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MIDTERM EVALUATION
FINANCIAL MARKETS PROJECT (497-0360)

IQC Contract No. PCE-0001-I-00-2051-00

Delivery Order No. 10

Prepared for:
U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT
Jakarta, Indonesia

CHEMONICS

Prepared by:
Peter Gajewski
Jonathan Miller
Roberto Toso
Sjahrir
Subarto Zaini

October 1993

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CHEMONICS

INTERNATIONAL
CONSULTING
DIVISION

October 8, 1993

Mr. Michael Huffman
USAID/Jakarta
American Embassy
Jalan Medan Merdeka Selatan 3
Jakarta 10110, Indonesia

Subject: Final report: Midterm Evaluation of the Financial Markets Project

Reference: Private Enterprise Indefinite Quantity Contract, No. PCE-0001-I-00-2051-00, Delivery Order No. 10

Dear Mr. Huffman:

I am pleased to submit to you the final version of the midterm evaluation of the Financial Markets project. Included in our submission is one bound version of the evaluation, the unbound original, and a computer diskette containing the WordPerfect 5.1 version of the report. In addition, we include a hard copy and WordPerfect version of Evaluation Summary Form 1330-5, with Sections H and J completed.

This final report is the result of a significantly expanded effort by the evaluation team to analyze and assess all FMP components, and it incorporates to the extent appropriate comments on previous drafts from your office, others at USAID/Jakarta, and various counterpart agencies and private sector individuals contacted during the evaluation process. We appreciate the range and depth of comments and assistance provided by USAID and others mentioned above. Insights gained from these parties significantly improved the analysis of FMP activities and the context within which they are taking place.

We are confident this report will help USAID and the Government of Indonesia accomplish the mutual objective of supporting open financial markets. We look forward to working with your office and USAID/Jakarta in the near future.

Sincerely,

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ACRONYMS

ASEAN	Association of Southeast Asian Nations
BAPEPAM	Capital Markets Supervisory Agency
BAPPENAS	National Development Planning Agency
BEJ	Jakarta Stock Exchange
BOO	Build-own-operate project
BOT	Build-operate-transfer project
BPEPTI	Commodities exchange market
BUMN	State-owned enterprise
CMC	Capital Markets Component, FMP
DG	Directorate general
EOPS	End-of-project status
ESOP	Employee stock ownership program
FMP	Financial Markets project, USAID/Jakarta
GDP	Gross domestic product
GOI	Government of Indonesia
HIID	Harvard Institute for International Development
IMF	International Monetary Fund
KBP	Collective Marketing Office
KDEI	Indonesia Capital Market Clearing Corporation
KEP	Collective Marketing Office
MFP	Municipal Finance project, USAID/Jakarta
MIS	Management information system
MMC	Money Market Component, FMP
MOF	Indonesia Ministry of Finance
O&M	Organization and methods
OGS	Office of Government Services
PURSE	Private Participation in Urban Services project, USAID/Jakarta
PW	Price Waterhouse
Rp	Rupiah (Indonesian currency); Rp 2060 = $1
SBI	Bank Indonesia Certificate
SEC	U.S. Securities Exchange Commission
SOE	State-owned enterprise
UK	United Kingdom
USAID	U.S. Agency for International Development

EXECUTIVE SUMMARY

A. Project Purpose and Background

The Financial Markets project (FMP) was authorized in August 1988, consisting of two components: Capital Markets and Money Markets. The project was amended to include the Privatization Component in August 1991. Training activities cross-cut all three project components. The current completion date (PACD) is September 30, 1994. Project funding consists of a $14.0 million USAID grant and host-country contributions of $4.7 million in cash and in-kind contributions. An additional project amendment extending the PACD to March 1, 1995, and increasing funding by $600,000 was signed by USAID just as this evaluation was being printed.

The goal of USAID/Indonesia's Financial Markets project (FMP) is to increase the availability of long-term investment capital by supporting open financial markets. The project's purpose is twofold:

- To increase the number of debt and equity securities and commodity contracts available to investors, and the transparent trading volume of these instruments.
- To improve the efficiency of the public sector through restructuring and/or privatization of state-owned enterprises (SOEs).

Capital Markets Component. The Capital Markets Component (CMC) was designed to help the Indonesian government encourage long-term capital investment. It has two subcomponents: regulation, designed to establish a permanent long-range regulatory environment; and securities market trading capability and structure, designed to establish a national securities trading capability, increase the volume of listed securities, encourage operations of brokers and dealers, and increase stock and bond holdings of pension funds and insurance companies.

CMC activities include assistance to the Ministry of Finance's Capital Markets Supervisory Agency (BAPEPAM) in drafting capital markets regulations, improving supervision and enforcement practices, and strengthening internal operations; and assistance to the securities industry (brokers, underwriters, investment advisors), the Jakarta Stock Exchange, and the (very small) Surabaya Stock Exchange.

The CMC is being implemented by Price Waterhouse's Office of Government Services through a host-country contract with BAPEPAM. Price Waterhouse provides a resident team comprising a chief of party, securities industry specialist, training specialist, and various long- and short-term professional and administrative staff.

Privatization Component. The Privatization Component was developed to improve the overall privatization policy framework and enhance policy implementation and institutional capacities at the GOI to carry out is privatization efforts. Specific transactions are also a part of this component.

Activities of the Privatization Component include: assistance to the Ministry of Finance's Directorate General for State-owned Enterprises (DG/SOE) in formulating and implementing privatization and restructuring policies and procedures, including specific transactions; and short-term assistance related to general and enterprise-specific privatization issues. A separate Price Waterhouse (PW) team is responsible for implementing this component with the DG/SOE under a direct buy-in to AID/Washington's Privatization and Development project. The Privatization Component team includes a long-term privatization advisor and various short-term professional staff.

Money Markets Component. The Money Market Component (MMC) supports monetary management, bank supervision, banking services, and internal management for the Money Markets Department of Bank Indonesia, the nation's central bank. Activities include assistance in developing effective open-market operations, medium- and long-term debt instruments and markets, and advice on current regulatory and supervisory issues. Deloitte Touche Tohmatsu International provides the services of a long-term money markets advisor under a host-country contract with Bank Indonesia to implement this component.

B. Evaluation Purpose and Methodology

The primary objective of this interim evaluation of FMP is to provide USAID/Jakarta and the Government of Indonesia (GOI) with a detailed assessment of project progress to date, as well as the overall impact of FMP on the development of Indonesia's financial markets and SOE privatization/restructuring program. This evaluation includes recommendations for modifications to improve the likelihood of achieving project targets.

A secondary objective of the evaluation is to examine the condition of Indonesia's financial markets and the privatization/restructuring program in light of possible future project activities. Specifically, the evaluation will include recommendations for alternative or additional activities that could be considered for support under a possible amendment and/or extension beyond the current PACD of September 30, 1994. In this respect, particular attention has been paid to the GOI's and private sector's ability to sustain progress in the development of financial markets.

To achieve these objectives, the evaluation team conducted a review of project documentation, including USAID materials (project paper, reports, and files); contractors' reports and files; press reports on Indonesia's financial markets and privatization and restructuring program; market research documents prepared by private firms and advisors; and other donor reports (World Bank, IMF, Asian Development Bank). A detailed list of documents consulted is included in Annex J of this report.

In addition, the team conducted more than 100 interviews, group discussions, and seminars with the following people and agencies:

- AID/Washington and USAID/Jakarta personnel
- Representatives of FMP contractors and consultants
- Project counterparts in the GOI including the Ministry of Finance, BAPEPAM, and Bank Indonesia
- Private sector project participants and beneficiaries, including trainees, Jakarta Stock Exchange staff, and securities industry representatives
- Academic and private sector observers of Indonesia's financial markets and privatization/restructuring program
- Other donors, including the World Bank and Asian Development Bank

A complete list of individuals and organizations interviewed is included in Annex I. In addition to these meetings, an assessment was made of FMP's three components based on the documents and interviews. Each project objective was analyzed within the context of developments in the financial sector to evaluate its relevance, and progress toward objectives was measured through verifiable indicators.

The FMP logical framework was reviewed and evaluated for relevance, and recommendations for adjustments were made. The contractor's work was evaluated for quality, timeliness, accuracy, and responsiveness. Questions asked included: Were FMP outputs effective in addressing GOI needs?, and: Was the contractor efficient in the use of resources, person-months, and other costs?

During the above process, frequent consultations were held with USAID, BAPEPAM, Jakarta Stock Exchange, PT Clearing (KDEI), Bank Indonesia, and the Ministry of Finance.

The findings, conclusions, and recommendations in this evaluation are part of an independent review of FMP activities and the health of Indonesia's financial markets and privatization process. The views expressed herein are not necessarily those of USAID, the GOI, or FMP contractors.

C. Findings

C1. Capital Markets Component

The CMC was supposed to be implemented over a period of five years, starting in 1989. However, because concluding the contract took nearly 20 months, assistance was not begun until May 1990. In addition, as capital market activity has increased and the work of BAPEPAM become more important, the CMC's adjustment to changing priorities has delayed the achievement of project objectives. Finally, a debate within the Indonesian government and between Price Waterhouse team members and the Harvard Institute for International Development (HIID) limited CMC access to BAPEPAM and Jakarta Stock Exchange (BEJ) officials and records for the first half of 1992. As a result, the FMP third year work plan contained no specific work tasks related to the BEJ.

Technical assistance. The record of PW's activities is documented in the FMP annual work plans. Not surprisingly, given the constraints and conditions mentioned above, only 1991 has been a year of significant achievement in all project areas.

The regulation subcomponent of the CMC was to establish a permanent and long-range regulatory environment for stocks, bonds, and commodities. There was also a major subproject on organizations and methods for the BEJ. Overall, work on development of rules and stock exchange operations was excellent, and progress on the regulatory and institution building front at BAPEPAM has moved ahead to the extent that BAPEPAM is emerging as an effective regulatory force. Despite this success, objectives for this subcomponent are unlikely to be fully achieved by the PACD because the scale of work has increased and the needs of the economy demand substantial further growth in securities market activity.

The securities market subcomponent called for at least 50 private brokers/dealers able to operate profitably by the PACD, as well as at least one new stock and two new bond issues each month. Without question, BEJ activity has increased steadily since 1987, with the value of shares increasing by a factor of 200 and 22 new bond issues in the first half of 1993 alone. The impact of the CMC on this growth is less clear, since most of this expansion took place before the effects of FMP materialized. However, the head of BAPEPAM says the CMC was and is essential to capital market development, and it is reasonable to conclude that the project has aided market stabilization and ongoing growth since 1993.

Monitoring and evaluation. Indicators specified in the FMP project paper were not routinely tracked by the CMC team, nor did USAID fulfill its own project monitoring responsibilities.

C2. Privatization Component

Indonesia's 180 state-owned enterprises account for 27 percent of GDP, while employing only 1.7 percent of the labor force. From 1987 to 1991, SOE's generally became more efficient, but little progress was made in privatizing these enterprises. While 31 SOEs have legally been changed into private sector entities, nine new SOEs have been created during the same period, and only one has sold some of its shares on the BEJ.

Technical assistance. Overall, the Privatization Component has had success in some subcomponents, while other activities have been delayed—partly through the time taken to appoint a new director general of SOEs (August 1992), through the restructuring of the directorate general itself, and the reactive rather than proactive approach of the contractor. When called on, however, PW has provided high-quality advice and has been responsive to requests for assistance under the direction and management subcomponent. As a result, the team has developed a constructive working relationship with the government.

The quantifiable objectives for privatization, in terms of transactions completed, have not been met in large part because of changes in GOI's management of the privatization

program and its evolving views on privatization as a whole. Work on public awareness on privatization, institutional strengthening for the DG/SOE, PTP estates management, and DG/SOE training needs has all been put on hold. There has been progress on the enhanced policy framework through classification of SOEs and pension fund privatization associated with a reform proposal toward "defined contribution" schemes and away from "defined benefit" schemes.

The policy subcomponent's first phase of classifying SOEs into categories of required assistance was completed. Since that time, however, there has been little progress, due mostly to DG/SOE restructuring and reorganization. PW did prepare two relevant and well-written draft reports on SOE pension funds, which with continued technical assistance in this area will make the pension fund system more effective and efficient. Another draft report, on the performance of the Collective Marketing Office and the estate marketing system, also provided sound advice, though as with the other privatization efforts noted above, this activity has been put on hold by the DG/SOE.

The institutional subcomponent has also had to suspend its activities until further guidance from the DG/SOE is received following the reorganization. In July 1992, the team drafted an MIS design for the directorate general. Since the reorganization, there has been little activity in the implementation/transaction subcomponent besides gathering and monitoring data. This is partly because the PW team adopted a somewhat passive approach, resulting in a deviation from the primary objective of actual privatization transactions. Under the training/public awareness component, two BOO/BOT workshops have been held, and public officials have participated in international privatization seminars.

C3. Money Markets Component

Many of the log frame objectives of the MMC have not been met because the project was late starting and has not provided funding for the required short-term technical assistance, which was included in the project paper and to be designed and managed by the long-term advisor. The tasks below are the short-term assistance needs originally planned for the project:

- Development of new money market instruments and open market operations (6 person-months)
- Design of a national credit rating system (24 person-months)
- Design and implementation of a check clearing and electronic funds transfer system (30 person-months)

Deloitte & Touche's long-term advisor has been very effective in addressing a number of technical issues related to the above tasks, and he is working as an integral part of Bank Indonesia's (BI's) senior staff. For example, significant progress has been made toward developing a government bond market. If no additional funding is provided for these tasks, the long-term advisor and BI staff will continue to work on them to the extent possible, and BI may be able to use its own funds or solicit other donors to fund the assistance.

Nonetheless, the likeliood of fully achieving the project purposes related to the MMC by the PACD is zero. Without a doubt, some progress will be made, but these are very complex objectives encompassing many steps that require consensus within the GOI and the private sector. The GOI—particularly BI—will pursue these objectives with or without AID or other donor support, but will at most accomplish a small fraction of the project purposes for this activity.

In addition, because this component lacks the short-term expertise envisioned in the project paper, the advisor is spread thin and project assistance is therefore somewhat inefficient.

C4. Training

Overall, though most of the public sector training for BAPEPAM officials and BEJ staff is relevant to capital markets in general, it is sometimes not specific enough for their everyday work. In addition, the English language ability of personnel sent overseas has been frequently inadequate to realize maximum benefits from these programs. Since 80-90 percent of training funds have been spent on training conducted in the U.S., relevance and efficiency are put into question. For the private sector, seminars and train the trainer programs are helpful and well run, but should be expanded to include all players in Indonesia's capital markets. Other FMP training activities, such as the Capital MArkets Competency Examinations and BAPEPAM's Young Professionals Program, have had excellent results and bode well for the localization of expertise and human resources development in financial markets.

D. General Conclusions

Relevance of FMP aims and objectives. Overall, FMP is as relevant and important as it was in 1988, but increasingly for different reasons. In 1988 the project was linked to deregulation; in 1992 it is linked to economic management and growth to enable greater inward portfolio investment from foreign investors, allow private enterprise greater access to equity capital finance for prudential reasons, and provide the GOI with the means of monetary management through open market operations. All components of FMP are relevant to these requirements. The CMC assists regulation and market capacity, the Privatization Component provides the means for significantly increasing the size of the securities market, and the MMC supports the emergence of a secondary market in fixed interest securities in which the GOI may participate.

Appropriateness of FMP to USAID's strategic objectives. One of USAID/Jakarta's strategies contributing to broad-based and sustainable economic growth involves expanding participation in a more competitive economy through increased private trade and investment in an improved enabling environment.

FMP continues to be appropriate within the current context of financial markets development in Indonesia. Today, the project is supporting the GOI's efforts to improve economic management and strengthen financial regulation. In addition, one of FMP's most

important activities is to help the GOI and the private sector establish and develop an equity market to permit further economic expansion. Both public and private debt markets are nearly saturated.

An element within FMP that is not appropriate to these objectives is assistance with aircraft leasing to strengthen two existing SOEs (a shipping/leasing company and a manufacturer of small passenger aircraft). Additionally, assistance under FMP to the Paiton Power project, though at the request of the MOF and within the scope of work, may not have been integrated properly with technical advice provided by other donor-funded technical assistance.

Evidence of sustainability. For the CMC, the evidence of sustainability of project achievements in the regulatory subcomponent is the growing autonomy and reputation of BAPEPAM and the quality of its senior management. There is now some indication that the Jakarta Stock Exchange and KDEI will benefit from the project, and that they have a revenue structure that could support long-term growth of their capacity in step with market needs. In the short term, additional technical assistance through 1995 is essential to the creation of sound dealing and settlement facilities.

For privatization, there is a clear long-term trend towards a higher ratio of private to public sector economic activity, but there remain short-term uncertainties about the vigor with which the GOI wishes to pursue the sale of SOEs and the means that would be adopted. The achievements of technical assistance under this program with respect to divestiture can only be sustained if the GOI commits itself to some transactions. In the meantime, the privatization of pension funds looks to be well based and inherently viable.

For the MMC, there are indications that Bank Indonesia management, including the governor, wish to pursue the development of the money and bond markets. The development of deeper and more varied money market instruments and a broad-based bond market is essential not only to meet the FMP goal, but also to move more rapidly into an equity market. An equity market is in turn needed because the debt market (domestic and international) is saturated and overextended.

Effectiveness and efficiency of the contractors. For the CMC, the contractor was reasonably efficient and effective at fulfilling the annual work plans, and the work on regulations and stock market operations was exemplary. Assistance to the Jakarta Stock Exchange was not effective, however, for a variety of reasons—some of which were outside the contractor's control. A good working relationship exists with BAPEPAM, although from time to time the contractor's assistance may have exceeded BAPEPAM's absorptive capacity.

On privatization, the contractor provided high-quality professional advice to the GOI, was responsive to requests for assistance, and developed a high level of trust with government officials. The passive approach of the contractor, who operated on a responsive basis, contributed to the delays in accomplishing the transaction-oriented objectives of FMP.

For the MMC, the long-term advisor has been very effective in providing technical advice to Bank Indonesia, particularly on open market instruments and operations.

Effectiveness and efficiency of the training program. The training component of FMP has been conducted in a responsive fashion, shifting emphasis from in-country training to improve the skills of BAPEPAM staff to overseas training courses to provide better overall understanding of the way markets are managed. Training also included preparation of materials for local activities; institutionalization of capital market training in Indonesia; BOO/BOT workshops for government officials; and support to some officials to attend international privatization seminars.

Host-country contributions. Host-country contributions to FMP will exceed the $4.7 million anticipated for the life of the project.

Gender concerns. The evaluation work plan did not extend to primary research on gender concerns, and there were no appropriate secondary resources available. However, it can be said that the opening of a dynamic capital market has created greater employment opportunities for women, with many working in stock brokering and investment management. In addition, securities companies report that their own businesses involve significant participation by women.

For training under FMP, 11 percent of international trainees and 24 percent of local trainees were women, underscoring the trend toward female employment in the financial sector. Moreover, these percentages rose steadily each year as the project progressed.

Impact on distribution of financial sector resources and on secondary banking. More people own shares resulting from the wider availability of equity and the growth of capital markets.

Compliance with AID financial management rules. The evaluation team's work on compliance with AID financial management rules was confined to noting any evidence of non-compliance apparent in project documentation. No USAID direct hire staff were assigned to assist in the work. No evidence of non-compliance was found, though there was some laxity (now corrected) in the handling of waivers for procurement from non-U.S. sources.

Obstacles to implementation and emerging opportunities. In the CMC, the greatest obstacle to market growth is the bottleneck in facilities for trading and settlement. This is to be removed through a major program of automation, financed by the exchanges and the clearing corporation. However, the evaluation team has very strong reservations about the feasibility of the proposed systems, on practical and prudential grounds. The GOI will need to be satisfied that these new systems do not involve financial risk to state banks or functional risks of inadequacy, delay, or cost overruns beyond the resources of the sponsors.

The greatest obstacle to progress in the privatization of public infrastructure is the absence of a comprehensive enabling regulatory environment to permit an orderly and

efficient transfer to private sector operation. Without such a structure, technical assistance in privatization will not be effective.

The major obstacle to meeting MMC objectives has been the lack of short-term technical assistance to carry out specific tasks to develop more money market instruments, better trading techniques for open-market operations and other vital financial market operations.

E. Principal Recommendations

E1. Capital Markets Component

- The CMC should be extended for up to two years to support BAPEPAM, provide for quality assurance on the new market systems, and provide responsive assistance on regulatory and operational matters to the exchanges and clearinghouse. If it is not possible to fund the extension with new money, it is recommended that the resources available through 1994 be reallocated.

E2. Privatization Component

- Refocus the approach into one that is proactive and concentrates on the definition and implementation of specific projects and concrete privatization transactions.

- Develop a pilot program to privatize three to five SOEs as part of the GOI's public awareness program. These targets will have to be discussed and agreed on with the GOI, as well as planned and defined within a specific work plan.

- Propose technical assistance on the GOI's public awareness campaign to the extent the proposed pilot program is implemented.

- Actively develop the pension privatization project, continuing the development of the regulatory framework and private professional fund management capabilities, and the conversion of pension funds to defined contributions arrangements.

- Define the regulatory framework of public service activities that can be carried out by the private sector, such as power generation, telecommunications, toll road construction and operation, and port operation.

- Require an action plan of the contractor for the remainder of the project and monitor and supervise its execution more closely than has been done in the past.

E3. Money Market Component

- USAID should provide additional funding for short-term technical assistance, as planned in the design of the MMC. Activities suggested by the evaluation team

leader to meet some of the objectives envisioned for this assistance are included in Annex E.

- Combine the technical assistance activities being provided to Bank Indonesia's Research Department and place it under EPSO management.

E4. Training

- The current system for assessing and formally testing the English capabilities of overseas trainees from BAPEPAM and the Jakarta and Surabaya Stock Exchanges should be improved.

- Overseas training courses and programs should focus more on the fundamental concepts of the capital market and its operations. In addition, one criteria for these courses should be their immediate relevance to capital and money markets in Indonesia. Courses given within Indonesia should likewise concentrate on aspects of the current financial markets.

- Local training for private sector securities groups and individuals should be expanded to include all professions that deal with the capital market. In addition, BAPEPAM and the BEJ should increase their efforts to share informaiton and lessons learned from overseas training courses with the Indonesian private financial sector.

- Training activities under FMP should be more closely monitored in a formal way. The training steering committee should meet regularly, as originally envisioned, and the long-term advisor should produce regular evaluation reports on courses attended and their impact on the agencies and organizations of the trainees.

- The Young Professionals Program at BAPEPAM should be strongly and actively supported. In addition, as time and budget permit, the possibility of long-term internships (e.g., with the U.S. SEC or NYSE) and masters degree programs in the U.S. should be investigated.

E5. Management Structure

- Monitoring and evaluation benchmarks related directly to EOPS and other financial and economic statistics should be established through consultation among USAID, BAPEPAM, and other relevant parties. These benchmarks should be made the basis for a quarterly monitoring process as originally stipulated in the project paper, with slight modifications.

- A project committee to include the USAID project officer and possibly project officers from related USAID projects, including ELIPS, PURSE, ARSSP, and MFP, should be established. This committee should include nominees from the MOF and Bank Indonesia who are monitoring FMP's three components.

- If USAID decides to extend FMP beyond 1994, another external evaluation in the fourth quarter of 1994 should be performed, to include a review of the extension design.

F. Lessons Learned

F1. Capital Markets Component

- Provision of aid for a highly technical and specialized project under a host-country contract substantially delayed the start of work because of the need for a three-way agreement among the contracting parties and USAID.

- Absence of specified and timed deliverables in the work plans meant that the project officer could not easily detect difficulties or delays in implementation.

- A significant part of the technical assistance provided to the exchange was not used because of what seemed to be an internal political situation and lack of sustained demand for the assistance. "They need it, but do they really want it?" should be a key question.

F2. Privatization Component

- When host-country management of the project changes and the political environment changes, a reassessment should be carried out to determine if the government's new management still agrees with project objectives. Closer monitoring on the side of USAID is needed in the future to determine necessary changes in project design and implementation.

F3. Money Market Component

- When a project is implemented, sufficient funds must be available to meet project objectives. If not, the project should be redesigned to be less ambitious in scope and fully funded.

F4. Training

- Closer monitoring of the training program could have resulted in a reassessment of the emphasis placed on overseas training in areas marginally relevant to FMP objectives.

SECTION I
PROJECT DESCRIPTION AND EVALUATION PURPOSE AND QUESTIONS

A. Financial Markets Project Description

The purpose of USAID/Indonesia's Financial Markets project (FMP) is twofold:

- To increase the number of debt and equity securities and commodity contracts available to investors, and the transparent trading volume of these instruments.
- To improve the efficiency of the public sector through restructuring and/or privatization of state-owned enterprises (SOEs).

The Financial Markets project was begun in August 1988 and has a current completion date (PACD) of September 1994. The Privatization Component began in January 1992 as a separate buy-in activity. AID life of project funding consists of a $14.0 million grant, and host-country contributions are to total $4.7 million in cash and in-kind contributions. FMP contains three components: the Capital Market Component (CMC), Privatization Component, and Money Market Component (MMC). An additional project amendment extending the PACD to March 31, 1995, and increasing funding by $600,000 was signed by USAID just as this evaluation was being printed.

The CMC was designed to help the Indonesian government encourage long-term capital investment. It has two subcomponents: regulation, designed to establish a permanent long-range regulatory environment; and securities market trading capability and structure, designed to establish a national securities trading capability, increase the volume of listed securities, encourage operations of brokers and dealers, and increase stock and bond holdings of pension funds and insurance companies.

CMC activities include assistance to the Ministry of Finance's Capital Markets Supervisory Agency (BAPEPAM) in drafting capital markets regulations, improving supervision and enforcement practices, and strengthening internal operations; and assistance to the securities industry (brokers, underwriters, investment advisors), the Jakarta Stock Exchange, and the (very small) Surabaya Stock Exchange.

The CMC is being implemented by Price Waterhouse's Office of Government Services through a host-country contract with BAPEPAM. Price Waterhouse provides a resident team comprising a chief of party, securities industry specialist, training specialist, and various long- and short-term professional and administrative staff.

The outputs of the Privatization Component were to include an improved overall privatization policy framework and enhanced policy implementation and institutional

capacities for the GOI to carry out is privatization efforts. Specific transactions were also part of this component.

Activities of the Privatization Component include: assistance to the Ministry of Finance's Directorate General for State-owned Enterprises (DG/SOE) in formulating and implementing privatization and restructuring policies and procedures, including specific transactions; and short-term assistance related to general and enterprise-specific privatization issues. A separate Price Waterhouse (PW) team operates this component under a direct buy-in to AID/Washington's Privatization and Development project with the DG/SOE. The Privatization Component team includes a long-term privatization advisor and various short-term professional staff.

The MMC supports monetary management, bank supervision, banking services, and internal management for the Money Markets Department of Bank Indonesia, the nation's central bank. Activities include assistance in developing effective open-market operations, medium- and long-term debt instruments and markets, and advice on current regulatory and supervisory issues. Deloitte Touche Tohmatsu International provides the services of a long-term money markets advisor under a host-country contract with Bank Indonesia to implement this component.

B. Evaluation Purpose and Questions

The purpose of this evaluation, as stated in the delivery order scope of work (SOW), is to provide USAID/Jakarta and the Government of Indonesia with a detailed assessment of Financial Markets project (No. 497-0360) progress and impact to date, as well as of the condition of Indonesian financial markets and the GOI's privatization/restructuring program.

The findings, conclusions, and recommendations in this evaluation are part of an independent review conducted in July 1993 of FMP activities and the health of Indonesia's financial markets and privatization process. The views expressed herein are not necessarily those of USAID, the GOI, or FMP contractors.

Questions to be answered by this evaluation (again, taken from the SOW) include the following:

a. To what extent have the measures of goal achievement and the objectively verifiable indicators of project purpose and outputs—as stated in the project paper and project paper supplement logical framework—been achieved? What is the verifiable impact of project achievements on the development of Indonesia's financial markets and the GOI's privatization and restructuring program for state-owned enterprises (SOEs)?

b. In light of the rapid changes in Indonesia's financial markets over the life of the project, are the aims of FMP still relevant? In terms of the Privatization Component, how relevant is FMP assistance to the SOE privatization/restructuring program?

c. How appropriate is FMP in the context of USAID's overall strategic objectives?

d. Is there evidence that FMP achievements are likely to be sustainable beyond the end of the project?

e. To what extent have the three FMP contractors been effective and efficient in providing technical and training assistance to project counterparts and beneficiaries? Has this assistance been relevant?

f. How effective, efficient, and relevant has FMP's training been? To what extent has the program complied with project objectives and AID training regulations?

g. What has been the extent (input size, sequence, and timing) of host-country and other counterpart contributions to FMP? Are these contributions expected to reach the project paper and project paper supplement target amounts by the end of the project?

h. To what extent have gender concerns been integrated into the design and implementation of FMP?

i. What are the principal lessons learned from FMP implementation?

j. What impact have FMP activities had on the more equitable distribution of financial sector resources and on secondary banking markets?

k. To what extent has FMP been implemented using sound financial management practices?

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SECTION II
ECONOMIC, POLITICAL, AND SOCIAL CONTEXT OF THE PROJECT

A. Introduction

FMP was designed to support Indonesia's deregulation program. Deregulation policies begun in October 1988—and continued through December 1988—resulted in a more liberal financial and capital market environment. New banks were created, joint enterprises between private banks and foreign banks were allowed, and state banks lost the monopoly of deposit from state-owned enterprises (SOEs). SOEs were allowed to place 50 percent of their funds in private banks. In the December package, the capital market was deregulated even further, making foreign participation more possible. Under the new rules, a foreign participant could buy up to 49 percent of a company's listed shares, and foreign securities companies could also participate in the stock exchange as brokers and dealers.

During the period following the rapid financial deregulation of banking that resulted in sharp rises in money and credit, real economic growth accelerated to more than 7 percent per annum and inflation peaked at nearly 10 percent in 1991. In that year the government imposed a series of restrictive measures coupled with a tight monetary policy to reduce aggregate demand and stem the deterioration in the balance of payments. The inflation rate subsequently dropped to 7.5 percent in 1992 and is currently running at only 5 percent. The restrictive monetary policy is still in place, however interest rates have dropped significantly. Because of the absence of traditional money market instruments, Bank Indonesia has had to sell its own debt instruments (SBI) to contract the money supply at a cost to the government of nearly $1 billion.

On the fiscal side, in 1992 the underlying budget deficit exceeded budgetary targets by a full 2 percentage points of GDP, with the stock of external debt rising to $82 billion. At the same time, non-performing loans in public and private banks increased dramatically.

Against this backdrop of rising debt and the government's limited ability (at high cost) to conduct monetary and fiscal policy, FMP's objective of developing equity markets to substitute for debt, and provide the government with more instruments for monetary policy implementation, is of crucial importance to the orderly growth of the financial sector.

During the last two decades, Indonesia has achieved significant progress, demonstrated by strong economic growth, resilience to external shocks, structural reforms to diversify the economy away from dependence on petroleum, and reduction in indicators of poverty. The future improvement of the country's standard of living, as well as the absorption of 2.3 million annual first-time workers, will depend on the maintenance of a 6-7 percent annual growth rate. To attain this rate, Indonesia will have to rely increasingly on foreign investment, rather than on the present vehicle of foreign debt that has more than doubled over the past seven years, reducing the country's ability to maneuver financially.

Attracting foreign investment will be made difficult by growing competition from countries such as China, India, Vietnam, Thailand, and Malaysia for foreign investment; yet it is necessary. Increased foreign investment and the improvement of Indonesia's international competitiveness will depend on a larger private sector role and the redefinition of the role of SOEs.

Indonesia, led by President Soeharto, responded to changes in the external environment with a series of economic policies known as deregulation measures. The combination of political appointments and policy making since 1988 is responsible for the high economic growth and low inflation during this period.

The political and social environment within which deregulation was implemented was itself conducive toward policy change. The Fifth Development Cabinet (1988-1993) received wide support from the society. In the social arena, one issue that became more relevant was the widening income gap between the rich and the poor. This issue is being been addressed by the government through a combination of policy instruments including the budget, credit distribution, and the capital market. It is widely believed that a successful capital market would facilitate income redistribution. For example, a change from a private company to a public company will allow for the distribution of shares to the public. Also, with a successful capital market, Indonesians will have more choices for investment and need not limit themselves to bank deposits or property. The emergence of the capital market in Indonesia has thus become a major policy goal of the government, together with the expansion of the banking system. The aim of these two policy goals is to create a sound and stable financial and capital market.

The following statistics shed some light on the scope, intensity, and dynamism of Indonesia's financial market.

At the end of 1988 there were only 24 listed companies on the Jakarta Stock Exchange, with a market capitalization of Rp 481.56 billion. In June 1993, the stock exchange had 157 listed companies with market capitalization of Rp 35,757.22 billion. In other words, in four and a half years the Indonesian capital market has moved from a nearly dormant state to a dynamic market that could compete with the more established stock exchanges in Kuala Lumpur and Bangkok.

The development of the Indonesian capital market was further helped by one aspect of globalization: the relocation of industry. More than at any other time in economic history, countries today are aware of the importance of efficiency at the international level. The relocation of industry is a phenomenon in which there is a given market for exports and the only issue becomes how can companies reduce their operating costs. At the end of the 1980s, exporter countries such as Malaysia, Thailand, Korea, and Hong Kong experienced rising domestic costs because of higher wages and regulatory problems. Indonesia suddenly became an attractive alternative and gained a critical comparative advantage. Another comparative advantage for Indonesia is its competitive land prices. Thus Indonesia witnessed an investment explosion, with direct foreign investment in 1989 and 1990 surpassing the total

for the previous 15 years. Because of the relocation of industry and the attention of institutional investors to the Indonesian capital market, the market grew rapidly.

In terms of equity, these deregulation policies led to more people owning shares, and thus equity was spread out more among the population. There were also interesting developments for women. The opening of a dynamic capital market created employment, with many women working actively as stock brokers and investors. In addition, securities companies reported that during the two years leading up to FMP start-up in May 1990, their retail trade showed a significant participation by housewives.

As a result of this expansion and transformation of the financial landscape, it became necessary to study and assist Indonesian financial institutions as they became more dynamic and more intense in their role in the national economy. The central bank, Capital Market Supervisory Agency (BAPEPAM), and Jakarta Stock Exchange (BEJ) play strategic roles in enhancing the capacity of the bureaucracy and the business sector to pursue efficiency. A financial market that is successful institutionalizing its operations and regulations will promote economic growth.

B. USAID's Strategic Objectives

One of USAID/Jakarta's strategies contributing to broad-based and sustainable economic growth involves expanding participation in a more competitive economy through increased private trade and investment in an improved enabling environment.

Current and planned projects include efforts to target technical assistance and training to help develop an improved policy environment and institutional capacity for growth. Examples include assistance to legal and regulatory institutions affecting markets, contracts, and transparency, and assistance to key ministries in monetary, fiscal and trade policy formulation.

SECTION III
EVALUATION TEAM COMPOSITION AND METHODOLOGY

Team Composition

Peter Gajewski	Team leader
Jonathan Miller	Senior financial markets specialist
Roberto Toso	Senior privatization specialist
Sjahrir	Financial markets research specialist
Subarto Zaini	Training evaluation specialist

Capital Markets. The evaluation team analyzed documents and task completion based on FMP work plans and reports; interviewed contractor and counterpart personnel; performed spot checks on major items, e.g., organization and methods volumes; and examined USAID project files. To evaluate the development of BAPEPAM, we interviewed staff, members of the investment community, government officials, and contractor personnel. We also analyzed press and independent reports (e.g., World Bank) as well as the schedule for rule making. To evaluate trading and settlement systems, we interviewed BEJ and KDEI officials and analyzed RFPs and other publications from these bodies. To assess the log frame for capital market growth, we interviewed BEJ members, financial intermediaries, accountants, and academics, and analyzed market volume and value data and IMF and World Bank macroeconomic data. To assess CMC sustainability, we interviewed IDMC personnel and appraised the business prospects of main agencies based on their plans, reports, quality of management, and the market's expectations for growth.

Privatization. We assessed each main segment according to what goals and impacts were achieved. The criteria used were: relevance, effectiveness, efficiency, counterpart contributions, and sustainability of assistance. Throughout this assessment, we followed the FMP logical framework. To be consistent, the definition of privatization used is the one established in the project paper supplement, and includes commercialization (requiring SOEs to be self-sustaining and self-financing), along with total and partial divestiture, partial privatization, contracting-out, and liquidation.

Money Markets. For this component, we reviewed project records, consultant reports, and other materials, and interviewed GOI, USAID, and contractor personnel. In addition, we explore the bond market, new money market instruments, and monetary policy mechanisms with the contractor and Bank Indonesia officials.

Training. Our evaluation is based on extensive interviews with persons who returned from the training programs, the BAPEPAM director and staff, and the PW long-term advisor. These meetings were supplemented by an in-depth review of contractor files and records on the training programs implemented.

SECTION IV
FINDINGS AND CONCLUSIONS

The evaluation team's presentation of findings and conclusions concerning FMP implementation are arranged by project component because of the need for a detailed analysis of all project activities. While there is a definite interrelationship among the three components, each has specific outputs.

The most important is the Capital Markets Component, which seeks to develop a framework and mechanism (the stock exchange and BAPEPAM) for an equity market in Indonesia. The Privatization Component has mostly independent objectives from the other two. The one aim that links it to the CMC is the furnishing of equity instruments to the capital market in the form of shares of privatized or partially privatized state-owned enterprises. The Money Markets Component similarly supports capital market growth through the creation of equity instruments such as treasury paper of varying maturities. These are usually not traded on the stock exchange, but provide BI with tools for monetary policy. The MMC also helps BI manage its bank supervision and regulatory functions. This is linked to the CMC by the simple fact that a sound banking system is a prerequisite for a healthy and growing capital market.

While the above linkages within FMP exist and are important, the three components remain separate entities, involving separate contractors and teams of long- and short-term personnel. This evaluation is arranged accordingly and contains mostly component-specific findings, conclusions, and recommendations.

In the areas of monetary and fiscal policy, FMP has helped further USAID's goal of contributing to broad-based and sustainable economic growth. In addition, the project has strengthened the legal and regulatory institutions affecting markets, and to a lesser extent the nation's legal framework as a whole.

A. Capital Markets Component

A1. Introduction

FMP's Capital Markets Component is principally concerned with traded securities. Originally, the CMC had three subcomponents:

Market deregulation, in which BAPEPAM's regulatory and operational functions were to be separated and the technical capital market skills of MOF/BAPEPAM and the privatized exchange(s) staffs were to be strengthened.

Increased supply of long-term investment capital, by increasing the flow of funds through capital markets into long-term investments. This was to be accomplished by

encouraging pension funds and insurance companies to diversify their portfolios, and through other measures.

Improved trading capability and structure for brokers, dealers, underwriters, and issuers, in cooperation with the Ministry of Finance. This was to be attained through public awareness campaigns, greater access to markets (e.g., through mutual funds), and technical assistance to private sector brokers. Training is also involved, but is covered separately in Section D., below.

Under the first subcomponent, market deregulation, the requirements for promoting DANAREKSA's role and separating the operational and regulatory roles of the commodities exchange were included in the project paper, but were not pursued in implementation. The priorities for funding appear to have been determined during trilateral negotiations among the GOI, USAID, and the contractor. The evaluation team did not analyze these negotiations, however the collective decision to omit commodities from market deregulation was a good one. The result has been that FMP contractors were able to be conspicuously effective in the technical assistance they delivered to BAPEPAM. Additionally, DANAREKSA, which was strongly criticized in the project paper, has been radically reformed without FMP assistance in a way entirely consistent with the project paper's suggestions. Specifically, it has eliminated the anomalous status of DANAREKSA certificates and has reorganized itself to operate commercially in a regulated market. During the evaluation, DANAREKSA management expressed no interest in donor technical assistance.

The second subcomponent, dealing with long-term investment capital, was dropped from the project at an early stage because an underestimation of the cost of assistance led to an under-budgeted project. The decision to drop this subcomponent was overall an acceptable one. The project paper prioritized the activities essential to the successful development of the market, and this discussion should have been part of this decision. At the same time, the project paper's analysis of capital stocks and flows and the roles they play in the operation of financial markets was technically weak, and would not have resulted to a well focused project definition. As a result, assistance for long-term capital mobilization would probably have been limited to institutional support, which is part of the enabling environment for the market rather than the market itself.

By concentrating instead on BAPEPAM and the BEJ, the CMC addressed the operational and regulatory mechanisms at the heart of the market process, which are *prima facie* of higher priority.

The contract for the CMC was awarded to Price Waterhouse, which has maintained a project office in the Ministry of Finance with 3-4 full time specialists backed up by teams of short-term experts. PW's CMC work has been directed principally at BAPEPAM and the BEJ—a spin-off privatized from BAPEPAM in April 1992.

The CMC runs nominally for five years, starting in 1989. Issuing the RFP, selecting the contractor, and concluding a host-country contract between PW and the Government of Indonesia took nearly 20 months. Thus it was not until May 1990 that work formally

commenced. Prior to that, however, PW personnel had undertaken some preliminary work, financed by a buy-in to a PW worldwide Financial Sector Development program contract with AID's Private Enterprise Bureau. The host-country contract for the CMC is scheduled to end in April 1994.

Initially, the Ministry of Finance was the proposed executing agency for the project, and the Directorate General of Monetary Affairs was to be the MOF's implementing body. Within the directorate general, the head of the Directorate of Financial Institutions and Accountancy was to run day-to-day operations. This official, Marzuki Usman, later became chairman of BAPEPAM, and after a delay—and as the relative importance of the work for BAPEPAM increased—the contract was amended to allow BAPEPAM to be the counterpart. Part of the capital market team subsequently moved into the BAPEPAM office, though following Bapak Marzuki's departure in 1991, they rejoined the Ministry of Finance. Despite this movement, the CMC's effective commitment to BAPEPAM has endured.

At the beginning of the project, BAPEPAM, an agency within the Ministry of Finance, was responsible both for operating the securities market and regulating it. Although the contractors were at first dealing with a single counterpart and a single group of officials, the nature of the work required on regulation was sharply different from that required on operations. Regulation is a unitary responsibility of the Ministry of Finance; operation of a market is a collective activity.

A2. Current Relevance of the CMC

The primary benefit of developing well-regulated, efficient, and active financial markets is the encouragement of investment and savings necessary for sustained economic growth. In addition, financial markets development will increase the availability of equity capital and will make the flow of funds from investors to users of funds more efficient. More generally, market development will lead to increased economic stability, as financial markets are the best mechanism for deregulating the public sector.

Indonesia's capital market has certainly developed since 1988. Apart from the growth in market activity, there was a near doubling in the number of registered pension funds from 1988-1992 to 1994, with total assets of Rp 8-10 trillion (US$4-5 billion). Pension Fund Law No. 11/1992 permits the funds to hold listed securities. DANAREKSA has been split into three parts: fund management, brokering and investment advice, and finance. The anomalous treatment of DANAREKSA certificates that inhibited the growth of the secondary market has also ended, as has the tax discrimination against portfolio investment. Initiatives are in hand to improve accounting and commercial law, permit mutual funds, and develop a Capital Market Law from Capital Market Decree 1548/1990. Despite these advances, however, the two main tasks (regulation and securities) of the CMC remain relevant.

A3. CMC Management

Before formal FMP start-up in May 1990, other AID funding was provided to help the Ministry of Finance strengthen the operations of the BEJ. During this period, John

Evans and John Schroy started to advise the Indonesian authorities on the Capital Market Decree, working under the auspices of a "coordinating committee" headed by ex-minister and current presidential advisor to the Minister of Finance, Professor Ali Wardhana, and ably directed by the Harvard Institute for International Development (HIID). The substantive output from this work was Decree Number 1548/KMK.013/1990, "The Capital Market".

The MOF consulting team for FMP comprised Nancy Happe, chief of party, John Schroy, and John Evans (part time). The team formally assembled in Jakarta in June 1990 and in August produced a draft work plan to cover the period through the end of the Indonesian fiscal year, March 31. Following discussions with MOF, BAPEPAM, USAID, and BAPEPTI (the commodities exchange) and consequential revisions, the work plan was issued in its final form in September 1990, exactly a year later than provided for under the project paper. The work for the commodities exchange was never fully developed (see section A1. above), except for some participation in training projects. However, there is currently mention of potential assistance in the draft fourth-year work plan.

In December 1991, Marzuki Usman left BAPEPAM and was replaced by Sukanto Reksohadiprodjo. In January 1992, the Minister of Finance revised PW's SOW informally as follows. PW recommendations were to be submitted to the minister with copies to the chairman of BAPEPAM and the director general for monetary affairs. BAPEPAM and BEJ could also procure advice and assistance on capital markets from HIID.

An Indonesian official was appointed as expert advisor to BAPEPAM and BEJ, and PW's CMC staff was to be moved out of the BAPEPAM building to the Ministry of Finance, and no space was to be provided at BEJ. For its part, BEJ was to enter into a memorandum of understanding with the Singapore Stock Exchange and would develop according to guidelines researched by the Preparatory Committee and approved by the Ministry of Finance.

The effect of these instructions is illustrated by the charts on documentary output below and by the omission of any work specification in FMP's third-year plan for assistance to the BEJ. The evaluation team has been informed that the major reason for the change of attitude by the Indonesian authorities was a profound difference of opinion among senior members of the administration that was echoed on a smaller (and, it is said, potentially manageable) scale by a rivalry between the PW team and their counterparts at HIID. The conflict within the administration was at this point resolved in favor of HIID. There had been friction during the previous year in terms of conflicting technical advice and at an individual level, but relationships at the institutional level between HIID and PW are claimed to have been consistently harmonious.

In August 1992, the January instructions were superseded and PW resumed direct assistance to BEJ and BAPEPAM similar to that prior to January 1992. There was a subsequent sharp increase in visible activity that carried through into 1993.

A3a. Effectiveness in Project Monitoring and Reporting

The indicators specified in the FMP project paper were not routinely tracked, though Nancy Happe did provide an update to Jon Lindborg at USAID in October 1991. For their parts, USAID and the Ministry of Finance had the duty of monitoring the project under the provisions of paragraph VII A of the project description—an attachment to the grant agreement. These requirements were not fully observed. There was a period during 1992 when regular monthly meetings were held, but that lapsed with changes in personnel, though the team has been informed that these meetings are now being resumed.

A3b. Effectiveness in Providing Technical Assistance

The record of PW's activities is documented in the annual work plans, corresponding annual and quarterly reports, some 270 technical memoranda, a book *A Design for a Modern Securities Market*, five volumes of documentation relating to BAPEPAM's organization and methods, and, above all, in the BAPEPAM rulebook. (The evaluation team also looked at USAID's administrative records.) The coverage of these reports and work plans were neither consistent nor comprehensive, covering periods ranging from 3 to 12 months. The charts in Annex K show the recorded output of memoranda. There is a limited documentary record of output for the 1989/1990 period before formal project commencement and the balance of 1990 was largely occupied in preparatory work, with output concentrated in the last quarter.

Annex K shows the recorded output of technical memoranda, and is an indication of project activity over the period. The titles and subjects of these memoranda, along with the dates of their production, are also presented in this annex. Analyses of the usefulness of many of these reports is contained elsewhere in this section, arranged by subcomponent and activity. As Annex K shows, 1991 was a year of high achievement in all areas, 1992 saw a collapse in activity on the securities market and a sharp decline in official regulatory memoranda, and there has been a pickup in 1993 in documentation relating to both activities.

This type of document count is, of course, a crude and potentially misleading measure, but it does accord (with one exception) with the description of work contained in the narratives of annual and quarterly reports. The exception relates to regulatory activity in the second quarter of 1992. Though the flow of formal memoranda diminished during this period, the underlying activity was maintained, as the consultants circumvented procedural obstacles.

A3c. Efficiency

The evaluation of CMC efficiency is based on the extent to which the contractor has met its work plan targets, whether the allocation of resources appears sensibly balanced, and whether the commitment to particular tasks was commensurate with the problems to be solved.

Work plans. Fulfillment of tasks was reasonable, except for the first year when a number of papers specified in the work plan were not produced. Generally there seems to have been some shortfall in the output of market analysis studies, some of which required international study tours. The Organization and Methods Study (described in the next section) seems also to have gone off course, requiring changes in personnel and management. As a result, it was behind schedule, perhaps prejudicing the implementation of the human resources component. It is fair to say, however, that the work done on rule making and stock exchange operations was exemplary.

Balance. The only breakdown of costs available is that between the two CMC subcomponents: regulation and securities market operations. These showed a split of 80/20 percent through April 1993. Organization and methods work was split 2/3 to 1/3 across these two subcomponents and had an aggregate cost of approximately $500,000, indicating an adjusted split of regulation, 67 percent; securities operations, 19 percent; and O&M, 14 percent. With the wisdom of hindsight, it may be said that regulation, being the most effective area of activity, might have had more, and securities operations less, while O&M was overspecified.

Scale. The application of a scale test is partly a business judgement of whether the benefit to be gained justifies the effort proposed, and partly a practical assessment of whether recipients have the absorptive capacity to put the assistance to use.

The business justification for assistance to BAPEPAM would warrant a large budget insofar as it helped raise Rp 15 trillion ($7.5 billion) in 1992 and lead to common stock turnover of Rp 8 billion. However, there are 200 people in BAPEPAM—of whom 17 are in the top grade—and there is a limit to their capacity to respond to external assistance, especially given the pressure of work created by events in the market and the banking system. At least some of the time the scale of assistance seems to have been at the limit of what could be absorbed in practice.

The business justification for assisting the BEJ relates not so much to the size of the market as to the level and range of services it provides to the market. BEJ provides nearly the absolute minimum—listing and dealing—and has even fewer appropriate staff than BAPEPAM to respond to outsiders. In practice, it has proved hard for PW to make headway with the BEJ—a fact that probably could not have been anticipated. However, while work done for the exchange has yet to pay off, work done for members and other financial businesses has been appreciated.

A4. Regulation Subcomponent

The log frame objective for this subcomponent is the establishment of a permanent and long-range regulatory environment for stocks, bonds, and commodities—to be established with operational responsibilities separated from regulatory responsibility.

Section 2.0 of the first year work plan related to capital market regulation, and the table on the following page shows how the objectives were to be pursued. Task numeration

changes from year to year, so cells relating to a particular activity do not necessarily lie in the same row, but are shown under the row number in which they appear in the work plans. The cells in the last column summarily indicate the current status of the tasks in the corresponding row and are mainly based on the draft fourth-year plan (see Annex A).

Also within section 2.0 was a major subproject on organization and methods to increase BAPEPAM's autonomous institutional strength following the hiving-off of stock exchange activity into a new corporate entity owned by the members of the exchange (BEJ). The O&M work was driven by the determination of Chairman Marzuki to deploy resources appropriate to the scale of BAPEPAM's responsibilities, and it required substantial short-term technical assistance from Price Waterhouse. It was finally embodied in five volumes: a well-received introductory section on regulatory policy; a second on rule-making and all other regulatory procedures; the third on human resources management and development; and the fourth and fifth on records and their management.

The core material in Volume Two was the work undertaken by John Evans to set up and implement BAPEPAM's rule making procedures. Volume Two elaborated on these procedures, using numerous detailed flow charts that illustrate how particular kinds of rules should be processed through all stages: inception, research, preliminary drafting, testing, consultation, and final authorization. It was a very thorough piece of work built on a sound foundation.

The human resources work (Volume Three) has only been partially implemented, but has led to the effective program for young professionals, and full implementation is being requested by BAPEPAM. The records management work led to the Public Information Office (PISO) project now being put into effect. Although the five volumes were formally handed over in 1992, work on them was completed by December 1991.

A parallel initiative on accounting and operational procedures for securities companies was pursued with the World Bank and ultimately undertaken by Arthur Andersen. The evaluation team understands that the resultant manuals are not being used.

In the current year, progress on the regulatory and institution building front at BAPEPAM has continued along the track established in previous years and as described above. As a result, BAPEPAM is emerging as an effective regulatory force.

FMP First Year Work Plan Objectives and Status

Task Number	Content per 1st year Plan	Content per 2nd Year Plan	Content per 3rd Year Plan	Status as of July 1993
2.1	Advice on final drafts of Capital Market Decree (CMD)	Assist drafting rules under CMD	Rule making	CMD completed. Rule making ongoing. Accounting standards assistance may be joint with IBRD
2.2	Assist prep of implementing regulations	New Task: Assist O&M assessment	Completed	2nd yr task done. Led to ongoing work on records office and management
2.3	Assist organization assessment for BAPEPAM	Task renumbered. Special studies for financial market development	Special studies	Some special studies completed; none ongoing
2.4	Special studies for Cap Mkt Regulation	Task renumbered. Assist with acctg and procedures for securities cos.	Accounting assistance	Procedures task went to A. Andersen via IBRD. Acctg ongoing
2.5	Assist with acctg and procedures for securities cos.	Task renumbered. Responsive assistance	Responsive assistance	Ongoing and ad hoc
2.6	Provide assistance on responsive basis		Capital market law development	Ongoing and high profile
2.7			Regulatory procedures implementatio n	Ongoing and high profile

Sustainability. We were impressed by BAPEPAM's achievements over the course of the project, and by the regard in which it is held by third parties. During the first part of the project, the agency was developed with great energy by Bapak Usman, and the policy of delegation undertaken by his successor, Bapak Sukanto, strengthened the confidence and effectiveness of the executive staff. The current chairman, Bacelius Ruru, is also well qualified and respected. In this area, as in others, the Indonesian authorities can deploy high-caliber officials.

It is more difficult, however, to ensure uniform high quality among BAPEPAM's middle management because of the constraint of civil service pay scales. In addition, it was impossible to implement the human resources plan that constituted part of PW's Organization and Methods project. This was because the plan was delivered late and, in the meantime, BAPEPAM had adopted a standard Indonesian organizational structure, one undesirable feature of which was a limit on the size of individual departments to avoid the possibility of invidious comparisons between heads of large and small departments.

The evaluation team understands that the reason for the late submission of the plan was that the O&M project got off to a bad start and had to be reorganized—a fact hinted at in the contractor's progress report to USAID. It should also be noted that when the O&M recommendations were finally and formally delivered, their instigator, Bapak Marzuki Usman, had moved on from BAPEPAM.

As a result, BAPEPAM needs continuing external support if it is to maintain necessary standards of regulatory competence. PW experts believe some parts of the organization are already self-sustaining, but that it will take two years to bring others to the same level and to complete the rulebook (now about 20 percent complete in terms of the number of rules, and 50 percent in terms of substantive work). If support were to cease, the quality of rule making activity in some areas would degrade.

Virtually every operational aspect of capital market activity is mirrored by a rule—from BAPEPAM, or from KDEI or BEJ and approved by BAPEPAM. Determination of rules is extremely complex, and bad rules can have a devastating effect. At the worst they can lead to what is called "regulatory arbitrage," in which market participants desert the formal market to deal cross-border or by other means, leading to fragmentation of dealing activity, opportunities for malpractice, and dissolution of the central market.

BAPEPAM is funded as a public agency, equivalent to a directorate general within the Ministry of Finance. Although there is a case in principle for considering the advantages of its becoming more independent and operating like the U.S. Securities and Exchange Commission (SEC)—which generates a surplus from fees and fines—this development is unlikely to be acceptable in the Indonesian context. Remaining within the Ministry of Finance does give BAPEPAM more regulatory clout when it is able to operate through the minister, who is firmly committed to capital market development. On the other hand, there is a risk that BAPEPAM may be held back by budgetary constraints, as is normal in the public sector. This risk may be alleviated by external assistance to ensure that BAPEPAM is sufficiently well-resourced to fulfill its regulatory obligations.

A5. Securities Market Subcomponent

The log frame objectives for the securities subcomponent were for there to be at least 50 private brokers/dealers able to operate profitably from business alone and at least one new stock and two new bond issues each month, with average daily stock trading reaching Rp 4 million/day and total bond and stock market capitalization increasing to at least Rp 25 trillion. The table below shows how the market has developed. In 1992, there were 81 stock issues and 5 bond issues. In 1993 there have been 22 bond issues in the first half year.

Jakarta Stock Exchange Activity, 1987-1992

Year	Number of issuers of shares	Total market value of shares (Rp billion)	Number of issuers of bonds	Total market value of bonds (Rp billion)	Secondary market turnover in shares (Rp billion)
1987	27	112	3	515	5
1988	24	482	9	781	31
1989	68	4,359	22	1,555	964
1990	132	12,440	23	1,736	7,311
1991	145	16,438	24	1,798	5,778
1992	162	24,840	34	3,308	7,593

Source: IMF, "Recent Economic Developments in Indonesia," May 1993, and BEJ, "Fact Book"

The basis for most of this impressive growth was created before the effects of FMP's Capital Market Component materialized. The CMC decree was promulgated in December 1990, and the BAPEPAM rules with which the contractor was associated began to be issued in April 1991. Little or no direct contribution was made to the operational activities of the BEJ and the privatization of the exchange, which was assisted by the contractor, did not take effect until April 1992. There is not, therefore, a *prima facie* case for attributing the market's take-off to the provision of FMP technical assistance.

On the other hand, Bapak Usman, who was the GOI's driving force for the CMC, is confident that FMP was and is essential to the successful development of the market. Moreover, USAID mission staff believe the prospect and actual delivery of assistance was instrumental in creating confidence in the market. These views are all the more persuasive when it is considered that market growth was sustained by foreign investment in Indonesian

securities, and that the World Bank report cited above commends the measures to privatize the BEJ, and indicates confidence in its progress.

While it is therefore doubtful that the market's growth prior to 1991 was attributable to the CMC, it is reasonable to suppose the component has aided the stabilization and recovery evident through 1993, and that this help will become progressively more important. Assistance to the exchange is an essential part of the wider program of legal and institutional reform necessary to create a sound basis for the Indonesian monetary system—a program that includes not only the other components of FMP, but also the strengthening of the legal, accounting, and enforcement resources on which financial markets depend.

Furthermore, much needs to be done to improve the poor quality of the market in terms of its transparency, depth, and breadth, which underlie the apparently good overall figures. Comments made to the evaluation team suggest that the securities market has only a very slender domestic base—a fact confirmed by exchange data.

The standard measure of market liquidity is the turnover ratio—the value of stock market turnover expressed as a percentage of the market value of the quoted securities. For the 1992 figures in the above table, the ratio would be 30.6 percent (Rp 7.6 billion as a percentage of Rp 24.8 billion), a figure similar to that for developed markets like France and the UK. Most of this turnover, however, was by foreigners or between foreigners and domestic investors. According to BEJ figures for the last four months of 1992, turnover exclusively between Indonesians amounted to only one-quarter of the total, though three-quarters of the stock is in Indonesian hands (foreign holdings being restricted by law). Thus the true picture is that the turnover ratio for purely domestic holdings is about 10 percent and that for foreign holdings is about 100 percent, and both figures would be inflated by transactions with members of the exchange dealing in their own accounts.

The data on bargain numbers shows a similar disparity, though in the opposite direction. Domestic bargains, largely between private investors, are about one-tenth the size of international bargains, largely between investment funds. Purely domestic bargains vary from month to month, but are of the order of three-quarters of the total, while "foreign" bargains are about one-quarter—i.e., 12,000 versus 4,000.

What these figures show is that the indicators currently used to measure market development-and FMP's contribution to it-are not telling the whole story. The evaluation team recommends the use of other means of assessing the breadth, depth, and transparency in Indonesia's capital market. A discussion of appropriate indicators follows below.

Breadth and depth. As noted above, the major weakness of the Indonesian stock market is the low level of activity by Indonesians. Market quality should therefore be judged not just on the aggregate level of activity but also on the disaggregated figures for foreigners and Indonesians. These figures should show:

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- number of trades (not number of shares traded, which is of no use)
- value of turnover
- turnover ratio, expressed as a percentage of total market value (see above)

All of this data is readily available and should allow a clear assessment of the vigor and scale of domestic market activity. In addition, exchange data cover trades between Indonesians and foreigners, which should be considered for the sake of completeness, but which are more difficult to interpret since they are affected by new issue activity. Where Indonesian underwriters take stock on their books, sell on to foreign institutions, and cross the trade through the secondary market, there will appear to be a greater level of domestic trade even though this process does not reflect final domestic demand for securities. To carry this analysis further, the exchange might consider distinguishing between customer business (dealing for clients) and intra-market business (dealing by members of the exchange on their own accounts).

Transparency. Transparency means the visibility of transactions undertaken by individual participants in the market to other participants. It is not a directly quantifiable substance and depends partly on the effectiveness of market rules on price reporting and publication, and partly on dealers' methods of operations. At the BEJ, both of these are physically impeded by the dependence on manual price disclosure and trade processing, and by the floor layout of more than 100 trading locations. In addition, dealers may negotiate trades "upstairs," office to office, and cross them on the floor the following day. The consequences of this non-transparency include a wide dispersion of dealing prices in the same stock on the same day at the same time.

These practices aside, prices may be widely dispersed for other, more legitimate reasons, e.g., the market may be moving rapidly in response to new information. In addition, some deals may be done in large lines of stock that justify what are known as "size premia," which normally lead to discounts on major block sales and premia on major block purchases, though there are occasions when a significant block will be sold at a high price because it has additional value as a strategic stake in a company. These premia, or discounts, are created through the activities of market intermediaries, and they reflect either the price charged for taking on a large-scale risk by taking a major block into their own inventory, or the outcome of negotiations with other counterparts.

There is no simple, unequivocal yardstick for judging transparency. However, the exchange should be encouraged to develop its own internal performance data as new systems are introduced. These data should log:

- late trade reports
- trade processing backlog
- delayed trade publications

BAPEPAM should also operate and monitor a "best execution" rule that obligates dealers to get the best price they can for their customers. Successful implementation of this

rule naturally requires transparency, without which the dealers cannot determine what the best price is.

Securities subcomponent record. Section 3.0 of the first-year work plan related to capital market operation, but much of this work was countermanded at the request of the Ministry of Finance. It was a period of difficulty for the stock market; the index had peaked in April 1990 at 682, but fell to 371 in December and to 223 in November of the following year. At the same time, there were a range of severe operational problems.

The table on the following page is constructed on the same principles as that for the regulation subcomponent work plan (section 2.0, presented earlier). The pattern of securities industry (section 3.0) work specified for the second year shifted away from analytical activity towards fully researched operational assistance and operational planning. A major achievement was the production of the comprehensive 100-page report, *Design for a Modern Securities Market*, by John Schroy.

Considerable work has been done making presentations to members of the exchange to help them develop their securities businesses; but in the matter of operational development for the exchange itself, there is a divergence between initiatives with which the exchange is associated and the recommendations made by PW.

The principal new factor at work in these developments is PT Clearing (KDEI), a company owned by seven state banks (93 percent) and the two Indonesian stock exchanges (7 percent). KDEI was licensed in January 1993 to operate as an institution authorized to provide clearing, settlement, and depository services. It has—in conjunction with the two exchanges and with external technical assistance—developed a proposal for a trading, clearing, and settlement system to be commissioned at the end of 1994. The planned system is materially different from that proposed in the PW design of 1991. In June 1993, John Schroy, having seen a draft RFP, told KDEI that its plan is seriously flawed. The debate continues, but meanwhile, as this evaluation was being prepared, the PW contribution to improving stock exchange operational systems capability was at an impasse. The BEJ has nonetheless requested assistance with human resources development, capital market promotion, training, and establishment of a bond rating agency (see Annex A).

Sustainability. The entity to be sustained by the CMC is not the capital market itself but the means through which it can operate. A high level of securities market activity is an indicator of the adequacy of the means of operation—just as a high volume of retail sales is an indicator of the adequacy of retail stores. But the quality and durability of the means of operation can only have a second-order effect on the volume of activity, in the same way as the quality of the retail industry can only have a second-order effect on the volume of spending. In addition, some securities market activity will be sustained even if the means of operation are defective.

If there were no CMC, the Indonesian capital market would continue to expand, responding to the economic growth of the country and the progressive improvement in the business environment resulting from deregulation, banking and legal reform, and the

Task List for Securities Market Subcomponent

Task Number	Content per 1st Year Plan (ends 3/91)	Content per 2nd Year Plan (ends 12/91)	Content per 3rd Year Plan (ends 3/93)	Status as of July 1993
3.1	Help develop improvements in Trading, Clearing and Settlement	Advice and assistance on SE operations	No activity specified in plan	See text
3.2	Develop indicators of Capital Market development, with ST TA	Renumbered Analyze investment trading with local ST TA	New task. Assistance and advice to securities ind. professionals	1st year task not pursued - at MOF's request
3.3	Analyze in detail investment/tradi ng activity with short term TA	Renumbered. Analysis of insti-tutional portfolios and est. demand for services	Unspecified	1st year as above 2nd yr task begun but not completed
3.4	Analyze institutional investor portfolios with ST TA	Renumbered. Responsive assistance	Responsive assistance	1st year as above 2nd year task - see text
3.5	Produce SE Analysis model to aid licensing			1st year as above
3.6	Survey brokerage and clearing systems with ST TA			1st year as above
3.7	Analyze communication systems options			1st year as above
3.8	Responsive assistance			Undertook seven identified tasks for BEJ. In first year.

progressive enhancement of accounting standards (under commercial pressure for fair disclosure to creditors and investors by businesses that need money).

The objective of the CMC should be to effect a change in the rate of growth in scale and quality—i.e., to replace the mom and pop corner store with the hypermarket. The media through which scale and quality are to be improved are the regulatory framework (to support an efficient and liquid central market), and order routing, dealing, and settlement facilities. ("Central market" here is a term meaning not that there is only one stock exchange, but that there is a market system within which there is a single price for any one security at any time.)

Stock exchange. The Jakarta Stock Exchange is a new entity—a limited liability company owned by its members on a per capita basis that took over the market from BAPEPAM in the second quarter of 1992. The president director, Hasan Zein, had worked in BAPEPAM, and the exchange management comes from the public sector and thus does not have experience running a private commercial enterprise; nor does it have private sector business experience.

The links between BEJ management and the government however, coupled with the wide powers exercised by BAPEPAM, mean that the exchange's business policy could if necessary be guided in the right direction, provided BAPEPAM itself had an appropriate policy framework and the expertise to pass judgement on the business aspects of exchange operations. At the executive management level, the BEJ has potential access to the expertise of its members—particularly the larger firms—that could help promote and sustain the operational improvement of the market.

At the same time, it is possible that the BEJ's business objectives are not parallel with the objectives of its members, many of whom are very small firms who complain about the capital and running costs charged by the exchange. This situation poses three dangers: first, that members will tend to oppose or ignore the exchange when the opportunity arises, taking business away in the process; second, that the level of turnover and liquidity of the market will be held back by dealing costs; and third, that international business will migrate to other markets.

BEJ management, for its part, is very apprehensive about the costs that lie ahead in automating the market and moving to new premises. They would argue that they will be condemned equally by members whether they charge now the fees necessary to finance this process or leave it to the members to pay later.

KDEI. KDEI plans to create and manage a comprehensive clearing, settlement, and depository (CSD) system, initiated and financed locally and with no dependence on FMP. KDEI is not therefore a candidate for sustainability analysis. Nonetheless, its effectiveness is critical to the successful operation of the market and any deficiencies it may have would have a major impact on elements with which FMP is concerned.

The evaluation team feels the development path proposed for operation of the CSD system is self-evidently risky, both in the exposure of shareholders (mainly state banks) to counterpart default in settlement, and in cost and time overruns in implementation.

It is planned that KDEI be a counterpart to every trade, for settlement purposes. This is normal for clearing houses, but KDEI will be operating in the environment of an under-capitalized, over-lent banking system with a history of financial failures—most recently Bank Summa—and in a market prone to unethical conduct and fraud. Moreover, KDEI is entering this arena with new management, new systems, and relatively modest funding.

The proposals for the new systems are based on an amalgam of features said to operate satisfactorily in other exchanges, but not comprising any single "package". They have not been exposed fully to the membership of the comprising exchanges, and at the time of this report, a number of features remained unresolved, including participation rules for admission to the clearing system; the interplay between on-floor and off-floor trading activity through a transitional period during which the exchange is likely to be moving its premises; and the interlocks within the system among stock certificate handling, ownership records, and money transfer. The entire system will have to be approved by BAPEPAM and be acceptable to other regulatory authorities such as the U.S. SEC to the extent that it is to be used by international investors. We therefore recommend KDEI's proposals be subject to independent external review under the auspices of BAPEPAM—for financial and technical integrity and for compliance with international requirements.

Looking beyond systems viability, there is the question of economic viability. For KDEI and the BEJ, this will depend on the right balance between the prices imposed on investors, members of the exchange, and members of the clearing system on the one hand, and the services and benefits provided to them on the other. In its first year, the BEJ generated Rp 13.6 billion ($6.8 million) and made a profit of Rp 6.9 billion.

KDEI has bought a small part of the BEJ's business in the form of the trade confirmation service, which takes in dealer slips, checks that they match, and publishes a list for each broker. Selling this service to KDEI was sub-optimal in the short term since the system now has to bear the additional overhead of KDEI's central administration, and though the cost is paid as a proportion of the fee collected by the BEJ (not as an add-on), it does constitute a reduction in efficiency. However, this problem should be removed as and when KDEI provides an integrated service, including settlement.

A6. Obstacles and Opportunities: New Systems Viability

The main obstacle to the successful development of the capital market in Indonesia is the physical incapacity of the BEJ to execute an adequate number of trades, and to a slightly lesser extent the incapacity of brokers to settle these trades. The opportunities for constructive assistance are indicated in the conclusions to this part of the evaluation.

The capacity limitations of the exchange are very clearly defined, and feasible technical solutions are available; but successful and expeditious implementation would be

helped by high-level technical assistance, not only in responding to problems connected with specification and procurement, but also helping decision makers set regulatory and operational policy and build consensual support.

The existing plans of the exchanges and KDEI to install automated systems for dealing, clearing, and settlement have a number of hurdles ahead of them:

- The inherent complexity of a comprehensive, full-service system.
- Disagreement between the technical advisors to KDEI and technical advisors to BAPEPAM.
- Absence of consensus between the general membership of the exchange and the sponsors of the automation project.
- Time required to obtain acceptance of the custody arrangements by international investors and regulatory authorities.
- Time required to adapt the system to Indonesian requirements.
- Competition from other markets and other dealing/settlement facilities.
- The fragile condition of much of the Indonesian banking system and the need to improve the clearing system.

A7. Conclusions

A7a. Securities Market

Economic need for a large and liquid securities market. A significant part of Indonesia's external financing needs should be met through inward portfolio investment by international investment funds. As a growing economy in a region popular among investors, Indonesia could expect an almost automatic level of investment from "index tracking funds" that match their portfolios to the size of the available markets. The bigger the market, the bigger the investment. In addition to market size, however, international investment managers demand sufficient liquidity to be able to trade freely between stocks in the market quantities to which they are accustomed—typically $1-5 million trades. The Indonesian stock market falls behind on both criteria: it is relatively small (only 10 percent of GDP), and as indicated earlier, very non-liquid.

The key to a larger market is more issues, and there is every reason why these should be encouraged as part of privatization and, more immediately, to help restructure corporate balance sheets to reduce the disastrous reliance on short-term bank borrowing and increase long-term equity. This step would be a natural counterpart to greater pension fund investment, particularly if the pension schemes move more towards contribution-related benefits.

Limits to market size and liquidity. Not only is the liquidity of the market unsatisfactory, so too is the absolute volume of quoted securities. In 1992, the value of BEJ-quoted equity was approximately 10 percent of Indonesia's GDP—a relatively small base on which to determine the overall valuation of business enterprises, and a small catchment area for international investment funds. There needs to be a large volume of new issues to

increase the size of the market, and the level of domestic activity must be substantially increased to provide adequate liquidity. Meeting these two requirements would lead to a disproportionate increase in the number of transactions, probably by several hundred percent.

There is now, however, a change in what is needed to support the necessary scale of activity if the capital market is to play the desired role in the Indonesian economy—a change that is created by the fact that the stock exchange has reached a physical limit in the transactions it can handle on its floor. The ultimate consequence is not only a transformation of the way in which dealing is conducted—which has not changed in over a decade—but the development of a broader market system, a new systems environment, and the consequential adaptation and extension of regulatory rules and enforcement facilities.

Need for a vigorous domestic market. The key to improved liquidity is a vigorous domestic market, with greater participation by savings institutions, individual investors, and professional traders. More issues, more investors, and more trading will mean a great many more trades. The president director of the BEJ considers that market capitalization should be equal in size to outstanding bank credit—five times its current size. On that basis, the BEJ should plan to handle ten times as many trades: 10-20,000/day instead of 1-2,000/day.

Such growth requires a revolution in the method of operation. Previously, growth in business was accommodated on the exchange floor by mobilizing more people and putting in more dealing positions. These steps have now reached their physical limits; the BEJ cannot handle more than 2,500 trades per day. As a result, the successful development of the capital market relative to Indonesia's immediate problems depends to some extent on overcoming the size constraints of a single room.

Risks in the proposed dealing and settlement systems. We have stressed to the BEJ, BES, KDEI, and BAPEPAM that the proposed system should be subjected to a fully independent external quality review. This review would be coordinated by BAPEPAM, which clearly needs specialized advice on appropriate regulation from existing PW experts and others, for instance on capital adequacy.

In a letter dated July 29, 1993, BAPEPAM agreed with the suggestion that USAID help BAPEPAM limit the risks in the new trading and settlement system by supporting a so-called quality review—key aspects of which should be conducted before decisions are made with respect to suppliers. The agency, however, questioned the need for and potential effectiveness of such an extensive effort on the grounds that a comprehensive review program might actually confuse the situation. Such a large investment in scarce assistance funds is duplicative, BAPEPAM argued, since the technical capability is already available through FMP. While it could be useful to involve professionals (e.g., from IOSCO) on limited tours to review certain aspects of the system, BAPEPAM is confident that approaches can be devised to make use of FMP specialists and work conducted to date to directly support the GOI's oversight and monitoring responsibilities in this area.

The evaluation team certainly welcomes the acceptance in principle of the need to undertake a quality review, and we would only observe that the desire to have a completely independent assessment was strongly indicated to us in discussions with KDEI and the BEJ.

The need for a market floor. The speed with which the automated system can be implemented and its costs are to some extent linked with the question of whether the BEJ should operate a trading floor in the new premises it plans to occupy at the end of 1994. Not only would this site be a substantial cost in itself, it could also lead to higher operational expenses for members than would an off-floor exchange. BEJ management believes members are keen to have a floor because they believe an electronic system would be more expensive and because there are attractions in having a central meeting place. We recommend the economics of floor versus non-floor operations be analyzed and the results presented to the BEJ and its members to help both parties come to a conclusion.

Fast track for the trading system? We strongly recommend that instead of having one completely integrated development program, the trading element should be treated separately from the clearing and settlement elements. Making this separation has the great virtue of allowing the exchange to commission enhanced trading capacity independently of the clearinghouse bringing in its new system. It would also allow for clearer lines of responsibility for exchange management vis-à-vis the systems it is to operate.

KDEI's response to this recommendation was that although it was not inconsistent with acceptable system architecture to have a trading module interfacing with a settlement module, there are distinct dangers in allowing trading to run ahead of settlement. KDEI strongly disagrees with separating trading from the rest of the capital market processes and adds that in discussions with other clearing and depository organizations in the region, there is universal agreement that capital markets need to be viewed in total, and not as a collection of individual components.

The evaluation team fully accepts that these potentially serious risks do exist and that the decision to decouple trading system development from settlement system development represents a trade-off between the danger of backlog and the danger of choking-off inward investment because of lack of market size and liquidity. We are persuaded, however, that the risk of backlog is worth bearing for four reasons.

- First, the financial community in Indonesia has already demonstrated a capacity to increase its scale of operations to match market growth, and there is no reason to suppose that it will not continue to do so.

- Second, any sudden surge in activity is bound to overload a manual system, but the Indonesian market is going to be stuck with a lot of manual settlement for a long time even after the new system is put in. This is because automated settlement requires the immobilization of stock certificates in a depository, and many certificates remain outside the depository for a period of time until there is reason for a stockholder to deposit them. To reject decoupling would not mean commitment to a system in which fully automated dealing and settlement would

come in together. It is a choice between having automated dealing and manual settlement or delaying until it is possible to have automated dealing and part manual/part automated settlement.

- Third, proceeding in modular stages is not the same as denying the integrity of the market systems, as indeed is accepted by KDEI in its wording of the RFP. Indeed, wholly integrated trading and settlement systems are not very common.

- Fourth, it is in principle desirable for the BEJ to have command of the trading system specification, both because it is within its competence and because it will have to achieve consensus with its members, which may be more difficult if it is seen to be associated to KDEI, whose members' interests may be different.

If, as may be the case, there is a danger of settlement overload, there must be better ways of averting it than by sticking with an inadequate dealing system. One possible response to overload is for the exchange to increase the minimum trade size, e.g. five board lots instead of one, and thus reduce the number of trades.

A7b. Extension of FMP

Help with transition to new systems. We consider the CMC capable of fulfilling a vital role in supporting the improvement of dealing and settlement facilities, assisting BAPEPAM with quality control, and developing regulatory arrangements appropriate to automated operations and acceptable to international regulators. The CMC can also help BEJ handle the numerous technical problems of exchange and market management that the new systems will create.

We thus recommend FMP be extended for two years to December 1996 to provide needed support to BAPEPAM and the exchange until the new system comes into operation. The present KDEI/BEJ schedule is for the system to be completely installed in newly built premises by the end of 1994. There are many reasons why this could prove to be over-optimistic, and we therefore suggest GOI and USAID plan on a basis that allows for maintenance of assistance if the project does run over.

A possible schedule of the resources required to extend the CMC to support the transition to the new trading and settlement system is summarized in the two tables below. These tables, which are extrapolated from Annex A, CMC Fourth Year Work Plan and Task Priorities, collate recommendations from the contractor, BEJ, and BAPEPAM, and assume that resources supplied by the contractor would be similar to those supplied in the past. We further assume the sixth year to be the final project year for capital market support, during which the BEJ and BAPEPAM are largely self-sufficient.

Level of Effort to Extend the CMC through December 1996

Task No.	Regulatory Subcomponent	Year 5	Year 6
A1	Rule making and training of young professionals	JE*	
A2	Regulatory procedures	JE	
A3	Enforcement and investigations	JE	
A4	Regime for self-regulatory bodies	JE	
A5	Control of market entry; participant monitoring	JE	
A6	Rules on trading and market operations	JE/JS*	JE/JS
a6	Rules consequential to new systems	JE/JS+	JE/JS +
A7	Training BAPEPAM and BEJ personnel in surveillance and enforcement of market rules	ST TA	ST TA
	Resources for Regulatory Subcomponent		
	.5 year JE, .5 year JS, ST TA, + office support in Jakarta & local management & regulatory staff.	20 pm	6 pm

Task No.	Securities Subcomponent	Year 5	Year 6
B1	Automation advice (2 person-months)	ST TA	ST TA
B2	Development of financial plan to support new system (1 person-month)	JS	
B3	Assistance to BAPEPAM to assess new trading and settlement rules and systems (3 person-months)	ST TA	ST TA
B4	Assistance to improve the quality of the market through greater institutional participation (3 person-months)	ST TA	ST TA
	Resources for Securities Subcomponent		
	.5 year JE, .5 year JS, ST TA, plus office support in Jakarta and local management and regulatory staff.	12 pm	6 pm

* JE = John Evans; JS = John Schroy

The costs of year 5 (1995)—the first in a two-year extension as indicated above—would, on the basis of the figures contained in Annex B (CMC Financial Evaluation) be approximately as follows (in $ thousands):

Estimated Cost of First-year Extension of the CMC ($ thousands)

Activity	LT	ST	Expenses	Total
Direction/management	80	--	30	110
Regulation	250	--	70	320
Securities	100	100	30	230
Training	--	30	10	40
Total	430	130	140	700

As can be seen, the total cost of 32 person-months of assistance, with appropriate direct support, would be $700,000. An additional 12 months would, *pro rata*, cost $262,000, to bring the cost of the entire extension to just under $1 million. If the FMP budget cannot be increased to cover the added period, then the fourth-year plan should be radically pruned to give priority to supporting the secondary market and to provide funds for extension in that area in 1995, and if necessary 1996.

If USAID were to reduce assistance in other areas such as organization and methods, it is likely that BAPEPAM could obtain donor assistance from other sources. The PW team is, however, uniquely qualified for the particular assistance needed for market regulation, and it would not be feasible to change horses in midstream on rule making.

Fourth-year work plan. Extension of FMP has a number of implications for the fourth-year work plan. If no new money is available for the CMC, then resources earmarked for April 1993 to September 1994 should be reallocated to allow for expenditures in 1995 to support BAPEPAM. If new money is available, new tasks may be initiated now for completion in the extended period.

Information on the fourth-year plan is presented in Annex A, which contains the contractor's draft plan, a BAPEPAM plan for follow-on work, and papers from the BEJ on its needs. The evaluation team has also collated the task lists and suggested how they might be prioritized if resources are limited.

We have put the greatest weight on the need for trading capacity in the exchange because it is such a distinct bottleneck, and the economic priorities require maximum encouragement to the secondary market. However, BAPEPAM has some reservations on this front, expressed in a comment on the draft evaluation report by Bapak Ruru in the following terms.

"We agree that this provisional [fourth-year] work plan should be reviewed in light of the results of this report....In defining potential future work plans we must note that, while

improving secondary market operations is clearly the immediate area requiring attention, it is one issue of many which must be taken into account. Focusing so much on one area may result in a sub-optimal definition of priorities for assistance, particularly in an extension period potentially covering a period of years. The extension program presented by BAPEPAM is designed to create a framework within which priorities may be defined over time and sustainable progress made toward the full range of issues critical to market development, of which the secondary market is but one."

There is no disagreement here, but there has been a tendency in the past for assistance to be spread too widely, and the need for focus is a recurring theme in the different sections of this evaluation. Selective targeting is a natural counterpart to more specific planning and reporting procedures.

The table below shows summary figures for FMP year 4 as they would be under three scenarios. The first column would apply if the contractor's draft plan were implemented. The next column, Plan A, shows a reallocation in the fourth year consistent with the findings of this evaluation—i.e., taking money from training, which has had limited success and putting it into quality assurance. (If the need for quality assurance is accepted, then it will be an additional task to those already planned and will need to be funded. In such a case, 1-2 percent of the estimated cost of the new systems does not seem excessive, especially given the potential marketing benefit to be obtained from favorable assessments.)

The third column, Plan B, suggests what might be done in year 4 in order to save money to extend resources into 1995, assuming no more funds are available through an extension. This would not just be for quality assurance, but also to assist BAPEPAM in the substantial regulatory work associated with reforming the trading and settlement systems. The suggested target is a $0.5 million carry-forward, of which $0.15 million would come from deferral of regulation work, $0.1 million from assistance to the securities industry, and $0.05 million from the contractor's managerial expenses, which would presumably be reduced if the scale of work were reduced. Total reduction in the period to April 1994 would be $0.3 million, and the $0.2 million balance of the targeted $0.5 million would need to come out of the additional $0.6 million currently being applied to extend the contract through the PACD. The object of this table is to assist discussion, in conjunction with the material in Annex A, since it is up to the GOI and USAID to determine their priorities.

The most severe suggestion in Plan B is the complete cessation of assistance to the securities industry. This is recommended because the industry has financial resources of its own that can be used to obtain technical assistance, though it is clearly more desirable that (in regulation at least) such assistance should come from the same source as BAPEPAM's in order to minimize conflict in rule drafting and benefit from the high-quality advice the contractor is able to provide.

Financial Options for the FMP Fourth-year Work Plan ($'000)

	Draft 1993/1994 Work Plan	Plan A (Extension)	Plan B (No extension)
Regulation	610	600	450
Securities Industry	97	100	0
Quality Assurance	0	200	200
CMC Subtotal (ex LT Management Fee)	707	900	650
Training	404	200	200
LT Management Fee	167	200	150
TOTAL	1,278	1,300	1,000

A7c. Regulation

BAPEPAM. The creation of a self-sustaining regulatory environment is in mid-course. BAPEPAM has made great progress but still must complete its rule book, develop enforcement procedures, develop market regulation expertise, and bring the level of staff skills to the point where there is complete confidence in their independent capacity.

Regulation and market growth. The difficulties of maintaining a central market become greater as the volume of activity rises and the sophistication of the participants grows. The means of countering those difficulties are primarily regulatory—through exchange rules that concentrate order flow to maximize liquidity, and through BAPEPAM rules to ensure transparency. The paradigm case of market growth through enlightened regulation is the NASDAQ in the U.S., backed by a national market system created through legislation. India has proved a counter-example: an inefficient, systemically hazardous non-national market.

The expertise required to formulate rules in a way that encourages the market and wins the compliance of dealers is very specialized; it is not, for example, likely to be found within financial businesses themselves (though they must be consulted). Instead, it is specific to experienced regulators.

A7d. Management

Timing. The FMP contract with Price Waterhouse was signed one month after the stock market peaked. It is possible that the delay in commencement denied the Indonesian

authorities advice that could have reduced the 1988-1991 market boom and bust, though it is fair to say that the influential presidential advisor, Ali Wardhana, was already counselling caution.

The evaluation team cannot judge where primary responsibility for the delay in commissioning the project lies, and it may be inherent in the nature of the work, which is complex, technical, and politically sensitive. It is evident, however, that underestimation of the cost of technical assistance meant that the scope of work had to be reduced—a step that added to the negotiating process.

It is also the case that the contract took a relatively long time to negotiate because of several factors:

- A host-country contract in practice involves three parties: the contracting agency (MOF), contractor, and USAID, which though not a party to the contract, reviewed and revised the terms.
- MOF negotiators were unfamiliar with the requirements.
- Errors in cost estimates led to a need to obtain consents to a reduction in the scope of work.

Monitoring. There was not consistent compliance with reporting requirements on the part of the contractor, meaning that USAID was not adequately informed when tasks were delayed or went off course. Specifically, reporting was not consistent and did not properly cover the whole contract period. In addition, the paucity of specified and timed deliverables in the second and third work plans (and the format of reports submitted) made it difficult for USAID to determine whether work was on track. The claim, for example, that market development indicators should not be produced because the Ministry of Finance requested discontinuance of a task pertaining to them is not wholly satisfactory.

Compliance with reporting requirements is not as important as effectiveness in delivering assistance to the counterpart, and to some extent, the problems with FMP reflected USAID's failure to pursue the contractor when reports were not forthcoming, or to demand more informative content. (Both actions were put in hand before the evaluation team started its work this year).

Handling of setbacks. The January 1992 decision to exclude the contractor from direct access to the exchange and to constrain its access to BAPEPAM was a significant setback. The CMC had two parts—regulation and the securities market—and this decision effectively destroyed the second, to the extent that the 1992-1993 work plan envisaged "no activity" in this area.

Formal documentary reporting to USAID was incomplete. There is no mention of the Minister of Finance's decision in the first quarterly report for 1992 or in the open office files for December 1991-January 1992. Indeed, the quarterly report presents the return of the BAPEPAM group to the MOF building as an advantage in putting the whole party on one

site. A later report does, however, welcome the August 1992 decision permitting advice to the BEJ to resume.

Members of the PW team to whom we have talked about this assert most strongly that there were very full and protracted discussions with the responsible USAID official, during which they debated whether to expose the difficulty, and resolving ultimately not to. They regarded the problem fundamentally an internal political one and concluded that great caution had to be exercised (then and now) in determining what role, if any, outside agencies and consultants should have in addressing it.

The evaluators, while accepting this argument, are not satisfied with what happened. A significant portion of a high-profile project was rejected by the counterpart institution, and no recorded action was taken by USAID until four months later when Peter Gajewski was asked to undertake a mini-evaluation of the project (during which he was able to discuss the matter with the appropriate government officials and rectify the problem). It should also have been possible for the contractors, cautiously, to have included the minister's decision in the quarterly report.

A8. Lessons Learned

Delays in contracts. Nearly 30 percent of the elapsed time of the project (20 out of 72 months) was spent in preliminaries and contract negotiations that were protracted because provision of assistance under a host-country contract effectively created a three-way negotiation—made all the more difficult because there had been an initial underestimation of the costs of the assistance required. It therefore would appear better for work of this sort to be contracted bilaterally.

Under-specified work plans leading to poor monitoring. Absence of specified and timed deliverables in the work plans meant the project officer could not easily detect difficulties or delays in implementation; it also made reports more difficult to draft because there was uncertainty on the part of the contractor as to the exact purpose (i.e., monitoring versus public relations for the work being done, with different officials requiring different things).

Importance of counterpart commitment. A significant part of the technical assistance provided to the exchange was not used, for a variety of possible reasons including conflicting advice from other advisors, internal political situations, and (possibly) Indonesian unreadiness for the degree and rapidity of changes recommended. But the evaluators put greatest weight on the fact that the financial community in Indonesia had already accommodated a huge increase in market activity without expatriate technical assistance; and with a lower level of activity in 1991, there was no great reason for them to feel the need for it, though, being polite, they would have been reluctant to say so. The lesson is that the aid donor needs to be absolutely sure that the recipient really wants what is being offered.

B. Privatization Component

B1. Background

To date, important steps have been taken to reform the state-owned enterprise sector. SOEs number 184 enterprises in 15 economic sectors, of which industry, agriculture, and finance account for almost 60 percent. Their relative importance is shown by the fact that while their sales amount to 27 percent of GDP, they only employ 1.7 percent of the labor force. Presently, SOEs have a book value of $125 billion and their aggregate global budget is larger than the national budget, yet they contribute only $1.5 billion in dividends to the GOI. The recent strong growth of Indonesia's private sector has led to a gradual decline of SOE's share of the economy.

SOEs are organized in one of three ways:

Persero. Profit-making limited liability shareholding companies, in which the state owns all or a part of the enterprise's equity (87 percent of all SOEs).

Perum. Enterprises with a principal purpose that is social, in which the state owns 100 percent of the equity (11 percent of all SOEs).

Special status enterprises. For example, Pertamina, the oil and gas monopoly (2 percent of SOEs).

To date, GOI policy has concentrated on the improvement of SOE efficiency and productivity, rather than on the transformation into private sector entities. The reform process, however, set in the legal framework of presidential decrees, has allowed for a variety of modifications, e.g., change in legal status of enterprises (Perum to Persero), mergers, management contracts, joint ventures, and partial public offerings to raise capital and liquidations. Thus, there is in place a legal framework under which the GOI can engage in these different forms of privatization.

In this connection, SOE management is increasingly being required to run enterprises on sound business (private sector) principles, and has gained autonomy in hiring, firing, and setting salary levels. Management performance is monitored and evaluated, with financial performance counting for about 70 percent of the overall performance evaluation.

B2. Results of the Reform Process

Since 1987, the reform process has shown the following progress in terms of SOE efficiency.

Status	1987	1991
Very healthy	40	54
Unhealthy	88	52 (1992)
Financial losses	43	24

In addition, 87 percent of SOEs are presently profitable—a fact that has considerably reduced the GOI's fiscal burden. Returns on assets, however, averaged only 4-5 percent annually over the past five years—a rate significantly lower than both the opportunity cost of capital and the return on assets (10+ percent) achieved by the private sector.

Through the restructuring program started in 1989, some limited progress has been registered in the reform of SOEs into private sector entities:

Change in legal status	31
Merged/consolidated	8
Liquidated	5
Sold out	2
Under management contract	4
Went public	6
Transferred by direct placement	8

This progress was weakened, however, by the creation of nine new SOEs over the same period. Overall, privatization activities have been limited, entailing only a small group of SOEs, including the smaller paper manufacturers, a tire manufacturing unit, and several others. Originally, the GOI planned to offer the shares of 52 SOEs to the public, but only PT Semen Gresik sold a minority portion of its shares on the BEJ, and this transaction took 15 months, in part because the board of directors delayed the decision and in part because the investment bank overpriced the offering. The result was a 20 percent drop in share prices the day after Gresik went public.

The Gresik case is usually cited as an example of the lack of maturity of the local capital markets and their inability to absorb shares from SOE divestiture, leading to the conclusion that the conditions of the financial sector make privatization premature. It should be clearly understood that the Gresik case was not an example of immature capital markets, but rather an example of a privatization that was inappropriately conceived and executed.

Political and social contexts. Privatization, both at the conceptual and transactional levels, is neither well understood nor accepted in Indonesia. Historically, SOEs have had

two main responsibilities: commercial and social. The social responsibility has been to provide jobs, promote regions of the country, and transfer subsidies. This social mission is now being reduced to strengthen SOEs' commercial responsibility. It is part of the Indonesian national culture to make decisions based on consensus, even if this consensus entails delays. While there is ample international experience upon which Indonesia could draw, to date there has been no systematic effort to increase the public's and government decision makers' understanding of the process, and thus win acceptance of privatization as a pillar of economic development. The current lack of public acceptance stems from erroneous perceptions of the SOE situation and Indonesia's capital markets, in part from the characteristics of the SOE and private sectors, and misconceptions of what privatization is, what it entails, and what its benefits are.

Certain high-level government officials and business leaders feel the capital markets are not sufficiently well developed to permit a successful privatization effort. They contend that the BEJ is not large enough to handle large volume placements and that a better alternative is to list SOEs on foreign stock exchanges as a means of attracting more capital and technology. This argument is a misconception and the latter proposal a weak alternative for the following reasons:

- To privatize, it is not necessary to have a developed capital market; rather, one finds that most privatization transactions in developing countries have taken place as direct sales where the capital markets were nascent, and that the privatizations themselves contributed significantly to the development of those markets.

- Foreign portfolio investors already interested in Indonesia represent a large proportion of BEJ trading.

- The vast majority of SOEs would have serious difficulties complying with the listing requirements of major foreign stock exchanges.

Nonetheless, among representatives of the private and public sectors, two erroneous beliefs prevail in Indonesia about SOEs and their importance to the economy.

- SOEs are more efficient than private firms because SOEs contribute more taxes and dividends to the government, and because they do not overly burden government finances. This is an erroneous analysis. Efficiency should be understood as rates of return on assets invested by the private (10 percent) and public sectors (5 percent).

- SOEs stabilize prices in those sectors where private sector activity represents concentrated economic power. While this may be true in certain sectors, it is not a valid reason to have an SOE in the sector. A better solution is to open the sector to other private firms to enhance competition, or to regulate the sector where by virtue of the economic activity, there is a "natural" monopoly, e.g., public utilities or another oligopolistic situation.

Most boards of directors of SOEs comprise government officials who lack professional managerial experience and the skills to compete effectively in the marketplace. Moreover, these officials hold fairly long tenure as directors, and it is unlikely they would support rapid change that would seriously jeopardize their positions.

From the public's side, privatization is viewed with mistrust, in part because of a lack of understanding of the process, and more important, because of early transactions carried out with little transparency and fairness that entailed concessions given to private investors under questionable (i.e., non-competitive) procedures. In short, the public feels privatization via public offerings of shares will mean those shares will end up in the hands of traditionally powerful economic groups.

Current GOI strategy for SOEs. The current DG/SOE strategy is to reinforce the move towards SOE efficiency and productivity gains and address the financial considerations of stopping losses and financing expansion. Indonesian government institutions are strong, and their personnel are capable; the purpose of institution building is to fulfill a five-year action plan and raise the professional level of the staff via upgrading systems procedures and training. The five-year action plan is being implemented on two levels. The first, internal level entails improving information systems, personnel training, total quality management, legal and regulatory aspects, and internal financial management procedures. The purpose of these improvements is to strengthen the internal operations of the directorate to enable it to accomplish its mission of strengthening SOEs.

The second, external level targets greater SOE independence from government and strengthened commercial role. In this connection, new monitoring systems to supervise SOE performance will be developed. Under Presidential Decree #55 of 1990, the GOI has the legal framework to reform SOEs and require them to operate as private sector corporations. The GOI has also allowed the private sector to engage increasingly in activities previously reserved for the state, e.g., power and toll roads. With respect to privatization, the directorate's implementing strategy is that though there is the political commitment to move towards privatization, changing circumstances in the country may cause changed perceptions of timing and tactics, but not goals. Thus a one- or two-year program of public awareness and education will be developed to gain a consensus on political support, before starting with specific transactions.

Two other significant developments have taken place recently: the privatization of the Jakarta Stock Exchange and new legislation to reform the pension fund system. The privatization of the BEJ will allow participants to take charge of exchange operations at a time when its operational capacity must be considerably upgraded through computerized systems of trading, settlement, and administrative procedures. There is also a need to be able to comply with the standards of the international securities industry and to become more competitive, particularly in the ASEAN region. A modernized BEJ will attract individual and institutional investors—domestic and foreign—who require an efficient, risk-free trading environment and more and better-adapted financing and investment instruments.

A new private and modernized BEJ, coupled with the new regulatory framework for the securities market and a strengthened BAPEPAM, will promote development of the securities industry, providing an enhanced environment for privatization activities that in turn will increasingly fuel the market. As it evolves, the securities industry will become a principal catalytic element of a successfully reformed SOE sector. It will also be increasingly capable of innovating and making available a variety of investment instruments to the individual and corporate investing publics, especially smaller individual investors.

New legislation reforming the pension fund system has been enacted. At present, SOEs have their own pension plans that place a heavy financial burden on the companies. The system is based on defined benefits and the pay-as-you-go modality. Moreover, the pension funds are usually managed by the SOEs' personnel departments, rather than by professional managers. The new law provides the framework for the separation of a fund's assets from the company's assets, for professional private management and for the shift to a defined contribution system. While much remains to be done, the expected outcome is a professionally managed pension fund system operating within an effective, well-supervised regulatory framework. Presently, the bulk of the system's assets are invested in savings deposits in the state banking system.

With sound professional management, part of the pension fund system's assets may be invested in the capital market, thereby contributing to its development. Also, privatization of SOE shares may find likely purchasers in these new institutional investors. As the capital market develops, institutional investors such as pension funds will increasingly become beneficiaries as they improve their investment efficiency through portfolio diversification, i.e., by taking advantage of the greater variety of investment instruments; minimizing the amount of risk by spreading their investments over adjustable and fixed-rate instruments, stocks, and bonds; and minimizing the amount of funds invested in low-yield instruments.

Professional private management will mean high-quality service at a low cost, with the objective of maximizing the profitability of accrued savings to obtain the best possible pensions. This fact requires both an adequate supply of appropriate financial instruments and the recognition (via the legal/regulatory framework) that security of funds and sufficient profitability are key aspects of this change.

B3. Evidence, Findings, and Conclusions

The Privatization Component began as a direct contract with Price Waterhouse through a "buy-in" to AID's Privatization and Development project, to assist the Ministry of Finance's Directorate General for State-owned Enterprises. The privatization component is presented in the project paper supplement to FMP, signed by USAID/Jakarta on August 26, 1991. Activity on this component began in January 1992.

B3a. Methodology

The primary focus of the privatization component is on implementation and transactions, with institutional strengthening, policy reform and dialogue, and training

undergirding this focus. Funds allocated for this component are to assist privatizations in their different forms and approaches, but are not to be used to strengthen existing SOEs that have no clear prospects of being privatized. The privatization component was totally consistent with the 1989 reform policies and activities and was conceived as a supplement to strengthen the development of capital markets (the original project thrust) by bringing SOE shares into them. In order for the evaluation to be consistent with the project paper supplement, the definition of privatization used was that of the project paper supplement, which includes commercialization (requiring SOEs to be self-sustaining and self-financing) along with total and partial divestiture, partial privatization, contracting-out, and liquidation.

B3b. Policy Subcomponent

Policy framework design. The first phase, which classified SOEs into types of required assistance, was completed. Since then there has been little progress, due in large measure to general delays resulting from DG/SOE restructuring and reorganization.

SOE pension funds and their conversion. Virtually all SOEs have some type of pension program, totalling at least $2 billion in assets at the end of 1991. These funds are almost all of the "defined benefit" type, including a lump sum retirement payment, monthly retirement payments, death benefits for survivors, and disability benefits. Management of most funds is carried out by SOEs' personnel departments rather than by qualified professional managers. At the end of each fiscal year, many SOE pension funds are faced with unexpectedly high costs, requiring additional government contributions. These costs are caused by a lack of controls and proper administrative procedures. The funds invest primarily in state-owned bank time deposits and bonds, as well as in real estate and venture capital in related companies.

The two draft reports prepared by Price Waterhouse (September 1992 and April 1993) provide the following:

September 1992 Pension Fund report:

- Assistance to the DG/SOE to assess the pension arrangements of SOEs.
- An approach to formulate policies and guidelines that will allow the DG/SOE to design and supervise the operations of SOE pension funds via a structural set of standards, operating procedures, and reporting requirements, taking into account the options created by the new (1992) Pension Funds Law.
- Recommendations principally aimed at developing professional fund management capabilities, including addressing questions of transparency, disclosure, reporting, and human resources development.

April 1993 Pension Fund Conversion report:

- Examination of eight categories of issues that must be addressed if SOE pension funds are to be converted from defined benefits to defined contributions arrangements.

- Discussion of the major issue: the fiscal impact of reforming the system

Reform of the pension fund system is highly relevant because it will:

- Eliminate a financial burden from SOEs, thus improving their efficiency.
- Require more sophisticated professional procedures of investment management that could be achieved by joint ventures with internationally experienced companies, training, and the ultimate privatization of management. A clear set of regulations and supervision is also required.
- Mean that with professional investment management, funds (at least $2 billion) will be invested in the capital markets, increasing their liquidity and favoring the privatization of SOEs via the sale of shares.

Continuation of technical assistance to this activity and its success will result in an efficient and more effective pension fund system, and the development of the appropriate regulatory framework will ensure its sustainability.

PTP estates marketing system. This draft report (September 1992) examined the performance of the Collective Marketing Office (KBP), its organizational structure and relationships, and the financial, economic, and commercial implications of reforming the current marketing arrangements for PTP estate production. Within the primary objective of placing the reform of KBP in the context of the GOI's overall program of improved SOE efficiency, the report presents recommendations to improve marketing arrangements and the internal organization of KBP, as well as a preliminary action program to increase the efficiency of the PTP estates marketing system.

It is important to note that the PTPs are the largest single employer in the country. The report's principal recommendations are:

- Responsibility for marketing PTP production should be vested in individual PTPs.
- Competition among PTP estates should be encouraged.
- KBP services should be made available to the private sector on a fee basis.
- KBP should be restructured as an autonomous agency operating as a commercial enterprise.

This is a relevant activity in a relevant sector to introduce competition and commercialization among SOEs. However, while the effectiveness and efficiency of KBP and the estates marketing system might be enhanced, there is a high probability of perpetuating a state-owned enterprise and not privatizing ownership and/or management, in which case future USAID resources should not be applied (according to USAID objectives). It should be noted that this project has been put on hold by the DG/SOE.

B3c. Institutional Subcomponent

Institutional strengthening. Institutional strengthening began in January 1992 with a heavy emphasis until the DG/SOE restructuring and reorganization in August 1992. The contractor is still awaiting guidance from the DG/SOE.

Directorate MIS design. This draft report (July 1992) defines a management information system that will meet the needs of the directorate. It specifies a database structure and network architecture that will facilitate the evaluation of SOE performance and monitoring of the GOI's restructuring program. It also presents a plan to design and install the MIS, with a set of detailed performance evaluation indicators (financial, non-financial, and sector-specific) for SOEs. A pilot program for a small group of SOEs will be developed, and once proven will be expanded to others.

This effort seems to be a large investment with a high rate of obsolescence. A management information system risks becoming increasingly obsolete as SOEs are privatized, and thus the effectiveness, efficiency, sustainability, and relevance of continued technical assistance is questionable. This activity is presently on hold in the DG/SOE.

B3d. Implementation/Transaction Subcomponent

SOE restructuring/privatization program. There has been little activity other than monitoring and data gathering since the August 1992 restructuring and reorganization of the DG/SOE.

Aircraft leasing. This report (January 1993) identifies certain aircraft leasing activities that P.T. Pann Multifinance—a government shipping and leasing company—could perform to rationalize the aircraft fleets of Garuda and Merpati. It outlines a program to create a corporate capacity for P.T. Pann to undertake aircraft leasing activities, including training of key personnel. The evaluation team was told that this activity is a preparatory stage for the privatization of Garuda and Merpati in 1995 or 1996, by allowing them to upgrade their fleets and become more competitive internationally.

This activity will strengthen two existing SOEs—the Indonesian Aircraft State Industry (manufacturer of small passenger aircraft and helicopters) and P.T. Pann Multifinance—with the probability that if they become stronger, the GOI may very well want to retain them as SOEs. If this is the case, then assistance would run counter to USAID's objectives of making SOEs more private. Furthermore, there is little relevance to build up one SOE to privatize another. International experience provides a seminal source of information of how successful privatization of similar industries can be implemented.

Paiton Private Power project. The contractor assisted negotiations between the GOI and the investing consortium. The contractor also developed a financial model to simulate negotiations and evaluate the macroeconomic impact of such a transaction, including the borrowing capacity of the country in the international capital markets.

This work was in an area of crucial importance. It suffered, however, from the somewhat overlapping advice given by the contractor and by the World Bank technical assistance team—the relationship with which should be clarified.

B3e. Training/Public Awareness Subcomponent

To date, two BOO/BOT workshops have been held, and there has been limited participation of public officials in international privatization seminars. No work has been carried out with respect to a public awareness campaign to educate the public about the requirements and benefits of privatization. A preliminary training needs assessment for the DG/SOE was initiated and then put on hold, but is now being reinstated. The BOO/BOT training workshops were relevant, given the infrastructure development needs of the country and the participation of private sector investment.

B3f. Direction/Management Subcomponent

The contractor has provided high-quality professional advice to and developed a constructive working relationship with the government, and has been responsive to requests for assistance. Thus far, the emphasis of assistance has been on the policy and institutional subcomponents. In the implementation/transaction subcomponent, the contractor, instead of taking a proactive approach vis-à-vis the government, adopted a passive approach that resulted in a low level of activity and deviation from primary project objectives (transaction).

This low level of activity was exacerbated (and in part caused) by the change of leadership in the directorate and by a pause in implementation, e.g., the ambitious 1989 restructuring program that resulted in only one SOE going public. As would be expected, the resulted has been little use of the budget, especially in the training and commodities components, where negligible amounts have been spent. The DG/SOE is reviewing requirements in both areas within the limits imposed by USAID on the use of funding, and is contemplating the installation of project management systems for pension fund reform and the BUMN restructuring/privatization program. The table below summarizes the amounts budgeted by USAID (grant funds) and the GOI (contributions), and amounts spent to date.

Privatization Component Budget (US$ millions)

Item	USAID	GOI	Total	Spent
Technical assistance	3.5*	0.65	4.15	1.3
Training	1.0	1.05	2.05	0.1
Commodities	0.25	-	0.25	0.0
Evaluation/audit	0.1	-	0.1	negligible
Contingency	0.15	-	0.15	negligible
Total	5.0	1.7	6.7	

* only $2.5 million was committed for long- and short-term technical assistance.

The activities carried out in connection with the Paiton project and pension fund reform are relevant activities. In the Paiton project, there has also been some overlapping advice given to the GOI from the contractor and from the World Bank technical assistance team—a situation that should be clarified. It should be noted that there is a regulatory vacuum in infrastructure projects such as Paiton. There is no clear regulatory framework that established rules of the game by which all participants abide. Such a framework includes rules of tariff determination, concessions that may be granted, a procurement system, and a system of government contracts—all of which provide transparency and promote competition and fairness.

The aircraft leasing and MIS design are activities of little relevance to FMP objectives. The aircraft leasing activity will strengthen two SOEs, and the MIS design activity will be ineffective if SOEs are going to be privatized. On the other hand, the PTP estates marketing system activity may enhance the effectiveness and efficiency of the state system, though it risks perpetuating an SOE.

Finally, USAID/Jakarta should have provided closer supervision, monitoring, follow-up, and policy dialogue support that would have allowed it to take timely actions to either keep the project on course or amend it.

B4. Conclusions

The privatization component has had relatively little activity for a number of reasons, including the appointment of a new director of the DG/SOE in August 1992 and the directorate's restructuring. This delay, plus the impact of evolving views on privatization, resulted in a lack of continuity for the project component. Finally, the relatively reactive posture of the contractor with respect to the implementation/transaction subcomponent further diminished the level of activities.

Since the project component has only 1.5 years of technical assistance remaining, it must show more concrete results. The high quality of the technical assistance and professional advice given to the GOI, and the ensuing trust and rapport that has developed, will allow the contractor to build on the solid accomplishments of the first half of the project component, and should lead into a more successful second half in terms of transactions.

B5. Other Findings and Conclusions

Growing reliance on the private sector. There is evidence of a growing reliance on the private sector to finance investments in infrastructure activities previously reserved for the state, to avoid severe bottlenecks in economic development. An example of this reliance is the Paiton project with a total cost of approximately $2.3 billion. This project will generate 12,600 megawatts of electricity based entirely on domestic coal. PLN, the government monopoly in the power sector, will purchase the energy to be transmitted and distributed through the country's power grid. An international consortium comprising P.T. Batu Hitam Perkasa, Mission Energy Co., Mitsui and Co., and General Electric Power

Funding Corp. is presently negotiating a power purchase agreement with the GOI that will grant the promoters a 30-year concession. There is an assumed 25 percent return on the investment, which will be financed with 25 percent equity and 75 percent debt with no government guarantee.

A feature of this project is that it is taking place in a regulatory framework vacuum. Although some progress has been achieved in regulating the sector (including private sector participation), crucial issues such as rates to be charged to final users remain a discretionary decision of the President of Indonesia.

Acceleration of the privatization option. The need to expand and modernize SOEs, coupled with the shrinking capacity of the state to borrow abroad, may activate and accelerate the privatization option as a vehicle to attract new investment. Most developing countries have found that the single most important source of foreign investment has been the privatized SOE. A good Indonesian example will be the telecommunications sector, where the GOI will have to invest approximately $7.5 billion over the next five years. An expansion plan of this magnitude will largely depend on foreign investment. Another example is the expansion of the cement company Tonasa, for which the GOI has already ordered equipment. Financing will be made available through private sector participation in a public offering. Despite the DG/SOE strategy of gaining political consensus before any decision is made on specific privatizations, circumstances may accelerate the privatization process for some SOEs. The government may have to anticipate the fact of privatization and that it will have to decide to sell equity in SOEs to private investors. It would therefore be visionary for the GOI to have a framework ready to allow privatization to take place on a case-by-case basis, in a transparent, competitive procedure and organized fashion.

Clear definition of the rules of the game. As a result of the Paiton work, it is evident that significant progress will have to be made in the establishment of a clear regulatory framework and a supervisory agency to define the rules of the game for the private sector in areas such as power, telecommunications, road construction and operations, harbor construction and operations, and other sectors likely to be dominated by natural monopolies. The Paiton case will likely provide useful lessons for future legislation. International experience suggests that the participation of the private sector in infrastructure will increase dramatically once clear rules are in place. Also, rates established according to technical standards and not by negotiation (i.e., that are discretionary by nature) will contribute to greater economic efficiency and long-term stability of the sector. Ideally, such a regulatory framework will be established by law to provide security to investors in the sector. Nevertheless, there is still a long way to go to reach consensus within the government on this approach. Progress has been made, but the process is slow.

C. Money Markets Component

The Money Markets Component is being implemented under a host-country contract between Bank Indonesia (BI) and Deloitte & Touche, U.S.A. Under this contract, Deloitte & Touche provides a long-term advisor to Bank Indonesia to assist in developing money

markets and to increase the effectiveness of open market operations and monetary management. The MMC assists BI in four interrelated areas:

- monetary management
- bank supervision
- banking services
- internal management

This component was originally designed to provide one long-term advisor for three years, supplemented by about 18 person-months of short-term experts. Because of shortages of USAID funding, the short-term experts are not available. The long-term advisor is providing assistance to BI in the following fields:

- Monetary management specifically related to instruments, auctions, open market operations and information flows.
- Designing debt markets, instruments, and associated regulations.
- Analysis and definition of necessary policies and procedures for a deposit protection system for Indonesia.
- Design of the structure and activities of a credit rating firm.
- Training and technical resources in check clearing and electronic funds transfer.
- Identification of short-term technical assistance needs and how to manage them.

In addition the long-term advisor continues to be responsive to all request for assistance.

C1. Findings

The relevance of this project is based on the critical need for more money market instruments and better tools for monetary policy explained above. The long-term advisor has been very effective in addressing a myriad of technical issues, and he now works as an integral part of BI's senior staff.

There is a question as how efficient his input is, as it is not supplemented by the short-term technical assistance envisioned in the design of the project. He is spread very thinly over a large number of tasks.

A major economic management issue that is being addressed by this component is the development of a long-term equity market and instruments. Much work has been done on the development of a government bond market. In many countries these bonds and treasury bills (short-term) are used for fiscal and monetary policy implementation. Indonesia has no such instruments.

The list of short-term projects included in Section V, Recommendations, and elaborated on in Annex E, comprises high-priority activities to meet FMP's objectives.

Coordination needs to be improved between FMP project component activities. In one instance both the MMC and CMC did work and reports on the establishment of a credit rating system. Neither knew about the others activity, nor were the reports shared.

Work within BI also needs to be better coordinated. The Research Division is putting together an improved data system with USAID assistance. We realize that the data requirements for these two activities are different, but there is overlap. We recommend that these activities be merged and managed as a unit by USAID, separately from the FMP. Since the USAID EPSO office is recruiting two PSC financial specialists, they would be in a good technical position to manage this new activity.

C2. Sustainability

If the short-term projects outlined in the recommendations below are implemented, we believe the regulations and operating and dealing systems described above will clearly and permanently improve the effectiveness of money markets and BI's ability to implement monetary policy.

C3. Lessons Learned

When a project is implemented, be sure that sufficient funds are available to meet project objectives. If not, the project should be redesigned to be less ambitious in scope to be fully funded.

D. Training

FMP training goals are to:

- Develop a cadre of knowledgeable and skilled financial market participants able to engage actively in and support a private capital market operating on the basis of internationally accepted standards and practices.

- Institutionalize capital market training programs so that they become permanent, ongoing components of the financial market environment in Indonesia.

Training under the project has focused on two general groups: public and securities sector agencies, and members and enterprises in the private securities industry.

Public sector/stock exchange. Within the first group, BAPEPAM has been the main recipient, having sent about 40 of its staff of 200 overseas or within Indonesia to study capital markets under the project. Jakarta and Surabaya Stock Exchange staff have also participated in these courses. BAPEPAM and stock exchange training under FMP has generally taken one of four forms:

- International courses lasting 2-4 weeks on a wide range of topics (see section D1. below).

- Local courses lasting 2-4 weeks on a number of capital market topics (see section D1. below).
- Financial English courses lasting three months, with four hours of instruction per week (a prerequisite for those traveling abroad for training).
- Seminars and workshops lasting 1-7 days on general topics related to the capital market, and including speakers brought from overseas and Indonesia. Many of these seminars are co-sponsored by FMP and the BEJ, and usually attract 50-200 public and private sector attenders each.

Other FMP training-related activities include screening and orienting individuals for BAPEPAM's Young Professionals Program, under which the chairman, Bapak Bacelius Ruru, hopes to hire some 23 candidates to help lead the agency into the next generation. This program has been successful and is a positive step toward infusing BAPEPAM with personnel who have been trained in international standards of capital market regulation from the beginning.

FMP has also provided assistance to BAPEPAM's Public Information Services Office (PISO). This office—still in its infancy—is in great need of organization and procedures help. With continued assistance, it hopes to respond quickly and completely to requests for market-related information. To facilitate this ability, some BAPEPAM staff attending FMP programs in Washington, D.C., visited the U.S. Securities Exchange Commission's reference room and office. Finally, the project has provided public relations assistance to BAPEPAM in the form of helping write and produce a general brochure and annual report for the agency.

Private sector. The second—and by far larger—group of trainees has included broker/dealers, underwriters, investment analysts, lawyers, accountants, and other members of Indonesia's burgeoning private financial sector. Numerous workshops and seminars have been sponsored by the Jakarta Stock Exchange, with support (funding, presenters, logistics) from FMP and BAPEPAM. In addition, the project brings foreign experts in to teach train the trainer courses to faculty from Indonesia's economic and financial training institutes.

FMP has also helped create and administer a series of Capital Markets Competency Examinations for private securities groups and personnel, similar to the Series 7 tests in the United States. Developed in collaboration with the recently formed Committee for Capital Markets Professional Standards, these examinations seek to install and maintain a replicable and sustainable infrastructure of human resources in the financial markets sector.

Finally, FMP advisors have helped write and review seminar and keynote speeches given by Bapak Ruru and the minister of finance at seminars and workshops (noted above) sponsored by BAPEPAM for members of the private securities industry.

Below, in section D1., we briefly examine the training activities envisioned in each FMP annual work plan and the extent to which deliverables were completed and activities carried out. Following this discussion, we present an in-depth assessment (sections D2.-D3.) of the activities and priorities of FMP training, based on interviews with trainees and their

supervisors, counterpart agencies and groups in the public and private sectors, and USAID and project personnel. Finally, we evaluate the tracking, monitoring and evaluation, and regulatory compliance of FMP training activities (sections D4.-D5.)

D1. Adherence to and Completion of Work Plans

In general, the FMP training program achieved its objectives as stated in the work plans and project paper. At the same time, there are several aspects of training that fell short of project objectives, and some areas where the direction and focus of training was less than optimal. In addition, there was insufficient ongoing monitoring and evaluation of training activities. For example, the Steering Committee that was to manage training activities never held a meeting, although the USAID project officer is now reviving this committee in the hopes of providing surer guidance for future training activities. Policy direction is an important aspect of FMP programs, especially as external assistance is phased out during the last 1.5 years of the project. The Steering Committee should be an active part of the decision making process concerning curricula, participant selection, and monitoring and evaluation.

The exceptionally large amount of training that has been implemented under FMP has been generally in response to the work plans developed by the project team. For the 3.5 years already completed, the tasks within each annual work plan were generally the same, though taking into account previous years' accomplishments and adjusting needs accordingly. The other major development during the project was the consistent and rapid increase in courses and participants from 1990 to the present. The table below summarizes the types of training completed and gives an idea of the scale of this FMP activity.

Gender concerns. Within the above programs, 11 percent of international trainees and 24 percent of local trainees were women, underscoring the trend toward female employment in the financial sector. Moreover, these percentages rose steadily each year as the project progressed.

Summary of FMP Training Programs by Type and Location

	Overseas Programs[1]	# of Partic.	Local Courses[2]	Local Workshops[3]	# of Partic.	English	Partic.	Comp. Exam Partic.	Total # of Partic.
1990	5	24	–	1	20	2	79	–	123
1991	26	84	4	6	578	1	20	–	682
1992	30	94	3	15	932	5	90	640	1,756
1993[4]	36	131	5	36	2,089	1	56	570	2,846
Total	97	333	12	58	3,619	9	245	1,210	5,407

[1] Includes courses and workshops
[2] Includes train the trainer courses
[3] Includes overseas returnee presentations
[4] Through September

D1a. Initial Training Plans and First Annual Work Plan

Because of the delay in implementing FMP (see earlier discussion), the first annual work plan covered April 1990 to March 1991. Objectives of FMP during this period (and subsequent periods) involved training for BAPEPAM staff, establishment and organization of competency examinations for private securities professionals, institutionalization of training within Indonesian organizations, public relations assistance for BAPEPAM, and training for the Indonesian Commodities Exchange and the DG/SOE. In addition, PW's long-term training advisor, Howard Schuman, developed training outlines and plans for the life of the project, concentrating on personnel related to the two subcomponents of the Capital Markets Component: market regulatory officials and private sector securities professionals.

These plans, submitted in September and October 1990, are clear, concise, helpful documents that underline the need for widespread human resources development in the Indonesian financial sector. Each also lists training topics needed for overseas and local training. Proposed outlines included the following fundamental topics:

- Capital market institutions (e.g., stock exchanges, securities companies, settlement and depositories)
- Financial, marketing, and operations management of securities companies (e.g., bank accounts, pricing policies, record management)
- Stock exchange management
- Capital markets development and regulation
- Regulation drafting, disclosure, and enforcement
- Financial and industry-specific accounting

All of these areas were essential for the initial financial market development needed at the beginning of the project, and indeed, they remain equally relevant today. In fact, the evaluation team believes the expansion into more specialized courses and programs that has occurred since 1990 has to some extent overshadowed the ongoing need to increase general expertise in basic concepts. Moreover, the currently planned shift away from overseas training toward more local programs would necessitate an even greater concentration on the basics of financial markets, given the relatively small number of advanced courses available from Indonesian institutions. (A fuller discussion of basic versus advanced curricula is presented in section D2a. below.)

In terms of courses held and percentage of training deliverables met, the project was not very successful in its first year. Delays in setting up a training infrastructure and forging working procedures with counterparts led to less than one-fifth of the anticipated number of participants. This shortcoming was more than made up for in subsequent project years.

English language training. One area essential to the success of nearly all overseas courses under the project is the Financial English classes held for all BAPEPAM, BEJ, and MOF staff before they attended FMP-sponsored courses. The October 1990 plans submitted by Mr. Schuman defined the curriculum for these classes to cover the following areas:

- Introducing oneself
- Describing work functions
- Meetings
- Financial English terminology
- Posing and answering questions regarding markets
- Effective relationships with foreigners

Based on interviews with Mr. Schuman and FMP trainees and their supervisors, these courses, which are aimed at people with "low-level English," were for the most part restricted to the above topics. The subsequent level of proficiency for a large number (if not most) of the trainees from BAPEPAM, the BEJ, and elsewhere was inadequate to maximize the effectiveness and efficiency of sending so many people to such a broad number of courses. A further discussion of the English language preparation for this project is presented below in section D2a.

D1b. Second Annual Work Plan

Programs planned for April 1991-March 1992 were mostly the same as those of the previous year. All areas witnessed activity by the project, although the institutionalization of training, public relations training and assistance for BAPEPAM, and related public information dissemination work developed slowly, as actual training of public and private sector personnel was given higher priority by the contractor and counterparts. For the most part, those courses given mostly met the educational needs of participants, and as indicated in the table above, they began to reach a far greater number of people and groups.

D1c. Third Annual Work Plan

Specific activities expanded from previous years were actual train the trainers courses, creation of the BAPEPAM Young Professionals Program, assistance to produce a BAPEPAM annual report in English and Bahasa Indonesia, and development of a Public Information Service Office (PISO) at BAPEPAM. All of these activities received a good amount of work from April 1992-March 1993, and each represents an important area that will become more essential as FMP assistance gives way to the desired institutionalization of local training, the sustainability of BAPEPAM human resources development, and the increase in Indonesian's public awareness about financial markets.

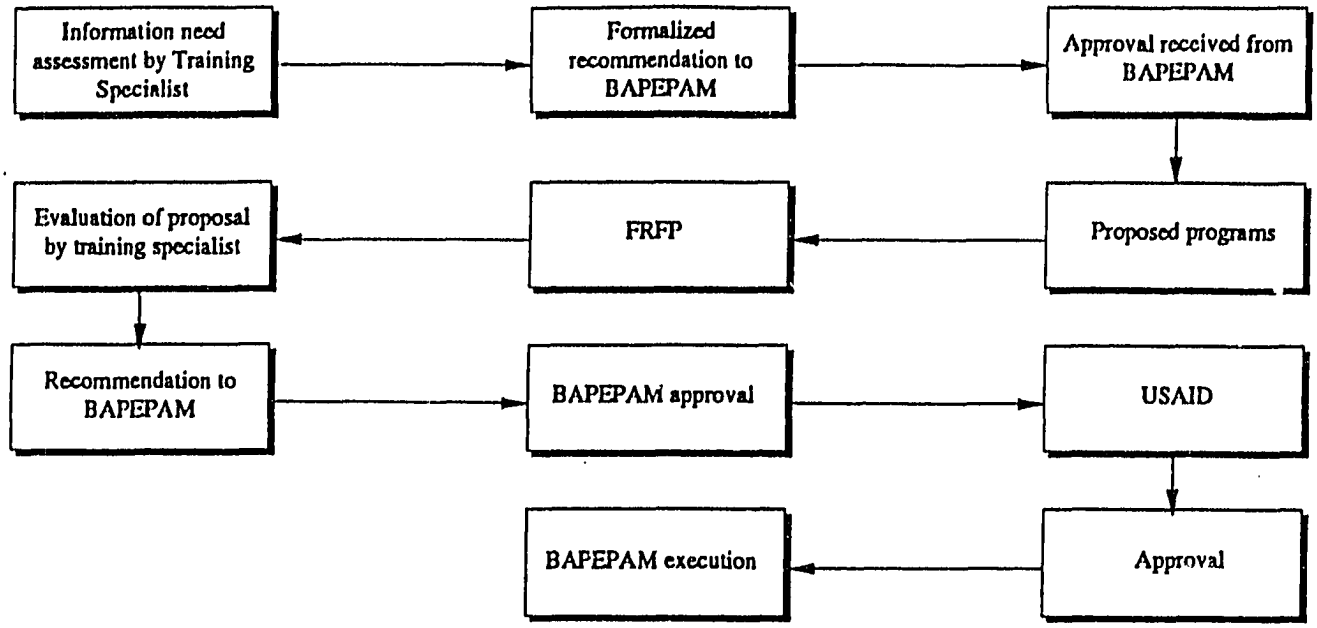
One major deliverable concerning the local institutionalization of training was the "Survey of Indonesian Financial Markets Training Institutions." This report, submitted by Mr. Schuman in November 1992, is a well reasoned and structured look at what capital market-related courses are available from 14 major local training institutions. It also indicates what curricula, assistance, and materials these same groups feel are priority needs and/or areas within the development of a more knowledgeable and skilled private and public capital markets sector. The report's recommendations to offer technically-specific train the trainer courses and to sponsor the writing, publication, and distribution (in English and Bahasa) of a pamphlet introducing investment in Indonesia are well founded and should be followed up during the remainder of the project.

D1d. Fourth Annual Work Plan

Training since April 1993 has focused on the same areas as the third work plan, and reflect a similarly high level of activity. At the same time, there appear to be plans to shift the focus of this component away from project-based assistance and toward long-term self-sufficiency and foundation building for Indonesian entities. The successful recruitment and orientation of the first class of BAPEPAM's Young Professionals Program is indication of this shift.

D2. Training for BAPEPAM and the Stock Exchange

The working relationship between the FMP long-term training specialist and his GOI counterpart has been excellent—generally intense and informal. The process flow of the training program is illustrated in the exhibit below.



The people trained at BAPEPAM and their supervisors are all very enthusiastic and positive about FMP training, primarily because of the fledgling nature of the agency and the BEJ, and thus their enormous human resources development needs. Those interviewed continually stress the need for additional training and continued financial support for overseas courses. In a situation like this, where an entire sector is relatively new and where public and private individuals and groups are in demand of greater expertise across the board, it is difficult to provide training that is not well received. At the same time, however, it is equally difficult to separate out what aspects of training are most effective and efficient.

Having said this, the high level of demand and positive responses aside, there are a number of issues specific to actual training carried out under FMP concerning which the project's success is less clear. Below we examine a number of issues related to BAPEPAM training and its impact and efficiency.

D2a. Assessment and Impact of BAPEPAM Overseas Training

The findings in this section are based on discussions with the BAPEPAM chairman and the heads of the Bureaus for Market Regulation, Corporate Finance, and Legal Affairs. In addition, the evaluation team interviewed more than 10 returned trainees (one-fourth of the total sent abroad) to identify and judge the extent to which materials were absorbed and are helping BAPEPAM develop into a fully operational securities regulation agency.

Course and trainee selection. Several times per year, FMP sends lists of upcoming programs, and the BAPEPAM bureau and division heads assign eligible staff, to be further based on English language ability. All trainees to be sent overseas first attend three months (4 hours/week) of financial English language training. Following these classes, all are

tested, and those above a certain mark are then interviewed by Howard Schuman and their supervisors to determine their interest in the courses available in the upcoming months under the project.

Assessment and impact of courses. In general, these overseas courses—which accounted for more than 80 percent of the training budget, while involving less than one-tenth of those trained in Indonesia under the project—broaden the views of Indonesians by exposing them to other systems, not just of capital markets, but of hierarchies, organization, procedures, and regulations.

General knowledge and perspective. The greatest need that project training seeks to meet is to professionalize BAPEPAM and the private financial market sector, through widespread human resources development. Toward this end, there is no doubt that FMP-sponsored classes provide greater knowledge of capital markets in general, allowing staff to discuss problems more effectively. The adage that one cannot learn about a subject by remaining in a single place and studying from a single point of view holds true in this case. Supervision and regulation require knowledge and experience; one can't know what to do without going to see "real" markets and comparing them to Indonesia's. FMP courses in New York, Washington, D.C., and elsewhere in the U.S. and around Asia help to internationalize training materials—an important prerequisite as the BEJ and BAPEPAM strive to meet the regulatory standards of the global marketplace.

However, along with the experience trainees gain abroad, the trips they take are generally seen as an incentive—a perk. This aspect of overseas training, while not part of stated FMP objectives, is nonetheless an important motivation tool in the minds of trainees and their supervisors, and must be analyzed for its actual effect on BAPEPAM and BEJ operations.

For example, all low-level managers in BAPEPAM's Market Regulation Bureau have been sent overseas on training. The main result, according to the bureau head and others, is increased confidence and improved ability to contact and communicate with foreign experts and companies who deal with BAPEPAM. At the same time, the incentive of overseas travel motivates other staff to learn English and work well so they can go abroad and get the experience and perk of international travel. While the evaluation team does not question the utility of this process, resources spent on such trips necessarily take away from other training activities, and insufficient language ability, cultural adjustment, and the intensity of materials presented are all factors that make such international programs a cost-benefit risk.

One additional benefit of overseas training is experience and increased facility in dealing with foreign companies. Foreign representatives visiting or dealing with the BEJ or BAPEPAM are often referred to returned FMP trainees.

Case studies and site visits. Two uniformly positive aspects of FMP training courses are the inclusion of case studies from other countries and site visits to related institutions and agencies as during training trips. All returnees noted that comparative case studies and problem solving discussions are the most helpful aspect of FMP courses. These classes are

attended by people from around the world, and analyzing problems and solutions in Mexico, Sri Lanka, India, etc., imparted lessons learned that they applied upon their return.

In addition, many stressed the utility of including visits/internships with classroom teaching. They found it very helpful actually going to the SEC, for example, and seeing the physical layout, security procedures, and information flow of what most describe a "real" capital market system. These visits made very strong impressions on all attenders.

Given the perceived benefits of this hands-on approach to training, the FMP training advisor and USAID should examine the feasibility and costs of long-term (six months to one year) internships with the SEC or New York Stock Exchange for current staff or entering Young Professionals (see below).

Third-country courses. Like site visits in the U.S., courses offered under FMP that involve trips to stock exchanges and securities institutions world wide are beneficial for their comparative (and thus problem-solving) analysis. Programs in India, for example, where the situation as another developing country is relevant, even though the capital market is more than 100 years old, provide Indonesian trainees with directly applicable information. It is helpful, for example, to examine firsthand a market that, like Indonesia's, is made up of numerous investors and potential investors who have little money to spare, but who buy shares in the market nonetheless.

English language ability and course preparation. Many Indonesians sent for training are not properly prepared for the level of technical English and the overwhelming amount of technical materials presented. Coursework is equivalent to that for a masters degree in several instances, both in difficulty and amount. At BAPEPAM, nearly all staff join in FMP Financial English training, and supervisors rely on the English language institute and Mr. Schuman to evaluate who is proficient enough to attend the programs.

Despite this step, English remains a significant barrier to absorption of information and materials, and many trainees do not know enough to actively communicate their views. They can understand ideas presented to them, but exchange of information is often difficult or not feasible. The level of participation (and benefit) is directly related to trainees' confidence in their English abilities. Thus the bottom line for most trainees is that they need more training—in financial as well as conversational English. Selection of candidates based on English fluency by Mr. Schuman and trainee supervisors should likewise be much more strict.

In discussions with returned trainees at BAPEPAM and the BEJ, those who had been in the United States before their program said they got more out of FMP training than others. Indonesians abroad for the first time spent much time and attention adjusting culturally and physically to the location and surroundings. This adjustment necessarily took time away from learning the coursework.

One procedural adjustment that would necessitate a broader and more strict requirement for English fluency is USAID's plans to require PIO/Ps for all FMP training

activities, starting in April 1994. This step—which regulates all aspects of the training process, from English language to health insurance, to tracking—is an overdue one in the opinion of the evaluation team.

Another possibility that should be examined is sending several people to training programs more than once (or for a longer time), instead of sending a large number of staff just once. Repeating trips for certain qualified, relevantly placed individuals would make better use of limited training efforts. Sending them for a longer period of time would allow them to adjust to their surroundings and organize themselves while they still have most of their program remaining.

Basic market concepts. As noted above, courses planned in 1990 for the life of FMP focused on basic concepts and situations in capital and money market operations. The priority need for these courses remains as great today as in 1990, especially as a prerequisite for more technical and intensive courses.

Many BAPEPAM personnel are not recruited directly from degree holders in relevant disciplines (accounting, economics, finance, etc.) or from companies working in the capital markets sector. Instead, they are transferred through the civil service from other agencies and don't always have BAPEPAM-specific skills. Effective training is therefore essential to long-term regulatory development. At the very least, staff must be able to deal with issues and transactions internationally, and to make presentations in and on the global market.

Overseas and local training courses and programs should focus more on the fundamental concepts of the capital market and its operations. In addition, one criteria for these courses should be their immediate relevance to capital and money markets in Indonesia, i.e., those aspects currently operating or planned for start-up within the year. Whenever possible, training programs should continue to combine classroom work with site visits to other stock exchanges, regulatory agencies, etc. Detailed, highly technical classes taught at the master's degree level should be used less, and only when the trainees have a proven ability to understand the technical language and absorb the amount of material presented. For example, the head of BAPEPAM's Non-financial Services Companies Division expressed a desire for courses in specific accounting procedures, e.g., hotel accounting, oil accounting, and mining accounting.

Young Professionals Program and degree opportunities. BAPEPAM's Young Professionals Program, implemented with much assistance from the project, has been very successful, and is an essential step in the agency's road toward self-sustaining professionalization. FMP helps identify, recruit, and orient promising candidates for entry-level positions. Mr. Schuman monitors and designs topics with agency officials. From there, entrants are interviewed by bureau heads and the BAPEPAM chairman. Twenty-three members of the first Young Professionals class are now beginning to assume their new jobs as market regulators. The pre-screening and briefing by the project makes the recruits more communicative and outgoing and allows them to essentially hit the ground running when they assume their positions—already one step ahead of their colleagues and one step closer to the generally better-educated members of the private sector whose job it is for them to regulate.

As noted above, one of the problems regarding English and the intensity of training courses and BAPEPAM actions in general is the limited educational background of incoming BAPEPAM staff. While the Young Professional Program is an equalizing measure, far more must be done to allow BAPEPAM and the BEJ to compete with the private sector, which pays higher salaries and thus has its pick of graduates returning from the top schools in the U.S. and other countries with advanced degrees in finance, accounting, and trade. To compete effectively in the labor market, public sector agencies must be able to offer incentives that match those in the securities industry. For this reason, USAID and FMP staff should pursue the inclusion of Masters degree programs in the project or within a subsequent training effort.

Public relations. This area of activity has received relatively little attention under FMP's BAPEPAM efforts. The project helped develop a brochure and an annual report for the agency, but the activities and purpose of BAPEPAM and the capital market in general remain somewhat unknown to the public and, in some cases, to the private financial sector itself. The project should place more emphasis on designing and completing tasks related to this activity. FMP is currently helping the BEJ develop a video for television that will be part of a public awareness campaign. Efforts like this will help Indonesia catch up with its neighbors in terms of nationwide familiarity with capital markets and their workings and importance to development. As the Jakarta Stock Exchange's head of research noted to the evaluation team, even the taxi drivers in Kuala Lumpur know about and can discuss the workings and recent trends in the Malaysian stock market. A similar level of public recognition is a worthwhile long-term goal.

D2b. Assessment and Impact of BEJ Overseas Training

Several staff members of the BEJ attended overseas training along with BAPEPAM personnel. Reviews from returnees and the exchange's needs and priorities are generally the same as the regulatory agency, although in many cases the information and materials was even more advanced beyond the actual situation at the BEJ. For example, one enterprise management staff person studied options in a course on Derivative Instruments, although options as such are not scheduled to be begun at the exchange for another 3-4 years. She had great difficulty describing what she had learned and how to apply it.

All trainees felt their experience abroad broadened their horizons, but some thought courses should be more focused on exchanges in emerging countries. Information and materials presented on U.S. capital markets was helpful, they say, but of limited relevance. The evaluation team agrees that it is best to include developing country examples and case studies whenever possible. In addition, there needs to be more follow-up following training experiences. FMP should help design and carry out a comparative study of exchanges in Indonesia and elsewhere, to be presented locally. Such an exercise would help BEJ staff put their training to work.

D2c. Post-training Presentations

Every staff member from BAPEPAM and the BEJ who attends a training course abroad is required by his/her agency to make a formal presentation of the materials learned and how they can improve operations in Indonesia. The evaluation team found that these presentations are taken very seriously by trainees and their supervisors, and by the PW long-term advisor, who attends each one. In addition to attending the presentations, Mr. Schuman meets informally with most trainees to discuss their impressions and perceived utility of the courses. No other formal follow-up or evaluation was implemented by FMP, nor did USAID require or carry out such follow-up.

Staff at the exchange and BAPEPAM who had attended these presentations noted that they became more motivated to learn English and improve their understanding of related topics, both to perform their jobs better and to become eligible themselves for overseas training. Presentations also help spread basic concepts about the capital market. This process helps create a collective feeling of purpose within an organization, as well as improving the explanatory skills and confidence of those presenting the information. Presentations motivate BAPEPAM staff to learn English and work well so they can go abroad as well and get the experience and perk of international travel (see discussion above).

While the usefulness of these presentations is unquestionable, their full potential is not being realized because they are limited to agency or exchange staff. Members of the private securities sector repeatedly expressed a desire for BAPEPAM and BEJ returnees to present their newfound experience and expertise to those who actually trade and work in the market.

D3. Training for the Private Securities Industry

D3a. Train the Trainers Programs

While these classes are aimed at private Indonesian training institutions—many of which were included in Mr. Schuman's November 1992 "Survey of Indonesian Financial Markets Training Institutions"—FMP staff confer with BAPEPAM when choosing the most relevant topics to teach. Local training institutes send their faculty to these courses, which are held every 2-3 months. Topics and curricula are developed by Mr. Schuman, who also selects the foreign trainers brought in to teach the classes and attends all sessions himself. FMP train the trainer courses last three days, of which the last day is spent in a simulated teaching session that faculty trainees must carry out.

The response from training institutes to these courses has been mixed. Most Indonesian faculty have been teaching for some time, but lack formal training in education. In addition, FMP courses are very basic technically. Most teachers are already experts in their fields (private sector practitioners and/or degree holders), and thus the basics they hear in the train the trainer classes are below them. As a result, they concentrate on learning how to present information and teach other people, i.e., how to best express the subject material they know.

One problem is that the purpose of these courses is unclear (i.e., education training vs. technical training), both before and throughout the program. This problem is exacerbated by the materials given to participants. Invitations to train the trainer classes give tentative schedules and outlines, but they do not state the goal. Moreover, when the time comes for the actual course, materials are handed out at the classroom, not in advance. This lack of opportunity to study or read up on materials to become familiar with the topic makes the three-day length of the course seem even shorter.

Another problem is that information is not given from within the Indonesian context. Teachers are foreign and often not experienced in this country, and there are no overt discussions of the market atmosphere and rules of this country.

Following the courses, Schuman keeps a list of all attendees and their references. In addition, questionnaires are handed out to participants at the end, and are collected, evaluated, and their suggestions informally incorporated into future activities by Mr. Schuman. When training institutes need a teacher in a related subject area, they simply call the FMP office and are given the roster of suitable candidates.

D3b. Workshops and Seminars

Nearly 60 local workshops and seminars on financial market topics have been held with support of FMP, and aimed at members of the public and private sectors. These events are and often co-funded by the BEJ, with logistics support often coming from BAPEPAM. Generally, the foreign experts brought by Mr. Schuman and Price Waterhouse to teach speak are well-versed in presenting to international audiences, which often have limited experience with the technical materials and English language.

Private sector attenders include accountants, lawyers, brokers/dealers, and investment advisors. Among these groups, participants tend to be at the senior levels, often consisting of board of director members, marketing executives, and research heads. As this fact implies, there is currently a very large demand for these workshops in Indonesia. Securities personnel are enthusiastic about the programs, but the barriers of language and the intensively technical nature of presentations remain as real obstacles. In addition, participants from the stock exchange and private companies often remark on their need for more practical, Indonesia-specific information, rather than theoretical materials on (developed) capital markets.

It is important to remember that those private sector individuals attending these seminars are the actual people transacting the daily business of the exchange, and thus need to have job-related expertise. BAPEPAM, while dealing with everyday market affairs, is also pursuing a vision of a U.S.-style regulatory agency, and thus is in need of more outward-looking training—in part to deal with the 70 percent of BEJ trading that is foreign. The immediate need of the Indonesian private sector, meanwhile, is to acquire the expertise—and thus confidence—to play the markets.

D3c. Capital Market Competency Examinations

In 1990, the Committee for Capital Markets Professional Standards was tasked by Capital Market Decree 1548 to establish BAPEPAM licensing standards and examinations for all those wishing to play the capital market. Since then, with the significant and excellent assistance from FMP, tests and standards have been developed for three groups of professionals: broker/dealers, underwriters, and investment advisors.

Based on its interpretation of the Decree and the areas demanding expertise, the committee sends relevant information about Indonesia's capital markets to Howard Schuman and to the New York Institute of Finance (NYIF). This information includes rules and regulations of the BEJ and Indonesia's capital markets. NYIF then takes the questions, assigns percentage weightings to topic areas, puts the information and questions into U.S. format, and returns these questions to the committee along with associated references.

As of October 1993, all three tests had been given three times, with the fourth scheduled for November of this year. The number of people taking the tests has increased steadily, as those who failed repeat, more people enter the trade, and outsiders decide they want to have the freedom to play the market. Through this process, the committee has been learning how to write questions and enforce standards in preparation for assuming full responsibility for the examinations. In fact, the fifth competency test, to be held in the first half of 1994, will be created entirely by the committee itself, with consultations from the NYIF and FMP only as needed.

In addition to the test and questions, FMP and NYIF have helped write the registration and sample question book for all three examinations. The book, written in Bahasa Indonesia and English, does an excellent job of introducing and explaining the required standards and the way in which the test assesses them. Registration procedures are similarly well presented.

Overall, FMP's work on the Indonesian Capital Market Competency Examinations provides a model for assistance to institutionalize training and human resources development within the financial sector.

D3d. Private Sector Perspectives and FMP Training Priorities

As noted repeatedly in this evaluation, the institutional and human resources development needs of Indonesia's public and private financial sectors are great. As a result, there is no way that a limited project such as FMP can hope to address even a majority of the priority training areas facing it. At the same time, there is concern within the securities industry that project training resources and efforts have focused on BAPEPAM and the Jakarta Stock Exchange, providing private sector groups and individuals with comparatively little assistance.

The purpose of FMP training is to develop knowledgeable and skilled market participants—both public and private. The utility of concentrating higher-cost efforts such as

overseas courses on a small group of key individuals, such as BAPEPAM's regulatory officials and policy makers is self-evident. Improving the capabilities of a carefully selected group of key personnel will produce better results than merely dividing trainees equally among all market participants. Proceeding along this line entails a certain responsibility, however—a responsibility to ensure that the information, materials, and lessons learned by those privileged enough to attend premium courses abroad are relevant to the Indonesian situation and are shared with and disseminated throughout the sector back home.

In-house post-training presentations at BAPEPAM and the BEJ are important and successful aspects of FMP training, but they are only a step in the broader attempt to professionalize the Indonesian financial markets. BAPEPAM and the BEJ should increase their efforts to share information and lessons learned from overseas training courses with the Indonesian private financial sector. The necessary detachment of a regulatory agency and the body it must regulate aside, the public and private sector must pursue a cooperative development effort if Indonesia's financial markets are to reach the standards desired by all parties. Through its training component, FMP can help develop, organize, and support such collaborative efforts.

D4. Monitoring and Evaluation System

Formal quarterly and annual report are required from the FMP training specialist, and Mr. Schuman conducted informal follow-up evaluations of each program and attended nearly all formal presentations by returnees to their colleagues at BAPEPAM and the BEJ (see section D2c. above). These presentations are discussed elsewhere in this section. What we do not see is the formal evaluation by GOI Steering Committee and USAID. We believe this joint evaluation is necessary for further policy direction with regards to the focus and allocation of fund for the following period.

D5. AID Regulatory Compliance

Early in FMP's history, questions arose concerning the applicability of AID regulation Handbook 10 provisions for international training programs. At that time, it was agreed by the mission project officer and PW long-term training specialist that, with the exception of health insurance, Handbook 10 requirements should not apply for courses lasting an average of two weeks and never lasting more than a month (the usual length of overseas programs under FMP).

Instead, the TOEFL language testing, medical examinations, nomination period, and PIO/P procedures were waived in favor of more informal procedures. These included local English tests and candidate interviews to determine ability; shorter lead times; Project Implementation Letters instead of PIO/Ps; and no official program evaluation process.

These procedures, which were approved by the replacement USAID project officer who took office in January 1993, were the subject of a 1992 audit of the Jakarta mission's overall training program. The audit team neither approved nor disapproved of the waiver of Handbook 10 rules, thereby granting tacit acceptance of the practices being followed.

E. General Findings and Conclusions

Management structure. There is insufficient management at the project and USAID program levels, including missed opportunities of discussing issues and assistance and engaging in collaboration with related USAID efforts. The evaluation team recommends establishing a project committee to include the USAID project officer and possibly project officers from all related USAID projects (e.g., ELIPS, PURSE, ARSSP, and MFP). This committee should include nominees from the MOF and Bank Indonesia who are monitoring FMP's three components. The project committee should convene quarterly, with the contractor to evaluate progress, analyze deviations, and set targets for output.

Host-country contributions. Host-country contributions to FMP will exceed the $4.7 million anticipated for the life of the project.

Gender concerns. The evaluation work plan did not extend to primary research on gender concerns, and there were no appropriate secondary resources available. However, it can be said that the opening of a dynamic capital market has created greater employment opportunities for women, with many working in stockbrokering and investment management. In addition, securities companies report that their own businesses involve significant participation by women.

Impact on distribution of financial sector resources and on secondary banking. More people own shares resulting from the spreading out of equity and the growth of capital markets.

Compliance with AID financial management rules. The evaluation team's work on compliance with AID financial management rules was confined to noting such evidence of non-compliance as might emerge during the course of our examination of project documentation. No USAID direct hire staff were assigned to assist in the work. No evidence of non-compliance was found, though there was some laxity (now corrected) in the handling of waivers for procurement from non-U.S. sources. Other issues included:

- Planning and budgeting mechanics were fine, but as stated in our draft evaluation, large amounts of money were spent inefficiently to develop stock exchange operating procedures that were never used, and on inappropriate training.

- Monitoring and controlling of project activities was lax and not continuous.

- Financial reporting was carried out according to AID regulations and agreed-on GOI procedures for the host-country contract portion. AID procedures were followed for the PRE buy-in and the AID direct portions.

F. Logical Framework Analysis

The log frame analysis for FMP's three components is presented in the table on the following pages. This presentation parallels the findings and conclusions presented in sections A.,B., C., and E., above.

FMP Logical Framework Analysis

Component	Project Paper Purposes and Outputs	Objective Verifiable Indicators, Project Paper	Objective Verifiable Indicators at Time of Evaluation	Comments
1. Capital Markets	Purpose. 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.	Permanent and long-range regulatory environment for stocks, bonds, and commodities, established with operational responsibilities separated from regulatory authority.	Regulatory environment established for securities through Capital Market Decree 1548/90 and development of BAPEPAM. Fifty percent of rulebook work (20 percent of rules) complete. Further institutional strengthening is required for BAPEPAM to be autonomous and self-sustaining.	
		At least 50 private broker/dealers operating profitably from broker/dealer business alone.	There are currently 205 securities houses and stockbrokers. Profit data not available, but PW reports that agency brokering is unprofitable because of high costs.	
		At least one new stock and two new bond issues marketed each month, and average daily stock trading volume reaching 4 million/day. Total stock and bond market capitalization increasing to at least Rp 25 trillion.	There were 81 stock issues and 5 bond issues in 1992; and 22 bond issues in the first half of 1993. Stock trading volume averaged Rp 32 billion. Stock capitalization was Rp 24.8 trillion at the end of 1992 and bond capitalization was Rp 741 billion.	
		Commodity futures and at least two new commodities traded on the ICE.	Commodity exchange activities were dropped from project implementation. See section A1., above.	
		Growth in pension and insurance companies by 50 percent and increased total stock and bond holdings to 30 percent of portfolios representing Rp 3 trillion.	Data not available. Total pension fund assets estimated at Rp 8-10 trillion. Number of funds rose from 106 in 1988 to 194 in the spring of 1992. Civil service pension fund TASPEN had 30 percent in bonds and 3 percent in stocks in 1990 and is increasing stock holdings. Insurance companies do not generally write long-term investment policies.	
		Reduction of DANAREKSA's percentage of portfolio that is unpledged. Restructured and increased level of individually owned certificates.	DANAREKSA has reformed, but issue of new certificates was frozen under the Capital Market Decree.	

FMP Logical Framework Analysis, cont.

Component	Project Paper Purposes and Outputs	Objective Verifiable Indicators, Project Paper	Objective Verifiable Indicators at Time of Evaluation	Comments
1. Capital Markets	Output 1.1. Market deregulation	Separation of BAPEPAM's regulatory and operational functions. Clearer division of regulatory roles. Strengthened technical capital market skills of MOF, BAPEPAM, and privatized stock exchange(s). Promotion of DANAREKSA's role as mutual fund for individual investors, and reduction of its favored status in market as mutual fund and underwriter. Separation of the operational and regulatory functions of the commodities exchange.	Separation provided for by Capital Market Decree and effected in March-July 1992. Market skills of MOF and BAPEPAM strengthened for licensing and registration, but more needs to be done, especially on market regulation. No direct strengthening of market skills of stock exchanges via FMP. DANAREKSA is active as an underwriter and broker dealer, and in fund management and finance. Commodity exchange activities were dropped from project implementation. See section A1., above.	
	Output 1.2. Increased supply of long-term investment capital	Developed standards that encourage pension funds and insurance companies to diversify portfolios.	Pension fund work has had much success. SEE TEXT.	The portion of this activity dealing with insurance companies was largely dropped from FMP implementation. See section A1., above.
	Output 1.3. Improved securities trading capability and structure	Increased investor interest in securities through promotional campaigns. Greater individual and foreign access to markets, e.g., new mutual funds, linkages among markets, and restructured DANAREKSA certificates. Developed private sector brokerage through training and technical assistance. Futures contract traded at the ICE. BAPINDO, BPDs, and P.T. BAHANA selling off equities through the stock market.	No direct impact on investors, but assistance given in public relations via the media. Greater access to the market derived from deregulation and growth, but not from the project. Mutual funds prohibited by the Capital Market Decree, but a new law will probably allow them. DANAREKSA certificates frozen by the Decree. Formal training discussed in section D., above. Substantial work has been undertaken in presentations and seminars to assist the business development of domestic brokers/dealers. Commodities exchange activities were dropped from FMP implementation. see section A1., above.	

FMP Logical Framework Analysis, cont.

Component	Project Paper Purposes and Outputs	Objective Verifiable Indicators, Project Paper	Objective Verifiable Indicators at Time of Evaluation	Comments
2. Privatization	Purpose. To improve the efficiency of the public sector through restructuring and/or privatization of the ownership and management of SOEs.	Tested legal, financial, and administrative procedures.		
		Increased understanding of benefits.		
		Restructuring and/or privatization of 10 selected SOEs.		This activity is behind schedule. DG/SOE reorganization, cabinet changes, and elections have caused delays.
		Database of potential investors and sources of funding and technical assistance.		
		Valuation procedures.		
		Core group of privatization specialists.		
		Dissemination of information.		
		Overall policy framework that provides the fundamental direction of the SOE program.	Policy framework design ongoing. SOEs classified into categories requiring assistance.	
		Coherent and integrated set of policies and procedures that clearly define the process of carrying out the SOE program.	Privatization strategy clarified for MOF, but to date no clear policy direction for SOE restructuring and privatization.	
		Fully developed institutional capacity to design, implement, monitor, and revise the SOE program on a systematic, ongoing basis.	Begun in January 1992, and ongoing. Heavy emphasis on this activity has taken away from privatization implementation and transaction activity.	

FMP Logical Framework Analysis, cont.

Component	Project Paper Purposes and Outputs	Objective Verifiable Indicators, Project Paper	Objective Verifiable Indicators at Time of Evaluation	Comments
2. Privatization	Output 2.1. Improved overall policy framework	Developed information base, including: profiles of candidate companies; data bank of SOEs, potential investors, and sources of funding and technical assistance; and methodology for economic impact analyses. Established scope of the program, including revised performance measures and restructuring criteria (with supporting analyses and recommendations), and revised lists of restructuring and privatization candidates. Design and implementation of strategies for reducing labor displacement, including to ameliorate displacement effects through early retirement, increased pension benefits, generous severance packages, and new business start-ups. Design and implementation of strategies to privatize and use proceeds, including proposals for small business expansion schemes; delivery mechanisms to direct subsidies to affected labor; labor compensation packages for redundancies and early retirements; funding of retraining programs for displaced skilled labor; and infrastructure development programs. Design and implementation of a strategy to maximize private investment in public services, including analyses of the benefits and consequences of private investment. Development of a consensus - building program including a proposed strategy, media items (print, audio, video), workshops/seminars, and promotional campaigns. Monitoring and adjustment of the SOE program, including developed indicators to measure success and a computerized monitoring system.	The accomplishments below apply to a wide range of specific privatization and restructuring activities with a SOEs in a number of sectors that fall under the general indicators listed in the previous column. Telecommunications sector. Internal discussions were held regarding the role of FMP. Electric power sector. Helped carry out negotiations between GOI and Paiton project, investors, and promoters. FMP advisor is assisting the financial modeling of options and facilitating negotiations. PTP Estates Marketing System. Produced report on performance of KBP and on the financial, economic, and commercial implications of reforming marketing arrangements of PTP Estate production. Recommended action program to improve efficiency of system. SOE pension funds. Produced draft approach for DG/SOE to create policies and guidelines to supervise and design operations of SOE pension funds that are developing professional fund management capabilities. Wrote report on SOE pension fund conversion from defined benefits to defined contributions. Air transportation sector. Wrote report on aircraft leasing activities that P.T. PANN Multifinance and IPTN could carry out to rationalize air fleets of Garuda and Merpati. Continuing to help develop leasing modality to strengthen IPTN and PANN Multifinance.	This work is very important. However, assistance suffered from overlapping advice given by the contractor and the World Bank team. The relationship between the two should be clarified. While this is a relevant activity in terms of introducing competition and commercialization among SOEs, there is a high probability of perpetuating an SOE and not privatizing ownership or management. Future USAID resources should not be applied. The aircraft leasing activities are of little relevance to FMP objectives, as it will strengthen two SOEs.

FMP Logical Framework Analysis, cont.

Component	Project Paper Purposes and Outputs	Objective Verifiable Indicators, Project Paper	Objective Verifiable Indicators at Time of Evaluation	Comments
2. Privatization	Output 2.2. Improved policy implementation and procedural framework.	Identification of legal, regulatory, and other procedural constraints to the SOE program, including methodology for identification and lists of constraints, changes, and new policies/procedures. Definition and institutionalization of procedures to restructure and privatize SOEs, including: offering memoranda; restructuring and privatization methods and procedures; developed SOE privatization action plans; decisions to privatize selected SOEs; public announcements of tender offers; and recommendations for procedures for specialized techniques (e.g., ESOPs). Definition and institutionalization of guidelines and procedures for arranging and managing private investment in the provision of public services, including negotiating criteria and guidelines for reviewing proposals and monitoring contract compliance.	This activity is behind schedule. DG/SOE reorganization, cabinet changes, and election have caused delays. Privatization strategy clarified for MOF, but no clear policy direction to date for SOE restructuring and privatization.	
	Output 2.3. Enhanced institutional capacity	Completed organizational and management assessment of BUMN, including proposed action programs to strengthen BUMN. Design and implementation of a BUMN training program.	Terms of reference submitted to DG/SOE but implementation delayed by DG restructuring. Training needs assessment completed. Financial model developed and training sessions for DG/SOE personnel given. Design of broader training program/curriculum ongoing.	Terms of reference may require alterations. There is a question of timing and appropriateness, given lack of firm GOI decision regarding privatization and restructuring. DG/SOE restaffing may invalidate analysis. Project team is awaiting DG/SOE post-restaffing guidance.

Component	Project Paper Purposes and Outputs	Objective Verifiable Indicators, Project Paper	Objective Verifiable Indicators at Time of Evaluation	Comments
3. Money Markets	Purpose. To increase the number of debt and equity securities and commodity contracts available to investors, increase the transparent trading volume of these instruments, and strengthen BI monetary management.	Increased supply of long-term investment capital.	Work on the commercial paper market instruments has the potential to help diversify the portfolio of institutional investors.	
		Removal of fiscal, monetary, and regulatory disincentives for long-term capital investment.	The government is developing a commercial paper market, and efforts are underway to create medium- and longer-term debt instruments with market-driven interest rates.	
		Revised reserve and liquidity requirement of Bank Indonesia.		
		Wider BI issuance of notes and bills.	SBIs will go from seven days to one year in maturity, and all maturities are available. BI is planning a study of medium- and longer-term debt issues and the possibility of the MOF issuing treasury securities to establish reference rates and a yield curve, and also for monetary control purposes.	
		Creation of BI national credit file.	BI has established a national credit file that all banks contribute to and receive information from. This information is on companies and people who have bad loans outstanding at commercial banks.	The objective of this service is to encourage the establishment of independent credit rating agencies to help provide clarity for financial information on firms issuing debt.
		Developed BI nationwide automated check clearing system.	First stage is complete. A pilot project in November-December 1992 linked 20 banks to BI. 120 banks are now linked and the system should go up soon.	This project is to link money market banks electronically, providing players in the interbank market with interest rate and volume information on interbank transactions and money market activity. The next step is to use the system for electronic fund transfers among banks and for electronic clearing and settlement of checks. A team from the San Francisco Federal Bank will arrive later this year to survey current systems and help develop a training and planning program for BI's automated check clearing system.
		Improved trading capability and structure of money markets.	Promotional campaigns are being carried out to increase investor interest in securities. Work is proceeding on the establishment of mutual funds.	
		Enhanced institutional capacity.	A long-term advisor is to train BI staff in deposit insurance systems, electronic funds transfer systems, and credit rating & information services.	

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Component	Project Paper Purposes and Outputs	Objective Verifiable Indicators, Project Paper	Objective Verifiable Indicators at Time of Evaluation	Comments
3. Money Markets	Purpose. To increase the number of debt and equity securities and commodity contracts available to investors, increase the transparent trading volume of these instruments, and strengthen BI monetary management.	General progress to achieve the component purpose.	Established structure for the instrument, market, and regulation of the market by BI for the Commercial Paper project. BI has recruited 22 primary dealers who will establish a secondary market for SBIs when BI eliminates its daily auctions (moving from COR to SOR). BI is running both systems in parallel for now, to reduce interest rate volatility. BI, in concert with the MOF, BAPEPAM, and BAPPENAS is establishing a credit rating and information service firm. Service should be established within six months. A major conference on credit rating was held in Bali in July 1993.	

SECTION V
RECOMMENDATIONS

A. Financial Markets Project as a Whole

FMP has been a qualified success: qualified because progress has been mixed, as described throughout this evaluation. The recommendations below propose to continue the project—and extend it for two years—under an improved management structure and with some changes in emphasis.

The Privatization Component should be restructured to concentrate on the Pilot Program outlined below. There should be cost savings to the project as a result of this action.

The MMC should be provided with short-term technical assistance as originally envisaged in the FMP design. The cost of this assistance is estimated at $3 million, and it is seen as an integrated package. If USAID funds are not available for all of it, further consultations should be held with BI, as the bank may be able to find funding elsewhere.

The most important component in terms of meeting the majority of FMP goals is the CMC. Funding for this component should be the first priority, to consolidate BAPEPAM's management and regulatory functions and to expand the capacity of the BEJ during the full transition to a market system.

Finally, USAID and the GOI should undertake to monitor all components of the project, including training activities, as originally agreed. This includes establishing benchmarks and holding regular project monitoring meetings.

The notes inserted after individual component recommendations below reflect the responses of GOI and USAID to the draft evaluation report.

B. Capital Markets Component

1. FMP should be extended for two years to consolidate BAPEPAM's position and guide the transition of the market to the new system.

   NOTE. BAPEPAM supports this recommendation, but would prefer an extension of longer than two years, to the extent this is possible under current arrangements.

2. Reports by contractors should be related to specific deliverables agreed in the work plan and confirmed in the scope of work for each task. The work plan should indicate the follow-up to the task, and subsequent reports should indicate whether

this has been achieved. USAID should also track whether the counterpart has implemented recommended actions.

We regard properly specified deliverables set within a time frame as the main instrument to improve project monitoring. The principal requirement is only that the contractor provides the schedule of work and sets it against a timetable. A typical form would be: consultation and preparation of task definition, x elapsed weeks; task fieldwork or equivalent, y elapsed weeks; task product (e.g., final document), z elapsed weeks. Where, as with rule making, there is a flow of small tasks on a more or less continuous basis, a rolling reporting system can be applied as it was in the first annual report for the CMC—with the modification that there is a target volume of output quarter by quarter. This should allow USAID and GOI to detect when a task is going off track, and it should simplify reporting procedures since the contractor need only comment on variances. However, as indicated in the above recommendation, USAID and GOI must investigate and record whether the task output was adopted, and if so whether the recipients were satisfied with the results.

3. Another expert evaluation of the CMC should take place, in addition to USAID's semiannual review, to define and redefine future activities. This evaluation should also cover quality assurance for the dealing and settlement systems up until the time when they are commissioned. This evaluation is appropriate since this is an $18 million project extending over six years that involves technically specialized issues. If the project is extended beyond 1994, it would be worth reviewing at that time. We fully appreciate the dangers and frustrations attendant on yet more consultants' reports and would strongly recommend that if USAID's own financial experts (who we understand are shortly to join the mission) could do it, so much the better. We strongly feel, however, that an independent evaluation is necessary for a project of this magnitude and given the project's history to date.

4. Operational problems should be consistently documented so that FMP progress can be adequately assessed. We understand, however, that issues that arise on this type of project can be politically or otherwise sensitive and therefore must be handled carefully. The contractor should work closely with USAID to determine how such issues should be dealt with and documented.

5. The fourth-year work plan must be fundamentally reviewed to focus on priority objectives within two possible scenarios: a two-year extension of FMP, or no extension through December 1996.

   NOTE. BAPEPAM's comments on future work are covered in the body of the report on the CMC and in Annex A.

6. If requested, USAID should help the GOI limit the risks in the new trading and settlement system by supporting quality review by independent experts in four

areas, the first two of which should be conducted before KDEI signs a supply contract (currently scheduled for the end of 1993). These areas are:

- A review of the financial integrity of the proposed system, by reference to the 1992 IOSCO Blueprint for CSD systems; this would particularly address KDEI's risk exposure and the implicit exposure of its major shareholders (state-owned banks), and would also check the criteria for participation in the clearing and custody systems.

- Formal acceptance by the U.S. SEC and similar authorities that the Indonesian system meets international, and hence BAPEPAM, requirements.

- An accountancy review to confirm the sufficiency of the audit trail and reconciliation facilities within the system.

- A technical audit of the hardware and software, as adapted to Indonesian requirements.

NOTE. BAPEPAM agrees with the need for quality assurance and, possibly, with the use of an IOSCO expert, but questions the need for additional outside assistance in the other respects beyond what can be provided under existing arrangements. We have no comment on how the assurance should be sourced; it is up to those who bear the financial, commercial, or political risks to determine the level of quality assurance with which they feel comfortable.

7. A response to the BEJ's statement of "Problems faced by the Capital Market" (see Annex A) should be explicit and prioritized within the work plan.

8. Specific assistance should be proposed to the BEJ for problems created by the change of stock exchange premises (reference IVc. in the BEJ document), aimed at helping the board and members decide on the necessity for long-term floor trading.

9. We strongly recommend that instead of having one completely integrated development program, the trading element should be treated separately from the clearing and settlement elements. Making this separation has the great virtue of allowing the exchange to commission enhanced trading capacity independently of the clearinghouse bringing in its new system. It would also allow for clearer lines of responsibility for exchange management vis-à-vis the systems it is to operate.

10. Where ad hoc, responsive assistance is to be provided, consideration might be given to introducing a notional budget so that the contractor and counterpart have a sense of how much available resources are being used up and what the scale of expenditure is. This budget would be a variation of the "internal market" systems used in state-owned enterprises in other countries.

NOTE. USAID has asked for a clarification of how this would work in practice. We recommend there be a form of management accounting developed by the contractor that ascribes a standard cost to days of assistance, and that the work plan provision for responsive assistance be expressed in time and cost terms, with provision for expenses to produce a monetary total. When responsive assistance is required, it could then be budgeted in relation to the total to help the counterpart prioritize the assistance it requests, but absolutely not to be a reason for micromanagement.

11. Additional indicators of the breadth, depth, and transparency of Indonesia's capital market should be used to assess CMC and capital market progress. Market breadth and depth should be judged not just on the aggregate level of activity but also on the disaggregated figures for foreigners and Indonesians. These figures should show:

    - number of trades (not number of shares traded, which is of no use)
    - value of turnover
    - turnover ratio, expressed as a percentage of total market value (see above)

    The exchange might also consider distinguishing between customer business (dealing for clients) and intra-market business (dealing by members of the exchange on their own accounts).

    To measure transparency, the exchange should be encouraged to develop its own internal performance data as new systems are introduced. These data should log:

    - late trade reports
    - trade processing backlog
    - delayed trade publications

    BAPEPAM should also operate and monitor a "best execution" rule that obligates dealers to get the best price they can for their customers. Successful implementation of this rule requires transparency, without which the dealers cannot determine what the best price is.

C. Privatization Component

1. Refocus the approach into one that is proactive and concentrates on defining and implementing specific projects and concrete transactions. There should be less long-term general advice and more specific, relevant activities proposed that can be implemented.

2. Develop a pilot program to privatize three to five SOEs with a high probability of success, as part of the public awareness program. Potential candidates could be sought in the cement production and hotel industries, which already operate in somewhat competitive markets; from the spin-off of viable, competitive units from

large SOEs; and from ancillary SOE assets/operations that on their own could become separate successful business entities. The pilot program should be an integral component of the comprehensive public awareness campaign that is part of the DG/SOE's five-year plan. Acceptance of the pilot program concept would be enhanced by the development of a solid plan of transactions prepared by high-caliber short-term experts. Success of the five-year plan would be enhanced by demonstrating the success of three to five privatizations. Nevertheless, this target should be discussed and agreed on with the GOI and expressed within a specific work plan.

A principal consideration of the privatization process is the sale of government ownership in SOEs, and therefore an operative, effective securities market may facilitate the sale of the GOI's shares in the pilot program's SOEs to the investing public. Since privatized enterprises will fuel the securities market, the DG/SOE can be the catalytic force that accelerates the further development of Indonesia's securities market so that the latter will be able to absorb much of the government ownership in public enterprises. As collective investment funds are created—and for other similar investment vehicles to come into being—sufficient equity shares of high-quality SOEs must come up for sale and inclusion in these portfolios.

Another consideration of the pilot program should be the development of employee stock ownership programs (ESOPs) where feasible. This will further diversify ownership and help gain public support for privatization, as well as the support of opposing interests. The diversification of ownership through broad-based vehicles such as ESOPs and collective investment funds will help avoid concentration of economic power and thus alleviate this source of opposition to privatization.

3. Propose work on the public awareness campaign to the extent that the proposed pilot program is implemented. As a means of increasing public and GOI awareness of what privatization is and how it fits into Indonesia's future, help the DG/SOE carry out the following:

   - Develop and employ an effective public relations strategy, including media campaigns and other appropriate tools, to help the public understand and support SOE sector reform.

   - Develop and strengthen linkages with the information infrastructure that already is active, i.e., the media, chambers of commerce, and other business associations with outreach. Ensure that the process of the pilot project and ensuing privatization activities is transparent. Provide this information infrastructure with stories of actual achievement, since "nothing succeeds like success."

   - Expand communication multiplier mechanisms to maintain the momentum of privatization, e.g., workshops for government, union, and business leaders; background briefings for the press, government, and political groups; and

radio/TV news interviews and talk shows for GOI officials engaged in the SOE reform process.

4. Actively develop the pension privatization project based on the Pension Fund Reform Law and the two high-quality reports of the contractor. Continue to develop the regulatory framework that will permit the GOI to supervise the pension funds, taking into account that this reform will, on the one hand, make the securities market more dynamic as it has to develop appropriate financial instruments in adequate supply to meet the demands of professionally managed pension funds; and on the other hand, will require a regulatory framework that balances the need for security of funds with an adequate level of profitability. The regulatory framework should help promote the creation of appropriate financial instruments, consistent with the need to protect individuals and their pensions.

   With respect to the development of more sophisticated private professional fund management capabilities, explore the possibility of creating joint ventures with internationally experienced companies. Also, develop a program of short- and medium-term U.S. training opportunities for key personnel of private firms (e.g., insurance companies) that would manage the funds. The work on pension fund conversion to defined contributions arrangements should continue and resolve the major outstanding issues, i.e., what will be the fiscal impact of reforming the system, and should conversion be done through a blanket or case-by-case basis.

   In connection with the regulatory framework, private professional management, conversion issues, the future impact on the securities industry of privately managed pension funds, and their attendant requirements should be explored, and the appropriate coordination established between these two financial sector participants.

5. Propose work on the regulatory framework for private sector participation in the power, toll road, harbor, road construction/maintenance, and telecommunications sectors. Using short-term experts, prepare a comprehensive proposal for the GOI. Policy reforms are needed in these sectors to induce more competition from foreign investment, remove barriers to entry and competition, and regulate these sectors so that public monopolies do not become private monopolies. The legislation drafting process should clearly establish the rules of the game, provide the necessary systems of government contracts and concessions, and ensure transparency and fairness for private entry, valuation, and negotiations to attract the participation of private investors in the provision of public services.

6. Consider the cancellation of the aircraft leasing activity, since it strengthens existing SOEs counter to USAID objectives, is outside the mandate of the project, and has little relevance to the objective of privatizing the aircraft industry.

7. Define the roles and scope of work with the World Bank in the Paiton activity to clarify any possible overlap of responsibilities/activities between the contractor and the World Bank technical assistance team.

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8. Propose a reduction in the training budget to $300,000, allocating remaining funds to other uses. Maintain the rest of the budget as currently planned.

   NOTE. The executive secretary of the DG/SOE has requested that decisions with respect to the precise level of reduced funding not be finalized until a reconstituted training needs assessment has been conducted under the project.

9. USAID should request an action plan from the contractor for the remainder of the project and should monitor and supervise its execution more closely than in the past. In addition, USAID should be proactive in privatization policy dialogue at the official level to advance government commitment and actions and reinforce the technical assistance provided by the contractor.

10. Consider extending the Privatization Component of FMP, given the continuing validity of the long-term objectives and the time scales involved.

The foregoing recommendations comprise a new strategy that takes advantage of the trust and rapport the contractor has developed with the GOI. It also offers an opportunity to introduce and develop specific projects such as the pilot program, privatization of pension funds, and policy reforms leading to competition and appropriate regulatory activities in the infrastructure area into the new five-year work plan of the directorate general. Finally, the strategy offers the opportunity to act in concert with the World Bank's forthcoming privatization technical assistance as a means of enhancing the benefits of both donors' efforts.

D. Money Markets Component

1. Provide funding for short-term projects recommended by the long-term advisor and endorsed by Bank Indonesia (these projects are discussed at length in Annex E of this evaluation):

   - Audit of the bank regulation environment focusing on regulatory incentives for debt market development.

   - Assessment of the flow and quality of information supporting day-to-day monetary management decisions at Bank Indonesia.

   - Assessment of the source, market for, and structure of possible short-, medium-, and long-term debt instruments for monetary policy implementation altered by evaluator.

   - Assistance to Bank Indonesia to perfect open-market regimes and change from a "cut-off rate" system to a "stop-out rate" system designed to foster market-determined interest rates.

- Study and assessment of the efficiency of the Indonesian payments system and help in designing a system to transfer funds and financial information electronically.

- Comprehensive structure performance analysis of the Indonesian banking system to improve the mobilization and distribution of the nation's financial resources.

2. Establish procedures to better share information within Bank Indonesia, especially between the MMC office and the Research Directorate, where there is also a USAID-funded advisor. This step was discussed with the central bank governor and he agreed to promote closer working relationships.

3. Establish procedures to better coordinate work and share information among FMP components. This does not always occur because the MMC is contracted to a different company (Deloitte & Touche) than the other two components (Price Waterhouse).

4. As another option, merge USAID assistance to Bank Indonesia in a separate project under EPSO. EPSO is scheduled to add two senior financial economists to its staff, who could provide the required support.

E. Training Component

1. The BEJ has requested training under FMP, and this training should be delivered, perhaps under the extension mentioned below. Training should also be extended to brokers, dealers, and possibly investors.

2. Consideration should be given to extending FMP support for training, because it is a long-term project and needs continuation and consistency; without continuation we are afraid the program will not achieve its long-term objectives.

3. The current system for assessing and formally testing the English capabilities of overseas trainees from BAPEPAM and the Jakarta and Surabaya Stock Exchanges should be improved. To begin, a broader gauge of language proficiency should be used, to include not only Financial English, but all-around comfort with the spoken language. In addition, the cut-off rate that determines which employees are eligible for training should be raised, and individual testing should occur before trainees are sent overseas. This individual testing could be performed by the long-term training advisor or by a contracted party, under the supervision of the long-term advisor. A detailed English training work plan should be designed and submitted as soon as possible to USAID and the GOI counterpart organizations—a plan that indicates what steps are to be taken over the remaining life of the project to ensure that trainees are adequately prepared for their programs.

As a result of the above steps, fewer trainees will likely be sent overseas, as it will be more difficult to meet the language and other criteria necessary.

4. Overseas training courses and programs should focus more on the fundamental concepts of the capital market and its operations. In addition, one criteria for these courses should be their immediate relevance to capital and money markets in Indonesia, i.e., those aspects currently operating or planned for start-up within the year. Whenever possible, training programs should continue to combine classroom work with site visits to other stock exchanges, regulatory agencies, etc. Detailed, highly technical classes taught at the master's degree level should be used less, and only when the trainees have a proven ability to understand the technical language and absorb the amount of material presented.

   Courses given within Indonesia should likewise concentrate on aspects of the current financial markets.

5. Local training for private sector securities groups and individuals should be expanded to include all professions that deal with the capital market. In addition, BAPEPAM and the BEJ should increase their efforts to share information and lessons learned from overseas training courses with the Indonesian private financial sector.

6. Training activities under FMP should be more closely monitored in a formal way. The training steering committee should meet regularly, as originally envisioned, and the long-term advisor should produce regular evaluation reports on courses attended and their impact on the agencies and organizations of the trainees.

7. The Young Professionals Program at BAPEPAM should be strongly and actively supported. In addition, as time and budget permit, the possibility of long-term internships (e.g., with the U.S. SEC or NYSE) and masters degree programs in the U.S. should be investigated.

8. Public relations and awareness have received too little attention under FMP. The project should place more emphasis on designing and completing tasks related to making BAPEPAM and the capital market better known quantities among the general public and the private financial sector itself.

F. Management Structure

1. Monitoring and evaluation benchmarks related directly to EOPS and other financial and economic statistics should be established through consultation among USAID, BAPEPAM, and other relevant parties. These benchmarks should be made the basis for a quarterly monitoring process as originally stipulated in the project paper, modified as below:

- Use the contractors' quarterly reports to compare progress against the log frame and the recommendations in this evaluation that are accepted by the GOI and USAID.

- Establish a project committee to include the USAID project officer and possibly project officers from related USAID projects, including ELIPS, PURSE, ARSSP, and MFP. This committee should include nominees from the MOF and Bank Indonesia who are monitoring FMP's three components.

- Convene the project committee quarterly, with the contractor to evaluate progress, analyze deviations, and set targets for output.

- If USAID decides to extend FMP beyond 1994, perform another external evaluation in the fourth quarter of 1994, to include a review of the extension design.

ANNEX A

CMC FOURTH YEAR WORK PLAN AND TASK PRIORITIES

ANNEX A
CMC FOURTH YEAR WORK PLAN AND TASK PRIORITIES

1. Introduction

The evaluation report recommended that CMC task priorities for the fourth and subsequent years be prioritized to improve the focus of work and to provide a basis on which funds could be reallocated if no new money were available to support the extension of the FMP to cover the introduction of the new market and settlement systems.

Task identification is provided by the draft fourth-year PW work plan that was under discussion while the evaluation team was in Jakarta. The process began as a shopping list prepared by the contractors and USAID from which BAPEPAM could (and did) make a selection. At the same time, BEJ produced a working paper entitled "Problems Faced by the Capital Market and their Solutions," which was submitted to the contractor. As the evaluation proceeded and the possibility of an FMP extension was considered, BAPEPAM itself produced a draft program of follow-on work in the form of a tabulation of tasks with supporting notes. Finally (and apparently in response to the draft evaluation report) BEJ wrote a letter to USAID identifying actions of the highest importance to address financial market problems.

The draft fourth-year PW work plan is shown in the first two columns of the tables on pages A-5 to A-8. The format sets this task list alongside those identified by the BEJ in the aforementioned letter (column three of the tables) and by BAPEPAM in its draft program (column four). The documents themselves by the BEJ and BAPEPAM are are appended to this annex following these work plan tables.

2. Task Priorities

The following section indicates how the evaluation team feels tasks should be prioritized, first by reference to the extension plans in themselves, and then by reference to the same categorization adopted in the original project paper in relation to the objectives in the evaluation to rapidly increase secondary market trading capability.

BAPEPAM has justly observed that a program of work that looks beyond the immediate problems of trading and settlement should give proper weight to the other requirements of the market: institution building and improved regulation. It should also be noted that BEJ's most recent letter shifts the emphasis of its requirements from functionality to human resources. Thus the list below is for immediate priorities, and not those of the medium or long term.

3. FMP Fourth-year Work Plan and Extension Plan

The tables on pages A-5 to A-8 show the tasks identified in the draft PW fourth-year work plan, which was close to being finalized at the timne of the evaluation. This plan envisions moving ahead on a broad front based on the proposals in the project paper.

We suggest the work plan be more closely focused on items that are operationally urgent (e.g., dealing capability and law); require skills not available in Indonesia; and which the recipients targeted cannot finance themselves. On these criteria, the following tasks could be deleted (especially where they do not appear on the BAPEPAM task list shown in the last column of the tables below). The letters and numbers in front of the activities correspond to their designation in PW's fourth-year work plan.

A13 Commodity market. This would be a new departure and a distraction.

B4 Investor survey. This would be unlikely to be acted on in a period when there are many other major issues to be resolved

B6 Member survey. The skills and resources should be available locally.

B10 Role of DANARESKA. This is no longer as relevant as at the start of FMP, when DANAREKSA was "unreconstructed". It now operates in a completely different environment and is forging its own alliances with securities houses and financial institutions.

B13 Commodity operations. This would suffer from the same disadvantage as A13, above

The third column of the tables shows items on which BEJ recently invited assistance from FMP. We recommend the following be introduced into the work plan. Tasks are listed in the same order as they appear in the table, and their Roman numeral designation corresponds to their placement in the BEJ letter appended to this annex.

V Administrative sanctions. This could be done as part of overall assistance to BEJ to develop its regulatory rules and procedures.

IV Program for transition to a new system, in which the role of the floor, the enhancement of manual systems, and the possibility of phased introduction of electronic systems are all important.

I Secondary market in bonds. This is a longstanding agenda item that has not been adequately addressed; a specialist should be procured to provide it.

4. Prioritizing the Project Paper Categorization

The last column of the tables on pages A-5 to A-8 shows BAPEPAM's shopping list for a two-year extension, but does not indicate priorities. We therefore recommend the following classification, again with letter and numeral designation matching that in PW's draft fourth-year work plan.

Actions of Highest Importance to Address Financial Market Problems

A2 Priority rules. Rules essential to the functioning of a transparent and liquid central market

A1 Capital markets law. Giving the sanctions needed by the regulatory authorities to control the activities of participants in the market who are not licensed professionals.

B2 Enforcement. To use the powers provided by the law to enforce priority and other rules.

C2 Trading and settlement system. To relieve the bottleneck and reduce the chances for error and malpractice.

C2 Market rules. An integral part of A2.

Actions of Medium Importance to Address the Financial Markets Problems

B2 Control of entry to market. To forestall malpractice and incompetence.

B4 Human resources development. To enhance competence.

C4 Retail marketing capacity. To build a domestic market with adequate liquidity.

C4 Rules for open-ended funds. Particularly for initiating, sponsoring, and operating funds.

C5 Execution of SOE IPOs. To broaden the equity base of the capital market.

C5 Feasibility of new or under-used instruments. Particularly bonds where the secondary market is almost non-existent.

Actions of Least Importance to Address Financial Markets Problems

B5 Computerization of records management and training. Records management is not a problem at present, and so a solution is not needed immediately.

C3 Assistance to the Securities Rating Agency. Securities rating is widely regarded as important in itself and essential to the development of the market, but it is being promoted already in FMP's Money Market Component and need not be duplicated in the CMC.

C4 Assistance to investment institutions. The CMC has little resources on which to build because there was insufficient funding to develop this assistance as originally planned. There is, however, a strong case for encouraging and assisting pension funds within the context of the Privatization Component.

Various FMP Work Plans Proposed for 1993-1994 and 1994-1996

Component & Task	Draft PW Work Plan for 1993-1994	Problems Identified by BEJ	BAPEPAM Work Plan for 1994-1996
Regulatory			
A1 Rule-making A2	Rule-drafting. Young professionals training		A2 Priority rule definition; rule-making and research
A3 Capital market law	Completion of study tours	V Application of effective administrative sanctions by self-regulating bodies	
A4	1548 modifications and law drafting		A1 Drafting assistance; law issued
A5			
A6 Regulatory procedures	Inspections		B2 Procedures to control market entry, participant monitoring, and on-the-job training
A7	Enforcement, investigations		B2 Enforcement of above standards and rules
A8	TBD, subject to extension		
			B4 Human resources development and management implementation and training

Various FMP Work Plans Proposed for 1993-1994 and 1994-1996, cont.

Component & Task	Draft PW Work Plan for 1993-1994	Problems Identified by BEJ	BAPEPAM Work Plan for 1994-1996
A9 Records management	Completion of PISO		B5 Records management and training computerization
A10	Rule-making computeriz'n		
A11	TBD, subject to extension		
A12 Account ing	Explore with World Bank		
A13 Comm mkt	Explore with Trade Min		
A14 Respon-sive	TBD		
Securities			
B1 Market operations	Automation advice	IV Program for transition to new market system. Design of financing provisions to meet costs of new system	C2 Design/implmentation of trading and settlement system. Design/implementation of CSD
B2	Other responsive		C2 Draft rules for market ops Help BEJ/BES strengthen ops

Various FMP Work Plans Proposed for 1993-1994 and 1994-1996, cont.

Component & Task	Draft PW Work Plan for 1993-1994	Problems Identified by BEJ	BAPEPAM Work Plan for 1994-1996
			C3 Market information - assist PISO privatization. Assist est of secs rating agency
B3 Sec. Co operations	Compl'n mktg workshops		C4 Assist retail marketing capacity
B4	Investor survey		
B5	Other responsive		
B6 BEJ operations	BEJ member survey		
B7	BEJ Listing rules		
B8	Strategic plan review		
B9	Other responsive	VII Proposals to reduce number of exchange members	
B10 Market Development	Explore role of DANAREKSA	II Increase role of foreign investors by relaxing the 49% rule	C1 Assist design and imple-mentation of 5yr strategy, including training

Various FMP Work Plans Proposed for 1993-1994 and 1994-1996, cont.

Component & Task	Draft PW Work Plan for 1993-1994	Problems Identified by BEJ	BAPEPAM Work Plan for 1994-1996
B11	Explore role of institutional investors	VI Increase participation of local investors through pension and mutual funds	C4 Liquidity and distribution of securities ownership. Rules for open-ended funds. Help SOE pension funds; identify other measures.
B12	Explore underwriting of SOE IPOs	III GOI should issue rules to assist privatization through the market	C5 Assist in executing SOE IPOs (in pvtn component)
		I Help develop secondary market in bonds	C5 Assess feasibility of under-used or new instruments
B13 Commodity operations	Explore with MoT and ICE		

PROBLEMS FACED BY THE CAPITAL MARKET AND THEIR SOLUTIONS

I. Bond Secondary Market

Problems

At present transactions on bearer bonds in the exchange can be said almost non-existent. The inactivity of the bond secondary market can cause a separate problem to investors if they want to sell their bonds. This problem then will cause investors to think that bonds are not a "pleasnat" place for investing, because their liquidity is low. While in fact, considering the continuing decrease in the deposit interest rate investors (especially individual investors) should prefer bonds to deposits to invest their funds. Because they are bearer in nature, it is possible for these bonds to be traded outside the exchange. Based on unofficial information, transactions of bearer bonds in large quantitites often occur outside the exchange. This happens because they are bearer in nature, so that they are often used to avoid taxes.

Constraints

The constraints that seem to exist due to the inactivity of the bond secondary market are as follows:

a. The absence of a bond rating agency (BRA) whose function is to evaluate all bonds or other debt certificates issued by and listed in the Indonesian Exchange. This BRA will assist investors in selecting the bonds they buy so that they are in accordance with the purpose of investment and the evaluation of the risks.

b. The absence of bond registration and book-entry clearing systems.

c. The absence of active participation by individual investors in investing their capital in bonds. ?

d. The absence of formal rates cat can be made as a price formation standard formed by the market mechanism.

Solution

In the context of an attempt to develop this bond secondary market the following actions and steps are needed:

a. Make public pricing or quotation of bonds. For this the exchange will determine the theoretical market price that can be used as a guideline for the trading of bonds in the secondary market.

b. Make a special index (bond index) that will be used as an indicator for bond trading in the secondary mariket. This index will be determined on the basis of the lowest bond denomination which is circulated at present (Rp. 100,000) as the standard denomination.

c. Make public bonds by spreading the understanding of the importance and benefit of bonds to the public, including the dissemination of information regarding bond trading in the secondary market. This publication is made through the mass media (newspaper and television), seminars and workshops, among others the seminar on bonds held last January.

d. Decrease the annual listing fee and eliminate transaction fees for trading of bonds in the Jakarta Securities Exchange (was done).

e. In addition to the steps above the following actions shall be taken:

1. The plan for scripless trading is also implemented in the trading of bonds. Thus, the trading of bonds which is initially bearer becomes nominee (on behalf of). The trading advantages with this system, besides the safety factors in the transaction settlement (because there is no physical delivery) it can also be in small denominations (for example Rp 100,000).

2. The allotment priority in the initial market is more directed towards individual/non-institutional investors. By this it is expected that bonds will be more widely distributed and the possibility of becoming liquid is increased.

3. Require all bond transactions to be executed through the exchange and transactions occuring outside the exchange must be reported to the exchange.

f. Propose a postponement of taxation on capital gain obtained from the trading of bonds.

g. Propose to Bank of Indonesia that bonds may be made as a guarantee to obtain discount facilities and to reactivate the Repo system.

II. Restriction on Purchase of Shares by Foreign Investors

Problems

The limitation known as "foreign portion" is contained in the Decree of the Minister of Finance No. 1055/KMK.013/1989. This foreign portion is not only very impractical from the point of view of monitoring and supervision, but it also limits the purchasing interest of foreign investors. On the other hand, this policy is in fact also contrary to the deregulation concept which is stated by the government in order to encourage the participation of foreign capital to keep spurring the economic development in the Long Term Development Plan II (PJPT II).

Constraints and Their Solutions

The government itself through Government Regulation No. 17/1992 actually (with certain conditions) provides opportunities for foreign investors to own participation in a limited economy in the context of Foreign Investments up to 100% (see Article 4 PP 17/1992). With the provision under the Government Regulation, actually the limitation of the foreign portion is irrelevant.

In the capital market practice, the purpose of foreign investors to purchase shares is in fact only to obtain capital gain, not to control.

If we are worried that foreigners will control 100%, the limitation can be done for certain companies/industries, Banks can still be limited to 49% or foreigners can only enjoy "economic interest" (although it might be difficult and strange, as every shareholder has the same rights) on the shares they purchase. This problem needs to be studied more extensively because this matter will involve the interest of several institutions such as the Foreign Capital Investment Coordinating Board and Bank of Indonesia.

III. Privatization of State-Owned Enterprises

Problems

The privatization realization of sound state-owned enterprises is expected to be able to provide defensive stocks for the investor community, local as well as foreign. State-owned enterprises which are expected to go public are large and sound companies, well established, operating in strategic and leading fields, even of natural monopoly in its industrial field.

Such enterprises are expected to go public. The privatization of state-owned enterprises is expected to develop a "sense of belonging" factor in the public, become a social control on the state-owned enterprises, increase market capitalization and liquidity of securities instruments which finally can attract investments, local as well as foreign.

Solution

This privatization is expected to be able to develop the participation of more investors (local as well as foreign) in the capital market of Indonesia. This fact is proven in several countries such as Singapore, Malaysia, and Mexico where the shares of state-owned enterprises such as Telecommunications and Electricity (also airlines) are able to develop the participation of investors so that they activate the capital market. To realize this the Government needs to issue several rules in the context of facilitating the state-owned enterprises to sell part of their shares through the capital market.

IV. Automatization of Exchanges and Clearing

Problems

The plan for the automatization of the Exchange consists of automatization of trading and information dissemination (front office) which is the responsibility of PT BEJ, automatization of clearing, settlement and central depository (back office) which is the responsibility of PT KDEI, and automatization of broker's administration which is the responsibility of exchange members. The reason to automatize the front office is to increase market fairness and transparancy and to decrease human errors which often occur in manual trading, in addition to anticipating the possibility of the market becoming bullish. Such condition can no longer be handled manually.

On the other hand, automatization of the back office (including the central depository system) is also an unconditional matter, especially after the case of false shares. If the front office automatization is carried out first without being balanced by automatization of the back office, it will cause problems in the transaction settlement stage which in turn will have a negative impact because it will decrease the public confidence in the exchange.

Automatization of the front office and the back office should be followed by automatization of administration by exchange members, because they are closely connected in their trading activities and transaction settlements. Also the load of the rules to operate securities trading brokerage requires them to have automatization of their administration.

Thus, it can be concluded that the plan for automatization of both the front and the back offices, and the administration of broker-dealer companies must be done as soon as possible and implemented together in an integrated manner.

Constrainsts and Solutions

Several constraints faced in implementing the plan for automatization are as follows:

a. The realization of automatization will change the conduct as well as custom of all market participants, in addition to requiring special knowledge and skill. So, it is necessary to think seriously of programs for the transition period and taking into account the condition of the existing human resources.

b. Integrated automatization between the Jakarta Securities Exchange, KDEI and Exchange Members needs a large amount of funds. On the other hand, a large number of Exchange Members cannot afford to pay for the automatization of their offices. As a way out a special financing program is needed for Exchange Members.

c. Up until March 1, 1994, the Jakarta Securities Exchange is still occupying the Gedung Bursa on Jln. Merdeka Selatan No. 14, Jakarta. According to the plan it is going to move to the new building, the Sudirman Business District Center (SBD, which is to be completed in September of 1994). As a prerequisite in order to guarantee the continuity of the exchange, the implementation of automatization is very much dependent on the certainty of continuity in occupying the building. Several alternative suggestions are as follows:

- If the implementation of computerization will be performed in the SBD (new) building, taking into acccount the pressing condition mentioned above,the schedule for the completion of the building shoulkd be faster.

- The implementation of computerization will be performed in the building occupied by PT BEJ at present, with a note to obtain a guarantee to remain occupying the building for a long period of time.

- BEJ and KDEI will move to the SBD (new) building in 3 (three) years, while automatization will be started in the building they occupy at present. For such purpose a guarantee is needed to still remain in the building for at least three years.

V. Capital Market Law

Problems

One of the constraints of law enforcement in the capital market is the absence of a suitable capital market law so that an appropriate legal foundation is created for the capital market authority (BAPEPAM) to enforce the law. The law in existence at present (Law No. 15/1952) is inadeqate to handle existing problems in our capital market whereas the Ministerial Decree No. 1548/KMK.013/1990 jo. 1199/1991 clearly represents rules which solely explains matters regarding the capital market without providing adequate legal basis for BAPEPAM to enforce the law in the capital market.

Solution

1. Provide judicial authority for the Capital Market Supervisory Agency (BAPEPAM). This of course does not mean to have BAPEPAM functioning as a public prosecutor which is now held by the Office of Counsel for the Prosecution, but more to have BAPEPAM functioning as a Civil Service Investigating Official (PPNS), which existence is made possible by our Criminal Law of Procedure Code. With this function BAPEPAM can start conducting an investigation faster and then leave it to the Office of Counsel for the Prosecution to prosecute.

2. With this new law it is also expected that the sanctions, administrative (in the form of fines) as well as criminal sanctions which so far are not adequately regulated can be more comprehensively specified. Thus, all this will represent a more effective manner in handling actions which are not in compliance with good exchange practices.

With this new law and its more comprehensive operational regulations it can also be expected that the consistency in the implementation of the rules can be realized.

VI. Participation of Domestic Investors

Problems

The Indonesian Exchange is dominated by foreign investors (60-70%). To encourage the participation of local investors it may be done by encouraging the development of investment funds (such as: unit trust in India and mutual fund in America).

The imbalance between the contribution of local investors and foreign investors is an unhealthy sign. Because if something happens to the capital market, the possibility of a "crash" is very obvious. This is due to the fact that the foreign investors will run away first.

Solution

The increase in participation of local investors, for example, can be carried out by encouraging the participation of pension fund investments and insurance companies to invest their funds in the capital market. To realize this the government can provide tax facilities for example, such as postponement of taxes on capital gain, changes in the tax regulations on rights and bonus shares (by calculating share dilutions).

Another way is to encourage domestic investors to invest through the capital market, by conducting promotions and providing information on the advantages and merits of investments in the capital market.

Now it is a suitable time to conduct pormotions because with the decrease in the interest rates of bank deposits, the exchange should be a more attractive alternative.

In addition, the Government also needs to review the Ministerial Decree No. 231/KMK.017/1993 dated February 26, 1993, especially the rule regarding the maximum limit of investing pension fund assets on shares, bonds and securities which is not more than 10% for each issue.

VII. Narrowing of Exchange Members

Problems

With the present trading volume, in fact the number of members in the Jakarta Securities Exchange is too large compared to the number of exchange members in Singapore and Malaysia, but with larger trading volumes than our exchange.

This narrowing of members can make several improvements, for example it makes it easier for the exchange to supervise its members. With the present number of exchange members reaching 205 at present (180 are active), the Financial Inpection Unit of PT Bursa Efek Jakarta needs 24 months to inspect all of these members (with 10 Financial Inspection Unit officials who are only able to inspect 15 exchange members every two months). At present they can only inspect 5 exchange members monthly.

On the other hand, with the narrowing of the number of exchange members (of course with an improvement in quality, including an increase in capital), the competition will be healthier. For example, discounts on commisions paid by clients will decrease and the ability to conduct timely transaction settlements will be more guaranteed because the exchange members are stronger financially.

Solution

One of the ways to narrow down the number of exchange members is by suggesting mergers among the exchange members. This of course is difficult to realize when it is only done voluntarily (voluntary merger). Therefore, it must be done with a little "coercion". For example by increasing the paid in capital as well as the adjusted net working capital. This way it does not only encourage the exchange members to conduct mergers voluntarily, but also to strengthen their capital structure, so that the remaining exchange members will be more reliable.

Another way is by allowing exchange members to own more than one share in the PT Bursa Efek Jakarta (of course with limitation, for example allowing more than one but not more than 2.5% of the paid in capital). With these two ways, it is expected that the paid in capital of PT Bursa Efek Jakarta does not diminish, and besides the existing exchange members remain to be capital market participants without having to sacrifice anybody.
This rationalization is necessary not only to narrow down the number of exchange members, but also to make the exchange more efficient and the law enforcement more effective. For this purpose the provision under Article 15 letter e of the Ministerial Decree No. 1548/KMK.013/1990 needs to be amended.

SK	F.M.P. ASSISTANCE	by 12/95)
	1 Drafting assistance	1 Capital market law issued
	1 Defining priority rules 2 Drafting assistance	1 Priority rules promulgated
AL STRENTHENING		
B.1 Rule Making Procedures/ Systems	1 Institutionalize rule-making procedures (refine, comp., training) 2 Develop rule-making research capacity (library, standarized research approach/methodolgy, training)	1 Fully developed rule making capability (procedures, systems. research capacity & trained personnel)
B.2 Regulatory/Operating Procedures & Systems	1 Elaborate operating procedures (related to controlling entry to market, monitoring behavior of market participants, and enforcing standards & rules) 2 Provide on-the-job training	1 Elaborated operating procedures approved & tested 2 Core group of BAPEPAM personnel trained
B.3 Records Management Procedures & Systems	1 Elaborate/computerize records management procedures 2 Provide on-the-job training	1 Records management procedures approved & tested 2 Core group of BAPEPAM personnel trained
B.4 Human Resource Development & Management Capacity	1 Reasses H.R. objectives/needs 2 Develop H.R. identification, development & management strategy and monitoring & evaluation system 3 Assist with implementation of strategy and training	1 Fully-developed HR development & management capability 2 Compute system in place to evaluate & monitor H.R. needs on ongoing basis 3 Core group of BAPEPAM pesonnel trained
C. MARKET DEVELOPMENT		
C.1 BAPEPAM Market Development Strategy	1 Assist to design/implement market development strategy 2 Design/implement a monitoring & evaluation system 3 Provide on-the-job training	1 Five-year market development targets & strategy approved 2 Performance monitoring & evaluation system operational 3 Core group of BAPEPAM personnel trained
C.2 Secondary Market Operations (Maximize efficiency, Safety; Minimize, Transaction Costs)	1 Draft rules relating to secondary market operations 2 Assist with design/implementation of trading/settlement system 3 Assist BEJ/BES strengthen secondary market operations 4 Support design & implementation of CSD operations	1 BAPEPAM rules relating to secondary market operations issued 2 Modern trading/settlement system operational; adequately reduced transaction costs 3 Developed BEJ/BES capacity to manage secondary mkt operations 4 Developed CSD capacity to perform funtion
C.3 Market Information (Availability, Accessability, Quality)	1 Assist with PISO privatization 2 Assist in establishing securities rating industry	1 PISO operations transferred to private company 2 Securities rating organization established
C.4 Liquidity and Distribution of Securities Ownership	1 Draft rules relating to open-end investment funds 2 Assist in developing institutional investor market 3 Assist to increase market participation by BUMN pension funds 4 Strengthen securities company retail marketing capacity 5 Identify/implement other measures	1 Regulations/rules authorizing open-end funds issued 2 A number of open-end funds licenced and operational 3 Increased investment in securities by pension funds 4 Increased proportion of securities held/traded by retail clients 5 Significantly expanded ownership of securities
C.5 Primary Market Expansion	1 Assist in executing BUMN public offerings . FMP Privatization Component) 2 Assess feasibility of under-utilized or new instruments 3 Identify other measures	1 A number of BUMN go public 2 Increased number of issues with various instruments

COMPONENT A

CAPITAL MARKET LAW AND REGULATION

1. Background

BAPEPAM intends to proceed as quickly as possible with drafting a Capital Market Law and issuing priority rules in accordance with market needs. This assistance component essentially involves a continuation of current FMP efforts in assisting to draft the Capital Market Law and priority rules.

2. Objective

To put in place a body of law and regulations which is consistent with the regulatory philosophy of disclosure and self-regulation as contained in Decree 1548; provide a clear sense of permanence and direction to both domestic and international market participants; and facilitate the ability of BAPEPAM to regulate the market and protect the interests of investors.

2. FMP Assistance

The FMP would continue to assist BAPEPAM to:

Task A.1: Prepare drafts of the Capital Market Law and provide ongoing technical support

Task A.2: Define and draft priority rules and provide ongoing technical support

COMPONENT B

BAPEPAM INSTITUTIONAL STRENGTHENING

1. Background

Looking ahead, it is essential that BAPEPAM become self-sufficient in preparing and issuing rules, reports and forms in accordance with established laws and regulations. In order to develop consistency in regulatory policy implementation, it is also important that BAPEPAM refine and institutionalize the full range of standard operating procedures necessary in to carry out its regulatory responsibilities. In addition, as the market develops and grows, BAPEPAM's operations will become increasingly information and document intensive, placing a premium on the Agency's ability to manage both an information and document flow quickly and efficiently. Finally, as market activity picks up and becomes more diverse, BAPEPAM must also be able to maintain access to an adquate level of qualified personnel in fields that are highly specialized.

To accomplish these challenging objectives, BAPEPAM intends to implement the full range recommendations contained in the Organization & Methods (O&M) Assessment which, in addition to defining a regulatory strategy, addressed the areas of operating procedures, records management, and human resource development & management. Our objective is to position ourselves to effectively regulate and promote the future growth of the market.

To date, the O&M recommendations have been implemented on a "piece-meal" basis; i.e., the PISO in the area of records management; the refinement of operating procedures in the area of securities company inspections; the design and implementation of a Young Professionals Program (YPP) in an effort to strengthen BAPEPAM's human resource base. Adherence to the regulatory strategy proposed in the O&M has also been increasingly evident in the day-to-day decision making of BAPEPAM. The extension would create the opportunity to move ahead aggressively with implementing this comprehensive set of institution-building recommendations on a systematic basis. This assistance component is likely to require a fully-dedicated specialist in Organization & Systems drawing on a wide range of short-term specialists, both U.S. and domestic.

2. Objective

To fully develop BAPEPAM's institutional capacity to regulate the market in accordance with the mandate contained in applicable laws and regulations by implementing the recommendations contained in the O&M Assessment.

3. FMP Assistance

This would include:

Task B.1: Implement BAPEPAM Regulatory Strategy and Annual Workplans

Assist BAPEPAM to refine and implement a regulatory strategy to set priorities in the face of scarce resources, make the most of self-regulation, implement selective monitoring, and implement selective enforcement. Assist to:

- Refine a regulatory strategy and devise annual workplans including objectives, tasks, methodologies, allocation of responsibilities, etc.
- Develop project management system to assist in implementing annual workplans, including a capacity to monitor, evaluate and revise the regulatory strategy.
- Provide on-the-job training to BAPEPAM personnel in operating the system.

Task B.2: Institutionalize Rule-Making Capacity

Assist BAPEPAM to fully develop a capacity to draft rules of consistently high technical quality and to issue them on a timely basis. Specific activities include:

- Institutionalize rule-making procedures (refine & computerize procedures; train core personnel in each bureau)
- Develop a rule-making research capacity (install a library, prepare standardized research approach/ methodology, train core personnel in each bureau).

Task B.3: Elaborate Regulatory/Operating Procedures

Assist BAPEPAM to refine and otherwise "deepen" its operating procedures as they relate to carrying out its basic regulatory functions, and to provide on-the-job training as part of the process of drafting and instituting these procedures. In addition to the rule-making procedures covered in Task B.1 above, procedures relating to BAPEPAM's basic functions include:

- *Controlling entry to the market*: licencing, approval and registration by market institutions and participants

- *Monitoring behavior of market participants*: disclosure review, inspections, market survellance and analysis

- *Enforcing standards and rules*: enforcement and appeals

- *Other*: making recommendations to the Minister of Finance, public relations, and administration.

Task B.4: Strengthen Records Management Capability

Assist BAPEPAM to refine and institute, on a computerized basis to the maximum extent practicable, a set of records management procedures which, combined with an enhanced set of standard operating procedures, would contribute significantly to the Agency's ability to regulate and develop the market. Specific assistance areas could include:

- Elaborate the full range of records management procedures and computerize these to the maximum extent possible given available resources

- Build on the experience with the procedures devised and technologies applied in establishing the PISO.

Task B.5: Strengthen Capacity to Develop and Manage Human Resource Base

Assist BAPEPAM to develop an in-house capacity to define, implement, monitor, and revise the Human Resource development and management programs necessary to maintain access to a qualified and motivated workforce. Analytical steps could include to:

- Reassess BAPEPAM's Human Resoruce objectives, approach, and needs

- Define a strategy to identify, develop and manage BAPEPAM's personnel

- Design an evaluation and monitoring system to ensure continuous access to required types and amounts of personnel

- Assist with implementation, as appropriate.

COMPONENT C
CAPITAL MARKET DEVELOPMENT

1. Background

Under Decree 1548, BAPEPAM has the responsibility to advise the Minister of Finance on ways to develop the market. To accomplish this, BAPEPAM intends to formulate a *market development strategy* which complements its *market regulatory strategy*, as developed under the O&M Assessment. With respect to market development needs, in addition to the urgent need to improve secondary market operations, there is a range of additional "critical success factors" to developing the market so that it may grow in accordance with its potential. These include, but are not necessarily limited to, the following: improving availability of/access to quality information to market participants; deepening liquidity and widening distribution of ownership of capital market securities; and further expanding the primary market. These are areas will form part of a BAPEPAM market development strategy and in which the FMP may be able to usefully provide assistance.

2. Objective

To formulate and implement a BAPEPAM market development strategy which (a) focuses on creating the conditions for market growth and (b) facilitates BAPEPAM's ability to research and make recommendations to the Minister of Finance on all matters related to capital market development, as required under Decree 1548.

3. FMP Assistance

The FMP could assist BAPEPAM in this effort by conducting the types of activities described below.

Task C.1: BAPEPAM Market Development Strategy

Assist BAPEPAM to design a *market development strategy* that complements its *market regulatory strategy*. Specific steps could include:

- Formulate a market development strategy, including defining objectives, tasks, methodologies, allocation of responsibilities, reporting, targets, etc.
- Design, implement and provide training in a computerized project management system to monitor, evaluate and revise the development strategy
- Provide hands-on training to BAPEPAM personnel.

Task C.2: Secondary Market Operations

Efforts under this task are aimed at maximizing the efficiency and financial/operational safety of trading and settlement operations and minimizing transaction costs. Specific activities could include:

- Draft BAPEPAM rules relating to secondary market operations
- Support ongoing efforts in an appropriate format to design/implement modern secondary market operations consistent with Indonesian conditions, international standards and practices, and BAPEPAM rules
- Assist in strengthening the capacity of the BEJ/BES to carry out secondary market operations within the context of a new system
- Support ongoing efforts with respect to defining & implementing CSD operations.

Task C.3: Market Information: Availability, Quality, Accessability

Assist in devising and carrying out a program to improve the availability and quality of, and access to, information by the public and market participants in order to facilitate the implementation of disclosure-based regulatory strategy and to generally promote the development of the market. Specific activities might include:

- Assist with the privatization of the PISO and otherwise take steps to promote the development of a securities rating industry
- Design/deliver a series of public seminars/workshops to familiarize potential retail investors with basics of investing in the capital market
- Produce hand-outs, booklets, etc. in Bahasa Indonesia to support public education activities.

Task C.4: Liquidity and Distribution of Securities Ownership

Support measures taken to expand sources of domestic liquidity and to widen the distribution and ownership of a broad range of capital market securities. Specific activities might include:

- Open-end investment funds. Assistance in drafting appropriate regulations/rules to authorize open-end funds. Consideration might be given to defining a role for Danareksa to pioneer or catalyze this market (per the original FMP design).

- Domestic institutional investment. Facilitate increased investment by institutional investors (pension funds and insurance companies) in capital market securities. Approaches to increasing the involvement of BUMN pension funds might be considered as part of the conversion program being devised by the DG of State Enterprise with support from the FMP Privatization Component.

- BUMN public offering. Encourage BUMN public offerings which are conducted in a manner that promotes widespread distribution of shares (in conjuction with FMP Privatization Component).

- Domestic retail market. Continue to work with securities companies to strengthen their ability to develop a retail client base.

- Other measures. Research additional ways in which liquidity might be improved (e.g., differential boards) and share ownership distributed more widely.

Task C.5: Primary Market Expansion

Efforts under this task would be aimed at increasing the role of the capital market in financing economic growth by defining action programs in areas which promote additional issues of securities (stocks, bonds, and derivative instruments). Steps which may be considered include:

- Assist in facilitating initial public offerings by BUMN (in relation to the FMP Privatization Component)

- Assess the feasibility/contraints to issues of under-utilized or new types of securities (e.g., bonds)

- Identify and help implement measures which may be taken by Government to increase the attractiveness of raising long-term financing via the capital market (e.g., fiscal incentives). This might be accomplished by conducting an analysis of regulatory or other constraints which may be adversely affecting the relative incentive to raise capital through the capital market.

No. S/ 344 /BEJ.1/VII/1993 July 29, 1993

Mr. Michael G. Huffman
FMP Project Officer
USAID/Indonesia, American Embassy
Jl. Medan Merdeka Selatan No. 3-5
Jakarta Pusat

Dear Mr. Huffman,

Re: Recommendations and Comments
From the Jakarta Stock Exchange

Following your request to review the results of evaluation report made by Chemonics International, I herewith submit the review.

Training activities should be more directed to other target population.

Actions of Highest Importance to address Financial Market Problems:

1. Jakarta Stock Exchange (JSX) Human Resources Development. More intensive training, such as on the job training and conducting comparative studies for the development of the Stock Exchange as an entity.
2. Assist in the development of Capital Market promotional strategy.
3. Assist in the development of training/education modules for the Capital Market.
4. The establishment of Bond Rating Agency (BRA) will encourage investors to buy and sell bonds at the secondary market.

What we need is a BRA run by a Private Company, not affiliated to any Conglomerates (very difficult) to avoid Conflict of Interest. In relation with establishing the BRA, we need to invite Standard & Poor or/and Moody as Consultants.

Thank you for your kind attention.

Sincerely,
Jakarta Stock Exchange, Inc.

Hasan Zein Mahmud
President Director

PT. Bursa Efek Jakarta
Gedung Bursa Lt. 8 Jl. Medan Merdeka Selatan 14 Jakarta, 10110 Tel. (021) 386-2494 (Hunt ing)
Fax : (021) 671-846, 679-112, 660-1641, 384-0187

ANNEX B

CMC FINANCIAL EVALUTION

Financial Analysis: Estimated Year-by-Year Resource Utilization

	YEAR 1 4/90-3/91	YEAR 2 4/91-3/92	YEAR 3 4/92-3/93	YEAR 4 4/93-3/94 (projected)	TOTAL
A. Professional Services:					
1. Long-Term:	746,148	916,344	819,428	765,570	3,247,490
a. Direction/Mgnt	170,174	152,724	155,027	127,595	602,262
b. Regulatory	248,716	279,994	287,907	255,190	1,074,624
c. Securities Industry	78,542	178,178	77,513	74,430	401,508
d. Training/Pub. Awrnss	248,716	305,448	298,980	308,355	1,169,097
2. Short-Term:	0	607,040	216,812	177,326	1,001,178
a. Direction/Mgnt	0	0	0	0	0
b. Regulatory	0	444,660	212,068	177,326	834,055
c. Securities Industry	0	40,000	4,744	0	44,744
d. Training/Pub. Awrnss	0	122,380	0	0	122,380
3. Combined:	746,148	1,523,385	1,036,240	942,896	4,248,668
a. Direction/Mgnt	170,174	152,724	155,027	127,595	602,262
b. Regulatory	248,716	724,654	499,975	432,516	1,908,679
c. Securities Industry	78,542	218,178	82,257	74,430	446,251
d. Training/Pub. Awrnss	248,716	427,828	298,980	308,355	1,291,476
B. Expenses:					
1. Long-Term:	473,876	321,451	436,367	237,377	1,469,072
a. Direction/Mgnt	108,077	53,575	82,556	39,563	283,771
b. Regulatory	157,959	98,221	153,318	79,126	488,624
c. Securities Industry	49,882	62,504	41,278	23,078	176,742
d. Training/Pub. Awrnss	157,959	107,150	159,215	95,610	519,934
2. Short-Term:	0	221,968	39,855	96,459	358,282
a. Direction/Mgnt	0	0	0	0	0
b. Regulatory	0	162,593	38,983	96,459	298,035
c. Securities Industry	0	14,626	872	0	15,498
d. Training/Pub. Awrnss	0	44,749	0	0	44,749
3. Combined:	473,876	543,418	476,222	333,837	1,827,353
a. Direction/Mgnt	108,077	53,575	82,556	39,563	283,771
b. Regulatory	157,959	260,814	192,301	175,585	786,658
c. Securities Industry	49,882	77,131	42,150	23,078	192,241
d. Training/Pub. Awrnss	157,959	151,899	159,215	95,610	564,683

Financial Analysis: Estimated Year-by-Year Resource Utilization

	YEAR 1 4/90-3/91	YEAR 2 4/91-3/92	YEAR 3 4/92-3/93	YEAR 4 4/93-3/94 (projected)	TOTAL
C. Total Cost:					
1. Long-Term:	1,220,024	1,237,795	1,255,795	1,002,948	4,716,562
a. Direction/Mgnt	278,251	206,299	237,583	167,158	886,033
b. Regulatory	406,675	378,215	441,225	334,316	1,563,248
c. Securities Industry	128,424	240,682	118,791	97,509	578,250
d. Training/Pub. Awrnss	406,675	412,598	458,196	403,965	1,689,031
2. Short-Term:	0	829,008	256,667	273,785	1,359,460
a. Direction/Mgnt	0	0	0	0	0
b. Regulatory	0	607,253	251,051	273,785	1,132,089
c. Securities Industry	0	54,626	5,616	0	60,242
d. Training/Pub. Awrnss	0	167,129	0	0	167,129
3. Combined:	1,220,024	2,066,803	1,512,462	1,276,733	6,076,022
a. Direction/Mgnt	278,251	206,299	237,583	167,158	886,033
b. Regulatory	406,675	985,468	692,276	608,101	2,695,337
c. Securities Industry	128,424	295,309	124,407	97,509	638,492
d. Training/Pub. Awrnss	406,675	579,727	458,196	403,965	1,856,160

ANNEX C

DISCUSSION OF TRADING AND SETTLEMENT SYSTEM

MEMORANDUM

To: Bapak Bacelius Ruru, Chairman, BAPEPAM
cc. Bapak Nyoman Tjager, BAPEPAM
Peter Gajewski, Chief of Party, FMP Evaluation
Michael Huffman, US AID, Jakarta

From: Jonathan Miller

Date; July 13 1993

Re: **Evaluation of Securities Market Operations**

Introduction

This memorandum follows the meeting between Bapak Ruru, Bapak Nyoman Tjager, Peter Gajewski and Jonathan Miller on July 10, following which Bapak Ruru requested a one page summary of the ideas put forward in the discussion. For the sake of completeness some specific recommendations arising from the meeting are set out on page two, it being the team's remit to suggest solutions as well as identify problems.

The memorandum itself concentrates on issues relating to the trading and settlement system. Attachment A specifies the weaknesses in the KDEI-BEJ-BES draft proposals for a new system. Attachment B describes more broadly the preliminary conclusions of the Evaluation Team on the Indonesian capital market at large.

Summary

1. The main obstacle to the growth in the capital market to meet the public policy objectives for capital inflows and the development of the monetary system is lack of capacity of the Stock Exchange to transact bargains.

2. The only significant adverse finding in the evaluation of the Capital Markets Component of the Financial Market Project is the ineffectiveness to date - for whatever reason - of Price Waterhouse's contribution to improving Stock Exchange operations

3 The Evaluation Team judge the current KDEI-BEJ-BES draft proposal for a new dealing and settlement system to be unacceptably risky in prudential terms and as being very vulnerable to delay and cost escalation

~~Recommendations~~

Recommendations

1. It is strongly recommended that the GOI takes step to reduce these risks by defining Quality Assurance Requirements at specified milestones in the project which must be met before the next step is taken. These requirements are:-

   (a) A review of the financial integrity of the proposed system, by reference to the 1992 IOSCO Blueprint for CSD systems; this would particularly address KDEI's risk exposure and the implicit exposure of its major shareholders - the state-owned banks - and would also check the criteria for participation in the clearing and custody systems

   (b) Formal acceptance by the US SEC and similar authorities that the Indonesian system meets international requirements

   (c) An audit system review, to confirm the sufficiency of the audit trail and reconciliation facilities within the system

   (d) A technical audit of the hardware/software

2. It is also recommended that the program of work with which these Quality Reviews are associated should also include reporting and review points for the GOI.

3. Finally, it is recommended that there be a further evaluation of the FMP and that the statement of work for it should include consideration of the quality review process and indicate how it can be carried forward to full introduction of the new system.

Future action

It is the team's intention to make reference to these recommendations in the draft Evaluation Report which is to be submitted to US AID and GOI on July 20 and to propose:-

(a) that the project scope of work be extended to include Quality Review

(b) that the procedures for monitoring the Quality Review be formalised

(c) that funds be made available to support Quality Review

(d) that any extension of the FMP should carry on to a realistic target date for cutover to the new trading settlement system (presumptively December 1996)

ATTACHMENT A

The weaknesses of the KDEI-BEJ-BES draft proposals (Version 3.1 12/7/93)

1. The proposed structure is unique to Indonesia and extremely complicated which means that no existing package would conform to it without adaptation.

2. The structure has been developed with only limited consultation with practitioners, regulators, or investor interests which means that the specification would probably not be exposed to comprehensive user assessment until the chosen supplier started to draft the detailed requirements against which it would be contracted to deliver the various components of the service. At best this would lead to delay; at worst - as in London - to the realisation that the design was not feasible and hence to failure (Seemingly small changes in user requirements often mean fundamental changes in system requirements which are expensive and time-consuming)

3. The KDEI and BEJ technical advisors are in fundamental disagreement about the acceptability of the system. Price Waterhouse do consider that it is not operationally viable. (The Evaluation Team's reservations are more extensive and were arrived at independently from those of Price Waterhouse)

4. The draft proposals do not resolve the problem of counterparty risk. The big brokers tend not to deal with the small brokers, preferring to deal with one another. In a unitary trading and settlement system in which a central entity - KDEI - is nominally the single counterparty, the single recipient of stock and the single deliverer of stock the big brokers cannot choose their counterparty and will demand that its credit be unimpeachable or they will by-pass the exchange completely. Though 93% owned by state banks, KDEI does not have that standing and it is understood that the GOI would not be willing to guarantee it. (The option, adopted in other countries, of restricting access to the clearing house to the big brokers who settle on behalf of the small brokers would in Indonesia make the clearing house dominated by foreign brokers which would be inimical to confidence in a robust domestic foundation to the market.)

5. The draft proposals create an inherently complex system in which transaction processing is in three separate phases, whereas the trend in other markets is to the "seamless trade" in which settlement is virtually simultaneous with execution of a trade. Not only is a seamless trade quicker than a phased trade, it is also more secure and cheaper to execute. These considerations are very material to Indonesia's need for its securities market to compete with others in the region.

6. The draft proposals do not determine whether the exchange is to be floor-based or not. It asserts that implementation will be linked to the move to the Sudirman Business Centre, implying that it <u>will</u> be floor-based; it also provides for remote order-entry from off-floor implying that it <u>need not be</u>. (The BEJ decided last year that it should be floor-based but without knowledge of the full cost implications and its advisers have since advocated a gradual transition to an off-floor system.) Although floor-trading is traditional, visible, and psychologically appealing, it is inferior to electronic trading. Since modern trading systems are designed to operate off-floor, adapting them to an on-floor market is expensive, to say nothing of the additional cost of the floor itself. (The argument that the Jakarta telephone system could not support an off-floor market now may be true, but it is a very questionable assumption two years hence, especially when the incremental cost of improved electronic linkages is compared with the cost of, renting, servicing and fitting-out a trading room together with the cost of the extra staff that a trading room requires).

ATTACHMENT B

Draft - Summary and Preliminary Conclusions
Securities Market Operations

1. The main macro-economic objectives of capital market development are:-

   (a) To attract substantial portfolio investment inflows from international investors, and

   (b) To support recapitalisation of the industrial and commercial sector through substitution of long term equity and bond issues for short term bank borrowing

   Attaining these objectives particularly requires a large, liquid, local securities market through which personal savings are channelled to government and productive enterprise and in which local financial institutions and individual investors are significant participants

2. The evaluation team has considered the capital market under four headings:-

   (a) The Primary Market, in which securities are issued and distributed, more or less directly, to investors

   (b) The Secondary Market, in which securities are traded on-exchange and over-the-counter

   (c) Settlement, in which secondary market transactions are completed by the passage of money and stock between buyers and sellers, and

   (d) The enabling environment, in which the institutions for the intermediation of savings and the provision of financial services sustain capital market operations within a regulatory framework which ensures liquidity, transparency, fairness and security in settlement.

3. The Primary Market appears to be on course to meet the formal objectives of the Financial Market Programme. The regime for the registration of publicly traded securities and the control of public offerings is in place, and there is capability within the securities industry for underwriting and distributing new issues. Further work needs to be done on developing Stock Exchange Listing Rules, on further developing accounting standards and on enforcement, but the team is reasonably confident that this will be achieved. It is also confident that if there were to be an increase in the volume of issues that the securities houses would mobilise additional resources to handle it.

There is some pressure to introduce new trading instruments linked to derivative securities: the team considers this to be premature. A derivative market depends (a) on the existence of an efficient cash market by reference to which derivative products are valued, and (b) on sophisticated real-time accounting facilities which ensure that appropriate margin is posted to cover position risk. Neither of these conditions are satisfied in Indonesia.

4. The Secondary Market, which is almost entirely mediated through the stock exchanges is not well-developed, despite the major expansion in trading volume and listed securitiesover the past five years. The absence of secondary trading in bonds has been a particular disappointment. The team has not visited the Surabaya Exchange, but the Djarkata Exchange is limited in the volume of trades that it can execute by the size of the trading room and by excessively cumbrous dealing procedures. It is also high cost, as a result of which the majority of members are said to lose money on executing trades (though they make money on other activities).

   Although the Secondary Market will most probably continue to grow, the team does not consider that it will grow on an adequate scale to meet Indonesia's macro-economic needs, either within the FMP timetable or within the KDEI-BEJ-BES timetable for bringing in an automated market.

5. Settlement is effected bilaterally between dealers, trade by trade. It works reasonably well between the large securities houses who have established working relationships with one another and, given time, the capacity to handle a greater volume of activity can be created through the expansion of the brokers' back offices.

   The dangers of continuing reliance on a primitive settlement system are:-

   (a) that their high cost may contribute to making the Indonesian securities market uncompetitive and illiquid,

   (b) that dealers do not deal equally with all members of the market because of the risk of counterparty default, which is also bad for market liquidity, and

   (c) that if there is a surge in business there will be bottlenecks and delays in settlement which provide opportunities for fraud and malpractice.

   Nonetheless, the privately operated, commercially driven, decentralised method of settlement that now exists has some flexibility and resilience and is not as great an obstacle to the expansion of the market as the constraints on the central dealing facility.

5. The Enabling Environment for the development of the Capital Market is being progressively enhanced. The growing maturity, expertise and authority of BAPEPAM is a major element, so too are the new law on pension funds, the proposed Capital Markets Law, the revised Commercial Law and the development

of accounting standards. There is a recognised gap to be filled in respect of mutual funds and other collective investment schemes and there is much still to be done in translating what is now permitted under the financial market reform program into operational reality. There are also shortcomings in market regulation and in enforcement generally, but there is no evident major obstacle to continuing progress in any of these areas.

Draft - Preliminary Evaluation of Capital Market Technical Assistance

1. Over the past two and a half years Price Waterhouse have undertaken a large volume of work on the development of the trading and settlement system, including detailed and comprehensive plans for specification, procurement and project management of an integrated system. None of this has been taken up by the exchanges and now they are committed to a new and different plan initiated by KDEI under the guidance of its own group of advisors. While there are formal arrangements in place for participation by Price Waterhouse in the implementation of the plan, there is a conflict of views between the advisors and at the present time they are not converging towards a constructive conclusion. This has to be a cause for serious concern.

2. The team considers that the Price Waterhouse work on market and settlement systems was to an exceptionally high standard, and cannot be faulted on technical grounds. The failure for the work to gain acceptance has to be for other reasons. There is a history, for example, of inter-agency rivalry and personal antagonisms, the legacy of which still endures in unfruitful working relationships.

3. Currently, it is hoped to create in effect an exclusion zone by demarcating PW's sphere of activity so that it does not cut across that of the other advisors and vice versa. This is a chancy plan because the regulatory activities which are pre-eminently PW's domain are inextricable from the functional activities of the market - like the debit and credit in an accounting ledger. If there is contention about the operational processes of trading and settlement, there must equally be contention about the rules governing those processes which could lead to undesirable confrontation between BAPEPAM and KDEI. Furthermore the exclusion zone approach may well lead to the professional competence which PW can bring to bear on market operations going to waste.

4. The team suggests that part of the solution to these problems would be for the Ministry of Finance to establish the benchmarks for market development in terms of systemic risk, systems integrity, and risk exposure for the state banks backing KDEI. It would be a very necessary task in its own right. It would warrant setting up Quality Assurance procedures to satisfy the Minister that development plans were soundly based and it would warrant independent third party assessments of the different components of the new market system. The team has put forward specific suggestions to this effect..

5. The fundamental purpose of third party review would be Quality Assurance, but it should have the incidental effect of providing a judgement on alternative

proposals that could be accepted as neutral and provide common ground on which to move ahead.

6. This intervention would only be a part solution and would leave unresolved the overall management structure for the automation of the market. (There is, in fact, an existing structure which has been theoretically agreed between the BEJ and all other parties but it is not working in practice.)

7. A further contribution to solving the problem would be for the BEJ to regain responsibility for the trading system and to shift the boundary between Trading and Clearing so that the Exchange was also responsible for confirming on-exchange transactions between dealers. These confirmed trades would be exported to the clearing house which would conduct whatever additional third-party prudential checks that were necessary and would combine exchange trades, for clearing purposes, with off-exchange trades independently affirmed to the clearing house.

8. Separating responsibility for the trading system from responsibility for the settlement system has the disadvantage that it is more difficult to provide an integrated systems solution, but it has the advantage of simpler management and reducing "dependencies" in the project. The more dependencies there are, the more difficult it is for anything to get done. To delay remedying the critical deficiences of a trading mechanism which is jeopardising the development of the entire capital market in order to determine a non-critical remedy for the settlement system, is clearly undesirable. The team also judges there to be less of a gap between the advisers on the trading systems than there is on the settlement systems.

9. This proposal for parallel development by the Exchange and the KDEI will be discussed by the team with BEJ during the course of the evaluation.

ANNEX D

PILOT PRIVATIZATION STRATEGY

ANNEX D
PILOT PRIVATIZATION STRATEGY

This annex provides a capsule description of elements that should constitute a pilot privatization strategy for many state-owned enterprises.

1. Commercial/Technical Review of the Enterprise

The purpose of such a review is to determine and understand those management, technological, and market characteristics that affect the profitability of the enterprise:

a. management, organizational structure and ownership composition.

b. personnel (management, technical and work force): numbers, education/training/skill levels, salaries/benefits.

c. technology(ies): type, level (simple through sophisticated), requirements, competing technologies, anticipated new technologies.

d. products/services: type, quality range, industry trends.

e. market(s): customers, pricing strategy(ies), markets - national/international, market segments, distribution channels, market research and analysis, competition.

f. plant and equipment: age, efficiency, layout, size, maintenance. Production capacity, present and future.

g. accounting/information systems: efficiency, accuracy and degree of automation.

2. Financial Review/Outside Auditing

The purpose of this review is to analyze the enterprise's audited (by an objective, third party accounting/auditing firm) financial statements to determine financial performance over a sufficiently long period of time to gain a clear understanding of the financial strengths and weaknesses of the enterprise. The following principal elements should be examined:

a. main financial statements to determine comparative income, profit and expense data.

b. sales projections by product, by product line and by market, with attention paid to evolution of supply and demand as well as industry and enterprise production capacity.

c. costs of production, including their evolution, enterprise policies which affect costs, and their future projection.

d. operating expenses: evolution, enterprise policies which affect them, and their future projection.

e. capital structure of the enterprise: indebtedness - proportion of debt in the capital structure, equity - how constituted, other investments/elements of the capital structure, ability of enterprise to generate cash, and therefrom the possible requirement of outside (third party) investment.

3. Enterprise Market Value

The purpose of this evaluation is to determine, by a variety of analytical methods, the fair market value of the enterprise. The use of different, appropriate methods of analysis permits a projection of future profitability and potential capital needs (discounted cash flow), a comparison with other like enterprises in terms of its future worth as measured by multiples of future expected incomes (price/income ratios), a comparison with like companies whose stock is traded publicly in terms of future worth as measured by multiples of future earnings (price/earnings ratio) and a determination of what it would cost to start an enterprise with similar characteristics, facilities, assets, personnel, etc. (the enterprise's replacement value). Such a range of alternative valuations will be useful to the government authorities as a "referential" guide as they make their decisions.

The discounted cash flow method, which calculates the present value of future revenues and which takes into account the time value of money and the risks inherent in the business, often provides a more reliable indicator of an enterprise's value than do other, more exhaustive financial valuations. The market valuation must factor in two important elements: the encouragement of potential buyers and the government's need to be compensated justly for its assets and future earning power.

4. Legal Assessment

All major elements of the enterprise's legal status must be examined, with respect to their potential impact on the enterprise's value and on the privatization transaction itself. Particular issues/concerns for investors are clear title, amount and characteristics of debt obligations, and employee rights.

5. Privatization Strategy

The goals which the government intends to pursue will, in large part, determine the strategy it adopts. The government must set its priorities, realizing that certain of its goals may compete among themselves, while others may reinforce one another.

Those countries which have had the most successful privatization programs established the priority to privatize those assets for which private owners/managers would be

the more effective and efficient than public owners/managers. They divested themselves of the profitable SOEs first, thus creating a momentum from the "success stories" which emphasized results and avoiding the paralysis which results from overpricing assets and/or seeking the "perfect" privatization procedure.

These countries first determined whether the targeted firms could meet market requirements, or whether they could be cost-effectively restructured so as to meet market requirements. If not, then rapid determinations whether to liquidate or not were made. The next step was to classify enterprises by their willingness to privatize.

Usually, the universe of SOEs is diverse, of disparate size and of differing viabilities. A "tiered" approach, using multiple privatization tracks, is often useful because it can help the government meet differing, sometimes conflicting, priorities, can be adapted to situations where legal and regulatory frameworks may not be completely in place, and can be a catalytic factor for capital markets which are not mature.

Finally, there usually is political and public opposition to privatization because of lack of understanding, ideology, vested interests, etc. This fact requires a public awareness or pubic education campaign, as an integral part of the privatization process. Typically, successful privatization programs have had successful public awareness campaigns as integral components, and were comprised of a variety of "interventions:"

a. on the political and vested interests (government owners and managers, labor unions, entrenched interests) side, points of agreement were identified and understanding was attained. Consensus was then attained on points in dispute. This process served as the base for coming to compromise on points which would inhibit the progress of the privatization program (item c. below).

b. education of domestic audiences, with specific targeting of key political groups. Education of the public involved broad-based dissemination of the concepts and workings of privatization, how the program works, and how and why it would benefit the public. It also included analysis and demonstration of the high cost to each citizen of continued operation of the SOE system. This educational intervention not only covered the national strategy, but also individual transactions. Each transaction was characterized by a fair, transparent, professional valuation and transfer process. The idea was to demystify the privatization process and to gain the acceptance and support of the public. Supporters of privatization were engaged as active participants in the public awareness campaign.

c. opponents were listened to, taking their concerns into account in the development of the privatization process and the divestiture strategies. Mutually acceptable solutions to differences were sought. The functioning of a totally transparent process helped disarm opponents and made mutually acceptable solutions more feasible.

6. Privatization via Sale of Equity on a Stock Exchange: An Example

For example, the government may wish to:

- Maximize the sales value of the enterprise's stock.
- Achieve a rapid, transparent transaction to minimize any potential opposition.
- Stimulate competition to the benefit of the economy and consumers, or enhance the country's competitiveness in international markets as part of an export-led economic development policy.
- Reduce the fiscal drain imposed by the state-owned enterprise.
- Expand ownership in the privatized enterprise via an ESOP, thus reducing potential worker antagonism toward the transaction.
- Support the transfer of technology and investment, in order to obtain more modern technology and needed foreign investment.

Following is a methodology (in capsule form) which might be followed in the privatization of a state-owned enterprise under a strategy entailing three of the above priorities, viz: maximizing the sales value of the enterprise's stock, in a rapid, transparent transaction, while concurrently expanding employee ownership in the enterprise via an ESOP.

1. Sales strategy defined, potential investors identified, company profile (data) created for potential investors.

   - Detailed plan of process prepared with critical path method to insure completion within specified time.
   - Potential investor profile and contact strategy prepared.

2. Sales prospectus prepared, bid specifications prepared.

   - Invitation to bid prepared on basis of technical and financial assessments.

3. Strategy for workers' participation prepared and issued.

4. Sales/promotion strategy implemented.

   - Information distributed to potential investors.
   - Promotional visits to enterprise/country organized.
   - National and international media campaign carried out.

5. Investors contacted; interested investors followed up.

6. Stock transfers to workers (ESOP) negotiated.

7. Most appropriate sales mechanism determined; request for bids made; bid (s) awarded and public notification made.

7. Leads and References on Privatization Regulatory Framework

The following references provide leads and sources of information on the regulatory framework for the privatization of infrastructure (i.e., power, telecommunications) and public services in general. They can be obtained from USAID's Office of Energy and Infrastructure and from the World Bank. Both of these institutions have extensive experience in numerous developing countries. The list below is illustrative only; additional helpful sources are available and should be sought out with the help of the above institutions.

Augenblick, Mark, and Scott B. Auster, "The Build, Operate, Transfer Approach to Infrastructure Projects in Developing Countries," World Bank Working Paper, August 1990.

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Guislain, Pierre, "Divestiture of State Enterprise: An Overview of the Legal Framework," World Bank Technical Paper #186, April 1992.

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Roth, Gabriel, "The Private Provision of Public Services in Developing Countries," EDI, Series in Economic Development.

Rules and regulations to implement Executive Order No. 215, Private Sector Participation in Power Generation, the Philippines.

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USAID Office of Energy and Infrastructure, "Implementing Rules and Regulations of Private Sector Participation in the Philippine Power Sector," *Private Power Reporter*.

USAID Office of Energy and Infrastructure, in cooperation with the Bureau for Latin America and the Caribbean, "Private Power Business Opportunities: South America," Business Focus Series, June 1992.

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ANNEX E

SHORT-TERM PROJECTS REQUIRING ASSISTANCE UNDER THE MMC

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The activities described in this annex are designed to be implemented as a package. As such, their impact will not be maximized until all six are executed. If, however, the GOI decides to carry out these activities sequentially, further consultations must be held with the Deloitte Touche long-term advisor, Mr. Whitehead, and Bank Indonesia before implementation begins. This step is especially important since Mr. Whitehead will provide supervision for these activities, without which they cannot be performed.

IDENTIFICATION OF PROJECTS NEEDING SHORT TERM TECHNICAL ASSISTANCE

BANK INDONESIA - MONEY MARKETS COMPONENT

SCOPES OF WORK

V

1. Audit of the Bank Regulation Environment Focusing on Regulatory Incentives for Debt Market Development.

Current Situation :

All financial markets require periodic assessments and re-evaluations of their guiding regulations. The financial market of Indonesia is at a stage of development which may warrant such an examination. In the context of the development of Indonesia's money markets it is necessary that the bank regulatory structure provide a consistent set of standards which affords the proper incentives for market participants to engage in sound banking practices. These standards should also provide the proper incentives to encourage market participants to actively participate in the development of new and creative money market instruments and institutions. In this regard, regulatory clarity is all important. Banks and other market players must understand the rules under which they are required to work and the consequences for violations. Only in this way may market participants understand the risk and rewards associated with given activities.

If rules or their interpretations are unclear or ambiguous then market participants are uncertain of the risks and rewards associated with new activities and hence are discouraged from initiating new instruments or activities. The end result relative to debt markets is that the uncertainties cause market paralysis and the market stagnates.

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Regulations impact on market performance by creating incentives for market participants to act or react in a given manner. Indonesian's banking system has experienced a series of deregulation efforts. In this context new rules have been introduced which have undoubtedly changed the incentive structure and may be in direct conflict with previously existing regulations. The resulting environment may have created incentives for market participants to become inactive or less aggressive in facilitating money market demands.

Regulations also provide incentive structures which either encourage or discourage safe and sound banking practices. From either perspective, consistent incentives or bank soundness, it is vital to a smoothly operating, efficient and sound banking system that the regulations be structured and interpreted in a consistent manner.
Given Indonesia's recent moves toward deregulated financial markets and the globalization of financial markets it seems appropriate to audit the current regulatory environment to insure that the proper incentives are in place to assure efficient market performance.

A number of banks have recently expressed uncertainties concerning specific regulations and their interpretation. On a more global scale a few examples of regulations which have created undesired incentives are worth noting. For instance, conflicts in existing regulations were cited in the International Monetary Fund's (I.M.F.) assessment of recent developments in Indonesia's money and foreign exchange markets. The I.M.F. pointed to a prudential ratio, the loan to deposit ratio, which is used in the U.S. to measure the

stability of a bank's funding base but in Indonesia it is used to establish a prudential lending limit. The Indonesian definition of "deposit" is much broader than that used in the U.S., it includes borrowed funds in addition to deposits. Therefore the ratio is in fact the equivalent of a liquidity ratio. Deposits in Indonesia are in fact much more sensitive to interest rates, making bank deposits in Indonesia behave more like money market instruments than "deposits" in the U.S. As a consequence, in attempting to maintain this ratio bank have an incentive to maintain high interest rates to insure against deposit outflows. Maintenance of this ratio also provides a disincentive for lending.

The incentive to maintain high interest rates is unintended but the incentive to limit lending is intentional because this ratio is also used for monetary management purposes. This is just one example of how a regulation designed to accomplish one objective may in fact create incentives which have undesirable effects in other areas.

Another example and one that is not unique to Indonesia is the adoption of the Bank for International Settlements risk based capital standards. Adoption requires that banks meet international standards by December of 1993. From a bank soundness perspective the requirement on the surface appears desirable. However, to the extent the application of this standard has retarded loan growth by creating a disincentive to lend, it has contributed significantly the economic slow down experienced in many nations adopting this standard. In addition, the ratio may be too strict in that the risk based standard does not take into consideration interest rate risk or portfolio risk in its risk weighting scheme. The practical inflexibility

of this regulation and its relationship with actual bank soundness and debt market development should now be re-examined.

Indonesia is sensibly trying to adopt a more global view toward the regulation of capital markets by attempting to create a safe and efficient investment environment. In this light, decrees and interpretations regarding the structure of Capital Markets regulation have been systematically reviewed and modifications suggested. It is now time to think about a similar effort for bank regulations. Bank safety and soundness and the encouragement of sound money markets will require the same type of systematic regulatory review that the capital markets have recently received.

Objective:

To assess the bank regulatory environment in Indonesia through an audit of existing bank regulations and the development of suggested interpretations. The report would identify the regulations currently in effect, classify the regulations as having either an incentive on disincentive effect on bank soundness and debt market developments and it would suggest interpretations designed to have a positive effect on those issues. The body of suggested interpretations would provide a concise, comprehensive directory of regulations for the use of banks and other market participants, providing a more transparent environment to the market, thereby encouraging money market activity.

Proposed Scope of Work and Estimated Level of Effort:

The team, under the supervision of David Whitehead, Long Term Advisor to the Money Markets Division of BI, would be composed of approximately 4-6 individuals with the following skills :

Team Leader/Economist : International. Experience with banking sector and an expert in bank supervision matters. Ability to analyze regulations from the dual perspective of bank soundness and resulting incentive for debt market development. Professional training in economic and finance.
(60 person/days).

Interpreter/
Translator : International or Indonesian. Ability to translate Indonesian to English and to understand and interpret financial regulation.
(60 person/days).

Economist/
Financial Analyst : Indonesian. Understanding of local banking environment. Ability to analyze the incentive effects of bank regulations.
(60 person/days).

Attorney (s) : International or Indonesian. Ability to evaluate regulations and to draft interpretations. (100 person/days).

Research Assistant: Indonesian with good English language capabilities. Background in economics or banking. Ability to collect information, perform initial review and analysis. (100 person/days).

Counterpart : The team would need to be supported by a significant counterpart staff from BI, including legal, supervisory, research, and money markets.

The tasks to be performed would be as follows :

Task 1 : Collect all current bank regulations, translate same into English where necessary and perform preliminary review and interpretation with the help of Indonesian team counterparts.

Task 2 : Identify, through the application of a checklist, those regulations which specifically have an impact on bank soundness and/or which have an incentive or disincentive effect on buyers and

sellers in the debt market. Identify regulations which are arbitrary, contradictory, obscure, archaic, or ambiguous.

Task 3 : Evaluate the current and desired impact of those bank regulations.

Task 4 : Develop a body of suggested interpretations of those regulations. The product would be developed in Indonesian and in English.

The estimated level of effort for this project would be 360 person days plus counterpart efforts.

2. **Assessment of the Flow and Quality of Information Supporting Day-to-Day Monetary Management Decision at Bank Indonesia.**

Current Situation:

Monetary management requires that the managing authority, Bank Indonesia, choose implementation procedures that enable the authority to achieve macroeconomic goals such as price stability, full employment and economic growth. The monetary authorities of most countries focus on bank reserves or some closely associated measure such as liquidity of the banking system as their way of implementing monetary policy. Bank Indonesia's implementing procedures fall under this general scheme. These type of procedures requires that the managing authority is capable of controlling the aggregate level of bank reserves available to the banking system. Bank Indonesia as the nations central bank is capable of controlling reserves in the banking system but it does not have direct control over all factors that influence bank reserves. As is the case with other central banks, Bank Indonesia does not have direct control over all items on its balance sheet. Items such as Government accounts and foreign exchange holding are not under its direct control but these items have a direct impact on reserves in the banking system. As long as Bank Indonesia has sufficient information on these items and sufficient operational flexibility to neutralize their effects on reserves then reserve management is quite effective.

The Money Markets Division of BI relies upon a flow of information from internal departments of BI and from external agencies in order to implement, on a day to day basis, a monetary policy consistent with the nation's goals of economic growth and price stability. Current and meaningful information is a necessary ingredient to monetary policy deliberations and day to day open market implementation. Timely and quality information is essential to the efficient functioning of any central bank.

The Money Market Division of BI requires a timely and accurate flow of information both internally from other departments and from sources external to Bank Indonesia. There are basically four critically important sources of information for monetary management purposes. First, information related to open market and discount window activity. Second, information from other operational departments within the bank, which would include timely information from the foreign exchange department, central bank credits, currency operations, supervision, check clearing and central accounting. Third, and still internal to the bank, monetary management is dependent on quality information and analysis from the Bank's Research Department. This department should be the best source for accurate and timely banking data in the nation, it should act as a clearing house for all types of macro economic data, it should develop its own sources for grass roots economic intelligence and it should furnish timely and quality information and analysis to those responsible for making and implementing monetary policy. And forth, information from other government agencies whose operations impact on reserves in the banking systems, i.e. the Ministry of Finance. Access to this information allows BI to anticipate and control monetary change and removes it from a reactive mode of operation.

An improved quality and flow of information, from both internal and external sources, would improve the decision-making ability of those responsible for monetary management. The importance of the assessment of information flows is enhanced by BI's imminent move toward the use of a "Stop-Out-Rate" system (SOR) which will require more information of greater sophistication. This new system will also require a closer coordination of information flows between the Finance Ministry and Bank Indonesia.

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Objective:

To assess the information needs of the Money Markets Division of BI and the information currently being provided and to analyze the cause for any gap between the two. The assessment will include examination of the vehicles through which information is being conveyed and will provide recommendations for improving the quality and timeliness of information and the information flows. The assessment would also identify areas where an expansion or improvement in levels of automation would have a tangible impact, helping to guide future efforts.

Proposed Scope of Work and Estimated Level of Effort:

The team, under the supervision of David Whitehead, Long-Term Advisor to the Money Markets Division of BI, would be composed of approximately 4 individuals with the following skills:

Team Leader :	International. Management Consultant with knowledge of MIS. (100 person/days)
Central Banking/ Specialist :	International. Possibly an academic with experience in monetary management or someone who has long term hands on experience implementing monetary policy. (100 person/days)
Management Consultant:	International. Knowledge of organizational management and/ or information flows. (110 person/days)

Management Consultant:	Indonesian. Experience in management interviews and analysis. (90 person/days)
Interpreter/ Translator:	International. Someone to help conduct interviews and translate documents. (100 person/days)

The tasks to be performed would be as follows:

Task 1 : Review the current procedures regarding the collection and analysis of data used for monetary management deliberation and open market operation decisions. Solicit feedback on perceived and anticipated information needs from the policy-making group and the open market implementation team. Needs will not be identical for all policy-makers and open market implementors. Determine information priorities.

Task 2 : Identify and interview the B.I. departments and outside agencies providing information to monetary policy makers and those implementing monetary management. Determine the type and form of information being provided and identify any impediments to efficient flows. Review the quality of all data. Review the data requirements among the departments themselves and determine any bottlenecks. The team would coordinate with current USAID-funded advisors to the Research Department of BI.

Task 3 : Identify and interview the external agencies providing information used for monetary management. Determine the type and form of information being provided and identify any impediment to efficient flows. Review the data requirements among the agencies themselves and determine any bottlenecks.

Task 4 : Design survey instruments and Interview the Central Accounting Department in order to determine the information received and the information provided. Investigate the issue of priorities, reporting structures within BI and the incidence of ad hoc requests versus regular reporting patterns.

Task 5 : Coordinate with members of any MIS teams in place in BI and determine current plans for automation improvement. Develop recommendations on areas for future efforts in automation improvement where the shortcomings are technologically linked rather than operational and managerial in origin.

Task 6 : Reconstruct the flow of information, highlighting areas for improvement. Recommend efficient reporting procedures and suggest forms to satisfy money markets information needs. Discuss with management of the Money Markets Division and assist in formulating next steps.

The estimated level of effort required to complete this task would be 500 person days.

3. Assessment of the Market for and Structure of Possible Short and Medium Term Debt Instruments in Indonesia.

Current Situation:

Short and medium term debt plays an important role in economic development and Indonesia will benefit from the development of a range of suitable debt instruments and the ensuing evolution of the debt market.

The Indonesia debt market is marked by the absence of a government sector treasury debt instrument and relatively few private sector debt issues with maturities in excess of ninety days. In other countries, government domestic debt plays a key role by establishing a base interest rate and reference rates for debt instruments of different maturities. Government debt is normally the most secure, least risky debt instrument in the domestic debt market which is why it used as a reference rate. All other non government debt instruments carry somewhat higher risk which is reflected through interest rate differentials. By establishing a reference rate and yield curve these government securities help the private sector debt market establish relevant rates for primary issues and relevant discounts at given maturities in the secondary market.

The private sector debt market in Indonesia may be characterized as very thin and relatively weak. Short term instruments such as negotiable certificates of deposit and commercial paper rarely carry maturities in excess of ninety days. Private placement is the norm and virtually no secondary market has developed. The medium and long term markets are relatively inactive. Most bonds although publicly issued are privately placed with a handful of institutional investors. Most issuers of bonds are state owned entities and the bonds which have been issued rarely carry maturities in excess of five years. There is virtually no secondary trading of these instruments.

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This lack of a well developed debt market creates a number of problems for both the public and private sectors. Many public sector development projects and projects supporting public infrastructure needs should be financed domestically with long term funds. The nation's ability to support international funding for these types of projects is limited at best. If domestic financial intermediaries are expected to provide funding for these long term projects they need to issue long term liabilities to offset their risk and balance their portfolios. The same situation applies to funding medium and long term projects in the private sector.

The lack of a well developed debt market also impacts on Bank Indonesia's effectiveness in monetary management. The lack of a market driven reference rate and yield curve deprives policy makers of information necessary to a timely evaluation of macro economic conditions. This lessens the overall effectiveness of monetary management.

Bank Indonesia has taken important steps to help develop debt markets in Indonesia and to improve the tools for monetary management. Bank Indonesia created a debt instrument, Certificate of Bank Indonesia (SBI), which is designed to support open market operations. In addition, Bank Indonesia purchases private sector debt instruments, Money Markets Securities (SBPU), for monetary control purposes. Bank Indonesia is in the process of changing its open market auction system to a system which allows the market to determine interest rates. And the Bank is continuing its efforts to help develop and support, through appropriate regulations, the emerging private sector debt market.

Objective:

The objective of this effort will be to assist Bank Indonesia in developing a fuller understanding of the issues associated with developing short and medium term debt markets and instruments. This effort will focus on assisting BI in evaluating the market for these instruments and to work with BI in developing a comprehensive strategy for encouraging short and medium term debt markets. The strategy should not only focus on open market instruments, but on all types of debt instruments that could provide deep enough markets to stimulate secondary trading.

Proposed Scope of Work and Estimated Level of Effort:

The team, under the supervision of David Whitehead, Long-Term Advisor to the Money Markets Division of BI, would be composed of approximately 3 individuals with the following skills:

Team Leader :	International. Knowledge of debt instruments within environment comparable to Indonesia. Appropriate background in Economics and Finance. Good writing skills. (80 person/days)
Finance/Debt Specialist:	International. Experience in the structuring and issuance of debt instruments. Finance background. (30 person/days)
Research Assistance:	Three Indonesian. Background in finance and economics and fluent in English. (270 person/days)

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The tasks to be performed by the team are as follows:

Task 1 : Understand and document Indonesia's existing debt markets and debt market instruments, including the level of market activity and distribution of instruments available in Indonesia.

Task 2 : Conduct a survey of the instruments available, interviewing both issuers and purchasers. Determine the impediments and the incentives perceived by both parties which affect their decisions to issue and to purchase. Determine also the respondents' concerns with the terms of issue.

Task 3 : Use the results of Task 2 to structure the types of instruments which make sense in the Indonesian context based on the needs and desires of issuers and investors. Instruments to be structure will include both public and private debt instruments. Examine the current regulations and incentives affecting these issues.

Task 4 : Organize and conduct a series of seminars, one seminar for each instrument which has been deemed viable. Participants would include staff of BI, brokers-dealers and other members of the financial community and potential players in the debt market. These seminars would provide an exchange of information and would allow practical feedback from the involved community which would be taken into consideration prior to recommending changing the regulations associated with any issue.

Task 5 : Incorporating feedback from the seminars, develop strategy for developing the debt market. Provide information on the instruments which appear feasible in the Indonesian context and on the regulatory and incentive framework which would support their development.

Task 6 : Develop contacts at the South-East Asian Central Banks (SEACEN) Research and Training Center for comparative studies and possible training opportunities.

The total estimated level of effort is 380 person days.

4. Assist Bank Indonesia perfect Open-Market regimes change from a "Cut Off Rate" System to a "Stop Out Rate" System designed to foster Market-Determined Interest Rates.

Current Situation :

Bank Indonesia has a commitment to test a change in regimes in the way it conducts its auction of SBI's. Currently Bank Indonesia uses a "cut off rate" system which allows it to directly control the level of interest rate for each maturity of SBI's offered. The Bank is aware of the short comings of this system especially in the loss of information which market driven interest rates impart to the financial and real sectors and their related value in helping gage a proper monetary response to changes in underlying economic conditions. To create a more efficient environment for financial markets and monetary management, Bank Indonesia is moving to a "stop out rate" system for auctioning its SBI's. This type of auction system requires the auctioning authority to announce target volumes for SBI's at offered maturities and then accept bids for that targeted volume. Each bid consists of a stated volume of SBI's the bidder is willing to purchase at a given interest rate. The bids are then arranged according to interest rates offered, low to high. To determine the "stop out rate" the bids are cumulated by volume starting from the lowest interest rate bid. Once the targeted volume is reached, the corresponding interest rate on the final acceptable bid is the "stop out rate". The market through this bidding process actually determines the "stop out rate". Consequently this market driven interest rate should provide a great deal more information than an arbitrary rate administered by the Central Bank.

Bank Indonesia recognizes that this change in auction systems is desirable but also understands that the shift to such a new procedure must evolve slowly in order to minimize disruptive volatility in the financial markets. The evolution to this new regime has begun. In support of this transition, BI is undertaking an evaluation of this new targeting procedure and a review of alternative financial instruments potentially useful in the conduct of open market operations. BI has already made significant progress in its open market operations through the use of SBI's and SBPU's as instruments useful in controlling liquidity in the banking system.

Recognizing the advantages of the SOR system, and given the current banking environment, staff at BI believe that they should move aggressively toward implementing the new more market-oriented auction system.

This transition is a priority for BI and the LTA will devote the majority of his time during Year 2 of his contract issues associated with this activity. While the LTA is able to provide on-going advice and assistance in this area, additional targeted analysis and technical assistance will be required in order to meet BI's goals.

Objective:

To assist BI in establishing a money management regime change, specifically a new auction mechanism, which will allow market forces to more directly affect basic interest rates.

Proposed Scope of Work and Estimated Level of Effort:

The team, under the supervision of David Whitehead, Long-Term advisor to the Money Markets Division of BI, would be composed of approximately 4 individuals with the following skills :

Team Leader :	International. Experience on the open market desk of a central banking institution, i.e. the Federal Reserve of New York. (40 person/days)
Open Market Technician :	International. Experience on the money market desk of a commercial bank. (30 person/days)
Secondary Market Specialist :	International. Experience in secondary market activity with open market instruments, possible experience with a broker-dealer. (30 person/days)
Applied Monetary Policy Specialist :	International. Academic with experience in giving policy advice to central banks and specific knowledge of technical open market procedures such as reserve maintenance periods and monetary management information system. (60 person/days)

The tasks to be performed by the team are as follows :

Task 1 : Analyze the current regime for monetary management and the results being achieved. The LTA is already producing a report describing the current operations and procedures at BI. This document can form the base for the team's additional analysis and understanding of the current regime and the changes needed to move toward more market driven interest rates.

Task 2 : Review and evaluate relevant information on alternative regimes for monetary management and the implementation of a "SOR" system. Conduct a comparative study of the experiences of other countries undergoing a similar regime transition. Help to assess the strengths and weaknesses of alternatives procedures in the context of Indonesian financial market development.

Task 3 : Assist in the design and implementation of the new auction mechanism. Provide guidance and on-going support during the transition in order to avoid surprises. Help to develop documentation and assist in evaluating offers.

Task 4 : Assist in the reassessment of the policies and operating procedures used in the day to day open market operations as the new system evolves.

The total estimated level of effort is 160 person days.

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5. **Study and Assess the Efficiency of the Indonesian Payments System and Help Design a System to Transfer Funds and Financial Information Electronically.**

Current Situation :

Indonesia's payment system is more heavily dependent on currency than on checks as the preferred mode for day to day transactions. The related volume of check clearing through the Central Bank is relatively light. The population in Indonesia has not developed the dependence on checks that has characterized some other countries. This may be a blessing in that Indonesia does not face the problems associated with eliminating or limiting the use of the personal paper based checks in order to move to a more efficient system based on the electronic movement of funds. Therefore, Indonesia is in position to move directly to an electronic payments system.

Check clearing through Bank Indonesia is handled on a city by city basis with no mechanism in place for transporting paper between cities. Bank Indonesia's branches throughout the country are tied together through an electronic communication system but no facility for electronically moving funds currently exist. Bank Indonesia's main office in Jakarta is in the process of developing an Electronic Interbank Communications Network (P.I.P.U.) which provides information to the Central Bank and market participants on the interbank money market. This system may be a first step in developing an electronic system for moving funds between the linked banks and the Central Bank. This could provide the basis for electronic clearing and settlement.
Clearly the time is right to assess the shortcomings of the current system and to take advantage of this opportunity to improve the payments system's efficiency through examination and redesign of procedures, technology and logistics.

Objective:

To design and implement a comprehensive system for the electronic transfer of funds and check clearing for BI.

Proposed Scope of Work and Estimated Level of Effort:

The team, under the supervision of David Whitehead, Long-Term Advisor to the Money Markets Division of BI, would be composed of approximately 7 individuals with the following skills :

Team Leader :	International. Experience with international EFT and check-clearing operations. System design experience. (75 person/days)
EFT/Check Clearing Specialist :	International. Experience in EFT and check-clearing operation system design and implementation. (105 person/days).
EFT/Check Clearing Specialist :	International. Experience in EFT and check-clearing operation system design and implementation. Training skills. (140 person/days)
MIS Consultant :	International. Experience in automated EFT and check-clearing system design and implementation. (115 person/days)

MIS Consultant :	International. Experience in automated EFT and check-clearing system design and implementation. Training skills. (105 person/days)
MIS Consultant :	Indonesian. MIS skills and experience in preparing system documentation. Experience in training. (105 person/days)
Procurement Specialist :	International. Experience in procuring hardware and software for Indonesia. (40 person/days)
Interpreter/ Translator :	Indonesian. Fluency in English. (100 person/days)

The tasks to be performed by the team are as follows :

Task 1 : Through prior arrangement, members of the EFT and check-clearing departments of the Federal Reserve Bank of San Francisco will be requested to travel to Indonesia and examine the systems currently in place. Based on their assessment, they will develop a study tour for members of BI at the San

Francisco operations. The San Fransisco Federal Reserve Bank has established ties in the Pacific Basin and has offered assistance to Bank Indonesia. This tour will provide a practical demonstration of the Federal Reserves communication and EFT systems which may be suitable for modification and adoption in Indonesia.

It would be expected that members of the BI study tour would form a counterpart team in the design and implementation of the EFT and check-clearing system for Indonesia.

Task 2 : Perform a comparative study of the systems in place in the U.S., Switzerland (an optimal model) and other countries. Determine a model for the Indonesian environment.

Task 3 : Design an EFT and check-clearing system. This system design would encompass such issues as technology, operational procedures, and security.

Task 4 : Prepare specifications of hardware and software required in order to upgrade the system. Prepare needed bidding documents. Procure hardware and software.

Task 5 : Implement system as designed.

Task 6 : Provide necessary training and system documentation within BI.

The total estimated level of effort is 740 person days.

6. **Conduct a Comprehensive Structure Performance Analysis of the Indonesian Banking System in order to Improve the Mobilization and Distribution of the Nation's Financial Resources.**

Current Situation:

Recent changes in the Indonesian banking structure toward increased liberalization and deregulation warrant the undertaking of a structure performance analysis. Between 1968 and 1988 there was a moratorium on the entry of new banks in Indonesia. The situation changed significantly in 1988 with the passage of the PAKTO 27 reforms. PAKTO 88 as it is commonly referred to and other new regulations have led to an expansion in the number of banks and branches, creating a newly competitive environment. For example, the number of "Primary Banks" increased from 114 in 1984 to 203 in 1992 and the number of branch offices exploded (1958 in 1988 to 5354 in 1992). The number of secondary banks, LDKP's, units and posts by one account increased from 9876 in 1984 to better than 12,400 in 1992. As a consequence of the PAKTO reforms the competitive structure of the Indonesian banking industry has changed and the resulting competitive pressures may significantly impact on the financial systems ability to mobilize and allocate the nations banking resources.

In addition to the PAKTO 27 reforms, banking has been the subject of a number of legislative changes which will impact on the structure and performance of the Indonesian banking system. For instance, PAKJAN announced in January 1990 impacted on the liquidity credit program and directed that 20% of bank lending be allocated to small enterprises. PAKFEB announced in February of 1991 set new prudential regulations aimed at assuring safe and sound banking practices and financially stronger financial institutions. The new Banking Law of March 1992 seeks to consolidate these deregulation and prudential efforts. Given these significant changes in the rules and regulations effecting the structure and activities of banks in

it to the

these changes on the overall structure and potential performance of the banking system.

The current structure of the banking system should be documented and assessed in terms of its ability to facilitate financial intermediation and to contribute to economic growth of the nation, allowing BI to better understand and guide future developments in the environment of the banking industry.

Objective:

To develop a performance analysis of the banking sector, helping BI to pinpoint strengths and weaknesses of the current system and to develop a realistic banking strategy in light of the business and cultural environment in Indonesia.

Proposed Scope of Work and Estimated Level of Effort:

The team, under the supervision of David Whitehead, Long-Term Advisor to the Money Markets Department of BI, would be composed of approximately 6 individuals with the following skills:

Team Leader :	International. Experience in the management and conduct of a bank structure and performance analysis. (184 person/days)
Financial/Bank Performance Analyst:	International. Experience in the analysis of bank performance, both on the asset and liability side. (114 person/days)

Financial/Bank
Performance Analyst: International. Experience in the analysis of bank performance and comparative performance of banks in developing nations.
(124 person/days)

Comparative Analyst: International. Experience in the international comparative analysis of banking regulation and its impact on bank performance.
(60 person/days)

Rural Banking
Specialist: Indonesian. Experience in financial analysis and good understanding of the regulation and performance of rural banks in Indonesia.
(180 person/days)

Financial Analyst/
Research Assistant: Indonesian. Experience in financial analysis and sources of banking data in Indonesia.
(180 person/days)

This team would be paired with counterpart resources from the Research Department of BI. The counterpart staff would be included in all data collection and analysis with the intention that this effort or at least the performance portion of it would be replicated in the future, if not on a yearly basis as in the US.

The tasks to be performed by the team are as follows :

Task 1 : Review literature currently available on the structure of the Indonesian banking system particularly information from the Research Department and Supervisory Authority of BI, the World Bank, and I.M.F.

Task 2 : Collect and review primary and secondary sources of data on individual banks and aggregate to assemble a structural picture of the banking Industry in Indonesia. Consolidate and segment the data and perform a performance analysis. Data would be from public and private sources including BI data on individual banks and the annual reports of individual banks.

Task 3 : Collect primary information on rural and secondary banking with the help of the BI regional branches, perform a survey of banks in order to ascertain the number and size distribution of banks by class (private, state-owned, foreign, BPD, Secondary banks, and non-bank financial institutions), and the geographical distribution of each category. Examine the services offered, prices of services and cost of service provision and profitability for each bank type and geographical region. Examine the efficiency of collection and allocation of funds. Determine the profitability and cost of capital of banks by type and region and assess causes for differences encountered.

Task 4 : Perform a study of geographic competition among banks. Look for indications of under-served areas, evidence of monopolies, inefficient services or need for service expansion. Examine the pricing policies of banks and uniformity of policies for banking

services within the branching systems. Assess the degree of autonomy allowed branches in the various geographic regions to offer and price services to reflect the supply and demand conditions among the various banking markets in the nation.

Task 5 : Separating banks by type, examine the geographic location and services offered and determine the profitability and contribution to the financial intermediation process of each type of bank.

Task 6 : Evaluate each bank type's relative efficiency and contribution to the collection and distribution of the nation's financial resources.

Task 7 : Analyze the overall strengths and weaknesses of each bank type and of the banking system as a whole.

Task 8 : Perform a comparative assessment of the cost of capital and the profitability of Indonesian banks with their international counterparts.

Task 9 : Suggest changes in the banking structure from the standpoint of bank soundness, competitiveness and contribution to the nation's economic growth and development.

The level of effort is highly dependent on the sources and quality of data which can be identified. If a survey of banks is required in order to obtain adequate primary data, the effort would be substantially expanded and would require additional local support.

Total level of effort 842 person/days. Level of effort adjustable or subdivided by desired task or outputs.

ANNEX F

FMP PROJECT DATA SHEETS AND LOG FRAME

PROJECT DATA SHEET

C = Change
D = Delete

1 | 3

1. COUNTRY/ENTITY: Indonesia

3. PROJECT NUMBER: 497-0360

4. BUREAU/OFFICE: Asia and Private Enterprise [04]

5. PROJECT TITLE (maximum 40 characters): Financial Markets Project

6. PROJECT ASSISTANCE COMPLETION DATE (PACD): MM 09 DD 30 YY 94

7. ESTIMATED DATE OF OBLIGATION (Under "B." below, enter 1, 2, 3, or 4)
A. Initial FY 88 B. Quarter 4 C. Final FY 92

8. COSTS ($000 OR EQUIVALENT $1 =)

A. FUNDING SOURCE	FIRST FY 88 B. FX	C. L/C	D. Total	LIFE OF PROJECT E. FX	F. L/C	G. Total
Appropriated Total	4,147	–	4,147	14,000	–	14,000
(Grant)	(4,147)	(–)	(4,147)	(14,000)	(–)	(14,000)
(Loan)	(–)	(–)	(–)	(–)	(–)	(–)
U.S. Other 1.						
U.S. Other 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 1. Grant	2. Loan	D. Approved TO DATE 1. Grant	2. Loan	E. AMOUNT APPROVED THIS ACTION 1. Grant	2. Loan	F. LIFE OF PROJECT 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 6 codes of 3 positions each)

11. SECONDARY PURPOSE CODE

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 06 YY 92 | MM YY | Final MM 09 YY 94

15. SOURCE/ORIGIN OF GOODS AND SERVICES
[X] 000 [ ] 941 [X] Local [ ] Other (Specify)

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
Controller

17. APPROVED BY
Signature: L. P. Reade
Title: Mission Director
Date Signed: MM 08 DD 26 YY 89

18. DATE DOCUMENT RECEIVED IN AID/W, OR FOR AID/W DOCUMENTS, DATE OF DISTRIBUTION
MM DD YY

AID 1330-4 (8-79)

AGENCY FOR INTERNATIONAL DEVELOPMENT

PROJECT DATA SHEET

1. TRANSACTION CODE: A (A = Add, C = Change, D = Delete) — Amendment Number

DOCUMENT CODE: 3

2. COUNTRY/ENTITY: Indonesia

3. PROJECT NUMBER: 497-0360

4. BUREAU/OFFICE: Asia/Near East — 04

5. PROJECT TITLE (maximum 40 characters): Financial Markets

6. PROJECT ASSISTANCE COMPLETION DATE (PACD): MM 09 DD 30 YY 94

7. ESTIMATED DATE OF OBLIGATION (Under "B." below, enter 1, 2, 3, or 4)

A. Initial FY 88 B. Quarter 4 C. Final FY 92

8. COSTS ($000 OR EQUIVALENT $1 =)

A. FUNDING SOURCE	FIRST FY 88 B. FX	C. L/C	D. Total	LIFE OF PROJECT E. FX	F. L/C	G. Total
AID Appropriated Total	4,147	3,000	7,147	9,000	–	9,000
(Grant)	(4,147)	(3,000)	(7,147)	(9,000)	(–)	(9,000)
(Loan)	( )	( )	( )	(–)	(–)	(–)
Other U.S. 1.						
Other U.S. 2.						
Host Country	–	–	–	–	3,000	3,000
Other Donor(s)	–	–	–	–	–	–
TOTALS	4,147	3,000	7,147	9,000	3,000	12,000

9. SCHEDULE OF AID FUNDING ($000)

A. APPROPRIATION	B. PRIMARY PURPOSE CODE	C. PRIMARY TECH. CODE 1. Grant	2. Loan	D. OBLIGATIONS TO DATE 1. Grant	2. Loan	E. AMOUNT APPROVED THIS ACTION 1. Grant	2. Loan	F. LIFE OF PROJECT 1. Grant	2. Loan
(1) SDA	710	840	–			9,000		9,000	
(2)									
(3)									
(4)									
TOTALS						9,000		9,000	

10. SECONDARY TECHNICAL CODES (maximum 6 codes of 3 positions each): 819 | 831 | 867

11. SECONDARY PURPOSE C

12. SPECIAL CONCERNS CODES (maximum 7 codes of 4 positions each)

A. Code: BU

B. Amount:

13. PROJECT PURPOSE (maximum 480 characters)

To increase the number of debt and equity securities and commodity contracts available to investors, and to increase the trading volume of these instruments.

14. SCHEDULED EVALUATIONS

Interim MM 09 YY 90 | MM 09 YY 92 | Final MM 09 YY 94

15. SOURCE/ORIGIN OF GOODS AND SERVICES: [X] 000 [ ] 941 [X] Local [ ] Other (Specify)

16. AMENDMENTS/NATURE OF CHANGE PROPOSED (This is page 1 of a ____ page PP Amendment.)

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

C.W. Christensen
Curtis Christensen
Controller

17. APPROVED BY

Signature: David N. Merrill

Title: Mission Director

Date Signed: MM 08 DD 30 YY 88

18. DATE DOCUMENT RECE IN AID/W, OR FOR AID/W I MENTS, DATE OF DISTRIB MM DD YY

AID 1330-4 (8-79)

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The approved Project Data Sheet summarizes basic data on the project and must provide reliable data for entry into the Country Program Data Bank (CPDB). As a general rule blocks 1 thru 16 are to be completed by the originating office or bureau. It is the responsibility of the reviewing bureau to assume that whenever the original Project Data Sheet is revised, the Project Data Sheet conforms to the revision.

Block 1 -Enter the appropriate letter code in the box, if a change, indicate the Amendment Number.

Block 2 - Enter the name of the Country, Regional or other Entity.

Block 3-Enter the Project Number assigned by the field mission or an AID/W bureau.

Block 4 - Enter the sponsoring Bureau/Office Symbol and Code. *(See Handbook 3, Appendix 5A, Table 1, Page 1 for guidance.)*

Block 5 - Enter the Project Title *(stay within brackets; limit to 40 characters).*

Block 6 - Enter the Estimated Project Assistance Completion Date. *(See AIDTO Circular A-26 dated 1/26/78, paragraph C, Page 2.)*

Block 7A. - Enter the FY for the first obligation of AID funds for the project.
Block 7B. - Enter the quarter of FY for the first AID funds obligation.
Block 7C. - Enter the FY for the last AID funds obligations.

Block 8 - Enter the amounts from the 'Summary Cost Estimates' and 'Financial Table' of the Project Data Sheet.
NOTE: The L/C column must show the estimated U.S. dollars to be used for the financing of local costs by AID on the lines corresponding to AID.

Block 9 - Enter the amounts and details from the Project Data Sheet section reflecting the estimated rate of use of AID funds.
Block 9A. - Use the Alpha Code. *(See Handbook 3, Appendix 5A, Table 2, Page 2 for guidance.)*

Blocks 9B., C1. & C2. - See Handbook 3, Appendix 5B for guidance. The total of columns 1 and 2 of F must equal the AID appropriated funds total of 8G.

Blocks 10 and 11 - See Handbook 3, Appendix 5B for guidance.

Block 12 - Enter the codes and amounts attributable to each concern for Life of Project. *(See Handbook 3, Appendix 5B, Attachment C for coding.)*

Block 13 - Enter the Project Purpose as it appears in the approved PID Facesheet, or as modified during the project development and reflected in the Project Data Sheet.

Block 14 - Enter the evaluation(s) scheduled in this section.

Block 15 - Enter the information related to the procurement taken from the appropriate section of the Project Data Sheet.

Block 16 - This block is to be used with requests for the amendment of a project.

Block 17 - This block is to be signed and dated by the Authorizing Official of the originating office. The Project Data Sheet will not be reviewed if this Data Sheet is not signed and dated. Do not initial.

Block 18 - This date is to be provided by the office or bureau responsible for the processing of the document covered by this Data Sheet.

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

Project Title & Number: Indonesia - Financial Markets Project (497-0300)

NARRATIVE SUMMARY	OBJECTIVE VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
Program or Sector Goal: The broader objective to which project contributes:	Measures of Goal Achievement:		Assumptions for achieving goal targets:
To increase the availability of long-term investment capital by supporting open financial markets	+ Number of new/expanded firms + Number of new jobs + Per capita income	+ GOI statistics + Other donor studies + GDP per capita	+ GOI maintains the pace of its deregulation programs and policies
Project Purpose:	Conditions indicating purpose has been achieved: End of project status.		Assumptions for achieving purpose:
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	+ A permanent and long-range regulatory environment for stocks, bonds and commodities established with operational responsibilities separated from regulatory authority	+ Operational charts for BAPEPAM and ICE. Operational statistics for brokers	+ GOI maintains its commitment to liberalization of the market and disengagement from private sector activities
	+ At least 50 private broker/dealers will be able to operate profitably from broker/dealer business alone	+ Income statements, or Broker Association BAPEPAM statistics	+ Tax treatment on debt and equity holdings remains fair
	+ 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	+ BAPEPAM/MOF/Broker statistics	+ DANAREKSA remains committed to a more private sector approach in management
	• Commodity futures and at least two new commodities will be traded on ICE	+ ICE, Ministry of Trade (MOT) records	+ Deregulation activities continue. MOT enacts enabling legislation
	+ Nationwide automated check-clearing system will be operational	+ Bank Indonesia records	+ GOI does not use 1990 oil price windfall to increase capital participation in SOEs

NARRATIVE SUMMARY	OBJECTIVE VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
	• Pension and insurance companies will grow by 50% and increase total stock and bond holdings to 30% of portfolios representing Rupiah 3 trillion	• MOF records	
	• DAHAREKSA will reduce percentage of portfolio which is unpledged and will restructure and increase the level of individually owned certificates	• DAHAREKSA/MOF statistics	
To improve the efficiency of the public sector through restructuring and/or privatization of the ownership and management of SOEs.	• Tested legal, financial and administrative procedures	• GOI statistics and Company annual reports	
	• 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		
Outputs:	Magnitude of Outputs:		Assumption for achieving outputs:
Financial Markets:			
• Market deregulation	• Separating BAPEPAM's regulatory and operational functions; clearer definition of division of regulatory roles	• GOI statistics	• Economic conditions not affected; project beneficiaries' plans remain stable
	• Strengthened technical capital market skills of MOF, BAPEPAM and privatized stock exchange(s)	• Project Evaluation	

NARRATIVE SUMMARY	OBJECTIVE VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
	• Removing fiscal, monetary and regulatory disincentives for long-term capital investment	• Project Monitoring	
	• Promoting DANAREKSA's role as mutual fund for individual investors and reducing its favored status in market as mutual fund and underwriter		
	• Separating operational and regulatory functions of the ICE		
• Increased supply of long-term investment capital	• Developing standards which encourage pension funds and insurance companies to diversify portfolios		
	• Revised reserve and liquidity requirements of Bank Indonesia (BI)		
• Improved trading capability and structure	• 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, BPDs and P.T. BAHANA sell off equities through stock market		
	• Automated BI check-clearing system .		

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	

NARRATIVE SUMMARY	OBJECTIVE VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
	• Design and Implement Strategies for the Utilization of Privatization Proceeds: o 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: o Analyses of benefits and consequences of private investment o Proposed strategy		
	• Develop a Consensus-Building Program: o Proposed strategy o Media items (print, audio, video) o Workshops/seminars o Promotion campaigns		
	• Monitor and Adjust the Program: o Indicators to measure success (growth, fiscal budget, investment flows, employment, efficiency) o Computerized monitoring system		

NARRATIVE SUMMARY	OBJECTIVE VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
Improved Policy Implementation and Procedural Framework	• Identify Current Legal, Regulatory and Other Procedural Constraints to Implementing the SOE Program: o Methodology to identify constraints leading to policy/procedural changes o List of current constraints and recommended changes o List of new polices/procedures • Define and Institutionalize Procedures to Restructure and Privatize SOEs: 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)		

NARRATIVE SUMMARY	OBJECTIVE VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
	◆ 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		
◆ Enhanced Institutional Capacity	◆ 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)		Assumptions for providing inputs:

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

◆ Project documentation

Assumptions for providing inputs:

◆ GOI and private sector budgets are forthcoming

◆ Qualified TA will be available

◆ Suitable candidates for training ul be available

Drafted:JLindborg:nn:08/22/91
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ANNEX G

HOST-COUNTRY CONTRIBUTION ANALYSIS

ANNEX G
HOST-COUNTRY CONTRIBUTION ANALYSIS

With the 1991 amendment to the project to add the $6 million Privatization Component, the host-country contribution target for FMP was set at $4.7 million. The reported amount of host-country contributions as of July 7, 1993, was $3,633,650. This amount is approximately on, or slightly behind, target. However, the USAID project officer believes the GOI report understates the host-country contribution significantly. We agree. For example, the Money Markets Component reported contributions for the life of that component to be $222,730, whereas the revised report, which we feel reflects actual expenditures and provisions in kind, shows $1,496,574.

As a result of these findings, we estimate that the overall host-country contribution to FMP will exceed the $4.7 million by the PACD.

ANNEX H

EVALUATION SCOPE OF WORK

STATEMENT OF WORK
FINANCIAL MARKETS PROJECT (497-0360)
INTERIM EVALUATION

BACKGROUND

When the FMP was initiated in 1988, the GOI had already embarked upon a broad program of structural economic reforms and deregulation, aimed at increasing private sector growth and non-oil exports. Included under this program was a major effort to deregulate and reform Indonesia's financial markets, with a focus on taking steps to stimulate and mobilize increased savings and investment, both domestic and foreign.

The FMP was designed as a response to the GOI's desire to develop well-regulated, efficient and active financial markets, particularly capital and money markets. By improving the depth and efficiency of capital and money markets, it was envisaged that the availability of domestic and foreign investment capital would be increased. In addition, it was also recognized that a strong capital market was a necessary precursor of the privatization of state-owned enterprises through the public sale of securities in the financial markets.

Within this context of responding to a need to improve Indonesia's capital and money markets, the FMP was originally designed as a six-year project, with the goal of increasing the availability of long-term investment capital by supporting open financial markets. The project was amended in late-1991 to include an additional $5 million privatization component.

The purpose of FMP is 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, (b) To improve the efficiency of the public sector through restructuring and/or privatization of the ownership and management of State-Owned Enterprises (SOEs).

The FMP project represents a key element of USAID/Jakarta's program strategy. Its fit within the Mission's strategy was recently recorded within the context of the PRISM exercise, as follows: The FMP project contributes to USAID/Jakarta's program goal of broad-based and sustainable economic growth. It does so by contributing to one of the three program sub-goals, namely broadened participation in a more competitive economy. It also contributes to one of the four strategic objectives, namely broadened and increased private trade and investment, which

includes: an improved enabling environment for private sector economic growth and an improved institutional capability of the private sector to respond to economic opportunities.

FMP's major project inputs (technical assistance and training) consist primarily of institutional strengthening and policy implementation assistance directed at improving the investment, trading and regulatory environment for Indonesia's capital and money markets. In addition, through the privatization component, the Project provides similar assistance to the GOI in designing and implementing the government's emerging SOE privatization/restructuring program.

GOI counterpart agencies participating in the management and implementation of the FMP include the Ministry of Finance (MOF) [responsible for overall coordination of the project], MOF's Capital Markets Supervisory Agency (BAPEPAM) [capital markets component], Bank Indonesia [money markets component] and the MOF's Directorate General for State-Owned Enterprises (BUMN) [privatization component]. Other project participants/beneficiaries include the Jakarta Stock Exchange (Bursa Efek Jakarta, BEJ), the Surabaya Stock Exchange (Bursa Efek Surabaya, BES) and private sector securities brokers, underwriters and investment advisors.

Outputs related to financial markets are anticipated in the areas of market deregulation, increased supply of long-term investment capital, and an improved trading capability and structure. Privatization outputs include an improved overall privatization policy framework and enhanced policy implementation and institutional capacities of the GOI to carry out its privatization efforts. Selected end of project status indicators from the project's logical framework include:

- a permanent and long-range regulatory environment for securities, including stocks, bonds, convertable bonds and commodities futures trading established with operational responsibilities separated from regulatory authority;

- a permanent, self-sustaining private trading market for equities, bonds and other financial instruments based on a profitable, growing securities industry;

- a coherent and integrated set of privatization policies and procedures.

Current Status of Project

The overall project performance status of the three FMP components - capital markets, money markets and privatization - is largely a function of the length of

implementation of the specific component. The capital markets component, which has been a major project effort for the longest period of time (long-term technical assistance contract began in mid-1990), is much further along in terms of logical framework targets than the other two components, which only began in January 1992. Under the three project components, FMP is currently providing technical and training assistance in the following areas:

a. Capital Markets: Assistance to BAPEPAM in drafting capital markets regulations, improving supervision and enforcement practices, and strengthening BAPEPAM's internal operations. Assistance to the securities industry (brokers, underwriters, investment advisors) and the Jakarta and Surabaya Stock Exchanges. The Price Waterhouse technical assistance team for this component includes a Chief of Party, a Securities Industry Specialist, a Training Specialist and various long- and short-term professional and administrative staff.

b. Money Markets: Assistance to the Bank Indonesia Money Markets and Clearing Department in developing effective open market operations, supporting the development of medium- and long-term debt instruments and markets, as well as providing advice to BI on current regulatory and supervisory issues. Under this component, Deloitte, Touche Tohmatsu International provides the services of a long-term Money Markets Advisor to Bank Indonesia.

c. Privatization: Assistance to the Directorate General for State-Owned Enterprises in formulating and implementing privatization/restructuring policies and procedures. Provision of short-term technical assistance related to both generic and enterprise-specific privatization issues. The Price Waterhouse team (separate contract from the capital markets contract) includes a long-term Privatization Advisor and various short-term professional staff.

While there have been no formal evaluations of the FMP to date, an "Assessment of the Financial Markets Project" was carried out by an independent financial sector consultant in September 1992. It will be included as a reference document for the evaluation team. This assessment included observations regarding progress achieved under the three project components and recommendations for improving the impact of the FMP.

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ARTICLE I - IDENTIFICATION OF PROJECT ACTIVITY

Financial Markets Project (FMP), Project No. 497-0360
United States Agency for International Development (USAID)
Jakarta, Indonesia

Date FMP Started:	8/88
PACD:	9/94
A.I.D. Life of Project Funding:	$14.0 million (grant)
Host Country Contribution:	$ 4.7 million (cash and in-kind)

Project Components: Technical Assistance Contractors, Contracting Mode and Host Country Counterpart

a. Capital Markets: Price Waterhouse, Host Country Contract with Ministry of Finance/Capital Markets Supervisory Agency (BAPEPAM)

b. Money Markets: Deloitte, Touche Tohmatsu International, Host Country Contract with Bank Indonesia (Money Markets and Clearing Department)

c. Privatization: Price Waterhouse, Direct A.I.D. contract through Buy-in to A.I.D./Washington Privatization and Development (PAD) Project, Ministry of Finance/Directorate General for State-Owned Enterprises (BUMN)

ARTICLE II - OBJECTIVES

The primary objective of this interim evaluation of the Financial Markets Project (FMP) is to provide USAID/Indonesia and the Government of Indonesia (GOI) with a detailed assessment of project implementation and progress achieved to-date, as well as the overall impact of the FMP on the development of Indonesia's financial markets and state-owned enterprise (SOE) privatization/restructuring program. This evaluation will include any recommendations for project modifications to improve the likelihood of achieving the project's targets.

A secondary objective of the evaluation is to examine the condition of the Indonesian financial markets and the GOI's SOE privatization/restructuring program in light of possible project activities in the future. Specifically, the evaluation will include recommendations for alternative or additional activities which could be considered for support under a possible amendment of the project and extension beyond the current scheduled Project Assistance Completion Date (PACD) of September 30, 1994, with particular attention to the ability of the GOI and private

sector to sustain achieved progress in the development of the Indonesian financial markets.

ARTICLE III - STATEMENT OF WORK FOR INTERIM EVALUATION

Evaluation Objectives

As stated in ARTICLE II, the primary objective of this interim evaluation is to provide USAID and the GOI with a detailed assessment of project implementation and progress achieved to-date, as well as the overall impact of the FMP on the development of Indonesia's financial markets and SOE privatization/restructuring program.

A secondary objective of the evaluation is to examine Indonesian financial markets conditions and the GOI's SOE privatization/restructuring program in light of possible project activities in the future. Specifically, the evaluation will include recommendations for alternative or additional activities which should be considered for support under a possible amendment of the project and extension beyond the current PACD. The timing of this evaluation is, therefore, intended to support USAID programmatic decision-making prior to the PACD, as well as the expiration of the three technical assistance contracts.

There will be an outside resource made available to the evaluation team to help with their recommendations for alternative or additional activities. This will be in the form of a Financial Sector Sustainability Assessment: an assessment of the overall current Indonesian financial sector to determine the constraints to its sustainable development. The assessment, unlike the evaluation, will look at the entire financial sector and three USAID/Jakarta activities in it, including the FMP project and a secondary or rural banking project. The assessment will be conducted by a sustainability expert with financial market experience and take place at the same time as the evaluation, affording maximum interaction between the two teams. The evaluation team can, therefore, rely on the assessment for sustainability and secondary banking issue analysis. This should prove to be valuable input into the evaluation team's recommendations for future USAID/Jakarta project involvement.

Issues for Evaluation

The evaluation will be designed and implemented in a manner that will provide *empirical findings and recommendations for appropriate changes* in the project approach, while answering the questions listed below:

a. To what extent have the measures of goal achievement and the objectively verifiable indicators of project purpose and outputs, as stated in the Logical Framework of the Project Paper (PP) and PP Supplement, been achieved? What is the verifiable *impact* of project achievements on the development of Indonesia's financial markets and the GOI's SOE privatization/restructuring program?

b. In light of the rapid changes in the structure of Indonesia's financial markets over the life-of-project, are the aims and objectives of FMP still *relevant*? With respect to the privatization component, how *relevant* is project assistance to the GOI's emerging privatization/restructuring program?

c. How appropriate is the FMP within the context of USAID's overall strategic objectives? (See program strategy statement, Background Section)

d. Is there evidence to suggest that the achievements of the project identified in 4.2a. above are likely to be *sustainable* beyond the life-of-project? (See outside resource for this issue, end of Evaluation Objectives Section of Article III)

e. To what extent have the three project-funded technical assistance contractors been *effective* and *efficient* in providing technical and training assistance to project counterparts/beneficiaries? Has the assistance been *relevant*?

f. How *effective*, *efficient* and *relevant* has the project's training program been? To what extent has the program complied with project training objectives and A.I.D. training regulations.

g. What has been the extent of the *host country and/or other counterpart contributions* (input size, sequence, and timing)? Are these contributions expected to reach the target amounts bu the end of the project, as indicated in the Project Paper and Project Paper Supplement?

h. To what extent have *gender concerns* been integrated into the design and implementation of the project?

i. What are the principal "*lessons learned*" from the FMP?

j. Have FMP activities had any impact on the more equitable distribution of financial sector resources or on secondary banking markets? (See outside resource for secondary markets, Article III.)

k. To what extent has the FMP been implemented using sound financial management practices? (See Task 7).

Statement of Specific Evaluation Tasks

In addressing the questions and issues summarized above, the evaluation team will perform the following tasks:

Task 1: Preparatory Work

Before departure for Indonesia, the expatriate team members shall familiarize themselves with previous and current literature about the project. The Mission will ensure that the following documents are available to them:

a. FMP Project Paper and Project Paper Supplement;
b. "Assessment of the Financial Markets Project," September 1992;
c. "FMP Project Implementation Report (PIR), 1992";
d. Annual Workplans for three project components;
e. Most recent Quarterly Reports for three project components;
f. Summary of FMP Training Program.

The Senior Financial Markets Specialist and the Senior Privatization Specialist will spend up to two full workdays in Washington, D.C.. Meetings will be held with the World Bank to determine its views on developments in Indonesia's financial markets. In addition, USAID/Indonesia will make arrangements for these individuals to meet with staff in the A.I.D./Washington Private Enterprise Bureau (PRE) involved with backstopping the Privatization and Development Project (PAD), the buy-in project for the FMP privatization component. One team member will also meet with A.I.D./PRE staff involved with the Financial Sector Development Project (FSDP), which was utilized extensively for FMP capital markets assistance during the period 1988-90. The team will also meet with key staff members of the International Development Management Center (IDMC) to assure the team's familiarity with the most current sustainability assessment tools and techniques. This IDMC meeting will help the team prepare to collaborate with the Financial Sector Sustainability Assessment (See outside resource, end of Article III.)

The individual team members may choose to prepare and send to USAID/Jakarta a list of questions on data requirements in order that collection of the information may be started in advance of the team's arrival.

In Indonesia, the team will carry out the following tasks:

Task 2: Draft Workplan
Soon after their assembly in Indonesia, and before the end of Week One the team will draft a Workplan for their field work. This may include the preparation of evaluation instruments and criteria, interview forms, etc. In order to meet the target of a Week One submission (see Article IV - Reports, Reporting Requirements Schedule for Week One.), it would be helpful for the Team Leader to prepare a draft, notional plan before his arrival in indonesia, so the team can use this draft as a point of departure for drafting and submitting a draft Workplan.

Task 3: Prepare an Assessment of Project Achievements to Date
The team will identify project achievements from project initiation in 1988 to the present, based on monitoring indicators in the Project Paper and Project Paper Supplement. This assessment will cover actions taken, policies adopted and changes initiated, and will identify issues which still need to be addressed.

In evaluating the overall achievements of the FMP, the team should use the means of verification identified in the Project Paper's and Project Paper Supplement's Logical Frameworks so far as readily available data permit. Their findings, both qualitative and quantitative, will be summarized in matrix form, comparing the targets in the Logical Framework with the current status. Data for the capital and money markets (stock market capitalization, stock market capitalization as a percentage of GDP, number of listed companies, average daily trading volume, market structure, volume and diversity of financial instruments, etc.) during the period 1988-92 will be included and presented in a graphic form.

Task 4: Evaluate the Effectiveness of FMP Technical Assistance Activities
The team will evaluate the effectiveness of the technical assistance activities under the three major components and their respective contractors: (a) Price Waterhouse under the capital markets component; (b) Deloitte, Touche Tohmatsu International under the money markets component; and, (c) Price Waterhouse under the privatization component.

Task 5: Evaluate the Effectiveness of the FMP Training Program
The team will evaluate the effectiveness of the FMP training program in relation to the project's overall objectives. The degree of compliance with A.I.D. training regulations will also be evaluated, to the extent the team discovers any non-compliance during the normal course of reviewing project documentation. If necessary, a staff person from USAID/Jarkarta will be available to advise the team on A.I.D. training regulations and answer any questions that they may have.

Task 6: Identify Obstacles to Implementation and Emerging Opportunities
From the preceding tasks, the team will identify any obstacles to project implementation and propose new approaches to overcoming these obstacles, including new approaches for provision of technical assistance and training. In addition, the team will assess the probability for sustained impact of this project, and will recommend whether a continuation of this type of project is justifiable. The team will identify emerging opportunities which could be incorporated in any subsequent amendment of or extension to the FMP and/or FMP technical assistance contracts. This will include any issues associated with the opportunities, general duration of the assistance proposed, types of T.A. required, the identification of counterpart agencies. This will not include detailed scopes of work or budgets.

Task 7: Evaluate the Financial Management Practices to Determine Whether Sound Implementation Practices are in Place
The team will evaluate FMP's financial management implementation in planning and budgeting, organizing and monitoring and controlling project activities. The team will also identify any observed departure from A.I.D. financial management standards. The extent of sound financial management practices may be limited to general concepts, principles of financial systems and accounting for project funds, i.e. in the area of project financial planning and budgeting of project activities, managing project cashflows and financial reports, and financial monitoring of project activities by both GOI and USAID officials.

If non-compliance is detected, such non-compliance will be categorized as (1) departure from norm without violating specific rules, (2) violation of rule indicating poor management, but no violation of law or (3) violation of law. Note, this task should not be construed as a financial audit, but a pre-audit screening that requires only limited accounting/financial management expertise. Also note that Mission staff knowledgeable in A.I.D. financial management rules will be available to clarify those rules, if required. There is also a

possibility that USAID/Jakarta will assign an A.I.D. Direct Hire individual from Washington to help the team with this task. If so, some contractor time needed to address this issue may be freed-up for more in-depth work on other issues.

Task 8: Briefings and Preparation of Draft and Final Reports
The team will present a number of briefings for USAID Staff and GOI counterparts and prepare draft and final reports, as described in Article IV.

Evaluation Methods

The evaluation team will utilize the following evaluation methods:

Interviews

The evaluation team will conduct interviews with individuals, such as from the following groups, involved directly with the project and/or Indonesia's financial markets:

a. A.I.D./Washington and USAID/Indonesia personnel;

b. Representatives of project contractors and consultants;

c. Project counterparts in the GOI, including the Ministry of Finance, BAPEPAM and Bank of Indonesia;

d. Private sector project participants/beneficiaries, including trainees, Jakarta Stock Exchange staff and private sector securities industry representatives;

e. Academic and/or private sector observers of Indonesia's financial markets and privatization/restructuring program; and

f. Other donors, including the World Bank and the Asian Development Bank.

USAID and BAPEPAM will assist the evaluation team in setting up appointments for the above interviews and may also participate in a number of the interviews.

Research

Research will include, but not be limited to, a review of the following: [1]

a. USAID documentation for the FMP, including the Project Paper, Project Paper Supplement, periodic reports and project files;

b. Contractors' reports and files;

c. Financial press reports on Indonesia's financial markets and privatization/restructuring program;

d. Market research documents prepared by private firms/advisors; and

e. Other donor reports (World Bank, International Monetary Fund, Asian Development Bank).

USAID, BAPEPAM and FMP contractors will cooperate, to the maximum extent possible, with the evaluation team in providing access to appropriate documents.

Evaluation Team Composition and Qualifications

It is proposed that the evaluation team will consist of the following five professionals who will be selected by USAID/Indonesia and BAPEPAM. The contractor shall be responsible for recruiting all five individuals, including those of Indonesian nationality.

Team Leader (32 person days): The primary responsibility of the team leader will be to plan, coordinate, execute and manage the overall evaluation. The team leader will also provide technical expertise related to the evaluation requirements to determine project relevance, efficiency, effectiveness and impact. The team leader will be responsible for managing the evaluation team but will defer to the Senior Financial Markets Specialist the job of completing all evaluation documentation.

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[1] *As some of these documents are quite sensitive, the evaluation team will treat them as confidential material, not to be discussed outside of the context of the evaluation. On an as needed basis, BAPEPAM may require team members to sign statements not to divulge the details contained in these sensitive documents. Also, certain documents will be available on an "eyes only" basis and shall not be copied or removed from the office in which they are filed.*

The team leader should hold a minimum of a MS degree in economics, management or a related social science, with a minimum of ten years demonstrated experience in managing and implementing financial sector projects' design and evaluation work, preferably with USAID projects. Previous experience in Indonesia is highly desirable. Proficiency in Bahasa Indonesia is desirable, but not required.

Senior Financial Markets Specialist (40 person days): This person will be responsible for providing technical expertise in assessing the impact of the capital markets and money markets components. As such, this individual must have extensive experience in the financial sector, with broad exposure to all facets of financial sector issues, but with demonstrated experience in capital markets and money markets. This person will also be responsible for completing all evaluation documentation, including the preparation of the final report in the United States.

This person should hold a minimum of a MS degree in economics or management. A minimum of twenty years experience in the financial sector is required, preferably gained through high-level public and private sector assignments. Previous experience with USAID projects is highly desirable. Previous experience in Indonesia is also highly desirable. Proficiency in Bahasa Indonesia is desirable, but not required.

Senior Privatization Specialist (17 person days): This person will be responsible for providing technical expertise in assessing the impact of the privatization component. As such, this individual must have extensive experience in the financial sector, with demonstrated experience in privatization.

This person should hold a minimum of a Master's degree in economics or management. A minimum of 15 years experience in privatization is required, preferably gained through high-level public and private sector assignments. Previous experience with USAID projects is highly desirable. Previous experience in Indonesia is also highly desirable. Proficiency in Bahasa Indonesia is desirable, but not required.

Training Evaluation Specialist (17 person days): This local-hire person will be responsible for evaluating the FMP Training Program and its compliance with A.I.D. training regulations. This individual should have a minimum of five years experience in planning, implementing and evaluating training programs, preferably with experience in financial sector training activities.

This person should hold a minimum of a MS degree in management education, economics or a related social science. This person should be an Indonesian national fluent in both Bahasa Indonesia and English.

Financial Markets Research Specialist (30 person days): This local-hire person will be responsible for gathering data regarding Indonesia's financial markets and privatization programs and carrying out research required for the evaluation. Representative tasks will include collating and presenting data on developments in Indonesia's financial markets during the period of project implementation, identifying and obtaining useful research documents and ensuring that all relevant sources of information on the FMP, Indonesian financial markets and privatization are reviewed by the evaluation team.

This person should be an Indonesian national fluent in both Bahasa Indonesia and English and should hold a minimum of a MS degree in economics or management. A strong background in financial markets is required, with a minimum of five years experience in the field.

The proposed level-of effort and the composition of the evaluation team may be adjusted through negotiation between the A.I.D. Contracting Officer and the IQC firm. The preparation of the evaluation documentation, described herein as the responsibility of the Senior Financial Markets Specialist, may be transferred to the Senior Privatization Specialist, with appropriate adjustment of workdays, without USAID/Jakarta approval. All other significant adjustments will require USAID/Jakarta written approval.

In addition to the five-member team described above, clerical and administrative staff support will be supplied by the evaluation team's home office in the U.S.

C. Access to Classified Information

The Contractor shall not have access to any U.S. Government classified material.

D. Logistical Support

USAID/Jakarta will provide office space and equipment and secretarial services. The Contractor will provide all other support.

The following facilities will be available to U.S. Citizens only: Diplomatic Pouch (not APO), Accommodation Exchange, AERA Club, Commissary and I.D. Cards.

E. Work Week

A six-day work week is authorized with no premium pay.

ARTICLE IV - REPORTS

Final Report

The team will prepare, in Indonesia, a draft final report which responds to the questions and tasks outlined in Sections 4.2 and 4.3. This draft report will be submitted to USAID/Indonesia during Week 6 of the evaluation for discussion during exit briefings with the GOI and USAID. USAID and the GOI will provide the team with verbal comments during the exit briefings and written comments within one week of their departure. The IQC firm will provide a final report to USAID within the subsequent two weeks.

The final report must correspond to USAID's required format for project evaluation reports as follows:

- *Executive Summary*, with these elements: (1) purpose of activity evaluated, (2) purpose of the evaluation and methodology used, (3) findings and conclusions, (4) principal recommendations and (5) clear and succinctly stated "lessons learned," both regarding project design implications and broad action implications;

- *Project Identification Data Sheet*;

- *Table of Contents*;

- *Body of the Report* (usually 30-40 pages), including sections on (1) evaluation purpose and questions, (2) the economic, political and social context of the project, (3) team composition and study methods (one page maximum), (4) evidence/findings concerning the evaluation questions, (5) succinctly stated conclusions drawn from the findings (including "lessons learned"), and (6) recommendations based on evaluation findings and conclusions; and

- *Appendices*, including a copy of the evaluation scope of work, the logical frameworks for the project, a list of documents consulted and individuals and agencies contacted, more detailed discussions of

methodological or technical issues as appropriate and supporting tables and graphs.

One laserjet printed final report will be provided to USAID. Another five copies of the report will be provided to the A.I.D./W Center for Development Information and Evaluation (CDIE) in accordance with normal A.I.D./W requirements. USAID will also be provided with a diskette copy of the final report written in Word Perfect 5.1 format, plus diskette copies of tables and graphs (in Harvard Graphics or Lotus format).

A.I.D. Evaluation Summary Form 1330-5

The team will also be responsible for the drafting of Sections H and J of the standard A.I.D. Evaluation Summary. 5 copies of Sections H + J will be provided along with a diskette copy written in Word Perfect 5.1 format.

Reporting Requirements and Schedule

A notional schedule for the evaluation and deliverables is shown below:

Week No.	Work to Be Carried Out	Deliverables
One	Financial Markets Specialist and Privatization Specialist split up and meet separately with A.I.D., World Bank, IDMC, Deloitte and P.W. in Washington (2days); Initial briefing with USAID Office of Private Enterprise Development (PED) and Program and Project Support (PPS) Office staff and GOI counterparts; Draft Workplan is prepared; Set up appointments in Indonesia and submit draft workplan to USAID/Jakarta and project grantee: BAPEPAM.	Draft Workplan

Two	Agreement reached by USAID/Jakarta, the evaluation team and BAPEPAM on Workplan; Begin interviews and research.	Approved Workplan.
Three	Interviews and research; Progress Briefing for PED and PPS staff on Friday (7/2).	Briefing at USAID.
Four	Interviews and research; Presentation of privatization component work to A.I.D. and GOI on Tuesday (7/6); Progress briefing for PED and PPS staff on Friday (7/9).	Briefing at USAID.
Five	Complete interviews and research; Progress briefing GOI, PED and PPS staff on Friday (7/16).	Briefing at USAID including BAPEPAM and other GOI counterparts.
Six	Prepare and present draft final report in exit briefing for USAID and GOI counterparts (7/23).	Draft final report and exit briefings for USAID and GOI.
Seven/Eight	Senior Financial Markets Specialist returns to U.S. to prepare final report and evaluation summary; Respond to comments from USAID and GOI on draft final report and prepare and issue final report.	Final report. Evaluation Summary Form 1330-5 Parts H + J.

ARTICLE V - RELATIONSHIPS AND RESPONSIBILITIES

The team will work under the technical direction of Mr. Michael G. Huffman, Private Sector Officer in the Private Enterprise Division of the USAID/Jakarta Mission. All coordination with the GOI will be through the USAID/Jakarta Private Enterprise Division.

ARTICLE VI - PERFORMANCE PERIOD

June 14 - August 8, 1993

ARTICLE VII - WORKDAYS ORDERED

It is estimated that the five-person team will provide a total level of effort of 141 professional work-days:

Position	Professional Workdays Ordered			
	Outside Indonesia	In Indonesia	Travel	Total
Team leader	0	30	1	31
Senior Financial Markets Specialist	10	30	3	43
Senior Privatization Specialist	2	15	3	20
Training Evaluation Specialist	0	17	0	17
Financial Markets Research Specialist	0	30	0	30
TOTAL	12	122	7	141

A 6-day work week with no premium pay is authorized.

ARTICLE VIII - A.I.D. ILLUSTRATIVE BUDGET

(See Attachment A to this PIO/T)

ARTICLE IX - SPECIAL PROVISIONS

A. Duty Post

Jakarta, Indonesia and Washington, D.C.

B. Language Requirements and Other Required Qualifications

None

Drafted by: JLindborg and MHuffman:4/15/93 B:\FMPEVAL.SOW

ANNEX I

PERSONS, ORGANIZATIONS, AND AGENCIES INTERVIEWED

ANNEX I
PERSONS, ORGANIZATIONS, AND AGENCIES INTERVIEWED

FMP Personnel

Mark Camstra, chief of party, Jakarta
William Hollinger, senior consultant, Privatization Component, Jakarta
Howard Schuman, training specialist, Jakarta
David Whitehead III, financial economist, Deloitte & Touche, Jakarta
Peter Evans, consultant, Washington, D.C.
Auguste Rimpel, partner, Washington, D.C.

USAID/Jakarta

Viviann Gary, PED office director
Stephen Grant, director, Education and Training
Michael G. Huffman, private sector officer

U.S. Embassy, Jakarta

Judith Fergin, economist, Economics Section

Ministry of Finance

Fuad Bawazier, director general of taxation, Ministry of Finance
Harry Supangkat, Directorate General for SOEs, Ministry of Finance
Antonius Subroto, Directorate General for SOEs, Ministry of Finance

BAPEPAM

Agus Muhammad, head, Bureau of Transactions and Securities Institutions
Anis Baridwan, head, Non-financial Services Companies Division
Freddy Saraugh, head, Planning and Evaluation Division
Gus Asmaraja
Herwidayatmo, head, Stock Exchanges Development Division
Arys Ilyas
I Nyoman Tjager, head, Bureau of Legal Affairs
I Putu Ary Suta, head, Corporate Finance II Bureau
Dra. T. Roslyana S., head, Non-manufacturing Companies Division
Bacellius Ruru, chairman
Hinsa Siahaan, head, Research Division

Jakarta Stock Exchange

Ana, Research Division
Hetty F.T. Sual-Rumambi, public relations coordinator
Susatio Soedigno, head, Research Division

DG/SOE

Martiono Hadianto, director general for SOEs, Ministry of Finance

Bank Indonesia

Dahlan M. Sutalaksana, director, Bank Indonesia
Erman Munzir, advisor, Bank Indonesia

Other Donor Agencies

Sita Ramaswani, World Bank, Washington, D.C.
Surinder K. Malik, World Bank, Washington, D.C.
Daniel H. Baldini, International Finance Corporation, Washington, D.C.

Private Companies

H.M. Abdurachim Husein, P.T. Arya Prada Sekuritas
Peter Duncan, Business Advisory Indonesia, Jakarta
Eugene K. Galbraith, president-director, HG Asia, Jakarta
Edward J. Higham, president-director, GoodYear, Jakarta
Sean G.S. Hughes, president-director, P.T. Jardine Fleming Nusantra, Jakarta
Ietje Supangkat, LMKA, Jakarta
Priaswijanto Sabrawi, IPAF, Jakarta
Abdu Rahin, Association of Broker/Dealer Representatives
John B. Richey, Management Development Technologies, Ltd., Washington, D.C.
Susan Scribner, International Development Management Center, Washington, D.C.
Dr. Sjahrir, ECFIN, Jakarta
Sharon Thams-Carter, International Development Management Center, Washington, D.C.
Mark Williams, chief of party, Chemonics/USAID PURSE project, Jakarta

ANNEX J

DOCUMENTS CONSULTED

ANNEX J
DOCUMENTS CONSULTED

1. FMP Project Paper and Project Paper Supplement.

2. "Assessment of the Financial Markets Project," September 1992.

3. "FMP Project Implementation Report (PIR), 1992.

4. Annual work plans for three project components.

5. Most recent quarterly reports for three project components.

6. Summary of FMP Training Program.

7. 1993 World Bank Report on Indonesia.

8. IMF Recent Economic Development 5/21/93.

9. ADB Second Development Finance Loan Project (Indonesia) 3/9/93.

10. BAPEPAM Annual Report 1991 - 1992.

11. Press reports on financial developments and project related matters.

12. Credit Rating Agency for Indonesia Price Waterhouse 4/21/93.

13. Fact Sheet, Jakarta Stock Exchange.

14. State-Owned Enterprises in Indonesia Inviting Direct Participation in Line with the Restructuring Process,
Martiono Hadianto.

15. Indonesia: Sustaining Development, The World Bank, May 25, 1993.

16. Enhancing the Sustainability of Development Impact: Supplemental Guidance for AID Mission and Bureau Staff, IDMC,
July 1991.

17. Fourth Quarterly Report, February - April 1993, Money Markets Component, Bank Indonesia, FMP - 497/0360, Deloitte and Touche, Technical Assistance Contract.

18. Performance and Reform of Industrial Public Enterprises in Indonesia, A. Hafeez Shaikh, The World Bank, 1992.

19. Ministry of Finance and USAID/Jakarta, FMP - Privatization Component. Quarterly Report - 1st quarter 1993.

20. Semi-Annual Portfolio Implementation Review, FMP 497-0360, April 1993.

21. Assessment of the FMP 497-0360, Peter Gajewski, September 2, 1992.

22. Statement of Work, FMP 497-0360,, Interim Evaluation, USAID/Jakarta.

23. Ministry of Finance, Financial Markets Project, State Owned Enterprises Restructuring and Privatization Component, First Year Work Plan, Price Waterhouse, May 26, 1992.

24. Project Paper Supplement, Financial Markets Project 497-0360, Privatization Component, USAID/Jakarta, August 8, 1991.

25. SOE Pension Funds, Draft Report, CMP/Privatization Component, Price Waterhouse, September 1992.

26. SOE Pension Funds Conversion, Draft Report, CMP/Privatization Component, Price Waterhouse, April 1993.

27. PTP Estates Marketing System,Draft Report, Price Waterhouse, September 1992.

28. Directorate MIS Design, Draft Report, Price Waterhouse, July 22, 1992.

29. Aircraft Leasing, Draft Report, Price Waterhouse, January 1993.

30. BOO/BOT, Workshop Materials, Ministry of Finance/USAID, February 23-28 and May 10-15, 1992.

31. Technical Memoranda and other documents of Price Waterhouse and of the Ministry of Finance, Jakarta. These documents refer to the private sector provision of public services, leasing and finance of aircraft, pension funds, Paiton negotiations, policy and regulatory issues, US trade negotiations, training programs and conferences abroad.

32. Financing and Commercializing the Private Provision of Public Services, Final Report, Price Waterhouse, March 25, 1991.

33. Republic of Indonesia, Loan No. 1160-INO: Second Financial Sector Program Loan, Release of Second Tranche, Asian Development Bank, 15 March 1993.

34. World Bank Briefing on Recent Economic Developments, Memorandum of Conversation, USAID/Jakarta, May 7, 1993.

35. "Economic Roads: Indonesia Faces Decision on Its Development Path," The Wall Street Journal, March 25, 1993.

36. "Beefing Up Competitiveness," Economic & Business Review Indonesia, No. 62, June 19,1993.

37. "Going Public a Must for Strong State-Owned Firms....," Jakarta Post, April 28, 1993.

38. The Jakarta Stock Exchange: The New Criterion of Emerging Asia, Jakarta Stock Exchange, Inc.

39. Power Purchase Agreement Between P.T. Paiton Energy Company as Seller and Perusahaan Umum Listrik Negara as Buyer, Draft, June 2, 1993.

40. P.T. (Persero) PANN Multifinance, Business Plan, Aircraft Leasing Group, Price Waterhouse, June 1993.

Bibliography

41. Martiono Hadianto, State-owned Enterprises in Indonesia Inviting Direct Participation in Line with the Restructuring Process,

42. Indonesia: Sustaining Development, The World Bank, May 25, 1993.

43. Enhancing the Sustainability of Development Impact: Supplemental Guidance for AID Mission and Bureau Staff, IDMC, July 1991.

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45. Performance and Reform of Industrial Public Enterprises in Indonesia, A. Hafeez Shaikh, World Bank, 1992.

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47. Semi-Annual Portfolio Implementation Review, FMP 497-0360, April 1993.

48. Assessment of the FMP 497-0360, Peter Gajewski, September 2, 1992.

49. Statement of Work, FMP 497-0360,, Interim Evaluation, USAID/Jakarta.

50. Ministry of Finance, Financial Markets Project, State Owned Enterprises Restructuring and Privatization Component, First Year Work Plan, Price Waterhouse, May 26, 1992.

51. Project Paper Supplement, Financial Markets Project 497-0360, Privatization Component, USAID/Jakarta, August 8, 1991.

52. SOE Pension Funds, Draft Report, CMP/Privatization Component, Price Waterhouse, September 1992.

53. SOE Pension Funds Conversion, Draft Report, CMP/Privatization Component, Price Waterhouse, April 1993.

54. PTP Estates Marketing System,Draft Report, Price Waterhouse, September 1992.

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56. Aircraft Leasing, Draft Report, Price Waterhouse, January 1993.

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60. Republic of Indonesia, Loan No. 1160-INO: Second Financial Sector Program Loan, Release of Second Tranche, Asian Development Bank, 15 March 1993.

61. World Bank Briefing on Recent Economic Developments, Memorandum of Conversation, USAID/Jakarta, May 7, 1993.

62. "Economic Roads: Indonesia Faces Decision on Its Development Path," The Wall Street Journal, March 25, 1993.

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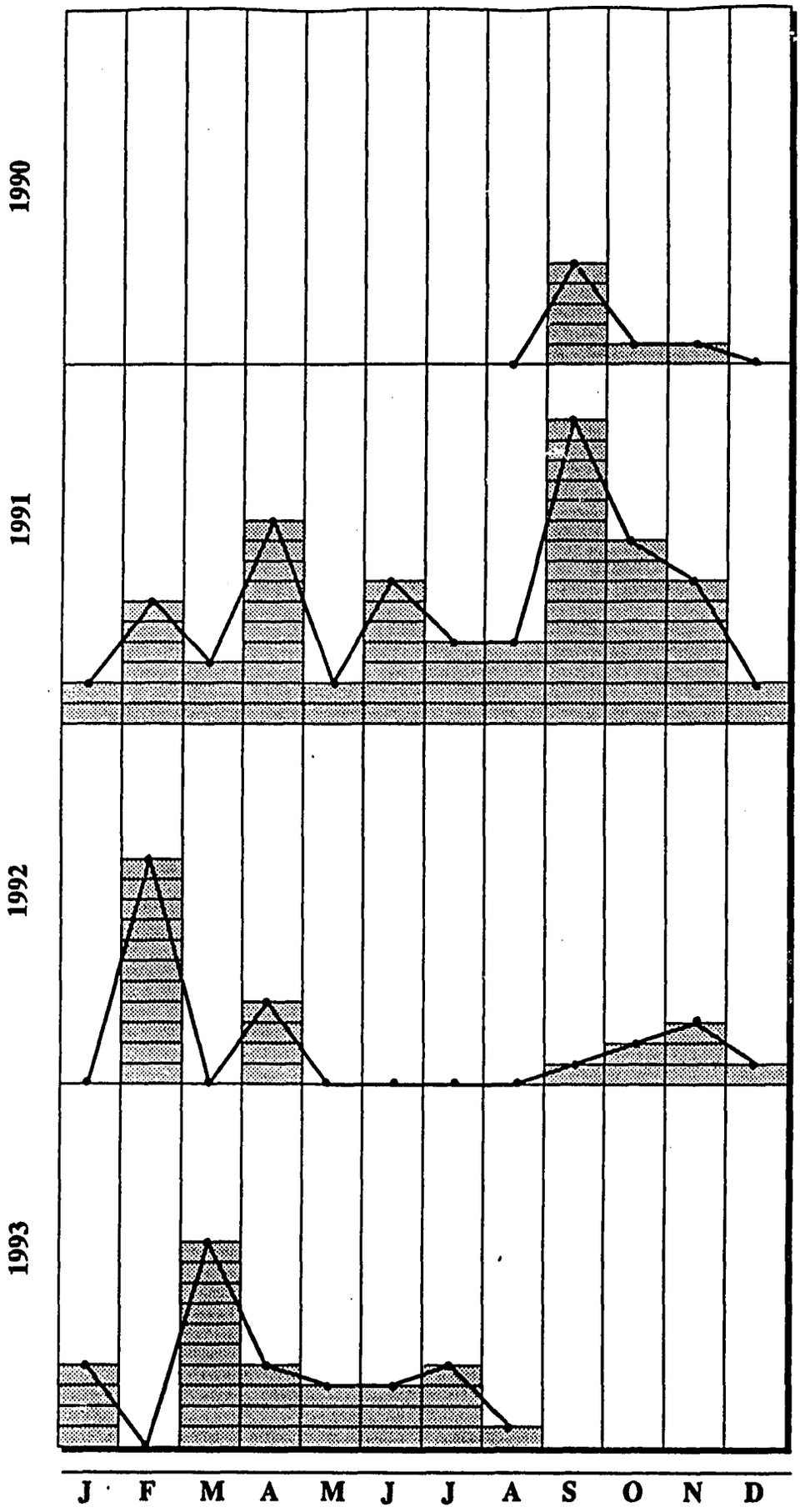
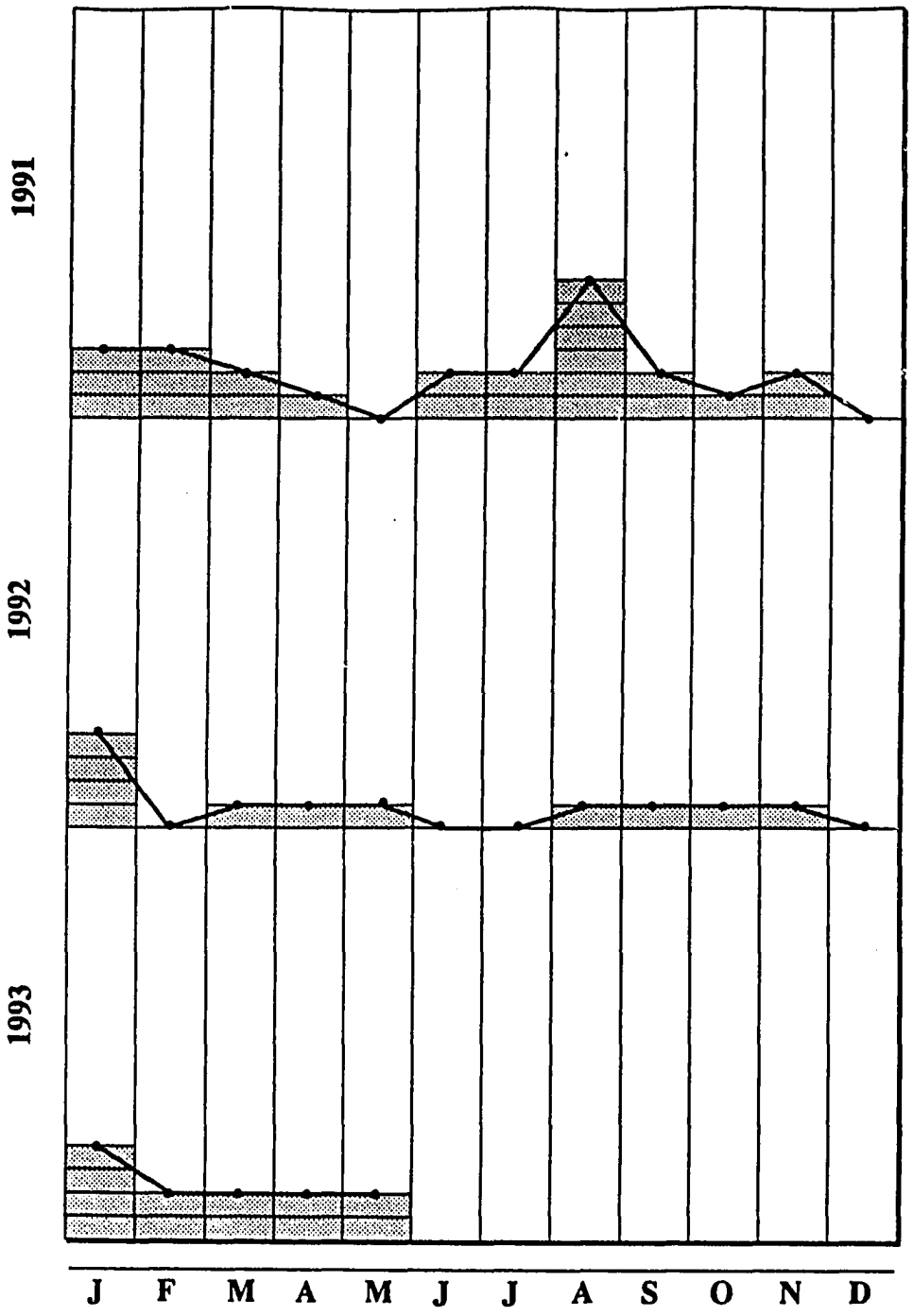
ANNEX K

FMP TECHNICAL MEMORANDA

ly FMP Output of Technical Memoranda on Capital Market Regulation and Rules



emoranc a on Mar ions,
Securities Company Operations, and Stock Exchange Operations



DELIVERABLE/OUTPUT INDEX

	COMPONENT	PRINCIPAL DELIVERABLE/OUTPUT
1.0	Direction/Management	Workplans Progress Reports
2.0	Regulatory	Capital Market Decree (English version) Rule-Book (English version - draft) Report: Organization & Methods (Vols. I - V) Technical Memoranda (see attached listing)
3.0	Securities Industry	Report: Securities Market Design Competency Examinations Technical Memoranda (see attached listing)
4.0	Training/Public Awareness	Program/Progress Reports Report: Survey of Indo. Training Institutions Training Course Materials Technical Memoranda (see attached listing)

Attachment: List of Technical Memoranda by Component/Task

Component 2.0: Regulatory

Task 2.1: Capital Market Regulations & Rules

	DATE	NUMBER	SUBJECT
1	9 17 90	FMP/MT/90/036	Summary of Capital Markets Decree
2	10 11 90	FMP/MT/90/049	Draft Circular on Acquisitions
3	10 11 90	FMP/MT/90/048	SEC Int'l Series Release No. 127
4	10 13 90	FMP/MT/90/051	Request for Information on "Trustee" and "Trust Agent"
5	10 15 90	FMP/MT/90/050	Strategy and Action Plan for the Transitional Period
6	10 31 90	FMP/MT/90/052	List of BAPEPAM Rules and Forms
7	12 26 90	FMP/MT/90/068	Capital Market Decree
8	1 17 91	FMP/MT/91/005	Progress Report on the Drafting of Capital Market Regulations
9	1 25 91	FMP/MT/91/008	Progress Report on Drafting of Capital Market Regulations
10	2 28 91	FMP/91/TM/B016	Regulation of Collective Investment Funds
11	2 14 91	FMP/91/TM/B014	Rule-Making Rule
12	3 4 91	FMP/91/TM/B017	Transaction Note Contents
13	3 19 91	FMP/91/TM/B022A	Status of Implementing Rules of Capital Market Decree
14	4 10 91	FMP/91/TM/B028	Regulatory Strategy for Net Adjusted Working Capital Rule
15	5 3 91	FMP/MT/91/033	Marketing Regulation Briefings
16	5 7 91	FMP/91/TM/B032	Share Swaps
17	5 8 91	FMP/MT/91/034	New Market Regulation
18	5 10 91	FMP/MT/91/34	New Market Regulations
19	5 11 91	FMP/91/TM/B033	Rules in Progress (Securities Registration Package)
20	5 15 91	FMP/91/TM/B033A	Rules in Progress (Revised Securities Registration Package)
21	5 16 91	FMP/91/TM/B035	Rules in Progress (Transaction Bureau Package)
22	5 24 91	FMP/91/TM/B035B	KMK 1548 Article 139-Affiliation of Managing-Lead Underwriter
23	6 3 91	FMP/91/TM/B036A	Standby Underwritings of Rights Issues
24	7 5 91	FMP/91/TM/B050	Exchange of Shares Between Companies Under Common Control
25	9 6 91	FMP/91/TM/B075	Compliance with Capital Market Decree and BAPEPAM Rules
26	9 16 91	FMP/91/TM/B080	Comments on Investment Fund Rules and Forms
27	10 8 91	FMP/91/TM/B084	Investment Fund Rules
28	10 21 91	Note	Draft of Interpretive Release
29	10 22 91	FMP/91/TM/B103	Qualifications for Exemption from Registration: Private Placements and Small Offerings
30	10 23 91	FMP/91/TM/B101	BAPEPAM'S Inspection Powers
31	10 25 91	FMP/91/TM/B104	Amendments to Decree 1548
32	10 28 91	FMP/91/TM/B106	Amendments to CMD
33	10 28 91	FMP/91/TM/B108	Amendments to CMD
34	10 30 91	FMP/91/TM/B112	Amendments to CMD
35	10 30 91	FMP/91/TM/B109	Amendments to CMD
36	10 30 91	FMP/91/TM/B111	Amendments to CMD
37	10 30 91	FMP/91/TM/B114	Amendments to CMD
38	10 30 91	FMP/91/TM/B110	Amendments to CMD
39	11 4 91	FMP/91/TM/B119	Amendments to CMD and our Memorandum No.: FMP/91/TM/B108
40	11 5 91	FMP/91/TM/B117	Commentary on Draft Modifications of Decree 1548 to the Privat. of the JSE
41	11 6 91	FMP/91/TM/B121	Proposed Changes to Capital Market Decree
42	11 8 91	FMP/91/TM/B122A	Regulatory Agenda for November
43	11 22 91	FMP/91/TM/B136	Status of Rule-Making for Chapter IV Investment Funds
44	11 26 91	FMP/91/TM/B137	Proposed Amendments to Decree 1548
45	12 24 91	FMP/91/TM/B184	Regulatory Strategy for January
46	12 18 91	FMP/91/TM/B182	Rights Offering
47	12 16 91	FMP/91/TM/B178	Regulatory Strategy - BAPEPAM

Component 2.0: Regulatory (continued)

	DATE	NUMBER	SUBJECT
Task 2.1: Capital Market Regulations & Rules (continued)			
48	1 8 92	FMP/92/TM/B004	Rules in Process regarding Custodian and SAAs
49	1 8 92	FMP/92/TM/B002	Status of Rule-Making
50	1 8 92	FMP/92/TM/B003	Status of Rules
51	1 10 92	FMP/92/TM/B005	Draft Letter: Rule Making Process
52	1 13 92	FMP/92/TM/B008	Status of Rules
53	1 13 92	FMP/92/TM/B007	Status of Work on Mergers and Acquisition Rules
54	1 13 92	FMP/92/TM/B009	Progress on Rules
55	1 14 92	FMP/92/TM/B010	Progress on Rules
56	1 17 92	FMP/92/TM/B013	Status of Regulations in Process
57	1 28 92	FMP/92/TM/B022	Disclosure Policy Regarding Bonus Shares
58	2 6 92	FMP/92/TM/B023	Proposed BAPEPAM Rule IX.A.7
59	2 13 92	FMP/92/TM/B027	Supporting Documents for General Meeting on Rights Offering Rules
60	2 21 92	FMP/92/TM/B031	Analysis and Research on Proposed Interpretive Release I.B.4
61	2 26 92	FMP/92/TM/B032	Analysis and Research on Proposed Rule IX.A.6
62	4 27 92	FMP/92/TM/B046	Translation of Decree 1548
63	6 15 92	FMP/92/TM/B052	Revision of BAPEPAM Rules
64	6 29 92	FMP/92/TM/B054	The Rule Making Procedure and Its Administration
65	9 6 92	FMP/92/TM/B063	Status of Rule Book
66	10 5 92	FMP/92/TM/B068	Amendments to Decree 1548
67	10 12 92	FMP/92/TM/B069	Draft Decree on Clearing Settlement and Depository Institution
68	11 30 92	FMP/92/TM/B071	Regulations Pertaining to the Clearing, Settlement and Depository Institution (LKPP)
69	12 14 92	FMP/MT/92/027	Draft Rule II.D.1
70	1 12 93	FMP/93/TM/B003	Rule-Making and Rulings
71	1 13 93	FMP/93/TM/B004	Draft Rule VIII.B.1, Distribution of Securities in a Public Offering
72	1 28 93	FMP/93/TM/B008	Materials Requested During January 23 Meeting
73	2 9 93	FMP/93/TM/B010	Minutes of Meeting on Rule-Making Priorities
74	4 22 93	FMP/93/TM/B022	Modification of Decree 1055 (49% Rule)
75	4 26 93	FMP/93/TM/B032	Delivery of ZyIndex System and Rule Making Status Report
76	5 18 93	FMP/93/TM/B034	Rule Making Priorities
77	5 19 93	FMP/93/TM/B036	Estimate of Effort Required to Adopt Rules and List of Items in
Task 2.2: BAPEPAM Organization & Methods			
78	2 8 91	FMP/91/TM/B011	BAPEPAM Reorganization
79	4 19 91	FMP/91/TM/B029	Organization and Methods Project for BAPEPAM
80	11 18 91	FMP/MT/91/048	BAPEPAM O & M Assessment
81	12 18 91	FMP/MT/91/052	Alternatives for the BAPEPAM Automated Records Management System
82	12 24 91	FMP/91/TM/B185	Regulatory Strategy Memorandum and O & M Draft Material
83	5 18 92	FMP/MT/92/011	O & M Assessment

Component 2.0: Regulatory (continued)

	DATE	NUMBER	SUBJECT
Task 2.5: Responsive Assistance (continued)			
126	2 14 92	FMP/92/TM/B028	Use of Paying Agents by Bond Issuers
127	9 6 92	FMP/92/TM/B064	Marketing of Exempt Securities
128	1 25 93	FMP/93/TM/B007	Enforcement Policy Regarding Underwriting commitments
129	3 3 93	FMP/93/TM/B014	Consideration Regarding Conflict of Interest
130	3 15 93	FMP/93/TM/B017	Dual Role of as Trust Agent and Guarantor
131	4 2 93	FMP/93/TM/B021	Counter Feit and Forged Share Certificates
132	4 20 93	FMP/93/TM/B027	Memorandum of Understanding (BAPEPAM - SEC)
133	4 21 93	FMP/93/TM/B026	Credit Rating Agency for Indonesia
134	4 22 93	FMP/93/TM/B031	Dilutive Effect of Stock Warrants
Task 2.6: Capital Market Law Development			
135	7 17 92	FMP/92/TM/B053	Capital Market Development in Taiwan
136	9 6 92	FMP/92/TM/B065	Capital Market of Japan and Korea
137	2 17 93	FMP/93/TM/B012	Comparative Study of Capital Market in Asian Countries
138	5 11 93	FMP/93/TM/B033	Cap. Mkt. Law: Regulatory Structures of Securities Markets
139	5 25 93	FMP/MT/93/B032	Request for Assistance with Capital Market Law
140	6 10 93	FMP/MT/93/B041	Capital Market Law (Initial Suggestions)
Task 2.7: Regulatory Procedures Implementation			
141	12 28 92	FMP/92/TM/B078	Draft Inspection Procedures
Task 2.8: Records Management Implementation			
142	2 12 93	FMP/MT/93/011	PISO Floor Plan
143	4 7 93	FMP/MT/93/016	P I S O
144	4 21 93	FMP/MT/93/018	P I S O
145	5 7 93	FMP/MT/93/023	PISO Job Description
146	5 10 93	FMP/MT/93/025	PISO Follow-up Information

Component 3.0: Securities Industry

	DATE	NUMBER	SUBJECT
Task 3.1: Market Operations (Modernization/Automation)			
1	2 11 91	FMP/91/TM/B012	Consensus on Central Custodial Settlement
2	2 20 91	FMP/91/TM/B015	Short-Term Settlement Improvement
3	3 7 91	FMP/91/TM/B018	Automation of Jakarta Stock Exchange
4	3 13 91	FMP/91/TM/B020	Exchange Automation Systems
5	3 18 91	FMP/91/TM/B022	Automation of Jakarta Stock Exchange
6	3 20 91	FMP/91/TM/B021	PREPCOM Proposal for Private Bureau
7	5 29 91	FMP/91/TM/B035F	Stock Exchange Systems: OM Internal Stratus
8	8 9 91	FMP/91/TM/B065	Jakarta Securities Exchange
9	8 15 91	FMP/91/TM/B067	Securities Exchange Design Report
10	8 20 91	FMP/91/TM/B070	Operational Design for the JSE
11	8 30 91	FMP/91/TM/B073	Proposed Jakarta Securities Exchange
12	9 20 91	FMP/91/TM/B082	Securities Company Rules
13	10 4 91	FMP/91/TM/B083	Global Custodian Role in JSE System
14	10 4 91	FMP/91/TM/B082A	Modernization of the Securities Exchange
15	10 7 91	FMP/91/TM/B085	Global Custodian Role in JSE System
16	10 9 91	FMP/91/TM/B085A	The JSE: A Design for Modern Securities Market
17	10 10 91	FMP/91/TM/B088	Global Custodian Role in JSE System
18	10 12 91	FMP/91/TM/B089	Modernization of Securities Market
19	11 12 91	FMP/91/TM/B128	International Commodities Clearing House Stock Exchange Systems
20	12 18 91	FMP/91/TM/B___	Financial Model for Planning JSE Implementation
21	12 26 91	FMP/91/TM/B187	Interim Settlement Improvements
22	5 6 92	FMP/92/TM/B039	Settlement Issues at IOSCO Conference
23	9 6 92	FMP/92/TM/B062	Settlement Disputes
24	1 8 93	FMP/93/TM/B002	General Design Specifications for Automation of the BEJ
25	1 8 93	FMP/93/TM/B002	General Design Specifications for Automation of the BEJ
26	1 14 93	FMP/93/TM/B005	Job Descriptions for the BEJ Automation Project Team
27	1 15 93	FMP/93/TM/B005	Job Descriptions for the BEJ Automation Project Team
28	2 8 93	FMP/MT/93/014	JSE Automation
29	3 31 93	FMP/93/TM/B020	Automation Design Brief Worksheet (Part I)
30	4 16 93	FMP/93/TM/B024	Job Description: Automation Project
31	5 18 93	FMP/93/TM/B035	International Clearing and Settlement Systems
Task 3.2: Securities Company Operations			
32	1 15 93	FMP/93/TM/B006	Specialized Course in Securities Marketing
33	2 22 93	FMP/93/TM/B015	Securities Lending
34	3 15 93	FMP/93/TM/B016	Standard Financial Statements
35	5 10 93	FMP/MT/93/026	Securities Research Workshop
Task 3.3: Stock Exchange Operations			
36	1 15 92	FMP/92/TM/B011	Procedures for Appointing the Board of Commisioners for JSE
37	1 23 92	FMP/92/TM/B019	Proposed Rules of the Jakarta Securities Exchange
38	7 22 92	FMP/92/TM/B057	Listing Fees of Private Securities Exchange in Japan 1992
39	12 4 92	FMP/92/TM/B072	Proposed Rule Change of BEJ (Fees)
40	12 21 92	FMP/92/TM/B077	De-Listing Procedure
41	1 4 93	FMP/93/TM/B001	Securities Company Penalties and Other Matters
42		/TM/B023	

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Component 3.0: Securities Industry (continued)

	DATE	NUMBER	SUBJECT
Task 3.4: Competency Examinations			
43	4 2 91	FMP/91/TM/B026	Competency Testing Program
44	4 18 91	FMP/MT/91/026	Competency Testing Program
45	8 14 91	FMP/MT/91/040	Status of Competency Exams
46	12 30 91	FMP/MT/91/055	Competency Examinations
47	1 3 92	FMP/MT/92/001	Competency Examinations
Task 3.5: Responsive Assistance			
48	2 6 91	FMP/91/TM/B007	Memorandum of Understanding PREPCOM/SES
49	4 4 91	FMP/91/TM/B027	Australian Stock Exchange
50	4 26 91	FMP/91/TM/B030	Securities Transaction Credit
51	5 16 91	Note	Securities Transaction (Refer to FMP/91/TM/B030 Memorandum)
52	1 17 92	FMP/92/TM/B015	Request from PT Bursa Efek Jakarta
53	1 23 92	FMP/92/TM/B018	BEJ Letter No. S-18/BEJ/I/1992 dated 13 January 1992
54	3 16 92	FMP/92/TM/B040	Nature of Underwriting Agreements
55	4 14 92	FMP/92/TM/B045	Listing of Indonesian Companies on NYSE

Component 4.0: Training/Public Awareness

	DATE	NUMBER	SUBJECT
Task 4.1: BAPEPAM Training			
1	9 12 90	FMP/MT/90/035	Training & HR Development Plan for BAPEPAM
2	10 4 90	FMP/MT/90/044	Training Course Outlines
3	10 5 90	FMP/MT/90/045	December Training in Washington
4	10 8 90	FMP/MT/90/046	International Training Programs
5	10 10 90	FMP/MT/90/047	Additional Course Outlines
6	11 26 90	FMP/MT/90/063	Financial English Program
7	12 18 90	FMP/MT/90/065	Financial English Training
8	12 19 90	FMP/MT/90/066	SEC Training
9	1 8 91	FMP/MT/91/002	SEC Training
10	1 16 91	FMP/MT/91/003	SCM Seminar
11	1 17 91	FMP/MT/91/004	TA on BAPEPAM Procedures from Hung Kee Lai Former SEC Staff Member
12	2 26 91	FMP/MT/91/016	Overseas Training Program
13	4 19 91	FMP/MT/91/027	Preliminary Training Program Listing
14	4 23 91	FMP/MT/91/028	Accounting Training Programs
15	4 25 91	FMP/MT/91/029	FMP Training Program
16	12 4 91	FMP/MT/91/049	Economic Analysis Training Program
17	12 27 91	FMP/MT/91/053	Training Programs for FY 1992-93
18	1 8 92	FMP/MT/92/002	SEC Int'l Institute for Securities Market Development, March 23 - April 3, 1992
19	1 24 92	FMP/MT/92/003	BAPEPAM: Economic Analysis Program
20	2 19 92	FMP/MT/92/005	Developing Training Modules and Designing Manuals
21	2 20 92	FMP/MT/92/006	Overseas Training for BAPEPAM Staff
22	7 3 92	FMP/MT/92/013	Internal Training on Rules for BAPEPAM
23	7 15 92	FMP/MT/92/015	Peraturan Practice Presentation
24	8 7 92	FMP/MT/92/018	Internal Rules Training for Legal Bureau
25	9 1 92	FMP/MT/92/023	Internal Rules Training - Biro TLA
26	1 29 93	FMP/MT/93/007	FMP Int'l Training Programs
27	2 9 93	FMP/MT/93/010	SEC's Third Annual Int'l Inst. for Securities Market Development
28	2 9 93	FMP/MT/93/009	BAPEPAM Participants for Overseas Training
29	2 12 93	FMP/MT/93/012	FMP Int'l Training Programs
30	4 14 93	FMP/MT/93/017	Internship Program
31	5 25 93	FMP/MT/93/034	Capital Market Briefings Sessions
Task 4.2: Other GOI Training			
32	10 5 90	FMP/MT/90/043	Proposed AEMP in Jakarta
33	11 22 90	FMP/MT/90/062	December BOT/BOO and January AEMP Programs
34	4 25 91	FMP/MT/91/030	BUMN Training
35	8 14 92	FMP/MT/92/020	Revise Executive Summary of BUMN Training Need Assessment
36	2 2 93	FMP/MT/93/008	HR Dev. Training Needs for Directorate General
Task 4.3: Securities Industry Training			
37	9 26 90	FMP/MT/90/040	Securities Industry Training Plan Draft
38	1 2 91	FMP/MT/91/001	Introduction to Securities Company Management Training Program
39	1 18 91	FMP/MT/91/006	Lim Choo Peng as Speaker of Securities Company Management Seminar
40	2 27 91	FMP/MT/91/018	Securities Institute Management Seminar
41	12 27 91	FMP/MT/91/054	Privatization Training Program Ideas

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Component 4.0: Training/Public Awareness

	DATE	NUMBER	SUBJECT
Task 4.4: Human Resource Function Strengthening			
42	1 30 92	FMP/MT/92/004	Recruiting - Candidate Evaluation System
43	3 11 92	FMP/MT/92/008	University Recruiting
44	3 18 92	FMP/MT/92/009	Final Recruiting
45	3 18 92	FMP/MT/92/009	BAPEPAM Recruiting - Final Selection
46	10 27 92	FMP/MT/92/025	Interview YPP
47	12 4 92	FMP/MT/92/027	Follow up to YPP
Task 4.5: Public Awareness Development			
48	9 21 90	FMP/MT/90/037	Next Steps on CMD Communications Program
49	5 8 91	FMP/MT/91/035	Suggestions for the Role of a Public Information Officer at BAPEPAM
50	5 25 91	FMP/91/TM/B035D	Material to be Used at Press Conference Issuing New BAPEPAM Rules
51	7 18 91	FMP/91/TM/B062	Activities to Enhance the Image of BAPEPAM
52	7 18 91	FMP/91/TM/B063	Press Accounts in English
53	9 9 91	FMP/91/TM/B076	Information for Investor
54	8 14 92	FMP/MT/92/021	BAPEPAM Annual Report
55	8 24 92	FMP/MT/92/022	Printing of CMD: English Version
56	9 3 92	FMP/MT/92/024	FMP Support for PR Function
57	4 26 93	FMP/MT/93/019	BAPEPAM Annual Report
Task 4.6: Responsive Assistance			
58	3 6 92	FMP/92/TM/B034	Request for Training Assistance
59	4 17 93	FMP/93/TM/B025	Study Tour to Malaysia and Thailand
60	5 25 93	FMP/MT/93/033	Keynote Remarks: M & A Seminar
Task 4.7: Institutionalization of Financial Market Training in Indonesia			
61	11 14 91	FMP/MT/91/047	Follow-up Survey Questionnaire
62	8 3 92	FMP/MT/92/017	Financial Markets Institutions Survey
63	11 30 92	FMP/MT/92/026	FMP - Task 4.7
64	11 30 92	FMP/MT/92/026	Survey of Indonesian Financial Markets Training Institutions
65	12 21 92	FMP/MT/92/030	Bond Seminar Train-the-Trainer