

Indonesia Experiences in Managing the State Companies

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For
**OECD- ASIAN ROUNTABLE ON CORPORATE
GOVERNANCE NETWORK ON CORPORATE
GOVERNANCE OF STATE OWNED ENTERPRISES**
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History of State Companies In Indonesia

- State Companies were established as
 - two Type Under the IBW and ICW rules (before 1945)
 - The effort to Irian Barat struggle for freedom as nationalized the Dutch companies.
(Banking, Construction and Plantation companies)
 - The Government program to speed up the development, economic recovery and to be the pioneers in some field of business
(Mining, manufacturing and fertilizer companies)
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Legal Basis

- Rule No. 19/1960 : the State Companies
 - State companies as the production unit to provide the services, public need and seek profit.
 - The objective is to support the national economic development while serving the public need and the company's going concern priorities.

 - Rule No. 9 (Amd)/1969 : type of state companies :
 - Perusahaan Jawatan (Perjan) : the facilities subsidize from government to provide the public services.
 - Perusahaan Umum (Perum) : the state capital to provide goods and services for public need and seek the profit.
 - Perusahaan Perseroan (Persero) : the state has whole/part of share in the companies with the objective is to seek profit

 - Presidential Decree no. 3/1983 : Management of state companies.
 - Ministry of Finance as General Meeting Shareholders.
 - The Supervision authority was under Ministry of Finance and Technical Ministry
 - State companies as the agent of development
 - Perjan, the state companies without separated budget
 - Perum and Persero, the state companies with separated budget
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The aim and objectives of The State Companies

- *The aims and objectives for establishing an SOE are:*
 - *to make a contribution to the growth of the national economy in general and the state revenue in particular;*
 - *to seek profit;*
 - *to organise the public benefit in the form of providing goods and/or services of high quality to serve the needs of the general public;*
 - *to perform those business activities that are not yet performed by the private sector and cooperatives;*
 - *to actively partake in providing guidance and advice to entrepreneurs and the people; and*
 - *the activities of the SOE must be in accordance with its aims and objectives and not be in conflict with laws and regulations, public order and/or morality.*
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New Paradigm in 1998

- Presidential Decree no 12/1998 and Presidential Decree no. 13/1998 :
 - Separated function between shareholder and regulator
 - centralization the supervision

 - Ministry of State Owned Enterprises was established :
 - to represent the Government as the state shareholder for Persero's and stock holder for Perum's.
 - Empowering the SOEs through "holding" system.
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The Type of State Companies

(based on Rule no 19/2003)

- Persero :
 - Perseroan Terbuka (or Public Listed Company)
A Public Perseroan Company, hereafter referred to as Public Persero, is an entity which has been publically offered (IPO) consistent with the laws and regulations of Indonesia's capital market.
 - Perusahaan Perseroan
is a limited liability company wherein at least 51% (fifty one percent) is owned by the State of the Republic of Indonesia and which has as its principal objective to seek profit.
 - Perum
A Public Company, hereafter referred to as Perum, is an entity that is wholly owned by the state. A Perum serves the public interest in the form of providing goods and/or services of high quality and at the same time seeking profit based on the principles of corporate governance.
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New Era under Ministry of State Owned Enterprises

Ministry of State Owned Enterprises

- Based on the Government Decree no. 41/2003
The Ministry of Finance transferred its authority and duty as shareholders for Persero's and Perum's to the Ministry of State Owned Enterprises.

 - The Rules no. 19/2003 stated that Ministry of State Owned Enterprises :
 - *is appointed and/or empowered to represent the government as the state shareholder in a Persero and the stock holder in a Perum in accordance with all laws and regulations.*
 - *has the responsibility of assisting the President in formulating policy and coordination in the State Own Enterprise (SOE) sector.*
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Function

- ❑ To formulate government policy in the area of SOE development as regards controlling, improving efficiency, privatization, and restructuring.
 - ❑ To coordinate and improve program structure, monitoring, analyzing, and evaluating the SOE sector.
 - ❑ To present reports to the President with suggestions on how to improve SOE performances.
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Vision

To build SOE's into solid contributors to the national economy through professional management, competent global competition, and improved operational and financial performance while serving the needs of the stakeholders.

Mission

- ❑ Increase intensity and effectiveness of developing SOE
 - ❑ Increase intensity and effectiveness of coordination either internally in the scope of SOE Ministry or externally with the regulator and SOE parties.
 - ❑ Improve development of SOE performance, improvement of efficiency and benefit to support national economic recovery as well as improving quality of service provided by SOE to the public.
 - ❑ Improve function of SOE monitoring by public through media internet which can directly be accessed without obstacles of time and location dimension, as well as building acceptance to SOE and the availability of direct feedback from the public through opinion survey by using electronic media.
 - ❑ Ascertain conduct of all Good Corporate Governance principles (transparency, fairness, accountability and responsibility) in all lines of SOE activities.
 - ❑ Appointment of Directors and Commissioners/Board of Overseeing SOE based on consideration of professionalism, dedication and commitment on development of SOE performance
 - ❑ Reducing government role, especially in the competitive industry sectors.
 - ❑ Improve SOE competitiveness in order to be able to compete in global market.
 - ❑ Increase SOE contribution in development of capital market
 - ❑ Increase SOE contribution in the State Expense and Revenue Budget (APBN).
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Main Role

- To improve the value creation through :
 - Preparation and implementation of the Master Plan
 - Efficient and accurate decision making
 - Appointment of competent Directors and Commissioners
 - Preparation of regulations/rules for SOE activities
 - Preparation and implementation of SOE restructuring, privatization, and creation of synergy among SOEs
 - Improvement of communications with stakeholders including the Technical Ministry, Parliament and public
 - Improvement in the implementation of Good Corporate Governance.
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Performance of SOEs

Profit and Loses SOEs

(in Billion Rupiah) Per Juni 2005

	2001 (Audit)	2002 (Audit)	2003 (Audit)	2004 (Audit)	2005 (unaudited)
Number of SOEs	150	158	157	158**	158
□Number of SOEs with the Dividend contribution	86	74	73	74	na
□Number of SOEs which already profit but still accumulated lost	16	26	29	52	na
□Number of Lost SOEs	35	57	55	32**	na
Total Profit	18.448	25.638	25.449	38.539	30,183
Number of SOEs	102	100	102	125	146
Total Lost	(2.222)	(9.531)	(7.246)	(4.988)	(123)
Number of SOEs	35*	58	55	28	12
Average of ROA	2,00	1,71	1,64	2,80	2,46
Average of ROE	12,51	5,94	4,81	8,31	7,31

SOES Performance during 1992 - 2004

	1992	1993	1994	1995	1996	1997 ¹⁾	1998 ²⁾	1999	2000	2001 ³⁾	2002	2003	2004 ⁴⁾
Total Assets	239,1	272,8	285,8	320,9	334,6	425,9	437,8	607	861,5	810,5	937,2	1,164	1.183,6
Total Equities	64,8	70,4	82,7	99,2	99,9	102,9	-86,5	56,7	117,2	131,7	273,8	402,7	388,6
Total Loan	174,3	202,4	203,2	221,8	234,7	323,1	-	550,3	744,4	678,8	663,4	761,6	794,9
EBIT	3,8	3,9	4,5	7,3	7	7,3	14,2	14,3	13,3	16,2	16,1	18,2	33,1
Dividend	0,9	1,2	1,3	1,1	1	2,8	4,3	4,7	6,9	8,8	9,8	12,6	12
ROA (%)	1.59	1.45	1.56	2.26	2.10	1.72	3.25	2.35	1.55	2.00	1.72	1.56	2.8
ROE (%)	5.86	5.63	5.38	7.33	7.04	7.11	-	25.15	11.38	12.32	5.88	4.52	8.53
Performance Indicator													
Very good/Good	77	77	77	84	84	84	97	105	107	89	102	98	105
lost	105	105	105	94	82	48	36	32	30	61	56	59	53
Number of SOEs	182	182	182	178	166	132	133	137	137	150	158	157	158

Number of SOEs

Per September 2005

Number of SOEs with State as Majority	2001	2002	2003	2004	2005
1. Persero Tbk	8	8	11	12	12
2. Persero	116	124	119	119	119
3. Perum	11	11	13	13	13
4. Perjan	15	15	15	14	0
Total	150	158	157	158	144
Number of SOEs with State as Minority	19*	20	21	21	21

* Including PT Indosat Tbk

BUMN Terbuka

- PT Telkom Tbk
- PT Bank Mandiri Tbk
- PT Bank BNI Tbk
- PT Bank BRI Tbk
- PT Kimia Farma Tbk
- PT Indofarma Tbk
- PT Semen Gresik Tbk
- PT Aneka Tambang Tbk
- PT Timah Tbk
- PT TB Bukit Asam Tbk
- PT PGN Tbk
- PT Adhi Karya Tbk

Good Corporate Governance

- Corporate Governance (CG) points relevant to SOE's
 - The Regulation that provides the legal basis for implementing Corporate Governance and limiting Corruption, Collusion and Nepotism is: Ministerial decree no. 117/2002 and Ministerial Decree no. 103/2002
 - CG education through socialization program. By the end of 2005, the Ministry has socialized about 112 SOEs
 - Standardized CG evaluation/ assessment of SOEs has been implemented on behalf of 83 SOE's to date
 - SOE corporate governance is annually reviewed together with key performance Indicators and a required Statement of Corporate Intent.
 - A fit and proper mechanism for the appointment of Directors and Commissioners is required.
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Summary

the centralization for SOEs supervision has given better influence to run the SOEs business activities as they can be more efficient, effective and the government can be more focus in preparing the road map for the further of SOEs.



Thank you

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