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

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AID-DLC/P-828
June 6, 1969

MEMORANDUM FOR THE DEVELOPMENT LOAN COMMITTEE

SUBJECT: Indonesia: Gresik Cement Plant Expansion

Attached for your review are the recommendations for authorization of a loan in an amount not to exceed \$6,300,000 to the Government of the Republic of Indonesia to assist in financing the foreign exchange costs of equipment, materials and services necessary for the expansion of the Gresik cement manufacturing plant located in East Java, Indonesia, to increase the rated annual production capacity from 375,000 metric tons to 500,000 metric tons of portland cement.

This loan proposal is scheduled for consideration by the Development Loan Staff Committee at a meeting in the near future.

Rachel C. Rogers
Assistant Secretary
Development Loan Committee

Attachments:

Summary and Recommendations
Project Analysis
ANNEXES I-IV

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REPUBLIC OF INDONESIA - P.N./P.T. SEMEN GRESIKCEMENT PLANT EXPANSIONSUMMARY AND RECOMMENDATIONS

A. BORROWER:

1. The Borrower is the Government of Indonesia (GOI).
2. The Sub-Borrower is P.N. Semen Gresik (Gresik), Gresik, East Java, Indonesia, a wholly owned Government Enterprise in liquidation, all of whose assets and liabilities will be transferred to P.T. Semen Gresik, a limited liability corporation.

B. LOAN:

1. Amount: Not more than U.S. \$6,300,000.
2. Terms:
 - a. U.S. Government to GOI: This will be a 40 year loan to the Government of Indonesia, with interest of 2% for the first 10 years, during which no amortization payments will be required; thereafter 3% interest for 30 years, during which time the loan will be fully amortized in level semi-annual installments of principal and interest, payable in U.S. dollars.
 - b. GOI to Gresik: The full amount will be reloaned to Gresik. Repayment will be in local currency (rupiahs) with maintenance of value for both principal and interest. The currency value (exchange rate) shall be determined by the B.E. rate prevailing at the date of payment or if not applicable, by the means set forth in the Loan Agreement. The loan will be for seven years, with interest at twelve percent. No amortization payments are required for the first two years. After this time their loan will be fully amortized in level semi-annual installments of principal and interest.

- C. TOTAL COST OF THE PROJECT: The total cost of the project is estimated to be equivalent of \$8.5 million of which the AID financed foreign exchange costs are \$6,300,000 and local currency costs (to be met by the Sub-Borrower) are the equivalent of \$2,200,000. ^{1/}

^{1/} The rate of rupiah (Rp.) per U.S. \$1 has varied widely. The rate of 326 Rp. per U.S. \$1, which corresponds to the Bonus Export rate (BE - the rate at which the GOI sells foreign exchange for importation of necessary commodities) from October 1968 to date, has been used throughout this paper except as otherwise noted.

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- D. DESCRIPTION OF THE PROJECT: This project provides for expansion of Gresik's existing 375,000 MT/Y design capacity cement plant located in East Java, by addition of a fourth kiln of 125,000 MT/Y capacity. The expansion would be accomplished by a turnkey contract.
- E. PURPOSE OF LOAN: To finance the U.S. dollar costs of imported equipment and engineering services required for this expansion project.
- F. BACKGROUND OF ACTIVITY: This proposed expansion is recommended in the October 1968 IBRD Appraisal Report, "Current Economic Position and Prospects of Indonesia," and is included in the current 5 year plan of the Government of Indonesia. A feasibility study for the expansion was conducted by Rust Engineering and recommended the plant expansion. The expanded plant output will directly substitute for imports in meeting Indonesia's increasing demand for cement, a substantial portion of which will be directed to roads, railway and other infrastructure development.
- G. ALTERNATE FINANCING: This project is recommended as part of the U.S. commitment under the Intergovernmental Group Program for Indonesia. Since the first 3 kilns were procured from the U.S., U.S. financial assistance for this project is a logical step. Exim Bank does not currently make loans or guaranties in excess of 1 year in Indonesia, and Exim clearance for AID participation has been received.
- H. ISSUES: None
- I. STATUTORY CRITERIA: This loan meets all statutory criteria. See Annex II
- J. MISSION AND EMBASSY VIEW: USAID and the country team recommend that the loan be made.
- K. RECOMMENDATIONS: Authorization of a loan to the Government of Indonesia, to be reloaned to P.N./P.T. Semen Gresik, in an amount not to exceed \$6,300,000 in accordance with the terms set forth in the proposed authorization attached as Annex III. An outline of Conditions Precedent and Covenants is set forth in Section VIII. I.

AID/W CAPITAL ASSISTANCE COMMITTEE MEMBERS:

Capital Assistance Officer and Committee Chairman	:	Howard B. Helman
Capital Assistance Advisor	:	Thomas E. Johnson
Engineer	:	Michael Ching
Desk Officer	:	Gerald Kamens
Counsel	:	Thomas Woodhouse

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USAID CAPITAL ASSISTANCE COMMITTEE MEMBERS:

Loan Officer	:	Paul Wenger
Technical	:	Dallas Fowler
Economic	:	Edmund Auchter
Financial	:	Charles Martin
Private Enterprise	:	Halsey L. Beemer

APPROVED BY:

USAID - Deputy Director	:	P. Victor Morgan
Embassy - Economic Counsellor	:	Edwin Segall

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June 6, 1969

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SECTION I - BACKGROUND AND HISTORY

The initial two-kiln plant was built by Morrison-Knudsen International Company and began operation July 1, 1957. The nominal capacity was 250,000 M.T. per year; and the project was financed partly by the Indonesian Government (for the Rupiah cost, labor, and local materials), and the balance in United States dollars by a \$14 million loan from the Export-Import Bank (for equipment, imported materials, engineering, supervision, and general contractor's fee). This Exim loan has been fully repaid.

The plant was expanded by the addition of a third kiln to a nominal capacity of 375,000 M.T. per year, operational on September 1, 1961, using the same contractor and financing arrangements (all but \$560,000 of the \$7.7 million Exim loan has been repaid as of March 31, 1969). During this expansion, space and some provision in the layout was made for the future fourth kiln.

The plant is owned and operated by a non-budget supported State enterprise, P.N. Semen Gresik, which is under the jurisdiction of the Directorate General of Chemical Industries. The GOI has expressed its intention to make non-budget supported State Enterprises more autonomous or to convert them into stock corporations (P.T.) wherein stock may be sold to the private sector. The application dated March 7, 1969, for the proposed \$6.3 million loan from the Minister of Finance states that P.N. Semen Gresik will be converted to P.T. Semen Gresik before July 1, 1969. (See discussion Section VIII A).

Since its inception, Gresik has been a successful operation, being well managed and producing high quality cement. Cement has exceeded standard for ASTM type 1, i.e., that cement exceeds minimum criteria for time for preliminary set and for strength development during the initial 28 days reaching full strength within this period. Gresik cement has been selling at a premium over imported cement. Regarding quantity of production, in 1959 and 1960 the original plant exceeded its nominal capacity, and in 1962 (after completion of the third kiln in late 1961) it exceeded its nominal three-kiln capacity. A decline from 1962 to 1966 was due to the policies of the Sukarno regime and was beyond the control of the plant. In this period they were not allowed to buy foreign exchange nor to use any part of their earnings for foreign exchange items. This meant that not only were they unable to get spares and repair parts but even normal operating supplies such as grinding media, mill liners, pump rotors, and proper refractories were unavailable. Since 1966, a different political climate has prevailed; and the plant has been authorized to spend up to \$1.5 million out of earnings each year for rehabilitation, spares and operating supplies. In 1967, they did not quite reach the \$1.5 million but did spend or commit over \$1.3 million out of earnings; they again used some \$1.2 million for 1968 for these purposes.

*The prefix P.N. indicates a state enterprise; P.T. indicates an autonomous stock corporation (which may be wholly Government owned). (See Page 2.)

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Production has been increasing from the low of 1966 and is continuing to improve. The rehabilitation program has been well implemented. Basic rehabilitation has been completed to the point where the plant is expected to reach full production capacity in 1969. Replacements and upgrading of equipment will continue, but we are confident that Gresik will achieve full production this year and that the plant will continue to be operated in an efficient manner.

A Feasibility Study for increase of production capacity to 500,000 M.T./year was prepared by Rust Engineering Co. in October 1968, and forms the basis for the planned expansion.

* (Continued from Page 1) We are advised by cable from USAID dated June 6, 1969; that conversion to P.T. status is technically incorrect. Rather, conversion will be to Persero, i.e., a special type of O.T. status wherein publicly-owned shares are held by the Government but are available for sale to private individuals. This technical distinction does not change the nature of any of the comments or procedures discussed in this paper.

SECTION II - THE BORROWER AND SUB-BORROWER

The Borrower will be the Government of Indonesia. The proceeds will be relaned to P.N. Semen Gresik. Prior to initial disbursement, P.N. Semen Gresik will be liquidated and all assets transferred to P.T.Semen Gresik (See Sec.VIII A).

The current management is experienced and capable, and this high level of competence will be retained. During the latter years of the Sukarno regime, the management showed considerable ingenuity in continuing plant operation without foreign exchange for replacement parts and operating supplies.

The management is composed of five Directors, including the President Director, six Department Managers, six Deputy Managers and six Staff Members. Of these, seven have had training in the U.S. and several have had training in other countries. The same management personnel are expected to continue under the new P.T. organization, whereunder they would be responsible only to its Board of Directors. The Gresik management is already preparing for such a situation by initiating plans for improved management through more equitable compensation, and better job classification and evaluation. It is also preparing to reduce the work force, which, with 848 production and maintenance employees and 792 non-production workers, is much too large. Due to the legal and social difficulties of dispensing with redundant workers, Gresik is carrying out this reduction largely through developing or encouraging small related industrial projects such as refractory brick and cement block manufacturing to absorb the surplus workers and, incidentally, provide sources of operating supplies and markets for cement.

Operating records are excellent, but accounting and financial records are in a confused state. [Technical assistance, financed under the loan, will be provided to establish simple, uniform and modern accounting and record keeping practices and to train Gresik employees in the techniques to be utilized.] An annual independent audit will also be conducted.

Gresik distributes cement through a network of independent distributors, both public and private sector. They are building a sophisticated sales promotion operation with demonstrated market increase in sales to the private sector (See Section IV D)

Although Gresik will be converted to an autonomous Stock Corporation, it will remain initially 100 percent Government owned. The decision to recommend A.I.D. assistance for expansion for a public sector corporation reflects a careful assessment of the political climate in Indonesia vis a vis transition

what were
from public to private ownership of/Government owned and controlled
industries. The judgment takes into account the following factors:

1. Gresik is one of the most successful state enterprises operating in Indonesia. Success among state owned manufacturing enterprises is particularly limited.
2. Increasing domestic cement production is an important element of the 5-year plan. Major increases in demand are projected for infrastructure development. Increasing domestic production will directly substitute for imports. The most rapid interim activity is expansion of existing Government owned facilities.
3. The project is an already planned for expansion of capacity which can be integrated with existing operations by proven competent management.
4. The GOI is looking to develop other cement projects with private sector, and foreign ownership participation. IFC has been asked by the GOI and Gresik to seek out a suitable partner for a new 400,000 M.T./year facility to be located near Djakarta. Gresik would probably participate in this facility, and may purchase its equity by exchange of stock. (See Section IV C.)
5. The GOI is cautiously moving toward the transition to private ownership of basic industries, has demonstrated an intent to make the transition, and has taken some decisive steps (for example, the revaluation of assets, the transfer to autonomous stock corporations, and the rationalization of business practices to basic financial criteria). However, there is considerable resistance remaining to transfer of important enterprises from State control, particularly to foreign companies. Precipitous action is not desirable. This project being expansion of an ongoing enterprise is perhaps less suitable than a new activity for insisting upon private participation and ownership.

SECTION III - TECHNICAL ANALYSIS

A. Description of Project

The project involves the expansion of Gresik's present facilities located near Surabaya, East Java, from an annual rated capacity of 375,000 metric tons to a minimum of 500,000 metric tons. The expansion includes the addition of a fourth wet process kiln and certain related facilities. The plant is located near the Strait of Madura and transportation is available by water, rail and highway. Sufficient reserves of the principal raw materials, limestone and clay, have been located near the plant. Electric power is generated in the plant; using diesel fuel. Bunker "C" oil is used for kiln fuel. Sufficient water is available for process and personnel use.

Rust Engineering Company, the consultant, estimated that the expansion would cost \$5.3 million for U.S. materials, equipment and services, a figure later revised to \$6.3 million (by Gresik and USAID and concurred in by Rust) to cover higher freight costs and additional materials and services, and 385 million rupiahs for local labor and materials, a figure also revised to 705 million rupiah (\$2.20 million equivalent) to cover handling charges and contingencies as well. Aside from engineering and construction services and personnel training, the principal items to be imported are a complete kiln and cooler facility, a finish grinding mill, a bridge crane, a diesel generator unit and a block for one of the old diesels, air compressors, pumps, agitators, tanks, piping, electrical equipment, laboratory testing equipment, spare parts, structural steel, corrugated asbestos roofing and siding, mining, construction, and transportation equipment.

B. Feasibility and Other Pertinent Studies

The principal document supporting this expansion project is "Gresik Cement Plant Expansion Feasibility Report" (Oct. 1968) prepared by Rust Engineering Co. This study recommends expansion of the facilities, identifies the items of equipment to be included and estimates their cost, reviews favorably the competence of the Gresik management, finds adequate proven raw material supply, supports Gresik's revaluation of its existing facilities, and concludes that the proposed expansion is financially viable.

Prior to the Rust study, Gresik had prepared the following pertinent reports:

1. Completion Program for the Gresik Plant of N.V. Pabrik Semen Gresik - October 16, 1958.
2. Report on the Provisional Results of the Limestone Deposit Re-evaluation of Gresik Cement State Enterprises. This report was later supplemented by a report entitled: "Brief Notes on the Limestone Deposits of the Gresik Cement Plant - July 3, 1968."

3. Gresik Cement State Enterprise.

4. List of Machineries and Equipment for the IVth Kiln Expansion.

These reports offer considerable background material and history of the Gresik Cement plant together with Gresik's evaluation of limestone reserves and the equipment required for the fourth kiln expansion. These reports were relied upon to a considerable extent by Rust in their evaluations.

C. Engineering Plan

The Engineering Plan for this project consists of three elements:
(1) preliminary engineering services prior to design and construction;
(2) contractor selection; and (3) design, construction and initial operation.

Gresik has indicated, and the project committee agrees, that the expansion be accomplished by a turnkey type contract. To accommodate this decision, careful preliminary engineering will be required in preparation of invitations for turnkey bidders (IFBs) so that satisfactory design and performance standards will be realized.

The A.I.D. loan will be used to finance the cost of equipment, materials and services having their source and origin in the U. S.

1. Preliminary Engineering Services

A consulting engineering firm would be hired to assist in selection of the turnkey contractor. A.I.D. will approve the contract for hiring the consultant.

The consultant would review the equipment and service requirements for the project; recommend pre-qualification, based upon solicited indications of interest, for turnkey bidders; prepare IFBs including performance requirements which set forth in detail equipment standards to be required (and submit the IFBs to Gresik and A.I.D. for approval); evaluate responsiveness of bids; and recommend award; and consult with Gresik as necessary throughout the period of project implementation.

2. Selection of the Turnkey Contractor

Turnkey contractor, as used throughout this paper, indicates that the contractor will be responsible for detailed design of buildings, structures, machinery and equipment layouts; the provision of all imported machinery, equipment, and materials; all engineering connected with the expansion

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project; utilization of labor and materials provided in kind by Gresik and purchase of additional labor and materials as needed, arrangements for training of Indonesian personnel as necessary, and construction, erection and startup.

The turnkey contract will have two special features:

(1) The contract will have a fixed dollar price, but local currency expenditures will be cost reimbursable. The consultant shall review the approval and may recommend minor modifications for A.I.D. approval in final review of the IFBs. This will require the consultant, in preparation of the IFBs, to carefully define how foreign exchange/local currency costs should be broken down. This will also permit the turnkey contractor to prepare reasonable price bids, since uncertainties relating to local labor and material supply would not need to be resolved in arriving at a dollar price.

(2) The turnkey contractor will be expected to utilize to the fullest practical extent local labor and material furnished by Gresik. However, to assure the contractor needed flexibility, he will be able to draw upon a local currency fund for local currency expenditures, and based upon reasonable criteria, will have discretion to reject all substandard labor and materials.

The procedure for selection of the turnkey contractor calls for:

(a) publication in the Commerce Business Daily, or similar source, of solicitation of indications of interest and statements of qualifications for turnkey bidders and invitation to equipment suppliers to provide information regarding equipment they desire to sell for use in the project;

(b) evaluation of the qualifications of firms or joint ventures and pre-qualification of turnkey bidders. This responsibility would probably be delegated by Gresik to the consultant, but Gresik and A.I.D. would approve the list of pre-qualified firms;

(c) issuance of IFBs to the prequalified bidders including performance requirements, instructions regarding separation of dollar and rupiah costs, and information received from equipment suppliers interested in selling equipment to be used in the expansion project. Certain equipment, most notably the kilns, generators, and agitation equipment for the slurry tank, are identical units in the existing plant. The equipment requirements will be reviewed by the consultant,

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who will recommend (1) a list of equipment items for which it will be desirable to duplicate items now in use in the other three kilns, and (2) a procedure for evaluating the bids taking into account the advantages of using duplicated equipment. A.I.D. will review this procedure as part of its approval of the IFBs. Pre-qualified bidders would be expected to make site inspections and work appraisal in evaluating the project, particularly with regard to Gresik's ability to make contributions in kind;

(d) evaluation of bids received as to responsiveness, and recommendation of award to the lowest responsive dollar price bid.

Since turnkey bidders will have been provided information regarding all equipment suppliers indicating interest in selling equipment to be used in this project, and since purchase of the equipment will have been included in the fixed dollar price based upon which the contract will be awarded, A.I.D. will not need to further review equipment procurement by the contractor.

3. Design, Construction and Initial Operation

A.I.D. approval will be required for the contract between Gresik and the turnkey contractor. USAID will monitor the project implementation.

D. The Cost of the Project

Rust Engineering Company made an estimate of the cost of the project, including separate estimates of the U.S. dollar and local currency requirements. In estimating the foreign exchange costs, prices for equipment and packing were obtained from manufacturers, and the costs for shipping and insurance from appropriate carriers. The cost for engineering and other services total \$1,054,748.00, including preliminary engineering services, detail design, engineering, procurement services, inspection and supervision of transport arrangements, construction and erection supervision, travel expenses and fees.

The cost estimate for the project has been increased from the estimate of the Feasibility Study of \$5.3 million foreign exchange and Rp 385 million (\$1.2 million equivalent) to \$6.3 million foreign exchange and Rp. 705 million (\$2.2 million equivalent). The increased cost items raising the total foreign exchange component by \$1 million are:

Freight (from \$233,000 to \$600,000) (based upon experience in the third kiln expansion)	\$367,000
New block for broken diesel engine (based on manufacturer's statement that the equipment did not warrant repair)	\$120,000
Laboratory equipment	\$100,000
Additional personnel training	\$ 75,000
Contingencies	\$280,000

Rust Engineering Company has accepted the validity of these increases.

Costs for local materials and costs and productivity for local labor were gathered from a number of sources in Indonesia, including the Gresik plant and local subcontractors and suppliers. The increase results from further analysis by Gresik and USAID and reflects a more realistic estimate of the extent to which Gresik will be able to provide local costs in kind. The revised local currency cost is well within the financial capacity of Gresik.

The U.S. dollar and rupiah costs, by major categories of expenditure are summarized in the following table:

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<u>I T E M</u>	<u>Furnished from U.S. Dollars</u>	<u>Furnished by GRESIK \$ equivalent (000)</u>
Direct Material & Equipment, including research lab equipment	3,032,188	
Local Materials		225
Freight & Shipping	600,000	
Local Stevedoring & Transportation		197
Spare parts, including new block for broken diesel engine	370,000	
Construction Equipment & Supplies	504,186	
-Local Rental of Construction Equipment		62
Engineering Costs	1,054,718	
Engineering, including fee	467,824	
Construction Management fee	145,000	
Salaries & Expenses, Field Supervision, Purchasing, etc.	310,684	
Computer Services	15,000	
Time & Expenses, Equipment Supervisors	60,240	
Travel Expenses	56,000	
Insurance	35,000	
Local Labor		659
Technical Advisor, Salary, Living Allowance, duty on personal effects		179
Local Office Facilities		51
Housing & Facilities for Transportation, Workmen		409
Land Purchases, Quarries, Housing		18
Dollar Cost Sub-Total	5,596,122	
Rupiah Cost Sub-Total		1,965 (1800) *
Dollar Contingencies, 5%	279,806	
Dollar Escalation, 6% (See Note on Rupiah Escalation)	352,555	
Rupiah Contingencies, 10%		197
Training Program in U.S.A. for Gresik staff & Engineers	100,000	
TOTALS	<u>\$6,328,483</u>	<u>2,162</u>

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* A Rupiah Escalation figure of approximately 36% net has been included in computing Rupiah costs.
 ** Local currency cost for engineering services is included in local currency items.

For purposes of comparison, the original two kiln plant required U.S. \$14,000,000 foreign exchange, while the third kiln cost U.S. \$7.7 million foreign exchange. The lower cost for this expansion is made possible, because the third kiln addition included costs for expansion of the facilities to accommodate this expansion, and because equipment in place is adequate to meet the planned expansion. In addition to the fourth kiln, a new bridge crane and increased generating capacity are the major new equipment items. The \$6.3 million figure has been reviewed by USAID and AID/W and is considered realistic.

E. Availability of Raw Materials

To the south and west and within 4 kilometers of the plant site are a number of isolated ridges composed of limestone formations. Following construction of the third kiln and consideration of the construction of a fourth kiln, the Gresik management was strongly conscious of the necessity of proving sufficient limestone reserves to justify further expansion. A preliminary survey was made in 1961 covering four ridge areas. A further reconnaissance survey was made by the Geological Survey of Bandung in 1966 which resulted in explicit recommendations for further exploration. Finally, a comprehensive program of exploration was initiated in April 1967 which included detailed geological and topographical mapping, systematic core drilling, chemical analyses of samples, determination of specific gravity and other physical properties, preparation of cross sections, and calculation of acceptable reserves. This program of exploration is still in progress but sufficient work has been completed to establish the fact that there are 19,600,000 metric tons of proven reserves which will supply the plant for 32 years at the rate of 500,000 metric tons of cement per year. In addition, there are 17,500,000 metric tons of probable reserves which would supply the plant for an additional 28 years.

Rust Engineering Company has examined the logs, profiles, tests and tonnage calculations of the Geological Survey and concurs in the above conclusions. It has also examined the nearby clay beds and concluded that the supply is virtually inexhaustible for this operation.

Other raw materials needed for cement production are relatively small quantities of silica sand, iron sand and gypsum. These materials need to be imported, but can be readily purchased locally at reasonable prices (as they have been in the past).

F. Technical Soundness

Having the operating results of the first three kilns, there is demonstration that the technical basis for proceeding with the fourth kiln is sound. Rust Engineering Company reviewed the past operating record, has made certain recommendations, and has found that past operations have been quite satisfactory.

The wet process presently being used in the existing three kilns has been satisfactory, although fuel consumption has been higher than normal. This is due primarily to the fact that the raw materials have properties which, when ground with water in the raw mills, provide a slurry which is highly viscous and can be pumped only if an excessive amount of water is used. The solution to this problem, suggested by Rust, is to add certain chemicals to the slurry to increase the pumpability with the use of less water. This would reduce the fuel consumption and increase the rate of production. Gresik has already done some experimenting along this line with at least a fair degree of success.

The possibility of adopting the dry process for the expansion in order to save fuel was investigated. It was found, however, that the nature of the limestone and clay raw materials was such that a dry process would create problems in handling as well as chemical analysis of the product. Furthermore, with the dry process all raw materials would require special drying and separate storage, conveying and grinding. The result would be an overall fuel consumption approaching that of a separate grinding, storage and conveying facilities.

The decision to expand by retaining the wet process and adding a fourth kiln, similar to but not necessarily the same as the existing three kilns, is sound. A survey of the existing plant indicated that additions to auxiliary and supporting facilities could be minimized by making full use of existing equipment and adding only those items which are required to balance the capacity for a four-kiln operation.

Based upon the foregoing, we conclude that substantive technical preparation necessary for all engineering and technical planning has been completed and that a reasonably firm estimate has been derived of the cost to the USG of providing such assistance.

G. U.S. Government Excess Property

Because this is a turnkey contract, Gresik shall not be required to utilize U.S. Government excess property. Section 4.8, A.I.D. Capital Project Guidelines (Borrower Procurement of Construction Services of U.S. Source and Origin -- M.O.1441.2) stipulates that a fixed price construction contractor shall not be required to avail itself (through the GOI) of U.S. Government excess property.

SECTION IV - ECONOMIC ANALYSIS

A. Relation of the Project to U.S. Objectives

This project will improve the foreign exchange position of Indonesia through import substitution, thereby improving prospects for monetary stabilization. It will result in rehabilitation and expansion of manufacturing facilities, and will make available raw materials essential to economic development. The project is recommended by IBRD in its October 1968 Appraisal Report, "Current Economic Position and Prospects in Indonesia," and is included in the GOI 5 year-plan.

B. Contribution to the Indonesian Economy

The project will:

1. save foreign exchange of about \$2 million per year through import substitution;
2. provide rehabilitation and expansion of domestic cement production capacity, thereby assisting to meet the substantially increasing projected demands for cement;
3. make possible expanded infrastructure, public works and private sector construction activities; and
4. provide job training and employment for a significant number of persons.
5. Generate substantial revenues and return on investment. (See Sec. V E). Also, the two step loan arrangement will provide a growing source of funds which the GOI may invest in infrastructure development.

C. The Cement Industry in Indonesia

Past records of national production and consumption are of little value, on one hand because of erratic production during the Sukarno regime, and on the other because of the use of large quantities of cement for construction of showplace facilities of little relation to the economy. In addition to Gresik, existing and foreseeable future expansion of facilities consists of the following:

1. Padang, a 120,000 MT/Y capacity plant built in 1910, suffered considerable war damage, but has been repaired and improvements have been made which will elevate production to 150,000 MT/Y. Potential modifications could elevate capacity to 220,000 MT/Y.
2. Tonasa, near Makassar, South Sulawesi, has recently gone on stream and is producing at its design capacity of 120,000 MT/Y. There are no current plans for expansion of this facility.

3. Tjibenong (Djakarta area), West Java. Based upon substantial limestone deposits, a planned facility of 800,000 MT/Y, in two stages of 400,000 MT/Y each is proposed, the first is supposed to be on line in 1972, but appears to be having substantial problems arranging financing. Only the first 400,000 MT/Y plant has been included in these projections.

With respect to Tjibenong, the GOI and Gresik have asked IFC to look into developing an investment package which would include IFC and a major cement company as investors. IFC is currently evaluating responses from several companies. GOI and probably Gresik participation is anticipated in the project. The conversion of Gresik to autonomous stock corporate status and the short repayment period for the proposed subloan would permit Gresik's participation to be accomplished by sale of Gresik stock. However, arrangements for Gresik's financial participation have not yet been formulated.

D. The Market for Cement

Current per capita cement usage in Indonesia is substantially lower than anywhere else in Asia. Domestic reserves of limestone are large, yet there are substantial annual imports of cement to supplement domestic production capacity. The effect upon cement production and consumption of the counterproductive economic policies of the prior administration have been noted. It provides little insight into needs for the future. Demand is growing, imports are substantial, and shortages obtain in the private sector. Consistent and concurrent with economic development, demands for cement are expected to keep pace with increase of the gross national product.

ASIAN CEMENT PRODUCTION PER CAPITA (In pounds)

Indonesia, 1966	7.3
Indonesia, 1975 (Projected Consumption)	30.9
Nationalist China, 1966	500.4
Hongkong, 1966	145.1
Japan, 1966	844.8
Malaysia, 1966	217.8
Philippines, 1966	614.9
South Korea, 1966	133.8
South Vietnam, 1966	38.8
Thailand, 1966	97.7

In the past, the Indonesian demand for cement has had to be satisfied to a substantial extent from imports. Current projections call for importation during 1969-71 of almost 30 percent of domestic requirements. With Gresik reaching full capacity operation (375,000 MT/Y) in 1969, total domestic

production will reach 650,000 metric tons. The expansion of Gresik to 500,000 MT/Y in 1971 will further substitute for importation, but demand will still substantially exceed domestic production. In 1972, if the projected new cement plant in West Java is completed, Indonesia will become almost self sufficient in cement. However, increased demand from 1973 onward will again make the country a substantial net importer.

These projections are based upon an annual increase in consumption of 14 percent, as set forth in the feasibility study, upon consideration of the present five year plan and of the IBRD Appraisal Report. This is based upon a projected level of domestic consumption of 845,000 metric tons in 1969, 80 percent of which demand will be in Java. Estimates for increasing public sector use of cement include rehabilitation of State railways, including railway ties, culverts and bridges, and of highway culverts and bridges, as well as a variety of public sector construction projects.

Export of cement from Indonesia is not considered likely in view of domestic needs, high Indonesian transportation costs, and competition from Japan and Taiwan. Therefore, the size of the plant has been carefully reviewed to determine whether there would be any excess capacity. Using the projections of the Feasibility Study, (see Table below), the only year in which domestic capacity nearly reaches domestic requirements is 1972 (assuming both the fourth Gresik Kiln and the 400,000 MT/Y plant near Djakarta are in full operation). Even if requirements were exceeded, increasing demands would quickly close the gap.

CEMENT IN INDONESIA, 1959 - 1978
(In Thousands of Metric Tons)

<u>Year</u>	<u>Domestic Production</u>	<u>Imports</u>	<u>Total Consumption</u>
1959	405	325	730
1960	395	140	535
1961	450	275	725
1962	500	160	660
1963	440	220	660
1964	440	180	620
1965	380	360	740
1966	325	165	490
1967	325	325	650
1968 Estimated	450	290	740
1969 Projected	650	195	845
1970 Projected	660	300	960
1971 Projected	775	325	1,100
1972 Projected	1,200	50	1,250
1973 Projected	1,225	200	1,425
1974 Projected	1,375	250	1,625
1975 Projected	1,375	480	1,855
1976 Projected	1,500	615	2,115
1977 Projected	1,500	910	2,410
1978 Projected	1,500	1,250	2,750

Gresik management has developed an excellent sales capability and a rapidly developing distribution system. Distribution is accomplished through a network of 12 distributors, six of whom have a permanent relationship with Gresik and six of whom are operating under temporary arrangements. The mix within each group includes both public and private sector trading companies, of which there are six of each. Demand for cement at the plant site has significantly exceeded production, and brief delays are common in meeting distribution requirements. More importantly, the distributors have demonstrated ability to move increasingly large amounts of output into the private sector, and the plant expansion will result in a larger proportion of plant capacity being utilized for private sector and non-budget supported State enterprises.

E. Competitive Aspects

1. Competition with Imports

Gresik distributes 94 percent of its output on the island of Java, with 36.1 percent being sold in the Djakarta area. Gresik maintains a 4,000 m.t. capacity warehouse facility in Djakarta, in which it stores cement for up to 30 days. Freight costs from Gresik to Djakarta are extremely high, currently about Rp. 177 (\$.54) per 50 kilo bag.

Gresik is able to compete, both as to quality and price, with imported cement in the Djakarta area, and in fact has continually commanded a premium over imported cement. Currently, the landed cost of imported cement varies from \$20.60 (Rp.6820) to \$30.70 (Rp 10,130) per ton depending upon quality and source, or Rp 310 to Rp 470 per 50 kg bag. Reports published by the Ministry of trade indicate that imported cement sells in Djakarta for Rp. 520 to Rp. 590 per 50 kg bag, while Gresik prices are Rp 670 to Rp 700.

The feasibility study shows the Gresik cost of production to be Rp 294.67 per 50 kg bag, sale price, including a profit of 20% of production cost, at Rp 435 per bag at plant site, and sales price including a profit of 10% of production cost, at Rp 568.48 per bag in Djakarta.* Thus, it appears that Gresik has a considerable margin of security in marketing its cement output in Djakarta, and of course, is significantly more competitive elsewhere in Java where imported cement becomes subjected to high freight costs.

A special problem would be presented by dumping of cement into Indonesia at costs significantly below current import levels. In addition to the existing margin, Gresik could reduce prices in Djakarta to some degree without incurring a loss, and could also readjust pricing policy, making higher profit margin

* Consultant's calculations were based upon Rp 300/\$1.

outside Djakarta to accommodate lower price sales in Djakarta. Given the current attitude of the GOI to stimulate its own production facilities and to protect internal industrial development, major cement dumping is not considered likely, and Gresik appears capable of meeting foreseeable disadvantageous import price fluctuation.

2. Competition with Domestically Produced Cement

With regard to competition with domestically produced cement, production costs are competitive with or lower than other domestic facilities. There will be competition from the 400,000 MT/Y facility scheduled to begin operation in the Djakarta area in 1972. Currently Gresik markets 36.1 percent of its output in this area. This plant may significantly alter the regional distribution pattern for Gresik sales, particularly as the country nears self sufficiency in 1972. Given the demonstrated effectiveness of Gresik's independent distributors, and the projected rate

of increase in domestic production, even if there should briefly be an imbalance, the increase in demand by 1974 at the latest would permit Gresik full operating freedom. More importantly, Gresik is likely to be an investor in the Djakarta facility and its overall operating efficiency would probably be enhanced by minimization of the major transportation expense for shipments to Djakarta.

F. Current Economic Developments

An evaluation of performance criteria and current economic developments was included in the Stabilization and Food Production Loan for Indonesia which was authorized in April 1969, and forms the basis for concluding that economic conditions warrant proceeding with this loan.

G. Debt Service Capacity

Indonesia's debt service burden continues to be extremely high in relation to present and prospective export earnings. At present, outstanding debt divided about equally between the free-world countries, including the U.S. and the Soviet Bloc, totals about \$2.9 billion. Tables 4 and 5 in Annex IV set forth Indonesia's debt profile as of June 30, 1968.

The substantial debt service has necessitated a rescheduling by U.S. and other free-world donors. In late 1966, agreement was reached with the U.S., France, Germany, Italy, Japan, Netherlands and U.K. to reschedule government or government-guaranteed term debt in excess of 180 days, owed as of June 30, 1966 and falling due by December 31, 1967 in the amount of \$243 million (of which \$51.3 million owed to the U.S.). Again in mid-October 1967, the free world creditors agreed to reschedule the same debt falling due during 1968 of \$94 million (of which \$22.7 million due the U.S.). And in October 1968, the 1969 debt of \$80 million (\$22.0 million owed the U.S.) was rescheduled by the western creditors.

The 1967 rescheduling terms provided for 100% principal and interest consolidation and repayment over an 8-year period commencing 1971. Five per cent of the rescheduled amount would be paid in 1971; 10% in 1972, 1973 and 1974; 15% in 1975, 1976 and 1977; and 20% in 1978. The consolidated principal and interest due in 1968 has been rescheduled by applying the same formula, starting in 1972 and 1973 through 1979. The same terms will apply to 1969.

The present rescheduling has left Indonesia with comfortable debt service ratio of 9% in 1968 (See Table 4, Annex II). It is clear, however, that future debt service requirements as a percent of exports continue to represent a most difficult situation. In the late 1970s, Indonesia's debt service ratio peaks at between 34% and 42% (1978) according to the assumptions employed in Table 4. This contrasts with estimates for India, where debt service as a percent of export projections peaks at about 42% in 1971.

Another result of the October 1968 meeting was a decision by the Western creditors to sponsor a study of long-term solutions for Indonesia's external debt. Herman Abs, Chairman of the Deutsche Bank Board of Directors, was selected to conduct a study which would examine the prospects for future Indonesian balance of payments and the problems arising for the country from the burden of external debt servicing. Mr. Abs accepted the assignment and the study is now in progress.

Despite the substantial debt service burden, it is possible that with foreign investment and development of Indonesia's mineral and other export potential, exports may rise more sharply than estimated, even under the most optimistic assumptions. It should be noted that in 1951 Indonesian exports totaled about \$1.2 billion at current prices. Although these exports (now projected for 1976) took place during the Korean War, they nevertheless reflect Indonesia's potential future export capacity.

Given Indonesia's very limited debt capacity, AID's softest terms -- 40 year maturity including a 10-year grace period, with interest of 2% per annum during the grace period and 3% per annum thereafter -- are appropriate. Other donors' assistance is generally being made available at DAC average terms -- 25-year maturity including a 7-year grace period and 3% interest per annum. The U.S. has continued to press for a further softening of these terms.

With these soft terms, particularly the 10-year grace period, the Indonesian potential for export expansion and the probable future rescheduling of the old debt, the repayment prospects for the proposed loan appear reasonable. Our assessment of Indonesia's repayment prospects is to be shared by other IGGI members.

SECTION V - FINANCIAL ANALYSISA. Alternate Sources of Financing

This project is recommended as part of the U.S. commitment under the Intergovernmental Group for Indonesia (IGGI) for multilateral assistance to Indonesia. Because the first three kilns were purchased and constructed with U.S. equipment, materials and engineering services, we have considered this project to be advantageous for U.S. financial assistance. IBRD which has been the leading spokesman for the IGGI in Indonesia has indicated its concurrence in AID financing for this project.

Exim Bank does not currently make loans or guaranties in excess of one year in Indonesia, and indication of non-interest in financing for this project was received from Exim Bank May 16, 1969.

B. Financial Requirements and Financial Plan

The total cost of the project is estimated to be U.S. \$8.5 million, of which U.S. \$6.3 million will be in foreign exchange and the equivalent of \$2.2 million will be in local currency (Rp. 705,000,000). The proposed loan from AID will provide the U.S. dollar foreign exchange costs, while all local currency requirements of the project and any dollar overruns will be met from Gresik's own resources. The loan will be made to the Government of Indonesia with U.S. dollar repayment over 40 years, including a ten-year grace period. Interest is to be charged at the rate of two percent during the first ten years, during which time no amortization payments are required, and at three percent for thirty years, during which period the loan will be fully amortized in level semi-annual installments of principal and interest.

The full amount of the AID loan will be reloaned to P. N. Semen Gresik, with repayment to the Government of Indonesia in Indonesian Rupiah with maintenance of value for both principal and interest. The currency value (exchange rate) for purposes of the maintenance of value provision shall be determined by the B. E. rate in effect on the date payment is due, or if such approach should become inapplicable upon the basis provided for in the AID standard loan provision. The reloan shall be for seven years with interest at twelve percent throughout. A grace period of two years shall be provided to cover the period of construction during which interest but no amortization payments are required. During the remaining five years, principal shall be fully amortized in level semi-annual installments of principal and interest.

The GOI has decided as a matter of policy to standardize internal development loan interest rates at 12%/year with maintenance of dollar value; grace and repayment periods will be varied to suit the conditions of the particular enterprise and project. This interest rate has been determined based upon the financial projections for the GOI 5 Year Plan (Repelita) and upon the current financial situation in Indonesia. The principal factor taken into account in arriving at this decision was an appraisal of the

opportunity cost for long-term financing in Indonesia. This is at best an estimate since there is no historical basis, due to past inflation, but being based upon planned investment and output goals is as realistic as can be reasonably expected. The grace/repayment terms were based upon:

1. The amounts supportable by the financial projections;
2. the decision to let Gresik depreciate the new equipment for tax purposes in only five years - this in turn ties in with;
3. the desire to have Gresik debt-free and ready for further expansion by the mid 1970's when new cement capacity will be needed.

These terms have been reviewed by USAID and are believed to be justified by, and consistent with, both current and projected future economic conditions in Indonesia.

C. Financial Structure of P.N./P.T. Semen Gresik

Current financial data for P.N. Semen Gresik appears in Annex 1. Along with the conversion to an autonomous stock corporation, the capital structure will be revised. The new capital structure and a pro forma balance sheet, income statement and cash flow for the expanded Gresik facility are shown in Annex 1.

The corporation will have net assets valued at \$19.8 million equivalent, plus the approximately \$8.5 million equivalent assets added by the proposed expansion. This value has been estimated by Gresik, concurred in by Rust Engineering Co. in the feasibility study and accepted in for all purposes including depreciation tax allowances. This evaluation was undertaken pursuant to specific instructions from President Soeharto and from the Director General of Chemical Industries. The only long term debt will be the \$6.3 million AID loan.

In effecting the conversion to autonomous stock corporate status, there will be revaluation and transfer of assets which will give rise to tax liabilities of the new corporation of approximately \$3.0 million equivalent. These will be capitalized as part of the GOI equity in the new corporation (GOI will initially have 100% stock ownership).

D. Reconstruction and Development Tax

The GOI executes a reconstruction and development tax upon State enterprises (P.N.). The tax is for 55% of profits of which proceeds are returned to the Government for use in the development budget. As the result of conversion of Gresik to an autonomous stock corporation (from P.N. to P.T. status), the reconstruction and development tax will no longer be applicable.

E. Financial Projections

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A condensed summary of financial condition is set forth below. It projects a sound financial condition and demonstrates that the reasonably evaluated earning power of the company will permit sufficient cash generation to meet rupiah requirements for expansion of the plant, and to repay the loan on the terms stated. In the financial projections no dividend payments have been assumed, and although it is likely that the GOI may wish to receive sizeable dividends, the financial projections demonstrate a high and continuing level of cash generation to meet current expenditures. During the repayment period of the subloan, current ratios are always in excess of 4/1 -- a result of the pricing policy discussed above. As Gresik is debt free, with the exception of the A.I.D. loan, all debt equity ratios are extremely favorable.

The following table presents Gresik's anticipated cash flow and capacity to service the 12%, 7 year loan from the GOI. Debt service is covered a minimum of 2.8 times.

Cash Flow and Debt Service Coverage
(Rp. 000,000)

	<u>1969</u>	<u>1970</u>	<u>1971</u>	<u>1972</u>	<u>1973</u>	<u>1974</u>	<u>1975</u>	<u>1976</u>
Net income before interest	382	488	573	587	540	479	401	468
Depreciation	505	505	800	1183	1204	1226	1310	1061
Cash flow	<u>887</u>	<u>993</u>	<u>1373</u>	<u>1770</u>	<u>1744</u>	<u>1705</u>	<u>1711</u>	<u>1529</u>
Interest	132	265	265	245	200	133	77	30
Amortization	---	---	173	368	412	478	517	257
Debt Service	<u>132</u>	<u>265</u>	<u>438</u>	<u>613</u>	<u>612</u>	<u>611</u>	<u>594</u>	<u>287</u>
Times earned	6.7	3.7	3.1	2.9	2.8	2.9	5.3	

Included in the financial projections as expenses are funds to be invested by Gresik in the Tjibenong Cement plant and the refractory project. These have been treated as expense items, except as otherwise indicated. The annual expenses are indicated in Annex I, item B(3).

1. Profitability of the expanded Gresik plant.

A crude measure of profitability for the expanded 4 kiln facility may be made by adding gross profit, depreciation, and invested capital (fund allocations for the Tjibenong Cement Plant and the refractory project), totalling these over the 12 years of the projections; subtracting from the total the \$8.5 million equivalent additional investment for the new facility and the \$19.8 million equivalent value of the existing facility at date of revaluation; and computing an average annual gross return as a percentage of the equity base.

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CONDENSED SUMMARY OF FINANCIAL CONDITION
(In Millions of U.S. Dollars)

	Pre- CONV.	Post- CONV.	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980
Current Assets	2.87	2.87	2.84	4.28	6.15	7.31	7.11	8.35	8.44	11.8	13.3	14.6	15.2
Other Assets	3.31	23.2	23.8	23.7	22.1	21.2	19.8	18.2	16.0	14.0	13.9	13.9	13.7
TOTAL ASSETS	6.19	26.2	26.5	28.1	28.3	28.7	27.0	26.6	24.6	25.7	27.2	28.6	28.8
Current Liabilities	.352	.352	.352	.352	.352	.352	.352	.352	.352	.352	.352	.352	.352
Current Liabilities													
Long Term Debt			.524	1.11	1.25	1.45	1.57	.779					
TOTAL CURRENT LIABILITIES	.352	.352	.860	1.46	1.60	1.77	1.92	1.13	.352	.352	.352	.352	.352
Other Liabilities 1/	2.99	2.99	2.99	2.99	2.99	2.99	2.99	2.99	2.99	2.99	2.99	2.99	2.99
Long Term Debt (AID)		3.34	6.04	5.04	3.80	2.34	.778						
TOTAL LIABILITIES	3.34	6.68	10.1	9.08	8.37	7.13	5.70	4.13	3.35	3.35	3.35	3.35	3.35
Net Worth	2.83	19.4	16.5	18.6	19.8	21.3	21.2	22.4	21.3	22.4	23.8	25.2	25.2
TOTAL REVENUE	5.88	9.70	9.70	11.6	12.8	12.8	12.8	12.8	12.8	12.8	12.8	12.8	12.8
TOTAL EXPENDITURE	4.76	9.05	8.94	9.72	11.7	11.8	11.8	11.9	11.4	10.9	11.0	11.1	11.1
Net Profit 2/	.113	7.07	.675	.931	1.04	1.03	1.05	9.8	1.33	1.89	1.81	1.72	1.71
TOTAL FUND SOURCES	3.42	3.42	3.21	5.18	6.16	6.21	6.34	6.14	6.51	6.56	6.56	6.51	6.20
TOTAL FUND APPLICATION	3.45	3.45	1.78	3.90	4.95	6.41	5.14	6.07	3.60	5.09	5.16	5.99	4.43
Balance	.303	.303	1.45	1.82	1.22	.20	1.20	.315	3.14	1.51	1.39	5.30	2.06
Cash Balance, Beginning	1.72	1.72	1.69	3.15	4.95	6.16	5.98	7.18	7.47	10.6	12.1	13.8	14.3
Cash Balance, Ending	3/1.69	1.69	3.15	4.95	6.16	5.97	7.16	7.47	10.8	12.1	13.8	14.6	16.4
Net Working Capital	2.52	2.52	1.97	2.83	4.50	5.52	5.20	7.16	8.19	11.4	12.9	14.6	15.0
Current Ratio	3/1	3/1	3/1	3/1	4/1	4/1	4/1	7/1	25/1				
Debt-Equity Ratio	4/	.17/1	.37/1	.27/1	.19/1	.11/1	.01/1						

- 1/ This figure is mainly composed of reserves, but since we do not know of what the reserves are composed, they have for conservatism been treated as a liability rather than a part of net worth.
- 2/ No benefit has been claimed for the tax relief that will be provided to the facility under the new Indonesian investment law.
- 3/ It has been assumed that no dividend payments have been made, but the substantial investments in the Tjibinong cement plant and the refractory project have been included as expense items.
- 4/ An exchange rate of Rp 350/\$1 has been used for the debt capital and overstates the debt cost by about 6%. The \$3.0 million equivalent equity, arising from tax obligations resulting from revaluation and transfer of assets for which stock will be issued, have not been included in these projections.

CONDENSED SUMMARY OF FINANCIAL CONDITION
(In Millions of Rupiah)

	Pre- CONV. 1968	Post- CONV. 1969	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980
Current Assets	947	947	937	1417	2017	2418	2352	2748	2852	3889	4385	4845	5020
Other Assets	1052	7686	7825	7841	7301	6985	6548	6029	5286	4601	4593	4591	4526
TOTAL ASSETS	2041	8632	8762	9258	9318	9403	8900	8777	8138	8490	8978	9436	9538
Current Liabilities	116	116	116	116	116	116	116	116	116	116	116	116	116
Current Liabilities for Term Debt			173	368	412	478	517	257					
TOTAL CURRENT LIABILITIES	116	116	289	484	528	584	633	373	116	116	116	116	116
Other Liabilities ^{1/}	990	990	990	990	990	990	990	990	990	990	990	990	990
Long Term Debt (AID)		1102	2032	1664	1252	774	257		990	990	990	990	990
TOTAL LIABILITIES	1106	2208	3311	3138	2770	2358	1880	1363	1106	1106	1106	1106	1106
Net Worth	935	6424	5451	6120	6548	7045	7020	7414	7032	7384	7872	8330	8432
TOTAL REVENUE	1946	3173	3173	3511	4231								
TOTAL EXPENDITURE	1572	2923	2950	3203	3889	3891	3885	3907	3793	3608	3634	3663	3666
Net Profit ^{2/}	374	250	223	308	342	340	346	324	438	623	597	568	565
TOTAL FUND SOURCES	1130	1130	1063	1569	2037	2054	2091	2120	2156	2176	2165	2154	2143
TOTAL FUND APPLICATION	1140	1140	583	969	1636	2120	1695	2016	1119	1680	1705	1979	1461
Balance:	(10)	(10)	480	600	401	(66)	396	104	1037	496	460	175	682
Cash Balance, Beginning	566	566	556	1036	1636	2037	1971	2367	2471	3508	4004	4564	4739
Cash Balance, Ending ^{3/}	556	556	1036	1636	2037	1971	2367	2471	3508	4004	4564	4739	5421
Net Working Capital	831	831	648	933	1489	1824	1719	2375	2736	3773	4269	4729	4904
Current Ratio	8/1	8/1	3/1	3/1	4/1	4/1	4/1	7/1	25/1				
Debt-Equity Ratio ^{4/}		.17/1	.37/1	.27/1	.19/1	.11/1	.01/1						

- ^{1/} This figure is mainly composed of reserves, but since we do not know of what the reserves are composed, they have for conservatism been treated as a liability rather than a part of net worth.
- ^{2/} No benefit has been claimed for the tax relief that will be provided to the facility under the new Indonesian investment law.
- ^{3/} It has been assumed that no dividend payments have been made, but the substantial investments in the Tjibinong cement plant and the refractory project have been included as expense items.
- ^{4/} An exchange rate of Rp 350/\$1 has been used for the debt capital and overstates the debt cost by about 6%. The \$3.0 million equivalent equity, arising from tax obligations resulting from revaluation and transfer of assets for which stock will be issued, have not been included in these projections.

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(Rp. 000,000)

	<u>1969</u>	<u>1970</u>	<u>1971</u>	<u>1972</u>	<u>1973</u>	<u>1974</u>
Gross profit	614	547	757	840	836	851
Depreciation	505	505	800	1183	1204	1226
Invested capital	<u>644</u>	<u>521</u>	<u>260</u>	<u>867</u>	<u>767</u>	<u>707</u>
Total	<u>1763</u>	<u>1573</u>	<u>1817</u>	<u>2890</u>	<u>2807</u>	<u>2784</u>
	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>
Gross profit	796	1081	1544	1479	1405	1398
Depreciation	1310	1061	618	672	735	730
Invested capital	<u>567</u>	<u>376</u>	<u>610</u>	<u>670</u>	<u>670</u>	<u>610</u>
Total	<u>2673</u>	<u>2510</u>	<u>2772</u>	<u>2821</u>	<u>2810</u>	<u>2738</u>

The margin of revenues over operating expenses for the 12 year period of the projections is Rp.29,966,000,000 including the reinvestment expenses, and Rp.22,707,000,000 excluding the reinvestment expenses. From these figures is deducted Rp. 2,915,000,000 (\$8.5 million equivalent, with the \$6.3 million A.I.D. loan converted at Rp.350/\$1) plus Rp.6,200,000,000 book value of the existing facility (this corresponds to the replacement cost of the entire facility taken over a 10-12 year service life). The corresponding figures are Rp.20,851,000,000 and Rp.13,592,000,000. The average annual increase in gross return is 1/12 of these figures, or Rp.1,738,000,000 and Rp.1,133,000,000, respectively. The equity base includes Rp.6,200,000,000 original assets and Rp.705,000,000 added equity (corresponding to the local currency cost of the expansion project). This definition excludes the approximately \$3 million equivalent tax obligations resulting from revaluation and transfer of assets which the GOI will receive as equity. The corresponding rates of return are 25 and 16 percent respectively. These figures are somewhat higher than would be realized on a discounted basis, because they do not take into account the effect of the lower profit levels during the first three years of the projections upon a properly weighted average. The return is considered adequate to demonstrate the sound financial condition of Gresik as an on-going and suitably profitable operation.

2. Rate of return on the expansion project.

The profitability derived above does not provide a measure of return on the proposed investment. The overall projections are for a four kiln plant, of which the initial three kiln facility is debt free. Also, use of accelerated depreciation and the short loan repayment schedule complicate calculation of an effective rate of return on the capital invested in the expansion project, i.e., direct rate of return from the expansion.

Therefore, it is proposed to measure the rate of return for the expansion project by comparing the increase in gross return (gross income, depreciation, and interest expense) with the total investment on a present worth basis.

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The attached table permits computation of the gross return for three and four kiln operation.* Referring to the 1968 profit and loss statement (Annex I, item A(2)), we see that manufacturing cost is approximately 70% of total sales cost, with administrative and related costs the remaining 30%. As a simplifying assumption, 70% of total sales costs will be considered to vary directly in proportion to plant output, and the remaining 30% of sales costs will be considered to be fixed, regardless of output. Thus, attributed total sales cost for the existing 3-kiln component of the expanded project will be 82.5% of the total sales cost. (This is a conservative assumption; economies of scale are likely to be larger, as is evidenced by comparing the 1969 figures in the table with those for 1971-1980.)

On this basis, incremental revenue for the fourth kiln addition is Rp. 1,058,000,000. Incremental sales expense, attributed to the fourth kiln operation is Rp. 364,000,000; leaving an ^{average annual} increase in gross profit of about Rp. 689,000,000 for years 1971-1980; adding in depreciation and interest, we arrive at an annual gross return on funds invested in the expansion project as shown in the attached table. Comparing these annual returns with the total invested capital on a present worth basis (discounted cash flow), the following equation results:

At interest rate (x), the present worth of the sum of each annual gross return = Rp. 2,915,000,000 (the total investment in the expansion project).

The rate of return thus computed is about 28%.

Considering the substantial benefits to the economy noted in Section IV B, and the substantial return calculated above, there is justification for considering this a financially viable project.

* To facilitate the computation, a year beginning July 1 has been used, and adjustments have been accomplished by addition of 1/2 of the calendar year figures for the two related calendar years. Two further simplifying assumptions are: (1) two years following initial disbursement, revenues increase immediately to the full four kiln level (this overstates revenue for the period of July through December 1971, during which time there is a gradual increase in production), and (2) all funds to be invested in the expansion are disbursed on July 1, 1969 (this overstates the present worth of the investment, and offsets the first assumption).

Computation of Gross Return

(Rp.000,000)

<u>Year beginning July 1</u> * <u>1969</u>	<u>1970</u>	<u>1971</u>	<u>1972</u>	<u>1973</u>	<u>1974</u>	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>	
Total Revenue	3173	3173	4231	4231	4231	4231	4231	4231	4231	4231	4231	
Revenue Attributed 3 kilns	3173	3173	3173	3173	3173	3173	3173	3173	3173	3173	3173	
Increase in revenue	----	----	1058	1058	1058	1058	1058	1058	1058	1058	1058	
Total Sales Expense 4 kilns	2087	2038	2081	2199	2173	2139	2107	2079	2075	2085	2097	2078**
Sales expense attributed 3 kilns	2087	2038	1717	1814	1793	1765	1738	1715	1712	1720	1730	1714
Sales expense attributed Fourth kiln	----	----	364	385	380	374	369	364	363	365	367	364
Increase in gross profit	----	----	694	673	678	684	689	694	695	693	691	694
Interest expense for expansion	265	265	255	223	167	110	54	----	----	----	----	----
Depreciation for expansion	----	----	593	593	593	593	593	----	----	----	----	----
Gross return	265	265	1542	1489	1438	1387	1336	694	695	693	691	694

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* Figures are adjusted to July 1 years by addition of half of figures of two related calendar years.
 ** Half of the figure for year 1969 has been used.

F. Effect of Inflation Upon Financial Projections

Since sales prices could generally be adjusted to inflationary increases, the financial projections should not be sensitive to inflationary pressures. The consultant's analysis indicates that a significant portion of the costs tend to be for domestically available materials and for labor. These elements, as cash flow items, tend to be self adjusting with regard to fluctuations in currency valuation. By contrast, the dollar costs, principally for capital equipment, are invariant with regard to the competitive landed cost of imported cement. Thus, the only substantial risk would be that of severe internal inflation coupled with maintenance of an artificially low exchange rate, which would give imports a competitive advantage. However, both the GOI commitment to a more or less market-determined exchange rate and their willingness to protect at least the more efficient segments of domestic industry minimize any such risk.

The consultant considered all costs relating to production to be rupiah expenses except the following:

Raw material and repair parts (total)	50%
Operating Supplies	40%
Freight and duty on parts and supplies	10%
Gypsum	100%
Paper bags	100%
Debt Service	100%

This provides a range of roughly 40-50% of total production costs as foreign currency denominated costs and the balance as rupiah denominated costs. USAID concludes that about 16 percent of manufacturing cost for cement, exclusive of debt service expense is foreign exchange cost. These estimates are roughly consistent (the high percentage of operating costs attributable to debt service results from the short repayment schedule for the subloan).

The cost of imported inputs to production and management will be direct foreign exchange costs. Debt service will be directly proportional to the foreign currency exchange (BE) rate. Competition from imported cement will also be a direct foreign exchange parameter. These costs will all be taken to vary directly in proportion to the foreign exchange rate. All other costs will be taken to be fixed in rupiah terms, regardless of the exchange rate. (This last assumption results in a simplistic model because as the rupiah rapidly declines in value, the cost of all goods and services tends to rise.)

On this basis, as the rupiah declines in value, 40-50% of the cost of production will be fixed as a dollar amount. The remaining 50-60% will decrease as cost items proportioned to the rate of decrease in value of the rupiah. This simplified model indicates that absent a major distortion of the economy caused by political or economic instability, inflation intends to improve the competitive position of Gresik vis a vis imported cement. Both USAID and Rust * prepared analyses using this Model, and both achieved these favorable results. Only Rust used a very high rate of inflation (100% per year), which while not higher than the actual rate in 1965-1967 is higher than is reasonably anticipated for the foreseeable future. The Rust analysis showed a strong negative effect resulting from interest during construction and from debt service at time of initial startup, but following startup, added revenues more than offset the debt service burden. The debt service burden is not the most serious concern, since in the event of major inflation, the GOI could soften the subloan terms or extend the loan repayment period to one more consistent with the 12 year plant life assumed in this paper as generally consistent with commercial practice.

More significant is the problem of possible GOI attempts to retain low prices through imports or subsidies in the event of major inflation, to prevent further deterioration in value of cash income. This question has been reviewed and we have concluded that consistent with the economic performance to date and the IMF standby agreements, there is reasonable basis to conclude that this will not occur.

There is also the possibility that demand would substantially decline as the result of major price inflation, and thus adversely affect plant capacity and unit cost of production. Such effect is likely to be temporary and, given the substantial portion of annual demand which must be met from imports of cement, is not considered significant.

SECTION VI - IMPACT ON U.S. BALANCE OF PAYMENTS

The impact of subject loan on the U.S. balance of payments will be favorable, not merely in the fact that the entire proceeds of the loan will be spent for U.S. goods and services but in the fact that follow-up orders for U.S. spare parts, equipment and materials will result in additional U.S. exports on a commercial basis; the projected total applicable to the facility financed by this loan is approximately \$25,000 per year. None of Gresik's cement is presently expected to be exported from Indonesia in competition with U.S. cement and in view of the high transportation costs no U.S. cement is or could be expected to be imported into Indonesia.

* The consultant used 10 year repayment, 10 percent interest.

SECTION VII - PRE-LOAN SURVEY BY AUDIT DIVISION

During the first three weeks of May, a pre-loan survey was conducted by the Audit Division, Office of the Controller, A.I.D./W. Their report was sent to AA/EA, May 26, 1969. The report contains several specific recommendations regarding implementation of the project, and these are currently being reviewed by the East Asia Bureau.

On the whole, the report recommended favorably upon the project, and there are no points raised in the report which would necessitate delay in proceeding with authorization of this loan.

SECTION VII - IMPLEMENTATION PLAN

A. Activities Prior to Initial Disbursement

The principal activities which must be accomplished before funds will be disbursed for preliminary engineering services are:

1. Conversion of Gresik to autonomous corporate status, and consistent therewith non-application of the Reconstruction and Development Tax; and
2. provision of a sound financial structure for P.T. Semen Gresik.

The application from the Minister of Finance states that conversion to P.T. status will be accomplished before July 1, 1969, but the conversion has not yet taken place. A letter from the Minister of Justice dated June 6, 1969, indicates that legislative ratification is not necessary for conversion of Gresik from P.N. to P.T. status once Decree Number One of 1969 which sets up new shorter procedures for new enterprise to P.T. status becomes effective. However, legislative ratification is required for Decree Number One. USAID advised by cable dated June 6, 1969 that the Parliament will consider legislative ratification during the forthcoming session which will end in mid-July. USAID confidently expects favorable legislative action during this session. They have further indicated that an alternative procedure is available which would not require legislative ratification, but that two to three months would be required for its completion. In view of the clearly stated intention of the GOI to make the conversion, and since procedure for conversion has now been clarified, there is reasonable assurance that the conversion can and will be accomplished in time for the orderly implementation of the project. Under these circumstances we have urged that the conversion be made a condition precedent to the initial disbursement, and we are in agreement.

The plan for financial organization has been explained, and the reorganization would be concurrent with the conversion.

B. Activities to be Accomplished Prior to Disbursement for Other than Preliminary Engineering Services

The principal activities to be completed prior to design and construction of the plant expansion are:

1. Selection of the turnkey contractor and execution of the turnkey contract;
2. establishment of a local currency reserve fund upon which the contractor may draw for local currency costs, and which will be continually replenished by Gresik; and
3. submission of plans for provision of local labor and materials and for maintenance of accounts and records and preparation of periodic financial statements and reports. The latter plan will include utilization of technical assistance in management, accounting and record keeping.

Conditions Precedent and Covenants are individually outlined in Part I of this section.

C. Timetable for Implementation of the Project

<u>A C T I O N</u>	<u>D A T E</u>
Sign Loan Agreement	July 1969
Fulfill CPs to initial disbursement	July 1969
Select consultant	August 1969
Solicit statement of interest	September 1969
Prepare list of prequalified firms	October 1969
Invite proposals	October 1969
Receive proposals	January 1970
Recommend award	February 1970
Approve award	March 1970
Fulfill CP's to construction disbursements	March 1970
Design	April-July 1970
Order equipment	June-September 1970
Begin construction	September 1970
Complete construction	December 1971
Begin test runs	December 1971
Project accepted	January 1972

D. Terminal Dates for Conditions Precedent and for Disbursements

1. CPs to initial disbursement - 4 months after signing of loan Agreement.
2. CPs to construction disbursement - 9 months after signing of Loan Agreement.
3. Terminal date for requests for commitment documents - 36 months after signing of Loan Agreement.
4. Terminal date for disbursements - 42 months after signing of Loan Agreement.

E. Division of Authority Between AID/W and USAID

AID/W approval will be required for Conditions Precedent to initial disbursement relating to the conversion to P.T. status and to the financial reorganization, to the contract with the consultant, and for all legal opinions.

AID/W approval will be required for Conditions Precedent for other than preliminary engineering services relating to selection of the turnkey contractor and approval of the final contract, to the establishment of, and to operating restrictions on the reserve account for local currency, and to the plans for provision of local labor and materials and for maintenance of accounts and records and for preparation of periodic financial statements and reports (to the extent that loan financed technical assistance will be utilized).

USAID will have basic responsibility for monitoring loan implementation and for enforcement of loan provisions, but will consult with AID/W regarding implementation problems.

F. Local Currency Support

Gresik shall establish a reserve fund for local currency expenditures, and shall continually maintain the fund at the required minimum level. The level will be set at 20 percent of the local currency cost of the project, and replenishments would be to 20 percent of the remaining local currency costs of the project, or at such other level as AID shall agree to in writing.

A high level is not considered advisable because of the high cost of money in Indonesia and because of Gresik's demonstrated ability to generate sufficient local currency from operating revenues for replenishment of the fund.

In addition to this requirement, the GOI will covenant to make foreign exchange available in the event of cost overruns and to continue to make foreign exchange available as necessary for repair and replacement parts.

Gresik will covenant to purchase all foreign exchange necessary for project completion and for conduct of a sound maintenance program.

G. Financial Ratios and Related Provisions

Certain financial ratios and restrictions have been established (see Part I this section) limiting the debt equity ratio, restricting payment of dividends, and requiring AID approval for further long term indebtedness. The ratios have been selected based upon other similar projects. In view of the high net worth of the reorganized corporation and of the favorable financial projections, these ratios should present no problem to Gresik.

The restriction against new long term indebtedness by Gresik without prior AID approval raises a concern, in that Gresik contemplates investing Rp. 640 million (\$1.96 million equivalent) during 1969-72 in the Tjitenong Cement Plant (near Djakarta) and Rp. 145 million (\$.45 million equivalent) during 1969-71 in a refractories project. It is desirable to make a preliminary determination (agreement in principal) to their participation in these projects. Since the latter of these activities would directly serve the Gresik facility (see Section II.) and since the former would result in a more efficient sales pattern (see Section IV) we would concur in Gresik's participation subject to reasonable financial limitations and project viability.

H. Use of Subloan Repayment Proceeds

The rupiah repayments from Gresik to the GOI will be put into a Special Account to be used with AID concurrence for local costs of projects contained in the GOI development budget. Priority would be given to support of local currency expenditures of AID financed projects.

I. Outline of Conditions Precedent and Covenants

1. Conditions Precedent to initial disbursement

a. Legal opinion from Minister of Justice and from Gresik's principal legal officer indicating that:

(1) loan has been duly authorized and ratified and is of binding effect.

(2) the conversion action taken is validly completed, and that reconstruction and development tax is not applicable.

b. Evidence of the completed conversion.

c. Evidence of a completed, satisfactory, revised financial structure for P.T. Semen Gresik.

d. A satisfactory contract with a consultant for preliminary engineering services; and

e. The names and specimen signatures of authorized representatives of GOI and Gresik.

f. A sub-loan agreement between the GOI and Gresik, satisfactory to A.I.D

2. Conditions Precedent to disbursement for other than preliminary engineering services.

a. A satisfactory contract for turnkey construction of the plant expansion and evidence that contractor selection has been in compliance with the AID capital project guidelines and the procedures set forth in Section III, herein.

b. Evidence of establishment of a reserve account in rupiah to be made available to the contractor for local currency costs in an amount equal to twenty percent of the estimated local currency costs of the project, or of such other amount as AID shall agree to in writing, and of a plan for continual replenishment of this account.

c. A plan for provision of all local labor and materials for the project; and

d. Evidence that an adequate supply of spare and replacement parts has been procured, and that the current operating budget includes provision of foreign exchange required for support of the plant.

e. A plan for maintenance of accounts and records and for preparation of periodic financial statements and reports, including utilization of loan funded technical assistance, and providing for independent annual audit.

3. Particular Covenants

a. GOI Covenants

(1) make available for rupiah at the appropriate rate of exchange any foreign exchange required by Gresik for the completion and operation of the project or for procurement of spare and replacement parts.

(2) take no action that would affect adversely and discriminatorily affect the status of Gresik as an autonomous corporation with limited liability, nor omit to take any action necessary to continue Gresik in such status, and not subject Gresik to any discriminatory tax or other discriminatory assessments or charges.

(3) permit Gresik to increase paid in capital as may be required to maintain a debt equity ratio of at least 2 to 1.

b. Gresik Covenants

(1) become and remain so long as any part of the loan is outstanding a limited liability enterprise with full corporate autonomy;

(2) carry out the project with due diligence and efficiency, and in conformity with sound engineering, construction, financial, administrative and management practices;

(3) cause the project to be carried out in conformity with all of the plans, specifications, contracts, schedules and other arrangements,

(4) adequately maintain, repair and operate its facilities in accordance with sound commercial practices, and make available funds necessary for the purchase of such foreign exchange as may be required therefor;

(5) maintain the reserve account at a level at all times equal to at least twenty percent (20%) of the estimated remaining local currency costs of the project or such other level as may be agreed to by AID in writing;

(6) adjust prices of its cement as marketing conditions permit in order to provide adequate revenue margins;

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- (7) provide funds required for the completion and operation of the project over and above the proceeds of the loan provided for herein.
- (8) maintain a ratio of current assets to current liabilities of not less than 1.5 to 1, and a ratio of debt to equity of not more than 2 to 1; and
- (9) if at any time the ratio of debt to equity exceeds 2 to 1, promptly increase paid-in capital by an amount sufficient to reduce such ratio to 2 to 1 or less;
- (10) not incur or have outstanding any long-term indebtedness (maturing in more than one year from the date incurred), without prior AID approval;
- (11) not substantially change the nature of its business;
- (12) not sell, transfer, lease, or otherwise dispose of all or a substantial part of its capital assets or undertake any merger or consolidation;
- (13) not purchase or redeem any shares of its capital stock;
- (14) not declare or pay any dividend, or make any other distribution on capital stock unless after payment of such dividend or such distribution the ratio of current assets to current liabilities is not less than 1.5 to 1 and the ratio of debt to equity is not more than 2 to 1; provided that dividends will be limited to revenues earned subsequent to becoming a limited liability enterprise with full corporate autonomy.
- (15) not amend its certificate of incorporation;
- (16) not acquire or establish any subsidiary;
- (17) not invest in, extend loans to or guarantee obligations of any person, corporation or other entity, except for advances to suppliers or credit to customers in the ordinary course of business; or
- (18) not incur expenditures for fixed or other non-current assets, other than as required to carry out the project or in the ordinary course of business.

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ANNEX I

FINANCIAL STATEMENTS

A. Current Statements

1. Balance Sheet
2. Profit & Loss
3. Pro forma Balance Sheet for Conversion

B. Projected Financial Statements

1. Profit & Loss Statement
2. Cash Flow
3. Reinvestment Progress, Depreciation
and Investment Plan

P.R. SMOKE CRESSIK

ANNEX I
A - Current Statements
1 - Balance Sheets

P.R. SMOKE CRESSIK

1968

NUMBER	DISCRIPTION	TOTAL	NUMBER	DISCRIPTION	TOTAL
1.	Cash	1Rp. 3,575,892,54	1.	Capital	1Rp. 101,000,--
2.	Bank	562,126,839,01	2.	Reserve	
3.	Receivables	300,803,652,85		Depreciation*	47,023,707,00
4.	Inventories			Other Reserve	923,553,015,79
	Spare Parts	678,613,338,29	3.	Advances Received on contracts	66,799,113,22
	Operating Supplies	180,996,558,68	4.	Payable	
	Cement & Clinker	77,550,507,09		Taxes	39,719,432,88
5.	P. Assets			Other paybles	76,013,036,92
	Land	3,927,666,04		Profit	975,099,040,53
	Factory Bld. & Machine	105,444,179,95			
	Building	32,344,214,68			
	Other P Assets	57,728,335,52			
	(Depreciation)*	41,825,707,91			
		1Rp. 3,033,114,184,85			1Rp. 2,041,285,476,94
		2,041,285,476,94			2,041,285,476,94

* Depreciation has been moved to the asset side of the account to conform to standard accounting practice.

Cressik, 9 May 1969

P.R. SMOKE CRESSIK

[Signature]
- RICHARD -
Chief accountant.

PROFIT & LOSS STATEMENT

1968
(Rp.000.000.-)

	1968
Production m/t	304.000
<u>Manufacturing Cost</u>	
1. Materials & Repair Repl. Parts	85
2. Operating & Repair Labor	22
3. Operating Supplies/Raw Mat	57
4. Freight & Duties on Part Supplies	104
5. G y p s u n	55
6. Kiln Fuel	203
7. Power Fuel	57
8. Bin Cost	583
9. Paper Bags	107
10. Packing and Loading	16
11. Cement & Bags Cost	706
<u>Administrations Health & Welfare -</u>	
<u>General.</u>	
12. Salaries	27
13. Equipment Operation	49
14. Part & Supplies	18
15. Housing	24
16. Men's Food, Kerosine	124
17. Power	6
18. Insurance	4
19. Depreciation	22
20. Interest on loan	-
21. General Expende	54
22. General Cost	328
23. Total Cost	1034
24. Net Receipt from Sales	1946
25. Less Cost	1034
26. Margin	912
27. Funds and other income	23
28. Gross Profit before tax	935
29. Corporate income tax	561
30. Net Profit	374

Exchange rate (Average)

Rp 290 = \$1

Gresik, 8 M e 1 1 9 6 9.-

P.N. SEMEN GRESIK
 PRO FORMA BALANCE SHEET
 AS AT JANUARY 1, 1969

		Rupiah (000,000)		
		Actual Dec 31, 1968	Revaluation & Closing Est.	Proforma Jan. 1, 1969
1	ASSETS			
2	CASH	566		566
3	RECEIVABLES	381		381
4	INVENTORIES			
5	Spares parts	679	302	987
6	Operating Supplies	181	166	347
7	Cement & Clinker	77	-	77
8	INVESTMENTS			
9	Land	4	377	381
10	Factory Bld & Mach	105	4888	4993
11	Housing	32	576	608
12	Other Fixed Assets	58	277	335
13				
14	TOTAL ASSETS	2,223	6,592	8,675
15				
16				
17				
18	LIABILITIES & NET WORTH			
19	CAPITAL			7,224
20	PAID-UP	0		
21	Revaluation		6,592	-
22	Unearned		702	-
23	RESERVES			
24	EXPANSION	132	684	776
25	GENERAL	10	68	78
26	CONTRACT ADVANCES	67	-	67
27	INVENTORY GAIN	702	(702)	-
28	Reconstruction & Development Fund	72	16	88
29	Other	49	37	86
30	PAYABLES			
31	TAXES, SALES	40		40
32	OTHER	76		76
33	CORPORATION TAX		170	170
34	PROFIT	935	(935)	-
35				
36				
37	TOTAL LIABILITIES & NET WORTH	2,223	6,592	8,675

By 000,000,--
LARS

	1969	1970	1971	1972	1973
Production m/t	375,000	375,000	415,000 ^F	500,000	500,000
Manufacturing Cost					
1. Material & Repair Repl. Part	370 ^A	327 ^A	172	215	215
2. Operating & Repair Labor	94	101	109	118	127
3. Operating Supplies/Faw Mat	113	113	124	149	149
4. Freight & Duties on Part Supplies	231 ^A	208 ^A	103	129	129
5. G y p s u m	80	80	86	106	106
6. Kiln Fuel	335	335	368	442	442
7. Power Fuel	124	124	136	163	163
8. Bin - Cost	1,347	1,268	1,100	1,322	1,331
9. Paper Bags	172	172	189	227	227
10. Packing and Loading	9	9	10	12	12
11. Cement & Bag Cost	1,528	1,469	1,299	1,561	1,570
Administration Health & Welfare - General					
12. Salaries ^B	80	86	93	100	108
13. Equipment Operation	57 ^A	46	46	46	46
14. Parts & Supplies	11	11	11	11	11
15. Housing	47	47	47	47	55
16. Meals, Food, Kerosene ^B	126	126	129	132	135
17. Power ^B	3	3	3	3	3
18. Insurance	17 ^C	15 ^C	8	10	10
19. Depreciation ^D	505	505	800	1183	1204
20. Interest on Loan ²⁾	132 ^E	265	265	245	200
21. General Expense	53	53	53	53	53
22. General Cost	1,031	1,157	1,455	1,830	1,825
23. Total Cost	2,559	2,626	2,754	3,391	3,395
24. Cement per Bag	341,20	350,11	331,83	339,10	339,5
25. Net Receipt from sales ^C	3,173	3,173	3,511	4,231	4,231
26. Loan Cost	2,559	2,626	2,754	3,391	3,395
27. Margin	614	547	757	840	836
28. Funds and other income	11	11	12	14	14
29. Gross Profit before tax	625	558	769	854	850
30. Corporate income tax ^H	375	335	461	512	510
31. Net Profit	250	223	308	342	340

	1974	1975	1976	1977	1978	1979	1980
Production m/t	500,000	500,000	500,000	500,000	500,000	500,000	500,000
1. Material & Repair Repl. Part	215	215	215	215	215	215	215
2. Operating & Repair Labor	137	140	144	147	151	155	159
3. Operating Supplies/Faw Mat	149	149	149	149	149	149	149
4. Freight & Duties on Part Supplies	129	129	129	129	129	129	129
5. G y p s u m	106	106	106	106	106	106	106
6. Kiln Fuel	442	442	442	442	442	442	442
7. Power Fuel	163	163	163	163	163	163	163
8. Bin - Cost	1,341	1,344	1,348	1,351	1,355	1,359	1,363
9. Paper Bags	227	227	227	227	227	227	227
10. Packing and Loading	12	12	12	12	12	12	12
11. Cement & Bag Cost	1,580	1,583	1,587	1,590	1,594	1,598	1,602
12. Salaries ^B	117	120	123	126	129	132	135
13. Equipment Operation	46	46	46	46	46	46	46
14. Parts & Supplies	11	11	11	11	11	11	11
15. Housing	63	81	81	81	81	81	81
16. Meals, Food, Kerosene ^B	138	141	145	149	153	157	161
17. Power ^B	3	3	3	3	3	3	3
18. Insurance	10	10	10	10	10	10	10
19. Depreciation ^D	1226	1310	1061	618	672	735	730
20. Interest on Loan ²⁾	133	77	30	—	—	—	—
21. General Expense	53	53	53	53	53	53	53
22. General Cost	1,600	1,852	1,563	1,097	1,158	1,228	1,230
23. Total Cost	3,380	3,435	3,150	2,687	2,752	2,826	2,832
24. Cement per Bag	338,00	343,50	315,00	268,70	275,20	282,60	283,80
25. Net Receipt from sales ^C	4,231	4,231	4,231	4,231	4,231	4,231	4,231
26. Loan Cost	3,380	3,435	3,150	2,687	2,752	2,826	2,832
27. Margin	851	796	1,081	1,544	1,479	1,405	1,399
28. Funds and other income	14	14	14	14	14	14	14
29. Gross Profit before tax	865	810	1,095	1,558	1,493	1,419	1,413
30. Corporate income tax ^H	519	486	657	935	896	851	846
31. Net Profit	346	324	438	623	597	568	567

Foot Note : 1) Rate of exchange 1969 - 1980 = \$ / kr. = kr.330,--
 2) Loan Rate of exchange \$ / kr. = kr.350,--
 3) Cost of Sales per m/t based on 1969.--

P & L REPORT -- Footnotes

- A. Includes costs of Rehabilitation.
- B. Variations from 1968 to 1969 due to new personnel program being initiated by Gresik.
- C. Includes personal liability insurance for construction period.
- D. P.T. conversion and revaluation of plant assets to be effective Jan. 1, 1969.
- E. Interest @ 12% on \$6.3 million anticipated from date of loan signing on July 1, 1969. Interest is overstated by approximately 6% by use of exchange rate Rp 350/\$1.00.
- F. Production of 4th kiln assumed 7/1/71.
- G. Net Receipts from sales based on budgeted cost plus 20%. Cement currently selling at cost plus 24% using maximum depreciation of revalued amount and including substantial rehabilitation costs.
- H. Does not include exemption from Corporate taxes anticipated from reinvestment of profits. These amounts are reflected in cash flow analysis.
- I. Costs based on 1969 Budget.

(4)

ANNEX I
B - 2 Cash FlowP. H. SENEN GRESIKCASH FLOW - LOAN PERIOD 7 YEARS
(Rp. 000,000.)

	1969	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980
Cash on hand 1 Jan	586	556	1036	1656	2037	1971	2367	2471	3508	4004	4554	4789
Add :												
1. Gross Profit before tax	625	558	769	854	850	865	810	1095	1558	1493	1419	1413
2. Depreciation Expense (2)	505	505	800	1183	1204	1226	1310	1061	618	672	735	730
Less :												
3. Local Investment (4)	644 (2)	521 (2)	260 (1)	867 (3)	767	707	567	378	610	670	670	610
4. Corporation tax (7)	170	62	179	401	512	510	519	486	657	935	896	651
5. Reconstruction & Dev. tax	15 (1)	--	--	--	--	--	--	--	--	--	--	--
6. Loan Repayment	--	--	173	368	412	478	517	257	--	--	--	--
7. Inventory Increase	310 (2)	--	357 (6)	--	429 (5)	--	413	--	413	--	413	--
8. Cash balance end of Year (1)	556	1036	1656	2037	1971	2367	2471	3508	4004	4564	4789	5421

Foot Note : Cost of Sales based on 1969.

Gresik, 9 May 1980.

CASH FLOW -- Footnotes

- 1/ Accruals of \$40 million not included.
- 2/ Includes Rp 685 million for investment in Tjibinong Cement Plant and Refractory project.
- 3/ Includes Rp 100 million for investment in Tjibinong Cement Plant and Rp 767 million for replacement of machines in existing plant.
- 4/ See attached reinvestment program and depreciation schedules.
- 5/ Includes increases for spare parts and anticipated production of cement bags for Tjibinong plant.
- 6/ Inventory increases necessary for production increases.
- 7/ Assumes exemption of corporation taxes for profits reinvested pursuant to investment law.
- 8/ Makes no provision for payment of dividends to stockholders.

ASSETS	REINVESTMENT					PROGRAM						
	1969	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980
	Rp:000,000.											
x) 1. Heavy Machinery (1)				382	382	382	382	191	191	191	191	191
x) 2. Heavy duty Equipment (2)				100	100	50	100	100	50	100	100	50
x) 3. Transportation (2)				20	20	10	20	20	10	20	20	10
x) 4. Small tools/Office Equipment(3)				65	65	65	65	65	65	65	65	65
5. Expansion Kiln IV (5) Fire brick & Tjibinon, (see attached)	644	521	260	100					294	294	294	294
6. Utilities (6)				200 ^A	200 ^A	200 ^A						
	644	521	260	867	767	707	567	376	610	670	670	610
x) Routine Replacement investment	DEPRECIATION PROGRAM (4).											
1. Heavy Machinery				48	96	144	192	216	240	264	288	264
2. Heavy duty Equipment				20	40	50	70	90	80	80	90	80
3. Transportation				1	2	3	3	4	4	4	4	4
4. Small tools/Office Equipment				16	32	48	64	64	64	64	64	64
5. Expansion Kiln IV			295	589	589	589	589	295	29	59	88	117
6. Utilities				4	6	8	8	8	8	8	8	8
7. Revaluation Assets	505	505	505	505	439	384	384	384	193	193	193	193
	505	505	800	1183	1204	1226	1310	1061	618	672	735	730

Foot Note :

- (1) Revaluation Value: Heavy Machinery Reinvestment (Machinery more than 10 Years old) 1973-1975 = 25% / Year, 1976 - 1980 = 12,5% / Year from Rp. 1.525 million.
 (2) " " : Heavy Equipment + cars Reinvestment within 3 Year from Rp. 250 million and Rp. 25 million.
 (3) " " : Small tools / Office Equipment / Furniture Reinvestment within 4 Years.
 (4) Depreciation for (1) in 8 Years for (2) 5 Years, for (3) 4 Years, for (4) 50 Years, for (5) 10 Years.
 (A) Anticipation of 300 new houses.

P.N. SEMEN GRESIK

SPECIAL INVESTMENT PLAN
RENTJANA INVESTASI CHUSUS

ANNEX I

B-3 Reinvestment Program
Page 2 of 2

	<u>1969</u>	<u>1970</u>	<u>1971</u>	<u>1972</u>	<u>1973</u>	<u>Jumlah</u>
1. Perluasan P.N. Semen Gresik	Rp. 500.000.000,—	Rp. 200.000.000,—	Rp. 40.000.000,—	Rp. -	Rp. -	Rp. 740.000.000,—
2. Semen Tjibinong (ASSUMING AID PERMITS)	Rp. 64.000.000,—	Rp. 276.000.000,—	Rp. 200.000.000,—	Rp. 100.000.000,—	-	Rp. 640.000.000,—
3. Refractories	Rp. 80.000.000,—	Rp. 45.000.000,—	Rp. 20.000.000,—	-	-	Rp. 145.000.000,—
D j u m l a h :	Rp. 644.000.000,—	Rp. 521.000.000,—	Rp. 260.000.000,—	Rp. 100.000.000,—	-	Rp. 1.425.000.000,—

Djakarta, 10 Maret 1969.-

CHECKLIST OF STATUTORY CRITERIA
DEVELOPMENT LOAN FUNDAID-DLC/P-828
June 6, 1969I. COUNTRY PERFORMANCEA. 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.

(b) Creating a favorable climate for foreign and domestic private enterprise and investment.

(c) Increasing the people's role in the developmental process.

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

Indonesia is giving priority attention to projects which aim at increasing food production, particularly the production of rice, and is reviewing, with the assistance of ADB and several donor countries, the problem of inadequate food storage and distribution facilities.

The GOI has enacted a comprehensive law with built-in incentives for encouraging foreign capital investment, concluded an Investment Guaranty Agreement with the U.S., enacted new banking legislation which will permit foreign banks to open branches in Indonesia, and is continuing negotiations for the purpose of returning nationalized properties to private ownership.

A post-Sukarno policy structure has not fully emerged in Indonesia, because the long period of economic instability has necessitated devotion of primary energies to economic development. However, President Soeharto has demonstrated an ability to recognize and build upon a developing national consensus. The press has exercised considerably more freedom and has become a healthy critic and a purveyor of new ideas. Political party activity is still relatively subdued but national elections have been promised by the government to be held in 1971. The Parliament and the Consultative Assembly are actively working to define their role in the governmental process.

A major portion of budget allocations will be available for development as a result of sizeable reductions in military expenditures which followed termination of the confrontation policy with Malaysia. In CY 68 about 19% of GOI budget expenditures went into development activities. For the new FY 69 to March 70 development expenditures are expected to increase three-fold to about 38% of the total new budget.

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

All local currency funds required for this project will be contributed by Gresik from current operating revenues and Gresik and the GOI will make available such funds and foreign exchange, respectively, as would be required for completion of the project in the event of cost over-run. In addition, Gresik plans significant expenditures for a refractory project and for participation in a new cement project in West Java.

(f) Making economic, social, and political reforms such as tax connection 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.

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. Runaway inflation has been curbed and the country has moved substantially toward stabilized prices and exchange rates. Contributing measures include improved tax collections, a state of tax reforms, realistic interest rates, restraint in monetary expansion, a balanced budget policy, and restraint in extension of credit.

(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 United States

1. FAA §620(c). Is the government indebted to any U.S. citizen for goods or services 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?

We are not aware of any cases that make Indonesia ineligible under this Section.

2. FAA §620(d). I. 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?

The enterprise to be assisted by this loan will not compete with U.S. enterprises since Indonesia's domestic needs for cement will result in utilization of all that can be produced by the Gresik Company. There have not been cement imports from the U.S. into Indonesia and the U.S. is a net importer of cement.

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) imposed 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?

Steps are being taken to return property to original U.S. owners or negotiate mutually acceptable settlements on nationalized property. A Government committee has been established and is operating to handle this problem. At this juncture, we are aware of no cases that would make Indonesia ineligible under this Section at this time.

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? **The country has not so permitted or failed to take adequate measures.**
5. FAA § 620(1). Has the government instituted an investment guaranty program under FAA §221(b)(1) for the specific risks of inconvertibility and expropriation or confiscation? **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 seizure, 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. **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? **No; repayment of the only FAA loan involved has been rescheduled.**
8. FAA §620(t). Have diplomatic relations between the country and the U.S. been severed? If so, have they been renewed? **No.**
9. App. §106. Describe any attempt made by the country to create distinction because of race or religion in granting personal or commercial access or other rights otherwise available to U.S. citizens generally. **None.**

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 countries receiving U.S. assistance?

We have no information as to any such representational activity.

2. FAA §§620(a), 620(n); App. §§107(a), 107(b), 116. Has the country sold, furnished, or permitted ships or aircraft under its registry to carry to Cuba or North Viet-Nam items of economic, military, or other assistance?

We have no information of any violation by Indonesia in this regard.

3. FAA §620(u); App. §114. 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?

Indonesia is not delinquent with respect to U.N. obligations. The loan agreement limits the use of proceeds thereunder to importation of U.S. goods and related services.

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?

No; Indonesia has settled its confrontation with Malaysia.

2. FAA §620(s). What is (a) the percentage of the country's budget devoted to military purposes, and (b) the amount of the country's foreign exchange resources used to acquire military equipment? Is the country diverting U.S. development assistance or P.L. 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.)

Discussed in separate
Classified attachment
(AID-DLC/P-828/1)

3. FAA §620(v); App. §119. Has the country spent money for sophisticated weapons systems purchased since the statutory limitation became effective? If so, identify either (a) the documentation which describes how the withholding of an equivalent amount of A.I.D. assistance has been or will be accomplished, or (b) the Presidential determination that such purchase is important to the national security of the U.S. so that no withholding is necessary. .

We are aware of no such purchases.

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 interest rate? Is the rate of interest higher than the country's applicable legal rate of interest?

(1) No. (2) The activity involves the continuing economic and technical rehabilitation of productive facilities. Although Indonesia's current debt burden is heavy, it is expected that the large scale rescheduling involving all creditors, new assistance, and an increase in exports provide reasonable prospect of repayment here. (3) 2%, 3%. (4) No.

-- 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.?

Loan assistance to Indonesia is provided within the framework of the intergovernmental group under the leadership of the IBRD and the IMF. This project has been selected by A.I.D. as part of the U.S.G. contribution to this consortium and our participation in this project has been supported by the IBRD resident mission.

-- 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?

This loan covers only required commodities and related services for construction of additional facilities required and is projected to be used in a sound manner.

2. FAA §611(a)(1). Have engineering, financial, and other plans necessary to carry out assistance, and a reasonably firm estimate of the cost of assistance to the U.S., been completed?

Full engineering, financial and other plans necessary to carry out the project have been made and a reasonably firm estimate of the cost of assistance to the U.S. has been completed.

3. FAA §611(b); App. §101.
If the loan or grant is for a water or related land-resource 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?

The project meets relevant construction standards and criteria used in determining feasibility. This is not a water or related land resource construction project.

4. FAA §611(e). If there 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?

Said certificate is attached to this loan paper as Annex VII.

B. Relation to Achievement of Country and Regional Goals.

-- Country Goals

1. FAA §§207, 281(a). Describe this loan's relation to:

a. Institutions needed for a democratic society and to assure maximum participation on the part of the people in the task of economic development.

The structure of the Gresik Company will be converted from a state enterprise to a limited liability corporation, although it will be owned by the GOI at the time of conversion, making it possible to democratize the company to a greater degree than under the previous organization. (See Section

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.

Cement is a useful product for the construction of agricultural and other infrastructure facilities.

c. Meeting increasing need for trained manpower.

Manpower training will be carried out as part of this project.

d. Developing programs to meet public health needs.

No relation.

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.

This project will increase the capacity of the GOI to improve infrastructure for transportation and industrial development. It will provide a basis for training of additional employees in basic specialized and managerial skills. The transition to autonomous corporate status will be the first step toward 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.

This loan is given in a multilateral context and furthers Indonesia's ability to achieve longer range development objectives through rehabilitation of productive facilities.

3. FAA §201(b)(9). How will the activity to be financed contribute to the achievement of self-sustaining growth?

Cement is a basic input in infrastructure and productive facilities necessary for self-sustaining growth.

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.

The activity would utilize a substantial amount of local material and human resources in a manner contributing to economic development and productivity.

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?

Additional cement production arising from this project will promote national development through providing a construction material basic to general economic development.

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?

The needs, desires and capacities of the country's people will be assisted through improvement in infrastructure and through new construction projects made possible by increasing the domestic cement production capacity. The expanded facility will make possible training in basic technical and managerial skills for additional personnel.

7. FAA §601(a). How will this loan encourage the country's efforts to:

a. increase the flow of international trade;

All purchases financed by the loan will have their source and origin in the U.S. Follow-on trade should arise due to contacts with U.S. business and for replacements.

b. foster private initiative and competition;

The change in Gresik's corporate structure will help achieve this goal.

c. encourage development and use of cooperatives, credit unions, and savings and loan associations;

Cement, as a basic construction commodity, will help increase the amount of construction projects and may tend to assist development of the cited institutions.

d. discourage monopolistic practices;

No direct effect.

e. improve technical efficiency of industry, agriculture, and commerce;

The availability of adequate cement will help achieve the cited goals.

f. strengthen free labor unions?

The change in corporate structure may increase the opportunities for free labor union activity.

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.

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?

-- 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?

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?

The total amount of the loan will be used to finance procurement from private sources in the U.S.

A condition precedent to initial disbursement is conversion of P.N. Semen Gresik to an autonomous limited liability corporation. Since this is the first such conversion in Indonesia it is not clear whether Parliamentary ratification will be required. The Minister of Finance has stated in the application that the conversion would be completed by July 1, 1969 and USAID has reviewed probability of delays and has concluded that there is reasonable basis to believe that the legislative action will occur in time to permit orderly project implementation.

Indonesia is not a newly independent country.

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 IGG). The assistance is being coordinated by the IMF and 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.

Goods and services will be obtained under approved procedures solely from the U.S. We would expect that spare and replacement parts will be required from the U.S., as they are now.

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?

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?

All goods and services related to this project are U.S. origin.

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

U. S. Government excess property will not be used for this project. See discussion, Section III G.

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?

Applicable regulations will be complied with.

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?

The entire project will be carried out by private enterprise on the basis of the applicable A.I.D. regulations.

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?

Yes. The construction will be awarded on a competitive basis, and equipment suppliers will be afforded opportunity to indicate their interest in selling equipment.

Procurement

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

Yes.

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?

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?

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? Yes.

2. App. §112. Does the loan agreement provide, with respect to capital projects, for U.S. approval of contract terms and firms? Yes.

3. FAA §620(k). If the loan is for construction of a productive 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? 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? The required determination has been made.

5. App. §109(a). Will any military assistance, or items of military or strategic significance, be furnished to a Communist nation? No.

6. 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? The Loan Agreement will contain a provision covering this requirement.

7. App. §118. Will any funds be used to finance procurement of iron and steel products for use in Viet-Nam other than as contemplated by §118? No.

8. 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? No.
9. 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? No.
10. 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? No. No assistance has been used for such purposes in the past.
11. FAA §201(f). If this is a project loan, what provisions have been made for appropriate participation by the recipient country's private enterprise? The change in Gresik's corporate structure will make it possible for private enterprise to participate as an equity owner of the company at some future time. Moreover, it is planned that a portion of the local construction of this project will be subcontracted to private enterprise in recipient country.
12. 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? The loan agreement will cover this requirement.

AID-AG/1-333
June 6, 1969
AMHX 111

CAPITAL ASSISTANCE LOAN AUTHORIZATION

Provided from: Development Loan Funds
(Indonesia: P.N. Semen Gresik; Cement Plant Expansion)

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 the "GOI") of not to exceed Six Million Three Hundred Thousand Dollars (\$6,300,000) to assist in financing the foreign exchange costs of equipment, materials and services necessary for the expansion of the Gresik cement manufacturing plant located in East Java, Indonesia, to increase the rated annual production capacity from 375,000 metric tons to 500,000 metric tons of portland cement. This loan will be subject to the following terms and conditions:

1. Interest Rate and Terms of Repayment

The interest on this loan shall be two percent (2%) per annum on the disbursed balance of the loan during the first ten (10) years of the loan and three percent (3%) per annum for the remaining thirty (30) years of the loan. The principal of the loan shall be repaid in full within forty (40) years from the date of the first disbursement under the loan, and such repayment shall include a grace period of not to exceed ten (10) years from the date of first disbursement.

2. Currency of Repayment

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

3. Other Terms and Conditions

a. Equipment, materials, and services financed under this loan shall have their source and origin in the United States.

b. The GOI will relend the funds under this loan to the P.N. Semen Gresik (herein called "Gresik"), for the purposes herein provided on terms and conditions satisfactory to A.I.D. Such terms and conditions will include repayment of principal and payment of

interest at the rate of twelve percent (12%) per annum by Gresik to the GOI in the currency of the Republic of Indonesia with provisions for maintenance of value. The loan to Gresik shall be repaid within seven (7) years from the date of first disbursement under this loan, including a grace period of two (2) years.

c. Unless A.I.D. otherwise agrees in writing, as a condition precedent to initial financing under this loan, in addition to conditions precedent normal to A.I.D. loans, Gresik shall furnish A.I.D., in form and substance satisfactory to A.I.D., evidence of the completed conversion of Gresik from its present corporate status to a limited liability enterprise with full corporate autonomy and recapitalized structure that reflects current and long term accounts, states the net value of the existing cement plant, and demonstrates a financial condition that in the opinion of A.I.D. is sound.

d. Unless A.I.D. otherwise agrees in writing, as conditions precedent to financing under this loan other than of the engineering consultant, in addition to conditions precedent normal to A.I.D. loans, Gresik shall furnish A.I.D., in form and substance satisfactory to A.I.D.:

(1) A plan for the provision of all local labor and materials that the construction contractor may require for the project.

(2) Evidence of the establishment of a reserve account in rupiah to be made available to the construction contractor for local currency costs in an amount equal to twenty percent (20%) of the estimated local currency costs of the project and a plan for continual replenishment thereof, or such other amount as A.I.D. shall agree to.

(3) A plan for the maintenance of accounts and records and for preparation of periodic financial statements and reports, including utilization of loan funded technical assistance in connection therewith, and providing for independent annual audit.

e. Except as A.I.D. may otherwise agree in writing, and in addition to covenants normal to A.I.D. loans:

(1) The GOI shall make available for rupiah at the rate of exchange prescribed by the loan agreement any foreign exchange required by Gresik for the completion and operation of the project or for procurement of spare and replacement parts, and if necessary provide foreign exchange required for the completion and operation of the project over and above the proceeds of the loan.

(2) The GOI shall take no action that would affect adversely the status of Gresik as an autonomous corporation with

limited liability, nor omit to take any action necessary to continue Gresik in such status, nor subject Gresik to any discriminatory tax or other discriminatory assessments or charges of any kind whatsoever.

(3) Gresik shall maintain the reserve account hereinbefore referred to at a level at all times equal to at least twenty percent (20%) of the estimated remaining local currency costs of the project or such other level as may be agreed to by A.I.D. in writing.

(4) Gresik shall adjust prices of its cement as marketing conditions permit in order to provide adequate revenue margins.

(5) Gresik shall:

(i) maintain a ratio of current assets to current liabilities of not less than 1.5 to 1, and a ratio of debt to equity of not more than 2 to 1; and

(ii) if at any time the ratio of debt to equity exceeds 2 to 1, promptly increase paid-in capital by an amount sufficient to reduce such ratio to 2 to 1 or less.

(6) Gresik shall not declare or pay any dividend, or make any other distribution on capital stock, unless after payment of such dividend or such distribution the ratio of current assets to current liabilities is not less than 1.5 to 1 and the ratio of debt to equity is not more than 2 to 1.

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

Robert H. Nooter
Acting Assistant Administrator, East Asia

Date

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ANNEX IV

GRESIK CEMENT PLANT EXPANSION

CERTIFICATION PURSUANT TO SECTION 611 (e) OF THE

FOREIGN ASSISTANCE ACT OF 1961, AS AMENDED

I, Stokes M. Tolbert, the principal officer of the Agency for International Development in Indonesia, having taken into account among other things the maintenance and utilization of the existing cement plant by the management of P.N. Semen Gresik and the attitude of the present government of Indonesia as expressed in the actual and prospective granting of substantial degrees of autonomy to said management, do hereby certify that in my judgement both Gresik and the Government of Indonesia have the financial capability and the human resources capability to maintain and utilize effectively subject capital assistance project.

This judgement is based on the facts that:

1. Gresik, operating under its present management, demonstrated its ability to produce at or above its rated capacity and in an economically profitable manner prior to the imposition of certain uneconomic restrictions by the prior Government of Indonesia; they both rehabilitated the plant and restored normal production and profits once they were freed from the above mentioned restrictions; and they have demonstrated foresight and business acumen in making preparations for the expansion proposed to be financed under subject loan.
2. The present Government of Indonesia has demonstrated its adherence to sound business principles by stabilizing the economy of Indonesia, which had been subject to rapid inflation and severe price distortions under the previous Government, and by giving an ever increasing amount of business autonomy to properly run state enterprises, including Gresik.


Stokes M. Tolbert

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