

U8213 Colloquium on Policy Analysis Section 3  
Spring 2001  
Group Project 2

Congratulations — you now own Indonesia. Well, not quite all of Indonesia, and you don't quite own it even. But an awful lot of it, and your job is to sell it. The Indonesian Bank Restructuring Agency (IBRA) has taken control of almost 50 banks and amassed stakes in roughly 200 companies, and it has hired you to advise it on how to dispose of these properties.

IBRA was established in 1998 during the financial crisis. Many of the banks and companies it controls used to have ties to the Suharto family. IBRA is under pressure from the IMF now to sell these assets to help balance the government's budget. The government itself is also interested in the proceeds of these sales.

How valuable are these holdings? No one really knows. Some of it may be very valuable, but a lot of it may be junk.

In devising your plan for getting rid of this stuff, you should think about some of the following questions:

- How should you determine the most appropriate prices for these assets?
- How quickly should you try to dispose of these properties? Which ones should you sell first? Should you group your properties together in an attempt to get big sales? If so, what basis should you use for your groupings?
- Are there different price mechanisms that are more appropriate for appraising different types of properties?
- Should there be qualification procedures to enter the bidding?
- Should labor and environmental requirements be built into the package? If so, what should they be? How would they be enforced? What are their costs? Who bears those costs? What are the costs of not having them?
- Should you have appraisals done before you put the properties up for sale? What would you do with this information? Would you set reservation prices? If you do set reservation prices, and no one bids, what will you do then? Is this plan credible?
- How would you handle closings? Will you require the winning bidder to close on the spot? If not, how much time before closing will you allow? What will you do if the winning bidder fails to close? Is this plan credible? Are there incentives for non-serious bids? What will the winning bidder have to do on the spot? What if the bidder fails? What happens if the winning bidder asks for concessions? (Sources have told you confidentially that the President is afraid of embarrassment if the disposal process looks chaotic.)

- How would you attract buyers?
- Are there incentives for collusion among bidders? What can you do to prevent collusion? What about collusion between bidders and the people who are supposed to be carrying out your plan? (You have hard rumors that a ring of leading Indonesian industrialists is conspiring to fix the auctions; some upper level IBRA officials may be part of it.)
- Will your plan be efficient in the sense of getting each property to the person who values it the most?
- Will you take any special steps to help or encourage Indonesians, minorities, or poor people in the process? Could you permit the Japanese or the Americans to buy up Indonesia? Do you have a plan for responding if people start complaining? Would you give preferences? If so, what kind and to whom?
- What about speculators?
- What about leasing properties instead of selling them? If so, how would you choose whom to lease to? If you sell, should you ask for a share in rents or profits, as in the form of royalties? What share? For what period of time? Why sell at all?
- Who should do the work under your plan, IBRA employees or an outside firm under contract? If you choose an outside firm then how would you select the firm and how would you compensate it? What control should the firm have over the properties? How should it be affected by the prices that are realized? Why not sell the whole shebang in one shot?