

ASIAN DEVELOPMENT BANK

TAR:INO 36550

TECHNICAL ASSISTANCE
(Financed by the Japan Special Fund)

TO THE

REPUBLIC OF INDONESIA

FOR

STATE-OWNED ENTERPRISE RESTRUCTURING

December 2003

CURRENCY EQUIVALENTS

(as of 10 December 2003)

Currency Unit	–	rupiah (Rp)
Rp1.00	=	\$0.000118
\$1.00	=	Rp 8,490

ABBREVIATIONS

ADB	–	Asian Development Bank
BOC	–	board of commissioners
BOD	–	board of directors
CSP	–	country strategy and program
MSOE	–	Ministry for State-Owned Enterprises
PSO	–	public service obligation
PPTA	–	project preparatory technical assistance
PTPN	–	PT Perkebunan Nusantara (State-Owned Plantation)
SCI	–	statement of corporate intent
SOE	–	state-owned enterprises
SOEGPP	–	State-Owned Enterprise Governance and Privatization Program
SOERP	–	State-Owned Enterprise Reform Program
TA	–	technical assistance
USAID	–	United States Agency for International Development

NOTE

In this report, "\$" refers to US dollars.

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I. INTRODUCTION

1. During the 2002 Country Programming Mission of the Asian Development Bank (ADB), the Government of Indonesia requested technical assistance (TA) to assist the Ministry for State-Owned Enterprises (MSOE) to continue implementing the Government's State-Owned Enterprise Reform Program (SOERP).¹ The Fact-Finding Mission, fielded from 14–26 October 2002, reached an understanding with the Government on the purpose and output, methodology and key activities, cost estimates, and implementation arrangements of the TA.² The TA is included in ADB's 2002 country strategy and program for Indonesia.

II. ISSUES

2. Stage one of the 10-year reform program is supported by a three-tranche Program Loan (State-Owned Enterprise Governance and Privatization Program [SOEGPP]), currently under implementation and expected to be completed on time by July 2004. Stage one, supported by two ADB TAs,³ concentrated on the implementation of a new corporate governance system in about 80 state-owned enterprises (SOEs), privatization of a first group of 15 SOEs, corporate restructuring in about 25 SOEs, design of a policy for labor redundancies, and implementation of a clean procurement system in SOEs. MSOE has made good progress in implementing SOEGPP; SOE reform in general, which the Government considers an anchor of governance reform, has gained strong momentum. During stage two the following reforms will continue to be implemented covering all SOEs: (i) continued improvement in the application of the new corporate governance standards and practices for SOEs, (ii) restructuring the finances and operations of SOEs that are suitable candidates for rapid improvement and subsequent divestment, (iii) privatization of further SOEs with emphasis on private public partnerships, and (iv) selling of additional minority shareholdings. Additionally, the following reforms will be implemented: (i) preparing for private sector participation in the plantation industry, (ii) designing and implementing suitable regulatory systems for infrastructure industries in preparation for privatization, and (iii) segregating and commercializing public service obligations (PSOs).

3. The introduction of sound corporate governance standards and practices involves setting in place a set of structures, procedures, and incentives that empower managers to create shareholder value under adequate supervision, in a transparent environment, and with adequate accountability. This includes contractual arrangements to improve accountability and transparency, as well as enforcement of commercial laws, standards, and regulations. Accountability has been established through standardized and formalized contractual arrangements, which involve the Government agreeing on statements of corporate intent (SCIs) and entering into appointment agreements with commissioners and directors of SOEs.

4. Under the SOEGPP, at least 80 SOEs will submit an SCI to MSOE. Going beyond the financial and corporate information required in the annual report of a listed company, the SCI provides specific and strategic directions to the board of directors (BOD). The SCI defines the (i) objectives and scope of SOE activities; (ii) business and corporate restructuring plan and an assessment of cost and savings; (iii) accounting policies; (iv) performance targets in relation to

¹ Stage one of this 10-year program is supported by ADB. 2001. *Report and Recommendation of the President to the Board of Directors on a Proposed Loan to the Republic of Indonesia for State-Owned Enterprise Governance and Privatization Program*. Manila (Loan 1866-INO, approved on 4 December 2001 for \$400 million).

² The TA was first listed in *ADB Business Opportunities* on 30 October 2002.

³ ADB. 2001. *Technical Assistance to the Republic of Indonesia for the Privatization and Restructuring of State-Owned Enterprises*. Manila; and ADB. 2001. *Technical Assistance to the Republic of Indonesia for the Commercialization of Public Service Obligations*. Manila.

prescribed objectives; (v) information requirements of the shareholding ministry; (vi) compliance with environmental legislation to be confirmed through certification by accredited agency (e.g., ISO 14000⁴); (vii) employment status of staff and compliance with laws and regulations regarding labor relations; (viii) procedures to be followed for acquisition or sale of shares and divestment of subsidiaries; (ix) compensation for SOE activities from the public sector, if any; and (x) procedures for financial valuation of SOEs. While significant progress in this area of corporate governance has been made, MSOE needs strengthened capacity to evaluate the submitted SCIs.

5. In conjunction with SCIs, the Government as shareholder enters into formal agreements with all newly appointed commissioners and directors. The Government has announced the appointment criteria, roles, responsibilities, and accountability of boards of commissioners (BOCs) and BODs.⁵ The appointment agreements foster the autonomy of SOEs and accountability of supervisors and management by establishing individual and collective roles and responsibilities for implementing the SCI. In preparing the agreements, MSOE regularly reviews the composition of the BOCs and BODs, including the number of members, and their skills mix and qualifications.⁶ Parallel to these efforts, a new performance incentive system has been introduced for all SOEs to reward management and staff for improvements in defined performance indicators. This new corporate governance system needs to be systematically reviewed with respect to impact on SOE management behavior with the objective of identifying areas in need of further assistance.

6. So far, the Government implemented corporate restructuring in 25 commercially viable SOEs by June 2003. These activities concentrate on companies in the construction, fertilizer, and plantation industries. Additionally, MSOE is working on corporate restructuring in the electricity, toll roads, and airline sectors. Financial restructuring of SOEs can involve (i) selling of subsidiaries and/or surplus assets, (ii) equity injection from third parties, (iii) mergers of SOEs, and (iv) debt restructuring. Restructuring of operations can involve changes in (i) management information systems, (ii) production and logistics planning, (iii) distribution network, (iv) marketing strategy, (v) workforce number and composition, and (vi) organization structure. The restructuring and eventual privatization of SOEs has been conducted in a transparent manner to attract private sector investors who can inject new capital in viable SOEs. Building on the experience, MSOE needs to continue to develop the restructuring plans to continue with the implementation of the SOE reform program. The SCI has already become the main strategy document that contains a time-bound action plan and targets for improving financial performance and implementing the selected restructuring option for the given SOE. With assistance from ADB TA (footnote 3), MSOE has established a comprehensive financial database and portfolio management system, which helps in design and monitoring of corporate restructuring programs.

⁴ The ISO 14000 series is a family of environmental management standards developed by the International Organization for Standardization (ISO). The ISO 14000 standards are designed to provide an internationally-recognized framework for environmental management, measurement, evaluation and auditing. They do not prescribe environmental performance targets, but instead provide organizations with the tools to assess and control the environmental impact of their activities, products or services. The standards address the following subjects: environmental management systems; environmental auditing; environmental labels and declarations; environmental performance evaluation; and life cycle assessment.

⁵ Decree of the Minister of Finance No. 146/KMK.05/2001

⁶ The review includes the role, obligations, and composition of BOCs and BODs to verify whether the BOC has guided and monitored the implementation by the BOD of (i) SOE's long-term plan, (ii) annual business plan, and (iii) budget.

7. The SOEGPP targets satisfactory progress in the following two areas: (i) privatization⁷ of seven SOEs by July 2003⁸ and another eight SOEs by July 2004, and (ii) disposal of the minority shareholdings in five companies by July 2003⁹ and a further seven companies by July 2004. To ensure smooth and transparent privatization, MSOE has developed an analytical framework and evaluation methods for SOE privatization under ADB-financed TA.¹⁰ MSOE has reviewed the legal and regulatory environment, including the Tax Law and Land Law, and prepared procedures for the various privatization options, such as initial public offering, employee/management buy-out, strategic sale, and sale to an existing investor, as well as for liquidation. These procedures as well as the new corporate governance system are reflected in a new SOE Law (19/2003).¹¹ However, while implementing the privatization program several obstacles emerged, which the Government will overcome with assistance from this TA.

8. During implementation of SOEGPP corporate restructuring of state-owned plantations (PTPN)¹² was a focus area. The Government does not have the option of fully privatizing any of the PTPNs outright, before considerable restructuring has taken place and land title issues have been resolved. However, the Government can accelerate the restructuring process by commercializing selected activities or business lines of the PTPNs via partnerships with private investors. A major constraint is that most of the PTPNs can make contributions only in kind (mostly land and unutilized buildings), not in cash. Nevertheless, several PTPNs report serious interest from the private sector. MSOE will have to ensure that such cooperation will give due consideration for the interests of the employees, adjacent smallholders, and other local stakeholders.

9. During 2001-2002 MSOE, and the Ministry for Communication designed for the telecommunications sector a new regulatory framework that enabled MSOE to privatize PT Indosat in December 2002. Similarly, MSOE, in cooperation with the relevant technical ministries, will have to create new regulatory frameworks for other infrastructure sectors, e.g., airports, seaports, toll roads, postal services, and gas transmission. While significant work has been done in these areas, it has yet to be transformed into a program with a rigorous implementation schedule aiming at either further privatizations facilitating private sector participation in the infrastructure sectors.

10. Another impediment to privatizations is the public service obligations (PSOs). During phase one, MSOE prepared the separation of PSOs from the purely commercial activities of SOEs. MSOE, with assistance from ADB-financed TA¹³ has (i) identified PSOs in all SOEs; (ii) quantified the monetary value of performing PSOs in 15 SOEs; and (iii) developed rules and regulations for contracting such services on a competitive bidding basis, allowing participation

⁷ Defined as a reduction in the Government's share in the voting shares of a company (held directly or indirectly) to less than 50%.

⁸ By July 2003, the Government has sold 41.94% of PT Indosat to Singapore Technologies Telemedia. The shareholding of the Government is now down to 15%. This is a key achievement in terms of price received and political resistance overcome.

⁹ The Government of Indonesia's 42% shareholding in PT Wisma Nusantara was sold in December 2002. The Government's 16-87% shareholdings in Indocement was sold in October 2003. Three more transactions are to be completed in the near future.

¹⁰ ADB. 1998. *Technical Assistance to the Republic of Indonesia for Corporate Governance and Enterprise Restructuring*. Manila.

¹¹ In June 2003, the Government enacted Law 19 of 2003 (SOE Law), which was drafted with assistance from ADB financed consultants, and provides a legal framework for the reform program, which will be reviewed under this TA.

¹² There are 14 SOEs in the plantation sector: PT Perkebunan Nusantara I to XIV.

¹³ ADB. 2001. *Technical Assistance to the Republic of Indonesia for Commercialization of Public Service Obligations*. Manila.

by private companies. The objective was to establish a transparent process for the separation of PSOs with due consultation of all stakeholders. The result of this process has to be transformed into a sequenced program of commercialization of PSOs by SOEs to be implemented over a given time schedule.

11. ADB is the lead agency supporting SOE reform, which is regarded as a key component of the overall structural reform process as emphasized in the Government's letter of intent to International Monetary Fund in 1998. In addition to ADB assistance, MSOE is currently receiving some small-scale TA for socialization of SOE reform from the United States Agency for International Development (USAID), which is considering further TA in 2004. The mission has coordinated with USAID in the design of this TA.

III. THE TECHNICAL ASSISTANCE

A. Purpose and Output

12. The TA will assist MSOE in continuing the reforms of SOE that include (i) assessing of the potential for further corporate restructuring and privatization of SOEs, including public private partnerships in the plantation industry; (ii) identifying weaknesses in the new system of corporate governance for SOEs and recommending improvements to be made, including capacity building in MSOE for evaluation of SCIs; (iii) formulating a program for implementation of regulatory frameworks in infrastructure industries; and (iv) commercializing PSOs.

B. Methodology and Key Activities

13. The TA will help MSOE to identify remaining weaknesses in the corporate governance system implemented so far and recommend further improvements to be made. The recommendations will be based on the experience of implementing SCIs and management contracts (appointment agreements) with commissioners and directors. The new performance incentive system, introduced for 30 SOEs in 2002 to reward management and staff for improving defined performance indicators, will be reviewed and will recommend how to make the system more flexible in its application to individual SOEs. Furthermore, the TA will review the results of the independent procurement audits conducted under the SOEGPP, and recommend the best practices to be applied in SOE procurement, and will assess the effectiveness of the new SOE Law and its suitability for the future reform program.

14. Using a comprehensive database of SOEs, designed for portfolio management purposes, the TA will develop new restructuring and privatization plans for 30 SOEs to update the 3-year privatization pipeline. In this context, the TA will support preparation of the financial and operational restructuring of up to 15 SOEs, but not new investments to expand or modernize production facilities, which will be left to private sector investors. The TA will also support the Government's preparations of privatization of up to 15 SOEs in line with procedures for privatization options developed under a previous TA (footnote 9) by applying the analytical framework developed under that TA. One focus area of the TA will be the restructuring of plantations by commercialization of selected activities or business lines via partnerships with private investors.

15. The TA will help the Government design a program for the sequenced implementation of regulatory frameworks for infrastructure industries. The objective will be to privatize SOEs in the sectors and to attract private investment. A strong emphasis will be put on the separation of regulatory function and service delivery. Additionally, the TA will assist MSOE and relevant

technical ministries in designing a program for commercializing PSOs, to be implemented in the second phase of SOE reforms.

16. The TA will help the Government organize and conduct seminars on SOE reform to disseminate the findings of this TA and to reach agreement with all relevant Government agencies and stakeholders on the design implementation plan for further reforms of the SOE sector.

C. Cost and Financing

17. The total cost of the TA is estimated to be \$800,000 equivalent, comprising a foreign exchange cost of \$433,000 and a local currency cost of \$367,000 equivalent. The Government has requested ADB to finance \$600,000 equivalent, covering the total foreign exchange cost and \$167,000 of the local currency cost. The TA will be financed on a grant basis by the Japan Special Fund, funded by the Government of Japan. The Government will provide \$200,000 equivalent to finance counterpart staff, office facilities, and workshops (Appendix 1).

D. Implementation Arrangements

18. The TA Executing Agency will be MSOE. The steering committee, established in January 2002 for overseeing implementation of the SOEGPP, will monitor the implementation of this TA and ensure smooth coordination between MSOE staff and consultants. About 19 person-months of international consulting services (individual consultants) will be required. The international consultants will consist of experts in privatization, company restructuring, infrastructure regulation, and corporate governance. Domestic (individual) consultants will provide 36 person-months of consulting services in corporate governance, corporate restructuring, and law. The project framework is attached as Appendix 2. The consultants will be engaged by ADB in accordance with its *Guidelines on the Use of Consultants* and other arrangements satisfactory to ADB for the engagement of domestic consultants. The outline terms of reference for the consultants are in Appendix 3. The TA will be implemented during 12 months, to be completed by December 2004.

IV. THE PRESIDENT'S DECISION

19. The President, acting under the authority delegated by the Board, has approved the provision of technical assistance not exceeding the equivalent of \$600,000 on a grant basis to the Government of Indonesia for State-Owned Enterprise Restructuring, and hereby reports this action to the Board.

COST ESTIMATES AND FINANCING PLAN
(\$'000)

Item	Foreign Exchange	Local Currency	Total Cost
A. Japan Special Fund Financing			
1. Consultants			
a. Remuneration and Per Diem			
i. International Consultants	393	0	393
ii. Domestic Consultants	0	111	111
b. International and Local Travel	20	22	42
2. Equipment and Office Supplies	0	7	7
3. Training, Seminars, and Conferences ^a	0	6	6
5. Miscellaneous Administration and Support Costs ^b	0	6	6
5. Contingencies	20	15	35
Subtotal (A)	433	167	600
B. Government Financing			
1. Office Accommodation and Transport	0	36	36
2. Remuneration and Per Diem of Counterpart Staff	0	120	120
3. Others	0	44	44
Subtotal (B)	0	200	200
Total	433	367	800

^a Includes conference organizer and conference speakers.

^b Includes project secretary and translators.

Source: Asian Development Bank estimates.

SOE RESTRUCTURING FRAMEWORK

Design Summary	Performance Indicators/Targets	Monitoring Mechanisms	Assumptions and Risks
Goal Continuation of SOE reforms.	MSOE contribution to 2004 (2 nd) paper on the Government's reform program after the International Monetary Fund exit.	Paper.	
Purpose (i) Assessment of the potential for further corporate restructuring and privatization of SOEs, including public private partnerships in the plantation industry. (ii) Identification of weaknesses in the new system of corporate governance for SOEs and recommendations for improvements to be made, including capacity building in MSOE for evaluation of statements of corporate intent. (iii) Formulation of a program for implementation of regulatory frameworks in infrastructure industries. (iv) Implementation of commercialization of public service obligations.	(i) Consultant's report identifying future restructuring and privatization pipeline. (ii) Consultant's report on future corporate governance reform and outline of project. (iii) Consultant's report on regulatory frameworks for regulation of infrastructure industries and outline of project for implementation. (iv) Consultant's report outlining a project for commercialization of public service obligations.	Consultant reports. Review missions.	Cooperation of MSOE staff and SOE management.

Design Summary	Performance Indicators/Targets	Monitoring Mechanisms	Assumptions and Risks
Outputs Government Paper. Consultant reports.	MSOE's contribution to Paper. Consultant reports contributing to the formulation of second stage of SOE reform program.	Reports provided by consultants.	MSOE effectively cooperates with consultants and accepts recommendations for further SOE reform.
Inputs <ul style="list-style-type: none"> • Technical assistance cost • International consulting • Domestic consulting • ADB financing • Government contribution 	<ul style="list-style-type: none"> • \$800,000 • 19 person-months • 36 person-months • \$600,000 • \$200,000 	ADB Review missions	Due to the use of individual consultants there is a risk in the synchronization of the fielding and a higher risk due to unforeseen events.

OUTLINE TERMS OF REFERENCE FOR CONSULTANTS

1. The individual consultants to be hired under this technical assistance (TA) will work closely with staff of the Ministry for State-Owned Enterprises (MSOE). To enable close cooperation from the start of the TA, the Government has decided to place oversight of the TA under the Steering Committee established for implementing the State-Owned Enterprise Governance and Privatization Program (SOEGPP).

2. This TA will prepare further details for the continuing reforms of state-owned enterprises (SOEs), i.e., State-Owned Enterprise Restructuring Project (SOERP), Phase Two, to commence in late 2004. The TA will require the services of a team of international and domestic experts in privatization, corporate finance and restructuring, corporate governance, capital market and commercial law, accounting, and auditing. The TA will deliver the following outcomes:

- (i) The consultants will help MSOE to identify remaining weaknesses in the corporate governance system implemented under the SOEGPP, and recommend improvements that need to be made. The recommendations will be derived from implementing statements of corporate intent (SCIs) and management contracts (appointment agreements) with commissioners and directors. The SCIs provide MSOE with a corporate governance instrument more rigorous than what is required from listed companies. The appointment agreements are fostering autonomy as well as accountability of SOE supervisors and managers by establishing individual and collective roles and responsibilities for implementing SCIs. A new performance incentive system has been introduced for 30 SOEs in 2002 to reward management and staff for improving defined performance indicators. The TA will review the results and make recommendations for improvement. Furthermore, the TA will review the results of the independent procurement audits conducted under the SOEGPP, and recommend the best practices to be applied in SOE procurement.
- (ii) Using a comprehensive database designed for portfolio management purposes, the TA will develop new restructuring and privatization plans for 30 SOEs to update the 3-year privatization pipeline. In this context, the TA will support preparation of the financial and operational restructuring of up to 15 SOEs; new investments to expand or modernize production facilities will be left to private sector investors. The TA will also support the Government's preparations to privatize up to 15 SOEs, in line with procedures for privatization options developed under a previous TA¹ by applying the analytical framework developed under that TA. In preparation of restructuring and privatization, the TA will provide legal advice to the Government covering all relevant aspects of (a) laws on property, protection of competition, business, public property, and SOEs; and of (b) general public law matters. The TA will not cover drafting of laws and regulations.
- (iii) The consultants will help the Government to design a program for the sequenced implementation of new regulatory frameworks for infrastructure industries. The objectives will be to privatize SOEs in the sectors; attract private investment; and assist MSOE and relevant technical ministries in designing a program for the commercialization of SOEs.

¹ ADB. 1998. *Technical Assistance to the Republic of Indonesia for Corporate Governance and Enterprise Restructuring*. Manila.

- (iv) The consultants will help the Government organize and conduct seminars for the dissemination of corporate governance principles, and a seminar on SOE reform to disseminate the findings of this TA and to reach agreement with all relevant Government agencies and stakeholders on the details of the further reforms in the SOE sector.

A. Corporate Governance and Public Service Obligation (including Team Leader)

3. The consultants will include an international expert for 13 person-months as team leader and a domestic expert for 6 person-months.

4. Supervising and cooperating with the rest of the team of ADB financed experts, the team leader will assist the secretary general of MSOE to

- (i) assess and monitor the progress in the masterplan, and provide recommendations and advice as needed for preparatory steps to strengthen corporate governance, accelerate corporate restructuring, and implement privatization while taking into account the need to promote competitive markets, adopt appropriate regulatory structures, and comply with the relevant legal framework;
- (ii) assess, monitor, and take appropriate action to improve corporate governance;
- (iii) assess approaches, methods, techniques, and timing of the divestiture and related public policy issues, and on the presale restructuring;
- (iv) review the SOE corporate restructuring plans as recommended to MSOE, and prepare proposals to facilitate SOE reform;
- (v) oversee the operations of the other experts;
- (vi) ensure smooth cooperation between the experts and MSOE;
- (vii) supervise procurement of office equipment and its eventual disposal to the Implementing Agency; and
- (viii) administer the funds for local travel, seminars, and other administrative expenses.

5. The corporate governance consultants will ensure that the corporate governance instruments are used to ensure compliance with the restructuring and privatization plans and to achieve the TA's targets. The consultant will assist MSOE and advise individual SOEs on the following:

- (i) Advise SOE management on the preparation of SCIs. The SCIs must (a) reflect the arrangements of corporate governance, and performance criteria until privatization; (b) prioritize the restructuring process including schedule until privatization; (c) determine performance indicators for each SOE, which will measure management capability and company performance in financial and operational terms. The SCI will define the (a) objectives and scope of SOE activities, (b) business and corporate-restructuring plans and assessment of costs and savings, (c) accounting policies, (d) performance targets in relation to prescribed objectives, (e) information requirements of the shareholding ministry, (f) compliance with environmental legislation to be confirmed through certification

- by accredited agency (e.g., ISO 14000²), (g) employment status of staff and compliance with labor laws and regulations, (h) procedures to be followed for acquisition or sale of shares and divestment of subsidiaries, (i) compensation for SOE activities from the public sector, and (j) procedures for SOE valuation.
- (ii) Advise MSOE on the preparation of appointment agreements between MSOE as the shareholder and member of the boards of commissioners and directors. The contracts will establish the roles, responsibilities, and accountability of each party, and include performance incentives to reward management for improving agreed performance indicators.
 - (iii) Prepare an assessment of corporate governance practices in a range of SOEs to be determined in discussions between Asian Development Bank, MSOE, and the consultant, using the Code for Good Corporate Governance issued by National Committee for Corporate Governance (NCCG) and the corporate governance system for SOEs as the benchmark. Base the assessment on a questionnaire developed under previous TA. The assessments will be an input for a report on the effectiveness of the corporate governance system and recommendations for the way forward. The recommendations will consider particularly the need to develop a corporate governance handbook for commissioners and directors and establishment of a help desk for corporate governance at MSOE.
 - (iv) Design a training program for commissioners and directors and prepare cost estimates assuming that a TA loan will be available to finance this activity in the long-term.

6. The consultants will also (i) design a sequenced program for the commercialization of public service obligations, utilizing the findings of previous TA, *Commercialization of Public Service Obligations*;³ (ii) estimate program costs for the public sector and implementation costs for consultants, capacity building, monitoring, etc.; (iii) investigate current difficulties in filing company information with Ministry of Industry and Trade and recommend possible improvements; (iv) monitor actual filings of such information by SOEs and assist SOEs that are failing to file; and (v) assess the suitability of the new SOE Law (Law 19 of 2003) and State Finance Law (Law 25 of 2003) for the future reform process.

B. Privatization and Regulation

7. The tasks of the consultants, international experts for 6 person-months and domestic experts for 30 person-months, will include but not be limited to the following:

- (i) Assess the regulatory environment of infrastructure industries, in particular, for their suitability for the participation of private companies under competitive conditions. Review existing recommendations for changes in the regulatory environment and their suitability for privatization and private sector participation. The infrastructure industries will be selected in cooperation with MSOE.

² The ISO 14000 series is a family of environmental management standards developed by the International Organization for Standardization (ISO). The ISO 14000 standards are designed to provide an internationally-recognized framework for environmental management, measurement, evaluation and auditing. They do not prescribe environmental performance targets, but instead provide organizations with the tools to assess and control the environmental impact of their activities, products or services. The standards address the following subjects: environmental management systems; environmental auditing; environmental labels and declarations; environmental performance evaluation; and life cycle assessment.

³ ADB. 2001. *Technical Assistance to the Republic of Indonesia for Commercialization of Public Service Obligations*. Manila.

- (ii) Building on the assessment, design a sequenced program for introducing regulation in selected industries, including estimation of program costs for the public sector and implementation costs for consultants, capacity building, monitoring, etc.
- (iii) Design a sequenced program for the creation of public private partnerships in the plantation industry, to ensure that such cooperation will not undermine the strategic direction of the SOE and gives due consideration to the interests of the employees, adjacent smallholders, and other local stakeholders. Estimate the program costs for the public sector and implementation costs for consultants, capacity building, monitoring, and socialization of the general commercial and legal framework, which could be used by any SOE wanting to create a private public partnership.
- (iv) Assess SOEs' suitability for privatization, including (a) a review of privatization options and procedures, (b) review of valuation, and (c) assessment of impact on labor and need for an environmental management plan.
- (v) Continue and improve a data bank system to monitor financial performance of individual SOEs as well as their aggregate. Use the data bank as a portfolio management reporting system. Design a long-term program, including cost estimates, for transforming this system into a high powered corporate platform for information processing, strategy and policy development, communication, and human resources development.
- (vi) Assess the quality of transaction documentation, such as offering memoranda and prospectuses.
- (vii) Support MSOE in designing the financial and operational restructuring of SOEs, including (a) selling of subsidiaries and/or surplus assets, (b) equity injection from third parties, (c) mergers of SOEs, and (d) debt restructuring; and in operational restructuring, which could involve changes in (a) management information systems, (b) production and logistics planning, (c) distribution network, (d) marketing strategy, (e) workforce number and composition, (f) organizational structure, and (g) separation of public service obligations from commercial activities.
- (viii) Develop new restructuring and privatization plans, with a view to establish a 3-year privatization pipeline.

C. Workshops and Seminars

8. The consultants will help the Government organize and conduct seminars on SOE reform to disseminate the findings of this TA and to reach agreement with all relevant Government agencies and stakeholders on the implementation of the second stage of SOE reforms. A special focus of the final paper will be the creation of public-private partnerships in the plantation industries. Additionally, the consultants will organize workshops on corporate governance, in particular for the preparation of SCIs.

D. Reporting Requirements

9. The corporate governance team will produce a midterm and final report in the area of corporate governance and public service obligation reform. The reports will focus on the way forward in these areas. The privatization and regulation team will produce a midterm and final report in the areas of corporate restructuring, regulation, and privatization.