

Lifting Taspen's veil of silence

The headquarters of PT Taspen rise up from Jakarta's Jalan Letjen Suprpto, a glass-and-concrete fortress staring contemptuously down the city below. Its windows are darkened, as if to shield it from prying eyes. Its battlements extend formidably on all four sides.

It is a similar story inside the seven-storey building. Taspen employees are silent and uncommunicative, like troops under siege. Even the Indonesian flag outside seems to flutter over a citadel - not over a nondescript building that manages the civil servants' insurance and pension fund.

For 30 years Taspen has closed its doors to the world. Few journalists have made it inside its walls. Its board of directors has been answerable only to Indonesia's powerful Ministry of Finance, and, indirectly, to the President himself. Its US\$3.5 billion in funds has been largely hidden behind a veil of secrecy.

According to official documents, Taspen's mission is simply to increase the welfare of government employees, pensioners and their families through a social security scheme. Staff swear by this mission, which is symbolized by the company logo, a tree representing life and growth.

Things are a little different in reality. Although its endowment insurance and pension scheme has benefited civil servants, its investment funds may not have been invested wisely.

Gunawan Jusuf, president of Makindo Securities, the biggest local brokerage, would not be drawn. "It is very sensitive," he says. "We don't feel comfortable to discuss Taspen."

Within Taspen, veteran Didi Achdijat, who joined in 1978 and is now a director (he is also chairman of the actuary society in Indonesia), agreed to speak to Asiamoney. "We serve people as best we can," he says. "We don't like to hurt anybody."

Officially at least, Taspen has benefited the Indonesian economy. Since it was established

For 30 years it has hidden behind a veil of secrecy - a vast empire with US\$3.5 billion in public funds to invest. But Taspen's free-wheeling days may be over, and, like the other lumbering dinosaurs in Indonesia's state sector, its managers and political benefactors may be forced to change their ways

BY BEN DAVIES IN
JAKARTA

under Presidential Decree No 15 on April 17 1963, the civil servants insurance and pension fund has been used as a tool to support the government's monetary policy and priority programs and to help stabilize the currency. When state companies issued bonds, it was Taspen that held them to maturity. Following the re-opening of the Jakarta Stock Exchange in late 1977, Taspen took up many of the new issues, encouraging wider equity ownership and making up for the absence of foreign investors. In 1993, up to 80% of its funds were invested in Bank of Indonesia Certificates (SBIs), which are used to soak up or inject liquidity into the money markets.

Those investments reflect Taspen's overriding goals: safety, high return, and liquidity. Its attempts to stick to these have sometimes meant lower returns, but they have ensured that Taspen has fulfilled its publicly stated goals. "The aim is to have a diversified portfolio," says Achdijat from his fifth-floor office where a portrait of President Suharto looms large. "We also help the government to stabilize the monetary situation."

Taspen has also played a secret role. In early 1993, the civil servants pension fund bought 125 million shares in PT Barito Pacific Timber through a private placement worth Rp370 billion (US\$177 million). At the time, Barito Pacific, which is controlled by Prajogo Pangestu, an entrepreneur with close links to the presidential family, was alleged to have incurred millions of dollars in debts from various state banks.

Taspen agreed to the purchase in February 1993 at Rp3,000 apiece. But it was only after a few months, when Barito Pacific announced it would launch a public float of its shares at Rp6,000 apiece, did Taspen's purchase come to light. The listing was approved only days before then Finance Minister Johannes Sumarlin officially ended his term. "On hindsight, Barito

was a fantastic investment," says a broker with a local securities company. "But it was extremely controversial and the decision clearly came from the top."

Ironically, the deal brought an immediate paper profit of 100% for Taspen. At current stockmarket prices it has proved an even more far-sighted investment, but the lack of transparency and the fact the transaction was only discovered months after it was made fuelled concerns that darker forces had been at work.

The biggest blow to Taspen has come from its equity participation in 16 unlisted companies, worth an estimated Rp525 billion, of which the majority have no published financial track record. Those that do include: Barito Arthaloka Indonesia; Marga Mandala Sakti, a toll-road operator; Bukaka Teknik, an engineering company; and RCTI, a local television broadcasting service. The other companies in which Taspen has a stake are Puri Panca Yasa, Arsindo Arthasangga, Bank Kesejahteraan, Pasaraya Toserba, Indonesia Arthasangga Utama, and Satria Bali Tama. Analysts claim that many of these are start-up companies. And because they are not listed, they do not have to disclose full financial results to the public.

Neither Heru, the newly appointed head of investment, nor Achdijat was prepared to comment or provide details on the 16 companies. But Achdijat confirmed that the majority of those investments was made between 1991 and 1993. Other sources claim that the directives were issued by the Ministry of Finance itself. "Taspen is like the military," says one official. "You have to obey the instructions of the commander."

The investments have raised doubts over Taspen's publicly stated conservative investment strategy. Other Taspen forays have also raised eyebrows. In mid-1992, Taspen purchased 17,500 square metres of prime land in the Sudirman Central Business District from PT Danayasa Arthama, a subsidiary of PT Jakarta International Hotel and Development, owner of the five-star Borobudur Hotel. Sources close to the deal claim that Taspen has paid considerably over the odds. The fact that Taspen also has an equity stake in Plaza Indone-

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sia, whose owners are close to the presidential family, and Penta Securities, which is partially owned by the president's daughter, has done little to raise confidence.

"Taspen is facing the same problems as (US President) Bill Clinton," says the president director of a foreign securities company. "The less people know, the more they suspect."

Who is ultimately responsible for Taspen's investments? Under state decree, Taspen manages two funds, an endowment insurance scheme for state employees and a pension scheme, which is jointly managed with the Ministry of Finance. Full details of the social insurance fund for government employees are published in an annual report, the last covering the period December 1990-1991. Heru Maliksyah, head of investment at Taspen, claims that as of March 1994, 20% of the fund had been invested in time deposits, 70% in

SBIs, 4% in stocks and 3% in bonds.

However, the investments for the US\$2-billion pension fund are disclosed only to the Ministry of Finance. "It is not up to us to publish information on the pension fund because it is under government policy," says Achdijat. This has been confirmed by Wahuyyu Hidayat, sub-director of state financial services at the Ministry of Finance. "It (Taspen) should be answerable to the ministry," he told *Asiamoney*.

The lack of transparency at Taspen continues to raise questions. Typically, most big pension funds have a clear investment policy that is written and documented with strict percentages for high-risk, medium-risk and low-risk assets. In the case of Taspen, the investment decision is almost wholly at the discretion of the board which is advised by a group of fund managers, lawyers and actuaries who are in many cases lifelong Taspen employees and bureaucrats. A Minister of Finance decree dated 1993 dictates that a maximum 10% of pension fund assets can be invested in equity, but has few other stipulations.

Taspen has one other peculiarity. Although it is the biggest pension fund in Indonesia and one of the largest single investors in the local bond and equity markets, few international brokers have dealings with it. Most Taspen orders are placed through Penta Securities, itself partly owned by Taspen. The head of one foreign



Taspen: the less people know, the more they suspect

Taspen's billion dollar man

In a cramped fourth floor office, set beyond rows of cheap wooden desks and a scattering of computers, sits the man responsible for advising Taspen on its million-dollar investments. Heru Maliksyah, an economics and management graduate of the University of Indonesia, has been a lifelong employee of Taspen.

Yet critics say the 49-year-old Heru is hardly the man for the job. Heru joined Taspen in 1971 as an internal controller for systems and procedures. Prior to his appointment as head of investment in November 1993, he headed computer and technical assistance.

"Heru was a typical bureaucrat appointee," says a former employee at the Ministry of Finance. "You don't need a professional manager if you don't professionally manage."

Heru is unfazed by the criticism. "This is a common transfer of duty," he told *Asiamoney*. "It is a process of learning and education."

Heru works with Taspen's 20 in-

house fund managers with support from actuaries and lawyers. His job is to evaluate how to manage Taspen's vast amounts of funds.

It's not an easy task given the lack of incentive, low salaries and shortage of professional staff. But Heru remains optimistic. "We are currently drawing up a five-year plan," he says. "That targets annual returns of between 5% and 10%."

Heru refuses to discuss Taspen's controversial direct equity investments. "That was before my time and I have no comment to make," he says. Indeed, Heru's role is more of analyzing investments than making the final decisions.

So, will Taspen become more transparent and more professional? Heru hesitates: "Taspen must increase effi-

ciency and improve services," he says. "The aim is to provide better gains."

Outsiders are less certain. "We don't



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even bother sending them research any more," says the head of one of the biggest securities firms in Jakarta. "They have no interest."

brokerage has described Taspen officials as "a pretty unimpressive bunch".

"The big issue is that they do not have an independent advisory board, yet it is public money," says Laksamana Sukardi, formerly managing director at LippoBank and now chief executive at Reform Consulting. "There has to be more disclosure."

If Taspen officials are under a cloud, the Ministry of Finance is under the spotlight. In principle, all decisions by Taspen for the pension fund are rubber stamped by officials at the ministry. And in principle, quarterly reports are submitted to the ministry, Taspen's major shareholder. Heru would not comment because "it is government policy", but a source within Taspen says: "There is a lot of intervention."

Allegations of political interference at Taspen come at a sensitive time as they follow a US\$430-million letter-of-credit scandal at state-run PT Bank Pembangunan Indonesia (Bapindo). That

has already led to the arrest of two former president directors at Bapindo for their alleged involvement in the case. The scandal has also highlighted the need for reform among the big state enterprises.

"The recent Bapindo episode embarrassed the government," says the managing director of a securities firm. "It brought home the collusion that exists between government officials and businesses."

At the Ministry of Finance near Jakarta's five-star Borobudur Hotel, director-general Martiano Hadianto was not available for comment. But Wahuyyu Hidayad, sub-director of state financial services, confirmed that a review of Taspen's investments is under way.

Members of Taspen's insurance and pension scheme are ambivalent towards the controversy. Under existing pension pay-outs, they receive between 60% and 80% of their final salary. (That figure is only adjusted for inflation when

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the Ministry of Finance announces a rise.) However, sources claim that the payouts are small and, as a result, leave for the authorities a vast pool of funds for which they are accountable to almost no one.

Taspen's critics say it should open itself to independent supervisory boards and farm out funds to independent fund managers if it is to increase transparency and account for itself to the public. "Our guess is that they may cut off lumps of their funds and get professionals to manage it," says the head of a foreign securities firm.

Since the Barito affair, Taspen officials and the Ministry of Finance have been discussing proposals, which could lead to a merging of the insurance fund and the pension fund. If that happens, Taspen's investments would be published in full and this could lead to a greater transparency - a theme that has been pursued with increasing vigour since the respected new finance minister, Mar'ie Muhammad, took over in April 1993.

"There is a recognition that things have got to change," says a securities veteran. "Unprofitable investments which have been sanctioned for the wrong reasons will be assessed - and those that do not make the grade will be set aside."

In addition to a review of Taspen's investments, which is being carried out by a committee appointed by the Minister of Finance, a new five-year plan is being drawn up for the fund for 1994-1998. "They are in a state of

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consolidation," says Santun Nainggolan, director at Penta Securities, which has managed many of Taspen's equity transactions.

Other analysts say Taspen is likely to change for the better following the trend towards liberalization and open-style management that has been gaining momentum since the reform programs were introduced under Sumarlin. "The whole history of the country since 1986 is of a slow but steady opening up of the system," says the head of a foreign brokerage. "And everybody knows which direction it is moving."

Still, the urgency of the task of cleaning up state companies has not been lost on Finance Minister Mar'ie Muhammad. What makes it critical is that any further revelations of collusion between politicians and bureaucrats could further undermine state institutions already shaken by the Bapindo affair. Lack of confidence could also affect sentiment at a time when direct foreign investment in Indonesia is slowing.

It may take years to raise the level of professionalism, secure new technology and change the bureaucratic mentality that has festered for decades and crippled Indonesia. But for Taspen, changes are inevitable. Like the sprawling dinosaurs in Indonesia's state sector, Taspen's managers and benefactors will have to come to terms with a world in which professionalism and public accountability should be the norm - not patronage and secrecy. am

Political levy or reward ?

It is almost a time-honoured ritual. Every month, the four million government employees and civil servants in Indonesia set aside 3.25% of their salary for a compulsory endowment insurance scheme and 4.75% for a compulsory pension scheme. Both are managed under PT Taspen. And every month Taspen's 40 offices, as well as banks and post offices, distribute an estimated Rp216 billion on behalf of the government to the two million state pensioners over the age of 56, or to families of the deceased.

In theory anyway, it is a good deal. Payouts range between 60% and 80% of the final annual year's salary as stipulated by the government. Fur-

thermore, life assurance covers husband, wife, and two children below the age of 25.

In practice, the average 30-year life of a pension allocation against a 75% payout is hardly demanding. The fact that the money is ultimately transferred out of the national budget also means the total funds under Taspen management continues to rise.

Critics claim that Taspen's limited network of offices in parts of the country and complicated transfer methods mean that some employees get only a minimal lump sum. Wages themselves are so small that 75% of final salary is barely above the minimum cost of living, as wages tend to lag inflation.

"It's seen more as a political levy than a realistic pension," a local banker claims. "State employees don't expect to get half what they are promised."

Taspen officials reject the criticisms. According to Didi Achdijat, returns on the pension fund have been in excess of 14% annually - considerably higher than other funds in Indonesia. And Taspen has even been able to make a profit. Some of that is given away as bonuses to employees or pensioners. As the major shareholder in Taspen, the government also benefits by receiving a percentage in dividends.

"Our benefits are as high as other insurance companies," insists Achdijat. "So far we have only had minimum complaints from participants."