Chapter VIII - Trade And Project Financing

The economic crisis that began in mid-1997 completely changed the trade and project financing landscape in Indonesia. After nearly ten years of rapid expansion, Indonesia's banking system is crippled, with the vast majority of local banks now technically bankrupt. Moreover, most local businesses are currently insolvent and cannot qualify for loans, whether sourced locally or from foreign lenders. Letters of credit are essentially unobtainable; when they can be secured from Indonesian banks, they are generally not accepted abroad. For the moment, foreign banks -- including official credit agencies such as the U.S. Ex-Im Bank -- have stopped lending to Indonesia, based on general prudence as well as a loss of confidence brought on by the political and social turmoil that has accompanied Indonesia's economic problems.

Local banks are not expected to function at reasonable levels in the near-term. However, foreign lending should become viable again as adherence to both IMF and political reforms increases investor confidence. U.S. companies wanting to sell to Indonesia should thus be prepared to offer financing as part of their sales package. U.S. businesses should also look for opportunities in projects being funded by international development banks, as well as other countries. The U.S. aid program in Indonesia has increased to about $150 million in 1998 and, while much of this is targeted for humanitarian assistance, U.S. suppliers can take advantage of it.

Indonesia retains an open capital account and no foreign exchange controls. Although the banking system was deregulated in 1988, the government imposes some restrictions on foreign borrowing, which could have an impact on certain types of trade financing. Rapid growth of foreign debt in 1989-1990 led the government to establish a Offshore Commercial Loan Team (PKLN - Pinjaman Komersial Luar Negeri), which imposes limits both on public sector foreign borrowing and foreign borrowing by commercial banks. The Ministry of Finance and Bank of Indonesia control PKLN. Short-term letters of credit are not affected, but letters of credit with terms longer than one year are subject to limits set by PKLN.

General Financing Availability

Prior to the financial crisis, all forms of import and export financing were available in the Indonesian market and frequently used, although most imports were financed with letters of credit. Short-term financing was readily available. Some larger banks were providing longer-term financing of up to 2-3 years.

Indonesian buyers have generally preferred the supplier to provide the necessary financing for a commercial transaction, either normal commercial trade financing or export credits from the source country's export credit agency (in the case of the United States, the U.S. Ex-Im Bank located in Washington, D.C.). Local bank financing has sometimes been arranged, depending on the customer or the agent/distributor involved in the transaction. Once the economy recovers, proposed reforms in the banking sector should make local financing a more favorable option than it has been in the past. Several American banks have shown initiative in arranging trade financing packages for their customers, some with Ex-Im Bank guarantees. Although U.S. Ex-Im, along with other export credit agencies and foreign banks, is not processing applications in Indonesia currently, once bankers have a reasonable assurance that stability is returning to Indonesia, investors will rely on creative financing options more than ever.

Types of Available Export and Project Financing

Indonesia secures a substantial portion of its development funding from the multilateral development banks, primarily the Asian Development Bank (ADB) and the World Bank. In 1998/1999, Indonesia will rely on this assistance to a larger extent. The almost $5 billion generally made available from a variety of donors belonging to the World Bank-chaired Consultative Group on Indonesia (CGI), was increased to $7.9 billion during the July 1998 meeting.

American firms can participate in projects funded by the ADB and the World Bank. Information on projects and procedures is available through U.S. Commercial Service officers assigned to each multilateral development bank as well as commercial officers in individual countries (See Chapter XI for contact information). See web home pages, including http://www.ita.doc.gov/mdbd for information on all development banks.

U.S. Ex-Im Bank is committed to establishing a world-class program in limited recourse project finance (The term "project finance" refers to the financing of projects which are dependent on the project cash flows for repayment.). When operation resumes in Indonesia, where appropriate, Ex-Im Bank will offer the maximum support allowed within OECD rules, including financing of interest accrued during construction, allowance of 15 percent local content, financing of host country costs up to 15 percent of U.S. contract value, and maximum repayment terms allowed under OECD guidelines. Ex-Im also has “war chest” monies available to match soft loan offers from competitor countries who chose to exceed OECD guidelines. Ex-Im does not initiate soft loan offers without evidence of a competitor offer already having been made. Ex-Im programs are explained on their homepage, located at http://www.exim.gov.

Other forms of feasibility study and project financing may be available through the Trade and Development Agency (TDA) (see their home page at http://www.tda.gov) and the U.S. Agency for International Development (USAID). Although currently on hold, investment projects in Indonesia are eligible for Overseas Private Investment Corporation (OPIC) loans and insurance. (See Chapter XI for contact information or visit their website at http://www.opic.gov).

Asian Development Bank

The Asian Development Bank, headquartered in Manila, is an international financial development institution owned by 56 member countries of which the United States and Japan are the largest shareholders. The bank lent $5.5 billion in 1996 to promote economic and social progress in its developing member countries. The transportation and communications sector received the largest share of lending, followed by energy, social infrastructure, multi-sector loans, agriculture and natural resources, industry, finance, and non-fuel minerals. The Bank's medium-term strategy focuses on poverty reduction, improving the status of women, population planning and environmental protection. The Bank has also assumed a new role as a catalyst for development. In implementing this policy, the bank will leverage its own financial resources through co-financing and other techniques to attract additional private capital in funding the development needs of its member countries.

The ADB is the third largest aid donor to Indonesia, pledging $1.5 billion in loans in 1997, and $2.2 billion in 1998.

A commercial liaison office, which reports directly to the Office of Multilateral Development banks at the Commerce Department in Washington D.C., assists U.S. suppliers and consultants in winning contracts on projects and activities funded by the bank. The office includes a senior commercial officer and two commercial specialists. One of the specialists represents the United States-Asia Environmental Partnership (US-AEP) at the Bank. The liaison office works closely with the U.S. Executive Director who represents the United States on the bank's board of directors (See Chapter XI for contact information, or ADB's home page at http://www.asiandevbank.org).

Since 1967, the U.S. has won $3.7 billion in overall ADB procurement. In 1996, the United States won $213 million in procurement contracts and consulting services. This represents 5.34 percent of overall procurement and 17 percent of procurement from donor member countries. The U.S. has consistently ranked first in consulting services awards, capturing about 20 percent of total awards every year.

Examples of ADB projects in Indonesia include:
- Water Resources Development in East Indonesia
- Coral Reef Rehabilitation and Management
- Power Sector Development Program
- Railways Development in Sumatra
- Capacity Building for Financial Governance
- Review of Urban Development Project Preparation
- Capacity Building in the Agriculture Sector
- Basic Education Project in Bali and Nusa Tenggara Barat
- Increasing Efficiency and Competitiveness of Financial Services
- Appliance Testing and Labeling
- Planning for Fire Prevention and Drought Management

World Bank

The World Bank Group is a multilateral lending agency consisting of four closely related institutions: the International Bank for Reconstruction and Development (IBRD), the International Development Association (IDA), the International Finance Corporation (IFC), and the Multilateral Investment Guarantee Agency (MIGA). The World Bank provides loans to developing countries to help reduce poverty and to finance investments that contribute to economic growth.

The International Bank for Reconstruction and Development (IBRD), frequently called the "World Bank," was conceived in July 1944 at the United Nations Monetary and Financial Conference in Bretton Woods, New Hampshire. The World Bank opened for business in June 1946, and its first focus was the reconstruction of war-torn Europe. Today the World Bank lends to the developing countries of Africa, Asia, Latin America and the Caribbean, and the Middle East and Europe. The World Bank and its affiliates are headquartered in Washington, D.C. A brief description of each group member follows.

The International Bank for Reconstruction and Development

(IBRD) provides funding for creditworthy developing countries with relatively high per capita income. It also provides technical assistance and policy advice. IBRD raises the money through the sale of AAA-rated bonds in international capital markets. Loans are made only to governments or to agencies that can obtain a government guarantee. The IBRD also provides partial risk or partial credit guarantees (with a counter-guarantee from their government) to private lenders on development projects. The interest rates are variable, set at half a percentage point above the Bank's average cost of borrowing or LIBOR. Repayment is usually over 12 to 15 years, including a grace period of three to five years. Opportunities for U.S. companies exist to supply goods and services in connection with these loans.

The International Development Association (IDA) provides assistance on concession terms to the poorest developing countries (per capita incomes below $925 in 1996 dollars) that are not sufficiently creditworthy for IBRD financing. It receives its funding largely from contributions from its wealthier member countries. The terms for IDA credits are maturities of 35 to 40 years (depending on the level of development of the borrower), including a ten-year grace period and no interest but a 0.75 percent annual service charge. IDA credits are made only to governments. As with the IBRD, procurement procedures are well-established and offer opportunities for U.S. suppliers, engineers and consultants. In the past, Indonesia has been ineligible for IDA programs, but this may change.

The International Finance Corporation (IFC) is an affiliate of the World Bank that provides project financing for private investment in developing countries. IFC offers long-term loans and equity investments, as well as other financing services. IFC will generally invest up to 25 percent of the total project cost. In addition to project finance, IFC also provides legal and technical assistance to private enterprises. Unlike the IBRD and IDA, the IFC does not require government guarantees. U.S. companies seeking direct investment funds should contact the IFC. (See http://www.ifc.org for contact information)

The Multilateral Investment Guarantee Agency (MIGA) was established in April 1988 to help investors overcome the problems of political risk. Investors' concerns about political risk had the effect of slowing down the flow of foreign direct investment, which, in turn, slowed the creation of jobs and the transfer of modern technology. MIGA's purpose is to promote the flow of foreign direct investment among member countries by insuring investments against non-commercial (political) risk and by providing promotional and advisory services to help member countries create an attractive investment climate. U.S. companies seeking investment guarantees should contact MIGA.

The World Bank is the second largest aid donor to Indonesia, pledging $1.5 billion in 1997 and $2.7 billion in 1998. It has a large resident office in Jakarta.

Examples of World Bank projects in Indonesia include:

Education:	Book and Reading Development II
Energy:	Suralaya Thermal Power Project
Environment	BAPEDAL Development Project
Financial Sector:	Banking Reform Assistance Project
Telecom Sector:	Modernization
Health/Nutrition/Population:	Water Supply & Sanitation for Low Income Community
Rural Development:	Agricultural Financing Project
Transport:	Highway Sector Investment II
Urban:	Surabaya Urban Development Project

For further information on the World Bank and assistance it provides, contact:

Commercial Service Liaison Staff
Office of the U.S. Executive Director
The World Bank
1818 H Street N.W.
Washington DC 20433
Tel.: (202) 458-0118, 458-0120
Fax: (202) 477-2967
Internet: http://www.worldbank.org

Additional contact information for the World Bank is available in Chapter XI.

Islamic Development Bank

Established in 1973, the Islamic Development Bank seeks to foster the economic development and social progress of member countries and Muslim communities through participation in equity capital and grant loans for projects, as well as providing other types of financial assistance. The Islamic Bank recently dispensed a $380 million grant to Indonesia. While a large portion of this grant will be used for humanitarian aid such as food and medicine, $100 million has been earmarked for Education, Health and Agricultural Development Projects.

The Islamic Bank is headquartered in Jeddah, Saudi Arabia (See http://www.isdb.org or Chapter XI for additional information and contact information).

Financing of Agricultural Exports

The Embassy's Agricultural Affairs Office and Agricultural Trade Office in Jakarta have successfully launched several credit guarantee programs to facilitate the export of U.S. agricultural products to Indonesia. Under the GSM-102 Credit Guarantee, the U.S. Department of Agriculture, via the Commodity Credit Corporation, will issue a loan guarantee with repayment terms of up to three years. Coverage is available for a wide variety of products ranging from cotton, soybeans and feedgrains to leather, lumber and planting seeds. The program has grown from an initial allocation of $15 million in FY92 to $400 million in FY98. With the USDA guarantee, banks are generally able to offer lower interest rates than may otherwise be available. The interest rates, however, are negotiated by the banks and are not set by USDA. Use of this guarantee facility has increased during the economic downturn in Indonesia. The guarantee is assisting Indonesian companies which are otherwise having difficulty with trade financing. The total amount of guarantees available was increased from $250 to $400 million and the coverage was expanded to cover freight charges as well. An additional regional program of $90 million has also been made available by the U.S. Department of Agriculture.

Another program, the GSM-103 facility, is available for animal breeding stocks with credit terms of seven to ten years. To date the $10 million available each year under this program has not been utilized by Indonesian banks for U.S. agricultural products.
Two new facilities, the Supplier Credit Guarantee Program (SCGP), and the Facilities Guarantee Program (FGP) have been introduced in Indonesia. The SCGP program is aimed at commodities which are generally traded without Letters of Credit. The SCGP covers 50 percent of the principle for up to 180 days. A total of $50 million for the Southeast Asian region was made available in FY 98. The numerous commodities eligible are generally high valued products such as meat, fruit and consumer-ready products. The FGP program for the region totals $40 million and covers equipment and services aimed at facilitating imports of U.S. agricultural commodities.

The following Indonesian banks are eligible to participate in the GSM-102 and GSM-103 programs:

Bank Artha Graha
Bank Bahari
Bank Buana Indonesia
Bank Bukopin
Bank Bumi Daya (BBD)
Bank Century Intervest Corporation
Bank Dagang Negara (BDN)
Bank Dharmala
Bank Duta
Bank Ekspor Impor Indonesia (EXIM)
Bank International Indonesia (BII)
Bank Lippo
Bank Mashill Utama
Bank Negara Indonesia (BNI)
Bank Nilai Inti Sari Penyimpan (NISP)
Pan Indonesia Bank Ltd (PANIN)
Bank Rakyat Indonesia (BRI)
Bank Rama
Bank Tabungan Negara (BTN)
Bank Tamara
United City Bank (UNI Bank)
Bank Universal
American Express Bank, Jakarta Branch
Bank of America/Jakarta Branch
The Chase Manhattan Bank N.A./Jakarta Branch
Citibank, Jakarta
Development Bank of Singapore, Singapore

Banks with Correspondent U.S. Banking Arrangements

Four American banks have branches in Indonesia: American Express Bank, Bank of America, Chase Manhattan, and Citibank.

The following six U.S. banks have representative offices in Jakarta: Bank of Boston, Bank of California, Bankers Trust, Core States, J.P. Morgan, and Republic National.

The following 82 Indonesian banks have correspondent relationships with American banks:

Bank Arta Niaga Kencana	Bank Asia Pacific
Bank Artha Graha	Bank Antardaerah
Bank Arta Prima	Artamedia Bank
Bank Arta Prima	Bank Bali
Bank Buana Indonesia	Bank Bumi Arta
Bank Bahari	Bank Baja Internasional
Bank Bukopin	Bank Bumi Daya
Bank Central Asia*	Bank Central Dagang

Bank Century InvestCorp.	Bank Dagang Bali
Bank Dagang Negara	Bank Dagang Nasional Indonesia*
Bank Danamon Indonesia*	Bank Duta
Bank Dharmala	Bank Dagang dan Industri
Bank Ekonomi Rahardja	Bank Ekspor Impor Indonesia
Ficorinvest Bank	Bank Ganesha
Bank Hagaku	Hastin Internasional Bank
Bank Hagakita	Halim Indonesia Bank
Bank Harmoni International	Bank Internasional Indonesia
Bank Indonesia Raya	Bank IFI
Jaya Bank International	Kharisma Bank
Bank Kesawan	Lippo Bank
Bank Lautan Berlian	Modern Bank*
Bank Mashill Utama	Bank Maspion Indonesia
Bank Mayapada International	Bank Muamalat Indonesia
Bank Mestika Dharma	Bank Metro Express
Bank Niaga	Bank NISP
Bank Nusa Internasional	Bank Namura Internusa
Bank Negara Indonesia	Bank Nusantara Parahyangan
Bank Nasional	Pan Indonesia Bank
Bank Papan Sejahtera	Bank Pembangunan Indonesia
Bank PIKKO	Bank Prima Express
Bank Putra Surya Perkasa	Bank Rama
Bank Risyad Salim Intl.	Bank Swedesi
Sahid Gajah Perkasa Bank	Bank Shinta Indonesia
Bank Tabungan Negara	Bank Tamara
Bank Tata Internasional	Bank Tiara Asia*
Bank Umum Nasional*	Bank Utama
Bank Universial	Bank Umum Servitia
United City Bank	Bank Windu Kentijana
Bank Yakin Makmur	

*banks currently under Indonesian Restructuring Agency (IBRA) management control (see Chapter II for background). IBRA status should be reviewed periodically, as banks will be taken off from the list when they become sufficiently capitalized, or conversely, when they are determined unsalvageable and are liquidated.

An excellent resource for all the banks is the Office of Multilateral Development Bank Operations at the Department of Commerce. Services offered include a newsletter, counseling center, referrals and business outreach. Contact information is as follows:

Janet Thomas, Director
Office of Multilateral Development Bank Operations
Department of Commerce, Room 1107
14th and Constitution Ave., N.W.

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