to date.	15. BUMN records.
16. A coherent and integrated set of policies and procedures that clearly define the process of carrying out the SOE program.	16. Nothing done to date.	16. BUMN records.
17. A fully-developed institutional capacity to design, implement, monitor and revise the SOE program on a systematic, ongoing basis.	17. Nothing done to date.	17. BUMN records.

5. SOCIAL, ECONOMIC AND ENVIRONMENTAL ANALYSES

A. Social and Economic Analyses

Essentially, this entire section of the Project Paper Supplement has not altered since the approval of the original Project Paper.

While it is very difficult to develop gender disaggregated information concerning the impact of capital, money and commodities markets expansion, during next year's project evaluation (June 1992), a data base will be established to track, as far as it is possible, information concerning project impact on gender.

Environmental Analysis

An initial environmental review was performed when the original project design was at the Project Identification Document (PID) stage. As a result of that review, it was recommended and approved that the project be categorically excluded from further environmental review. The activities presently envisaged under the project supplement are such that a categorical exclusion remains in effect (See Annex G). This determination has formally been concurred by APRE/ENV, which is also included as part of Annex G.

6. PROJECT IMPLEMENTATION

A. Administrative Analysis

The Ministry of Finance's Directorate for State-Owned Assets (BUMN), is the executing agency for this project supplement and possesses the authority to determine Indonesia's SOE policies. In consultation with BAPEPAM, the Directorate General of Monetary Affairs will be the MOF implementing body. Within this Directorate General, the BUMN Directorate will be the day-to-day unit in charge of the project supplement. USAID has a longstanding working relationship with the Directorate General, having worked together closely in the last two years on issues relating to design of this Project Supplement. In addition to this Directorate's present staff of over 130 professionals, it is anticipated that two counterpart professionals will be assigned to the staff. These staff members will each work on a day-to-day basis with the long-term advisor and USAID so that the MOF gains the full benefit of the long-term advisor's experience.

From our substantial past experience, we conclude that the MOF implementing structure and staff are fully capable of successfully executing this project. Although task-specific short-term training is envisaged for MOF personnel to

develop specific SOE restructuring skills, no long-term training is proposed or required.

Within USAID, the privatization activities described in this project supplement will be administered by the Financial Markets Project (FMP) Officer in the Office of Private Enterprise Development (PED). The FMP Project Officer will be assisted by one FSN Program Specialist. No other USAID staffing requirements are anticipated at this time.

B. Contracting Plan

1. BUMN Long-Term and Short-Term Technical Assistance Contracting

A major buy-in (estimated at \$2.5 million) to the APRE Privatization and Development Project is anticipated. This buy-in will include the requirement for one long-term technical advisor position at BUMN as well as approximately 40 person-months of short-term assistance to be provided in-country on an as-needed basis. The buy-in arrangement will facilitate providing technical assistance with the added advantage of having a major firm to backstop the advisor and guarantee the quality of assistance. In addition, overall experience under the Financial Markets Project has proven the value of having easily accessible short-term assistance to provide bridging assistance during the recruitment and initial orientation of a long-term advisor. The buy-in will be structured to allow for quick turnaround for short-term assistance with a minimum of administrative work. Approximately \$1.0 million in additional short-term TA (outside the buy-in) will be set aside for privatization "targets of opportunity." This TA will be managed by GOI counterparts in BUMN, in consultation with the long-term technical advisor. Various contracting mechanisms will be utilized, including A.I.D. direct contracts, IQCs and host-country contracting procedures.

2. Training

Overseas and local training will be treated in the same manner as current procedures for the Financial Markets Project. More detailed information on contracting procedures for training is included in Section 7(B).

3. Commodities

The Code 000 Source and Origin computer equipment to be provided under this project supplement will be procured by A.I.D. direct contracting procedures.

4. Evaluations and Audit

The two evaluations planned for the life-of-project will be contracted out under IQC procedures. Per USAID/Indonesia policy, 8(A) firms will be

utilized for evaluations to the maximum extent possible. Financial and compliance audits will be implemented under the direct control and supervision of the A.I.D. Regional Inspector General.

5. Gray Amendment Contracting

There will be short-term TA, training, commodities and evaluation contracting opportunities for 8(A) firms over the life-of-project.

C. Monitoring, Evaluation and Audit

1. Monitoring and Evaluation Plan

Given the relatively quantifiable nature of this project, it is expected that the monitoring and evaluation processes will be very closely associated. As in the case of the BAPEPAM Capital Markets Team (Price Waterhouse), this will be done by establishing monitoring and evaluation benchmarks related directly to the EOPS and other financial and economic statistics. The proposed method for project monitoring will be included in the data collection tasks in the quarterly reporting requirements for the long-term advisor.

Monitoring the long-term advisor's performance will be the responsibility of the FMP Project Officer. This can be done in concert with the Ministry of Finance. The Project Officer will also assist in the early stages of project implementation to ensure that the long-term advisor establishes appropriate monitoring procedures.

With respect to formal evaluations, the privatization component of FMP will be evaluated in conjunction with overall evaluations of FMP. It is anticipated that there will be two external evaluations: an interim evaluation in June 1992 and a final evaluation in July 1994.

The interim evaluation will focus on progress of the project against the logical framework targets. This evaluation will evaluate the project goal and purposes in relation to the delivery inputs, the attainment of outputs to date and the performance of the project implementors, and recommend project management means for improving implementation. The final evaluation will focus on post project sustainability issues, identify "lessons learned", and document FMP's End of Project Status (EOPs).

2. Audit Procedures

Project assistance financed by A.I.D. and the GOI is subject to audit by A.I.D. In order to minimize vulnerability, the Mission Controller will conduct periodic examinations of records, and as part of its voucher examination program, will review GOI accounting procedures and documentation relating to their direct procurement financed under the project. Project funding is also available for project audit, including host country and A.I.D. direct contracts, following guidelines from the A.I.D. Inspector General's Office. This audit coverage will be performed by auditors through local representatives of U.S. certified public accountant firms, with assistance from the A.I.D. Regional Inspector General - Audit Division in Singapore. These services will be procured with project funds by A.I.D. direct contract following direct payment procedures. In addition, A.I.D. may utilize project funding to obtain financial management technical assistance to assess, and where necessary, assist in upgrading the financial management systems of project units.

D. Implementation Schedule

The following schedule sets forth the major project supplement milestones, the target date for achieving each milestone, and the primary party responsible for actions leading up to each milestone.

<u>Milestone</u>	<u>Target Date</u>	<u>Responsibility</u>
Provide Short-Term Training & Technical Studies for BUMN Use	Ongoing since Mid-1990, under Informal MOF Pre-Implementation Arrangements	MOF, USAID
Develop "Primer" to Assist MOF and EKUIN Analyze Legal and Financial Issues of the Private Provision of Public Services	January 1991, Informal MOF Pre-Implementation Arrangements	MOF, USAID
Bilateral Obligation of Project Supplement	September 1991	SETKAB, MOF, USAID

Negotiate/Execute Buy-in to APRE's PAD Project	September-October 1991	USAID, MOF
Evaluate Resumes of Candidates	October 1991	MOF, USAID
Select Advisor	October 1991	MOF, USAID
Identify Initial Short-Term TA Requirements	November-December 1991	MOF, USAID
Long-Term Advisor In Place	November 1991	MOF, USAID
Workplan Submitted	December 1991	Advisor/Contractor
First Baseline Monitoring Report	January 1992	Advisor/Contractor
Interim Evaluation of FMP	June 1992	USAID, MOF
Final Evaluation	June 1994	USAID, MOF

7. COST ESTIMATES AND FINANCIAL PLAN

The total cost for this Project Supplement is \$6.7 million, comprising \$5 million in A.I.D. grant funds, and \$1.7 million in host country contributions. Therefore, the total budget for the Financial Markets Project is now \$18.7 million, \$14 million in A.I.D. grant funding and \$4.7 million in host country contributions.

A. Illustrative Budget/Financial Plan

The following financial tables present estimates of total budgetary requirements to achieve the objectives of the Financial Markets Project, including this project supplement.

TABLE 2

**Financial Markets Project
Pre-Amendment Budget by Component (\$000)**

<u>Component</u>	<u>Source of Funds</u>				TOTAL
	AID	MOF ¹	BI	Private Sector	
1. Technical Assistance	7,021	1,230	420	-	8,671
2. Training	1,428	450	150	-	2,478
3. Commodities	265	-	-	450	515
4. Evaluation/Audit	136	-	-	250	136
5. Contingency	150	50	-	-	200
Totals	\$9,000	\$1,730	\$570	\$700	\$12,000

TABLE 3

**Financial Markets Project
Amendment Budget by Component (\$000)**

<u>Component</u>	<u>Source of Funds</u>				TOTAL
	AID	MOF ¹	BI	SOEs/Priv. Sector	
1. Technical Assistance	3,500	650	-	-	4,150
2. Training	1,000	350	-	700	2,050
3. Commodities	250	-	-	-	250
4. Evaluation/Audit	100	-	-	-	100
5. Contingency	150	-	-	-	150
Totals	\$5,000	\$1,000	-	\$700	\$6,700

TABLE 4

**Financial Markets Project
Summary of Total Project Funding by Component (\$000)**

<u>Component</u>	<u>Source of Funds</u>				TOTAL
	AID	MOF ¹	BI	SOEs/Priv. Sector	
1. Technical Assistance	10,521	1,880	420	-	12,821
2. Training	2,428	800	150	1,150	4,528
3. Commodities	515	-	-	250	765
4. Evaluation/Audit	236	-	-	-	236
5. Contingency	300	50	-	-	350
Totals	\$14,000	\$2,730	\$570	\$1,400	\$18,700

1. The Ministry of Finance (MOF) includes BAPEPAM and BUMN

B. Analysis of A.I.D. Funding

A.I.D.'s total grant funding of \$14.0 million consists of the costs of long- and short-term TA, local and overseas training and a modest amount of commodities for this Project Supplement as well as the original Project's needs.

- **Technical Assistance.** The ongoing, umbrella technical assistance Capital Markets contract with BAPEPAM (Price Waterhouse) extends until September 1994. The pending Bank Indonesia (BI) contract (for Money Market development) will also extend over the same period. TA funding under this Project Supplement will cover the anticipated costs of privatization activities and proposes a marginal share of the Training Advisor costs of the PW contract (approximately \$400 thousand) to fairly reflect outreach provided by PW.
- **Training.** Overseas training proposed by the MOF/BUMN in the Project Supplement will be treated in the same manner as in the existing Financial Markets Project. Anticipated training is short-term in nature and generally consists of attendance at relevant conferences, seminars, and other activities. A.I.D. pays for air fares within the United States, per diem in accordance with A.I.D. regulations, registration fees and incidental expenses. Indonesian SOE and/or private sector participants will "pay their own way" in terms of travel and per diem, and will pay at least 25% of seminar costs.

Local training will be implemented through HCC with local and expatriate consultants, per existing FMF procedures. These contracts will include A.I.D. general provisions of HCC mandatory contract clauses found in Handbook 11, Chapter 1. A.I.D. will pay for consultant's fees, international travel and per diem in accordance with A.I.D. regulations. All air travel is subject to the provisions of the Fly America Act. A.I.D. will also pay for incidental expenses of the consultant associated with the training exercise such as training materials, books, etc. Other training costs, such as facilities, local transport and per diem for participants, will be considered GOI contributions to the project, whether cash or in-kind. No advance approval will be required for consultants who comply with the source/origin requirements of the Project Agreement, as amended (Indonesia and the United States). Contracts for consultants who do not meet the source/origin requirements as stated in Handbook 11 for Indonesia or the United States will not be executed until the necessary waiver or approval is obtained from USAID/Indonesia.

Commodities. A limited amount commodities for the MOF/BUMN will be procured under this privatization component. They will essentially consist of small procurements of computer hardware and software, with Code 000 Source and Origin. Short-term technical assistance will be provided to carry out a computer equipment needs assessment for MOF/BUMN and to prepare a procurement plan.

C. Analysis of Government of Indonesia (GOI) and Private Sector Counterpart Funding

Total GOI and private sector funding is estimated at \$4.7 million. This funding will essentially consist of training activities generating cash and in-kind inputs from both the MOF/BUMN, plus cash inputs from SOE and/or private sector participants.

The GOI will contribute international air fares to the nearest point of entry in the United States when participants travel to the U.S. for project-sponsored training activities. Furthermore, they will contribute salaries of the individual participants during the training activities, which may be considered in-kind contributions. SOE and private sector participants attending project-sponsored training with their own funding, to include air fare to all destinations where training is held, will also be considered as counterpart contributions to the project.

As in the case of the BAPEPAM-PW contract and the pending BI contract, in-kind contributions will be made in the form of office space, secretarial and transportation support, office equipment and supplies and the salaries plus per diem of project counterparts.

D. Summary Methods of USAID and GOI Financing and Procurement.

A summary is shown in Table 5.

Table 5
Summary Methods of USAID and GOI Financing and Procurement

LINE ITEM	FINANCING (US \$)			EXEC. AGENCY	PROCUREMENT METHOD		USAID DOCUMENTS	
	USAID	GOI*	TYPE		PRIMARY	SEC.	EAR.	COM.
1. TECH ASSIST. (TA)								
A. Buy-in long-term TA	1,220	225	UDP	USAID	DC	-	PIO/T	C
B. Buy-in short-term TA	1,270	235	UDP	USAID	DC	-	PIO/T	C
C. Other short-term TA	1,010	190	UDP	USAID,GOI	IQC	HCC	PIO/T	C
2. TRAINING	1,000	1,050	IDP,PR,UDP	GOI,USAID	DIP	HCC	PIL	PIL
3. COMMODITIES	250	-	UDP	USAID	DC	-	PIO/C	C
4. EVALUATION/AUDIT	100	-	UDP	USAID	IQC	-	PIO/T	C
5. CONTINGENCY	150	-	-	USAID	-	-	-	-

* GOI cash and in-kind contributions are combined

Abbreviations

UDP: USAID Direct Pay to the Contractor
 IDP: GOI Direct Pay
 PR: Pre-financed by GOI and Reimbursed by USAID
 DIP: GOI Annual Budgeting Process
 DC: USAID Direct Contract
 C: Contract
 EAR: Earmark
 COM: Commitment
 PIL: Project Implementation Letter
 PIO/T: Project Implementation Order/Technical
 PIO/C: Project Implementation Order/Commodities
 HCC: Host-Country Contracting

8. A.I.D. EXPERIENCE WITH OTHER PRIVATIZATION PROJECTS

This privatization component of the Financial Markets Project shares many common elements with other successful privatization projects.

Honduras: The privatization of State-Owned Enterprise Project was designed to support Government of Honduras (GOH) initiatives to plan and implement the privatization of SOEs. The objectives of the project were to: reduce recurrent costs and GOH support for SOEs; transfer companies and assets to individuals with equity at risk; attract new investment into the Honduran productive sector; and reduce the administrative burden presently confronted by the GOH in managing a wide range of commercial enterprises. The Mission approach to privatization was to support the GOH

principally by providing TA through a long-term advisory team which assisted in designing a focused privatization strategy; developing the legal and regulatory framework; and developing workshops and seminars to nurture and sustain a climate favorable to privatization. The project, recently the object of an APRE case study, is regarded as highly successful, has led to the successful privatization of 14 SOEs and the creation of an estimated 950 new jobs.

Sri Lanka: Privatization in Sri Lanka is advanced by A.I.D. as a component of a project entitled, Private Sector Policy Support. The purposes of the project are: to strengthen the private sector's contribution to the formulation, appraisal and implementation of market-oriented economic policies; to assist the privatization of SOEs to a broad spectrum of private investors; to improve the operation of the Colombo Securities Exchange; and to demonstrate the viability of equity participation through venture capital companies. Through this project, A.I.D. is providing \$7.9 million to support privatization through technical assistance, equipment and other direct support for the Presidential Commission of Privatization; expenses of the Commission associated with the preparation of SOEs for divestiture; and costs of actual divestiture, including severance payments for redundant labor. Support for the Commission will be in the form of a long-term advisor, short-term technical specialists, and assistance in carrying out a mix of public education and publicity campaigns. This project was signed in July 1986. Impact information is not yet available.

Philippines: The purpose of the \$9.8 million Privatization Project, which was signed in May 1988, is to reinforce the GOP's privatization policy by supporting the Government of the Philippines' (GOP) divestiture of selected GOP-owned and controlled corporations and acquired assets, thereby improving the GOP's budget situation. A.I.D. financed inputs include a long-term advisor and short-term technical assistance in the areas of investment banking, legal, accounting, and engineering (\$3.042 million); training and seminars (\$30 thousand); and equipment (\$47 thousand). No evaluation data is yet available for this project.

Tunisia: Privatization is supported through a \$1.2 million component of the Private Sector Development and Technology Transfer Project. The purpose of the project is to assist the Government of Tunisia (GOT) to plan, develop, implement, monitor and evaluate its program of privatization of selected SOEs. The project provides two long-term advisors, a privatization specialist working in the Office of the Prime Minister, and a financial markets specialist working in the Tunis Stock Exchange to develop various transaction plans for each SOE identified as a sales candidate. In addition, the project provides for short-term advisors to work in a variety of areas including marketing, valuation, and investment banking. The project also supports training in numerous areas related to privatization and issues-oriented seminars and conferences on privatization topics design to build a consensus for action. This program has been immensely successful, with in excess of 50 privatizations completed.

9. **A.I.D., THE GOI AND OTHER DONOR PROGRAMS**

USAID/Indonesia's Country Development Strategy Statement (CDSS), completed in January 1988, reflects the Mission's overall strategy of achieving income and employment growth by increasing the role of the private sector and freeing up market forces.

This privatization component, which seeks to reduce the size and improve the efficiency of the public sector through privatization of the ownership and management of SOEs, directly supports the CDSS goal.

The GOI has shown concern over the number, size, and inefficiency of the SOEs. Budget constraints have severely limited the ability of the GOI to meet the capital needs of the SOEs and returns on assets for this sector are estimated to be only 3%. The Director of BUMN, within the MOF, is looking to A.I.D. for assistance in addressing these issues. The project will assist the GOI to plan, design, and implement a comprehensive privatization program which, through divestiture and management contracts, will meet high priority concerns of the GOI.

The Director of BUMN states that no other donors are currently assisting the GOI in the area of privatization with the exception of the Asian Development Bank which is considering financing a study on restructuring the airline industry in Indonesia. The ADB may provide further assistance to explore the means through which the private sector can assist in the restructuring effort by a sale through private placement, issuance of stock, lease or lease-back arrangements, or contracting out. The ADB initiative, which may lead to whole or partial privatization of the national airline, directly supports AID's goal of establishing a comprehensive privatization program.

10. **CONDITIONS PRECEDENT AND COVENANTS**

A. **Conditions Precedent**

The following condition precedent is proposed for the Financial Markets Project Supplement Grant Agreement:

Prior to the commitment of any funds by A.I.D. for technical assistance, the BUMN of the MOF will have appointed a two-person, full-time counterpart team. These counterparts will work exclusively with the long-term advisor on tasks related to this project supplement.

B. **Covenants**

The special covenants currently in the FMP Grant Agreement on evaluation, yearly implementation plans, and funding for equipment will apply to additional funding provided by this amendment.

5C(2) - ASSISTANCE CHECKLIST

<p>Listed below are statutory criteria applicable to the assistance resources themselves, rather than to the eligibility of a country to receive assistance. This section is divided into three parts. Part A includes criteria applicable to both Development Assistance and Economic Support Fund resources. Part B includes criteria applicable only to Development Assistance resources. Part C includes criteria applicable only to Economic Support Funds.</p>	
<p>CROSS REFERENCE: IS COUNTRY CHECKLIST UP TO DATE?</p>	<p>Yes.</p>
<p>A. CRITERIA APPLICABLE TO BOTH DEVELOPMENT ASSISTANCE AND ECONOMIC SUPPORT FUNDS</p>	
<p>1. Host Country Development Efforts (FAA Sec. 601(a)): Information and conclusions on whether assistance will encourage efforts of the country to: (a) increase the flow of international trade; (b) foster private initiative and competition; (c) encourage development and use of cooperatives, credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture, and commerce; and (f) strengthen free labor unions.</p>	<p>The further development of Indonesia's financial markets and the GOI's divestiture and rationalization of State-Owned Enterprises (SOEs) will have positive effects on a freer flow of (a) international trade as well as investment. An increased liberalization of these markets should also have a positive impact on (b), (c), (d) and (e). (f) N/A.</p>

<p>2. U.S. Private Trade and Investment (FAA Sec. 601(b)): Information and conclusions on how assistance will encourage U.S. private trade and investment abroad and encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise).</p>	<p>The project will finance long- and short-term technical assistance from the United States. It should also positively impact on future investment by U.S. firms.</p>
<p>3. Congressional Notification</p>	
<p>a. General requirement (FY 1991 Appropriations Act Secs. 523 and 591; FAA Sec. 634A): If money is to be obligated for an activity not previously justified to Congress, or for an amount in excess of amount previously justified to Congress, has Congress been properly notified (unless the notification requirement has been waived because of substantial risk to human health or welfare)?</p>	<p>A Congressional Notification expired on August 17, 1988. This supplement (\$5 million) was reported in the FY 1991 Congressional Presentation.</p>
<p>b. Notice of new account obligation (FY 1991 Appropriations Act Sec. 514): If funds are being obligated under an appropriation account to which they were not appropriated, has the President consulted with and provided a written justification to the House and Senate Appropriations Committees and has such obligation been subject to regular notification procedures?</p>	<p>N/A.</p>

<p>c. Cash transfers and nonproject sector assistance (FY 1991 Appropriations Act Sec. 575(b) (3): If funds are to be made available in the form of cash transfer or nonproject sector assistance, has the Congressional notice included a detailed description of how the funds will be used, with a discussion of U.S. interests to be served and a description of any economic policy reforms to be promoted?</p>	<p>N/A.</p>
<p>4. Engineering and Financial Plans (FAA Sec. 611(a)): Prior to an obligation in excess of \$500,000, will there be: (a) engineering, financial or other plans necessary to carry out the assistance; and (b) a reasonably firms estimate of the cost to the U.S. of the assistance?</p>	<p>a. Yes. b. Yes.</p>
<p>5. Legislative Action (FAA Sec. 611(a) (2)): If legislative action is required within recipient country with respect to an obligation in excess of \$500,000, what is the basis for a reasonable expectation that such action will be completed in time to permit orderly accomplishment of the purpose of the assistance?</p>	<p>No further legislative action is required.</p>

<p>6. Water Resources (FAA Sec. 611(b): FY 1991 Appropriations Act Sec. 501): If project is for water or water-related land resource construction, have benefits and costs been computed to the extent practicable in accordance with the principles, standards, and procedures establishment pursuant to the Water Resources Planning Act (42 U.S.C. 1962, <u>et seq.</u>)? (See A.I.D. Handbook 3 for guidelines).</p>	N/A.
<p>7. Cash Transfer and Sector Assistance (FY 1991 Appropriations Act Sec. 575(b)): Will cash transfer or nonproject sector assistance be maintained in a separate account and not commingled with other funds (unless such requirements nonproject sector assistance)?</p>	N/A.
<p>8. Capital Assistance (FAA Sec. 611(e)): If project is capital assistance (<u>e.g.</u>, construction), and total U.S. assistance for it will exceed \$1 million, has Mission Director certified and Regional Assistant Administrator taken into consideration the country's capability to maintain and utilize the project effectively?</p>	N/A.

<p>9. Multiple Country Objectives (FAA Sec. 601(a)): Information and conclusions on whether projects will encourage efforts of the country to :</p> <ul style="list-style-type: none">(a) increase the flow of international trade;(b) foster private initiative and competition;(c) encourage development and use of cooperative, credit unions, and savings and loan associations;(d) discourage monopolistic practices;(e) improve technical efficiency of industry, agriculture and commerce;and (f) strengthen free labor unions.	<p>The further development of Indonesia's financial markets and the GOI's divestiture and rationalization of State-Owned Enterprises (SOEs) will have positive effects on a freer flow of (a) international trade as well as investment. An increased liberalization of these markets should also have a positive impact on (b), (c), (d) and (e). (f) N/A.</p>
<p>10. U.S. Private Trade (FAA Sec. 601(b)): Information and conclusions on how project will encourage U.S. private trade and investment abroad and encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise).</p>	<p>The project will finance long- and short-term technical assistance from the United States. It should also positively impact on future investment by U.S. firms.</p>
<p>11. Local Currencies</p>	
<p>a. Recipient Contributions (FAA Secs. 612(b), 636(h)): Describe steps taken to assure that, to the maximum extent possible, the country is contributing local currencies to meet the cost of contractual and other services, and foreign currencies owned by the U.S. are utilized in lieu of dollars.</p>	<p>The GOI and the Indonesian private sector will provide the equivalent of over \$4.7 million for the Project, primarily for the local costs.</p>

<p>b. U.S.-Owned Currency (FAA Sec. 612 (d)): Does the U.S. own excess foreign currency of the country and, if so, what arrangements have been made for its release?</p>	<p>No.</p>
<p>c. Separate Account (FY 1991 Appropriations Act Sec. 575). If assistance is furnished to a foreign government under arrangements which result in the generation of local currencies:</p>	<p>N/A.</p>
<p>(1) Has A.I.D. (a) required that local currencies be deposited in a separate account established by the recipient government, (b) entered into an agreement with that government providing the amount of local currencies to be generated and the terms and conditions under which the currencies so deposited may be utilized, and (c) established by agreement the responsibilities of A.I.D. and that government to monitor and account for deposits into and disbursements from the separate account?</p>	<p>N/A.</p>
<p>(2) Will such local currencies, or an equivalent amount of local currencies, be used only to carry out the proposes of the DA or ESF chapters of the FAA (depending on which chapter is the source of the assistance) or for the administrative requirements of the United States Government?</p>	<p>N/A.</p>

<p>(3) Has A.I.D. taken all appropriate steps to ensure that the equivalent of local currencies disbursed from the separate account are used for the agreed purposes?</p>	<p>N/A.</p>
<p>(4) If assistance is terminated to a country, will any unencumbered balances of funds remaining in a separate account be disposed of for purposes agreed to by the recipient government and the United States Government?</p>	<p>N/A.</p>
<p>12. Trade Restriction</p>	
<p>a. Surplus Commodities (FY 1991 Appropriations Act Sec. 521(a)): If assistance is for the production of any commodity for export, is the commodity likely to be in surplus on world markets at the time the resulting productive capacity becomes operative, and is such assistance likely to cause substantial injury to U.S. producers of the same, similar or competing commodity?</p>	<p>N/A.</p>

<p>b. Textiles (Lautenberg Amendment) (FY 1991 Appropriations Act Sec. 521(c): Will the assistance (except for programs in Caribbean Basin Initiative countries under U.S. Tariff Schedule "Section 807", which allows reduced tariffs on articles assembled abroad from U.S.-made components) be used directly to procure feasibility studies, prefeasibility studies, or project profiles of potential investment in, or to assist the establishment of facilities specifically designed for, the manufacture for export to the United States or to third country markets in direct competition with U.S. exports, of textiles, apparel, footwear, handbags, flat goods (such as wallets or coin purses worn on the person), work gloves or leather wearing apparel?</p>	<p>No.</p>
<p>13. Tropical Forests (FY 1991 Appropriations Act Sec. 533(c)(3)): Will funds be used for any program project or activity which would (a) result in any significant loss of tropical forests, or (b) involve industrial timber extraction in primary tropical forest areas?</p>	<p>a. No. b. No.</p>

<p>14. Sahel Accounting (FAA Sec. 121(d)): If a Sahel project, has a determination been made that the host government has an adequate system for accounting for and controlling receipt and expenditure of project funds (either dollars or local currency generated therefrom)?</p>	<p>N/A.</p>
<p>15. PVO Assistance.</p>	
<p>a. Auditing and registration (FY 1991 Appropriations Act Sec. 537): If assistance is being made available to a PVO, has that organization provided upon timely request any document, file, or record necessary to the auditing requirements of A.I.D., and is the PVO registered with A.I.D.?</p>	<p>N/A.</p>
<p>b. Funding source (FY 1991 Appropriations Act, Title II, under heading "Private and Voluntary Organizations"): If assistance is to be made to a United States PVO (Other than a cooperative development organization), does it obtain at least 20 percent of its total annual funding for international activities from source other than the United States Government?</p>	<p>N/A.</p>

<p>16. Project Agreement Documentation (State Authorization Sec. 139 (as interpreted by conference report)): Has confirmation of the date of signing of the project agreement, including the amount involved, been cabled to State L/T and A.I.D. LEG within 60 days of the agreement's entry into force with respect to the United States, and has the full text of the agreement been pouched to those same offices? (See Handbook 3, Appendix 6G for agreements covered by this provision).</p>	<p>A copy of the amendment will be sent to state L/T and A.I.D. LEG within 60 days of the signing of the amendment.</p>
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<p>17. Metric System (Omnibus Trade and Competitiveness Act of 1988 Sec. 5164, as interpreted by conference report, amendment Metric Conversion Act of 1975 Sec. 2, and as implemented through A.I.D. policy): Does the assistance activity use the metric system of measurement in its procurements, grants, and other business-related activities, except to the extent that such use is impractical or is likely to cause significant inefficiencies or loss of markets to United States firms? Are bulk purchases usually to be made in metric, and are components, subassemblies, and semi-fabricated materials to be specified in metric units when economically available and technically adequate? Will A.I.D. specifications use metric units of measure from the earliest programmatic stages, and from the earliest documentation of the assistance processes (for example, project papers) involving quantifiable measurements (length, area, volume, capacity, mass and weight), through the implementation stage?</p>	<p>The bulk of the procurement under the Project will be for technical services. To the extent commodities are purchased, efforts will be made to use metric measurements to the maximum extent possible.</p>
<p>18. Women in Development (FY 1991 Appropriations Act, title II, under heading "Women in Development"): Will assistance be designed so that the percentage of women participants will be demonstrably increased?</p>	<p>Yes.</p>

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<p>19. Regional and Multilateral Assistance (FAA Sec. 209): Is assistance through regional or multilateral organizations? If so, why is assistance not so provided? Information and conclusions on whether assistance will encourage developing countries to cooperate in regional development programs.</p>	<p>No.</p>
<p>20. Abortions (FY 1991 Appropriations Act. Title II, under heading "Population, DA", and Sec. 525):</p>	
<p>a. Will assistance be made available to any organization or program which, as determined by the President, supports or participates in the management of a program of coercive abortion or involuntary sterilization?</p>	<p>No.</p>
<p>b. Will any funds be used to lobby for abortion?</p>	<p>No.</p>
<p>21. Cooperatives (FAA Sec. 111): Will assistance help develop cooperatives, especially by technical assistance, to assist rural and urban poor to help themselves toward a better life?</p>	<p>No.</p>
<p>22. U.S.-Owned Foreign Currencies.</p>	

<p>a. Use of currencies (FAA Secs. 612(b), 636(h); FY 1991 Appropriations Act Secs. 507, 509): Describe steps taken to possible, foreign currencies owned by the U.S. are utilized in lieu of dollars to meet the cost of contractual and other services.</p>	<p>N/A.</p>
<p>b. Release of currencies (FAA Sec. 612(d): Does the U.S. own excess foreign currency of the country and, if so, what arrangements have been made for its release?</p>	<p>No.</p>
<p>23. Procurement.</p>	
<p>a. Small business (FAA Sec. 602(a)): Are there arrangements to permit U.S. small business to participate equitable in the furnishing of commodities and services financed?</p>	<p>Yes.</p>
<p>b. U.S. procurement (FAA Sec. 604(a)): Will all procurement be from the U.S. except as otherwise determined by the President or determined under delegation from him?</p>	<p>All procurement will be from the U.S. or Indonesian.</p>
<p>c. Marine insurance (FAA Sec. 604(d)): If the cooperating country discriminates against marine insurance companies authorized to do business in the U.S., will commodities be insured in the United States against marine risk with such a company?</p>	<p>Indonesia does not so discriminate.</p>

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<p>d. Non-U.S. agricultural procurement (FAA Sec. 604(e)): If non-U.S. procurement of agricultural commodity or product thereof is to be financed, is there provision against such procurement when the domestic price of such commodity is less than parity? (Exception where commodity financed could not reasonably be procured in U.S.).</p>	<p>N/A.</p>
<p>e. Construction or engineering services (FAA Sec. 604(g)): Will construction or engineering services be procured from firms of advanced developing countries which are otherwise eligible under Code 941 and which have attained a competitive capability in international markets in one of these areas? (Exception for those countries which receive direct economic assistance under the FAA and permit United States firms to compete for construction or engineering services financed from assistance programs of these countries).</p>	<p>N/A.</p>

<p>f. Cargo preference shipping (FAA Sec. 603)): Is the shipping excluded from compliance with the requirement in section 901(b) of the Merchant Marine Act of 1936, as amended, that at least 50 percent of the gross tonnage of commodities (computed separately for dry bulk carriers, dry cargo liners, and tankers) financed shall be transported on privately owned U.S. flag commercial vessels to the extent such vessels are available at fair and reasonable rates?</p>	<p>No. Section 90(b) applies.</p>
<p>g. Technical assistance (FAA Sec. 621(a)): If technical assistance is financed, will such assistance be furnished by private enterprise on a contract basis to the fullest extent practicable? Will the facilities and resources of other Federal agencies be utilized, when they are particularly suitable, not competitive with private enterprise, and made available without undue interference with domestic programs?</p>	<p>Yes. Yes, as appropriate.</p>
<p>h. U.S. air carriers (International Air Transportation Fair Competitive Practices Act, 1974): If air transportation of persons or property is finance on grant basis, will U.S. carriers be used to the extent such service is available?</p>	<p>Yes.</p>

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<p>i. Termination for convenience of U.S. Government (FY 1991 Appropriations Act Sec. 504): If the U.S. Government is a party to a contract for procurement, does the contract contain a provision authorizing termination of such contract for the convenience of the United States?</p>	<p>Yes.</p>
<p>j. Consulting services (FY 1991 Appropriations Act Sec. 524): If assistance is for consulting service through procurement contract pursuant to 5 U.S.C. 3109, are contract expenditures a matter of public record and available for public inspection (unless otherwise provided by law or Executive order)?</p>	<p>Yes.</p>

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<p>k. Metric conversion (Omnibus Trade and Competitiveness Act of 1988, as interpreted by conference report, amending Metric Conversion Act of 1975 Sec. 2, and a implemented through A.I.D. policy): Does the assistance program use the metric system of measurement in its procurements, grants, and other business-related activities, except to the extent that such use is impractical or is likely to cause significant inefficiencies or loss of markets to united States firms? Are bulk purchases usually to be made in metric, and are components, subassemblies, and semi-fabricated materials to be specified in metric units when economically available and technically adequate? Will A.I.D. specifications use metric units of measure from the earliest programmatic stages, and from the earliest documentation of the assistance processes (for example, project papers) involving quantifiable measurements (length, area, through the implementation stage?</p>	<p>The bulk of the procurement under the Project will be for technical services. To the extent the commodities are purchased, efforts will be made to use metric measurement to be maximum extent possible.</p>
<p>l. Competitive Selection Procedures (FAA Sec. 601(e)): Will the assistance utilize competitive selection procedures for the awarding of contracts, except where applicable procurement rules allow otherwise?</p>	<p>Yes.</p>

24. Construction	
a. Capital project (FAA Sec. 601(d)): If capital (e.g., construction) professional services be used?	N/A.
b. Construction contract (FAA Sec. 611(c)): If contracts for construction are to be finance, will they be let on a competitive basis to maximum extent practicable?	N/A.
c. Large projects, Congressional approval (FAA Sec. 620(k)): If for construction of productive enterprise, will aggregate value of assistance to be furnished by the U.S. not exceed \$100 million (except for productive enterprises in Egypt that were described in the Congressional Presentation), or does assistance have the express approval of Congress?	N/A.
25. U.S. Audit Rights (FAA Sec. 301(d)): If fund is established solely by U.S. contributions and administered by an international organization, does Comptroller General have audit rights?	N/A.

<p>26. Communist Assistance (FAA Sec. 620(h)). Do arrangements exist to insure that United States foreign aid is not used in a manner which, contrary to the best interests of the United States, promotes or assists the foreign aid projects or activities of the Communist-bloc countries?</p>	<p>N/A.</p>
<p>27. Narcotics</p>	
<p>a. Cash reimbursements (FAA Sec. 483): Will arrangements preclude use of financing to make reimbursements, in the form of cash payments, to persons whose illicit drug crops are eradicated?</p>	<p>N/A.</p>
<p>b. Assistance to narcotics traffickers (FAA Sec. 487): Will arrangements take "all reasonable steps" to preclude use of financing to or through individuals or entities which we know or have reason to believe have either: (1) been convicted of a violation of any law or regulation of the United States or a foreign country relating to narcotics (or other controlled substances); or (2) been involved in the illicit trafficking of, any such controlled substance?</p>	<p>N/A. N/A.</p>

<p>28. Expropriation and Land Reform (FAA Sec. 620(g)): Will assistance preclude use of financing to compensate owners for expropriated or nationalized property, except to compensate foreign nationals in accordance with a land reform program certified by the President?</p>	<p>N/A.</p>
<p>29. Police and Prisons (FAA Sec. 660): Will assistance preclude use of financing to provide training, advice, or any financial support for police, prisons, or other law enforcement forces, except for narcotics programs?</p>	<p>N/A.</p>
<p>30. CIA Activities (FAA Sec. 662): Will assistance preclude use of financing for CIA activities?</p>	<p>N/A.</p>
<p>31. Motor Vehicles (FAA Sec. 636(i)): Will assistance preclude use of financing for purchase, sale, long-term lease, exchange or guaranty of the sale of motor vehicles manufactured outside U.S., unless a waiver is obtained?</p>	<p>No.</p>
<p>32. Military Personnel (FY 1991 Appropriations Act Sec. 503): Will assistance preclude use of financing to pay pensions, annuities, retirement pay, or adjusted service compensation for prior or current military personnel?</p>	<p>N/A.</p>

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<p>33. Payment of U.N. Assessments (FY 1991 Appropriations Act Sec. 505): Will assistance preclude use of financing to pay U.N. assessments, arrearages or dues?</p>	<p>N/A.</p>
<p>34. Multilateral Organization Lending 9FY 1991 Appropriations Act Sec. 506): Will assistance preclude use of financing to carry out provisions of FAA Section 209(d) (transfer of FAA funds to multilateral organizations for lending)?</p>	<p>N/A.</p>
<p>35. Export of Nuclear Resources (FY 1991 Appropriations Act Sec. 510): Will assistance preclude use of financing to finance the export of nuclear equipment, fuel, or technology?</p>	<p>N/A.</p>
<p>36. Repression of Population (FY 1991 Appropriations Act Sec. 511): Will assistance preclude use of financing for the purpose of aiding the efforts of the government of such country to repress the legitimate rights of the population of such country contrary to the Universal Declaration of Human Rights?</p>	<p>N/A.</p>

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<p>37. Publicity or Propaganda (FY 1991 Appropriations Act Sec. 516): Will assistance be used for publicity or propaganda purposes designed to support or defeat legislation pending before Congress, to influence in any way the outcome of a political election in the United States, or for any publicity or propaganda purposes not authorized by Congress?</p>	<p>No.</p>
<p>38. Marine Insurance (FY 1991 Appropriations Act Sec. 563): Will any A.I.D. contract and solicitation, and subcontract entered into under such contract, include a clause requiring that U.S. marine insurance companies have a fair opportunity to bid for marine insurance when such insurance is necessary or appropriate?</p>	<p>N/A.</p>
<p>39. Exchange for Prohibited Act (FY 1991 Appropriations Act Sec. 569): Will any assistance be provided to any foreign government (including any instrumentality or agency thereof), foreign person, or United States person in exchange for that foreign government or person undertaking any action which is, if carried out by the United States Government, a United States official or employee, expressly prohibited by a provision of United States law?</p>	<p>N/A.</p>

B. CRITERIA APPLICABLE TO DEVELOPMENT ASSISTANCE ONLY	
<p>1. Agricultural Exports (Bumpers Amendment) (FY 1991 Appropriations Act Sec. 521(b), as interpreted by conference report for original enactment): If assistance is for agricultural development activities (specifically, any testing or breeding feasibility study, variety improvement or introduction, consultancy, publication, conference, or training), are such activities: (a) specifically and principally designed to increase agricultural exports by the host country to a country other than the United States, where the export would lead to direct competition in that third country with exports of a similar commodity grown or produced in the United States, and can the activities reasonably be expected to cause substantial injury to U.S. exporters of a similar agricultural commodity; or (2) in support of research that is intended primarily to benefit U.S. producers?</p>	N/A.
<p>2. Tied Aid Credits (FY 1991 Appropriations Act, Title II, under heading "Economic Support Fund"): Will DA funds be used for tied aid credits?</p>	No.

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<p>3. Appropriate Technology (FAA Sec. 107): Is special emphasis placed on use relatively smaller, cost-saving, labor-using technologies that are generally most appropriate for the small farms, small businesses, and small incomes of the poor)?</p>	<p>N/A.</p>
<p>4. Indigenous Needs and Resources (FAA Sec. 281(b)): Describe extent to which the activity recognizes the particular needs, desires, and capacities of the people of the country; utilizes the country's intellectual resources to encourage institutional development; and supports civic education and training in of skills required for effective participation in governmental and political processes essential to self-government.</p>	<p>The project, as amended, is based on more than seven years of analytical work in the financial markets arena, which explored options in assisting the GOI and the Indonesian private sector to achieve increased employment generation through improved functioning of financial markets and rationalizing the GOI's role in state-owned enterprises. Local capabilities will be used to the maximum extent possible.</p>
<p>5. Economic Development (FAA Sec. 101(a)): Does the activity give reasonable promise of contributing to the development of economic resources, or to the increase of productive capacities and self-sustaining economic growth?</p>	<p>Yes.</p>

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<p>6. Special Development Emphases (FAA Secs. 102(b), 113, 281(a)): Describe extent to which activity will: (a) effectively involve the poor in development by extending access to economy at local level, increasing labor-intensive production and the use of appropriate technology, dispersing investment from cities to small towns and rural areas, and insuring wide participation of the poor in the benefits of development on a sustained basis, using appropriate U.S. institutions; (b) encourage democratic private and local governmental institutions; (c) support the self-help efforts of developing countries; (d) promote the participation of women in the national economies of developing countries and the improvement of women's status; and (e) utilize and encourage regional cooperation by developing countries.</p>	<p>a. The poor will benefit from an increase in employment opportunities generated by more efficient financial markets, directing investment to the productive sector, and an expanded productive sector resulting from a relaxation of government interventions.</p> <p>b. N/A.</p> <p>c. Yes.</p> <p>d. N/A.</p> <p>e. N/A.</p>
<p>7. Recipient Country Contribution (FAA Secs. 110, 124(d)): Will the recipient country provide at least 25 percent of the costs of the program, project, or activity with respect to which the assistance is to be furnished (or is the latter cost-sharing requirement being waived for a "relatively least developed" country)?</p>	<p>Yes.</p>

<p>8. Benefit to Poor Majority (FAA Sec. 128(b)): If the activity attempts to increase the institutional capabilities of private organizations or the government of the country, or if it attempts to stimulate scientific and technological research, has it been designed and will it be monitored to ensure that the ultimate beneficiaries are the poor majority?</p>	<p>Yes.</p>
<p>9. Abortions (FAA Sec. 104(f); FY 1991 Appropriations Act, Title II, under heading "Population, DA," and Sec. 535):</p>	
<p>a. Are any of the funds to be used for the performance of abortions as a method of family planning or to motivate or coerce any person to practice abortions?</p>	<p>No.</p>
<p>b. Are any of the funds to be used to pay for the performance of involuntary sterilization as a method of family planning or to coerce or provide any financial incentive to any person to undergo sterilizations?</p>	<p>No.</p>
<p>c. Are any of the funds to be made available to any organization or program which, as determined by the President, supports or participates in the management of a program of coercive abortion or involuntary sterilization?</p>	<p>No.</p>

<p>d. Will funds be made available only to voluntary family planning projects which offer, either directly or through referral to, or information about access to, a broad range of family planning methods and services?</p>	<p>No.</p>
<p>e. In awarding grants for natural family planning, will any applicant be discriminated against because of such applicant's religious or conscientious commitment to offer only natural family planning?</p>	<p>No.</p>
<p>f. Are any of the funds to be used to pay for any biomedical research which relates, in whole or in part, to methods of, or the performance of, abortions or involuntary sterilization as a means of family planning?</p>	<p>No.</p>
<p>g. Are any of the funds to be made available to any organization of the President certifies that the use of these funds by such organization would violate any of the above provisions related to abortions and involuntary sterilization?</p>	<p>N/A.</p>
<p>10. Contract Awards (FAA Sec. 601(e)): Will the project utilize competitive selection procedures for the awarding of contracts, except where applicable procurement rules allow otherwise?</p>	<p>Yes.</p>

<p>11. Disadvantaged Enterprises (FY 1991 Appropriations Act Sec. 567): What portion of the funds will be available only for activities of economically and socially disadvantaged enterprises, historically black colleges and universities having a student body in which more than 40 percent of the students are Hispanic Americans, and private and voluntary organizations which are controlled by individuals who are black Americans, Hispanic Americans, or Native Americans, or who are economically or socially disadvantaged (including women)?</p>	<p>Given the broad nature of the technical assistance contract to be awarded under this project supplement, it is unlikely that any one firm or organization could fill all of the required positions. There are, however, a number of such entities which could qualify as a partner for recruiting short-term experts for the project's needs.</p>
<p>12. Biological Diversity (FAA Sec. 119(g): Will the assistance: (a) support training and education efforts which improve the capacity of recipient countries to prevent loss of biological diversity; (b) be provided under a long-term agreement in which the recipient country agrees to protect ecosystems or other wildlife habitats; (c) support efforts to identify and survey ecosystems in recipient countries worthy of protection; or (d) by any direct or indirect means significantly degrade national parks or similar protected areas or introduce exotic plants or animals into such areas?</p>	<p>(a) No.</p> <p>(b) No.</p> <p>(c) No.</p> <p>(d) No.</p>

<p>13. Tropical Forests (FAA Sec. 118; FY 1991 Appropriations Act Sec. 533(c)-(e) &(g)):</p>	
<p>a. A.I.D. Regulation 16: Does the assistance comply with the environmental procedures set forth in A.I.D. Regulation 16?</p>	<p>Yes.</p>

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<p>b. Conservation: Does the assistance place a high priority on conservation and sustainable management of tropical forests? Specifically, does the assistance, to the fullest extent feasible: (1) stress the importance of conserving and sustainably managing forest resources; (2) support activities which offer employment and income alternatives to those who otherwise would cause destruction and loss of forests, and help countries identify and implement alternatives to colonizing forested areas; (3) support training programs, educational efforts, and the establishment or strengthening of institutions to improve forest management; (4) help end destructive slash-and-burn agriculture by supporting stable and productive farming practices; (5) help conserve forests which have not yet been degraded by helping to increase production on lands already cleared or degraded; (6) conserve forested watersheds and rehabilitate those which have been deforested; (7) support training, research, and other actions which lead to sustainable and more environmentally sound practices for timber harvesting, removal, and processing; (8) support research to expand knowledge of tropical forests and identify alternatives which</p>	<p>N/A.</p>
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forest areas by supporting efforts to identify, establish, and maintain a representative network of protected tropical forest ecosystems on a worldwide basis, by making the establishment of protected areas a condition of support for activities involving forest clearance or degradation, and by helping to identify tropical forest ecosystems and species in need of protection and establish and maintain appropriate protected areas;

(10) seen to increase the awareness of U.S. Government agencies and other donors of the immediate and long-term value of tropical forests;

(11) utilize the resources and abilities of all relevant U.S. government agencies;

(2) be based upon careful analysis of the alternatives available to achieve the best sustainable use of the land; and

(13) take full account of the environmental impacts of the proposed activities on biological diversity?

<p>c. Forest degradation: Will assistance be used for: (1) the procurement or use of logging equipment, unless an environmental assessment indicates that all timber harvesting operations involved will be conducted in an environmentally sound manner and that the proposed activity will produce positive economic benefits and sustainable forest management systems; (2) actions which will significantly degrade national parks or similar protected areas which contain tropical forests, or introduce exotic plants or animals into such areas; (3) activities which would result in the conversion of forest lands to the rearing of livestock; (4) the construction, upgrading, or maintenance of roads (including temporary haul roads for logging or other extractive industries) which pass through relatively undergraded forest lands; (5) the colonization of forest lands; or (6) the construction of dams or other water control structures which flood relatively undergraded forest lands, unless with respect to each such activity an environmental assessment indicates that the activity will contribute significantly and directly to improving the livelihood of the rural poor and will be conducted in an environmentally sound manner which supports sustainable</p>	<p>N/A.</p>
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<p>d. Sustainable forestry: If assistance relates to tropical forests, will project assist countries in developing a systematic analysis of the appropriate use of their total tropical forest resources, with the goal of developing a national program for sustainable forestry?</p>	<p>N/A.</p>
<p>e. Environmental impact statements: Will funds be made available in accordance with provisions of FAA Section 117(c) and applicable A.I.D. regulations requiring an environmental impact statement for activities significantly affecting the environment.</p>	<p>N/A.</p>
<p>14. Energy (FA 1991 Appropriations Act Sec. 533(c)): If assistance relates to energy, will such assistance focus on: (a) end-use energy efficiency, least-cost energy planning, and renewable energy resources, and (b) the key greatest impact on reducing emissions from greenhouse gases?</p>	<p>N/A.</p>

<p>15. Sub-Saharan Africa Assistance (FY 1991 Appropriations Act Sec. 562, adding a new FAA chapter 10 (FAA Sec. 496)): If assistance will come from the Sub-Saharan Africa DA account, is it: (a) to be used to help the poor majority in Sub-Saharan Africa through a process of long-term development and economic growth that is equitable, participatory, environmentally sustainable, and self-reliant; (b) to be used to promote sustained economic growth, encourage private sector development, promote individual initiatives, and help to reduce the role of central governments in areas more appropriate for the private sector; (c) being provided in accordance with the policies constrained in FAA section 102; (d) being provided in close consultation with African, United States and other PVOs that have demonstrated effectiveness in the promotion of local grassroots activities on behalf of long-term development in Sub-Saharan Africa; (e) being used to promote reform of sectoral economic policies, to support the critical sector priorities of agricultural production and natural resources, health, voluntary family planning services, education, and income generating opportunities, to bring about appropriate sectoral restructuring of</p>	<p>N/A.</p>
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a favorable environment for individual enterprise and self-sustaining development, and to take into account, in assisted policy reforms, the need to protect vulnerable groups; (f) being used to increase agricultural production in ways that protect and restore the natural resource base, especially food production, to maintain and improve basic transportation and communication networks, to maintain and restore the renewable natural resource base in ways that increase agricultural production, to improve health conditions with special emphasis on meeting the health needs of mothers and children, including the establishment of self-sustaining primary health care systems that give priority to preventive care, to provide increased access to voluntary family planning services, to improve basic literacy and mathematics especially to those outside the formal educational system and to improve primary education, and to develop income-generating opportunities for the unemployed and underemployed in urban and rural areas?

<p>16. Deb-for-Nature Exchange (FAA Sec. 463): If project will finance a debt-for-nature exchange, describe how the exchange will support protection of: (a) the world's oceans and atmosphere; (b) animal and plant species; and (c) parks and reserves; or describe how the exchange will promote: (d) natural resource management, (e) local conservation programs, (f) conservation training programs, (g) public commitment to conservation, (h) land and ecosystem management, and (i) regenerative approaches in farming, forestry, fishing, and watershed management.</p>	<p>N/A.</p>
<p>17. Deobligation/Reobligation (FY 1991 Appropriations Act Sec. 515): If deob/reob authority is sought to be exercised in the provision of DA assistance, are the funds being obligated for the same general purpose, and for countries within the same region as originally obligated, and have the House and Senate Appropriations Committees been properly notified?</p>	<p>N/A.</p>

<p>18. Loans</p> <p>a. Repayment capacity (FAA Sec. 122(b): Information and conclusion on capacity of the country to repay the loan at a reasonable rate of interest.</p> <p>b. Long-range plans (FAA Sec. 122(b): Does the activity give reasonable promise of assisting long-range plans and programs designed to develop economic resources and increase productive capacities?</p> <p>c. Interest rate (FAA Sec. 122(b): If development loan is repayable in dollars, is interest rate at least 2 percent per annum during a grace period which is not to exceed ten years, and at least 3 percent per annum thereafter?</p> <p>d. Exports to Untied States (FAA Sec. 620(d): If assistance is for any productive enterprises which will compete with U.S. enterprises, is there an agreement by the recipient country to prevent export to the U.S. of more than 20 percent of the enterprise's annual production during the life of the loan, or has the requirement to enter into such an agreement been waived by the President because of a national security interest?</p>	<p>N/A.</p> <p>Yes.</p> <p>N/A.</p> <p>N/A.</p>
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<p>19. Development Objective [FAA Secs. 102(a), 111, 113, 281(a)]: Extent to which activity will: (1) effectively involve the poor in development, by expanding access to economy at local level, increasing labor-intensive production and the use of appropriate technology, spreading investment out from cities to small towns and rural areas, and insuring wide participation of the poor in the benefits of development on a sustained basis, using the appropriate U.S. institutions; (2) help develop cooperatives, especially by technical assistance, to assist rural and urban poor to help themselves toward better life, and otherwise encourage democratic private and local governmental institutions; (3) support the self-help efforts of developing countries; (4) promote the participation of women in the national economies of developing countries and the improvement of women's status; and (5) utilize and encourage regional cooperation by developing countries?</p>	<p>N/A.</p> <p>(1) The poor will benefit from an increase in employment opportunities generated by more efficient financial markets, directing investment to the productive sector, and an expanded productive sector resulting from a relaxation of government interests.</p> <p>(2) N/A.</p> <p>(3) N/A.</p> <p>(4) N/A.</p> <p>(5) N/A.</p>
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20. Agriculture, Rural Development and Nutrition, and Agricultural Research (FAA Secs. 103 and 103A):

a. Rural poor and small farmers: If assistance is being made available for agriculture, rural development or nutrition, describe extent to which activity is specifically designed to increase productivity and income of rural poor; or if assistance is being made available for agricultural research, has account been taken of the needs of small farmers, and extensive use of field testing to adapt basic research to local conditions shall be made.

N/A.

b. Nutrition: Describe extent to which assistance is used in coordination with efforts carried out under FAA Section 104 (Population and Health) to help improve nutrition of the people of developing countries through encouragement of increased production of crops with greater nutritional value; improvement of planning, research, and education with respect to nutrition, particularly with reference to improvement and expanded use of indigenously produced foodstuffs; and the undertaking of pilot or demonstration programs explicit addressing the problem of malnutrition of poor and vulnerable people.

N/A.

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<p>c. Food security: Describe by strengthening national food reserves, with particular concern for the needs of the poor, through measures encouraging domestic production, building national food reserves, expanding available storage facilities, reducing post harvest food losses, and improving food distribution.</p>	
<p>21. Population and Health [FAA Secs. 104(b) and (c)]: If assistance is being made available for population or health activities, describe extent to which activity emphasizes low-cost, integrated delivery systems for health, nutrition and family planning for the poorest people, with particular attention to the needs of mothers and young children, using paramedical and auxiliary medical personnel, clinics and health posts, commercial distribution systems, and other modes of community outreach.</p>	<p>N/A.</p>

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<p>22. Education and Human Resources Development (FAA Sec. 105): If assistance is being made available for education, public administration, or human resources development, describe (a) extent to which activity strengthens nonformal education, makes formal education more relevant, especially for rural families and urban poor, and strengthens management capability of institutions enabling the poor to participate in development; and (b) extent to which assistance provides advanced education and training of people of developing countries in such disciplines as are required for planning and implementation of public and private development activities.</p>	
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<p>23. Energy, Private Voluntary Organizations, and Selected Development Activities (FAA Sec. 106): If assistance is being made available for energy, private voluntary organizations, and selected development problems, describe extent to which activity is:</p> <p>a. concerned with data collection and analysis, the training of skilled personnel, research on and development of suitable energy sources, and pilot projects to test new methods of energy resources which are environmentally acceptable and require minimum capital investment;</p> <p>b. concerned with technical cooperation and development, especially with U.S. private and voluntary, or regional and international development, organizations;</p> <p>c. research into, and evaluation of, economic development processes and techniques;</p> <p>d. reconstruction after natural or manmade disaster and programs of disaster preparedness;</p> <p>e. for special development problems, and to enable proper utilization of infrastructure and related projects funded with earlier U.S. assistance;</p>	<p>N/A.</p> <p>N/A.</p> <p>N/A.</p> <p>N/A.</p> <p>N/A.</p>
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<p>f. for urban development, urban poor participate in economic and social development.</p>	<p>N/A.</p>
<p>24. Sahel Development (FAA Secs. 120-21). If assistance is being available for the Sahelian region, describe: (a) extent to which there is international coordination in planning and implementation; participation and support by African countries and organizations in determining development priorities; and a long-term, multidonor development plan, which calls for equitable burden-sharing with other donors; (b) whether a determination has been made that the host government has an adequate system for accounting for an controlling receipt and expenditure of project funds (dollars or local currency generated therefrom).</p>	<p>N/A.</p>
<p>C. CRITERIA APPLICABLE TO ECONOMIC SUPPORT FUNDS ONLY</p>	<p>Not ESF funded.</p>
<p>1. Economic and Political Stability (FAA Sec. 531(a): Will this assistance promote economic and political stability? To the maximum extent feasible, is this assistance consistent with the policy directions, purposes, and programs of Part I of the FAA?</p>	<p>N/A.</p>

<p>2. Military Purposes [FAA Sec. 531(e)]: Will this assistance be used for military or paramilitary purposes?</p>	<p>N/A.</p>
<p>3. Commodity Grants/Separate Accounts (FAA Sec. 609): If commodities are to be granted so that sale proceeds will accrue to the recipient country, have Special Account (counterpart) arrangements been made?</p>	<p>N/A.</p>
<p>4. Generation and Use of Local Currencies [FAA Sec. 531(d)]: Will ESF funds made available for commodity import programs or other program assistance be used to generate local currencies? If so, will at least 50 percent of such local currencies be available to support activities consistent with the objectives of FAA sections 103 through 106?</p>	<p>N/A.</p>

<p>5. Cash Transfer Requirements [FY 1991 Appropriations Act, Title II, under heading "Economic Support Funds," and Sec. 575(b)]. If assistance is in the form of a cash transfer:</p>	<p>N/A.</p>
<p>a. Separate account: Are all such cash payments to be maintained by the country in a separate account and not to be commingled with any other funds?</p>	<p>N/A.</p>
<p>b. Local currencies: Will local currencies that may be generated with funds provided as a cash transfer to such a country also be deposited in a special account, and has A.I.D. entered into an agreement with that government setting forth the amount of the local currencies to be generated, the terms and conditions under which they are to be used, and the responsibilities of A.I.D. and that government to monitor and account for deposits and disbursements?</p>	<p>N/A.</p>
<p>c. U.S. Government use of local currencies: Will all such local currencies also be used in accordance with FAA Section 609, which requires such local currencies to be made available to the U.S. Government as the U.S. determines necessary for the requirements of the U.S. Government, and which requires the remainder to be</p>	<p>N/A.</p>

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<p>used for programs agreed to be available?</p> <p>d. Congressional notice: Has Congress received prior notification providing in detail how the funds will be used, including the U.S. interests that will be served by the assistance, and, as appropriate, the economic policy reforms that will be promoted by the cash transfer assistance?</p>	<p>N/A.</p>
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OFFICIAL FILE

NOMOR : S- 1911 /MK.13/1990.

JAKARTA, 4 Desember 1990

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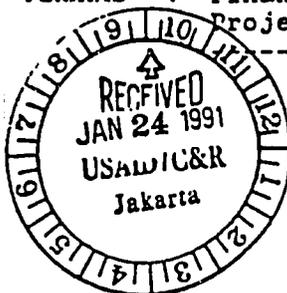
LAMPIRAN :

KEPADA

PERIHAL : Financial Market
Project Supplement.

YTH. MR. LEE TWENTYMAN
ACTING DIRECTOR AGENCY
FOR INTERNATIONAL DEVELOPMENT,
USAID
JL. MEDAN MERDEKA SELATAN NO. 5

JAKARTA PUSAT.



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Sehubungan dengan perihal tersebut diatas, dengan ini kami sampaikan hal-hal sebagai berikut :

1. Berdasarkan surat Menteri Negara Perencanaan Pembangunan Nasional/Ketua BAPPENAS Nomor : 3385/K/8/1988 tanggal 26 Agustus 1988 bahwa Pemerintah Republik Indonesia Cq. Departemen Keuangan RI telah menerima grant dari USAID sebesar US \$ 9 juta untuk pembiayaan Financial Market Project. Disamping itu sesuai alinea terakhir dari surat tersebut bahwa sebagai amendment FY 1989 telah pula dicantumkan usul tambahan dana untuk pembiayaan deregulasi Badan Usaha Milik Negara.

2. Dalam rangka pelaksanaan amendment tersebut diatas maka berdasarkan pertemuan yang diselenggarakan antara Ditjen Moneter, Departemen Keuangan dengan pihak USAID telah dibahas kebutuhan dana untuk pembiayaan peningkatan efisiensi dan produktivitas BUMN sebesar US \$ 5 juta sebagai amendment US FY 1991.

Demikian kami sampaikan dan atas perhatian Saudara, kami ucapkan terima kasih.

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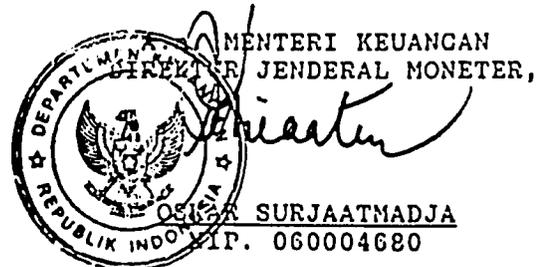
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RETURN TO C & R



Tembusan Yth. :

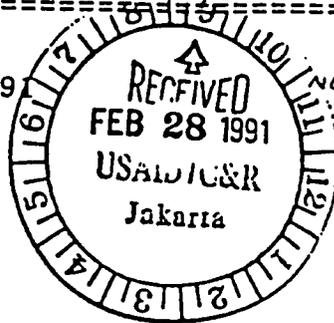
1. Bapak Menteri Keuangan
2. Bapak Menteri Negara Perencanaan Pembangunan Nasional/Ketua BAPPENAS ;
3. Bapak Menteri Muda Keuangan ;
4. Sdr. Deputy Bidang Pengendalian Pelaksana (BAPPENAS) ;
5. Sdr. Direktur Lembaga Keuangan dan Akuntansi, selaku Project Manager Financial Market Project ;
6. Sdr. Direktur Pembinaan BUMN.

PSD

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INDONESIAN CAPITAL MARKET SUPERVISORY AGENCY (BAPEPAM)
 JL. MEDAN MERDEKA SELATAN 14, JAKARTA 10110 INDONESIA
 PHONE : 363060/FAX. : 350442

Jakarta, February 27, 1991



Mr. Lewis P. Reade

Director

U.S. Agency for International Development

American Embassy

Jalan Merdeka Selatan No. 3 - 5

Jakarta 10110

Re : Financial Markets Project Supplement

References : A) Bappenas letter No. 3385/K/1988

dated August 26, 1988

b) Ministry of Finance letter No. S-1911/MK,13/1990

WORKING COPY

Dear Mr. Reade :

Bapepam wishes to further define the framework of the Government of Indonesia's (GOI) request for assistance of the U.S. Agency for International Development (USAID) in the form of an additional grant of \$5.0 million under the on going Financial Markets Project, as outlined in the subject letters.

This additional funding will allow for long- and short-term technical assistance, training, commodities and evaluation/audits to assist the executing agency, the Ministry of Finance, Directorate General for Monetary Affairs, in carrying out its program of restructuring State-Owned Enterprises (SOS) and developing policies and implementation plans for the private sector provision of public services and infrastructure. The GOI's important program of rationalizing uses of resources mobilized for broad development objectives is a logical adjunct to the focus financial market development. The new activities will draw

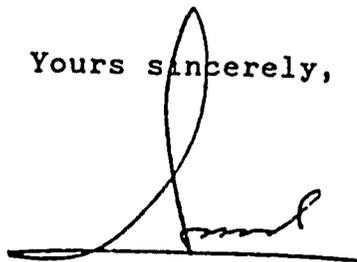
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upon experience already gained in securities markets to explore potential linkages for debt and equity funding of SOE restructurings. The GOI will contribute, in cash and in kind, \$1.67 million for these new project activities.

This \$5.0 million amendment to this project is proposed as a U.S. Fiscal Year (FY) 1991 obligation, and complete the total USAID grant funding of \$14.0 million mentioned in Reference A, which, coupled with total GOI contributions of \$3.67 million and \$1.03 million in Indonesian private sector contributions, now provides for grant total project funding of \$18.7 million.

Thank you for your kind cooperation in this matter.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Usman', written over a horizontal line.

Marzuki Usman
Chairman
Indonesian Capital Markets
Supervisory Agency (BAPEPAM)

ANNEX C
PROJECT DESIGN SUMMARY
LOGICAL FRAMEWORK

Project Title & Number: Indonesia - Financial Markets Project (497-0360)

Life of Project:
 From FY 88 to FY 94
 Total U.S. Funding \$14,000,000
 Date Revised: 07/08/91

NARRATIVE SUMMARY	OBJECTIVE VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
<p>Program or Sector Goal: The broader objective to which project contributes:</p> <p>To increase the availability of long-term investment capital by supporting open financial markets</p>	<p>Measures of Goal Achievement:</p> <ul style="list-style-type: none"> + Number of new/expanded firms + Number of new jobs + Per capita income 	<ul style="list-style-type: none"> + GOI statistics + Other donor studies + GDP per capita 	<p>Assumptions for achieving goal targets:</p> <ul style="list-style-type: none"> + GOI maintains the pace of its deregulation programs and policies
<p>Project Purpose:</p> <p>To increase the number of debt and equity securities and commodity contracts available to investors, and to increase the transparent trading volume of these instruments; and</p>	<p>Conditions indicating purpose has been achieved: End of project status.</p> <ul style="list-style-type: none"> + A permanent and long-range regulatory environment for stocks, bonds and commodities established with operational responsibilities separated from regulatory authority + At least 50 private broker/dealers will be able to operate profitably from broker/dealer business alone + At least 1 new stock and 2 new bond issues will be marketed each month, and average daily stock trading volume reaches 4,000,000/day; total stock and bond market capitalization increasing to at least Rupiah 25 trillion + Commodity futures and at least two new commodities will be traded on ICE + Nationwide automated check-clearing system will be operational 	<ul style="list-style-type: none"> + Operational charts for BAPEPAM and ICE. Operational statistics for brokers + Income statements, or Broker Association BAPEPAM statistics + BAPEPAM/MOF/Broker statistics + ICE, Ministry of Trade (MOT) records + Bank Indonesia records 	<p>Assumptions for achieving purpose:</p> <ul style="list-style-type: none"> + GOI maintains its commitment to liberalization of the market and disengagement from private sector activities + Tax treatment on debt and equity holdings remains fair + DANAREKSA remains committed to a more private sector approach in management + Deregulation activities continue. MOT enacts enabling legislation + GOI does not use 1990 oil price windfall to increase capital participation in SOEs

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NARRATIVE SUMMARY

OBJECTIVE VERIFIABLE INDICATORS

MEANS OF VERIFICATION

IMPORTANT ASSUMPTIONS

To improve the efficiency of the public sector through restructuring and/or privatization of the ownership and management of SOEs.

- + Pension and insurance companies will grow by 50% and increase total stock and bond holdings to 30% of portfolios representing Rupiah 3 trillion
- + DANAREKSA will reduce percentage of portfolio which is unpledged and will restructure and increase the level of individually owned certificates
- + Tested legal, financial and administrative procedures
- + Increased understanding of benefits
- + Restructuring and/or privatization of 10 selected SOEs
- + Database of potential investors, sources of financing and TA
- + Valuation procedures
- + Core group of privatization specialists
- + Dissemination of information
- + An overall policy framework which provides the fundamental direction of the SOE program
- + A coherent and integrated set of policies and procedures that clearly define the process of carrying out the SOE program
- + A fully-developed institutional capacity to design, implement, monitor and revise the SOE program on a systematic, ongoing basis

- + MOF records
- + DANAREKSA/MOF statistics
- + GOI statistics and Company annual reports

Outputs:

Financial Markets:

- + Market deregulation

Magnitude of Outputs:

- + Separating BAPEPAM's regulatory and operational functions; clearer definition of division of regulatory roles
- + Strengthened technical capital market skills of MOF, BAPEPAM and privatized stock exchange(s)

- + GOI statistics
- + Project Evaluation

Assumption for achieving outputs:

- + Economic conditions not affected; project beneficiaries' plans remain stable

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NARRATIVE SUMMARY	OBJECTIVE VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
<ul style="list-style-type: none"> + Increased supply of long-term investment capital 	<ul style="list-style-type: none"> + Removing fiscal, monetary and regulatory disincentives for long-term capital investment + Promoting DANAREKSA's role as mutual fund for individual investors and reducing its favored status in market as mutual fund and underwriter 	<ul style="list-style-type: none"> + Project Monitoring 	
<ul style="list-style-type: none"> + Improved trading capability and structure 	<ul style="list-style-type: none"> + Separating operational and regulatory functions of the ICE + Developing standards which encourage pension funds and insurance companies to diversify portfolios + Revised reserve and liquidity requirements of Bank Indonesia (BI) + Increasing investor interest in securities through promotional campaigns + Greater individual and foreign access to markets, e.g., new mutual funds, linkages of markets, restructured DANAREKSA certificates + Wider BI issuance of notes and bills + Creation of BI national credit file + Developed private sector brokerage through training and TA + Futures contract traded at ICE + BAPINDO, BPOs and P.T. BAHANA sell off equities through stock market + Automated BI check-clearing system 		

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NARRATIVE SUMMARY

OBJECTIVE VERIFIABLE INDICATORS

MEANS OF VERIFICATION

IMPORTANT ASSUMPTIONS

Privatization:

+ Improved Overall Policy Framework

- + Develop an Information Base:
 - o Profiles on candidate companies
 - o Databank of SOEs, potential investors, sources of finance and technical assistance
 - o Methodology to conduct an economic impact analysis
- + Establish the Scope of the Program:
 - o Revised performance measures (with supporting analyses/recommendations)
 - o Revised restructuring criteria (with supporting analyses/recommendations)
 - o Revised list of restructuring candidates
 - o Revised list of privatization candidates
- + Design and Implement Strategies for Reducing Labor Displacement:
 - o Proposals for ameliorating the labor-displacement effects of the program:
 - Early retirement
 - Increased pension benefits
 - Generous severance packages
 - Starting new businesses/acquiring new skills

- + Macroeconomic indicators
- + Company-specific indicators
- + Research program
- + Information dissemination
- + Institutionalization process

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NARRATIVE SUMMARY

OBJECTIVE VERIFIABLE INDICATORS

MEANS OF VERIFICATION

IMPORTANT ASSUMPTIONS

- ✦ Design and Implement Strategies for the Utilization of Privatization Proceeds:

 - Proposals for the utilization of privatization proceeds:
 - Small business expansion schemes
 - Delivery mechanisms to direct subsidies to affected labor
 - Labor compensation packages for redundancies and early retirements
 - Funding retraining programs for displaced skilled labor
 - Infrastructure development programs
- ✦ Design and Implement a Strategy to Maximize Private Investment in Public Services:

 - Analyses of benefits and consequences of private investment
 - Proposed strategy
- ✦ Develop a Consensus-Building Program:

 - Proposed strategy
 - Media items (print, audio, video)
 - Workshops/seminars
 - Promotion campaigns
- ✦ Monitor and Adjust the Program:

 - Indicators to measure success (growth, fiscal budget, investment flows, employment, efficiency)
 - Computerized monitoring system

NARRATIVE SUMMARY	OBJECTIVE VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
<ul style="list-style-type: none"> + Improved Policy Implementation and Procedural Framework 	<ul style="list-style-type: none"> + Identify Current Legal, Regulatory and Other Procedural Constraints to Implementing the SOE Program: <ul style="list-style-type: none"> o Methodology to identify constraints leading to policy/procedural changes o List of current constraints and recommended changes o List of new policies/procedures + Define and Institutionalize Procedures to Restructure and Privatize SOEs: <ul style="list-style-type: none"> o Offering memoranda o Methods and procedures for restructuring o Methods and procedures for privatization o Number of SOE privatization action programs developed o Decisions to privatize selected candidate companies o Public announcements of tender offers in publications o Recommendations for procedures for specialized techniques (e.g., Employee Stock Ownership Programs, i.e., ESOPs) 		

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NARRATIVE SUMMARY

OBJECTIVE VERIFIABLE INDICATORS

MEANS OF VERIFICATION

IMPORTANT ASSUMPTIONS

+ Enhanced Institutional Capacity

- + Define and Institutionalize Guidelines and Procedures for Arranging and Managing Private Investment in the Provision of Public Services:
 - o Guidelines/procedures for reviewing proposals
 - o List of negotiating criteria
 - o Guidelines/procedures for monitoring contract compliance
- + Conduct an Organizational & Management (O&M) Assessment of BUMN:
 - o Proposed action programs to strengthen BUMN
- + Design and Implement a BUMN Training Program:
 - o Proposed training programs
 - o Number of BUMN staff trained

Inputs:

Implementation Target (Type & Quantity)

+ Project documentation

Assumptions for providing inputs:

- + GOI and private sector budgets are forthcoming
- + Qualified TA will be available
- + Suitable candidates for training will be available

	<u>USAID Budget</u>	<u>MOF/BI/Private Sector Budgets</u>
	<u>(In \$000s)</u>	
+ Technical Assistance over LOP	10,950	2,700
+ Training	2,100	1,750
+ Commodities	500	250
+ Evaluation/Audits	200	0
+ Contingency	<u>250</u>	<u>0</u>
TOTAL	14,000	4,700

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SCOPE OF WORK

A. OBJECTIVE

The objective of the Privatization Amendment to the Financial Markets Project (FMP) is to provide for long and short-term technical assistance and training to the Ministry of Finance (MOF), Directorate of State Assets (BUMN), in developing, refining and implementing a comprehensive program of state-owned enterprise (SOE) restructuring and privatization in order to achieve the GOI's objectives of greater economic efficiency and economies on the claims of the budget.

B. LONG-TERM TECHNICAL ADVISOR (3 person-years)

1. Work Requirements: The following statement of work (SOW) describes the responsibilities of the long-term technical advisor and a description of the qualifications needed to perform the SOW. The long-term technical advisor will be responsible for carrying out the following types of activities, which may be revised from time to time:

- a. Advise on the GOI's overall SOE restructuring and privatization program, including the development of goals, objectives, policies, scope, strategy and procedures required to implement the program.
- b. Advise on institutional, legal, regulatory and other procedural constraints related to developing and implementing the SOE restructuring and privatization program.
- c. Advise on the organization and operations of the Directorate of BUMN in order to enhance the institutional capacity of the GOI to implement the SOE restructuring program.
- d. Identify appropriate methods of measuring performance for Indonesian public sector enterprises to be restructured, divested or otherwise affected by the SOE restructuring and privatization program.
- e. Advise the Directorate of BUMN on issues related to the restructuring or privatization of specific SOEs such as preparation for restructuring and divestiture, asset valuation, production, marketing, financing, investment, and follow-up measures.
- f. Advise on the development and implementation of a policy framework and overall strategy to maximize private investment in the provision of public services in order to assist the GOI meet the objectives of its overall public sector restructuring and privatization

program, including enhancing efficiency in resources and reducing the financing requirements for investments of the national budget.

g. Advise on the preparation of terms of reference for specific tasks to be performed by short- and medium-term technical advisors, providing necessary information on timing and levels of effort as needed to complete task order assignments.

h. Coordinate with the Contractor's home office to identify appropriate short-term specialists and oversee their technical activities while in-country.

i. Coordinate managerial/administrative duties with the PW FMP Project Manager and other PW FMP administrative personnel.

3. Qualifications: The candidate for this position should have a Masters Degree or higher in management or in a social science requiring quantitative skills. Ten or more years in an institutional capacity building and policy development milieu, preferably with relevant experience in an Asian setting. The candidate must have had adequate exposure to the state-owned enterprise restructuring process and should be familiar with the administration and operations of SOEs, as well as privately-owned and operated enterprises, and how they differ. The candidate must be well grounded in the divestiture process either through prior experience in divestiture of SOEs or through participation in supporting merger and/or acquisition activities in the private sector. The candidate must have a strong grounding in the sale of shares in companies and be familiar with audit and accounting procedures, valuation of assets, business and marketing analysis and organizational design. Interpersonal communication skills, cultural sensitivity, tact and discretion are required to successfully implement the requirements of the position.

C. SHORT-TERM TECHNICAL ASSISTANCE (40 person-months)

Up to forty (40) person-months of short-term technical assistance will be required to support the long-term advisor in implementing the requirements of the privatization component of the Financial Markets Project. The following describes the types of services which are likely to be required. The services will be further defined in specific task orders which will be the basis for determining the timing and level of effort of services in-country, and will provide the specific qualifications unique to each task. Short-term assistance will fall under the following broadly defined categories:

1. Policy and Strategy Advisor(s)

An estimated ten (10) person-months of short-term assistance to assist the GOI further develop and refine its SOE restructuring and privatization program objectives and strategy, and create the necessary conditions for successful program implementation. To refine the objectives and scope of the program, assistance may be required in developing an SOE information base; identifying current legal, regulatory and procedural constraints to implementing the SOE program; and refining SOE performance evaluation criteria. Assistance may be required in developing strategies in areas such as (a) reducing labor displacement, (b) utilizing privatization proceeds, (c) maximizing private investment in public services, (d) building consensus to implement the program (e.g., public relations relations strategy), and (e) monitoring and revising the overall program.

2. Organizational and Human Resource Development Advisor(s)

Up to twenty (20) person-months of short-term assistance to strengthen the institutional capacity of the Ministry of Finance (MOF), which is the statutory owner of the SOEs and interfaces with them through the Directorate of BUMN, to design, implement, monitor and revise the GOI's program on a systematic, ongoing basis. For the Directorate of BUMN, this could include conducting an organization and management review, designing and implementing a comprehensive training program, and possibly identifying computerization requirements. For selected SOEs, this could also include organizational and management reviews designed to develop more efficient, private sector-oriented strategies and systems. The advisor(s) will work closely with the FMP training advisor to develop appropriate training plans for personnel development for the Directorate of BUMN and selected SOEs.

3. Restructuring/Privatization Implementation Advisor(s)

Up to ten (10) person-months of technical services to assist selected SOEs in the process of restructuring/privatization implementation. Such services will require specialized and industry-specific knowledge, which will be defined on a task order-by-task order basis. This could include the services of enterprise appraisal/valuation advisor(s), financial/investment advisor(s), marketing advisor(s), industry specialist(s) and other follow-up advisor(s) to assist in determining the condition of selected SOEs, as well as developing overall restructuring/privatization plans which could include defining financing options, identifying investors, defining marketing strategies, and carrying out other follow-up measures which may be required to support the restructuring/privatization process.

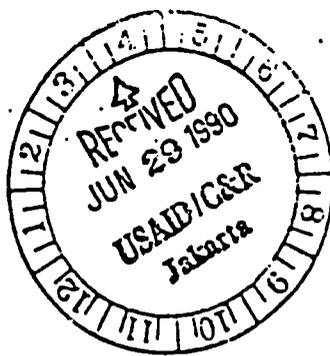
Individual task orders will be prepared within each of the categories identified above. Each task order will provide additional detail on work requirements and will specify the timing for the services, the performance period and level of effort. Each task order will also provide specialized qualifications relating to the work which will enable the appropriate expertise to be provided.

D. REPORTING/DELIVERABLES

1. Annual workplans
2. Quarterly reports
3. Final report
4. Reports and other deliverables as determined by the workplan and/or as defined on a task order-by-task order basis.

E. SCHEDULE

For the long-term level of effort, three years after the date of PIO/T approval. For the short-term level of effort, as determined on a task order-by-task order basis.



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SUBJECT : INDONESIA - AMENDMENT TO THE FINANCIAL
 MARKETS PROJECT (FMP) — 497-2362

REFERENCES: 88 STATE 277993

1. SUMMARY.

THE PURPOSE OF THIS CABLE IS TO ADVISE YOU OF OUR INTENT TO AMEND THE FMP EARLY IN FY 91. AID/W IS REQUESTED TO CONCUR WITH THE PREPARATION OF A PROJECT PAPER (PP) AMENDMENT TO INCREASE LOP FUNDING BY DOLS 5 MILLION TO DOLS 14 MILLION. WHILE IT IS ANTICIPATED THAT THE BULK OF THE DOCUMENTATION FOR THIS PROJECT GRANT AMENDMENT WILL BE DONE IN THIS FY, NO NEW FUNDING IS HEREIN SOUGHT FOR THE FMP UNTIL FY 91, PER APPROVED FY 1991 ABS DATA. IF, HOWEVER, THERE IS A MODEST AMOUNT OF INTRA- OR INTER-MISSION FALL-OUT FUNDING AVAILABLE, WITH SUFFICIENT LEAD TIME IT COULD BE PROGRAMMED HERE IN FY 90. ALTHOUGH THE PROJECT PURPOSE AND SCOPE HAVE BEEN SUFFICIENTLY MODIFIED TO WARRANT REVIEW OF NEW OUTPUTS, EOPS AND PURPOSE CONTAINED IN THIS CABLE, THE PACD (9/30/94) REMAINS UNCHANGED.

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2. PROGRESS TO DATE.

AS POINTED OUT BY OUR APRIL 16, 1992 DIRECTOR'S IMPLEMENTATION REVIEW (DIR), FMP PROGRESS TO DATE FAR EXCEEDS EXPECTATIONS EXPRESSED IN THE PROJECT'S LOGFRAME, AT BOTH THE OUTPUT AND PURPOSE LEVELS, AND HAS ALREADY MADE ITS IMPACT AT THE GOAL LEVEL. TO CITE SEVERAL EXAMPLES OF THESE SUCCESSSES:

OUTPUTS

- | | | | |
|---|---|----------------------|------------------|
| LOGFRAME AS WRITTEN | - | - | ACTUAL SITUATION |
| 1) SALES OF DANAREKSA (STATE-OWNED - MUTUAL FUND) UNENCUMBERED SHARES | - | 1) NOW FREELY TRADED | |
| 2) BAFINDO, EPDS AND P.T. BAHAMA | - | 2) ROUTINE | |

OFFICIAL FILE

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- SALE OF EQUITIES THROUGH STOCK MARKET

GOING PUBLIC"

3) DEVELOP PRIVATE SECTOR BROKERAGES

3) PARTIALLY ACCOMPLISHED

4) RESTRUCTURED DANAREKSA CERTIFICATES

4) ACCOMPLISHED

5) REVISED PI LIQUIDITY AND RESERVE REQUIREMENTS

5) ACCOMPLISHED AND UNDER FURTHER REVIEW

6) WIDER PI ISSUANCE OF NOTES AND FILIS

6) ACCOMPLISHED UNDER FURTHER REVIEW

7) SEPARATING BAPPEPAM'S REGULATING AND OPERATIONAL FUNCTIONS

7) UNDER REVIEW FOR CY 1992 IMPLEMENTATION

8) REMOVING FISCAL, MONETARY AND REGULATING CAPITAL MARKET DISINCENTIVES

8) ONGOING PROCESS. SIGNIFICANT DISINCENTIVES ALREADY ELIMINATED WITH OTHERS TO FOLLOW.

PURPOSE

1) AT LEAST 5 BROKER DEALERS OPERATING PROFITABLY

1) MORE THAN 20 MAY ALREADY BE PROFITABLE

2) 1 NEW STOCK, 2 NEW BOND ISSUES TRADED PER MONTH

2) ON AVERAGE, HAVE EXCEEDED THIS TARGET

3) STOCK EXCHANGE VOLUME REACHES 50,000 SHARES TRADED PER DAY

3) AVERAGE OVER 1.5 MILLION PER DAY IN 1990

4) DANAREKSA WILL REDUCE PERCENTAGE OF PI

4) PARTIALLY

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PORTFOLIO PLEDGED AND INCREASE - ACCOMPLISHED
 - LEVEL OF INDIVIDUALLY OWNED - WITH PROCESS
 - CERTIFICATES - CONTINUING

THE FOREGOING PROGRESS HAS OCCURRED THROUGH THE
 OUTSTANDING COLLABORATIVE EFFORTS OF THE MINISTRY OF
 FINANCE (MOF), BANK INDONESIA (BI), AND TECHNICAL
 ASSISTANCE PROVIDED BY USAID THROUGH OUR PRICE
 WATERHOUSE (PW) TEAM. THE 1987, 1988 AND 1989 ECONOMIC
 DEREGULATION PACKAGES SET THE STAGE FOR THESE
 ACCOMPLISHMENTS. COUPLED WITH THESE PACKAGES, WE HAVE
 ASSISTED THE MOF TO DEVELOP ITS STRATEGY TO RATIONALIZE
 REGULATORY REFORM AND PRIVATIZATION OF THE STOCK
 EXCHANGE.

IN KEEPING WITH THESE POSITIVE DEVELOPMENTS IN THE
 FINANCIAL MARKETS, WE HAVE ALSO BEGUN TO PROVIDE T/A TO
 THE MOF'S DIRECTORATE OF STATE-OWNED ENTERPRISES (SOE)
 TO DEVELOP SPECIFIC PLANS FOR DIVESTITURE OF MORE THAN
 50 SOES OVER THE NEXT FEW YEARS. THIS T/A SUPPORTS THE
 CURRENT PROJECT OBJECTIVE OF CAPITAL MARKETS TO BROADEN
 OWNERSHIP OF SOES AND PROVIDES A BRIDGE INTO A NEW
 PRIVATIZATION COMPONENT OF THE PROJECT.

3. PURPOSE.

IN RECENT YEARS, THE BULK OF PRIVATE SECTOR DEVELOPMENT
 PROJECTS WORLDWIDE HAVE FOCUSED PRIMARILY IN FOUR AREAS:

- A. TRADE AND INVESTMENT DEVELOPMENT;
- B. DEVELOPMENT OF CREDIT AND FINANCIAL MARKETS;
- C. DEVELOPMENT OF CAPITAL MARKETS;
- D. PRIVATIZATION.

ALL THESE TOPICS ARE CLEARLY INTERRELATED, BUT THE
 RELATIONSHIP BETWEEN THE CAPITAL MARKET AND
 PRIVATIZATION IS ESPECIALLY CLOSE. THE TWO ARE MUTUALLY
 SUPPORTIVE AND REINFORCING IN THAT:

- A. SUCCESSFUL SOE PRIVATIZATION REQUIRES THE
 EFFECTIVE MOBILIZATION OF LOCAL CAPITAL RESOURCES FOR
 THE ACQUISITION AND REHABILITATION OF SOES. THE CAPITAL
 MARKET IS ONE OF THE MOST EFFECTIVE MECHANISMS FOR
 DISTRIBUTING GOVERNMENT EQUITY TO THE BROADEST PUBLIC.

- B. A WELL-DESIGNED SOE PRIVATIZATION PROGRAM CAN
 STIMULATE THE MOBILIZATION OF LOCAL CAPITAL AND
 CONTRIBUTE TO THE DEVELOPMENT OF INDIGENOUS CAPITAL
 MARKETS BY ENSURING THE SUPPLY OF EQUITY INTO THE
 MARKET.

THEREFORE THE DEVELOPMENT OF THE CAPITAL MARKET AND SOE
 PRIVATIZATION PROGRAMS SHOULD PROCEED IN UNISON.
 PLANNING FOR CAPITAL MARKET DEVELOPMENT MUST TAKE INTO
 ACCOUNT THE CAPITAL REQUIREMENTS AND EQUITY SUPPLY OF AN
 UPCOMING PRIVATIZATION PROGRAM.

WHILE PRIVATIZATION IS CLEARLY IMPORTANT IN STIMULATING
 THE CAPITAL MARKETS AND VICE-VERSA, THE MOST IMPORTANT

REASON FOR SUPPORTING PRIVATIZATION EFFORTS IS TO IMPROVE THE EFFICIENCY OF THE PUBLIC SECTOR AND PUBLIC SECTOR ENTERPRISES AND THIS IMPROVEMENT OF EFFICIENCY WOULD BE THE PRINCIPAL OBJECTIVE OF THE AMENDMENT. IN SOME CASES, IMPROVEMENT OF EFFICIENCY OF AN SOE MAY BE BEST ACHIEVED BY "PRIVATIZATION" OF MANAGEMENT RATHER THAN BY DIVESTITURE OR LIQUIDATION. IN OTHER CASES, IT COULD MEAN INTRODUCING MODERN PRIVATE SECTOR MANAGEMENT OR MARKETING CONCEPTS TO OTHERWISE SOUND SOES.

IN TERMS OF PRIVATIZATION, THE NOW BUOYANT STOCK MARKET IS ONLY ONE VEHICLE FOR ACHIEVING THIS GOAL. OTHER VEHICLES, SUCH AS PRIVATE PLACEMENTS, WILL ALSO BE CONSIDERED. USE OF MANAGEMENT CONTRACTS, LICENSING AND EVEN LIQUIDATION SHOULD BE CONSIDERED AS A MEANS OF IMPROVING SOE PERFORMANCE OR ELIMINATING SOES NOT SUITABLE FOR PRIVATIZATION OR IMPROVEMENT.

WITH THE ADDITION OF THE NEW PROJECT COMPONENT, THE OVERALL PROJECT PURPOSE WILL BE TWO-FOLD:

A) TO INCREASE THE NUMBER OF DEBT AND EQUITY SECURITIES AND COMMODITY CONTRACTS AVAILABLE TO INVESTORS, AND TO INCREASE THE TRANSPARENT TRADING VOLUME OF THESE INSTRUMENTS; AND

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2) TO IMPROVE THE EFFICIENCY OF THE PUBLIC SECTOR ENTERPRISES THROUGH PRIVATIZATION OF THE OWNERSHIP AND MANAGEMENT OF SOES;

AS STATED IN THE FMP PP (OUTPUTS, SECTION 3.3.3.) ENCOURAGING THE SALE OF SOES THROUGH EQUITY MARKETS IS BUT ONE WAY TO PROMOTE A MORE OPEN, BROADER MARKET.

THE FMP RECOGNIZES THE CLOSE INTERRELATIONSHIP BETWEEN CAPITAL MARKETS AND PRIVATIZATION. SOE PRIVATIZATION CAN BE USED AS AN INSTRUMENT FOR BROADENING (THROUGH RESTRUCTURING OF EXISTING INSTITUTIONAL ARRANGEMENTS) AND DEEPENING (BY INCREASING THE SUPPLY OF EQUITY) THE CAPITAL MARKET AND THUS COMPLEMENT OTHER CAPITAL MARKET DEVELOPMENT EFFORTS.

THE OBJECTIVE OF THE NEW PRIVATIZATION COMPONENT IS CONSISTENT WITH AND SUPPORTIVE OF THE MISSION'S CORE INCREASED EMPLOYMENT THROUGH OPEN MARKETS STRATEGY.

4. BACKGROUND AND SCOPE OF PROPOSED AMENDMENT.

THE GOI IS CURRENTLY COMMITTED TO CARRYING OUT A PRAGMATIC SOE RESTRUCTURING AND PRIVATIZATION IN SUPPORT OF ITS BROADER ECONOMIC DEVELOPMENT OBJECTIVES. IN CARRYING OUT THIS PROCESS, THE GOI WILL REQUIRE SIGNIFICANT LEVELS AND VARIED TYPES OF SPECIALIZED TECHNICAL ASSISTANCE. THE FMP IS IN A STRONG POSITION TO BE AN IMPORTANT PROVIDER OF SUCH TECHNICAL ASSISTANCE TO SUPPORT THE GOI IN FURTHER PLANNING AND EXECUTING ITS PRIVATIZATION PROGRAM, AND TO ENSURE PROPER LINKAGE OF THIS EFFORT TO ITS CAPITAL MARKET DEVELOPMENT EFFORTS. WE PLAN TO COLLABORATE WITH THE SAME DIRECTORATE IN THE MOF FOR OUR PRIVATIZATION EFFORTS AS WE DO WITH OUR PRESENT FMP ASSISTANCE. HOWEVER, LINKAGE OF SOE DIVESTITURE AND CAPITAL MARKET SALES IS NOT INTENDED TO BE THE ONLY IMPLEMENTATION STRATEGY. THERE ARE A VARIETY OF PRIVATIZATION SCHEMES (BOT, MANAGEMENT CONTRACTS, PRIVATE PLACEMENTS, ETC.) TO ACHIEVE IMPROVED EFFICIENCY THROUGH PRIVATIZATION ASSISTANCE. FURTHERMORE DIRECT ASSISTANCE (UNDERWRITINGS) FOR DIVESTITURE AND PLANT LEVEL TECHNICAL ASSISTANCE MAY NOT GET US THE BIGGEST BANG FOR THE BUCK AND WOULD REQUIRE LEVELS OF AID RESOURCES THAT FAR EXCEED WHAT WILL REASONABLY BE AVAILABLE IN FUTURE YEARS. IN FACT, AND IN KEEPING WITH OUR COLLABORATIVE APPROACH, WE BELIEVE THAT THE GOI NEEDS AND WANTS MOST IS TECHNICAL ASSISTANCE AND TRAINING IN THE POLICY ARENA TO ASSIST THEM IN MAKING THE BEST CHOICES IN IMPLEMENTING THEIR PRIVATIZATION PLANS.

ALTHOUGH THE GOI HAS COMPLETE OWNERSHIP IN APPROXIMATELY 189 ENTERPRISES, OTHER LEVELS OF GOVERNMENT AND PUBLIC ENTITIES OWN MANY BUSINESSES IN WHOLE OR IN PART. THE GOI IS ESPECIALLY INVOLVED IN, AND IN MANY INSTANCES DOMINATES, A NUMBER OF KEY ECONOMIC SECTORS, SUCH AS NATURAL RESOURCES, AGRICULTURE, UTILITIES, BANKING, HEAVY INDUSTRY, TRANSPORTATION AND COMMUNICATIONS.

AB

THE PERFORMANCE OF THESE SOES IS THE SUBJECT OF INTENSE DELIBERATIONS AT THE HIGHEST LEVELS OF GOVERNMENT. THE RESULT HAS BEEN A LONG PROCESSION OF ECONOMIC DEREGULATION MEASURES BROUGHT ABOUT BY THE NEED TO REVITALIZE AND DIVERSIFY THE ECONOMY, TO CREATE THE BASIS FOR GROWTH AND EXPANSION NECESSARY TO ACCOMMODATE THE LARGE NUMBER OF ENTRANTS INTO THE LABOR FORCE, AND TO REDUCE THE RISK OF POLITICAL UNREST AND INSTABILITY. THE GCI HAS CURRENTLY DIVIDED SOES INTO THE FOLLOWING CATEGORIES:

- A. SOES REQUIRING CHANGES IN THEIR LEGAL STATUS AS A BASIS FOR IMPROVING THEIR EFFICIENCY (16).
- B. SOES THAT ARE TO SEEK MANAGEMENT CONTRACTS OR JOINT OPERATIONS ARRANGEMENTS (5).
- C. SOES THAT ARE TO BE MERGED OR CONSOLIDATED (15).
- D. SOES THAT WILL FLOAT SHARES ON THE CAPITAL MARKETS (32). THIS CATEGORY FITS WELL WITHIN THE CAPITAL MARKETS DEVELOPMENT PURPOSE OF THE EMP.
- E. SOES THAT WILL SEEK JOINT VENTURE PARTICIPATION (17).

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F. SMALL-SCALE SOES THAT WILL BE SOLD (6) OR LIQUIDATED (3).

G. SOES THAT ARE NOT TO BE CHANGED IN STATUS AT THIS TIME, BUT ARE TO BE SUBJECTED TO MAJOR PROGRAMS TO INCREASE THEIR EFFICIENCY (75). THESE WOULD APPEAR TO BE CONTENDERS FOR BOT OR MANAGEMENT CONTRACT ARRANGEMENTS.

THE GOI WILL REQUIRE TECHNICAL ASSISTANCE AT VARIOUS LEVELS, INCLUDING THE POLICY AND IMPLEMENTATION LEVELS. THESE ARE THE INPUTS WE ANTICIPATE FINANCING UNDER THIS PP AMENDMENT. OF THE TWO LEVELS, AND GIVEN OUR POLICY TA TRACK RECORD, WE CONSIDER THE POLICY TA TO BE THE MOST DOABLE, THE QUICKEST TO IMPLEMENT AND THE MOST COST-EFFECTIVE.

AT THE POLICY LEVEL, THREE AREAS WHERE TECHNICAL ASSISTANCE ACTIVITIES ARE NEEDED AT THIS TIME AND WILL BE HIGHLIGHTED AS THE PP AMENDMENT EVOLVES ARE: REFINING PRIVATIZATION OBJECTIVES (WET), PERFORMANCE MEASURES (EGW MUCB) AND RESTRUCTURING (WEICE ROUTE) CRITERIA.

5. DESIGN STRATEGY.

USAID'S STRATEGY TO SUSTAIN AND DEEPEN ITS ROLE AS A DEPENDABLE PROVIDER OF USEFUL TECHNICAL ASSISTANCE IN FURTHERING THE GOI'S CAPITAL MARKET DEVELOPMENT AND SOE PRIVATIZATION EFFORTS IS BASED ON A NUMBER OF FUNDAMENTAL PREMISES.

A. THE GOI IS CURRENTLY COMMITTED TO AND HAS ASKED USAID ASSISTANCE IN CARRYING OUT A PRAGMATIC PROGRAM OF SOE PRIVATIZATION IN SUPPORT OF ITS BROADER ECONOMIC DEVELOPMENT OBJECTIVES;

B. THE GOI WILL REQUIRE SIGNIFICANT AMOUNTS AND VARIED TYPES OF SPECIALIZED TECHNICAL ASSISTANCE IN CARRYING OUT ITS SOE RESTRUCTURING AND PRIVATIZATION PROGRAMS;

C. THE GOI RECOGNIZES THE IMPORTANCE OF PROPERLY FUNCTIONING CAPITAL MARKETS TO THE SUCCESSFUL EXECUTION OF A GOOD PORTION OF ITS SOE PRIVATIZATION PROGRAM;

D. THE GOI, WITH THE ASSISTANCE OF THE FMP, IS TAKING CONCRETE STEPS TO FURTHER DEVELOP INDONESIA'S CAPITAL MARKETS;

E. USAID, THROUGH THE FMP, IS IN A STRONG POSITION TO INCREASE ITS USEFULNESS TO THE GOI IN FURTHER PLANNING AND EXECUTING ITS PRIVATIZATION PROGRAM, LINKED, IN PART, TO ITS CAPITAL MARKET DEVELOPMENT EFFORTS, AND IN PART, TO OUR GOAL OF ASSISTING THE GOI IN REDUCING THE BUDGETARY AND MANAGEMENT BURDEN OF SOES.

DESIGN OBJECTIVES:

THE OVERALL OBJECTIVES OF USAID'S STRATEGY IN ASSISTING

THE GOI IN THE PROCESS OF RESTRUCTURING/PRIVATIZING
IMPORTANT ELEMENTS OF THE INDONESIA SOE SECTOR INCLUDE:

A. PROMOTING JOB CREATION OPPORTUNITIES THROUGH
ENHANCED EFFICIENCY OF RESOURCE ALLOCATION;

B. GENERATING ADDITIONAL SUPPLIES OF SECURITIES FOR
PRIVATE SECTOR INVESTMENT;

C. BROADENING AND DEEPENING THE LEVEL OF ACTIVITY IN
THE CAPITAL MARKETS.

D. REDUCING PUBLIC SECTOR PARTICIPATION IN THE
OPERATIONS OF COMMERCIAL ENTERPRISES.

E. REDUCING THE DEBT BURDEN CREATED BY SOE OPERATIONS,
THUS FREING GOI RESOURCES FOR MORE EFFECTIVE USES.
AS THE GOI HAS ALREADY MADE LARGE STRIDES IN LAYING OUT
A POLICY AND STRATEGY FOR SOE RESTRUCTURING AND
PRIVATIZATION, POLICY-LEVEL ASSISTANCE CAN BEST FOCUS ON
SPECIFIC AREAS WHERE THE GOI NEEDS TO REFINE ITS POLICY.

SIGNIFICANT AMOUNTS OF ASSISTANCE ARE LIKELY TO BE
REQUIRED AT THE POLICY LEVEL. USAID WILL UNDERTAKE TO
PARTICIPATE IN THOSE ACTIVITIES WHICH WILL ASSIST THE
GOI TO FURTHER DEVELOP AND REFINE ITS SOE RESTRUCTURING
AND PRIVATIZATION STRATEGY AND CREATE THE NECESSARY
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CONDITIONS FOR SUCCESSFUL PROGRAM IMPLEMENTATION, INCLUDING CONTINUED SUSTAINED FOLLOW-THROUGH ON THE DEVELOPMENT OF EFFECTIVE CAPITAL MARKETS.

SOME EXAMPLES OF ACTIVITIES OF THIS STRATEGY ELEMENT TO BE INCLUDED IN THE PP AMENDMENT ARE:

A. ESTABLISH AND MAINTAIN CHANNELS TO KEY POLICY MAKERS IN THE AREAS OF THE CAPITAL MARKET AND PRIVATIZATION;

B. PROVIDE TECHNICAL ASSISTANCE TARGETTED TOWARDS CLARIFYING POLICY OPTIONS AND OUTLINING PROBABLE CONSEQUENCES OF SPECIFIC DIRECTIONS;

C. ASSIST THE MOF IN DEVELOPING A TRAINING PLAN FOR APPROPRIATE PRIVATIZATION STAFF AND FUND THAT TRAINING;

D. CONDUCT SECTOR OR INDUSTRY-SPECIFIC ANALYSIS;

E. EXPLORE WAYS TO INCREASE PRIVATE SECTOR COMPETITION IN SECTORS DOMINATED BY SOES;

F. EXPLORE PRACTICAL WAYS TO AMELIORATE THE NEGATIVE EFFECTS OF EMPLOYMENT LOSSES CAUSED BY PRIVATIZATION AND DEVELOP INNOVATIVE APPROACHES TO GENERATE COMPENSATORY EMPLOYMENT OPPORTUNITIES;

G. EXPLORE THE FEASIBILITY OF ENCOURAGING THE DEVELOPMENT OF NON-TRADITIONAL "BUYER GROUPS" AS AN ALTERNATIVE TO ESTABLISHED ECONOMICALLY POWERFUL GROUPS, E.G., EMPLOYEE STOCK OWNERSHIP PLANS, EMPLOYEE COOPERATIVES AND USER COOPERATIVES;

H. ASSIST THE RUPN (MOF ASSET COLLECTION AGENCY) TO IMPROVE THE FINANCIAL SITUATION OF ITS ACCOUNTS RECEIVABLE. AS A FIRST STEP IN PREPARING FOR THE DIVESTITURE OF STATE-OWNED FINANCIAL INSTITUTIONS THE RUPN REPRESENTS; AND

I. EXPLORE THE FEASIBILITY OF USING INSTRUMENTS LIKE CONVERTIBLE BONDS AND CONVERTIBLE DANARESA CERTIFICATES TO EASE THE WAY INTO EQUITY OWNERSHIP IN SOES BY GROUPS WHICH TRADITIONALLY HAVE PLACED THEIR FUNDS IN TIME DEPOSITS.

AT THIS JUNCTURE, SUBJECT TO FURTHER REFINEMENT IN THE DEVELOPMENT OF THE PP, OUTPUTS IN THE POLICY DEVELOPMENT COULD INCLUDE:

A. REFINED GOI OBJECTIVES:

- 1. A NUMBER OF POLICY ANALYSES CONDUCTED TO DETERMINE ECONOMIC COSTS AND BENEFITS OF ALTERNATIVE PRIVATIZATION OBJECTIVES;

- 2. A NUMBER OF POLICY PRONOUNCEMENTS ISSUED BY THE GOI.

B. REFINED PERFORMANCE MEASURES:

- 1. A NUMBER OF ANALYSES CARRIED OUT TO CONSIDER CHANGES IN THE PRESENT DEFINITION AND APPLICATION OF THE PROFITABILITY MEASURE (LIQUIDITY/SOLVENCY, NON-COMMERCIAL OBJECTIVES, INDUSTRY COMPARISON, INDUSTRY-SPECIFIC ANALYSIS);

- 2. A NUMBER OF POLICY PRONOUNCEMENTS ISSUED BY THE GOI.

C. REFINED RESTRUCTURING CRITERIA:

- 1. A NUMBER OF ANALYSES CARRIED OUT TO DEVELOP THE CRITERIA FOR DETERMINING THE APPROPRIATE RESTRUCTURING ACTION BY FIRMS;

- 2. A NUMBER OF POLICY PRONOUNCEMENTS ISSUED BY THE GOI.

D. APPLIED RESEARCH:

- 1. A NUMBER OF ANALYSES TO DEVELOP NEW FINANCIAL INSTRUMENTS;

- 2. A NUMBER OF ANALYSIS TO IMPROVE EMPLOYMENT EFFECTS.

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AT THE IMPLEMENTATION LEVEL, USAID SHOULD SUPPORT AND ENCOURAGE THOSE ACTIVITIES WHICH CREATE AND SUSTAIN MOMENTUM TOWARDS SOE RESTRUCTURING AND PRIVATIZATION IN INDONESIA UNTIL THE CONDITIONS ARE RIFE FOR LARGER-SCALE PRIVATIZATION. GENERALLY, SUCH ACTIVITIES COULD FOCUS ON:

- A. DEMONSTRATING THE FEASIBILITY AND BENEFITS OF THE CONCEPT THROUGH PILOT PROJECTS ON A SMALL SCALE;
- B. DEVELOPING CONSTITUENCIES FOR PRIVATIZATION AMONG KEY PUBLIC AND PRIVATE SECTOR GROUPS;
- C. GENERALLY ASSISTING AND PROMOTING INTERIM PRIVATIZATION ACTIVITIES OF THE GOI.

SPECIFIC EXAMPLES OF ACTIVITIES THAT MIGHT BE UNDERTAKEN UNDER THIS STRATEGY ELEMENT INCLUDE:

- A. FACILITATE, THROUGH TA, THE PRIVATIZATION OF SELECTED SOES WITH STOCK ISSUES THROUGH THE CAPITAL MARKET;
- B. OFFER TECHNICAL ASSISTANCE IN DETERMINING THE CONDITION OF SELECTED SOES WHICH THE GOI DECIDES TO PRIVATIZE AND PROVIDE THE TECHNICAL SKILLS NECESSARY (FINANCIAL, LEGAL, ASSET VALUATION, ETC.) TO PREPARE THE ENTERPRISE FOR DIVESTITURE;
- C. ASSIST IN ORGANIZING A PUBLIC EDUCATION AWARENESS CAMPAIGN FOR PRIVATIZATION;
- D. ASSIST IN IDENTIFYING ESOP CANDIDATES AND STRUCTURING THE DEALS, TO INCLUDE EXPLORING THE POTENTIAL USE OF THE PRE BUREAU GUARANTEE AUTHORITY TO PRIVATE BANKS MAKING LOANS FOR ESOP-LIKE LOAN ARRANGEMENTS;
- E. PROVIDE TECHNICAL ASSISTANCE TO DEMONSTRATE OTHER PRIVATIZATION MEASURES, SUCH AS MANAGEMENT CONTRACTS, ECT, CONTRACTING OUT, LEASING ARRANGEMENTS.

A PRELIMINARY LISTING OF DESIRED AMENDMENT OUTPUTS INCLUDE:

- A. TRAINING AND PROMOTION:
 - 1. A NUMBER OF GOI OFFICIALS RECEIVING PARTICIPANT TRAINING FOR PRIVATIZATION PLANNING AND IMPLEMENTATION;
 - 2. A NUMBER OF PROMOTION CAMPAIGNS TO EDUCATE THE PUBLIC REGARDING BENEFITS OF PRIVATIZATION.
- B. EXECUTION OF SOE RESTRUCTURING AND PRIVATIZATION:
 - 1. A NUMBER OF SOE PRIVATIZATION ACTION PROGRAMS DEVELOPED;

- 2. A NUMBER OF SOES ISSUING SHARES;
- 3. A NUMBER OF EXECUTED ESCPS.

C. CAPITAL MARKET DEVELOPMENT:

- 1. PERCENTAGE INCREASE IN THE NUMBER OF SHARES LISTED ON STOCK EXCHANGES DUE TO SOE PUBLIC OFFERINGS;
- 2. PERCENTAGE INCREASE IN SHARE TRADING VOLUME ON STOCK EXCHANGES DUE TO SOE PUBLIC OFFERINGS.

6. PROJECT MANAGEMENT AND FINANCIAL PLAN.
 NO BASIC CHANGES IN OVERALL PROJECT MANAGEMENT ARE ANTICIPATED. LONG-TERM TECHNICAL ASSISTANCE CONTRACTS WILL CONTINUE TO PROVIDE THE BULK OF OUTPUTS PROJECTED BY THIS SUCCESSFUL PROJECT. DURING THE FINAL PP AMENDMENT PREPARATION, LINEAGES TO THE PRE BUREAU GUARANTEE FACILITY WILL BE EXPLORED IN DEPTH. HOWEVER, THE POTENTIAL USE OF THE GUARANTEE FACILITY SHOULD BE CONSIDERED AN EXCELLENT PARALLEL FINANCING TO THE TA PROPOSED HEREIN, BUT THE PP AMENDMENT CAN STAND ALONE WITHOUT SUCH FUNDING.

IT IS EXPECTED THAT THE TECHNICAL ASSISTANCE REQUIREMENTS FOR THE NEW SOE RESTRUCTURING/DIVESTITURE COMPONENT WILL BE FINE TUNED WHEN DEVELOPING THE PP

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AMENDMENT. AT THIS JUNCTURE, WE ESTIMATE THAT FOUR PERSON YEARS OF LONG TERM TA IS REQUIRED, IN THE FORM OF A SENIOR ADVISOR TO THE MOF. THIS IS ESTIMATED TO COST APPROXIMATELY DOLS 1 MILLION. IN ADDITION TO THIS NEED, WE FORESEE AT LEAST DOLS 1 MILLION REQUIRED FOR THE EXTENSIVE TRAINING AND PROMOTION ACTIVITIES THESE OUTPUTS WILL REQUIRE, AND 150 PERSON-MONTHS IN SHORT-TERM TA (DOLS 3 MILLION) TO COVER AREAS SUCH AS ASSET VALUATION, LEGAL, ACCOUNTING, ESOPS PROMOTION, ETC.

7. EXPECTED AMENDMENT ACCOMPLISHMENTS.

THE DEVELOPMENT OF THIS PP AMENDMENT WILL REQUIRE THAT INDEPENDENT OF THIS PRIVATIZATION COMPONENT, WE EXAMINE THE OVERALL BOP INDICATORS ALREADY ESTABLISHED FOR THE PROJECT UNDER OUR CAPITAL AND MONEY MARKET COMPONENTS. THIS IS A NECESSARY EXERCISE GIVEN THE OUTSTANDING SUCCESS OF THE PROJECT TO DATE. ANTICIPATED RESULTS WILL INCLUDE BOTH QUANTITATIVE AND QUALITATIVE READJUSTMENTS UPWARD.

IN TERMS OF THE PRIVATIZATION COMPONENT, WE HAVE A VISION OF ASSISTING THE GOI TO INSTITUTIONALIZE REDUCING THE FINANCIAL BURDEN OF ITS SOES IN SIGNIFICANTLY MEASURABLE WAYS, AND WE INTEND, DURING PP AMENDMENT DEVELOPMENT, TO ESTIMATE THE FUTURE IMPACTS ON SOE EFFICIENCY, CAPITAL MOBILIZATION AND EMPLOYMENT GENERATION.

8. ACTION REQUESTED.

THAT AID/W AUTHORIZE USAID/JAKARTA TO PROCEED WITH DEVELOPMENT, REVIEW AND AUTHORIZATION OF AN AMENDMENT TO INCREASE LCP FUNDING BY DOLS FIVE MILLION WITH NO EXTENSION OF PACD. MONJO

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TAGS:

SUBJECT: INDONESIA - AMENDMENT TO THE FINANCIAL MARKETS
 PROJECT (FMP) 497-0360

1. A PROJECT REVIEW COMMITTEE MEETING WAS HELD ON JULY 10 TO REVIEW THE PROPOSED AMENDMENT TO THE FMP. THE MEETING WAS CHAIRED BY ANE/PD; REVIEWERS WERE GC/ANE, ANE/EA, PRE/PD, ANE/PSD, ANE/TR, AND ANE/PD/ENV.

2. THE PRC ENDORSED THE PROPOSED AMENDMENT AND NOTED THAT THE NEW COMPONENT FOR PRIVATIZATION WAS WELL CONCEIVED AND ADDRESSES A HIGH-PRIORITY CONCERN IN INDONESIA. THE DEGREE TO WHICH EFFORTS IN FINANCIAL MARKET DEVELOPMENT AND PRIVATIZATION SHOULD BE COMBINED UNDER ONE PROJECT VERSUS ADDRESSED THROUGH TWO SEPARATE PROJECTS WAS QUESTIONED. THE PRC CONCLUDED THAT THE MISSION'S APPROACH SHOULD BE SUPPORTED, BASED ON THE POSITIVE EXPERIENCE IN OTHER PROGRAMS WHICH HAVE COMBINED THESE ACTIVITIES PLUS THE OBVIOUS LINK BETWEEN THE OPERATION OF FINANCIAL MARKETS AND THE CAPITAL REQUIREMENTS OF NEWLY PRIVATIZED BUSINESSES. THE POTENTIAL FOR U.S. INVESTMENT WAS DISCUSSED AND ANE/PSD SUGGESTED THAT THE MISSION CONSIDER DURING THE DESIGN

STAGE THE EXTENT TO WHICH U.S. INVESTMENT WOULD BE APPROPRIATE AND SHOULD BE ENCOURAGED.

3. A QUESTION WAS RAISED ABOUT THE SIZE OF THE PIPELINE FOR FMP. THE MARCH 31, 1990 PAIS REPORT SHOWS ONLY 48,000 DOLLARS EXPENDED WITH OBLIGATIONS TO DATE TOTALING 6.8 MILLION DOLLARS. WITHOUT A DETAILED ANALYSIS, THE PRC DID NOT WISE TO MAKE AN ISSUE OF THE PIPELINE, BUT WE SUGGEST THAT THE PP AMENDMENT DEMONSTRATE THE NEED TO OBLIGATE 5.0 MILLION DOLLARS IN FY '91 ON THE BASIS OF PLANNED NEAR-TERM COMMITMENTS. FYI: WE ARE AWARE THAT A MAJOR TA CONTRACT WAS SIGNED IN APRIL.

4. PLEASE SEND IN INITIAL ENVIRONMENTAL EXAMINATION (IEE) FOR AND/PD/ENV CONCURRENCE WHICH IS REQUIRED FOR ALL PROJECT AMENDMENTS.

5. THIS MESSAGE CONSTITUTES APPROVAL TO PROCEED WITH



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THE DESIGN AND APPROVAL OF THE PP AMENDMENT, INCLUDING
MISSION AUTHORIZATION OF THE 5.0 MILLION DOLLAR INCREASE
IN LOP FUNDING, PENDING AID/W CONCURRENCE WITH THE IEE. BAKER
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INITIAL ENVIRONMENTAL EXAMINATION

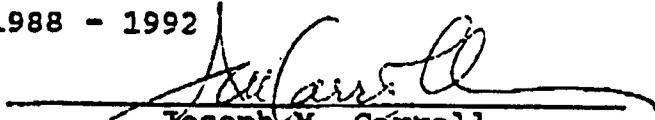
(A) PROGRAM COUNTRY: Indonesia

(B) ACTIVITY: Financial Markets - Project Supplement

(C) FUNDING: \$14 million

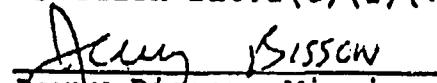
(D) PERIOD OF FUNDING: FY 1988 - 1992

(E) STATEMENT PREPARED BY:


Joseph M. Carroll
USAID/Indonesia

(F) ENVIRONMENTAL ACTION RECOMMENDED: Categorical Exclusion
under A.I.D. 22CFR Part
Section 216.2(c)(2)(VIII)

(G) ENVIRONMENTAL OFFICER CLEARANCE:


Jerry Bisson, Mission
Environmental Officer
USAID/Indonesia

(H) DECISION OF USAID/INDONESIA ACTING DIRECTOR

APPROVED : _____
DISAPPROVED: _____
DATE : _____

(I) DECISION OF APRE ENVIRONMENTAL OFFICER

APPROVED : M. Kar APRE/DR
DISAPPROVED: _____
DATE : 12-19-90

(See cable also
1-11-91 state 10397)

ANNEX _____

A. Project Description.

The Financial Markets Project (497-0360) is a six year, \$18.67 million project whose goal is to promote growth of the private sector in Indonesia. The primary purposes of the project are to provide the assistance required to develop the financial markets in Indonesia so that private enterprises will have access to long-term financing. With the approval of a Project Supplement of \$5 million at this time, assistance will now also be provided to encourage further liberalization of the market, including specific activities to assist the GOI in rationalizing its State-Owned Enterprise (SOE) investments.

In the area of capital market development, A.I.D. continues to support the policy reforms initiated by the GOI by providing the technical assistance and training needed to carry out policy changes effectively. This activity also includes support to investor education and promotion campaigns.

With regard to deregulation, A.I.D. is addressing the need for assistance to DANAREKSA, the GOI mutual fund, in its conversion to private investment management. Other deregulation activities include deregulation of BAPPEKAM (the SEC-like regulatory agency) to permit a privatization of stock exchange activities.

B. Identification and Evaluation of Environmental Impact.

The impact of this project on the environment is likely to be slight in overall magnitude and essentially indirect. The policy dialogue, technical assistance and training components will have no direct impact on the physical environment, both in terms of the original PP activities, and the new activities to take place under the PP supplement. Assistance to be provided to DANAREKSA will be used to develop a private investment management capability and will not be used to finance directly the activities of any one company. The capital markets developed in this project will provide funds for individual projects of a diverse nature in which individual companies invest. However, A.I.D. will not retain review and approval authority over the activities of those companies or other uses of funds obtained through the capital market.

In specific terms of this PP supplement, the GOI is currently committed to carrying out a pragmatic SOE restructuring and privatization in support of its broader economic development objectives. In carrying out this

process, the GOI will require significant levels and varied types of specialized technical assistance. To support the GOI in further planning and executing its privatization program, and to ensure proper linkage of this effort to its capital market development efforts, this PP supplement provides linkage of SOE divestiture and capital market sales. However this is not the only implementation strategy. There are a variety of privatization schemes (BOT, management contracts, private placements, etc.) to achieve improved efficiency through privatization assistance. What the GOI needs and wants most is technical assistance and training in the policy arena to assist them in making the best choices in implementing their privatization plans.

Although the GOI has complete ownership in approximately 189 enterprises, other levels of government and public entities own many businesses in whole or in part. the GOI is especially involved in, and in many instances dominates a number of key economic sectors, such as natural resources, agriculture, utilities, banking, heavy industry, transportation and communications.

The performance of these SOEs is the subject of intense deliberations at the highest levels of government. The result has been a long procession of economic deregulation measures brought about by the need to revitalize and diversify the economy, to create the basis for growth and expansion necessary to accommodate the large number of entrants into the labor force, and to reduce the risk of political unrest and instability. Because we will provide the long- and short-term technical assistance and training to assist the GOI in carrying out policy-making activities, independent of identifiable activities directly impacting on the environment, no further environmental review is possible or necessary.

C. Recommended Environmental Action.

On the basis of the discussion above, it is recommended that the policy dialogue, technical assistance and training components be categorically excluded from further environment review pursuant to A.I.D. Regulation 16, Paragraph 216.2(c)(2)(i) and (iii).

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TAGS:

SUBJECT: INITIAL ENVIRONMENTAL EXAMINATION (IEE) FOR FINANCIAL MARKETS PROJECT (497-0360)

REF: (A) FAX TRANSMITTAL OF IEE 12/4/90 (B) KUX/BISSON FAX 12/21/90

1. PER REF. B. FAX APRE/DR CONCURS THAT THE POLICY DIALOGUE, TECHNICAL ASSISTANCE AND TRAINING COMPONENTS OF THE FINANCIAL MARKETS PROJECT BE EXCLUDED FROM FURTHER ENVIRONMENTAL REVIEW UNDER THE CATEGORIAL EXCLUSION PROVISIONS OF 22 CFR 216.
2. WE RECOMMEND, HOWEVER, THAT AS A MATTER OF POLICY, USAID/JAKARTA SERIOUSLY CONSIDER PROVIDING TECHNICAL ASSISTANCE AND TRAINING TO THOSE STATE OWNED ENTERPRISES OF PRIVATE BUSINESS WHICH ARE LIKELY TO HAVE ENVIRONMENTAL IMPACTS. THE EXAMPLES OF SECTORS LISTED ON PAGE 2 OF THE IEE WHICH MAY QUALIFY FOR HELP UNDER FMP INCLUDING HEAVY INDUSTRY, UTILITIES, AGRICULTURE AND NATURAL RESOURCES, WOULD BE OBVIOUS TARGETS FOR SUCH ASSISTANCE. THIS WOULD SEEM TO BE PARTICULARLY APPROPRIATE GIVEN THE RECENT ESTABLISHMENT OF THE NEW INDONESIAN ENVIRONMENTAL REGULATORY AGENCY. FOCUS IN THE FIRST INSTANCE COULD BE GIVEN, FOR EXAMPLE, TO VOLUNTARY ADOPTION OF LOW-COST, NO COST POLLUTION ABATEMENT MEASURES, MATERIALS RECYCLING/REUSE, ENERGY CONSERVATION, ETC.
3. CONSIDERATION COULD BE GIVEN TO FMP ENTERING INTO A COOPERATIVE AGREEMENT WITH THE WORLD ENVIRONMENT CENTER (WEC) OR USING AN IQC TO PROVIDE SOME OF THESE SERVICES. WE COULD HELP BY PROVIDING A WEC STAFF PERSON FOR A TDY, IF THAT WOULD BE USEFUL, TO WORK WITH MISSION STAFF ON OPTIONS. PLEASE LET US KNOW YOUR PLANS IN THIS REGARD. (DRAFT:MKUX, AUTH:MKUX) EAGLEBURGER
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PRIVATIZATION PLAN NARRATIVE

USAID/Indonesia is committed to assist the Government of Indonesia (GOI) in its privatization efforts. In 1989, the GOI began the preliminary stages of planning a pragmatic program of state-owned enterprise (SOE) restructuring and privatization to support its economic development objectives. In implementing this process, the GOI requires significant amounts and varied types of specialized technical assistance. USAID/Indonesia (through the Financial Markets Project) is positioned to be an important source of such technical assistance. USAID's assistance goes hand in hand with the GOI's own capital market development and our privatization efforts.

The precise scope of the GOI role in the commercial sector has not been determined. Although the GOI has complete ownership in approximately 189 enterprises, other levels of Government and public sector entities own many businesses in whole or in part. The GOI is especially involved in, and in many instances controls, a number of key economic sectors, such as natural resources, utilities, banking, heavy industry, transportation and communications.

It is noteworthy that the GOI's dominant role in the economy has deep roots, including historical (the pre-independence regime in the Dutch East Indies organized and ran the economy), political (the need to hold together a heterogeneous and far-flung archipelagic country), and economic (the need to accelerate development and to counter the power of economically strong ethnic minorities). As such, it has enjoyed widespread public support. However, pressures for economic reform have been mounting (both inside and outside the GOI), particularly since the collapse of oil prices in the 1980's forced an end to relatively high levels of public spending and necessitated serious belt-tightening efforts. The result has been a long procession of economic deregulation measures brought about by the need to revitalize and diversify the economy. In this context, the performance of SOEs has become the subject of intense deliberations at the highest levels of Government.

The GOI has defined the first phase of an action program to restructure the SOE's. A very significant increase in private sector participation in areas previously the domain of the public sector is a key element of this program. Recently, two steps were taken. First, as a measure of performance, all SOEs were assigned to one of four classes: very healthy, healthy, less healthy, sick. Second, with this performance measure in hand, the Ministry of Finance (MOF), which is the legal "owner" of these SOEs, reviewed the situation of each SOE with its respective technical ministry. On the basis of these discussions, the SOEs were

divided into a variety of categories defined in terms of the next stage of action to be applied to the enterprise.

While decisions and actions recommended in this early stage of the SOE deregulation process have been largely shaped by the single criterion of reduced pressure on the state budget, it is clear from both public announcements and internal discussions that the GOI has a far broader range of objectives in mind. These broader objectives still need to be defined more explicitly. However, the underlying premise is the urgency of increasing efficiency in the Indonesian economy. The GOI is turning to market forces to drive the economy more efficiently. This, in turn, requires reduction or elimination of monopoly elements in the markets, and an increase in the participation of the private sector in areas which currently fall under the domain of the SOEs. Therefore, the GOI is seeking to reduce the budgetary burden of the SOEs and to achieve greater efficiency in SOE performance. The MOF has identified three immediate targets to support the achievement of these dual objectives:

1. To create the capacity for greater self-generation of the financial resources necessary for efficient operation of enterprises, especially foreign exchange, to reduce the call on general government resources to meet these financing requirements;
2. To improve the quality of management and to create requisite attitudes for running an efficient and profitable operation; and,
3. To merge or consolidate SOEs when doing so will create a more rational structure for the firms, and permit economies of scale.

USAID supports the idea that the development of the capital market and planned SOE privatization programs should proceed in unison. Planning for capital market development takes into account the capital requirements and equity supply of the privatization program. By the same token, a SOE privatization plan must evaluate the availability of local capital resources, and include a design for stimulating and taking advantage of such resources.

USAID/Indonesia's Financial Market Project remains unique in that it recognizes the close interrelationship between the two concepts and incorporates both under the same project. The Financial Markets Project structures a program of capital market development with the purpose of increasing the amount of long-term funds available to meet the capital needs of private productive activities. SOE privatization will also be used as an instrument for broadening (through restructuring of existing institutional arrangements) and deepening (by increasing the supply of equity) the capital market.

In order to assist the MOF in carrying out its privatization plans, beginning in FY 91 USAID/Indonesia will make available technical assistance at various levels, including the policy and implementation levels. At the policy level, three areas where technical assistance will be useful are: refining privatization objectives, developing performance measures, and formulating restructuring criteria.

A variety of activities is envisaged for the policy formulation and policy implementation technical assistance required in Indonesia's divestiture efforts. These may include, inter alia:

- **Offering technical expertise to the MOF on specific business plans for GOI entities developing privatization strategies;**
- **Conducting appropriate sector or industry-specific analysis;**
- **Exploring practical ways to cushion employment losses caused by privatization and develop innovative approaches to generate compensatory employment opportunities, e.g., persuading pension funds to create small enterprises which will employ laid-off employees;**
- **Exploring the feasibility of encouraging non-traditional "buyer groups", e.g., employee stock ownership programs (ESOPs).**

In line with the GOI's new privatization strategy, the Mission is designing and will sign in FY 91 a major amendment to the Financial Markets Project. This amendment directly supports our ongoing strategy of working with the Ministry of Finance to develop capital markets and rationalize the asset structure of the GOI. It also moves the Mission toward the first and third objectives of our Program Performance Contract: freeing up the private sector and redefining the role of government.

Another extremely successful privatization effort where USAID has a well established record of progress is in health and family planning. USAID/Indonesia is pursuing three major objectives as key components of its health and population strategy:

1. **Improving operational efficiency of government investments in health and family planning programs;**
2. **Developing more rational resource allocation policies which favor an increased proportion of the population and health budget devoted to family planning and child survival programs; and**

3. Encouraging a shift toward privatization of as many functions as possible to improve the quality, sustainability and efficiency of health and family planning programs.

Within these overall objectives, USAID has achieved important breakthroughs in the past two years, and is deeply engaged in stimulating and reinforcing changes in the health care market which parallel those occurring in the broader economy.

The new Private Sector Family Planning Project supports the expansion and shifting of a major portion of family planning services and products to private providers and commercial outlets. USAID has helped to stimulate policy breakthroughs in creating demand through commercial advertising of contraceptive products, and expansion of contraceptive sales to a much wider range of outlets.

The flagship of privatization in the health sector is the Health Sector Financing Project. In its first two years, the project has far exceeded expectations in pursuing its complementary goals of:

- expanding health insurance coverage through support for enabling legislation and by introducing private health insurance (this includes the decision to privatize the existing large government employees health insurance scheme). With project technical assistance, this enabling legislation is now being drafted;
- Privatization and incorporation of government hospitals to establish "for profit" operation; pilot demonstrations in the first twelve government hospitals will begin shortly with project assistance;
- Opening the hospital sector to private investment. This policy decision has been approved by the GOI.

Changes in the health care market are accelerating, and the highly skilled project technical assistance team are uniquely positioned to further stimulate and reinforce the pace of change.

**PRESIDENT OF THE REPUBLIC OF INDONESIA
GOVERNMENT REGULATION OF THE REPUBLIC OF INDONESIA
NUMBER 55 OF 1990
REGARDING
STATE-OWNED ENTERPRISES (PERSEROS) THAT SELL THEIR SHARES
TO THE PUBLIC THROUGH THE CAPITAL MARKET

THE PRESIDENT OF THE REPUBLIC OF INDONESIA**

Has considered that:

That in the context of increasing the efficiency and effectiveness of State-Owned Enterprises (SOEs) (Perusahaan Perseroans, or PERSEROs), and to provide an opportunity to the general public to participate in the ownership of shares of SOEs, or (PERSEROs), it is deemed necessary to stipulate through a Government Regulation the promotion and supervision of PERSEROs that sell their shares to the general public.

Has taken into account:

1. Article 5 paragraph (2), and Article 33 of the 1945 Constitution;
2. The Indonesian Commercial Code (State Gazette Number 23 of 1847) as amended several times, lastly by Law Number 4 of 1971 (State Gazette Number 20 of 1971, Addendum to the State Gazette Number 2959).
3. Law Number 9 of 1969 regarding the Issuance of Government Regulations, as Substitution to Law Number 1 of 1969, regarding the Forms of State-Owned Enterprises (State Gazette Number 16 of 1969, Addendum to the State Gazette 2890) to become Law (State Gazette Number 40 of 1969, Addendum to the State Gazette Number 2904);
4. Government Regulation Number 12 of 1969 regarding State-Owned Enterprises (State Gazette Number 21 of 1969, Addendum to the State Gazette Number 2894) as has been amended by Government Regulation Number 32, Addendum to the State Gazette Number 2987).

HAS DECIDED:

To issue:

GOVERNMENT REGULATION OF THE REPUBLIC OF INDONESIA REGARDING STATE-OWNED ENTERPRISES (PERSEROs) THAT SELL SHARES TO THE PUBLIC THROUGH THE CAPITAL MARKET.

**CHAPTER 1
GENERAL PROVISIONS**

In this Government Regulation it should be understood that:

1. Development refers to activities to provide guidelines to (SOE) companies in planning, implementating and controlling relevant Companies to carry out tasks and functions in an efficient and effective manner and to become capable of sustainable growth.
2. Supervision refers to the whole process of evaluating Companies to enable Companies to carry out their functions satisfactorily and to become able to attain objectives that have already been determined.
3. Audit refers to activities for assessing the Company, by means of comparing actual conditions with planned objectives that should have been realized, in financial terms as well as in technical operational terms.
4. Company means a State-Owned Enterprise (PERSERO) as stipulated in Law Number 9 of 1969, selling its shares to the public.
5. Minister refers to the Minister of Finance, in his capacity as shareholder representing the Republic of Indonesia.

**CHAPTER II
DEVELOPMENT
Article 2**

- (1) Guidance concerning holding SOE companies as investments is to be carried out by the Minister.
- (2) The Minister may authorize an individual, or a legal entity (a proxy), to represent him in the General Meeting of Shareholders.

Article 3

- (1) The Authorized Representative/proxy as referred to in Article 2, Paragraph (2), is required to obtain beforehand the approval of the Minister in making decisions at the General Meeting of Shareholders, regarding the following matters:**

 - a. A plan for amending the total share capital of the Company;**
 - b. A plan for company capital investment, or relinquishing capital participation in a Limited Liability Corporation, or in other business enterprises, performed outside of the Stock Exchange;**
 - c. A plan for establishing subsidiary companies;**
 - d. A plan for relinquishing part or all of the shares owned by the Company;**
 - e. A plan for liquidation, merger or reorganization of the Company into other legal forms;**
 - f. A plan for Articles of Incorporation of the Company, and amendments thereof;**
 - g. A plan for determining and distributing profits of the Company;**
 - h. A plan for determining the salary of the Board of Directors, including benefits and/or other allowances, pension and emoluments, of the Board of Commissioners.**
- (2) Request for approval of a plan as referred to in paragraph (1) must be received by the Minister no later than 30 (thirty) days before the General Meeting of Shareholders.**
- (3) Approval of the Minister to the request as stipulated in paragraph (2) shall be issued no later than 30 (thirty) days after the request has been received.**
- (4) If within a period of 30 (thirty) days the Minister has not yet given his approval, then the aforementioned request is deemed to have been approved.**

**CHAPTER III
MANAGEMENT
Article 4**

Responsibility for the management of the (SOE) Company shall be vested in the Board of Directors, in compliance with provisions contained in the Articles of Incorporation of the Company.

Article 5

- (1) The Company's Work Plan and Articles of Incorporation are compiled and submitted by the Board of Directors to the Board of Commissioners.
- (2) The Board of Commissioners ratifies the work plan and the Articles of Incorporation of the Company, as referred to in paragraph (1), within a period of no longer than 3 (three) months from the start of the current Fiscal Year of the Company.
- (3) In the case of the Company's work plan and the Articles of Incorporation not being ratified within a period of 3 (three) months as referred to in paragraph (2), then the work plan and Articles of Incorporation of the preceding year shall be used.

Article 6

- (1) The appointment and discharge of the Company's Board of Directors are carried out by the General Meeting of Shareholders.
- (2) The Company's Board of Directors consists of not more than 5 (five) persons, one of whom will act as the President Director.
- (3) The term of office of Company Directors is 5 (five) years, but they may be reappointed.

**CHAPTER IV
SUPERVISION
Article 7**

- (1) Supervision of the company is carried out by the Board of Commissioners who are responsible to the General Meeting of Shareholders.

- (2) In exercising supervision, the Board of Commissioners represents the interests of shareholders.

Article 8

- (1) The Board of Commissioners supervises the management of the company, including implementation of the work plan and budget, the provisions of the Articles of Incorporation and decisions of the General Meeting of Shareholders.
- (2) The Board of Commissioners performs its tasks, authorities and responsibilities in accordance with the stipulations contained in the Articles of Incorporation of the Company, decisions made in the General Meeting of Shareholders, and the provisions of existing regulations.

Article 9

- (1) The Board of Commissioners shall meet at least once every 3 (three) months, or at particular times deemed necessary.
- (2) Minutes of the meetings are made for each meeting.

Article 10

- (1) Appointment and discharge of the Board of Commissioners of the Company are carried out by the General Meeting of Shareholders.
- (2) The Board of Commissioners of the Company consists of not more than 5 (five) persons, and one of whom acts as the President Commissioner.
- (3) The term of office of members of the Board of Commissioners of the Company is 3 (three) years, but they may be reappointed.

CHAPTER V REPORTING Article 11

- (1) The Board of Directors of the Company is required to submit:
 - a. Annual Reports to the General Meeting of Shareholders and to the Board of Commissioners;

- b. **Quarterly Reports, Semi-annual Reports, and other periodic reports to the Board of Commissioners, in conformity with the stipulations contained in the Articles of Incorporation of the Company.**
- (2) **Members of the Board of Commissioners representing the Minister are required to submit reports regarding evaluation of the reports referred to in paragraph (1) to the Minister no later than 2 (two) months after having received the relevant reports from the Board of Directors.**

Article 12

- (1) **Annual Reports of the Company are ratified by the General Meeting of Shareholders.**
- (2) **Ratification of the Annual Reports of the Company is carried out on the basis of audit results of the Company Accountant.**

Article 13

Designation of an Accountant for the auditing of annual reports of the Company is conducted on the basis of the Decision of the General Meeting of Shareholders.

**CHAPTER VI
CONCLUDING PROVISION**

Article 14

By the enactment of this Government Regulation, the provisions governing the development and supervision of State-Owned Enterprises' (SOEs), procurement of goods and services, sales and transfer of ownership of goods that are owned or controlled by SOEs, requirements on the use of foreign export credits, and the requirement to ask for approval from the Minister of Finance in obtaining foreign loans are rescinded.

Article 15

This Government Regulation becomes effective from the date of its promulgation. In order that it be known by everyone, its promulgation is made by its publishing in the State Gazette of the Republic of Indonesia.

**Issued in Jakarta
Date of 24 October 1990
PRESIDENT OF THE REPUBLIC OF INDONESIA
signed**

SOEHARTO

**Promulgated in Jakarta
On the 24th of October 1990
MINISTER/STATE SECRETARY OF THE
REPUBLIC OF INDONESIA
signed**

MOERDIONO

**STATE GAZETTE OF THE REPUBLIC OF INDONESIA NUMBER 79 OF 1990
A copy in conformity with its original
RI CABINET SECRETARIATE
Head of the Bureau of Laws and
Legislative Affairs
signed
Bambang Kesowo S.H., LL.M**

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**PRESIDENT OF THE REPUBLIC OF INDONESIA
ELUCIDATION ON THE
REGULATION OF THE GOVERNMENT OF THE REPUBLIC OF INDONESIA
NUMBER 55 OF 1990
REGARDING
STATE-OWNED ENTERPRISES (PERSEROS) SELLING THEIR SHARES
TO THE PUBLIC THROUGH THE CAPITAL MARKET**

OVERVIEW.

In line with expanding implementation of development and the achievements to be attained, the capability, productivity and efficiency of the entire national economy need to be enhanced even further, in order that the role and contribution of the national economy to development can generate the optimal yield for enhancing the well-being of the people.

In this connection, the PERSERO, as one of the forms of State-Owned Enterprises, is also not exempt from the above rationale. Various efforts need to be continuously carried out in order that its role and contribution in economic development can become even more consolidated and enhanced.

On the basis of an evaluation on the achievements that have been attained to the present, it is already time for particular PERSEROs to be given the widest possible opportunity for expanding their undertakings in order that such PERSEROs become advanced and self-reliant enterprises. For the purpose of enabling such PERSEROs to have a wider scope of movement for utilizing to the widest extent funds and other potential elements of the public, it is necessary that the share ownership of relevant PERSEROs need to be given the freedom of movement in performing their activities.

The issuance of this Government Regulation is meant for providing a basis of operation of PERSEROs that subsequently will be permitted to carry out the sale of their shares to the general public through the Capital Market ("going public").

ARTICLE BY ARTICLE

Article 1

Sufficiently clear

Article 2

Paragraph (1)

Sufficiently clear

Paragraph (2)

In the case that the Minister of Finance cannot attend the General Meeting of Shareholders, then the Minister of Finance may be represented by parties deemed to have the skill and capability in the field of undertaking of the relevant Company.

Article 3

- Paragraph (1)
Sufficiently clear
- Paragraph (2)
Sufficiently clear
- Paragraph (3)
Sufficiently clear
- Paragraph (4)
Sufficiently clear

Article 5

- Paragraph (1)
Sufficiently clear
- Paragraph (2)
Sufficiently clear
- Paragraph (3)
Sufficiently clear

Article 6

- Paragraph (1)
Sufficiently clear
- Paragraph (2)
Sufficiently clear
- Paragraph (3)
Sufficiently clear

Article 7

- Paragraph (1)
Sufficiently clear
- Paragraph (2)
Sufficiently clear

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Article 8

Paragraph (1)
Sufficiently clear

Paragraph (2)
Sufficiently clear

Article 9

Paragraph (1)
Sufficiently clear

Paragraph (2)
Sufficiently clear

Article 10

Paragraph (1)
Sufficiently clear

Paragraph (2)
Sufficiently clear

Paragraph (3)
Sufficiently clear

Article 11

Paragraph (1)
Sufficiently clear

Paragraph (2)
The term "accountant" in this case refers to the public accountant or the Agency for Financial and Development Supervision (BPKP).

Article 13

Sufficiently clear

Article 14

In the context of making a **PERSERO** eligible for selling shares to the public through the capital market ("going public") several provisions that currently apply to **PERSEROs** that do not sell their shares to the public (do not go public), do not apply to **PERSEROs** that do "go public". Among others, the said stipulations are:

- Government Regulation Number 3 of 1983, regarding the procedure for the Guidance and Supervision the Perusahaan Jawatan (**PERJAN**), the Perusahaan Umum (**PERUM**) and the Perusahaan Perseroan (**PERSERO**) [the foregoing being other legal forms of State-Owned Enterprises], as has been amended by Government Regulation Number 28 of 1983.

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- Presidential decree Number 59 of 1972, regarding the procurement of Foreign Credits.
- Presidential Decree Number 29 of 1984, regarding the Implementation of the National Government Budget.
- Presidential Instruction Number 9 of 1970, regarding the Sale and Ownership/Transfer of Goods that are Owned by the State.
- Presidential Instruction Number 8 of 1984, regarding the Use of Foreign Export Credits.
- Presidential Instruction Number 1 of 1988, regarding Procedures for the Procurement of Goods and Services.

Article 15

Sufficiently clear

**ADDENDUM TO THE STATE GAZETTE OF THE REPUBLIC OF INDONESIA
NUMBER 3428**