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PRIVATE SECTOR DEVELOPMENT EXPLORATORY PROJECT

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PRIVATE SECTOR DEVELOPMENT EXPLORATORY PROJECT

Part II. Description of the Project

The Project

The purpose of the project is to assist the Indonesian private sector in order to encourage increased employment opportunities, income generation and access to resources and to facilitate participation of the U.S. private sector in such an effort.

Background

The Problem:

Despite Indonesia's solid economic growth, unemployment is growing rapidly. Each year two million new workers enter the Indonesian labor market. The vast proportion of these must find jobs in the private sector. Approximately 70 percent of the country's labor force--some 50 million--works in the private sector, and the private sector is responsible for 60 percent of Indonesia's GNP.

While the vast majority of jobs created each year stem from agriculture, off-farm jobs are critical for economic growth. Manufacturing, with an annual growth rate of 12.5 percent, creates 117,000 jobs each year, and off-farm activities provide partial income to 45 percent and full income to 25 percent of all rural families.

But jobs in rural enterprise or in industry are not increasing quickly enough, and the growth taking place is often concentrated in a relatively limited number of areas. More than 85 percent of all industrial workers, for example, are located on Java. Disparities in economic growth between certain sectors and between certain ethnic groups in Indonesian society have been aggravated by dramatic increases in foreign investment in discrete enclaves, where projects to develop natural resources--oil, minerals, timber--have not been optimized for the benefit of surrounding communities. In urban areas,commercial and industrial development remains dominated by ethnic Chinese, leaving pribumi--indigeneous Indonesian--entrepreneurs with the belief that they have been excluded from the growth process.

The Private Sector in Indonesia: Concerns about unemployment and disparity in growth patterns are compounded by the real possibility that the Indonesia's relatively high pace of growth--9.6 percent in 1980 and 6 percent in 1981--is unlikely to continue. Past growth has been fueled largely by foreign investment and technical and managerial services imported to develop extractive industries--petroleum, minerals and timber. Oil revenues alone have traditionally funded 60 to 70 percent of the country's annual budget, and in 1980 petroleum exports left Indonesia with a foreign exchange surplus of $11.5 billion and current account surplus of $2.3 billion.

A world recession, the drop in demand for oil and the falling-off of demand for Indonesia's non-oil exports, however, have demonstrated the perils of building development plans on a narrow base. Non-oil exports are one third below 1979 levels, and oil export earnings are flat. Indonesia's foreign exchange reserves are dropping, and current projections foresee a current account deficit of between $3 and $4 billion for 1982. Even were the recession to bottom-out, Indonesia would face a longer-term problem--its major exports are largely non-renewable resources.

To stabilize its growth rate, Indonesia needs to diversify, to expand its exports and to substitute for imports where possible and economically efficient. This can only occur with a stronger private sector. Indonesia's manufacturing base--9 percent of GDP--is the smallest in Southeast Asia. To strengthen the private sector will require increased foreign investment and the technology and management skills that accompany it.

Investment Climate: The government's attitude toward foreign investment is ambivalent. It recognizes foreign investment as the major channel for foreign technology, know-how and capital, but government officials are also concerned about investment's social and political impact and about perceptions of disparity between pribumi and non-pribumi, enclave and surrounding community. The GOI welcomes foreign investment for the technology and management skills it brings, but seeks to channel investment to promote development objectives and to create a multiplier effect that widens the benefits investment provides.

Since the enactment of the Foreign Investment Law of 1967, Indonesia has been officially committed to seeking foreign investment. It provides investment allowances, tax exemptions, relief from import duties and tax holidays up to six years on investment in priority areas. It has established a Capital Investment Coordinating Board (BKPM) to oversee all foreign and domestic investment and reorganized the board in 1977 to streamline its assistance to foreign investors into a "one stop service."

But to encourage foreign investment in a direction compatible with its development objectives, the government has passed laws and issued regulations which many investors view as restrictive. It has closed off to foreign investment areas which it considers sufficiently developed already, reserved for Indonesian investors or related to national defense. BKPM publishes a list (the DSP list) outlining priority areas in which the government favors foreign investment. A presidential decree forbids foreign companies from holding land, inhibiting foreign investment in agriculture. Kepres 10, passed in 1978, requires that companies take pribumis as joint venture partners and turn majority ownership over to Indonesians within 10 years of operation. Kepres 14A, passed in 1980, requires the purchase of certain goods and services from local contractors, and a number of decrees emphasize the importance of replacing expatriate workers with Indonesians. In industries such as forestry the government has established a schedule for replacing foreign personnel, and companies keeping foreign workers beyond the scheduled date for Indonesianization are taxed $100 per month, funds which are to be used for training Indonesian workers.

Designed to assist pribumi entrepreneurs and to spur small scale enterprise development, the regulations have inhibited some foreign investors and confused others. The BKPM has gradually been increasing its approvals of new foreign investment--$900 million in 1980, $1.2 billion in 1981, and an estimated $2 billion in 1982--but actual foreign investment has tended to fall well below the approved ceilings, and between 1980 and 1981, it declined. Net foreign investment in 1980 was $317 million; in 1981, it dropped to $140 million; this year, it is expected to hit $178 million.

U.S. Investment: There are 73 American companies participating in joint ventures in Indonesia, compared with 210 Japanese. Altogether some 200 U.S. companies operate sales or representative offices in Indonesia and the book value of U.S. assets is estimated at $1.3 billion, making the United States Indonesia's fourth largest foreign investor, after Japan, Hong Kong and Canada. Most of U.S. investment is in petroleum--$940 million--but by 1980, American companies had assets of $140 million in manufacturing, an increase of almost 40 percent over 1979.

These figures tend to understate U.S. economic interests in Indonesia. Not only do they reflect book rather than current value of assets, but they exclude investment expenditures made by companies engaged in exploration and development. During the six years between 1975 and 1980, for example, American companies spent an estimated $6.3 billion in gas and oil exploration and development.

Nor do they show the impressive rate of return for companies active in Indonesia. The rate of return for U.S. companies investing in petroleum was 197 percent in 1980, up from 121 percent in 1979. U.S. manufacturers showed an average rate of return of 23 percent in 1980, up from 20 percent in 1979.

American companies continue to invest, although the pace is not great, and reinvestment continues to outpace new investment. In 1980, the Government of Indonesia approved $46 million in new U.S. investment and $70 million for expansion of existing operations.

It is important to keep this "bottom line" in mind in evaluating the sometimes negative rhetoric describing the Indonesian investment climate. There are real benefits as well as real risks to investment in Indonesia. The problem for AID is to encourage development of an Indonesian private sector of considerable potential in such a manner as to contribute to development objectives and, working within the limits defined by the

Government's policy objectives, to encourage participation by American companies in this effort.

Private sector defined: To achieve the goal set by AID's new private sector initiative, "to foster the growth of productive, self-sustaining, income and job producing enterprises in developing countries, using the finance, technology and management know-how of the U.S. private sector," the Private Sector Project accepts a broad definition of the private sector. It is defined as profit and capital accumulation-oriented initiatives by individuals and groups of individuals in all economic sectors. Thus, the small farmer tilling his own land represents private sector activity. The village merchant is part of the private sector. Advertising firms in Surabaya are in the private sector. In short, private sector should not be misconstrued to be limited to urban activities or modern sector industries. Private sector involves services, finance, construction, and, in a country with Indonesia's factor endowments, focuses mainly on activities and investments in a rural setting. Small firms and cottage industries supply about 85 percent of all the jobs in manufacturing. Many farmers supplement their income with craft work and trades.

At the same time, government political policies and the absence of a sturdy and pervasive private sector have led to active government involvement in a variety of functions that might normally be handled by the private sector. Some 220 state enterprises are responsible for producing 20 percent of Indonesia's GNP. State banks dominate commercial banking, and financing for small entrepreneurs comes from government-operated credit agencies.

Assistance to the Indonesian private sector, therefore, must take account of government institutions and government policies. Because the government is actively encouraging investment in some areas and controlling investment in others, assistance to government institutions active in the private sector may provide a means of developing the private sector itself. For example, aid to BKPM that contributes to a speedier review of an investment proposal, technical advice to government credit agencies offering loans to small enterprises, and efforts to link proposed state enterprise projects to investment in related private enterprises--such as component parts manufacture for a government assembly plant--like similar efforts to link new foreign investment to new enterprises, all serve to strengthen the private sector.

AID' Private Sector Strategy

AID's strategy for assisting the development of Indonesia's private sector is to provide tightly-focused technical assistance, training, demonstration and facilitating efforts that are likely to make an immediate and visible difference to existing GOI or other donor programs, to ongoing U.S. trade and investment programs, or to government consideration of policies and projects affecting the private sector. The private sector program will act as a catalyst to open channels, provide contacts and build institutional support for Indonesian entrepreneurs. The program will test different approaches to private sector assistance and provide for regular evaluation to allow assessment, revision, rejection or further support for the experimental efforts. It seeks to channel the natural and creative unpredictability of the private sector to achieve the economic benefits and growth that can be derived from private sector spontaneity when it is disciplined to agreed-upon development objectives.

Because of the tremendous importance of rural enterprise to Indonesia's private sector, the principal focus of AID's program centers on small scale enterprise development, income generation and employment creation in rural areas. In its extensive work on the Provincial Development Project, AID has worked to strengthen local credit institutions to increase their responsiveness to private farmers, small entrepreneurs, traders, craftsmen and people engaged in service industries. More recently, AID has developed the Central Java Enterprise Project as a pilot project to demonstrate methods of increasing employment in manufacturing, trade and services. A number of rural development programs such as the rural works project and the water resources project work to strengthen rural infrastructure and to open new markets and possibilities to entrepreneurs and farmers. Another approach is to upgrade the private sector skills and the skills of those government servants working in the institutions affecting the private sector through participant training programs. And in its science and technology project AID is working on technologies appropriate to Indonesia and to Indonesia's private sector at its current level of development.

Related U.S. Activity: At the same time, there are a number of other U.S. government programs designed to encourage American investment in, and trade to, Indonesia, and it is AID's strategy to build a private sector program that links with these efforts in order to maximize the developmental impact of the technology and management skills imported with U.S. capital and products. The private sector project will complement efforts already being made under existing U.S. programs dealing with the private sector--the Trade and Development Program (TDP), the Overseas Private Investment Corporation (OPIC), the Export-Import Bank, the Foreign Commercial Service, and the Foreign Agriculture Service.

The TDP has recently recommended definitional missions for FY 1982 in five areas--automotive parts, electronic equipment, plant machinery, fishery, high fructose and sugar. It has a prefeasibility study pending on a graphite electrode plant. It has completed feasibility studies rationalization of the automotive industry and on a cement plant. The private sector project will help identify areas for further TDP studies.

OPIC has made several missions to Indonesia to review investment opportunities. It will share costs with American companies of which have identified economically sound projects through their own reconnaissance and are interested in doing feasibility studies. It requires that a company which it assists have "a sound operating record, demonstrate that it has managerial, technical and financial competence to implement the project if it proves feasible, and a present intention to make such an investment." The private sector project will complement OPIC by providing economic profiles of sectors in which investors and OPIC may be interested and by providing initial assistance to interested companies.

The Foreign Commercial Service of the U.S. Embassy informs U.S. companies of investment opportunities and provides advice to companies once they arrive. The private sector project will assist the FCS in identifying investment opportunities and will provide additional help to companies interested in investing in Indonesia. The Foreign Agricultural Service of the U.S. Embassy, although responsible primarily for promotion of U.S. agricultural experts, reviews the agricultural sector regularly and can refer agribusiness investment opportunities to U.S. investors. The private sector project will identify agribusiness projects and will focus on investment opportunities.

Finally, in assisting the development of private sector projects it is assumed that a portion of the projects will require imports of U.S. goods that may be financed through Export-Import Bank facilities.

Other Donor Activity: AID is one of many donors active in private sector development. Under the auspices of the UNDP, UNIDO is providing \$4.5 million in assistance to the Ministry of Finance for investment feasibility studies; \$2.5 million to the Director General of Small Scale Industries for training projects; and \$1.6 million to BKPM for investment profiles. CIDA is providing assistance to Canadian companies interested in visiting Indonesia or in conducting feasibility studies there. The Australian government has provided a consultant to BKPM to assist in assembling data, and the GOI will soon draw upon its World Bank technical assistance credit to aid BKPM in preparing profiles of industry sectors in which the government would like to encourage investment and has asked the German government for additional assistance in this area. The World Bank has already provided \$410 million to BAPINDO for loan and equity activity and is now preparing a further \$100 million loan. A number of private companies are involved in management training, and during the summer of 1982, the World Bank, Ford Foundation, and AID are planning to do a joint review of private sector training needs. AID's private sector project will complement existing donor activity in the private sector and serve as a bridge.

BKPM's Special Role : Because of its key role in guiding investment in Indonesia, the BKPM is a major actor in the private sector project. BKPM bears the responsibility for promoting private sector enterprise, both local and foreign. BKPM functions under the guidance of BAPPENAS the state planning agency, and has eight major duties:

- to prepare investment policies and plans;

- to formulate investment priorities and to communicate them to investors;
- to develop promotion programs needed to attract required investment;
- to formulate the range of incentives and facilities needed to attract the required investment;
- to review investment applications - to ensure they meet all requirements and to assess their feasibility;
- to grant incentives and facilities;
- to issue permits and licences;
- to supervise and control the implementation of projects, including the handling of amendments to projects;

Of critical importance to foreign and local investor alike is BKPM's responsibility to issue annually an Investment Priority List (Daftar Skala Prioritas, DSP), which ranks individual industries by priority, specifying those to be most encouraged and to receive a full range of incentives, those to receive a lesser range of incentives, those to receive no incentives, and those closed to private sector investment altogether. This list is available in both Indonesian and English and is meant to serve as a guide to link private sector activity to Indonesia's development objectives.

Because of BKPM's vital role in spurring economic growth, the GOI is seeking means to strengthen it's capacity. The GOI and BKPM recently have focused particularly on technical assistance in the preparation of project profiles. These project profiles provide potential investors with background to the DSP. They serve as an initial guide to a potential investor who has expressed interest in a specific activity on the DSP. Concurrently, they provide stimulus to an investor with capital, who is interested in Indonesia, but who has no specific project in mind.

BKPM's responsibilities make it an integral part of the private sector project. It is woven into the project's several component parts. BKPM personnel will be included in the management training.

BKPM will be responsible for the administration of visitors sponsored through the project. These visitors will typically be selected during trade promotion visits to indicate the seriousness of the GOI in attracting foreign investment.

Three facilitating institutions in Indonesia selected to assist U.S. investors and identify Indonesian entrepreneurs and projects will be principally responsible to BKPM, although as facilitators they will continue to operate from their regular offices. BKPM will be a principal source of referral for the potential investors, local and foreign. In fact, BKPM personnel will be assigned on a full-time basis to the facilitating firms both to act as a link to their mother institution, BKPM, and to receive training in "hands on" dealing with private sector investors. This will serve to strengthen BKPM's managerial and administrative capacity and give the BKPM personnel an even greater insight into the private sector. As a potential fallout, BKPM personnel could actually encounter and stimulate joint-venture investors during their training periods.

BKPM will also be a principal provider of potential clients to venture capital group experimentally supported by the project. And BKPM will, of course, play an important role optimizing and spreading the effects of large scale capital infusion to the local population. As BKPM's experience grows, industrial and service linkages will become apparant.

At this stage, one important and experimental aspect of, and rationale for, the private sector project is the pragmatic marketing by BKPM of investment opportunities in Indonesia. In concrete terms, local and foreign investors must be made aware of BKPM's project profiles as they become available. For certain investors project profiles will require explanation and clarification. For investors who are about to take the plunge, the project profiles will require tailoring to particular circumstances. Further, and in most instances, custom tailoring will be required to match the potential entrepreneur and his range of skills to a particular project. The very high failure rate of new ventures worldwide, stems from an insufficient appreciation of the total spectrum of a profitable enterprise. For example, a highly skilled engineer with a well-designed product for which there is a demand may pay insufficient heed to distribution channels or working capital. It is a well-known business story that business often become a victim of its own success. The facilitating institutions funded under the project will help avoid this possibility by serving as a natural extension to the BKPM, complementing its work with more detailed studies of investment possibilities.

From the perspective of the foreign investor this is equally the case. BKPM, no more than the Foreign Commercial Service of the U.S., can serve as a permanent "handholder" to a potential U.S. investor. BKPM will, of course, remain, the major point of contact both initially and at the time the project is approved. In the interim, during the decision-making stage and project-formulation stage, the U.S. investor needs assistance that falls outside both the scope of BKPM and U.S. government sources. It is this gap which the facilitating consultants are to address.

Thus, this project attempts to extend the strength and capacity of the BKPM. It also attempts to optimize the technical assistance of other donors--particularly in the distribution and tailoring of project profiles.

The Project

Project Description

The project establishes an immediate and visible program of support for the Indonesia private sector and for increased investment in Indonesia while providing a base for institutional development supportive of long-term private sector growth. It grows out of a perception shared by the Government of Indonesia and the United States that the private sector in Indonesia can make a major contribution to the country's development needs for increased employment, income generation and access to resources and that American investment can play an important role in spurring Indonesia's private sector growth. The project establishes a number of programs which are designed to serve as catalysts, encouraging the natural growth of the free market and the benefits that may derived from it, and enhancing the effectiveness of existing institutions.

The project's rationale is based upon three major inter-related factors:

1) sound private sector investment opportunities exist in Indonesia;

2) investors, both foreign and local, require assistance, which is locally available, in dealing with government regulations bureaucratic structure, in identifying project opportunities and joint-venture partners, and in packaging proposals for financing and government approval;

3) top and middle management could benefit over the short-run and into the future from intermingling with U.S. executives in existing middle-management and advanced-management courses (6 to 14 weeks) at American graduate schools of business administration;

4) this joint-educational experience and exposure could accelerate joint-venture possibilities.

Project Implementation

Management Training: The project establishes a study program for up to 15 mid-career and 20 senior Indonesian businessmen annually at short-term management training courses at U.S. business schools. The program would be open as well to government servants in state-owned enterprises or in government agencies dealing with the private sector. Participants in the study program would be selected by a board drawn from Indonesian and American business, following testing and screening by a private organization such as the Asia Foundation or the Institute for International Education in conjunction with an Indonesian institution such as LPPM. Candidates would be selected on the basis of merit. Senior government servants with near-term retirement propects would be potential candidates.

Candidates who qualified for training but were deficient in English or needed special assistance in business fundamentals would be eligible for tutorials at the Indonesian-American Center or business workshops arranged by local consultants.

The costs of the programs, tuition as well as travel, are to be borne by the individual companies proposing candidates except in the case of civil servants or where there is demonstrated need. AID would provide funds to the administrating institution--Asia Foundation, Institute for International Education and/or LPPM--to cover all administrative procedures and costs, and would establish a fund to cover scholarships for up to one-third of the selected candidates.

The program purpose is several-fold. It addresses immediate needs for management training. No high-level management training exists in Indonesia. At the same time, the exposure of mid-level and senior Indonesian executives to American counterparts at U.S. business schools will offer secondary benefits. Not only will participants be exposed to U.S. business methods, but they will make connections which will create long-term U.S.-Indonesian business ties.

The study program would be supplemented by follow-up activities involving past participants. A sum of money has been included in the project to cover the costs of annual seminars and workshops to which past participants would be invited. The objective is to develop within Indonesia a critical mass of Indonesian business executives familiar with U.S. methods and procedures, as well as to provide Indonesia with trained executives capable of furthering development of the indigeneous private sector. Further, it paves the way for the creation of a world-class management and administration institution in Indonesia by demonstrating the importance of such training and by providing a core of support for such an institution.

Information Visits: The project sets aside $60,000 annually to cover up to $6,000 in costs for travel of ten executives invited to Indonesia by the Minister of Administrative Reform to review investment opportunities. The invitations may be generated on the Minister's trade missions to the United States, by past encounters or by staff suggestions or recommendations by other government officials, but the effort is to allow the GOI to demontrate its interest in American investors and to permit AID to show the sincerity of its intent in assisting Indonesia to attract U.S. investors.

Facilitating Investment: BKPM will retain three local consulting firms to facilitate communication between Indonesian entrepreneurs and U.S. investors complementing existing U.S. government programs. The local consultants will:

(1) Assist U.S. investors in Indonesia. Companies coming to Indonesia to review investment opportunities may be referred to

the facilitating firms by the AMCHAM, the GOI, the U.S. Commercial Section, or by other sources such as the Indonesian consulates in the United States. The facilitating firms will provide information on the business environment in Indonesia, supplementing advice given by the FCS, advising on legal restrictions, potential joint-venture partners and investment opportunities. The facilitators will promote and distribute BKPM project profiles and feasibility studies--an output of World Bank technical assistance. Where requested, the consultants would prepare a short profiles of particular industrial sectors or prospects. The facilitating firms would provide up to 80 hours of free services at AID's expense after which further assistance would be paid for by the participating company.

(2) Seek out and screen proposals from Indonesian entrepreneurs interested in locating U.S. partners. The facilitating firms would be expected to advertise their interest in reviewing proposals for foreign investors', their willingness to provide assistance in preparing proposals, and in packaging possible projects for foreign investors. The facilitating firms could use a number of methods to solicit proposals, ranging from direct newspaper advertising, to working with the regional representatives of BKPM, AID consultants in the field and U.S. consulates. The solicitation efforts should state explicitly that interest is limited to those projects that have a developmental impact in terms of job creation, income generation, access to resources, import substitution, or export promotion.

(3) Work with existing U.S. government agencies, once suitable projects have been identified, to try to find U.S. partners. Where appropriate, TDP studies may be requested, and once a partner is identified, OPIC may be contacted. The facilitating firm will provide FCS with suitable proposals for vetting through the Department of Commerce's Overseas Investment Division and, to the extent possible, will use its own contacts in the United States to seek interested parties. The project includes sufficient funds to allow each facilitating consultant two trips to the United States annually.

(4) The project will offer BKPM a chance to place staff directly with each of the consulting firms to review proposals from Indonesian entrepreneurs and to work with American investors. This will give BKPM staff members experience with a management consulting firm as well as ensuring direct BKPM participation in the facilitation effort.

The flow of the project should be viewed from two perspectives. For example, the pribumi businessman notices ball bearings are on the BKPM priority list. He contacts one of the facilitating firms which assists him free of charge in project preparation for 80 hours. He then feels confident in the firms and places it on retainer. Together, they visit a local venture capital firm with a draft proposal for preliminary discussions. Tentative approval is given, subject to locating a joint-venture partner. A U.S. ball-bearing manufacturer is located. He reviews the project and visits Indonesia. Together they meet with the venture capital firm which provides equity to the pribumi entrepreneur. Together with the U.S. firm, probably using the facilitating consultant, the joint venture goes through the Indonesian approval process.

Looking at the project from a different perspective, an American investor expresses interest in setting up a joint venture in Aceh to manufacture widgits--currently imported from Singapore--for sale to oil operators. The Minister of Administrative Reform, travelling on a trade mission to the United States, is able to demonstrate the government's sincere interest in foreign investment by inviting the manufacturer to Indonesia. Or a widgit manufacturer may arrive in Jakarta on his own to explore the market with the U.S. Embassy Commercial Section or AmCham . In either case, the manufacturer is referred to the facilitating firms which provides the company with a profile of the widgit market, suggests potential joint-venture partners in Aceh and explains the procedures necessary to establish a joint-venture operation. The potential partner may be a state enterprise as well as a private company. AID would finance this introduction to the market in Indonesia; the company would have to make a decision on its own, following the introduction, as to whether it wished to pursue the venture.

AID will provide up to $150,000 per year per consulting firm. The costs will cover introductory services for U.S. companies and project profiles for Indonesian entrepreneurs, and will provide some funds for travel by firm representatives to the United States to follow up on possible investors.

AID will review the performance of the consulting firms at the end of one year and evaluate their activities, looking specifically at the number of U.S. companies assisted, the number of projects submitted by Indonesian entrepreneurs, the number of projects screened, packaged, and promoted, and, most importantly, the status of any projects developed through the facilitation excercise.

In its requests for proposal for the project AID would specify the project's objectives and outline the basic responsibilities it expects the facilitating firms to assume. It would leave to the individual firms the explanation as to how they plan to carry out those responsibilities in a fashion that will fulfill the project's objectives. Thus, the RFP will explain that the facilitating firm is to identify Indonesian entrepreneurs, facilitate entry for U.S. companies interested in investing in Indonesia and broker marriages between the two. It will be left to the facilitating firm to outline how it proposes to solicit projects from Indonesians, the screening process it will establish, the follow-up capabilities it has in the United States, the knowledge, experience and expertise it has in Indonesia which will allow it to facilitate introductions for American investors. It is possible that in selecting three separate firms to serve as facilitators, the project will also be testing three different approaches to performing the same function.

Criteria: The review of the facilitating firms after the first year must evaluate their performance in the terms of the scope of work, but, above all, must evaluate the impact of the project itself. The private sector project is an exploratory effort to devlop an approach toward assisting private sector development. The firms should be able to uncover a number of solid investment opportunities by the end of the first year of the project. If they have not, AID must be willing to reformulate the project. It may develop, for example, that the principal constraint on U.S. investment is not a lack of U.S. company understanding of business procedures or opportunities in Indonesia, but rather an inability of U.S. companies to react quickly to opportunities that are identified. In such a case, AID might wish to reorient the project to focus on linking Indonesian entrepreneurs with indigeneous sources of capital or on methods to improve the response-time from U.S. companies.

In arriving at a decision to employ three firms to assist U.S. companies in the early stages of their review of investment opportunities in Indonesia and to help identify local opportunities and entrepreneurs, AID considered alternative approaches to project identification and linkages between American investors and Indonesian entrepreneurs. Ultimately, it rejected the idea that AID should invite U.S. companies to Indonesia on "definitional missions" or help finance individual feasibility studies. There is insufficient evidence that a lack of feasibility studies or inability or unwillingness of American investors to conduct feasibility studies on their own is an overriding constraint on American investment in Indonesia. Moreover, AID has litle experience in identifying prospective business opportunities. Finally, AID was concerned that it would be difficult to assure adequate competition in the process of selecting companies for participation in definitional missions or for feasibility studies. Instead, AID has chosen to leave selection of companies to be invited on introductory missions to the GOI Minister of Administrative Reform who makes regular trade and investment forays to the United States. Feasibility studies, once projects have been identified, may be handled by TDP and OPIC.

In trying to develop a means of identifying possible investment prospects on the Indonesian side, AID considered the option of using consultants to examine specific sectors--agribusiness and light industry for example--in which investment might have a particularly developmental impact. The mission was not confident, however, that it could find consultants capable of locating both investment opportunities and Indonesian entrepreneurs and became convinced that the approach represented a somewhat costly administrative, public sector approach to private sector development. Instead, it is opting to allow the private sector to identify its own entrepreneurial ideas. Rather than a top down approach to project indentification, the current plan calls for a bottom-up surfacing of ideas by the entrepreneurs themselves. Again, because the approach is experimental, it must be carefully reviewed at the end of the first year.

AID considered suggesting the use of a single facilitating firm to perform the introductory services and to screen entrepreneurial ideas, but decided that by using three firms, it could create a competitive situation likely to increase the performance of individual firms. The project offers natural incentives to participating firms. Each referral of an American company for initial assistance is a potential long-term client, each project idea presented to a firm from the Indonesia side is a potential invesment opportunity which may be attractive to a new client. AID assumes that a number of the proposals submitted by entrepreneurs for consideration may be unrealistic, but expects that the facilitating firms will be able to select several during the course of the year which have solid investment potential and can assist the entrepreneurs in packaging their ideas. At a minimum, entrepreneurs will be assisted with advice on how to structure their ideas in a business-like fashion. If successful, the project will facilitate joint-venture possibilities between U.S. investors and Indonesian entrepreneurs as well.

<u>Criteria for selection of facilitating institutions:</u> The normal evaluation criteria prescribed by USAID should be applied by BKPM in the selection of consultants. USAID regulations should be followed in terms of payments and reimbursements.

More specifically, the overiding factor in the selection procedure should be a clearly demonstrated knowledge of the Indonesian economic environment, particularly the rural economy, inter-governmental linkages, realistic gestation periods within the economy, typical constraints and bottle-necks. Further, it will be critical that the facilitator be able to demonstrate a proven knowledge of the workings of the GOI regulatory and administrative system, and that he provide a sound basis for judging that he has the ability to work within the system to facilitate investments and to screen approved investment opportunities which have an economic return.

The facilitators will need to be able to judge accurately potential investments in Indonesian ventures and the ability and needs of Indonesian entrepreneurs. Unless an entrepreneur has a proven track record, such judgments will be largely subjective and should be recognized as such. It is for this reason that a ceiling has been placed on the subsidized facilitating services both to Indonesian and U.S. entrepreneurs. Nevertheless, especially in a private sector oriented project the facilitators should be aware that a determinant of contract extensions will depend upon performance, which will be judged by BKPM with USAID assistance principally on the grounds of clients handled, projects compatible with the GOI development objectives, clients deciding to pay for further work by the facilitators, and projects brought to fruition.

The facilitators intimate knowledge of the Indonesian economic scene must be complemented by a demonstrated knowledge of the U.S. economy, macro and micro, and ability to generate viable joint-venture partners for local consideration. The facilitator will have the opportunity to "plug into" existing data bases in the U.S. and

Indonesia, but he should also be able to demonstrate a knowledge of what "data bases" exist, how he would use them, the contacts he has in the United States and the formal and informal associations he has there.

The facilitator should also present a "marketing plan" of his services in Indonesia and in the U.S. For instance, how would he, employ U.S. trade associations? How will he market his services to rural Indonesia?

The facilitator should also demonstrate an ability to work with U.S. entrepreneurs and corporate representatives. Identical screening criteria must be applied to potential U.S. investors. In this context the facilitator should show how he would generate Indonesian joint-venture options and partners for U.S. investor consideration.

The facilitators should also show a demonstrated knowledge of the Indonesian financial community and regulations. Rapid change in occurring, and the facilitators should be able to avail their clients of this change and development

Criteria for selection of activities by facilitating institutions: The prime criteria for selection of activities by the facilitating institutions emerge from the development objectives of the Government of Indonesia.

To quote from the Third Plan (Repelita - III, 1979/1980-1983/1984), the objectives are:

"1. to enhance the standard of living, intelligence and more even and just distribution of welfare for all people;

2. to lay a strong foundation for the succeeding development stages.

"On the basis of the above principles and strongly adhering to the guidance given, in the Third Plan, development will be continued based on the following aims of the Development Trilogy:

"1. A more even spreading of development and its results that will lead to the creation of social welfare for the entire people;

2. A sufficiently high economic growth;

3. A sound and dynamic national stability."

In screening activities from a micro-economic perspective, the facilitating institutions should keep in mind the principles stated in the Third Plan:

"1. The even-distribution of the supply of basic needs for the people especially food, clothing and housing;

2. The even-distribution of educational opportunities and health services;

3. The even-distribution of income sharing;

4. The even-distribution of employment opportunities;

5. The even-distribution of business opportunities;

6. The even-distribution of participation in development, in particular for the younger generation and women;

7. The even-distribution of the development to be spread all over Indonesia;

8. The even-distribution of the opportunity to obtain justice."

As a guide to investment opportunities emerging from these principles, the facilitators should begin with the BKPM priority list. The facilitators should consider favorably as well expressions of interest in the service, construction, agriculture and other fields which conform to the above principles.

From a micro-project perspective the facilitators should take the following factors into considerations:

1. The project, if successful would make a significant contribution to the GOI's development effort. Projects should increase employment opportunities and incomes. They should not be labor displacing. Projects which generate significant employment in relation to resources invested, especially outside Jakarta should be given priority.

2. The project must be economically feasible. U.S. joint-venture projects should lead to reasonable sales and return on investment for the U.S. firm involved.

3. Investment proposals should indicate the proposed source of follow-on financing plus the probability and conditions which must be met in order to secure this financing. The likelihood of the commitment should be studied in detail.

4. The estimated lead time required for design and implementation of a project should be a factor in ranking proposals. Lead times beyond three to five years should seriously questioned.

For U.S. joint-ventures the facilitators should consider:

1. The experience of the U.S. firm operating in developing environments overseas or the demonstration of a strong potential to move the project successfully in Indonesia should be a major factor in the ranking.

2. The project should not produce a commodity for export which is likely to be in surplus on the world market or will cause substantial injury to U.S. producers or loss of U.S. jobs.

In selecting projects, the facilitator should be aware that his judgement in screening project applications and his success ration in terms of "deals closed" will be carefully monitored and evaluated; follow-on work for the facilitator by the BKPM will depend on his performance.

Development in areas of high capital infusion: The project will provide one full-time and a number of short-term consultants to assist the GOI in evaluating the impact of large foreign investment on enclave areas. The consultants will be attached to the general consultant appointed to the interministerial committee currently reviewing methods to optimize large-scale foreign investment. The consultants will be an integral part of the GOI's general consultancy team, focusing on problems relating to current and future investment in the Aceh region, specifically: (1) existing credit institutions, the possibility of developing a mortgage facility and the need and potential for a regional development bank to provide credit or a capital firm to provide equity to small entrepreneurs; (2) training needs and the potential for development of training institutions jointly funded by GOI, AID and private sector; (3) opportunities for private investment and venture capital.

The consultants will work with the GOI's general consultant for the project. During the remainder of the project--expected to be two years--they will use the knowledge gained from their inventory of investment opportunities and private sector needs in Aceh to examine development plans in areas likely to receive large capital investment in the near future.

The rapid infusion of foreign investment into defined areas of Indonesia has created enclaves of significant development surrounded by communities that receive few of development's benefits. The GOI is sufficiently concerned about the problems relating to enclave development that it has hired a general consultant to examine the development in Aceh province in Sumatra. The consultants financed by the project would assist the government in its evaluation of Aceh's development and would apply the Aceh experience directly to planning for new developments. They would focus on identifying areas in which capital or technical assistance can play a catalyzing role in diffusing the benefits of enclave investment throughout the surrounding communities. The problem is how best to shape the rapid infusion of new and large amounts of capital in order to maximize the developmental impact.

Special studies: The project would provide funds for a consultant to the Ministry of Finance to do a study of capital market development including of mortgage banking, factoring, money management and venture capital. The consultant would examine existing policies and regulations affecting the development of capital institutions and the role and impact that they may have on the Indonesian private sector.

A number of observers have identified the inadequacy of lack or supportive financial institutions as a major constraint on private sector development . The Ministry of Finance has expressed interest in a study of the possibility of using pension funds for housing mortgages--a development which would have broad implications for home construction and job creation in the construction industry. The Ministry has also cited lack of factoring facilities as an inhibition on small manufacturers and the limited availability of venture capital for entrepreneurs .

The special studies component also includes funds for assistance in the form of workshops, short-term consultants, seminars or technical exchanges relating to the development of industrial standards as requested by the AID consultant assigned to Minister of Science and Technology Habibie under AID's Puspitek project.

Funds under the special studies component would be used as well for an evaluation of the performance of facilitating firms during the first year of the project and subsequent evaluations prior to the project's completion. They would also finance an initial survey by facilitating firm of all American companies that have contacted BKPM in the past three years to determine the status of their interest in investing in Indonesia and to identify specific problems they may have encountered. They may also assist BKPM in a feasibility study of subcontracting possibilities in areas such as light manufacture and agribusiness

Institutional support: In addition to assisting the Ministry of Finance in analyzing the possible development of venture capital institutions, the project sets aside $700,00 for a loan to the Bank of Indonesia to be relent to a local or joint-venture, venture capital firms for equity investment in companies that are engaged in projects that have a development impact, should such a need and an appropriate firm be identified by the study.

For some time the government of Indonesia has expressed interest in venture capital. It has established public development banks, Bapindo and Upindo, which with World Bank assistance have been engaged in development loans and equity investment throughout Indonesia. One private venture capital company, the Private Investment Corporation of Asia, has engaged in limited equity investing, and the Bank of Indonesian and the International Finance Corporation have been exploring the possibility of support to a private management consulting firm, P.T. Pabesa, to develop a venture capital capacity. In 1973, the government licensed nine non-bank financial institutions to operate in Jakarta. Most of the firms are joint-ventures with foreign banks and have concentrated on money market transactions and underwriting. They are, however, licensed to take equity positions in Indonesian joint-venture companies and may be encouraged to do so more agressively by the momentum generated by AID and the GOI's interest in venture capital, one of these firms is completely pribumi and has recently begun a venture capital role.

End of Product Status:

By the end of the project it is expected:

(1) That Indonesia will have a critical mass of mid-career and senior executives in the private sector and government officials in state enterprises or working in agencies affecting the private sector who have received business training in the United States and have a good understanding of U.S. business.

(2) That a number of investment opportunities and Indonesian entrepreneurs have been identified and assisted in describing and packaging their proposals.

(3) That American investors have been informed of investment opportunities in Indonesia and that they have been assisted in getting over the early hurdles of investing in the country.

(4) That a number of joint U.S.-Indonesian ventures have been initiated.

(5) That existing U.S. services to promote trade and investment have been complemented and used more effectively.

(6) That investment opportunities and technical assistance needs in areas receiving large scale investment have been identified and that the potential for maximizing the developmental benefits of such investment havs been more clearly defined.

(7) That the GOI has additional information on the constraints and potential within its capital market, and that it has specific evidence of the impact of wider mortgage, factoring, credit and equity investment facilities on private sector development.

(8) That the GOI is aware of U.S. industrial standards.

(9) That the potential for venture capital investment in enterprises with a development impact os clearly defined.

(10) That BKPM data base on investment opportunities and potential investors and its ability to do feasibility studies and project profiles are strengthened and that a quantity of new information is available for use by both Indonesian and American business.

Outputs:

(1) The sending annually of up to 35 mid-career and senior-level executives to the United States for business training.

(2) 240 introductory programs for American companies interested in investing in Indonesia.

(3) 240 profiles of investment opportunities in Indonesia, identified from proposals submitted by Indonesian entrepreneurs.

(4) Visits by some 30 company executives at the invitation of the Minister of Administrative Reform.

(5) Studies of credit equity, training and investment needs and opportunities in Aceh and in areas likely to receive large scale foreign investment in the near future.

(6) A study of capital market development in Indonesia, focusing on mortgage, factoring, venture capital facilities.

(7) A workshop on U.S. industrial standards.

(8) Equity investment in small, job creating enterprises.

(9) Survey results on problems facing U.S. investors.

Inputs:

(1) Management training: A $1 million grant to a private voluntary or Indonesian organization to establish a mechanism for mid-career and advanced management training at American business schools.

(2) Facilitating investment: A $1.35 million loan to BKPM to strengthen its capacity to do investment profiles and to establish a mechanisam to facilitate contact between interested American investors and Indonesian entrepreneurs seeking capital, technology or access to markets.

(3) Enclave development: A $1.08 million loan to the Minister of Administrative Reform to assist in assessment of development in areas of high foreign investment.

(4) Invitational visits: A $180,000 to the Minister of Administrative Reform to cover costs of up to $6,000 per visit of American executives invited by the GOI to review investment opportunities in Indonesia.

(5) Special studies: A $200,000 loan to finance special studies requested by GOI officials such as the Minister of Finance or the Minister of Science and Technology, to allow evaluation of the performance of facilitating, a survey of U.S. companies who have shown interest in investing in Indonesia and a possible feasibility study of subcontracting opportunities in specific sectors of Indonesian industry.

(6) Institutional support: A $700,000 loan to the Bank of Indonesia to be relent to a venture capital firm.

Part III

A. Technical Description

1. Management training: The proposed management study program will administered by an intermediary institution such as the Asia Foundation or the Institute for International Education in conjunction with Indonesian institution under contract to the Minister of Education. Selection of final participants will be done by a board of representatives drawn from Indonesian and American business organizations. The intermediary institution will be responsible for initial testing and screening of candidates and for all arrangements with U.S. business schools. All tuition and travel will be financed by the companies of the participants involved, except in cases of demonstrated need; appoximately one-third of the participants will be given scholarships; the project will provide initial funding to cover scholarships although it is expected that companies and past participants will make contributions to establish a permanent scholarship program. A representative from the intermediary institution will also work with the Indonesian-American Center and with local consulting firms or universities to sub-contract for special training for candidates who lack skills in English or business fundamentals.

2. Facilitating investment: The facilitating firms will be responsible to AID and BKPM for developing an acceptable procedure for introducing U.S. companies to the business environment in Indonesia. They will inform the American Chamber, Indonesian consulates in the United States, FCS, the GOI, and other interested associations or agencies of their availability to assist American investors. They will also establish a mechanism for soliciting proposals from private Indonesian entrepreneurs interested in foreign investment. They will establish criteria along the lines suggested by AID and BKPM for screening proposals both in terms of business viability and development impact and will assist entrepreneurs in preparing proposals for presentation to potential U.S. investors. The firms will circulate project profiles to U.S. investors through the offices of the FCS and through their own contacts in the United States.

The firms will be paid monthly by AID after BKPM's approval of bills submitted. The project will pay up to $6,000 per client. During the initial year of the project AID and BKPM will review performance of the firms quarterly. If firms are not doing work according to the project's criteria or are failing to submit bills drawing down the $150,00 allotted to each firm, adjustments in allotments may be made to allow the most active firms an opportunity to do additional work.

A full evaluation of the facilitating firms will be done at the end of the first year of the project to determine whether the facilitating approach is a useful way to pursue AID's objective of strengthening the Indonesian private sector and encouraging U.S. investment.

3. Informational visits: The Minister of Administrative Reform invite up to ten companies to visit Indonesia annually toreview investment possibilities. The project will cover up to $6,000 of the travel costs for each company. All invitees will travel according to the standard provisions established for participants in AID-funded programs.

4. Enclave development: The consultants working on studies related to development in areas where there has been or is expected to be large infusion of foreign investment will work as part of the team of general consultants hired by the interministerial committee chaired by Minister Sumarlin. They will present to the GOI a completed study of conditions in Aceh describing training credit and investment opportunities and bottlenecks before undertaking further studies in other areas. The study must be accepted by USAID and by the GOI.

5. Institutional support and special studies: The consultant to the Ministry of Finance is expected to produce a completed report on capital markets and the role of venture capital by the end of his three-month contract.

Should the study identify a suitable venture vapital institution for AID suuport, in the second year of the project AID would make a loan to the Bank of Indonesia to reloan to the venture capital firm for equity investments with a developmental impact. Any income generated to the Bank of Indonesia by a difference in interest rate charged GOI by AID and that charged by the Bank of Indonesia to the venture capital firm would be used in future loans to the venture capital firm.

Special studies or workshops on standards will be suggested by the AID consultant to the Ministry of Science and Technology. BKPM will select a facilitating firm to survey U.S. investors who have expressed an interest in the part in investing in Indonesia to determine the status of their interest and any problems they have encountered. BKPM may also request a facilitating firm to assist it in doing a feasibility study in certain sectors, light manufacturing, agribusiness, or sub-contracting for large industries.

All host-country sub-contracting will be carried out in accordance with normal AID policies, procedures and regulations. The Minister for Administrative Reform, Dr. J.B. Sumarlin, will be the principal GOI official responsible for the project. Both the interministerial committee on development in areas of major foreign investment and the BKPM fall under his aegis, and he leads Indonesia's annual trade and investment missions abroad. He will designate counterparts in BKPM, on the inter-ministerial committee, and in his own office to serve as counterparts to the facilitating investment, enclave development and invitational visits components of the project. AID will work with BKPM the Ministry of Science and Technology and Ministry of Finance on special studies developed and carried out under the program.

B. Economic Justification: The primary short-run objectives of this project are job creation and self-sustaining institution building, and the primary long-run objective is to generate concrete lessons to be considered in formulating projects, policies, and programs for the achievement of Indonesia's development objectives. Institution-building projects and catalytic activities do not readily lend themselves to standard economic analysis and quantification. The creation of jobs can be reduced to principles of economic return, but the number of jobs created by this project is difficult to estimate precisely.

Thus, let us consider the project components individually, although they have been designed to be reinforcing. Over the three year project life, 105 executives will be trained at a total cost of $2.1 million ($20,000 x 105 students) to the trainees, with $700,000 contributed by the Government of Indonesia through U.S. AID support and an overhead expenditure of $180,000. If each trained executive results in only two increased jobs, at a $5,000 per cost job (an estimate for village industry compared to $20,000 to $100,000 for typical foreign investment) then the Government/USAID investment wouldhave a rate of return greater than 100 percent

$$\frac{(210 \text{ jobs} \times \$ \ 5{,}000)}{(\$700{,}000 \times \$ \ 180{,}000)}$$

Clearly, the quantification for each variable in the equation is subject to tremendous variations in judgment, but the calculation does provide some quantitative basis for evaluating the investment decision.

Using a similar analog, if only one of the 30 invitees by the Minister of Administration to Indonesia were to start a firm employing 50 people, the direct benefit from job creation (leaving aside job opportunities from construction or other indirect benefits) would be $250,000, compared to an investment of $ 180,000--more than a 100 percent return. Again, the equation is based on numbers that could be subject to tremendous variation, but they are indicative of the potential of this project component.

Vis-a-vis the facilitations, assuming a $6,000 per client subsidy, they will handle 75 "clients" per year. If five of those clients set up 50 person industries, the employment effects would be (5 x 50 x 5,000) $ 1.25 million or a better than two to one return.

The return from a loan to a venture firm will, of course, depend on the firm's ability to respond to entrepreneurs and manage their portfolio. Any firm investing in ventures does so because the expected return exceeds the present 23% overnight inter-bank rate. Such a return is more than adequate for labor-intensive rural projects.

In sum, on an institution-building basis alone, the project is economically justifiable. The BKPM personnel delegated to the facilitating firms will return to BKPM with a solid experience in investment promotion from the private sector point of view. The local facilitating firms will themselves become important pillars for private-sector development. The job-creation potential has been costed out on a conservative basis. Put another way, is it not realistic to expect that additional joint-venture investments resulting from this project will exceed $4.5 million, the USAID contribution to this series of initiatives?

C. Social Justification: In addition to the economic distress and potential political instability resulting from an inability of the Indonesian economy to absorb ever-increasing numbers of job seekers, there are additional social problems that result from the uneven nature of Indonesia's economic development. The benefits resulting from a rapid growth in manufacturing and commerce in recent years have not been shared equally. Chinese and Indonesians of Chinese descent continue to dominate commerce and industry. Pribumi entrepreneurs lack access to capital, and resentment against Chinese success has flared repeatedly in urban violence and attacks against the Chinese population.

At the same time, intensive and large-scale capital investment in areas where minerals, timber, oil and gas have attracted foreign companies creates a different sort of problem. Benefits have not been shared between enclave and surrounding community, resulting not only in resentment but in a real loss of opportunitiy.

The project is designed to address these problems. It creates a facilitating mechanism to attract proposals from Indonesian entrepreneurs, to assist them in shaping their ideas into viable projects, and to help them seek out equity partners. It provides entrepreneurs outside of major metropolitan centers and enclave areas with a means of getting a hearing before potential investors. And in assisting U.S. investors, it provides an opportunity for U.S. technology and management skills to contribute to the growth of Indonesia's private sector. In selecting projects and assisting Indonesian entrepreneurs, the facilitating consultants will concentrate on those projects likely to have the greatest development impact. Their scope of work will outline criteria by which projects should be selected.

The possible loan to a private venture capital firm, similarly, will focus on encouraging equity investment in development-forcing enterprises. The loan will support a venture capital company that has shown both a willingness to invest in small-scale, labor-intensive enterprises and a capability of turning a healthy profit on such investments. Visible success of a venture capital company in making this type of investment--clearly defined as equity investment in an enterprise with development impact in terms of job creation, income generation and increased access to resources--will demonstrate to other non-financial banking institutions and tothe GOI the possibility of private sector investments that are both profitable and socially beneficial.

The consultants to the general contractor for the interministerial committee reviewing the impact of investment in enclave areas will examine constraints that prevent maximization of development in surrounding communities and develop approaches and institutions that will allow more socially effective use of capital being invested. The consultants will advise on credit, training and investment opportunities, and their advice will have social benefits to the extent that it can be translated into programs and policy changes that help disperse the returns from intensive foreign investment.

The management study program allows AID to act as a catalyst, spending a minimum amount of money to encourage private companies to provide short-term quality training to mid-level and top-level executives. The program will also offer the GOI a means of giving training to those civil servants who are directly involved in regulating the private sector, introducing them to policy alternatives that may allow a more effective working of the market. A greater pool of trained managers in Indonesia should not only permit a more efficient use of private capital but should introduce new management techniques, including industrial relations training that benefit workers directly. The aim of the project is not only to produce more managers, greater efficiency and more jobs, but more responsible management and better workplace conditions as well.

Participants in the project, once they have returned to Indonesia, will be encouraged to join an alumni body. The alumni body will provide a forum for workshops and discussion of management style and approaches and will serve to tie past participants to an ongoing business scholarship program. The hope is to build a community of executives interested in business training which will be supportive of further efforts in participant training, a scholarship program for study abroad and the establishment of business training institution, in Indonesia.

The special studies provide the Government of Indonesia an opportunity to review current pratices affecting private sector development and to lay the ground work for changes that will improve the efficiency of the capital market in line with its own development objectives.

D. Environmental analysis: The project will have no adverse environmental impact. The project is one of the institution building, technical assistance and training. The project provides no funds directly for construction. Neither the individual components of the project nor their cumulative effect can be considered as being a major action which will have a significant impact on the environment. However, it is recognized that appropriate concern for the environmental impact of an activity should be incorporated into subproject design and implementation as part of overall analysis to determine the real benefits and real costs of an activity. Therefore, the technical assistance and training aspects of the project will give attention to improving Indonesian and U.S. company awareness of environmental concerns related to private-sector development.

E. Technical Feasibility: The State Minister for Administrative Reform in his overall capacity--specifically as the policy guide to BKPM (article 17 BKPM Charter) and as head of the interministerial Committee on Enclave Issues--or his designee or designees will be the executor of the project.

BKPM is charged with the responsibility for promoting investment, both foreign and Indonesian. To date in the current policy setting, the major constraints in investment which have been identified from the Indonesian perspective are equity capital, project packaging, identification of joint-venture partners, the communication and perception gap between U.S. investors and Indonesian entrepreneurs, and the lack of trained managers. From the U.S. investor perspective the two major constraints are: (1) The lack of understanding of the Indonesian business environment--the Indonesian Government approval and regulatory structure; (2) The ability to identify joint-venture partners.

This project provides a pragmatic and immediate attack on each of these constraints, and the logical executor for the various components of the project is the State Minister or his designees.

For the optimization of foreign investment effects and minimization of enclave effects, under the guidance of the State Minister, the secretary to the Interministerial Committee on this subject, and his general consultant, when one is appointed, will be responsible for the execution and supervision of this project component.

The institutional framework for the advanced and middle-management training component of the project will include several aspects:

- the State Minister will have the responsibility for the final approval of the government candidates participating in their study program;

- the administrative arrangements, including identification of programs, universities, appropriate programs, testing, applications will be handled through an intermediary institution;

- a committee comprised of executives from Indonesian and U.S. business organizations will identify and select private sector candidates;

- as members of KADIN, state enterprises will be expected to suggest candidates.

Contact with the alumni and alumni activities will be initially handled by the business representatives. All activities with respect to the training component will integrated into the local management training institution now under consideration once it has been identified and strenhthened.

The special invitation fund to U.S. investors will be administered directly by the State Minister insofar as the invitations will, on the whole, be extended during his annual trade promotion visits. The administration of travel arrangements will be handled through BKPM with the assistance, as necessary, of USAID.

Under the guidance of the State Minister, the facilitating institutions will be administered and monitored through BKPM. The selection of the facilitating institutions will be by the State Minister. The review procedure of the facilitators will be carried out under the chairmanship of BKPM with participantion by AID and business organizations .

The special studies will be determined by the State Minister and executed and supervised by his designee. For example, the venture capital market, factoring, and cash management study, would be carried out DG NBFI of the Ministry of Finance.

A monitoring and evaluation committee comprised of the GOI, AID, and selected business representatives under the secretariat assistance of BKPM and the Chairmanship of the State Minister will be created upon the approval of the project. The committee will meet on a quarterly basis and present a concise report to the State Minister. If necessary, consulting funds will be available from the special studies project component for this purpose.

The Implementation Plan

The implementation Plan is itemized in the following section and is consistent with the components and agencies laid out in the section on institutional framework.

Essentially, after AID Washington approves the project on August 1, 1982 (authorization) the project agreement covering the grant/loan elements should be signed in Indonesia on August 30, 1982, since the Washington document will represent an agreed-upon U.S. AID-GOI position.

Request for Proposals for the two major consulting contracts will be prepared and advertised by October 30, 1982 (the technical assistance for facilitating joint venture cooperation and the maximization of benefits from concentrated foreign (enclave) investment. These contracts will be awarded in February 1983.

With respect to the management training, the business representatives' committee under the chair of BKPM acting on behalf of the State Minister will be formed upon signing of the PIL. The scholarship fund will be established March 1, 1983, after an intermediary institution has been selected, and students should be attending sessions in the U.S., starting in July and August 1983.

On January 25, 1983, the BKPM on behalf of the State Minister will establish an invitation fund for U.S. joint-venture possibilities.

The project will be monitored by U.S. AID directly through its Private Sector Office. The Private Sector Office will have the responsibility for providing quarterly progress reports to all relevant officials and committees. The Private Sector Office will also have the responsibility for cross-fertilization of data, information, and results relating to the project.

An outside contractor, one U.S. consultant and one Indonesian consultant would conduct a mid-term evaluation using GOI policies and development objectives and U.S. AID priorities for benchmarks from which to judge the project results, to feedback into any necessary modifications in project design and execution for the remainder of the project life, and to inform the GOI about constraints and obstacles tp private sector development.

The project would be evaluated according to U.S. AID guidelines three months before the PACD, in June, 1986.

Implementation Plan

1.	Project Authorized by AID/W	August 1, 1982
2.	Project Agreement signed with GOI	August 30, 1982
3.	PIOT's prepared for facilitating firms	September 30, 1982
4.	PIOT's prepared for enclave minimization consultants	October 15, 1982
5.	PIOT's prepared for intermediary institution to handle management training program	October 30, 1982
6.	PIL drawn up for invitational visits	October 30, 1982
7.	PIL drawn up for special studies and institutional support	October 30, 1982
8.	Proposals received from facilitating firms	January 1, 1983
9.	Proposals received for enclave minimization consultants	January 15, 1983
10.	Proposals received for intermediary institution to handle management training	January 30, 1983
11.	Host country (BKPM) contract with facilitating firms signed	February 1, 1983

12.	Host country (interministerial committee) contract signed with consultants for enclave minimization	February 15, 1983
13.	Host country (MOE) contract/grant to intermediary institution for management training signed	March 1, 1983
14.	First review of facilitating firms' performance	May 15, 1983
15.	First Group of management trainees tested	May 15, 1983
16.	Business committee and GOI selects first trainees	June 15, 1983
17.	First trainees to the United States	July 15, 1983
18.	End of first special studies. Review of venture capital, home mortgage possibilities	January 1984
19.	End of first phase of enclave minimizing consultancy. Review of work	February 15, 1984
20.	End of first year of facilitating firms. Review of performance	March 1, 1984
21.	Development of projects suggested from special studies	Spring 1984
22.	Final review of project	June 1986
23.	Project activity completion date	September 1986

Private Sector Exploratory Project Budget

First year	$ USAID	$ GOI	$ Private Sector	$ Total
	(000's of Dollars)			
1. Management training:				
35 participants:				
24 private sector supported			480	
11 grant funded	200			
Administrative and follow-up cost	113	20		
Staff salaries		60		
				873
2. Information visits:				
10 visits per year at $12,000 per visit, split between USAID and private sector; GOI costs for trade and investment mission	60	120	60	240
3. Facilitating investments:				
Consulting firms three firms @ $150,000 each	450			
GOI staff time for BKPM officials placed with consultants		20		
Post introductory expenditure by private sector			450	
				920
4. Development in areas of high capital infusion:				
USAID sponsored consultants	360			
GOI sponsored concultants and related investments		500		
Private sector sponsored consultants and related investment			500	
				1,360

	$ USAID	$ GOI	$ Private Sector	$ Total
5. <u>Special studies:</u>				
USAID consultants	67			
GOI paid consultants		120		180
6. <u>Venture capital(second year only):</u>				
USAID loan	700			
Private sector loan		2,100		2,800

<u>Second year</u> (Same as year one except AID will have $700,000 available to loan to the bank of Indonesia to be relent to)

<u>Third year</u> (Same as year one)

<u>Summary for the life of the project</u>

	$ USAID	$ GOI	$ Private Sector	$ Total
<u>First year:</u>	1,270	920	1,490	3,680
<u>Second year:</u>	1,970	920	3,590	6,480
<u>Third year:</u>	1,270	920	1,490	3,680
<u>Total</u>	4,510	2,760	6,570	13,840