Indonesia: IBRA's Asset Management Unit/Asset Management of Credits (IBRA AMU/AMC)

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Abstract

In response to a problematic banking sector that was seen as under-capitalized, under-regulated, and suffering from an excess of non-performing loans, in early 1998 the Indonesian government devised the Indonesian Bank Restructuring Agency and its Asset Management Unit/Asset Management of Credits (AMU/AMC) as part of a three-pronged government emergency plan, along with a blanket guarantee of the debts of all domestic banks and a framework for corporate restructuring. The AMU/AMC acquired and managed non-performing loans from a variety of Indonesian banks and attempted to dispose of them. The AMU/AMC had acquired nearly 400 trillion rupiah (approximately $86 billion) in face value of loans by April 2003. Throughout its history, the organization encountered political interference, transfer issues, documentation problems, and issues with legal authority that impeded its effective operation. While the AMU/AMC wound down upon its initially scheduled end date of February 27, 2004, its functions and many unresolved legal cases were simply shifted to a new asset management company under the Ministry of Finance.

Keywords: Asset management, Indonesia, nonperforming loans, loan restructuring, Asian Economic Crisis

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IBRA AMU/AMC

At a Glance

In the years leading up to the Asian Financial Crisis of 1997, Indonesian firms became increasingly reliant on short-term funding denominated in foreign currencies. Indonesia's banks, moreover, were undercapitalized, poorly supervised, and engaged in heavy lending to affiliated companies and politically favored enterprises. Following the collapse of the Indonesian rupiah in mid-1997, the country's banking system was in crisis.

In early 1998 the government devised the Indonesian Bank Restructuring Agency and its Asset Management Unit/Asset Management of Credits (AMU/AMC) as part of a three-pronged emergency plan, along with a blanket guarantee of the debts of all domestic banks and a framework for corporate restructuring, to deal with problems in the Indonesian banking sector. Banks that came under IBRA's umbrella would transfer non-performing loans to the AMU/AMC at zero value, with any proceeds ultimately returned to the banks for use in repaying government assistance. The organization disposed of loan assets in accordance with their sizes. It was belatedly empowered after its creation with expanded legal powers and the ability to escalate its actions taken against the largest defaulting borrowers, which included regularly publishing the names of recalcitrant debtors.

Summary of Key Terms	
Purpose: Managing the most severe nonperforming loans from banks involved with IBRA.	
Announcement Date	January 27, 1998
Operational Date	Fall of 1998
Date of First Transfer	
Expiration Date for Transfers	
Date of Last Asset Disposal	February 27, 2004
Program Size	
Usage	Approximately 400 trillion rupiah in face value of loans by April 2003
Outcomes	
Notable Features	

The AMU/AMC ultimately acquired almost 400 trillion rupiah (approximately $86 billion) in face value of loans. It wound down upon its initially scheduled end date of February 27, 2004, but the organization's functions and its many unresolved legal cases were simply shifted to a new asset management company under the Ministry of Finance.

Summary Evaluation

IBRA has been criticized for not being as effective as it might have been due to a combination of factors including political interference, transfer issues, documentation problems, and issues with legal authority.

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I. Overview

Background

Indonesia experienced a period of rapid growth in the years leading up to the Asian Financial Crisis of 1997, with GDP increasing by an average of 7% to 8% per year from 1970 to 1996 (Sharma 2001 P81). However, this period also witnessed the rapid liberalization of the Indonesian economy and banking sector without a corresponding adoption of necessary prudential standards (Ibid. P83). Indonesian businesses became increasingly dependent on short-term debt denominated in foreign currencies, and the country's undercapitalized, poorly supervised banks were heavily exposed to weak corporate borrowers and a booming real estate market. Private banks lent extensively to affiliated companies, and state-owned banks lent extensively to politically favored enterprises (Ibid. P83-97).

With the outbreak of the Asian Financial Crisis and Thailand's decision to float the baht in July 1997, the Indonesian rupiah came under significant pressure (Lindgren et al. 1999 PAGE 54). In August 1997, Indonesia floated the rupiah and its value fell by over 30% in September and October (Ibid.). Indonesian firms and banks began experiencing difficulty servicing their foreign-currency denominated debts (Sharma 2001 P91). Faced with these pressures, on October 31, 1997, the government came to a three-year stand-by agreement with the International Monetary Fund (IMF) over policies it was prepared to implement in return for the IMF's financial support.[2] These policies were built around three objectives: a strong macroeconomic framework that combined substantial fiscal adjustment and a tight monetary stance; a strategy to restructure the financial sector, including the closure of insolvent banks; and broad structural measures to improve governance. Additionally, the government committed to taking any additional measures necessary to achieve the policies' objectives throughout the duration of the stand-by agreement (IMF 1997).

The bank restructuring program that the Indonesian government rolled out in response to its agreement with the IMF covered 59 banks (representing 66% of the banking sector's assets)[3] with graduated resolution measures. On November 1, 1997 (less than 24 hours after the initial agreement with the IMF), as part of the package, the government immediately closed 16 small, clearly insolvent banks (representing 2.5% of the banking sector's assets) (Enoch 2006 PAGE 4, Sharma 2001 PAGE 94). The remaining banks included in the program became subject to various forms of heightened supervision and restructuring (Ibid).

However, this initial attempt at addressing weaknesses in the Indonesian banking sector contributed to its continued deterioration. The closure of 16 banks fueled concerns that

[2] The financial support provided was equivalent to SDR 7.34 billion or 490% of quota; in turn, this was equivalent to about $10 billion. Financing came from the IMF, along with quick-disbursing additional financing expected from the World Bank, the Asian Development Bank, and bilateral donors; the bulk of this financing would be made available during the first year of the program (IMF 1997).

[3] There is a numerical discrepancy between these numbers (Enoch 2006) and those provided by Sharma (2001). Sharma writes that the agreement included 50 banks representing 34.3% of the banking system. Further, Lindgren et al. (1999) writes that the resolution package covered 50 banks, representing 34.3% of the banking system.

additional failures might occur in a system with inadequate deposit insurance (Sharma 2001 P95). Because the Indonesian government did not publicly identify the remaining banks in the program, depositors were uncertain about which institutions were healthy and which were not (Ibid). Additionally, the fact that certain of the country's most visibly weak banks were not included among those closed led to the belief that the criteria adopted by the government for closure were arbitrary (Pangestu 2003 P12).

The condition of the financial system in Indonesia thus worsened over the following months. Bank runs became pervasive and the rupiah depreciated by 80% (Enoch 2006 PAGE 4). This erosion of the banks' deposit base meant that the Bank Indonesia (BI) had to provide massive amounts of liquidity: during December 1997[4] alone, this support increased from 13 to 31 trillion rupiah, equivalent to 5% of GDP (Sharma 2001 PAGE 96).

By January 1998, the rupiah headed into free fall. The Indonesian government signed a second letter of intent with the IMF on January 15, 1998, but clearly remained unable to fulfill its commitments; the exchange rate fell further, and the banking sector's problems deteriorated into a "full-fledged systemic crisis" (Lindgren et al. 1999 PAGE 59).

Thus, on January 27, 1998, the government announced a three-pronged emergency plan to deal with problems in the banking sector: a blanket guarantee of the debts of all domestic banks,[5] a framework for corporate restructuring, and the establishment (for a five-year period) of the Indonesian Bank Restructuring Agency (IBRA), which would function as a new regulatory agency for the banking industry under the auspices of the Ministry of Finance (MOF) (Sharma 2001 PAGE 100).

Program Description

IBRA was set up to perform three main roles:

1. "To implement the government guarantee program, including the registration of banks' liability, premium payments, and the administering of claim verifications." (Pangestu 2003 P13)
2. "To restructure banks through closures, mergers, recapitalizations and eventually the sale of government ownership in these troubled banks; to recover the transferred bad loans; and to monitor and sell corporate assets pledged or transferred to IBRA from former bank owners as collateral for emergency BI liquidity credits" (Pangestu 2003 P13)
3. "The coordination and supervision of banks that had been frozen or closed, in order to complete the whole process of closing banks" (Pangestu 2003 P13)

This case will focus on one key component of the second of these roles: the creation of an asset management unit (AMU/AMC) to handle the non-performing loans in the Indonesian banking sector.

[4] During Q4 of December 1997, the exchange rate of rupiah to USD stood at 4,650 (FRED)

[5] This excluded subordinated debt and the debts of bank owners. It was set to expire on January 31, 2000, at which point it would be replaced by a deposit insurance scheme; it was retroactively applied to the sixteen liquidated banks (Sharma 2001).

The Indonesian government established IBRA as an ostensibly independent agency reporting to the Ministry of Finance (MOF) (Sharma 2001 P100). A senior official from the MOF was appointed to head IBRA, and several hundred employees from the MOF and the BI were assigned to it to provide immediate staffing (Enoch 2006 P8). In February 1998 IBRA took its first major action, bringing 54 banks (representing almost 40% of the sector) that had borrowed heavily from BI under its umbrella, subjecting them to on-site IBRA supervision and memoranda of understanding restricting their activities (Ibid.). In April 1998 IBRA assumed ownership of 7 banks representing 16% of the banking system's liabilities and closed a further 7 small banks (Ibid. P12).

Audits of the banks taken over in April undertaken by international accounting firms in the summer of 1998 revealed that levels of non-performing loans ranged from 55% to over 90% (Sharma 2001 P105). Results of audits of fifteen large non-IBRA banks (presumed to be among the healthiest in the country) released in August 1998 showed similar weakness, prompting concerns about the solvency of the banking system as a whole (Lindgren et al. 1999 P61). In response, Indonesia announced a major recapitalization plan in September 1998. This plan sorted the country's banks into three categories based on their capital ratios:

1. A banks: these were the banks with capital ratios estimated to be more than 4% that did not require government support.
2. B banks: these were the banks with capital ratios between -25% and 4%. They were allowed to submit business plans detailing their viability over a three-year period to be assessed by independent advisors; if these plans were approved, and if the bank then passed a test by the BI,[6] it could participate in joint recapitalization with the government (Sharma 2001 P107, Enoch 2006 P19).[7]
3. C banks: these were the banks with capital asset ratios below -25%, which were not eligible to receive government support and would be liquidated.

The AMU/AMC would be responsible for managing the assets of banks closed by IBRA. Additionally, IBRA required those "Category B" banks that participated in joint recapitalization to transfer their "category 5" loans (loans in the lowest of Indonesia's five performance categories and thus deemed a total loss) to the AMU/AMC (Lindgren et al. 1999 P63). Such banks could also opt to transfer their "category 4" loans (loans in the second lowest of Indonesia's five categories and thus deemed doubtful) (Ibid.). Banks would transfer the loans to the AMU/AMC for no value, but any proceeds realized would be transferred to the banks to be used to buyback the preference shares issued to the Indonesian government in connection with the joint recapitalization (Ibid.). IBRA auditors

[6] Bank managers had to pass a test ensuring that they were technically competent enough to run their bank (Sharma 2001).

[7] This joint recapitalization would proceed as follows: the bank "supplied unborrowed resources equivalent to 20% of the shortfall from the 4% capital asset ratio requirement [for all Indonesian banks at end-1998], the government would supply the remaining 80% of the shortfall. The government would obtain a commensurate shareholding in the bank, but would leave the owners in day-to-day control of the bank, and provide the owners with the first option to buy back their shareholdings at the end of three years" (Enoch 2006). The shareholders were required to provide their 20% in cash before IBRA made any contributions (Sharma 2001).

would verify the status of the loans to "ensure that the nonperforming loans [were] genuine and not simply debt relief for well-connected borrowers" (Adams et al. 2000 P193).[8]

Given the resource constraints on IBRA, it was unable to deal with all of the nonperforming loans on its own. The AMU/AMC directly handled only those loans greater than 25 billion rupiah, allowing the banks themselves to manage smaller loans either through a subcontracting arrangement with IBRA or directly depending on size. (Sharma 2001 P108).

The AMU/AMC ultimately began to escalate its actions taken against the largest defaulting borrowers. In early 1999, the Minister of Finance created a framework that classified uncooperative borrowers by their economic viability and degree of cooperation with IBRA and included plans of how to deal with them. The MOF developed a schedule to this effect, and tackled the largest debtors first; publicity was a key element of the strategy, as the names of the debtors were regularly published (Enoch et al. 2001 P79). Given limited resources, the AMU/AMC focused its restructuring efforts primarily on its 21 largest debtors (Fung et al. WP P12).

The AMU/AMC disposed of loan assets in accordance with their sizes. It did this in three primary ways: through corporate loan sales via open auction, by outsourcing for commercial loans through a selected third party (servicing agent), and by dealing with small and medium enterprise (SME) and retail loans, which it sold through open tender auction and crash programs that allowed the debtor to settle hers or his debts by providing a 100% discount on interest and penalty as well as 25% discount on principal for productive loans only (Fung et al. WP P10).

Outcomes

Figure 1 below shows the breakdown of the Indonesian banking sector prior to IBRA's adoption and how IBRA's operations ultimately changed the sector. As indicated in Figure 1, Indonesia's bank sorting exercise identified 73 Category A private banks not in need of government assistance, 37 Category B private banks potentially eligible for joint recapitalization, and 17 Category C banks to be liquidated. Of the 37 Category B private banks, 9 were ultimately eligible for joint recapitalization.

[8] In addition to non-performing loans, IBRA also acquired certain non-core assets such as buildings, cars, and office equipment obtained while liquidating banks (managed by the AMU/AMC), assets pledged by former bank shareholders to settle claims stemming from violations of prudential norms (not managed by the AMU/AMC), and equity stakes in recapitalized banks (not managed by the AMU/AMC) (Fung et al WP P10).

Figure 1: Indonesian Banking Sector, Before and During IBRA

Table 1: Bank mergers, closures and survivals

	Initial	Lost		Remaining		
		Closed	Merged	Private & JV	National -ized	State & regional
State banks	**7**		**3**			**4**
Regional development banks	**26**					**26**
Private banks	**157**	**65**	**9**	**79**	**4**	
Closed in 1997	16	16				
Nationalized in 1998	4		2		2	
Closed in 1998	10	10				
Audited in March 1999						
Category A	73	1		72		
Category B						
Closed in March 1999	21	21				
Eligible for recapitalization	9			7	2	
Nationalized	7		7[a]			
Category C	17	17				
Joint venture banks	**32**	**2**		**30**		
Audited in March 1999						
Category A	15			15		
Category B	17	2		15		
Total	**222**	**67**	**12**	**109**	**4**	**30**

[a] The seven private banks nationalized in 1999 were subsequently merged with Bank Danamon, which had already been nationalized in 1998.

Source: ***Fane and McLeod 2002 PAGE 279.***

By April 2003, the AMU/AMC had acquired nearly 400 trillion rupiah in face value of loans from recapitalized banks and from institutions that IBRA had liquidated. As shown in Figure 2 below, the largest loans of more than 50 billion rupiah comprised the bulk of the total principal outstanding. Approximately half of the loans acquired were foreign currency-denominated, primarily in the US dollar (Fung et al. WP P10-11).

Figure 2: Loans Acquired by IBRA

Table 2.2

Loan classification by category/size
as of 16 April 2003

Category	Assets transferred to IBRA				Outstanding			
	# Acct	Debtors	Principal	%	# Acct	Debtors	Principal	%
Corporate	55,532	2,887	328,606	83.86	45,344	905	144,463	90.82
Commercial	8,288	2,737	33,390	8.52	2,599	961	13,564	8.53
SME/ Retail	310,373	291,317	29,871	7.62	11,707	10,350	1,037	0.65
Total	374,214	296,941	391,867	100.00	59,650	12,216	159,064	100.00

Note: Exchange rate IDR7,000/USD and loan principal only. SME/Retail (loan amount < IDR 5 bn), Commercial (5 < loan amount < IDR 50 bn), SME/Retail (loan amount > IDR 50 bn)

Source: IBRA 2001 Annual Report

***Source:* *Fung et al. WP P10-11*.**

Despite having been in operation since January 1998, IBRA was not able to begin disposing of assets until mid-1999. This was due to a host of factors including inadequate loan documentation and administration, insufficient collateral, and the difficulty involved in selling such highly distressed loans. From 1999 to 2002, the AMU/AMC disposed of 135 trillion rupiah in loans through auctions, netting 41 trillion rupiah in proceeds, for a recovery rate of 30% (Fung et al. WP P11). However, Bill Guerin wrote in the *Asia Times* in September 2002 that "IBRA's recent success in asset auctions…lost some of its gloss when it was disclosed that the very people who owned them in the first place probably bought most of these assets back – at an average 25 cents on the dollar."

IBRA's attempts at loan restructuring, having focused primarily on the 21 largest debtors, achieved more limited results with other loans. As shown in Figure 3 below, while the restructuring of almost all debt of the 21 largest debtors was either complete or in late stages by June 2002, the corresponding figure for debtors outside the top 50 largest was less than 40%.

Figure 3: Loans Restructured by IBRA

Table 2.4

Status of IBRA loan restructuring based on grouping of obligors
As of June 2002, in %

Obligor group	Early stage	Middle stage	Late stage	Completed	*Total (IDR trillion)*
Top 21	0.2	4.3	75.6	19.9	*99.5*
Next 22-50	3.5	10.4	63.7	22.4	*53.5*
Remainder (51 onward)	4.6	15.4	25.4	13.9	*200*
Total debtors	3.2	11.6	45.2	16.8	*353*

Note: Early stage includes restructuring not initiated; initial negotiation; or standstill agreement. Middles stage includes assignment of advisors; due diligence; or restructuring negotiations. Late stage includes finalisation of a workout MOU or legal action in progress. Completed includes loans that are in stage of implementation, full payment or disposal. Figures exclude identified shareholder settlement, non-resident debtors, retail loans, interbank claims, and derivatives & marketable securities.

Source: IBRA and authors' calculation

***Source:* *Fung et al. WP P13*.**

IBRA wound down on its initially scheduled end date of February 27, 2004 (Omori 2014 P1000). However, it had not completed its work within the timeframe allotted, and it still held approximately $8.3 billion in assets, which were shifted in part to a new Asset Management Company under the MOF and in part to an oversight committee of cabinet ministers. Thus, it appears that IBRA down up in name only. At the time, there were still 1,361 reported unresolved legal cases surrounding its portfolio, which came to 25 billion rupiah and encompassed 447 debtors (Resosudarmo 2005 P43).

II. Key Design Decisions

1. The AMU/AMC was part of a three-pronged emergency plan to deal with problems in the banking sector, along with a blanket guarantee and a framework for corporate restructuring.

The emergency plan introduced by the government on January 27, 1998 in response to worsening conditions in the Indonesian banking sector and pressure from the IMF entailed a blanket guarantee of the debts of all domestic banks, a framework for corporate restructuring, and the establishment (for a five-year period) of IBRA, which would function as a new regulatory agency for the banking industry under the auspices of the Ministry of Finance (MOF) (Sharma 2001 PAGE 100). The blanket guarantee was an attempt to stem the bank runs that were then destabilizing the system. It covered deposits and most other creditor claims (excluding subordinated debt) of domestically incorporated banks, whether denominated in rupiah or foreign currencies (Ibid.). The framework for corporate restructuring, meanwhile, called for a voluntary, temporary suspension of payments on corporate external debt (Ibid).

2. Indonesia issued a presidential decree in order to establish IBRA and later had to strengthen its legal powers to enable the AMU/AMC to operate effectively.

On January 26, 1998, the Decree of the President of the Republic of Indonesia No. 27 established IBRA for a period of five years under the auspices of the Ministry of Finance. The AMU/AMC was in turn established under the auspices of IBRA as a separate asset management entity (Sharma 2001 PAGE 100). Despite this initial authorization, IBRA lacked certain powers that hampered its effectiveness. Specifically, it did not have the necessary ability to transfer assets or to foreclose on collateral. Provisions of the Law No. 10 of 1998 (the "Banking Law") passed in October 1998 solidified the legal basis for the organization's activities (Fung et al WP P8). These amendments to section 37A of the Banking Law strengthened the legal powers of both IBRA and the AMU/AMC, empowering them with the ability to transfer assets and foreclose against a nonperforming debtor (Lindgren et al. 1999 PAGE 61).

3. The Indonesian government initially restricted communication about IBRA.

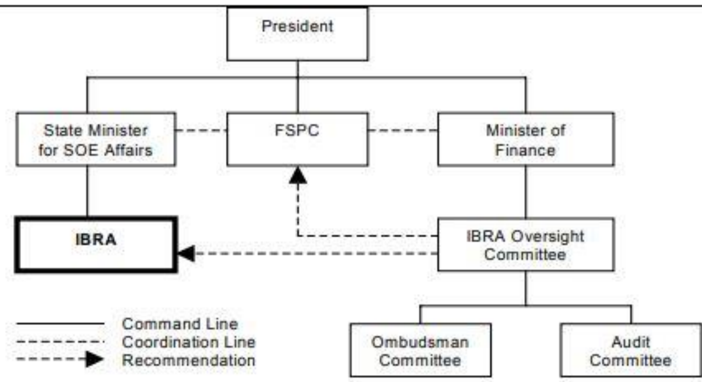
The closure of 16 banks in November 1997 as part of the original IMF agreement contributed to a run on the Indonesian banking system. Seemingly as a result, the Indonesian government determined not to publicize the early operations of IBRA following its establishment in January 1998. Specifically, a last minute decision was made not to publicly disclose the February 1998 move to bring 54 banks under IBRA's umbrella (Enoch 2006 P8). This caused the public to perceive of IBRA as a non-operational "paper-tiger" during the preliminary stages of its operations (Sharma 2001 PAGE 101). The lack of publicity also seems to have undermined the status of IBRA officials working onsite at those banks subject to the operation (Enoch 2006 P9).

4. IBRA was established as an ostensibly independent agency reporting to the Ministry of Finance.

Omori (2014) writes that "despite the IMF's suggestion that the IBRA should be an autonomous body, the latter was placed under the MOF's authority and was thus dependent upon the ministry" (Omori 2014 P994). A senior official from the MOF was appointed to head the agency, and several hundred staff members from the MOF and the BI were assigned to it as staff (Enoch 2006 P8).

Figure 4 below illustrates the governance structure for IBRA. An IBRA Oversight Committee was responsible for the overall performance of IBRA and met at least weekly to make recommendations about matters such as transparency and asset disposals (Fung et al WP P9). The body consisted of nine members including a former Minister of Finance, the chairman of IBRA, and representatives from the private sector and the academic world (Ibid.).

Figure 4: IBRA Governance Structure



Source: *Fung et al. WP P9.*

Despite ostensibly being independent, IBRA faced regular political interventions. IBRA has been described as "needing to obtain political authority even for its technical operations" (Enoch 2006 P10). This contributed to major turnover among senior staff, including seven different chairmen in a four year period (Fung et al WP P15).

5. **There was no pre-established limitation on the AMU/AMC's size.**

6. **IBRA issued government guaranteed bonds to finance itself.**

IBRA was financed by a combination of both medium and long-term government-guaranteed bonds paying an average of 14% annually in interest; some of these bonds were inflation-indexed (Sharma 2001 PAGE 107).

7. **Institutions eligible to transfer assets to the AMU/AMC included those liquidated by IBRA and those participating in a joint recapitalization with IBRA.**

The Indonesian government established IBRA in part to oversee the closure of banks that were deemed too insolvent to be eligible for assistance. As part of the closure of such banks, assets would be transferred to the AMU/AMC to manage. Additionally, banks that were eligible for joint recapitalization under IBRA had to transfer certain assets to the AMU/AMC as a condition for participation in the recapitalization. IBRA determined recapitalization eligibility based on bank capital ratios. Banks with capital ratios between negative 25% and 4% could submit business plans detailing their viability over a three-year period to be assessed by independent advisors. Upon approval of its business plan and subject to passing a test of technical competency administered to bank management by the BI, a bank could participate in joint recapitalization with the government and therefore transfer assets to the AMU/AMC (Sharma 2001 P107, Enoch 2006 P19).

8. The AMU/AMC focused on the most distressed non-performing loans.

New regulations established in Indonesia in December 1998 established five categories for the classification of loans:

Category	Required Provisioning
Pass	1%
Special Mention	5%
Substandard	15%
Doubtful	50%
Loss	100%

The AMU/AMC would be responsible for managing loans in all categories from banks closed by IBRA. For banks participating in IBRA's joint recapitalization, "category 5" Loss loans had to be transferred to the AMU/AMC (Lindgren et al. 1999 P63). Such banks could also opt to transfer their "category 4" Doubtful loans (Ibid.).

However, there were limitations on the size of the loans the AMU/AMC handled directly. The AMU/AMC subcontracted management of bad loans valued between 5 and 25 billion rupiah back to the individual banks and supervised their efforts. Individual banks remained responsible for handling loans less than 5 billion rupiah. The AMU/AMC directly handled only those loans greater than 25 billion rupiah. (Sharma 2001 P108).

9. Banks transferred assets to the AMU/AMC at zero value, but would receive any proceeds from their ultimate disposal.

Banks would transfer nonperforming loans to the AMU/AMC for no value, but any proceeds realized would be transferred to the banks to be used to buyback the preference shares issued to the Indonesian government in connection with the joint recapitalization (Lindgren et al. 1999 P63). This approach provided the government with the prospect of an early return on its recapitalization investment and reduced the amount the other shareholders would have to pay to regain full control of the bank (Ibid.).

10. The AMU/AMC disposed of loan assets in accordance with their sizes.

It did this in three ways: through corporate loan sales via open auction, by outsourcing for commercial loans through a selected third party (servicing agent), and by dealing with small and medium enterprise (SME) and retail loans, which it sold through open tender auction and crash programs that allowed the debtor to settle hers or his debts by providing a 100% discount on interest and penalty as well as 25% discount on principal for productive loans only (Fung et al WP P11).

IBRA also introduced several new asset programs that the AMU/AMC used in order to speed up the loan sale process. These included the *asset to bond swap program*, by which eligible investors were able to use government recap bonds as payment for IBRA assets; the *unstructured loans*, through which IBRA sold many unrestructured corporate, commercial and retail loans in 2002; and the *collateralized debt obligation (CDO)*, through which IBRA securitized a diversified portfolio of restructured loans and loans in the MOU stage in late 2002 (Fung et al WP P12).

11. IBRA was established with a five-year window of operation.

IBRA's stated rationale for having a pre-defined lifespan of five years was that its existence was a reminder that the country was in crisis such that ceasing operations as soon as possible would be beneficial (Fung et al WP P8).

III. Evaluation

The AMU/AMC took over assets from a variety of institutions during the financial sector restructuring to deal with the "unprecedented" amount of nonperforming loans in the banking system (Sharma 2001 PAGE 108). Still, one criticism of IBRA is that levels of NPLs in the system remained high even after the asset transfers (Pangestu 2003 P23).

IBRA was also criticized for being slow to mobilize with the disposal of its assets (both the loans it took over and its equity stakes.) Enoch et al. 2001 (PAGE 82) write that "to some extent, this [criticism] is undoubtedly justified," but "in mitigation, one should recall the deep intensity of the crisis and the ongoing political transition, freezing investor interest with regard to any involvement in the country." Further, the authors elaborate that due to IBRA's reliance on special powers, it was unable to operate effectively until the law and the regulations surrounding its operation became effective. "For unexplained reasons, each stage of the passage of the law was protracted, and it was not until February 1999 that IBRA was able to use its powers. As a result, it was, for instance, unable to manage the assets of the banks closed in April 1998 for ten months after the closures: the result was undoubtedly a depletion in the value of the assets, and an increase in the ultimate cost of the banking sector restructuring for the public sector" (Enoch et al. 2001 P111).

During some (unspecified) part of IBRA's operational period, it retained assets on its books at face value, which kept the organization from negotiating realistic deals – while this reduced moral hazard, any deal negotiated would appear to the public as a loss "rather than a recovery from losses incurred earlier." This is likely to have contributed to IBRA's poor public image, because "it led to a perception that it was selling the country 'cheap' and, hence, denied IBRA the popular protection that would enable it to better withstand the powerful vested interests set against it" (Enoch et al. 2001 P82).

Additionally, Enoch elaborates that, due to IBRA's lack of effective penalties against nonperforming debtors, it struggled to collect loans, "which gave rise to ever-higher needs for provisioning." The state banks were particularly egregious: as these banks expected that their loss loans would be transferred to the AMU and they would be fully recapitalized, they did not see a compelling reason to go after nonperforming debtors. "Some banks were particularly generous in their deposit rates, while having no evident strategy for enhancing loan recoveries. The overall result was that, even while the nominal interest rate spreads in the banking sector were negative, there was a continued need for banks to make additional provisioning, further worsening the insolvency of the sector" (Enoch et al. 2001 P97).

Further, there was difficulty in setting up the legal framework enabling IBRA to deal with its assets, and the amount of labor required to document all of the assets and prepare them for sale was enormous (Enoch et al. 2001 P82, 83). There were also major documentation problems, which impeded the transfer of loans from frozen and closed banks to IBRA (Fung et al. WP P11).

Resosudarmo (2005) writes that "it is difficult to judge whether IBRA can be regarded as a success. Clearly, the amount of cash it [was] able to return to the government [was] only a small proportion (about 25%) of the value of the bonds the government issued to bail out banks' creditors…but of course most, if not all, of the assets in IBRA's portfolio were severely compromised at the outset, and there was no realistic expectation that the full book value could be recovered. In any case, IBRA's performance suffered greatly from political interference, as could only have been expected given the vast sums involved. Top management of the institution was changed on numerous occasions as presidents came and went and as each president sought to achieve the outcomes desired" (Resosudarmo 2005 P43).

Fung et. al. have argued that IBRA's broad mandate may have hampered its effectiveness, with one organization acting as "an asset management company, an agent to carry out recapitalisation, an agent for the blanket guarantee, a manager/supervisor of almost 80% of the banking system, and a restructuring agent of the banking system through, e.g. merging banks" (Fung et al. WP P15).

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V. Key Program Documents

Summary of Program

- Banking Reform in Indonesia (Irigoyen 2017) – *Case study by Boston Consulting Group's Center for Public Impact that examines banking reform in Indonesia.* https://www.centreforpublicimpact.org/case-study/banking-reform-indonesia.

Legal/Regulatory Guidance

- Financial Sector Policy Committee (FSPC) Decree No KEP 01/K.KKSK/05/2002 – *A decree by the Indonesian government's Financial Sector Policy Committee stipulating that all restructuring agreements under IBRA were to be completed in 6 months as of May 13, 2002, at which point any remaining loans would be transferred to a disposal program.*
- Crisis-Driven Changes to the Banking Laws and Regulations (McLeod 1999) – *A short paper published in the Bulletin of Indonesian Economic Studies that provides an overview of changes to the banking laws and regulations during the time of the crisis.* https://ideas.repec.org/a/taf/bindes/v35y1999i2p147-154.html.

Press Releases/Announcements

- Letter of Intent of the Government of Indonesia (Muhammad and Dijiwandono 1997) – *Letter from the Indonesian Minister of Finance and the Governor of BI outlining policies the Indonesian government intended to implement in order to receive financial assistance from the IMF.* https://www.imf.org/external/np/loi/103197.htm.

Media Stories

- Indonesia's Cycle of Subservience to the IMF (Guerin 2002) – *Newspaper article initially published in the Asia Times detailing the Indonesian government's relationship with the IMF during the Asian Financial Crisis.* https://www.globalpolicy.org/component/content/article/209/42999.html.

Reports/Assessments

- Interventions in Banks During Baning Crises: The Experience of Indonesia (Enoch 2006) – *An analysis of the effectiveness of Indonesian banking reform during the Asian Financial Crisis by an IMF staffmember.* https://www.imf.org/en/Publications/IMF-Policy-Discussion-Papers/Issues/2016/12/30/Interventions-in-Banks-During-Banking-Crises-The-Experience-of-Indonesia-3523.