

SOEs with non-commercial objectives – Practices in Indonesia

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Outline

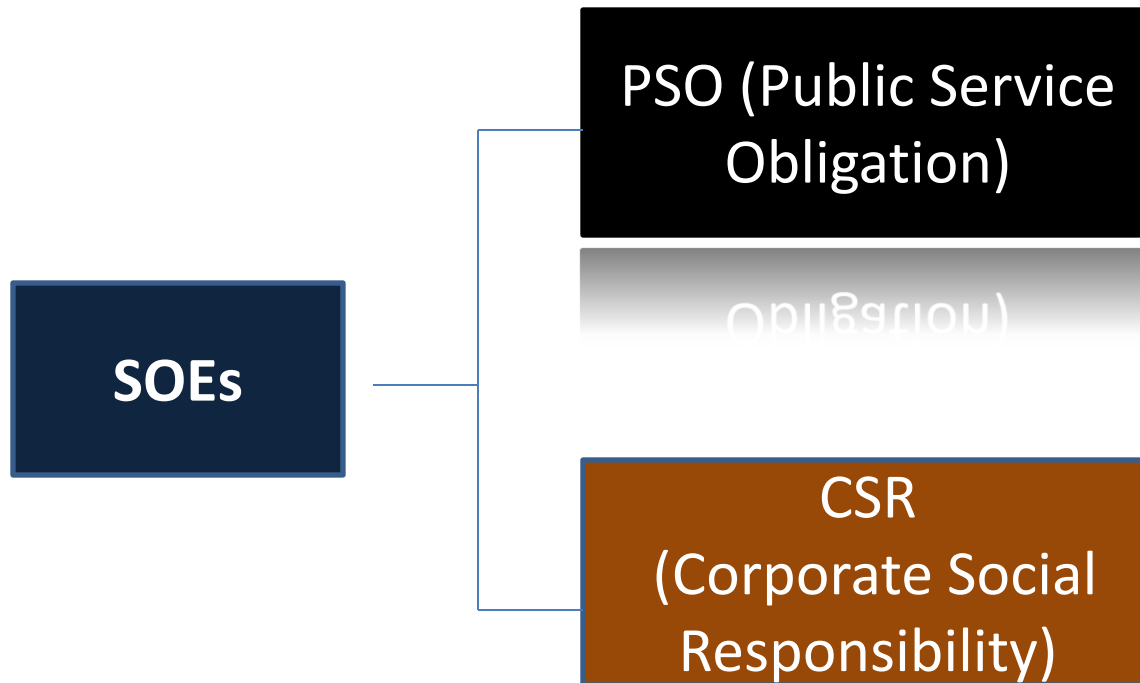
- Background
- Practices and Challenges
 - PSO (Public Service Obligation)
 - CSR (Corporate Social Responsibility)
- The Way Forward

Background

Total SOEs	139 entities
PERUM (General Companies)	12
PERSERO (Limited Companies)	114
PERSERO Tbk (Public Listed Companies)	12
Assets	+/- Rp 1,400 trillions or +/- US\$ 147 billions

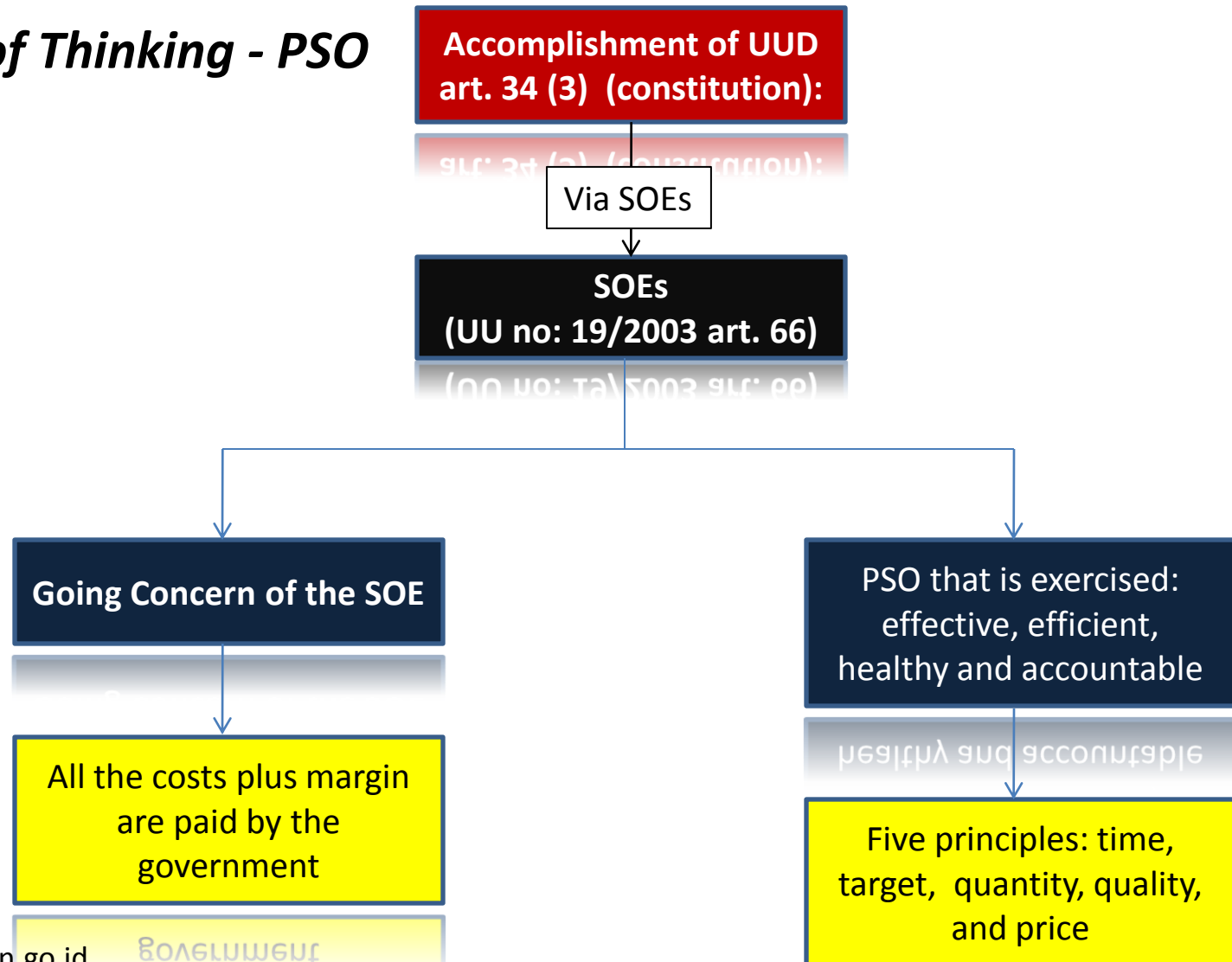
Data as of end 2007, source: www.bumn.go.id

Background



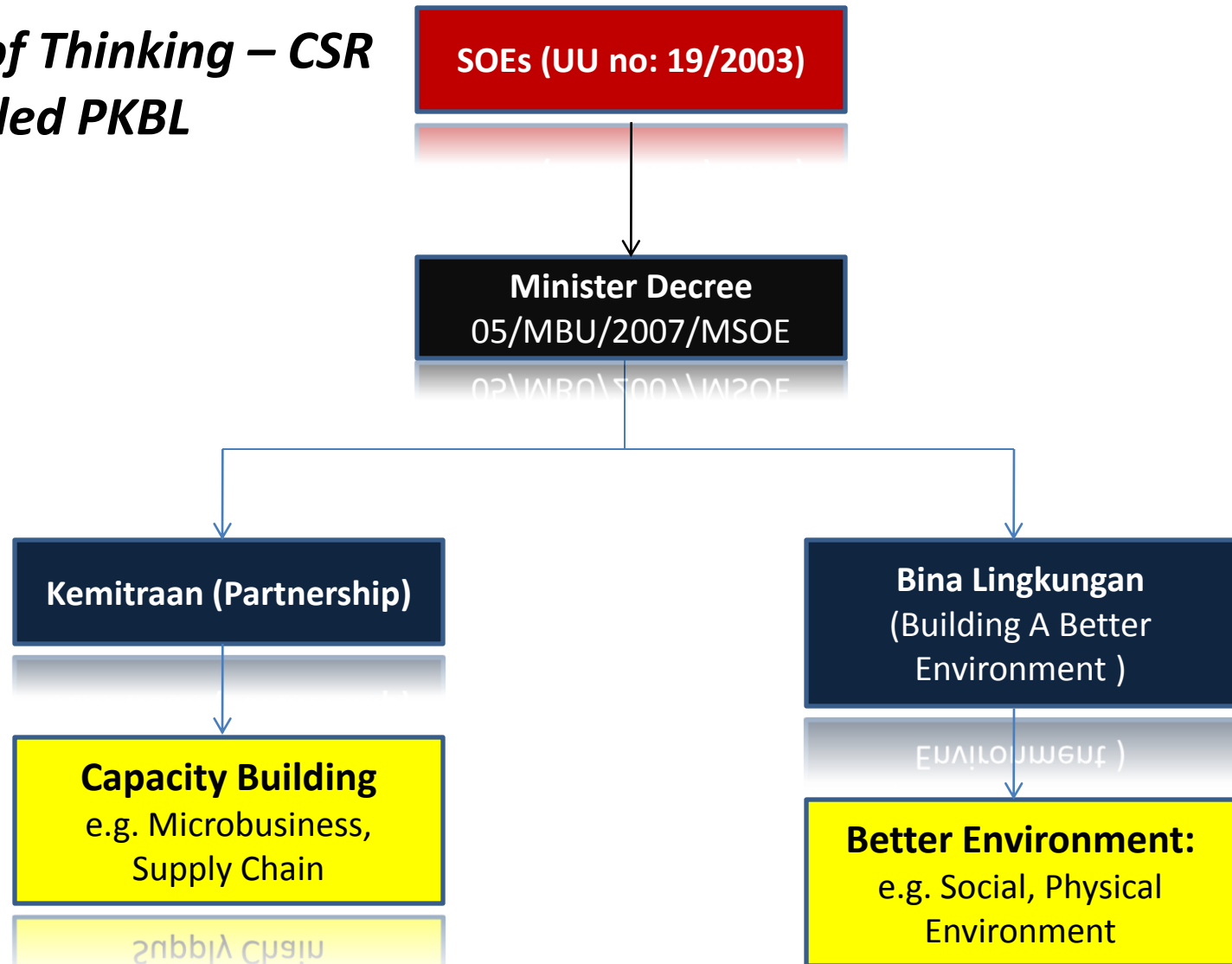
Background

Way of Thinking - PSO



Background

*Way of Thinking – CSR
So called PKBL*



Practices - PSO

- **PSO means:**
 - expected capacity demanded by government x (COGS – Government's Selling Price) + Government's facility provided by government.
- **Subsidy means:**
 - number of goods/services asked by government x (COGS – Government's selling price).
- 2007 - 2009, PSO budget /spending have been around Rp 100 T – Rp 150 T (between US 10,5 – US 15,8 billions), of which more than 25% at Infrastructures.

Practices - PSO

- **UU No: 19/2003:**
 - SOEs should be given a compensation ‘full cost’ for the execution of government mission (PSO), directly from government’s budget.
- **Two main mechanisms:**
 - Subsidi Silang (Cross Subsidy)
 - Subsidi Input (Input Subsidy)

Practices - PSO

- **Cross Subsidy:**
 - Use different tariff for different user groups
 - E.g. PT PLN (Power): Jawa-Bali vs non Jawa-Bali, industrial vs household, large vs small.
- **Pros and Cons:**
 - No administrative burden at government office.
 - Potentially affect the business decision at PLNs and their performance evaluation. They might not be motivated to develop the 'lower' scale groups.
 - Certain groups pay the non-commercial burden of other groups. This could lead to a deviation and question of fairness.
 - Some large corporate groups - in some cases - build their own power plant rather than consuming from PT PLN.

Practices - PSO

- **Input Subsidy:**

- Government providing a lower cost of input material e.g. Subsidized oil price to PT PLN.
- Accepting a lower return of certain investment, e.g. PT KA.
- Allowing the use of government's asset e.g. PT KA to use railway.

- **Pros and Cons:**

- More direct.
- Potential of no transparency and unclear responsibility, e.g. PT KA and PPD.

Practices - PSO

- **UU no 45 /2005 article 65**
 - The plan of certain proposed PSOs should be jointly reviewed by the concern SOE, Minister of SOE, Minister of Finance, and Minister of the respective Technical Department
 - The assignment of PSO should be approved in the company's GSM of concern SOE, or MSOE if it is a General Company.
 - The company executive BOD should give a specific report to the GMOS/MSOE and to the respective Minister of Technical Department.

Practices - PSO

- **Challenges:**

- Different calculation
- Sensitive to the Oil Price
- Rigid pricing rather than a corridor.
- Burden of Government – Getting bigger
- Allocated at maximum setting – if not used, be returned
- Too low government's portion to pay, lead to low maintenance ..hence low quality is compromised
- Slow payment from government to SOEs, it creates cash flow problem.
- Concept PSO: Social Goals might not be the Business Goals

Practices - CSR

- PKBL:
 - Up to 2% of SOE's net profit allocated for 'partnership' program
 - Up to 2% of SOE's net profit allocated for 'building a better environment' program
- If SOE's profits are between Rp 80 – Rp 100 Trillions, 4% equivalent will be around Rp 3.2 to Rp 4 trillions (equivalent to US 337 – US 421 millions)

Practices - CSR

- **Forms of “Kemitraan” (Partnership):**
 - Loan for ‘working capital’ or ‘purchase of ‘productive fixed assets’, and to fulfill certain sales order
 - Capacity Building for the partner e.g. Trainings, internship program, and promotion
 - Capacity Building in production, processing, sales and marketing, human capital, and technology in general.

Practices - CSR

Description	Number of Micro Business Partner
Industri (Manufacturing)	12676
Perdagangan (Trading)	26103
Perkebunan (Plantation)	804
Pertanian (Agriculture)	1286
Peternakan (Farming)	2475
Perikanan (Fishery)	1797
Jasa (Services)	1536
Lainnya (Others)	2078

As of end Of 2007, soure: www.bumn.go.id

Practices - CSR

- **Building Better Environment (BL), examples:**
 - Natural Disaster – National Help: Earthquakes, Flood, Land Slides..etc
 - Scholarships,
 - Millenium Development Goals Award (MDGA) in year 2007 from United Nations – Category; Reduction of mortality – Pregnant Mothers and under-five-years children.

Practices - CSR

- **Challenges:**

- Society's perception on 'CSR budget'
- CSR officer need some specific skills: business and communication skills
- There is no integrated 'national information management' on CSR - SOEs
- Scattered business orientations, ad-hoc stimulation

The Way Forward

- **PSO remains on the main stream, whilst PKBL or CSR will be more active, hence expectation is rising**
- **CSR coordination at MSOE, lead by a senior officer:**
 - **Building Clustering concept for ‘partnership’**
 - **Regional Coordinator – empowering and enhancing**
 - **National Information Management**
 - **Target of much higher micro-business development through partnership**
- **Public Accountability**
 - **‘Audited company report’ will be continued and even more comprehensive than only financial report, e.g. include: GRI references (Global Reporting Initiative/NCSR – National Center of Sustainability Reporting).**

References

- **Among others are:**
 - **UU BUMN no: 19/2003**
 - **PER-O5/MBU/2007**
 - **SE-07/MBU/2008**
 - **SE-4/MBU/2008**
 - **www.bumn.go.id**