The IMF tightens the screws on Indonesia

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Another International Monetary Fund (IMF) team arrives in Jakarta early next week to again put the Indonesian government and the economy under the spotlight. Having delayed the payment of $400 million in loans that were due in April, IMF officials will examine the extent to which ministers and officials have implemented the detailed economic prescriptions set out in a letter of intent signed in January.

At stake is not only the immediate loan but also further disbursements as well as other financial arrangements. On April 13, after grilling a team of Indonesian officials led by coordinating economic minister Kwik Kian Gie, the Paris Club of creditors agreed to reschedule $5.8 billion in government loans, which had been due between 2000 and 2002. But the arrangement is conditional on Indonesia carrying out the IMF's dictates, in particular, to deal with private debtors and to press ahead with the sale of up to $80 billion in assets acquired by the government as part of its bank rescue package.

Without the agreement with the Paris Club, the government's budget plans would be thrown into disarray. Moreover, any adverse judgement by the IMF team would almost certainly further undermine the shaky Indonesian rupiah and the prospects of attracting international investors. This week the rupiah slid in value against the US dollar in response to the shocks on world stock markets and news that Standard & Poor's had cut Indonesia's credit ratings.

The IMF's decision in late March to suspend payments produced alarm in Indonesia. President Abdurrahman Wahid publicly lashed out at his own ministers, particularly in the economic portfolios, banning all ministerial travel overseas. On April 1, he convened an emergency meeting of cabinet to discuss the means for speeding up the implementation of the IMF demands. The government offered to meet the IMF's requirements by April 30 but the IMF's representative in Indonesia John Dodsworth insisted on faster results. All measures were due to be in place yesterday.

Wahid's panicky reaction underscores the knife edge on which his government is perched. Kwik noted at the time that the IMF had the government over a barrel. “The Paris Club, donor countries and the IMF know exactly our situation, we have no choice, we cannot pay,” he said. Dependent on international loans and investment to prevent the Indonesian economy from going into financial freefall, the government is compelled to carry out the IMF's detailed measures according to a rigorous set of deadlines—all to be completed by the end of the year.

But to implement these measures means to send a substantial number of Indonesian companies to the wall as well as slashing government spending and privatising state-owned enterprises. Not only does the government face resistance from sections of Indonesian business, particularly those companies most closely connected to the former military strongman Suharto, his family and cronies, but also from wide layers of workers, students and sections of the middle class who will be hit by job losses, higher prices and lack of social services.

In comments last week in Jakarta, IMF representative Dodsworth made clear that the Wahid government had to press on with the agenda regardless of the impact. The key problem when it came to corporate restructuring, he complained, was that “debtors are looked on as victims” and courts were “somewhat kind” to companies facing bankruptcy. “There has to be the political will to say they are responsible, not victims,” he told a seminar, adding that the present system lacked teeth to push indebted companies into restructuring.

In the aftermath of the 1997-98 Asian financial crisis, the Indonesian government was compelled to set up the Indonesian Bank Restructuring Agency (IBRA) as part of its plans to prop up and recapitalise the country's financial and banking system. IBRA now has about $80 billion in assets seized from the owners of insolvent banks, which the IMF is demanding be sold off to the highest bidder or liquidated.

At the same time, the IMF has been critical of the failure of the Wahid government and the courts to take action against so-called delinquent private debtors—companies which after the financial crisis simply stopped paying their international creditors. It is insisting that private companies, responsible between them for an estimated $70 billion in debt, be forced to reach an agreement with the foreign banks or be liquidated if they refuse.

To enforce its demands, the IMF has put the Indonesian government on a short leash. Last year, it cut off funding to the previous Habibie government which had refused to make public details of an investigation into the so-called Bank Bali scandal—the siphoning off of about $80 million in funds by prominent figures close to Habibie. In order to restart IMF funding, the Wahid government signed a letter of intent in January. As a senior government economic adviser Dr Sri Mulyani Indrawati commented: “When the government signed the letter of intent with the IMF they had not realised the real burden of implementing it.”

The letter of intent is an extraordinary document setting out not only specific economic policies and targets for Indonesia but also the structures required to implement them and a precise timetable to be completed in the course of this year. For all intentional purposes, the IMF, backed by the US and other major powers, not the president and his economic ministers runs the country's policy. Under the banner of assisting economic recovery, the IMF is seeking to create the conditions for an influx of international investment to exploit the country's cheap labour and raw materials.

The letter of intent lays out broad guidelines for the restructuring of the central bank, state banks and private banks, changes to the tax system, the devolution of financial powers to local and provincial government, budget policy, changes to the tax system, privatisation of state-owned enterprises and the restructuring of the oil, gas and electric power industries. The document foreshadows prices rises for petrol, gas and electricity and an end to subsidies and cheap credit to farmers. There are over 100 particular measures to be put in place this year ranging from changes to the tax policies in Free Trade Zones and the reduction of import tariffs on capital goods, to detailed prescriptions for IBRA's operations and specific plans for the restructuring and privatisation of state banks.

When the IMF delayed its latest loan in late March, it claimed that the Indonesian government had failed to deliver on 42 items in the letter of intent. Over the last three weeks the focus of Wahid's attention has been to ensure that the IMF's conditions are met on time. Although not officially cited as an item to be implemented, it is clear that the US and IMF are demanding that action be taken to clear away the business networks established by Suharto, his family members, business cronies and military officers, which acted as an impediment to foreign investors.

Over the past month Attorney General Marzuki Darusman has pressed ahead with attempts to interview Suharto over allegations of his misuse of funds from five charitable foundations to which all civil servants were compelled formerly to donate a portion of their salary. Suharto, like his Chilean counterpart General Pinochet, has claimed through his lawyers to be too sick to be interrogated. After Suharto failed to turn up for questioning in three separate occasions, a team of lawyers and doctors have attempted to interview him at his house. Darusman has also begun to question Suharto's children—the family as a whole is estimated to control businesses worth an estimated $15 billion.

But the legal game of cat and mouse with the Suharto family is to a large extent a matter of show. Wahid, who has been seen in public with a rather fit-looking Suharto on two separate occasions, has already indicated that he is prepared to grant the ageing dictator a presidential pardon if the courts should convict him. Moreover, no legal action has been initiated against Suharto for the crimes of the murderous regime over which he presided for 32 years.

Comments by Darusman make clear that the purpose behind prosecuting Suharto has nothing to do with justice but rather is to satisfy the international investors that the old system of payoffs and nepotism is being dismantled. “The settlement of the Suharto question, and the Bank Bali question, would go a long way to restoring confidence in the legal and financial system, which is the most crucial elements of turning around the economy,” he said recently. Darusman is a senior figure in Golkar, the ruling party under Suharto.

The Wahid government is also under pressure to change the country's commercial courts, which so far have frustrated attempts to liquidate bankrupt corporations. IBRA proposed assigning three “ad hoc” judges to the agency's three bankruptcy cases. Economic advisory team member Faisal Basri even went so far as suggesting that Indonesia hire foreign judges, possibly from the former colonial power, the Netherlands, to handle specific cases such as major bankruptcies. But neither proposal has been adopted despite a large backlog of bankruptcy cases in the courts. One of the few successes that the government can point to is the reinstatement of charges, dropped in a lower court, against one of the key suspects in the Bank Bali scandal.

At the same time, Wahid faces far broader opposition from workers, farmers and the urban and rural poor over plans to cut or abolish government subsidies on fuel and food. Confronted with the prospect of large student-organised demonstrations in Jakarta, the government was forced to back down, temporarily at least, on plans to increase fuel prices by 10 percent on April 1.

Wahid was no doubt mindful of the fact that Suharto's decision to press ahead with fuel price hikes in 1998 contributed to the widespread protests that finally forced Suharto to resign. But the decision has only temporarily postponed a confrontation. Co-ordinating economic minister Kwik noted at the time that the IMF did not object to the delay but then added: “If we still don't raise the fuel prices after three months, it will be fatal.”

Whatever the outcome of talks next week with the IMF team, the Indonesian government is in a precarious position. If the IMF decides to release the $400 million, it is little more than a short reprieve. An article last month in the British *Economist* magazine entitled “Still waiting for Wahid” indicates growing impatience in international financial circles with the lack of results.

“The new government is safely buckled in,” the *Economist* commented, “but it remains stuck on the runway. Abdurrahman Wahid has spent the first five months of his presidency trying to rally international support and to outfox his opponents in the armed forces and rival parties. He has so far been successful. But when will all this tactical manoeuvring lead to less violence and more confidence in the economy?”

Wahid has little room to move. And as he implements the demands of international finance capital, his government is certain to face deepening opposition and a growing political crisis.