

CORPORATE SECTOR REFORM AND RESTRUCTURING

KEY POINTS

- Restructuring corporate sector debt is a priority for the Government and a key component of its ten-point economic plan.
- A significant share of Indonesia's corporate sector is estimated to be insolvent, with debts of about US\$120 billion. The Government has improved the capacity of its main debt restructuring agencies, IBRA and the Jakarta Initiative; by late 2000, the pace of debt restructuring was accelerating.
- However, the Government remains concerned about the ability of the legal system to implement properly new bankruptcy laws, and has embarked on a program of legal reform; this program has started to achieve success, but progress is slow.
- The Government is strengthening and upgrading its corporate governance framework by strengthening enforcement of company law, reducing entry barriers for new firms and selling restructured assets; again, implementation will take time.
- These reforms eventually should create a more competitive and efficient corporate sector that can sustain stronger economic growth.

In late 2000, after a slow start, the pace of corporate debt restructuring is accelerating somewhat. Some debtors and creditors have started to reach agreements under the Indonesian Bank Restructuring Agency, IBRA, and the Jakarta Initiative Task Force, JITF. IBRA also has started winning some important bankruptcy cases in the courts, increasing incentives for debtors to negotiate debt restructuring. While taxation, regulatory and bankruptcy system weaknesses continue to impede efforts to accelerate restructuring, the Government is attempting to address these problems. Nevertheless, concerns exist about the depth of recent debt restructuring agreements, as superficial workouts are likely to leave the corporate sector over leveraged and exposed to future default.

Government policy makers recognise they must ensure massive non-performing corporate debt is restructured, as restoring corporate sector health is key to sustaining economic recovery in 2001 and beyond. The Government acknowledges the weak legal system has impeded the progress of key government initiatives, particularly IBRA and JITF. Hence, since the crisis, Indonesia has upgraded significantly its bankruptcy system and corporate governance framework. Reducing barriers to entry for new firms, selling government assets to foreign and domestic investors, and introducing anti-trust legislation also will boost competition and corporate sector efficiency. Together, these reforms eventually should create a business environment able to sustain strong economic growth and improve Indonesia's attractiveness as a destination for foreign business.

Restructuring non-performing corporate debt is important for many reasons. First, firms with non-performing loans usually cannot borrow new funds or invest; this constrains economic growth. (See Chapter 1 - *Economic Developments*.) Second, high levels of unstructured debt and the expectation much collateral will be sold makes assets less attractive to potential investors, and inhibits the Government from selling assets it holds to reduce public debt. Finally, the banking system cannot recover until corporate debts are restructured or written off (See Chapter 7 - *Financial Sector Restructuring*.) Hence completion of corporate debt restructuring is essential for Indonesia's recovery.

Improving macroeconomic conditions are likely to expedite negotiations on outstanding debts (International Monetary Fund, 2000a). As the economy recovers, asset sales will be more feasible and rewarding, and companies will need new loans to fund investment.

This chapter maps the scale of Indonesia's corporate debt restructuring task, and assesses the efficacy of recent efforts to accelerate corporate restructuring. It details the strengthening of Indonesia's corporate regulatory framework and analyses the economic reform program's likely impact on corporate performance. Finally, the chapter draws out the implications of these developments for Indonesia's economic prospects and opportunities for Australian business.

LEVELS OF INDEBTEDNESS

In the aftermath of the crisis, analysts estimated a majority of Indonesia's corporate sector was technically insolvent. The sector still carries debts of about US\$120 billion (World Bank, 2000). Large corporates owe US\$85 billion of this, and state enterprises and small firms owe the remainder

(Table 8.1). Of the total debt, 49 per cent is owed to foreign creditors and 72 per cent is denominated in foreign currencies. Three quarters of large corporates' debt is distressed and needs restructuring (World Bank, 2000). Most of these debts are not being serviced.

DEBT RESTRUCTURING PROGRESS

By late 2000, the pace of debt restructuring was accelerating. IBRA reported it tentatively had resolved 40 per cent of its credits with the top 21 debtors, which totalled Rp. 87 trillion (US\$10 billion) through agreed restructuring or legal action. By mid September 2000, the JITF also had restructured 25 cases involving around US\$5 billion of debt, out of 51 cases worth US\$10 billion actively engaged in JITF mediation (World Bank, 2000).

In 1998 and 1999, macroeconomic instability and political uncertainty deterred many debtors and creditors from participating in debt restructuring, or preparing for restructuring by assessing asset values and cash flows. In early 2000, to accelerate the pace of debt restructuring, the Government increased political and resource support for the operations of the two agencies responsible for restructuring domestic debts, IBRA and the JITF.¹ These agencies now have more resources to track debtors and creditors, and more legal sanctions to increase debtor incentives to participate in restructuring. The corporate sector's domestic debts mainly were owed to troubled domestic banks, but the bank restructuring program transferred many of these loans to IBRA. (See Chapter 7 - *Financial Sector Restructuring*.) IBRA therefore negotiates directly to restructure debt or liquidate firms for which it is the main creditor. In other cases, including firms in which IBRA is a minority creditor, negotiations occur under the JITF.

Table 8.1

Large Private Corporates Are Major Debtors

Liabilities and Assets of Major Debtors and Creditors, 1999, US\$ billion

	State banks	IBRA Asset Management Credit Unit	Other local banks	Foreign banks	Securities holders	Total
State enterprises	3.5	1.7	0.5	5.3	1.0	12.1
Large private corporations	4.0	22.9	3.4	50.7	4.1	85.0
Small and medium enterprises	7.2	4.2	8.3	2.4	0.5	22.6
Total	14.7	28.8	12.2	58.4	5.6	119.7

Source: World Bank, 2000.

¹ Cooperation between these schemes and their implementation has improved now the high level Financial Sector Policy Committee oversees both initiatives and reports directly to the President.

Legal System Constraints on Restructuring

Despite changes in 1998 to the bankruptcy laws, only around one third of debtors appearing before the commercial courts by late 2000 had been found bankrupt (Table 8.2). This has meant the threat of bankruptcy has been minimal, and debtors had little incentive to enter debt restructuring processes.

By mid 2000, frustrated by these outcomes, the Government and IBRA demanded the commercial court assign cases to ad hoc judges, leading to the replacement of around 70 per cent of judges in Jakarta courts. Commercial court judges' dissenting opinions now are published to improve the court system's credibility and transparency. Four new commercial courts will open in regional areas to accelerate the corporate debt restructuring process. Finally, the President is appointing well regarded judges to the Supreme Court, including a new Chief Justice.

To improve legal outcomes, the Government and IBRA threatened to invoke government Decree 17 of 1999 and seize the assets of recalcitrant debtors. In mid 2000, it established the inter-ministerial Committee for Resolving the Cases of Recalcitrant Debtors to coordinate a strategy for IBRA's difficult debtors, including prosecuting them and imposing administrative sanctions on their firms. The Government also issued a regulation providing IBRA staff with indemnity from personal lawsuits filed against them for restructuring bad debts.²

Table 8.2

Bankruptcy Laws Have Mixed Results

New Commercial Court Findings on Bankruptcy Cases, April 2000

Number of cases	Outcome
37	Bankruptcy
27	Debt moratorium
45	Rejected/not accepted by the court
5	Void
6	Withdrawn by applicant
2	No jurisdiction

Source: Deacons, 2000a.

² However, analysts argued an October 2000 decision to halt bankruptcy proceedings against three large corporate debtors because of their export contribution was counter productive, even though the announcement stressed this decision would not affect smaller bankruptcy cases.

NEW BANKRUPTCY LAWS

August 1998 legislation amending the 1905 Bankruptcy Ordinance provides for two insolvency regimes, bankruptcy and debt moratorium, and a recognised procedure for debtors to suspend payments. The new laws introduce claw-back provisions, enabling creditors to void transactions, establish a panel of professionals to act as receivers and administrators, and impose tighter timetables for hearing petitions and granting judgements. To successfully file a bankruptcy petition, the debtor must fail to pay at least one debt that is due and payable, and have two or more creditors. A bankrupt debtor cannot control and manage its assets. The laws also established a commercial court to hear bankruptcy proceedings.

Despite the amendments, the new bankruptcy law creates several uncertainties as it fails to:

- establish clear criteria for establishing whether a debt is due and payable
- introduce a concept of insolvency as a prerequisite to bankruptcy proceedings. It is sufficient only to show the debtor has more than one creditor and has failed to pay at least one debt
- prevent minor creditors from commencing bankruptcy proceedings contrary to the wishes of more significant creditors.

Source: Deacons, 2000a.

The Government established the Independent Commission for the Audit of State Officials to prosecute corrupt officials, and has increased judges' salaries. Under new laws, a new Joint Investigating Team can refer corrupt officials to the Attorney General for prosecution. The National Ombudsman Commission, an independent body established to act on complaints from the public relating to governance issues, also can refer cases to the Joint Investigating Team.

As a result of these measures, some positive developments are apparent. In July 2000, the Supreme Court overruled an earlier Jakarta commercial court verdict rejecting bankruptcy on technical grounds for PT Bakrie Finance Corporation, one of Indonesia's largest conglomerates. In July 2000, the Jakarta commercial court declared PT Landasan Terus Sentosa bankrupt for failing to pay Rp. 270 trillion (US\$30.8 billion) in debts to IBRA.

Taxation Constraints on Restructuring

The taxation law also hampers effective debt restructuring, by taxing any capital gains debtors make in reducing their liabilities under debt workouts. Recognising this, in late 2000, the Government approved amendments to the taxation law, effective January 2001, which should reduce debtors' tax burdens on debt equity swaps and debt forgiveness agreements by about Rp. 600 billion (US\$70 million) (Ha, 2000). Measures also include removing withholding taxes on accrued but unpaid interest, transferring duties on debt/asset swaps involving real estate and reducing limits on the carry-forward of net operating losses.

The Government has committed to address capital market regulations that impede debt restructuring, including rules that prevent new equity raising and par value restrictions on the issue of new equity. Regulators also have waived some regulations on new issues to expedite IBRA's equity sales to strategic investors. Together, these government reforms should improve the quality of debt restructuring outcomes.

Quality of Debt Restructuring

As new government incentives and legal powers accelerate the pace of debt restructuring, some concerns about its quality are emerging. Corporate Indonesia still is highly leveraged. At the end of 1999, the 135 non-financial companies listed on the Jakarta Stock Exchange had a collective debt to equity ratio of 1 046 per cent. Among restructured firms, debt to equity ratios remain high (World Bank, 2000). A sample of 34 cases involving debts of US\$8 billion showed 59 per cent were resolved using a combination of reduced interest rates, extended loan terms and grace periods; 38 per cent through conversions of debt to equity; and only 3 per cent through debt write offs. Hence most workouts only rescheduled debt, rather than improving internal operations or significantly reducing leveraging. A reluctance to write off debt, sell assets or seek equity injections maintains debt to equity ratios at high levels, and leaves corporate balance sheets vulnerable; cash flows may be insufficient to service debts once grace periods expire (World Bank, 2000). Hence in the future, restructured loans could become non-performing again. Most insolvent firms continue to operate under their original management, often limiting operational restructuring.³

IBRA'S ASSET MANAGEMENT UNIT, CREDITS

The Asset Management Unit, Credits, AMC within IBRA is the largest creditor in the economy, managing all non-performing loans transferred to IBRA from banks the Government took over. AMC presides over total debts with a face value of Rp. 281 trillion (US\$32 billion), mainly owed by large debtors (Table 8.3). Its stated objective is to restructure or auction these non-performing loans or dispose of collateral backing them by court initiated liquidation proceedings, so as to maximise returns to the taxpayer.

³ Limited government resources and consensus that former owners are best placed to operate their companies means administrators usually are not installed while debts are restructured or firms are liquidated.

Table 8.3

Large Loans Dominate IBRA Portfolio
Classification of IBRA Loans by Debtor Size, May 2000

	Number of debtors	Total amount outstanding (Rp. trillion)	Per cent of total
More than Rp. 50 billion (US\$7 million)	1 820	232.5	82.8
Between Rp. 5 billion and Rp. 50 billion (US\$0.7 to \$7 million)	2 093	33.6	11.9
Between Rp. 1 billion and 5 billion (US\$0.12 to \$0.7 million)	2 206	5.4	1.9
Less than Rp. 1 billion (US\$120 000)	129 924	9.5	3.4
Total	136 043	280.9	100

Source: Indonesian Bank Restructuring Agency, 2000a.

To expedite results, IBRA has prioritised restructuring the loans of the 21 largest debtor groups. Together these account for around 36 per cent of all IBRA's loans (about US\$10.2 billion) and involve around 340 individual companies (Table 8.4) (International Monetary Fund, 2000b).

Table 8.4

IBRA Targets 21 Largest Debtor Groups
Value of Debts of 21 Largest Debtors, September 2000

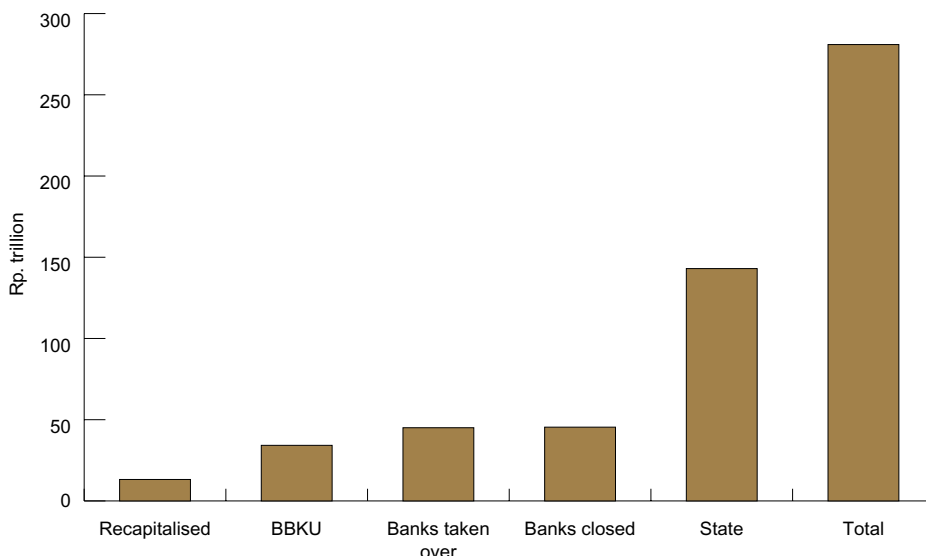
Debtor	Debts (Rp. billion)	Debtor	Debts (Rp. billion)
Texmaco	16 966	Raja Garuda Mas	2 376
Barito Group	7 521	Bahana Pembinaan Usaha Indonesia	2 989
Humpuss Group	5 689	Dharmala Group	2 732
M Hasan	5 212	Ongko Group	2 490
Bakrie Group	5 932	Gunung Sewu Group	2 833
PSP Group	4 280	Danamon Group	3 451
Tirtamas Group	3 195	Nugra Santana Group	2 149
Napan Group	3 678	Kodel Group	1 847
Tirtobumi	2 902	Rajawali Group	2 677
Djajanti Group	2 853	Argo Pantes	1 924
Bimantara	3 362		
Total			87 059

Source: Indonesian Bank Restructuring Agency, 2000g.

Figure 8.1

Half IBRA Loans Come from State Banks

Source of Loans Transferred to IBRA, Rp. trillion, July 2000



Note: BBKU refers to banks frozen by IBRA.
 Source: Indonesian Bank Restructuring Agency, 2000f.

Reflecting the poor quality of state bank assets, over half of all IBRA non-performing loans were transferred from state banks (Figure 8.1).

Asset Quality and Restructuring Strategies

IBRA assessments indicate debtors with good business prospects and intending to participate in debt restructuring comprise 32 per cent of all debtors and hold 30 per cent of debts by value (Indonesian Bank Restructuring Agency, 2000b). IBRA is restructuring these debts, with shareholders injecting new equity to improve debt to equity ratios. Debt equity swaps provide IBRA with an asset it can sell later.⁴ Creditors, including IBRA, are expected to hold 20 to 40 per cent of equity in many well known corporations as a result of ongoing restructuring (World Bank, 2000).

Debtors with poor business prospects but intending to cooperate in debt workouts comprise 53 per cent of all debtors and hold 56 per cent of debts by value (Indonesian Bank Restructuring Agency, 2000b). IBRA intends to sell these firms' assets and encourage voluntary liquidation, helping these firms to exit and repay a portion of their debts to IBRA.

IBRA intends to force debtors with poor business prospects and little intention of cooperating into bankruptcy and liquidation. These cases comprise 13 per cent of all debtors and hold 11 per cent of debts by value. The 3 per cent of commercially sound firms not willing to cooperate with IBRA face litigation and foreclosure through the court system (Indonesian Bank Restructuring Agency, 2000g).

⁴ Under debt equity swaps, IBRA converts non-performing loans to equity in the debtor corporation.

Cooperating debtors enter meetings with creditors, led by IBRA, and sign a letter of commitment to participate in negotiations. Often debtors agree to sign a 'stand still agreement' that freezes the firm's operations, although this is optional. Once IBRA and its private sector subcontractors conduct due diligence, debts can be restructured. Negotiations with viable businesses culminate in debtors and creditors signing a debt restructuring agreement.

Restructuring Progress

By September 2000, IBRA reported over 40 per cent of the value of debt owed by the top 200 debtors had entered the final stage of negotiation. Restructuring of close to three quarters of the value of debts owed by the top 21 debtors was complete or close to completion (Table 8.5). Debt restructuring has accelerated due to IBRA's more vigorous and flexible approach, enhanced government support for prosecutions, and government action to improve the operation of the courts.

Table 8.5

Large Debtor Cases Most Advanced

Resolution of IBRA Credits, 30 Sep 2000, Rp. trillion (Per cent of total in brackets)

Debtors	Early stage ^a	Middle stage ^b	Late stage ^c	Total
Top 21	8.3 (9)	16.5 (19)	62.3 (72)	87.1
22 to 200	21.7 (25)	52.1 (60)	13.1 (15)	86.9
Top 200	30 (17)	68.5 (40)	75.4 (43)	173.9

Note: a Includes initial negotiations, stand still agreements or legal processes not initiated.

b Includes assignment of advisers, due diligence and restructuring negotiations.

c Includes finalising of restructuring memorandums of understanding, implementation, full payment or commencement of legal action.

Source: World Bank, 2000.

By August 2000, IBRA had initiated legal proceedings against around 450 debtors, accounting for less than 4 per cent of the total value of debt. IBRA seeks to bankrupt around 50 of these and pursue another 150 in civil courts. It has indicated it intends to reach agreement or initiate legal action against all 21 large debtors by the end of 2000. In late 2000, out of some 340 companies the top 21 debtors owned, the AMC was prosecuting 16 non-cooperative borrowers, with total debts over Rp. 6 trillion (US\$685 million).⁵

Workout Terms

Depending on the firm's projected cash flows, IBRA can reschedule repayments for up to ten years and allow grace periods of up to two years. IBRA also indicates it encourages asset sales, injections of capital by existing shareholders and debt buy outs by new investors to create acceptable debt to equity levels. IBRA waives interest payments for large borrowers only under special circumstances,

⁵ Also in mid 2000, IBRA used 1999 regulations to threaten to seize assets from Mas Murnia, a large conglomerate debtor with debts totalling US\$44 million, which refused to enter debt workout negotiations.

providing the financial accounts show no irregularities. However, for small loans under Rp. 5 billion, it has launched an accelerated settlement scheme waiving all interest and fees owed by small and medium enterprise and retail borrowers (except home, car and credit card borrowers) who repay the full principal due (World Bank, 2000).

Subcontracting Smaller Loans

In mid 2000, to speed debt restructuring, IBRA outsourced the servicing of around 2 000 commercial loans worth between Rp. 5 billion and Rp. 50 billion with a total face value of Rp. 30 trillion (US\$3.4 billion) to refinanced banks through competitive bidding. While these loans remain on IBRA books, it believes commercial banks could collect and restructure these loans more actively, before their planned sale by October 2001. IBRA also intends to dispose of all its loans worth below Rp. 5 billion totalling around Rp. 8.43 trillion (US\$960 million) and involving 127 461 debtors by the end of 2000 (Indonesian Bank Restructuring Agency, 2000b; and World Bank, 2000). Its first two tranches of mortgage loans sold via open public tender for US\$140 million, or close to 40 per cent of face value. It also sold a smaller group of larger restructured commercial loans; to date, the average recovery value of commercial and retail loans is 57 per cent.

THE JAKARTA INITIATIVE TASK FORCE

The JITF coordinates debt restructuring when IBRA is not a majority creditor. The initiative, established in September 1998, facilitated out-of-court voluntary corporate debt restructuring. Mainly private sector officers staff it and since January 2000, the Government has boosted significantly its resources to improve its capabilities.

Initially, each debtor has to form a steering committee with major creditors to agree on a debt restructuring strategy. The debtor submits a financial rescue plan to the steering committee that all creditors must accept. If a minimum number of creditors and the debtor cannot agree, a 'pre-negotiated' plan, which new bankruptcy laws define, then comes into force. A task force of senior representatives from relevant ministries and agencies, and advised by a private Advisory Restructuring Committee, removes regulatory and tax obstacles, and provides a one stop shop to approve filings (International Monetary Fund, 2000c).

In April 2000, debt restructuring delays caused the Government to initiate time-bound processes under JITF, and improve incentives and sanctions to encourage debtor participation.⁶ Reforms included establishing the Financial Sector Policy Committee; all relevant ministers sit on this. The committee now oversees corporate and bank restructuring, and refers major cases to the JITF for action, instead of relying on debtors to volunteer for the scheme. The committee also can refer uncooperative debtors to the Attorney General's office to initiate bankruptcy proceedings.⁷ Where necessary, the task force now assists debt restructuring on IBRA's behalf. Government tax incentives for debt forgiveness,

⁶ Under the early form of the JITF, progress was very slow; it attracted only 25 companies by November 1998, in its first two months of operation.

⁷ The Financial Sector Policy Committee also can act on the Jakarta Initiative Task Force's recommendation to impose other sanctions against recalcitrant debtors, including publishing the names of non-cooperative debtors and requesting relevant government agencies to revoke or refuse to extend licences, concessions and other facilities uncooperative parties previously held.

debt to asset and equity swaps, and easier requirements for banks to swap non-performing debts for equity also assist task force debt restructuring (International Monetary Fund, 2000c).

These new government initiatives have markedly improved JITF outcomes. The task force now carries a case load of close to US\$10 billion (Rp. 87.6 trillion), projected to increase to over US\$15 billion (Rp. 131 trillion) by the end of 2000, due to eight cases with debts totalling Rp. 48 trillion (US\$5.5 billion) that the Financial Sector Policy Committee referred. After restructuring debts worth US\$5 billion (Rp. 26 trillion) by July 2000, it should complete restructures worth a further US\$3 billion by December 2000 and a total of US\$12 billion by April 2001 (International Monetary Fund, 2000c and 2000d). The task force aims to restructure each debt within three to six months, depending on the complexity of the case, and releases quarterly surveys monitoring the progress of corporate restructuring (International Monetary Fund, 2000c and 2000d).

Foreign Debt Restructuring

By late 2000, building on earlier initiatives, foreign banks indicated agreements with several large debtors either have been reached or were imminent (World Bank, 2000).⁸ Nearly half the corporate sector debt owed to foreigners is being restructured under the JITF.

CORPORATE GOVERNANCE

The Government also is embarking on a program to strengthen corporate regulation and governance. It recognises improving corporate governance not only will support corporate debt restructuring, but should help prevent another round of bad investment decisions and banking crises. While laws governing Indonesian companies generally are sound, the Government believes a weak legal system and lack of surveillance capacity results in generally poor corporate compliance. Therefore, the corporate governance enhancement program centres on increasing court system and bureaucratic capacity by augmenting their financial and human resources. The Government also is aware that returning the corporate sector to private hands will increase market competition, enhancing corporate governance. A National Committee on Corporate Governance established in 1999 drives corporate governance reform. Its 20 public and private sector members represent legal and accounting professionals, banks, state enterprises, private corporates and some government agencies.

Improving Legislation and Supervision

Although Indonesian corporate legislation is relatively sound, the Government is aiming to bring corporate regulations closer to best practice. Efforts focus on improving minority shareholders' rights and majority shareholders' responsibilities; better defining the functions and responsibilities of management, directors and the company secretary; and increasing management and financial disclosure requirements.

⁸ This progress builds on previous government efforts to resolve private foreign debts. In June 1997, the Government and a group of international private creditors entered the Frankfurt Agreement, requiring Indonesian debtors to pay trade credit in arrears and restructure some inter-bank and corporate external debt.

Proposed government amendments to the company law and the company registration law would make firms' ownership and financial performance more transparent. Amendments to the capital market law require listed companies to have at least one independent director; this should increase the board's commitment to maximising the wealth of all shareholders, not merely the main shareholder's wealth. Regulations governing reporting requirements for new share issuers also have been tightened.

Increasing resources for the Capital Market Supervisory Board, Bapepam, to supervise the stock market and introducing international standards to supervise pension, insurance and finance companies will improve capital markets' governance. Sanctions against listed companies failing to report financial performance and conduct independent audits are tighter, and prosecution of criminal conduct by Bapepam increased significantly over 2000. The Jakarta Stock Exchange has introduced specialised trading boards for established companies, start up companies and companies offering stocks with a nominal value below Rp. 500 per share. With capital market listing for second tier companies to be relaxed, start up companies will be better placed to raise funds to enter the corporate sector.⁹ The Government intends to establish a new consolidated supervisory body for banks and non-bank financial institutions in 2002.

MARKETS GOVERNING CORPORATIONS

Increasing corporate sector competition should complement improving formal regulations to strengthen corporate governance. Selling bankrupt conglomerate assets, improving new entrants' access to capital, including by developing stock and bond markets, introducing new laws prohibiting anti-competitive behaviour and reducing the role of state corporations all should boost competition.

Asset Sales

The Government's and IBRA's break up and sale of large corporate conglomerates should reduce substantially the degree of concentration within the corporate sector, improving the level of competition. Removing banks from large scale conglomerate structures should stop the channelling of funds to related companies. Asset sales to new domestic and foreign company entrants promise to increase competition across most sectors. In particular, foreign companies entering the market should offer price, product innovation and marketing competition, as well as generally higher standards of corporate governance. Increasingly, markets should discipline firms in their use of credit and other scarce resources.

Developing Capital Markets

Developing corporate equity and bond markets provide new sources of corporate credit; they also will enforce commercial discipline. As corporates and banks compete more for savings, funds are more likely to be allocated to more viable investments, reducing the risks of a new banking crisis. Increasing share ownership should increase turnover in corporate ownership, discipline corporate

⁹ Under pre-existing regulations, only well established companies with adequate financial records could use the market to raise funds; however, enforcement was relatively weak.

investment practices and separate ownership from management. With so many government bonds issued as part of bank restructuring, a deeper government bond market eventually should emerge, providing a benchmark yield curve that supports corporate bond market development (East Asia Analytical Unit, 1999).

Fewer Entry Barriers

Many other post crisis reforms should reduce market entry barriers, increase competition and strengthen market discipline on corporate behaviour. Lower tariffs and improved access to import licences should increase competition from foreign suppliers. In reforming and privatising state enterprises, the Government has removed monopolies in several sectors, reduced subsidies to inefficient state enterprises and improved access for new entrants. In October 2000, as part of its overall policy to increase business competition, the Government released a draft new foreign investment law. (See Chapter 3 - *Foreign Investment*.) If this law overcomes resistance in the legislature, the more liberal foreign direct investment environment would allow new entrants in many previously protected industries. By eliminating preferential treatment for the national car program and the national aircraft industry, the Government also has improved access for new entrants in these sectors (Deacons, 2000b).

Anti-trust Legislation

The anti-monopoly and unfair competition law passed in 1999 aims to prevent anti-competitive business activities and agreements (Deacons, 2000b).¹⁰ The Business Supervisory Commission which enforces the law is accountable to the President. The commission concentrates on listed companies; up until October 2000, it had investigated 29 companies for manipulating prices and insider trading, and exonerated 11 of these (*Jakarta Post*, 19 April 2000).

IMPLICATIONS

The Government is aware that restructuring the corporate sector's huge non-performing loans must continue speedily if new investment is to occur and the recovery is to continue. New government initiatives, including action to increase the integrity and capacity of the legal system, are encouraging many more corporates to participate in debt restructuring programs. However, this process is ongoing and corporate debts remain huge. Concerns about the depth of operational restructuring also are emerging as the pace of workouts accelerates.

The Government's new corporate governance framework, drawing on new legislation and supported by stronger market competition, should ensure better corporate governance standards in future. While major improvements in corporate culture and governance will take some time to achieve, eventually these reforms should provide a corporate environment which will support more efficient investment and improve Indonesia's investment standing.

¹⁰ The law was issued on 5 March 1999, but only became effective a year later.

REFERENCES

Deacons, 2000a, 'Report to the East Asia Analytical Unit on Corporate Sector Restructuring in Indonesia', Jakarta, July.

___ 2000b, 'Anti-monopoly and Unfair Competition' and 'The New Bankruptcy Law' DGJ Consultant Summaries, Jakarta.

East Asia Analytical Unit, 1999, *Asia's Financial Markets: Capitalising on Reform*, Department of Foreign Affairs and Trade, Canberra.

Ha, Jiming, 2000, East Asia Analytical Unit interview with Senior Economist, Resident Representative, Jakarta Office of the International Monetary Fund, Jakarta, October.

Indonesian Bank Restructuring Agency, 2000a, 'Monthly Report', Jakarta, May.

___ 2000b, 'Monthly Report', Jakarta, August.

___ 2000c, 'Monthly Report', Jakarta, October.

___ 2000e, Information supplied to Deacons, April, Jakarta.

___ 2000f, www.bppn.go.id accessed on 5 May 2000.

___ 2000g, www.bppn.go.id, accessed on 16 April 2000.

International Monetary Fund, 2000a, Letter of Intent, January 2000.

___ 2000b, Letter of Intent, May 2000.

___ 2000c, Letter of Intent, July 2000.

___ 2000d, Letter of Intent, September 2000.

World Bank, 2000, 'Accelerating Recovery in Uncertain Times', report for the Tokyo Consultative Group on Indonesia meeting, 13 October, Jakarta.