

SOEs Towards A Central or Coordinated Ownership Unit

The experience of Indonesian SOEs

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Indonesia SOEs (National Contribution 2008)

- Total Asset : Rp 2,040.26 Trillion
- Total Profit : Rp. 79.27 Trillion
- Total Dividend : Rp.29.09 Trillion
- Total Market Capitalization (from 14 SOEs) : Rp. 354.89 Trillion (32.9%)
- Tax : Rp. 200 Trillion (approx.)

Indonesian SOEs (Type of Corporation)

Description	PERJAN (1969-2005)	PERUM (1969-present)	PERSERO (1969-present)
Rules	6/1969 Replace by 6/2000	19/1960 replace by 13/1998	12/1998 replaced by 45/2001
Ownership structure	Part of ministry as bureau enterprises	Wholly owned by government	Government ownership through share ownership
State Finance	Not Separated	Separated	Separated
Duties/Objectives	<ul style="list-style-type: none"> • vital and strategic sector focus on community service • non-profit oriented 	<ul style="list-style-type: none"> • Provide Public utilities • Profit oriented 	<ul style="list-style-type: none"> • Acquiring selected business activities • Profit Oriented
Board Appointment	Ministry	Ministry	General Shareholders Meeting

Indonesian SOEs

Type/Year	2002	2003	2004	2005	2006	2007	2008
Total SOEs	158	157	158	139	139	139	139
PERJAN (Bureau Enterprises)	15	14	14	0	0	0	0
PERUM (limited liabilities owned by state)	11	13	13	13	13	14	14
PERSERO (limited liabilities/ unlisted company owned 100 % by government)	124	119	119	114	114	111	111
PERSERO Tbk (listed/ privatized)	8	11	12	12	12	14	14
Minority	20	21	21	21	21	21	21
Industrial Sectors	37	37	37	35	35	36	35

SOEs Corporate

governance progress

- SOEs law no 19/2003 :
 - Corporate governance implementation
 - Privatization procedure
 - Role of Board of Director and Board of Management
- Ministry degree for :
 - Good Corporate Governance implementation
 - Strategic plan and reporting system
 - Performance measurement : KPIs
 - Remuneration
 - Fit and Proper procedure for nominating and selecting the Management board including the criteria for Independent board
 - Management contract
 - Establish the committee

SOEs Reform

Restructuring
Privatization



Profitable

Upsizing

Stand Alone	As the single SOEs	39 companies
Holding	Focused holding	10 Holding companies from 38 current SOEs
Roll Up	Merged and/or Acquisition	21 SOEs from 54 current SOEs
Divested	Merger/Acquisition/Consolidation	27 SOEs
Liquidation		Several SOEs

Rightsizing Plan

Stand Alone	Roll Up through Merger/Acquisition	Holding Company	Divested	Liquidation
Single player business	Same business activities	Similar business activities	Competitive but high innovation pressure	Unprofitable
Significant market share	Competitive	Different market segment	No regulatory obligation requiring control by government	High competitive
Less potential for merge and/or holding	Wholly owned by government	competitive	Potential for privatization	Negative equity
Captive market	Lesser performance	Good Prospects	No Public Service Obligation duty	No externalities provision
	Lack of “going concern” prospects	Wholly owned by government	No Externalities provision	Industries offering little /no prospect for government
		Based on product, area or multiple holding		
16 SOEs from 35 SOEs	21 SOEs from 54 SOEs	10 SOEs from 38 SOEs	27 SOEs	

Holding company Experiences

Background

- Government Side :
 - Reduce government risk by pooling risk in holding and lower cost financing
 - Less government financial transfer to support the companies
- SOEs side :
 - To simplify bureaucratic structure through greater autonomy and less government interference
 - To Improve performance, efficiency and profit
 - To provide better management performance through better management and economies of scale
 - Business Synergy
 - Strengthen the financial condition and business competitiveness
 - Specialization function

Holding Company's experience

- PT Bahana Pakarya Industri Strategis (Persero)
 - 10 Strategic industry companies
 - Established in 1998 as management holding company
 - Liquidated in 2002
- PT Pupuk Sriwijaya (Persero)
 - Fertilizer company
 - Established in 1959, become holding company in 1997
 - Management holding company
- PT Semen Gresik Tbk (Persero)
 - Cement Company
 - Operating holding company
 - Established in 1957, become holding company in 1995

Why Work

PT Pupuk Sriwidjaya	PT Semen Gresik Tbk
Formerly Single SOEs	Formerly Single SOEs
Relatively similar line production or support for main product	Relatively similar line production or support for main product
Direct acquisition	Direct acquisition
Government has less direct control upon sub-companies which formerly SOEs	Government has less direct control upon sub-companies which formerly SOEs
Had relatively good performance before created as holding company	Operating holding company with sub-companies possessing lesser authority
The largest fertilizer producer and distributor	Privatized in 1995
Management holding company with sub-companies possessing full authority	One of the biggest Cement companies in Indonesia

Why Not Work

PT Bahana Pakarya Industri Strategis

Established as new holding company

Diversification of product makes classification difficult

Decrease in authority, status and influence when single authority SOEs becomes Sub-companies

Power and Authority problems

Financial problems within some SOEs

A gap between holding and sub-company

Conclusion

- Coordinate ownership unit may have significant affects on the SOEs including :
 - Potentially better performance
 - A focus on operational function including supporting business activities which promote efficiency
 - Enlargement of capacity
 - Improving the management of economies of scale
- To avoid problems :
 - The nominated holding company should be soundly established and performing well.
 - Similar line production or support for the main business production
 - Sound financial performance
 - Culture, power and authority problems should be given first priority
 - Transparency and accountability in transfer of ownership



Thank You