Indonesian debt restructuring agency: the alternative solution of foreign loan

Marius Gumono, author

Abstrak

ABSTRAK
To give Indonesian debtors and foreign creditors a way out of the crisis, in early July 1998 government launched INDRA (Indonesian Debt Restructuring Agency). This scheme is not quite success as Ficorca, the similar Mexican scheme. INDRA is a contract that allows Indonesian debtors to enter into a foreign-exchange rate insurance scheme with the government Dollar-denominated rescheduled debts are paid by the government after a grace period, while Indonesian debtors service their debts to INDRA, in domestic cuirency at an agreed-upon exchange rate at the time of the contract.

If the real exchange rate appreciates during the period of servicing of the foreign debts, these firms bave the option to leave INDRA and purchase dollars at more agreeable market rate. Thus, firms are insured against losses due to rupiah depreciation, while they have an opportunity or option to take advantage of &vorable developments.

In short, INDRA performs a service to Indonesia debtor firms, in the form of offering a foreign exchange ?insurance scheme? with the option to leave that normally is not offered in financial markets for such time horizons. Unlike such market-priced option packages, the INDRA pm gram does not require the dollar up-front payment. Instead, 1NDRA participants pay up-fmnt monthly rupiah installments on both interest and principle.

Survey reveals, Indonesia debtors don?t pay much attention to this alternative solution of foreign debt The reasons are the scheme of INDRA doesn?t match company?s cash flow, fòreign creditors don?t agree to such a long period of installment, it needs socialization, tack of commitment from the company?s owner, INDRA?s exchange rate stilt high and finally difficulties to enforce the right of ofl?hore creditor make debtors more reluctant to æstnjcture the debt.

Lower INDRA?s exchange rate than market exchange rate, is obviously a veiled subsidy by government but it ¡s not enough to attract indebted Indonesian companies. We could not blame on economic crisis on and on. The bottom line of INDRA is about the government establishing credibility. On the other hand, INDRA is about expectations. JNDRA is about giving assurance to Indonesian debtors which are protected from any instability of foreign exchange rate volatility.

Many said, even mpiäh-doijar exchange rate back to normal rate, still difficult to repay the loan as being scheduled. Thus, the problem is not on the bad or good INDRA scheme but on the company?s fùndamentai activitites. Instability os exchange rate means a back fire to the government as more exchange rate subsidy to be performed in INDRA mechanism.