

SUBJECT: PRIVATIZATION ON STATEOWNED COMPANY¹
[from ALNI – Indonesia]

This paper sketches three “points to be references for IFI as loan condition to Indonesia” and two recommendations to IFI. Because of the nature of this particular document, we will attempt to address each point in turn to the extent possible.

“Implementation of Privatization Policy will not be an advantage to Indonesian people”.

Usually when a privatization policy is proposed, the arguments detailing its benefits are presented along with the underlying assumptions. Sometimes such proposals are an outcome of intensive technical work during which the case is prepared and demonstrated in the favor of presentation. In some cases, privatization policy could be proposed based on the experience of other countries. In both cases, there is usually clear (not borderline) evidence suggesting gains.

There may be, however, cases when, notwithstanding the *ex ante* arguments, a privatization policy may not turn out to be profitable. This could happen when the privatization procedures are not fully transparent, or there are some other intervening factors.

“Priority scale should be determine[d] clearly, which State owned company can be privatized and which is not. Which can be sold more than 50% (majority) and which can only be sold less than 50%, therefore Privatization regulation must be made.”

This is a valid point, and can be a basis to proceed with a program of privatization. At any point in time, there may be a number of candidate enterprises. It would not be prudent to go with all of these at once, and indiscriminately. The bundling and prioritization should be carried out strategically. There are many policy, implementation, and politico-economic arguments that can inform such a strategic choice.

“As Government asset, process and decision as State owned Company selling must through approval by Indonesia Assembly Legislative (DPR) to minimize Collusion, Corruption and Nepotism practice”.

This issue can be context specific and is difficult to comment on in the abstract. In some cases, such a body could ensure a corruption-free environment while in others it may not. In some cases, standalone statutory corporations could the job. One needs to look at this on a case by case basis.

“Stop Privatization to State Owned Company in Indonesia that will make disadvantages for Indonesian stakeholder”.

This may not be an appropriate conclusion in all or even many cases, especially if the enterprises are running inefficiently and waste public revenue resources.

¹ ADB President Tadao Chino’s response to ALNI-Indonesia letter on privatization policy in Indonesia, 25 June 2002.

“Labor Standard should be put as one of the loan requirements”.

This is becoming an important issue for all financial institutions. ADB’s social protection strategy (approved in September 2001) endorses a similar position. ILO is of course fully engaged in these and related issues.