Ladies and Gentlemen:

Before I begin my presentation on Indonesia's State Owned Enterprise reform program, I would like to formally welcome you to Bali. The government of Indonesia is very pleased that you have taken the time, effort, and expense to participate in this Joint APEC/OECD workshop on privatisation, corporate governance, and capital markets development.

On behalf of the government of Indonesia, I would also like to take this opportunity to thank the Asian Development Bank for its generous financial and technical assistance for this conference. And to thank the OECD and APEC for financial support and organisational leadership. It is through such cooperation that this week's APEC and OECD meetings provide all participants – from around the globe – with both formal and informal forums for the exchange of ideas. While the internet provides all of us with the means for instant communications, I believe that there is nothing as effective as face-to-face meetings.

As a native of Bali, I am particularly pleased to welcome you here. I hope that you will have time to enjoy the beauty of Bali. And I wish that your experiences this week will not only encourage each of you to return to Indonesia for business and pleasure - but will also

encourage you to help us as we seek to attract investment in Indonesia's economy including our privatisation program.

The government and the Ministry of Investment & State Owned Enterprises are pleased to be able to share our own ideas on these topics. More importantly, my colleagues and I – including the directors of a number of Indonesia's SOEs who attended a privatisation workshop here on Wednesday and Thursday – are especially pleased to be able to learn from the experiences of other APEC and OECD countries. The lessons to be learned from your experience is very valuable to us as we accelerate our own initiatives to introduce new standards of corporate governance and to privatise – through IPOs and other means – Indonesia's SOEs. It is my hope that we can continue to exchange ideas not only in future conferences but also through an on-going dialogue between conferences.

I very much look forward to your comments and recommendations during this discussion session on Indonesia's privatisation program.

Before I begin a more detailed presentation on our program, I think it is important – especially in the case of Indonesia – to describe the

context and the environment in which our SOE reform program is being implemented.

During the ADB Annual meeting last weekend in Chiang Mai, Thailand, the ADB President reminded the countries of Asia that – with the economies of the region quickly recovering from the crisis – there is a risk of complacency and a tendency to ignore the painfully learned lessons of the crisis. ADB President Chino stated that "Asia must not return to business as usual. We risk a new economic crisis - which would most harm the poorest citizens of the region – unless corporate and financial reforms that improve governance and reduce corruption are quickly implemented".

He further stated that "globalization presents developing countries with enormous opportunities. But it also poses risks that have to be managed. The benefits include increased access to foreign markets for developing countries which can increase inflows of capital, technology, and managerial expertise – which in turn can increase both employment and productivity."

The issues described by the ADB President certainly apply to Indonesia. In fact, for Indonesia, there is no turning back. We can never return to the pre-crisis environment. For Indonesia, more than any other country in the region, the pre-crisis era seems like distant history. I am referring to the fact that, over the past three years,

Indonesia has experienced both radical political change as well as a devastating economic contraction.

Millions of Indonesian's have returned to the dire poverty from which they had begun to escape prior to the crisis. The recovery of the banking system is only just beginning following the nationalisation and consolidation of the country's private and state owned banks. Re-capitalisation of the banking sector is underway with the Bank Restructuring Agency – IBRA - just beginning to prepare for new share issues by the re-capitalised banks. Corporate loans and assets taken over by the Agency are being prepared for sale. But only a very small percentage of assets have been sold and few bank loans restructured. Restructuring of the banking and corporate sectors has been slowed by the country's judicial system which is generally unprepared to implement bankruptcy proceedings against corporate owners who owe the banks – now the state – billions of dollars in unpaid loan principal and interest.

Indonesia's economy – like those of the rest of the region – is recovering. Inflation has been brought under control and remains in the low, single digits. Exports are expanding again. A revival of the primary sectors – agriculture and natural resources – is taking place. But economic growth is mainly driven by pent-up consumer demand. Capital investment in industry is still very low and is unlikely to improve until the corporate debt restructuring process is further

advanced and judicial reform further implemented. And debt restructuring requires implementation of bankruptcy proceedings against the many corporate borrowers who are unwilling or unable to agree on terms for restructuring. And this, in turn, means that the banks will be reluctant to expand lending to corporate borrowers for capital investment, the importation of capital goods, and the financing of exports. On the human level, low commodity prices (except for oil) and slow growth in the industrial sector mean that employment creation will remain limited – as will poverty reduction – for the near term.

With this economic background, Indonesia is, as you know, also undergoing a radical restructuring of its political system. Over the past year, our country has completed its first democratic elections, a new President has been elected by the People's Assembly, and both a new parliament and a new government installed consisting mainly of representatives and ministers who have never before held public office.

The "old" way of governing – a system which existed until just six months ago – has disappeared. The Indonesian people are very proud of the path they are taking to introduce new concepts and practices of democracy and freedom in our country for the first time. Democracy of course changes the entire decision-making system of government. As a government ministry, we officials can no longer

simply implement decisions made by the President. Each decision regarding the privatisation and restructuring of SOEs, for example, requires a broad consensus. The Cabinet, the Parliament, local governments, NGOs, managers and employees, and representatives of the public must all be consulted and their concerns addressed. Indonesia's new democracy means that decisions regarding State Owned Enterprises can no longer be made exclusively by the government with little regard for other interested parties. Instead, decisions require input from all interested parties.

I have described the current economic and political environments in order to provide you with a better understanding of the context in which my Ministry is working to implement the country's SOE reform program.

The Ministry of State Owned Enterprises was established by the former government in May of 1998. The objectives for the new Ministry at that time were twofold: To sell share packages of several SOEs in order to generate revenues for the state budget – which was one of the conditions for IMF and World Bank financing. And, secondly, to "reform" the state enterprise sector.

The former leadership of the Ministry concluded the sale of several minority stakes in SOEs during the second half of 1998 and the first half of 1999. These sales generated more than one billion dollars for the state budget and the enterprises. At the same time, the former Minister and his deputies created a new plan for reform of the SOE sector. This plan focused on the establishment of several state owned holding companies through which the Ministry would implement mergers and other initiatives to increase the value of the enterprises. While the plan was being developed and promoted, after May 1999, no new privatisation transactions were completed.

Following the installation of the new government late last year, a new Ministry of Investment and State Owned Enterprises was established which, under new leadership, combined the former investment ministry and the state owned enterprise ministry. The new ministry thus combines resources for the promotion of both “greenfields” investment and investment in Indonesia’s state owned enterprises.

Over the past four months, the new Ministry has been working – with the technical assistance of advisors funded by the Asian Development Bank – to develop new strategies, policies and procedures for privatisation, restructuring, and the introduction of new corporate governance practices to the state owned enterprises. I will

describe these new initiatives in greater detail in a moment. But first let me state my conviction that the efforts we have undertaken in recent months provide a firm foundation upon which an accelerated program of privatisation and corporate governance reform is now being implemented.

These initiatives for our state owned enterprises will have a major impact on the Indonesian economy including the various initiatives underway to restructure and reform the country's corporate sector, to develop new means of attracting portfolio and direct investment, and to expand the role of the domestic stock markets. The size and importance of state owned enterprises to the country's economy mean that SOE reforms will have an impact on the entire economy. Contributing approximately 40% of GDP and employing nearly one million full and part time employees, the SOEs as a whole are critical to the Indonesian economy.

In order to provide you with a better understanding of our country's state owned enterprise sector, I would like to briefly describe the SOE universe of enterprises.

Indonesia's state owned enterprise sector includes several hundred enterprises. The majority of these are small, public service enterprises owned by local and provincial governments. In addition, water authorities and some other types of public infrastructure are

owned by local governments. The national government owns numerous public welfare institutions including hospitals, educational, research, and cultural institutes. Given its special status, Pertamina, the state oil and gas monopoly, is overseen by the state Department of Oil and Gas. The state owned banking sector is currently undergoing merger, restructuring, and recapitalisation by the Indonesia Bank Restructuring Agency.

Excluding these enterprises, there are currently 144 SOEs under the management of the Ministry of Investment and State Owned Enterprises. These enterprises cover a range of industries and vary in size from large, national monopolies and public infrastructure enterprises to relatively small service companies. Industries include financial services, insurance, services, construction, engineering, toll roads, manufacturing (including cement, paper, and textiles), pharmaceuticals, trading and distribution, tourism, industrial estates, telecommunications, airlines, airports, ports, electric power, steel, shipbuilding, shipping, mining, plantations, fertiliser, fisheries, and forestry.

Among the largest SOEs are Telkom (the domestic telecoms monopoly), Indosat (the international telecoms monopoly), PLN (the electric power monopoly), Krakatau Steel, Aneka Tambang (gold and nickel mining), Timah (tin mining), Garuda (the national airline), the airports, and the ports.

In addition to these 144 SOEs, the Ministry manages the state's minority shareholdings in 19 primarily privately owned enterprises.

The initiatives undertaken by the new Ministry over the past four months for the state owned enterprises may well serve as models for the entire corporate sector. For example, the introduction of new corporate governance standards and practices to SOEs, a process which began earlier this year through several pilot enterprises, could serve as the model for the promotion and adoption of new standards for the private sector. The government, Bapepam – the state securities commission, IBRA, and the banks could all play a positive role in expanding the new governance standards from the SOEs to the private sector.

The development of new, transparent, and international standard, privatisation procedures for IPOs, Strategic Sales, Employee Buyouts, and Liquidations of state owned enterprises – as well as procedures for the selection of advisors – might serve as models for asset sales and disposal procedures and tendering for advisors by other government agencies, including IBRA.

The privatisation of the largest SOEs through IPOs on local stock exchanges beginning three months from now may have a very positive impact on the trading volume and the direction of the markets

and could serve to attract new domestic and foreign investors to the markets.

The attraction of new, international strategic investors to Indonesia's SOEs could have a positive impact on the entire market by stimulating long-term investor interest in the IBRA asset sales program and in new investment in the country's industrial economy.

I would now like to describe in more detail some of the progress made by the new Ministry this year in the areas of privatisation and corporate governance of the state owned enterprises. We still face many obstacles – including uncertain market conditions which might negatively impact the IPOs and strategic sales of SOEs planned for this year and early next. But, with the support of our international friends, we are quite optimistic that the program we are implementing is on the right track.

The government's authority to manage and to privatise State Owned Enterprises is granted by the State Main Guidelines for the 1999 to 2004 period as adopted by the new People's Consultative Assembly late last year.

The Guidelines state that the government – through the Ministry of Investment & SOEs - is to "manage State-Owned Enterprises efficiently, transparently and professionally, in particular those providing public services and other services that are not performed by the private sector". The Guidelines further state that the government is "to improve the performance of State-Owned Enterprises" and that "SOEs that are not providing public services are encouraged to be privatised."

The Guidelines as adopted by the Peoples Assembly call on the government to reduce the state's direct involvement in the management and ownership of SOEs, especially SOEs which operate in competitive markets with active private sector participation.

By implementing this policy, the government will focus on its role as regulator in order to ensure an equal playing field for all businesses. By so doing, the government will avoid the conflicts of interest which arise from being both a regulator and an owner.

The Ministry has also changed its policy regarding the management of SOEs. The Ministry will not continue with the plan developed last year to establish ten state-owned holding companies. We believe that the establishment of holding companies will not add value to SOEs but will only create an additional level of bureaucracy and reduce transparency.

In general, the primary objectives of the Ministry's privatisation program for SOEs are :

a) To improve the performance and market value of SOEs through improvements in the professionalism of management, operating efficiencies, new technology, and expanded markets;
b) To generate additional cash for the state budget;
c) To accelerate national economic recovery;
d) To help improve the confidence of international investors in the market;
e) And to expand public ownership in SOEs.

Public share offerings through the capital markets (IPOs) and the sale of large shareholdings to strategic partners are among the strategies for SOE privatisation. Other strategies to be utilized by the Ministry include employee buy outs and liquidation. Liquidation will be implemented for SOEs that are not viable and that will continue to be a burden for the state.

Since 1992, the government has partially privatised eight SOEs and sold state minority shareholdings in Indofood. The eight SOEs include Semen Gresik (a major cement producer), Tambang Timah (the world's largest tin mining company), Indosat (the international telecoms monopoly), Telkom (the domestic telecoms monopoly), Aneka Tambang (a large gold and nickel mining company), Bank

Negara Indonesia, and Pelindo II and Pelindo III (the Jakarta and Surabaya seaports). Privatisation revenues generated in 1999 were nearly 900 million US dollars.

To achieve this year's revenue target of 6.5 trillion Rupiah (around 900 million US dollars), we are preparing for the privatisation of the following 8 SOEs:

1. Pupuk Kaltim (a major fertilizer producer)
2. Bukit Asam (one of the largest coal mining companies)
3. Perkebunan Nusantara III (palm oil and rubber plantation)
4. Perkebunan Nusantara IV (palm oil plantation)
5. Indo Farma (pharmaceutical manufacturer)
6. Kimia Farma (pharmaceutical manufacturer)
7. Angkasa Pura II (the Jakarta and western Indonesia airports operator),
8. Aneka Tambang (gold and nickel mining).

The preparation to privatise these 8 SOEs is currently underway. The first transactions will be conducted in July. At the same time, the Ministry is also considering the sale of shares of SOEs which had earlier been partially privatised.

The new privatisation procedures were prepared based on international best practices adjusted to the requirements of Indonesia's market conditions and regulations. These procedures will

be legalised in the form of a Ministerial Decree to be issued before the end of this month.

With respect to the management of SOEs, the Ministry has also developed detailed policies and procedures for the rationalisation of human resources. In these procedures, new initiatives will ensure that employees receive fair and equitable treatment and that all initiatives conform to Indonesian employment legislation. New initiatives will be undertaken for retraining, entrepreneurial initiatives, and financing and re-employment facilitation. The procedures will become a benchmark for other Indonesian companies as they seek to reduce the potential social impact of labor reductions.

In an effort to improve their skills and knowledge, the staff of the Ministry has received training through participation in international and domestic workshops and seminars on privatisation methodology, business and financial analysis, and good corporate governance.

In order to improve the performance of SOEs and to prepare them for the further globalisation of the Indonesian economy, on 17 April 2000 the Ministry officially adopted a policy regarding the implementation of good corporate governance practices for all SOEs. With this policy

initiative, the SOE sector will become the country's leader in implementing corporate governance reform.

The implementation of good corporate governance practices will improve the decision making process in the management of SOEs which in turn will improve the performance of the enterprises. Improved performance will in turn help to attract domestic as well as international investors.

The corporate governance implementation program will include:

1. Strengthening the roles and responsibilities of the Board of Commissioners to be more active in supervising and advising the Board of Directors in the management of SOEs;
2. Re-defining the roles and responsibilities of the Board of Directors to be clearer, particularly in relation to the primary objectives of each SOE;
3. Establishing Audit Committees for Boards of Commissioners;
4. Criteria and Selection processes for the Board of Commissioners and the Board of Directors which are transparent and well-defined;
5. Appointment letters setting out the expectations from the Government to new commissioners and directors will be created;
6. Orientation programs for new commissioners and directors will be conducted to ensure that the commissioners and directors contribute as quickly as possible to the SOE's performance;

7. Introduction of a Statement of Corporate Intent (SCI) for SOEs which will remain in state ownership for the longer term. This document is an agreement between the SOE and the government as shareholder and includes performance targets and other indicators to hold the SOE accountable; and
8. A Performance Incentive System for directors which relates to financial and non-financial target achievements to ensure directors perform professionally and objectively in accordance with their fiduciary duties which are very important to shareholders.

In implementing this reform, good corporate governance practices are to be based on four basic principles: transparency, disclosure, independence, and accountability.

Transparency means transparent in managing a process. All related parties will be able to see and understand how and why a decision is taken as well as how a SOE is managed.

Disclosure means transparent in publicising company information. Disclosure is closely related to transparency. This will be implemented so that SOEs will be able to give accurate and up to date information regarding the performance of SOEs.

Independence means free from intervention and pressure from other parties. This will be emphasised so that in performing their roles,

SOE commissioners and directors will be freed from any inside or outside pressures and interventions.

Accountability means accountable for their roles and responsibilities. SOE directors should be responsible for the success of the enterprise in achieving its objectives as agreed by shareholders. Commissioners should be responsible for monitoring and advising directors in managing the SOE. The Ministry will be encouraged to be responsible to the Indonesian people for its role as the state's shareholder representative. In this case, the Ministry role includes ensuring that only appropriate personnel will be assigned and retained as SOE directors and commissioners to ensure the achievement of the vision and mission of the SOE.

Directors must be accountable for the achievement of the financial and non-financial objectives of the SOE as agreed by shareholders as well as to implement business practices for the interests of all stakeholders.

The Board of Commissioners will be held more accountable for supervising the policies of, and giving advice to, the Board of Directors in relation to the management of the enterprise. They should ensure that the shareholders are advised about the performance of the SOE and about the performance of the Board of

Directors in managing the SOE towards achievement of its objectives.

These are some of the highlights of the State Owned Enterprise reform program being implemented by the new Government.

In closing, I would like to thank you for your participation in this forum. And I very much look forward to receiving your comments and suggestions regarding the program of SOE reform in Indonesia which I have described for you.

It is our hope that the dialogue we have established with APEC and the OECD will continue to expand over the coming months and years.

Terima kasih dan sampai jumpa lagi !