

**GOOD  
CORPORATE GOVERNANCE:  
STRATEGY TO IMPROVE  
INVESTMENT  
IN INDONESIA'S  
CAPITAL MARKET**

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**The Monetary Crisis in Asia →  
Crisis in Indonesian Banking**



**Waken the awareness of the  
government and business actors  
that excessive dependence on  
banking as financial source was  
very risky**



**Banking sector → Capital market**

**TABLE 1**  
**Sources of Funds for Indonesia's Business Finance, 1991-2001 (Cumulative)**

<b>Year</b>	<b>Bank Loans Rp trillion</b>	<b>Bond and Share Issues Rp trillion</b>
<b>1991</b>	<b>113.6</b>	<b>11.2</b>
<b>1992</b>	<b>123.7</b>	<b>15.0</b>
<b>1993</b>	<b>148.3</b>	<b>21.8</b>
<b>1994</b>	<b>188.9</b>	<b>33.2</b>
<b>1995</b>	<b>234.6</b>	<b>44.1</b>
<b>1996</b>	<b>293.0</b>	<b>61.5</b>
<b>1997</b>	<b>378.1</b>	<b>89.6</b>
<b>1998</b>	<b>545.4</b>	<b>94.8</b>
<b>1999</b>	<b>277.3</b>	<b>229.9</b>
<b>2000</b>	<b>320.4</b>	<b>254.8</b>
<b>2001</b>	<b>358.6</b>	<b>263.0</b>

**Source: Central Bank of Indonesia**

**TABLE 2**  
**Transaction Volume and Value**  
**on the Jakarta Stock Exchange, 1991-2001**

	Transaction Volume		Transaction Value	
	Number of shares	% change	Rp billion	% change
1992	1,089,456,792	--	2,095.2	--
1993	3,844,031,699	252.84	19,086.2	810.94
1994	5,292,580,825	37.68	25,482.8	33.51
1995	10,646,444,247	101.16	32,357.5	26.98
1996	29,527,727,838	177.35	75,729.9	134.04
1997	76,599,170,013	159.41	120,385.2	58.97
1998	90,620,529,970	18.30	99,684.7	-17.20
1999	178,486,582,779	92.55	147,880.0	48.35
2000	134,531,333,895	-22.90	122,774.8	-16.98
2001	148,381,308,944	10.29	97,522.8	-20.57

*Source:* Indonesia Capital Market Supervisory Agency.

## **Constraints on the role and function of the capital market in Indonesia i.e.:**

- ✓ **The relatively small capitalisation of the Indonesian market compared to its competitors.**
- ✓ **Investor institutions, which are expected to play a strategic role in this effort, have turned out to be unfamiliar with or reluctant to invest in the capital market.**
- ✓ **The low level of compliance by companies with the principles of good corporate governance.**

## **Strategy for capital market development i.e.:**

- ✓ **Improving compliance with good corporate governance practices.**
- ✓ **Harmonization of rules and institutions.**
- ✓ **Integrated development of information technology and human resources.**
- ✓ **Implementation of safety and service quality conforming to international standards.**
- ✓ **Development of market and capital market instruments.**

**Inadequate framework for corporate governance in Indonesia, reflected by:**

- ✓ **Non-optimal regulator to control issue regulation**
- ✓ **Minimum standards concerning reporting company performance and company liabilities**
- ✓ **Inadequate supervision of management due to lack of independent directors and doubts about the independence of auditors**
- ✓ **Limited rule compliance mechanism as well as legal enforcement.**

**The above problems have resulted in inadequacy of information for risk analysis/results, excessive investment in unproductive resources, which unsettle market confidence**



**Efforts to solve the problem are needed**



**Reforming corporate governance practices and applications in the capital market**



## **The condition of corporate governance in Indonesia :**

- ✓ **Indonesia ranks among the worst in standards of auditing and compliance, accountability to shareholders, standards of disclosure and transparency, and Board processes.**
- ✓ **The degree of investor protection in Indonesia is the lowest in Southeast Asia**
- ✓ **The ownership of listed companies is highly concentrated, and the percentage of managers belonging to the controlling group is also very high**
- ✓ **Control mechanisms (*'checks and balances'*) have been lacking**

**✓ Transparency has been poor as disclosure practices, accounting standards, and their implementation have been inadequate**

**✓ Legal protection has been weak due to the inefficient judiciary system**

## **Efforts to improve corporate governance in Indonesia's Capital Market:**

**A regulatory framework has been formulated (rules & regulations issued by BAPEPAM):**

- **Prohibition of Insider Trading**
- **Rule on Information that must be Disclosed Immediately**
- **Rule on Disclosure of Certain Shareholders**
- **Rule on Tender Offer**
- **Rule on Conflict of Interest**
- **Rule on Material Transactions and Change in the Line of Business**
- **Rule on Mergers and Consolidation for Public Companies**
- **Rule on Acquisition of Public Companies**

- ✓ **BAPEPAM Rule No. III A.3 regarding Commissioners and Directors of Stock Exchange has been revised**
  
- ✓ **Enforce by imposing administrative penalties and ordering certain measures, i.e,**
  - **Suspected market manipulation and insider trading of PT Indosat and sale of shares in BCA Bank and Semen Gresik.**
  - **Suspected violation in transactions of shares of HM Sampoerna in immediate market.**
  - **Suspected violation against transparency of information**
  - **Co-ordination with the SROs (Self Regulatory Organizations), Police Department, Public Prosecutor and Capital Market Supervisory Institutions of other countries**

- ✓ **BAPEPAM actively publicized the plan to revise capital market rules**
- ✓ **Up to June 2002, BAPEPAM had issued warning letters to some issuers**
- ✓ **An Indonesian Market Board of Arbitrage (BAPMI) has been established**
- ✓ **Restructuring of Indonesia's Stock Exchange (the Bourse), the Clearing and Guarantee institution (CGC), and the Central Securities Depository (CSD)**
- ✓ **BAPEPAM developed an e-Reporting System in co-ordination with SROs.**

**✓ AEI actively participated by**

- Publicizing the objectives of implementing good corporate governance implementation**
- Giving direct as well as indirect information to members about the capital market rules**
- Studying related rules and providing input and suggestions for modification where necessary**
- Periodically up-grading its members, to carry out lobbying**
- Doing public relation works to communicate the results of good corporate governance implementation to involved parties as well as to the general public**