

PD-AAU-256

47094

UNCLASSIFIED

UNITED STATES INTERNATIONAL DEVELOPMENT COOPERATION AGENCY  
AGENCY FOR INTERNATIONAL DEVELOPMENT  
WASHINGTON, D.C. 20523

PROJECT PAPER

PRIVATE SECTOR DEVELOPMENT

497-0329

JUNE 1986

USAID/INDONESIA

UNCLASSIFIED

11/10 - 2

<b>AGENCY FOR INTERNATIONAL DEVELOPMENT</b>		<b>1. TRANSACTION CODE</b> A = Add C = Change D = Delete		Amendment Number <u>Two</u>		DOCUMENT CODE <u>3</u>	
<b>PROJECT DATA SHEET</b>							
2. COUNTRY/ENTITY <u>Indonesia</u>				3. PROJECT NUMBER <u>497-0329</u>			
4. BUREAU/OFFICE <u>Asia /Near East</u>				5. PROJECT TITLE (maximum 40 characters) <input type="checkbox"/> Private Sector Development			
6. PROJECT ASSISTANCE COMPLETION DATE (PACD) MM DD YY <u>06 01 88</u>				7. ESTIMATED DATE OF OBLIGATION (Under "B." below, enter 1, 2, 3, or 4) A. Initial FY <u>82</u> B. Quarter <u>4</u> C. Final FY <u>86</u>			

8. COSTS (\$000 OR EQUIVALENT \$1 = )						
A. FUNDING SOURCE	FIRST FY <u>82</u>			LIFE OF PROJECT		
	B. FX	C. L/C	D. Total	E. FX	F. L/C	G. Total
AID Appropriated Total	3000	500	3500	8100	1500	9600
(Grant)	( 500 )	( )	( 500 )	( 1750 )	( )	( 1750 )
(Loan)	( 2500 )	( 500 )	( 3000 )	( 6350 )	( 1500 )	( 7850 )
Other U.S.	1.					
	2.					
Host Country		1800	1800		4100	4100
Other Donor(s)						
<b>TOTALS</b>	<b>3000</b>	<b>2300</b>	<b>5300</b>	<b>8100</b>	<b>5600</b>	<b>13700</b>

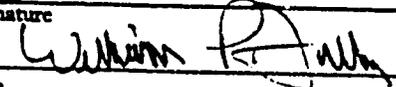
9. SCHEDULE OF AID FUNDING (\$000)									
A. APPROPRIATION	B. PRIMARY PURPOSE CODE	C. PRIMARY TECH. CODE		D. OBLIGATIONS TO DATE		E. AMOUNT APPROVED THIS ACTION		F. LIFE OF PROJECT	
		1. Grant	2. Loan	1. Grant	2. Loan	1. Grant	2. Loan	1. Grant	2. Loan
(1) FN	27QB	840	840	750	2350	2000	3000	2750	5350
(2) SD	27QB		840		1500				1500
(3)									
(4)									
<b>TOTALS</b>				<b>750</b>	<b>3850</b>			<b>2750</b>	<b>6850</b>

10. SECONDARY TECHNICAL CODES (maximum 6 codes of 3 positions each)								11. SECONDARY PURPOSE CODE	
12. SPECIAL CONCERNS CODES (maximum 7 codes of 4 positions each)									
A. Code									
B. Amount									
13. PROJECT PURPOSE (maximum 480 characters)									

To test methods of strengthening the Indonesian private sector through training and links to the U.S. private sector, provide information to Indonesian decision makers about opportunities to develop the Indonesian private sector, and accelerate the growth of output, productivity, and employment capacity of non-farm enterprises in the province of Central Java.

14. SCHEDULED EVALUATIONS						15. SOURCE/ORIGIN OF GOODS AND SERVICES							
Interim		MM	YY	MM	YY	Final		MM	YY				
		11	08	86				11	08	<input checked="" type="checkbox"/> 000 <input checked="" type="checkbox"/> 941 <input type="checkbox"/> Local <input type="checkbox"/> Other (Specify)			

16. AMENDMENTS/NATURE OF CHANGE PROPOSED (This is page 1 of a \_\_\_\_\_ page PP Amendment.)  
 This amendment adds funds for special studies and consulting services required to identify and address constraints on the private sector and for activities promoting enterprise development in Central Java.

17. APPROVED BY	Signature 				18. DATE DOCUMENT RECEIVED IN AID/W, OR FOR AID/W DOCUMENTS, DATE OF DISTRIBUTION			
	Title William P. Fuller Director USAID/Jakarta		Date Signed MM DD YY 06 06 86					

PROJECT AUTHORIZATION AMENDMENT NO. 2

INDONESIA

PRIVATE SECTOR DEVELOPMENT  
PROJECT NO. 497-0329

1. Pursuant to Section 103 and 106 of the Foreign Assistance Act of 1961, as amended, the Private Sector Development Project for Indonesia was authorized on August 6, 1982. That Authorization was amended on May 31, 1984. That Authorization is hereby further amended as follows:

Paragraph 1, is amended to authorize planned obligations of not to exceed \$6,850,000 in loan funds and \$2,750,000 in grant funds, and total Life of Project funding of up to \$9,600,000. The additional funding herein provided is authorized for obligation through September 30, 1987, subject to the availability of funds in accordance with the A.I.D. OYB/Allotment process. The Project Assistance Completion Date, June 1, 1988, remains unchanged.

2. The authorization cited above remains in full force and effect except as hereby amended.

3. Prior to the execution of the Project Agreement Amendments the Congressional Notification waiting period shall have expired without objection and USAID/Jakarta shall have received a cable notification that funds have been allotted.

Signature:

  
William P. Fufler

Date

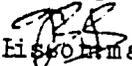
: 6/2/86

Clearances: EED:Gwest 

PRO:DZvinakis 

FIN:RMcClure 

A/DD:JSperling 

  
Drafted: LA:GHis  ma:06/06/86

Amendment to the Private Sector  
Development Project  
497-0329

Table of Contents

<u>Section</u>	<u>Page</u>
I. Background	1
Summary	1
The Project	1
Progress to Date	1
II. Project Amendment Description	2
A. End of Project Status	3
B. Outputs	4
1. Policy	4
2. Public Institutions	5
3. Private Institutions	5
4. Training	6
5. Research	6
C. Inputs	6
1. Special Studies and Consulting Services	6
(a) Tax	7
(b) Bank Indonesia	8
(c) Capital Markets Development	9
(d) Other	9
2. Central Java Enterprise Development	9
3. Contingency	11
III. The Budget	12
IV. Financial Plan	12
V. Economic Analysis	15
VI. Implementation and Monitoring Plan	17
A. Implementation and Monitoring Plan	17
B. Contracting Plan	17
C. Evaluation	18
D. Implementation Schedule	18
<u>Annexes</u>	
A. Scopes of Work IRS	
B. AID/W Approval Cable	
C. GOI Request Letter	
D. Statutory Checklist	

- 1 -

Amendment to the Private Sector Development Project  
497 - 0329

I. BACKGROUND

Summary: This project paper amendment adds funds (\$3 million in loan and \$2 million in grant from USAID and \$1.45 million from the GOI) to increase the amount now available for three existing line items under the Private Sector Development Project (497-0329): (1) Special Studies and Consulting Services, (2) Central Java Enterprise Development, and (3) Contingency. The purpose of the original project is not changed, nor are new elements added. The underlying financial, economic and social analysis contained in the original project paper is supported by project experience as noted and remains valid. The intent of this Amendment is to increase funding available under the above-mentioned line items since successful activities have exhausted current funding.

The Project: The goal of the Mission's Private Sector Development Project (497-0329) is to create job opportunities through private enterprise development. The strategy is to improve the efficiency and expansion of services -- public as well as private -- important to private sector growth; to improve the policy environment in which the private sector operates; and to channel private resources, primarily capital, management skills and technology to enterprise development in areas of high employment potential. The Private Sector Development Project (signed September 30, 1982) tests ways to implement this strategy. It established activities under four components: (1) to facilitate new investment in areas of high employment potential through brokering by Indonesian firms affiliated with US firms to match Indonesian entrepreneurs with potential US investors; (2) to establish a management training loan fund (now called the Indonesian Executive Development Fund) to provide loans to Indonesian companies interested in sending mid-level and senior executives to the United States for short-term training at US business schools and internships at US companies; (3) to conduct studies in Lhok Seumawe, an area of highly capital intensive investment in North Sumatera, to assess possible ways of integrating capital-intensive industry with the local economy; and (4) to conduct special studies and provide consulting services related private sector development.

The project was amended June 29, 1984, to add a fifth component for enterprise development in Central Java. It is designed to attract new investment to areas of high employment and profit potential in agribusiness and light manufacturing for export and focuses on shrimp production, rattan and wood products, agroprocessing equipment and metal spare parts. The activities introduce new technologies to the private sector and help the GOI identify and address constraints -- such as credit or licensing -- on private sector development.

On June 10, 1985, FIL #24 extended the project's PACD to June 1, 1988.

Progress to Date: The objective of the project is to experiment with a broad range of activities, to identify areas of particular opportunity and to focus on those opportunities. Progress to date is as follows:

(1) Financed under the facilitating investment component of the project, two Indonesian firms affiliated with US consulting firms have provided advice to 30 Indonesian and 20 US companies resulting in an expected four investment applications, totaling \$ 10 million, to be submitted for licensing in 1986. (2) Under the management training loan fund, a \$ 2 million loan fund has been established by the Ministry of Finance with GOI funds for companies interested in short-term training and internships. USAID's contribution is a \$ 413,000 consultancy contract with Pragma for program administration. Since the program was launched officially on November 1, 1985, sixty companies have applied and programs for 25 participants are being developed for training during 1986 in fields ranging from property management and insurance to steel production, engineering management and computer software. (3) Studies on community planning and manpower development in Lhok Seumawe have been completed, and an action research project to assist small businesses develop an effective link to the capital-intensive enclave is about to begin. (4) Funds under the special studies and consulting services component have been used to assist the Department of Tax in implementing a recent tax reform, to develop a management information system for the Bank Rakyat Indonesia's village credit system, to study private sector training needs and programs, for workshops on Indonesia's effective use of the US textile quota, for participation in AID's conference on privatization, and to provide assistance from the Federal Reserve Bank to Indonesia's central bank (Bank Indonesia) in strategic planning, accounting, computerization and bank supervision. (5) Early activities under the Central Java Enterprise component in shrimp, furniture, rattan and garments have been encouraging both in terms of jobs created and issues -- ranging from quota allocation to credit and marketing -- identified and addressed. They are testing the possibility of using direct technical assistance to private enterprises to create replicable and self-sustaining operations or marketing channels and to attract private investment into new areas of high employment potential.

## II. PROJECT AMENDMENT DESCRIPTION

The Project Amendment adds \$ 5 million (\$ 3 million loan, \$ 2 million grant) from AID to increase the amount available under the project's existing components for special studies and consulting services and for Central Java enterprise development activities. The initial project cast a wide-net, testing returns from assistance in areas ranging from management training to investment promotion. The amendment has a more limited focus. It builds upon the success of project activities involving policy formulation and implementation in high priority areas for the private sector -- tax and financial markets development: it also seeks to consolidate gains made in the small enterprise development component in Central Java, evaluating the lessons learned and strengthening their potential for replication. It does not alter the purpose of the original project, neither add nor delete elements.

The project's special studies and consulting services component of the project has provided an opportunity to explore policy issues critical to the private sector -- credit, banking, tax, licensing. The government

needs, has requested and is capable of using assistance to address these issues. Activities funded under this amendment will help sharpen policy and implementation in these areas.

The Central Java enterprise development component of the project has a number of objectives. At the micro level, the objective is to test an approach to small and medium sized business, to see if needs could be identified and appropriate assistance provided. The test includes both the appropriateness of the technical assistance and the effectiveness of the method of delivery.

Because of the project's private sector orientation, it is hoped that gains from technical assistance at the micro level will be "institutionalized" within the private sector, that small firms exposed to improved methods of operations will absorb the new "technology" and integrate it into their operations without further extension services from the government or donor community.

Institutionalization at a more macro level of the technical assistance delivery process may come from a number of sources. A private voluntary organization is being trained to a level from which it can provide technical assistance on a self-sustaining basis, without further outside aid. An effort will be made to encourage government extension services to incorporate aspects of the new technology in their programs by working closely with individual government agencies in design and implementation of selected activities. Private Indonesian counterparts on the contract team may be able to continue the services either as an independent company or by joining a private company.

The amendment will help obtain these objectives by providing short-term technical assistance in design, quality control and marketing and for extension of long-term advisors in shrimp and export promotion. It will facilitate replication by consolidating gains made through technical assistance, providing help to small rattan producers in establishing business systems, for example, and to the model hatchery in setting up financial and accounting controls. These systems can then be adapted by others interested in similar operations. Assistance provided under the amendment will work directly with government institutions as well -- Departments of Industry, Trade and Fisheries -- to translate lessons learned from the project's activities to government extension efforts. It will also lay the groundwork and establish the monitoring system required for a full evaluation of the potential for follow-on replication of the project itself.

#### A. End of Project Status

At the end of the project, this amendment will have helped the GOI improve services to the private sector in key areas such as tax and central bank operations; it will have identified policy areas and operational changes critical to the mobilization of domestic and foreign resources through an active capital market and provided technical assistance to examine alternative approaches to development of such a market. Activities in Central Java will have attracted private investors

into areas of high employment potential; they will have provided insight into policies and operational constraints affecting small enterprise development and will have helped private operators in certain fields overcome threshold costs inhibiting investment. At the same time, the activity will have given the GOI a chance to test fresh approaches such as the contracting of support services to the private sector and the potential for establishing such services on a self-sustaining basis. Specifically, by the end of the project, the amendment should have produced:

1. Improved understanding of specific constraints on foreign and Indonesian investors, particularly in policy areas relating to credit, licensing, ownership rights, tax, manpower development, and increased discussion between the GOI and business of approaches to overcome these constraints.
2. A better understanding of current limits on the capital market and of the potential for mobilization of domestic and foreign resources for expansion of existing operations or financing of new companies.
3. Improved tax administration and increased tax revenues.
4. A pension control system outlined and improved pension administration.
5. An improved capacity at Bank Indonesia in financial intermediation, national planning and service to the private sector.
6. A self-sustaining mechanism in place in Central Java to support small enterprise export sales, assisting producers to obtain credit and raw materials and facilitating marketing of products.
7. Increased private sector activity in a number of new enterprises -- furniture, wicker products, shrimp production, metals -- and improved support services, private as well as public, for small and medium-sized business; direct GOI contracts with the private sector such as private voluntary organizations or contractors, for support services to small enterprises.

#### B Outputs

The amendment will produce outputs in policy, institution building -- both public and private -- training and research.

1. Policy: The project amendment will provide direct support to policy formulation and implementation through special studies relating to constraints on the private sector and by supplying consulting services to assist in policy reform favorable to private sector development. During the first year of the project, we examined a number of areas for potential work on policies relating to private sector development. We focused on pension system and capital markets development, investment climate, tax and credit. Future studies and consulting build on this experience and include a major program to

the Department of Tax in administration of its new tax laws, assistance to Bank Indonesia as it reviews its long-term requirements, capital markets development and policies or practices relating to effective resource mobilization and an expanding role for the private sector.

Studies and consultant services under the project will help the GOI in planning and reviewing policies relating to capital mobilization and an improved business environment. Activities in Central Java will provide tangible examples of key policy areas affecting small enterprise development; studies relating to those policies can suggest improvements.

2. Public institution building in support of policy reform: In support of policy formation and implementation, by the end of the project:
  - (a) The Department of Tax will have developed a strategic plan for manpower development required to implement the new tax reform, and training under that plan will have begun.
  - (b) More than 200 district officials in each of 63 districts will have received training in district office management, staff development and relations with the central office and curriculum and staff capable of conducting follow-on training will be in place.
  - (c) PAIK and the Department of Tax will have made major progress towards development of a master tax file, a directorate-wide management information system will be in place, and 10 programmers will have been trained in programming to meet the Tax Department's requirements.
  - (d) A cadre of trained instructors capable of delivering training in collection will have been developed and 90 collection officials will have received training.
  - (e) Improved collection, forms and audit systems will be in place assisted by short-term advisors.
  - (f) Bank Indonesia will have defined its requirements for long and short-term assistance in strategic planning, bank supervision, internal accounting and automation, and establishment of a national credit file, and a program for meeting these requirements will be underway.
  - (g) A regulatory procedures manual for pension system administration will have been developed, and three MOF officials will have been trained in pension administration.
3. Private institution building: The project will contribute directly to improved production by private entrepreneurs; it will produce the following:

- (a) A model hatchery will be operating and a private voluntary organization will be fully capable of providing on-going training and technical assistance to hatchery managers and pond farmers on a self-sustaining basis; more than 100 pond farmers will have received formal training at ponds operated in connection with the hatchery; as many as 500-1000 pond farmers will have received informal training through field visits from hatchery personnel to private ponds; commercial shrimp feeds for low and high density production will have been developed and made available to private feed producers.
  - (b) The business plans for appropriate hatchery operations, small scale enterprises in furniture, rattan, garments, metal agroprocessing equipment will have been developed and tested for replication. Fifty entrepreneurs in these fields will have received training in business planning.
  - (c) Design, quality control and marketing technology will have been delivered in at least three areas -- shrimp, metals and rattan - wood products -- and permanent channels for further technology transfer, supported by the private sector, will have been established. A private voluntary organization with a commercial orientation will be able to deliver training, design and marketing assistance on a self-sustaining basis.
4. Training: In each of these areas training will take place. Tax officials will receive training under the Special Studies and Consulting Services line item; rattan producers and shrimp pond operators will be trained under the Central Java Enterprise Development activity.
  5. Research: Base line studies and regular evaluations of the Central Java activities will produce information on job creation and the effectiveness of technical assistance to small enterprise for small enterprise development. They will also identify constraints on small business operations and growth.

### C. Inputs

The major input is technical assistance. The Amendment provides funds for five long-term and several short-term advisors in tax, five short-term advisors to the Central Bank, a team of short-term advisors in pension system administration, a long-term advisor in business planning and systems and short-term advisors in design, quality control, marketing. The inputs will be funded under two line-items -- Special Studies and Consulting Services and Central Java Enterprise Development.

1. Special Studies and Consulting Services: Under the special studies and consulting services component, the amendment adds funds to enable the GOI to improve key institutions important to policy and services affecting private sector development and to study or implement changes that improve the business climate. Specifically, the amendment includes activities in tax, assistance to the Central Bank, and capital markets development:

(a) **Tax:** The Ministry of Finance has asked USAID to assist in implementing its 1983 tax reform by providing technical consulting in planning, collection, audit and data processing. The tax reform offers the private sector the possibility of a consistent and predictable tax environment in which to operate; it can decrease inefficiency in tax administration and inequality in its application. It can also help the government mobilize scarce resources during a period of declining revenues from oil and commodities.

Replacing tax laws established during Dutch rule, the 1983 reform aims at increased revenues through a broadened tax base and improved compliance, improved income redistribution, an end to ineffective tax incentives, reduced tax evasion and corruption.

The laws seek simplicity and uniformity. They reduce incentives and deductions and move from 19 steps to a schedule with three: 15 percent (first 10 million rupiahs), 25 percent (to 50 million) and 35 percent (above 50 million). They exempt low income families. They tax small companies on turnover rather than income thus minimizing bookkeeping. Perhaps most importantly, they shift from official assessment of liability to a system based on self-assessment, withholding, filing, selected audits and criminal penalties. Together with the elimination of most incentives, deductions and exemptions, a self-assessment system reduces discretionary authority of tax officials, negotiations of tax payments and corruption opportunities.

In early 1984 the Ministry of Finance requested USAID assistance in implementation of a new tax policy. USAID responded with \$ 200,000 for short-term assistance in advanced data processing, tax forms development and audit training. The assistance was well used: advanced data processors helped set up a master file system; audit specialists ran two five-week workshops which produced manuals and new trainers for training sessions (who subsequently trained more than 1000 examiners in 1985). Tax forms developed with IRS help were used for 1984 returns. In addition, USAID funded an IRS survey of the tax department which recommended increased training ranging from examination, collection and taxpayer services to programming and master file creation. It recommended structuring the Tax Directorate along functional lines, establishment of an examination/compliance office, streamlining of collection procedures, decentralization of audit authority to the district level, and coordination of information between the Computer Center at the Ministry of Finance and the Directorate of Tax. To assist with implementing these recommendations, this amendment provides an estimated \$ 3 million assistance to be funded under the Amendment over a two-year period as summarized below (see Annex A for Scopes):

- (1) Strategic Planning: Consulting assistance in reviewing Department of Tax staff organization and responsibilities and advising on reorganization and manpower development.

- (2) District Management: Assistance to design and conduct training for district officials and to develop a set of curriculum materials and core of trained officials for follow-on training courses.
- (3) Advanced Data Processing: Work with the Department of Tax and the Ministry of Finance's computer center to define user requirements and develop procedural manuals, a filing system, and internal data processing forms; advise on acquisition of new equipment; train systems teams; assist expansion of the master file; develop a directorate-wide management information system; and train programmers.
- (4) Investigations: Develop a cadre of trained instructors, curriculum and material for training in investigation procedures and techniques.
- (5) Short-term Assistance: In collection forms, audit, and other areas to be determined.

(b) Bank Indonesia: Bank Indonesia (the Indonesian Central Bank) is the key agency in the country's financial sector. It controls 42 percent of gross assets in the financial system and provides 50 percent of credit. It has been the government's principal financial policy instrument for channeling revenues into the system; it has also controlled deposit and lending rates for the state banks and credit ceilings for all banks.

In 1983 the GOI introduced major banking reforms to stimulate private savings, improve resource allocation, and reduce the dependence of the banking system on Bank Indonesia liquidity credits. State banks were authorized to set their own deposit rates, credit ceilings for all banks were withdrawn and eligibility for liquidity credits pared substantially.

Moving towards an open market system emphasized the need for reforms at the operational level. The Bank identified a number of key operational issues beginning with strategic planning and in July 1985 asked USAID assistance in addressing them. An initial visit by a former official of the New York Federal Reserve helped define assistance required, and short-term consultancies are now being scheduled to assist in strategic planning, to link annual budgets to the five-year planning process and manpower development requirements; to improve monetary management, including the development of new monetary instruments; to improve bank supervision to rework the basic rating system for evaluating bank soundness and to reorient lending procedures away from collateral based lending to focus on repayment capacity; to extend automation and computerization, to speed services to banks, integrate accounting and data collection, improve check clearing and wire transfer systems; and to establish a national credit file which would standardize and integrate information from reporting banks.

Immediate assistance needs can be financed using existing funds in the special studies and consulting services component, the Bank anticipates that the consultancies in bank supervision and automation will help identify longer-term technical requirements. The amendment provides funds to cover these requirements and others that may be identified during the consultancies on strategic planning or monetary management. Scopes for follow-on work will be completed during the course of the consultancies during calendar year 1986.

(c) Capital Markets Development: USAID and GOI representatives are exploring a number of approaches to develop capital markets in an effort to attract private investment and to increase the resources available for enterprise development and job creation. A first effort has been in pension administration. The Ministry of Finance has prepared draft regulations for pension administration. There are currently 73 operating pension plans, managing approximately \$3 billion in assets covering four million workers. The government envisions the system eventually including some 60,000 plans. USAID has already provided close to six person months of technical assistance to the Ministry of Finance in reviewing the draft regulations and examining assumptions underlying establishment of a regulatory system. The MOF has expressed interest in working with an outside expert to develop procedures required for implementation of the new regulations and for training of staff. A scope of work has been developed for assistance in establishing procedures for vesting, participation, creditable service, funding, plan solvency, asset management and non-compliance. The Amendment will provide funds under the Special Studies and Consulting Services component to carry out this work.

(d) Other: During the course of the next two years USAID and the MOF will work together to identify similar opportunities for short-term consultancies or special studies that address constraints on private sector activity. Monthly, MOF and USAID representatives will review commitments and disbursements under this component and set an agenda for priority efforts for future funding. Examples include further work on capital markets development; with BKPM on investment licensing and promotion; with the Export Promotion Board on design, quality control, and marketing; with private banks on training for rural bankers.

2. Central Java Enterprise Development: In June 1984, the Private Sector Project was amended to include \$ 1.1 million for Central Java Enterprise Development activities. Despite budgetary constraints, these funds were fully matched by funds from provincial and central government budgets. The goal of the activity is to attract private sector resources to areas of high employment potential -- agribusiness and light manufacturing -- by demonstrating profit potential and providing technical services to overcome initial barriers to entry. The activity has four objectives: (1) to test approaches to assist small enterprise development, including both the technical substance of the assistance and the mechanism of the delivery; (2) to encourage replication within the private sector of

successful assistance by individual entrepreneurs absorbing the new technology and intergrating it into their operations; (3) to use activities to produce tangible examples of constraints on private sector activity and to address those constraints; (4) assuming success in meeting the first three objectives, to formulate an approach which captures or institutionalizes the assistance process and broadens its impact.

The project has begun quickly, with a number of promising activities:

- (a) Technical assistance for shrimp development has enabled a private voluntary organization, Dian Desa, to build remarkable expertise in shrimp production technology; as a result, it received a management contract for a private hatchery. It has been able to put the hatchery on a profit-making basis for the first time. It has also nearly completed construction of a new, model hatchery to serve as a self-sustaining training center.
- (b) Technical assistance for a cooperative in developing furniture production for export. Within a year of start-up, the operation is breaking even, has a backlog in orders of more than \$ 200,000 and a capability to produce two-three container loads of furniture, about \$ 50,000-75,000 monthly.
- (c) Technical assistance, beginning October 1985, which has produced export orders for approximately seven containers of rattan products per month valued at \$ 3,500 per container and requiring an estimated 15 man months of labor per container-load. Contacts have been made with buyers in Australia, the United States and Europe. Orders for nearly ten containers a month have been received, and a Jakarta company has expressed interest in becoming the principal investor in a Semarang-based rattan export center.

Activities to date move the project well towards achievement of its first objectives. The amendment will provide additional resources to test approaches and to consolidate the successes by developing business systems that can be used by others seeking to replicate the experience.

Specifically, it provides funds for an additional long-term consultant, for twenty months, to work on business systems for enterprise developed, to improve their management to allow for expansion and to experiment with their replication in other areas. The consultant will work with entrepreneurs in the shrimp hatchery, rattan and metals to prepare business plans. Such plans may serve as models for others interested in replication. The Amendment also provides funds for extension of long-term advisors in shrimp and export promotion and for additional short-term technical personnel to address specific problems identified during implementation, particularly in rattan, furniture, metals design, quality control and marketing. These funds will be matched by the GOI.

Thus, at the micro level institutionalization of successes, in appropriate shrimp technology, agroprocessing machine-prototype development or rattan marketing, for example, is to take place within the private sector itself, through private investment in operations based on lessons learned from the project activities. This has already begun in shrimp and rattan. Institutionalization of the process -- building a capacity either in government, in PVCs or private companies to deliver assistance to enterprises -- is a part of this. A private voluntary organization is developing a strong capability in shrimp technology. It will provide a resource, on a self-sustaining basis, for appropriate technology and training required by hatchery managers, pond farmers and feed technicians. A private firm acting as an export center for rattan will help producers acquire raw materials and market their product.

Some potential for institutionalization is also taking place within the contract team, as Indonesian counterparts work with contractors to deliver assistance in export marketing or quality control. The amendment will assist this effort by providing additional time for short-term advisors and for long-term team members.

Further institutionalization may take place as contract team members work with government agencies to help translate lessons learned from the project's activities into government extension efforts.

Replication of the project itself, capturing the process that has evolved during the project's development, is a more complex problem and will be addressed in the evaluation scheduled for the last quarter in FY 88. That evaluation will: (1) review Central Java's use of private businessmen as extension agents and its ability to create self-sustaining institutions (the model hatchery or an export company) to provide assistance to small enterprise operators; (2) the lessons learned and their applicability elsewhere; and (3) the process by which the assistance was delivered and its replicability.

3. Contingency: Finally, active demand within the special studies and consulting services component's line item, slightly higher than anticipated costs for consultants under the facilitating investment and the management training loan fund components and requests for short-term training have exhausted the contingency funds. The Amendment, therefore, replenishes the contingency fund line item.

III. THE BUDGET (\$000)

A. Original Project

	<u>USAID</u>		<u>GOI</u>	<u>TOTAL</u>
	<u>L</u>	<u>G</u>		
Facilitating Investment	1,800	-	180	1,980
Management Training	-	400	100	500
Loan Fund			1,300	1,300
Lhok Seumawe	500	-	-	500
Special Studies & Consulting Services	400	-		400
Central Java Enterprise	850	250	850	1,950
Contingency	300	50	40	390
Evaluation	-	50	-	50
Total	<u>3,850</u>	<u>750</u>	<u>2,650</u>	<u>7,250</u>

B. Amendment

	<u>USAID</u>		<u>GOI</u>	<u>TOTAL</u>
	<u>L</u>	<u>G</u>		
Facilitating Investment	-	-	-	
Management Training	-	-	-	
Loan Fund			700	700
Lhok Seumawe	-	-	-	
Special Studies & Consulting Services	2,500	1,500	500	4,500
Central Java Enterprise	250	250	250	750
Contingency	250	250	-	500
Evaluation	-	-	-	
Total	<u>3,000</u>	<u>2,000</u>	<u>1,450</u>	<u>6,450</u>

C. Revised Budget

	<u>USAID</u>		<u>GOI</u>	<u>TOTAL</u>
	<u>L</u>	<u>G</u>		
Facilitating Investment	1,800	-	180	1,980
Management Training	-	400	10	500
Loan Fund			2,000	2,000
Lhok Seumawe	500	-	-	500
Special Studies & Consulting Services	2,900	1,500	680	5,080
Central Java Enterprise	1,100	500	1,100	2,700
Contingency	550	300	40	890
Evaluation	-	50	-	50
Total	<u>6,850</u>	<u>2,750</u>	<u>4,100</u>	<u>13,700</u>

IV. THE FINANCIAL PLAN

Table 1: Disbursements

Outputs	Disbursements to date		Remainder of FY 86		FY 87		FY 88		Total use of project	
	USAID	GOI	USAID	GOI	USAID	GOI	USAID	GOI	USAID	GOI
1. <u>Facilitating Investment Profiles (10 percent)</u>	400								400	
Consultancies to private companies	290		110		190		190		780	
Studies for BKPM	60	5	80	5	110		110		360	10
Assistance to BKPM in promotion			30		60	30	60	30	150	60
Promotion travel and per diem			30	10	40	50	40	50	110	110
									<u>1800</u>	<u>180</u>
2. <u>Management Training</u>										
<u>Loan Fund</u>										
75 people trained	150	40	80	15	200	45			430	100
Loan fund established		2000								2000
										<u>2100</u>
3. <u>Lhok Seumawe studies</u>										
Three policy studies	412		40		48				500	
4. <u>Special studies and consulting services</u>										
Improved tax administration of tax officials	225	50	100	10	1175	200	1500	200	3000	460
Improved administration within Bank Indonesia		5	70		260	30	200	30	530	65
Pension reform					100				100	
Other special studies	100				340	70	330	85	770	155
									<u>4400</u>	<u>680</u>
5. <u>Central Java</u>										
Improved enterprise development, jobs created, policy change	210	550	190	300	600	125	600	125	1600	1100
6. Evaluation report					25		25		50	
7. Contingency										
TOTAL	<u>1847</u>	<u>2650</u>	<u>730</u>	<u>340</u>	<u>3548</u>	<u>20</u>	<u>420</u>	<u>20</u>	<u>830</u>	<u>40</u>
									<u>9600</u>	<u>4100</u>

Table 2: Summary Cost Estimate & Financial Plan (\$000)

	<u>AID Grant</u>		<u>AID Loan</u>		<u>GOI</u>		<u>TOTALS</u>		<u>TOTAL</u>
	<u>FX</u>	<u>LC</u>	<u>FX</u>	<u>LC</u>	<u>FX</u>	<u>LC</u>	<u>FX</u>	<u>LC</u>	
I. Technical Assistance	2,260		6,300			1,200	8,560	1,200	9,760
II. Training	40				2,000	860	2,040	860	2,900
III. Commodity		100						100	100
IV. Evaluation	50						50		50
V. Contingency	200	100	400	150		40	600	290	890
									<u>13,700</u>

Table 3: Costing of Project Outputs/Inputs

<u>Inputs</u>		<u>Policy</u>	<u>Training</u>	<u>Private Institution Building</u>	<u>Public Institution Building</u>	<u>Research</u>	<u>Total</u>
AID	Technical Assistance	3,000*	1,000	2,810**	1,450	300	8,560
	Training		40				40
	Commodities			100			100
	Evaluation					50	50
	Contingency	500	140	250			850
	Sub total						<u>9,600</u>
GOI	Technical Assistance			1,200			1,200
	Training		2,000		860		2,860
	Commodities						
	Evaluation						
	Contingency	40					40
	Sub total						<u>4,100</u>
	<b>TOTAL</b>						<u><u>13,700</u></u>

\* Special Studies and Consulting Services  
Lhok Seumawe 2,500  
500

\*\* CJEDP  
Management Loan 1,500  
430  
Consultancies to private companies 780

Table 4: Projected Expenditures by Fiscal Year (\$000)

<u>Through</u>	<u>AID Grant</u>	<u>AID Loan</u>	<u>AID Total</u>	<u>GOI</u>	<u>Total</u>
FY 86	650	1,950	2,600	2,990	5,590
FY 87	1,000	2,500	3,500	570	4,070
FY 88	1,100	2,400	3,500	540	4,040
	<u>1,750</u>	<u>6,850</u>	<u>9,600</u>	<u>4,100</u>	<u>13,700</u>

## V. ECONOMIC ANALYSIS

The objectives of the project remain job creation, self-sustaining institution-building and the generation of practical lessons for the government to use in policy formulation and implementation, particularly related to private sector development.

The initial project agreement pointed out the difficulties in using standard economic analysis to quantify returns from policy-oriented activities. It stated that the cost of a policy change may be zero while its benefits can be very large. At the same time, the paper stated, that the cost of a multi-faceted pilot project such as this one could be large (in terms of the opportunity cost of concessional funding) and the risk large. With some experience from the early years of implementation, it is possible to be more sanguine about the possible return while still recognizing the risks of experimental activities.

Facilitating Investment: Under the facilitating investment component of the project, approximately \$500,000 has been spent to date, \$300,000 on profiles, \$200,000 on consulting to businesses. A recent evaluation stated that at least partially as a result of consultations six investment applications have been or are being made. Four seem relatively certain, representing \$10 million in new investment and 550 potential new jobs. The leverage on private sector investment gained by the investment in consulting and profiles is attractive (although it is difficult to attribute the investment decisions exclusively to the USAID/BKPM contractors). Certainly, the contractors facilitated the new investment application, but they may have gone forward eventually without it. At the same time, the private capital invested and the 550 jobs anticipated once applications are approved and investment moves forward represent only a portion of the total economic benefits to be derived from the project. More jobs may result indirectly from the distribution of batteries, pesticides or pumps being produced. Increased income from higher yields on irrigated land or as the result of increased pesticide use should also be factored in. Increased foreign exchange earnings from the battery plant or savings from efficient local production of pumps and pesticides may also be considered.

Central Java Enterprise Development: The Central Java Enterprise Development component seeks to identify and address constraints on small and medium enterprise development. To date, the project has focused on shrimp production and on rattan. In shrimp, the project is financing construction of a model hatchery; the cost to the project is \$250,000 including technical assistance; 20 jobs will be created directly at the hatchery, but the number of jobs created indirectly by increased fry availability will be far greater. The hatchery should produce an estimated 12 million fry annually, enough for 480 hectares of tambak (pond) farms. Assuming two people per hectare, the increased availability of fry will produce close to 1000 new jobs in shrimp pond farming, with approximately 250 additional, seasonal jobs for pond construction, maintenance and harvesting. The 480 hectares should produce 240,000 kilogram of shrimp and provide nearly 700 jobs in processing. The export value of production is estimated at \$ 3.5 million. With these assumptions, the cost of creating one job is approximately \$250 per job.

Rattan production to date, spurred by \$ 75,000 in technical assistance, will produce rates of 44 containers during the first year, valued at \$ 3,500 and requiring approximately 15 man months of work per container. The cost per job created, \$ 1,363 the first year, will be nearly cut in half next year, assuming production approaches the anticipated level of six containers per month. The increased production will create additional jobs as well in procurement, packing, and shipping.

In addition to direct or indirect economic benefits from the activities themselves, benefits may be derived from broad policy changes they encourage. For example, work in rattan has identified a major issue involving the pricing of raw materials; effective government policies which enable small local producers access to raw rattan now sold to international markets at prices below those offered domestically could significantly affect the competitiveness of local operators in the export market, heighten demand, spur value-added production and increase job opportunities. Work with BKPM has provided an opportunity for discussion of key policy issues -- tax, licensing, ownership, tariffs -- affecting investment attractiveness. Changes in these policies could have dramatic economic impact.

Special Studies and Consulting Services: It is not possible to quantify the income likely to generated or jobs created by improvements in policy resulting from special studies and consulting services. But the opportunity is impressive. In tax, for example, the Government has stated that by the end of Repelita IV non-oil tax revenues should reach 12 percent of non-oil GDP compared with 8 percent in 1983/84. Personal income and corporate income tax, now \$11 billion per year, should increase 140 percent in nominal terms during the plan period. Technical assistance by the IRS should help the Department of Tax achieve these goals.

Similarly, the pension system, with \$3 billion under management can make a major contribution to long-term funds available to the private sector through the development of an active capital market. The total value of equity now represented by companies on the stock exchange was only \$83 million in 1983 the bond market in 1985 was less than \$200 million. Improved administration of the pension system will also have significant impact on the welfare of nearly four million members.

Finally, assistance to the Bank Indonesia which now dominates the banking sector -- 42 percent of group assets -- could have widespread impact throughout the financial system. Bank Indonesia provides 50 percent of domestic credit annually, including 30 percent of total private credit and 60 percent of long-term private sector credit. Improved efficiency of operations in money management, bank supervision and automation will increase services and capital available to the private sector.

## VI. IMPLEMENTATION AND MONITORING PLAN

### A. Implementation and Monitoring Plan

The amendment will be carried out on behalf of the GOI by the Directorate General, Monetary Affairs, Ministry of Finance for activities under the Special Studies and Consulting Services component and by the Directorate General of Regional Development, Ministry of Home Affairs, for the Central Java Enterprise component. The Directorate General, Monetary Affairs, will be responsible for working with USAID on development of an agenda for special studies and consulting services and for drawing up scopes of work, selection and monitoring of contractors, evaluation of performance and integration of findings and contract services into policy formulation and implementation. The Directorate General, Monetary Affairs has been performing this role under the existing project, and the success of activities with the Department, Bank Rakyat Indonesia and Bank Indonesia can be largely attributed to the efforts of its staff.

The Directorate General Regional Development, Department of Home Affairs will continue to support Bappeda, Central Java, and the Central Java Enterprise Development Team in implementing and evaluating activities under the Enterprise Development component. The amendment finances follow-on work by the existing contract team. The team now operates under the supervision of a team leader from Bappeda and is responsible for all day-to-day activities; it will continue to operate in this way with regular review of workplans and quarterly reports by Bangda and USAID officials.

The USAID monitoring responsibilities will be charged to the Office of Employment and Enterprise Development (EED). The office is already responsible for management of the project and the amendment provides additional funding for activities which are now receiving regular review by EED staff.

### B. Contracting Plan

Technical assistance will be provided through USAID direct contracts or PASAs for special studies, consulting services and small enterprise development. They will be joint-loan and grant funded with USAID making direct payment to the suppliers upon receipt of the host-country certificate of performance. The amendment's budget also includes grant contingency funds that may be used for audits by non-federal auditors of host-country contracts funded under the existing project, if required. No host-country contracting is planned under the amendment.

In two cases, for technical assistance to the Tax Department and to the Central Bank, the contracts will be PASAs arranged by AID/W. USAID has already used AID/W PASAs under the existing project to obtain services from the IRS and the Federal Reserve Bank. It will do so once again with funds provided by this amendment. Technical assistance for development of a pension manual and training of pension personnel will be obtained through an existing AID/W IQC with Price Waterhouse. Assistance in pension system regulations has already been obtained under this IQC, and the amendment will provide funds for follow-on work.

Contracts for other work in policy areas relating to improving the investment climate or opening the capital market will be funded through IQCs already negotiated by PRE. PRE has established IQCs for work in privatization, financial and capital markets and private sector development. USAID has used one of these to obtain the services of Coopers & Lybrand for a comparative study of investment climate. It is expected that USAID will be able to use these IQCs or others already negotiated in AID/W for work relating to policy reform affecting investment and capital markets development. In approving this Project Paper Amendment, the USAID/Indonesia Mission Director certifies that use of Gray Amendment Entities to implement this Amendment has been considered to the maximum possible extent.

Because of the nature of the work, requiring quick response by experts experienced in policy formulation and implementation in technical areas, it is likely that most of the studies or consulting services provided under this component will be through PASAs or IQCs. Nevertheless, USAID will pursue opportunities for use of an SA firm where appropriate. USAID is already using an SA firm under one component of the project -- the Management Training Loan Fund -- and an SA firm is working as a subcontractor under the Central Java Enterprise Development component.

The Central Java Enterprise Development component is being implemented by Development Alternatives Inc. under a direct, joint grant-loan-funded contract. AID has subcontracts with Global Exchange, an SA firm, and Dian Desa, a local Indonesian PVO. The amendment will allow extension of these contracts through the life of the project and will permit USAID to issue a change order expanding the current scope to include a business consultant. It will also provide additional funds for short-term assistance provided by DAI associates or under subcontracts such as that with Global Exchange.

In execution of this Project Paper Amendment, the Mission Director certifies that use of Gray Amendment entities in implementation of the amendment has been considered to the maximum extent practicable.

#### C. Evaluation

A baseline survey of the Central Java component will be performed in late FY 86. It provides framework for monitoring and evaluation through the remainder of the project. Towards the end of FY 87, the mission will lead a full evaluation of the Private Sector Project, including both the Central Java and the Special Studies components, in order to make required changes in implementation, adjustments between line items, and to prepare recommendations for close out of the project or for follow-on activity.

#### D. Implementation Schedule

##### Months:

- 0 Private Sector Amendment Approved  
Amendment to PIO/T for IRS PASA for assistance to the Department of Tax prepared; scope of work for pension team to work with Ministry of Finance and PIO/T prepared (Special studies and consulting services line item); change order and amendment prepared for Central Java contract

- 1        Loan and Grant Agreements signed  
         RFP for Central Java issued  
         IRS PASA amendment signed  
         Pension team work order under an IQC signed
- 2        IRS advisors arrive  
         Pension team begins work  
         Agenda for short-term advisors in Central Java, initial scopes
- 2        Business Advisor arrives
- 3        Baseline survey in Central Java  
         Work plan for business advisor completed
- 4        Model hatchery business plan completed  
         Development of scopes for short-term consultants
- 4        IRS training in advanced data processing, investigations,  
         district management begins
- 4.2     Pension team submits report
- 5        Business plans for rattan completed
- 5        Review of Bank Indonesia follow-on requirements and  
         establishment of agenda
- 6        Short-term advisors begin to arrive
- 6        Review possible Special Studies and Consulting Services  
         requirements with Ministry of Finance and set agenda for 2-3  
         studies or consultancies.
- 7-12    IRS Chief of Party works with Department of Tax on finalizing  
         manpower plan and identifying follow-on requirements for year  
         two consultancies
- 8        Scope of work and PIO/T for first of further special studies and  
         consulting services drawn up
- 9        Follow-up on Federal Reserve consultancy; completion of Bank  
         Indonesia strategy plan
- 9.2     Work orders drawn up for special studies under IQC
- 11-12   Prepare scopes, PIO/T amendments, for follow-on work for tax  
         advisors, extending or amending initial one year assignment
- 12        IRS PASA revision completed in line with assessment of IRS needs
- 12        Review of Central Java work; decision on follow-on work
- 13        Arrival of new tax advisors or extension of existing advisors

- 16      Scope of work drawn up for second special studies or consulting services
- 16      Evaluation of Private Sector Project, including Management Training Loan Fund, for use of contingency funds, project revision or extension
- 18      Special studies work order drawn up for IQC
- 24      Project ends

DOC. #3721P

ANNEX A

Scope of Work for Tax Assistance

- A. Long Term
  - 1. Chief of Party
    - a. Objective: Completion with the Department of Tax of an assessment of staff requirements to implement more effectively the new tax legislation and to develop and begin implementation of a manpower development plan designed to meet those requirements.
    - b. Specific:
      - (1) Responsible for management and coordination of the IRS team, including all administration, employee evaluation, liaison with USAID, TAAS and various GOI departments involved in tax administration.
      - (2) Develop the team's work plans and review periodically team performance.
      - (3) Advise team members in specialty areas and assist in the development of appropriate training programs for GOI staff.
      - (4) Advise on adjustment of long-term and short-term work plans (revenue and operations).
      - (5) Advise on improvement of internal controls.
      - (6) Work with the GOI to review existing staff organization, current and future staff requirements.
      - (7) Advise on structural changes required and on recruiting, training and staff development required to meet long term needs.
      - (8) Responsible for regular quarterly reports by the IRS team to the GOI and USAID.
    - c. Experience: Experience in long-term strategic planning and manpower development. Overseas experience preferred.
  - 2. Investigation Advisor
    - a. Objective: Develop a cadre of trained instructors, curriculum and material for training of Department of Tax staff in effective investigation procedures and techniques.
    - b. Specifics:
      - (1) Advise on revisions in procedures of programs -- MIS and data requirements, techniques and training -- which would improve investigation effectiveness.

- (2) Advise on staff requirements to carry out effective investigations.
  - (3) Deliver the training program and prepare Indonesian instructors for subsequent training.
  - (4) Evaluate Indonesian trainers and course materials subsequent to initial courses and prepare appropriate revisions.
  - (5) Advise on and organize appropriate US training in criminal investigation.
- c. Experience: Five years field experience in investigation and experience in organizing and conducting training sessions.
3. District Management Advisor
- a. Objective: Develop a cadre of trained instructors in management of district office.
- b. Specifics:
- (1) Review current staff responsibilities and planned requirements for district staff.
  - (2) Recommend changes in staffing and procedures including Internal Control affecting district staff effectiveness.
  - 3) Develop training program, curriculum and materials for candidates to become heads of District Office.
- c. Experience: Head of District Office experience and experience in organizing and conducting training sessions.
4. Advanced Data Processing (two persons)
- a. Objective: Automation of tax administration.
- b. Specifics:
- (1) Work with Department of tax on defining user requirements for the computer center (PAIK).
  - (2) Develop with GOI staff a filing system using document locator numbers as a base.
  - (3) Develop internal use data processing forms such as block header control sheets, entity change forms, and data processing adjustment forms.
  - (4) Develop and conduct appropriate training programs for systems acceptability team.

- (5) Advise and assist the computer center in acquisition of new equipment by providing technical capacity and efficiency information.
- (6) Develop and conduct training with the computer center for programmers, operators and schedulers including use of system utilities and the development of back up recovery procedures.
- (7) Advise and assist in the integration of district and central master files and advise on coordination of work between the district offices, regional computer center, the central computer center and the Department of Tax.
- (8) Provide assistance and advise on expanding the master file.
- (9) Analyze requirement and make recommendations for the establishment of a directorate-wide management information system.
- (10) Work with computer center programmers on integration of technical vendor manuals and develop training programmers for programmers as required.
- (11) Work with the computer center on developing approaches to improve management efficiency in light of assessed responsibilities.

B. Short-term Staff

1. Collection Advisor

- a. Objective: Develop appropriate training program for collection specialists.
  - b. Specifics:
    - (1) Develop curriculum and materials and conduct with the GOI a training program for collection specialists, and in the process, prepare Indonesian counterparts as trainers for subsequent training courses.
    - (2) Advise the collection directorate on the development of a revenue statistics system, as part of Department of Tax's overall management information system.
  - c. Experience: Five years experience in collection and experience in organization and implementation of training.
2. Forms Expert
- a. Objective: To increase efficiency of reporting.

- b. Specifics: Provide advice in reviewing and modifying income tax forms. Assist in the development of public use forms, instructions, patterns, letters and internal use forms for audit and appeals.

Experience: Four years experience in forms.

STATE 112726

UNCLASSIFIED

ACTION AID 3 INFO ECON C

RVZCQJAC329

PP RUEEJA

DE RUEEJ 2726 1010246

ZNR UUUUU ZZH

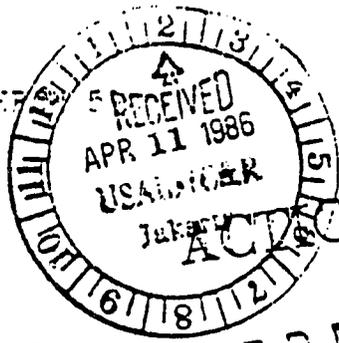
P 110246Z APR 86

FM SECSTATE WASEDC

TO AMEMBASSY JAKARTA PRIORITY 9507

BT

UNCLAS STATE 112726



**ACTION COPY**

**PRIORITY**

LOC: DISK 087 291

11 APR 86 2247

CN: 20355

CHRG: AID

DIST: AID

AIDAC

E.O. 12356: N/A

TAGS: N/A

SUBJECT: PRIVATE SECTOR DEVELOPMENT EXPLORATORY PROJECT  
(497-0329): PROPOSED AMENDMENT

REF: JAKARTA 2620

1. AA/ANE CONCURS WITH USAID PROPOSAL TO AMEND SUBJECT PROJECT. THE PROJECT COMMITTEE MET FEBRUARY 29, 1986, AND RAISED NO ISSUES AND ONE CONCERN. AMENDMENT PREPARATION GUIDANCE FOLLOWS.

2. CONCERN: THE COMMITTEE RAISED A CONCERN WHETHER OUTPUTS/BENEFITS WHERE QUANTIFIABLE WILL BE SPECIFIED IN THE AMENDMENT. IT RECOMMENDS THAT THE MISSION UPDATE THE ECONOMIC ANALYSIS SECTION, INDICATING EXPECTED BENEFITS AND ATTRIBUTION EFFECTS FOR EVALUATION PURPOSES. SHULTZ

PT

#2726

NNNN

UNCLASSIFIED

STATE 112726

USAID ROUTING	
TO	ACT. INFO
DIR	
DD	
DDPA	
REG/DEV.	
LA	
PRO	
MGT	
CM	
FIN	
FIN/B	
FIN/FA	
ARD	
OPH	
EHR	
EHR/T	
VHP	
ESD	
INFO C	
FEED	<input checked="" type="checkbox"/>
PER	
DMC	
IGSO	
IC & R	



REPUBLIC OF INDONESIA  
NATIONAL DEVELOPMENT PLANNING AGENCY  
JAKARTA, INDONESIA

No. : 1849a/D.I/6/1986

Jakarta, June 5 , 1986

Mr. William P. Fuller  
Director  
USAID/Indonesia  
c/o American Embassy  
Jakarta

Dear Mr. Fuller:

On behalf of the Government of Indonesia we hereby request an additional loan of \$3.0 million and an additional grant of \$2.0 million under the ongoing Private Sector Development Project No. 497-0329 to allow for additional funding for Special Studies and Consulting services and for the Central Java Enterprise activities.

These additional loan and grant funds would increase the project amount to \$6.85 million loan and \$2.75 million grant over the 6-year life of project. The Government of Indonesia will provide an additional rupiah equivalent of \$1.45 million in cash and in kind contributions or total contributions of rupiah equivalent of \$4.1 million in cash and in kind in support of this project.

This project will be implemented by the BAPPENAS, the Ministry of Finance, and the Ministry of Home Affairs and their implementing units.

We look forward to your favourable consideration.

Sincerely yours,



*M. Siregar*  
M. Siregar  
Deputy Chairman

5C(2) PROJECT CHECKLIST

Listed below are statutory criteria applicable to projects. This section is divided into two parts. Part A. includes criteria applicable to all projects. Part B. applies to projects funded from specific sources only:  
B.1. applies to all projects funded with Development Assistance loans, and  
B.3. applies to projects funded from ESF.

CROSS REFERENCES: IS COUNTRY CHECKLIST UP TO DATE? HAS STANDARD ITEM CHECKLIST BEEN REVIEWED FOR THIS PROJECT?

Yes. SEE ANNEX F, GPT II  
PP AMENDMENT NO. 2

A. GENERAL CRITERIA FOR PROJECT

1. FY 1986 Continuing Resolution Sec. 524; FAA Sec. 634A.

Describe how authorizing and appropriations committees of Senate and House have been or will be notified concerning the project.

A CN has been prepared. Obligation will occur upon expiration of the Notification period, without Congressional objection.

2. FAA Sec. 611(a)(1). Prior to obligation in excess of \$500,000, will there be (a) engineering, financial or other plans necessary to carry out the assistance and (b) a reasonably firm estimate of the cost to the U.S. of the assistance?

(a) Yes.

(b) Yes.

3. FAA Sec. 611(a)(2). If further legislative action is required within recipient country, what is basis for reasonable expectation that such action will be completed in time to permit orderly accomplishment of purpose of the assistance?

No further legislative action is required.

4. FAA Sec. 611(b); FY 1986 Continuing Resolution Sec. 501. If for water or water-related land resource construction, has project met the principles, standards, and procedures established pursuant to the Water Resources Planning Act (42 U.S.C. 1962, et seq.)? (See AID Handbook 3 for new guidelines.) N/A.
5. FAA Sec. 611(e). If project is capital assistance (e.g., construction), and all U.S. assistance for it will exceed \$1 million, has Mission Director certified and Regional Assistant Administrator taken into consideration the country's capability effectively to maintain and utilize the project? N/A.
6. FAA Sec. 209. Is project susceptible to execution as part of regional or multilateral project? If so, why is project not so executed? Information and conclusion whether assistance will encourage regional development programs. No.
7. FAA Sec. 601(a). Information and conclusions whether projects will encourage efforts of the country to:  
(a) increase the flow of international trade; (b) foster private initiative and competition; and (c) encourage development and use of cooperatives, and credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture and commerce; and (f) strengthen free labor unions. The amended Project shall directly encourage (a), (b), (c), (d) and (e).

8. FAA Sec. 601(b). Information and conclusions on how project will encourage U.S. private trade and investment abroad and encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise).
- The amendment provides funds for special studies and consultancies to formulate and implement policies of private sector development such as tax, credit, investment promotion, & capital markets development. U.S. private firms and institutions will fully participate in these efforts.
9. FAA Sec. 612(b), 636(h); FY 1986 Continuing Resolution Sec. 507. Describe steps taken to assure that, to the maximum extent possible, the country is contributing local currencies to meet the cost of contractual and other services, and foreign currencies owned by the U.S. are utilized in lieu of dollars.
- The GOI will contribute approximately 30% of the total Project costs in Rupiah or in kind.
10. FAA Sec. 612(d). Does the U.S. own excess foreign currency of the country and, if so, what arrangements have been made for its release?
- No.
11. FAA Sec. 601(e). Will the project utilize competitive selection procedures for the awarding of contracts, except where applicable procurement rules allow otherwise?
- Yes.
12. FY 1986 Continuing Resolution Sec. 522. If assistance is for the production of any commodity for export, is the commodity likely to be in surplus on world markets at the time the resulting productive capacity becomes operative, and is such assistance likely to cause substantial injury to U.S. producers of the same, similar or competing commodity?
- N/A.

13. FAA 118(c) and (d). Does the project comply with the environmental procedures set forth in AID Regulation 16. Does the project or program take into consideration the problem of the destruction of tropical forests?
- Yes.
- N/A.
14. FAA 121(d). If a Sahel project, has a determination been made that the host government has an adequate system for accounting for and controlling receipt and expenditure of project funds (dollars or local currency generated therefrom)?
- N/A.
15. FY 1986 Continuing Resolution Sec. 533. Is disbursement of the assistance conditioned solely on the basis of the policies of any multilateral institution?
- No.
16. ISDCA of 1985 Sec. 310. For development assistance projects, how much of the funds will be available only for activities of economically and socially disadvantaged enterprises, historically black colleges and universities, and private and voluntary organizations which are controlled by individuals who are black Americans, Hispanic Americans, or Native Americans, or who are economically or socially disadvantaged (including women)?
- No set amount will be available for such entities, but a major component is planned to be implemented thru a Gray Amendment firm.

B. FUNDING CRITERIA FOR PROJECT

1. Development Assistance  
Project Criteria

FAA Sec. 102(a), 111, 113, 281(a). Extent to which activity will (a) effectively involve the poor in development, by extending access to economy at local level, increasing labor-intensive production and the use of appropriate technology, spreading investment out from cities to small towns and rural areas, and insuring wide participation of the poor in the benefits of development on a sustained basis, using the appropriate U.S. institutions; (b) help develop cooperatives, especially by technical assistance, to assist rural and urban poor to help themselves toward better life, and otherwise encourage democratic private and local governmental institutions; (c) support the self-help efforts of developing countries; (d) promote the participation of women in the national economies of developing countries and the improvement of women's status, (e) utilize and encourage regional cooperation by developing countries?

The amended Project will continue to focus on development of private enterprise and will seek to stimulate U.S. foreign investment in order stimulate employment generation.

- b. FAA Sec. 103, 103A, 104, 105, 106. Does the project fit the criteria for the type of funds (functional account) being used?
- The amended Project meets fully the requirements of Sections 103 and 106 of the FAA.
- c. FAA Sec. 107. Is emphasis on use of appropriate technology (relatively smaller, cost-saving, labor-using technologies that are generally most appropriate for the small farms, small businesses, and small incomes of the poor)?
- Yes.
- d. FAA Sec. 110(a). Will the recipient country provide at least 25% of the costs of the program, project, or activity with respect to which the assistance is to be furnished (or is the latter cost-sharing requirement being waived for a "relatively least developed country)?
- Yes. The GOI will contribute approximately 30% of the total costs of the Project in Rupiah or "in-kind".
- e. FAA Sec. 122(b). Does the activity give reasonable promise of contributing to the development of economic resources, or to the increase of productive capacities and self-sustaining economic growth?
- Yes.

f. FAA Sec. 128(b). If the activity attempts to increase the institutional capabilities of private organizations or the government of the country, or if it attempts to stimulate scientific and technological research, has it been designed and will it be monitored to ensure that the ultimate beneficiaries are the poor majority?

The amended Project will be so monitored.

g. FAA Sec. 281(b). Describe extent to which program recognizes the particular needs, desires, and capacities of the people of the country; utilizes the country's intellectual resources to encourage institutional development; and supports civil education and training in skills required for effective participation in governmental processes essential to self-government.

A major component of the Project is the training of Indonesians at U.S. business schools and on-the-job training within U.S. firms.

2. Development Assistance Project  
Criteria (Loans Only)

- a. FAA Sec. 122(b). Information an conclusion on capacity of the country to repay the loan, at a reasonable rate of interest. Indonesia: has an excellent history on U.S. loan repayments.
- b. FAA Sec. 620(d). If assistance is for any productive enterprise which will compete with U.S. enterprises, is there an agreement by the recipient country to prevent export to the U.S. of more than 20% of the enterprise's annual production during the life of the loan? N/A.

3. Economic Support Fund Project  
Criteria

Not ESF funded.

- a. FAA Sec. 531(a). Will this assistance promote economic and political stability? To the maximum extent feasible, is this assistance consistent with the policy directions, purposes, and programs of part I of the FAA? N/A.
- b. FAA Sec. 531(c). Will assistance under this chapter be used for military, or paramilitary activities? N/A.
- c. ISDCA of 1985 Sec. 207. Will ESF funds be used to finance the construction of, or the operation or maintenance of, or the supplying of fuel for, a nuclear facility? If so, has the President certified N/A.

that such country is a party to the Treaty on the Non-Proliferation of Nuclear Weapons or the Treaty for the Prohibition of Nuclear Weapons in Latin America (the "Treaty of Tlatelolco"), cooperates fully with the IAEA, and pursues nonproliferation policies consistent with those of the United States?

- d. FAA Sec. 609. If commodities are to be granted so that sale proceeds will accrue to the recipient country, have Special Account (counterpart) arrangements been made?

N/A.

5C(3) - STANDARD ITEM CHECKLIST

Listed below are the statutory items which normally will be covered routinely in those provisions of an assistance agreement dealing with its implementation, or covered in the agreement by imposing limits on certain uses of funds.

These items are arranged under the general headings of (A) Procurement, (B) Construction, and (C) Other Restrictions.

A. Procurement

1. FAA Sec. 602. Are there arrangements to permit U.S. small business to participate equitably in the furnishing of commodities and services financed? Yes.
2. FAA Sec. 604(a). Will all procurement be from the U.S. except as otherwise determined by the President or under delegation from him?? Yes.
3. FAA Sec. 604(d). If the cooperating country discriminates against marine insurance companies authorized to do business in the U.S., will commodities be insured in the United States against marine risk with such a company? Indonesia does not so discriminate.
4. FAA Sec. 604(e); ISDCA of 1980 Sec. 705(a). If offshore procurement of agricultural commodity or product is to be financed, is there provision against such procurement when the domestic price of such commodity is less than parity? (Exception where commodity financed could not reasonably be procured in U.S.) N/A.

5. FAA Sec. 604(a). Will construction or engineering services be procured from firms of countries which receive direct economic assistance under the FAA and which are otherwise eligible under Code 941, but which have attained a competitive capability in international markets in one of these areas? Do these countries permit United States firms to compete for construction or engineering services financed from assistance programs of these countries? N/A.
6. FAA Sec. 603. Is the shipping excluded from compliance with requirement in section 901(b) of the Merchant Marine Act of 1936, as amended, that at least 50 per centum of the gross tonnage of commodities (computed separately for dry bulk carriers, dry cargo liners, and tankers) financed shall be transported on privately owned U.S. flag commercial vessels to the extent such vessels are available at fair and reasonable rates? No.
7. FAA Sec. 621. If technical assistance is financed, will such assistance be furnished by private enterprise on a contract basis to the fullest extent practicable? If the facilities of other Federal agencies will be utilized, are they particularly suitable, not competitive with private enterprise, and made available without undue interference with domestic programs? Yes.
- The proposed PASA with the IRS for U.S. tax experts is particularly suitable and not truly competitive with U.S. private enterprise. It will not interfere with IRS domestic programs.

8. International Air Transportation Fair Competitive Practices Act, 1974. If air transportation of persons or property is financed on grant basis, will U.S. carriers be used to the extent such service is available?

Yes.

9. FY 1986 Continuing Resolution Sec. 504. If the U.S. Government is a party to a contract for procurement, does the contract contain a provision authorizing termination of such contract for the convenience of the United States?

All direct contracts under the amended Project will so provide.

B. Construction

1. FAA Sec. 601(d). If capital (e.g., construction) project, will U.S. engineering and professional services be used?

N/A.

2. FAA Sec. 611(c). If contracts for construction are to be financed, will they be let on a competitive basis to maximum extent practicable?

N/A.

3. FAA Sec. 620(k). If for construction of productive enterprise, will aggregate value of assistance to be furnished by the U.S. not exceed \$100 million (except for productive enterprises in Egypt that were described in the CP)?

N/A.

C. Other Restrictions

1. FAA Sec. 122(b). If development loan, is interest rate at least 2% per annum during grace period and at least 3% per annum thereafter? Yes.
2. FAA Sec. 301(d). If fund is established solely by U.S. contributions and administered by an international organization, does Comptroller General have audit rights? N/A.
3. FAA Sec. 620(h). Do arrangements exist to insure that United States foreign aid is not used in a manner which, contrary to the best interests of the United States, promotes or assists the foreign aid projects or activities of the Communist-bloc countries? Yes.
4. Will arrangements preclude use of financing:
  - a. FAA Sec. 104(f); FY 1986 Continuing Resolution Sec. 526. (1) To pay for performance of abortions as a method of family planning or to motivate or coerce persons to practice abortions; (2) to pay for performance of involuntary sterilization as method of family planning, or to coerce or provide financial incentive to any person to undergo (1) Yes.  
(2) Yes.

- sterilization; (3) to pay for any biomedical research which relates, in whole or part, to methods or the performance of abortions or involuntary sterilizations as a means of family planning; (4) to lobby for abortion? (3)Yes.
- b. FAA Sec. 488. To reimburse persons, in the form of cash payments, whose illicit drug crops are eradicated? Yes.
- c. FAA Sec. 620(g). To compensate owners for expropriated nationalized property? Yes.
- d. FAA Sec. 660. To provide training or advice or provide any financial support for police, prisons, or other law enforcement forces, except for narcotics programs? Yes.
- e. FAA Sec. 662. For CIA activities? Yes.
- f. FAA Sec. 636(i). For purchase, sale, long-term lease, exchange or guaranty of the sale of motor vehicles manufactured outside U.S., unless a waiver is obtained? Yes.

- g. FY 1986 Continuing Resolution, Sec. 503. Yes.  
To pay pensions, annuities, retirement pay, or adjusted service compensation for military personnel?
- h. FY 1986 Continuing Resolution, Sec. 505. Yes.  
To pay U.N. assessments, arrearages or dues?
- i. FY 1986 Continuing Resolution, Sec. 506. Yes.  
To carry out provisions of FAA section 209(d) (Transfer of FAA funds to multilateral organizations for lending)?
- j. FY 1986 Continuing Resolution, Sec. 510. Yes.  
To finance the export of nuclear equipment, fuel, or technology?
- k. FY 1986 Continuing Resolution, Sec. 511. Yes.  
For the purpose of aiding the efforts of the government of such country to repress the legitimate rights of the population of such country contrary to the Universal Declaration of Human Rights?
- l. FY 1986 Continuing Resolution, Sec. 516. Yes.  
To be used for publicity or propaganda purposes within U.S. not authorized by Congress?