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CAPITAL ASSISTANCE PAPER

Proposal and Recommendation
for the Issuance of the
Development Loan Guarantee

INDONESIA - PROJECT DEVELOPMENT LOAN

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AID-DLG/P-967

[redacted]

DEPARTMENT OF STATE
AGENCY FOR INTERNATIONAL DEVELOPMENT
Washington, D.C. 20523

UNCLASSIFIED

AID-DLC/P-987

July 1, 1971

MEMORANDUM FOR THE DEVELOPMENT LOAN COMMITTEE

SUBJECT: Indonesia - Project Development Loan

Attached for your review are the recommendations for authorization of a loan in an amount not to exceed $5,000,000 to the Government of the Republic of Indonesia to assist in financing the foreign exchange costs of services, equipment, and materials necessary for the performance of economic and technical feasibility and other capital project related studies in Indonesia.

This loan proposal is scheduled for consideration by the Development Loan Staff Committee at a meeting on Thursday, July 8, 1971.

Rachel R. Agee
Secretary
Development Loan Committee

Attachments:
Summary and Recommendations
Project Analysis
ANNEXES I-IV

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AID-DLC/P-987
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INDONESIA: PROJECT DEVELOPMENT LOAN

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INDONESIA - PROJECT DEVELOPMENT LOAN

SUMMARY AND RECOMMENDATION

A. BORROWER:

Borrower is the Government of Indonesia (GOI) and the loan will be implemented by the GOI National Development Planning Board (BAPPENAS) acting on behalf of the Borrower.

B. LOAN:

1. Amount: Up to $5.0 million

2. Terms: To be repaid in 40 years after first disbursement, including a 10-year grace period. Interest on outstanding principal will be 2% per annum during grace period and 3% per annum thereafter.

C. TOTAL COST OF THE PROJECT:

$5.0 million in U.S. dollars, the total foreign exchange cost of the activity, will be provided by the loan. The total rupiah amount for local currency costs is estimated to be the equivalent of $1.0 million, which will be made available from the GOI budget, except for certain activities sponsored by revenue-producing entities.

D. DESCRIPTION OF THE PROJECT:

Loan proceeds will be utilized to finance the foreign exchange costs of economic and technical feasibility and other capital project-related studies for revenue- and non revenue-producing public sector projects and such private sector development projects as the GOI may wish to support. Activities may be in the general fields of industry, energy, communications, transportation, agriculture and other areas as may be agreed upon by Borrower and A.I.D.

E. PURPOSE OF LOAN

To provide financing for services and related commodities in connection with the performance of feasibility and other capital project-related studies. These activities will provide a basis for ascertaining feasibility of projects to be financed by Free World sources, including international agencies, USG or Indonesia. Also eligible for financing will be the employment of firms to undertake review and updating of existing feasibility studies, as well as design and engineering services related to selected projects.

F. BACKGROUND OF ACTIVITY

Since 1967 AID has grant-financed numerous studies of the type proposed for financing under this proposed loan. In view of Indonesia's desire to expedite completion of studies for priority projects under the Five Year Plan and the limited availability of AID grant funds, the GOI has requested an AID Loan of $5.0 million to finance the activities proposed herein.

G. ALTERNATE FINANCING:

The Exim Bank is not interested in financing this project in Indonesia. The IDA has already made such a loan of $4.0 million.

H. ISSUES: None.

I. STATUTORY CRITERIA:

All statutory criteria have been satisfied. (See Annex I).

J. MISSION AND EMBASSY VIEW:

USAID and the Country Team recommend approval of this loan. (See Annex II).

K. RECOMMENDATION:

Authorization of a loan of up to $5.0 million to the Government of Indonesia in accordance with the terms and conditions set forth in the proposed authorization in Annex III. An outline of conditions precedent and covenants is set forth in Section VIII.

USAID CAPITAL ASSISTANCE COMMITTEE MEMBERS:

Chairman.....Ernest Kanrich
Loan Officer.....Dennis Brennan
Engineer.....Robert Rose
Economic.....Paul Wenger

AID/W CAPITAL ASSISTANCE COMMITTEE MEMBERS

Chairman and Loan Officer.....T.W. Curran
Engineer.....Merten Vogel
Counsel.....Stanley Kay
Desk.....Louis C. Stamberg

I. History and Background.

A. Place of the Project in the Program.

The objectives of the United States aid policy are to assist Indonesia preserve the economic and political stability achieved in the post-Sukarno years and develop a sound infrastructure and base for economic growth and development. The United States seeks to accomplish these objectives through multilateral agencies and the framework of the Inter-Government Group on Indonesia (IGGI). The IGGI is composed of Indonesia, eleven other member countries, the World Bank (IBRD), the International Monetary Fund (IMF), and the Asian Development Bank (ADB).

Provision of assistance through a multilateral framework maximizes aid from other donor sources, leaves a high degree of initiative to the Indonesian Government and minimizes the political problems which might arise from any government, including USG, unilaterally using its assistance as leverage to require Indonesia to take the difficult decisions necessary in the task of development.

Exercise of Indonesian initiative is given strong emphasis through the IGGI framework and development of projects is essentially GOI's responsibility. In outline form and with the assistance of the IBRD and the Ford Foundation-financed Harvard Development Advisory Service (HDAS), BAPPENAS each year develops a list of projects and technical assistance proposals for review by the IGGI members. The feasibility of these projects is generally to be determined by the potential donor. The GOI has neither the funds nor other resources to follow up and develop in depth the projects identified in the course of these yearly reviews.

This has meant that some donors have made funds available on a grant basis to carry out studies to determine the feasibility of selected projects as they are reviewed and identified. This has been done on a case-by-case basis limited to the specific interest of the donor. In 1970, the IDA made a feasibility studies loan ($4 million) which opened a line of credit to the GOI to carry out a range of such feasibility studies. The loan proposed in this paper is similar in purpose to the IDA loan and will assure the GOI of availability of funds to carry out necessary technical and economic services to provide the basis for project-financing by international agencies, the United States, or other Free World sources, including Indonesia. The amount of the proposed A.I.D. loan is considered to be conservative in light of the anticipated rate of A.I.D.-financed capital project activity of $60-70 million per year over the next 3 or 4 years. This volume of project activity, which is justifiable in terms of Indonesia's absorptive capacity and which is consistent with the U.S. Government's IGGI commitment, will require extensive amounts of costly preliminary study work.

B. Prior AID Assistance.

The proposed loan would be the first AID loan of this kind to Indonesia, although AID has made many such loans to other developing countries.

Provision of DL funds for financing such services is in line with the overall U.S. policy of shifting assistance from grant to loan whenever appropriate and consistent with the aim of emphasizing independent initiative on the part of the developing countries. It will provide the GOI with firm knowledge regarding the availability of funds for use in financing essential studies, thereby enhancing its overall capacity for planning, identifying and scheduling development projects. In addition, the implementation of this loan with AID advice and assistance will give BAPPENAS and other GOI agencies additional experience in project identification and formulation, contractor selection and study implementation. The debt service involved will not place any undue burden on the GOI balance of payments. See Section VI.

C. Development Planning in Indonesia.

Indonesia has moved from stabilization toward rehabilitation and development under the Five Year Plan beginning in 1969. The Plan recognizes two primary conditions to development -- maintenance of economic stability and a reversal of the deterioration of the nation's infrastructure.

The Plan sets a target of a 140% increase in public investment over the five-year period, an increase from about $400 million in 1969 to over $1 billion in 1974. About two-thirds of this will fall into the agriculture and infrastructure sectors, mostly power, transportation and communications. While the bulk of public sector investment will be financed from foreign aid, Indonesia's share will increase from 20% ($80 million) to 25% ($250 million) by 1974. The central coordinating and planning body for implementation of the Five Year Plan is BAPPENAS.

D. Amount, Nature, and Purpose of Loan.

AID anticipates that the proceeds of the proposed loan will be adequate to finance approximately two years of intensive study activity. This time frame is consistent with the intent to expedite implementation of the Indonesian Five Year Plan.

Loan proceeds will be used to finance services and related commodities in connection with the performance of feasibility and other capital project-related studies.

and procurement of special equipment necessary for each of the foregoing.

Activities may be in the general fields of industry; energy resources; geothermal exploration, drilling and testing; communications; transportation, including roads, railways, ports and civil airfields; water and land resource development; water and sewerage facilities; fishing; agriculture; housing; urban development; education; health; tourism and such other areas as may be agreed upon by GOI and AID.

Activities may be in the public and private sectors of the Indonesian economy, and public sector projects may be both revenue- and non revenue-producing. In the case of revenue-producing public projects, and private projects, provision will be made for repayment to the GOI in rupiah of the cost of the study in the event the study is productive of a project.

Examples of activities which may be undertaken under the loan:

PROJECT DEVELOPMENT ACTIVITIES

PROJECT	ESTIMATED COST
Rice Processing and Storage:	
Final feasibility, site investigation, limited preliminary engineering, for first construction increment.	US $ 80,000
For second construction increment.	80,000
Water Resources Development: Teluk Lada, Tjitanduj, Lower and Middle Reaches of the Solo River:	
Final feasibility study of selected project or projects.	400,000
Rehabilitation and Modernization of the Tin Dredge "SUMATRA":	
Study, design, and preparation of procurement documents.	70,000

Examples of Project Development Activities, continued.

PROJECT	ESTIMATED COST
Industrial Estates (Djakarta, Surabaja and Tjilatjap):	
Feasibility study and site investigation for one selected area.	250,000
Feasibility Study, West Sumatra Electric Power System	100,000
Feasibility Study, West Kalimantan Power System	100,000
Rehabilitation of 24 General Electric Locomotives (1600 HP): Study, loan paper assistance, preparation of bidding/ procurement documents.	50,000
Rehabilitation of Ports: (Palembang, Tjirebon, Semarang, Belawan, Makassar, Bitung, Padang, Bandjarmasin): Prefeasibility study and survey; operational/management recommendations (one or two selected ports)	450,000
Final Design Engineering, Trans-Java Highway	2,000,000
Water Supply Project - Bandung:	
Master plan for development; feasibility study for initial increment.	100,000
Geothermal Development, Dieng Plateau:	
Exploratory drilling phase.	350,000

In addition to the items contained in the preceding list of illustrative project activities, there is a possibility that additional transportation and power studies will be included at a later date for financing under the proposed loan.

Loan proceeds will finance the services of U.S. or Lower Income Country private consulting firms who will be selected in accordance with A.I.D. procedures.

Financing under this loan will not commit the U.S. to finance any project evolving therefrom. However, USAID expects that through close U.S. involvement with the GOI, and particularly with BAPPENAS, in the selection of activities under this loan, projects resulting therefrom will be available to the U.S. and other donors as potential projects for financing. Engineering design services under this loan will be undertaken only when supported by prior feasibility studies, and after A.I.D. has satisfied itself that funds required for undertaking the completion of the project will be available, either from the GOI itself or from a donor.

II. Capacity of Applicant to Implement Loan

BAPPENAS is a legally constituted entity with a qualified and experienced professional staff, many of who studied at graduate level in the United States. It is staffed with technicians trained and experienced in the fields in which it is engaged, e.g., economics, finance, law, agriculture and engineering. BAPPENAS works closely with the IBRD Resident Mission, the IMF resident group, and the Harvard advisory team. This places BAPPENAS in a position where it can rely not only on the overall cooperation of these groups, but also on their immediate assistance in day-to-day questions, project selection and implementation.

It is proposed that this project development loan generally follow the implementation pattern of the IDA loan:

a. BAPPENAS will be the GOI entity for deciding the terms of reference for services to be performed under the loan.

b. BAPPENAS will designate the GOI Department or Agency or private sector entity as the implementing agency.

c. The implementing agency will select contractors, enter into contracts acceptable to A.I.D., and monitor all contract activity through completion.

Each step in the process will be subject to AID prior concurrence and will be conducted in accordance with A.I.D. procedures.

GOI will provide from its Development Budget the rupiah financing necessary to carry out the activities financed under this loan and will ensure logistic support by the responsible GOI department or agency. Arrangements will be made through BAPPENAS to provide rupiah funds promptly to begin and to carry out activities under the loan. Present plans envision an arrangement under which the GOI and the USAID will develop a mutually acceptable procedure for making local currencies available prior to the commencement of each study proposed for financing under the loan.

III. Technical Procedures.

BAPPENAS applications for financing of individual activities will be submitted to USAID and will contain relevant information as AID may require, including, in general, the following:

a. Activity description and cost in foreign exchange and rupiah;

b. Description of relevant previous activities and their applicability and availability;

c. Scope of work;

d. General economic justification for the project, including priority and relation to the Five Year Plan;

e. Amount of assistance requested.

As appropriate, USAID will assist in developing scopes of work which will be prepared to ensure that studies meet the requirements of A.I.D. procedures. Similarly, A.I.D. procedures will govern the selection of consulting services to be financed under the loan. In addition to the economic, technical and financial aspects of specific activities, environmental considerations will be taken into account in the course of developing and implementing activities to be financed with the loan proceeds.

IV. Economic Context

Activities approved for financing under the loan will assist in and expedite Indonesian economic development and U.S. economic objectives in Indonesia by providing data needed for development, analysis and implementation of sound priority projects suitable for financing by Indonesian or foreign sources. Since BAPPENAS, the GOI agency responsible for development planning, will take primary coordinating responsibility in the proposed loan, and since all activities are to be subject to AID approval, the activities will be consistent with GOI and U.S. economic development objectives. Studies of projects ineligible for AID assistance will not be precluded. (See Section I above.)

V. Financial Summary.

Loan funds not to exceed $5 million will be utilized to finance the foreign exchange costs of contracts with U.S. and Lower Income Country firms or organizations to perform services in Indonesia. Rupiah requirements will be met by GOI from its budgeted resources or from resources of non budget-supported entities as appropriate. The GOI has always provided the required rupiah contributions to AID loan and grant projects on schedule and there is full assurance this will continue to be the case. Precise U.S. dollar and rupiah needs for individual studies cannot be estimated in advance of preparation of a detailed scope of work for each activity and of contract negotiation.

The loan agreement will provide that a plan satisfactory to AID be developed by the GOI for reimbursement in rupiah to the GOI of the rupiah and dollar costs of activities resulting in ultimate financing of private projects or revenue-producing projects of non budget-supported public entities. The GOI will absorb the rupiah cost of studies undertaken for non revenue-producing public projects. In activities for revenue-producing projects, GOI may share with the project sponsor, in the case of a non budget-supported public entity or private firm, the costs of studies of projects which are not undertaken beyond the feasibility study phase. In view of the probable wide variation in activity costs, repayment terms to sponsors will be established on a case-by-case basis.

VI. INDONESIA'S ECONOMIC PERFORMANCE AND DEBT SERVICE CAPACITY

A. Current Economic Developments

In 1968 and continuing to date, investment, output and exports all grew markedly despite the sharp drop in rubber prices early in FY 1970/71. Output of rice and textiles, the basic items of consumption, as well as other consumer goods, has increased. The volume of production of agricultural export commodities has also increased. A significant amount of building construction, both public and private, is underway, along with rehabilitation, improvement and expansion of irrigation, road, electric power, telecommunication and other infrastructure facilities.

This growth of investment and production has been accompanied by a similar increase in imports, financed in part by larger export receipts and in part by larger inflows of both private and official capital. Internal revenues, as well as budget expenditures, have both increased sharply above their 1969/70 levels, in accordance with the budget estimates for 1970/71.

Allocation of additional funds to the development budget must compete with proposed increases in the routine budget, some of which are of high priority to the development effort. Salaries and wages of Government officials were increased by one-third effective the beginning of FY 1971/72. Debt service payments will require additional resource allocations and next year, for the first time, funds will be set aside to cover debts of government agencies to state enterprises. Even after meeting these additional financial needs in the current expenditure budget, the planned resource transfer to the development budget will be Rp 52 billion compared to Rp 34 billion in the current year, an increase of 53 percent.

The budget for the FY 1971/72 development program is Rp 155 billion (excluding estimated disbursements of project aid), an increase of 45 percent over the estimated 1970/71 expenditures of Rp 107 billion. The GOI will thus be providing a full one-third of development budget resources out of self-help funds, in addition to meeting all its routine expenditures. To meet these financial requirements an increase is also planned in the generation of program aid counterpart funds, from Rp 80 billion in 1970/71 to Rp 103 billion in 1971/72. Disbursements of program aid in 1971/72 of $370 million are projected for this purpose; this amount would be substantially higher than the program aid disbursements of $291 million in 1970/71, but is deemed capable of being achieved. Program aid commitments also in the amount of $370 million have been requested for 1971/72.

An enlarged list of projects which merit project aid constitutes an appropriate basis for a project aid commitment request of $270 million for 1971/72; total project aid disbursements (almost all under projects committed in prior years) are estimated at $175 million. The resulting total foreign aid request is $640 million in commitments for 1971/72; disbursements in that year are projected at $545 million compared to an estimated $401 million in 1970/71. Aid disbursements of this order will substantially augment projected export earnings which are expected to increase by about 19 percent. The increased foreign exchange resources thus available, after allowance is made for debt service payments and a token increase of foreign exchange reserves, will permit an increase of overall imports by 20 percent. Since this includes the higher disbursements projected for project aid and the larger inflow of imports financed by private capital inflows, other imports are, therefore, projected to increase by only 13.5 percent.

B. Price and Monetary Developments

The higher level of economic activity in 1970/71 has been accompanied by more stable prices than in previous years. The main elements making for price stability were the good rice crop and the availability of sufficient import supplies. A sizeable expansion of the money supply, 35.2 percent between December 1969 and December 1970, was not incompatible with the price stability achieved since this expansion resulted largely from an increase of bank credit to the business sector of the economy, and was at least partly offset by an increase of time and savings deposits in State Banks (which are the only ones providing reliable data) of 50 percent.

It presently appears, however, that FY 1971/72 may see considerably smaller credit expansion than 1970/71, notwithstanding active efforts by the banks to increase their deposits. The expansion of commerical credit to the business sector may also be somewhat limited as the medium-term investment program and the credit needs of the rice production program pre-empt a larger share of total credit resources.

Pressure on the cost of living is being largely contained by the new strength of the economy, the decline of inflationary psychology, and the continued supply of essential import commodities made possible by IGGI members' program aid. The rate of inflation has been sharply reduced (it was 635% in 1966, 120% in 1967, 85% in 1968, 10% in 1969 and under 9% in 1970) and rational pricing of goods and services is increasingly the rule. If supplies of rice and essential imports continue to be available, inflation should continue to be contained.

C. Fiscal Policy.

The 1970/71 fiscal year has produced a continuation of the excellent revenue growth of the two previous years. Internal revenues (excluding aid counterpart receipts) in 1969/70, at Rp 244 billion, were nearly Rp 16 billion higher than the original budget estimates. The present estimate of Rp 344 billion for 1970/71, an upward revision of the original estimate for the year, represents an increase of 41 percent over the preceding year in a period of substantial price stability. The 1971/72 budgeted increase of 21% to Rp 416 billion represents a further ambitious attempt at self-help.

These results have been achieved partly as a result of the return to more stable economic conditions. In 1966, after years of disorganization and hyperinflation, revenues were probably only 3 to 4 percent of the GDP. The proportion has been raised to perhaps 10 percent (although no reliable GDP estimate is available) by concentrating on sources which can readily

be tapped at one or a few points, such as taxes on trade. Other taxes involving collection from multiple points and payers, sales and income taxes in particular, require better organization and procedures. The GOI is aware of this and is seeking more technical assistance on tax administration.

D. Balance of Payments and Exchange Rate.

While Indonesian export earnings (gross oil plus non-oil) have expanded from $1,039 in 1969/70 to $1,196 million in 1970/71 and are projected to rise $1,420 million in 1971/72, they have not been sufficient to cover imports. As a result of the emphasis being placed on development as well as on stabilization, Indonesian import requirements have been increasing.

While non-food consumer goods imports have risen modestly from $158 million in 1969/70 to $185 million in 1970/71 and a projected $210 million in 1971/72, Indonesia remains dependent on external sources for 1) capital equipment needed in investment programs, 2) raw materials such as fertilizer, textile fibers, metals, and chemicals, for increased agricultural and industrial production, and 3) food grains and other edibles needed to meet the gap between domestic production and consumption. Accordingly, total non-oil imports have grown from $1,443 million in 1969/70 to $1,612 million in 1970/71 and are expected to rise to $1,926 million in 1971/72.

The current account deficit has in turn increased from $404 million in 1969/70 to $416 million in 1970/71 and is projected to reach $506 million in 1971/72. In addition, Indonesia met debt service payments of $85 million in 1969/70 and $120 million in 1970/71 with a projected $147 million for 1971/72, despite the favorable accomodations reached with foreign creditors.

For financing the current account deficit, Indonesia relies heavily on foreign assistance, with private capital and monetary reserves playing a secondary role. Food and fiber aid plus other program assistance, with disbursements ranging from $307 million in 1969/70 to $291 million in 1970/71 and a projected $370 million in 1971/72, have accounted for most of the inflow. Project aid disbursements are expected to increase significantly from $52 million in 1969/70 and $110 million in 1970/71 to $175 million in 1971/72. Private direct investment was $51 million in 1969/70 and $103 million in 1970/71 with $135 million projected for 1971/72. See Annex IV, page 1.

The external value of the rupiah remained stable in 1969, and the DP exchange rate (applicable to payments for services, to less essential imports, and to most private financial transactions) actually improved during the year from about Rp 385 per US $1 in January to 378:1.

During 1970 two separate reforms were made in the Indonesian foreign exchange system, both with the encouragement of the International Monetary Fund. On April 17, a reform package was announced which in effect devalued the rupiah. The package merged the two foreign exchange markets which were in existence until that time and set a fluctuating foreign exchange rate pegged at Rp 378:$1, to apply to all foreign exchange transactions except for imports financed by commodity assistance programs; importers utilizing commodity assistance had access to a rate of Rp 326:$1. The retention of this preferential exchange rate for foreign aid imports (Devisa Kredit or DK) was deemed necessary in order to compensate for the disincentives of program loan (especially U.S.) procedures. However, this was less than complete rate unification and thus did not accord with a basic tenet of the IMF. Consequently, as of December 9, the DK rate was officially fixed at Rp 378, equivalent to the regular (DU or Devisa Umum) rate. This final step had been expected by most observers, including businessman, ever since the April 17 reforms.

E. Debt Service Capacity.

Indonesia's debt service burden continues to be extremely high and recently there has been a substantial increase in external debt due to large amounts of multi-donor assistance, despite concessional loan terms. This result was expected for a country starting from a low economic base and receiving major loan-funded development assistance.

Perhaps the most significant events improving Indonesia's ability to make loan repayments were the April 1970 and August 1970 debt rescheduling decisions made by the major governments holding Indonesia's pre-July 1966 debt. The creditors at the April meeting included Australia, France, West Germany, Italy, Japan, The Netherlands, the United Kingdom, and the U.S., all members of the so-called "Paris Club". The agreement they reached provides for repayment of principal in 30 equal annual installments beginning in 1970 and of contractual interest in 15 annual installments beginning in 1985. No consolidation interest will be charged during the 30-year period. Indonesia will have the option to defer part of the payments of principal due during the first eight years; amounts so deferred will bear interest from deferment at 4 percent and will be repaid no later than 1992-99 in equal annual installments. The agreement is subject to review after 1980.

No more favorable treatment is to be accorded to any other creditor country for the consolidation of comparable debts. Agreement was reached with the U.S.S.R. in Augus 1970 regarding the rescheduling of payments due on their debts incurred by Indonesia before July 1, 1966. Provisions of the agreement are generally in accordance with the Paris Club agreement terms, and the rest of the Bloc countries are expected to follow suit.

The total principal together with rescheduled contractual interest and moratorium interest accrued prior to January 1, 1970, amounted to $2,050.6 million. On an annual basis principal payments would amount to about $59 million before application of the bisque clause, and interest payments, which are to be repaid equally during the years 1985-99, would amount to about $18 million. Individual nations which have already signed bilateral rescheduling agreements are the U.S.A., the U.S.S.R., France, the F.R.G., The Netherlands, East Germany, Poland and Czechoslovakia. See Annex IV, pages 2 through 5.

Past reschedulings left Indonesia with debt service ratios (calculated on the basis of non-oil exports plus net oil export earnings and including post-Sukarno debts) of 12% in 1968 and 8% in 1969. The debt service ratio for 1970 is projected at about 10%. On the assumptions of a conservative 6% growth in exports and further very sizeable inflows of foreign aid on which service payments must be made (Indonesia since mid-1966 has already contracted new obligations, including interest, of $1.5 billion), Indonesia's debt service ratio is estimated under 20% in the 1970's and slightly higher in the 1980's. By international standards, these ratios are manageable.

With the soft terms of the loan herein proposed, particularly the 10-year grace period, the overall rescheduling of old debts already agreed upon and the Indonesian potential for export expansion, the repayment prospects for the proposed $5 million loan appear reasonable. Our assessment of Indonesia's repayment prospects is shared by other IGGI members who are continuing with similar program and project lending programs of their own.

VII. Impact on U.S. Balance of Payments.

Goods and services financed by this loan will be obtained from AID Geographic Code 941 (U.S. and Lower Income Countries), and it is expected the U.S. will be a major source for the firms carrying out these activities. There should also be substantial additional procurement because the projects resulting from favorable studies may be U.S.-oriented for financing and procurement. There should also be follow-on procurement of spare parts, replacement equipment and services from the United States.

VIII. Conditions and Covenants.

In addition to the usual conditions precedent to financing, the loan agreement will contain covenants discussed above in Section III providing for AID approval of: (a) projects to be studied; (b) scopes of work; (c) firms selected to undertake the studies; and (d) contracts negotiated for making the studies. Also, the loan agrement will require AID approval of the plan for BAPPENAS to implement the loan (Section II above) and for the GOI to be reimbursed in rupiah for certain activities (Section V above).

IX. Implementation Plan.

See Sections II and III. BAPPENAS will also be required to provide AID with a detailed description of its internal processes for administering the proceeds of the loan, and with a periodic progress report in a format satisfactory to AID.

STATUTORY CHECKLIST

I. COUNTRY PERFORMANCE

A. Progress Towards Country Goals

1. FAA §§ 201(b)(5), 201(b)(7), 201(b)(8), 208. Discuss the extent to which the country is:

(a) Making appropriate efforts to increase food production and improve means for food storage and distribution.	(a) Indonesia is giving priority attention to projects which aim at increasing food production, particularly the production of rice. The Government has included over 70 technical and capital assistance projects in the fields of Agriculture and Irrigation in its priority list of projects for fiscal year 1971/1972. The majority of the above projects are directly concerned with increasing food production, and improved food storage, distribution and marketing.
(b) Creating favorable climate for foreign and domestic private enterprise and investment.	(b) The GOI enacted a comprehensive law with built-in incentives for encouraging foreign capital investment, concluded an Investment Guaranty Agreement with the U.S., and enacted banking legislation which will permit foreign banks to open branches in Indonesia. Credits are extended at favorable terms to importers of capital goods and up to five-year tax credits may be obtained for new investment in plant and facilities subject to negotiation.
(c) Increasing the people's role in the development process.	(c) Although the Government owns the majority of the large enterprises the Government is encouraging private domestic investment. Officials of State Enterprises are receiving more freedom in management and some State Enterprises are being converted to private corporations.

Political parties have been active, press has had considerable freedom and national elections are scheduled for July 1971. The Parliament is playing a significant role in the budgetary process inasmuch as the annual budget must be authorized by Parliament and expenditures reported in an "Annual Report of Budgetary Accounts".

(d) Allocating expenditures to development rather than to unnecessary military purposes or intervention in other free countries' affairs.

(d) With the ending of confrontation with Malaysia in 1966 the Suharto Administration reversed the foreign interventionist policy of the Sukarno regime. Military expenditures have been sharply reduced as the government has concentrated the nation's domestic resources - and foreign aid receipts - on achieving economic stability and starting an ambitious development program.

(e) Willing to contribute funds to the project or program.

(e) The cooperating Government will contribute local currency from the development budget to meet the local currency expenditure requirement of the project. In addition, the GOI has contributed local currency and logistic support for contractor personnel conducting feasibility studies and housing, local transportation and per diem of USAID technicians through contributions to the USAID trust fund.

(f) Making economic, social, and political reforms such as tax collection improvements and changes in land tenure arrangement; and making progress toward respect for the rule of law, freedom of expression and of the press, and recognizing the importance of individual freedom initiative, and private enterprise.

(f) and (g) Indonesia has made significant gains in freedom of speech and of the press under the Soeharto Government. Major economic reforms have been instituted with IMF/IBRD assistance. Inflation has been curbed and the country has stabilized prices and exchange rates. Effective December 9, 1970 the GOI established one uniform exchange rate for all types of foreign exchange. The rate has remained stable at Rp. 378/US$1. The rate of inflation has been reduced from 636.8

	percent per annum in CY 1966 to 9.4 and 8.8 percent in calendar year 1969 and 1970 respectively. Tax revenues in real terms have increased each year at the rate of 10 to 40 percent since 1967 and are projected at the rate 25 to 30 percent for FY 71/72. Approximately 16 percent of the development budget is devoted to the social field which includes education, health, family planning, housing, manpower, social welfare, drinking water supply, culture and religion. The cooperating Government has encouraged self-help projects such as Food for Work and other irrigation and road building projects carried out through its Department of Manpower.
(g) Responding to the vital economic, political, and social concerns of its people, and demonstrating a clear determination to take effective self-help measures.	

B. Relations with the Unites States

1. FAA §620(c). Is the government indebted to any U.S. citizen for goods or service furnished or ordered where: (a) such citizen has exhausted available legal remedies, including arbitration, or (b) the debt is not denied or contested by the government, or (c) the indebtedness arises under such government's, or a predecessor's unconditional guarantee?	620(c) We are not aware of any cases that make Indonesia ineligible under this section.
2. FAA §620(d). If the loan is intended for construction or operation of any productive enterprise that will compete with U.S. enterprise, has the country agreed that it will establish appropriate procedures to prevent export to the U.S. of more than 20% of its enterprise's annual production during the life of the loan?	620(d) Not applicable.

3. FAA §620(e)(1). Has the country's government, or any agency or subdivision thereof, (a) nationalized or expropriated property owned by U.S. citizens or by any business entity not less than 50% beneficially owned by U.S. citizens, (b) taken steps to repudiate or nullify existing contracts or agreements with such citizens or entity, or (c) imposes or enforced discriminatory taxes or other exactions, or restrictive maintenance or operation conditions? If so, and more than six months has elapsed since such occurrence, identify the document indicating that the government, or appropriate agency or subdivision thereof, has taken appropriate steps to discharge its obligations under international law toward such citizen or entity? If less than six months has elapsed, what steps if any has it taken to discharge its obligations?	620(e)(1). The majority of businesses and property owned by U.S. citizens which was nationalized during the Sukarno regime (principally in 1964 and early 1965) has been returned to U.S. owners or mutually acceptable settlement negotiated. The Government of Indonesia has indicated its willingness to return the remaining nationalized assets in a Presidential Decree dated December 14, 1966.
4. FAA §620(j). Has the country permitted, or failed to take adequate measures to prevent, the damage or destruction by mob action of U.S. property, and failed to take appropriate measures to prevent a recurrence and to provide adequate compensation for such damage or destruction?	620(j). The country has not so permitted nor has it failed to take adequate measures.
5. FAA §620(l). Has the government instituted an investment guaranty program under FAA §221(b)(1) for the specific risks of inconvertibility and expropriation or confiscation?	620(l). Yes

6. FAA §620(o). Fisherman's Protective Act of 1954, as amended, Section 5. Has the country seized, or imposed any penalty or sanction against, any U.S. fishing vessel on account of its fishing activities in international waters? If, as a result of a seiz ure, the U.S.G. has made reimbursement under the provisions of the Fisherman's Protective Act and such amount has not been paid in full by the seizing country, identify the documentation which describes how the withholding of assistance under the FAA has been or will be accomplished.	620(o). No
7. FAA §620(q). Has the country been in default, during a period in excess of six months, in payment to the U.S. on any FAA loan?	620(q). No; however, repayment of one FAA loan has been rescheduled by Bilateral agreement dated 3/16/71 in accordance with terms of the Paris Agreed Minutes of April 24, 1970.
8. FAA §620(t). Have diplomatic relations between the country and the U.S. been severed? If so, have they been renewed?	620(t). No.

C. Relations with Other Nations and the U.N.

1. FAA §620(i). Has the country been officially represented at any international conference when that representation included planning activities involving insurrection, or subversion directed against the U.S. or any country receiving U.S. assistance?	620(i). We have no information as to any such representational activity.

2. FAA §620(a), 620(n). Has the country sold, furnished, or permitted ships or aircraft under its registry to carry to Cuba or North Vietnam items of economic, military, or other assistance?

620(a). We have no information of any such action by Indonesia

3. FAA §620(u); App. §108. What is the status of the country's U.N. dues, assessments, or other obligations? Does the loan agreement bar any use of funds to pay U.N. assessments, dues, or arrearages?

620(u). Indonesia is not delinquent with respect to U.N. obligations. The loan agreement limits the use of loan proceeds to importation of goods and services of A.I.D. Geographic Code 941 (Selected Free World).

D. Military Situation

1. FAA §620(i). Has the country engaged in or prepared for aggressive military efforts directed against the U.S. or countries receiving U.S. assistance?

620(i). No.

2. FAA §620(s). What is (a) the percentage of the country's budget devoted to military purposes, (b) the amount of the country's foreign exchange resources used to acquire military equipment, and (c) has the country spent money for sophisticated weapons systems purchased since the statutory limitation became effective? Is the country diverting U.S. development assistance or PL 480 sales to military expenditures? Is the country diverting its own resources to unnecessary military expenditures? (Findings on these questions are to be made for each country at least once each fiscal year and, in addition, as often as may be required by a material change in relevant circumstances.)

620(s). (a) The Department of Defense portion of the State Budget has ranged from a high of 33% in CY 1967 to a low of 24% in the FY 1971/72 draft budget.
(b) We have no knowledge of any significant expenditures of foreign exchange for the military. Less than 10% of the military budget is allocated for foreign exchange purchases. Moreover, the Department of Defense budget includes substantial amounts for construction of roads, bridges and other civil work projects.
(c) We are aware of no such purchases. The cooperating country is currently distributing PL 480, Title I rice and cotton yarn to the armed forces. The rice distributed to the armed forces is part of the total distribution of rice allowance to Government employees and their dependents. The departments (including the military) and State Enterprises currently pay for the rice

through budget transfers at the rate of Rp. 45/Kg. which approximates the local market price. As much as 50% of PL 480 Title I rice may be distributed to the military forces. Cotton yarn PL 480 Title I valued at approximately $8 million imported during the past three years has been utilized by the military to make uniforms. The military pays for the cotton yarn at prices approximating the local market price. Although the military utilize these commodities we are of the opinion that use of the commodities does not constitute diversion of development assistance inasmuch as the transaction is similar to a commercial sale and does not permit the military to expand its operation beyond that which can be accomplished through use of its budget allocation. Local currency sales proceeds of PL 480 imports are channeled through the development budget which is used almost entirely for economic and social development.

The government is placing primary emphasis on economic development and not diverting its own resources for unnecessary military expenditures.

II. CONDITION OF THE LOAN

A. General Soundness

Interest and Repayment

1. FAA §§201(d), 201(b)(2). Is the rate of interest excessive or unreasonable for the borrower? Are there reasonable prospects for repayment? What is the grace period interest rate; the following period interest rate? Is the rate of interest higher than the country's applicable legal rate of interest?

201(d). Although Indonesia's debt burden is heavy, there has been very rapid growth in real Government revenues and favorable economic performance. With the high current level of foreign assistance, it is recognized that future debt burden will be heavy, but a comprehensive agreement providing for the consolidation and rescheduling of Indonesia's pre-1966 debts has been made between Indonesia and its Free World creditors, including the U.S. The various donors agree this would place Indonesia with a debt burden for which the prospects of repayment would appear reasonable. Country terms of a 40-year loan, 10-year grace period, 2% interest during the grace period, 3% thereafter, pertain. The rate of interest is not higher than the country's applicable legal rate of interest.

Financing

1. FAA §201(b)(1). To what extent can financing on reasonable terms be obtained from other free-world sources, including private sources within the U.S.?

201(b)(1). Loan assistance to Indonesia is provided within the framework of the Inter-Government Group on Indonesia (IGGI), advised by the IBRD and the IMF. Availability of increased funds to support studies for the identification and development of projects is essential to Indonesia. The IBRD has already made such a loan and this A.I.D. loan would be part of the U.S. Government IGGI contribution and is supported by the IBRD Resident Mission. Inasmuch as the ExIm Bank does not currently make loans in excess of one year in Indonesia, it expressed to A.I.D. no interest in the project.

Economic and Technical Soundness

1. FAA §§201(b)(2), 201(e). The activity's economic and technical soundness to undertake loan; does the loan application, together with information and assurances, indicate that funds will be used in an economically and technically sound manner?	201(b)(2), 201(e). An acceptable application has been submitted to AID, the activity is economically and technically sound, the borrower is considered to be competent to use the loan funds in an economically and technically sound manner, and repayment is considered likely within the ability of Indonesia to service its foreign debt.
2. FAA §611(a)(1). Have engineering, financial, and other plans necessary to carry out assistance, and a reasonable firm estimate of the cost of assistance to the U.S., been completed?	611(a)(1). Not applicable.
3. FAA §611(b); App. §101. If the loan or grant is for a water or related land-resources construction project or program, do plans include a cost-benefit computation? Does the project or program meet the relevant U.S. construction standards and criteria used in determining feasibility?	611(b). Not applicable.
4. FAA §611(c). If this is a Capital Assistance Project with U.S. financing in excess of $1 million, has the principal A.I.D. officer in the country certified as to the country's capability effectively to maintain and utilize the project?	611(e). The certification of the USAID Director is in Annex II

B. Relation to Achievement of Country and Regional Goals

Country Goals

1. FAA §§207, 281(a). this loan's relation to:	207, 281(a). This loan is expected to result in increased development of the basic infrastructure of Indonesia, which in turn is essential to an active development of Indonesia' private sector and an expansion of participating opportunity on the part of the people of Indonesia.
a. Institutions needed for a democratic society and to assure maximum participation on the part of the people in the task of economic development.	
b. Enabling the country to meet its food needs both from its own resources and through development, with U.S. help, of infrastructure to support increased agricultural productivity.	281(b). Studies sponsored will in every case contribute to overall development and may in specific cases add directly to the impetus given to agricultural productivity.
c. Meeting increasing need for trained manpower.	281(c). The effort generated in carrying out the studies under this loan will result in practical training of manpower in many fields.
d. Developing programs to meet public health needs.	281(d). Benefits to health may be realized directly or indirectly depending upon the studies and projects identified.

e. Assisting other important economic, political, and social development activities, including industrial development; growth of free labor unions; cooperatives and voluntary agencies; improvement of transportation and communication systems; capabilities for planning and public administration; urban development; and modernization of existing laws.	281(e). There will be extensive training and improvement of basic labor and managerial skills associated with the project, and there will be encouragement of new employment opportunities. The project will be a stimulus to the private sector thereby promoting opportunity for more free labor-management activities.
2. FAA §201(b)(4). Describe the activity's consistency with and relationship to other development activities, and its contribution to realizable long-range objectives.	204(b)(4). This loan is given in a multilateral context and furthers Indonesia's ability to achieve longer-range development objectives through identification of development projects and areas.
3. FAA §201(b)(9). How will the activity to be financed contribute to the achievement of self-sustaining growth?	209(b)(9). Studies to be financed under the loan will contribute to Indonesia's Five Year Plan and general economic development.
4. FAA §201(f). If this is a project loan, describe how such project will promote the country's economic development, taking into account the country's human and material resource requirements and the relationship between ultimate objectives of the project and overall economic development.	201(f). See Sections I and IV.

5. FAA §201(b)(3). In what ways does the activity give reasonable promise of contributing to development of economic resources, or to increase of productive capacities?

201(b)(3). See Sections I and IV.

6. FAA §281(b). How does the program under which assistance is provided recognize the particular needs, desires, and capacities of the country's people; utilize the country's intellectual resources to encourage institutional development; and support civic education and training in skills required for effective participation in political processes.

281(b). Studies under this loan will be directed to basic economic and social needs throughout Indonesia and will result in broader people's participation and benefits from the economic development process.

7. FAA §601(a). How will this loan encourage the country's efforts to: (a) increase the flow of international trade; (b) foster private initiative and competition; (c) encourage development and use of cooperatives, credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture, and commerce; and (f) strengthen free labor unions?

601(a). The loan will facilitate purchase by the country of needed equipment and services. The project will stimulate industrial and commercial activities in such areas as agriculture, business, intermediate processing of agriculture products, and small manufacturing, which will increase the probable quantity and value of commodities available for export, will assist Indonesia in developing more sophisticated products which may be competitive in international trade and create a demand for many new products and equipment required for new commercial and industrial enterprises and private consumption; (b) through improved opportunities for new commercial and industrial enterprises; (c) no direct effect; (d) no direct effect; (e) through greater affects of technical and economic programs reaching broader development fields; (f) no direct effect.

8. FAA §202(a). Indicate the amount of money under the loan which is: going directly to private enterprise; going to intermediate credit institutions or other borrowers for use by private enterprise; being used to finance imports from private sources; or otherwise being used to finance procurements from private sources.	202(a). The total amount of the loan will be used to finance procurement from private sources.
9. FAA §611(a)(2). What legislative action is required within the recipient country? What is the basis for a reasonable anticipation that such action will be completed in time to permit orderly accomplishment of purposes of loan?	611(a)(2). No legislative action will be required as a condition precedent to this loan.
Regional Goals	
1. FAA §619. If this loan is assisting a newly independent country, to what extent do the circumstances permit such assistance to be furnished through multilateral organizations or plans?	619. Indonesia is not a newly independent country
2. FAA §209. If this loan is directed at a problem or an opportunity that is regional in nature, how does assistance under this loan encourage a regional development program? What multilateral assistance is presently being furnished to the country?	209. The loan is not directed at a regional problem. However, it is being furnished in the context of multilateral aid to Indonesia by a number of donor countries (the IGGI). The assistance is being coordinated with the advice of the IBRD.

C. Relation to U.S. Economy

Employment, Balance of Payments, Private Enterprise.

1. FAA §§201(b)(6); 102, Fifth. What are the possible effects of this loan on U.S. economy, with special reference to areas of substantial labor surplus? Describe the extent to which assistance is constituted of U.S. commodities and services, furnished in a manner consistent with improving the U.S. balance of payments position.	201(b)(6). The goods and services financed by this loan will be obtained from A.I.D. Geographic Code 941 (Selected Free World). It is anticipated that the U.S. will supply a substantial amount of goods and services under the loan. There should also be increased likelihood of U.S. procurement resulting from these studies as the U.S. would be the probable source of financing for projects resulting from favorable studies.
2. FAA §§612(b);636(h). What steps have been taken to assure that, to the maximum extent possible, foreign currencies owned by the U.S. and local currencies contributed by the country are utilized to meet the cost of contractual and other services, and that U.S. foreign owned currencies are utilized in lieu of dollars?	612(b), 636(h). Local currency provided by the GOI will be used to meet local currency needs of the project.
3. FAA §601(d); App. §115. If this loan is for a capital project, to what extent has the Agency encouraged utilization of engineering and professional services of U.S. firms and their affiliates? If the loan is to be used to finance direct costs for construction, will any of the contractors be persons other than qualified nationals of the country or qualified citizens of the U.S.? If so, has the required waiver been obtained?	601(d). All goods and services financed under the loan will be from A.I.D. Geographic Code 941.

4. FAA §608(a). Provide information measures to be taken to utilize U.S. Government excess personal property in lieu of the procurement of new items.

608(a). For studies under this loan procurement of new items will be minimal. To the extent applicable U.S. Government excess property will be used and a provision recording this requirement will be included in the loan agreement.

5. FAA §602. What efforts have been made to assist U.S. small business to participate equitably in the furnishing of commodities and services financed by this loan?

602. The Loan Agreement will contain a provision that American small business will have an opportunity to participate in furnishing eligible items.

6. FAA §621. If the loan provides technical assistance, how is private enterprise on a contract basis utilized? If the facilities of other Federal agencies will be utilized, in what ways are they particularly suitable; are they competitive with private enterprise (if so, explain); and how can they be made available without undue interference with domestic programs?

621. Project implementation generally will be carried out by private enterprise under loan financed contracts on basis of applicable A.I.D. regulations. To extent Federal agencies will be utilized, it will be where the cooperating Government and A.I.D. agree such agencies represent for a selected activity the most practical and economic U.S. source of expertise, and therefore not competitive in the circumstances with private enterprise, and will only be scheduled so as not to interfere unduly with domestic programs.

7. FAA §611(c). If this loan involves a contract for construction that obligates in excess of $100,000, will it be on a competitive basis? If not, are there factors which make it impracticable.

No construction contract of this size is contemplated for financing under this loan.

Procurement

1. FAA §602(a). Will commodity procurement be restricted to U.S. except as otherwise determined by the President?

602(a). Yes, procurement is limited to A.I.D. Geographical Code 941.

2. FAA §604(b). Will any part of this loan be used for bulk commodity procurement at adjusted prices higher than the market price prevailing in the U.S. at time of purchase?	604(b). No.
3. FAA §604(e). Will any part of this loan be used for procurement of any agricultural commodity or product thereof outside the U.S. when the domestic price of such commodity is less than parity?	604(e). No.

D. Other Requirements

1. FAA §201(b). Is the country among the 20 countries in which development loan funds may be used to make loans in this fiscal year?	201(b). Yes.
2. App. §106. Does the loan agreement provide, with respect to capital projects, for U.S. approval of contract terms and firms?	106. Yes.
3. FAA §620(k). If the loan is for construction of a production enterprise, with respect to which the aggregate value of assistance to be furnished will exceed $100 million, what preparation has been made to obtain the express approval of the Congress?	620(k). Not applicable.

4. FAA §620(b), 620(f); App. §109(b). Has the President determined that the country is not dominated or controlled by the international Communist movement? If the country is a Communist country (including, but not limited to, the countries listed in FAA §620(f)) and the loan is intended for economic assistance, have the findings required by FAA §620(f) and App. §109(b) been made and reported to the Congress?	620(b), 620(f); App. 109(b). Yes, the required determination has been made.
5. FAA §620(h). What steps have been taken to insure that the loan will not be used in a manner which, contrary to the best interest of the United States, promotes or assists the foreign aid projects of the Communist-bloc countries?	620(h). The loan agreement will contain a provision covering this requirement.
6. App. §118. Will any funds be used to finance procurement of iron and steel products for use in Vietnam other than as contemplated by §118?	118. No.

7. FAA §636(i). Will any part of this loan be used in financing non-U.S.-manufactured automobiles? If so, has the required waiver been obtained?	636(i). No.
8. FAA §§620(a)(1) and (2), 620(p); App. §117. Will any assistance be furnished or funds made available to the government of Cuba or the United Arab Republic?	620(a)(1) and (2), 620(p). No.
9. FAA §620(g). Will any part of this loan be used to compensate owners for expropriated or nationalized property? If any assistance has been used for such purpose in the past, has appropriate reimbursement been made to the U.S. for sums diverted?	620(g). No. No assistance has been used for such purposes in the past.
10. FAA §201(f). If this is a project loan, what provisions have been made for appropriate participation by the recipient country's private enterprise?	201(f). It is anticipated that a portion of the work will be accomplished through direct hire of personnel and subcontract with private firms in the recipient country.
11. App. §104. Does the loan agreement bar any use of funds to pay pensions, etc., for persons who are serving or who have served in the recipient country's armed forces?	104. Yes. The loan agreement will cover this requirement.

13. MMA § 901.b. Does the loan agreement provide for compliance with U.S. shipping requirements, that at least 50% of the gross tonnage of all commodities financed with funds made available under this loan (computed separately by geographic area for dry bulk carriers, dry cargo liners, and tankers) be transported on privately owned U.S. flag commercial vessels to the extent such vessels are available at fair and reasonable rates for U.S. flag vessels?

MMA § 901.b. Yes. The loan agreement will cover this requirement.

PROJECT DEVELOPMENT LOAN

COUNTRY TEAM RECOMMENDATION

Subject loan will be of substantial economic and social benefit to Indonesia, will constitute an important portion of the United States Assistance program in Indonesia and will be consonant with the overall United States objectives in Indonesia. The Country Team, therefore, recommends approval.

Ernest Kanrich
Acting Director, USAID Indonesia

Peter A. Seip
Counselor for Economic Affairs

PROJECT DEVELOPMENT LOAN

CERTIFICATION PURSUANT TO SECTION 611 (e) OF THE FOREIGN ASSISTANCE ACT OF 1961, AS AMENDED

I, Ernest Kanrich, acting principal officer of the Agency for International Development in Indonesia, having taken into account among other things:

A. the effectiveness of the multi-lateral Intergovernment Group on Indonesia (IGGI) framework in coordinating development assistance to Indonesia;

B. the relationship between the Indonesian National Development Board (BAPPENAS) and the IGGI, particularly on a working basis with the international agencies such as the IBRD and IMF; and

C. the experience of BAPPENAS as the Indonesian Government agency responsible for coordinating and monitoring of foreign assistance to Indonesia on behalf of the Government of Indonesia

do hereby certify that in my judgment the Government of Indonesia, and BAPPENAS as the GOI loan implementing agency, have the financial capacity and human resources capability effectively to maintain and utilize this project for project development to be undertaken pursuant to the terms of subject proposed AID loan between the Government of Indonesia and the United States of America. In so certifying I have taken into account GOI adherence to sound economic principles and the effectiveness of the Government of Indonesia policy which has in the last three years succeeded in stabilizing the economy of the country.

Ernest Kanrich

Ernest Kanrich
Acting Director, USAID Indonesia

AID-DLC/P-987/A Draft
A.I.D. Loan No.
Project No.

DRAFT
GC/EA:BBKay:6/25/71

CAPITAL ASSISTANCE LOAN AUTHORIZATION

Provided from Development Loan Funds
Indonesia: Project Development Loan

Pursuant to the authority vested in the Assistant Administrator, Bureau for East Asia of the Agency for International Development (hereinafter called "A.I.D.") by the Foreign Assistance Act of 1961, as amended, and the Delegations of Authority issued thereunder, I hereby authorize the establishment of a loan pursuant to Part I, Chapter 2, Title I, the Development Loan Fund, to the Government of the Republic of Indonesia (hereinafter called "GOI") of not to exceed Five Million Dollars ($5,000,000), to assist in financing the foreign exchange costs of services, equipment, and materials necessary for the performance of economic and technical feasibility and other capital project related studies in Indonesia. This loan is to be subject to the following conditions:

1. Interest Rate and Terms of Repayment

   This loan shall be repaid by the Government of Indonesia within forty (40) years after the date of the first disbursement thereunder, including a grace period of not to exceed ten (10) years. The interest on the unrepaid principal balance of the loan shall be from the date of first disbursement at the rate of two percent (2%) per annum during the grace period and at the rate of three percent (3%) thereafter.

2. Currency of Repayment

Provision shall be made for repayment of the loan and payment of interest in United States dollars.

3. Other Terms and Conditions

(a) Services and commodities financed under the loan shall have their source and origin in countries under A.I.D. Geographic Code 941 (Selected Free World).

(b) Prior to initial disbursement of the loan funds the Borrower will submit to A.I.D. for its approval a Plan for the implementation of the studies and services to be financed, including organizational responsibility, staffing and procedures to be utilized.

(c) The loan shall be subject to such other terms and conditions as A.I.D. may deem advisable.

_____

_____
Date

Table 3.1: Balance of Payments Estimates, 1969/70-1971/72

(in millions of US dollars)

	1969/70	1970/71	1971/72
Exports of Goods and Services			
Gross oil exports	380	447	580
Non-oil exports	659	749	840
Total Exports	1,039	1,196	1,420
Imports of Goods and Services			
Foodgrains	212	149	143
Other food	53	53	60
Non-food consumer goods	158	185	210
Total Consumer Goods	423	387	413
Agricultural inputs	56	26	30
Industrial inputs	234	247	270
Investment related goods (excl. oil)	394	560	733
Oil sector goods & services	121	139	175
Investment income payments	109	134	182
Non-factor services (excl. oil)	106	119	123
Total Imports	1,443	1,612	1,926
Current Account Deficit	404	416	506
Financing:			
Project aid b/	52	110	175
Program aid c/	307	291	370
Direct private investment	51	103	135
Suppliers' credits	-17	-30	-
Short-term credits	-	37	-
Total	393	511	680
Debt service payments a/	-85	-120	-147
Monetary movements (excl. SDR)	78	13	-27
Total capital and monetary movements	382	404	506
Net errors and omissions	22	12	-

a/ Including debt service and hire-purchase payments of the oil sector.
b/ Based on L/C's opened for commitments since 1967 and arrivals for pre-1967 project a
c/ Based on L/C's opened.

Source: IBRD

Table 4.2: Outstanding Liabilities of Pre-1967 Debt as of January 1, 1970 1/ 2/

(In millions of US dollars)

	Principal (1)	Original interest Resched. (2)	Original interest outst. (3)	Moratorim interest Accrued (4)	Moratorim interest Outst. (5)	Total Principal (1+2+4)	Total Interest (3+5)
I. Participating countries 3/							
1. France	77.6	10.1	1.4	3.8	17.8	91.5	19.2
2. Germany	106.0	9.7	6.6	3.1	17.0	118.8	23.6
3. Netherlands	26.8	2.2	0.9	0.6	3.9	29.6	4.8
4. Italy	110.4	8.0	3.1	4.7	23.7	123.1	26.8
5. Japan	69.4	3.6	2.2	3.4	13.5	76.4	15.7
6. U.S.A.	156.8	20.6	14.2	3.7	19.5	181.1	33.7
7. U.K.	20.2	2.3	0.2	1.2	5.5	23.7	5.7
	567.2	56.5	28.6	20.5	100.9	644.2	129.5
II. CMEA countries, Jugoslavia and Mainland China							
1. U.S.S.R.	675.5			76.8	53.9	752.3	53.9
2. Hungary	17.1			0.3	1.5	17.4	1.5
3. Czechoslovakia	64.5			1.3	12.7	65.8	12.7
4. Germany Democ. Rep	45.7			0.3	16.6	46.0	16.6
5. Poland	94.2			0.1	32.4	94.3	32.4
6. Bulgaria	1.4			-	0.2	1.4	0.2
7. Rumania	13.1			-	2.6	13.1	2.6
8. Mainland China	21.0			0.5	0.7	21.5	0.7
9. Jugoslavia	95.1			0.6	24.5	95.7	24.5
	1,027.6			79.9	145.1	1,107.5	145.1
III. Other Countries 3/							
1. Pakistan	9.5	2.5	-	-	1.7	12.0	1.7
2. India	3.7	-	-	-	-	3.7	-
3. United Arab Rep.	3.6	-	0.8	-	-	3.6	0.8
4. Austria	2.5	-	-	-	-	2.5	-
	19.3	2.5	0.8	-	1.7	21.8	2.5
Total	1,614.1	59.0	29.4	100.4	247.7	1,773.5	277.1

1/ Subject to rescheduling based on agreed minutes April 1970 of participating countries and Protocol of August 1970 between Indonesia and U.S.S.R.

2/ All liabilities have been converted into US$ based upon exchange rates to which parity change since December 1966 have been realized, except CMEA Countries, Mainland China and Jugoslavia.

3/ Excluded Non Guaranteed Debts.

Table 4.3: Debt Service, Pre-1967 Debt After Rescheduling Without Use of Disque Clause /1

(In millions of US dollars)

Year	Participating Countries /2			USSR, Eastern & Non-participating Other Countries /3			All Countries		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
1970	21.4	-	21.4	37.6	-	37.6	59.0	-	59.0
1971		-			-			-	
1972		-			-			-	
1973		-			-			-	
1974		-			-			-	
1975		-			-			-	
1976		-			-			-	
1977	21.4	-	21.4		-		59.0	-	59.0
1978	21.5	-	21.5		-		59.1	-	59.1
1979		-			-			-	
1980		-			-			-	
1981		-			-			-	
1982		-			-			-	
1983		-			-			-	
1984		-	21.5		-	37.6		-	59.1
1985		8.6	30.1		9.8	47.4		18.4	77.5
1986				37.6		47.4	59.1		77.5
1987				37.7		47.5	59.2		77.6
1988								18.4	77.6
1989								18.5	77.7
1990									
1991									
1992									
1993					9.8	47.5			
1994		8.6	30.1		9.9	47.6		18.5	
1995		8.7	30.2						
1996									
1997									
1998									
1999	21.5	8.7	30.2	37.7	9.9	47.6	59.2	18.5	77.7
2000	-	-	-	-	-	-	-	-	-
Total	644.2	129.5	773.7	1,129.3	147.6	1,276.9	1,773.5	277.1	2,050.6

/1 Option to defer part of the principal payments.

Source: Bank Indonesia

Table 4.4: Debt Service, Pre-1967 Debt After Rescheduling With Full Use of Bloque Clause 1/

(In millions of US dollars)

Year	Participating Countries: Principal	Participating Countries: Interest	Participating Countries: Deferment Int.	Participating Countries: Total	USSR, Eastern and Non-participating Other Countries: Principal	USSR, Eastern and Non-participating Other Countries: Interest	USSR, Eastern and Non-participating Other Countries: Deferment Int.	USSR, Eastern and Non-participating Other Countries: Total	All Countries: Principal	All Countries: Interest	All Countries: Deferment Int.	All Countries: Total
1970	10.7	-	-	10.7	27.5	-	-	23.5	34.2	-	-	34.2
1971		-	0.4	11.1		-	0.2	23.7		-	0.6	34.8
1972		-	0.9	11.6		-	0.4	23.9		-	1.3	35.5
1973		-	1.3	12.0			0.6	24.1			1.9	36.1
1974	16.7	-	1.7	12.4			0.8	24.3	34.2	-	2.5	36.7
1975	17.8	-	2.1	19.9		-	0.9	24.4	41.3	-	3.0	44.3
1976	17.8	-	2.3	20.1		-	1.1	24.6	41.3	-	3.4	44.7
1977	17.9	-	2.4	20.3	23.4	-	1.3	24.8	41.4	-	3.7	45.1
1978	21.5	-	2.6	24.1	37.4	-	1.5	39.1	59.1	-	4.1	63.2
1979		-				-				-		
1980		-				-				-		
1981		-				-				-		
1982		-				-				-		
1983		-				-				-		
1984		-		24.1		-		39.1		-		63.2
1985		8.6		32.7		9.8		48.9		18.4		81.6
1986					37.6			48.9	59.1			81.6
1987					37.7			49.0	59.2			81.7
1988												
1989												
1990												
1991	21.5			32.7	37.7		1.5	49.0	59.2		4.1	81.7
1992	29.5		2.6	40.7	51.8		10.1	71.7	81.3		12.7	112.4
1993			2.2	40.5		9.8	9.9	71.5		18.4	12.1	111.8
1994		8.6	1.9	40.0		9.9	9.7	71.4		18.5	11.6	111.4
1995		8.7	1.6	39.8			9.5	71.2		18.6	11.1	111.0
1996			1.3	39.5			9.4	71.1			10.7	110.6
1997	29.5		1.0	39.2			9.2	70.9	81.3		10.2	110.1
1998	29.6		0.6	38.9			9.0	70.7	81.4		9.6	109.6
1999	29.6	8.7	0.3	38.6	51.8	9.9	8.8	70.5	81.4	18.6	9.1	109.1
2000	-		-		-		-	-	-	-	-	-
Total	644.2	129.5	59.0	832.7	1,129.3	147.4	101.9	1,378.8	1,773.5	277.1	160.9	2,211.5

1/ Option to defer part of Principal Payments - up to 50% for participating countries and 37.5% for remaining countries.

Source: Bank Indonesia

Indonesia: Payments Due on External Debts
Contracted from July 1, 1966 Through December 31, 1970 1/

(In millions of U.S. dollars)

	Principal	Interest	Total
1971	10.9	26.6	37.5
1972	11.6	30.8	42.4
1973	11.7	33.1	44.8
1974	15.2	33.4	48.6
1975	22.2	32.9	55.1
1976	25.9	32.4	58.3
1977	38.7	31.2	69.9
1978	47.1	30.1	77.2
1979	51.6	29.8	81.4
1980	59.7	28.3	88.0
1981	63.9	28.9	92.8
1982	64.2	27.8	92.0
1983 and after	1,030.9	324.5	1,355.4
Total	1,453.6	689.8	2,143.4

Source: Data supplied by the Indonesian authorities.

1/ Excludes service payments due on $20.0 million for which data are not yet available.