

Chapter VII

Trade and Investment Insurance System of Indonesia

CHAPTER VII

PART 1

EXPORT CREDIT INSURANCE SYSTEM IN INDONESIA

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EXPORT CREDIT INSURANCE SYSTEM IN INDONESIA

I. INTRODUCTION

ASEI is a state owned export insurance company entrusted with the mission of promoting growth of non oil-gas exports. To accomplish this mission, ASEI endeavors to provide high quality services to its clients.

As we approach the upcoming era of free trade, experts in international trade are urgently needed. ASEI has trained human resources to face this challenge by placing key personnel in international institutions in other countries to gain valuable experience and thus steadily improve ASEI's business performance.

II. A BRIEF HISTORY OF EXPORT CREDIT INSURANCE

In an effort to encourage the increase of non-oil and gas exports, in 1985 the government of the Republic of Indonesia established PT. Asuransi Ekspor Indonesia (ASEI), a state owned company which provides Payment Insurance and Guarantee.

The export credit insurance program in Indonesia was proposed by a team from the Ministry of Trade in 1982.

The program was based on the consideration that export growth could be promoted by adopting various terms of payment prevailing in international trade practice, instead of limiting sights to L/C terms for Indonesian exporters.

The role of export credit insurance has become more important along with the growing export activities of small and medium scale exporters of non-traditional products to high risk export destination countries. The tougher competition and the changed world market patterns from seller's to buyer's market make such facilities even more important. In such condition credit payment terms are necessary to strengthen the competitive edge in order to win contracts.

In most developing countries each country has only one export credit insurance institution supported by the respective government, due to its specific characteristic i.e. high risk coverage, especially for political risk element.

III. INSTITUTIONAL FRAMEWORK AND ORGANIZATIONAL SET UP

Following the ordinary course of general insurance business practice in Indonesia, ASEI operations are made in line with the insurance principles and the prevailing government regulations.

III.1. ASEI STATUTES ARTICLE 3

Concerning its objectives and field of businesses, and the Ministry of Finance decision at the annual stockholder meeting on ASEI's budget and work plan of 1993, dated february, 1993 approving business development plan.

1. OBJECTIVES:

To support government policies and programs in national economic development in general, and in particular to expedite the smooth implementation of non-oil and gas export expansion program.

2. To achieve the above objectives, ASEI implements the following business activities:

- a. Providing insurance coverage against the risks of foreign importer default in payment for goods and services exported by an Indonesian exporter.
- b. Providing guarantee against the risks of payment default by an exporter / debtor who received export credit from a creditor / bank or other financial institution.

- C. Carrying out other efforts in insurance or guarantee business to support national development programs in the non-oil & gas export.
- 3. Establishing business or such other profit making activities related to the aforementioned field of businesses.**
- 4. Developing the existing business lines vertically as well as horizontally.**

111.2. ORGANIZATION STRUCTURE

Organization Structure of ASEI can be seen in Annex A.

IV. TYPES, FEATURE TERMS AND CONDITIONS OF INSURANCE

IV.1. TYPES OF PRODUCTS AND SERVICES

All systems of export payment, including sight letters of credit, entail a certain amount of risk. Not all banks conform to international banking regulations, and on top of this there is always the risk of bank failure, or political instability in the nations where banks extending letters of credit are domiciled.

As well as having to rely on their own capabilities, exporters must take measure of the credibility of the importers they deal with. They must also have a firm grasp of the intricacies of international trade, the development trends of the commodities they trade in, the political and economic conditions of their country of export destinations and payment systems used in the importing countries.

ASEI, with a comprehensive line of services and facilities, is prepared to help minimize the possibility of loss due to default in payment. Products and Services include

1. EXPORT CREDIT INSURANCE

Covers the losses incurred by exporters, due to the failure to receive payment from foreign

importers. This includes payment on their goods or services provided by Indonesian exporters. The types of policies and services include

- Comprehensive shipment policy
- Comprehensive Contract Policy
- Political Risks Policy
- Letter of Credit Policy
- Consignment Policy
- Specific Contract Policy
- Specific Services Policy
- Bond Guarantee Policy
- Unconditional Guarantee Policy

2. EXPORT CREDIT GUARANTEE

Covers the losses incurred by the non-payment of export credit obtained by debtors from banks or other financial institutions.

3. FACTORING INSURANCE

Is extended to factoring companies, and covers the losses incurred when claims previously bought up by factoring companies go unpaid because of default by debtors.

4. CUSTOMS BOND

Is a tripartite agreement. First party (surety company or guarantor) provides a guarantee to the second party (principal or exporter-producer) for the benefit of third party / obligee / Bapeksta (Government Authority under the Ministry of Finance that facilitates import tax exemption, suspension or reimbursement).

The guarantee covers non-collectible risk of import tax, sub-charge (if any) and value added tax, that should be paid by the second party to the third party, as stipulated in the prevailing law and regulation.

Such risk is related to possibility that the second party is unable to pay his/her obligation related to the imported material used for export purpose that enjoy the import facility, due to production and / or export failure.

IV.2. FEATURES OF PRODUCTS AND SERVICES OF ASEI

ASEI products and services are developed to provide a wide range of benefits to its clients, among others, as follows :

- I To provide protection for Exporter and/or Banks against commercial risks and/or political risks. Such risks are reflected in the possibility of loss resulted from the failure of credit repayment from Importer to Exporter, and/or from Exporter to creditor/Bank.
2. To accelerate fund mobilization by increasing the liquidity of Exporter and/or Banks through insurance coverage, indemnification payment, and/or Bank discounting, thereby guaranteeing the solid financial standing of the business.
3. To provide information ("Business Information Service") on importers, overseas banks, as well as updates on the economic and political conditions of trading counterpart countries, hence reducing the possible risks for the exporter.
4. To strengthen the competitive edge of Exporters and/or Banks by utilizing credit payment terms insured by ASEI which in turn facilitate penetration to new export markets.
5. To assist exporters in obtaining settlement of export receivables from overseas importer so that risks of export loss can be cut down.
6. To serve as catalyst in fund mobilization to support national economic development as well as maintain the results.

7. To support non-oil and gas export expansion programs the role of export credit insurance becomes more important along with the growing exports activities of small and medium scale exporters of non-traditional products to high risk export destination countries. The tougher competition and the change of world market pattern from seller's to buyer's market make such facilities even more important. In such a condition credit payment terms are necessary to strengthen the competitive edge in order to win purchase contracts.

V. PRODUCTS DEVELOPMENT, PROMOTION AND MARKETING

V.I. PRODUCTS DEVELOPMENT

ASEI performance in 1995 included an increase in liquidity from 225.73% in 1994 to 265.06% in 1995. The solvency ratio also rose from 256.12% in 1994 to 301.92% in 1995. Rentability also improved from 19.43% in 1994 to 21.35% in 1995. Other Financial Highlights can be seen in section Operating result in the last section.

In 1995, insured export commodities varied, ranging from primary commodities to manufactured goods in line with the structure of Indonesian exports. In 1985, only 14 Commodities were covered by export credit insurance. However, by 1995, export credit insurance was available for 82 commodities. The export commodities most commonly insured include fish, coffee, textiles, garments and plywood.

As we approach the upcoming era and in facing the current globalization / free trade era, Indonesian businessmen must improve their competitive edge, to accommodate the need for protection, we provide new products and services for future development include:

1. COUNTER GUARANTEE OF BANK GUARANTEES

Cover against the risk of the beneficiary drawing on a bank guarantee because of breach of contract by the applicant.

2. OVERSEAS INVESTMENT INSURANCE

This insurance is provided particularly for investment in foreign countries related to Indonesian export operations. Political risk insured in this insurance scheme consists of the possibility of investment nationalization by the host country government, and the implementation of tight foreign exchange control. Such insurance policy is provided for a maximum period of 20 years.

V.2. PROMOTION AND MARKETING

For promotion and marketing, ASEI has two branch offices in Surabaya and Medan and one head office in Jakarta. So with the ASEI's existence in a few places in Indonesia, ASEI hopes that it can be reached better and to cover all of Indonesia.

The marketing system in ASEI is also supported by marketing cooperation with other departments and institutions, government or private, that have branch offices in all areas of Indonesia, such as the Department of Trade and Industry, BPEN, DPE, Sucofindo, many Banks etc., so we expect that ASEI marketing can reach in all areas of Indonesia.

ASEI also has taken the standard procedure for promotion and marketing, such as marketing with telephone, letter, fax, direct visit, presentation to almost all institutions that relate to exporters, such as exporters, banks, and trade associations, etc.

ASEI also participates in many activities concerned with exports, such as seminars, workshops, trainings etc. whether as a trainer, speaker or through financial support. ASEI is

also active in advertising the ASEI's products and Services in News papers, and any other advertising methods.

Consequently, we expect that our clients, users, business community and the general public will have knowledge and be familiar with ASEI's products and Services and they will avail themselves of ASEI products and services in the interest of promoting non-oil gas exports and national development.

VI. TERMS, CONDITIONS AND PROCEDURES OF INDONESIA EXPORT CREDIT INSURANCE

Since the issuance of Government Regulation No. 1/1 982 dated January 16,1982 export payment terms have been fundamentally broadened from either in cash or credit guaranteed by L/C (sight L/C, usance L/C) to various terms that are commonly used in international trade practice.

Each payment term bears different level of payment settlement risks. The risks are caused by among others, long credit maturity terms, complex requirements, time consuming administration procedures and difficulties to monitor respective importer activities abroad.

Therefore, it is a prerequisite for Exporters to understand more than merely their own capability. They should also be well informed about respective importer credit worthiness, international trade practices, trend of respective export products as well as economic and political situation of the payment origin or export destination country.

Considering the above conditions, ASEI offers Export Credit Insurance policies which cover various commercial and non-commercial risks. Those policies are directed toward the "whole turnover basis" i.e. all export transactions of the Exporter concerned should be insured in order to distribute the risks more evenly, which in turn lowers premium rates.

Export Credit Insurance policy is a confidential document not to be disclosed to other parties, even to Importer or Foreign Agent. Limited disclosures are only to policy holder, ASEI and Bank/Creditor of the policy holder. However, the Bank is obliged to treat the

policy confidentially. Any breach of such conditions may cancel the exporter rights for indemnification.

VI.I. UNCOVERED RISKS.

The uncovered risks in export credit insurance are as follows:

- I a loss caused by the exporter failure or negligence to comply with the terms and conditions of the export contract and / or exporter negligence to comply with the policy conditions.
2. a loss covered by the general insurance policies (marine cargo, fire, burglary, etc.).
3. a loss caused by the exporter concerned, the exporter's agent and / or the collecting bank's negligence.
4. a loss caused by the currency exchange rate fluctuation.
5. a loss not proven by any evidence.
6. a loss not supported by proper documents.
7. a loss arising from forged documents, or not in accordance with the evidence.
8. a loss in form of interest accumulation, resulting from the importer's payment delay.
9. a loss due to the export not being in accordance with the export contract.
10. a loss due to the export being delivered to an importer who has equity interest and / or managerial relationship with the exporter.

11. a loss which in fact could be prevented or limited by canceling shipment or not delivering merchandise to the importer, as the exporter is in fact proven to have information about the circumstances that would lead to loss prior to export shipment to the importer concerned.

VI.2. COVERED RISK.

The risks covered in export credit insurance consist of commercial and non-commercial risk.

1. COMMERCIAL RISKS are as follows:

- an insolvency of the importer.
- a failure to settle payment within 6 months after acceptance and approval of the goods shipped by the importer.
- a failure or refusal of the importer to accept the goods shipped, and that such refusal is violating the contract, and that it is in fact not the fault of the exporter.

2. NON COMMERCIAL RISKS are as follows:

- a payment delay due to the transfer payment restriction to Indonesia.
- an implementation of an updated regulation on import payment that may create problems in currency transfer.
- a cancellation of legitimate import license.
- a war between Indonesia and the importer's country.
- a civil war, revolution or other social unrest in the importers country.
- a payment failure or rejection caused by other than the concerned importer's fault, subject that ASEI has approved that the concerned importer is guaranteed by its government.
- other incidents outside Indonesia beyond the exporter's or importer's ability to control and / or prevent.

VI.3. UNDERWRITING TECHNIQUES

To determine the performance of importer and country destination of export, our underwriting department analyses many variables that influence the risks of the transaction. Our underwriting department are primarily concerned with two main variables, Commercial and country risks management. Many variables influence both risks as follows:

1. COMMERCIAL RISK MANAGEMENT

Some variables that influence Commercial Risk Management are:

- a. The age of importer company
- b. The company director (management) capability or experience.
- c. Experience in loan payment
- d. The company working capital
- e. The company condition whether loss or profit
- f. The company Networth
- g. The development / trend of the company / business
- h. The risk of the life cycle commodity
- i. The composition and the degree of the company borrowings
- j. Negative information such as disputes, court actions or political issues.
- k. The company performance compared with the average industry performance.
- l. Importer's Sales Turn Over

- m. The Importer Sale's Payment System
- n. The nature of the goods

2. COUNTRY RISK MANAGEMENT

Some variable that influence Country Risk Management are:

- a. Geographical factor
 - Position / Place and geographic location
 - Population
 - Natural Resources

- b. Social / political risks indicator
 - Foreign Dispute
 - Political terrorist activity
 - Civil War
 - Law and order issues
 - Inadequate country economic planning
 - Degree of corruption
 - Bureaucracy
 - Racial / Religious tension

- C. Financial country indicator
 - Rescheduling of the Foreign debt
 - The delay in payment of Foreign loans
 - Limitation of foreign exchange

- d. Economical balance indicator
 - Degree of inflation
 - Debt Service Ratio
 - Reserves / import (International Liquidity)
 - Current Account
 - GNP Growth

VI.4. INDEMNIFICATION

1. AMOUNT OF INDEMNIFICATION

Export credit insurance is a type of sharing coverage, whereas ASEI maximum indemnification is limited to 85 % of the real loss, at the maximum amount of the invoice, the policy holder is responsible for the rest. The purpose of this scheme is to encourage exporter to be prudent in selecting only reliable importers in concluding an export contract, and to keep making efforts to obtain recoveries from importer.

2. TIME OF INDEMNIFICATION

ASEI as the insurer should pay a certain amount of indemnification to exporter after the loss incurred is proven to fall within the covered risks. The indemnification time depends on the cause of loss such as follows

- | | |
|---|--|
| - Insolvency | - Immediately after insolvency |
| - Importer fail to pay for goods | - 6 months after due date of payment |
| - Importer refusal to accept good
which have been exported | - 1 month after goods are resold or
otherwise disposed of |
| - Other occurrences | - 4 months after occurrences |

VI.5. CREDIT LIMIT

In a comprehensive shipment policy, the limit of coverage for each importer and or for each country is established based on a credit limit system. The credit limit is determined after considering the credibility of the importer, performance of exporter, type(s) of export commodity(ies), and the economic and political conditions of the, export destination or payment origin country.

The credit limit system has a distinctive role in the export credit insurance business activities due to the complexity of credit limit determination and the risk involved.

VI.6. THE PREMIUM

The rate of premium is determined by considering, among other factors, the importing country's trade pattern, market distribution, payment terms, as well as rating of the importing country. As an illustration, rate of premium for export under the L/C terms is lower than that of the Non-L/C terms. The premium rate of export to a sound country in terms of political and economic conditions will be lower than that of to a high risk country.

The premium rate is determined at the time of the issuance of the credit limit decision. As a general guideline, the premium rate for a certain period of time for a comprehensive shipment policy ranges from 0,2% to 4% of the gross export value (Invoices value).

VI.7. ASSIGNMENT

Exporter as export insurance policy holder can transfer the indemnity right to the bank or financial institution which is giving a discount on a Bill of Exchange against the exporter collecting from the importer on the shipment of goods which insurance has already been covered by ASEI, by signing a letter of authority to transfer indemnity right.

With the transfer of indemnity right the discounter of the Bill of Exchange should feel safe and the exporter will obtain funds, otherwise, he must wait for the due date of payment from the importer.

VI.8. RECOVERIES AND SUBROGATION.

ASEI's right for subrogation operates immediately after ASEI indemnifies a claim, based on the application for loss indemnification (STGR) submitted by the exporter

concerned, and other ASEI information sources. The subrogation right is ASEI's right to a part of payment received by the exporter for any future payment made by the importer. ASEI's entitlement for the proportion of recovery is based on ASEI's share in the loss indemnification.

The subrogation is the exporter's debt to ASEI, therefore the exporter should always take necessary actions to obtain the unsettled export payment, even though the loss has been indemnified by ASEI. If necessary, the exporter should furnish ASEI with a power of attorney, authorizing ASEI to undertake necessary actions.

VII. SUPPORT SYSTEMS

To accommodate the development of ASEI, to achieve its goal, to realize the benefits ASEI's product and services to its clients and to give customer satisfaction to its clients, ASEI have several Support Systems such as :

VII.1. MEMBERSHIP IN NATIONAL AND INTERNATIONAL ORGANIZATIONS

1. The Indonesia Insurance Council (DAI)
2. The Forum BUMN G-11
3. The Indonesian Chamber of commerce and industry (KADIN)
4. Berne Union
5. Regional Cooperation Group of Export Credit Insurance (South Asia)

VII.2. INTERNATIONAL NETWORK

For Indonesian exporters to evaluate the degree of both commercial and political risk regarding payments from export destinations, it is essential that they have access to data on trade developments in these countries.

As in any business subject to high risks, ASEI must have information regarding buyers and buyer's countries. One source is overseas government agencies such as the trade attaches at Indonesian embassies and Indonesian Trade Promotion Centers (ITPC). In addition, ASEI also uses highly reputable, private run information services with extensive international networks such as Dun and Bradstreet International, MECOS of Middle East etc.

In 1992, ASEI become a member of Berne Union, a London-based international export credit insurance company association, the association has 45 export credit insurance company members from 35 countries, One of the benefits of being a member of Berne Union is the convenient access to information held by other members.

Operations are supported by sophisticated technology such as EDI (Electronic Data Interchange). EDI allow ASEI to exchange information with other members of Berne Union, via the facilities of the Netherlands based DEXNET BV. Access to comprehensive, accurate information allows ASEI to advise as to levels of commercial or political risk prevalent in importing nations. This data purchase allows potential losses to be minimized.

VII.3. INFORMATION SERVICE

With the support of its technological infrastructure, the professional human resources of ASEI are able to provide comprehensive and accurate business information. Exporters can use this data to help anticipate risks, and minimize risks when planning business expansion. ASEI offers the following information:

1. BUSINESS INFORMATION REPORT

This contains background on companies, together with information on financial management, experience of payment, operations and other key matters

2. COUNTRY REPORTS

These documents systematically examine the political stability and economic conditions in given countries; key additional information with a bearing on exports is also included.

VII.4. TRAINING AND EDUCATIONAL SUPPORT

To anticipate challenges of the future, ASEI works ceaselessly to improve the professionalism and abilities of its human resources. ASEI understands that human resources are its most valuable asset.

ASEI's personnel skill and professionalism is enhanced through sending them for training to various educational institutions, both at home and abroad. Since training focusing on export insurance is not yet available in Indonesia, many personnel go abroad for education to countries such as South Korea, Australia, England and the Netherlands. Staff attend seminars and workshops on management, underwriting technique, claims and subrogation, computers and information technology in exports, and export credit coverage. These sessions are routinely provided by Berne union, and the Regional Cooperation Group of South Asia (RCG).

We also have other Support systems that help to achieve ASEI's goals such as Reinsurance, debt collection, lawyer (from local or foreign institution), etc.

VIII. OPERATING RESULT

With the hard work and dedication of ASEI's management, ASEI surpassed the 1995 annual work plan and budget. Net earning rose 40% or Rp. 113.959 billion to Rp. 48.347 billion, showing that ASEI's financial performance is in strong shape. More detail of operating result of ASEI can be seen in financial highlights as below:

FINANCIAL HIGHLIGHTS

(Million Rp.)

KETERANGAN	1995	1994
Total Coverage	3,638,428.00	4,679,167.00
Underwriting Income	31,690.00	31,881.00
Investment Income	37,783.00	34,903.00
Total Investment	297,721.00	286,018.00
Claims Payable	2,417.00	1,010.00
Current Assets	15,738.00	8,282.00
Current Liabilities	7,946.00	10,642.00
Claim Reserves	97,053.00	106,104.00
Total Equity	212,011.00	182,259.00
Corporate Tax	11,298.00	19,899.00
Net Income After Taxes	48,347.00	34,386.00

CHAPTER VII - Part 2

Export Financing and Export Promotion Program :

The Case of Indonesia

Content

1. Basic Concept of Export Financing
2. The Important Role of Export Promotion Program
3. The Role of Bank Indonesia in Promoting Export
 - Post-shipment' Rediscount Facility
 - Local L/C's Rediscount Facility
 - Pre-shipment's Rediscount Facility
 - Swap Facility for "Eksportir Tertentu"
 - Forward Facility for "Eksportir Tertentu"
 - Arrangement between the Central Banks.
 - Initiative of Establishing an Export Credit Agency
4. The Establishment of an Export Credit Agency (A Proposal)

1. BASIC CONCEPT OF EXPORT FINANCING

- Exports mean any economic transactions in the form of shipment of goods and supply of services to outside the border of the country's territory.
- Export financing is one of the key elements for supporting the success of export-oriented industries.
- Export financing is available in a simple or direct form and in a more advanced form.
- Export financing from Export Credit Agency (ECA) is one of the alternatives that is more attractive to exporters because ECA can provide comprehensive services by exporters.

- The ECA is vital for exporting industries as well as for the whole economy especially to promote exports.

2. THE IMPORTANT ROLE OF AN EXPORT PROMOTION PROGRAM

- The external sector in Indonesia's economy plays a role as important as the domestic sector, which is consistent with the Indonesian open economy and free foreign exchange system.
- Export are the main source of the country's foreign exchange earning that are needed to maintain sustainable economic growth.
- Export promotion is vital to Indonesia's economy, especially to reduce the deficit on current account in the balance of payments.
- Export promotion has become a government commitment, which is implemented in joint efforts between ministries, both the monetary and real sectors, and private sectors (Chamber of Commerce, Business Association, and PT. ASEI)
- Joint-Efforts to promote exports among related institutions:
 - ❑ Trade facilitation
 - ❑ Joint Commission and Trade Mission
 - ❑ Implementation of EDI (Electronic Data Interchanger)
 - ❑ "Primaniyarta" awards
 - ❑ Banking Arrangement and Memorandum of Understanding
 - ❑ Export promotion for "*Eksporir Tertentu*" (priority exporters).
 - ❑ "Tim Khusus" (Dedicated Teams) to boost export

EKSPORTIR and KOMODITAS TERTENTU (PRIORITY EXPORTER AND COMMODITIES)

PRIORITY EXPORTER:

Priority exporters are those exporters who have been granted a certificate by the Ministry of Industry and Trade after fulfilling requirement as defined by the related Ministry. Such exporter will have special facility covering custom, taxation and banking facilities.

PRIORITY COMMODITIES:

As today, there are ten export commodities classified as priority commodities:

- Textile and textile product - Footwear
- Wood and Rattan product - Leather product
- Paper - Processed food
- Vegetable oils - Processed rubber
- Toys product - Frozen fish and shrimp

3. THE ROLE OF BANK INDONESIA IN PROMOTING EXPORT

- **Financial Aspects**

- **Post-shipment Rediscount Facility**

- Bank Indonesia provides a rediscount facility to “Eksporir Tertentu”, as well as to ordinary exporters through banks, based on discount transactions between banks and those exporters which had already discounted their drafts to the banks.

- **Pre-shipment Rediscount Facility**

- Bank Indonesia provides rediscount facility to “Eksporir Tertentu” through banks, based on discount transactions between banks and those exporters based on exporter’s *future* export earnings.

- **Local L/C Rediscount Facility**

- Bank Indonesia provides rediscount facility to *local suppliers* that supply goods and services to “Eksporir Tertentu” through banks, based on discount transactions between banks and those suppliers which had already discounted their drafts to the banks.

□ **Swap and Forward Facility for “Eksportir Tertentu”**

minimize risk of currency fluctuation for certain exporters, Bank Indonesia provides Swap and Forward Facilitation to those exporters. These facilities are given through banks, based on Swap and Forward transaction between banks and priority exporters.

• **Non Financial Aspects**

- Arrangement between the Central Banks in the form of Banking Arrangement and Memorandum of Understanding as an umbrella for maintaining continuity of the payment transaction between the commercial banks by allowing central banks to recommend any relevant action if there is a dispute between the commercial banks of the two countries. The central banks, however, will not take over the payment risk of such transaction.

There are 13 arrangements signed since 1992:

- | | | |
|-----------------|---------------|-------------|
| -Iran | -Turkmenistan | -Bulgaria |
| -Russia | Hungary | -Kazakhstan |
| -Kyrgyzstan | Pakistan | -Uzbekistan |
| -Czech Republic | Romania | -Argentina |
| -Slovakia | | |

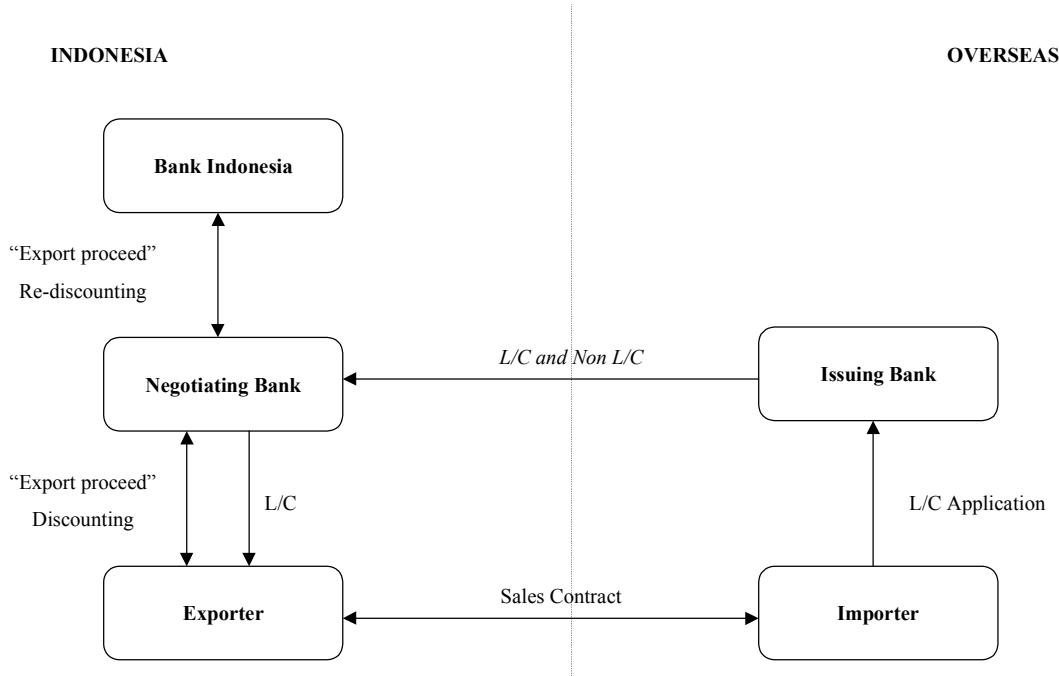
- *Linkage of Bank's Commercial Overseas Borrowing (COB) to Export Credit.*

A bank provided with a COB ceiling is required to extend export credit at a minimum of 80% of the offshore borrowing disbursed to the bank during the current year.

- **Further Initiative For an Export Credit Agency**

To provide medium and long term finance necessary for exports of non-traditional products ie. Capital goods, with a competitive terms and conditions compared with those of commercial banks and other financial agencies which do provide “lending”

**BANK INDONESIA'S REDISCOUNT FACILITY
(POST-SHIPMENT BASIS)**



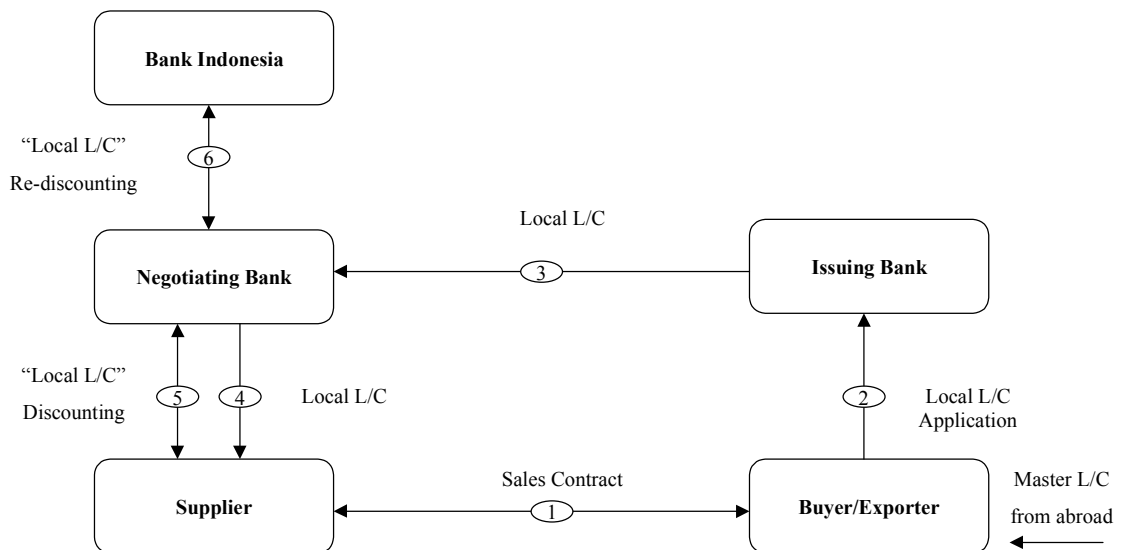
**REDISCOUNT FACILITY
(POST-SHIPMENT BASIS)**

1. Priority exporters and ordinary exporters have Usance L/C from overseas or contracts on Non-L/C basis.
2. Bank asks Bank Indonesia for the facility, and submit document of copy of Export Declaration (PEB), copy of Credit Note to these exporters, and copy Certificate for Certain Exporter.
3. For disbursement of facility, banks submit the draft to the Bank Indonesia in which the value of the facility is equal to the bank's draft.
4. The maximum period of facility is 2 (two) years for certain exporters and 1 (one) year for ordinary exporter.
5. Discount rate is SIBOR* Flat for certain exporters and SIBOR+ 1% for ordinary exporter.

* SIBOR - Singapore Inter Bank Offer Rate

6. Currencies are available in USD and Ruphia.

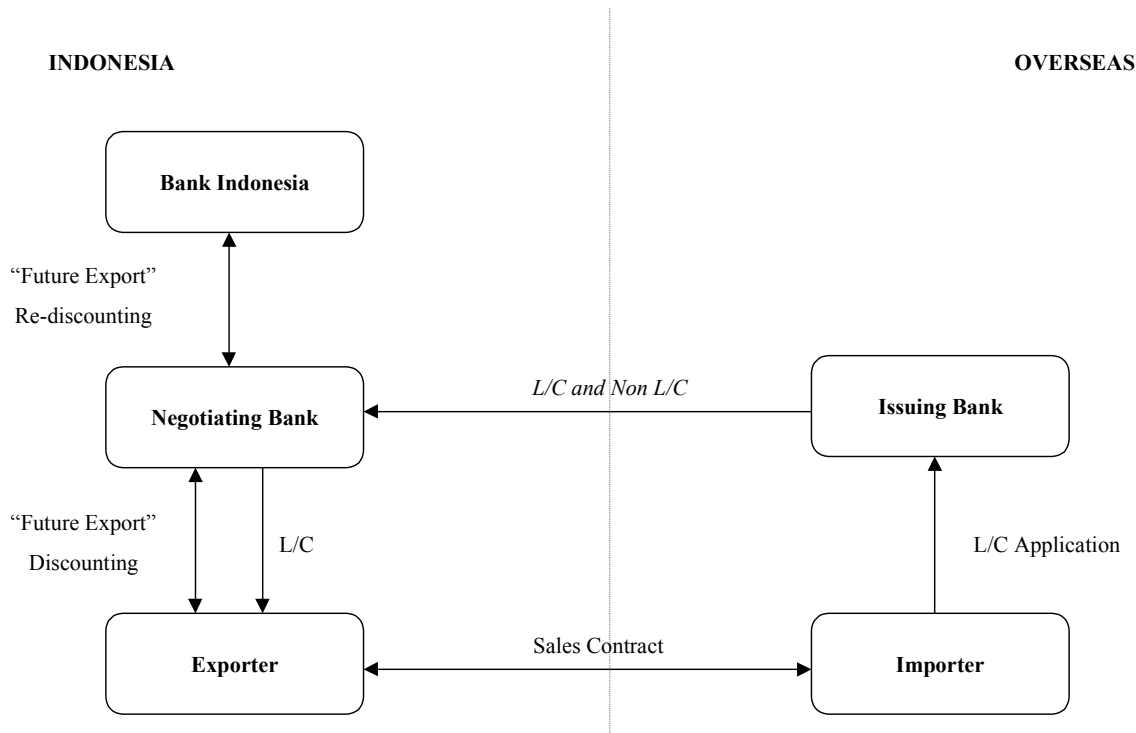
Bank Indonesia's Rediscount Facility On Local L/C



REDISCOUNTING FACILITY ON LOCAL L/C

1. Both beneficiaries (supplier) and buyer (priority exporter) sign Sales Contract and agree to use Local L/C
2. Buyer applies for Local L/C
3. Opening Bank Local L/C
4. Negotiating Bank advice Local L/C to Supplier.
5. Supplier sends goods to buyer and discounts his draft to Negotiating Bank.
6. Negotiating Bank rediscounts his Draft to Bank Indonesia.

**BANK INDONESIA'S REDISCOUNT FACILITY
(PRE-SHIPMENT BASIS)**

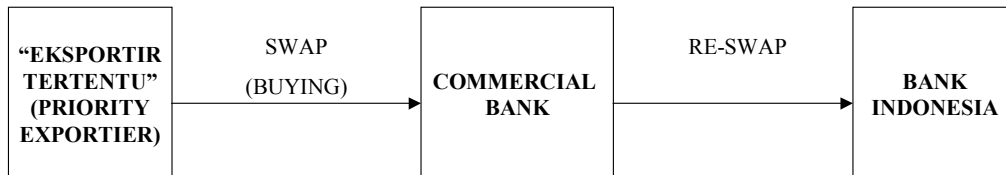


**REDISCOUNTING FACILITY
(PRE-SHIPMENT BASIS)**

1. Priority exporters have a prospect of *future export earnings* within one year and confirmed by beneficiary/exporter's bank.
2. Banks ask Bank Indonesia for the facility, and submit documents of copy Sales Contract, and/or buying order, and/or copy L/C, and copy Certificate for Priority Exporter, and bank's recommendation for credit to exporters.
3. For disbursement of facility, banks submit the draft to Bank Indonesia in which the value is linked to the future export earnings of the exporters.
4. The maximum period of facility is one year.

5. Discount Rate is SIBOR Flat.
6. Currencies are available in USD and Rupiah.

BANK INDONESIA'S SWAP FACILITY



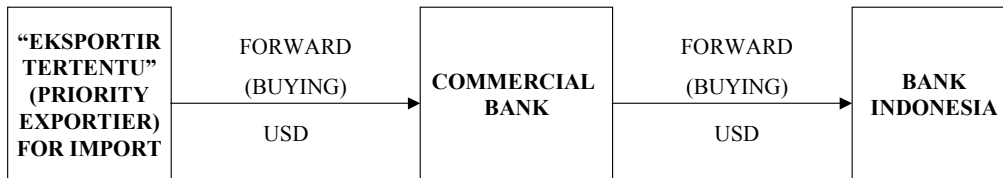
SWAP FACILITY:

1. Priority exporters, who have USD, deal with their banks for swap transaction ie. Sells USD buys Rupiah (spot) and buys USD sells Rupiah (forward)
2. Banks through RMDS (Reuters Monitor Dealing System) re-Swap to BI (Bank Indonesia) (10.00 am – 12.00 noon)

Requirements

- a. Banks re-Swap to BI on the same day as the Swap transaction with Priority Exporters.
- b. The maximum value of re-Swap has the same transaction with Priority Exporters.
- c. The maximum period is 180 days and can be extended once.
- d. The documents:
 - ⇒ Swap confirmation
 - ⇒ Copy transaction with Priority Exporters
 - ⇒ Copy of Certificate Priority Exporters that covers the Swap period

BANK INDONESIA'S FORWARD FACILITY



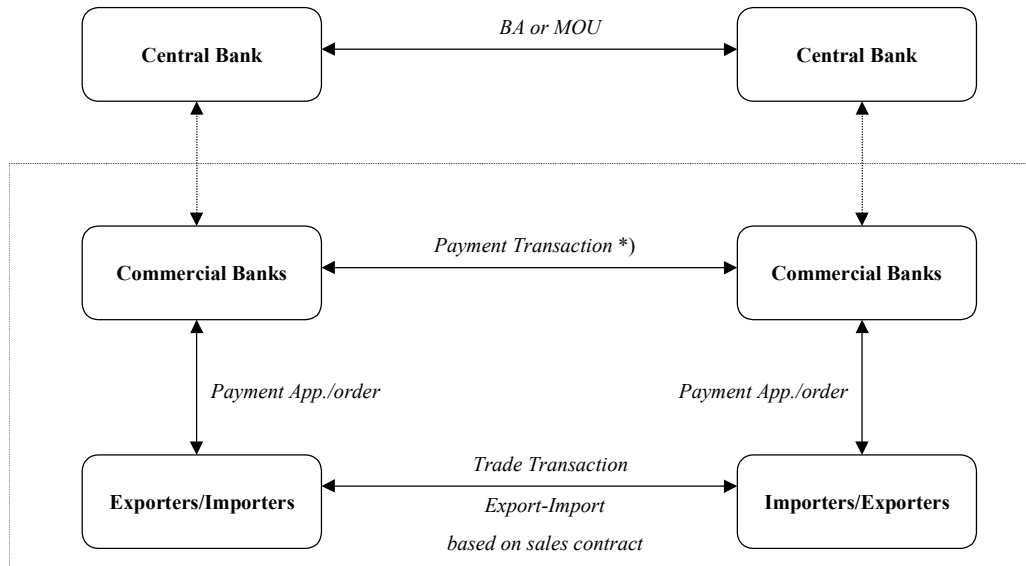
FORWARD FACILITY FOR "PRIORITY EXPORTERS"

1. Priority exporters, who need USD for their imports, deal with their bank for Forward transaction.
2. Bank through RMDS (Reuter Monitor Dealing System) re-Forward to BI(10.00 am – 12.00 noon)

Requirements

- a. Banks re-forward on BI as the same day as the forward transaction with importers.
- b. The maximum value of forward transaction has the same value as the import realisation.
- c. The maximum period is 90 days and can be extended once.
- d. The documents :
 - ⇒ Swap confirmation
 - ⇒ Copy of L/C or sales contract (for non L/C)
 - ⇒ Copy of Certificate of Priority Exporters that covers the forward transaction

**BANKING ARRANGEMENT
OR
MEMORANDUM OF UNDERSTANDING**



**) If dispute arisen between commercial banks, the Central Banks agree to expedite advise for the solution of such dispute*

Banking Arrangement

- Purpose/function:

As an umbrella for maintaining continuity of the payment transaction between the commercial banks by allowing central banks to recommend any relevant action if there is a dispute between the commercial banks of the two countries.
- Arrangement covers:
 - Payment instrument : L/C or non-L/C
 - Payment transaction done through commercial banks with respect to international banking practices and provision in respective countries.
 - Using freely convertible currencies.
 - Enhancing the establishment of an international banking correspondent between commercial banks of the two countries.

- Any dispute between commercial bank will be settled by the concerned commercial banks. Central banks could, however, recommend or advise any relevant solution for resolving a dispute arisen between the commercial banks.

4. THE ESTABLISHMENT OF AN EXPORT CREDIT AGENCY (A PROPOSAL)

- In the last two years, Indonesia's balance of payment (BOP) was characterised by higher (but still sustainable) current account deficit. The ratio of the current account deficit to GDP rose to 3.4% (95/96) and to 3.5% (96/97) compared to only 2.0% (94/95).
- The widening deficit was primarily attributed to weakening non-oil and gas exports on one side and the robust import growth and increased deficit on the service account.
- In the context of improving the BOP performance, by increase of export of non-traditional products, there will be a necessity to review and evolve a program to set up such as an Export Credit Agency.
- The Agency would facilitate medium and or long-term financing needed by exporters of, mainly, non-traditional products or export to prominent market such as emerging markets and the third world countries.